FNB

Namibia Holdings

ANNUAL REPORT 2005

FNB NAMIBIA HOLDINGS - ANNUAL REPORT 2005

FNB HOLDINGS
ANNUAL REPORT 2005

ON MINI-CD IN
ELECTRONIC FORMAT

Contents

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

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

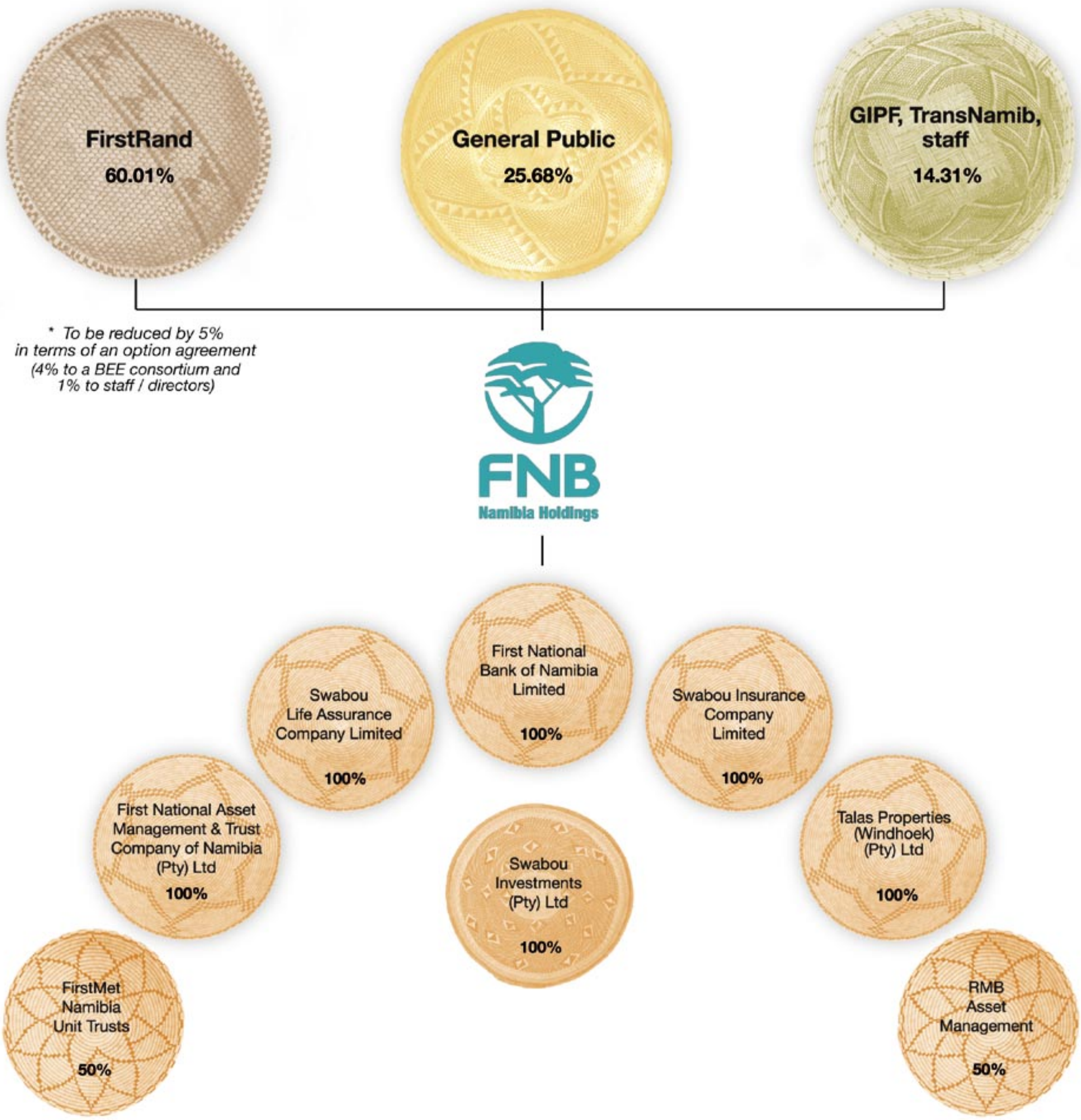
Auditors
Deloitte & Touche
PO Box 47
Windhoek
Namibia

Shareholders' diary

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

FNB First National Bank Namibia   SWABOU INSURANCE   SWABOU LIFE   RMB ASSET MANAGEMENT TRADITIONAL VALUES. INNOVATIVE IDEAS.   WesBank

Group structure



Group corporate information

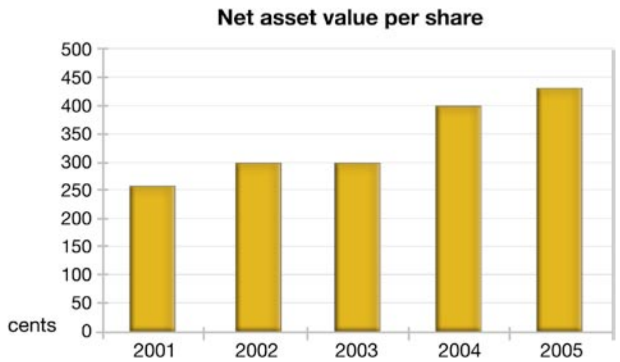
Company name	Holding %	Registration number
Erf Nine One Nil Klein Windhoek (Pty) Ltd	100	2003/0188
First Finance (Pty) Ltd	100	2002/058
First National Asset Management and Trust Company of Namibia (Pty) Ltd	100	91/125
First National Bank Nominees Namibia (Pty) Ltd	100	96/138
First National Bank of Namibia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

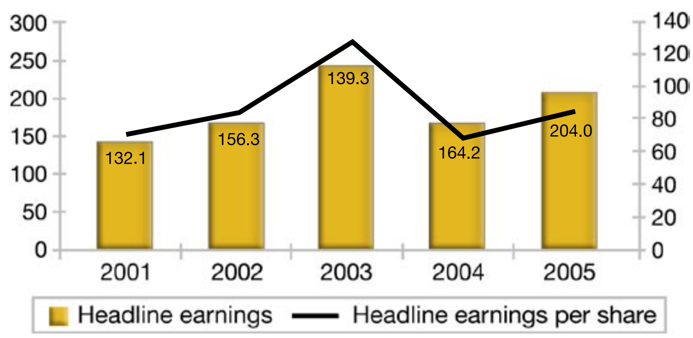
Features of group results

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

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

	2005	2004	Change %
Selected ratios			
Return on average shareholders' equity (%)	**19.8**	20.2	(2.0)
Return on total assets (%)	**2.6**	2.3	13.0
Return on average assets (%)	**2.8**	2.8	
Cost to income ratio (%)	**51.0**	56.5	(9.7)
Other operating income as a % of total income (%)	**39.7**	37.0	7.3
Capital adequacy ratio of Bank			
Tier 1 (%)	**17.2**	19.9	(13.6)
Tier 1 & 2 (%)	**18.6**	21.2	(12.3)
CAR cover of Swabou Life (times)	**2.5**	3.1	(19.4)
Solvency margin of Swabou Insurance (%)	**83.9**	75.0	11.9
Return on investment			
Closing share price end of year (cents)	**600.0**	460.0	
Opening share price beginning of year (cents)	**(460.0)**	(446.0)	
Capital gain (cents)	**140.0**	14.0	
Dividends (cents)	**32.0**	25.0	
Total return, including capital gain (cents)	**172.0**	39.0	
Return on investment (%)	**37.4**	8.7	329.9





Board of directors

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

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

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

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

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

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

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

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

Hans-Dietrich Voigts

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

Directorships:

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

Lazarus Shinyemba Ipangelwa

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

Directorships:

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

Professional memberships:

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

FNB memberships:

Executive Committee – Chairman; FNB Foundation

Herbert Waldemar Peter Böttger

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

Directorships:

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

Steve Vemunavi Katjiuanjo

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

Directorships:

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

John Kienzley Macaskill

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

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

Directorships:

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

Petrus Tukondjeni Nevonga

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

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

Directorships:

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

Egbertus Bletterman Nieuwoudt

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

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

Directorships:

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

Inge Ingenesia Zaamwani

LLB (Hons) – London / LLM – Dundee

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

Directorships:

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

Group executive committee (“EXCO”)

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

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

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

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

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

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

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

Breaker

Economic performance & outlook for 2005/2006

Introduction

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

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

Sectoral economic performance

Mining Sector

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

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

Fishing

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

Table 1: Key Macro-economic Indicators

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

Agriculture

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

Manufacturing

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

Credit growth

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

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

Interest rate

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

Exchange rate

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

Inflation

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

Summary

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

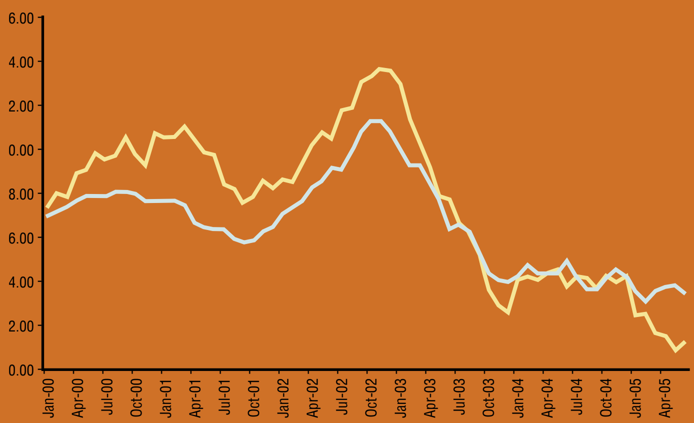


Figure 4 - Namibia's and RSA's inflation rates
Source: Bank of Namibia

breaker

Chairman's review

Dear stakeholders

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

Introduction

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

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

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

Market environment

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

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

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

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

Financial overview

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

Strategic initiatives

Black Economic Empowerment (BEE)

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

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

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

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

FNB remains the only listed Namibian financial institution

Chairman's review continued

Preference shares

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

New developments

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

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

Competitive environment

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

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

Regulatory environment

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

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

Dividend

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

Thanks

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

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

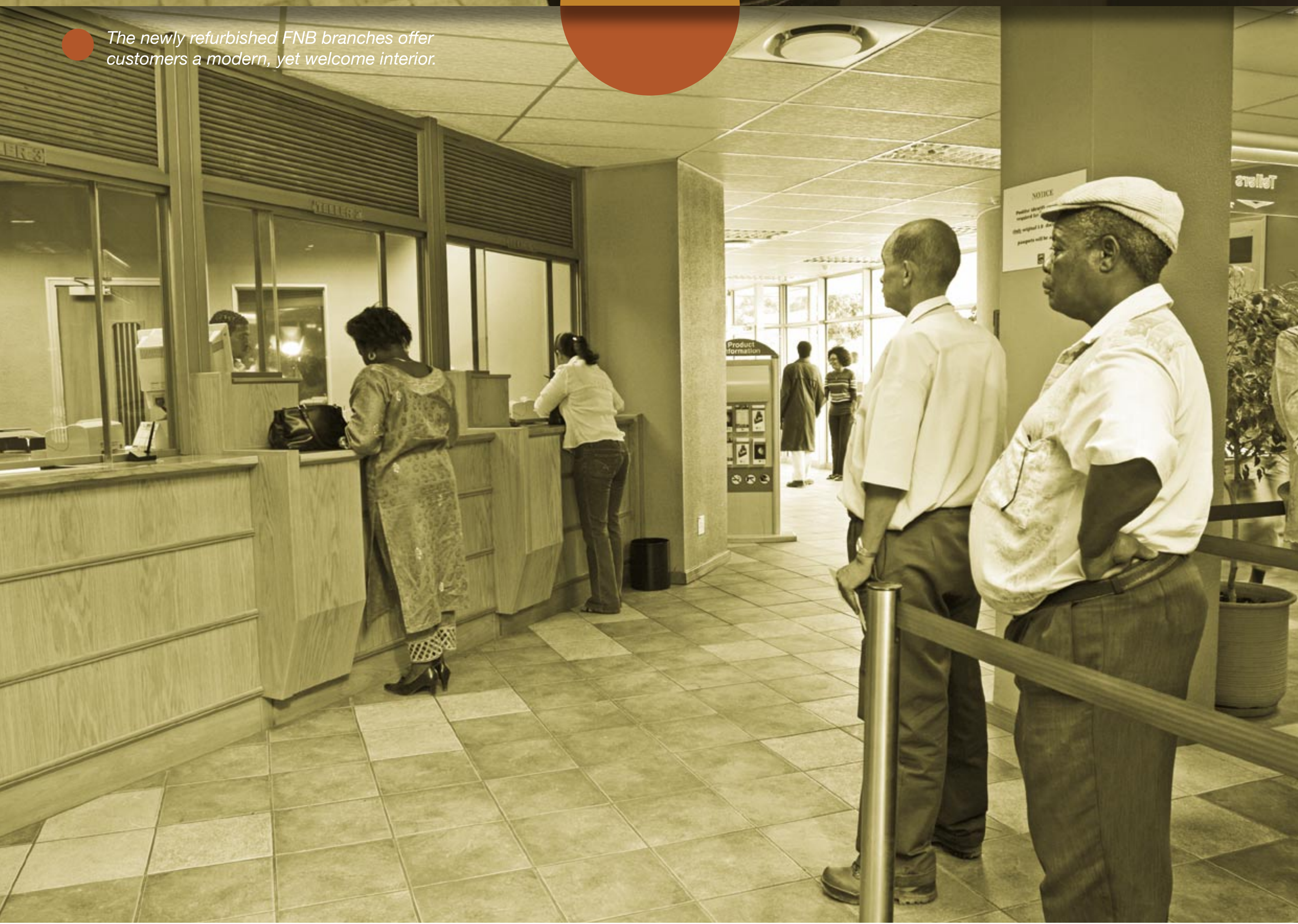
Further, I want to thank the management and staff for their outstanding commitment to grow the Group, service its customers and add value to all stakeholders.

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

Dieter Voigts

Breaker

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



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

CEO report

Introduction

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

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

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

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

The Branch Banking Network

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

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

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

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

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

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

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

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

Electronic Business

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

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

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

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

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

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

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

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

Home Loans

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

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

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

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

WesBank

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

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

Corporate Banking

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

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

Quality of Assets

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

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

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

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

Treasury

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

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

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

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

CEO report continued

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

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

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

Custody Services

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

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

Corporate Citizenship

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

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

Human Capital

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

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

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

Swabou Insurance

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

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

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

Swabou Life

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

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

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

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

CEO report continued

Outlook

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

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

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

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

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

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

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

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

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

Appreciation

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

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

Lazarus S Ipangelwa

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

Breaker

CFO report

Overall view of the results of the year

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

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

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

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

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

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

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

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

Preference share structure

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

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

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

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

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

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

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

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

The Swabou transaction in perspective

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

Shareholder perspective

FNB shareholders

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

Swabou shareholders

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

Combined entity

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

Customer perspective

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

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

Human capital perspective

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

Banking operations

Interest income

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

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

Non-interest income

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

Expenses

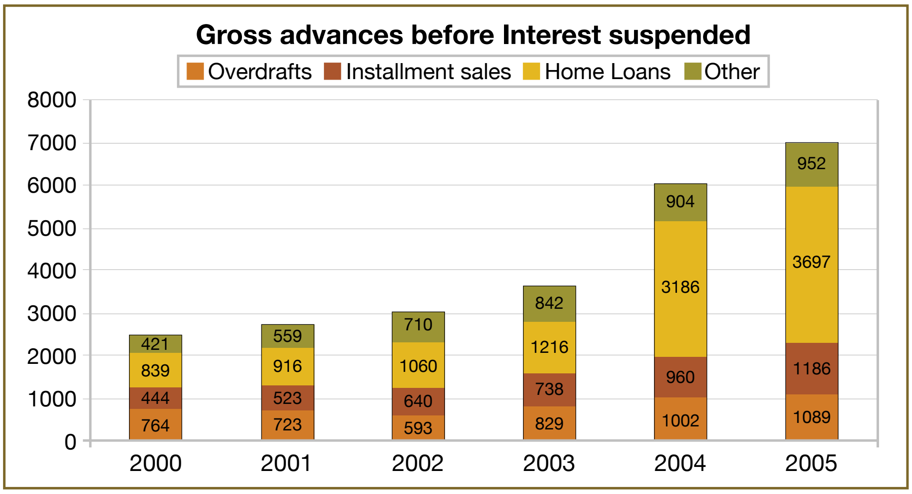
Excluding the once-off effect of the merger related expenses of N$10 million in the previous year, operating expenses were contained to an increase of 5.5%. This reflects efficiencies and synergies created by better utilising infrastructure after the merger. The increase in staff costs was relatively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

Operational effieciency

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

Asset base

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



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

CFO report continued

Impairment of advances and non- performing loans (NPL)

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

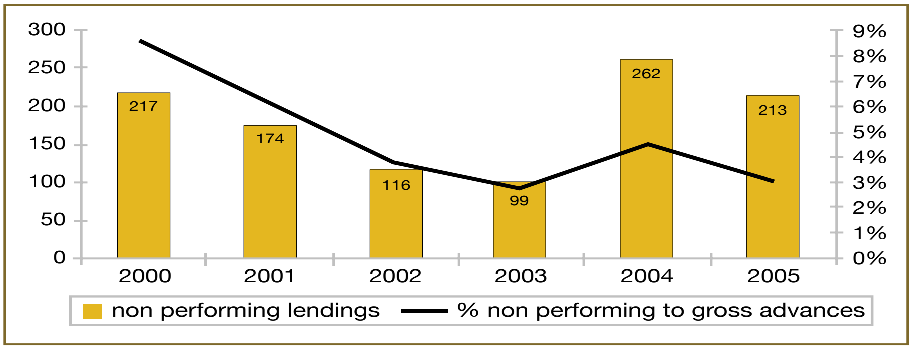
As in the prior year, the impairment charge includes the AC 133 provisions. Included in the above, there is a portfolio provision based on the anticipated losses for each main category of advances. This provision takes into consideration the current macro economic environment and past experience.

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

Income statement effect of impairments

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

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



Insurance Operations

Swabou Life Assurance Company

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

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

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

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

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

Swabou Insurance Company

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

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

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

Capital Management

Banking operations

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

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

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

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

Level of capital

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

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

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

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

Investment of capital

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

Allocation of capital

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

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

Dividends

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

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

Insurance operations

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

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

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

CFO report continued

Capital adequacy of the Banking Group on 30 June 2005

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

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

Adoption of International Financial Reporting Standards (“IFRS”)

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

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

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

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

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

Gideon Cornelissen

Breaker

Glossary of terms

Accounting Statement ("AC")
Namibian Statements of GAAP.

Attributable earnings
Earnings attributable to ordinary shareholders of the tax.

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

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

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

Critical Mass
Operating costs as a percentage of total assets.

