



# Chief Executive Officer's Report

## Introduction

The past year has been one of continued growth in a highly competitive environment. While the economy performed below expectation, FNB Namibia Holdings Group of Companies (the Group) took advantage of existing opportunities and managed the risks and challenges in our path.

It consciously avoided the temptation to achieve its objectives by taking on questionable high-risk business. Our business philosophy is to seek solid, organic growth by developing new lines of business and improving service standards, rather than by increasing fees and charges.

The year 2007 is important to us. It marks FNB's centenary. The celebrations, which began in June 2007, will continue throughout the country this year.

Started in Lüderitz in 1907, the Deutsche Afrika Bank was the first commercial bank in then Deutsch Südwest-Afrika. Under its new name, it is still the only bank listed on the Namibian Stock Exchange and we are proud to say that the Group includes not only the country's largest bank, but its oldest financial services group.

This year the financial services industry had to contend with increased consumerism, resulting in special Parliamentary hearings on bank charges. Banks got a reasonably clean bill of health, but the resultant report urged them to improve consumer education, increase transparency over fees and charges and make banking

more accessible to even more Namibians. FNB is committed to addressing these issues and has already implemented a number of initiatives.

Overall, the Group has continued to lead in technological innovation. It stood us in good stead with the launch of two new products for the youth market, as well as a savings product aimed at the entry-level market. Cellphone banking was launched, making us more accessible to a wider segment. These innovations were a response to market demand and a challenge by the Namibian Minister of Finance, the Hon. Saara Kuugongelwa-Amadhila, to inculcate a savings culture, particularly among the nation's future leaders.

Another key event was the repositioning of our short-term insurance business. After lengthy negotiations, we moved from a broker-centered model to a more direct approach. In July 2007 we introduced the OUTSurance product line. By agreement, we sold 49% of Swabou Insurance to OUTSurance effective 1 July 2007, ensuring its commitment to the Namibian operation. We expect to achieve significant cost savings for the Group and clients, giving us a distinct competitive advantage.

Swabou Life's purchase of a Namibian life brokerage company, Global Financial Advisors (GFA), represents another key initiative. GFA has been responsible for substantial business to Swabou Life. While our former business model left us 100% reliant on outside brokers, we are now less vulnerable, having an in-house sales force and a substantial footprint in Namibia.

Our role as a responsible corporate citizen is to help jump-start economic growth and create jobs. So we have placed special focus on our small and medium enterprise (SME) division during the year. Our relationship with SME Compete has proved good for the bank and for the entrepreneurs, who receive training and mentorship.

We have also created an agricultural division to boost start-up farmers and commercial agriculture. Still in its infancy, we plan to support it aggressively in the new financial year.

Finally, our unit trust division, FNB Namibia Unit Trusts, has performed extraordinarily well since it was launched in March 2007.

Our cross-selling initiative, part of the banc-assurance model, continues to grow strongly. It enables us to offer each client a comprehensive package consisting of cheque and savings accounts, home loans, vehicle finance, and assurance and insurance products. Considering the potential of cross-selling, we believe the sky is the limit!

## Human Capital

FNB Namibia Holdings practices a 'Care and Growth' philosophy to achieve rewards for both staff and business. We regard our staff as our most important asset. We work to provide an environment that respects potential and offers opportunity for training and growth.

During the year we decided to put special emphasis on intellectual capital and on aligning staff to our vision. It is a critical fundamental that the entire Group reinforces our values passionately every day.

At financial year-end, FNB Namibia had 1,463 full-time staff members. Four of them were expatriates, already working with Namibian understudies. During 2007, the Group again exceeded compliance levels dictated by Affirmative Action requirements and again received AA certification. This bears testimony to the Group's commitment to Namibianise our operations as much as possible, and to keep expatriate staff to a minimum consistent with skills and resource constraints.

## Information Technology

Information Technology helps the Group deliver world class financial solutions at affordable prices. Thus we need a dependable and enabling infrastructure. Our IT division has been involved in large projects aimed at raising operational efficiencies and improving client service. It supports more than 1,400 users through more than 1,000 computers linked by a wide-area network covering the country. It is the largest privately owned network in Namibia.

A project to integrate the Swabou and FNB domains was completed in November 2006. Previously they operated independently, causing duplications and potential risks. An electronic cheque image archiving and signature verification system introduced in all branches will improve productivity and service.

## Marketing

In addition to providing strategic and operational support to business units, the Strategic Marketing and Communication Division initiated surveys to establish what customers deem important. This helped us to identify appropriate and cost-effective products and services, enabling us to optimise distribution, take banking to the unbanked, and meet the funding requirements of corporate and commercial customers.

We gave our customers continuous information on new products, services and sales support and participated in a Banking Week initiative, spearheaded by the Bank of Namibia and the Bankers Association of Namibia and designed to improve customer education.

