

Chief financial officer's report

Once-off and exceptional transactions in this financial year mean that results are not directly comparable to the previous year. Profits have been enhanced by the following main non-recurring transactions:

- N\$34 million profit on the sale of 35% of Swabou Life to the Momentum Group Limited;
- N\$16 million income from the Visa Inc (Visa) public offering; and
- N\$4 million reversal on impairment on an associate company.

The dilutive effect of minority interests of Momentum acquiring 35% in Swabou Life on 1 August 2007 and OUTsurance acquiring 49% in Swabou Insurance on 1 July 2007 also made direct comparison difficult. The table on the next page summarises the impact of these transactions.

Profit after tax for the year increased by 34% to N\$409 million (2007: N\$304 million). Earnings per ordinary share reflected an increase of 27% to 145.2 cents (2007: 114.7 cents) due to the dilution effect of minorities. Excluding the two non-recurring transactions, headline earnings per share increased by 10% to 124.7 cents (2007: 113.5 cents).

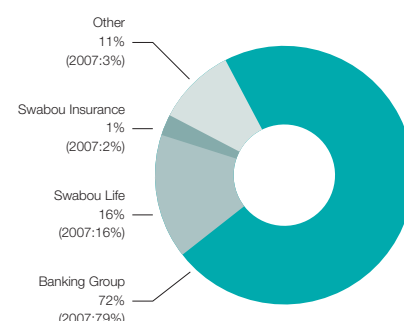
N\$ million	Year on % change	2008	2007
Profit for the year as reported	34	409.0	304.3
adjust for:			
attributable to minority shareholders		(24.0)	
profit attributable to ordinary and preference shareholders	27	385.0	304.3
profit on sale of shares in subsidiaries		(34.2)	
gain on Visa shares		(15.6)	
reversal of impairment on associate		(4.2)	1.0
attributable to preference shareholders		(1.2)	(1.1)
other		(0.2)	(4.2)
Normalised, comparative view of profit	10	329.6	300

More details are to be found in note 8.1: Headline earnings per share in the annual financial statement.

Return on average equity was 28.5% (2007: 24%) and return on equity based on sustainable earnings was 24.5% (2007: 23.7%).

The Group's cost income ratio was 45.9% (2007: 47.5%). Excluding the once-off items it remained on the same level as the previous year.

The Group comprises three main operating entities: the FNB Namibia Banking Group ("banking group"), and the insurance operations which encompass Swabou Life Assurance Company Ltd ("Swabou Life") and Swabou Insurance Company Limited ("Swabou Insurance"). The chart alongside illustrates the relative contribution by each to after-tax profit of the Group. The "other" segment reflects the other group companies as well as the group accounting consolidations. Included is the once-off capital profit on the sale of shares in Swabou Life.



Income statement

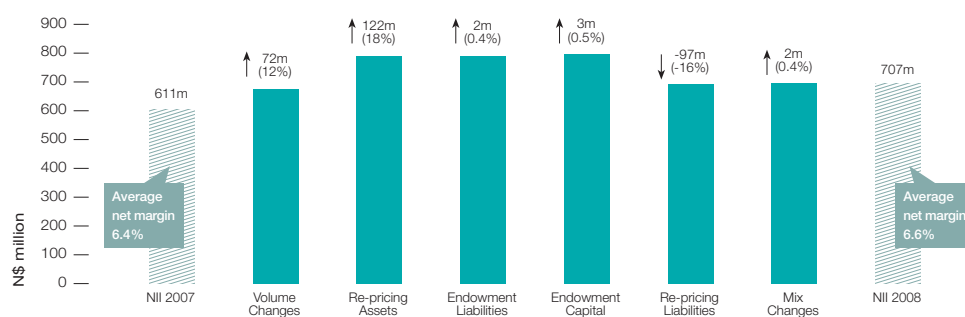
Interest income

Net interest income ("NII") before impairment of advances grew 16% to N\$707 million (2007: N\$611 million). The growth is mainly due to volume growth of 12%, of which 8% relates to growth in average net advances and 4% relates to growth in Swabou Life assets as a result of the Momentum transaction.

The Tier 2 capital transaction concluded in March 2007 negatively impacted on net interest income of the banking group.

