

Chief executive officer's report

Preparing for the future, even if the future takes a completely unexpected course due to external global events, remains vital to securing a company's sustainability.

To this end the strategic plan put in place by the FNB Namibia Holdings Group of Companies (the group) became decisive this year. Focus on the strategic pillars of customers, people and efficiencies remains in place. Even though we were forced to review tactics, we were able to select carefully those initiatives that we could put on hold for now without needlessly stemming future growth. And progress was enhanced by the solid foundation we created with staff. "Project Sunrise" and our "Aantu Yolela" people's project have ensured good understanding of our vision, mission and values across all our people.

We were also able to pursue the essence of our aim: to move from the 'leading' to the 'preferred' financial institution in Namibia in three years - L2Pin3. Little did we know that a global meltdown would prove how right we were to adopt a 'Business Unusual' approach to set us apart from the rest. The approach ensured that we could make the adjustments demanded by changes in our

economic environment and focus today on those initiatives that will help us to thrive tomorrow. Deciding to observe the most basic of business principles - fairness and prudence - showed its worth when the economy slowed down and the public found it increasingly difficult to cope with the pressures. The controllable impact on our business has been minimal thus far.

The FNB Namibia Holdings Group continued to be a partner in development of the Namibian Government's efforts to grow the Namibian economy as envisaged in Vision 2030. We have supported this national strategy by, among other things, establishing business units that focus on specialised banking to priority government sectors of agriculture, tourism and SMEs; driving towards affordable banking for all; educating customers; and providing products that encourage a culture of saving.

The group achieved reasonable business growth in a challenging and even hostile business environment during the period under review. Factors beyond our control such as margin squeeze due to successive cuts in interest rates, unavoidable costs of localising our core banking system together with the drop in economic activity, impacted on performance.

People

Focusing on our people is one of the group's three major strategic imperatives. To better understand the level of engagement between staff and company, the group embarked on a culture survey.

Two years ago we began a programme to involve staff in reviewing human resource policies. Five work streams have completed action plans dealing with five main aspects: recruitment and selection; performance management; training and development; values and cultures; and retaining staff. All policies and guidelines related to these areas have been finalised and are being implemented.

A process to help staff understand the strategic direction of the group, and its vision, mission and values, was successfully rolled out. Called "Project Sunrise", it was facilitated by business unit heads and will continue in the year ahead.

The physical, social, psychological and mental wellness of staff is vital for long-term success. Hence we participated in a



survey on HIV/AIDS with other commercial banks. The final results are being scrutinised by co-ordinators and strategies will be crafted for implementation. A number of staff wellness initiatives have also been introduced and are appreciated by staff. Dr. Richard Kamwi, Honourable Minister of Health and Social Services, has accepted our invitation to become our Wellness Patron.

To meet the acute skills shortage in the banking industry, the group's human resources department has continued to focus on training programmes designed to fill gaps identified by internal audits, branches and business units.

A management and leadership audit led to initiatives like a formal managers development programme (MDP) and a senior management development programme (SMDP) in association with the University of Stellenbosch. The group currently provides full bursaries, totalling some N\$450,000 a year, to eight Namibian students studying at local and SA institutions of higher learning.

Three managers were awarded full MBA scholarships. All branch administrators attended leadership and management training and 75 employees attended a junior or senior credit development programme. An accelerated trainee programme was designed to create a pool of high-performance individuals with potential for senior management and other key jobs. An internship policy has been approved and is being used as basis for recruitment of graduates from institutions of higher learning to do their practical training within the group.

Succession planning also received special attention. An integrated strategy now guides our management of talent and career development.

Our performance management process has been amended in accordance with the Care and Growth model rolled out in the previous review period. It emphasises employee accountabilities that are incorporated in unique individual performance agreements. Ongoing training continues to be provided.

With service supremacy being a key strategic initiative, more than half the group's staff attended tailor-made training courses designed to improve sales and service. The best service provider of the month in each business unit or branch receives an FNB branded gift.



Efficiencies

The last year has been a challenging one on the information technology ("IT") front. In August 2008, the Bank of Namibia issued a determination requiring all banks to localise their Core Banking Systems in Namibia by the end of December 2009. While we continued to keep our IT infrastructure relevant, our focus moved to achieving this deadline. FNB Namibia decided to localise the current Hogan mainframe application from FirstRand South Africa.

A non-negotiable objective was to introduce the change throughout the group in a short time without putting the business or customer service at risk. In collaboration with IBM, we invested in two IBM Z10 business mainframes that will run the Hogan application. The new disaster recovery data centre is currently under construction and will compare with the most modern and technologically advanced in the world.

