Chief Financial Officer's Report

Group Overview

The diversified earnings base of the FNB Namibia Holdings Group (the Group) continued to achieve strong growth in earnings. Profit attributable to ordinary shareholders for the year increased by 19% to N$303.2 million (2006: N$255.6 million). The restructuring of the banking group's capital base - whereby N$260 million in bonds, qualifying as Tier 2 capital, were issued - had a negative impact on earnings growth of some 2%. This was countered by the positive effect of a 2% improvement in return on equity as a result of paying a special dividend of 93c per ordinary share. Earnings per share increased by 19% to 114.7 cents (2006: 96.7 cents), while return on average shareholders' equity increased to 24% from 21%.

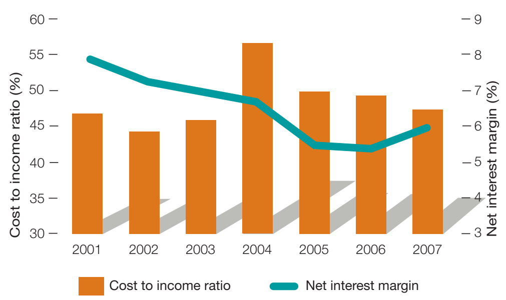
These results should be viewed against a background of tough market conditions. They are attributable to higher interest rates, good investment returns, a diversified range of products and services and the realisation of synergies in the Group. Banking activities contributed 79% (2006: 78%) to the Group's profit, while the life business has increased its share to 12% (2006: 10%).

The relative contributions are set out in the table below:

N$ thousand	2007	2006	%
Banking	238 846	199 023	20.0
Swabou Life	49 556	34 984	41.7
Swabou Insurance	4 440	(834)	>100

The Group's cost to income ratio continued to improve to 47.5% (2006: 49.3%). The improvement came as a result mainly of a 26% increase in interest income and notwithstanding a 15% increase in operating expenses.

Cost to income ratio vs net interest margin



FNB Namibia Banking Group ("the banking group")

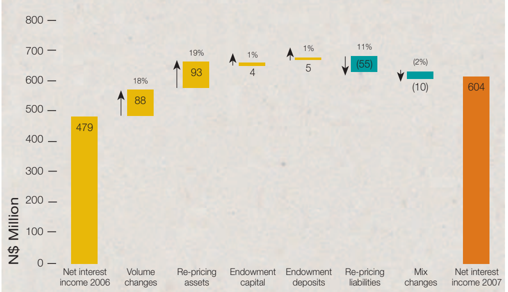
The banking operations of the Group consist of First National Bank of Namibia Limited and its wholly owned subsidiary, Swabou Investments (Pty) Ltd, which houses the home loan book of the former Swabou Bank Limited.

Income statement

Interest income

The banking group's 26% growth in net interest income before impairment of advances (from N$479 million to N$604 million) was achieved despite continued market pressure on margins and reflects the endowment benefit of higher interest rates on the equity and deposit base. The chart below indicates the contribution of the various components. It illustrates the movement of interest income

Margin analysis



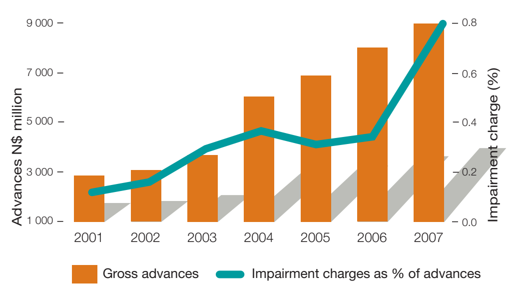
after expenses, considering all assets and liabilities. Repricing, driven by the increase in prime, i.e. net after the effect on non-interest bearing assets and liabilities, had the highest impact.

The volume growth of 18% is directly linked to the fact that average assets grew by 18%. The bank experienced high levels of surplus liquidity that only normalised in the last month of the financial year, resulting in only an 11% snapshot year on year increase in assets. Due to their overnight status, surplus deposits had to be invested in lower yielding liquid assets to maintain the bank's liquidity risk profile.

Impairment losses

As reported last year, the low level of credit impairments reported then was not sustainable. Higher interest rates and increased consumer spending financed by debt culminated in a higher impairment charge. The bulk of the increase relates to the portfolio impairment that normalised during the year.

Gross advances vs impairment charge



The impairment charge of N$67.7 million (0.8% of average advances) comprises the following components:

	30 June 2007		30 June 2006	
	N$ million	% of average advances	N$ million	% of average advances
Specific impairment on non-performing loans	27.2	0.32	14.3	0.19
Present value of security of non-performing loans	18.6	0.22	14.7	0.19
Total specific impairment	45.8	0.54	29.0	0.38
Portfolio impairment	21.9	0.26	0.3	0.01
Total impairment charge	67.7	0.80	29.3	0.39

Non-interest revenue

Fee and commission income increased by 17% as a result of:

- An 11% increase (N$11.3 million) in service fees, in line with customer volume growth. Service fees account for 43% of fee and commission income.
- an 18% increase in cash deposit fees, largely attributable to higher volumes;
- a 37% increase in cheque dishonouring charges; and
- a 70% increase in excess availment fees.