FNB Namibia, in line with its commitment to transparency, announced its annual pricing review before implementation. It became effective on 1 July 2007. Every effort was made to keep fees unchanged. Some, like book based over-the-counter withdrawals – mostly used by pensioners - were actually reduced. Where increases were unavoidable, they were kept below inflation.

It is encouraging that an increasing number of book-based customers are converting to more affordable card-based accounts, part of a structured migration plan. FNB Namibia will continue to try to reduce costs in order to reduce pricing. While familiar with competitor pricing, we aim to provide quality financial solutions at affordable prices. This entails a concerted drive to grow the business by increasing the number of accounts and their volumes. The division works closely with other business units.

The centenary celebrations will be used to build FNB's familiar brand by engaging all stakeholders.

**1951** South Africa extends its Apartheid policy to Namibia.



**1953** 1 May the first WIKI/SKW carnival is held in Windhoek.



**1958** Chinua Achebe's novel "Things Fall Apart" considers the effects of colonization, and has been translated into over 50 languages. He is one of the most widely read African authors of the 20th century.



**1959** In December the first 400 people are resettled from "Old Location" to Katutura. The homes they vacated were demolished.



## Chief Executive Officer's Report (continued)

### FNB Namibia (The Bank)

The Banking Group comprises FNB Namibia and its wholly-owned subsidiary, Swabou Investments (Pty) Ltd (formerly Swabou Bank).

It offers a complete range of products through 36 branches and 10 agencies, 116 ATM machines, 121 mini-ATMs and more than 1 300 point-of-sale devices across all 13 regions. This network, the biggest in the country, makes banking ever more accessible to all communities, urban and rural. Internet and cellphone banking add to the accessibility of our services.

### Branch Banking

The branch network focussed on improving efficiencies by centralising some administrative and credit-related processes. Substantial investments were made to upgrade infrastructure in Keetmanshoop, Otjiwarongo, Uutapi, Eenhana and Oranjemund. This allowed the Bank to continue the aggressive growth of its account base, supported by well-structured sales efforts. Technology enabled us to open accounts for the under-banked, or un-banked, in remote areas.

Strong growth in active accounts, not only ensured a sustainable new revenue source for years to come, but also positive growth in assets and liabilities, and in commissions earned. This growth enabled us to improve productivity and operational efficiencies.

The retail network did not grow overdrafts as planned, mainly because the good rainy season of the previous year was followed by relatively severe drought, causing farmers to sell stock rather than expand. However, the surplus cash had a positive impact on growth in longer-term investments.

Increasing interest rates also caused a lower demand for credit, but cross-selling to existing WesBank and Home Loans customers helped grow consumer accounts, and the branch network contributed to the growth of Swabou Life and FNB Namibia Unit Trusts.

### Home Loans

FNB Namibia Home Loans remains the foremost provider of housing finance in Namibia. Despite asset growth being dampened by four interest rate increases totalling 2%, fierce competition, expensive house prices and the shortage of affordable houses in the Windhoek area, this has been a rewarding year.

After calling for new tenders, the Bank appointed ten attorneys to its conveyancing panel, which is committed to speedy turnaround times and quicker mortgage registrations.

With the approval of the Finance Ministry, the Bank has launched a successful re-advance campaign for Government employees which helps them to improve their properties. All such employees now enjoy preferential interest rates. While the bulk of the current home loan book is concentrated in Windhoek and the coastal region, we recognise a dire need to service the lower end of the market. High prices and a scarcity of serviced land constitute a huge obstacle to making housing available, but the Bank remains committed to helping less fortunate people own their homes.

### WesBank

New vehicle sales in Namibia fell by 800 units during the period under review, posing a major challenge to the vehicle financing division. Because its target market encompassed all franchise and used-car dealers countrywide, truck dealers, large corporate clients and financing of equipment (white goods and yellow metals) WesBank was able to maintain solid growth.

External factors - high unemployment, increased interest rates and petrol price hikes - meant that it did not meet expectations this year, but with an 11% year-on-year increase in assets, WesBank remained the market leader.

Challenges in the new financial year include aggressive pricing offered by the market, grey imports of second-hand cars and a continued downturn in new car sales. While we accept these challenges, we remain

committed to grow the book with quality business and to keep bad debts at acceptable levels.

### Corporate Banking

Despite higher interest rates and input costs, the environment in the corporate segment remained good. Deposits grew by 30.25% over the previous year, mainly driven by the growth in clients. Advances grew slower than expected, largely because corporate customers increasingly accessed capital markets rather than traditional bank loan products.

We experienced strong growth in new business, mainly from the commercial segment. Combined with a buoyant retail market, this contributed to good growth in transactional banking volumes.

