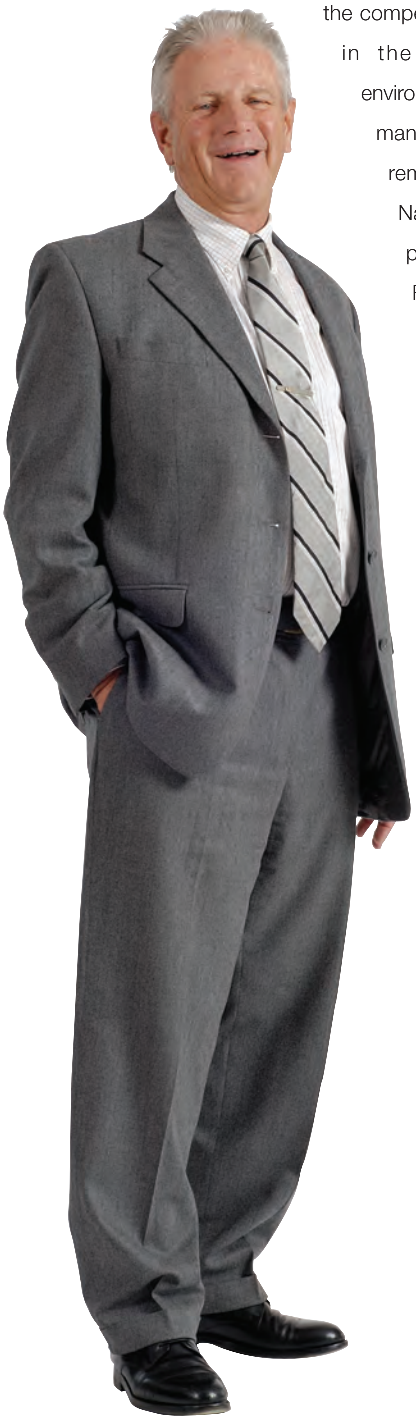
Chairman's report

Introduction



The year under review was, to an extent, one that demanded consolidation. Not only did we have to deal with the competitive environment, but changes in the economic and regulatory environments forced the group to revisit many of its longer term plans. What remains true, however, is that FNB Namibia has further entrenched its position as Namibia's leading Financial Services Provider – and that it continues to play a constructive role in the development of Namibia.

While many past initiatives were developed further during the year, a number of innovative projects were launched in an effort to introduce extra-ordinary financial services to the Namibian market. These included the introduction of LifeStyle banking, a Tourism Division, Momentum's Myriad range of risk products, a bank account for small businesses, and an agreement with the Development Bank of Namibia to use our infra-structure to service SMEs.

The development of our staff - vital to ensure our customers are properly serviced - continued. Staff members were kept involved in the execution of our strategic initiatives through ongoing projects such as Aantu Yolela, which focuses on how we care for and grow our people. We also launched Project Sunrise to ensure that the vision, mission and values of the group were internalised throughout the organisation. Project Sunrise is a structured communication plan where staff had the opportunity to workshop our vision, mission, values and strategic imperatives and cascade it down to their respective levels of operation.

The FNB group also made a concerted effort to ensure that Namibia shares in the excitement and benefits of the FIFA 2010 World Cup.

Market environment

The world experienced what could be termed the most challenging economic slowdown since the Great Depression in terms of scale and depth. Latest IMF projections are that the global economy will shrink by 1.3% in 2009, after decelerating growth of 3.2% the previous year – a direct result of the collapse in global credit markets that culminated in the bankruptcy of Lehman Brothers and others. The USA economy is projected to contract by 2.8% in 2009, after growing 1.1% in 2008. In the Euro area, growth of 0.9% in 2008 is expected to be followed by a contraction of 4.2% this year. Emerging and developing economies are projected to experience slow growth of 1.6% during 2009.

Debates are ongoing about the shape and therefore the timing of the recovery. The global slowdown affected Namibia's major exports like diamonds and copper. Revised figures for 2007 show growth of 5.5% for Namibia and preliminary figures from the Central Bureau of Statistics show a mild expansion of 2.9% in 2008. Most of the 2008 growth came from construction and tertiary industries. The IMF expects real GDP for Namibia to shrink by 0.7%, or N$353.59 million, in 2009, followed by a mild recovery of 1.8% in 2010. Some local economists are more pessimistic about the outlook for this year, but forecast a more robust V-shaped recovery in 2010. Nevertheless the divergent expectations reveal an underlying uncertainty, heightened by the closure of copper mining and the introduction of a production holiday by Namdeb for part of 2009. These last two developments led to 1,200 direct job losses.

Strategic initiatives

The strategic initiatives taken by FNB Namibia last year have proved to be prescient and appropriate. Market environment changes identified led the senior leadership team to reassess the tactical implementation of our strategic imperatives to cater for new challenges. We concluded that we would have to do business in an unusual fashion if we wanted to achieve our goal of becoming – in three years – not just the leading financial services group in Namibia but the preferred group.

We agreed to put certain projects on hold but took a deliberate decision to continue investing in initiatives and infrastructure that would ensure that we were ready to accelerate growth when the market environment returned to normal. This meant reviewing all three strategic pillars of the business: efficiencies, people and customers.