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

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

GAAP
Namibian General Accepted Accounting Practice.

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

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

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

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

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

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

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

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

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

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

Organic growth
Non-acquisition growth.

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

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

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

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

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

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

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

Breaker

Annual financial statements : contents

Directors' responsibility statement

To the members of FNB Namibia Holdings Limited

The directors of FNB Namibia Holdings Limited are required by the Companies' Act to ensure that adequate accounting records are maintained and that financial statements for each financial year fairly present the state of affairs of the Group and the Company at the end of the financial year, and the results and cash flows for the year then ended. In preparing the accompanying financial statements, Namibian Statements of Generally Accepted Accounting Practice have been complied with, suitable accounting policies have been applied and reasonable estimates have been made. The 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 independent auditors. All controls relating to these critical risk areas are closely monitored and subject to internal 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 2006. 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 xx.

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

L S Ipangelwa
Chief Executive Officer

H-D Voigts
Chairman

Windhoek
10 August 2005

Report of the audit committee to shareholders

The Audit Committee comprises of 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 on its current financial position and that the published annual financial statements represent a fair reflection of this position. It also ensures that appropriate accounting policies, control and compliance procedures are in place. The internal and external auditors attend its meetings by invitation 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 2005

	30 June 2005 N$'000	30 June 2004 N$'000
A summary of the statutory financial position at this date is as follows:		
Policyholders' fund	**109 395**	76 964
Other liabilities	**9 811**	9 721
Capital adequacy requirement	**24 912**	12 863
Free assets	**36 265**	26 876
Total funds (at actuarial value)	**180 383**	126 424
The above split may also be represented by the following items:		
Financial soundness liabilities	**119 206**	86 685
Shareholders' funds	**6 000**	6 000
Free reserves for published financials	**55 177**	33 739
Total funds (at actuarial value)	**180 383**	126 424

The movement in the free reserves is an increase of N$21 438 000.

Certification

I have conducted an actuarial valuation of the Swabou Life Assurance Company Limited according to generally accepted actuarial standards as at 30 June 2005, 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.

Notes to the statement of actuarial values of assets and liabilities

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

2. 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 result of the evaluation basis is that profits are recognised prudently, to avoid the premature recognition of profits that may give rise to losses in future years.

   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).

3. 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.

4. Provision was made for the potential adverse experience due to AIDS and other potential contingencies.

5. 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$24.9 million (30 June 2004: N$12.9 million) has been established. The excess of assets over liabilities covers the capital adequacy requirement 2.45 times (30 June 2004 : 3.09 times).

Jacques Malan
Fellow of the Institute of Actuaries
Valuator

Report of the independent auditors
to the members of FNB Namibia Holdings Limited

Introduction
We have audited the group and company annual financial statements of FNB Namibia Holdings Limited set out on pages x to x for the year ended 30 June 2005. 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.

Scope
We conducted our audit in accordance with statements of Namibian Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance that 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;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion
In our opinion, the financial statements fairly present, in all material respects, the financial position of the group and the company at 30 June 2005 and the results of their operations and cash flows for the year then ended in accordance with Namibian Statements of Generally Accepted Accounting Practice, and in the manner required by the Namibian Companies Act.

Deloitte & Touche

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

Windhoek
10 August 2005

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 2005.

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) (Propriety) Limited: a property owning company, and
- First National Asset Management and Trust Company of Namibia (Propriety) Limited: a registered trust company involved in the administration of deceased estates.

Share capital

The Company's authorised share capital remained unchanged at N$ 5 million. The Company's authorised share capital at year-end consists of 959 802 553 ordinary shares of 0.5 cents each and 40,197,447 cumulative convertible redeemable preference shares of 0.5 cents each.

The issued ordinary share capital increased by 6 822 728 from 260 770 522 to 267 593 250 as a result of the adoption of the special resolution mentioned below.

At a general meeting of the shareholders of FNB Namibia Holdings Limited on 30 June 2005, the following two special resolutions were passed:

- that the cumulative convertible preference shares' rights be changed to also become redeemable, and
- that the cumulative convertible preference shares, as per the election below, be converted into ordinary shares.

This shareholders' meeting authorised the conclusion of the preference share structure whereby all the shareholders of this class of shares elected to redeem for cash or convert to ordinary shares as detailed in the table below. This resolution was registered on 30 June 2005.

The result of the election, as authorised by more than 90% of the preference shareholders was:

	Number of shares	Effect
Redeemed	5,972,368	N$10,371,614
Converted	21,215,198	6,822,728 new ordinary shares issued
	27,187,566	

Following the redemption and conversion of all the cumulative convertible redeemable preference shares, a profit of N$ 17.3 million was transferred to the Company's income statement (refer note 5). At Group level this profit was set off against the Swabou trademark (refer note 19).

After the conclusion of the cumulative convertible redeemable preference share structure, two new cumulative convertible redeemable preference shares were issued from the authorised share capital to RMB-SI Investments (Propriety) Ltd to facilitate a structured transaction with Swabou Insurance, a full subsidiary of FNB Namibia Holdings Limited.

At the annual general meeting to be held on 24 November 2005, 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% (2004: 60%)
Government Institutions Pension Fund
10% (2004: 7%)

A detailed analysis of shareholders is set out on page XXX

Share analysis – preference shares

RMB-SI Investments (Proprietary) Limited
100% (2004: 0%)
Government Institutions Pension Fund
0% (2004: 56%)
TransNamib Limited
0% (2004: 17%)
Namibian Harvest Investments Limited
0% (2004: 11%)

FNB Share Incentive Scheme

A total number of 1,926,295 new share options were allocated during the year, covered partially by those options of employees who left the employment of the Group and partially by new purchases of shares in the open market (2004: 1,700,000). The total number of shares allocated to the share incentive trust at 30 June 2005 amounts to 3,246,295. Also refer to note 8.2 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 6 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.

Directors' report continued

Group results

The financial statements on pages xx to xx set out fully the financial position, results of operations and cash flows of the Group and the Company. 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 xx to xx.

Dividends

The following dividends were declared in respect of the current and previous financial years:

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

H-D Voigts (Chairman)
L S Ipangelwa
(Chief Executive Officer)
H W P Böttger
S V Katjiuanjo
J K Macaskill *
E B Nieuwoudt *
P T Nevonga
C G Robertson *
Resigned: 24 November 2004
J M Shaetonhodi
Resigned: 1 July 2004
I I Zaamwani (Ms)
* South African

Insurance

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

Property and equipment

There was no change in the nature of property and equipment or in the policy regarding its use during the year.

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.

N$000's	2005	2004
Ordinary dividends		
Dividend No. 18 of 11.5 cents per ordinary share to shareholders registered on 26 March 2004		29,989
Dividend No. 19 of 13.5 cents per ordinary share to shareholders registered on 17 September 2004		35,204
Dividend No. 20 of 15.0 cents per ordinary share to shareholders registered on 24 March 2005	**39,116**	
Dividend No. 21 of 17.0 cents per ordinary share to shareholders registered on 23 September 2005	**45,491**	
Total distribution for the 12 months of 32 cents per ordinary share (2004 : 25 cents per ordinary share)	**84,607**	65,193
Preference dividends		
Dividend No. 1	**5,025**	

Directorate

At the Group's annual general meeting held on 24 November 2004, Messrs HWP Böttger, SV Katjiuanjo and PT Nevonga, who retired by rotation in accordance with the provisions of the Company's Articles of Association, made themselves available for re-election and were duly re-elected.

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 6 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.

Subsidiaries

Interest in and aggregate profits of subsidiaries are set out in note 16 to the annual financial statements.

Company secretary and registered offices

Ms R Brusa is the Company secretary and her office is at the registered office, being 209 Independence Avenue, Windhoek.

The postal address of the registered office is 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 Group adopts the following accounting policies in preparing its consolidated financial statements.

1.1 Basis of presentation

The Group prepares its audited consolidated financial statements on a going concern basis using the historical cost basis, except for certain financial assets and liabilities as well as investment property 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 consolidated Group and Company financial statements conform to Namibian Statements of Generally Accepted Accounting Practice and the requirements of the Namibian Companies Act.

The principal accounting policies are consistent in all material respects with those adopted in the previous year, except where noted. The Group adjusts comparative figures to conform to changes in presentation in the current year. Changes in the presentation of prior year numbers to conform with current year presentation are set out in note 1.25 below.

All monetary information and figures presented in these financial statements are stated in thousands of Namibia Dollars (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, and which it does not intend to dispose of within a short term (12 months). The Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control.

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. Subsidiaries are consolidated from the date on which the Group acquires effective control. Consolidation is discontinued from the effective date of disposal. The Group recognises assets and liabilities acquired in its balance sheet at their estimated fair values at the date of acquisition. It eliminates all inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies.

1.3 Associate companies

Associate companies are companies 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 which it does not control, and which it does not intend to dispose of within a short term (12 months).

The Group includes the results of associated companies in its consolidated financial statements using the equity accounting method, from the effective date of acquisition to the effective date of disposal. The Group eliminates its share of profit on all transactions with its associate companies in determining its portion of the post-acquisition results of the associate companies.

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 carries its interest in an associate company in its balance sheet at an amount that reflects its share of the net assets of the associate company. This amount includes any unimpaired goodwill at the reporting date. Negative goodwill is taken to income in the year of acquisition.

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

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

Investments acquired and held exclusively with the view to disposal in the near future are not accounted for using the equity accounting method, but are carried at fair value in terms of the requirements of AC 133 (Financial Instruments : Recognition and Measurement).

1.4 Revenue recognition

1.4.1 Interest income

The Group recognises interest income, excluding that arising from trading activities, on an accrual basis, applying the effective yield on the assets. The effective yield takes into account all directly attributable external costs, discounts or premiums on the financial asset.

From an operational perspective, it suspends the accrual of contractual interest on the non-recoverable portion of an advance, when the recovery of the advance is considered doubtful. However, in terms of AC133, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the recoverable amount of the advance. The difference between the recoverable amount and the original carrying value 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. Dividends received on these instruments are included in interest income.

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 AC133), both realised and unrealised, in income as incurred.

1.4.3 Fee and commission income

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

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.

1.4.4 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.

1.4.5 Dividends

The Group recognises dividends 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.

1.5 Foreign currency translation

1.5.1 General

The Group presents its consolidated financial statements in Namibia Dollars, the measurement currency of the holding company ("the reporting currency"). Group entities record items in their financial statements using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("measurement currency").

1.5.2 Other

The Group converts transactions in foreign currencies to Namibia Dollars at the spot rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to Namibia Dollars using the rates of exchange ruling at the financial year-end. Translation differences on monetary assets and liabilities measured at fair value are included in the income statement for the year, with translation differences on non-monetary items included as part of the fair value gain or loss in equity.

Profits and losses from forward exchange contracts used to hedge potential exchange rate exposures are offset against gains and losses on the specific transaction being hedged, to the extent that the hedging transaction qualifies for hedge accounting in terms of AC133. In all other circumstances profits and losses from forward exchange contracts are recognised in income as incurred.

1.6 Borrowing costs

The Group capitalises borrowing costs incurred in respect of assets that require a substantial period to construct or install, up to the date on which the construction or installation of the assets is substantially complete.

Other borrowing costs are expensed when incurred.

1.7 Share option costs

The Group expenses the costs associated with share options issued to employees over the vesting period of the instruments, on a basis similar to that envisaged by AC 139 (Share-based payment).

Options granted to employees are currently all settled by physical delivery of equity. The value of these options is measured based on the derived fair value of the options granted at the grant date thereof. Adjustments in respect of the total number of options that are expected to vest are made on an annual basis.

Options granted to Group employees are classified as Bermudan call options, which can be exercised over a staggered period. The fair values of these options are measured by the use of a binomial option pricing model. Adjustments to standard input parameters in the model have been made for expected life, non-transferability and early exercise.

Share option expenditure relating to employees of the Group is recognised as part of staff remuneration costs.

1.8 Taxation

Direct taxes include Namibian and foreign jurisdiction 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. It is calculated using taxation rates that have been enacted or substantively enacted by the balance sheet date, in each particular jurisdiction within which the Group operates.

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, provisions for pensions and other post-retirement benefits and tax losses carried forward.

1.9 Recognition of assets, liabilities and provisions

1.9.1 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.

1.9.2 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.

1.9.3 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.

1.9.4 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 obligationcannot be measured with sufficient reliability.

1.9.5 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 sale and repurchase 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 Derecognition of assets and liabilities

The Group derecognises an asset when it loses control over the contractual rights that comprise the asset and consequently transfers the substantive risks and benefits associated with the asset. This occurs when the rights are realised, expire or are surrendered. A liability is derecognised when it is legally extinguished.

1.11 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 banks;
- balances guaranteed by central banks; and
- balances with other banks.

1.12 Financial instruments

1.12.1 General

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

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.

1.12.2 Financial assets

1.12.2.1 Originated advances

The Group classifies advances as "Originated" where it provides money directly to a borrower or to a sub-participation agent at drawdown. Originated advances are carried at amortised cost. Third party expenses, such as legal fees incurred in securing a loan are treated as part of the transaction in determining the effective yield of the advance. All advances are recognised when cash is advanced to borrowers.

1.12.2.2 Purchased advances and receivables and investment securities

The Group classifies purchased advances and receivables and investment securities as held-to-maturity, available-for-sale or elected fair value assets.

Purchased advances and receivables (including sub-participations acquired after providing the original loan) and investment securities with a fixed maturity and fixed or determinable payments, where management has both the intent and the ability to hold to maturity, are classified as "Held-to-maturity". The Group classifies purchased advances and receivables and investment securities where the intention is to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, as "Available-for-sale" or as "At elected fair value". Management determines the appropriate classification at the time of purchase.

The Group initially recognises purchased advances and receivables and investment securities at cost (which includes transaction costs, excluding mortgage origination costs). It subsequently re-measures available-for-sale and elected fair value advances and receivables and investment securities at fair value, based on quoted bid prices where the underlying markets for the instruments are liquid and well developed. Alternatively, it derives fair value from cash-flow models or other appropriate valuation models where markets are illiquid or do not reflect the true market value based on the underlying risks of the instrument.

The Group estimates fair values for unquoted equity instruments using applicable price: earnings ratios or cash-flow models. It estimates the fair value of debt instruments with reference to applicable underlying interest rate yield curves and estimated future cash flows on the applicable instruments.

The Group recognises unrealised gains and losses arising from changes in the fair value of advances and receivables classified as available-for-sale, 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.

The Group recognises fair value adjustments on loans and advances classified as elected fair value in trading income. Interest income on these assets is included in the fair value adjustment.

The Group carries held-to-maturity advances and receivables and investments at amortised cost using the effective yield method, less any impairment.

The Group classifies purchased advances and receivables acquired in terms of a business combination, where such advances and receivables were classified as "Originated" by the seller, as "Originated".

1.12.3 Impairments for credit losses

1.12.3.1 General

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Financial assets are assessed on an annual basis to determine whether there is objective evidence of impairment.

1.12.3.2 Impairment of originated adances

The Group creates a specific impairment in respect of non-performing advances when there is objective evidence that it will not be able to collect all amounts due. The impairment is calculated as the difference between the carrying amount and the recoverable amount, calculated as 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 creates further portfolio impairments in respect of performing advances where there is objective evidence that components of the advances portfolio contain losses at the balance sheet date, which will only be specifically identified in the future, or where insufficient data exists to reliably determine whether such losses exist. The portfolio impairments are based upon historical patterns of losses in each component of the performing portfolio, the credit ratings allocated to the borrowers and take account of the current economic climate in which the borrowers operate.

When an advance is uncollectible, it is written off against the related impairment. Subsequent recoveries are credited thereto.

The Group writes off advances once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

Statutory and other regulatory loan loss reserve requirements that exceed the specific and portfolio impairment amounts are dealt with in a General Risk Reserve as an appropriation of retained earnings.

The Group reverses impairments through the income statement, if the amount of the impairment subsequently decreases due to an event occurring after the initial impairment.

Property in possession is included in advances and is shown at the lower of cost and net realisable value.

1.12.3.3 Impairment of other financial assets carried at amortised cost

Subsequent to the initial recognition the Group calculates the impairment loss for assets carried at amortised cost as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

1.12.4 Borrowings

The Group initially recognises borrowings, including debentures, at the fair value of the consideration received. 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 brought to account on an effective interest rate basis.

The Group separately measures and recognises the fair value of the equity component of an issued convertible bond in 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 Group purchases its own debt, the debt is presented on a net basis in the balance sheet and any difference between the carrying amount of the liability and the consideration paid is included in trading income.

1.12.5 Trading securities (including instruments at elected fair value)

The Group includes in "Trading securities", securities that are:

- acquired for generating a profit from short-term fluctuations in price or dealer's margin, or
- included in a portfolio in which a pattern of short-term profit-taking exists, or
- designated as such on initial rec ognition.

The Group initially recognises trading securities at cost (which includes directly attributable transaction costs) and subsequently re-measures them at fair value based on quoted bid prices. It includes all related realised and unrealised gains and losses in trading income. It reports interest earned on trading securities as non-interest income. Dividends received are included in dividend income.

The Group determines the fair value of listed trading instruments by reference to quoted bid prices, which may be adjusted where the bid/offer spreads for long-dated financial instruments are considered to be significant.

For non-trading, illiquid or unlisted financial instruments, the fair value is the amount for which assets or liabilities could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction, determined using various methods and on assumptions that are based on market conditions and risks existing at each balance sheet date. In the case of long-term debt or investment securities, these methods include using quoted market prices or dealer quotes for the same or similar securities, estimated discount values of future cash flows, replacement cost and termination cost.

1.12.6 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 cost (including transaction costs) and subsequently re-measures these instruments at their fair value.

The fair value of publicly traded derivatives are 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.

Subsequent movements in fair value are recognised in income, except when hedging criteria are met.

The Group recognises fair value changes of derivatives that are designated and qualify as fair value hedges in the income statement along with the corresponding change in fair value of the hedged risk of the hedged asset or liability.

If the hedge no longer meets the accounting criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to net profit or loss over the period to maturity.

The transitional adjustment in respect of the un-hedged portion of available-for-sale equity securities remains in equity until the disposal of the instrument.

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 firm commitment results in the recognition of an 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 asset or liability.

Otherwise, 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.

1.12.7 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.

On the date a derivative is entered into, the Group designates certain derivatives as either:

- a hedge of the fair value of a recognised asset or liability ("fair value hedge"), or
- a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment ("cash flow hedge").

The Group applies hedge accounting for a derivative instrument when the following criteria are met:

- formal documentation identifying the hedging instrument, hedged item, hedging objective, hedging strategy and relationship between the hedged item and the hedge, is prepared before hedge accounting is applied; and
- the hedge documentation shows that the hedge is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- the hedge is effective on an ongoing basis.

1.12.8 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 simultane ously, and
- the maturity date for the financial asset and liability is the same, and
- the financial asset and liability is denominated in the same currency.

1.12.9 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.

