

Chief executive officer's report

This year we have enhanced our annual report to better reflect new corporate governance requirements. We have included an abridged version of our annual sustainability report, which aims to provide a balanced representation of the FNB Namibia Holdings Group performance in managing material sustainability issues as they relate to all our stakeholders.

Integrating financial and non-financial information in FNB Namibia's annual report signals our belief that non-financial issues are inseparable from 'business as usual'. The objective is to augment customary business reporting by reinforcing it with sustainability reporting.

The 30 June 2010 year-end marks the conclusion of the second year of the group's L2Pin3 Strategic theme. Our aim is to move from being the Leading Financial Services Group in Namibia to being the Preferred Financial Services Group in Namibia by June 2011.

FNB has made good progress towards this objective despite continuing global economic turbulence and below-trend growth in the local economy. It is clear that our long-term strategies continue to show positive results, especially when compared to the financial services industry locally and in Southern Africa.

For the year under review, FNB Namibia has affirmed the L2Pin3 strategy and ensured that strategic imperatives that focus on people, efficiencies and customers are aligned accordingly, as are tactics and actions at business unit level. A more detailed overview of business unit performance appears later in this report.

Service remains a key factor embedded in our strategic model. A variety of initiatives were undertaken during the year, including a group-wide 'buzz' barometer to measure customer loyalty and a customer satisfaction survey. We continue to monitor customer perceptions and identify areas where improvements are needed. The focus on service will be intensified in the coming year as it underpins our unique selling proposition.



Greater efficiencies are our second priority. One major achievement was the creation of a single central legal department to replace individual collectors in business units. Bad debts are now being collected even more efficiently.

We continued to be successful in migrating additional customers to more affordable, convenient and safe electronic channels. But the worldwide growth in fraud meant we had to spend more time and resources on educating customers on how to use these channels safely. FNB plays a leading role in communicating safety awareness to customers and the general public through the media – print, radio and television – and in face-to-face sessions. Combined with our unique inContact system, it has helped to restrict fraud.



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Our biggest asset – our people – remains a critical strategic imperative. FNB Namibia’s Human Resources Management Division continued to offer integrated services in pursuit of the group’s primary business and transformation objectives. A new People Pillar Survey was conducted to measure to what extent our staff feel engaged with FNB and to identify which factors play a role in creating their perceptions. The survey clearly identified areas of concern and we are addressing them.

A major challenge is to attract and retain qualified and skilled people. Our human resource focus is discussed in more detail in the sustainability statement.

One of the largest projects undertaken by FNB Namibia was to localise our core banking system in terms of regulations imposed by Bank of Namibia (BoN). We spared no effort to ensure that the mammoth project did not put our business or customer service at risk. We are happy to report that the change-over was completed without serious incident and with only one hour of downtime. The project included the establishment of a new, state-of-the-art disaster recovery site.

Building our brands and protecting our reputation across the group is also seen as crucial and this continued to receive strategic attention. Last year FNB Namibia introduced the concept of promoting ‘LifeStyle solutions’ as opposed to focusing on specific products. The concept is now almost institutionalised, internally and among customers, and a fresh campaign was launched this year. In addition, we continued to focus on initiatives relating to market segmentation and to improve the understanding of the markets we operate in.

International excitement created by the FIFA World Cup continued to provide an unprecedented opportunity for FNB Namibia. Our participation was made possible courtesy of VISA. Customer and staff competitions created top-of-mind product and brand awareness while giving recognition to our staff. People could win match tickets by swiping their cards or using ATMs. The result: more card swipes at point-of-sale devices, new accounts opened, existing customers retained and staff morale boosted. More than 300 lucky winners received tickets for World Cup matches.

Other highlights included the visit of the official 2010 mascot, Zakumi, courtesy of FNB Namibia. Zakumi drew crowds in Windhoek and wherever else he went. Head of State, President Pohamba, facilitated his tour by granting him the freedom of the country at Statehouse. He left ordinary Namibians with the true spirit of the FIFA World Cup 2010 - and an FNB photograph in their pocket!

The group supports the following soccer teams: African Stars, FNB Oshakati City, WesBank Tigers, Eleven Arrows and Black Africa and FNB Orlando Pirates. Most have shown great progress – both in performance on the field and in management structures. Two Premier League Rugby Teams are now sponsored: FNB Wanderers and FNB Western Suburbs. Supporting sports clubs has opened numerous doors for a wide range of FNB business units and has improved brand equity.

FNB, a partner of the HeartLines initiative in South Africa, joined local church structures to introduce this very successful project to Namibia. It is a community campaign that drives behaviour that is based on the understanding of the “value of values”.

First National Bank of Namibia (the bank)

The bank continues to offer a wide range of products and services through a network of 49 branches, 221 ATMs, 2 050 Speedpoints, and full-service online and cell phone banking across Namibia.