The last two items are punitive charges imposed where cheques issued or cash withdrawals exceed clients' arrangements or available funds. It is encouraging to observe a definite improvement in behaviour after an increase in these avoidable charges.

Fair value income decreased by 80%, mainly ascribable to a N$7.7 million decrease in foreign exchange trading and a N$12.7 million decrease in treasury debt trading. The latter is due to lower values of government paper in issue as well as a policy decision to designate the full liquid asset portfolio as available for sale, where movements in fair value are accounted for in non-distributable reserves until realisation.

The subordinated bonds issued were classified as a financial liability carried at fair value. This revaluation of the liability resulted in a claw-back of N$8 million, against the N$11 million cost of changing the fixed rate interest cost to a variable rate for improved interest rate risk management.

1985 Microsoft Windows is launched and currently runs on 90% of all computers worldwide.

1986 April 26, the Chernobyl nuclear meltdown inflicts long-term radiation poisoning on civilians and the environment which are still evident today.

1986 Barclays Bank International disinvests by selling all its remaining shares in Barclays National. The name changes to First National Bank of Southern Africa.

1988 A bomb goes off in FNB's Oshakati branch resulting in the deaths of 27 people.

1988 The "Finger of God", also known as Mukorob, a rock pillar 34 meters high in southern Namibia blows over in a storm on 4 December.

1989 UNTAG is established to assist the Special Representative of the Secretary-General to ensure the early independence of Namibia through free and fair elections under the supervision and control of the United Nations, and to carry out a number of other duties.

Chief Financial Officer's Report (continued)

Operating expenses

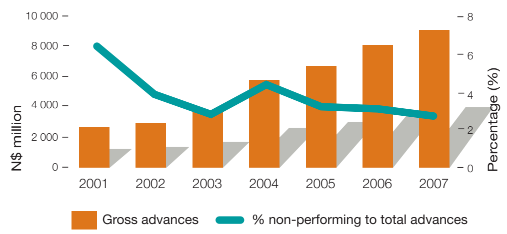
Operating expenses grew at 13%. Personnel costs made up 50% (2006: 52%) of operating costs and were contained to an increase of 9%. Direct salary costs increased by 7% and the staff complement remained fairly static. IT costs, the second largest item, reflected an increase of 39% - a result of spending on systems to ensure superior levels of service delivery and improved efficiencies over the long run, as well as enhanced risk management.

Balance sheet

The banking group's total assets grew by N$1.2 billion year-on -year to N$10.5 billion. Advances growth slowed to 12%, mainly as a result of a competitive market and increasing interest rates, but also because of a strategy not to grow the book at the expense of asset quality. Growth has been generated largely from the consumer segment. FNB remained the market leader in mortgage and asset based finance.

Although the impairment charge in the income statement has increased, the quality of assets remains healthy, with the ratio of non-performing advances to total advances improving to 2.7% (2006: 3.1%).

Gross advances vs non-performing advances



Balance sheet growth was predominantly funded by balances from corporates and other financial institutions, including the long-term liability of N$260 million from the subordinated bonds issued with the capital restructuring.

Encouraging individuals to save remains a priority, although inflationary pressures and high household debt are discouraging factors.

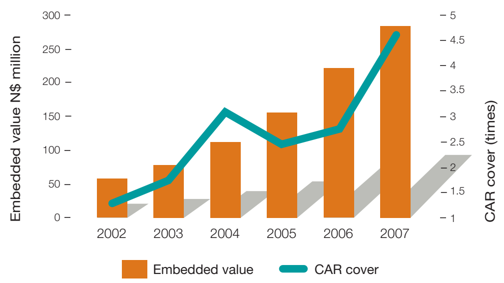
Swabou Life Assurance Company Ltd

The excellent results of Swabou Life reflected the benefits of synergies, exceptional returns in the investment portfolio and effective cost management. Strong premium inflows were achieved, generated mainly by growth in recurring premium income, continued access to credit products of the banking group and excellent support by independent brokerages. Collaboration within the Group remained a significant component, with 55% of new business premiums being sourced through Group synergies.

Earnings after tax for the period ended 30 June 2007 increased by 42% to N$49.6 million (2006: N$35.0 million).

The financial soundness valuation of Swabou Life is reflected in the growth in free reserves of N$27.9 million to N$110.9 million at 30 June 2007 (2006: N$83.0 million). The embedded value of Swabou Life has increased by 29% to N$282.2 million. (2006: N$219.5 million).