1.13 Property and equipment

The Group carries property and equipment at cost less accumulated depreciation.

It depreciates property and equipment 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. Management reviews useful lives periodically to evaluate the appropriateness thereof and current and future depreciation charges are adjusted accordingly.

The periods of depreciation used are as follows:

Leasehold property	Shorter of estimated life or period of lease
Freehold property	50 years
Computer equipment	3 years
Furniture and fittings	10 years
Motor vehicles	5 years
Office equipment	4 years

The Group impairs an asset to its estimated recoverable amount where there is a permanent diminution in the carrying value of an asset.

Repairs and renewals are charged to the income statement as 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 income on disposal.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

1.14 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.

1.15 Accounting for leases - where a Group Company is the lessee

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

1.15.1 Finance leases

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 corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. 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. The property and equipment acquired 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.

1.15.2 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 Accounting for leases - where a Group Company is the lessor

1.16.1 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.

1.16.2 Operating leases

The Group includes in 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 at the date of acquisition. Goodwill on associate companies is included in the carrying value of the associate company.

The Group discontinued the amortiation 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. The comparative financial information includes an amortisation charge for goodwill.

An annual impairment test is performed on goodwill and any impairment calculated is expensed to the income statement. For impairment purposes goodwill is allocated to the lowest components of the business that are expected to benefit from synergies of the combination and at which management monitor goodwill ("cash generating unit"). Each cash generating unit ("CGU") represents a grouping of assets no higher than a primary business or reporting segment as contemplated in note 31 to the annual financial statements.

Impairment testing procedures

The recoverable amount of each CGU is determined on the basis of a value in use-calculation, unless the fair value less cost to sell is readily obtainable for a CGU.

Future expected cash flows

* The first impairment test on 1 July 2004 was based on the budgeted number for the year ended 30 June 2005.
* Subsequent tests will be based on the budgeted numbers for the financial year ahead.
* The budgeted profit before tax number will be used as a starting point, adjusted for non-cash items.
* For the years thereafter the numbers will be extrapolated for 2 years based on growth rates determined by the relevant CGU management.
* Where a growth rate other than a steady or declining rate is used, the relevant CGU management need to justify this rate.
* Cash flows after this initial 3 year period will be extrapolated using a growth rate within the goverment's target inflation rate.

Discount rate

The discount rate used to discount future expected cash flows will be the relevant pre-tax weighted average cost of capital (WACC).

Accounting treatment

The Group compares the recoverable amount of the cash-generating unit to its carrying amount (including the carrying amount of allocated goodwill) and recognises any impairment loss.
The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

* first, to goodwill allocated to the cash-generating unit,
* then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

In allocating an impairment loss as mentioned above, the carrying amount of an asset can not be reduced below the highest of:

* its net selling price (if determinable),
* its value in use (if determinable), and
* zero.

Accounting treatment (continued)
Impairment losses recognised against goodwill may not be reversed.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired (including contingent liabilities) over the cost of acquisition. Negative goodwill is recognised in profit in the year in which it arises.

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 recognise 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 on an annual basis. The carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

1.17.3 Other intangible assets
The Group does not attribute value to internally developed trademarks, concessions, patents and similar rights and assets, including franchises and management contracts.

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

However, 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 on an annual basis. The carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

Amortisation 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 separate trustee-administered funds. The pension plans are generally funded by payments from employees and the relevant Group companies, taking account of the recommendations of independent qualified actuaries. For defined benefit plans the costs are assessed using the projected unit credit method.

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

The Group writes off current service costs immediately, while it expenses past service costs, 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.

1.18.2 Post-retirement medical benefits
In terms of certain employment contracts, the Group provides post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. This scheme operates as a defined benefit plan which is funded by the relevant Group companies taking account of the recommendations of independent qualified actuaries.
The Group writes off current service costs immediately while it expenses past service costs, experience adjustments, changes in actuarial assumptions and plans amendments over the expected remaining working lives of employees. The costs are written off immediately in the case of retired employees.

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 provision
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.

1.19 Share capital

1.19.1 Share issue costs

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

1.29.2 Dividends paid

Dividends on shares are recognised against equity in the period 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 Related party transactions

In accordance with the requirements of AC 126 (Related party disclosure), transactions with related parties of the Group that eliminate on consolidation are not disclosed.

1.22 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.

1.23 Fiduciary activities

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

1.24 Policies relating to Insurance operations

1.24.1 Revenue and expense recognition

Premium income

The insurance operations reflect premium income relating to insurance business 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-terms 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.

Policyholder benefits

The insurance operations show policyholder benefit payments in respect of insurance contracts net of reinsurance recoveries and accounts for such transactions when claims are intimated.

Life insurance 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).

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 "Available-for-sale" are accounted for directly to equity.

Commission

Commission payments are net of reinsurance commission received. Life insurance business commissions are expensed as incurred.

Marketing and administration expenses

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

Claims

Claims are written off in full as incurred. Provision is made for the estimated costs of claims (net of anticipated recoveries under re-insurance 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.

1.24.2 Policy holder contracts

The Insurance operations classify 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".

1.25 Restatement of prior year numbers

The following line items on the face of the prior year balance sheet, income statement and in the statement of changes of equity have been restated to conform with the presentation in the year under review. These restatements affect classifications only.

Accounting policies continued

Restatement of prior year numbers

GROUP

Item	As previously reported – N$'000	As restated – N$'000	Reason for restatement
Balance sheets			
Assets			
Deferred taxation	9 482	45 699	Deferred taxation assets and liabilities disclosed separately and not netted off.
Current taxation	40 916	41 293	Current taxation assets and liabilities disclosed separately and not netted off.
Liabilities and shareholders' equity			
Deferred taxation	-	36 217	Deferred taxation assets and liabilities disclosed separately and not netted off.
Current taxation	-	377	Current taxation assets and liabilities disclosed separately and not netted off.
Share capital	1 440	1 431	The shares held in the FNB Share Incentive Trust (share capital and share premium) were disclosed separately in a reserve account on the Statement of Changes in Equity at Non-Distributable Reserves. In the current year, it was decided to show these as deductions from actual share capital and premium.
Share premium	308 427	301 636	See above.
Non-distributable reserves	13 109	19 909	See above.
Notes to the annual financial statements			
Note 11			
Sector analysis			
Agriculture including fishing	151 664	327 984	Improved classification.
Manufacturing and commerce	1 037 238	860 918	Improved classification.
Note 20			
Deposits from customers			
Current accounts	1 428 593	2 606 431	Call accounts reclassified from term deposits.
Term deposits	3 114 366	1 936 528	Call accounts reclassified to current accounts.

Income statements
for the year ended 30 June

N$ '000	Notes	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
Banking operations					
Interest income	3	**816 894**	773 592		
Interest expenditure	4	**(392 117)**	(382 937)		
Net interest income before impairment of advances		**424 777**	390 655		
Impairment of advances	12	**(35 011)**	(22 957)		
Net interest income after impairment of advances		**389 766**	367 698		
Non-interest income	5	**249 112**	205 569	**195 351**	43 836
Net income from operations		**638 878**	573 267	**195 351**	43 836
Operating expenditure	6	**(359 243)**	(340 604)	**(486)**	(78)
Merger related expenditure			(10 082)		
Income from banking operations		**279 635**	222 581	**194 865**	43 758
Insurance operations					
Income	21	**73 038**	71 368		
Investment activities	21	**35 679**	16 952		
Claims & policyholders' benefits	21	**(30 259)**	(27 137)		
Insurance funds	21	**(29 127)**	(21 182)		
Expenses	21	**(19 942)**	(15 718)		
Income from insurance operations	21	**29 389**	24 283		
Total income before share of earnings of associate companies		**309 024**	246 864	**194 865**	43 758
Share of earnings of associate companies	15.5	**1 129**	98	**351**	(144)
Income before indirect taxation		**310 153**	246 962	**195 216**	43 614
Indirect taxation	7.1	**(2 845)**	(3 844)	**(144)**	
Income before direct taxation		**307 308**	243 118	**195 072**	43 614
Direct taxation	7.2	**(90 957)**	(78 004)	**224**	28
Earnings		**216 351**	165 114	**195 296**	43 642
Earnings attributable to preference shareholders		**5 025**		**5 025**	
Earnings attributable to ordinary shareholders		**211 326**	165 114	**190 271**	43 642
Reconciliation of earnings attributable to ordinary shareholders and headline earnings					
Earnings attributable to ordinary shareholders		**211 326**	165 114		
Less: profit on sale of fixed assets		**(6 296)**	(826)		
Less: profit on revaluation of investment property		**(1 063)**	(63)		
Headline earnings		**203 967**	164 225		
Headline earnings per share (cents)	8.1	**78.9**	63.4		
Earnings per share (cents)	8.2	**81.8**	63.7		
Diluted earnings per share (cents)	8.3	**81.8**	60.4		
Dividends per share (cents)	8.4	**28.5**	11.5		

Balance sheets
as at 30 June

N$ '000	Notes	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
Assets					
Banking operations					
Cash and short-term funds	9	**202 479**	280 023		
Derivative financial instruments	10	**5 028**			
Advances	11	**6 709 475**	5 826 669		
Investment securities and other investments	13	**648 246**	552 227		
Insurance operations					
Investment securities and other investments	13	**190 917**	84 531		
Banking and Insurance operations					
Accounts receivable	14	**136 100**	97 253	**5 072**	
Investment in associate companies	15.3	**6 385**	2 824	**3 052**	2 691
Investment in subsidiary companies	16			**1 185 847**	1 186 008
Property and equipment	17	**152 242**	141 997		
Investment property	18	**11 878**	18 271		
Current taxation		**8 241**	41 293		
Deferred taxation assets	7.3	**52 364**	45 699		
Intangible assets	19	**78 559**	109 236		
Total assets		**8 201 914**	7 200 023	**1 193 971**	1 188 699
Liabilities and shareholders' equity					
Liabilities					
Banking operations					
Deposit and current accounts	20	**6 706 319**	5 884 555		
Derivative financial instruments	10	**4 634**	16 710		
Insurance operations					
Policyholders' liabilities	21	**109 395**	76 964		
Banking and Insurance operations					
Creditors and accruals	22	**147 709**	121 401	**15 410**	19
Post-retirement medical liability	23	**27 665**	25 685		
Current taxation		**16 795**	377		
Deferred taxation liabilities	7.3	**46 060**	36 217	**35 470**	35 694
Intercompany liabilities				**1 114**	99 241
Total liabilities		**7 058 577**	6 161 909	**51 994**	134 954
Shareholders' equity					
Share capital	24	**1 321**	1 431	**1 338**	1 440
Share premium		**266 557**	301 636	**280 810**	308 427
Non-distributable reserves	25	**27 622**	19 909		
Distributable reserves		**847 837**	715 138	**859 829**	743 878
Total shareholders' equity		**1 143 337**	1 038 114	**1 141 977**	1 053 745
Total liabilities and shareholders' equity		**8 201 914**	7 200 023	**1 193 971**	1 188 699
Contingencies and commitments	26	**259 533**	259 901		

Statements of changes in equity
for the year ended 30 June

N$ '000	Share capital (Note 24)	Share premium	Non-distributable reserves: General risk reserve (Note 25)	Non-distributable reserves: Other (Note 25)	Distributable reserves	Total shareholders' equity
GROUP						
Balance at 1 July 2003	1 009	17 772	35 605		544 988	599 374
Earnings					165 114	165 114
Interim dividend: 18 February 2004					(29 793)	(29 793)
Transfer from General Risk Reserve (impaired capital reserve)			(34 829)		34 829	
Treasury shares: consolidation of Share Incentive Trust	(9)	(6 791)				(6 800)
Reserves arising on acquisition of subsidiaries			19 133			19 133
New share issue	431	344 600				345 031
Adjustments to Swabou purchase price		(53 945)				(53 945)
Balance as at 30 June 2004	**1 431**	**301 636**	**19 909**		**715 138**	**1 038 114**
Earnings					**216 351**	**216 351**
Swabou Insurance: Available for sale 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)**	
Treasury shares: consolidation of 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 (refer Directors' report & note 19)		**(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**	**3 518**	**847 837**	**1 143 337**
COMPANY						
Balance as at 1 July 2003	1 009	17 772			730 225	749 006
Earnings					43 642	43 642
Interim dividend: 18 February 2004					(29 989)	(29 989)
New share issue	431	344 600				345 031
Adjustments to Swabou purchase price		(53 945)				(53 945)
Balance as at 30 June 2004	**1 440**	**308 427**			**743 878**	**1 053 745**
Earnings					**195 296**	**195 296**
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 (refer Directors' report & note 5)		**(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**			**859 829**	**1 141 977**

Cash flow statements
for the year ended 30 June

N$ '000	Notes	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
Cash flows from operating activities	27.1	**320 202**	314 322	**(74 806)**	(30 067)
Cash received from customers		**1 149 892**	994 177		
Interest income		**816 894**	765 214		
Fee and commission income		**230 299**	194 253		
Other income		**102 699**	34 710		
Cash paid to customers and employees		**(755 988)**	(650 062)	**(486)**	(78)
Interest expenditure		**(392 117)**	(382 937)		
Total other operating expenditure		**(363 871)**	(267 125)	**(486)**	(78)
Dividends paid	27.2	**(73 702)**	(29 793)	**(74 320)**	(29 989)
Taxation paid	27.3	**(41 154)**	(107 037)	**(144)**	(46 903)
(Increase)/decrease in income-earning assets		**(1 117 434)**	(716 337)		6 800
Investment securities		**(199 617)**	(44 045)		
Advances		**(917 817)**	(672 292)		6 800
Increase/(decrease) in deposits and other liabilities		**797 753**	316 760	**(87 647)**	78 129
Term deposits		**(45 766)**	49 693		
Current deposit accounts		**462 818**	412 517		
Deposits from banks		**(61 793)**	(373 295)		
Negotiable certificates of deposit		**467 320**	235 274		
Savings accounts		**(815)**	(58 004)		
Creditors net of debtors		**(23 783)**	137 740	**(87 647)**	78 129
Other		**(228)**	(87 165)		
Net cash (outflow)/inflow from operating activities		**(40 633)**	(192 292)	**(162 597)**	7 959
Cash flows from investment activities					
Capital expenditure to maintain operations		**(34 104)**	(26 994)		
Dividends received from subsidiary companies				**172 979**	159 514
Dividends from associate company		**703**			
Disposal of subsidiaries	16				(159 514)
Acquisition of associates	27.4	**(3 135)**		**(10)**	
Acquisition of subsidiaries	27.5		43 273		(7 959)
Proceeds from sale of property and equipment		**17 467**	3 538		
Net cash (outflow)/inflow from investment activities		**(19 069)**	19 817	**172 969**	(7 959)
Cash flows from financing activities					
Redemption of preference shares		**(10 372)**		**(10 372)**	
Purchase of shares for Share Purchase Trust		**(7 470)**			
Net cash outflow from financing activities		**(17 842)**		**(10 372)**	
Net decrease in cash and cash equivalents		**(77 544)**	(172 475)		
Cash and cash equivalents at beginning of the year		**280 023**	452 498		
Cash and cash equivalents at end of the year	9	**202 479**	280 023		

Notes to the annual financial statements
for the year ended 30 June

1 Accounting policies

The accounting policies of the group are set out on pages ... to ....

2 Turnover

Turnover is not relevant in banking or insurance businesses.

3 Interest income

	GROUP		COMPANY	
N$ '000	**2005**	2004	**2005**	2004
Interest on:				
Cash and short-term funds	**1 595**	4 148		
Advances - originated	**748 390**	716 425		
Interest in suspense	**(11 928)**	(14 469)		
Investment securities	**51 945**	50 599		
- originated	**7 537**	18 069		
- trading	**44 408**	32 530		
Unwinding of discounted present value on non-performing loans	**12 634**	8 574		
Unwinding of discounted present value on off-market loans	**14 258**	8 315		
	816 894	773 592		

4 Interest expenditure

	GROUP		COMPANY	
N$ '000	**2005**	2004	**2005**	2004
Interest on:				
Deposits from banks and financial institutions	**34 810**	44 077		
Current accounts	**34 696**	46 224		
Savings accounts	**6 152**	7 484		
Term deposits	**266 510**	272 282		
Negotiable certificates of deposit	**49 949**	12 870		
	392 117	382 937		

Notes to the annual financial statements continued
for the year ended 30 June

5 Non-interest income

N$ '000	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
Transactional income				
- Banking fee and commission income	**191 879**	161 935		
- Other	**9 078**	2 475		
Total transactional income	**200 957**	164 410		
Trading income - foreign exchange gains	**29 342**	29 843		
Investment income				
- Dividends received (refer note 16)				159 514
- Loss on disposal of subsidiary (refer note 16)				(159 514)
Total investment income				
Other non-interest income				
- Other income	**8 225**	8 022		
- Dividends received from subsidiaries			**178 004**	
- Income from related parties (refer note 29)	**2 861**	2 405		
- Profit on revaluation of investment properties	**1 063**	63		
- Profit on realisation of intangible assets				40 922
- Profit on adjustment to Swabou purchase price			**17 347**	2 914
- Profit on sale of fixed assets	**6 664**	826		
Total other non-interest income	**18 813**	11 316	**195 351**	43 836
Total non-interest income	**249 112**	205 569	**195 351**	43 836

6 Operating expenditure

N$ '000	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
Auditors' remuneration				
- Audit fees: current year	**1 775**	580	**238**	
- Audit fees: prior year	**1 077**	1 523		
- Fees for other services: current year	**219**	525		
	3 071	2 628	**238**	
Amortisation of intangible assets: trademark	**13 330**	16 819		
Depreciation	**19 364**	26 962		
- Property				
Freehold buildings	**3 197**	3 178		
Leasehold premises	**1 101**	1 340		
	4 298	4 518		
- Equipment				
Computer equipment	**4 301**	8 761		
Furniture and fittings	**5 669**	4 186		
Motor vehicles	**579**	851		
Office equipment	**4 517**	8 646		
	15 066	22 444		
Total depreciation charge for banking operations:	**19 364**	26 962		
- Normal charge (refer note 17)	**19 364**	18 584		
- Change in estimate in 2004		8 378		
Operating lease charges				
- Land and buildings	**3 948**	1 308		
- Equipment	**1 992**	3 735		
	5 940	5 043		
Foreign exchange loss		7 789		
Professional fees: technical fees	**28 935**	31 659	**102**	
Administrative costs consist of:	**288 603**	249 704	**146**	78
Direct staff costs				
- Salaries, wages and allowances	**155 764**	139 154		
- Contributions to employee benefit funds	**23 111**	17 405		
Defined contribution schemes: pension (refer note 23.2)	**13 051**	11 320		
Defined contribution schemes: medical	**7 852**	6 344		
Defined benefit schemes (refer note 23.1)	**2 208**	(259)		
- Social security levies	**548**	418		
- Other	**11 494**	8 519		12
Total direct staff costs	**190 917**	165 496		12
Directors emoluments (refer 6.1.3)	**2 121**	2 011		
Other operating costs	**95 565**	82 197	**146**	66
- Insurance	**9 154**	3 340		
- Advertising and marketing	**15 215**	14 179		
- Maintenance	**10 403**	9 282		
- Other	**60 793**	55 396	**146**	66
Total operating expenditure	**359 243**	340 604	**486**	78
Total number of staff	**1 406**	1 363		

6 Operating expenditure (continued)

6.1 Directors emoluments

Emoluments paid to directors of the Group for the year ended 30 June 2005 are set out below:

N$'000	Fees as director	Pensionable salary	Bonus	Company contributions to pension/ medical	Other	Total
6.1.1 Executive director:						
2005:						
LS Ipangelwa		**1 172**	**290**	**141**	**2**	**1 605**
2004:						
LS Ipangelwa		1 094	346	131	2	1 573

N$'000	Fees as director	Pensionable salary	Bonus	Company contributions to pension/ medical	Other	Total
6.1.2 Non-executive directors:						
2005:						
H-D Voigts (Chairman)	**114**					**114**
HWP Böttger	**89**					**89**
II Zaamwani	**59**					**59**
LG Kannemeyer	**59**					**59**
PT Nevonga	**42**					**42**
SV Katjiuanjo	**65**					**65**
EP Shiimi	**28**					**28**
SH Moir	**29**					**29**
CG Robertson	**31**					**31**
EB Nieuwoudt						
JK Macaskill						
	516					**516**
2004:						
H-D Voigts (Chairman)	86					86
HWP Böttger	65					65
II Zaamwani	42					42
LG Kannemeyer	36					36
PT Nevonga	36					36
SV Katjiuanjo	47					47
EP Shiimi	25					25
SH Moir	24					24
CG Robertson	46					46
JM Shaetonhodi	31					31
EB Nieuwoudt						
JK Macaskill						
	438					438

6 Operating expenditure (continued)

6.1.3 Total directors' fees paid by:

N$'000	2005	2004
Company		
Other Group companies		
- Executive director	**1 605**	1 573
- Non-executive directors	**516**	438
	2 121	2 011

6.1.4 Share options:

The executive director has been allocated the following options of which none had vested in either 2004 or 2005. Refer note 8.2 for a description of the terms of the FNB Share Incentive Trust.