Notwithstanding the 100 basis points increase in prime during the year, overall net interest margin of the Group widened by only 19 basis points, reflecting competitive pricing in the Namibian market. In addition, reliance on relatively more expensive wholesale funding placed pressure on margins. Following is an analysis of the movement in the components contributing to net increase in net interest income:

Margin analysis



Impairment losses

Despite adverse market conditions, the banking group's prudent lending criteria and its diligent collection of non performing loans ensured that the impairment charge was maintained at an acceptable level. Total impairments increased by only 7% to N\$72 million (2007: N\$67 million) and were maintained at 0.8% of total average advances. The impairment charge comprises the following components:

	30 June 2008		30 June 2007	
	N\$ million	% of average advances	N\$ million	% of average advances
Specific impairment on non performing loans	18.2	0.2%	27.2	0.3%
Present value of security of non performing loans	21.1	0.2%	18.6	0.2%
Total specific impairment	39.3	0.4%	45.8	0.5%
Portfolio impairment	33.1	0.4%	21.9	0.3%
Total impairment charge	72.4	0.8%	67.7	0.8%

Non interest income

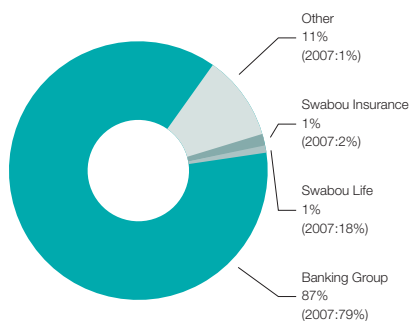
Non interest income was derived as illustrated alongside. The "other" segment includes the net profit on the sale of shares in subsidiaries. As detailed later in this report, the relative contribution from Swabou Life was lower than in the prior year because of the sensitivity to market movements of the shareholders' equity portfolio.

Fees and commission increased by 17% to N\$334 million (2007: N\$285 million). Banking specific fee and commission income grew by 14%, with 9% attributable to a volume increase and 5% relating to the increased value of transactions, together with a minimal price increase. Approximately 12% (2007: 11%) related to penalty fees in the banking group that clients could have avoided. There was a migration of customers to more cost efficient electronic channels – actively encouraged by the Group.

Fair value income increased by N\$22 million to N\$30 million. The biggest contributor was foreign exchange trading income. A buoyant currency market and a renewed sales focus gave rise to increased trading activities. Foreign exchange trading more than doubled income to N\$43 million (2007: N\$20 million). The benefit was partially offset by the negative effect of the derivative financial instrument revaluation of N\$13 million (2007: N\$12 million). The corresponding positive fair value adjustment of N\$16 million (2007: N\$8 million) is reflected under Fair value adjustment to financial liabilities.

Gains and losses from investment activities comprise dividends and realised and unrealised investment gains, predominantly from Swabou Life. During the first half of the year, Swabou Life's investment portfolio, in particular, benefited from strong equity markets. However, in the closing months of the financial year, there was a sharp decline in the equity market, reflecting negative global sentiments. As a result Swabou Life incurred significant unrealised fair value losses on shareholders' funds that reduced investment income compared to returns in 2007 from a smaller capital base (prior to the Momentum transaction). The Group is exploring ways to minimise the impact of fair value volatility in future.

Included in *Gains and losses from investment activities* is a N\$34 million profit that resulted from the sale of shares in subsidiaries.



Other non interest income has been bolstered by a once-off N\$16 million capital gain. As a member of Visa, the banking group received N\$7 million worth of Visa shares as well as N\$9 million in cash for its shareholding when Visa listed on the New York Stock Exchange and converted the previous membership of all banks into capital.

Net insurance premium income and *net claims and benefits paid* are not directly comparable to the prior year as a result of acquiring the Momentum book, which is included in the current year. Net premium income increased from N\$120 million to N\$160 million, an increase of 33%, and claims and benefits from N\$44 million to N\$117 million, with the claims relating to the Momentum book at N\$77 million. The newly acquired agency division has also contributed to the increase in net premium income.

The year on year increase of N\$8 million (89%) to N\$16 million in *Fair value adjustment to financial liabilities* reflects the market movement of listed fixed rate subordinated bonds issued by the banking group as second tier capital in 2007. They were classified as a financial liability carried at fair value. The corresponding N\$13 million (2007: N\$12 million) hedging cost is included under fair value income.

Operating expenses

The year on year increase of 20% in operating costs from N\$521 million to N\$626 million appears out of line when compared to average inflation in the year. However, day to day operating costs were well controlled and limited to single digit increases, and the increase arose from:

- A new Treasury system implemented to improve service, risk management and forex sales.
 - An increase in representation points as part of Group strategy to increase its retail footprint.
 - Increased depreciation arising from a review in 2007 of residual values in terms of IFRS.
 - Costs relating to the Momentum book and Swabou Life's new agency division which were not in the base of last year. Although they appear high, they are "matched" by annuity income.
 - Higher staff costs due to an increase in headcount as a result of expansion and risk management.
- A scarcity of skills has added to the cost pressure.

