

CEO's Report

The Group's performance for the year was dominated by the merger between FNB Namibia and Swabou, and this is reflected in the financial results. Three things, in particular, impacted on profitability:

- A severe squeeze on interest rate margins due to the rapid and significant reduction in prime lending rates;
- Substantially higher than average investments in infrastructure (particularly IT) and in human resource development; and
- Extraordinary expenditure – much of it planned for over an extended period but accelerated by the merger.

Also impacting on results was our commitment to ensuring that no non-managerial jobs would be lost in forming the new Group. Two factors enabled us to achieve this. One was the decision to freeze positions before and during the merger. The other was our ability to integrate skills in positions vacated by natural attrition. The Group is slightly understaffed in some business units but new appointments will be made in a measured fashion to meet the requirements of a rapidly changing financial sector.

In consolidating three financial institutions – a bank, a short-term insurance company and a life insurance company – the holding company has established a new culture of inclusion and innovation. We have created Namibia's most comprehensive financial services group.

Retail Banking

The merger facilitated the achievement of a long-sought goal – to improve economies of scale by dramatically expanding the customer base. More than ever, the Bank is well represented throughout the country and presents the largest physical presence of any bank in Namibia.

Our delivery channels include 27 branches, 17 agencies, 85 full-service ATMs and 110 mini ATMs. They provide a comprehensive national network for all Namibians and improved access to banking products for former Swabou customers. Mini ATMs eliminate the infrastructural costs of establishing brick and mortar branches and bring banking to otherwise inaccessible parts of our vast country.

We remain committed to bringing helpful banking products and services to all the communities we serve, and in particular to increasing access for the previously underbanked.

HomeLoans

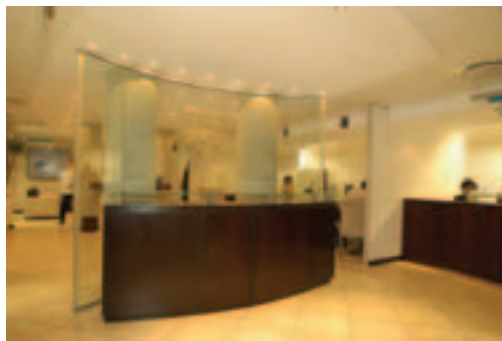
One rationale for the merger was that the new Group would be able to realise measurable savings and benefits. Successful consolidation is already achieving that. It has enabled the Bank to eliminate duplicate costs of software licensing and base systems. In addition, the Group now accesses diverse markets previously owned by Swabou and FNB Namibia. Swabou's dominance lay in public sector related residential finance



We have created
Namibia's most
comprehensive
financial services
group.

service
excellence

CEO's Report continued



Customer facilities are continually upgraded and refurbished



FNB HomeLoans is now the personification of our customers' needs

Greater demand for credit was prompted by enterprises making large, forward-looking investments in sectors ranging from fishing to property and infrastructure.

and specialised housing schemes while FNB Namibia previously focused on private sector assets.

Value of the combined book stands at more than N\$3 billion and accounts for 45% of the Namibian mortgage lending market. FNB HomeLoans now manages some 50% of the Bank's total advances, including Swabou HomeLoans, and employs a quarter of the Group's staff.

Large amounts of capital have been directed to the residential property market with a specific focus on coastal property. Because opportunities to finance new houses were limited, renovations presented a viable alternative for asset growth.

In the economically dynamic northern areas, gradual legislative changes have seen land ownership move from leasehold to freehold, thus enabling private capital formation and lending.

WesBank

This unit's market share increased month by month to almost one third of the total market. Demand for new vehicles was largely driven by improved affordability on the back of lower lending rates.

An integrated, industry-wide database was successfully implemented, enabling the Bank to manage its asset risk more effectively. WesBank can now confirm proof of ownership rapidly and prevent fraudulent activity such as double discounting.

Increased national focus on dealerships and efforts to motivate branches helped WesBank increase profits substantially.

Corporate Banking

As a consequence of the merger and falling rates there has been a significant rise in corporate lending.

