Annual Financial Statements - Contents

Directors' Responsibility Statement

To the members of FNB Namibia Holdings Limited

These annual financial statements are the responsibility of the company's directors. We also acknowledge responsibility for establishing accounting procedures that provide for the maintenance of documentation sufficient to support the annual financial statements. These annual financial statements present fairly the financial position, results of operations and cash flows of the Group and Company in accordance with International Financial Reporting Standards ('IFRS') and in the manner required by the Companies' Act of Namibia and have been prepared on a basis consistent with those of the prior year, except where specifically disclosed in the annual financial statements. The annual financial statements incorporate full and responsible disclosure in line with the Group's philosophy on corporate governance and as required by the Namibian Stock Exchange. The directors report that the Group's internal controls are designed to provide reasonable assurance as to the integrity and reliability of the financial statements, to adequately safeguard, verify and maintain accountability of assets and to prevent and detect fraudulent financial reporting. Such controls are based on established written policies and procedures. They are implemented by trained, skilled personnel with an appropriate segregation of duties and are monitored throughout the Group.

The board members and employees are required to maintain the highest ethical standards and the Group's business practices are required to be conducted in a manner that is above reproach. The board has adopted and is committed to the principles in the King II report on Corporate Governance.

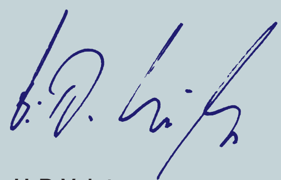
The board is responsible for internal controls. The controls throughout the Group are directed towards risk areas. These areas are identified by operational management, confirmed by Group management and tested by the internal auditors. All controls relating to these critical risk areas are closely monitored and subject to audit.

Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these internal financial controls occurred during the year.

The directors have reviewed the Group's budget for the year to 30 June 2007. On the basis of this review and in the light of the current financial position, the directors have no reason to believe that FNB Namibia Holdings Limited and its subsidiaries will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The Group's external auditors, Deloitte & Touche, have audited the financial statements and their report appears on page 38.

The annual financial statements of the Group and Company, which appear on pages 33 to 119 have been approved by the board of directors and are signed on its behalf by:



H-D Voigts
Chairman

Adv VR Rukoro
Chief Executive Officer

Windhoek
17 August 2006

Report of the Audit Committee to Shareholders

The Audit Committee comprises of a majority of independent non-executive directors and it meets no less than four times a year. This committee assists the board in observing its responsibility for ensuring that the Group's financial and computer systems provide reliable, accurate and up-to-date information to support the current financial position and that the published annual financial statements represent a fair reflection of its financial position. It also ensures that appropriate accounting policies, control and compliance procedures are in place. The internal and external auditors attend its meetings and have unrestricted access to the chairman of the committee.

The primary objectives of the committee are:

1. To assist the board of directors in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied in the day-to-day management of the business;
2. To provide a forum for communication between the board of directors, management and the internal and external auditors; and
3. To introduce such measures as in the committee's opinion may serve to enhance the credibility and objectivity of the annual financial statements and affairs of the Group.

The committee has met its objectives and has found no material weakness in controls, and is satisfied with the level of disclosure to it and to the stakeholders.

H W P Böttger
Chairman

Statement of Actuarial Values of Swabou Life Assurance Company Limited as at 30 June 2006

N$ thousand	2006	2005
A brief summary of the financial position as at this date is as follows:		
Policyholders' fund	147 306	109 395
Other liabilities	12 565	9 811
Capital adequacy requirement	29 908	24 912
Free assets	53 134	36 265
Total funds (at actuarial value)	242 913	180 383
The above split may also be represented by the following items:		
Financial soundness liabilities	159 870	119 206
Shareholders' funds	6 000	6 000
Free reserves for published financials	77 043	55 177
Total funds (at actuarial value)	242 913	180 383

The movement in the free reserves is an increase of N$21 866 000.

Certification

I have conducted an actuarial valuation of the Swabou Life Assurance Company Limited according to generally accepted actuarial standards as at 30 June 2006, and certify that the Company was financially sound at that date.

I am satisfied that the statement of actuarial values of assets and liabilities, read together with the financial statements, fairly presents the financial position of the Company.

Jacques Malan
Fellow of the Institute of Actuaries
Valuator

Notes to the Statement of Actuarial Values of Assets and Liabilities

This valuation was performed to assess the shareholders' funds and the financial soundness liability of the Company.

1. Valuation basis of policy liabilities

The valuation was performed using the Financial Soundness Valuation method and was conducted in accordance with the applicable guidelines of the Actuarial Society of South Africa and taking into account policyholders' reasonable expectations. A Financial Soundness Valuation is intended to give a prudently realistic picture of the overall financial position of the assurer, 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.

The Financial Soundness Valuation method was used for valuing insurance contracts and for investment contracts on a discretionary basis. There are no investment contracts without discretionary participation features.

Assumptions regarding the future were on a best estimate basis plus further allowance to statutory contingency margins as required by Professional Guidance Note 104 of the Actuarial Society of South Africa ('PGN104').

Statement of Actuarial Values of Swabou Life Assurance Company Limited as at 30 June 2006

In the calculation of liabilities, provision was made for:

- the best-estimate of the future experience, plus
- the margins prescribed by PGN104, plus
- further margins as deemed necessary.

The intention of the prescribed margins is to introduce a degree of prudence to allow for possible future adverse experience.

The liabilities were calculated using the following principles:

- the actuarial liabilities of the Company consist of the capitalised value of the benefits the Company expect to pay in future, plus the capitalised value of expected future renewal costs, less the capitalised value of the expected future premiums.
- the actuarial liabilities as determined are then compared with the actuarial value of the Company's assets in order to determine the free reserves.
- assets and policy liabilities have been valued on mutually consistent bases.

2. Mortality, morbidity and discontinuance rates

The best-estimate assumptions relating to future mortality, morbidity and withdrawal rates were based on standard tables and experience since inception of the life product, and were adjusted for anticipated changes in experience where appropriate. Provision was made for the potential adverse experience due to AIDS and other potential contingencies.

3. Investment stabilisation reserve

Adjustments are made to the market value of assets in order to protect the policyholders' fund, excluding their investment balances, against fluctuations in market values. An investment stabilisation reserve is held as a buffer against the impact of market fluctuations on the assets backing investment-linked liabilities.

4. Guarantees

The value of the reserves was calculated taking into account all underlying guarantees, including guaranteed maturity values.

5. Maintenance expenses

The maintenance expense assumptions were based on the results of an expense investigation by Swabou Life management and allowance was made for the expected increase in maintenance expenses at 5.96% p.a.

6. Investment return

It was assumed that the Company would earn a net rate of return of 9.50% p.a. on its investments in future. This rate will be revised from year to year as market conditions change. However, benefits, premiums and future expenses have been discounted at a rate of interest of 9.25% p.a. to provide a contingency margin.

7. Statutory capital adequacy requirements

The capital adequacy requirement is calculated to determine whether the excess of assets over liabilities is sufficient to provide for the possibility of severely negative future experience. A requirement of N$29.9 million (30 June 2005: N$24.9 million) has been established. The excess of assets over liabilities covers the capital adequacy requirement 2.78 times (30 June 2005: 2.45 times).

Report of the Independent Auditors to the Members of FNB Namibia Holdings Limited

We have audited the Company annual financial statements and Group annual financial statements of FNB Namibia Holdings Limited set out on pages 39 to 119 for the year ended 30 June 2006. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and the Group at 30 June 2006, and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Namibia.

Deloitte & Touche

Deloitte & Touche
Registered Accountants and Auditors
Chartered Accountants (Namibia)

Per J C Kuehhirt
Partner

Windhoek
1 September 2006

Directors' Report

The directors present their annual report, which forms part of the annual financial statements of the Group and of the Company for the year ended 30 June 2006.

Nature of business

The Company acts as an investment holding company and the main investments are the 100% shareholding in:

- First National Bank of Namibia Limited: a registered bank offering a full range of banking services;
- Swabou Life Assurance Company Limited: a life assurance company;
- Swabou Insurance Company Limited: a short term insurance company;
- Talas Properties (Windhoek) (Proprietary) Limited: a property-owning company;
- First National Asset Management and Trust Company of Namibia (Proprietary) Limited: a registered trust company involved in the administration of deceased estates; and
- FNB Namibia Unit Trusts Limited: a unit trusts management company.

Share capital

At the annual general meeting of the company held on 24 November 2005, the company passed a special resolution to convert 30 197 447 of its authorised cumulative convertible redeemable preference shares to ordinary shares of 0.5 cents each. These shares were not in issue and the resolution was therefore only passed to change the nature of these unissued shares from cumulative convertible redeemable preference shares to ordinary shares.

The Company's authorised share capital remained unchanged at N$5 million.

The Company's authorised share capital at year-end consists of 990 000 000 (2005: 959 802 553) ordinary shares of 0,5 cents each and 10 000 000 (2005: 40 197 447) cumulative convertible redeemable preference shares of 0,5 cents each.

The issued ordinary share capital remained unchanged at 267 593 250 ordinary shares and 2 cumulative convertible redeemable preference shares.

At the annual general meeting to be held on 29 November 2006, members will be asked to consider an ordinary resolution placing the number of un-issued ordinary and preference shares, exclusive of the number of shares reserved for purposes of the share incentive scheme as at that date, under the control of the directors as is currently the case, until the next annual general meeting.

Share analysis – ordinary shares

Based on information disclosed by the Namibian Stock Exchange and investigations conducted on behalf of the Company, the following shareholders have a beneficial interest of 5% or more in the issued ordinary shares of the Company:

FirstRand Bank Holdings Limited	60% (2005: 60%)
Government Institutions Pension Fund	16.7% (2005: 10%)

A detailed analysis of shareholders is set out on page 11.

Share analysis – preference shares

RMB-SI Investments (Proprietary) Limited	100% (2005: 100%)

FNB Share Incentive Scheme

No new shares were allocated during the year (2005: 1 926 295). The total number of shares allocated to the share incentive trust at 30 June 2006 amounts to 3 246 295 (2005: 3 246 295). Also refer to note 12.3 in this regard.

Directors' interest in FNB Namibia Holdings Limited

Details of the directors' interest in the issued ordinary shares of FNB Namibia Holdings Limited are reflected in note 10 to the annual financial statements.

Interest of directors

At no time during the financial year were any contracts of significance entered into relative to the Group's business in which a director had an interest.

Group results

The financial statements on pages 33 to 119 set out fully the financial position, results of operations and cash flows of the Company and the Group. Your attention is also drawn to the Chairman's report, the Chief Executive Officer's report and the Chief Financial Officer's report on our financial results on pages 16 to 28.

Directors' Report

N$ thousand	2006	2005
Dividends		
The following dividends were declared in respect of the current and previous financial years:		
Ordinary dividends		
Dividend No. 20 of 15 cents per ordinary share to shareholders registered on 24 March 2005.		39 116
Dividend No. 21 of 17 cents per ordinary share to shareholders registered on 23 September 2005.		45 491
Dividend No. 22 of 17 cents per ordinary share to shareholders registered on 17 March 2006.	45 491	
Dividend No. 23 of 23 cents per ordinary share to shareholders registered on 29 September 2006.	61 546	
Total distribution for the 12 months of 40 cents per ordinary share (2005: 32 cents per ordinary share)	107 037	84 607
Preference dividends		
Dividend No. 1		5 025
Dividend No. 2	1 331	

Directorate

At the Group's annual general meeting held on 24 November 2005, Mr HWP Böttger, who retired by rotation in accordance with the provisions of the Company's Articles of Association, made himself available for re-election and was duly re-elected.

The composition of the board of FNB Namibia Holdings Limited is as follows:

H-D Voigts (Chairman)
L S Ipangelwa (Chief Executive Officer)
Deceased: 7 September 2005
Adv VR Rukoro (Chief Executive Officer)
Appointed: 1 March 2006
J K Macaskill *
Appointed Acting Chief Executive Officer:
7 September 2005 to 28 February 2006
H W P Böttger
P T Nevonga
I I Zaamwani (Ms)
Dr MT Lategan *
Appointed: 24 November 2005
S H Moir *
Appointed: 24 November 2005
C L R Haikali
Appointed: 24 November 2005
M N Ndilula
Appointed: 24 November 2005
E B Nieuwoudt *
Resigned: 23 August 2005
S V Katjiuanjo
Resigned: 8 December 2005

* South African

All directors appointed since the last annual general meeting have to be confirmed at the next annual general meeting.

Directors' emoluments

Directors' emoluments are disclosed in note 10.1 to the annual financial statements.

Management by third parties

None of the business of the Company or of any subsidiary has been managed by a third party or by a company in which a director had an interest during this financial year.

Directors' Report

Insurance

Comprehensive cover in respect of the bankers' bond, computer crime and professional indemnity risk is in place.

Property and equipment

There was no material change in the nature of property and equipment or in the policy regarding its use during the year. The impact of the adoption of International Financial Reporting Standards on Property and Equipment is explained in note 22 to the annual financial statements.

Holding company

The holding company of FNB Namibia Holdings Limited is FirstRand Bank Holdings Limited and its ultimate holding Company is FirstRand Limited, both of which are incorporated in the Republic of South Africa.

Subsidiaries

Interest in and aggregate profits of subsidiaries are set out in note 21 to the annual financial statements.

Company secretary and registered offices

Company secretary

Ms Roberta Brusa (Resigned: 30 June 2006)
Mr Brian Katjaerua (Appointed: 14 August 2006)

Registered office

209 Independence Avenue
Windhoek

Postal address

P O Box 195
Windhoek
Namibia

Events subsequent to the balance sheet date

There are no material events subsequent to the balance sheet date to report.

Accounting Policies

The principal accounting policies that the Group applied during the 2006 financial year are set out below.

Introduction

The audited financial statements of the Group comprise the financial position, results and cash flow of the banking and insurance interests of the FNB Namibia Holdings Group.

The Group adopts the following accounting policies in preparing its consolidated financial statements.

1.1. Basis of presentation

The Group's audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') for the first time.

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

These financial assets and liabilities include:

- financial assets and liabilities held for trading;
- financial assets classified as available for sale;
- derivative financial instruments; and
- financial instruments elected to be carried at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

In accordance with the transitional provisions set out in IFRS 1, 'First-time Adoption of International Financial Reporting Standards' and other relevant standards, the Group has applied IFRS as at 30 June 2006 in its financial reporting with effect from the Group's transition date on 1 July 2004, with the exception of the standards relating to financial instruments and insurance contracts which were applied with effect from 1 July 2005. Therefore the impact of adopting IAS 32 – 'Financial Instruments - Disclosure and Presentation', IAS 39 – 'Financial Instruments – Recognition and Measurement' and IFRS 4 – 'Insurance Contracts' are not included in the 2005 comparatives in accordance with IFRS 1. The Group previously followed Namibian Statements of Generally Accepted Accounting Practice.

Changes in the presentation of prior year numbers, save for those changes resulting from the adoption of IFRS referred to above to conform to current year presentation, are set out in note 1.27.

All monetary information and figures presented in these financial statements are stated in thousands of Namibia Dollar (N$ '000), unless otherwise indicated.

1.2. Consolidation

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which the Group, directly or indirectly, has the power to exercise control over the operations for its own benefit. The Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control. Subsidiaries are consolidated from the date on which the Group acquires effective control. Consolidation is discontinued from the effective date of disposal.

The Group consolidates a special purpose entity ('SPE') when the substance of the relationship between the Group and the SPE indicates that the Group controls the SPE.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

1.3. Associate companies

Associate companies are entities in which the Group holds an equity interest of between 20% and 50%, or over which it has the ability to exercise significant influence, but does not control. Investments acquired and held exclusively with the view to disposal in the near future (12 months) are not accounted for using the equity accounting method, but carried at fair value less cost to sell in terms of the requirements of IFRS 5 – 'Non-current Assets Held for Sale and Discontinued Operations'.

The Group includes the results of associate companies in its consolidated financial statements using the equity accounting method, from the effective date of acquisition to the effective date of disposal. The investment is initially recognised at cost.

Earnings attributable to ordinary shareholders include the Group's share of earnings of associate companies. The Group's reserves include its share of post-acquisition movements in reserves of associate companies. The cumulative post-acquisition movements are adjusted against the cost of the investment in the associate companies.

The Group discontinues equity accounting when the carrying amount of the investment in associate companies reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associate undertaking.

After discontinuing equity accounting the Group applies the requirements of IAS 39 to determine whether it is necessary to recognise any additional impairment loss with respect to the net investment in the associate as well as other exposures to the investee. Goodwill included in the carrying amount of the investment in associate companies is assessed for impairment in accordance with IAS 36 as part of the entire carrying value of the investment in the associate.

The Group increases the carrying amount of investments with its share of the associate company income when equity accounting is resumed.

Unrealised gains on transactions between the Group and its associate companies are eliminated to the extent of the Group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

1.4. Revenue recognition

1.4.1 Interest income and expense

The Group recognises interest income and expense in the income statement for all instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the average expected life of the financial instruments or portfolios of financial instruments. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

From an operational perspective, the Group suspends the accrual of contractual interest on non-recoverable advances. However, in terms of IAS 39, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the discounted recoverable amount of the advance. The difference between the discounted and undiscounted recoverable amount is released to interest income over the expected collection period of the advance.

Instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or long-term liabilities. Dividends received or paid on these instruments are included and accrued in interest income and expense.

1.4.2 Trading income

The Group includes profits, losses and fair value adjustments on trading financial instruments (including derivative instruments which do not qualify for hedge accounting in terms of IAS 39) as well as financial instruments designated at fair value in trading income as it is earned.

1.4.3 Fee and commission income

The Group generally recognises fee and commission income on an accrual basis when the service is rendered.

Accounting Policies

Certain fees and transaction costs that form an integral part of the yield of available for sale and amortised cost financial instruments are capitalised and recognised as part of the effective yield of the financial instrument over the expected life of the financial instrument. These fees and transaction costs are recognised as part of the net interest income and not as non-interest revenue.

Commission income on acceptances, bills and promissory notes endorsed is credited to income over the lives of the relevant instruments on a time apportionment basis.

The impact of the adoption of IFRS on fee and commission income is explained in note 1.27.

1.4.4 Dividends

The Group recognises dividends when the Group's right to receive payment is established. This is on the 'last day to trade' for listed shares, and on the 'date of declaration' for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

1.4.5 Services rendered

The Group recognises revenue for services rendered to customers based on the estimated outcome of the transactions.

When the outcome can be reliably estimated, transaction revenue is recognised by reference to the stage of completion of the transaction at the balance sheet date. The stage of completion is measured based on the amount of work performed.

When the outcome cannot be reliably estimated, revenue is recognised only to the extent of the expenses incurred that are recoverable.

1.5. Foreign currency translation

1.5.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Namibia Dollar, which is the functional and presentation currency of the holding company of the Group.

1.5.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

1.6. Borrowing costs

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset up to date on which construction or installation of the assets is substantially completed. Other borrowing costs are expensed when incurred.

1.7. Direct and indirect taxation

The tax expense represents the sum of the tax currently payable and deferred tax. Direct taxes comprises Namibian corporate tax payable.

Indirect taxes include various other taxes paid to central and local governments, including value added tax and stamp duties. Indirect taxes are disclosed separately from direct tax in the income statement.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. The Group's liability for current tax is calculated using taxation rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

The Group calculates deferred taxation on the comprehensive basis using the liability method on a balance sheet based approach. It calculates deferred tax liabilities or assets by applying corporate tax rates to the temporary differences existing at each balance sheet date between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities are recovered or settled.

The Group recognises deferred tax assets if the directors of FNB Namibia Holdings Limited consider it probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward. However, deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associate companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to fair value re-measurement of available for sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

1.8. Recognition of assets, liabilities and provisions

1.8.1 Assets

The Group recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the enterprise.

1.8.2 Contingent assets

The Group discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Group's control.

1.9. Liabilities, provisions and contingent liabilities

1.9.1 Liabilities and provisions

The Group recognises liabilities, including provisions, when:

- it has a present legal or constructive obligation as a result of past events, and
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- a reliable estimate of the amount of the obligation can be made.

1.9.2 Contingent liabilities

The Group discloses a contingent liability where:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise, or
- it is not probable that an outflow of resources will be required to settle an obligation, or
- the amount of the obligation cannot be measured with sufficient reliability.

1.9.3 Sale and repurchase agreements and lending of securities

The financial statements reflect securities sold subject to a linked repurchase agreement (repos) as trading or investment securities. These instruments are measured at fair value, with changes in fair value reported in the income statement. The counterparty liability is included in deposits from other banks, other deposits, or deposits due to customers, as appropriate.

Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers as appropriate. The difference between purchase and resale price is treated as interest and accrued over the life of the reverse repos using the effective yield method.

Securities lent to counterparties are retained in the financial statements of the Group.

The Group does not recognise securities borrowed in the financial statements, unless sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return these securities is recorded as a liability at fair value.

1.10. Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise:

- coins and bank notes;
- money at call and short notice;
- balances with central bank;
- balances guaranteed by central bank; and
- balances with other banks.

All balances included in cash and cash equivalents have a maturity date of less than three months.

1.11. Financial instruments

1.11.1 General

Financial instruments carried on the balance sheet include all assets and liabilities, including derivative instruments, but exclude investments in associate companies, property and equipment, deferred taxation, taxation payable, intangible assets, deferred staff costs and post-retirement liabilities.

1.11.2 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. Management determines the classification of its investments at initial recognition.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are included in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of available for sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss.

However, interest calculated on available for sale financial assets using the effective interest method is recognised in the income statement.

Dividends on available for sale equity instruments are recognised in the income statement when the entity’s right to receive payment is established.

The Group recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset is delivered to or by it. Otherwise such transactions are treated as derivatives until settlement.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

1.11.2.1 Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as a trading instrument if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

Assets are classified on initial recognition as ‘At fair value through profit and loss’ to the extent that this produces more relevant information because it either:

- Results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- A group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity’s key management personnel; or
- A financial asset or liability containing significant embedded derivatives.

The Group recognises fair value adjustments on financial assets classified as fair value through profit and loss in trading income. Interest income on these assets is included in the fair value adjustment.

1.11.2.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

This category also includes purchased loans and receivables, where the Group has not designated such loans and receivables in any of the other financial asset categories.

1.11.2.3 Held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held to maturity assets, the entire category would be tainted and reclassified as available for sale.

The Group carries held to maturity financial assets and investments at amortised cost using the effective interest method, less any impairment.

1.11.2.4 Available for sale

Available for sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The Group recognises unrealised gains and losses arising from changes in the fair value of available for sale assets, in equity. It recognises interest income on these assets as part of interest income, based on the instrument's original effective rate. Interest income is excluded from the fair value gains and losses reported in equity. When the advances and receivables or investment securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

1.11.3 Embedded derivatives

The Group treats derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, as separate derivatives when:

- their risks and characteristics are not closely related to those of the host contract; and
- the host contract is not carried at fair value, with gains and losses reported in income.

Where embedded derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules (Refer note 1.13).

1.11.4 Derecognition of assets

The Group derecognises an asset when the contractual rights to the asset expires, where there is a transfer of the contractual rights that comprise the asset, or the Group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

Where the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognise the financial asset. If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the Group shall recognise any income on the transferred asset and any expense incurred on the financial liability.

Where the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group shall determine whether it has retained control of the financial asset. In this case:

(i) if the Group has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer; or

(ii) if the Group has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

1.11.5 Offsetting financial instruments

The Group offsets financial assets and liabilities and reports the net balance in the balance sheet where:

- there is a legally enforceable right to set off, and
- there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.11.6 Trade receivables and trade payables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade payables are stated at their nominal value.

1.11.7 Borrowings

The Group initially recognises borrowings, including debentures, at the fair value of the consideration received. Borrowings are subsequently measured at amortised cost. Discounts or premiums on debentures issued are amortised on a basis that reflects the effective yield on the debentures over their life span. Interest paid is recognised in the income statement on an effective interest basis.

The Group separately measures and recognises the fair value of the debt component of an issued convertible bond in liabilities, with the residual value separately allocated to equity. It calculates interest on the debt portion of the instrument based on the market rate for a non-convertible instrument at the inception thereof.

Instruments with characteristics of debt, such as redeemable preference shares, are included in liabilities. Dividends paid on such instruments are included in interest expense. Where the Banking Group purchases its own debt, the debt is derecognised from the balance sheet and any difference between the carrying amount of the liability and the consideration paid is included in trading income.

1.12. Impairments of financial assets

1.12.1 General

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

The impact of the adoption of IFRS on Impairment of financial assets is explained in note 1.27.

1.12.2 Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held to maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors).Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

1.12.3 Assets carried at fair value

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement in equity instruments are not reversed through the income statement.

1.13. Derivative financial instruments and hedging

The Group initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, in the balance sheet at fair value and subsequently re-measures these instruments at their fair value.

The fair value of publicly traded derivatives is based on quoted bid prices for assets held or liabilities to be issued, and current offer prices for assets to be acquired and liabilities held.

The fair value of non-traded derivatives is based on discounted cash-flow models and option pricing models as appropriate. The Group recognises derivatives as assets when the fair value is positive and as liabilities when the fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits/losses on day one.

Where fair value is determined using valuation techniques whose variables include non-observable market data, the difference between the fair value and the transaction price ('the day one profit/loss') is deferred and released over the life of the instrument. However, where observable market factors that market participant would consider in setting a price subsequently become available, the balance of the deferred day one profit/loss is released to income.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

The hedge of a foreign currency firm commitment can either be accounted for as a fair value or a cash flow hedge.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

1.13.1 Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

1.13.2 Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The Group recognises fair value changes of derivatives that are designated and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, in the cash flow hedging reserve in equity.

Where the forecasted transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability. For financial assets and liabilities, the Group transfers amounts deferred in equity to the income statement and classifies them as revenue or expense in the periods during which the hedged firm commitment or forecasted transaction affects the income statement.

1.14. Property and equipment

The Group carries property and equipment at historical cost less depreciation and impairment, except for land which is carried at cost less impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Property and equipment are depreciated on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

Freehold properties and properties held under finance lease are further broken down into significant components that are depreciated to their respective residual values over economic lives of these components.

The periods of depreciation used are as follows:

Leasehold premises	Shorter of estimated life or period of lease
Freehold property and property held under finance lease:	
- Buildings and structures	50 years
- Mechanical and electrical	20 years
- Components	20 years
- Sundries	20 years
Computer equipment	3 years
Furniture and fittings	10 years
Motor vehicles	5 years
Office equipment	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in the income statement on disposal.

The impact of the adoption of IFRS on Property and equipment is explained in note 1.27.

1.15. Investment properties

The Group classifies investment properties as properties held to earn rental income and/or for capital appreciation. It carries investment properties at fair value based on valuations by professional valuators. Valuations are carried out annually. Fair value movements are recorded in income in the year in which they arise.

The Group carries properties under development at cost less adjustments to reduce the cost to open market value, if appropriate.

1.16. Leases

1.16.1 A group company is the lessee

Finance leases

The Group classifies leases as finance leases where it assumes substantially all the benefits and risks of ownership.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The Group allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is charged to the income statement over the lease period. Property and equipment acquired are depreciated over the useful life of the assets, unless it is not probable that the Group will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned fixed assets.

Operating leases

The Group classifies leases of assets, where the lessor effectively retains the risks and benefits of ownership, as operating leases. It charges operating lease payments to the income statement on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments.

The Group recognises as an expense any penalty payment to the lessor for early termination of an operating lease before the lease period has expired, in the period in which termination takes place.

1.16.2 A group company is the lessor

Finance leases

The Group recognises as advances assets sold under a finance lease at the present value of the lease payments. The difference between the gross receivable and the present value of the receivable represents unearned finance income. Lease income is recognised over the term of the lease using the effective interest rate method, which reflects a constant periodic rate of return.

Operating leases

The Group includes in a separate category as 'assets held under operating lease' property and equipment assets leased out under operating leases. It depreciates these assets over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognised on a straight-line basis over the lease term.

1.16.3 Instalment credit agreements

The Group regards instalment credit agreements as financing transactions and includes the total rentals and instalments receivable thereunder, less unearned finance charges, in advances.

It calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to income in proportion to capital balances outstanding.

1.17. Intangible assets

1.17.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the Group's share of the net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associate companies is included in investments in associate companies.

The Group discontinued the amortisation of goodwill with effect from 1 July 2004. An impairment test was performed on the carrying value of goodwill on 1 July 2004. Any adjustments to the carrying amount of goodwill were made against retained income.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For impairment purposes, goodwill is allocated to the lowest component of the business that is expected to benefit from synergies of the combination and at which management monitors goodwill ('cash generating unit'). Each cash generating unit represents a grouping of assets no higher than a primary business or reporting segment.

1.17.2 Computer software development costs

The Group generally expenses computer software development costs in the year incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for the Group exceeding the costs incurred for more than one accounting period, the Group capitalises such costs and recognises them as an intangible asset.

The Group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years. Management reviews the carrying value wherever objective evidence of impairment exists. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

1.17.3 Other intangible assets

The Group generally expenses the costs incurred on internally generated intangible assets such as trademarks, concessions, patents and similar rights and assets, to the income statement in the period in which the costs are incurred. Internally generated intangible assets which are separately identifiable, where the costs can be reliably measured and where the Group is expected to derive a future benefit for more than one accounting period are capitalised.

The Group capitalises material acquired trademarks, patents and similar rights where it will receive a benefit from these intangible assets in more than one accounting period.

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

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

1.18. Employee benefits

1.18.1 Post-employment benefits

The Group operates defined benefit and defined contribution schemes, the assets of which are held in a separate trustee-administered fund for the pension fund. The pension plan is generally funded by payments from employees and the relevant Group companies, taking account of the recommendations of independent qualified actuaries. For the defined benefit plan the pension accounting costs are assessed using the projected unit credit method.

The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The Group writes off current service costs immediately, while it expenses past service costs to the extent not vested, experience adjustments, changes in actuarial assumptions and plan amendments over the expected remaining working lives of employees. The costs are written off immediately in the case of retired employees.

The Pension fund is registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Group employees. Qualified actuaries perform annual valuations.

For the defined contribution plan, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

1.18.2 Post-retirement medical benefits

In terms of certain employment contracts, the Group provides for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. IAS19 requires that the liabilities in respect thereof be reflected on the balance sheet.

The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for the defined benefit pension plan.

The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and completing a minimum service period. Qualified actuaries perform annual valuations.

1.18.3 Termination benefits

The Group recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination.

1.18.4 Leave pay accrual

The Group recognises in full employees' rights to annual leave entitlement in respect of past service.

1.18.5 Recognition of actuarial gains and losses

Actuarial gains or losses occur as a result of:

- increases or decreases in the present value of defined benefit plan liabilities;
- increases or decreases in the fair value of plan assets; or
- a combination of the above.

Increases or decreases in the fair value of plan liabilities can be caused by changes in the discount rate used, expected salaries or number of employees, plan benefits and expected inflation rates.

Increases or decreases in the fair value of plan assets occur as a result of the difference between the actual and expected return on the plan assets.

The Group does not recognise actuarial gains or losses below the corridor limit of 10% in the period under review, but defers such gains or losses to future periods.

1.19. Share capital

1.19.1 Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Costs directly related to the issue of new shares or options are shown as a deduction from equity.

1.19.2 Dividends paid

Dividends on ordinary shares are recognised against equity in the period in which they are approved by the Company's shareholders. Dividends declared after the balance sheet date are not recognised but disclosed as a post balance sheet event.

1.20. Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group accounts for and discloses acceptances as a contingent liability.

1.21. Segment reporting

The Group defines a segment as a distinguishable component or business that provides either:

- unique products or services ('business segment'), or
- products or services within a particular economic environment ('geographical segment'),

subject to risks and rewards that are different from those of other segments.

Segments with a majority of revenue earned from charges to external customers and whose revenue, results or assets are 10% or more of all the segments, are reported separately.

1.22. Fiduciary activities

The Group excludes assets and the income thereon, together with related undertakings to return such assets to customers, from the financial statements where it acts in a fiduciary capacity such as nominee, trustee or agent.

1.23. Share-based payment transactions

The Group operates equity-settled share-based compensation plans.

The Group expenses in the relevant entities where the services of employees affected are rendered, the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, on a straight-line basis as employee costs, with a corresponding credit to a share-based payment reserve. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair values of the options are determined using the Fincad valuation model, excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each balance sheet date, the Group revises its estimate of the number of options expected to vest.

1.24. Related party transactions

All related party transactions are incurred in the ordinary course of business.

In accordance with the requirements of IAS 24 - 'Related party disclosures', transactions with related parties of the Group that eliminate on consolidation are not disclosed in the Group annual financial statements, but only in the Company's annual financial statements.

1.25. Income from operations

Income from operations represents income before tax and includes the Group's share of income from associate companies.

1.26. Policies relating to insurance operations

1.26.1 Premium income

Premiums under insurance and investment contracts are recognised as revenue when due from policyholders and are stated gross of commission. Provision is made for outstanding premiums due on policies accepted at balance sheet date. Premium income is reflected net of reinsurance premiums.

Individual life investment funds, lump sums, annuities and single premiums are accounted for when the collection of the premiums in terms of the policy contract is reasonably assured.

All other individual life premiums are accounted for when they become due and payable.

Premiums on short-term insurance business written are accounted for in the period the risk incepts. Unearned premiums are carried forward and are calculated by estimating the proportion of annual premiums that relate to future periods.

Premiums on investment contracts are excluded from the income statement and are recognised as a liability in terms of IFRS 4 –'Insurance Contracts'.

1.26.2 Policyholder benefits

Benefits paid under insurance contracts and investment contracts include maturities, annuities, surrenders, death and disability payments.

Policyholder benefit payments are shown net of reinsurance recoveries and are accounted for when claims are intimated.

1.26.3 Commission

Life insurance commission payments are net of reinsurance commission received and are expensed as incurred.

Commission on investment contracts is spread over the first five years of the policy. The commission costs attributable to the unearned premiums at the end of the financial year are deferred and carried forward to the following year.

1.26.4 Policyholder contracts

The Company classifies all policyholder contracts that transfer significant insurance risk as insurance contracts. These contracts are valued in terms of the Financial Soundness Valuation ('FSV') basis contained in PGN104 issued by the Actuarial Society of South Africa and are reflected as 'Policyholder liabilities under insurance contracts' (previously the Life Fund).

Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts and reflected in the financial statements at fair value, with changes in fair value being accounted for in the income statement. These contracts are disclosed on the balance sheet as 'Policyholder liabilities under investment contracts'. The premium income and benefit payments relating to these investment contracts have been excluded from the income statement and accounted for directly against the liability. The fair value adjustment to investment contracts and the fees earned from these products have been disclosed separately in the income statement.

1.26.5 Derivatives embedded in insurance contracts

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are fair valued through income.

1.26.6 Liability adequacy test

The Group performs liability adequacy testing on its insurance liabilities to ensure that the carrying amount of its liabilities (less related deferred acquisition costs and intangible assets) is sufficient in view of estimated future cash flows. When performing the liability adequacy test, the Group discounts all contractual cash flows and compares this amount to the carrying value of the liability. Where a shortfall is identified, an additional liability is raised. This liability adequacy test is inherent in the Financial Soundness Valuation and thus no additional liability adequacy test is required under IFRS 4.

1.26.7 Reinsurance contracts

Contracts entered into by the Group with reinsurers under which it is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables), as well as longer term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Group gathers objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

1.26.8 Receivables and payables related to insurance and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the insurance operation reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in the income statement. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated following the same method used for these financial assets.

1.26.9 Fee income

Policy fees on investment contracts are recognised on an accrual basis when the service is rendered.

1.26.10 Investment income

Unrealised surpluses and deficits on revaluation to market values are credited to the Policyholders' Fund. Profits or losses realised are credited or charged to income.

Investment income is recognised on the accrual basis. Dividend income is brought to account when the last day of registration falls within the accounting period.

1.26.11 Expenses for marketing and administration

Marketing and administration expenses include administration expenditure, marketing and development expenditure as well as all other non-commission related expenditure, and are expensed as incurred.

1.26.12 Operating profits

The life insurance operating profits are determined in accordance with the guidance note on Financial Soundness Valuations issued by the Actuarial Society of South Africa, PGN104 (1998).

Accounting Policies

The operating surpluses arising from life and health insurance business are determined by the annual actuarial valuation. These surpluses are arrived at after taking into account the increase in actuarial liabilities under unmatured policies, provisions for policyholder bonuses and adjustments to contingency and other reserves within the life funds.

Gains or losses arising from the fair valuation of shareholders' assets designated as 'held for trading' are accounted for in the income statement.

Gains or losses arising from the fair valuation of shareholders' assets designated as 'Available for sale' are accounted for directly to equity.

1.26.13 Financial instruments

Financial instruments carried on the balance sheet include all assets and liabilities, including derivative instruments, but exclude investments in subsidiary and associate companies, property and equipment, deferred taxation, taxation payable and intangible assets.

The Group classifies assets under management and listed equity investments as 'held for trading' at fair value. These investments are initially recognised at cost, including transaction cost, and subsequently valued at fair value using quoted market and repurchase prices respectively, with fair value movements reflected in the income statement. Fixed deposits and other cash investments are classified as 'held to maturity' and are carried at amortised cost.

1.26.14 Claims

Claims are written off in full as incurred. Provision is made for the estimated costs of claims (net of anticipated recoveries under reinsurance arrangements) notified but not settled at the balance sheet date. The provision is calculated on the best available information of historical trends and management's estimates of future claim costs.

1.27. Restatement of comparatives due to IFRS adoption, change in accounting policy and presentation

1.27.1 Restatement of comparatives due to IFRS adoption

FNB Namibia Holdings Limited and its subsidiaries ('the Group') has prepared its consolidated financial statements under Namibian Statements of Generally Accepted Accounting Practice ('Namibian GAAP') for the financial year ended 30 June 2005.

In accordance with the Listing Requirements of the Namibian Stock Exchange ('NSX'), the Group adopted International Financial Reporting Standards, International Accounting Standards and interpretations issued by the International Financial Reporting Interpretation Committee and its predecessor body (collectively referred to as 'IFRS') with effect from 1 July 2005.

The change to IFRS applies to all financial years beginning on or after 1 January 2005.

Consequently, the Group's first IFRS results will be for the year ended 30 June 2006. As the Group publishes comparative information for the previous financial year, the date of transition to IFRS is 1 July 2004 ('the transition date'), the start of the earliest period for which comparative information is presented.

It is important to note that over the last few years, Namibian GAAP has been aligned to a large extent with IFRS. The most notable change was the adoption of AC133 - 'Financial Instruments: Recognition and Measurement', the Namibian equivalent to IAS 39, for financial periods commencing on or after 1 July 2002. As a result, the final conversion to full IFRS compliance is less significant than current experience in Europe.

The change from Namibian GAAP to IFRS has primarily impacted the following areas:

- applying the 'incurred loss' basis with respect to credit impairment as opposed to the 'expected loss' basis;
- expensing the cost of share options awarded to employees and other share-based payment transactions on a fair value basis;
- revaluing the carrying value of certain properties and adjusting the depreciation methodology used;
- reallocating certain fees and expenses from non-interest revenue and operating expenses, to interest income and recognising the fees and expenses on an effective yield basis;
- reclassification of policy contracts between the insurance and investment categories based on the IFRS 4 – 'Insurance Contracts' criteria; and
- reclassification of policy loans to policyholder liabilities.

It is important to note that the adoption of IFRS represents an accounting change only, and does not affect the underlying operations or cash flows of the Group. Furthermore, the new standards do not impact the Group's or its subsidiaries statutory solvencies. The Group is still well capitalised in terms of the regulatory minimum capital adequacy ratio.

Accounting Policies

IFRS 1 – 'First-time adoption of International Financial Reporting Standards' sets out the requirements for the initial adoption of IFRS. IFRS 1 requires that accounting policies be adopted that are compliant with IFRS and that these policies be applied retrospectively to all periods presented. However, due to cost and practical considerations, certain exemptions are permitted to full retrospective application in preparing the balance sheet on the transition date ('the transition balance sheet') and the financial information for the year ended 30 June 2005.

The Group has made the following elections in terms of IFRS 1:

Adjustments implemented with effect from 1 July 2004 (Retrospectively):

IAS 16 - Property and Equipment ('P&E') - The component approach to depreciation

Under Namibian GAAP, buildings were not split into their major components when determining or calculating depreciation. Furthermore, the residual value of P&E was determined on recognition, and not on an annual basis.

IAS 16 requires that in determining the annual depreciation charge, an entity needs to reassess the residual value of the depreciable asset on an annual basis. Furthermore, properties need to be split into their major components, each of which needs to be depreciated over its useful life to the residual value of the component.