Tax

Indirect tax increased by N\$6 million to N\$18 million, mainly as a result of the increase in interest income compared to non interest income. This decreased the Value Added Tax apportionment ratio of the banking group.

The Group's effective tax rate has reduced from 30% to 28% because of non-taxable capital profits (Momentum transaction and sale of Visa shares).

Balance sheet

Total assets have increased by N\$2.7 billion to N\$13.4 billion – a year on year growth of 26%. The Group's balance sheet changed significantly as a result of the Momentum transaction. Excluding the Momentum assets of almost N\$1 billion, the increase in total assets would have verged on 16%. Line items specifically impacted include investment securities, reinsurance assets and policyholder liabilities under insurance contracts.

As highlighted when the Group's interim results were released, a more conservative approach to advances growth had been adopted in line with the Group's view at the time on anticipated increases in interest rates. Although the South African Reserve Bank increased the bank rate by 200 basis points, Bank of Namibia increased by only 100 basis points. Nevertheless, retail clients have still been challenged by



prolonged high interest rates and high inflation, which put pressure on the affordability of borrowing. The resultant decision by the banking group to focus on quality advances meant year on year growth was limited to 5%. Average advances have grown by 8%. The banking group has, however, maintained its position as market-share leader for property and vehicle finance.

It is pleasing to report that the healthy profile of the advances book has been maintained. The impairment charge as a percentage of gross average advances remains at 0.8%, and non performing loans as a percentage of gross average advances is at 2.9% (2007: 2.3%). This difference between the low level of income statement charge versus the 2.9% non performing loan ratio illustrated the high level of secured lending. Deposits have increased by 24%, reflecting excess liquidity in the market, partially due to the move by asset managers to money market instruments.

Dividend policy

The Group has calculated the 2.4 times dividend cover on profit attributable to ordinary shareholders after adjusting for non-recurring and non-operations items. The N\$16 million profit on the recognition of the Visa shares and the N\$34 million profit on the Momentum/Swabou Life transaction have been excluded from the calculation. This ensures that ordinary shareholders are not exposed to volatility but can expect a sustainable growth rate in dividend.

In terms of the agreement between FNB Namibia Holdings and Momentum, any movements on the capital base of Swabou Life (and hence any dividend payment) were ring-fenced until the final conclusion of the Swabou Life transaction. As a result, the banking group has fully funded the dividend payment in the past. In the current year 46% of the dividend is being sourced from Swabou Life. This will normalise the capital position of the company.

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 to be capitalised at the higher figure of economic capital or regulatory capital inclusive of a buffer.

Economic capital is defined as the capital which the Banking Group must hold, commensurate with its risk profile, under severe stress conditions, to give comfort to third party stakeholders that it will be able to discharge its obligations in accordance with an indicated degree of certainty 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 equal to, or more than, 10% of the calculated risk weighted assets. Furthermore, as a subsidiary of FirstRand Bank Holdings



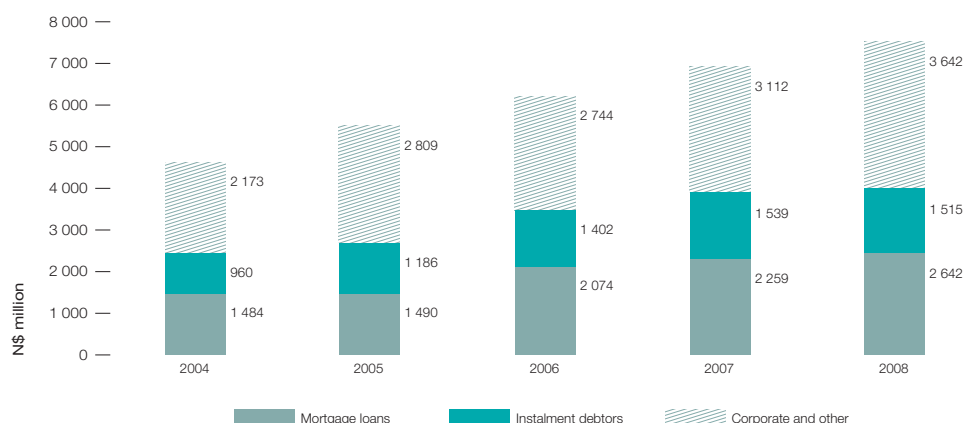
Limited, regulated by the South African Reserve Bank ("SARB"), the Group needs to abide by regulations currently requiring a minimum of 9.5% and a voluntary "add-on" of 0.25% of the figure arrived at by the SARB method of calculating risk weighted assets.