Greater demand for credit was prompted by enterprises making large, forward-looking investments in sectors ranging from fishing to property and infrastructure. These included significant investments in the likes of fish-processing plants, commercial property, mining and exploration and township development. A large number of capital projects are aimed at building capacity and capability to cater for future expansion. The conclusion of these projects will translate into demand for working capital, unlocking significant value in the corporate sector.

Rapid development in the northern regions of Namibia – notably of townships, roads and other civil activities – augurs well for new opportunities. The potential for development in Angola continues to expand.

Business and Commercial

This segment, catering for businesses with turnover up to N\$25 million per annum, is highly competitive, dependent on high volumes of business and acutely sensitive to service levels. Primarily it is demand from developers of new commercial properties that has resulted in this market showing strong growth.

CEO's Report continued

One reason for our success during the year was that we were able to attract valued customers from our competitors, demonstrating the value of our training programmes and service ethic.

Credit

Demand for credit remained strong, driven by empowerment initiatives and a new wave of enterprise across all sectors. Falling inflation and lower interest rates helped to create a climate of greater demand. The lower rates made loans more affordable. Competition for good quality business remained intense and the Bank focused on raising levels of service to enhance its value to customers.

Significantly, the Bank is now able to take a more positive posture when writing new business because it has streamlined the credit process. In addition, we were able to adopt a more welcoming stance towards customers during this financial year after the necessarily cautious approach adopted ahead of the merger.

To stimulate credit sales growth without compromising the quality of these assets, the credit division took on a more supportive role. Lending officials now report through their respective business unit lines, rather than being under the direct control of credit support for all aspects, including performance measurement. The focus clearly shifted from being pure risk managers to a more customer friendly approach.

Bearing in mind the wisdom of the adage that "bad loans are written in good times",

FNB Namibia has installed systems and training programmes to ensure that this welcoming approach during a period of favourable interest rates will help counter negative repercussions when interest rate increases force a change in the credit profile of customers. We are confident that the sound results produced after the merger are not only sustainable, but will form a foundation for improved profitability.

Treasury

Treasury Division continues to offer its customers an array of products including foreign exchange, trading in bonds, trading in treasury bills, and notice and fixed deposits.

With the local currency tending to appreciate, foreign exchange trading activities were difficult. Exporters, who are key players, found the foreign exchange market uneasy, with profit margins squeezed by the strong currency. The market remains highly competitive and margins are generally shrinking. This pattern is expected to continue in the new financial year. Income from trading in domestic securities and related activities continues to show an increased contribution as the division cultivates ever-stronger customer relationships, adding value to both parties.

The Bank continues to play a role in the reform of the National Payments System. During the year, it actively participated in the establishment of NamClear – a company that will look after the clearing aspects of the banking industry. Three payment streams are expected to be

Falling inflation and lower interest rates helped to create a climate of greater demand.



WesBank proudly supports MotoCross on senior and junior level



Our annual support of the Oshakati Rally is indicative of our support countrywide

CEO's Report continued



Sponsored members of the Gecko Cycling Club participating in cycling event



Windhoek West staff celebrating Independence Day in true Namibian style

With the successful launch of EFT, NamClear and the banking industry have set a foundation for further enhancement of Namibia's economic and financial infrastructure.

channelled through the NamClear infrastructure; namely the cheque clearing, electronic funds transfer (EFT), and card stream.

We are proud to have been part of the successful implementation of the EFT stream in June 2004. This historic event has resulted in the streamlining of Namibian-on-Namibian electronic funds transfers, resulting in a more efficient operation, much to the advantage of customers. The near-term objective is to automate cheque processing and clearing.

Another benefit is that EFT produces intra-day settlement figures. The eventual aim is to introduce same-day settlement between banks, thereby reducing settlement risk. With the successful launch of EFT, NamClear and the banking industry have set a foundation for further enhancement of Namibia's economic and financial infrastructure.

