

# Chief Executive Officer's Report



## Strategic change - the key to our future

### Introduction

The FNB Namibia Holdings Group of Companies ('the Group') continues to embrace the change that began when it merged with the Swabou Group of companies in July 2003. This strategic development yielded direct benefits which are clearly reflected in the financial results of the Group for the year ended 30 June 2006. Operating income before tax for the year under review grew by a significant 20%, from N\$309.5 million to N\$372 million.

Change is essential in our highly dynamic business environment. It is the vital ingredient needed to give us a sustainable base for future organic growth. Against the background of continual and positive change – internally and in the Namibian and international environment – the Group has responded well, as reflected in the solid results reported. Initiatives that have now come to fruition include the BEE partnership as well as the acquisition of the remaining 50% shareholding of FirstMet Namibia Unit Trusts Ltd, renamed FNB Namibia Unit Trusts. First National Bank of Namibia Limited ('the Bank') is also embarking upon new interventions, such as the establishment of the SME Business Unit and the Agriculture Development Business Unit, amongst others. In addition the entire Credit Card Issuing operation has migrated to Namibia.

It was not just in the financial field that we achieved excellence. We are proud of the following achievements:

- Diamond award by Professional Management Review ('PMR') for achieving the highest rating in the Business Sector: Banks in Namibia;
- Gecko Advertising award in the TV Campaign category for the TV advertisement of CardWise product; and
- Gold award at the Windhoek Show and Ongwediva Trade Fair in the financial services category.

The Group announced its biggest-ever single sponsorship to football during the period under review. We believe our decision to re-join the Namibia Football Consortium ('NFC') and to commit ourselves to a sponsorship of N\$10 million over the next five years will be appreciated by the soccer-loving Namibian nation, our customer base, and will offer substantial business opportunities as the region builds up to the 2010 Soccer World Cup in neighbouring South Africa. A condition of our continuing sponsorship is that Namibia's soccer fraternity commits itself to getting its house in order. Good administration is critical.

### Human Capital

Employees are our most valuable asset. The Group is committed to staff programmes designed to help people develop their maximum potential while supporting the strategic aims of the organisation.

All staff members have undergone psychometric profiling that will help to put the right people in the right jobs, thus ensuring a happier and more

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motivated workforce in which employees will focus on their strengths.

As part of a focused transformation process, the Group, through its annual recruitment and development targets as set out in its Affirmative Action Plan, has once again exceeded statutory requirements and has been awarded the AA compliance certificate for the period under review.

In support of the Sales and Service Strategy, the Group has introduced 'The Good to Great Journey'. This is a development programme designed to give staff a 'personal journey to self-discovery' and to make them more aware of the teamwork required in a customer-driven organisation.

The employee wellness programme deals primarily with aspects of staff-wellbeing and has a committed HIV/AIDS component. In collaboration with other commercial banking institutions the Group co-funded an industrial play called 'The Living Dead' which focused on HIV/AIDS and provided important 'life skill' lessons.

## FNB Namibia Banking Group ('The Banking Group')

The Group consists of the Bank and its wholly owned subsidiary Swabou Investments (Pty) Ltd, the former Swabou Bank.

Bank of Namibia, the supervisory authority, oversees both entities. Swabou Investments houses the mortgage book of the former Swabou Bank as well as investment properties, while the Bank offers a complete range of banking products through its branches, ATMs, mini ATMs and point-of-sale devices at all major retail and commercial outlets. This network, the biggest in the country, makes banking ever more accessible to all communities, urban and rural.

### Branch Banking Network

Sales in the branch network grew as a result of a focused and well-managed sales team throughout Namibia. New active accounts exceeded targets. A concerted drive involving staff across the Group created cross-selling opportunities which brought an increase not only in accounts but transactions too. The growing sales culture plus our drive for service excellence place us in a good position for the years ahead. Training is strongly focused on ensuring that sales and service continue to be a driving force. Regular customer surveys measure the effectiveness of our initiatives.

