FNB

Namibia Holdings

2010

Annual report

Our vision

To be the local world class financial solutions provider of first choice.

Our mission

To create wealth for our stakeholders through innovation, value-added partnerships and a passion for service excellence.

Our values

Integrity
Accountability
Innovation
Passion
Respect

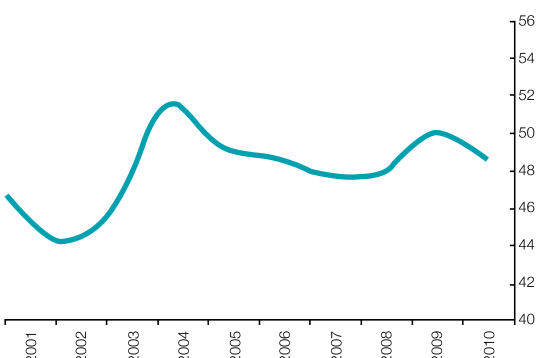
This report is printed on paper made from sustainable forests and manufactured from chlorine-free pulp.

Contents

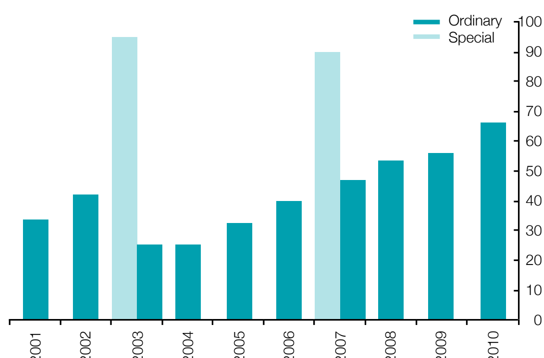
Features of the group results
For the year ended 30 June

	2010	2009
Selected ratios		
Return on average shareholders' equity (%)	23.9	22.6
Return on average assets (%)	2.9	2.6
Cost to income ratio (%)	48.9	50.5
Capital adequacy		
Capital adequacy ratio of FNB (%)	20.4	20.3
Capital adequacy requirement (CAR) of Momentum Life (times)	4.3	3.0
Solvency margin of OUTsurance (%)	35.1	32.4

Cost to income ratio
(%)



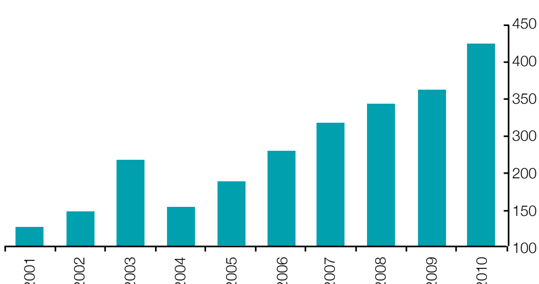
Dividends per ordinary share
declared in year (cents)



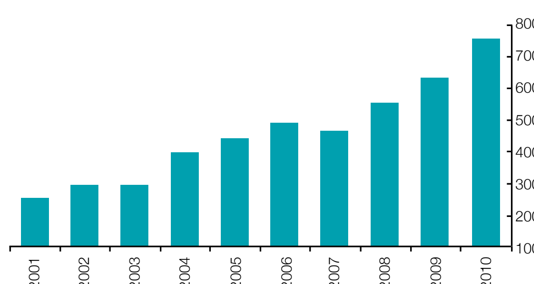
	2010	2009
Share performance		
Earnings per share (cents)	166.1	136.1
Headline and diluted headline earnings per share (cents)	165.7	135.6
Dividends per share (cents) - ordinary (actual declared in year)	67.0	56.0
Closing share price (N$) - ordinary	11.56	11.80
Number of shares in issue (millions) - ordinary*	258.5	258.4
Weighted number of shares in issue (millions) - ordinary*	258.5	260.2
Dividend cover (times) - ordinary (based on normalised earnings)	2.4	2.4
Net asset value per share (cents)	755.1	634.9
Dividend yield (%) - ordinary dividend	5.8	4.7
Earnings yield (%) - ordinary shares	14.4	11.5
Price to Book ratio	1.6	1.9
Price: Earnings ratio - ordinary shares	7.0	8.7

* after consolidation of employee share trust

Headline earnings
(N$ million)



Net asset value
per share (cents)



Board of directors

Hans-Dietrich Voigts

Independent Non-executive Chairman

Date of birth: 26 March 1938

Appointed: February 1988

Directorships: FNB Namibia Holdings Ltd (Chair), First National Bank of Namibia Ltd (Chair), Swakop Textiles (Pty) Ltd, The Automobile Association of Namibia, Wecke & Voigts Investments (Pty) Ltd, Wecke & Voigts (Pty) Ltd, Windhoek Uitspan Sentrum (Edms) Bpk

Trusteeships: FNB Foundation, FNB Share Incentive Trust

Mwahafar Ndakolute Ndilula

Independent Non-executive Director

Date of birth: 19 February 1950

Appointed: November 2005

MPA / DDA - Liverpool University

Directorships: FNB Namibia Holdings Ltd, OUTsurance Insurance Company of Namibia Ltd (Chair), Momentum Life Assurance Company Ltd, Sovereign Asset Management (Pty) Ltd, Power Line 2000 (Pty) Ltd, Stern Link Financial Services (Pty) Ltd, African Directory Services (Botswana), Icon Investment Ltd, Sovereign Investments (Pty) Ltd, Sovereign Capital (Pty) Ltd, Reho-Electrical (Pty) Ltd, Temako Green Energy (Pty) Ltd and Sovereign Properties (Pty) Ltd

Herbert Waldemar Peter Böttger

Independent Non-executive Director

Date of birth: 07 September 1938

Appointed: February 1988

BComm/LLB – University Stellenbosch; Attorney's admission to the Supreme Court in Windhoek in March 1965

Directorships: FNB Namibia Holdings Ltd, First National Bank of Namibia Ltd, HAB Investments (Pty) Ltd

Jabulani Richard Khethe

Non-executive Director

Date of birth: 26 March1963

Appointed: July 2007

BCom (Banking) - University of Pretoria; MBA - BOND University

Directorships: FNB Namibia Holdings Ltd, First National Bank of Namibia Ltd, First National Bank of Swaziland Ltd, First National Bank of Botswana Ltd

Petrus Tukondjeni Nevonga

Independent Non-executive Director

Date of birth: 26 October 1968

Appointed: May 2003

BTech (Business Administration) - Polytechnic of Namibia; Diploma in Human Resources Management - Polytechnic of Namibia

Directorships: FNB Namibia Holdings Ltd, Namibia Grape Company (Pty) Ltd, Effort Investment Holdings (Pty) Ltd, Endombo Enterprises (Pty) Ltd

Trusteeship: Government Institutions Pension Fund

Inge Ingenesia Zaamwani-Kamwi

Independent Non-executive Director

Date of birth: 11 November 1958

Appointed: January 2000

LLB (Hons) - London; LLM - Dundee

Directorships: FNB Namibia Holdings Ltd, First National Bank of Namibia Ltd, Namdeb Diamond Corporation (Pty) Ltd (CEO), Namdeb Property (Pty) Ltd, NamGem Diamond Manufacturing (Pty) Ltd, Diamond Board of Namibia, Fishcor and Seaflower Lobster, NOSA Namibia, Zantang Investments (Pty) Ltd, UNAM Council, Namibia Institute of Mining and Technology, Chamber of Mines Council, Junior Achievement Namibia, Vocational and Training Board, Namibia Chamber of Commerce & Industry, NABCOA, National Planning Commission, Ombiga Investments Holdings (Pty) Ltd, Tungeni Africa Investments (Pty) Ltd, Extract Resources Ltd

Trusteeships: XNET Trust Fund, Namibia Nature Foundation, FNB Share Incentive Trust

Adv. Vekuii Reinhard Rukoro

Chief Executive Officer

Date of birth: 11 November 1954

Appointed: March 2006

LLM (International Law); Utter Barrister's Degree; LLB (Hons); enrolled as advocate of the High Court of Namibia in 1992

Directorships: FNB Namibia Holdings, OUTsurance Insurance Company, Momentum Life Assurance Namibia Ltd, RMB Asset Management (Namibia), Swabou Investments, Namibian Employers' Federation (President)

Trusteeships: Arts Association Heritage Trust, FNB Foundation, Board of Governors of the Fidelity Fund of the Law Society of Namibia