	FNB Namibia Holdings Limited shares			FirstRand Limited shares		
	Number	Strike price N$	Year-end price N$	Number	Strike price R	Year-end price R
First allocation: 11 November 2002	**200 000**	**4.00**	**6.00**			
Second allocation: 24 June 2005	**200 000**	**5.17**	**6.00**			
First allocation: 1 October 2004				**100 000**	**12.12**	**13.90**

6.2 Directors' holdings in shares:

	2005		2004	
Names	**Number of ordinary shares held**	**% held**	**Number of ordinary shares held**	**% held**
H-D Voigts	**11 806**	0.004%	**11 806**	0.004%
LS Ipangelwa	**70 300**	0.027%	**70 300**	0.027%
HWP Böttger	**4 667**	0.002%	**4 667**	0.002%
PT Nevonga	**526**		**526**	

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

7	Taxation	GROUP		COMPANY	
N$ '000		**2005**	2004	**2005**	2004
7.1	**Indirect taxation**				
	Value-added taxation (net)	**(145)**	8 580	**(1)**	
	Stamp duties	**2 990**	(4 736)	**145**	
	Total indirect taxation	**2 845**	3 844	**144**	
7.2	**Direct taxation**				
	Normal taxation				
	- Current	**87 779**	25 865		
	- Deferred	**3 178**	52 139	**(224)**	(28)
	Current year	**3 178**	52 420	**(224)**	(28)
	Prior year adjustment		(281)		
	Total direct taxation	**90 957**	78 004	**(224)**	(28)
	Estimated tax loss			**68 181**	30 722
	Utilised in the creation of deferred taxation asset			**(68 181)**	(30 722)
	Available for set-off against future taxable income				
	Taxation rate reconciliation - Namibian normal taxation	%	%	%	%
	Effective rate of direct taxation	**29.6**	32.1	**(0.1)**	(0.1)
	Total taxation has been affected by:				
	Non-taxable income	**5.2**	3.8	**35.1**	35.1
	Other permanent differences	**0.2**	(0.9)		
	Standard rate of direct Namibian taxation	**35.0**	35.0	**35.0**	35.0
7.3	**Deferred taxation (assets)/liabilities**				
	The movement on the deferred taxation account is as follows:				
	Entities with deferred taxation assets				
	Credit balance				
	- Balance at the beginning of the year	**65 620**	39 619		
	- Originating temporary differences	**1 257**	25 407		
	- Acquisitions and disposals		594		
	Total credit balance	**66 877**	65 620		
	Debit balance				
	- Balance at the beginning of the year	**(111 319)**	(115 609)		
	- (Reversing)/originating temporary differences	**(7 922)**	26 261		
	- Acquisitions and disposals		(21 971)		
	Total debit balance	**(119 241)**	(111 319)		
	Balance for entities with net deferred taxation assets	**(52 364)**	(45 699)		
	Entities with deferred taxation liabilities				
	Credit balance				
	- Balance at the beginning of the year	**46 971**	35 746	**46 447**	35 722
	- Originating temporary differences	**22 960**	11 225	**12 886**	10 725
	Total credit balance	**69 931**	46 971	**59 333**	46 447
	Debit balance				
	- Balance at the beginning of the year	**(10 754)**		**(10 753)**	
	- Reversing temporary differences	**(13 117)**	(10 754)	**(13 110)**	(10 753)
	Total debit balance	**(23 871)**	(10 754)	**(23 863)**	(10 753)
	Balance for entities with net deferred taxation liabilities	**46 060**	36 217	**35 470**	35 694
	Overall net deferred taxation balance	**(6 304)**	(9 482)	**35 470**	35 694
	Total reversing / (originating) differences through income statement	**3 178**	52 139	**(224)**	(28)

Deferred taxation assets and liabilities are offset when the income taxes relate to the same fiscal authority and the same legal entity.

7 Taxation (continued)

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

N$ '000	Opening balance	Originating/ (reversing) differences	Closing balance
GROUP			
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
Accruals	3 257	1 617	4 874
Other	2 631	6 985	9 616
Total deferred taxation liabilities	65 620	1 257	66 877
Deferred tax assets			
Taxation losses	(12 760)	12 760	-
Provision for loan impairment	(11 487)	(16 849)	(28 336)
Provision for post-retirement benefits	(8 923)	(634)	(9 557)
Other	(78 149)	(3 199)	(81 348)
Total net deferred taxation assets	(111 319)	(7 922)	(119 241)
Net deferred taxation assets	**(45 699)**	**(6 665)**	**(52 364)**
Entities with net deferred taxation liabilities			
Deferred tax liabilities			
Instalment credit agreements	46 447	22 202	68 649
Other	524	758	1 282
Total deferred taxation liabilities	46 971	22 960	69 931
Total deferred taxation assets: Taxation losses	(10 754)	(13 117)	(23 871)
Total net deferred taxation liabilities	36 217	9 843	46 060
COMPANY			
Net deferred tax liabilities			
Taxation losses	(10 753)	(13 114)	(23 863)
Instalment credit agreements	46 447	12 890	59 333
	35 694	(224)	35 470

8 Dividends and earnings per share

8.1 Headline earnings per share

The calculation of Group headline earnings per share is based on headline earnings of N$204 million (2004: N$164 million) and weighted average number of shares in issue of 258 495 855 (2004: 259 070 522).

8.2 Earnings per share

The calculation of Group earnings per share is based on the earnings attributable to ordinary shareholders of N$211 million (2004: N$165 million) and the weighted average number of shares in issue of 258 495 855 (2004: 259 070 522).

Calculation of weighted number of shares in issue:	ACTUAL NUMBER		WEIGHTED NUMBER	
	2005	2004	**2005**	2004
Opening balances	259 070 522	201 700 000	259 070 522	201 700 000
New shares issued (effective date 1 July 2003)		59 070 522		59 070 522
Preference shares converted into ordinary shares (effective date 30 June 2005)	6 822 728		18 692	
Share Incentive Trust	(1 546 295)	(1 700 000)	(593 359)	(1 700 000)
Closing balance	264 346 955	259 070 522	258 495 855	259 070 522
Total consists of:				
Total number of shares in issue	267 593 250	260 770 522		
Held by the FNB Share Incentive Trust	(3 246 295)	(1 700 000)		
	264 346 955	259 070 522		

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 of the shares cumulatively after 4 years and all the shares after year 5.

8.3 Diluted earnings per share

The diluted earnings per share in the current year equals the earnings per share as the preference share capital has been converted/ redeemed at 30 June 2005 resulting in no further dilution to ordinary shareholders.

The prior year diluted earnings resulted from the indeterminable economic value of assets relating to the erstwhile City Savings & Investment Bank ("CSIB") assets which formed part of Swabou Bank Limited. FNB Namibia Holdings Limited issued convertible preference shares as part of the purchase price for Swabou.

The prior year calculation of diluted earnings per share was based on the earnings attributable to ordinary shareholders of N$165.1 million and a weighted average number of shares of 273 604 728.

Refer to the statement of changes in equity for a detailed movement analysis of the total redemption of these preference shares.

8.4 Dividends per share

	Group	
N$ '000	**2005**	2004
An interim dividend (dividend no. 18) of 11.5 cents per share was declared on 18 February 2004 for the six months ended 31 December 2003 and paid on 14 April 2004.		29 793
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**	
An interim dividend (dividend no. 20) of 15.0 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**	
	73 702	29 793
A final dividend (dividend no. 21) of 17.0 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.	**45 490**	
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.		

9 Cash and short-term funds

N$ '000	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
Coins and bank notes	**97 998**	105 407		
Money at call and short notice	**22 451**	75 190		
Balances with central banks	**67 783**	68 470		
Balances with group companies	**208**	30 956		
Balances with other banks	**14 039**			
	202 479	280 023		
Mandatory reserve balances included in above:	**67 775**	57 698		

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 call and short notice constitutes amounts withdrawable in 32 days or less.

10 Derivative financial instruments

The Group has the following derivatives for trading purposes:

N$ '000	GROUP 2005 ASSETS Notional	ASSETS Fair value	LIABILITIES Notional	LIABILITIES Fair value
Held for trading				
Currency derivatives				
- Forward rate agreements	**5 028**	**5 028**	**4 634**	**4 634**
2004 balances: Forward rate agreements			21 889	16 710

The fair value is calculated by taking the foreign exchange contract price for the remaining term at year-end.

11	Advances	GROUP		COMPANY	
N$ '000		2005	2004	2005	2004
	Sector analysis				
	Originated advances				
	Agriculture including fishing	**380 696**	327 984		
	Banks and financial services	**121 504**	92 985		
	Building and property development	**869 961**	1 061 069		
	Government and public authorities	**58 935**	290 394		
	Individuals	**3 886 142**	3 046 223		
	Manufacturing and commerce	**857 100**	860 918		
	Mining	**35 448**	16 267		
	Transport and communication	**424 030**	209 838		
	Other	**291 361**	146 602		
	Notional value of advances	**6 925 177**	6 052 280		
	Contractual interest suspended	**(44 368)**	(44 936)		
	Gross advances	**6 880 809**	6 007 344		
	Impairment of advances (note 12)	**(171 334)**	(180 675)		
	Net advances	**6 709 475**	5 826 669		
	Geographic analysis (based on credit risk)				
	Namibia	**6 901 313**	6 037 559		
	South Africa	**23 864**	13 997		
	Other		724		
	Notional value of advances	**6 925 177**	6 052 280		
	Contractual interest suspended	**(44 368)**	(44 936)		
	Gross advances	**6 880 809**	6 007 344		
	Impairment of advances (note 12)	**(171 334)**	(180 675)		
	Net advances	**6 709 475**	5 826 669		
	Category analysis				
	Overdrafts and managed accounts	**1 089 110**	1 001 446		
	Instalment sales	**1 144 778**	920 796		
	Lease payments receivable	**41 354**	39 065		
	Home loans	**3 697 263**	3 185 870		
	Bills and banker's acceptances	**18 359**	15 447		
	Preference share advances	**192 519**	269 884		
	Term loans	**661 533**	480 473		
	Other	**80 261**	139 299		
	Notional value of advances	**6 925 177**	6 052 280		
	Contractual interest suspended	**(44 368)**	(44 936)		
	Gross advances	**6 880 809**	6 007 344		
	Impairment of advances (note 12)	**(171 334)**	(180 675)		
	Net advances	**6 709 475**	5 826 669		

11 Advances (continued)

Analysis of instalment sales and lease payments receivable

N$ '000	2005 Within 1 year	2005 Between 1 and 5 years	2005 Total	2004 Total
Instalment sales	**34 489**	**1 338 320**	**1 372 809**	1 121 607
Lease payments receivable	**16 836**	**33 891**	**50 727**	43 544
	51 325	**1 372 211**	**1 423 536**	1 165 151
Less : Unearned finance charges	**(5 042)**	**(232 362)**	**(237 404)**	(205 290)
Present value of accounts receivable	**46 283**	**1 139 849**	**1 186 132**	959 861
Total comprises of:			**1 186 132**	959 861
Instalment sales			**1 144 778**	920 796
Lease payments receivable			**41 354**	39 065

The holding company, FNB Namibia Holdings Limited, had no advances or impairment of advances in 2004 or 2005.

A maturity analysis of advances is set out in note 30.7 of these annual financial statements, and is based on the remaining periods to contractual maturity from the year-end.

12 Impairment of advances

Analysis of movement in impairment of advances

N$'000	2005 Total Impairment	2005 Specific impairment	2005 Portfolio impairment	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 and off-market loans	**(26 892)**	**(12 634)**	**(14 258)**	
Net new provisions created	**34 565**	**11 209**	**23 356**	**(34 565)**
Provisions created	**148 318**	**108 115**	**40 203**	**(148 318)**
Provisions released	**(113 753)**	**(96 906)**	**(16 847)**	**113 753**
Recoveries of bad debts				**2 883**
Closing balance	**171 334**	**69 503**	**101 831**	**(35 011)**

Notes to the annual financial statements continued
for the year ended 30 June

12 Impairment of advances (continued)

Analysis of movement in impairment of advances

N$ '000	2004 Total Impairment	2004 Specific impairment	2004 Portfolio impairment	2004 Income statement
Opening balance	70 233	70 233		
Acquisitions of subsidiaries	116 524	36 503	80 021	
Amounts written off	(15 402)	(15 402)		(659)
Unwinding of discounted present value on non-performing loans and off-market loans	(16 889)	(8 574)	(8 315)	
Reclassifications: off-market loans		(33 402)	33 402	
Net new provisions created / (released)	26 209	38 584	(12 375)	(26 209)
Provisions created	71 153	63 689	7 464	(71 153)
Provisions released	(44 944)	(25 105)	(19 839)	44 944
Recoveries of bad debts				3 911
Closing balance	180 675	87 942	92 733	(22 957)

N$ '000	2005 Credit risk	2005 Security held	2005 Contractual interest suspended	2005 Specific impairments	2004 Specific impairments
Non-performing lendings by sector					
Agriculture including fishing	**6 161**	**8 461**	**1 653**	**1 183**	79
Banks and financial services	**9**	**25**	**3**		123
Building and property development	**2 708**	**594**	**1 113**	**1 651**	5 214
Government and public authorities					111
Individuals	**133 591**	**61 184**	**26 122**	**43 034**	55 875
Manufacturing and commerce	**16 159**	**4 049**	**5 392**	**8 215**	25 907
Mining	**16**		**11**	**6**	39
Transport and communication	**3 666**	**459**	**317**	**375**	108
Other	**50 801**	**32 033**	**9 757**	**15 039**	486
Total	**213 111**	**106 805**	**44 368**	**69 503**	87 942
2004 Total non-performing lendings	261 678	141 153	44 936	87 942	
Non-performing lendings by category					
Overdrafts and managed account debtors	**44 674**	**8 546**	**14 433**	**21 691**	25 657
Instalment sale	**20 785**	**2 760**	**4 044**	**9 901**	11 082
Lease payments receivable	**356**		**305**	**228**	
Home loans	**127 328**	**90 580**	**18 967**	**29 252**	41 835
Term loans	**19 968**	**4 919**	**6 619**	**8 431**	9 368
Other					
Total	**213 111**	**106 805**	**44 368**	**69 503**	87 942
2004 Total non-performing lendings	261 678	141 153	44 936	87 942	

13 Investment securities and other investments

N$ '000	2005 Trading	2005 Originated	2005 Available for sale (Note 25)	2005 Total	2004 Total
Unlisted					
Banking operations					
Treasury bills	**403 806**	**153 626**		**557 432**	526 293
Other government and government guaranteed stock	**90 814**			**90 814**	25 934
Total banking operations	**494 620**	**153 626**		**648 246**	552 227
Insurance operations					
Swabou Life Assurance Company Limited					
Unit trust investments	**73 288**			**73 288**	28 820
RMB Balanced Fund	**83 083**			**83 083**	32 673
Other	**228**	**12 954**		**13 182**	5 184
Swabou Insurance Company Limited					
Treasury bills			**3 677**	**3 677**	3 072
Unit trust investments			**16 636**	**16 636**	13 902
Other			**1 051**	**1 051**	880
Total insurance operations	**156 599**	**12 954**	**21 364**	**190 917**	84 531
Total	**651 219**	**166 580**	**21 364**	**839 163**	636 758
2004 Total investment securities and other investments	513 566	105 338	17 854	636 758	
Aggregate directors' valuation of unlisted investments				**839 163**	636 758

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.

The maturity analysis for investment securities is set out in note 30.7 of these annual financial statements.

N$491.8 million (2004: N$523.8 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 Group holds certain interests in collateralised debt obligation structures. The Group has no obligations toward other investors beyond the amounts already contributed. The Group has no management control or influence over these investments which are recorded at fair value under the available for sale catagory in the above table.

