



**SIMONIS
STORM**
Securities

FIRST NATIONAL BANK OF NAMIBIA
Results for the year ended June 2006

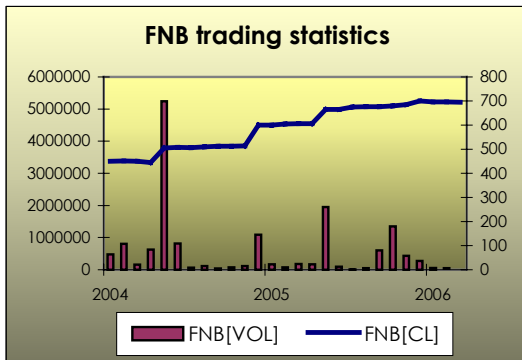
14 September 2006

Current price			695.0		
	2004	2005	2006	2007E	2008E
Net interest income	396.9	422.8	484.4	565.8	645.3
% change		6.5%	14.6%	16.8%	14.0%
PBT	247.0	309.5	372.0	577.1	644.0
% change		25.3%	20.2%	7.6%	9.4%
Headline earnings	164.2	204.0	251.1	276.5	302.6
NAV cps	400.7	444.6	492.7	552.8	618.5
HEPS cps	63.4	78.7	95.0	104.6	114.5
DPS cps	25	33	40	45	49
PE ratio	7.2	7.4	7.2	6.7	6.1
Dividend Yield*	5.6%	7.1%	6.7%	6.4%	7.0%

Source : FNB annual reports; SSS Research

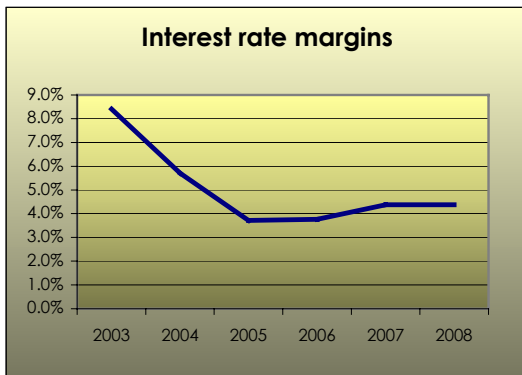
* The dividend yield is based on historical information

FNB Namibia Holdings reported that its headline earnings per share increased by 20.4% from 78.9cps in 2005 to 95.0cps in 2006. Non-interest income has grown significantly since the merger with Swabou in 2004 and has increased its contribution to the total revenue of the group. However, the banking division still contributed the greatest portion of total revenue representing 86%. The group had a very a strong H2 performance, adding more than 60% of their bottom line during that period.



Source : I-Net Bridge; SSS Research

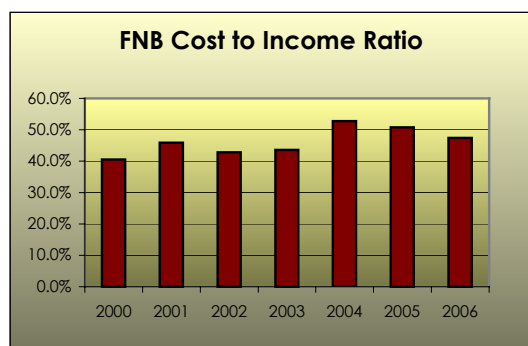
A dividend of 40cps was declared for the year, translating into approximately 60% of the earnings being retained and reflecting an aggressive dividend cover of 2.3x (down from 2.4x last year). This aggressive policy is justified by the high level of capitalisation, at present. The dividend was increased by 25% from the prior year's 32c declaration and we expect this to continue going forward.



Source : I-Net Bridge; SSS Research

Operating expenses have increased since the previous reporting period by 10.2%, adding N\$39m. This resulted mainly from the increase in staff costs as a result of a change in accounting standards. This increase has also resulted from the increase in the volumes of business conducted by the group, but economies of scale are placing downward pressure on the operating expenses.

The return on equity has increased to 20.3% (2005 : 18.4%, 2004 : 20.1%) and the return on assets has followed a similar trend increasing to 2.8% (2005 : 2.6%, 2004 : 2.8%).



Source : FNB annual reports; SSS Research

The cost to income ratio increased significantly during 2004 after the Swabou merger, but FNB has managed to decrease this rate over the past two years and we expect this ratio to decrease as the group exploit economies of scale more.

The group has been consolidating their operations since the Swabou merger and their efforts seem to be bearing fruits.

Swabou Life has grown its embedded value by 41.4%, from N\$155.2m in 2005 to N\$219m. This was mainly as a result of increased volumes attained from cross-selling via the banking business. The earnings after tax increased to N\$34.9m (2005 : N\$20.4m).

The banking business has grown mainly as a result of the growth in advances with the majority of the growth, in nominal terms, coming from the mortgage division, while the largest increase y-o-y has been observed by the overdraft advances. However, the growth of 17% in the mortgage book of FNB was already lower than the 26% market growth and can be ascribed to

the fact that they want to reduce their relatively large exposure in this segment. We believe that the growth observed in mortgage loans will further slow down during the next year, while we should see further growth in overdraft advances as a result of the interest rates that already increased during the year and the further anticipated increases. The interest rate increases already effected, would not be reflected in the financial statements as it came late during the group's financial year.

Swabou Insurance has been experiencing a few problems during the past year as they have not yet reached economies of scale and the impact of the Mariental floods have also placed a great deal of pressure on the bottom line. The gross premium income has grown by 26%, but they have only managed to break-even in this business.

We believe that the rate cycle should continue to increase until mid 2007 and this should foster higher interest margins while increasing life assurance returns.

We believe that FNB Namibia Holdings is a true NSX blue-chip counter. Management has set their focus on turning the Swabou Insurance business around during the next year.

From an NAV point of view, FNB is fairly cheap. At a current share price of 695c, it is trading at a premium of 44% to its NAV. The JSE listed peer group on average trade at a premium of 80% to 180%. The current PE ratio is 7.2x. Based on our forecasted dividends per share of 46.6c, we conservatively estimate a 12-mth-target price of 800c. Our DDM indicates the share is trading at a discount of 15.0%. Our recommendation is BUY.



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