In terms of IFRS 1, the Group has in certain instances applied the election to use the fair value of certain properties as deemed cost on the transition date. As a result, the values of certain properties in the Group decreased and the previously recognised depreciation charge through equity was increased. The lower depreciable value of property on the transition date resulted in a decrease in the depreciation charge during the 2005 financial year.

The financial impact is a net decrease in P&E on 1 July 2004 of N$1.8 million and a decreased depreciation charge of N$1.4 million. The corresponding effect is an adjustment to retained income of N$1.2 million on 1 July 2004, after tax, as well as increased profit for 2005 of N$0.9 million, after tax, due to a lower depreciation charge.

These adjustments are set out in detail in the P&E movement schedule (note 22), the operating expenses schedule for depreciation (note 10) and the statement of changes in equity. The deferred taxation effect on 1 July 2004 as well as the movement for 2005 is N$0.1 million and is reflected in the deferred taxation note (note 30).

IAS 28 - Equity method

The Group previously applied the equity method of accounting for its investments in associates, in both the Group consolidated annual financial statements and the holding companies separate annual financial statements. The Group has adopted the exemption in terms of IAS 28 – 'Investments in Associates' not to apply the equity method of accounting in the holding companies separate annual financial statements anymore, but instead to apply the cost method of accounting for its investments in associates.

The financial impact in the Company's financial statements is a decrease in investment in associates on 1 July 2004 of N$0.7 million. The corresponding effect is an adjustment to retained income of N$0.7 million on 1 July 2004 as well as decreased profit for 2005 of N$0.4 million as a result of not recognising the company's share of associate income.

Adjustments implemented with effect from 1 July 2005 (Prospectively):

IAS 18/39 - Effective Interest Rate

Under Namibian GAAP, fees and expenses which form an integral part of the effective interest rate on loans and advances carried at amortised cost, should be taken into account in determining the effective yield of the loan, and should not be recognised in the income statement on origination of the loan.

The principle evolved through local and international interpretation and has been carried forward in terms of the requirements of IAS 18 read in conjunction with IAS 39. As such, fees and commissions that are an integral part of the effective yield on a financial instrument, and direct incremental costs associated with origination of a financial instrument are included in the calculation of the effective interest rate and recognised over the expected life of the instrument. Certain additional fees and expenses that were not considered to be part of the effective interest rate on loans and advances carried at amortised cost under Namibian GAAP, need to be recognised on an effective yield basis under IFRS.

The recognition principles under IFRS affect both the timing and recognition of certain fees and expenses charged at the initiation of a transaction from up-front to over the expected life of the instrument, as well as the classification of these fees from 'Non-interest revenue' and 'Operating Expenses', to 'Interest income'.

Fees for services continue to be recognised as and when the service is rendered.

As this adjustment was only implemented on 1 July 2005 prospectively, balances as reported on 30 June 2005 are not restated. The retained income on 1 July 2005 is decreased as follows and reported net on the statement of changes in equity:

Gross adjustment to advances, where the deferred asset and deferred liability is reported:

- For Fee Income: N$8.6 million, the after tax impact is N$5.6 million.
- For Commission expenses: N$2.3 million, the after tax impact is N$1.5 million.

The deferred taxation impact of N$2.2 million is detailed in the deferred taxation note (note 30).

IAS 39 – Credit Impairment

Under Namibian GAAP (AC 133), the Group raised specific impairments in respect of non-performing advances when there was objective evidence that it would not be able to collect all amounts due. The impairment was calculated as the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate at inception of the advance.

The Group further raised portfolio impairments in respect of performing advances where there was objective evidence that the present value of the expected future cash flows of a portfolio of advances, applying the original effective interest rate, was less than the carrying value of the portfolio of advances.

The portfolio impairments were based upon historical patterns of losses in each component of the performing portfolio, taking account of the current economic climate in which the borrowers operate.

IAS 39 introduces changes to credit impairment practices and accounting by requiring such impairments to be determined on an 'incurred loss' basis where there is objective evidence of a loss event after the initial recognition of the loan, rather than on expectations of future losses. IFRS allows for the creation of portfolio impairments on higher risk portions of performing portfolios based on identified loss indicators.

IFRS also implicitly allows for the creation of impairments for losses which are inherent in a portfolio of advances, which have not been specifically identified as impaired, i.e. losses incurred but not yet reported.

The IAS 39 incurred loss methodology by its nature may result in increased credit impairments on certain portfolios. In terms of AC 133, portfolio impairments were calculated using the expected cash flows of an entire portfolio of advances with similar credit characteristics. Implicitly, this allowed for certain levels of 'cross subsidisation' of credit risk due to certain exposures in a portfolio improving in credit risk since inception, offsetting the exposures which have shown negative migration in credit risk.

IAS 39 specifically requires that an entity calculates impairments with reference only to those items in a portfolio which have shown negative migration in credit risk since inception (objective evidence of impairment). Furthermore, it requires the adjustment of historical loss patterns used in determining portfolio impairments for current economic conditions. The combination of these requirements in certain instances results in higher levels of portfolio impairments in terms of IAS 39 in comparison to AC 133 with effect from 1 July 2005.

As this adjustment is only implemented on 1 July 2005 prospectively, balances as reported on 30 June 2005 are not restated. The retained income on 1 July 2005 is decreased as follows and reported net on the statement of changes in equity:

Gross adjustment to portfolio impairments (note 16): N$39.5 million, the after tax impact is N$29.1 million. The deferred taxation effect of N$10.4 million is detailed in the deferred taxation note (note 30).

IFRS 4 – Insurance contracts

Under IFRS, policyholder contracts that transfer significant insurance risk are classified as insurance contracts. Significant insurance risk exists if there is a plausible scenario in which an event affecting the policyholder or other beneficiary will cause a significant change in the present value of the Group's cash flows arising from that contract. These contracts are valued in terms of the Financial Soundness Valuation ('FSV') basis contained in PGN104 issued by the Actuarial Society of South Africa.

Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts and reflected in the financial statements at fair value, with changes in fair value being accounted for in the income statement. The premium income and benefit payments relating to these investment contracts have been excluded from the income statement and accounted for directly against the liability. The fair value adjustment to investment contracts and the fees earned from these products have been disclosed separately in the income statement. The FSV techniques in terms of IFRS allow for the reduction of policyholder liabilities arising from the capitalisation of future fees used to recover acquisition costs, thereby allowing an insurer to hold lower liabilities early on in the life of a policy. All other expenses, commission and indirect expenses such as development and marketing and administration expenses are expensed as they are incurred.

IFRS 4 does not affect the measurement of insurance contracts. The Financial Soundness Valuation ('FSV') basis remains applicable. Phase II of the insurance project will affect the measurement of insurance contracts in future. One of the aims of IFRS 4 is to treat investment business written by a life insurer in the same way as similar products offered by other institutions. AC 133 under Namibian GAAP already required a distinction to be made between investment and insurance contracts. IFRS 4 has refined the definitions of insurance and investment contracts.

The Group has therefore re-examined the classification of all their contracts between investment and insurance, under IFRS 4 definition criteria.

All investment contracts have discretionary participation features ('DPF').

Investment contracts with DPF include contracts under which the timing of the allocation of investment returns to policyholders is at the discretion of the insurer, e.g. smoothed bonus business. Investment contracts with DPF are excluded from the new requirements until Phase II, i.e. these investment contracts are treated in the same way as insurance contracts and are valued using the current FSV basis.

Financial impact for Swabou Life Assurance Company Limited:

The adjustment to opening retained earnings as at 1 July 2005 was a net debit of N$6 million, which consists of the full recognition in retained earnings of previously recognised deferred commission costs. (No taxation effect). This change is reflected in the summary of material restatements due to IFRS.

Other IFRS changes relating to the separate disclosure of investment contracts are summarised below and do not change reported retained earnings.

N$ thousand	Audited 30 June 2005	IFRS adjustments	Restated 30 June 2005
Reconciliation of balance sheet			
Policyholder liabilities under investment contracts		3 196	3 196
Policyholder liabilities under insurance contracts	109 395	(3 196)	106 199
	109 395		109 395
Reconciliation of income statement			
Net premium income	65 440	(1 735)	63 705
Policyholder benefits	(20 710)	1	(20 709)
Administration fees received		495	495
Transfer to policyholder liabilities under insurance contracts	(32 431)	3 047	(29 384)
Fair value adjustment to policyholder liabilities under investment contracts		(1 808)	(1 808)
Net profit after tax of Swabou Life Assurance	20 479		20 479

1.27.2 Change in accounting policy

FNB Namibia extends staff loans at below market rates to qualifying employees.

IAS 39 - 'Financial instruments - Recognition and measurement' ('IAS 39') requires that financial instruments be recognised at their fair value at the date of the transaction.

This results in low-interest loans being recognised at a discount to face value reflecting their lower net present value. The discount to face value is recognised as a credit against the carrying value of the loans and advances in terms of IAS 39.

FNB Namibia changed its accounting policy relating to low interest staff loans during the current financial year. In terms of IAS 19 - Employee benefits ('IAS 19'), an entity has to recognise employee benefits over the period during which the service is rendered by the employee. Accordingly, the fair value adjustment determined in terms of IAS 39 is recorded as a deferred compensation asset in terms of IAS 19 with a commensurate increase in net asset value on 1 July 2004. The deferred compensation asset will be recognised in the income statement over the shorter of the duration of the advance or employment period of the employee, while the impairment will be released over the corresponding period of the asset, effectively increasing the net asset value of the Group by N$33.6 million as from 1 July 2004. Full details of the effect are disclosed in the table in note 1.27.3.

1.27.3. Restatement of comparatives due to IFRS, change in accounting policy and presentation

Summary of material restatements due to IFRS (retrospective), change in accounting policy and presentation.

Except for the taxation change and deferred taxation balances, only the gross amounts have been restated. Restated reserves on the statement of changes in equity and earnings take into account the net amount of the restatement.

Group

Income statement

N$ thousand	As previously stated	Adjustments Gross	Adjustments Taxation	Adjustments Net	Restated balance - refer note 1.27.4
Interest income	816 894	(7 484)	2 619	(4 865)	809 410
Impairment charge					
- Due to change in accounting policy	(35 011)	12 176	(4 262)	7 914	(22 835)
Operating expenses before the effect of IFRS on depreciation	(359 243)	(6 774)	2 372	(4 402)	(366 017)
		(2 082)	729	(1 353)	
Depreciation	(19 364)	1 397	(489)	908	(17 967)
Operating expenses	(359 243)	(5 377)		(5 377)	(364 620)
Taxation charge	(90 957)		240	240	(90 717)
Earnings	216 351	(685)	238	(447)	215 904

N$ thousand	As previously stated	Adjustments Gross	Adjustments Taxation	Adjustments Net	Restated balance - refer note 1.27.4
1.27.3. Restatement of comparatives due to IFRS, change in accounting policy and presentation (continued)					
Balance sheet					
Property and equipment	152 242	(397)	137	(260)	151 845
- On transition date, adjustment to accumulated depreciation		(1 794)	626	(1 168)	
- Depreciation charge for 2005		1 397	(489)	908	
- *Portfolio impairment provision*	(101 831)	49 545		49 545	(52 286)
- Due to change in accounting policy, transferred to advances		51 627		51 627	
- Change in accounting policy movement in 2005		(2 082)		(2 082)	
Accounts receivable	136 100	49 545	(17 339)	32 206	185 645
- Create deferred staff cost asset 1 July 2004		51 627	(18 068)	33 559	
- Deferred staff cost movement in 2005		(2 082)	729	(1 353)	
Net deferred taxation	6 304		(17 202)	(17 202)	(10 898)
- Change on property and equipment 1 July 2004			626	626	
- Change on 2005 depreciation charge			(489)	(489)	
- Change in accounting policy 1 July 2004			(18 068)	(18 068)	
- Change in accounting policy movement in 2005			729	729	
Statement of changes in equity					
Retained income	847 837	49 136	(17 202)	31 934	879 771
- Change due to property and equipment 1 July 2004		(1 794)	626	(1 168)	
- Change due to property and equipment movement in 2005		1 397	(489)	908	
- Change due to staff option cost 1 July 2004		(12)		(12)	
- Create deferred staff cost asset 1 July 2004		51 627	(18 068)	33 559	
- Deferred staff cost movement in 2005		(2 082)	729	(1 353)	
Company					
Income statement					
Share of earnings of associate companies	351	(361)			(10)
Balance sheet					
Investment in associate companies	3 052	(1 052)			2 000
Statement of changes in equity					
Distributable reserves	859 829	(1 052)			858 777
- Reversal of earnings prior to 1 July 2004		(691)			
- Reversal of share of associate earnings 2005		(361)			

Accounting Policies

1.27.4 Restatement of prior year numbers

In the past, the performance, assets and liabilities specific in nature to the life assurance and short-term insurance companies have been stated separately on the face of the balance sheet and income statement. This treatment is not allowed under IFRS and as a result, certain comparative figures are restated to include/exclude items pertaining to the insurance operations. These changes are set out below. The amounts as previously stated, where adjusted for IFRS and the change in accounting policy, have been taken from the table from the previous page.

Group

N$ thousand	As previously reported - after IFRS and change in accounting policy - refer note 1.27.3	Swabou Life	Swabou Insurance	Other	As restated
Income statement					
Interest income	809 410	4 223	1 239		814 872
Premium income (in prior year note 21)	114 002	(1 240)			112 762
Policyholders' benefit of Swabou Life					
- gross	(38 235)	(2 089)			(40 324)
- re-insurance recoveries	7 976	2 089			10 065
Depreciation charge	(17 967)	(208)	(940)		(19 115)
Transfer to policyholders' fund: insurance contracts		1 240			
Transfer to policyholders' fund: investment contracts	(32 431)	3 047			(29 384)
Net movement		(1 807)			(1 807)
Income from investment activities of insurance operations	35 679	(34 236)	(1 443)		
- Transfer to interest income		(4 223)	(1 239)		
- Transfer to gains and losses from investment activities		(30 013)	(204)		
Fee and commission income (in prior year note 5)	200 957			3 742	204 699
Gains and losses from trading activities	29 342			(3 742)	25 600
Gains and losses from investment activities		30 013	204		30 217
Transfer to insurance fund	(29 127)	1 240			(27 887)
Other operating income	18 813	170	1 255		20 238
Other income (per prior year note 21)	170	(170)			
Expenses excluding depreciation (per prior year note 21)	(18 794)	12 737	6 057		
Operating expenses	(364 620)	(12 827)	(8 253)		(385 700)
Balance sheet					
Accounts receivable	185 645	(320)	(3 176)		182 149
- To policy loans originated		(119)			
- To Re-insurance assets		(201)	(3 176)		
Creditors and accruals	147 709	(718)	(13 937)		133 054
- To gross outstanding claims		(718)	(1 867)		
- To gross unearned premium			(10 242)		
- To provision for unintimated claims			(1 828)		
Investment securities and other investments	839 163				839 163
- Banking operations	648 246				
- Insurance operations	190 917				
- held for trading					651 219
- held to maturity					166 580
- available for sale					21 364

Income Statements for the year ended 30 June

N$ thousand	Notes	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
Interest and similar income	3	925 620	814 872		
Interest expenditure and similar charges	4	(441 236)	(392 117)		
Net interest income before impairment of advances		484 384	422 755		
Impairment losses of advances	16	(29 278)	(22 835)		
- Impairment of advances - Specific		(28 961)	(11 655)		
- Impairment of advances - Portfolio		(317)	(11 180)		
Net interest income after impairment of advances		455 106	399 920		
Net fee and commission income	5	216 692	190 882		
Fee and commission income		238 934	204 699		
Fee and commission expense		(22 242)	(13 817)		
Net insurance premium income	6.1	110 920	85 326		
Insurance premium revenue		143 938	112 762		
Premium ceded to reinsurers		(33 018)	(27 436)		
Net claims and benefits paid	7	(42 451)	(30 259)		
Gross claims and benefits paid on insurance contracts		(57 065)	(40 324)		
Re-insurance recoveries		14 614	10 065		
Transfer to policyholder liabilities under insurance contracts	28	(36 913)	(29 384)		
Fair value adjustment to policyholder liabilities under investment contracts	28	1 750	(1 807)		
Change in unearned premium provision	6.2	(2 751)	3 304		
Gains and losses from banking and trading activities	8.1	35 789	25 600		
Gains and losses from investment activities	8.2	48 583	30 217	15 192	178 004
Other income	9	12 717	20 238		17 347
Operating income		799 442	694 037	15 192	195 351
Operating expenses	10	(424 950)	(385 700)	(2 694)	(486)
Share of earnings of associate companies after impairment losses	20.4	(2 500)	1 129		(10)
Operating income before taxation		371 992	309 466	12 498	194 855
Indirect taxation	11.1	(12 992)	(2 845)	(8)	(144)
Income before taxation		359 000	306 621	12 490	194 711
Direct taxation	11.2	(102 029)	(90 717)	473	224
Earnings		256 971	215 904	12 963	194 935
Earnings attributable to preference shareholders		1 331	5 025	1 792	5 025
Earnings attributable to ordinary shareholders		255 640	210 879	11 171	189 910
Earnings per share (cents)	12.2	96.7	81.6		
Dividends per share (cents)	12.4	34.0	28.5		

Balance Sheets as at 30 June

N$ thousand	Notes	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
Assets					
Cash and short-term funds	13	276 530	202 479		
Derivative financial instruments					
- trading	14	39 420	5 028		
Advances					
- at amortised cost	15	7 963 310	6 709 475		
Investment securities and other investments		966 544	839 163		
- held for trading	17	343 269	651 219		
- originated	17	47 146			
- held to maturity	17	92 007	166 580		
- available for sale	17	484 122	21 364		
Accounts receivable	18	102 453	182 149	5 106	5 072
Policy loans originated		996	119		
Re-insurance assets	19	8 175	3 377		
Investment in associate companies	20.3	253	6 385		2 000
Investment in subsidiary companies	21			1 191 322	1 185 847
Current taxation			8 241		
Deferred taxation assets	30.2	39 178	34 868		
Property and equipment	22	157 938	151 845		
Investment property	23	6 000	11 878		
Intangible assets	24	70 813	78 559		
Total assets		9 631 610	8 233 566	1 196 428	1 192 919
Liabilities and Shareholders' Equity					
Liabilities					
Deposit and current accounts	25	7 936 148	6 706 319		
Derivative financial instruments					
- trading	14	40 281	4 634		
Creditors and accruals	26	114 341	133 054	5 196	15 410
Gross outstanding claims		6 526	2 585		
Gross unearned premium	6.2	16 482	10 242		
Provision for unintimated claims	27	1 806	1 828		
Policyholders' fund	28	147 306	109 395		
Post-retirement benefit fund liability	29.1	30 225	27 665		
Current taxation		982	16 795		
Deferred taxation liabilities	30.2	35 007	45 766	34 997	35 470
Intercompany liability	37.3			93 910	1 114
Total liabilities		8 329 104	7 058 283	134 103	51 994
Shareholders' equity					
Share capital	31	1 321	1 321	1 338	1 338
Share premium	31	266 082	266 557	280 810	280 810
Non-distributable reserves	32	13 069	27 634	1 211	
Distributable reserves		1 022 034	879 771	778 966	858 777
Total equity		1 302 506	1 175 283	1 062 325	1 140 925
Total equity and liabilities		9 631 610	8 233 566	1 196 428	1 192 919