Christiaan Lilongeni Ranga Haikali

Independent Non-executive Director

Date of birth: 25 October 1968

Appointed: November 2005

BBA (Entrepreneurship) UNAM

Directorships: FNB Namibia Holdings Ltd, First National Bank of Namibia Ltd, Prosperity Health, Africa Personnel Services, Namibia Stevedoring Services, HANU Investments cc, Preferred Management Services, Namsea, APS Investments, Eduloan Namibia, Chappa "Al Investments (Pty) Ltd, Philco Twenty (Pty) Ltd, Namibia Liquid Fuel, Ohorongo Holdings/Cement (Pty) Ltd

Trusteeship: Tulongeni Family Trust

Claus Jürgen Hinrichsen

Independent Non-executive Director

Date of birth: 9 May 1943

Appointed: March 2009

BA, LLB (Wits), BA Honours (UNISA), Admitted Legal Practitioner

Directorships: Candida (Pty) Ltd, Tovsorel Investments (Pty) Ltd, Bismark (Pty) Ltd, Ausspannplaza Investments No.4 (Pty) Ltd

Trusteeships: Namibia Legal Practitioners Trust, Goreangab Trust

John Kienzley Macaskill

Non-executive Director

Date of birth: 07 March 1950

Appointed: March 2003

BCom (BEM) - University of Pretoria; CAIB / AEP - UNISA

Directorships: FNB Namibia Holdings Ltd, First National Bank of Namibia Ltd, First National Bank of Botswana Ltd, First National Bank of Moçambique, First National Bank Zambia Ltd, FirstRand Bank Representative Office (Nigeria) Limited, Celpay Holdings Ltd

Stuart Hilton Moir

Independent Non-executive Director

Date of birth: 23 June 1948

Appointed: November 2005

PMD - Harvard University; CAIB (SA); B.Comm; CIS

Directorships: FNB Namibia Holdings Ltd, First National Bank of Namibia Ltd, Momentum Life Assurance Namibia Ltd (Chair), FNB Insurance Brokers (Namibia) (Pty) Ltd, Stimulus Investments Ltd

Group executive committee

Erwin Tjipuka

Group Chief Financial Officer
Date of birth: 14 July 1975
B. Comm, PGDA, CA, MBA

Adv. Vekuii Rukoro

Group Chief Executive Officer
Date of birth: 11 November 1954
FNB Namibia Holdings Group
LLM (International Law); Utter Barrister's, Advocate of the High Court of Namibia

Ian Leyenaar

Chief Executive Officer:
First National Bank of Namibia Limited
Date of birth: 11 December 1956
B.Comp, LIB (SA), AEP

Sylvia Müller

Head: Credit
Date of birth: 16 November 1968
B Compt, PDA, CA

Yamillah Katjirua

Group Company Secretary and Compliance Officer
Date of birth: 1 October 1974
B Juris, LLB, Certificate in Compliance

Rowan Yeomans

Head: Internal Audit
Date of birth: 21 January 1955
GIA (SA), Diploma Bank Credit Management

Andreas Mwoombola

Head: Human Resources
Date of birth: 3 February 1961
MBA, MSc in HRM

Dixon Norval

Head: Strategic Marketing & Communications
Date of birth: 1 July 1959
BA Hons, MA, MBA

Sarel Van Zyl

Head: Retail Banking
Date of birth: 30 April 1962
BBA, MBA

Brian Katjaerua

Group Legal Advisor
Date of birth: 13 April 1975
BJURIS, LLB, LLM, LLM, FA'ARB, Legal Practitioner of the High Court of Namibia

Etienne Brits

Chief Executive Officer: Momentum Namibia
Chief Executive Officer: OUTsurance Namibia
Date of birth: 30 June 1963
Diploma: HR Management

Greg Usher

Head: Corporate & Commercial
Date of birth: 27 January 1970
B. Econ (Hons), CAIB (SA)

Stephen van Rhyn

Head: Information Technology
Date of birth: 19 June 1969
Post Graduate Diploma IT

Michelle Van Wyk

Group Treasurer
Date of birth: 30 January 1976
B. Acc, B.Acc (Hons), CA, ACT

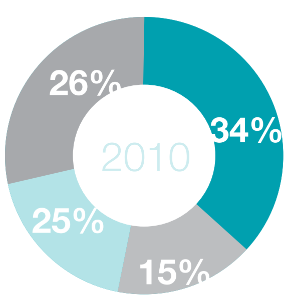
Conville Britz

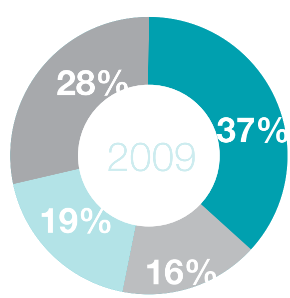
Head: Risk Management
Date of birth: 01 February 1972
B.Compt (Hons), CA

Group value added statement
for the year ended 30 June

Value added is the wealth the group has been able to create by providing clients with a quality, value added service.

N$'million	2010		2009	
Value added				
Income earned by providing financial services	1 438		1 582	
Cost of services	(643)		(877)	
Value added by financial services	795		705	
Non operating and other income and expenditure	233		189	
	1 028		894	
Value allocated				
To employees: salaries and other benefits	348	34%	327	37%
To providers of capital: dividends to shareholders	153	15%	147	16%
To government: tax	253	25%	167	19%
To expansion and growth: depreciation, deferred tax and retained earnings	274	26%	253	28%
	1 028	100%	894	100%





To expansion and growth: depreciation, deferred tax and retained earnings
To providers of capital: dividends to shareholders
To government: tax
To employees: salaries and other benefits

Economic review

Sustainable global recovery depends on consumers

The global economic recovery that is underway depends on a recovery in consumer spending. It will differ from region to region, depending on different experiences by consumers and financial sectors.

Indications are that the stimulus-driven recovery in the USA is progressing well. However, consumers and financial institutions remain cautious as weak housing markets, high unemployment and risk in Euro-area economies remain threats. European economies are experiencing uneven recovery, according to the International Monetary Fund (IMF). Asian economies, on the other hand, are proving more balanced and robust. Overall consensus is that the key risk to recovery is that job creation - which will bring consumers back to the spending fold - is largely absent or subdued. So the world economy is characterised by a wait-and-see attitude in terms of labour market absorption. The good news is that the rate of job destruction is slowing down in most economies.

Recovery depends on fiscal stimulation

In its annual review of the world economy, the IMF projected in April 2010 that the global economy would grow by 4.2% this year, having shrunk by 0.6% the previous year. The nascent recovery is a direct result of continued accommodative fiscal and monetary policies. Therefore governments will have to focus increasingly on sustained expenditure cuts without compromising the recovery that is taking place.

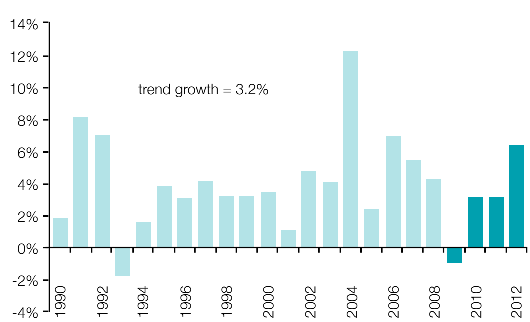
Specifically, the IMF predicts that the US economy will grow by 2.3% in 2010 after contracting 2.4% in 2009. The Euro area is expected to recover at a much slower rate of 1%, and countries like Spain will continue to contract. Against that, emerging and developing economies are expected to experience robust growth of 6.3% in 2010 after a mild slow-down during the height of the recession. For South Africa, the IMF forecast is that the economy will expand by only 2.6% after contracting by 1.8% in 2009. Most South African based analysts are forecasting a mild recovery in the region of 3% over the next two years.

Namibia's recovery on course but risk remains

Preliminary figures from the Central Bureau of Statistics, released in May 2010, show that Namibia's economy contracted by 0.8% in 2009 after growing by 3.3% in 2008, according to revised figures. This indicated that it had been

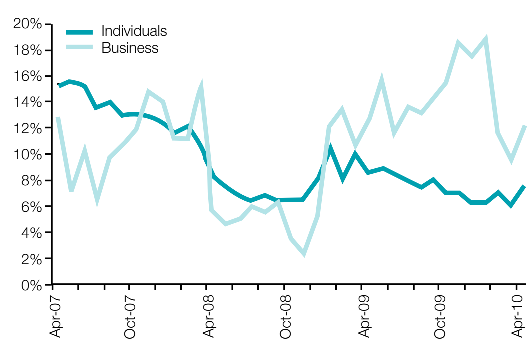
Namibia GDP growth forecast y/y (%)

Source: NPCS, FNB Namibia



Namibia private sector credit extension y/y (%)

Source: BON, FNB Namibia



more resilient than some other regional economies in the face of the global slow-down, in part because government had expanded its spending programme.

