



## Chief executive officer's report

### Introduction

This was the year in which the FNB Namibia Holdings Group of Companies ("the Group") bedded down many earlier initiatives and once again refined its strategic direction.

WesBank operations were repositioned and efforts increased to achieve maximum benefit from our business units - Agri, SME, Unit Trust, Public Sector Banking, RMB Asset Management Namibia, Swabou Life and OUTsurance. An important focus remained on promoting electronic banking channels and associated services. In addition we identified new opportunities that we will continue to develop while ensuring our staff is equipped to make the most of our redesigned business operations.

More importantly, we paid considerable attention to refining strategic direction. This included reviewing our values, vision and mission and ensuring buy-in from management and staff. This process will continue in the new financial year. We have plotted a new strategic course to guide us to continuing success over the next three years as it is clear that "more of the same" will deliver only incremental growth - not the exponential growth we aim for. To this end, we have created Project Sunrise, designed to take us on a journey of "Business UNusual".

As a first step, we have begun to prepare our people through a structured program called Aantu Yolela (Great People). Another major project is to localise our core banking systems and so enhance customer service and efficiencies. A Namibia-based system will require substantial investment, but is a requirement the Bank of Namibia has imposed on all banks in Namibia. We wish to reassure stakeholders that we have proper risk management procedures in place at all levels to ensure continued and efficient operations.

We are aware that our goals are ambitious, given the slow-down of the global economy and its influence on Namibia, the growing political tension in the region and the ever-increasing competition. But we are set for the dawn of a new era at FNB Namibia Holdings and look forward to a successful sunrise for all our stakeholders.

## Human Resources

As mentioned, we consider our people to be the most important internal drivers of our success. Hence the **Aantu Yolela** journey for staff, which culminated in a management conference which laid the basis for five specific work streams to address the important issues of recruitment, retention, learning and development, culture, values and performance management. For us, part of this journey is to build rewarding and enduring relationships with staff, thereby helping people to develop their maximum potential while supporting the strategic aims of the organisation. This is underpinned by our Care and Growth leadership philosophy, which aims for mutual rewards and long-term sustainability. We are also busy ensuring that all staff understand and buy into the newly adopted Group strategy of "Business UNusual".

We are well aware of the shortage of skilled human resources in the Namibian financial services industry. Over and above our focus on attracting and retaining the best people, we are acting to ensure future capacity while adhering to Affirmative Action and new labour legislation in Namibia. This entails giving special attention to:

- Performance management procedures;
- Staff induction and training;
- Building a pool of graduates (both from universities and our own internship programmes);
- Reviewing HR policies and procedures;
- Succession planning; and
- Employee wellness programmes, including HIV/AIDS support.

For greater efficiency, following on substantial progress already made, we are busy implementing an automated and integrated human resources system.

The Group employs 1,601 people of whom 1,019 are females, 1,323 are black and five are expatriates. The expatriates represent the interest of the main shareholder who has an investment of some N\$1,5 billion of its own capital in Namibia.

## Information Technology

The IT Department's main objective is to provide a stable, highly available, modern IT infrastructure, supported by skilled professionals and strategically outsourced contracts with leading technology companies in the local economy. This will ensure that the Group remains a leader in the financial services sector. A fully redesigned Multi Protocol Label Switching Network was successfully implemented in the year. This improved efficiency by lowering total cost of ownership and easing the burden on management of both the local and the wide area network.



Another major initiative was the implementation of load balancing between the Schönlein and John Meinert computer centers which resulted in a secure and robust IT environment. This means that the Group now has complete back-up of its core functions in the event of a disaster at either centre.

## Strategic Marketing and Communication

Enhancing the equity of our bouquet of brands is of paramount importance in a market where competition and consumerism is on the increase. The centenary celebrations of the Group created an ideal opportunity to rally support of staff, management, customers and the general Namibian public for the oldest banking group and its brands. A full programme of celebration, involving all these stakeholders, emphasised that we honour our past while embracing the future.

The brand value was further improved through quality customer service and product offerings, investments in football, extracting value from FNB Foundation donations, and by supporting other public events. One of the more exciting was the introduction of the “Classic Clashes” concept to Namibia. A total of six competitions were sponsored between 12 schools that competed in soccer, rugby and netball matches. The success of the concept has ensured that it will be repeated next year. FNB was also joint host with Windhoek High School and the Janine and Suzelle Davin Sport Trust of the biggest-ever school sport festival. More than 570 scholars from 40 schools from Namibia, South Africa and New Zealand participated.