Statements of Changes in Equity for the year ended 30 June

N$ thousand	Share capital (Note 31)	Share premium (Note 31)	Non-distributable reserves: General risk reserve (Note 32)	Non-distributable reserves: Other (Note 32)	Distributable reserves	Total share-holders' equity
Group						
Balance as at 30 June 2004 as previously stated	1 431	301 636	19 909		715 138	1 038 114
Change in accounting policy: Deferred staff costs (refer accounting policy note 1.27)					33 559	33 559
IFRS adjustments: Property and equipment (refer accounting policy note 1.27)					(1 166)	(1 166)
IFRS adjustments: Share based payments (refer accounting policy note 1.27)				12	(12)	
Restated balance as at 1 July 2004	1 431	301 636	19 909	12	747 519	1 070 507
Earnings					215 904	215 904
Swabou Insurance: available for sale asset revaluations				2 788		2 788
Preference share dividend: 30 June 2005					(5 025)	(5 025)
Ordinary final dividend: 22 October 2004					(34 975)	(34 975)
Ordinary interim dividend: 14 April 2005					(38 727)	(38 727)
Swabou Insurance: transfer between reserves				730	(730)	
Transfer to General Risk Reserve (impaired capital reserve)			4 195		(4 195)	
Elimination of shares held by Share Incentive Trust	(8)	(7 462)				(7 470)
Conversion/redemption of preference shares linked to the ringfenced book:	(102)	(27 617)				(27 719)
- Final adjustment to Swabou purchase price		(17 347)				(17 347)
- Redemption of preference shares in cash	(30)	(10 342)				(10 372)
- Conversion of preference shares to ordinary shares	(72)	72				
- Preference shares converted	(106)	(26 980)				(27 086)
- Ordinary shares issued	34	27 052				27 086
Balance as at 30 June 2005	1 321	266 557	24 104	3 530	879 771	1 175 283
Balance as at 30 June 2005 as previously stated	1 321	266 557	24 104	3 518	847 837	1 143 337
IFRS adjustments on 1 July 2004 and movement 2005				24	(284)	(260)
Restated balance as at 30 June 2005	1 321	266 557	24 104	3 542	847 553	1 143 077
Change in accounting policy: Deferred staff cost asset, net of 2005 movement					32 206	32 206
Restated balance after change in accounting policy	1 321	266 557	24 104	3 542	879 759	1 175 283
IFRS adjustments 1 July 2005 - Fees & Expenses					(10 156)	(10 156)
IFRS adjustments 1 July 2005 - Portfolio provisions					(29 162)	(29 162)
Restated balance as at 1 July 2005	1 321	266 557	24 104	3 542	840 441	1 135 965
Earnings					256 971	256 971
Available for sale assets:						
- release to income *(bank) (refer note 8.2)*				(423)		(423)
- new unrealised profits *(bank)*				579		579
- release to income *(insurance) (refer note 8.2)*				(3 868)		(3 868)
- new unrealised profits *(insurance)*				2 993		2 993
Contingency reserve movement: Swabou Insurance				169	(169)	
Staff share option cost (refer note 10)				762		762
BEE Consortium share option cost				1 211		1 211
Elimination of shares held by Share Incentive Trust		(475)				(475)
Ordinary final dividend: 21 October 2005					(44 939)	(44 939)
Ordinary interim dividend: 7 April 2006					(44 939)	(44 939)
Preference share dividends: 30 June 2006					(1 331)	(1 331)
Transfer from General Risk Reserve (impaired capital reserve)			(16 000)		16 000	
Balance as at 30 June 2006	1 321	266 082	8 104	4 965	1 022 034	1 302 506

Statements of Changes in Equity for the year ended 30 June

N$ thousand	Share capital (Note 31)	Share premium (Note 31)	Non-distributable reserves: General risk reserve (Note 32)	Non-distributable reserves: Other (Note 32)	Distributable reserves	Total share-holders' equity
Company						
Balance as at 1 July 2004	1 440	308 427			743 878	1 053 745
IFRS adjustments: Reversal of share of associate income (refer accounting policy note 1.27)					(691)	(691)
Restated balance as at 1 July 2004	1 440	308 427			743 187	1 053 054
Earnings					194 935	194 935
Preference share dividend: 30 June 2005					(5 025)	(5 025)
Ordinary final dividend: 22 October 2004					(35 204)	(35 204)
Ordinary interim dividend: 14 April 2005					(39 116)	(39 116)
Conversion/redemption of preference shares linked to the ringfenced book:	(102)	(27 617)				(27 719)
- Final adjustment to Swabou purchase price		(17 347)				(17 347)
- Redemption of preference shares in cash	(30)	(10 342)				(10 372)
- Conversion of preference shares to ordinary shares	(72)	72				
- Preference shares converted	(106)	(26 980)				(27 086)
- Ordinary shares issued	34	27 052				27 086
Balance as at 30 June 2005	1 338	280 810			858 777	1 140 925
Balance as at 30 June 2005 as previously stated	1 338	280 810			859 829	1 141 977
IFRS adjustments on 1 July 2004 and movement 2005					(1 052)	(1 052)
Restated balance as at 30 June 2005	1 338	280 810			858 777	1 140 925
Earnings					12 963	12 963
BEE Consortium share option cost				1 211		1 211
Preference share dividends: 30 June 2006					(1 792)	(1 792)
Ordinary final dividend: 21 October 2005					(45 491)	(45 491)
Ordinary interim dividend: 7 April 2006					(45 491)	(45 491)
Balance as at 30 June 2006	1 338	280 810		1 211	778 966	1 062 325

Cash Flow Statements for the year ended 30 June

N$ thousand	Notes	GROUP 2006	Restated 2005
Cash flows from operating activities	34.1	419 681	334 176
Cash received from customers		1 287 222	1 111 710
Interest income		905 576	795 464
Net fee and commission income		216 692	190 882
Net insurance premium income		110 920	85 326
Other income		54 034	40 038
Cash paid to customers and employees		(867 541)	(777 534)
Interest expenditure		(441 236)	(392 117)
Net claims and benefits paid		(42 451)	(30 259)
Total other operating expenditure		(383 854)	(355 158)
Taxation paid	34.2	(125 076)	(41 154)
Increase in income-earning assets		(1 390 156)	(1 057 560)
Investment securities		(81 244)	(171 327)
Advances		(1 308 912)	(886 233)
Increase in deposits and other liabilities		1 281 204	797 607
Term deposits		168 161	(45 766)
Current deposit accounts		1 322 950	462 818
Deposits from banks		(514 495)	(61 793)
Negotiable certificates of deposit		250 660	467 320
Savings accounts		2 553	(815)
Accounts receivable and related items		62 853	(38 847)
Accounts payable and related items		(10 895)	14 918
Other		(583)	(228)
Net cash inflow from operating activities		185 653	33 069
Cash flows from investment activities			
Capital expenditure to maintain operations - acquired by means of cash	22	(22 963)	(34 104)
Dividends received from associate company		580	703
Acquisition of subsidiary, previously associate - Group	34.3	(2 585)	
Acquisition of subsidiary, previously associate - Company	34.4		(3 135)
Proceeds from sale of property and equipment		5 089	17 467
Net cash outflow from investment activities		(19 879)	(19 069)
Cash flows from financing activities			
Redemption of preference shares			(10 372)
Dividends paid	34.5	(91 248)	(73 702)
Purchase of shares for share incentive trust		(475)	(7 470)
Net cash outflow from financing activities		(91 723)	(91 544)
Net increase / (decrease) in cash and cash equivalents		74 051	(77 544)
Cash and cash equivalents at beginning of the year		202 479	280 023
Cash and cash equivalents at end of the year	13	276 530	202 479

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
1. Accounting policies				
The accounting policies of the Group are set out on pages 42 to 62.				
2. Turnover				
Turnover is not relevant in banking business.				
3. Interest and similar income				
Interest on:				
Cash and short-term funds	2 428	1 595		
Advances at amortised cost	856 159	748 390		
Interest in suspense	(11 100)	(11 928)		
Investment securities	58 089	57 407		
- held to maturity	19 875	7 537		
- available for sale	33 817	1 239		
- trading	4 397	48 631		
Unwinding of discounted present value on non-performing loan (refer note 16)	11 470	12 634		
Unwinding of discounted present value on off-market loans	5 267	6 774		
Net release in terms of deferred fee and expenses	3 307			
	925 620	814 872		
4. Interest expenditure and similar charges				
Interest on:				
Deposits from banks and financial institutions	13 536	34 810		
Current accounts	181 756	34 696		
Savings accounts	5 587	6 152		
Term deposits	147 700	266 510		
Negotiable certificates of deposit	92 657	49 949		
	441 236	392 117		
5. Net fee and commission income				
Banking fee and commission income	223 171	172 779		
- Card commissions	610	379		
- Cash deposit fees	31 029	27 373		
- Commissions - bills, drafts & cheques	13 052	12 570		
- Service fees	104 993	94 402		
- Other	73 487	38 055		
Bank related commission income	8 842	9 994		
Broking commission received	14 109	12 848		
Deferral of fee income	(8 260)			
Deferral of fee expenses	1 072			
Other		9 078		
Fees and commission income and expenses	238 934	204 699		
	(22 242)	(13 817)		
- Broking commission paid by insurance companies	(26 514)	(18 039)		
- Re-insurance commission received by insurance companies	4 272	4 222		
	216 692	190 882		

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
6. Net insurance premium income				
6.1 Insurance premiums				
Life insurance contracts	91 782	71 213		
- Individual Life	83 079	70 353		
- Single premiums	23 121	17 857		
- Recurring premiums	55 427	48 281		
- Annuities	4 531	4 215		
- Employee benefits	7 754			
- Single premiums and investment lump sums	3 626			
- Recurring premiums	4 128			
- Health - Recurring premiums	949	860		
Short term insurance contracts				
- Motor & Household	51 497	41 054		
Policy fees on investment contracts	659	495		
Total insurance premium income	143 938	112 762		
Re-insurance premiums	(33 018)	(27 436)		
Life insurance contracts	(10 261)	(7 508)		
Short-term insurance contracts	(22 757)	(19 928)		
Net insurance premium income	110 920	85 326		
Change in unearned premium provision - net of re-insurance	(2 751)	3 304		
Net insurance premium revenue	108 169	88 630		
6.2 Insurance fund				
Balance at the beginning of the year	7 692	10 996		
Transfer from / (to) income statement	2 751	(3 304)		
Balance at the end of the year	10 443	7 692		
The balance comprises of:				
Gross provision for unearned premiums	16 482	10 242		
Re-insurers' share of unearned premiums (refer note 19)	(6 039)	(2 550)		
	10 443	7 692		
7. Net claims and benefits paid				
Gross benefits and claims paid on insurance contracts				
Life assurance				
Individual Life	26 739	21 151		
- Death & Disability	12 876	9 122		
- Maturities	3 127	3 361		
- Surrenders	10 403	8 563		
- Lump sum annuities	333	105		
Employee benefits	193			
Health	1 367	1 648		
Less: Re-insurance recoveries	(3 405)	(2 089)		
Total life assurance	24 894	20 710		
Short-term insurance contracts				
Motor & Household				
Claims	28 788	17 375		
Transfer to provision for unintimated claims (refer note 27)	(22)	150		
Less: Re-insurance recoveries	(11 209)	(7 976)		
Total short-term insurance	17 557	9 549		
Total gross benefits and claims paid	42 451	30 259		
Gross claims	57 065	40 324		
Re-insurance recoveries	(14 614)	(10 065)		
	42 451	30 259		

	GROUP		COMPANY	
N$ thousand	2006	Restated 2005	2006	Restated 2005
8. Gains and losses from banking, trading and investment activities				
8.1. Gains and losses from banking and trading activities				
Trading income				
Foreign exchange trading	27 759	22 799		
Other	8 030	2 801		
	35 789	25 600		
8.2. Gains and losses from investment activities				
Investment income				
Dividends received on investment portfolios of insurance operations	3 601	1 927		
Dividends received from subsidiaries			15 192	178 004
Release from non-distributable reserve: realisation of available for sale assets (insurance)	3 868			
Release from non-distributable reserve: realisation of available for sale assets (bank)	423			
Unrealised profits on revaluation of investments in insurance operations	40 691	28 290		
	48 583	30 217	15 192	178 004
9. Other income				
Income from related parties (note 37.3)	8 421	2 861		
Rental income	1 932	2 475		
Profit on adjustment to Swabou purchase price				17 347
Profit on revaluation of investment properties	1 043	1 063		
Profit on sale of property and equipment	1 321	6 664		
Other income		7 175		
	12 717	20 238		17 347
10. Operating expenses				
Auditors' remuneration				
- Audit fees				
Current year	1 495	2 258	280	238
Prior year	1 093	1 138	154	
- Fees for other services	180	475	29	
Technical advice	6			
Other	174	475	29	
	2 768	3 871	463	238
Amortisation of intangible assets - trademarks	7 846	13 330		
Depreciation	18 545	19 115		
- Property	4 802	2 901		
Freehold buildings	3 074	3 197		
Freehold buildings - IFRS adjustment		(1 397)		
Leasehold premises	1 728	1 101		
- Equipment	13 743	16 214		
Computer equipment	4 407	5 380		
Furniture and fittings	3 606	5 738		
Motor vehicles	779	579		
Office equipment	4 951	4 517		
Balance carried forward	29 159	36 316	463	238

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
10. Operating expenses (continued)				
Balance brought forward	29 159	36 316	463	238
Other impairments incurred: property and equipment	386			
Operating lease charges	7 530	7 219		
- Land and buildings	4 772	5 190		
- Equipment	2 758	2 029		
Professional fees	37 553	35 166	683	102
- Technical	34 670	31 572		
- Other	2 883	3 594	683	102
BEE Consortium share option cost	1 211		1 211	
Direct staff costs	233 685	206 507		
- Salaries, wages and allowances	183 110	164 493		
- Off market staff loans amortisation (refer note 16)	5 267	6 774		
- Contributions to employee benefit funds	28 036	23 111		
Defined contribution schemes: pension (refer note 29.2)	15 354	13 051		
Defined contribution schemes: medical	9 539	7 852		
Defined benefit schemes (refer note 29.1)	3 143	2 208		
- Social security levies	463	548		
- Staff share option costs	762			
- Other	16 047	11 581		
Directors emoluments (refer note 10.1.3)	2 211	2 119		
Investment properties	95	205		
- Operating expenses	43	55		
- Repairs and maintenance	52	150		
Other operating costs	113 120	98 168	337	146
- Insurance	5 063	9 175		
- Advertising and marketing	23 910	15 688	13	
- Maintenance	9 324	10 392		
- Property	9 982	10 051		
- Stationery and telecommunications	25 262	21 081	126	
- Other	39 579	31 781	198	146
Total operating expenditure	424 950	385 700	2 694	486
Total number of staff (as at year-end)	1 433	1 406		

N$ thousand	Fees as director	Pensionable salary	Bonus	Company contributions to pension/ medical	Other allowances	Total
10. Operating expenses (continued)						
10.1. Directors' emoluments						
Emoluments paid to directors of the Group for the year ended 30 June 2006 are set out below:						
10.1.1. Executive directors:						
2006: LS Ipangelwa (late)		276	340	37	119	772
VR Rukoro		328		33	106	467
		604	340	70	225	1 239
2005: LS Ipangelwa (late)		696	290	141	476	1 603
10.1.2. Non-executive directors:						
2006: *Non-executive independent directors:*						
H-D Voigts (Chairman)	274					
HWP Böttger	183					
II Zaamwani	125					
LG Kannemeyer	32					
PT Nevonga	64					
SV Katjiuanjo	55					
EP Shiimi	28					
SH Moir	117					
R Haikali	62					
M Ndilula	32					
*Other non-executive directors *:*						
EB Nieuwoudt, JK Macaskill, MT Lategan, JR Khethe, J Nagel, S Rudman						
	972					
2005: *Non-executive independent directors:*						
H-D Voigts (Chairman)	114					
HWP Böttger	89					
II Zaamwani	59					
LG Kannemeyer	59					
PT Nevonga	42					
SV Katjiuanjo	65					
EP Shiimi	28					
SH Moir	29					
CG Robertson	31					
*Other non-executive directors *:*						
EB Nieuwoudt, JK Macaskill, J Nagel, S Rudman						
	516					

* Executive and main shareholder directors do not receive directors fees for services as directors.

10.1.3. Total directors' fees paid by other group companies	**2006**	**2005**
- Executive directors	1 239	1 603
- Non-executive directors	972	516
	2 211	2 119

Directors are not subject to fixed period service contracts.

10. Operating expenses (continued)

10.2. Share options

The executive directors have been allocated the following options of which none had vested in either 2005 or 2006.

Refer note 12.3 for description of the terms of the FNB Share Incentive Trust.

The movement of share options per executive director is summarised below:

	Opening balance	Strike price (cents)	Expiry date	Taken up (number of shares)	Benefit derived (N$)	Closing balance (number of shares)
LS Ipangelwa (late)						
FNB Namibia Holdings Ltd shares: 2006	200 000	4.00	Nov 2007	200 000	410 000	
FNB Namibia Holdings Ltd shares: 2006	200 000	5.17	Jun 2010	200 000	176 000	
					586 000	
FirstRand Ltd shares: 2006	100 000	12.12	Oct 2009	100 000	458 000	
VR Rukoro						
FNB Namibia Holdings Ltd shares	360 000	5.17	Jun 2010			360 000
FirstRand Ltd shares	100 000	18.70	Mar 2011			100 000

	2006 Number of ordinary shares held	2006 % held	2005 Number of ordinary shares held	2005 % held
Directors' holdings in shares:				
Names:				
H-D Voigts	11 806	0.004	11 806	0.004
LS Ipangelwa (estate)	70 300	0.027	70 300	0.027
HWP Böttger	4 667	0.002	4 667	0.002
PT Nevonga	526		526	
SH Moir	6 000	0.002		

All shareholdings are directly beneficial and no director holds shares indirectly.

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
11. Taxation				
11.1. Indirect taxation				
Value-added taxation (net)	7 883	(145)	1	(1)
Stamp duties	5 109	2 990	7	145
Total indirect taxation	12 992	2 845	8	144
11.2. Direct taxation				
Namibian Normal taxation				
- Current	104 512	87 779		
Current year	105 565	87 779		
Prior year	(1 053)			
- Deferred	(2 483)	2 938	(473)	(224)
Current year	2 951	2 938	(473)	(224)
Prior year	(5 434)			
Total direct taxation	102 029	90 717	(473)	(224)
Taxation rate reconciliation - Namibian normal taxation	%	%	%	%
Effective rate of taxation	28	30	(4)	
Total taxation has been affected by:				
Non-taxable income	5	5		
Prior year	2			
Other permanent differences			39	35
Standard rate of taxation	35	35	35	35

N$ thousand	2006 Banking	2006 Insurance	2006 Other	2006 Total	Restated 2005 Banking	Restated 2005 Insurance	Restated 2005 Other	Restated 2005 Total
12. Dividends and earnings per share								
12.1 Headline earnings per share								
The calculation of Group headline earnings per share is based on headline earnings of N$251.1 million (2005: N$203.5 million) and the weighted average number of shares in issue of 264 346 955 (2005: 258 495 855).								
Earnings attributable to ordinary shareholders	218 658	37 652	(670)	255 640	185 980	23 765	1 134	210 879
(Profit) / loss on sale of property and equipment	(868)	10		(858)	(6 292)			(6 292)
Impairment of property and equipment	(251)			(251)				
Profit on revaluation of investment property	(678)			(678)	(1 063)			(1 063)
Realised income from available for sale financial assets	(275)	(2 514)		(2 789)				
Headline earnings	216 586	35 148	(670)	251 064	178 625	23 765	1 134	203 524
Headline earnings per share				95.0				78.7

	Actual number Group 2006	Actual number Group 2005	Weighted average number Group 2006	Weighted average number Group 2005

12.2 Earnings per share

The calculation of Group earnings per share is based on the earnings attributable to ordinary shareholders of N$255.6 million (2005: N$210.8 million) and the weighted average number of shares in issue of 264 346 955 (2005: 258 495 855).

	Actual number Group 2006	Actual number Group 2005	Weighted average number Group 2006	Weighted average number Group 2005
Calculation of weighted average number of shares in issue:				
Opening balances	264 346 955	259 070 522	258 495 855	259 070 522
Preference shares converted into ordinary shares (effective date 30 June 2005)		6 822 728	6 804 036	18 692
Share Incentive Trust		(1 546 295)	(952 936)	(593 359)
Closing balance	264 346 955	264 346 955	264 346 955	258 495 855
Total consists of:				
Total number of shares in issue	267 593 250	267 593 250		
Held by the FNB Share Incentive Trust	(3 246 295)	(3 246 295)		
	264 346 955	264 346 955		

12.3 Share option schemes

The terms of the FNB Share Incentive Trust are that employees allocated share options may exercise their options as follows: one third of the shares after 3 years, one third cumulatively of the shares after 4 years and all the shares after year 5.

The terms of the BEE Staff Incentive Trust are that employees allocated share options may exercise their options as follows: 50% of the shares after 3 years, 75% cumulatively of the shares after 4 years and all the shares after year 5.