The IMF expects real GDP for Namibia to expand by 1.7% in 2010, which is certainly much slower than the consensus forecast. Our core view is that the economy will experience a statistical recovery in which growth for 2010 will be in line with trend growth of about 3.2%. Overall, a more robust recovery is expected after 2011 as more uranium exploration projects enter production. This should have a positive knock-on effect on exports. The economy is currently operating at an estimated output gap of 2%. This suggests that it still has some way to go before the advent of a fully-fledged, demand led recovery. Investment demand remains relatively weak for 2010, judging by insignificant movement in the levels of corporate credit.

Downward inflation continues to surprise

Headline inflation remained lower than expected for most of the first half of 2010. The outlook seemed benign with growth in average annualised inflation easing to below 5% in June 2010. The main driver was the deceleration in food and transport prices. Between December 2009 and June 2010 food prices increased by only 1.1%, giving an annualised food inflation average of 2.5% by June. Similarly, transport inflation slowed to 3.0% over the same period. Together these two categories account for more than 40% of the CPI basket. Slower inflation growth is a global phenomenon. Indeed the lower than expected inflationary pressure and the relatively stable exchange rate kept a lid on inflationary pressures. We forecast inflation to average 5.3% for 2010, down from 8.8% the year before.

Subdued credit demand despite low inflation and rates

Private sector credit extension, which entered a prolonged lacklustre phase in 2006, did not show a robust recovery during the period under review despite the benign interest and inflation environment. The prime rate was reduced by 375 basis points between July 2008 and July 2009. Over the same period, the repo-rate came down by only 350 basis points as commercial banks were forced to reduce the prime repo spread.

Notwithstanding these reductions, private sector credit extension grew by only about 9.8% until July 2009. The annualised growth rate in credit slowed to 9.1% in April 2010, according to the Bank of Namibia. Significantly, household credit demand was under pressure. It grew at only about 7.5% year on year over the same period compared to non-financial corporate sector borrowing, which grew at 12%. The slow growth in household credit demand highlights the continued challenges faced by this sector in terms of both balance sheet and income statement constraints. Household credit accounts for two-thirds of total private sector borrowing, so slow growth translates into subdued growth in the whole sector. Business credit extension also slowed markedly in the second half of the current year. In January 2010 it grew at 18% year on year but has slowed significantly since, suggesting corporate reluctance to borrow as economic recovery unfolds.

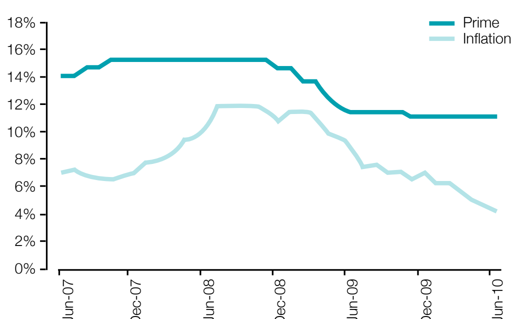
Economic outlook

The world economy is certainly on course for recovery, albeit gradual. It follows that the Namibian economy will do the same. Encouraging trends are emerging on new vehicles sales as consumer confidence returns. According to the FNB housing index, house sale volumes are also edging higher, pointing to some recovery. We are forecasting a 3.2% increase in demand for the 2010 calendar year. We do not foresee major downward risk and expect interest rates to remain benign for longer, supporting sustainable recovery in 2011.

Daniel Motinga
Group economist

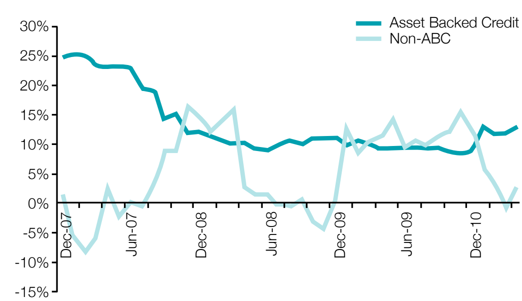
Namibia Prime Interest rates and inflation y/y (%)

Source: NPCS, FNB Namibia



Annualised changes in asset backed (ABC) and non-ABC credit y/y (%)

Source: BON, FNB Namibia



Chairman's report

This is a bittersweet moment for me. At the end of this year I retire after 22 years as non-executive chairman of the FNB Namibia board. This will be my last contribution to an FNB Namibia Holdings Annual Report.

But what a year it has been to conclude my services to FNB! 2010 will go down in history as a landmark year for the African continent, with South Africa hosting the first FIFA World Cup on African soil.

The hosting has been a tremendous experience for Southern Africa – including Namibia. It has done a fantastic amount for the reputation of the sub-continent and our abilities as Africans. The organisation of the event was nothing but praiseworthy.

Despite the fact that our neighbour to the south has absorbed most of the international focus, credit can, without a doubt, go to FNB Namibia for establishing a sense of excitement around the FIFA tournament in Namibia. FNB Namibia took full ownership of the World Cup locally.

Notwithstanding the euphoria, the year has not been without its challenges. FNB heeded the call from the Bank of Namibia (BoN), and in November 2009 our core banking system was fully localized, an exercise that required a major capital and HR investment. The process involved installation, operation, testing and, finally, implementation – a challenge and ultimately a huge achievement. I salute our project teams in Namibia and South Africa.

Secondly, we had to maintain and improve profitability in the face of a continued worldwide economic recession that began to cast its ominous shadow in the latter half of 2008. However, local fall-out has not been as severe as expected. The exchange control regime in South Africa and Namibia provided much needed stability during the crisis, therefore making the resultant global economic fallout manageable. FNB weathered the storm by applying prudent banking principles, keeping a balance between providing credit and maintaining profitability; between caution and risk.

FNB's growth ensured that our contribution to the

Namibian economy – and tax contribution to government coffers - remained strong. The continuing expansion of the FNB banking footprint and electronic banking channels brought more and more unbanked Namibians into the formal banking fold. The consistent development of our ATM and branch/agency network; the drive to sign up more cellphone banking users by offering the service free of charge; the enhancement of the SME, Agri and Tourism divisions; the added functionality at the Easy Loan division with easy credit access – all these developments bear testament to FNB's commitment to take banking to all corners of the country, and to all market segments – in particular the previously un-banked sections of our population.

As always, the market environment remained fiercely competitive. All industry competitors guarded their market

share jealously, through innovative product development and the continued launch of new services. This, of course, benefits the public. Banks trade with a very important commodity, money. It is a commodity which can make a huge difference to people's lives – especially in terms of offering the poor and un-banked an opportunity to become part of the formal financial sector, thus gaining financial knowledge, freedom and independence.

The interest of the public is also being advanced by enhancements to the National Payment System. During the year the cheque reduction limit from N$5 million to N$500 000 per transaction was implemented. This will reduce risks and encourage electronic settlement. The early square-off time for banks will also augment the settlement process.

On the regulatory front, the new Banking Institutions Amendment Bill was approved by the National Assembly during February and was referred to the National Council. The banking industry was not afforded the opportunity to make an input on the amendments. Subsequently, however, the Bankers Association of Namibia was invited to appear before a Parliamentary Committee of the National Council to testify in support of its submission on the Bill. The group CEO also met the Minister of Finance on the issue. The chief concern relates to the discretionary powers given to BoN and/or the Minister of Finance to decide which parts of the Act will or will not apply to foreign branches. The concern is that foreign branches may enjoy preferential treatment in Namibia against existing banking institutions that are not incorporated as foreign branches. Playing fields will not be level if foreign branches are exempted from some provisions of the law as contemplated by the law.

The Bill provides for penalties and spot fines to be imposed by BoN, and appears to limit or remove the jurisdiction of the courts. In effect, it would make BoN both prosecutor and judge. The constitutionality of this provision is indeed highly questionable.

The Governor of BoN has stated that changes will be made to the Payment Systems Act in 2010 that will give BoN more control over charges made by commercial banks. Through the Bankers Association of Namibia, FNB plans to have constructive discussion on the matter. We have begun to analyse our costs and related procedures in more detail to establish accurately the profitability of various types of transactions.

The Financial Institutions and Markets Bill was referred to Parliamentary Standing Committee on Legislation in early February 2010. It is not on the order paper for the current session of Parliament. The impact of the Bill has been considered by management and the company is gearing towards complying with it when it becomes law.