Asset and Liability Committee (ALCO)

ALCO fulfils the independent risk management role for the Bank, managing both the liquidity and the interest rate risk limits approved by the Board. The merger significantly increased counter-party concentration and our exposure to the property sector, requiring effective balance sheet management and funding mix.

FNB Namibia successfully raised a syndicated loan to the value of US\$35 million. The loan was heavily oversubscribed by overseas banks – reflecting high levels of foreign confidence in Namibia as a country and specifically in FNB Namibia.

The transfer pricing model, Matched Maturity Funds Transfer Pricing, introduced during the previous financial year allows the Bank to manage the balance sheet dynamically. It also allows the business units to identify the value they are adding through asset and funding initiatives. However, the potential benefits of the model were undermined by the sharp decline in prime lending rates during the year.

Notwithstanding difficult trading conditions – including a more severe than expected movement in interest rates and the management of high value fixed rate/fixed term liabilities held by Swabou – ALCO strategies supported the profitability of the Bank's business units. Much of our exposure to the inherited fixed term/fixed interest rate liabilities ran its course in the latter part of the financial year, opening the way for more beneficial results from deposit pricing strategies in future.

International Business Centre (IBC)

This business unit is strategically positioned to cater for the needs of customers operating in the international business arena, be they exporters or importers. It is geared to stay abreast of ever-changing market practices on the international front, thereby enabling itself to offer appropriate solutions to FNB Namibia customers. Based on the delivery of foreign exchange services, IBC yielded growing returns and profits. The centre continues to offer competitively priced services in letters of credit, foreign currency accounts, trade bills, exchange control, and other trade related activities.

CEO's Report continued

A new Letter of Credit (LC) system enables delivery of an import LC within a reasonable time of a customer's instruction. In addition, customers automatically receive an electronic confirmation of delivery of the import LC and advice of an export LC in their favour. This innovation enhances our service levels in a market where customers have extremely demanding expectations.

Electronic Banking

High levels of customer demand for mini ATMs continued during the year, resulting in installation sites increasing by 45%. The key value proposition of the FNB mini ATM remains sound - to enable the delivery of services such as cash withdrawals and mini statement production in areas where conventional delivery channels will never be viable. During the year we installed a mini ATM in the settlement of Solitaire – one of the most remote sites in the country. Solitaire has a small population, but benefits from passing tourism traffic.

A branch upskilling programme was launched to ensure ownership and understanding of the latest electronic banking developments throughout the Bank. A clear understanding of technologies is needed to meet our goal of enhancing customer service.

FNB Namibia continues to dominate the merchant acquiring sector by maintaining high levels of merchant service. The past year saw more than half of the entire terminal base being upgraded with devices which conform to EMV (EuroPay,

MasterCard and Visa) requirements. The balance will be upgraded early in the next reporting period.

Providing customers with convenient 24-hour access to their accounts remains a powerful relationship builder. Internet Banking is the fastest growing channel in the Bank.

Information Technology

During the merger our major focus was to maintain business as usual while meeting the challenge of ensuring integration of two different IT protocols. The Group now operates a large, integrated wide-area network – one of the largest in Namibia with every branch and office on-line.

IT infrastructure and application development are dictated by our core business. They are responsive to business strategies while taking a view of some 14 to 18 months into the future and presenting planned strategies based on best practice and governance standards. Underlying these developments is the Group's commitment to creating a gateway that will provide banking services over great distances with very low population densities.

Technology remains a key enabler of seamless systems and processes that enhance operational efficiency.

Human Resources

Our merger with Swabou resulted in 290 staff joining FNB Namibia, which had a total complement of 1 332 at year-end.

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Mini ATMs are seen around the country, enabling customers access to cash at retail outlets and other remote areas

CEO's Report continued



FNB Namibia's internal merger bridging campaign "Hand-in-Hand" unleashed the creative spirit at the Swakopmund Branch



The agriculture sector receives support at all levels – junior handlers competition at the Windhoek Show in progress

Considerable effort was made to integrate corporate cultures, people and processes.

Retrenchments were avoided despite the fact that some functions were duplicated. Considerable effort was made to integrate corporate cultures, people and processes.