A new product, CardWise, was launched to meet the needs of lower-income customers. Affordable and with minimal fees, it is bringing banking to the un-banked and under-banked of Namibia, contributing to account growth and reconfirming FNB as a market leader.

Improved automation and greater efficiencies – notably centralising processes – enabled us to handle increased volumes. This meant we could deploy staff to 'meet and exceed customer expectations' and to assist in risk management and compliance, areas subject to increasing regulatory requirements. We have continued our programme to improve our main delivery channels, including upgrading four branches. Swakopmund, established in 1910, was superbly revamped. Architecturally, we modernised facilities while retaining an historical ambience. Two new branches were opened at Okakarara and Maerua Mall, made possible by Namibians for Namibians.

An additional 22 ATMs and 10 mini-ATMs were installed, bringing the countrywide network to 110 and 121 respectively. We were also the first financial institution to introduce Namibia to a mobile ATM in a mini-van, a valued service especially at agricultural shows and fairs.



New FNB Group Corporate wear



Technology: creating access to affordable banking in remote areas - opening CardWise accounts

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The Group's 1 300 point-of-sale terminals (Speed-points), establish FNB Namibia as Namibia's leading provider, bringing down the cost of banking services.

## Home Loans

Thanks in part to favourable interest rates, we achieved above-inflation growth in the home loan market. The country's new business mortgage lending for this period was N\$1.8 billion, bringing total Namibian exposure to N\$9.5 billion. The Banking Group remains the clear market leader in this field, and the quality of the book has improved, it now boasts the lowest ever arrears percentage. This situation is expected to normalise as the interest rate cycle enters an upswing.

Internal processes are constantly being reviewed to improve customer service and satisfaction. A major industry 'first' was the launch of the property index, based on valuations carried out by the Banking Group, which over time has had some 45% of the market share. The index provides an excellent tool for prospective clients, estate agents and other interested parties to gauge the property market.

Another initiative was to make mortgage bond registration smoother and quicker by streamlining processes. We have also increased our attorney panel and included previously disadvantaged firms.

On the back of high market demand, FNB Home Loans launched a new pension fund benefit scheme product and secured substantial new business during the past year. The affordable housing market remains a focus area and the Banking Group envisages increasing its foothold even further.

Excellent growth of more than 80% was achieved during the year in areas outside Windhoek, notably on the coast and in the northern regions. A new sales office at Ongwediva was opened to service this area more effectively.



*The FNB property index provides the home loans industry with valuable statistics*

## WesBank

WesBank remains one of the Bank's top performing business units in terms of customer service and satisfaction, asset growth and profitability. Despite keen competition during the year, it cemented its position as market leader. Its excellent results were helped by the introduction of a successful strategy with motor dealer networks, resulting in better sales through the banking network. The introduction of a Pre-Approved Finance Certificate has made it much easier for clients to purchase a vehicle and turnaround times for approvals have improved markedly.

Additional financing opportunities were created by entering into an Alliance Agreement with Barloworld Equipment Namibia and the first transactions commenced during August 2005. We are proud to be associated with such a dynamic group.

WesBank enters regularly into 'scheme transactions' with dealers. These transactions are packaged to be customer friendly and benefit all parties involved.

## Corporate Banking

Staff training (formal and informal) continues to play an important role in developing 'best-of-breed' corporate bankers. Improved training supports our customer service focus, which in turn reinforces our sales and service drive.

With the help of expertise from FirstRand, the unit reassessed its approach to transactional business with larger corporates, which enabled it to secure a number of tenders from prominent clients. A new systematic pricing process helped us ensure fair pricing for risk as well as volume.

The important aspect of raising deposits also received attention. Thanks mainly to large corporate clients and asset managers, a growth of 21% was achieved in this area.



*WesBank for vehicle and asset Finance*

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## Treasury

The domestic money and capital market received positive news about the first sovereign credit rating for Namibia (a BBB-rating by Fitch). Investors were encouraged by the rating and margins between Namibian and South African government bonds shrank. The Bank was well positioned to capitalise on this trading opportunity, and the money and capital market trading portfolios' yielded good returns.