	FNB Share Incentive Trust 2006	FNB Share Incentive Trust 2005	BEE Staff Incentive Scheme 2006	BEE Staff Incentive Scheme 2005
Share option schemes				
Number of options in force at the beginning of the year ('000)	3 101	1 700		
Granted at prices ranging between (cents)	400 - 540	400		
Number of options granted during the year ('000)		1 901	1 607	
Granted at prices ranging between (cents)		540	517	
Number of options exercised/released during the year ('000)	(626)	(120)		
Market value range at the date of exercise/release (cents)	605 - 610	450		
Number of options cancelled/lapsed during the year ('000)	(154)	(380)		
Granted at prices ranging between (cents)	400 - 540	400		
Number of options in force at the end of the year ('000)	2 321	3 101	1 607	
Granted at prices ranging between (cents)	400 - 540	400 - 540	517	
Options are exercisable over the following periods: (first date able to release)				
Financial year 2005/2006		400		
Financial year 2006/2007	348	400		
Financial year 2007/2008	889	1 033	803	
Financial year 2008/2009	542	634	402	
Financial year 2009/2010	542	634	402	
	2 321	3 101	1 607	

N$ thousand	GROUP 2006	GROUP 2005	COMPANY 2006	COMPANY 2005

12.3 Share option schemes (continued)

Calculation of share option cost

The value of share options granted to employees under the FNB Share Incentive Scheme, the BEE Staff Incentive Scheme and the share options granted to the BEE Consortium has been calculated on the FinCad Valuation Model. The volatility of the share price was based on the standard deviation of the movements over a period of 365 days prior to granting options.

N$ thousand	GROUP 2006	GROUP 2005	COMPANY 2006	COMPANY 2005
Weighted average fair value of share options at year-end				
- FNB Share Incentive Scheme	312			
- BEE Staff Incentive Scheme	450			
- BEE Consortium share option cost	1 211		1 211	
	1 973		1 211	

N$ thousand	FNB Share Incentive Trust 2006 & 2005	BEE Staff Incentive Trust 2006	BEE Consortium option cost 2006
Assumptions used in calculating these costs:			
Exercise price	400 - 540	517	5.13
Expected volatility	20% - 37%	19.65%	19.65%
Option life	5 years	5 years	5 years
Expected dividend yield	5.03%	5.03%	5.03%
Risk free interest rate	9.47%	8.00%	8.00%
Probability of vesting	80.00%	80.00%	Per agreed terms with BEE Consortium

N$ thousand	GROUP 2006	GROUP 2005	COMPANY 2006	COMPANY 2005
12.4 Dividends per share				
A final dividend (dividend no. 19) of 13.5 cents per share was declared on 10 August 2004 in respect of the six months ended 30 June 2004 and paid on 22 October 2004.		34 975		35 204
An interim dividend (dividend no. 20) of 15 cents per share was declared on 4 February 2005 for the six months ended 31 December 2004 and paid on 14 April 2005.		38 727		39 116
A final dividend (dividend no. 21) of 17 cents per share was declared on 10 August 2005 in respect of the six months ended 30 June 2005 and payable on 21 October 2005.	44 939		45 491	
An interim dividend (dividend no. 22) of 17 cents per share was declared on 9 February 2006 for the six months ended 31 December 2005 and paid on 7 April 2006.	44 939		45 491	
	89 878	73 702	90 982	74 320
Final dividend declared subsequent to year-end	60 800	44 939	61 546	45 491

The dividend per share calculation in the current year and the prior year takes into account the elimination of the dividends to the Share Incentive Trust which is consolidated on a Group level.

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
13. Cash and short-term funds				
Coins and bank notes	106 512	97 998		
Balances with central bank	79 508	67 783		
Balances with group companies		208		
Balances with other banks	90 510	36 490		
	276 530	202 479		
Fair value				
The carrying value approximates the fair value of total cash and short-term funds.				
Mandatory reserve balances included in above:	79 505	67 775		

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, in terms of the Banking Institutions Act, (No 2 of 1998). These deposits bear no interest.

Money at short notice constitutes amounts withdrawable in 32 days or less.

14. Derivative financial instruments

The Group uses the following financial instruments for hedging purposes:

Forward rate agreements are negotiated foreign exchange contracts where the fair value is calculated by taking the foreign exchange contract price for the remaining term at year-end.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another, resulting in the economic exchange of interest rates (for example fixed rate for floating rate). No exchange of principal takes place. These instruments are not designated as hedging instruments.

Further information pertaining to the risk management of the Group is set out in note 35.

The Group utilises the following derivatives for trading purposes:

N$ thousand	ASSETS Notional	ASSETS Fair value	LIABILITIES Notional	LIABILITIES Fair value
2006				
Currency derivatives				
- Swaps	17 422	17 422	17 422	17 422
- Forward rate agreements	141 422	21 998	141 422	22 035
Interest rate derivatives				
- Swaps			824	824
Total held for trading	158 844	39 420	159 668	40 281
Restated 2005				
Currency derivatives				
- Forward rate agreements	78 634	5 028	78 634	4 634
Total held for trading	78 634	5 028	78 634	4 634

The contractual commitment to deliver and receive on currency forward rate agreements is N$141.4 million (2005: N$78.6 million). These agreements are normally entered into on a back to back basis with RMB Treasury at FirstRand Bank Limited.

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
15. Advances				
Sector analysis				
Originated advances				
Agriculture including fishing	278 645	380 696		
Banks and financial services	168 692	121 504		
Building and property development	1 581 111	1 243 900		
Government and public authorities	38 846	58 935		
Individuals	4 757 320	3 886 142		
Manufacturing and commerce	649 367	433 616		
Mining	58 945	35 448		
Transport and communication	402 615	424 030		
Other services	239 924	291 361		
Notional value of advances	8 175 465	6 875 632		
Contractual interest suspended	(45 141)	(44 368)		
Gross advances	8 130 324	6 831 264		
Impairment of advances (note 16)	(167 014)	(121 789)		
Net advances	7 963 310	6 709 475		
Geographic analysis (based on credit risk)				
Namibia	8 006 767	6 851 768		
South Africa	168 698	23 864		
Notional value of advances	8 175 465	6 875 632		
Contractual interest suspended	(45 141)	(44 368)		
Gross advances	8 130 324	6 831 264		
Impairment of advances (note 16)	(167 014)	(121 789)		
Net advances	7 963 310	6 709 475		
Category analysis				
Overdrafts and managed accounts	1 249 237	967 606		
Loans to other financial institutions	119 254	121 504		
Instalment sales	1 360 510	1 144 778		
Lease payments receivable	67 300	41 354		
Property finance				
- Home loans	4 140 154	3 503 871		
- Commercial property finance	114 907	143 847		
Term loans	906 007	661 533		
Preference share advances	151 269	192 519		
Other	66 827	98 620		
Notional value of advances	8 175 465	6 875 632		
Contractual interest suspended	(45 141)	(44 368)		
Gross advances	8 130 324	6 831 264		
Impairment of advances (note 16)	(167 014)	(121 789)		
Net advances	7 963 310	6 709 475		

15. Advances (continued)

Company

The company has applied the right to legally set-off an advance and deposit with the same counterparty, with the same balance, in terms of IAS 32, to the amount N$263.7 million (2005: N$219.5 million). The related interest received and interest paid of N$44.1 million (2005: N$36.8 million) have also been set-off on the same principles.

Fair value

The carrying value of loans and advances approximate their fair value, except for certain fixed rated loans, refer note 35.8.

A maturity analysis of advances is set out in note 35.7 and is based on the remaining periods to contractual maturity from the year end.

N$ thousand	2006				Restated 2005
	Within 1 year	Between 1 and 5 years	More than 5 years	Total	Total
Analysis of instalment sales and lease payments receivable					
Lease payments receivable	9 287	38 590	623	48 500	50 727
Suspensive sale instalments receivable	38 431	1 632 576	625	1 671 632	1 372 809
	47 718	1 671 166	1 248	1 720 132	1 423 536
Less: Unearned finance charges	(5 747)	(285 949)	(626)	(292 322)	(237 404)
	41 971	1 385 217	622	1 427 810	1 186 132

A maturity analysis of advances is set out in note 35.7 of this annual report and is based on the remaining periods to contractual maturity from the year-end.

The Group and Company have not sold or pledged any security to third parties.

N$ thousand	2006 Total impairment	2006 Specific impairment	2006 Portfolio impairment	2006 Income statement

16. Impairment of advances

Analysis of movement in impairment of advances

Group	Total impairment	Specific impairment	Portfolio impairment	Income statement
Opening balance	121 789	69 503	52 286	
IFRS adoption (refer accounting policy note 1.27.1)	39 541		39 541	
Amounts written off	(14 265)	(14 265)		(2 296)
Unwinding of discounted present value on non-performing loans (refer note 3)	(11 470)	(11 470)		
Net new impairments created	31 419	31 102	317	(31 419)
Impairments created	104 019	101 336	2 683	(104 019)
Impairments released	(72 600)	(70 234)	(2 366)	72 600
Recoveries of bad debts				4 437
Closing balance	167 014	74 870	92 144	(29 278)

N$ thousand	2005 Total impairment (Restated)	2005 Specific impairment	2005 Portfolio impairment (Restated)	2005 Income statement
Opening balance	180 675	87 942	92 733	
Amounts written off	(17 014)	(17 014)		(3 329)
Unwinding of discounted present value on non-performing loans	(12 634)	(12 634)		
Net new impairments created	22 389	11 209	11 180	(22 389)
Impairments created	136 142	108 115	28 027	(136 142)
Impairments released	(113 753)	(96 906)	(16 847)	113 753
Recoveries of bad debts				2 883
Change in accounting policy: Opening balance of portfolio provision transferred from impairment provisions to be set off against Gross advances (refer analysis below)	(51 627)		(51 627)	
Closing balance	121 789	69 503	52 286	(22 835)

N$ thousand	GROUP 2006	GROUP Restated 2005
Impairment value of off-market loans, transferred from Portfolio impairments above, included at Gross Advances:		
Opening balance	49 545	
Change in accounting policy (refer note 1.27)		51 627
Unwinding of discounted present value through interest income (refer note 3)	(5 267)	(6 774)
Impairments created for new advances granted	14 825	4 692
Closing balance	59 103	49 545

N$ thousand	2006 Credit risk	2006 Security held	2006 Contractual interest suspended	2006 Specific impairments	Restated 2005 Specific impairments

16. Impairment of advances (continued)

Non-performing loans

Group

N$ thousand	Credit risk	Security held	Contractual interest suspended	Specific impairments	Restated 2005 Specific impairments
Non-performing lendings by sector					
Agriculture including fishing	7 699	4 326	3 400	1 987	1 183
Banks and financial services	21		21		
Building and property development	40 555	32 478	3 674	5 604	1 651
Individuals	120 093	76 859	23 381	46 619	43 034
Manufacturing and commerce	70 488	42 481	13 556	17 447	8 215
Mining	16		5	11	6
Transport and communication	7 066	114	70	2 870	375
Other services	1 375	800	1 034	332	15 039
Total 2006	247 313	157 058	45 141	74 870	69 503
2005 Total non-performing lendings	213 111	106 805	44 368	69 503	
Non-performing lendings by category					
Overdrafts and managed account debtors	37 719	9 555	15 130	17 755	21 691
Instalment sale	22 672	3 180	4 127	14 599	9 901
Lease payments receivable					228
Home loans	133 809	107 795	17 332	31 528	29 252
Term loans	53 113	36 528	8 552	10 988	8 431
Total 2006	247 313	157 058	45 141	74 870	69 503
2005 Total non-performing lendings	213 111	106 805	44 368	69 503	

17. Investment securities and other investments

N$ thousand	2006 Held for trading	2006 Originated	2006 Held to maturity	2006 Available for sale	2006 Total	Restated 2005 Total
Total unlisted						
Treasury bills	11 401		92 007	459 307	562 715	561 109
Other Government and Government guaranteed stock	120 851			14 534	135 385	90 814
Unit trust investments				10 281	10 281	89 924
RMB Asset Management Namibia	205 341				205 341	
RMB Balanced Fund						83 083
Other	5 676	47 146			52 822	14 233
Total 2006	343 269	47 146	92 007	484 122	966 544	839 163
Total 2005	651 219		166 580	21 364	839 163	
Aggregate directors' valuation of unlisted investments					966 544	839 163

Revaluations on instruments held for trading and available for sale are based on quoted market prices and are updated monthly. Information regarding other investments as required in terms of Schedule 4 of the Companies Act is kept at the Company's registered offices. This information is open for inspection in terms of the provisions of Section 113 of the Companies Act, 1973.

The maturity analysis for investment securities is set out in note 35.7 of these annual financial statements.

N$125.8 million (2005: N$491.8 million) of the financial instruments held for trading form part of the Group's liquid asset portfolio in terms of the Banking Institutions Act (No 2 of 1998) and other foreign banking regulator's requirements. The full balance of the liquid asset portfolio is N$797.2 million (2005: N$687.9 million).

The Group and Company hold certain interests in collateralised debt obligation structures. The Group and the Company have no obligations toward other investors beyond the amounts already contributed. The Group and the Company have no management control or influence over these investments which are recorded at fair value under the available for sale category in the above table.

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
18. Accounts receivable				
Items in transit	12 445	90 777		
Deferred staff costs (refer change in accounting policy, note 1.27 to the accounting policies)	59 103	49 545		
Dividends receivable on Structured Insurance			4 986	5 025
Accounts receivable		7 866		
Other debtors	30 905	33 961	120	47
	102 453	182 149	5 106	5 072
19. Re-insurance assets				
Insurance contracts	8 175	3 377		
Short-term reinsurance contracts : unearned premium	6 039	2 550		
Short-term reinsurance contracts : outstanding claims	1 019	626		
Life reinsurance contracts	1 117	201		
Total reinsurance contracts	8 175	3 377		

The full amount in the current and prior year has a maturity of less than one year.

20. Investment in associate companies

20.1. Details of investments in unlisted associate companies

	Nature of business	Issued ordinary share capital N$	Number of ordinary shares held	Year end
Namclear (Pty) Ltd	Interbank clearing house	4	1	31 December
Avril Payment Solutions (Pty) Ltd	Payroll administrators	10 000	1 000	28 February
RMB Asset Management Namibia (Pty) Ltd	Asset Management	20	10 000	30 June

N$ thousand	Effective Holding % 2006	Effective Holding % 2005	Group carrying amount 2006	Group carrying amount 2005	Group costs less amounts written off 2006	Group costs less amounts written off 2005
20.2. Effective holdings and carrying amounts in unlisted associate companies						
Namclear (Pty) Ltd	25	25		3 125		3 125
Avril Payment Solutions (Pty) Ltd	10	10	253	208	1	1
FNB Namibia Unit Trusts Ltd (previously: FirstMet Namibia Unit Trusts Ltd) - 2006 accounted for as a subsidiary, comparative figures applicable to associate company status		50		3 052		2 000
RMB Asset Management Namibia (Pty) Ltd	50	50				10
Total unlisted			253	6 385	1	5 136

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
20. Investment in associate companies (continued)				
20.3. Detail information of unlisted associate companies				
Investments at cost less amounts written off	2 001	5 126		2 000
Share of associate earnings:				
Income before taxation	1 099	1 729		
Taxation for the year	(474)	(590)		
Retained income for the year	625	1 139		
Share of retained income at beginning of the year	1 259	883		
Retained income at the end of the year	1 884	2 022		
Associate became subsidiary: FNB Namibia Unit Trusts - Accumulated profits	(1 052)			
Associate became subsidiary: FNB Namibia Unit Trusts - Original cost	(2 000)			
Dividends received for the year	(580)	(763)		
Carrying value	253	6 385		2 000
Movement in goodwill				
Opening balance		(119)		
Amortisation charge		119		
At end of year				
Valuation				
Unlisted investments at directors' valuation	253	6 385		2 000

N$ thousand	Group 2006	Group 2005	FirstMet Nambia Unit Trusts Ltd 2006	FirstMet Nambia Unit Trusts Ltd 2005	Avril Payment Solutions (Pty) Ltd 2006	Avril Payment Solutions (Pty) Ltd 2005	RMB Asset Management Namibia (Pty) Ltd 2006	RMB Asset Management Namibia (Pty) Ltd 2005	Namclear (Pty) Ltd 2006	Namclear (Pty) Ltd 2005
Group										
20.4. Summarised financial information of associate companies										
Balance sheet										
Non-current assets	885	5 157		3 928	885	1 229				
Current assets	3 187	4 495		3 017	3 187	1 419		59		
Current liabilities	(1 267)	(2 018)		(841)	(1 267)	(353)		(824)		
Non-current liabilities	(271)	(212)			(271)	(212)				
Equity	2 534	7 422		6 104	2 534	2 083		(765)		
Income statement										
Share of earnings of associate companies	625	1 139		361	625	778				
Amounts written off	(3 125)	(10)						(10)	(3 125)	
Share of earnings of associate companies after impairment losses	(2 500)	1 129		361	625	778		(10)	(3 125)	

Refer note 37.3 for details on loans to/(from) related parties.

No detailed balance sheet information was available for Namclear (Pty) Ltd in the comparative year and the full carrying value has been impaired in the 2006 financial year.

The share of accumulated losses not accounted for is N$1.1 million as at 31 December 2005. The Group does not share in these losses and only impaired the amount invested.

No detailed balance sheet information is available for RMB Asset Management Namibia (Pty) Ltd and the full carrying value was impaired in the 2005 financial year.

N$ thousand	Company 2006	Company 2005	FirstMet Namibia Unit Trusts Ltd 2006	FirstMet Namibia Unit Trusts Ltd 2005	RMB Asset Mangement Namibia (Pty) Ltd 2006	RMB Asset Mangement Namibia (Pty) Ltd 2005
20. Investment in associate companies (continued)						
Company						
20.4. Summarised financial information of associate companies						
Balance sheet						
Non-current assets		3 928		3 928		
Current assets		3 076		3 017		59
Current liabilities		(1 665)		(841)		(824)
Non-current liabilities						
Equity		5 339		6 104		(765)
Income statement						
Share of earnings of associate companies after impairment losses		(10)				(10)

The Company acquired the remaining equity stake in FirstMet Namibia Unit Trusts Ltd. It has accounted for this investment as a subsidiary in the current year. With the adoption of IFRS, the company accounts are reflected and changed retrospectively, on the basis that the investment in associate companies is treated according to the cost method. As a result, the prior recognised earnings of share of associate income has been reversed in the accounts of the Company, refer note 1.27.

No detailed balance sheet information is available for RMB Asset Management Namibia (Pty) Ltd and the full carrying value was impaired in the 2005 financial year.

Refer note 37.3 for details on loans to/(from) related parties.

The most recent audited annual financial statements of associates are used by the Group in applying the equity method of accounting for associates. These are not always drawn up to the same date as the financial statements of the Group. In instances where significant events occurred between the last financial statement date of an associate and the financial statement date of the Group, the effects of such events are adjusted for, where material. Where the last financial statement date of an associate was more than six months before the financial statement date of the Group, the Group uses the unaudited management accounts of the associate. The Group has applied this principle consistently since adopting the equity accounting method for associates.

N$ thousand	Nature of business	Date of acquisition	Country of incorporation	Number of shares	Effective holding % 2006	Effective holding % 2005

21. Investment in subsidiary companies

Significant subsidiaries

All subsidiaries are unlisted.

The number of shares remained unchanged from 2005 to 2006.

The year-end of all the subsidiaries is 30 June, except FNB Namibia Unit Trusts Ltd, whose year-end is 31 December, and for whom the management accounts for the period since acquisition on 1 January 2006 have been used in preparing the Group consolidation.

N$ thousand	Nature of business	Date of acquisition	Country of incorporation	Number of shares	Effective holding % 2006	Effective holding % 2005
Banking operations:						
First National Bank of Namibia Ltd	Commercial banking	1 June 2003 **	Namibia	1,200 of N$1 each	100	100
Swabou Investments (Pty) Ltd	Home loan investment company	1 July 2003	Namibia	2 of N$0.05 each	100	100
Insurance operations:						
Swabou Life Assurance Company Ltd	Life assurance company	1 July 2003	Namibia	6,000,000 of N$1 each	100	100
Swabou Insurance Company Ltd	Short-term insurance	1 July 2003	Namibia	4,000,000 of N$1 each	100	100
Other:						
First National Asset Management & Trust Company of Namibia (Pty) Ltd	Asset Management and Trust services	1 October 1996	Namibia	200 of N$1 each	100	100
Talas Properties (Windhoek) (Pty) Ltd	Property Company	31 March 1988	Namibia	100 of N$1 each	100	100
FNB Namibia Unit Trusts Ltd	Unit Trust Company	1 January 2006	Namibia	4,000,000 of N$1 each	100	50 *

* Accounted for as associate in the 2005 year

** FNB Namibia Holdings Limited was previously known as First National Bank of Namibia Ltd, which was established in 1988. The banking business transferred on 1 June 2003 to a newly formed company, called First National Bank of Namibia Ltd.