Research enables us to service the markets in which we choose to operate. This year we continued to conduct internal customer satisfaction surveys and participated in a number of national research initiatives, including the MediaMetrics survey (by Vision Africa) and the second round of the Namibian FinScope survey conducted by the FinMark Trust.

Other research and development projects included a series of market information briefs with economic reviews, the well known Housing Index, product audits, and a return on marketing investments model.

With increasing consumerism, it has become very important to review and communicate the bank's annual pricing approach and structure. Our intention is to be transparent and keep customers informed about their best pricing options. For example, we went to great lengths to show customers how electronic banking could provide them with more convenient, affordable and appropriate channels.

We remain committed to developing the communities in which we operate and accept our responsibility to assist in ensuring their sustainability. The FNB Foundation and our business units help to achieve these objectives by providing ongoing community support.

## First National Bank of Namibia (“The Bank”)

The Bank offers a complete range of products and services through 49 points of representation, 217 ATMs and mini-ATMs, 1,245 point-of-sale devices, full service cellphone banking, and Internet banking services across Namibia. This footprint and this range of services, ensure that most Namibians have easy access to banking.

## Branch Banking

A slowing economy, driven primarily by higher interest rates and inflation, had a major impact on the disposable income of customers. Abetted by increasing consumerism and competition, Branch Banking concentrated on improving service and retaining customers.

This required a renewed focus on developing new value propositions closely aligned to customer needs. A variety of new products were introduced or repositioned. A combination of these strategies,



plus innovative sales campaigns, enabled growth - keeping existing customers while winning new ones - across all segments.

Playing its part, Branch Banking updated signage at all branches, introduced a new mobile sales van and opened new branches in Okongo and Katutura and a new service branch at Tsumeb. Windhoek, Rosh Pinah, and Keetmanshoop branches were given a complete revamp to bring them in line with the FNB brand image. We also used the very successful centenary celebrations to encourage staff to keep focused on customer service.

To improve efficiency, a number of successful initiatives were introduced. These included, among others:

- Outsourcing statement printing;
- Centralising the Administration Centre (which improved control and turn-around times);
- Restructuring our risk management and service delivery operations;
- Revising printing protocols in branches (reducing paper usage); and
- Improving usage of courier services to reduce costs and improve service.

Another initiative that led to major efficiency gains and cost savings was the “staff innovations” campaign. Staff were acknowledged and rewarded for logging innovative ideas. Implementing just four of the ideas led to a cost saving of close to N\$ 5 million.

## Electronic Business

The drive by the Bank of Namibia to localise inter-bank domestic card transactions system for ATMs and point-of-sales devices involved major changes for the Namibian banking industry. Although the Namswitch system will have positive results in terms of regulatory requirements and from a payment risk perspective, it will substantially increase international transaction fees because of more expensive local processing costs. This will impact, among others, clients travelling to South Africa.

Electronic channels are widely recognised as providing a means to give more access - online banking, full service banking, use of point-of-sale devices - to Namibians presently excluded. There is a drive to use pricing and education to influence customers to recognise electronic channels as safer, more cost effective and more convenient. These efforts include the introduction of a zero cost cellphone top-up service and full service cellphone banking, even through remote registrations. The online banking solution for businesses was also greatly enhanced to attract customers.

Fifteen new ATMs were installed, while card-based sales increased by some 26%. GPRS connectivity for Speedpoints was introduced with improved hardware to make it even more useful. But the low priority the data receives from the cellphone network providers has inhibited growth.

From a security perspective, our inContact facility remains a market leader. Customers appreciate that it helps to combat fraud. Countering fraudulent behaviour on electronic channels remains a high priority, and we have concentrated on finding more secure transaction methods and educating customers. The focus of the industry-wide Banking Week this year was on educating the community on how to prevent fraud.

## Agri Division

The Agri Division had a long development phase before its launch in September 2007. Its success can be ascribed to the nature of Namibia's agricultural sector and unpredictable rainfall; as well as the division's singular ability to provide expert and appropriate product and service solutions and sound financial advice.





This has quickly positioned the Agri Division as the preferred financial partner in the sector.

The business model - a direct customer approach, establishing personal relationships and becoming a financial partner of choice to farmers - has been an integral part of the successful value proposition. The intention is to continue building enduring relationships, supported by appropriate products and structured lending criteria.

An innovative financing arrangement with Meatco was also established, which includes built-in flexibility and fast and easy access to financing not previously available through conventional banking.

