

## 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 Namibian 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

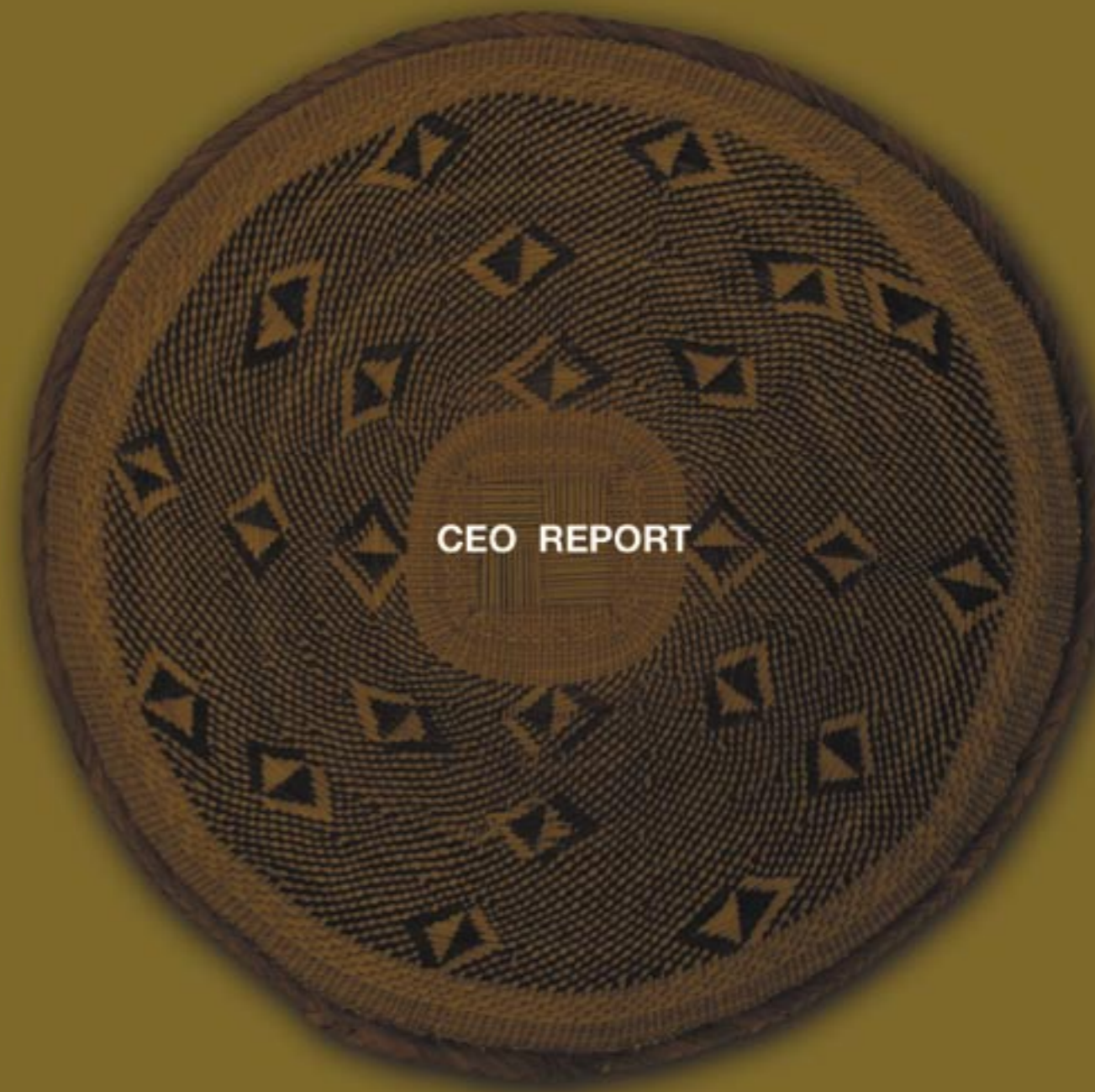
At the annual general meeting in November 2004, Cecil Robertson retired and I would like to express our appreciation for the valuable contribution his wealth of experience made during the demanding merger process.

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.