N$ thousand	Aggregate income of subsidiaries (before tax) 2006	Restated 2005	Total investment (total indebtedness) 2006	Restated 2005
First National Bank of Namibia Ltd	233 165	195 930	1 142 792	1 142 792
Swabou Investments (Pty) Ltd	73 778	159 320		
First National Asset Management and Trust Company of Namibia (Pty) Ltd	714	169		
Talas Properties (Windhoek) (Pty) Ltd	10 094	37 216	2 967	2 967
Swabou Life Assurance Company Ltd	36 010	21 991	27 740	27 740
Swabou Insurance Company Ltd	25	7 398	12 348	12 348
FNB Namibia Unit Trusts Ltd	437		5 475	
	354 223	422 024	1 191 322	1 185 847

The prior year income of Swabou Investments (Pty) Ltd includes a reversal of management fee expenses of N$44 million, as well as revaluation of investment properties of N$36 million.

The prior year income of Talas Properties (Windhoek) (Pty) Ltd includes a revaluation of investment property of N$32.4 million.

N$ thousand	Cost 2006	Accumulated depreciation and impairments 2006	Net Book Value 2006	Cost 2005	Restated Accumulated depreciation and impairments 2005	Net Book Value 2005
22. Property and equipment						
Group						
Property						
Freehold land and buildings	141 936	(39 679)	102 257	135 957	(34 529)	101 428
Leasehold premises	13 022	(7 866)	5 156	14 467	(9 822)	4 645
	154 958	(47 545)	107 413	150 424	(44 351)	106 073
Equipment						
Computer equipment	38 719	(29 835)	8 884	40 460	(29 257)	11 203
Furniture and fittings	49 747	(23 297)	26 450	45 083	(23 291)	21 792
Motor vehicles	6 241	(3 902)	2 339	5 736	(3 876)	1 860
Office equipment	47 122	(34 270)	12 852	45 785	(34 868)	10 917
	141 829	(91 304)	50 525	137 064	(91 292)	45 772
Total	296 787	(138 849)	157 938	287 488	(135 643)	151 845

N$ thousand	Freehold land and buildings	Leasehold premises	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Total
Movement in property and equipment - net book value							
Net book value at 1 July 2004	94 738	4 488	8 118	24 312	1 554	8 787	141 997
IFRS adjustment (refer note 1.27.3)	(1 794)						(1 794)
Additions	13 012	1 258	8 475	3 469	1 225	6 665	34 104
Depreciation charge for period	(3 197)	(1 101)	(5 390)	(5 728)	(579)	(4 517)	(20 512)
Depreciation charge for period - IFRS adjustment (refer note 1.27.3)	1 397						1 397
Disposals	(2 728)			(261)	(340)	(18)	(3 347)
Net book value at 30 June 2005	101 428	4 645	11 203	21 792	1 860	10 917	151 845
Additions	1 987	2 239	2 095	8 420	1 270	6 952	22 963
Work in progress transferred to equipment	(3 445)	227				3 218	
Reclassification from investment properties (refer note 23)	6 921						6 921
Depreciation charge for period	(3 074)	(1 728)	(4 407)	(3 606)	(779)	(4 951)	(18 545)
Impairments recognised	(386)						(386)
Transfer to repairs and maintenance	(1 092)						(1 092)
Disposals	(3 527)		(7)	(156)	(12)	(66)	(3 768)
Net book value at 30 June 2006	98 812	5 383	8 884	26 450	2 339	16 070	157 938

Information regarding land and buildings as required in terms of Schedule 4 of the Companies Act is kept at the Company's registered offices. This information will be open for inspection in terms of the provisions of section 113 of the Companies Act, 1973.

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
23. Investment property				
Market value at beginning of the year	11 878	18 271		
Reclassification to freehold property (Refer note 22)	(6 921)			
Disposals		(7 456)		
Revaluations	1 043	1 063		
Balance at end of the year	6 000	11 878		
Investment properties consist of office buildings only	6 000	11 878		
Rental income received on investment properties (included in note 9 'Other income')	327	1 162		
Operating expenses that generated rental income (included in note 10 'Other operating costs')	(95)	(205)		
	232	957		

The criteria used to distinguish between owner-occupied and investment property at Group level was based on the physical space occupied by Group companies in relation to total available space. The property was valued by Abel Danie Schoeman (appointed appraiser by the Master of the High Court, Windhoek, in terms of Act 66 of 1965) at open market value on 30 June 2006. This valuation is performed annually.

There are no restrictions on realisation of investment properties.

There are no material contractual obligations on investment properties and no investment property has been encumbered.

Information regarding land and buildings as required in terms of Schedule 4 of the Companies Act is kept at the Company's registered offices. This information will be open for inspection in terms of the provisions of section 113 of the Companies Act, 1973.

24. Intangible assets

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
Trademarks				
Gross amount	108 708	108 708		
Less: Accumulated amortisation	(37 995)	(30 149)		
	70 713	78 559		
Movement in trademarks - book value				
Opening balance	78 559	109 236		
Amortisation	(7 846)	(13 330)		
Adjustment to original Swabou consideration as a result of the redemption/ conversion of preference shares - See Statement of Changes in Equity		(17 347)		
Closing balance	70 713	78 559		
Goodwill				
Gross amount	100			
Movement in goodwill - book value				
Opening balance				
Acquistion of remaining equity stake in FNB Namibia Unit Trusts Ltd	100			
Closing balance	100			
Total intangible assets	70 813	78 559		

The amortisation period of the trademark is partly based on a diminishing amortisation profile and a fixed amortisation profile, both of which ensure the trademark to be fully amortised within the next 16 years.
A change in the estimation of the trademark amortisation has resulted in the amortisation charge in 2006 being reduced by N$2.1 million. The amortisation charge for 2007 is estimated at N$10.3 million. This change was brought about to adjust the amortisation more accurately to the estimated remaining life of the intangible assets.

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
25. Deposit and current accounts				
Amortised cost				
Deposit and current accounts				
From banks and financial institutions				
- In the normal course of business	124 224	638 719		
From customers				
- Current accounts	4 392 199	3 069 249		
- Savings accounts	342 692	340 139		
- Term deposits	2 058 923	1 890 762		
Other deposits				
- Negotiable certificates of deposit	1 018 110	767 450		
	7 936 148	6 706 319		
Geographic analysis (based on counterparty risk)				
Namibia	7 874 055	6 182 972		
South Africa	11 791	522 572		
Other	50 302	775		
	7 936 148	6 706 319		

A maturity analysis of deposits and current accounts is set out on note 35.7 of these annual financial statements, and is based on the remaining periods to contractual maturity from the year-end.

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
26. Creditors and accruals				
Accounts payable	11 375	28 356	210	10 385
Dividends payable	4 986	5 025	4 986	5 025
Other creditors	97 980	99 673		
	114 341	133 054	5 196	15 410

All amounts are expected to be settled within twelve months.

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
27. Provision for unintimated claims				
Opening Balance	1 828	1 678		
Charge to the income statement (refer note 7)	(22)	150		
Closing Balance	1 806	1 828		

This provision is raised for possible claim incidents incurred before year-end but only reported thereafter, related to the short-term insurance industry. This provision forms part of the short-term insurance industry practice. The norm of 7% of earned premiums is used, adjusted for claims reported after year-end, but before the approval of the annual financial statements.

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
28. Policyholders' fund				
Opening Balance	109 395	76 965		
Transfer to policyholder liabilities under insurance contracts	36 913	29 384		
Fair value adjustment to policyholder liabilities under investment contracts	(1 750)	1 807		
Premiums received on investment contracts	3 559	1 735		
Policyholder benefits on investment contracts	(152)	(1)		
Fees on investment contracts	(659)	(495)		
Closing Balance	147 306	109 395		
Consisting of:				
Policyholder liabilities under insurance contracts				
Opening balance	106 199	76 815		
Transfer from income statement	36 913	29 384		
Closing balance	143 112	106 199		
Policyholder liabilities under investment contracts				
Opening balance	3 196	150		
Premiums received	3 559	1 735		
Policyholder benefits	(152)	(1)		
Fair value adjustment	(1 750)	1 807		
Fees on investment contracts	(659)	(495)		
Closing balance	4 194	3 196		

29. Employee benefits

29.1. Post-retirement medical liability

The Group has a liability to subsidise the post-retirement medical expenditure of certain of its employees based on a defined benefit plan.

The actuarial method used to value the liabilities is the project unit credit method prescribed by IAS 19 - Employee Benefits. The liability is taken as the present value of the employers' share of continuation members contribution to the medical scheme. Continuing member contributions are projected into the future year using the assumption rate of health care cost inflation and then discounted back using the discount rate. The Group subsidises medical aid contributions for all eligible members at various rates.

Salary cost increases are expected to be in line with the inflation rate, whereas medical cost increases are expected to be 1.75% higher than the inflation rate.

At 30 June 2006, the actuarially determined liability of the Group was N$30.2 million (2005: N$27.7 million).

The actuarial valuation is done on an annual basis.

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
29. Employee benefits (continued)				
29.1. Post-retirement medical liability (continued)				
Present value of unfunded liability	33 798	24 911		
Unrecognised actuarial (gains)/losses	(3 573)	2 754		
Post-retirement medical liability	30 225	27 665		
The amounts recognised in the income statement are as follows:				
Current service cost	1 317	973		
Interest cost	1 814	1 635		
Net actuarial losses/(gains) recognised	12	(400)		
Total included in staff costs (refer note 10)	3 143	2 208		
Movement in post-retirement medical liability:				
Present value at the beginning of the year	27 665	25 685		
Amounts recognised in the income statement as above	3 143	2 208		
Contributions paid	(583)	(228)		
Present value at the end of the year	30 225	27 665		
The principal actuarial assumptions used for accounting purposes were:				
Discount rate	9%	8%		
Long-term increase in medical subsidies	8%	6%		
Number of employees covered	492	543		
29.2. Pension fund				
Employer contribution to pension fund (refer note 10)	15 354	13 051		
Employer contribution to pension fund - executive directors	70	129		
Total employer contributions to pension fund	15 424	13 180		
Employee contributions to pension fund	10 516	8 596		
Total contributions	25 940	21 776		
Number of employees covered	1 433	1 379		

The Group provides for retirement benefits by making payments to a pension fund, which is independent of the group and was registered in Namibia in 1995 in accordance with the requirements of the Pension Funds' Act. The fund is a defined contribution fund and is subject to the Pension Funds' Act (no 24 of 1956). The fund is valued every three years. The last valuation was performed for the year ended 30 June 2005 and indicated that the fund was in a sound financial position.

The pension fund is a related party to the Group.

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
30. Deferred taxation				
30.1. The movement on the deferred taxation account is as follows:				
Entities with deferred taxation liabilities				
Credit balance				
- Balance at the beginning of the year	69 637	46 971	59 333	46 447
- IFRS adjustment		(713)		
- Originating temporary differences	5 173	23 379	15 465	12 886
Total credit balance	74 810	69 637	74 798	59 333
Debit balance				
- Balance at the beginning of the year	(23 871)	(10 754)	(23 863)	(10 753)
- Reversing temporary differences	(15 932)	(13 117)	(15 938)	(13 110)
Total debit balance	(39 803)	(23 871)	(39 801)	(23 863)
Net balance for the year for entities with deferred taxation liabilities	35 007	45 766	34 997	35 470
Entities with deferred taxation assets				
Credit balance				
- Balance at the beginning of the year	84 373	65 620		
- Change in accounting policy		18 068		
- IFRS adjustment		85		
- Originating temporary differences	6 942	600		
Total credit balance	91 315	84 373		
Debit balance				
- Balance at the beginning of the year	(119 241)	(111 319)		
- IFRS adjustment - Fees and expenses	(2 206)			
- IFRS adjustment - Portfolio provisions	(10 380)			
- Originating/(reversing) temporary differences	1 334	(7 922)		
Total debit balance	(130 493)	(119 241)		
Net balance for the year for entities with deferred taxation assets	(39 178)	(34 868)		
Overall net deferred taxation balance	(4 171)	10 898	34 997	35 470
Total (originating)/reversing differences through Income statement	(2 483)	2 940	(473)	(224)

Deferred taxation assets and liabilities are offset when the income taxes relate to the same fiscal authority, same legal entity and there is a legal right to set-off.

30. Deferred taxation (continued)

30.2 Deferred taxation assets and liabilities and deferred taxation charge/(credit) in the income statement are attributable to the following items:

Group

N$ thousand	Balance on 1 July 2004	Originating / (reversing) differences	Balance on 30 June 2005	Balance on 1 July 2005 Restated	Originating / (reversing) differences	Balance on 30 June 2006
Entities with net deferred taxation assets						
Deferred tax liabilities						
On fair value adjustments of financial instruments	3 102	(3 102)				
Instalment credit agreements	56 630	(4 243)	52 387	52 387	(3 636)	48 751
Accruals	3 257	1 617	4 874	4 874	1 233	6 107
Deferred staff costs				17 339	3 347	20 686
Fixed Assets (restated with IFRS adjustment)	2 631	6 985	9 616	9 773	5 998	15 771
Total deferred taxation liabilities	65 620	1 257	66 877	84 373	6 942	91 315
Deferred tax assets						
Taxation losses	(12 760)	12 760			(1 651)	(1 651)
Provision for loan impairment	(11 487)	(16 849)	(28 336)	(28 336)	4 858	(23 478)
Provision for post-retirement benefits	(8 923)	(634)	(9 557)	(9 557)	(959)	(10 516)
Other	(78 149)	(3 199)	(81 348)	(81 348)	(13 500)	(94 848)
Total net deferred taxation assets	(111 319)	(7 922)	(119 241)	(119 241)	(11 252)	(130 493)
Net deferred taxation assets	(45 699)	(6 665)	(52 364)	(34 868)	(4 310)	(39 178)
Entities with net deferred taxation liabilities						
Deferred tax liabilities						
Instalment credit agreements	46 447	22 202	68 649	68 649	6 150	74 799
Fixed Assets (restated with IFRS adjustment)					11	11
Other	524	758	1 282	988	(988)	
Total deferred taxation liabilities	46 971	22 960	69 931	69 637	5 173	74 810
Total net deferred taxation assets: Taxation losses	(10 754)	(13 117)	(23 871)	(23 871)	(15 932)	(39 803)
Net deferred taxation liabilities	36 217	9 843	46 060	45 766	(10 759)	35 007
Net deferred taxation	(9 482)	3 178	(6 304)	10 898	(15 069)	(4 171)
Charge through income statement deferred taxation charge					(2 483)	
Created directly in equity due to prospective IFRS adjustments					(12 586)	
					(15 069)	

Company

N$ thousand	Balance on 1 July 2004	Originating / (reversing) differences	Balance on 30 June 2005	Balance on 1 July 2005 Restated	Originating / (reversing) differences	Balance on 30 June 2006
Deferred tax liabilities						
Instalment credit agreements	(10 753)	(13 114)	(23 867)	59 333	15 466	74 799
Taxation losses	46 447	12 890	59 337	(23 863)	(15 939)	(39 802)
Total deferred taxation liabilities	35 694	(224)	35 470	35 470	(473)	34 997

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
31. Share capital				
Authorised				
990 000 000 (2005: 959 802 553) ordinary shares with a par value of 0.5 cents per share	4 950	4 950	4 950	4 950
10 000 000 (2005: 40 197 447) cumulative convertible redeemable preference shares with a par value of 0.5 cents per share	50	50	50	50
	5 000	5 000	5 000	5 000
Issued				
267 593 250 (2005: 267 593 250) ordinary shares with a par value of 0.5 cents per share	1 338	1 338	1 338	1 338
2 (2005: 2) cumulative convertible redeemable preference shares with a par value of 0.5 cents per share				
Elimination of shares held by Share Incentive Trust	(17)	(17)		
	1 321	1 321	1 338	1 338
Term of preference shares: redeemable at 31 days notice by either party. The dividend rights in terms of the agreement with the shareholder are based on the actual profits made, per agreed adjustments, of a portion of the short-term insurance business.				
Share premium	266 082	266 557	280 810	280 810
A detailed reconciliation of the movements in the share capital and premium balances is set out in the statement of changes in equity.				
The unissued ordinary shares are under the control of the directors until the next annual general meeting.				
All issued shares are fully paid up.				
32. Non-distributable reserves				
General risk reserve (impaired capital reserve)	8 104	24 104		
Other non-distributable reserves: Swabou Insurance Company Ltd - Available for sale assets	1 913	2 788		
Other non-distributable reserves: Swabou Insurance Company Ltd - Contingency reserve	899	730		
Other non-distributable reserves: First National Bank of Namibia Ltd - Available for sale assets	156			
Share-based payment reserve	1 997	12	1 211	
	13 069	27 634	1 211	

A detailed reconciliation of the movements in the respective non-distributable reserve balances is set out in the statement of changes in equity.

N$ thousand	GROUP 2006	GROUP Restated 2005	COMPANY 2006	COMPANY Restated 2005
33. Contingent liabilities and capital commitments				
Group and Company				
Contingencies				
Guarantees	357 212	252 886		
Letters of credit	103 594	6 647		
Irrevocable unutilised facilities - original maturity one year or less	687 602	707 650		
Irrevocable unutilised facilities - original maturity more than one year	232 045	254 336		
Other	769	10 304		
	1 381 222	1 231 823		
Guarantees consist predominantly of endorsements and performance guarantees				
Legal proceedings				
There are a number of legal or potential claims against the Group, the outcome of which cannot at present be foreseen. These claims are not regarded as material, either on an individual or group basis. Provision is made for all liabilities which are expected to materialise.				
Commitments				
Commitments in respect of capital expenditure and long-term investments approved by directors				
- Contracted for	432	4 620		
- Not contracted for	29 424	90 952		3 152

Funds to meet these commitments will be provided from Group resources.

Contingent liabilities or contingent assets may arise as a result from unresolved matters with the taxation authority. It is not foreseen that these adjustments will be material to the Group.

N$ thousand	2006 Next year	2006 2nd to 5th year	2006 After 5 years
Group and Company			
Commitments under operating leases			
Office premises	7 100	6 532	76
Equipment	1 304	1 079	
	8 404	7 611	76

Notice periods on operating lease contracts are between 3-6 months, no operating lease contract is fixed and escalation clauses range between 6% and 8%.

N$ thousand	2005 Next year	2005 2nd to 5th year
Office premises	4 204	6 269
Equipment	1 803	1 930
	6 007	8 199

There were no commitments under operating leases after 5 years.

N$ thousand	GROUP 2006	Restated 2005
34. Cash flow information		
34.1. Reconciliation of operating income to cash flow from operating activities		
Operating income before taxation	371 992	309 466
Adjusted for:		
- Share of earnings of associate companies after impairment losses	2 500	(1 129)
- Depreciation, amortisation and impairment of property, equipment and intangible assets	26 777	32 445
- Unrealised profits on revaluation of investments	(40 691)	(28 290)
- Transfer of work in progress to repairs and maintenance	1 092	
- Revaluation of investment property	(1 043)	(1 063)
- Share payment cost	1 973	
- Impairment of advances	29 278	22 835
- Provision for post-employment benefit obligations	3 143	2 208
- Other employment provisions	1 589	6 219
- Creation of derivative financial instruments	1 255	(17 104)
- Policyholders' fund and insurance fund transfers	37 914	27 887
- Unwinding of discounted present value on non-performing loans	(11 470)	(12 634)
- Unwinding of discounted present value on off-market loans	(5 267)	(6 774)
- Net release in terms of deferred fee and expenses	(3 307)	
- Off market staff loans amortisation (refer note 10)	5 267	6 774
- Profit on sale of fixed assets	(1 321)	(6 664)
Cash flows from operating activities	419 681	334 176
34.2. Taxation paid		
Amounts overpaid/(unpaid) at beginning of the year	(8 554)	40 916
Indirect taxes	(12 992)	(2 845)
Current taxation charge	(104 512)	(87 779)
Amounts unpaid at end of the year	982	8 554
Total taxation paid	(125 076)	(41 154)
34.3. Acquisition of subsidiary		
Cash and cash equivalents	1 214	
Investment securities and other investments	6 165	
Current assets	160	
Total assets	7 539	
Other liabilities	(788)	
Net assets acquired	6 751	
Goodwill acquired	100	
Cost of acquiring subsidiary	6 851	
Less 50% previously held as an associate	(3 052)	
Settled in cash	3 799	
Cash balance of subsidiary	1 214	
Settled in cash	(3 799)	
Net cash flow on acquisition of subsidiary	(2 585)	

N$ thousand	GROUP 2006	GROUP Restated 2005
34. Cash flow information (continued)		
34.4. Acquisition of associates		
Namclear (Pty) Ltd		3 125
RMB Asset Management Namibia (Pty) Ltd		10
		3 135
34.5. Dividends paid		
Amounts unpaid at beginning of the year	(5 025)	
Dividends approved	(91 209)	(78 727)
Amounts unpaid at end of the year	4 986	5 025
Total dividends paid	(91 248)	(73 702)

35. Risk management

35.1. General

The unaudited Risk Report of the Group is contained on pages 124 to 127 ('the Risk Report') of this annual report. The report sets out in detail the various risks the Group is exposed to, as well as the strategy, methodology and instruments used to mitigate these risks.