Our intention is to play a pivotal role in the development of the local money and capital markets. Hence, the Bank continued to intensify its involvement in the activities of the primary and secondary markets, i.e., debt securities and playing a critical role in the initiatives of Bank of Namibia.

With regard to forex and international trade desks, the dealing teams continued to demonstrate specialised product knowledge and skills to the benefit of our customers. Despite a highly competitive environment, the combination of improved customer service and specialised advisory services enabled us to capitalise on opportunities while maintaining a sound risk profile. Net result: improved exchange revenue leading to good year-on-year growth.

## Electronic Business

Increasingly, our customers are being encouraged to make use of electronic banking in the interests of cost-saving and greater efficiency. As pioneers in technology, the Bank has introduced electronic solutions that have a two-pronged benefit.

They help corporates, parastatals and municipalities to simplify their systems and their reconciliation processes. And they help the public to make payments more easily and conveniently. Thanks to an arrangement between the Bank, the City of Windhoek and Namibia Electronic Payment Terminals, our customers can purchase pre-paid

electricity at any FNB ATM countrywide; and Windhoek residents can pay their municipal bills at any FNB branch or ATM, whether they are customers or not.

FNB's Internet Banking customer base has grown by 47% over the past year as a result of user friendly processes and increased security features such as Digitag. Other enhancements will be introduced to improve the Bank's service.

## FNB Credit Cards

The entire Credit Card operation has been 'Namibianised'. All aspects – from issuing to supporting – have been moved from FNB South Africa to FNB Namibia. Now it is not only quicker to process card applications, but quicker and easier to respond to customer queries too. This is yet another example of the Bank's commitment to customer service.

## Custodial Services

Custodial Services have increased after the Group redefined its focus on this business area to better meet customer needs. During the year, assets under management nearly quadrupled. Although our primary service consists of safe custody and settlement of securities, we continued to offer competitive trusteeship services to unit trust companies.

## RMB Asset Management Namibia

Rand Merchant Bank Asset Managers ('RMBAM') recently entered the Namibia market as RMBAM South Africa. In June 2005, the shareholding structure changed with FNB Namibia Holdings acquiring 50% shares in RMBAM Namibia. From inception RMBAM focused its marketing efforts on institutional investors such as pension funds,



*Launch of pre-paid electricity facility with City of Windhoek and Namibia Electronic Payment Terminals*



*FNB Speedpoints provide faster and more efficient services to customers*

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insurance companies, medical funds and the like. No retail products are on offer yet.

Although RMBAM Namibia is a relative newcomer in a saturated market, it has managed to build good relationships with consultants and brokering houses, in addition to its relationships with Government and Regulators. With the strong brands and the marketing infrastructure and cross-selling potential within the Group, RMBAM Namibia is well positioned for future growth.

## First Trust

Trust Services are an important area of operation and are being enhanced to complement other products on offer. A new Wills and Marketing System will be introduced in the new financial year, and is expected to give the Group a leading edge in fiduciary business, thus generating synergy opportunities in the Group's network.

## FNB Namibia Unit Trusts

Following the Group's acquisition of the remaining 50% of FirstMet Namibia Unit Trusts Limited, FNB Namibia Unit Trusts Limited was established on 1 January 2006.

The mandate of FNB Namibia Unit Trusts Limited is to provide a range of investment products and services to all market segments in Namibia. Currently it has three subsidiary unit trusts, namely the General Unit Trust, Income Fund and a Money Market Fund.

The Group's financial consultants and independent brokers are responsible for marketing these unit trusts. A new marketing strategy is envisaged which aims to expand our customer base, making use of cross-selling opportunities in the entire FNB branch network.

## Swabou Life

Swabou Life increased new business by 52% over the past year, while earnings after tax increased to

N\$34.9 million, representing a growth of 71% compared to the previous year. This is an outstanding performance which demonstrates the benefits of maximising synergies within the Group together with above average returns of our investment portfolio.