FNB is known for setting high standards and congratulations to the FNB team for receiving for the fourth consecutive time the award from the Chartered Company Secretaries of South Africa for the best annual report in the category of regionally listed companies outside South Africa. FNB is also the proud recipient of the prestigious Bracken Award as the best bank in Namibia with 144 other country winners at the Banker's 10th Bank of the Year Awards in association with UK Trade and Investment.

In light of the challenges successfully faced, and our pride in the achievements of the past year, I cannot conclude without mentioning the people at FNB. Their spirit is exceptional. They are responsible for making this company great. They are living the FNB slogan: "How can we help you?" The buy-in by all – from clerical workers to the top echelons of management – has been achieved through strong, positive leadership and continued training. FNB Namibia has a great team and a great team leader and will go from strength to strength.

I am looking forward to my time off, but I know that there is much that I will sorely miss. Throughout my tenure as non-executive chairman, I've been privileged to meet and work with tremendous people. I've had experiences that I will always cherish and I'm thankful for the support that I've enjoyed these past 22 years. To Claus Hinrichsen, who will take over from me: may you be as richly blessed during your tenure.

H-D Voigts
Non-Executive Chairman
FNB Namibia Holdings

Abridged sustainability report

This abridged sustainability report forms part of the annual report for the first time this year. It covers operations over which FNB Namibia has control or significant influence in interfacing with various stakeholders. This stakeholder approach enables us to identify and address material issues in the context of our environmental, economic, social and governance operations. We measure and report our progress in creating stakeholder value and managing risks at FNB Namibia. Because we operate in a complex environment, it is a challenge to consolidate our activities in a single report.

Our people

We employ more than 1 700 people, and we consider them to be the most important internal driver of our success. It is a strategic aim of our organisation to build enduring, rewarding relationships with staff and to develop their optimal potential. The group has an affirmative action policy to achieve employment equity in the workplace and enhance business competitiveness. We embrace diversity in people as a critical success factor.

Staff with financial services skills remain in short supply. Recruiting and retaining such people are critical to our success, and we have created a comprehensive talent management plan to address these challenges. The group is committed to enhancing the skills of existing staff through in-house training schemes. In addition, management has been enrolled in the following external courses:

- MBA - 4
- Senior Management Development Programme - 5
- Management Development Programme - 8
- New Management Development Programme – 10

Four undergraduate students have been enrolled for full-time study at tertiary institutions and an internship programme has been implemented.

Weaknesses identified in the annual People Pillar Survey (PPS), an employee engagement survey, are taken seriously by executive management and will receive attention. Feedback from all staff is key and participation in the PPS has been increased to more than 80%. Our employee wellness policy was revised and several initiatives undertaken, covering topics such as HIV/AIDS, drug abuse, ill health and financial difficulties. Counselling sessions have been organised.

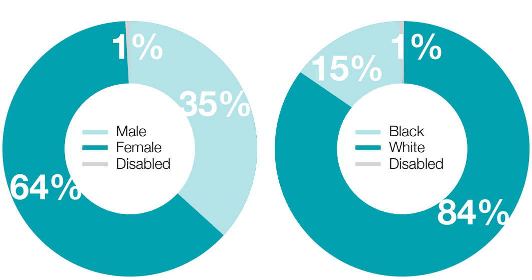
Our customers

The group provides products and services for a full range of financial requirements, including transactional, savings, investment and risk needs. We aim to provide banking services to the approximately 600 000 economically active Namibians. Our customers include entry-level consumers, small businesses, corporate businesses and public sector clients.

Customers continue to expect us to deliver innovative, effective, competitive and value-for-money financial products and solutions across a broad range of convenient, easily accessible and secure platforms. Supporting their needs extends to understanding the challenges of an un-banked market and to providing those people with access to financial services. Card and electronic fraud scams such as phishing, skimming and cloning are on the increase. It is vital that we develop more secure transaction methods and better informed customers.

We have maintained our free cellphone banking offer while using our partnership with VISA to persuade customers to switch to more appropriate and cost-effective electronic channels. Yet again, we kept price increases in line with the consumer price index. Our pricing guide is the most comprehensive in Namibia, and keeps customers fully informed of the most effective banking solutions. A state-of-the-art electronic contact centre was introduced

People profile as at 30 June 2010



to offer one-stop customer support.

With a focus on customer satisfaction, it remains a priority to educate consumers, protect their rights and give them the best and widest range of products and services. Efforts to fight card and online fraud will continue and our inContact service will remain free. Customer loyalty and retention is essential to a sustainable business. We measure these factors regularly and implement complaint resolution processes.

Our environment

The group endeavours to be environmentally conscious in everything we do, and to set new industry trends where we can.

Reducing energy costs and carbon emissions requires us to quantify energy usage and identify energy-saving opportunities. During the year we contracted Global Carbon Exchange (GCX) to conduct an energy-efficiency audit on our head office buildings. Based on its findings, an emission reduction and energy-saving strategy has been developed. We expect to make major improvements in 2011 by replacing lighting and air-conditioners. New buildings are now designed with more energy efficiency concepts in mind.

Among other initiatives, we have reduced paper usage by improving branch printing protocols and through campaigns to persuade customers to accept electronic statements.

This is, however, a work in progress, and the group will continue to refine its strategies to reduce emissions and save energy.

Our operations

FNB, with its national footprint and full bouquet of world class systems, products and services, offers a secure, reliable and cost effective network of delivery channels to a full spectrum of customers across the country and internationally. Our group philosophy of empowerment governs how we operate and interface with a broad range of stakeholders. It is underpinned by a set of values which includes being a good corporate citizen. Our business has its own governance structures and the Namibian management team is tasked with making both strategic and operational decisions and driving the sustainability agenda.

A key challenge remains to replace cumbersome processes with smarter automated and integrated ones. Innovation and continuous improvement are now embedded in the FNB culture. Staff are rewarded for suggesting innovative ideas. Implementing just four suggestions led to a cost saving of close to N$5 million a year.

Our suppliers

FNB is one of Namibia's largest corporate groups and a considerable consumer of services. It fully supports the requirements of the new Financial Services Charter. Our procurement policies contribute to Government's drive to grow local companies and to achieve a more balanced society.

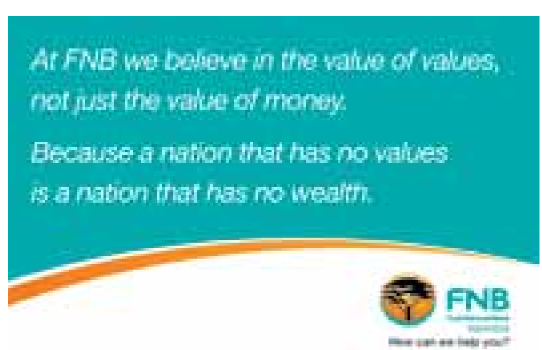
Without a formal accreditation process, it remains a challenge to monitor the allocation of contracts to BEE and SME accredited suppliers.

In this financial year, we made use of 195 suppliers. New suppliers are added regularly as they are discovered. Where service providers are available, procurement spend is with Namibian suppliers, and the sourcing of products and services is primarily in the Namibian market.

Because we are committed to supporting developing enterprises, we will continue to search actively for opportunities for local supplier procurement.

Black economic empowerment

The conclusion of the BEE share transaction in 2005 was a strategic initiative by the group to grow the Namibian economy on a sustainable basis. The transaction was facilitated by FirstRand agreeing to reduce its overall shareholding by 5%. Four percent was allocated to a BEE consortium in terms of an agreement whereby a minimal option premium was paid and the shares were to vest over



five years. The BEE consortium consists of two groups - Sovereign Capital and Chappa'Ai Investments.

One percent of the shareholding was allocated to black employees and black non-executive directors, and to a trust funded by dividends from the holding company. This trust is used to meet the educational, health and other needs of staff members.

Our communities

FNB's corporate social responsibility initiatives are spear-headed by the FNB Foundation. This foundation is funded by 1% of the annual post-tax profits of the group. A board of trustees ensures that the money is properly managed and is used for the intended purpose.

After more than 20 years of independence, Namibia still faces huge economic, social and technical challenges. The FNB Foundation supports Government's national development plan – Vision 2030. Through targeted investments we are trying to make a sustainable difference by supporting initiatives in skills development, education and training, community, culture and heritage, SMEs and healthcare.

Given limited resources, aligning our corporate social investments with the FNB group strategy and national development remains an ongoing challenge. A key priority is to focus on corporate social investments that will leave an enduring legacy. We will continue to seek smart partnerships with like-minded investors. Staff involvement in community support activities will be further enhanced.