14 Accounts receivable

N$ '000	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
Items in transit	**90 777**	59 824		
Accounts receivable	**7 866**	2 405		
Other debtors	**37 457**	35 024	**5 072**	
	136 100	97 253	**5 072**	

15 Investment in associate companies

	Nature of business	Issued ordinary share capital N$	Number of ordinary shares held	Year-end
15.1 Details of investments in unlisted associate companies				
FirstMet Namibia Unit Trusts Limited	Unit trust administration	4 000	2 000 000	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
Namclear (Pty) Ltd	Interbank clearing house	4	1	31 December

N$ '000	Effective holding % 2005	Effective holding % 2004	Group carrying amount 2005	Group carrying amount 2004	Group costs 2005	Group costs 2004
15.2 Effective holdings and carrying amounts in unlisted associate companies						
FirstMet Namibia Unit Trusts Limited	**50**	50	**3 052**	2 691	**2 000**	2 000
Avril Payment Solutions (Pty) Ltd	**10**	10	**208**	133	**1**	1
RMB Asset Management Namibia (Pty) Ltd	**50**				**10**	
Namclear (Pty) Ltd	**25**		**3 125**		**3 125**	
Total unlisted			**6 385**	2 824	**5 136**	2 001

15.3 Detail information of unlisted associate companies

N$ '000	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
Equity investments	**5 136**	2 001	**2 010**	2 000
Income before taxation for the year	**1 729**	176	**555**	(144)
Taxation for the year	**(590)**	(78)	**(194)**	
Other impairments	**(10)**		**(10)**	
Retained income for the year	**1 129**	98	**351**	(144)
Share of retained income at beginning of the year	**883**	785	**691**	835
Share of retained income at the end of the year	**2 012**	883	**1 042**	691
Dividend received	**(763)**	(60)		
Total carrying value	**6 385**	2 824	**3 052**	2 691
Goodwill included in cost above				
Gross amount		(171)		
Less: accumulated amortisation and impairment losses		52		
		(119)		
Movement in goodwill				
Opening balance	**(119)**			
Additions		(171)		
Amortisation charge and impairment losses	**119**	52		
At end of the year		(119)		
Valuation				
Unlisted investment at directors' valuation	**6 385**	2 824	**3 052**	2 691

GROUP

15.4 Summarised financial information of associate companies

N$ '000	Group 2005	Group 2004	FirstMet Namibia Unit Trusts Limited 2005	FirstMet Namibia Unit Trusts Limited 2004	Avril Payment Solutions (Pty) Ltd 2005	Avril Payment Solutions (Pty) Ltd 2004	RMB Asset Management Namibia (Pty) Ltd 2005	RMB Asset Management Namibia (Pty) Ltd 2004	Namclear (Pty) Ltd 2005	Namclear (Pty) Ltd 2004
Balance sheet										
Non-current assets	**5 157**	6 293	**3 928**	4 953	**1 229**	1 340				
Current assets	**4 495**	4 081	**3 017**	1 091	**1 419**	2 990	**59**			
Current liabilities	**(2 018)**	(2 253)	**(841)**	(663)	**(353)**	(1 590)	**(824)**			
Non-current liabilities	**(212)**	(220)			**(212)**	(220)				
Equity	**7 422**	7 901	**6 104**	5 381	**2 083**	2 520	**(765)**			
Income statement										
15.5 **Share of earnings of associate companies**	**1 129**	98	**361**	(144)	**778**	242	**(10)**			

Refer to note 29 for details on loans to(/from) related parties.

No detailed balance sheet information is available for Namclear (Pty) Ltd.

Notes to the annual financial statements continued
for the year ended 30 June

COMPANY

15.4 Summarised financial information on associate companies (continued)

N$ '000	Company 2005	Company 2004	FirstMet Namibia Unit Trusts Limited 2005	FirstMet Namibia Unit Trusts Limited 2004	RMB Asset Management Namibia (Pty) Ltd 2005	RMB Asset Management Namibia (Pty) Ltd 2004
Balance sheet						
Non-current assets	**3 928**	4 953	**3 928**	4 953		
Current assets	**3 076**	1 091	**3 017**	1 091	**59**	
Current liabilities	**(1 665)**	(663)	**(841)**	(663)	**(824)**	
Non-current liabilities						
Equity	**5 339**	5 381	**6 104**	5 381	**(765)**	
Income statement						
15.5 Share of earnings of associate companies	**351**	(144)	**361**	(144)	**(10)**	

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 effect of such events is adjusted for. 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.

16 Investment in subsidiary companies

Significant subsidiaries	Nature of business	Country of incorporation	Listed/ unlisted	Effective holding % 2005	Effective holding % 2004
Banking operations:					
First National Bank of Namibia Ltd	Commercial banking	Namibia	Unlisted	100	100
Swabou Investments (Pty) Ltd	Home loan investment company	Namibia	Unlisted	100	100
First National Asset Management & Trust Company of Namibia (Pty) Ltd	Asset management and trust services	Namibia	Unlisted	100	100
Talas Properties (Windhoek) (Pty) Ltd	Property company	Namibia	Unlisted	100	100
Insurance operations:					
Swabou Life Assurance Company Ltd	Life assurance company	Namibia	Unlisted	100	100
Swabou Insurance Company Ltd	Short-term insurance	Namibia	Unlisted	100	100

N$ '000	Aggregate profits of subsidiaries 2005	Aggregate profits of subsidiaries 2004	Total investment 2005	Total investment 2004
Banking operations:				
First National Bank of Namibia Ltd	**136 202**	116 950	**1 142 792**	1 142 792
Swabou Investments (Pty) Ltd	**160 101**	13 155		
First National Asset Management & Trust Company of Namibia (Pty) Ltd	**280**	131		161
Talas Properties (Windhoek) (Pty) Ltd	**37 216**	3 265	**2 967**	2 967
Insurance operations:				
Swabou Life Assurance Company Ltd	**21 991**	14 913	**27 740**	27 740
Swabou Insurance Company Ltd	**7 398**	9 370	**12 348**	12 348
	363 188	157 784	**1 185 847**	1 186 008

In the prior year, Swabou Investments (Pty) Ltd paid a dividend of N$159.5 million to FNB Namibia Holdings Ltd as part of a reduction of its capital on 1 July 2003. Swabou Investments (Pty) Ltd was then sold by FNB Namibia Holdings Ltd to First National Bank of Namibia Ltd at a loss of N$159.5 million on the same day (see Note 5).

17 Property and equipment

N$ '000	GROUP Cost 2005	Accumulated depreciation and impairments 2005	Net Book Value 2005	Cost 2004	Accumulated depreciation and impairments 2004	Net Book Value 2004
Property						
Freehold land and buildings	**135 957**	**(34 132)**	**101 825**	128 734	(33 996)	94 738
Leasehold premises	**14 467**	**(9 822)**	**4 645**	11 984	(7 496)	4 488
	150 424	**(43 954)**	**106 470**	140 718	(41 492)	99 226
Equipment						
Computer equipment	**40 460**	**(29 257)**	**11 203**	35 363	(27 245)	8 118
Furniture and fittings	**45 083**	**(23 291)**	**21 792**	45 480	(21 168)	24 312
Motor vehicles	**5 736**	**(3 876)**	**1 860**	6 065	(4 511)	1 554
Office equipment	**45 785**	**(34 868)**	**10 917**	44 523	(35 736)	8 787
	137 064	**(91 292)**	**45 772**	131 431	(88 660)	42 771
Total	**287 488**	**(135 246)**	**152 242**	272 149	(130 152)	141 997

Movement in property and equipment - net book value

N$ '000	GROUP Freehold land and buildings	Leasehold premises	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Total
Net book value at 1 July 2003	41 068	4 444	3 786	19 190	1 655	11 299	81 442
Changes in group structure	48 874	40	10 666	1 267	734	1 654	63 235
Additions	10 294	1 345	2 427	8 051	381	4 496	26 994
Depreciation charge for the year	(3 178)	(1 340)	(8 761)	(4 186)	(851)	(8 646)	(26 962)
Disposals	(2 320)	(1)		(10)	(365)	(16)	(2 712)
Net book value at 30 June 2004	**94 738**	**4 488**	**8 118**	**24 312**	**1 554**	**8 787**	**141 997**
Additions	**13 012**	**1 258**	**8 475**	**3 469**	**1 225**	**6 665**	**34 104**
Depreciation charge for the year	**(3 197)**	**(1 101)**	**(5 390)**	**(5 728)**	**(579)**	**(4 517)**	**(20 512)**
Disposals	**(2 728)**			**(261)**	**(340)**	**(18)**	**(3 347)**
Net book value at 30 June 2005	**101 825**	**4 645**	**11 203**	**21 792**	**1 860**	**10 917**	**152 242**

	Group 2005	Group 2004
Depreciation charge split:		
- Banking operations (note 6)	**(19 364)**	(26 962)
- Insurance operations (note 21)	**(1 148)**	
	(20 512)	(26 962)

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.

18 Investment property

GROUP

N$ '000	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
Market value at beginning of the year	**18 271**	18 208		
Disposals	**(7 456)**			
Revaluations	**1 063**	63		
Balance at end of the year	**11 878**	18 271		
Investment properties consist of office buildings only.	**11 878**	18 271		
Rental income received on investment properties (included in note 5 "Other income")	**3 571**	3 245		
Operating expenses that generated rental income (included in note 6 "Other operating costs")	**(932)**	(985)		
	2 639	2 260		

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 an external, qualified valuator at open market value on 30 June 2005.

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.

19 Intangible assets

N$ '000	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
Trademark				
Gross amount	**108 708**	126 055		
Less: Accumulated amortisation	**(30 149)**	(16 819)		
	78 559	109 236		
Movement in trademark - book value				
Opening balance (gross amount less accumulated amortisation)	**109 236**			
Additions		126 055		
Amortisation	**(13 330)**	(16 819)		
Adjustment to original Swabou consideration as a result of the redemption/conversion of preference shares - See Statement of Changes in Equity	**(17 347)**			
	78 559	109 236		

20 Deposit and current accounts

N$ '000	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
From banks and financial institutions	**638 719**	700 512		
From customers	**6 067 600**	5 184 043		
- Current accounts	**3 069 249**	2 606 431		
- Savings accounts	**340 139**	340 954		
- Term deposits	**1 890 762**	1 936 528		
- Negotiable certificates of deposit	**767 450**	300 130		
Total deposit and current accounts	**6 706 319**	5 884 555		
Geographic analysis (based on counterparty risk)				
Namibia	**6 182 972**	5 201 176		
South Africa	**522 572**	683 379		
Other	**775**			
	6 706 319	5 884 555		

A maturity analysis of deposits and current accounts is set out in note 30.7 of these annual financial statements, and is based on the remaining periods to contractual maturity from the year-end.

21 Insurance operations

N$ '000	2005 Swabou Life	2005 Swabou Insurance	2005 Total	2004 Swabou Life	2004 Swabou Insurance	2004 Total
Income from insurance operations						
Premium income	**53 552**	**19 197**	**72 749**	45 062	25 925	70 987
Gross premiums received	**72 948**	**41 054**	**114 002**	55 274	45 131	100 405
Less:						
- reinsurance premiums paid	**(7 508)**	**(19 928)**	**(27 436)**	(1 080)	(16 711)	(17 791)
- commissions paid	**(11 888)**	**(1 929)**	**(13 817)**	(9 132)	(2 495)	(11 627)
Negative goodwill amortisation to income	**119**		**119**	52		52
Other income	**170**		**170**	329		329
Income	**53 841**	**19 197**	**73 038**	45 443	25 925	71 368
Investment activities	**34 236**	**1 443**	**35 679**	13 502	3 450	16 952
Claims & policyholders' benefits	**(20 710)**	**(9 549)**	**(30 259)**	(16 676)	(10 461)	(27 137)
- Claims incurred	**(20 710)**	**(17 525)**	**(38 235)**	(16 676)	(17 708)	(34 384)
- Recovered from reinsurance		**7 976**	**7 976**		7 247	7 247
Transfer to insurance funds	**(32 431)**	**3 304**	**(29 127)**	(16 727)	(4 455)	(21 182)
Total expenses	**(12 945)**	**(6 997)**	**(19 942)**	(10 629)	(5 089)	(15 718)
Expenses excluding depreciation	**(12 737)**	**(6 057)**	**(18 794)**	(10 452)	(4 422)	(14 874)
Depreciation charge	**(208)**	**(940)**	**(1 148)**	(177)	(667)	(844)
Profit before taxation	**21 991**	**7 398**	**29 389**	14 913	9 370	24 283

N$ '000	Group 2005	Group 2004
Policyholders' liabilities		
The movements in the policyholders' liabilities under insurance contracts for the year are as follows:		
Opening balance	**76 964**	60 237
Operating income transferred from the income statement	**32 431**	16 727
	109 395	76 964

Disclosable items: N$ '000	2005 Swabou Life	2005 Swabou Insurance	2005 Total	2004 Swabou Life	2004 Swabou Insurance	2004 Total
Audit fees	**315**	**486**	**801**	247	375	622
Depreciation	**208**	**940**	**1 148**	177	667	844
Operating lease charges	**802**	**459**	**1 261**	732	425	1 157
Technical fees		**1 136**	**1 136**		121	121

Notes to the annual financial statements continued
for the year ended 30 June

22 Creditors and accruals

N$ '000	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
Accounts payable	**33 381**	50 477	**15 410**	
Other creditors	**114 328**	70 924		19
	147 709	121 401	**15 410**	19

23 Employee benefits

23.1 Post-retirement medical liability

The Group has a liability to subsidise the post-retirement medical expenditure of certain of its employees.

The plan is a defined benefit plan.

The actuarial method used to value the liabilities is the project unit credit method prescribed by AC 116 Employee Benefits. The liability is taken as the present value of the employers' share of continuation member contribution to the medical scheme. Continuing member contributions are projected into each 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 2% higher than the inflation rate.

At 30 June 2005, the actuarially determined liability of the Group was N$27.7 million (2004: N$25.7 million).

The actuarial valuation is done on an annual basis.

N$ '000	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
Present value of unfunded liability	**24 911**	16 460		
Unrecognised actuarial gains	**2 754**	9 225		
Post-retirement medical liability	**27 665**	25 685		
The amounts recognised in the income statement are as follows:				
Current service cost	**973**	736		
Net actuarial gains recognised	**(400)**	(369)		
Losses and gains on curtailment		(2 015)		
Interest cost	**1 635**	1 389		
Total included in staff costs	**2 208**	(259)		
Movement in post-retirement medical liability				
Present value at the beginning of the year	**25 685**	21 694		
Subsidiary balances acquired		4 419		
Amounts recognised in the income statement as above	**2 208**	(259)		
Contributions paid	**(228)**	(169)		
Present value at the end of the year	**27 665**	25 685		
The principal actuarial assumptions used for accounting purposes were:				
Discount rate (%)	**8%**	10%		
Long-term increase in medical subsidies (%)	**6%**	8%		
Number of employees covered	**543**	549		

23.2 Pension fund

N$ '000	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
Employer contribution to pension fund (refer note 6)	**13 051**	11 320		
Employer contribution to pension fund - executive director	**129**	120		
Total employer contributions to pension fund	**13 180**	11 440		
Employee contribution to pension fund	**8 596**	7 461		
Total contributions	**21 776**	18 901		
Number of employees covered	**1 379**	1 332		

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. The fund is valued every three years. The last valuation was performed for the year ended 30 June 2002 and the 2005 valuation is in process. The last valuation indicated that the fund is in a sound financial position.

24 Share capital

N$ '000	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
Authorised				
959 802 553 ordinary shares with a par value of 0.5 cents per share	**4 799**	4 799	**4 799**	4 799
40 197 447 cumulative convertible redeemable preference shares with a par value of 0.5 cents per share	**201**	201	**201**	201
	5 000	5 000	**5 000**	5 000
Issued				
267 593 250 (2004: 260 770 522) ordinary shares with a par value of 0.5 cents per share	**1 338**	1 304	**1 338**	1 304
2 (2004: 27 187 566) cumulative convertible redeemable preference shares with a par value of 0.5 cents per share.		136		136
Elimination of shares held by Share Incentive Trust	**(17)**	(9)		
	1 321	1 431	**1 338**	1 440

Term of preference shares: redeemable at 31 days notice by either party.

A detailed reconciliation of the movements in the share capital and premium balances is set out in the statement of changes in equity. Refer to the directors report for a detailed explanation.

25 Non-distributable reserves

N$ '000	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
General risk reserve (impaired capital reserve)	**24 104**	19 909		
Other non-distributable reserves: Swabou Insurance Company Limited - Available for sale assets	**2 788**			
Other non-distributable reserves: Swabou Insurance Company Limited - Contingency reserves	**730**			
	27 622	19 909		

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

26 Contingencies and commitments

N$ '000	Group 2005	Group 2004
GROUP		
Contingencies		
Guarantees	**252 886**	244 085
Letters of credit	**6 647**	15 816
	259 533	259 901
Unutilised facilities	**707 650**	488 467
Home loans approved not yet registered	**254 336**	171 548

There might be a number of legal or potential claims against the Group, the outcome of which can not at present be foreseen and which were therefore not provided for.

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.

	Group 2005	Group 2004
Contracted for	**4 620**	
Not contracted for	**90 952**	18 292

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

	Company 2005	Company 2004
COMPANY		
Commitments in respect of long-term investments approved by directors.		
Not contracted for	**3 152**	

Group commitments under operating leases

	2005	
N$ '000	Next year	2nd to 5th year
Office premises	**4 204**	6 269
Equipment	**1 803**	1 930
	6 007	8 199

	2004	
N$ '000	Next year	2nd to 5th year
Office premises	**2 579**	12 688
Equipment	**715**	522
	3 294	13 210

27	Cash flow information	GROUP		COMPANY	
N$ '000		**2005**	2004	**2005**	2004
27.1	**Reconciliation of operating profit to cash flow from operating activities**				
	Total income before share of earnings of associate companies	**309 024**	246 864	**194 865**	43 758
	Adjusted for:				
	- Depreciation, amortisation and impairment costs	**33 842**	43 781		
	- Revaluation of investment property	**(1 063)**	(63)		
	- Impairment of advances	**35 011**	22 957		
	- Provision for post-employment benefit obligations	**2 208**	(67)		
	- Other employment provisions	**6 219**	6 410		
	- Policyholders' fund	**32 431**	16 727		
	- Creation of derivative financial instruments	**(17 104)**	16 710		
	- Profit on sale of fixed assets	**(6 664)**	(826)		
	- Release of dynamic provision acquired		(8 378)		
	- Loss on disposal on subsidiary				(159 514)
	- Other dividends received			**(178 004)**	159 514
	- Profit on realisation intangible assets				(40 922)
	- Profit on adjustment to Swabou purchase price			**(17 347)**	(2 914)
	- Dividends paid	**(73 702)**	(29 793)	**(74 320)**	(29 989)
	Cash flows from operating activities	**320 202**	314 322	**(74 806)**	(30 067)
27.2	**Dividends paid**				
	Charged to distributable reserves	**(78 727)**	(29 793)	**(79 345)**	(29 989)
	Amounts unpaid at the end of the year	**5 025**		**5 025**	
	Total dividends paid	**(73 702)**	(29 793)	**(74 320)**	(29 989)
27.3	**Taxation paid**				
	Amounts overpaid/(unpaid) at beginning of the year	**40 916**	(47 287)		(46 903)
	Acquisition of subsidiaries		10 875		
	Indirect taxes	**(2 845)**	(3 844)	**(144)**	
	Current taxation charge	**(87 779)**	(25 865)		
	Amounts unpaid/(overpaid) at end of the year	**8 554**	(40 916)		
	Total taxation paid	**(41 154)**	(107 037)	**(144)**	(46 903)
27.4	**Acquisition of associates**				
	Namclear (Pty) Ltd	**3 125**			
	RMB Asset Management Namibia (Pty) Ltd	**10**		**10**	
	Total on acquisition of associates	**3 135**		**10**	
27.5	**Acquisition of subsidiaries**				
	Loans and advances		1 652 058		
	Cash and cash equivalents		51 232		
	Investment securities and other investments		242 314		
	Current assets		87 470		
	Property and equipment		81 443		
	Deferred taxation		21 377		
	Total assets		2 135 894		
	Deposits		1 755 055		
	Creditors		108 948		
	Policyholders' funds		60 237		
	Other liabilities		12 052		
	Total liabilities		1 936 292		
	Net assets acquired		199 602		
	Goodwill and trademark acquired		153 388		
	Cost of acquisition of subsidiaries		352 990		
	Settled through issue of ordinary and convertible preference shares		(345 031)		
	Settled in cash		7 959		7 959
	Cash balances of subsidiaries		51 232		
	Settled in cash		(7 959)		(7 959)
	Cash flow on acquisition of subsidiaries		43 273		(7 959)

28 Trust activities

The market value of assets held or placed on behalf of customers in a fiduciary capacity amounts to N$118.7 million (2004: N$101.5 million).