## Home Loans

Although FNB remained market leader in home loans, increases in interest rate had a direct impact on this business. For the first time since the introduction of the FNB Housing Index in 2006, property prices have declined. The quality of our home loans book remains well within industry norms, but we have seen some decline in customer's ability to meet installment obligations. The past focus on good business, rather than defending market share at all costs, is thus paying off.

Providing access to affordable housing remains core to our business. We have a specific policy to encourage affordable housing for the lower end of the market, supported by educational material to assist these customers to make the right decisions and to understand the costs involved. Our commitment has led to a partnership with a local building and hardware supply chain to train and assist small building contractors to start their own businesses.

A variety of new products were introduced. These include a FlexiBond that can be managed via e-channels, a fixed interest rate option and the financing of alternative clean energy such as solar panels. Estate agents remain important and valuable partners of our business and the popular "Make-your-Move" sales campaign continued for its second year.

Greater efficiency was achieved through a system alignment process and by implementing a new system to streamline processes. Our L@W, a lawyer access web, was enhanced to improve control of bond registrations, thus improving turn-around times and customer satisfaction.

## WesBank

Steep increases in fuel, higher interest rates and new vehicle prices, together with the lower cost of new Chinese vehicles and the increasing number of "grey" imports into the Namibian market, resulted in a decline in the value of vehicle finance transactions. As with home loans, a decision was taken not to pursue new business at all costs. This resulted in market share remaining flat, although the number of customers increased.

Superior service levels did, however, result in a number of large corporate transactions, countering negative retail trends to some extent.

## Corporate and Commercial Banking

While the construction industry slowed, bringing about fewer commercial loans, the fishing industry showed signs of recovery and mining and resources continued to grow, which assisted liability growth. Foreign exchange transactions have also shown a marked improvement. Introducing a focused approach to public sector banking last year paid off as Government continued to be a positive growth area.

Value was added to our customers' business through initiatives such as BizNetwork, the establishment of a property finance area and a special value proposition for schools. These contributed to a good year in



transactional volume growth and in gaining new customers, particularly from the commercial segment. A focus on efficiency included fine-tuning processes and improving product and service turnaround times.

## Credit Card

We are the only Namibian bank with a credit card department that acquires and issues cards in Namibia. This allows us to offer a comprehensive customer service to our branch network.

We are also in the process of issuing our own Namibian business credit card - a first in the country that, with improved service levels and controls, will provide a platform to drive cross-sell opportunities.

## SME Business Unit

It is widely recognised that small and medium enterprises have the potential to create jobs and reduce unemployment and poverty in Namibia while growing the economy. Accordingly, we developed a facility to build financial support initiatives for this sector in 2007.

Initiatives are backed by Government's commitment to actively support this sector's development, notably through special programmes by the Ministry of Trade and Industry and the Development Bank of Namibia. Another example of leveraging resources to unlock potential is the new partnership with the Development Bank of Namibia, whereby SMEs will benefit from getting the best support offered by both parties.

A substantial investment in training and mentoring SME operators by the FNB Foundation and DED enabled SMEs Compete to help entrepreneurs turn their business ideas into functioning business ventures. The latest town to get a training programme is Lüderitz.

## Treasury

Improvements to treasury operations in the past year led to better performance and client service.

The Namibian market experienced excess liquidity due to the anticipated introduction of Regulation 28 and significant export volumes in some sectors. Previously all 35% of the domestic investment requirements could be invested in dual listed shares. However, a stringent measure has been introduced in terms of Regulation 28 whereby 2%, 3.5% and 5% of that amount will now have to be invested in Namibia in 2008, 2009, and 2010, respectively.

As part of on-going measures to add value to customers, annual presentations were introduced with RMB Asset Management Namibia (RMBAMN). This collaboration led to presentations on treasury-related topics. Clients were updated on our advanced products and services and briefed on local and international market developments. A cellphone messaging service was introduced to keep clients even more up to date.

This reporting period saw our Treasury Department play an increasingly important role in the proper utilisation of our balance sheet to optimise funding and structure products for enhancing profits. The excellent increase in foreign exchange earnings reflects the success achieved in this initiative.

## Swabou Life

Swabou Life again showed excellent results over the year with before-tax earnings increasing to N\$73 million and contributed 12% to the Group's before-tax profits. This was largely due to developing the synergy between the life company and the bank, and the acquisition of its own agency division whose results exceeded expectations. The excellent sales growth of the agency division resulted in an increase of



18% in individual new business premiums and has enabled Swabou Life to gain direct access to its policyholders with the addition of 11 sales and service branches throughout Namibia.