Swabou Life experienced a dedicated stream of monthly premiums, generated mainly by wider access to credit facilities provided by the Group. Thanks to the commitment and support of independent brokerages, new business from brokers increased significantly. The distribution model has a pre-dominantly broker market approach that focuses partially on government stop order business and the banc-assurance model.

The purchase of the Momentum Book will be finalised in the new financial year. Once integrated, customers will receive a wide range of products and services while benefiting from efficient and cost-effective operational structures.

Further products are being developed to improve the existing range and meet the ever changing life assurance industry environment.

## Swabou Insurance

The short-term insurance industry traded under difficult conditions, exacerbated by the Mariental floods and high vehicle claims. Swabou Insurance, predominantly focused in the personal lines business, was particularly affected. Adverse loss ratios impacted negatively on the results. Despite this, the business ended the year with a healthy solvency margin of 77.7%.

Management spent considerable time repositioning the business strategically. Its new business plan focused on reducing the delivery chain, improving service, enhancing the image and devising products aimed at specific, clearly identified market segments.



Swabou introduced its new identity



FNB Carnations against Cancer project provides the Cancer Association of Namibia with much needed financial support

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Group penetration and re-insurer support, together with broker support and improved delivery and service, will generate positive results for the next underwriting period. Swabou Insurance is also part of active efforts to increase the insurance capacity in Namibia and to provide stabilisation in the market.

## Social Investment

The FNB Namibia Foundation was established in August 2003 to channel the corporate social investment funds of the Group in such a way as to create greater co-operation with, and more support for, the communities in which it operates. In seeking more effective social investment, the Foundation leans towards non-profit organisations and institutions working towards the development and empowerment of the broader community.

It is funded by 1% of the annual earnings of the Group, and strives to support requests for funding from all 13 regions of Namibia.

Since its establishment, it has contributed more than N\$5 million to 91 projects. Most of the money has gone to programmes dealing with education, the environment and community care; and to skills development projects.

During the period under review the major initiatives supported included:

- the Mariental Flood Assistance Initiative;
- training support to small and medium enterprises;
- adult education through livestock production manuals for emerging farmers; and
- support for the Namibia Education & Training Sector Improvement Programme ('ETSIP').

## Prospects

The Group is positioned for an upward trend in interest rates over the short term which is expected to dampen demand for credit. The increase in interest rates could result in an increase in impairments that will normalise the very low levels of non-performing loans we currently experience. However, strict credit policies to keep non-performing loans at an acceptable percentage of the total book that will ensure the healthy advances profile does not deteriorate.

Generally there is an optimistic outlook for real growth in the Namibian economy, although there is some concern over oil prices and the fishing industry. Organic growth is expected to continue

from the strategic initiatives detailed in this report, notably the expanded product base.

The Group regards the strategic relationship with its BEE partners as highly valuable. Ahead of the Financial Services Charter now being debated by the political leadership and the industry, the Group has pro-actively forged a BEE partnership and has committed itself to doing everything in its power to enhance this positive alliance.

During the next year our focus will be on two primary areas. Externally, we will drive service delivery standards that exceed our customers' expectations. Internally, we will capitalise on the enhanced operational efficiencies implemented this year and facilitated by new IT systems to improve risk management.

## Appreciation

The above achievements would not have been possible without the support, commitment and dedication of our FNB people. Therefore, a special word of appreciation to each and every staff member who remained focussed while the Group faced not only the unexpected changes in leadership caused by the death of Lazarus Shinyemba Ipangelwa, but also the planned strategic changes in the Group. The way you have responded is testimony to the true character and strength of the people of our Group. As one door closed, new doors were opened, creating exciting prospects as a truly world-class financial services group.

I would also like to express my sincere appreciation and profound vote of thanks to our customers for believing in what we do and for standing firm behind us as we were going through a phase of change.

**Adv. Vekuii Rukoro**  
Group Chief Executive Officer