29 Related parties

FNB Namibia Holdings Limited is listed on the Namibian Stock Exchange and is 60% (2004: 60%) owned by FirstRand Bank Holdings Limited, with its holding company listed on the JSE Securities Exchange South Africa, FirstRand Limited.

The following related party transactions have been entered into:

N$ '000

Related party	Relationship	Transaction type	2005	2004
Non-interest expenditure				
FirstRand Bank Limited	Fellow subsidiary	Computer processing costs	**10 784**	15 059
FirstRand Bank Limited	Fellow subsidiary	Internal audit and compliance	**993**	1 625
FirstRand Bank Limited	Fellow subsidiary	ATM processing costs	**485**	1 625
FirstRand Bank Limited	Fellow subsidiary	Payroll processing	**951**	904
FirstRand Bank Limited	Fellow subsidiary	Other sundry	**11 324**	7 495
Namclear (Proprietary) Limited	Clearing house	Clearing costs	**1 787**	3 811
			26 324	30 519
Non-interest revenue				
FirstRand Bank Limited	Fellow subsidiary	Commission	**1 097**	1 109
FirstRand Bank Limited	Fellow subsidiary	FNB Card reward	**1 764**	1 296
			2 861	2 405

Loans from related parties

2005			Interest paid	Capital value
FirstRand Bank Limited	Fellow subsidiary	Interbank overnight funding	**16 728**	**504 387**
RMB International Dublin Limited	Fellow subsidiary	Off shore deposit	**737**	
FirstRand Bank Limited	Fellow subsidiary	CFC		**75**
			17 465	**504 462**

2004				
FirstRand Bank Limited	Fellow subsidiary	Interbank overnight funding	41 094	672 324
RMB International Dublin Limited	Fellow subsidiary	Off shore deposit	93	11 026
FirstRand Bank Limited	Fellow subsidiary	CFC		29
Deposit from Namclear (Proprietary) Limited	Clearing house	Funding deposit		349
			41 187	683 728

Loans to related parties

2005			Interest paid	Capital value
FirstRand Bank Limited	Fellow subsidiary	CFC		**201**
FNB Swaziland Limited	Fellow subsidiary	Interbank overnight funding		**7**
Namclear (Proprietary) Limited	Clearing house	Funding deposit	**984**	**6 467**
			984	**6 675**

2004				
RMB International Dublin Limited	Fellow subsidiary	Investment	911	30 950
FirstRand Bank Limited	Fellow subsidiary	CFC		6
			911	30 956

Transactions with entities in the FNB Namibia Group

All loans and income and expenditure items have been eliminated on consolidation. Swabou Life Assurance Company Limited and Swabou Insurance Company Limited 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 2005 Swabou Life Assurance Company Limited reflected assets with First National Bank of Namibia Limited of N$13 million (2004: N$48 million). These investments are acquired to back liabilities to policyholders under unmatured policies and are not eliminated upon consolidation.

30 Risk management

30.1 General

The unaudited Risk Report of the Group is contained on pages _______ to ______ ("the Risk Report"). The report sets out in more detail the various risks listed below that the Group is exposed to, as well as the strategy, methodology and instruments used to mitigate these risks. Certain highlights of the Risk Report are mentioned below.

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 report and the Risk Report, on pages _______ to ______.

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.

30.2 Strategy in using hedges

The Group strategy for using hedges is set out in note xx above.

30.3 Credit risk management

Credit risk

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 credit department 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 12 for detail analysis of non-performing loans.

Significant credit exposures at 30 June 2005 were:

N$ '000	Namibia	South Africa	Other	Total
Assets				
Advances	**6 901 313**	**23 864**		**6 925 177**
Contingencies	**259 533**			**259 533**
	7 160 846	**23 864**		**7 184 710**

Economic sector risk concentrations in respect of advances are set out in note 11.

Significant credit exposures at 30 June 2004 were:

N$ '000	Namibia	South Africa	Other	Total
Assets				
Advances	6 037 559	13 997	724	6 052 280
Contingencies	259 901			259 901
	6 297 460	13 997	724	6 312 181

30.4 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 tests and limits.

30.5 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 2005 is set out below:

2005

N$ '000	N$	Rand	US$	Euro	Other	Total
ASSETS						
Banking operations						
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 - originated	6 709 475					6 709 475
Investment securities and other investments	648 246					648 246
Insurance operations						
Investment securities and other investments	190 917					190 917
Accounts receivable	136 100					136 100
Investment in associated companies	6 385					6 385
Property and equipment	152 242					152 242
Investment property	11 878					11 878
Deferred taxation assets	52 364					52 364
Intangible assets	78 559					78 559
Total assets	8 137 148	19 461	19 959	16 380	725	8 193 673
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposit and current accounts	6 182 972	522 572	61	627	87	6 706 319
Derivative financial instruments			718	3 858	58	4 634
Creditors and accruals	147 709					147 709
Post-retirement medical liability	27 665					27 665
Current taxation	16 795					16 795
Liabilities of insurance operations - policyholders' liabilities	109 395					109 395
Shareholders' equity	1 143 337					1 143 337
Total liabilities and shareholders' equity	7 627 873	522 572	779	4 485	145	8 155 854

30.5 Currency risk management (continued)

The currency position at 30 June 2004 is set out below:

2004

N$ '000	N$	Rand	US$	Euro	Other	Total
ASSETS						
Banking operations						
Cash and short-term funds	245 737	4 582	25 996	3 514	194	280 023
Advances - originated	5 826 669					5 826 669
Investment securities and other investments	552 227					552 227
Insurance operations						
Investment securities and other investments	84 531					84 531
Accounts receivable	97 253					97 253
Investment in associated companies	2 824					2 824
Property and equipment	141 997					141 997
Investment property	18 271					18 271
Current taxation	40 916					40 916
Deferred taxation assets	9 482					9 482
Intangible assets	109 236					109 236
Total assets	7 129 143	4 582	25 996	3 514	194	7 163 429
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposit and current accounts	5 668 518		216 037			5 884 555
Derivative financial instruments			16 710			16 710
Creditors and accruals	121 401					121 401
Post-retirement benefit funds liability	25 685					25 685
Liabilities of insurance operations - policyholders' liabilities	76 964					76 964
Shareholders' equity	1 038 114					1 038 114
Total liabilities and shareholders' equity	6 930 682		232 747			7 163 429

Currency conversion guide:	**Thursday, June 30, 2005**	**Wednesday, June 30, 2004**
1 SA Rand	N$1.00	N$1.00
1 Pound Sterling	N$11.97	N$11.20
1 US Dollar	N$6.68	N$6.18
1 Euro	N$8.06	N$7.52

30.6 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 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 lossses 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.

2005		Term to repricing				
N$ '000	Carrying amount	Demand	1-12 months	1-5 years	Over 5 years	Non-interest earning/ bearing
ASSETS						
Banking operations						
Cash and short-term funds	202 479	35 572				166 907
Derivative financial instruments - trading	5 028		5 028			
Advances - originated	6 709 475	6 414 233	116 215	22 794	136 281	19 952
Investment securities and other investments	648 246		507 292	66 092	74 862	
Insurance operations						
Investment securities and other investments	190 917	160 276	30 641			
Accounts receivable	136 100					136 100
Investment in associated companies	6 385					6 385
Property and equipment	152 242					152 242
Investment property	11 878					11 878
Deferred taxation assets	6 304					6 304
Intangible assets	78 559					78 559
Total assets	8 147 613	6 610 081	659 176	88 886	211 143	578 327
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposit and current accounts	6 706 319	4 015 673	2 672 195	18 111	340	
Derivative financial instruments	4 634		4 634			
Creditors and accruals	147 709					147 709
Post-retirement medical liability	27 665					27 665
Current taxation	8 554					8 554
Liabilities of insurance operations - policyholders' liabilities	109 395					109 395
Shareholders' equity	1 143 337					1 143 337
Total liabilities and shareholders' equity	8 147 613	4 015 673	2 676 829	18 111	340	1 436 660
Net interest sensitivity gap		2 594 408	(2 017 653)	70 775	210 803	(858 333)

30.6 Interest rate risk management (continued)

The table below summarises the Group's exposure to interest rate risk, categorised by contractual repricing date, as at 30 June 2004:

N$ '000	Carrying amount	Term to repricing: Demand	1-12 months	1-5 years	Over 5 years	Non-interest earning/ bearing
ASSETS						
Banking operations						
Cash and short-term funds	280 023	40 597				239 426
Derivative financial instruments - trading						
Advances - originated	5 826 669	5 610 435	9 133	17 408	124 106	65 587
Investment securities and other investments	552 227	29 968	511 180		11 079	
Insurance operations						
Investment securities and other investments	84 531	17 854	66 677			
Accounts receivable	97 253					97 253
Investment in associated companies	2 824					2 824
Property and equipment	141 997					141 997
Investment property	18 271					18 271
Current taxation	40 916					40 916
Deferred taxation assets	9 482					9 482
Intangible assets	109 236					109 236
Total assets	7 163 429	5 698 854	586 990	17 408	135 185	724 992
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposit and current accounts	5 884 555	4 344 072	1 534 987	4 973	523	
Derivative financial instruments	16 710			16 710		
Creditors and accruals	121 401					121 401
Post-retirement medical liability	25 685					25 685
Liabilities of insurance operations - policyholders' liabilities	76 964				76 964	
Shareholders' equity	1 038 114					1 038 114
Total liabilities and shareholders' equity	7 163 429	4 344 072	1 534 987	21 683	77 487	1 185 200
Net interest sensitivity gap		1 354 782	(947 997)	(4 275)	57 698	(460 208)

30.7 Liquidity risk management

Liquidity risk arises when insufficient cash is generated to meet commitments relating to credit extension, deposit maturities, and other transactions in the course of daily business. The aim is to remain prudently and economically liquid. Maturing assests and liabilities imply inflow and outflow of funds. The mix and maturity of the balance sheet therefore impacts on liquidity.

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.

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.

2005		Term to repricing			
N$ '000	Carrying amount	Demand	1-12 months	1-5 years	Over 5 years
ASSETS					
Banking operations					
Cash and short-term funds	202 479	202 479			
Derivative financial instruments - trading	5 028		5 028		
Advances - originated	6 709 475	1 021 653	946 079	3 001 297	1 740 446
Investment securities and other investments	648 246		557 432		90 814
Insurance operations					
Investment securities and other investments	190 917	177 963	12 954		
Accounts receivable	136 100	118 070	18 030		
Investment in associated companies	6 385				6 385
Property and equipment	152 242				152 242
Investment property	11 878				11 878
Deferred taxation assets	6 304			6 304	
Intangible assets	78 559				78 559
Total assets	8 147 613	1 520 165	1 539 523	3 007 601	2 080 324
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposit and current accounts	6 706 319	4 015 673	2 672 195	18 111	340
Derivative financial instruments	4 634		4 634		
Creditors and accruals	147 709		125 532		22 177
Post-retirement medical liability	27 665				27 665
Current taxation	8 554		8 554		
Liabilities of insurance operations - policyholders' liabilities	109 395				109 395
Shareholders' equity	1 143 337				1 143 337
Total liabilities and shareholders' equity	8 147 613	4 015 673	2 810 915	18 111	1 302 914
Net liquidity gap		(2 495 508)	(1 271 392)	2 989 490	777 410

30.7 Liquidity risk management (continued)

2004 N$ '000	Carrying amount	Term to repricing Demand	1-12 months	1-5 years	Over 5 years
ASSETS					
Banking operations					
Cash and short-term funds	280 023	280 023			
Derivative financial instruments - trading					
Advances - originated	5 826 669	917 691	913 976	3 748 740	246 262
Investment securities and other investments	552 227		541 148	11 079	
Insurance operations					
Investment securities and other investments	84 531		84 531		
Accounts receivable	97 253		97 253		
Investment in associated companies	2 824				2 824
Property and equipment	141 997				141 997
Investment property	18 271				18 271
Current taxation	40 916		40 916		
Deferred taxation assets	9 482			9 482	
Intangible assets	109 236				109 236
Total assets	7 163 429	1 197 714	1 677 824	3 769 301	518 590
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposit and current accounts	5 884 555	2 689 792	3 189 267	5 496	
Derivative financial instruments	16 710		16 710		
Creditors and accruals	121 401		121 401		
Post-retirement medical liability	25 685				25 685
Liabilities of insurance operations - policyholders' liabilities	76 964				76 964
Shareholders' equity	1 038 114				1 038 114
Total liabilities and shareholders' equity	7 163 429	2 689 792	3 327 378	5 496	1 140 763
Net liquidity gap		(1 492 078)	(1 649 554)	3 763 805	(622 173)

31 Segment information

Segment	**Significant brands**	**Target segment**
Banking operations	First National Bank WesBank FNB HomeLoans Swabou	All segments of the market
Life assurance operations	Swabou Life	Individuals
Short-term insurance operations	Swabou Insurance	Medium sized businesses and individuals

Notes to the annual financial statements continued
for the year ended 30 June

31. Segment information continued

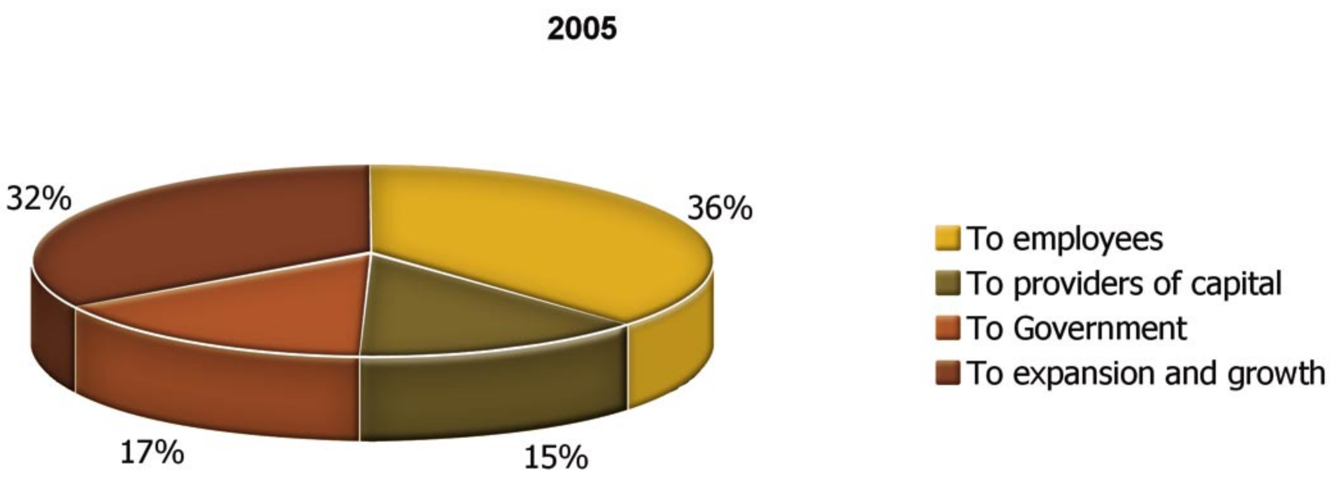
	Group		Banking operations		Life Assurance		Short-term insurance	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Income statement								
Net interest turn before impairment of advances	424 777	390 655	424 777	390 655				
Charge for bad and doubtful debts	(35 011)	(22 957)	(35 011)	(22 957)				
Net interest turn after impairment of advances	389 766	367 698	389 766	367 698				
Other operating income	249 112	205 569	249 112	205 569				
Net income from operations	638 878	573 267	638 878	573 267				
Other operating expenditure	(359 243)	(350 686)	(359 243)	(350 686)				
Income from banking operations	279 635	222 581	279 635	222 581				
Income	73 038	71 368			53 841	45 443	19 197	25 925
Investment activities	35 679	16 952			34 236	13 502	1 443	3 450
Claims and policyholders' benefits	(30 259)	(27 137)			(20 710)	(16 676)	(9 549)	(10 461)
Insurance funds	(29 127)	(21 182)			(32 431)	(16 727)	3 304	(4 455)
Expenses	(19 942)	(15 718)			(12 945)	(10 629)	(6 997)	(5 089)
Income from insurance operations	29 389	24 283			21 991	14 913	7 398	9 370
Total income before share of associated companies	309 024	246 864						
Share of earnings of associated companies	1 129	98	351	(144)	778	242		
Income before indirect taxation	310 153	246 962	279 986	222 437	22 769	15 155	7 398	9 370
Indirect taxation	(2 845)	(3 844)	(1 394)	(3 844)	(1 451)			
Income before direct taxation	307 308	243 118	278 592	218 593	21 318	15 155	7 398	9 370
Direct taxation	(90 957)	(78 004)	(87 196)	(74 555)	(839)	(809)	(2 922)	(2 640)
Earnings	216 351	165 114	191 396	144 038	20 479	14 346	4 476	6 730
Income statement includes:								
Depreciation	20 512	26 962	19 364	26 962	208		940	
Amortisation of intangibles	13 330	16 819	13 330	16 819				
Balance sheet includes:								
Cash and short-term funds	202 479	280 023	178 697	258 516	1 331	1 310	22 451	20 197
Derivative financial instruments	5 028	-	5 028					
Advances	6 709 475	5 826 669	6 709 475	5 826 669				
Investment securities	839 163	636 758	648 246	552 227	169 553	66 677	21 364	17 854
Accounts receivable	136 100	97 253	118 636	77 737	10 201	9 102	7 263	10 414
Investment in associates	6 385	2 824	6 177	2 691	208	133		
Property and equipment	152 242	141 997	150 615	139 524	479	398	1 148	2 075
Investment property	11 878	18 271	11 878	18 271				
Current taxation	8 241	41 293	8 241	41 060				233
Deferred taxation assets	52 364	45 699	52 364	45 699				
Intangible assets	78 559	109 236	78 559	109 236				
Total assets	8 201 914	7 200 023	7 967 916	7 071 630	181 772	77 620	52 226	50 773
Deposit and current accounts	6 706 319	5 884 555	6 706 319	5 884 555				
Derivative financial instruments	4 634	16 710	4 634	16 710				
Policyholders' liabilities	109 395	76 964			109 395	76 964		
Creditors and accruals	147 709	121 401	108 604	79 334	9 811	9 602	29 294	32 465
Post-retirement medical liability	27 665	25 685	27 308	25 335	288	295	69	55
Current taxation	16 795	377	15 987	347	50	30	758	
Deferred taxation liabilities	46 060	36 217	45 296	35 715			764	502
Total liabilities	7 058 577	6 161 909	6 908 148	6 041 996	119 544	86 891	30 885	33 022
Non-performing loans	213 111	261 678	213 111	261 678				
Capital expenditure	34 104	26 994	33 802	26 382	289	298	13	314
Key ratio's								
Cost to income ratio			53.5%	58.3%				
Return on capital			17.3%	17.8%				
Bad debt charge as a % of advances			0.5%	0.4%				
Non-performing loans as a % of advances			3.2%	4.5%				

The segmental analysis is based on the management accounts for the respective segments.