For the corporate segment, a highlight was the establishment of a fully-fledged Public Sector Banking Unit. The unit services government and public sector entities in Windhoek and provides strategic direction to branches, thus meeting the needs of this important customer base outside the capital. Successful cross-selling of electronic banking products into the corporate and commercial market has resulted in a year on year volume growth of 20% in transactions.

### SME Business Unit

The Small and Medium Enterprise (SME) Business Unit started operations in 2005. To date more than 140 SMEs have received financial assistance, with the majority of them performing well. In 2007, we revised our rules applying to credit extension, thus helping more entrepreneurs with solid business proposals to gain access to credit.

A mentorship scheme implemented by SMEs Compete and funded by the FNB Foundation and German Development Services yielded positive results. A large number of SMEs benefited from mentorship and training activities during 2007. The scheme has been extended for another year.

### Treasury

Higher interest rates, rising inflation and increased client sensitivity to spreads further dampened performance on money market and foreign exchange. For this reason, results on both fell short of the previous year's performance. Excess liquidity in the entire banking industry for most of the year also exerted pressure on returns. Yields were forced down despite tighter controls by the Namibian monetary authority.

During the year we embarked on a strategy to improve client service. This entailed restructuring the Treasury business, appointing a new Treasurer and building capacity. We improved internal processes, risk management policies and treasury systems, enabling us to offer a superior service.

### Electronic Business

FNB Namibia is determined to have a distribution network that meets the changing needs of customers. For example, we are ensuring that we can provide a sustainable network to support the growth of the far northern region of Namibia. Additional initiatives were launched during this financial year to enhance access to banking services. This includes full-service cellphone banking, cellphone network account-opening technology, drop-box ATM depositories, mobile sales vans and 3G point-of-sale technology.

Our Electronic Banking business also embarked on a major project to integrate individual and business internet banking services. In future the existing bulk payment and collection system, as well as the cash management system, will be migrated to this new platform.

### Merchant Acquiring

FNB is the dominant provider of card-based product services in Namibia. We have increased our representation points by collaborating with Internet Technologies Namibia to provide cellphone network connectivity. This improves communication between merchants and the bank and reduces transaction times, ensuring a better service. The improvements helped FNB secure a 142% growth in the merchant base during 2007.

**1960** In December, the Beatles reunite and play their first concert in Liverpool.



**1961** The South African Rand is introduced in Namibia and replaces the British pound.



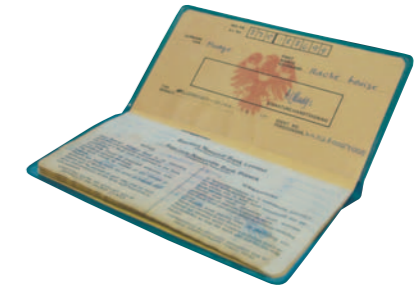
**1963** Hardap Dam is completed at a cost of R9 million and is designed to hold 252 million litres of water.

**1964** The Odendaal Plan recommends the creation of 11 homelands for the various ethnic groups in Namibia. The UN rejects the plan but it is nonetheless implemented.



**1965** JG Strydom Airport officially opens and later witnesses its first air disaster when a Boeing 707 crashes nearby shortly after take-off in 1968.





## Chief Executive Officer's Report (continued)

### FNB Namibia Credit Cards

The Bank is in the final stage of migrating the consumer credit card book from South Africa to Namibia. At the close of the financial year, 95% of consumer cards had been moved. The second phase will involve moving business credit cards.

### RMB Asset Management Namibia

RMB Asset Management (Namibia) (Pty) Ltd (RMBAMN) was established in 2004 as a joint venture between the FNB Group and RMB Asset Management (SA), each with a shareholding of 50%. This business services pension funds, insurance companies and medical funds and offers products that cater for institutions with surplus funds.

From humble beginnings, with no assets under management, RMBAMN has grown to N\$2.2 billion at the end of June 2007, capturing market share in both the pension and insurance markets.

### FNB Namibia Unit Trusts

FNB Namibia Unit Trusts grew assets under management from N\$105 million to N\$430 million in just nine months to end June, 2007. And this from an operation that was only officially launched through the media in March 2007, after commencing operations in October 2006.

The main growth has come from its money market fund, currently one of the two best performing funds in Namibia. FNB Namibia Unit Trusts has specific growth strategies to maintain momentum.

### Swabou Life

Swabou Life produced excellent results over the year. After-tax earnings increased to N\$49.6 million, - a growth of 41% over the previous year. Above average returns on the investment portfolio contributed, but the general improvement demonstrates the benefits of maximising synergies within the Group. A constant stream of monthly premiums was generated mainly by wider access to credit facilities provided by the Group.