Retail banking

The focus of retail banking is to contribute to the overall sustainable profitability of the bank through its dedicated branch and electronic business channels network. This year there was a special emphasis on customer service excellence and enhancing internal processes and procedures.

By aligning the branches to the “Get, Keep, and Grow” strategy, as well as the Care and Growth staff initiative, the message that superior customer service brings more sales opportunities was reinforced. To track

The image is a composite of three parts. On the left is a soccer player in a red jersey with the text "Are you scoring goals yet?". In the center is a Visa advertisement titled "Score double tickets to the 2010 FIFA World Cup™, courtesy of Visa." It lists five ways to get in on the action: using Visa World Cards, Visa Signature Cards, Visa Signature Cards, Visa Signature Cards, and Visa Signature Cards. On the right is a woman sitting at a desk with a laptop, with the text "Effortless banking!" and "Lifestyle Banking" below her.

customer satisfaction and understanding of products, FNB continued to use mystery shopper surveys. A customer opinion survey was introduced to help identify service improvement opportunities.

Cost containment again received attention and cost increases were kept to a minimum throughout the financial year. This was augmented by a committee whose mandate was to improve cumbersome and time-consuming processes. Furthermore, the introduction of a staff re-deployment model resulted in an overall saving.

Once again, the annual pricing review was undertaken with care, against a background of rising consumerism and a challenging economic environment. The new pricing was widely communicated through the media, in branches and on the FNB website. FNB aims to be fully transparent about pricing, and encourages customers to use appropriate products and channels. Its comprehensive pricing guide contains numerous tips on banking and how to save on fees and charges.

Agri Division

Not surprisingly, weather plays a vital role. Forecasts of drought did not materialise but erratic rainfall is a reality in Namibia. The profitability of sheep farming (mostly in the southern parts of the country) came under pressure, partly as a result of regulatory policies, and partly due to environmental and productivity problems.

A major achievement for Agri has been the successful roll-out of relationship banking for farmers, which includes dedicated Agri Managers assisting the branch network in visiting farmers on their farms as well as utilising the AGRIFIN financial model to assist farmers in their financial planning and implementation. It has helped to strengthen FNB's position as a preferred bank for this sector.

An emerging farmer loan scheme was spearheaded by FNB and piloted with success. A larger roll-out is planned for the new financial year. A new integrated loan processing system features flexible agricultural term loans, giving FNB a distinct advantage in catering for the seasonality of agri businesses.

Tourism Division

The aim of the Tourism Division is to generate growth from niche tourism. The unit has developed an exceptional understanding of the industry and is able to offer solutions that add value to the tourism market. A unique tourism loan caters for the seasonal requirements of the industry by making provision for flexible repayment periods.

FNB's focus on this important industry remains in place despite a reduction in tourist numbers.

FNB ATMs

With the successful implementation of a new operating platform during the year, FNB offers a leading-edge ATM delivery platform. The look and feel of the ATM screen has been enhanced and an additional 14 ATMs were installed around the country.

Online Banking

The online banking business unit provides electronic payment solutions to all segments of the Namibian market. As with other business units, it faced the major challenge of effectively communicating the dangers of fraud, especially electronic fraud such as phishing, to customers.

A new fraud reporting service was implemented. Customers can report fraudulent activity to a 24-hour call centre. In addition, a Customer Relationship Management (CRM) system was implemented to streamline query and sales processes.

High value payments are now processed via electronic funds transfer (EFT) systems. Our sales staff reminded clients vigorously of the convenience of online banking. Corporate clients were successfully converted to a single corporate platform. The net result: better customer service.

Merchant Acquiring (SpeedPoints)

FNB's SpeedPoint offers a complete suite of efficient and secure card-acceptance solutions that enable merchants



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to accept locally and internationally issued credit, debit and chip cards. FNB SpeedPoint is Namibia's leading acquirer of debit and credit card transactions.

Merchant connectivity has always been a problem in Namibia. As a result, FNB rolled out the EPad service that helped to stabilise connectivity in rural areas.

Cellphone Banking

The challenge to promote the benefits of this safe, cost-effective and technologically-advanced method of banking is ongoing – but more people are using them more often. FNB introduced free cellphone banking – the first and only bank in the market to do so.

System enhancements on direct connection have further enhanced the efficiency and use of this delivery channel. Cellphone Banking Lite, an easy self-help access service to limited Cellphone banking services, was implemented and prepaids on ATMs and credit cards were enabled.

FNB Credit Card

We have taken positive steps to increase the credit card base by cross-selling to existing customers and seeking new customers. These initiatives succeeded because they were regarded as an extension of the successful LifeStyle approach, and were supported by an extensive direct mailing campaign emphasising the special benefits of credit card usage. The general use of credit cards was further linked to the popular FIFA World Cup promotional campaign.