Risk control policies and exposure limits for the key risk areas of the Group are approved by the Board, while operational policies and control procedures are approved by the relevant risk committees. Details of the Group's risk management structure, the risk management methodologies and the various risk committees are set out in the Corporate Governance and the Risk Reports, on page 120 to 127.

Strategy in using financial instruments

By its nature the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that might fall due.

The Group also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives, to take advantage of short-term market movements in the equity and bond markets and in currency, interest rate and commodity prices. The Board of the Group places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

35.2. Strategy in using hedges

The Group's strategy for using hedges is set out in note 1.13, and is also dealt with in the Risk Report.

35. Risk management (continued)

35.3. Credit risk management

Credit risk is the risk that a counterparty will be unable to repay amounts when they fall due. In general, the Group manages its credit risk exposure by placing limits on the acceptable risk exposure to individual borrowers or groups of borrowers, and within geographic and industry segments. Credit risk is monitored on an ongoing basis.

In banking terms this is associated with the principal business of a bank - to lend money. The Group's credit risk is therefore the possibility that it could suffer a loss due to a customer not being able to meet commitments.

The bank's credit support function centrally manages the Group's credit risk. Its primary functions are to formulate macro-level credit policies; to independently review the largest credit exposures; and to manage the portfolio of risk concentrations. Efficiency of the credit process is continuously reviewed, as is the efficiency of credit approval processes and portfolio management. Portfolio credit risk is managed through a system that identifies and monitors deteriorating credit risks at an early stage.

An established credit process is in place. This involves delegated approval authorities and credit procedures, designed to build high quality assets. The approval delegation includes the use of credit committees formed to review proposed assets of varying amounts. The most senior of these committees include members of the board of directors. See note 16 for detail analysis of non-performing loans.

	GROUP		
N$ thousand	Namibia	South Africa	Total
Significant credit exposures at 30 June 2006 were:			
Assets			
Notional value of advances	8 006 767	168 698	8 175 465
Contingencies	1 405 745		1 405 745
	9 412 512	168 698	9 581 210
Economic sector risk concentrations in respect of advances are set out in note 15.			
Significant credit exposures at 30 June 2005 were:			
Assets			
Notional value of advances	6 851 768	23 864	6 875 632
Contingencies	1 231 823		1 231 823
	8 083 591	23 864	8 107 455

35.4. Market risk

The Group takes on exposure to market risk. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'value at risk' methodology to estimate the market risk positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The primary risk control mechanism used for risk control purposes are stress loss test and limits.

35. Risk management (continued)

35.5. Currency risk management

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group manages foreign currency exposures in terms of approved limits. The currency position at 30 June 2006 is set out below:

N$ thousand	2006 N$	Rand	US$	Euro	Other	Total
Assets						
Cash and short-term funds	222 119	3 176	36 718	13 210	1 307	276 530
Derivative financial instruments						
- trading			21 998	17 422		39 420
Advances						
- at amortised cost	7 963 310					7 963 310
Investment securities and other investments						
- held for trading	343 269					343 269
- originated	47 146					47 146
- held to maturity	92 007					92 007
- available for sale	484 122					484 122
Accounts receivable	102 453					102 453
Policy loans originated	996					996
Re-insurance assets	8 175					8 175
Investment in associate company	253					253
Deferred taxation assets	39 178					39 178
Property and equipment	157 938					157 938
Investment property	6 000					6 000
Intangible assets	70 813					70 813
Total assets	9 537 779	3 176	58 716	30 632	1 307	9 631 610
Liabilities and shareholders' funds						
Deposit and current accounts	7 936 148					7 936 148
Derivative financial instruments						
- trading	824		22 035	17 422		40 281
Creditors and accruals	114 341					114 341
Gross outstanding claims	6 526					6 526
Gross unearned premium	16 482					16 482
Provision for unintimated claims	1 806					1 806
Policyholders' fund	147 306					147 306
Post-retirement benefit fund liability	30 225					30 225
Current taxation	982					982
Deferred taxation liabilities	35 007					35 007
Total equity	1 302 506					1 302 506
Total equity and liabilities	9 592 153		22 035	17 422		9 631 610

Currency conversion guide:	**30 June 2006**
1 SA Rand	N$1.00
1 Pound Sterling	N$13.17
1 US Dollar	N$7.14
1 Euro	N$9.11

35. Risk management (continued)

35.5. Currency risk management (continued)

N$ thousand	2005 N$	Rand	US$	Euro	Other	Total
Assets						
Cash and short-term funds	150 982	19 461	19 172	12 212	652	202 479
Derivative financial instruments						
- trading			787	4 168	73	5 028
Advances						
- at amortised cost	6 709 475					6 709 475
Investment securities and other investments						
- held for trading	651 219					651 219
- held to maturity	166 580					166 580
- available for sale	21 364					21 364
Accounts receivable	182 149					182 149
Policy loans originated	119					119
Re-insurance assets	3 377					3 377
Investment in associate company	6 385					6 385
Current taxation	8 241					8 241
Deferred taxation assets	34 868					34 868
Property and equipment	151 845					151 845
Investment property	11 878					11 878
Intangible assets	78 559					78 559
Total assets	8 177 041	19 461	19 959	16 380	725	8 233 566
Liabilities and shareholders' funds						
Deposit and current accounts	6 182 972	522 572	61	627	87	6 706 319
Derivative financial instruments						
- trading			718	3 858	58	4 634
Creditors and accruals	133 054					133 054
Gross outstanding claims	2 585					2 585
Gross unearned premium	10 242					10 242
Provision for unintimated claims	1 828					1 828
Policyholders' fund	109 395					109 395
Post-retirement benefit fund liability	27 665					27 665
Current taxation	16 795					16 795
Deferred taxation liabilities	45 766					45 766
Total equity	1 175 283					1 175 283
Total equity and liabilities	7 705 585	522 572	779	4 485	145	8 233 566

Currency conversion guide:	**30 June 2005**
1 SA Rand	N$1.00
1 Pound Sterling	N$11.97
1 US Dollar	N$6.68
1 Euro	N$8.06

35. Risk management (continued)

35.6. Interest rate risk management

Interest sensitivity of assets, liabilities and off balance sheet items - repricing analysis

Interest rate risk arises when rate changes create the possibility of incurring losses. Asset and Liability Committee ('ALCO') is charged with managing the structure of the balance sheet and dealing with key risks arising during the ordinary course of banking. This risk is quantified by calculating the impact of a one percent increase and decrease in interest rates on net interest income and is reported to the board.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

N$ thousand	Carrying amount 2006	Interest earning/bearing - Term to repricing					Non-interest earning/ bearing
		Demand	1 - 3 months	4 - 12 months	1 - 5 years	Over 5 years	
Assets							
Cash and short-term funds	276 530	70 673	205 857				
Derivative financial instruments							
- trading	39 420		39 420				
Advances - at amortised cost	7 963 310	7 950 292		4 588	8 430		
Investment securities and other investments							
- held for trading	343 269	212 728	1 256	8 434	82 173	38 678	
- originated	47 146	10 263	36 883				
- held to maturity	92 007	19 976	19 729	52 302			
- available for sale	484 122	20 271	110 452	338 865	14 534		
Accounts receivable	102 453						102 453
Policy loans originated	996		996				
Re-insurance assets	8 175			8 175			
Investment in associate company	253						253
Deferred taxation assets	39 178						39 178
Property and equipment	157 938						157 938
Investment property	6 000						6 000
Intangible assets	70 813						70 813
Total assets	9 631 610	8 284 203	414 593	412 364	105 137	38 678	376 635
Liabilities and shareholders' funds							
Deposit and current accounts	7 936 148	4 086 364	2 979 161	867 834	2 789		
Derivative financial instruments							
- trading	40 281		39 457	824			
Creditors and accruals	114 341						114 341
Gross outstanding claims	6 526						6 526
Gross unearned premium	16 482						16 482
Provision for unintimated claims	1 806						1 806
Policyholders' fund	147 306						147 306
Post-retirement benefit fund liability	30 225						30 225
Current taxation	982						982
Deferred taxation liabilities	35 007						35 007
Total equity	1 302 506						1 302 506
Total equity and liabilities	9 631 610	4 086 364	3 018 618	868 658	2 789		1 655 181
Net interest sensitivity gap		4 197 839	(2 604 025)	(456 294)	102 348	38 678	(1 278 546)

N$ thousand	Carrying amount 2005	Interest earning/bearing - Term to repricing Demand	1 - 3 months	4 - 12 months	1 - 5 years	Over 5 years	Non-interest earning/ bearing
35. Risk management (continued)							
35.6. Interest rate risk management (continued)							
Assets							
Cash and short-term funds	202 479	35 572					166 907
Derivative financial instruments - trading	5 028			5 028			
Advances - at amortised cost	6 709 475	6 414 233		116 215	22 794	136 281	19 952
Investment securities and other investments							
- held for trading	651 219		150 729	212 213	213 415	74 862	
- held to maturity	166 580		57 344	96 283	12 953		
- available for sale	21 364			21 364			
Accounts receivable	182 149						182 149
Investment in associate company	6 385						6 385
Policy loans originated	119		119				
Re-insurance assets	3 377			3 377			
Current taxation	8 241						8 241
Deferred taxation assets	34 868						34 868
Property and equipment	151 845						151 845
Investment property	11 878						11 878
Intangible assets	78 559						78 559
Total assets	8 233 566	6 449 805	208 192	454 480	249 162	211 143	660 784
Liabilities and shareholders' funds							
Deposit and current accounts	6 706 319	4 015 673	2 672 195		18 111	340	
Derivative financial instruments - trading	4 634			4 634			
Creditors and accruals	133 054						133 054
Gross outstanding claims	2 585						2 585
Gross unearned premium	10 242						10 242
Provision for unintimated claims	1 828						1 828
Policyholders' fund	109 395						109 395
Post-retirement benefit fund liability	27 665						27 665
Current taxation	16 795						16 795
Deferred taxation liabilities	45 766						45 766
Total equity	1 175 283						1 175 283
Total equity and liabilities	8 233 566	4 015 673	2 672 195	4 634	18 111	340	1 522 613
Net interest sensitivity gap		2 434 132	(2 464 003)	449 846	231 051	210 803	(861 829)

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35. Risk management (continued)

35.7. Liquidity risk management

The Group is exposed to daily liquidity requirements from overnight deposits, current accounts, maturing deposits, loan draw-downs and other cash requirements. The Group does not maintain sufficient cash resources to meet all of these liquidity needs, as historical experience indicates a minimum level of reinvestment of maturing funds with a high level of certainty.

The matching and controlled mismatching of maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched since business transactions are often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but may also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates. Details on the liquidity risk management process is set out on page 126 of the Risk Report. The table below sets out the maturity analysis of the Group's balance sheet based on the remaining period from year-end to contractual maturity. 'Demand' denotes assets or liabilities with a contractual maturity of 32 days or less.

		Term to maturity				
N$ thousand	Carrying amount 2006	Demand	1 - 3 months	4 - 12 months	1 - 5 years	Over 5 years
Assets						
Cash and short-term funds	276 530	276 530				
Derivative financial instruments - trading	39 420	4 390	29 770	5 260		
Advances - at amortised cost	7 963 310	1 145 566	160 641	475 738	2 021 664	4 159 701
Investment securities and other investments						
- held for trading	343 269			216 742	82 173	44 354
- originated	47 146			10 263	36 883	
- held to maturity	92 007			92 007		
- available for sale	484 122			469 588	14 534	
Accounts receivable	102 453	25 418	11 464	65 571		
Policy loans originated	996		996			
Re-insurance assets	8 175			8 175		
Investment in associate company	253					253
Deferred taxation assets	39 178				39 178	
Property and equipment	157 938					157 938
Investment property	6 000					6 000
Intangible assets	70 813					70 813
Total assets	9 631 610	1 451 904	202 871	1 343 344	2 194 432	4 439 059
Liabilities and shareholders' funds						
Deposit and current accounts	7 936 148	4 429 055	2 636 470	867 834	2 789	
Derivative financial instruments - trading	40 281	24 254	15 203	824		
Creditors and accruals	114 341			114 341		
Gross outstanding claims	6 526		6 526			
Gross unearned premium	16 482			16 482		
Provision for unintimated claims	1 806			1 806		
Policyholders' fund	147 306					147 306
Post-retirement benefit fund liability	30 225					30 225
Current taxation	982			982		
Deferred taxation liabilities	35 007				35 007	
Total equity	1 302 506					1 302 506
Total equity and liabilities	9 631 610	4 453 309	2 658 199	1 002 269	37 796	1 480 037
Net liquidity gap		(3 001 405)	(2 455 328)	341 075	2 156 636	2 959 022

35. Risk management (continued)

35.7. Liquidity risk management (continued)

N$ thousand	Carrying amount 2005	Demand	Term to maturity 1 - 3 months	4 - 12 months	1 - 5 years	Over 5 years
Assets						
Cash and short-term funds	202 479	202 479				
Derivative financial instruments - trading	5 028			5 028		
Advances - at amortised cost	6 709 475	1 021 653		946 079	3 001 297	1 740 446
Investment securities and other investments						
- held for trading	651 219			560 405		90 814
- held to maturity	166 580			166 580		
- available for sale	21 364			21 364		
Accounts receivable	182 149	65 029		67 575		49 545
Policy loans originated	119		119			
Re-insurance assets	3 377			3 377		
Investment in associate company	6 385					6 385
Current taxation	8 241					8 241
Deferred taxation assets	34 868					34 868
Property and equipment	151 845					151 845
Investment property	11 878					11 878
Intangible assets	78 559					78 559
Total assets	8 233 566	1 289 161	119	1 770 408	3 001 297	2 172 581
Liabilities and shareholders' funds						
Deposit and current accounts	6 706 319	4 015 673	2 672 195		18 111	340
Derivative financial instruments- trading	4 634			4 634		
Creditors and accruals	133 054			91 303	19 574	22 177
Gross outstanding claims	2 585		2 585			
Gross unearned premium	10 242			10 242		
Provision for unintimated claims	1 828			1 828		
Policyholders' fund	109 395					109 395
Post-retirement benefit fund liability	27 665					27 665
Current taxation	16 795			16 795		
Deferred taxation liabilities	45 766				45 766	
Total equity	1 175 283					1 175 283
Total equity and liabilities	8 233 566	4 015 673	2 674 780	124 802	83 451	1 334 860
Net liquidity gap		(2 726 512)	(2 674 661)	1 645 606	2 917 846	837 721

N$ thousand	GROUP Carrying amount	Fair value	Unrecognised gain/(loss)

35. Risk management (continued)

35.8. Fair value of financial instruments

The following represents the fair values of financial instruments not carried at fair value on the balance sheet.

N$ thousand	Carrying amount	Fair value	Unrecognised gain/(loss)
2006			
Assets			
Advances - at amortised cost	7 963 310	7 963 640	330
Investment securities			
- held to maturity	92 007	92 189	182
- originated	47 146	47 146	
Accounts receivable	102 453	102 453	
Policy loans originated	996	996	
Re-insurance assets	8 175	8 175	
	8 214 087	8 214 599	512
Liabilities			
Deposit and current accounts	7 936 148	7 936 148	
Creditors and accruals	114 341	114 341	
Gross outstanding claims	6 526	6 526	
Gross unearned premium	16 482	16 482	
Provision for unintimated claims	1 806	1 806	
	8 075 303	8 075 303	
2005			
Assets			
Advances - at amortised cost	6 709 475	6 709 724	249
Investment securities - held to maturity	166 580	166 899	319
Accounts receivable	182 149	182 149	
Policy loans originated	119	119	
Re-insurance assets	3 377	3 377	
	7 061 700	7 062 268	568
Liabilities			
Deposit and current accounts	6 706 319	6 706 319	
Creditors and accruals	133 054	133 054	
Gross outstanding claims	2 585	2 585	
Gross unearned premium	10 242	10 242	
Provision for unintimated claims	1 828	1 828	
	6 854 028	6 854 028	

35. Risk management (continued)

35.8. Fair value of financial instruments (continued)

Fair value has been determined as follows:

Advances - based on the discounted value of estimated future cash flows, based on current market rates;

Held to maturity investment securities - market/dealer quotations, if available, or fair value estimations based on market prices for similar instruments with similar credit risks;

Deposits and current accounts - where there is no stated maturity, the amount repayable on demand - in respect of interest bearing liabilities with a fixed maturity, based on discounted cash flow value using market rates on new liabilities with a similar maturity;

All other financial assets and liabilities carried at amortised cost have short dated maturities and the fair values approximate the carrying value.

36. Segment information

Primary segments

* The segment called 'Other' includes headoffice charges and other group companies' results.

Income statement

N$ thousand	Total 2006	Total 2005
Net interest income before impairment of advances	484 384	422 755
Impairment losses of advances	(29 278)	(22 835)
Net interest income after impairment of advances	455 106	399 920
Net fee and commission income	216 692	190 882
Net insurance premium income	110 920	85 326
Insurance premium revenue	143 938	112 762
Premium ceded to reinsurers	(33 018)	(27 436)
Net claims and benefits paid	(42 451)	(30 259)
Gross claims and benefits paid on insurance contracts	(57 065)	(40 324)
Reinsurance recoveries	14 614	10 065
Transfer to policyholder liabilities under insurance contracts	(36 913)	(29 384)
Fair value adjustment to policyholder liabilities under investment contracts	1 750	(1 807)
Transfer (to) / from insurance fund	(2 751)	3 304
Gains and losses from banking and trading activities	35 789	25 600
Gains and losses from investment activities	48 583	30 217
Other operating income	12 717	20 238
Net operating income	799 442	694 037
Operating expenses	(424 950)	(385 700)
Share of profit of associate companies	(2 500)	1 129
Operating profit before income tax	371 992	309 466
Overall group indirect taxes	(12 992)	(2 845)
Profit before taxation	359 000	306 621
Overall group direct taxes	(102 029)	(90 717)
Earnings	256 971	215 904

Banking operations		Life Assurance		Short-term Insurance		Other *	
2006	2005	2006	2005	2006	2005	2006	2005
479 538	418 241	7 563	5 947	1 392	580	(4 109)	(2 013)
(29 278)	(22 835)						
450 260	395 406	7 563	5 947	1 392	580	(4 109)	(2 013)
234 798	201 888	(19 130)	(11 888)	(3 112)	(1 929)	4 136	2 811
		82 180	64 200	28 740	21 126		
		92 441	71 708	51 497	41 054		
		(10 261)	(7 508)	(22 757)	(19 928)		
		(24 894)	(20 710)	(17 557)	(9 549)		
		(28 299)	(22 799)	(28 766)	(17 525)		
		3 405	2 089	11 209	7 976		
		(36 913)	(29 384)				
		1 750	(1 807)				
				(2 751)	3 304		
35 789	25 600						
423		40 932	28 290	4 078	2 119	3 150	(192)
12 477	15 116	462	289			(222)	4 833
733 747	638 010	51 950	34 937	10 790	15 651	2 955	5 439
(401 272)	(369 307)	(13 229)	(12 099)	(9 503)	(7 213)	(946)	2 919
(3 125)		625	778				351
329 350	268 703	39 346	23 616	1 287	8 438	2 009	8 709

N$ thousand	Total 2006	Total 2005
36. Segment information (continued)		
Income statement (continued)		
Reconciliation to headline earnings based on after tax segmental profits:		
Earnings attributable to ordinary shareholders:	255 640	210 879
Less: profit / (loss) on sale of property and equipment	(858)	(6 292)
Less: impairment on property and equipment	(251)	
Less: profit on revaluation of investment property	(678)	(1 063)
Less: realised income from available for sale financial assets	(2 789)	
Headline earnings	251 064	203 524
Income statement includes		
Depreciation	18 545	19 115
Amortisation	7 846	13 330
Impairment charge	386	
	26 777	32 445
Intersegmental transactions included in segmental results and eliminated on consolidation*:		
Non-interest revenue:		
- Royalties received	2 111	1 639
- Rental received	1 379	1 347
Operating expenses		
- Royalties paid	(2 111)	(1 639)
- Rental paid	(1 379)	(1 347)
Balance sheet includes		
Segment assets	9 631 610	8 233 566
Segment liabilities	8 329 104	7 058 283
Advances (after ISP, before provisions)	8 130 324	6 831 264
Non-performing loans	247 313	213 111
Capital expenditure incurred	22 963	34 104

* Intersegmental transactions are concluded at the market value.