Current capital requirements in the Banking Institutions Act 1998 (No. 2 of 1998) are based on the International Capital Accord of the Basel Committee established in 1988. This capital 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 the closer alignment of capital levels to true underlying economic risks. As a subsidiary of a South African Banking Group, where the principles of Basel II were adopted on 1 January 2008, First National Bank of Namibia Limited has complied with the standardised approach to calculate credit, market 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 levels. The following graph depicts the growth in the major classes of risk weighted assets since the merger with Swabou in 2003/2004:

Growth in the major classes of risk weighted assets



Supply of capital

As the bank generates earnings that are adequate to meet new capital requirements, the focus of management is on arriving at the most cost-effective capital structure. 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.

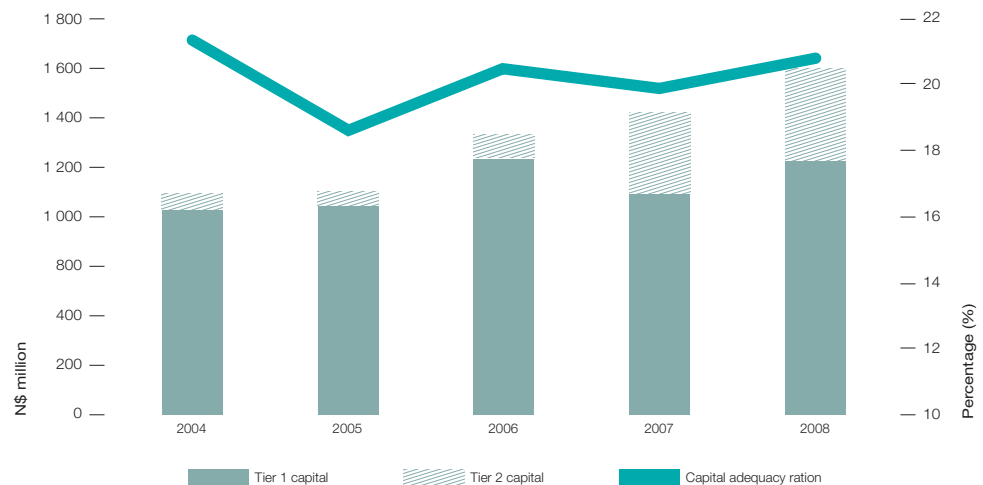
The Bank of Namibia allows the appropriation of current year profits to capital only on audited results. Maximum exposures to single borrowers are linked to the capital base. This results in the determination of maximum exposure being reviewed only at year-end and could impede balance sheet growth during the year.

The board of directors approved a 5% buffer above the 10% minimum level 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 graph on the next page depicts the growth in qualifying capital (Tier 1 and Tier 2 capital) as well as the capital adequacy ratio.



Qualifying capital and capital adequacy ratio



Dividend payment

The banking group declared an interim dividend of N\$65 million in February 2008 and a final dividend of N\$45 million in August 2008. This is in line with the Group's policy of a 2.4 times dividend cover.

Insurance operations

Swabou Life's policy is to invest capital required 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 future. When the Momentum transaction was approved, the court determined that Swabou Life must maintain a CAR cover of 2 times. In terms of the newly adopted capital management framework of Swabou Life, the company will maintain a buffer of between 0.4 and 0.5 times above that minimum.

The CAR of Swabou Life is N\$68.3 million (30 June 2007: N\$24.1 million). Free reserves cover the capital adequacy requirement 5.1 times (30 June 2007: 4.6 times). In line with the Group's dividend cover of 2.4, Swabou Life has declared a normal dividend of N\$27 million for the year ended 30 June 2008. In addition, a special dividend of N\$73 million has been approved to reduce CAR cover to 2.5 times in line with the capital management policy.