FNB Namibia's IT Division has been ranked as the best in the FNB Africa group by an internal audit team, with zero high-risk exceptions for the year. It is also ranked among the top IT business units in FirstRand Bank South Africa. This alone should reassure our valued customers that our IT team is more than ready for any teething troubles. Any potential disruption will be minimal.

Looking ahead, the focus of our IT will be on mobility. This is what we believe our customers will require in future.

Group pricing decisions took the current economic downturn into account. Many fees remained unchanged and we tried to keep the overall increase in line with inflation. Changes were extensively communicated to customers through a variety of media. Price increases and volume growth will, we expect, result in the expected growth of non interest income revenue.

Customers

We approach group customers in an integrated manner to ensure that our sales and service activities are correctly received and positioned in the market and to extract as much sustainable value as possible across the entire network. One major drive was to reposition and rename our current account range. LifeStyle



accounts clearly have an attraction for customers and the growth in this sector has been outstanding.

Independent surveys confirm that the FNB brand remains the most recognised financial services brand in Namibia. It is important to maintain a high level of brand visibility and we follow a concerted strategy to improve brand equity by focusing our marketing investments on initiatives designed to engage customers and the public emotionally. Thus FNB continues to emphasise sport as a means to build brand equity and drive sales.

A major change took place when the Namibia Football Consortium, of which FNB formed part, dissolved after members differed over how best to develop the game. This allowed us to change our approach, which is now aimed at partnering with five Namibia Premier League clubs, namely Eleven Arrows, African Stars, Black Africa, WesBank Tigers and FNB Oshakati City. Our sponsorship is comprehensive. We assist with management training, help build club brands and provide new-look sporting kits.

Another sport property launched by FNB last year is Classic Clashes. It has been a runaway success. We started with six clashes last year: three rugby, two soccer and one netball, primarily in Windhoek. This year there will be no less than 18 Classic Clashes across the country.

Another group-wide initiative was the launch of a FIFA 2010 World Cup campaign in association with VISA. It was designed to remind Namibians that the 2010 World Cup is an African event, not only a South African one. The campaign gives FNB Namibia customers with VISA cards an opportunity to win match tickets or World Cup souvenirs. In addition, customers are able to swap existing VISA debit cards for a unique World Cup card - a promotion that has pleased old customers and attracted new ones. A spin-off benefit has been to encourage customers to use more affordable electronic channels, relieving pressure on branches. Customers earn "goals" when they use electronic channels. This gives them a place in a draw to win 2010 tickets and commemorative soccer balls.

The Namib Desert Dash is another annual sporting event that

FNB has bought into and is growing exponentially. It is the longest single-leg endurance mountain bike race in the world. It takes place between Windhoek and Swakopmund in December, and attracts riders from across the world.

Our Research and Development Department monitors the economic and competitive environment and has been studying how to improve customer satisfaction and loyalty. Research shows satisfaction is high, but there is work to be done to turn more customers into FNB ambassadors.

First National Bank of Namibia (the bank)

The bank continues to offer a wide range of solutions in the form of products and services through 50 points of representation, as well as more than 212 ATMs, almost 2 000 point of sale devices and full service online and cellphone banking across Namibia.

Retail banking

The challenge of realising L2Pin3 was taken up seriously and a service vision of being "excessively obsessed to satisfy customer needs and requests, whatever it takes" was adopted. Our Retail Banking Division has introduced a Process Improvement Committee which assesses all current procedures and recommends ways to make the bank even more customer-friendly and operationally efficient without increasing risk.

To focus on what we do best, which is to provide financial solutions for customers, we have successfully outsourced some non-core activities to specialist external providers. These activities include printing and distribution of statements and selected customer letters. This has already created cost efficiencies and released capacity within the bank.

During the year FNB Namibia embarked on a policy of zero tolerance for any form of non-performance or non-compliance with procedures and policies. This includes poor audit outcomes at branches, teller's differences, lapses affecting our drive to "Service Supremacy", and failure to observe our Golden Rules. For external stakeholders we maintained ongoing awareness via media communications on current and new crime matters.



Electronic business

Our SpeedPoint Merchant Acquiring Business Unit remains the leading provider of card-based product services in Namibia. This position was enhanced by providing GPRS connectivity to merchants, increasing representation points. The device cuts phone costs, gives faster connectivity and speeds up turn-around times for card-holders. The service will grow as the Namibian cellphone network improves capacity.