The segment report according to geographical areas as defined is not presented as all segments operate within the Republic of Namibia.

Group value-added statement

	Year ended 30 June 2005 N$ million	%	Year ended 30 June 2004 N$ million	%
Value-added is the wealth the Group has been able to create by providing clients with a quality, value-added service.				
Value-added				
Income earned by providing banking service	**816.9**		773.6	
Cost of services	**(427.1)**		(405.9)	
Value added by banking services	**389.8**		367.7	
Non-operating and other income and expenditure	**145.6**		90.1	
	535.4		457.8	
Value allocated				
To employees				
Salaries, wages and other benefits	**192.6**	36.0%	167.1	36.5%
To providers of capital				
Dividends to shareholders: ordinary and preference	**78.7**	14.7%	29.8	6.5%
To Government				
Taxation	**90.6**	16.9%	29.7	6.5%
To expansion and growth				
Depreciation, deferred taxation and retained income	**173.5**	32.4%	231.2	50.5%
	535.4	100.0%	457.8	100%



Corporate governance

Our approach to corporate governance

The board of directors of FNB Namibia Holdings Limited (the "Company") recognises that, as the core of the corporate governance function, it is ultimately accountable and responsible for the performance and affairs of the company. The board is satisfied that the company and its subsidiaries ("the Group") has in all material respects complied with the provisions and the spirit of the King Report on Corporate Governance 2002 ("King II").

The board supports the principles of openness, integrity, responsibility, transparency, professionalism and accountability and board members endeavour to ensure that the Group's policies on corporate governance meet current best practice. The executive directors are responsible for the management of the day-to-day affairs of the Group and that delegating authority to management does not in any way mitigate or dissipate the discharge by the board and individual directors of their responsibilities.

In addition to the guidelines of King II, the board embraces the principles of good corporate governance as espoused in amongst others, the provisions of the Banking Institutions Act, 1998, the Banks Act, 1990 (South Africa), the Namibian Stock Exchange ("NSX") Listings Requirements, the Short Term Insurance Act of 1998, the Long Term Insurance Act of 1998 and the Companies Act of 1973.
The core responsibilities of the directors are to exercise their business judgement to act in what they reasonably believe to be in the best interest of the Group and its stakeholders. Directors need to fulfil their responsibilities consistently together with their fiduciary duty to all the stakeholders, in compliance with all applicable laws and regulations. The board believes that good corporate governance is far more than a "check-the-box" list of minimum board and management policies and duties. A good corporate governance structure is a working system for principled goal setting, effective decision making and appropriate monitoring of compliance and performance.

Continuous improvement regarding the implementation of good corporate governance practices

The Group is constantly striving to develop and improve current corporate governance structures and practices to ensure continued compliance with the recommendations of King II.

The board is of the opinion that there will be a noteworthy improvement in corporate governance due to the recent implementation of two new committees, the Risk and Compliance Committee and the Directors' Affairs Committee. The charters for all the committees have been approved by the board.

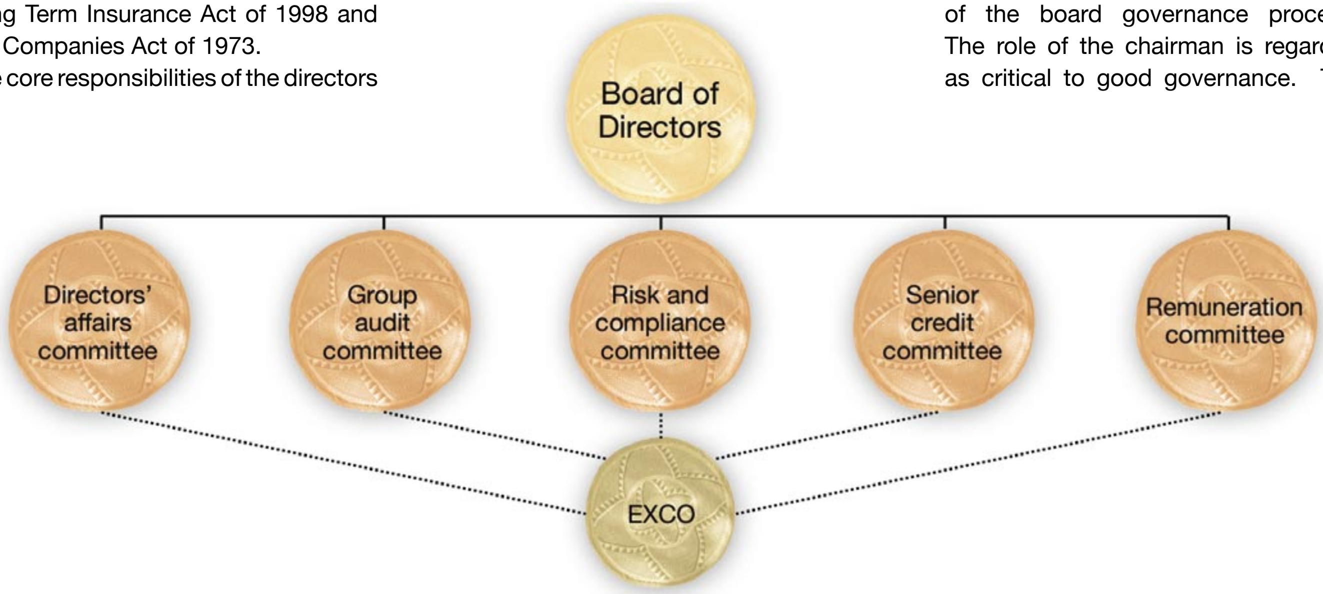
Directorate

The board believes that 8 to 11 members is an appropriate size based on the Group's present circumstances. The board periodically evaluates whether a larger or smaller slate of directors would be preferable.

The board should exercise leadership, enterprise, integrity and judgement in directing the Group so as to add continuing prosperity for the Group and its shareholders, and shall at all times act in the best interests of the Group in a manner based on transparency, integrity, accountability and responsibility.

Presently the board comprises seven non-executive directors, of which there is a balance between independent and non-independent directors. As a result of the conclusion of the preference share transaction (refer to the CFO report), which dictated the composition of the board during the term of the preference shares being in issue, the board will now be reconstructed to comply with the principles of King II pertaining to the balance of independent non-executive directors being on board. Also refer to the Chairman's report in this regard.

The chairman, Mr H-D Voigts is an independent non-executive director who, inter alia, presides over meetings at the board and is responsible for ensuring the integrity and effectiveness of the board governance process. The role of the chairman is regarded as critical to good governance. The



Board and subcommittee membership and attendance 30 June 2005		FNB Namibia Holdings Limited	Group audit committee	Senior Credit Committee *(Note 2)*	Remune-ration Committee
Total meetings:		**6**	**4**	**23**	**3**
HD Voigts	Non-executive	6 (Chair)	1 (Invite)	16	3
LS Ipangelwa	Executive	6 (CEO)		16	
JK Macaskill	Non-Executive *	6	4		***Note 1***
HWP Böttger	Non-executive	5	4 (Chair)	4	
SV Katjiuanjo	Non-executive	4			1
PT Nevonga	Non- executive	2			
EB Nieuwoudt	Non-Executive *	4			
II Zaamwani	Non-executive	4	2		3 (Chair)
CG Robertson	Non-executive *	3 ***Note 3***	2		

*South African

Note 1:
Member since 2 February 2005, apology for last meeting of the year held.

Note 2:
Mr LG Kannemeyer, a member of the First National Bank of Namibia Limited board, attended 15 senior credit committee meetings.

Note 3:
Not available for re-election after 24 November 2004.

board members have the necessary characteristics, experience and skills. The result is a board with diverse backgrounds and experience in business, government and public service. The board members are valued for their respective disciplines relevant to the success of a large publicly traded company in today's business environment.

The unitary board is satisfied that its decision-making capability and the accuracy of its reporting and financial results are maintained at a high level.

The group's philosophy of leadership is based on the principle that the control of the board and the executive responsibility for the running of the business are two separate and distinct tasks. There is accordingly a clear division of responsibilities between the role of the chairman of the board and the chief executive officer ("CEO").

All non-executive directors are subject to retirement by rotation and re-election by shareholders periodically in accordance with the company's Articles of Association. The appointment of any new director requires the approval of the board as a whole. When appointing directors, the board takes cognisance of its needs in terms of different skills, experience, diversity, size and demographics in order to operate effectively. A brief curriculum vitae of each director standing for election or re-election at the annual general meeting accompanies the notice of the meeting contained in the annual report. The board does not believe that it should limit the number of terms for which an individual may serve as a director. Directors who have served on the board for an extended period of time are able to provide valuable insight into the operations and future of the company based on their experience with an understanding of the group's history, policies and objectives.

The board believes that 70 is an appropriate retirement age for directors. Directors generally will not be nominated for re-election at any shareholders meeting following their 70th birthday.

Board governance

The board holds regularly scheduled meetings, but at least quarterly and the primary responsibilities include:

- determining the group's purpose and values;
- approving strategic direction set by management;
- identifying key risk areas and key performance indicators of the group's business;
- monitoring the performance of the group against agreed objectives,
- advising on significant financial matters;
- reviewing the performance of management against defined objectives; and
- overseeing major capital expenditure.

Each committee of the board is constituted with formal Terms of Reference which determine its membership, purpose, powers and authority, the scope of its mandate and its relationship to the general principles dealing with the constitution, membership and authority of board committee are set out in the board charter.

Corporate governance continued

Financial statements
The directors are responsible for monitoring and approving the financial statements to ensure that they fairly present the Group's affairs and the profit or loss at the end of the financial year. The independent auditors are responsible to audit these financial statements.

The financial statements in this report have been prepared by management in accordance with Statements of Namibian Generally Accepted Accounting Practice. They are based on appropriate accounting policies which have been consistently applied, except as indicated, and which are supported by reasonable and prudent judgements and estimates.

Executive committee ("EXCO")
The Group EXCO is empowered and responsible for implementing the strategies approved by the various boards of directors in the Group and managing the affairs of the Group. The EXCO meets monthly and has adopted a charter governing the affairs of its functions and composition. Refer to the EXCO composition earlier in this annual report.

The FNB Namibia Group has implemented a succession plan from its pool of people on senior management level with the relevant competencies and experience.

Audit committee
The FNB Namibia Group Audit Committee reviews the findings and reports of the subsidiary companies and addresses matters of a Group nature. It has adopted a formal charter with the following objectives:

- assist the board in ensuring the integrity of the entities Annual Financial Statements;
- ensure compliance with legal and regulatory requirements for Namibia and South Africa; and
- ensure external auditors' independence and oversee the group's internal audit function.

Remuneration committee
The Group remuneration committee met three times during the year. Its primary objective is to develop a reward strategy. It is responsible for:

- evaluating the performance of the executive director;
- recommending the remuneration package for the executive director;
- recommending policy relating to the Group's bonus and share incentive scheme;
- recommending the basis for non-executive directors' fees; and
- reviewing annual salary increases.

Non-executive directors fees are set based on market comparisons and refered to professional consultants.

Employment equity
The Group has adopted an affirmative action policy to achieve employment equity in the workplace and enhance business competitiveness. Developing all employees is critical to the success of the programme and significant emphasis is placed on training, monitoring and promotion of existing staff.

FNB Namibia has received its Affirmative Action Compliance Certificate annually since inception from the Commissioner of Employment Equity Commission.

Details of worker participation and compliance with the Affirmative Action Act are covered under the Chief Executive Officer's report.

2005 Examination report by Bank of Namibia on First National Bank of Namibia Limited
The 2005 examination report by Bank of Namibia commenced in July 2005 and is performed annually. In the December 2004 examination report, Bank of Namibia indicated some matters that needed to be addressed by the Banking Group. None of these matters were considered material to put the Banking Group or its stakeholders at risk. The 2004 examination report was presented to the board of directors for review and perusal. The purpose of the examination report is to establish, amongst others, to what extent an adequate and effective process of corporate governance has been established and maintained within the banking group. The board of directors fully supports the Bank of Namibia.

Compliance with the Namibian Stock Exchange ("NSX") Listings Requirements
The board of directors are satisfied that the various NSX listing requirements have been complied with.

Compliance with other applicable legislation as supervised by the Namibia Financial Supervisory Authority ("NAMFISA")
Swabou Life Assurance Company Limited and Swabou Insurance Company Limited being wholly owned subsidiaries of the Company are registered insurers and as such are required to comply with legislation. Compliance is supervised by NAMFISA. The Group is committed to a continuous process of liaising with NAMFISA to benefit from its guidance in the implementation of the acts and regulations.

Code of Ethics
The code of ethics for the Group commits it to the highest standard of integrity, behaviour and ethics in dealing with all its stakeholders. All staff are required upon commencement of employment to familiarise themselves with the Group's code of ethics and are expected to adhere to this code as it is regarded as a strategic business imperative and a source of competitive advantage.

Communication

The Group subscribes to the principle of transparent, timeous, balanced, relevant and understandable communication, focusing rather on substance than on form. Communication covers both financial and non-financial business aspects. This distribution of information to relevant parties is through the NSX Securities Exchange News Services ("SENS") communication system, printed and electronic media releases and the statutory publication of its financial results.

The board would like to encourage all stakeholders to attend the shareholders' meetings as this is the ideal opportunity to voice their opinions.

Share dealings

In terms of the Group's "closed period" policy, directors, officers, participants in the share incentive scheme and staff who may have access to price-sensitive information are precluded from dealing in the Company's shares for about two and a half months before the release of the interim and final results. Additional closed periods may be invoked by the board. Details of directors' dealings in FNB Namibia shares are disclosed to the board and the NSX SENS. In addition, details of trades in FNB Namibia Holdings Limited shares by staff who may have access to price sensitive information are disclosed to the Group Remuneration Committee.

Auditor independence

The Group financial statements have been audited by the independent auditors, Deloitte & Touche. The Group believes that the auditors have observed the highest level of business and professional ethics. It has no reason to believe that the external auditors have not at all times acted with unimpaired independence. Details of fees paid to the external auditors are disclosed in the financial statements of the Group. It is the Group's policy to ensure that it uses the most suitable organisation for professional services. Details of non-audit services provided by the external auditors are disclosed in the financial statements, together with an indication of fees paid.

Risk report

It is the Group's philosophy to achieve business success, which implicates that one has to get many things right and avoid adverse outcomes. In this regard, risk management is given priority. Risk cannot be managed unless it is known and understood fully. This entails a process of risk identification and timeous evaluation of actual and potential risk areas, across the full spectrum of business management functions. These risks are then pro-actively addressed, tolerated, mitigated or terminated in the best possible way so that business can achieve its desired outcomes.

Credit risk

Credit risk can be defined as the risk that a debtor will default on servicing and repaying a borrowing. It includes a possible shortfall in recovering a debt after realising security.

It is necessary for the credit department to continually assess and possibly adopt best practices applied by banks world-wide, including technological and management tools, enhancement of procedures and support and reporting systems. Many developments, especially processes linked to technology developments, are continually enhanced to keep up with best practice.

Special attention is paid to the management of problematic credits and intensive management and control are applied to maximise recoveries. In line with international practice the group has recognised the need to move towards integrating credit and market risk management and implementing appropriate concepts and activities.

Further risk management practices are disclosed in note 30 to the annual financial statements.

Operational risk

Operational risk arises from potential for loss through fraud, error, systems failure or other occurrences. The Group guards against these risks by:

- good systems and strong internal control;
- disaster and business recovery procedures;
- regular internal and independent audits;
- risk management programmes; and
- external insurance policies.

The primary objective is to identify possible weak links and strengthen them. The Group has comprehensive policies, standards and business recovery plans designed to ensure that its key business functions can continue under disaster conditions.

Internal audit

The Group's internal audit function, mandated under a formal charter performs an independent appraisal activity with the full co-operation of the board and management. Its objective is to assist executive management with the effective discharge of their responsibilities by examining and evaluating the Group's activities, resultant business risks and systems of internal control. Its mandate requires it to bring any significant control weakness to the attention of management and the audit committee for remedial action. Based on the recommendations of executive management and a review of the Group Audit committee, the board relies on the adoption of appropriate risk management, compliance and internal control to ensure a sound system of risk management and internal control. Internal Audit reports functionally to the Group Audit committee and administratively to the CEO of the Group.

Internal control

Internal control comprises methods and procedures implemented by management to safeguard assets, prevent and detect error and fraud and ensure the accuracy and completeness of accounting records and the timely preparation of reliable financial information.

The directors are responsible for maintaining an adequate system of internal control. Such a system reduces, but cannot eliminate, the possibility of fraud and error. Shareholders, depositors, policy holders and regulatory authorities have a vested interest in the accuracy and integrity of the financial statements and in knowing that accountability of assets is adequately safeguarded, verified and maintained. These controls are based on established written polices and procedures and are implemented by skilled personnel with an appropriate segregation of duties.

To ensure that the Group's business practices are beyond reproach, all employees are required to maintain the highest ethical standards. Nothing has come to the attention of the Group's directors to indicate that any material breakdown in controls, procedures and systems has occurred during the year under review. The independent auditors concur with this statement.

A systematic, documented assessment of the processes and outcomes surrounding key risks is carried out on an ongoing basis. These are performed at least annually for the purposes of making the prescribed disclosures in relation to risk management in the annual risk assessment. This addresses the group's exposure to inter alia:

- Currency risk
- Interest rate risk
- Liquidity risk
- Physical and operational risk
- Human resource risk
- Technological risk
- Compliance risk
- Reputational risk
- Legal risk
- Business continuity and disaster recovery
- Credit and Market risk
- Sustainability

Solvency risk

Insolvency is the chronic condition of being unable to pay one's debts in full. An insolvent company cannot discharge its debts. It must either be liquidated or rescued.