The group recently introduced a new brand to the Namibian market. It changed the name of Swabou Life to Momentum Namibia and simultaneously launched Myriad, a flagship range of Momentum risk products. The Swabou brand and products will still be fully supported and developed as a division of Momentum.

Our short-term insurance strategy has been extended. It now also caters for the indirect model as a result of acquiring a 40% stake in FNB Insurance Brokers (Namibia) (Pty) Ltd (formerly known as First Link). Our exposure to short-term insurance in the indirect market will be limited to a sales function (commissions). We take underwriting risk when we can assess the risk ourselves in the direct model through OUTsurance that was introduced two years ago. The acquisition will enhance our cross-selling ability and offer a wider range of choice to customers.

The group also established a balance sheet committee to position all assets and liabilities strategically from a risk-return perspective. The committee's decisions are based on a core economic view in terms of which the balance sheet is optimally positioned for global and local abnormalities as well as for cyclical movements.

Regulatory environment

FNB works with the authorities as far as possible in developing new regulatory provisions, supports them and will comply fully with them. The most prominent regulatory changes during the period under review include:

- A revised determination from the Bank of Namibia (BoN), bringing forward the implementation date for the localisation of Core Banking Systems to December 2009.
- The Financial Intelligence Centre Act 3 of 2007 which established a Financial Intelligence Centre (FIC) within the BoN to combat money laundering in the Namibian financial services industry. It is a comprehensive anti-money-laundering regime that will satisfy major FATF recommendations and FNB is obliged to verify the personal details of any customer, even for a single transaction. We have amended internal rules and customer acceptance requirements to ensure we comply, and have introduced intensive employee awareness training.
- The Income Tax Amendment Act 5 of 2007, which introduces a 10% withholding tax on interest income. It stipulates that all interest earned by individuals and foreign companies from investments in banks and unit trust companies is subject to payment of a 10% final tax.
- The Labour Act 11 of 2007 (replacing Act 2 of 1992) became partially operational. Mainly, it incorporates constitutional rights into labour relations, leave calculation and maternity and compassionate leave. It also introduces alternative dispute resolution processes (conciliation and arbitration) to resolve employment disputes and abolishes labour hire companies.
- The Competition Act 2 of 2003, which regulates competition in the Namibian market. Generally, it prohibits all practices that are aimed at, or are likely to, distort competition, such as agreements not to compete, price-fixing arrangements, setting minimum resale prices by suppliers and abuse of dominant position.
- The Financial Service Charter, which is a voluntary guide to the transformation of the financial sector and seeks to achieve two main objectives; Namibianisation of the sector and wider participation. The charter applies to all financial institutions and has a set timeframe. It addresses matters of human resource development, procurement and enterprise development, access to affordable products and services, ownership and control and corporate social investment. Its implementation would be monitored by a council, using scores and transformational targets set out in the charter.

In addition, the following two bills are receiving attention:

- The Banking Institutions Amendment Bill 2009 seeks to amend the current Banking Institutions Act 2 of 1998. It contains provisions that would, among other things, facilitate the introduction of foreign bank branches in Namibia; allow for the supervision of holding companies of banks; prohibit pyramid schemes; and revise the capital requirements of banks.
- The Financial Institutions and Markets Bill of 2008, which seeks to align Namibia's financial services laws with best international practice. The Bill consolidates regulation and supervision of financial institutions and financial services by revamping and merging outdated non-bank financial institutions. It grants the Namibia Financial Institutions Supervisory Authority powers to introduce prudential supervision across all sectors.

Corporate reporting

In 2008 FNB Namibia received the ICSA/JSE award for the best annual report for the third consecutive year in the category of regional listed companies outside South Africa. This endorsement confirms the group's continued commitment to ensuring disclosure meets investor requirements and keeps abreast with the most recent international standards.

Financial overview

We are pleased to report an increase of 7% in the group's headline earnings, from N$330 million to N$353 million. This is indeed a noteworthy achievement in the challenging economic circumstance currently being experienced.

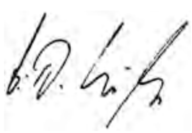
Dividend

A final dividend (number 30) of 28 cents per ordinary share has been declared for year ended 30 June 2009. Together with the interim dividend declared in February 2009, ordinary shareholders will receive a total dividend payment of 56 cents (2008: 53 cents) for the year.

Appreciation

It is important to acknowledge the contribution of many stakeholders in such a challenging year. The Government of Namibia not only continued to create a climate conducive to business but vigorously protected the Namibian economy through a variety of projects and initiatives, mostly involving the private sector. In addition, we welcome the announced formulation of a strategy paper earlier in the year and budget provision aimed at stimulating the economy and trust it will be implemented shortly. We wish to thank our shareholders who continued to show faith in the way we managed the business in these extraordinary times.

My colleagues at the holdings board and management and staff at all levels deserve a special mention. They kept their focus on the strategic game plan and were always willing to go the extra mile when called upon. They have made a tangible contribution to the ongoing process of building the long-term sustainability of this resilient organisation.



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Chairman