Overview of major projects supported for 2009/2010

Special Olympics Namibia and Centre for Hope

In addition to an ongoing sponsorship of N$250 000 a year, Special Olympics Namibia this year received N$80 000 from the foundation towards the Centre for Hope at the Katutura Youth Complex. Special Olympics gained recognition from the FIFA Project for Hope and began building the centre in May 2010 as a 2010 FIFA World Cup legacy.

Aflatoun – Child Social & Financial Education

FNB and the foundation made a four-year commitment of N$657 965 in partnership with Aflatoun, an internationally-acclaimed schools programme that trains teachers to educate young children on their rights, responsibilities, how to manage their personal finances and how to save. Its aim is to give children the tools to break the cycle of poverty. This programme is managed and co-ordinated by Junior Achievement (JA) Namibia.

ETSIP (Educational Training Sector Improvement Programme)

The programme is jointly sponsored by the FNB Foundation and the Pupkewitz Foundation, and administered by the Namibian Personnel Development Institute (NPDI). The Faculty of Education at the University of Johannesburg agreed to offer its world-renowned programme to develop the management skills of Namibian school principals. The programme offers an ACE-qualification in School Management and Leadership. The Windhoek College of Education was harnessed as a strategic partner to help with support, network learning and on-site activity validation, thus transferring much needed skills to this institution. The foundation pledged a total of N$1.25 million over five years. The ETSIP programme hosted its first graduation in August 2010.

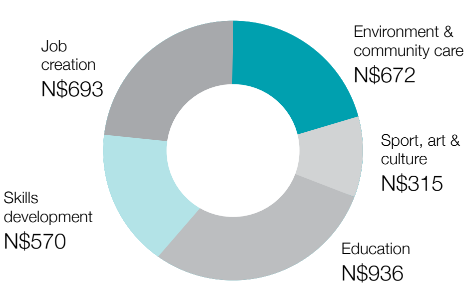
Cancer Association of Namibia

FNB has sponsored the Cancer Association of Namibia for almost 20 years. In 2009 the support strategy was changed with the introduction of "Bandana Day", with some 15 000 bandanas sold.

HeartLines

FNB, as a partner of the HeartLines initiative in South Africa, joined local church structures to introduce the very successful project to Namibia. It is a community campaign that encourages understanding of the "value of values". It was introduced by the Namibian Prime Minister 10 weeks before the national elections in Namibia to rally the nation around a positive set of global values. The project involved

A summary of the foundation's 2010 disbursements (N$'000)



a wide segment of civil society and government. More than 300 000 booklets were circulated to primary schools, sharing stories of principled people. Both Namibian television stations broadcast eight short stories covering eight values and a full-length feature film.

Lifeline/Childline

More than 40% of our population is under the age of 15, but only half of those children have basic material needs – a blanket, two sets of clothes and a pair of shoes. Furthermore, many children and young people experience violence, even within the family. A growing number are infected with HIV. Others have lost one or both parents and are left in the care of over-extended relatives or have to fend for themselves.

Lifeline/Childline has a proven track record of supporting vulnerable individuals and families. It is the leader in child protection in Namibia.

Youth Expo

The FNB National Youth Expo operates as a programme of the National Youth Council, engaging all youth groups in Namibia to develop small projects for exhibition at the Annual Youth Expo. The Expo draws youngsters from all regions to the weeklong exhibition.

UNAM and Polytechnic cultural festivals

The University of Namibia and the Polytechnic of Namibia are important partners of the group. The FNB Foundation continued its support of the annual cultural festival organised by their students.

Spirit of Giving Campaign

This year, the fourth Spirit of Giving campaign invited staff members to nominate community projects in which they would become personally involved. The foundation chose 14 of these projects and awarded a N$70 000 sponsorship.

Herero Dress-making Project

The annual Herero Dress-making Competition grew from strength to strength with the third sponsorship from the FNB Foundation. SMEs in the Namibian textile industry intensified awareness of the involvement of the FNB brand as main sponsor. The competition promotes the Namibian cultural heritage, focusing on arts and culture in textiles.

African Leadership Institute - FNB Inspectors' Academy

The African Leadership Institute, supported by the foundation, established an Inspectors' Academy which aimed to transfer leadership skills and expertise to all school inspectors in all 13 regions of the country. School inspectors are expected to have a full understanding of what is happening on the ground. They are required to communicate guidelines and policies to school principals, who cascade this information down to classrooms. The first two groups successfully completed their training and feedback indicates that tangible results are already evident.

SMEs Compete

SMEs Compete, a private sector institution, provides continuous training and development for SMEs funded by the FNB SME business unit. This initiative sets up businesses of all kinds for success; ensuring they develop into fully-fledged, profit-making enterprises.

CRIS (Criminals Return Into Society)

CRIS plays an important role in keeping the youth active in business-related projects and initiatives. It offers needlework, computer and social skills courses for former prison inmates, enabling them to look for employment opportunities, or to create jobs for others.

Namibia Debating Association

Secondary schools enter teams to compete in regional, national and even international debating competitions. This helps to build the intellectual capacity of children, and exposes them to topics like politics and economics, as well as to the social fabric of Namibia, the region, Africa, and the world.

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.

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 indentify 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

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 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.

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 Deutsher 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 valuators 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.

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.

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

Chief financial officer's report

In a demanding economic environment, our key performance indicators show that, for the most part, our strategies have been successful.

The past financial year saw significant improvement in insurance operations and a low impairment charge on advances. Group headline earnings for the year rose by 21% to N$428 million (2009: N$353 million). Profit increased by 25% to N$459 million (2009: N$367 million).

Earnings per ordinary share increased by 22% to 166.1 cents (2009: 136.1 cents). Return on average equity was 24% (2009: 23%). The group's cost to income ratio improved to 49% (2009: 51%).

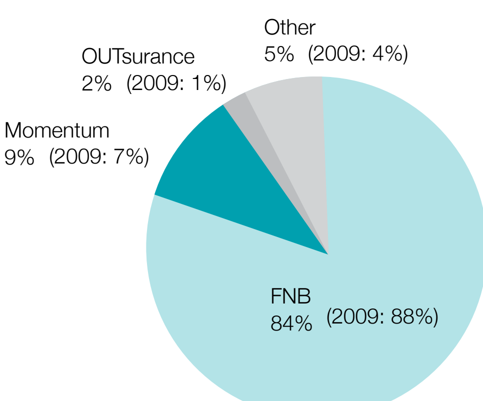
The group has three main operating entities: FNB Namibia Banking Group ("FNB"); Momentum Life Assurance Namibia Ltd ("Momentum Life"); and OUTsurance Insurance Company of Namibia Limited ("OUTsurance"). All three were profitable.

FNB grew profit by 17% from N$317 million to N$370 million. This solid performance reflects a combination of factors, including a low impairment charge, reasonable growth in advances and deposits and higher transactional volumes.

Momentum Life's profit increased by 70% to N$56 million (2009: N$33 million). This was mainly due to a recovery in investment returns in the shareholders portfolio and on non-linked liabilities, together with the profit from insurance activities. At the end of the previous financial year Momentum restructured its shareholders' asset portfolio to protect against market volatility. The portfolio has improved as a result.

OUTsurance's profit increased to N$8 million (2009: N$2 million). Performance exceeded expectations due to increased sales, lower loss ratios and operational efficiencies.

The chart below illustrates the contribution by each segment to profit before tax. The "other" segment reflects other group companies and group accounting consolidations.

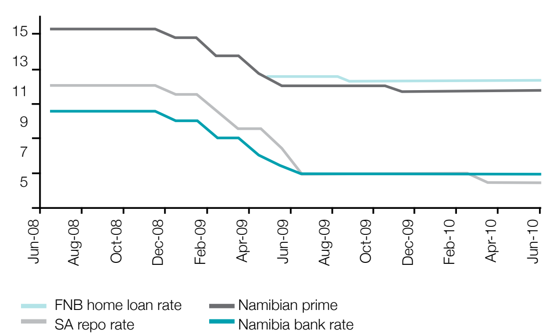


Statement of comprehensive income

Interest income

FNB generates 94% of the group's net interest income. Its net interest income grew by 9% to N$760 million (2009: N$695 million). This was almost in line with the increase in average advances. It was achieved against a background of lower interest rates which had a negative endowment effect. Furthermore, FNB implemented the Bank of Namibia requirement to reduce the margin between prime and repo rate by 50 basis points by the end of October 2009.The negative impact of reducing the prime rate was countered by a reduction in the cost of funds. This came about mainly because the Namibian repo rate was aligned with that of South Africa, and because the home loan base rate was 50 points higher than prime for most of the year, illustrated below.