Banking operations		Life Assurance		Short-term Insurance		Other *	
2006	2005	2006	2005	2006	2005	2006	2005
218 658	185 980	37 213	22 424	439	1 341	(670)	1 134
(868)	(6 292)	(1)		11			
(251)							
(678)	(1 063)						
(275)				(2 514)			
216 586	178 625	37 212	22 424	(2 064)	1 341	(670)	1 134
17 076	17 951	227	208	1 689	1 740	(447)	(784)
7 846	13 330						
386							
25 308	31 281	227	208	1 689	1 740	(447)	(784)
2 111	1 639						
1 379	1 347						
		(1 364)	(1 199)	(747)	(440)		
		(864)	(747)	(515)	(600)		
9 300 862	7 964 346	251 364	181 772	57 927	53 727	21 457	33 721
8 120 154	6 897 894	159 871	119 206	37 729	31 821	11 350	9 362
8 130 324	6 831 264						
247 313	213 111						
21 514	32 320	95	289	67	13	1 287	1 482

37. Related parties

The Group defines related parties as:

- The parent company
- Subsidiary companies
- Associate companies
- Key management personnel of the FNB Namibia Holdings Ltd and its subsidiaries board of directors and the Group executive committee. Key management personnel includes close family members of key management personnel. Close family members are those family members who may be expected to influence, or be influenced by that individual in dealings with the Group. This may include the individual's spouse/domestic partner and children, domestic partner's children and dependants of individual or domestic partner.
- Enterprises which are controlled by these individuals through their majority shareholding or their role as chairman and/or CEO in those companies.

The ultimate parent of FNB Namibia Holdigns Limited is FirstRand Limited, incorporated in South Africa. FNB Namibia Holdings Limited is listed on the Namibian Stock Exchange and is 60% owned by FirstRand Bank Holdings Limited, with its ultimate holding company listed on the JSE Limited, FirstRand Limited.

37.1 Subsidiaries

Details of interest in subsidiaries are disclosed in note 21.

Transactions with fellow subsidiaries appear in the table below (these are not eliminated on consolidation).

37.2 Associate

Details of investments in associate company are disclosed in note 20.

	2006				
N$ thousand	FirstRand Bank Ltd Corporate Finance Division	FNB of Swaziland Ltd	FirstRand Bank Ltd	RMB International Dublin Ltd	Namclear (Pty) Ltd
37.3. Details of transactions with relevant related parties					
Transactions with entities outside the FNB Namibia Group					
Loans and advances					
Balance 1 July	201	7			6 467
Issued during year	103 068		21 081	303 072	
Repayments during year		(7)		(303 072)	(6 467)
Balance 30 June	103 269		21 081		
Interest received	1 188			238	
Deposits					
Balance 1 July	(75)		(504 387)		
Received during year		(50 000)			
Repaid during year	75		501 496		
Balance 30 June		(50 000)	(2 891)		
Interest paid	8 565	2 026			
Derivative instrument: Currency swap asset			5 097		
Derivative instrument: Currency swap liability			(2 823)		
Dividends paid			51 870		

37. Related parties (continued)

37.3. Details of transactions with relevant related parties (continued)

N$ thousand	2006 Total	2006 Namclear (Pty) Ltd	2006 FirstRand Bank Ltd
Non-interest income			
Commission	2 930		2 930
FNB Card reward	5 043		5 043
Rental income	448	448	
	8 421	448	7 973
Non-interest expenditure			
Computer processing costs	20 744		20 744
Internal audit and compliance	882		882
ATM processing costs	515		515
Payroll processing	1 071		1 071
Other sundry	6 950		6 950
Clearing cost	6 548	6 548	
	36 710	6 548	30 162

N$ thousand	2005 FirstRand Bank Ltd	2005 RMB International Dublin Ltd	2005 Namclear (Pty) Ltd	2005 FirstRand Bank Ltd RMB Corporate Finance Division	2005 FNB of Swaziland Ltd
Loans and advances					
Balance 1 July		30 950		6	
Issued during year			6 467	201	7
Repayments during year		(30 950)		(6)	
Balance 30 June			6 467	201	7
Interest received			984		
Deposits					
Balance 1 July	(672 324)	(11 026)		(29)	
Received during year				(46)	
Repaid during year	167 937	11 026			
Balance 30 June	(504 387)			(75)	
Interest paid	(16 728)	(737)			

N$ thousand	2005 Total	2005 Namclear (Pty) Ltd	2005 FirstRand Bank Ltd
Non-interest income			
Commission	1 097		1 097
FNB Card reward	1 764		1 764
	2 861		2 861
Non-interest expenditure			
Computer processing costs	10 784		10 784
Internal audit and compliance	993		993
ATM processing costs	485		485
Payroll processing	951		951
Other sundry	11 324		11 324
Clearing cost	1 787	1 787	
	26 324	1 787	24 537
Dividends paid			42 891

37. Related parties (continued)

37.3. Details of transactions with relevant related parties (continued)

Transactions with entities within FNB Namibia Group:

All loans and income and expenditure items have been eliminated on consolidation. Swabou Life Assurance Company Ltd and Swabou Insurance Company Ltd from time to time invest in deposit instruments issued by First National Bank of Namibia Limited. These assets are acquired at market rates in accordance with group accounting policy.

At 30 June 2006 Swabou Life Assurance Company Ltd reflected assets with First National Bank of Namibia Ltd of N$ 37million (2005: N$13 million). These investments are acquired to back liabilities to policyholders under unmatured policies and are not eliminated upon consolidation.

N$ thousand	Talas Properties (Windhoek) (Pty) Ltd
Balances and transactions in 2006	
Loans and advances	
Balance 1 July	3 480
Issued during year	90 430
Balance 30 June	93 910
Deposits	
Balance 1 July	(4 594)
Received during year	(817)
Repaid during year	5 411
Balance 30 June	
Company: Intercompany balances	93 910

N$ thousand	Talas Properties (Windhoek) (Pty) Ltd	Swabou Life Assurance Company Ltd	Swabou Insurance Company Ltd
Non-interest income			
Rental and property income		864	515
Royalties		1 364	747
		2 228	1 262
Non-interest expenditure			
Rental paid	5 468		
	5 468		

N$ thousand	Talas Properties (Windhoek) (Pty) Ltd	First National Asset Management and Trust Company of Namibia (Pty) Ltd	FNB Namibia Holdings Ltd

37. Related parties (continued)

37.3. Details of transactions with relevant related parties (continued)

Balances and transactions in 2005

N$ thousand	Talas Properties (Windhoek) (Pty) Ltd	First National Asset Management and Trust Company of Namibia (Pty) Ltd	FNB Namibia Holdings Ltd
Loans and advances			
Balance 1 July	5 440		93 981
Repayments during year	(1 960)		(93 981)
Balance 30 June	3 480		
Interest received	298		
Deposits			
Balance 1 July	(4 594)	(462)	
Repaid during year		462	
Balance 30 June	(4 594)		
Net balance with Talas Properties (Windhoek) (Pty) Ltd	(1 114)		

N$ thousand	Talas Properties (Windhoek) (Pty) Ltd	Swabou Life Assurance Company Ltd	Swabou Insurance Company Ltd
Non-interest income			
Rental income		1 199	600
Royalties		747	440
		1 946	1 040
Non-interest expenditure			
Rental paid	5 078		
	5 078		

37.4. Transactions with key management personnel

N$ thousand	2006	2005
Advances		
Balance 1 July	14 751	11 910
Issued during year	26 700	5 971
Repayments during year	(24 822)	(4 346)
Interest earned	1 881	1 216
Balance 30 June	18 510	14 751

No impairment has been recognised for loans granted to key management (2005: nil). Mortgage loans are repayable monthly over 20 years. These loans are collaterised by properties with a total fair value exceeding the amount outstanding.

N$ thousand	2006	2005
37. Related parties (continued)		
37.4. Transactions with key management personnel (continued)		
Cheque and current accounts		
Credit balance 1 July	2 373	4 675
Net deposits and withdrawals	(11 474)	(2 963)
Net service fees and bank charges	696	526
Interest income	166	209
Interest expense	(355)	(74)
Balance 30 June	(8 594)	2 373
Instalment finance		
Balance 1 July	1 341	1 079
Issued during year	2 194	490
Repayments during year	(1 055)	(326)
Interest earned	466	98
Balance 30 June	2 946	1 341
Shares and share options held		
Directors' holding in shares is disclosed in note 10.2		
Aggregate details		
Share options held	707	880
Key management compensation		
Salaries and other short-term benefits	6 713	5 008
Contribution to defined contribution schemes	522	585
Share-based payments	774	12
Total compensation	8 009	5 605
Termination benefits paid	68	
	8 077	5 605

Included above are the contributions to the defined contribution plan of key management: N$0.4 million (2005: N$0.3 million).

A listing of the board of directors of the Group is detailed on page 4 of the annual report.

37.5. Post employment benefit plan

Refer note 29.1 on detail disclosure of the movement on the post-retirement medical liability. The pension fund is a related party to the Group, refer note 29.2.

One member of key management is entitled to the post-employment medical benefit and contributions will only be made on retirement. The liability raised for post-retirement medical benefits includes this member.

38. Trust activities

The market value of assets held or placed on behalf of customers in a fiduciary capacity amounts to N$162.3 million (2005: N$118.7 million).

39. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and advances

Performing loans

The Group assesses its credit portfolios for impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

For purposes of these judgements the performing portfolio is split into two parts:

The first part consists of the portion of the performing portfolio where there is objective evidence of the occurrence of an impairment event. In the Retail and Wesbank portfolios the account status, namely arrears versus non-arrears status is taken as a primary indicator of an impairment event. In the Commercial portfolios other indicators such as the existence of 'high risk' accounts, based on internally assigned risk ratings are used.

A portfolio specific impairment ('PSI') calculation to reflect the decrease in estimated future cash flows is performed for this subsegment of the performing portfolio. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable subsegments of the portfolio.

The second part consists of the portion of the performing portfolio where it is suspected that an impairment event has occurred. A so-called incurred-but-not-reported ('IBNR') provision is calculated on this subsegment of the portfolio, based on historical analysis of loss ratios, roll-rates from performing status into non-performing status and similar risk indicators over an estimated loss emergence period.

Estimates of roll-rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors.

At the year end, the Group applied the following loss emergence periods:	Average loss emergency period	
	2006	2005
Retail credit segment	1 month	1 month
Wesbank	1 month	1 month
Commercial segment	1 month	1 month

Non-performing loans

Loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this period that the customer is unlikely to repay its obligations in full. Wesbank's loans are impaired upon its classification status, i.e. following an event driven approach and specific assessment of the likehood to repay. Commercial and Wholesale loans are analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for Commercial and Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Recoveries of individual loans as a percentage of the outstanding balances are estimated as follows:	Recoveries as a percentage of impaired loans	
	2006	2005
Retail segment:		
- secured products	70% - 90%	70% - 90%
- unsecured products	20% - 40%	20% - 40%
Commercial segment	20% - 90%	20% - 90%

39. Critical accounting estimates, and judgements in applying accounting policies (continued)

(b) Held to maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires considerable judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for specific circumstances defined by the Group it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value and not amortised cost. If the entire class of held to maturity investments is tainted, the fair value would increase by N$0.2 million (2005: N$0.3 million) with a corresponding entry in the available for sale reserve in shareholders' equity.

(c) Income taxes

The Group is subject to direct taxes in Namibia and South Africa. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Group recognises liabilities based on objective estimates of the amount of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

(d) Financial risk management

The Group's risk management policies are disclosed on pages 124 to 127 of the annual report. The repricing analysis on page 100 forms part of the audited annual financial statements.

(e) Life Assurance

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimate of future benefit payments and premiums arising from insurance and investment contracts.

The Financial Soundness Valuation method was used for valuing insurance contracts and for investment contracts on a discretionary basis. There are no investment contracts without discretionary participation features.

Estimates are made as to the expected temporary and permanent incapacities claims, future mortality experience and the future rate at which policyholders will terminate their policies. These estimates were based on standard morbidity and mortality tables and experience since inception of the life product, and where adjusted for anticipated changes in experience where appropriate. Provision was made for the potential adverse experience due to AIDS and other potential contingencies.

Estimates are made to the future level of maintenance expenses to be incurred in the administrating the policies in force at the current year end. These costs are assumed to increase each year in line with an assumed inflation rate.

Estimates are made as to future investment income arising from the company's investments. These estimates are based on current market returns as well as expectations about future economic and financial developments.

For policyholder liabilities under insurance and investment contacts the estimates are determined as the Statutory Actuaries best-estimates regarding the future plus further allowance to statutory contingency margins as required by Professional Guidance Note 104 of the Actuarial Society of South Africa ('PGN104') and further margins as deemed necessary.

Underwriting risk is the risk that the actual exposure to mortality and morbidity risks will exceed the best-estimate of the statutory valuator. The statutory valuator performs regular investigations into actual mortality and morbidity experience, with the best estimate assumptions being adjusted accordingly. All mortality and morbidity risks above a set retention limit are reinsured. All applications for mortality and morbidity cover are evaluated against strict underwriting criteria and are accompanied by compulsory HIV testing, in the case of cover above set limits.

The diversification of products, risk covered and geographical location of policyholders ensures that the concentration of underwriting risk is alleviated.

Reference should also be made to the unaudited Statement of Actuarial Values of Swabou Life Assurance Company Limited on page 36.

N$ thousand	30 JUNE 2006 Average balance	Average rate %	Interest income / expense	30 JUNE 2005 Average balance	Average rate %	Interest income / expense

40. Average balance sheet and effective interest rates

Group

N$ thousand	30 JUNE 2006 Average balance	Average rate %	Interest income / expense	30 JUNE 2005 Average balance	Average rate %	Interest income / expense
Assets						
Cash and short-term funds	223 126	1.09	2 428	189 610	0.84	1 595
Derivative financial instruments	1 301			662		
Advances - amortised cost	7 376 738	11.73	865 103	6 307 196	11.98	755 870
Investment securities and other investments	689 752	8.42	58 089	578 460	9.92	57 407
Accounts receivable	88 563			93 707		
Investment in associate companies	6 485			2 957		
Insurance operations assets	217 684			154 572		
Intangible assets	70 629			100 516		
Investment property, property and equipment	165 079			158 195		
Deferred taxation assets				48 010		
Total Assets	8 839 357	10.47	925 620	7 633 885	10.67	814 872
Liabilities and shareholders' funds						
Liabilities						
Deposits	7 346 771	6.01	441 236	6 270 584	6.25	392 117
Derivative financial instruments	562			6 134		
Insurance operation liabilities	142 589			107 701		
Creditors and accruals	97 885			80 981		
Taxation liability	3 506			7 985		
Post retirement benefit fund liability	28 518			25 498		
Deferred taxation liabilities	22 646			36 680		
Total liabilities	7 642 477	5.77	441 236	6 535 563	6.00	392 117
Total equity	1 196 880			1 098 322		
Total equity and liabilities	8 839 357	4.99	441 236	7 633 885	5.14	392 117

Due to the nature of the Company's business, no average balance and related interest disclosure is provided.

41. Standards and interpretations issued but not yet effective

The Group will comply with the following new standards and interpretations applicable to its business from the stated effective date.

Standards		Effective date
IAS 19 amendment	**Employee benefits** The amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It will impose additional recognition requirements for multi-employer plans where sufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only affect the format and extent of disclosures presented. The Group will apply this amendment from 1 July 2006.	Annual periods commencing on or after 1 January 2006
IAS 21 amendment	**The effects of changes in a foreign operation** The amendment clarifies that a group entity that may have a monetary item receivable from or payable to a foreign operation, which is classified in substance as part of the net investment in a foreign operation, may be any subsidiary of the Group and not only the parent. The amendment further specifies that the exchange differences arising from the translation of these monetary items will be classified in equity in the consolidated financial statements. The amendment will not have a significant effect on the Group's results.	Annual periods commencing on or after 1 January 2006
IAS 39 amendment	**Financial instruments: Recognition and measurement** **- Cash flow hedge accounting of forecast intragroup transactions.** The amendment to IAS 39 allows the designation, as a hedged item in consolidated financial statements, of the foreign currency risk of a highly probable forecast intragroup transaction under certain conditions. The Group will consider the amendment but the application is expected to be limited.	Annual periods commencing on or after 1 January 2006
IAS 39 amendment	**Financial instruments: Recognition and measurement - fair value option** The revisions to IAS 39 restrict the extent to which entities can designate a financial asset or financial liability as at fair value through profit and loss only to specific situations. The amendment is not expected to reduce the Group's current application materially.	Annual periods commencing on or after 1 January 2006
IAS 39 and IFRS 4 amendment	**Financial instruments: Recognition and measurement** **and Insurance contracts - financial guarantee contracts** Under the revised statements the issuer of a financial guarantee contract would generally measure the contract at: - initially at fair value; and - subsequently at the higher of the amount determined in accordance with IAS 37 and the amount initially recognised (less, when appropriate, cumulative amortisation). The Group's current policy is substantially in line with this approach and no significant adjustment is expected.	Annual periods commencing on or after 1 January 2006
IFRIC 4	**Determining whether an arrangement contains a lease** This interpretation provides guidance on determining whether an arrangement that does not take the legal form of a lease contains a lease and should be accounted for in terms of IAS 17 Leases. An arrangement contains a lease if the fulfilment of the arrangement is dependent on the use of a specific asset or assets, and the arrangement conveys the right to use the asset. This interpretation is substantially in line with the Group's current application of the standard. The amendment will not have a significant effect on the Group's results.	Annual periods commencing on or after 1 January 2006

Standards		Effective date

41. Standards and interpretations issued but not yet effective (continued)

IFRIC 8	**Scope of IFRS 2** This interpretation clarifies that IFRS 2 applies to transactions in which the entity cannot specifically identify the goods or services received in return for a share-based payment, but where other circumstances indicate that goods or services have been received. This interpretation is applicable to FNB Namibia Holdings Ltd Group. The FNB Namibia Group entered into a BEE transaction in December 2004. Refer note 10 for the cost of the share options granted.	Annual periods commencing on or after 1 May 2006
IFRIC 9	**Reassessment of embedded derivatives** This interpretation clarifies that the assessment of whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative as per IAS 39 is when the entity first becomes a party to the contract, and that a first-time adopter of IFRS assesses the embedded derivative on the basis of conditions that existed at the later of the date it first became party to the contract and the date a reassessment is required. This is not expected to have an impact on the Group.	Annual periods commencing on or after 1 June 2006
IFRS 7	**Financial instruments: disclosure (including amendments to IAS 1 - Presentation of financial statements: Capital disclosures)** This standard deals with the disclosure of financial instruments, as well as the disclosure of related qualitative and quantitative risks associated with financial instruments. As IFRS 7 will supercede the current disclosure required in IAS 30 and IAS 32, the standard will not impact the results of the Group, but will result in potentially more disclosure than is currently provided in the Group's financial statements. The Group does not intend to early adopt this standard.	Annual periods commencing on or after 1 January 2007
IFRIC 10	**Interim financial reporting and impairment** This interpretation addresses the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39, and the effect of that interaction on subsequent interim and annual financial statements. The amendment will not have a significant impact on the Group's interim results.	Annual periods commencing on or after 1 November 2006
Other	**The following statements are not applicable to the business of the Group:**	Annual periods commencing on or after:
IFRIC 5	- Rights to interests arising from decommissioning, restoration and environmental Rehabilitation Funds	1 January 2006
IFRIC 6	- Liabilities arising from Participation in a Specific Market Waste Electrical and Electronic Equipment	1 December 2005
IFRIC 7	- Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006
IFRS 6	- Exploration for and Evaluation of Mineral Resources	1 January 2006