A group's solvency may be threatened if its other risks have been mismanaged. Capital adequacy is an exclusive concept which bankers, insurance companies, analysts and regulators attempt to measure in various ways. For further reference to capital adequacy, refer to the CFO report.

Market risk

Market risk arises from the negative impact on current and future earnings potential as a result of the volatility of exchange or interest rates. The Bank operates within the Market Risk Management Framework of the FirstRand Banking Group, where principles of managing risks associated with trading positions are set.

Trading limits are approved by the board, with the day-to-day operations and utilisation thereof resting with the Group Treasurer. Accordingly, the risk of adverse movements arising from fluctuating currency exchange rates and interest rate is managed in the dealing room within treasury, where operations take place within limits assigned to each dealer, based on his/her knowledge, expertise and experience. The Group Treasurer and independent risk manager monitor the trading portfolio daily and report weekly to relevant risk monitoring structures in the Group including the CEO.

The Investment Committee oversees the appropriate investment of the funds within the Group, which are, amongst others, placed with asset and fund managers. The committee monitors market movements to match as close as possible the assets under management to the profile of the liabilities to be covered in the future.

Market risk related operational risk

All activities are authorised and conducted using operational systems that are adequate for the recording, valuation and settlement of all transactions. Security measures are in place to prevent access of unauthorised persons. In line with generally accepted good risk management practices, the Group has an adequate segregation of duties in respect of dealing, confirmation, settlement and risk exposure measurement.

Counterparty limits

This risk arises from a counterparty to a transaction failing to meet punctuality a financial commitment. The risk is managed in the dealing room, by allotting counter-party trading limits on foreign exchange, capital market, and money market transactions. The risk manager monitors these limits daily and reports deviations to relevant executive management.

Liquidity and interest rate risk

The Bank's balance sheet is managed by ALCO (Asset and Liability Management Committee), which consists of the Bank's executive management representing key business areas. The Committee reports to the Risk and Compliance committee and meets monthly or more frequently as business may require.

Liquidity risk arises when insufficient cash is generated to meet commitments relating to credit extension, deposit maturities, and other transactions in the course of daily business. The Bank aims to remain prudently and economically liquid. Amongst others, this risk is managed by Treasury and ALCO that regularly look at the maturity profile of assets and the maturity profile of liabilities, and advise on strategic measures to contain or minimise potential adverse developments.

Interest rate risk arises when rate changes create the possibility of incurring losses. ALCO is charged with managing the structure of the balance sheet and dealing with key risks arising during the ordinary course of banking. These risks are quantified by calculating the impact of a one per cent increase and decrease in interest rates on net interest income and is reported to the board.

By managing these risks within board-approved limits, ALCO ensures that future cash flow commitments and capital adequacy requirements are met, while simultaneously ensuring that net interest income is maximised.

Other risk areas

Legal risk is the risk of loss due to defective contractual arrangements, legal liability, both criminal and civil, incurred during operations or by the inability of the organisation to enforce its rights. The Group addresses this risk with a proper system of contract management.

Insurance risk is the risk that unexpected losses which are not business related losses, are not adequately covered by insurance. The Group Audit Committee perform continued assessment of insurance risk programmes and structures.

Basel II

The capital requirements of the banking group are currently calculated on the principles stipulated in Determination 5 of the Banking Institutions Act (No. 2 of 1998) which is in line with the International Capital Accord as set out in Basel I. Worldwide, banks are preparing for the implementation of Basel II which is effective from 1 January 2008. This encompasses refined requirements for matching risks to capital on a more scientific manner. In general, from surveys conducted, it appears as if the revised requirements may result in higher capital requirements. Following this more conservative approach, the banking group will move towards the implementation of these principles, which already complies with the Bank of Namibia regulations. Regarding the calculation of capital required against credit and operational risks exposed to, the bank already complies with the standardised approaches per Basel II. The aim will be to move towards the Internal Risk Based approaches.

Reputational risk

Reputational risk is the risk to earnings or capital arising from negative public opinion. Managing this risk is an integral part of management at all levels and is supported by the risk governance framework. Various roleplayers follow formal processes in attending to communication strategies.

The Group's reputational risk is also evaluated as part of its operational and compliance risk profiles.

Five year summary of consolidated income statements
for the year ended 30 June

N$000's	2005	2004	2003	2002	2001
Interest income	**816 894**	773 592	607 592	471 495	419 534
Interest expenditure	**(392 117)**	(382 937)	(300 031)	(201 943)	(173 807)
Net interest income before impairment of advances	**424 777**	390 655	307 561	269 552	245 727
Impairment of advances	**(35 011)**	(22 957)	(11 597)	(5 106)	(3 334)
Net interest income after impairment of advances	**389 766**	367 698	295 964	264 446	242 393
Non-interest income	**249 112**	205 569	184 353	158 414	131 329
Net income from operations	**638 878**	573 267	480 317	422 860	373 722
Operating expenditure	**(359 243)**	(340 604)	(225 990)	(188 193)	(176 247)
Merger expenses		(10 082)			
Income from banking operations	**279 635**	222 581	254 327	234 667	197 475
Income from insurance operations	**29 389**	24 283			
Total income before share of earnings of associated companies	**309 024**	246 864	254 327	234 667	197 475
Share of earnings of associated companies	**1 129**	98			
Income before taxation	**310 153**	246 962	254 327	234 667	197 475
Taxation (direct and indirect)	**(93 802)**	(81 848)	(13 451)	(78 356)	(65 411)
Earnings	**216 351**	165 114	240 876	156 311	132 064
Earnings attributable to preference shareholders	**5 025**				
Earnings attributable to ordinary shareholders	**211 326**	165 114	240 876	156 311	132 064
Reconciliation of earnings attributable to ordinary shareholders and headline earnings					
Earnings attributable to ordinary shareholders	**211 326**	165 114	240 876	156 311	132 064
Less : profit on sale of fixed assets	**(6 296)**	(826)	(1 586)		
Less : profit on revaluation of investment property	**(1 063)**	(63)			
Headline earnings	**203 967**	164 225	239 290	156 311	132 064
Reconciliation of headline earnings and core operational earnings					
Headline earnings	**203 967**	164 225	239 290	156 311	132 064
Plus : Merger expenses		10 082			
Less : Once-off tax asset created on restructuring			(80 119)		
Core operational earnings	**203 967**	174 307	159 171	156 311	132 064

Five year summary of consolidated balance sheets
as at 30 June

N$000's	2005	2004	2003	2002	2001
Assets					
Banking operations					
Cash and short-term funds	**202 479**	280 023	452 498	703 221	305 391
Derivatives financial instruments	**5 028**				
Investment Securities and other investments	**648 246**	552 227	350 399	276 660	222 599
- originated	**153 626**	105 338	274 073	262 022	
- available for sale					
- held for trading	**494 620**	446 889	76 326	14 638	
Advances - originated	**6 709 475**	5 826 669	3 554 728	2 932 209	2 632 703
Insurance operations					
Investment Securities and other investments	**190 917**	84 531			
- available for sale	**21 364**	17 854			
- originated	**12 954**				
- held for trading	**156 599**	66 677			
Accounts receivable	**136 100**	97 253	249 758	98 706	57 953
Investment in associate companies	**6 385**	2 824	2,835		
Property and equipment	**152 242**	141 997	81 442	59 304	55 543
Investment property	**11 878**	18 271			
Current taxation	**8 241**	41 293			
Deferred taxation assets	**52 364**	45 699	40 244	1 630	2 077
Intangible assets	**78 559**	109 236			
Total assets	**8 201 914**	7 200 023	4 731 904	4 071 730	3 276 266
Liabilities and shareholders' equity					
Liabilities					
Banking operations					
Deposits and current accounts	**6 706 319**	5 884 555	3 950 480	3 270 850	2 627 544
Derivative financial instruments	**4 634**	16 710			
Insurance operations					
Policyholder liabilities	**109 395**	76 964			
Creditors and accruals	**147 709**	121 401	161 971	135 265	64 504
Current taxation	**16 795**	377			
Post-retirement medical liability	**27 665**	25 685	21 694	20 660	20 390
Deferred taxation liabilities	**46 060**	36 217		50 518	41 702
Total liabilities	**7 058 577**	6 161 909	4 134 145	3 477 293	2 754 140
Shareholders' equity					
Share capital	**1 338**	1 440	1 009	1 000	1 000
Share premium	**280 810**	308 427	17 772	10 981	10 981
Non-distributable reserves	**13 352**	13 109	35 605		
Distributable reserves	**847 837**	715 138	543 373	582 456	510 145
Total shareholders' equity	**1 143 337**	1 038 114	597 759	594 437	522 126
Total liabilities and shareholders' equity	**8 201 914**	7 200 023	4 731 904	4 071 730	3 276 266
Contingencies and commitments	**259 533**	259 901	200 786	159 136	168 851

Five year summary of ratios and selected financial information as at 30 June

	2005	2004	2003	2002	2001
Number of ordinary shares in issue ('000)	**264 347**	259 071	200 000	200 000	200 000
Weighted number of ordinary shares in issue ('000)	**258 496**	259 071	200 000	200 000	200 000
Number of preference shares in issue ('000)	**2**	27 188	0	0	0
Number of preference shares expected to convert ('000)	**0**	14 534	0	0	0
Earnings per share (cents)	**81.8**	63.7	120.4	78.2	66.0
Headline earnings per share (cents)	**78.9**	63.4	119.6	78.2	66.0
Diluted earnings per share (cents)	**81.8**	60.4	120.4	78.2	66.0
Core operational earnings per share (cents)	**78.9**	67.3	79.6	78.2	66.0
Diluted core operational earnings per share (cents)	**78.9**	63.7	79.6	78.2	66.0
Return on assets (earnings on average assets) (%)	**2.8**	2.8	5.5	4.3	4.4
Return on equity (earnings on average equity) (%)	**19.8**	20.2	40.4	28.0	28.2
Core operational earnings on average assets (%)	**2.6**	2.9	3.6	4.3	4.4
Core operational earnings on average equity (%)	**18.7**	21.3	26.7	28.0	28.2
Cost to income ratio (including merger expenses) (%)	**51.0**	56.5	45.9	44.0	46.7
Net asset value per share (cents)	**432.5**	400.7	298.9	297.2	261.1
Dividend per share - ordinary dividend declared (cents)	**15.0**	13.5			
Dividend per share - ordinary dividend paid (cents)	**17.0**	11.5	25.0	42.0	33.0
Total dividend per share - ordinary dividend (cents)	**32.0**	25.0	25.0	42.0	33.0
Dividend per share - special dividend (cents)			95.0		
Dividend yield - ordinary dividend (%)	**5.3**	5.4	5.6	10.6	9.8
Dividend yield - special dividend (%)			21.3		
Dividend cover (times)	**2.6**	2.5	1.0	1.9	2.6
Earnings yield (%)	**13.6**	13.9	27.0	19.8	19.7
Share price -ordinary (cents)	**600**	460	446	395	336
Price / Earnings ratio	**7.3**	7.2	3.7	5.1	5.1
Impairment as charge of average advances (%)	**0.6**	0.5	0.4	0.2	0.1
Non-interest revenue as a % of total revenue (Group)	**39.7**	37.1	37.5	37.0	34.8
Capital adequacy					
Tier 1	**17.2**	19.9	18.7	23.2	21.6
Tier 1 & Tier 2	**18.6**	21.2	19.9	24.4	22.8

Share analyses - ordinary shares

Range of shareholdings	Shareholders		Shares held	
	Number	%	Number	%
1-999	1 105	38.84	443 535	0.17
1 000 – 1 999	468	16.45	600 523	0.22
2 000 – 2 999	227	7.98	548 581	0.21
3 000 – 3 999	106	3.73	360 750	0.13
4 000 – 4 999	66	2.32	287 119	0.11
5 000 – 9 999	256	9.00	1 703 126	0.64
Over 10 000	617	21.69	263 649 616	98.53
	2 845	100.00	267 593 250	100.00

Stock exchange performance	2005	2004
Share price (cents)		
- high for the year	**600**	500
- low for the year	**450**	444
- closing price per share	**600**	460
Number of shares traded ('000's)	**9 691**	7 014
Value of shares traded ('000's)	**48 854**	32 163
Number of shares traded as percentage of issued shares (%)	**3.62**	2.69

Category	Shareholders		Shares held	
	Number	%	Number	%
Corporate bodies	34	1.20	196 642 034	73.49
Nominee companies	6	0.21	48 815 643	18.24
Trust accounts	21	0.74	3 646 887	1.36
Private individuals	2 784	97.86	18 488 686	6.91
	2 845	100.00	267 593 250	100.00

Analysis of major shareholders Name	Number of shares	% of issued shares
FirstRand Bank Holdings Limited	160 589 527	60.01
Standard Bank (Namibia) Nominees (Proprietary) Limited	48 815 643	18.24
Government Institutions Pension Fund *	26 641 693	9.96
CBN Nominees (Proprietary) Limited	10 333 730	3.86
TransNamib Limited	8 400 009	3.14

* excludes indirect shareholding via nominee companies

FirstRand Bank Holdings Limited, Standard Bank (Namibia) Nominees (Proprietary) Limited and the Government Institutions Pension Fund are the only shareholders who beneficially hold more than 5% of the issued ordinary shares in the Company. The nominee companies mentioned above are registered shareholders in the Company, but hold the shares on behalf of other beneficial owners.

Only 2 issued preference shares where in existence at 30 June 2005. These were preference shares issued to RMB-SI Investments (Proprietary) Limited to facilitate a structured insurance transaction with Swabou Insurance Company Limited. Refer to directors report.

Representation points

Branch name	E-mail address	Postal address	Code	Telephone	Fax
Aranos	aranos@fnbnamibia.com.na	Box 91	063	272 035	272 233
Ausspannplatz	ausspannplatz@fnbnamibia.com.na	Box 5065	061	299 2666	299 2657
ATM Service Centre	asc@fnbnamibia.com.na	Box 5065	061	299 2613	299 2657
Call Centre	callcentre@fnbnambia.com.na	Box 285	061	299 2222	246 438
Cash Service Centre	csc@fnbnamibia.com.na	Box 5065	061	299 2713	299 2715
EasyLoan Centre	microloans@fnbnamibia.com.na	Box 285	061	299 2056	299 2061
Exclusive Banking Suite	firstcity@fnbnamibia.com.na	Box 285	061	299 2525	299 2302
First Card	firstcard@fnbnamibia.com.na	Box 285	061	299 7199/7087	299 7188
First Link	firstlink@fnbnamibia.com.na	Box 1147	061	371 250	371 281
First Trust	firsttrust@fnbnamibia.com.na	Box 448	061	299 2093	249 824
FNB Insurance	fnbinsurance@fnbnamibia.com.na	Box 25658	061	299 2920	299 2930
Gobabis	fnbgobabis@fnbnamibia.com.na	Box 14	062	562 067	562 475
Grootfontein	fnbgrootfontein@fnbnamibia.com.na	Box 30	067	242 112	242 882
HomeLoans	fnbhomeloans@fnbnamibia.com.na	Box 2150	061	299 2523	299 2526
International Business Centre	ibc@fnbnamibia.com.na	P/Bag 13239	061	299 2040	299 2125
Internet Business Solutions	e-banking@fnbnamibia.com.na	Box 195	061	299 2187	299 7139
John Meinert	johnmeinert@fnbnamibia.com.na	Box 23043	061	299 2888	23 2394
Karasburg	fnbkarasburg@fnbnamibia.com.na	Box 10	063	270 012	270 079
Karibib	fnbkaribib@fnbnamibia.com.na	Box 24	064	550 024/1	550 213
Katima Mulilo	katimamulilo@fnbnamibia.com.na	Box 2711	066	253 714/1	254 700
Keetmanshoop	fnbkeetmanshoop@fnbnamibia.com.na	Box 77	063	223 311	223 772
Lüderitz	fnbluderitz@fnbnamibia.com.na	Box 10	063	202 077	203 106
Mariental	fnbmariental@fnbnamibia.com.na	Box 131	063	242 351	240 360
Okahandja	fnbokahandja@fnbnamibia.com.na	Box 140	062	501 081	502 070
Omaruru	fnbomaruru@fnbnamibia.com.na	Box 9	064	570 023	570 353
Ondangwa	fnbondangwa@fnbnamibia.com.na	Box 42	065	240 280	240 208
Oranjemund	fnboranjemund@fnbnamibia.com.na	Box 204	063	232 472	232 215
Oshakati	fnboshakati@fnbnamibia.com.na	P/Bag 5510	065	220 467/6	221 136
Otavi	fnbotavi@fnbnamibia.com.na	Box 81	067	234 050	234 070
Otjiwarongo	fnbotjiwarongo@fnbnamibia.com.na	Box 64	067	302 278	303 632
Outjo	fnboutjo@fnbnamibia.com.na	Box 16	067	313 002	313 307
Rehoboth	fnbrehoboth@fnbnamibia.com.na	P/Bag 1008	062	522 051	522 672
Rundu	fnbrundu@fnbnamibia.com.na	Box 149	066	255 057	255 840
Swabou Life	swaboulife@swabou.com.na	Box 79	061	299 7502	299 7557
Swabou Insurance	swains@swabou.com.na	Box 79	061	299 7505	299 7551
Swakopmund	fnbswakop@fnbnamibia.com.na	Box 1	064	410 2111	404 4801
Treasury Division	dealers@fnbnamibia.com.na	P/Bag 13239	061	299 2340	230 012
Tsumeb	fnbtsumeb@fnbnamibia.com.na	Box 251	067	221 794	220 977
Usakos	fnbusakos@fnbnamibia.com.na	Box 55	064	530 002	530 179
Walvis Bay	fnbwalvisbay@fnbnamibia.com.na	Box 1	064	201 8111	201 8231
WesBank	wesbank@fnbnamibia.com.na	Box 2941	061	299 2437	299 2500
WesBank Walvis Bay	wesbankwb@fnbnamibia.com.na	Box 1	064	201 8222	209 621
Windhoek Commercial Suite	comsuite@fnbnamibia.com.na	Box 285	061	299 2603	299 2052
Windhoek Corporate Suite	corporate@fnbnamibia.com.na	Box 285	061	299 2067	299 2079
Windhoek Main Branch	fnbwindhoek@fnbnamibia.com.na	Box 285	061	299 2222	299 2300

The diverse Namibian culture offers an array of baskets, clay pots and wooden bowls, designed and crafted for specific purposes. Functions of baskets range from winnowing grain (mahangu), collecting and transporting food and goods over long distances in remote areas, fishing aids, beer strainers to storing grain and as serving plates.

At the FNB Namibia Group, we value this traditional craft that is handed from generation to generation with the main purpose of quality and function. This is why we offer our customers immediate and long-term financial security as well as the opportunity to grow in a safe environment, in a variety of financial services.

We embody this traditional worth in a growing society for the benefit of our customers, our stakeholders and our country.

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