The Namswitch system was implemented during the year. By managing the change efficiently, we were able to grow business and gain merchants from competitors.

Our online banking technology allowed the bank to remain leaders in this field and to show growth in personal and business customers. The fact that pricing has not increased significantly over the last two years and that electronic technology remains one of the most affordable options for transactions, has contributed to its popularity. The new corporate online banking system has proved highly successful.

Safety and security features on products constantly need to be enhanced. Online fraud (especially phishing) has increased significantly over the last two years. One of the best ways to prevent this is to communicate with clients regularly, and make them aware of the risks of online transactions.

An overwhelming growth in new cellphone banking registrations this financial year proves the growing popularity of this innovative banking channel. Cellphone banking is available to all FNB customers, providing an affordable, secure and easy alternative to banking hall visits. Ongoing improvements make it increasingly more convenient.

Agri division

The Agri Division has continued to grow strongly, driven by personalised service and specialised products. We appointed an expert to strengthen FNB Agri's position, and this gave rise to the introduction of the AgriFin financial analysis model in January 2009. This model helps screen agricultural applications more efficiently, and assists in customer support through value-added services.



FNB played a leading role in implementing the Meatco Financing Scheme, introducing a new approach to agricultural financing. The opening of the Old Power Station Branch in the heart of the agricultural area in May 2009 will be a platform to provide financial services to a growing number of part-time farmers.

Home loans

Namibia's mortgage market was not immune to the global slowdown and experienced one of the toughest periods in its history. Pressure on interest rate margins intensified as competition increased. As new business slowed, banks became more focussed on switching loans from competitors.

The prudent granting of home loans and the focus on collections, has resulted in a year-on-year reduction in arrears. The level of non-performing loans was below the industry norm, helped by our valuation methodology. This methodology helped us win a PMR award (Professional Management Review Africa) for doing the most in the sector to stimulate economic growth.

Our home loans book grew to well above N\$5 billion, amounting to a 38% share of the Namibian market.

The superior value of the FlexiBond product, launched last year, was proved during the year and remains best-of-breed. It was enhanced by substantial discounts on goods and services that FNB home loan customers enjoy at no extra charge.

WesBank

Despite the slow down in vehicle sales and decrease in disposable income, WesBank has remained market leader in a highly aggressive competitive environment. This has been achieved without compromising the quality of its lending, keeping bad debts at an acceptable level and controlling expenditure.

Superior customer service and teamwork have been paramount in reaching our targets. Sales were enhanced by offering options allowing for a winning solution for customer and bank. We changed our slogan to "We know how", supported by a new media campaign.

WesBank has worked closely with the bank's relationship



managers to target the corporate market. And it is well positioned to exploit tender opportunities by including the excellent range of products across the group - a professional package.

Corporate and commercial banking

On the corporate side, demand for credit was surprisingly strong from private and public sectors. A notable change was that clients increasingly opted for term debt to fund capital expenditure. The decline in interest rates has, to some extent, created greater demand towards the close of the financial year. There has been significant growth in transactional volumes, both from electronic banking and cash deposits by clients.

Public sector banking offers products and services for national and local government (including agencies) and state-owned enterprises, non-governmental organisations and foreign missions.

Our public sector banking unit had a successful year with strong asset growth and good client acquisition. It won the tender for the Millennium Challenge Account.

The commercial portfolio experienced a definite slowdown in asset growth, both in overdrafts and term loans. This was due to tighter economic conditions, prepayment of loans and a general slowdown in commercial property developments.

A pleasing aspect, given the difficult economic circumstances, was the low level of bad debts and defaults. We continue to focus on managing this aspect.

Credit card

It was a year of major changes for our credit card business as we migrated consumer and business cards from South Africa to Namibia. This change allows us to offer improved service and better turnaround time on queries and applications.

Utilisation of credit cards was driven through campaigns such as tickets to the Confederation Cup. It will extend to the 2010 World Cup.

SME business unit

The small and medium enterprise (SME) sector remains an important

engine for economic growth in Namibia. It has the potential to create jobs at a time when corporate Namibia is shedding them.

Our SME Business Unit continues to grow by offering value propositions and much-needed financial services and capacity building. Key initiatives include expanding SME financial services via the entire FNB network, ensuring adequate staffing of the unit, and expanding mentorship and training programmes throughout the country.