Interest rates (%)



Impairment losses

	2010		2009	
	N$ million	% average advances	N$ million	% average advances
Specific impairment	10.9	0.1%	16.1	0.1%
Present value of security of non performing loans	7.2		17.2	0.2%
Total specific impairment	18.1	0.1%	33.3	0.3%
Portfolio impairment	(5.1)		5.1	0.1%
Impairment losses of advances	13.0	0.1%	38.4	0.4%

The components of the impairment charge are summarised in the table above.

A combination of lower interest rates, a consistent and sound lending policy and efficiency in the newly centralised legal department culminated in a significantly lower impairment loss on advances. The impairment charge of N$13 million represented a N$25 million improvement on the prior year.

Non interest income

Non interest income increased by 49% to N$644 million (2009: N$433 million). Individual segment contributions were:

N$ million	2010	2009	% change
FNB	554	491	13%
Momentum	70	(73)	196%
OUTsurance	5	6	(17%)
Other	15	10	50%
	644	433	49%

The table illustrates that Momentum's turnaround on investment portfolios was the major element contributing to growth.

FNB increased non interest income by 13%. Fees and commission increased by 20% due to increased volumes and expanded retail network delivery channels. Average price adjustment was in line with inflation. Foreign exchange trading income increased by 12% to N$67 million (2009: N$60 million). The relatively strong Rand/N$ put pressure on foreign exchange trade.

Momentum Life increased non interest income (excluding premium income) by 196% to N$70 million (2009: N$73 million negative) mainly because investment portfolio returns improved as equity markets recovered. A significant portion of the policyholder liabilities is matched by assets, so improved investment returns on the linked policyholders portfolio is also the main contributor to the increase in policyholder liabilities of N$38 million (2009:N$72 million decrease) as reflected in the statement of comprehensive income.

Net insurance premium income grew by 22%, of which Momentum Life contributed 75%. Momentum's premium income increased by 17%, reflecting increased sales and brand visibility. The launch of the Myriad product range has opened up the higher end of the market. New business sales increased by 22%, mainly as result of Myriad and the agency sales force.

OUTsurance premiums increased by 41%, maintaining a trend reported in the prior year. The growth is mainly attributable to personal lines products which started from a low base.

Net claims and benefits paid increased by 14% to N$143 million (2009: N$125 million). Momentum Life, with a 9% increase, contributed the bulk of it, while OUTsurance increased by 31% to N$38 million. OUTsurance's increase should be viewed against the background of new business strain from the personal lines products, which showed significant growth in premium income. However there has been an improvement in its loss ratio.

Operating expenses

Operating costs rose from N$694 million to N$803 million, a 16% increase year on year. This included substantial IT expenses in localising core banking systems and the accelerated amortisation of the Swabou Bank trademark. These were partially offset by the recognition of the pension fund surplus attributable to the group as an employer which eased staff costs.

The focus on cost control was maintained throughout the year. Although operating costs rose by more than average inflation, the investment in infrastructure will bring future benefit.

Tax

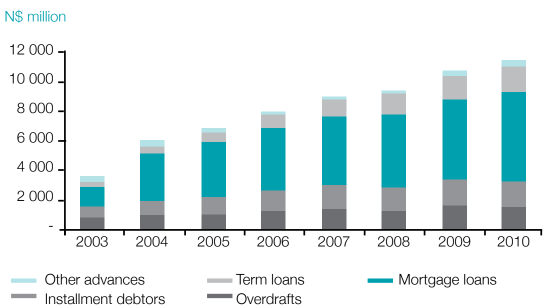
Indirect tax increased by N$7 million to N$20 million, mainly because value added tax increased in line with expenses and stamp duties rose, driven by volume.

The group's effective tax rate decreased to 31% from 33% in 2009 because corporate tax dropped from 35% to 34% during the year, as well as an increase in non-taxable income relating to the insurance operations.

Statement of financial position

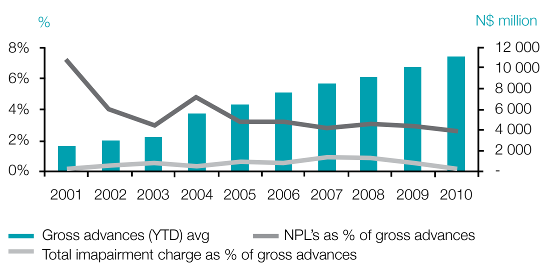
Total assets increased by N$1.8 billion to N$15.9 billion – a year on year growth of 13%. FNB's advances showed reasonable growth, reflecting uncertainty in the economy. Average year to date gross advances grew by 10%, which was in line with the national trend in private credit extension. Year-end advances increased by 7%. Mortgage advances, exceeding 50% of total advances, grew by 7% and FNB retained its position as market leader.

Advances composition



The ratio of non performing loans to average gross advances continued to improve, reducing to 2.6% (2009: 3.2%). Non performing loans reduced by 10% year on year to N$279 million (2009: N$309 million). The healthy trend is illustrated in the chart below.

Gross advances vs non performing loans and impairment charge



The increase in investment securities reflected the liquid asset requirements for FNB and Momentum Life investment portfolio. The FNB portfolio shows a shift from deposits that also qualified as liquid assets to investment securities and increased by N$573 million. Momentum Life's portfolio grew by N$321 million.

Reinsurance assets decreased by N$237 million to N$50 million as a result of a new reinsurance agreement.

Deposits increased by N$1.4 billion. This 14% growth is in line with assets growth. Wholesale funding continued to be the dominant source.

Policyholder liabilities increased due to new business and improvement in the investment values on the linked portfolio.

Dividend policy

The group has maintained the 2.4 times dividend cover on profit attributable to ordinary shareholders. This results in a total distribution for the year of 67 cents, up by 20%.

Capital Management

Banking Group

The optimal level of capital in a banking institution is determined by balancing the requirements of the regulator, the shareholders, deposit holders and debt holders.

Principles

For a banking institution, capital serves as a foundation for growth and a cushion against unexpected losses. It mitigates economic risk that might otherwise threaten its continuation or lead to loss of faith by stakeholders. It is the policy of the bank to be capitalised at the higher figure of economic capital or regulatory capital inclusive of a buffer.

Economic capital is defined as the capital which the banking group must hold, commensurate with its risk profile, under severe stress conditions, to give comfort to third party stakeholders that it will be able to discharge its obligations in accordance with an indicated degree of certainty even under stress conditions, and would continue to operate as a going concern. Tests are performed regularly to assess whether the bank is appropriately capitalised.

Demand for capital

The Bank of Namibia ("BoN") requires banking institutions to hold a minimum amount of capital equal to, or more than, 10% of the calculated risk weighted assets. During the year under review, BoN implemented guidelines developed by the Basel Committee on Banking Supervision – Basel II as provided for in terms of the Banking Institutions Act 1998 (Act No. 2 of 1998) for supervisory purposes. The guidelines include the techniques to calculate capital adequacy ratio as a key prudential measures.

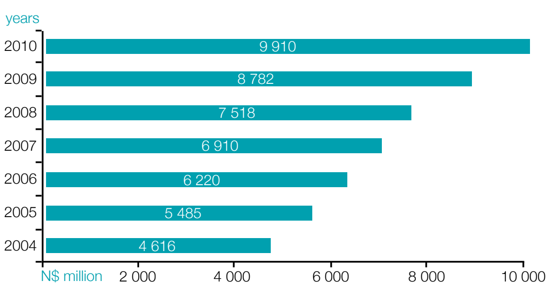
First National Bank of Namibia Limited is required to determine its capital adequacy ratio using the standardised approach. The guidelines provide a range of options for determining the capital requirements for credit risk, market risk and operational risk to allow banks and supervisors to select approaches that are most appropriate for their operations and their financial market infrastructure. In addition, the guidelines also allow for a limited degree of national discretion in the way in which each of these options may be applied, to adapt the standards to different conditions of national market.

With the options available, BoN opted for the standardised approach to be applicable to all the banks under its jurisdiction. The standardised approach is less risk sensitive as compared to internal ratings based approach ("IRB") which has incentives in terms of capital relief but not necessary suitable for the Namibian financial market.

The main changes between the old and newly adopted guidelines lie in the calculation of risk weighted assets and the closer alignment of capital levels to true underlying economic risks. Compliance with Basel II guidelines revealed that there is no material increase in our current economic capital estimates or minimum regulatory levels.

As a subsidiary of a South African Banking Group, where the principles of Basel II were adopted on 1 January 2008, First National Bank of Namibia Limited has complied with the standardised approach to calculate capital for credit, market, equity and operational risks, currently requiring a minimum of 9.75% by the SARB method of calculating risk weighted assets.