Easy Loans

FNB's Easy Loans unit provides small loans – from N\$1 000 to N\$25 000 – to salary earners. A major enhancement during the year was the introduction of a government deduction code, enabling the direct processing of payments for government employees.

Corporate, Commercial and Public Sector Banking

Growth in the Corporate and Commercial Banking unit has been driven mainly by three factors. Firstly, there were increased deposits from the corporate market. This was due to greater liquidity that came from regulatory changes that obliged companies, pension fund administrators and asset managers to deposit more funds than previously into the local banking sector.

The second driver was a significant increase in transactional volumes stemming from buoyant retail market conditions.

Thirdly, growth in advances in the first part of the financial year was good and the unit experienced healthy utilisation of working capital facilities during the period to December 2009. Since the beginning of 2010, a slowdown in advances growth has been evident. This can be attributed to a number of factors such as reduced capital expenditure by clients and more stringent internal credit approval criteria. As a result, the level of bad debts and defaults remained very low.

Two business-focused branches were opened in Windhoek – one in Prosperita and the other in the Northern Industrial Area. The objective was to provide business clients on the outskirts of the city with easier access to banking services. It also enabled commercial relationship managers in these branches to attend to clients' needs more promptly and proactively.

During the past year, Public Sector Banking excelled in providing tailor-made banking solutions to educational institutions across the spectrum; and to the Diplomatic Corps. This dual focus will continue in the current financial year.

SME Division

The unit makes a noticeable impact by adding value to the SME sector through financial and non-financial support services. Its loan book and client base doubled during the reporting period, resulting in much needed job creation.



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The unit's partnerships with key stakeholders like the Development Bank of Namibia, German Development Services, SMEs Compete and Norsad Agency continue to yield positive results for bank and SME clients alike. For instance, the initiative by FNB and the Development Bank brought funding to more than 70 SMEs to date, increasing their chances of success. Norsad Agency continues to guarantee 50% of loans to SMEs, with over 120 entrepreneurs benefiting since the inception of the partnership agreement.

The FNB Foundation's investment in entrepreneurial skills development and business mentoring through an ongoing partnership with Deutscher Entwicklungsdienst (DED) and SMEs Compete is paying off. More than 700 SMEs were reached in the past year. Without this mentorship and training these SME would have had little or no business management experience or skills, hampering them in launching new products or services, and in entering new markets.

WesBank

WesBank continues to focus on providing financing for all moveable assets to individuals and businesses in all Namibian market segments.

It prides itself on offering top customer service and is a market leader in delivery. Growth in the division has been subdued in the past year due mainly to the tough economic times, particularly for consumers. The Corporate market is seen as a future growth area and increased focus will be applied together with skilled resources to enhance our offering.

Home Loans

Despite tough economic circumstances during the first part of the financial year, FNB agreed to maintain the financing of first-time buyers at 100% loan to value ratio. The consistent manner in which valuations were performed supported this decision and has resulted in a growth in market share without an increase in non-performing loans.

Retaining existing business received special attention. For the second year in a row, the property valutors department received the PMR Silver Arrow Award for "Institutions doing most in their sector to stimulate economic growth and development in the country".

The unit increased market share through innovative products, good registration processes, strong estate agent relationships and a high-quality valuation methodology.

The popular FNB housing index has established itself as a reliable and respected source of information on the industry, and is now published monthly. It is frequently quoted by Namibian economists and institutions.

Treasury

From a market perspective, the 2010 financial year was characterised by the strength of the Namibia Dollar (NAD), lower levels of US dollar notes in circulation, and the low levels of interest rates. In general, market volatility levels were lower than the previous year.

Many of these factors are a direct consequence of global financial events and local policies to contain their impact. Despite these conditions, Treasury succeeded in maintaining market share, remaining competitive, and providing outstanding service to clients.

Treasury clients continue to demand competitive pricing, sound and prompt advice on hedging and management of their foreign exchange and interest rate exposure.

The management of the balance sheet through the ALM function (asset and liability management) was challenged by lower interest rates – the market being very close to historic lows. The negative impact of the endowment effect also had a detrimental effect on margins. The bank's Assets and Liabilities Committee managed to limit the negative impact to the minimum, with sound application of its interest rate risk framework.

Through the international business centre (IBC), customers are offered an array of trade finance products and services. It offers expert advice on exchange control and consults on major transactions. The number of customers has increased.

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The custody department managed to grow assets under management significantly by providing good customer service, monitoring compliance and ensuring smooth investment actions to portfolio managers and trustees.

Momentum Namibia

During the period under review, the company changed its name to Momentum Namibia (formerly Swabou Life). Momentum Group South Africa increased their shareholding as a strategic partner from 35% to 49%.