Last year we started a joint venture with Pupkewitz Megabuild and SMEs Compete to provide technical and business management training to developing builders. The venture has paid off. Builders have been provided with lines of credit to enable them to handle contracts. We have also agreed with the Ministry of Mines & Energy and UNDP to introduce a loan scheme for affordable renewable energy. The benefits will accrue in the new financial year.

We have expanded our client base through reduced and preferential interest rates and have supported many SMEs who needed financing to start up or expand. Through mentorship and training, FNB helps entrepreneurs to turn business ideas into functioning ventures.

Our partnership agreement with the Development Bank of Namibia, in existence for close to 12 months, has yielded positive results. More than 60 SMEs have benefited and more than 600 jobs created. An initiative with NORSAD Agency guarantees 50% of loans to SMEs. It has benefited a large number of our SME clients who lack collateral or security. Without it, many entrepreneurs with good ideas might never have been able to get off the ground. Through our FNB Foundation and the German Development Services (DED), substantial investment in training and mentoring has enabled SMEs Compete to reach out to more than 500 SMEs in the past year. Many had little or no business management experience or skills to launch new products or enter new markets. We are proud to say that they have been given these skills, and are thriving.

Tourism division

Namibia draws an increasing number of visitors every year.



Tourism has grown rapidly since independence and has become a key economic sector. FNB Namibia made a conscious decision to prioritise this sector. It established a dedicated Tourism Desk, staffed by specialists in tourism and the special financing needs of the industry to offer customised packages to suit various needs. The division was launched at a Tourism Expo in May. Again, it was a first by a Namibian bank.

We value our partnership with the tourism industry and the chance to strengthen relationships with tourist associations like FENATA, TASA, HAN and AAN, making us the preferred financial services partner of the industry.

Treasury

Volatile interest rates during the year served as a good test of our ALM (asset and liability management) modelling. The interest rate risk inherent in the banking book, due to a natural mismatch in asset and liability products, has been mitigated by employing appropriate risk management strategies.

Volatility in currency markets provided opportunities to increase the volume of transactions traded. Foreign exchange earnings ended well ahead of target. Positive results from an expanded Treasury sales team and increased activity in non-vanilla treasury products also played an important role. In addition, our Treasury Division implemented a new system to serve clients better by improving settlements and reconciliations.

Revenue generated through our trade finance offering also exceeded expectations. This was assisted by our International Business Centre (IBC) that has established itself as a key partner for international trade finance through an extensive range of customised products. Trade finance, traditionally facilitated by documentary collections or documentary letters of credit, are now supported by more advanced methods of financing, and gained momentum during the year. This enables us to offer tailor-made solutions in collaboration with the group's Structured Trade Finance Desk.

Customer Foreign Currency (CFC) accounts maintained by the business centre have also recorded significant growth, and

our professional consultants are conducting increased consultations on exchange control.

Our custody business recorded growth well in excess of target. The popularity of this service was illustrated by the additional portfolio mandates obtained, among them mandates from a major local client and a major asset manager. Existing clients have demonstrated their confidence by giving us more portfolios to manage.

Swabou Life

Swabou Life and the life industry in general were adversely affected by volatile stock markets during the year. After an excellent growth phase over the last few years, the global financial crisis brought negative returns on equity markets and a material decrease in the company's earnings in 2008/2009.

We are pleased to report that Swabou Life has not experienced an increase in cancelled policies but rather an increase in recurring new business premiums. In addition, our in-house agency sales force exceeded expectations with a substantial annual premium income growth year on year.

The rationale for the Swabou Life/Momentum transaction was to unlock synergies. Namibian brokers and their clients can benefit from Momentum's superior product range and by having Momentum as a strategic shareholding partner. These advantages materialised during the review period, and the company's name was changed to Momentum Namibia.

While Swabou built loyalty in the entry and middle segments of the market over many years, Momentum built a strong reputation in the high net-worth market. The Swabou brand will continue to focus on its original market segments while the Momentum brand will compete in the top end of a fierce and competitive life insurance market. Its flagship risk product, Myriad, was launched in June 2009. We believe this will bring a much needed alternative to high-end quality products.

The challenge in the year ahead is to educate Namibian consumers. This requires working not in competition but together as an industry, and with Namfisa. A comprehensive education



programme needs to address the absence of a savings culture in Namibia, the need for long-term savings, the benefits of life assurance, how life assurance products work, risk management and service expectations.

RMB Asset Management Namibia

At the end of June 2009 RMB Asset Management Namibia (RMBAM Namibia) managed assets of approximately N\$2.4 billion. The Government Institutions Pension Fund remains a key client.