A total of 980 staff members completed training programmes ranging from in-house technical and non-technical interventions to specialised training by external consultants. A key objective was to strengthen awareness of customer needs. Group-driven staff development and self-development remain our core focus.

FNB Namibia also provided bursaries to Namibians not employed by the Group, in line with our commitment to develop the skills of all Namibians and contribute to the country's general economy. These contributions form part of our effort to support the Government of Namibia's Vision 2030 – which is aimed at creating jobs, wealth and prosperity for all Namibians.

Given the recent merger and the prevalence of diverse cultures, we embarked upon a conscious management of diversity in the workplace. This was done through team building and in-house activities. Groups from various communities were able to gain a greater understanding of the values and cultures of others, thus ensuring that staff as a whole move forward from a platform of mutual respect and awareness.

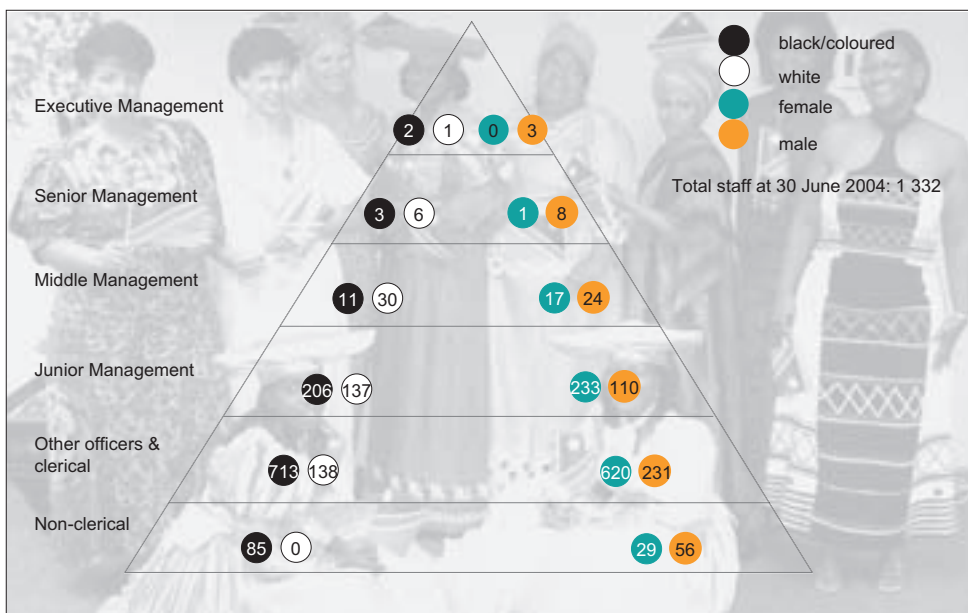
Group Wellness at FNB Namibia is a priority. Employees are now able to receive special attention in areas previously seen as non-core business. We have concentrated on HIV/AIDS counseling and support for affected employees. Given the sensitivity attached to HIV/AIDS, management continually stresses confidentiality when dealing with these matters.

FNB Namibia trained suitable business unit representatives to deal with employee concerns. This process has been highly successful because employees can relate to advice from their peers.

Strategic Marketing and Communication

The division focuses on corporate communications (including the corporate website), market research and development, as well as advertising, promotions, sponsorships and market intelligence.

The merger process presented a special challenge for stakeholder relationship management. The new financial year will see a concerted effort to launch new solutions based on the demand from various



CEO's Report continued

customer segments and stakeholders. FNB Namibia believes in empowering the communities in which it operates through the sponsorships and donations vote. We support numerous community-based initiatives ranging from soccer development to cancer patient support.

FNB Foundation

The FNB Namibia Foundation was established as a statutory trust in August 2002. It administers the corporate social investment funds of the group. It became fully operational during the period under review and is administered by an independent Board of Trustees.

This foundation allows for a co-ordinated programme of purposeful and effective corporate social investments and an opportunity for greater involvement and co-operation with the community within which the Group operates. It is funded by allocating 1% of post-tax profit of the Group.