The transfer of the Momentum Namibia Book to Swabou Life was successfully concluded in the past financial year. Policyholder assets in excess of N\$600 million were transferred to Namibia and approximately 22 000 Namibian policy contracts were integrated into Swabou Life.

### RMB Asset Management Namibia (RMBAMN)

RMBAMN assets under management grew by more than 250% to N\$ 3.1 billion in the financial year under review. Increased market share in both the pension and insurance market resulted in RMB moving up the ranking from number 12 to number six. With the improved system implemented last year, our clients now have access to accurate and timely online financial information as part of our continued commitment to service.

High interest rates and volatility in global equity and currency markets in 2007/2008 influenced domestic investment returns. Despite a slight increase in issuance, the supply of government debt securities remains limited. More companies are now searching for tax-effective investment and the challenge is to develop products to take advantage of opportunities created by new developments such as Regulation 28 amendments.

With our professional management team we will continue to share our pride, vision and creative thinking by providing sound products and services to our clients in order for them to make well informed decisions.

### FNB Namibia Unit Trust

Amendments to the Income Tax Act of 2007 resulted in the elimination of the tax-free benefit previously available on unit trust investments. We have, however, restructured our money market fund to become more tax efficient.

As a service, FNB Namibia Unit Trusts, in collaboration with RMBAMN, introduced business presentations to customers in various parts of the country, supported by regular market reports from RMBAMN.

### Swabou Insurance

Leading South African direct short-term insurance company OUTsurance, in collaboration with Swabou Insurance, launched its car and household contents product lines in Namibia in January 2008, complementing its homeowner's insurance cover, available since July 2007. The launch meant that Namibians now enjoy access to a wider range of value-for-money products and superior service for which OUTsurance has become renowned. Swabou Insurance remains the underwriter for the Namibian products.

OUTsurance Namibia has benefited a great deal from the support and expertise of its counterparts in South Africa. It leverages off the South African OUTsurance call centre by using existing infrastructure, thus reducing operating costs to the ultimate benefit of consumers. The Namibian operation is committed to fast, fair and efficient claims settlement. It works directly with clients, not through brokers, saving customers money. Administrative and support functions such as those offered by assessors are provided.

Since its launch, OUTsurance has exceeded its growth targets and outperformed expectations through improved efficiencies and world class service.



## Prospects

The 2009 financial year will by no means be easy. In the introduction I declared our commitment to sustainable growth - not only through incremental growth strategies, but by exploiting Business UNusual opportunities to accelerate progress. We have already identified improvements to support our three strategic pillars - people, customers, efficiencies - that will be refined and implemented by the Group's business units.

One of our values is innovation. We will continue to promote the FNB innovations staff programme with the theme "Bringing Ideas Together". While our staff enjoys the fun element, they are also lucratively rewarded for their ideas.

In the Treasury area we are in the process of introducing the Quartz system that will open up opportunities for improved customer service. Continued planning will ensure that both customers and our business processes benefit from localising our core banking systems. On the e-banking front, we will continue offering affordable solutions while demonstrating to customers the benefits of these channels.

Preparing for the Soccer World Cup 2010, we will refine our value propositions to ensure that our Group and Namibia unlock the benefits that this major event offers our sub-region.

## Appreciation

Operating in an environment conducive to business is a privilege often taken for granted. I would fail in my duty if I did not acknowledge the supportive role of the Namibian government in our success: direct support from line ministries as well as indirect support from many other government organs. Our regulators, the Bank of Namibia and NAMFISA, not only contribute to our success but to the good reputation of the financial services sector in Namibia.

Our shareholders and the board that represent their interests allowed us to operate within the owner-manager ethos of the FNB Group. We thank you for the trust and support and will persist in our endeavour to show sustainable returns on your investment.

Our BEE Partners continued to add substantial value to our business operations proving once again that this is a true win-win arrangement. We appreciate your continued commitment.

A CEO is often only as good as the management and staff he works with. I consider myself fortunate to be surrounded by men and women of the outstanding calibre we have at the FNB Group. As a team, we will drive our new strategy at the dawn of yet another era for our Group.

Finally, our valued customers and the general Namibian population: thank you for allowing us to provide our financial solutions and services to you. Your loyalty and support makes it all worthwhile. We pledge to look constantly for new ways to improve our services.



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