The business has not been without challenges this year, with the global financial crisis and the resignation at year end of the CEO of RMBAM Namibia, Martin Mwinga. He played an important role in establishing and growing the company and we wish him well with his future plans.

FNB Namibia Unit Trust

The drop in interest rates put pressure on money market returns but with equity markets showing signs of recovery we expect inflows to the FNB Equity Fund.

A concerted effort to improve efficiency during the year focused on cost savings, new processes, systems and improved ways of working. The unit trust administration was moved from RMB Unit Trust systems to Momentum Wealth systems to enhance service delivery. We localised the unit trust functionality on the Hogan system to operate during South African public holidays.

An important milestone was reached when FNB Namibia Unit Trust grew its funds to more than N\$1 billion.

OUTsurance

This was the first full year in which OUTsurance Namibia offered both car and household contents insurance cover (launched in January 2008) and homeowner's insurance cover (available since July 2007). The name of the company was changed early in 2009 to OUTsurance Insurance Company of Namibia Limited.

OUTsurance has benefited a great deal from the support and expertise of counterparts in South Africa. By using the South African call centre, OUTsurance has been able to reduce operating

costs to the benefit of consumers. The Namibian operation is committed to fast, fair and efficient claims settlement. It works directly with clients, not brokers, saving customers money. Administrative and support functions such as those offered by assessors are provided locally.

Floods in northern Namibia resulted in clients suffering losses. We assisted clients to process their claims quickly and efficiently and provided much-needed humanitarian assistance.

Trust services

Although the trust company experienced a slow growth in the number of new wills written, there was an improvement in the quality. The average balance sheet of clients has passed the N\$1 million mark.

We are proud to announce that, according to the Government Gazette, we retained our leadership position in the market throughout the year. Procedures are continuously reviewed to ensure customer satisfaction. Closer collaboration with other business units in the group contributes to our success.

Prospects

A number of extraordinary factors impacted on our business during the year, and will likely continue to do so for some time. Yet we believe that we are still poised to realise the potential for growth that comes from current actions and the introduction of new value propositions.

Recent regulatory changes do not only bring restrictions, they will also assist in boosting capital market activity in Namibia. We will therefore continue to identify, develop and utilize opportunities in this exciting area of the financial market space.

There are current pressures on the banking sector to reduce the margin spread between the BoN repo rate and the prime lending rate. This is an industry-wide issue that needs to be resolved responsibly on the basis of mutual agreement as the only sure way to avoid negative unintended consequences for the industry, and perhaps, the broader economy. We have engaged with the BoN to fully understand its intention in seeking a reduced



margin, and to ensure that the implications for the banking sector are fully understood. The composition of our balance sheet is such that we will have to use different mechanisms to narrow the spread for different asset classes to fairly reflect the relationship of pricing for risk, relative to our prime lending rate, which is driven by the actual cost of our funds.

Communicating to, and educating, our staff and customer base will remain important in everything we do. A big challenge continues to be to convince customers to use more affordable and convenient electronic banking, adding value for all parties concerned. We are pleased that, through our association with FNB South Africa and VISA, we have been able to include Namibians in the excitement of the FIFA 2010 World Cup, and to use this partnership to achieve our own objectives. Based on the overwhelming response, we have further plans to build on this opportunity to enhance the FNB brand and our business.

Appreciation

To the Namibian Government and particularly the Ministry of Finance, other state organs, our regulators, the Bank of Namibia and Namfisa, we appreciate the role you play in safeguarding the financial services sector in Namibia and commit ourselves to remain your partners in this endeavour.

We thank our BEE partners and other shareholders and the Board they appointed for the confidence shown in the FNB Namibia team and undertake to continue our efforts to secure a fair and

sustainable return on your investment.

I would like to acknowledge the support and contribution of Leonard Haynes, the FNB Namibia Bank CEO who ended his tenure in January 2009. To Ian Leyenaar, who replaces Leonard, we welcome you and are sure that you will play an equally important role during your term.

To my senior leadership as well as the entire FNB team, you have proved your mettle during these challenging times. The visionary leadership of the FNB Namibia Holdings Board must also be acknowledged. We had some tough deliberations and your established wisdom allowed us to keep a clear view on the long-term advantages of our decisions.

Finally, to the Namibian people out there that entrust their finances to us, we promise to continue to seek the best possible solutions for you and to strive to improve the way in which we service your needs.

Thank you.



Adv. Vekuii Rukoro
Group Chief Executive Officer



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