Focal areas of the Foundation are:

- Education
- Skills development & job creation
- Community and the environment
- Support for the disadvantaged/handicapped, especially children

First Trust

Focusing on wills and the administration of trusts and deceased estates, the benefits of the merger were immediately felt with the rapid expansion of the client base. First Trust established greater visibility in the Namibian market and maintains its dominant position as the single largest executor.

As many potential clients elect to make initial inquiries about the service through the branch network, special training for branch staff has been ongoing. Trust officers visit branches throughout the country to heighten awareness and knowledge of First Trust services.

Insurance Group

The introduction of short term and life insurance in the Group enables us to provide a wider spectrum of financial services. This is the main focus of the Group in unlocking the synergies created by the merger.

Swabou Insurance

The contribution from our underwriting business was unsatisfactory. Contributing to this performance were the resignation of a number of line managers and a resultant internal focus. Actions undertaken to remedy the problem included implementing a new system to automate claims and re-insurance, create reports and produce management information. This intervention is expected to yield greater stability and efficiency in the year ahead.

Swabou Life

The company's excellent performance reflected the mutual benefits derived from the merger – a notably strong revenue stream generated by our interactions with WesBank, and wider access to credit products of the Bank. The lower- and middle-income groups currently dominate the life business.

This foundation allows for a co-ordinated programme of purposeful and effective corporate social investment.



The annual Swim for Life is a platform for development and fun, held at the Maerua and Katutura municipal swimming pools



Our sponsorships attract the bright and the beautiful – DRFN director Dr Mary Seely with Honourable Minister Mutorwa and Egoli star, Darryl Desmarais at the launch of the Environmental Book Fair

CEO's Report continued



Swabou Life's broker of the year, Julian Baard, receiving his award from General Manager, Etienne Brits (left) and Nama Goabab, CEO Insurance Operations



New Deputy CEO: Banking Operations, Fred Nel and CEO, Lazarus Ipangelwa

Our focus is to improve the value proposition to our customers and stakeholders through speed and service excellence by committed staff.

Outlook and appreciation

The new Group provides diverse financial services and products to all profitable market segments in the country. The Group is now well structured and positioned to take advantage of synergies arising from the merger. Capitalising on these synergies and ultimately increasing profits and return on shareholders' investment will be a main focus for the year ahead. While we are satisfied with our overall position in the market and the quality of our advances book, we intend becoming more prominent in the insurance market and selected segments of the banking business.

We look forward to the challenges 2005 has in store. The Group is geared to meet them confidently. We expect the macro-economic environment to be characterised by low inflation and stable exchange rates.

Our firm intention now is to reverse an event-orientated mindset with a steady-growth temperament (client delight, relationship depth, adequate spending for processes, systems and employee benefits). This calls for:

- creation of a truly customer centric culture and adopting a more aggressive and focused stance to the market;
- strong focus on becoming a low-cost provider by controlling major cost drivers and revamping the Group's value chain, in collaboration with the FirstRand group;
- identifying and developing the most important core and distinctive competencies; and

- streamlining the credit and customer information systems (CIS) without increasing risk profile.

In a highly competitive environment, we are acutely aware that improving service delivery is the key to sharpening our competitive lead. We commit ourselves to constantly delivering better service to our customers. Growing a profitable business and developing customer-focused solutions are our twin aims.

In conclusion, I extend my sincere thanks to Gordon Sparrow, the outgoing Deputy CEO of Banking Operations, for his support and hard work, especially over the past two years, and wish him well for the future. We also welcome an equally capable and illustrious banker in the person of Fred Nel, the new Deputy CEO of Banking Operations. Fred is a seasoned banker who has held senior positions in various areas and has been with FNB for more than 20 years.

My thanks also go to the entire management and staff of the FNB Namibia family for their contribution, especially during the complex process of the merger. Without their dedication and personal sacrifices we could not have successfully finalised the merger. To our customers, our thanks for their continued support. We promise them nothing but speed and service excellence from all our service centres.

Lazarus S Ipangelwa