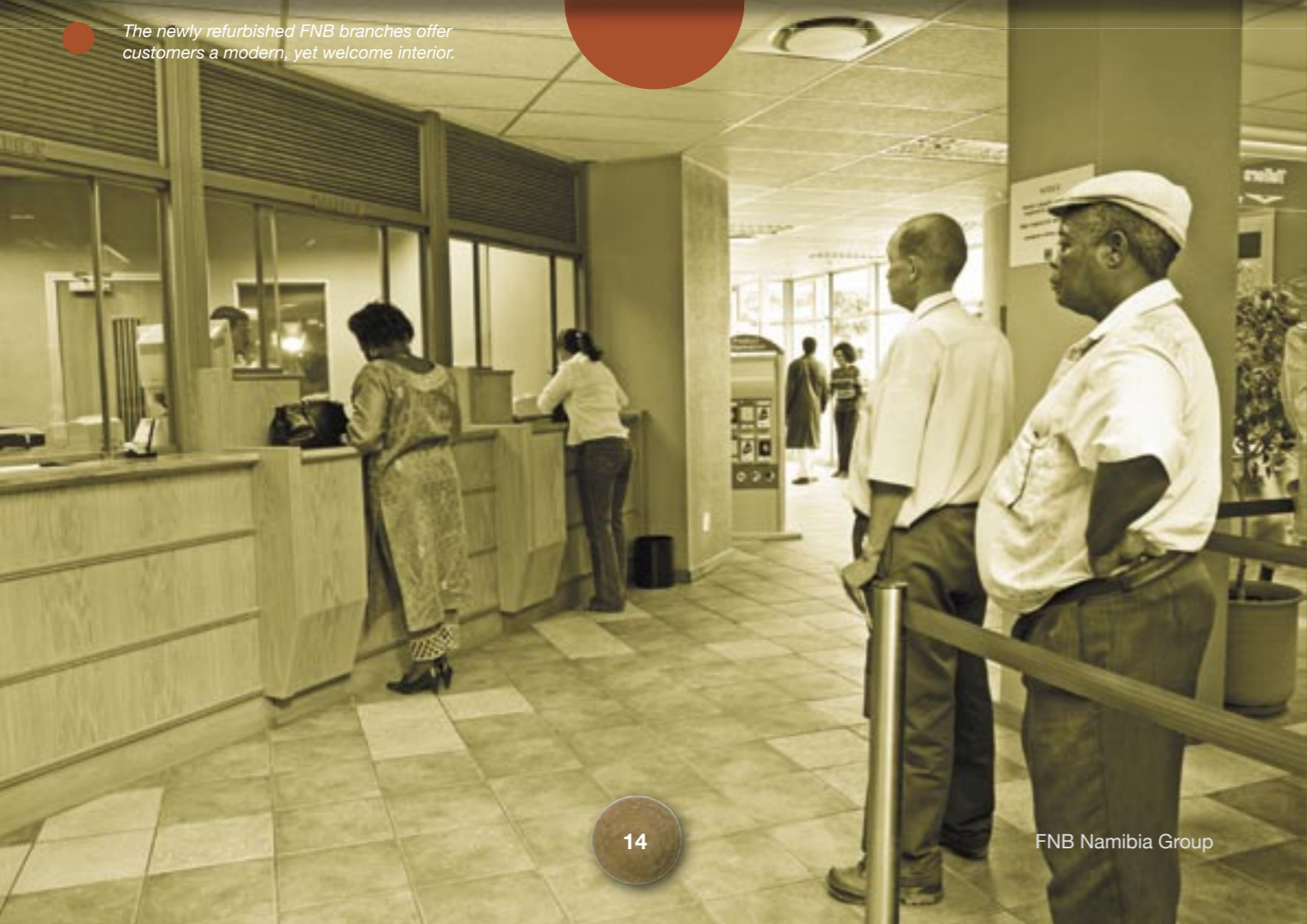
Dieter Voigts





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 9% 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 benefitted 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 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.



## CEO report continued

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.

*InContact*, providing customers with real-time information on their accounts via SMS or e-mail, is our industry-leading information system. We continue to offer *InContact* 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-selling opportunities across the Group.

In the year under review, corporate business grew at a moderate pace. 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 90.

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 opportunities 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 visibility in the market.

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 to the Group. He 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