The following graph depicts the growth in risk weighted assets since 2004:



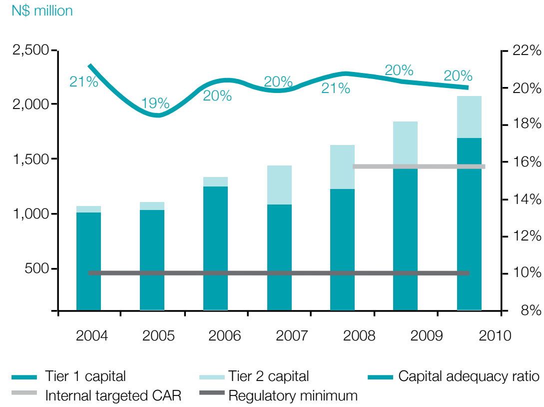
Supply of capital

As the bank generates earnings that are adequate to meet new capital requirements, the focus of management is on arriving at the most cost-effective capital structure. The relatively higher cost of capital, as against debt, means capital levels have to be managed to the minimum required, thus increasing the true economic value added to shareholders.

The implementation of the Basel II principles has allowed current year profit to form part of qualifying capital once appropriated by the board on quarterly bases. Maximum exposures to single borrowers are linked to the capital base. This results in the determination of maximum exposure being reviewed quarterly and could facilitate balance sheet growth during the year.

The board of directors approved a 5.5% buffer above the 10% minimum level determined by the Bank of Namibia. The buffer is also influenced by economic capital requirements.

The following graph depicts the capital adequacy ratio and internal target:



Dividend payment

The banking group declared an interim dividend of N$74 million in February 2009 and a final dividend of N$94 million in August 2010.

Capital adequacy of the banking group on 30 June

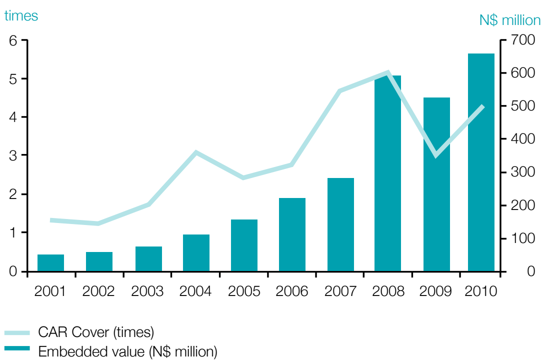
N$ million	BII 2010	BI 2009
Risk weighted assets		
Credit risk		
Portfolios subject to Basel II	8 474	
Portfolios subject to Basel I		8 782
Market risk		
Standardised approach	25	
Operational risk		
Standardised approach	1 411	
Total risk weighted assessts (RWAs)	9 910	8 782
Regulatory capital		
Tier 1		
Share capital and share premium	1 143	1 143
Retained profits	756	491
Capital impairment: intangible assets	(241)	(261)
Total tier 1	1 658	1 373
Tier 2		
Eligible subordinated debt	260	260
General risk reserve, including portfolio impairment	106	152
Total tier 2	366	412
Total tier 1 and tier 2 capital	2 024	1 785
Capital adequacy ratios		
Tier 1	16.7%	15.6%
Tier 2	3.7%	4.7%
Total	20.4%	20.3%

Insurance operations

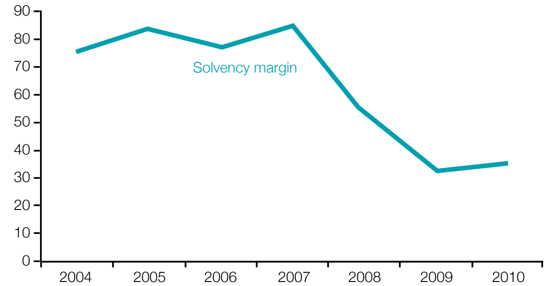
Momentum's policy is to invest capital required for the capital adequacy requirement ("CAR") in cash or near cash instruments. The objective is to ensure a sufficient excess of assets over liabilities to guard against severely negative conditions in future. When the Momentum transaction was approved, the court determined that a CAR cover of 1.5 times should be maintained. In terms of the revised capital management framework of Momentum, the company will maintain a buffer of 0.4 times above that minimum.

The CAR of Momentum is N$81.0 million (30 June 2009: N$94.8 million). Free reserves cover the capital adequacy requirement 4.3 times (30 June 2009: 3.0 times). Momentum did not declare a dividend during the year (2009: N$100 million).

The embedded value increased to N$659 million (2009: N$526 million). The value of in-force increased by 21% to N$363 million (30 June 2009: N$301 million) and the value of new business was N$76 million (30 June 2009: N$59 million).



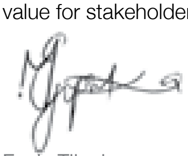
OUTsurance's capital adequacy is measured by the solvency margin that is the free reserve ratio of shareholders' funds expressed as a percentage of net premium income. The company targeted solvency margin range is between 25% and 50%, while the regulatory minimum is 15%. The solvency margin at 30 June 2010 was 35% (2009: 32%), a sound and healthy position. OUTsurance declared a dividend of N$5 million in August 2010.



Conclusion

The signs of recovery in the global economy are encouraging, but its sustainability is uncertain. Domestically the economy remains influenced by external events. Encouraging trends are emerging in new vehicle sales as consumer confidence returns. According to the FNB housing index, house sale volumes are edging higher, pointing to some recovery towards the end of 2010. The group does not foresee major downward risk and expects interest rates to remain benign for longer, supporting recovery in 2011.

Against the background of anticipated regulatory pressure and pressure on interest and non interest income, the focus remains on improving efficiencies and cost management. Mechanisms are being put in place to limit the impact of these pressures. The group will continue its strategy of growing profitable business while taking into account the risks involved. It intends to create long-term value for stakeholders.



Erwin Tjipuka
Chief Financial Officer

Ten year review

N$ million	IFRS 2010	IFRS 2009	IFRS 2008	IFRS 2007	IFRS 2006	IFRS 2005	GAAP 2004	GAAP 2003	GAAP 2002	GAAP 2001
Statement of financial position										
Advances	11 227	10 486	9 142	8 726	7 862	6 709	5 827	3 555	2 932	2 633
Total assets	15 937	14 100	13 402	10 674	9 631	8 233	7 200	4 732	4 072	3 276
Deposits and current accounts	12 046	10 601	9 676	7 817	7 812	6 706	5 884	3 950	3 271	2 628
Policyholder liabilities under insurance contracts	964	927	1 104	188	147	109	77			
Policyholder liabilities under investment contracts	44	36	38							
Capital and reserves attributable to the group's ordinary equity holders	1 952	1 640	1 483	1 240	1 302	1 175	1 038	598	594	522
Non-controlling interest	199	122	144							
Total equity	2 151	1 762	1 627	1 240	1 302	1 175	1 038	598	594	522
Statement of comprehensive income										
Net interest income before impairment of advances	808	743	729	611	483	423	398	309	270	245
Impairment losses of advances	(13)	(38)	(72)	(68)	(29)	(23)	(23)	(12)	(5)	(3)
Non interest income	644	433	403	380	344	281	218	184	158	131
Net insurance premium income	225	185	160	120	108	89	78			
Net claims and benefits paid	(143)	(125)	(117)	(44)	(42)	(30)	(27)			
Operating expenses	(803)	(694)	(618)	(521)	(454)	(400)	(380)	(226)	(188)	(176)
Profit for the year	459	367	409	304	257	216	165	241	156	132
Headline earnings	428	353	330	300	254	204	164	239	156	132
Other information										
Earnings per ordinary share (cents)	166.1	136.1	145.2	114.7	96.7	81.6	63.7	120.4	78.2	66.0
Headline earnings per share (cents)	165.7	135.6	124.6	113.5	95.0	78.7	63.4	119.6	78.2	66.0
Return on assets (earnings on average assets) (%)	2.9	2.6	3.2	3.0	2.9	2.7	2.8	5.5	4.2	4.2
Return on equity (earnings on average equity) (%)	23.9	22.6	28.2	23.9	20.6	19.1	20.2	40.4	28.0	28.2
Cost to income ratio (%)	48.9	50.5	48.1	48.0	49.0	49.8	52.2	45.9	44.0	46.7
Impairment charge vs. average advances (%)	0.1	0.4	0.8	0.8	0.4	0.4	0.5	0.4	0.2	0.1
Market capitalisation	3 093	3 158	2 665	2 119	1 873	1 606	1 200	900	790	672
Price to Book	2	2	2	2	1	1	1	2	1	1
Dividend information										
Dividends per share - ordinary dividend declared (cents) *	67.0	56.0	53.0	47.0	40.0	32.0	25.0	25.0	42.0	33.0
Dividend per share - special dividend (cents)				93.0				95.0		
Dividend yield - ordinary dividend (%)	5.8	4.7	5.3	5.9	5.7	5.3	5.4	5.6	10.6	9.8
Dividend cover (times) based on total dividends	2.4	2.4	2.4	0.8	2.4	2.5	2.5	1.0	1.9	2.0
Earnings yield (%)	14.4	11.5	14.6	14.5	13.8	13.6	13.9	27.0	19.8	19.7
Closing share price - ordinary (cents)	1 156	1 180	996	792	700	600	460	446	395	336
Price / Earnings ratio	7.0	8.7	6.9	6.9	7.2	7.4	7.2	3.7	5.1	5.1

* based on current year profits

Glossary

Terms and abbreviations used in this report.