Through this alliance, Momentum Namibia was able to introduce Myriad to the Namibian market – the flagship risk product range of the Momentum Group. With support from the broker community, sales of Myriad have exceeded expectations. This excellent product has given Momentum Namibia entry to the top end of the market.

The Swabou brand and product range were retained for entry and middle segments of the market as they remain well known. Its dedicated in-house sales force has generated substantial annual premium income growth year on year.

Momentum Namibia's results recovered from the previous year, when the volatile equity markets of 2008/2009 adversely affected them. The unit experienced positive annual premium income growth across all product ranges. Policy cancellations remained within expectations.

Although there has been a recovery in equity markets, Momentum Namibia believes there may still be volatility as a result of the debt levels of certain European countries and banks. However, the restructuring of its capital to ensure no equity exposure, should ensure sound, sustainable earnings in future.

OUTsurance

The focus of OUTsurance is to provide short-term insurance products directly to customers without broker involvement.

Improved loss and cost ratios contributed to improved underwriting results. Customer satisfaction survey results

provided very positive service feedback, which reflected in the company achieving high customer retention ratios. Growth of the insurance book exceeded budgeted expectations.

Using mobile computer technology to assess claims assisted in achieving world-class turn-around times for claims processing.

FNB Unit Trusts

Operational efficiency continues to be enhanced, contributing to quality service delivery to our customers. A new institutional money market fund was launched in May to cater for non taxable institutions.

FNB Trust Services

Trust Services had an extremely good year. Not only did the number of new wills increase, but so did the value of wills to a balance sheet average of N\$1.6 million. The company also increased the pension fund trusts being managed. This will have a positive effect on future income.

RMB Asset Management

RMBAM Namibia's core competence is institutional and retail asset management. It competes for the management of retail, retirement and other institutional funds. Where its clients require investment outside the borders of Namibia, it provides this through its sister companies: RMBAM South Africa and RMBAM International. Furthermore, RMBAM Namibia is contracted to provide its services to various companies within the FNB Namibia group.

RMBAM has proved to be a consistent top quartile performer in the fixed income space – an area where most retail and discretionary institutional funds are invested.

The introduction of pooled investment products for institutional pension funds will go a long way in diversifying its asset base. Agreement between RMBAM Namibia and Momentum is at a final stage, paving the way for these products to be introduced shortly.

plan for the unplanned

Momentum Myriad's series of innovative life insurance products offers you total protection against all the unexpected curve balls life might throw at you. As experts in the field of risk insurance, we offer quality, innovative products that will help you manage your risks and ensure your financial wealth – come what may. Talk to your financial adviser to find out how you can make a success of your life.

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Prospects

As anticipated, the extraordinary factors that impacted on our previous year continued to do so during the reporting period. Our vigilant and proactive approach to business will allow us to extract the growth potential offered by existing strategies and the introduction of new value propositions as we continue to identify, develop and utilise opportunities in this exciting area of the financial market.

On the positive side, economic growth projected of 3.2% will allow for moderate growth and opportunities. Increased government spending, new foreign direct investment and lower inflation are all viewed as promising indicators.

The pressures on the banking sector to reduce the margin between the repo rate and the prime lending rate continues. This industry-wide issue needs to be resolved responsibly and on the basis of mutual agreement with BoN to avoid possible negative unintended consequences for the industry and, perhaps, the broader economy. We remain engaged with BoN to reach an amicable solution.

I would like to repeat the commitments we have made before.

To our customers, who entrust their finances to us: we commit ourselves again to understanding your needs – and striving to meet them. We promise to continually seek the best possible solutions, and to strive for the best servicing of your needs.

To our people: You are a critical strategic pillar for us. We will continue striving to be the employer of choice and to have the right people in the right jobs.

To the public at large: We will continue building on the big strides we have made already in financial and

process efficiencies. We will also ensure that we continue to comply with the law and with proper risk management procedures.

Appreciation

To the Namibian Government, in particular the Ministry of Finance and other state organs, our regulators - BoN and Namfisa: We appreciate the role you play in safeguarding the financial services sector in Namibia and commit ourselves to remain your partners in driving the development of Namibia's economy.

We thank FNB Africa, our BEE partners, other shareholders, and the FNB Namibia Holdings Board for the confidence shown in the FNB Namibia team. We undertake to continue our efforts to secure a fair and sustainable return on your investment.

To my bank CEO, the heads of business units and the rest of the executive leadership, as well as the entire FNB team: Thank you for your considerable efforts and for your loyalty to the business.

Finally, to Dieter Voigts, the accomplished gentleman and chairman of our board who is retiring after 22 years of service: Thank you for having been a mentor to the politician turned business executive. Your advice, support and above all loyalty will be greatly missed. *Auf Wiedersehen!*



Adv. Vekuii Rukoro
Group Chief Executive Officer



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