Embedded value vs CAR cover of Swabou Life



Swabou Insurance Company Ltd

Net premium revenue was only 2% up on the previous year, mainly because business activity decreased in anticipation of the OUTsurance transaction.

Despite tough underwriting conditions and the marginal increase in net premium income, the company recorded a profit after tax of N$5.5 million compared to N$0.5 million in the prior year. The main contributors were the improvement in the claims ratio from 68% to 55% and a decrease in expenses.

The short-term insurance company had been overly exposed to large claim events (Mariental floods) because of its small client and capital base. We therefore embarked on a strategy to grow it in a small, saturated market by moving away from brokers and towards direct sales, as in the OUTsurance model.

A transaction whereby 49% of Swabou Insurance was sold to FirstRand STI Holdings Limited to allow the introduc-tion of the OUTsurance brand became effective on 1 July 2007. In anticipation, all personal business was stopped on 31 March 2007 resulting in a run-off of all policies except home-owners. This product will be rebranded to OUTsurance under the Swabou Insurance licence. The 2008 financial year will also see the introduction of OUTsurance personal lines business.

Capital management

Banking Group

The optimal level of capital in a banking institution is determined by balancing the requirements of the Regulator, the shareholders, deposit holders and debt holders.

Principles

For a banking institution, capital serves as a foundation for growth and a cushion against unexpected losses. It mitigates economic risk that might otherwise threaten its continuation or lead to loss of faith by stakeholders. It is the policy of the bank group to be capitalised at the higher of economic capital or regulatory capital inclusive of a buffer. In terms of the banking group's recently revised capital management framework, a decision was made to hold 15% as a minimum level of capital.

Economic capital is defined as the capital which the Banking Group must hold, commensurate with its risk profile, to reassure third party stakeholders that it would be able to discharge its obligations even under stress conditions, and would continue to operate as a going concern. Tests are performed regularly to assess whether the bank is appropriately capitalised.

Demand for capital

The Bank of Namibia requires banking institutions to hold a minimum amount of capital, 10% or more of the calculated risk weighted assets. As a subsidiary of FirstRand Bank Holdings Limited, the Group also needs to abide by South African Reserve Bank ("SARB") regulations requiring a minimum of 10% of calculated risk weighted assets, as defined by the SARB.

Current capital requirements in the Banking Institutions Act 1998 are based on the International Capital Accord of the Basel Committee established in 1988. This accord has been revised and Basel II, as adapted by the Bank of Namibia, will be effective from 1 January 2010.

The main changes lie in the calculation of risk weighted assets and in attempts to align capital levels more closely to true underlying economic risks.

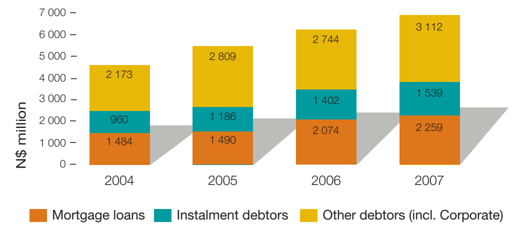
As FirstRand Bank Holdings will apply the Basel II principles from 1 January 2008, the Namibian banking group will ensure that it complies with the standardised approach in calculating credit and operational risk capital.

Indications are that compliance with Basel II will not require a material increase in our current economic capital estimates or minimum regulatory capital levels.

The following graph depicts the growth in the major classes of risk weighted assets since the merger with Swabou in 2003:

Supply of capital

Major classes of risk weighted assets



Because the bank generates earnings that are adequate to meet new capital requirements, management focus is on achieving the most cost-effective capital structure.

1990 *Nelson Mandela is released after spending 27 years imprisoned on Robben Island.*

1990 *Namibia gains Independence on 21 March.*

1992 *Frankie Fredericks makes history by winning two silvers in the 100 and 200 meter races at the World Championships.*

1993 *The Namibian Dollar is launched and is to trade on par with the South African Rand.*

1996 *Dolly the Sheep is cloned marking a major, but controversial breakthrough in the field of genetics.*

1997 *First National Bank is listed on the Namibia Stock Exchange.*

Chief Financial Officer's Report (continued)

As part of its strategy to optimise the use of capital and to address debt/equity mix, it returned surplus capital to its shareholders in the form of a special dividend. Subsequently it issued subordinated bonds to the value of N$260 million, maturing in 2017 with an option of early redemption after 5 years. The bonds were at a fixed rate of 9.15%, 49 basis points above the GC12 at the time.