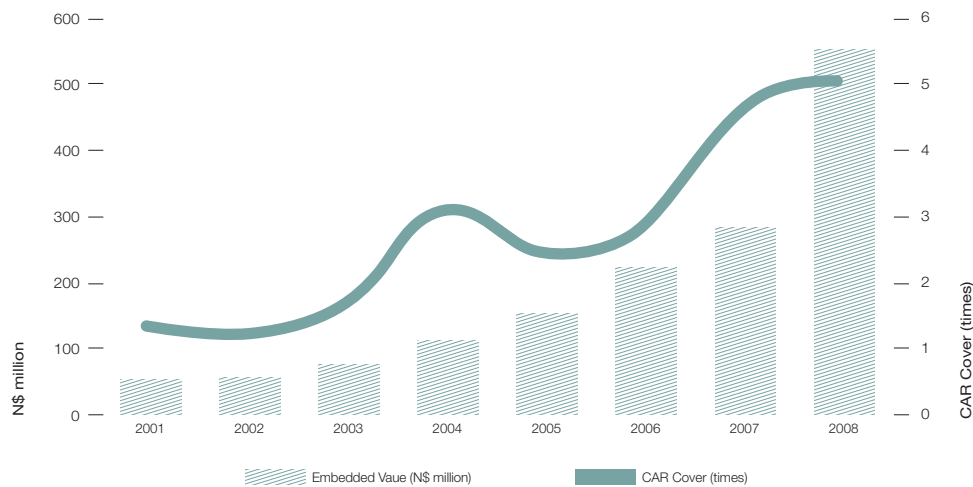
As part of the Momentum transaction, there was a capital injection of N\$140 million into Swabou Life - Momentum contributed N\$101 million and FNB Namibia Holdings an additional N\$39 million.

The chart on the next page illustrates the 96% increase in embedded value of Swabou Life following the conclusion of the Momentum transaction as well as the healthy adequacy requirement (CAR) cover. The embedded value increased to N\$552 million (2007: N\$282 million).

Swabou Insurance's capital adequacy is measured by the solvency margin that is the free reserve ratio of shareholders' funds expressed as a percentage of net premium income. The solvency margin at 30 June 2008 was 59% (2007: 85%), a sound and healthy position. The decrease in the solvency margin is attributable to the N\$12.5 million dividend paid during the year following the conclusion of the OUTsurance transaction.



Embedded value vs CAR cover of Swabou Life

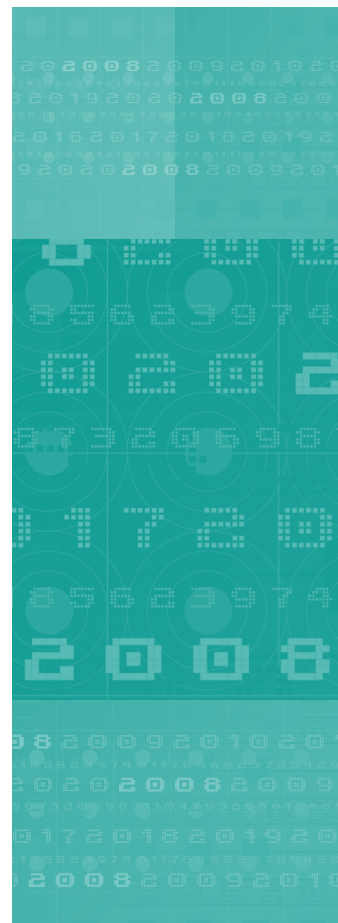


Conclusion

Challenges in the year ahead include the implementation of the new core banking system which is expected to increase operating costs, but will improve efficiencies and enhance service delivery in the long term. In addition overall consumer spending is being hampered by prolonged higher interest rates and increases in cost of living, particularly in food and transport. This economic scenario is not expected to improve in the near future and will continue to put strain on disposal income and pressure on affordability of servicing debt. It is therefore expected that the current slow down in consumer lending will continue.

The Group will focus on creating sustainable earnings by focusing on the quality of lending, exploring new business opportunities and internal synergies.

Erwin Tjipuka
Group Chief Financial Officer



N\$ million	Balance		Risk weight	Risk adjusted balance	
	2008	2007	%	2008	2007
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	1 170.9	1 085.8	0		
Public sector body advances	289.5	305.6	10	28.9	30.6
Other bank advances and letters of credit	1 210.4	255.6	20	242.1	51.1
Mortgage advances (excluding commercial)	4 921.6	4 518.0	50	2 460.8	2 259.0
Other assets and advances	4 786.0	4 569.3	100	4 786.0	4 569.3
Total	12 378.4	10 734.3		7 517.8	6 910.0

N\$ million	2008	2007
Regulatory capital of the banking group		
Tier 1		
Share capital and share premium	1 142.8	1 142.8
Retained profits	282.6	161.7
Capital impairment: Intangible assets	(283.4)	(309.0)
Total tier 1	1 142.0	995.5
Tier 2		
Eligible subordinated term debt (limited to 50% of total Tier 1 capital)	260.0	260.0
General risk reserve, including portfolio impairment	146.9	114.1
Other reserves	9.7	1.9
Total tier 2	416.6	376.0
Total tier 1 and tier 2 capital	1 558.6	1 371.5
Risk-weighted capital ratios		
Tier 1	15.2%	14.4%
Tier 2	5.5%	5.4%
Total	20.7%	19.8%