Thanks to the support of independent brokerages, new business from brokers increased significantly. Until now, the company has relied on a broker-market approach that focuses partially on Government stop-order business and the banc-assurance model. But the recent acquisition of one of the largest independent local brokerages, Global Financial Advisors, will provide the company's newly formed Agency Division with more than 100 active in-house agents. These agents will create a platform for sustainable growth over the next few years.

The purchase of the Momentum book has been concluded. Once integrated, customers will have access to Swabou Life's extensive branch network and a wider range of products.

### Swabou Insurance

In the year under review, the Namibia Financial Institutions Supervisory Authority approved the purchase of shares by FirstRand STI Holdings (OUTsurance) in Swabou Insurance Company Limited, allowing the Group to join forces with OUTsurance.

Through this win-win arrangement, Swabou Insurance will continue to operate as a licensed insurance company with a Namibian staff and offices in Windhoek. The day-to-day management of short-term insurance has however been outsourced to OUTsurance call centres in South Africa. This arrangement will reduce Swabou operating costs, benefit customers and make the operation viable in the long run.

### Corporate Social Investment

Local communities are critical to FNB. They form part of the social environment in which we operate over the country's 13 regions, constituting a substantial client base. They are important stakeholders. That's why the FNB Group invests in Namibian communities.

The primary instrument is the FNB Foundation. During the current year almost N\$6.6 million was spent on corporate social investment. The FNB Namibia

sponsorship amounted to N\$1.6 million, the football sponsorship N\$2.5 million and the Foundation N\$2.8 million.

### Prospects

From the above it is clear that this has been a year of challenges, for the country and the Group. We have been challenged to re-engineer ourselves in many ways and to improve continually the way in which we conduct our business.

In the new financial year, we will embark on the second phase of our human resources strategy to 'align the troops' by consciously applying Group values.

Our companies will continue to develop and launch new products to cater for the changing needs of our customers, and to ensure even more people enjoy the benefits of banking.

Operational efficiencies will be enhanced by the roll-out of new branch and treasury systems.

Most of the preparatory legwork done in 2007 will come to fruition in the new financial year. This includes a refreshed focus on SMEs; using franchises as growth opportunities in Namibia; the repositioning of the agricultural division; maintaining our focus on the public sector as our development partner; and developing value propositions with Government and other partners for the 2010 Soccer World Cup.

The Group embraces the objectives and targets of the Financial Services Charter, scheduled for launch in early 2008. We are already compliant in most areas. We do not see the Charter's requirements as an imposition but an opportunity. They are a business imperative and a necessary step to ensuring equity in the financial services industry and a transformed Namibian economy.

### Appreciation

My thanks and appreciation to Dr Theunie Lategan, former head of FirstRand Africa and Emerging Markets, for his leadership, guidance and the trust he placed in us to manage the Namibian portfolio with maximum autonomy. I wish him all success in building the business in India.

We welcome Jabu Khethe to the board of FNB Namibia Holdings and congratulate him on his appointment as CEO of FNB Africa.

### Special thanks go to:

- Our BEE partners, who added much value to our operations during the year, especially in terms of deal flows. Despite the competitive environment, they exceeded their target phenomenally and have demonstrated a high level of commitment to this institution.
- The Government of Namibia, specifically the Minister of Finance, for being very supportive of our drives and events. We believe that through this cooperative approach, we will succeed in accelerating economic growth in Namibia.
- The management and staff of the Bank of Namibia and NAMFISA, whose role as regulators remains imperative for the well-being of the financial services sector.
- And to our shareholders for the continuing trust and support they show by investing in us. We assure you we will make every endeavour to protect and grow your investments.

Finally, as we celebrate our centenary, I would also like to extend a big thank you to our customers who have supported us throughout these years; and above all to our staff whose commitment and smart, hard work have helped us outshine our competition.

Adv. Vekuii Rukoro  
Group Chief Executive Officer



**1970** The Concorde makes its maiden flight. It's the first passenger aircraft to break the sound barrier.



**1972** Kwame Nkrumah, the father of African Nationalism, dies of skin cancer in April at the age of 62.

**1973** The French Bank Centre (now Gustav Voigts Centre) opens for business in the heart of Windhoek.



**1974** 'The Rumble in The Jungle' is a historic boxing event and takes place on 30 October, in Zaire. Muhammad Ali, beats George Foreman to become the second fighter ever to recover the World Heavyweight Crown.

**1976** Rössing Uranium starts operations. In 2005 3,711 tons of uranium oxide are produced, making it the fifth-largest uranium mine in the world.



**1978** Herero Chief, Clemens Kapuuo, is assassinated in Katutura. At his request he is buried next to his former enemy Jan Jonker Afrikaner in Okahandja as a sign of reconciliation.