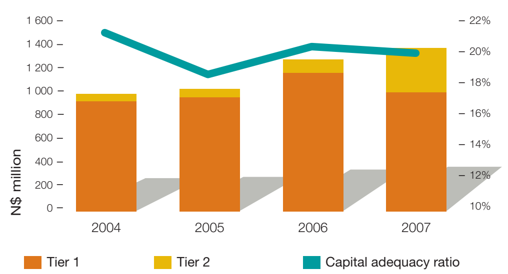
The relatively higher cost of capital, as against debt, means capital levels have to be managed to the minimum required, thus increasing the true economic value added to shareholders.

The Bank of Namibia allows the appropriation of current year profits to capital only on audited results. Maximum exposures to large customers are linked to the capital base.

The board approved a 5% buffer above the 10% minimum determined by the Bank of Namibia. This is mainly to allow for growth until the next financial year's profits are appropriated to capital. The buffer is also influenced by economic capital requirements.

The following graph depicts the growth in qualifying capital (Tier 1 and Tier 2) as well as the capital adequacy ratio: Capital adequacy for the Banking Group as at 30 June is set out on the next page.

Qualifying capital and capital adequacy ratio



Insurance operations

Swabou Life's policy is to invest capital for the capital adequacy requirement (CAR) in cash or near cash instruments, and to invest the balance in equities.

The objective is to ensure a sufficient excess of assets over liabilities to guard against severely negative conditions in the future. The CAR for Swabou Life is N$24.1 million (30 June 2006: N$29.9 million). Free reserves cover the requirement 4.6 times (30 June 2006: 2.78 times). The capital base has been ring-fenced until the conclusion of the Momentum transaction, which was approved by the courts in July. All assets and liabilities were transferred at the beginning of August 2007. The capital of the life company will be normalised once an actuarial valuation of the transfer has taken place.

Swabou Insurance's capital adequacy is measured by the solvency margin – the free reserve ratio of shareholders' funds expressed as a percentage of net premium income. The solvency margin at 30 June 2007 was 85.2% (2006: 77.7%), a sound and healthy position.

Conclusion

Although the overall performance of the Namibian economy is expected to improve in 2008, unrelenting pressure on inflation is expected to result in a tight monetary policy. Higher interest rates are expected to persist. This will affect household spending and dampen demand for vehicles and property, leading to impairment charge increases. This will be offset in part by increased interest income while rates remain high.

Despite the less favourable operating environment, the outlook remains positive. Two factors have added resilience to our earnings prospects: Insistence on writing quality assets and exploiting the opportunities inherent in a diversified financial services group. In addition, we will continue to improve operational efficiencies and to ensure that our spending is geared to improving service to customers.

Gideon Cornelissen
Group Chief Financial Officer

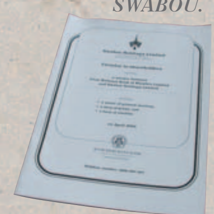
N$ million	Balance 2007	Balance 2006	Risk weight %	Risk adjusted balance 2007	Risk adjusted balance 2006
Capital adequacy of the Banking Group on 30 June					
Risk-adjusted assets and off-balance sheet exposures					
Cash, including foreign currency, claims on government and Bank of Namibia	1 085.8	984.2	0		
Public sector advances	305.6	273.0	10	30.6	27.3
Other bank advances and letters of credit	255.6	190.5	20	51.1	38.0
Mortgage advances (excluding commercial)	4 518.0	4 148.5	50	2 259.0	2 074.3
Other assets and advances	4 569.3	4 080.6	100	4 569.3	4 080.6
Total	10 734.3	9 676.8		6 910.0	6 220.2

N$ million	2007	2006
Regulatory capital of the Banking Group		
Tier 1		
Share capital and share premium	1 142.8	1 142.8
Retained profits	160.7	371.3
Opening balance	371.3	169.7
Current year profit	238.9	199.0
Dividend	(457.6)	(13.4)
Transfer from general risk reserve	8.1	16.0
Capital impairment: Intangible assets	(309.0)	(352.0)
Total tier 1	994.5	1,162.1
Tier 2		
Eligible subordinated term debt (limited to 50% of total Tier 1 capital)	260.0	
General risk reserve, including portfolio impairment	114.1	100.2
Revaluation reserves	1.0	1.0
Available for sale assets	2.4	0.2
Staff share option cost	(1.5)	0.8
Total tier 2	376.0	102.2
Total tier 1 and tier 2 capital	1 370.5	1 264.3
Risk-weighted capital ratios		
Tier 1	14.4%	18.7%
Tier 2	5.4%	1.6%
Total	19.8%	20.3%

2000 The Euro is introduced as the single currency for EU member states.

2001 Two planes smash into the Twin Towers in what later turns out to be the terrorist attack now infamously known as September 11.

2003 FNB merges with SWABOU.



2005 President Hifikepunye Pohamba takes office as Head of State.

2007 FNB celebrates its Centenary!