Amortised cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Bank rate

The interest rate at which the Bank of Namibia lends to banks.

Basel II

Basel II Capital Accord

BEE

An abbreviation for black economic empowerment which is a formal initiative aimed at addressing the past exclusion of previously disadvantaged persons from the formal economy.

Capital adequacy requirement (CAR)

This is the minimum amount of capital required to be held, as determined by the Authorities.

CAR cover

The CAR cover refers to the multiple by which an insurer's free assets exceeds its CAR, expressed as a ratio of free assets to CAR.

Cost to income ratio (%)

Operating expenditure, excluding insurance risk related payments, and indirect taxes, divided by total income excluding unrealised gains and losses on the insurance investment portfolio.

Critical mass

Operating expenditure as a percentage of total assets.

Derivatives

Products on which value derives largely from the price, price fluctuations and price expectations of an underlying instrument. Derivatives include swaps, options and futures.

Embedded value (EV)

Embedded value equals the net asset value of the company, plus the present value of the projected stream of future after-tax profits on in-force insurance contracts, less the cost of capital at risk.

Endowment effect

The endowment effect refers to a change in interest margin which occurs when market interest rates change and the assets and liabilities re-price in different ways. In both the up and down interest rate cycles, assets re-price more than liabilities, therefore margins compress in a downward cycle and opens in an upward cycle.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial soundness valuation

Methodology intended to provide a prudently realistic picture of the overall financial position of a long-term insurer, allowing explicitly for actual premiums that will be received and future experience that may be expected in respect of interest rates, expenses, mortality, morbidity and other relevant factors.

GAAP

Namibian Statements of Generally Accepted Accounting Practice in use prior to IFRS being adopted.

General risk reserve

The prescribed minimum provisions by Bank of Namibia on performing advances and allocations to this reserve is made from after tax distributable reserves.

Headline earnings

Earnings attributable to ordinary shareholders from trading operations, excluding goodwill gain or losses, capital profits and losses and recycled profits or losses on available-for-sale financial instruments. Headline earnings do not measure sustainable earnings.

Hedge

A risk management technique used to insulate financial results from market, interest or foreign currency exchange risk arising from normal banking operations. The elimination or reduction of such exposure is accomplished by establishing offsetting positions. For example, assets denominated in foreign currencies can be offset by liabilities in the same currencies or through use of foreign exchange hedging instruments such as options or foreign exchange contracts.

IAS

International Accounting Standards

IFRS

International Financial Reporting Standards, as adopted by the International Accounting Standards Board (IASB),and interpretations issued by the International Reporting Interpretations Committee (IFRIC) of the IASB.

Impairment of advances

Advances are impaired (provided for) where the present value of the future cash flows on advances is less than the current carrying value in the records.

Interest in suspense

Contractual interest suspended on non-performing loans.

Interest margin on average advances (%)

Net interest income (before deducting the impairment on doubtful advances) divided by gross average advances.

Interest margin on average total assets (%)

Net interest income (before deducting the impairment on doubtful advances) divided by average total assets.

Irrevocable facilities

Commitments to extend credit where there group does not have the right to terminate the facilities by written notice. Commitments generally have expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Market capitalisation

The group's closing share price multiplied by the number of shares in issue.

Mark-to-market

Valuation at an appropriate market price, set at arms length between informed, knowledgeable parties, with unrealised profit and losses reflected in income or equity depending on the classification of the instrument.

Non performing loan (NPL)

A loan on which the recovery of the contractual interest and capital is doubtful.

Notional value

The principal amount stated in a contract on which future payments will be made or benefits be received.

Off-market loans

Loans granted to staff members at lower than market related rates.

Organic growth

Non-acquisition growth.

Portfolio impairments

Impairments to a specific portfolio within the performing lending book, exposed to similar risks.

Present value (PV)

The present value of future cash flow discounted at a specific discounting rate.

Return on average equity (ROE) (%)

Earnings attributable to ordinary shareholders divided by average ordinary shareholders' funds.

Return on average total assets (ROA) (%)

Earnings attributable to ordinary shareholders divided by average total assets.

Risk weighted assets (RWA)

Determined by applying prescribed risk weightings relative to the credit risk of the counterparty to on and off balance sheet assets.

Share based payments

Transfers of a company's equity instruments by its shareholders to parties that have supplied goods or services to the company (including employees).

SME

Small and medium enterprise.

Strike price

The price at which employees, allocated share options, can buy their shares from the share incentive trust.

Unintimated claims

Unintimated claims represent claims relating to incidents occurred before year-end and only reported to the insurance company after year-end.

Weighted average number of ordinary shares (number)

The weighted number of ordinary shares in issue during the year as listed on the Namibian Stock Exchange.

2010

Annual financial statements

Contents

Director's responsibility statement

To the members of FNB Namibia Holdings Limited

These consolidated annual financial statements are the responsibility of the company's directors. We also acknowledge responsibility for establishing accounting procedures that provide for the maintenance of documentation sufficient to support the consolidated annual financial statements. These consolidated annual financial statements present fairly the financial position, results of operations and cash flows of the group and company in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies Act of Namibia and have been prepared on bases consistent with those of the prior year, except where specifically disclosed in the consolidated annual financial statements. The consolidated annual financial statements incorporate full and responsible disclosure in line with the group's philosophy on corporate governance and as required by the Namibian Stock Exchange. The directors have reviewed the appropriateness of the accounting policies, and concluded that estimates and judgements are prudent. The directors report that the group's internal controls are designed to provide reasonable assurance as to the integrity and reliability of the financial statements, to adequately safeguard, verify and maintain accountability of assets and to prevent and detect fraudulent financial reporting. Such controls are based on established written policies and procedures. They are implemented by trained, skilled personnel with an appropriate segregation of duties and are monitored throughout the group.

The board members and employees are required to maintain the highest ethical standards and the group's business practices are required to be conducted in a manner that is above reproach. The board has adopted and is committed to the principles in the King II report on Corporate Governance. The board is responsible for internal controls. The controls throughout the group are directed towards risk areas. These areas are identified by operational management, confirmed by group management and tested by the internal auditors. All controls relating to these critical risk areas are closely monitored and subject to audit.

Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these internal financial controls occurred during the year.

The directors have reviewed the group's budget for the year to 30 June 2011. On the basis of this review and in the light of the current financial position, the directors have no reason to believe that FNB Namibia Holdings Limited and its subsidiaries will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The group's external auditors, Deloitte & Touche, have audited the financial statements and their report appears on page 37. The consolidated annual financial statements of the group and company, which appear on pages 32 to 146 have been approved by the board of directors and are signed on its behalf by:

H-D Voigts
Chairman

Adv. Vekuii Rukoro
Group Chief Executive Officer

Windhoek
17 August 2010

Report of the audit committee to shareholders

The audit committee comprises of a majority of independent non-executive directors and it meets no less than four times a year. This committee assists the board in observing its responsibility for ensuring that the group's financial and computer systems provide reliable, accurate and up-to-date information to support the current financial position and that the published consolidated annual financial statements represent a fair reflection of its financial position. It also ensures that appropriate accounting policies, control and compliance procedures are in place. The internal and external auditors attend its meetings and have unrestricted access to the chairman of the committee.

The primary objectives of the committee are:

1. To assist the board of directors in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied in the day-to-day management of the business;

2. To provide a forum for communication between the board of directors, management and the internal and external auditors; and

3. To introduce such measures as in the committee's opinion may serve to enhance the credibility and objectivity of the consolidated annual financial statements and affairs of the group.

The committee has met its objectives, has found no material weakness in controls, and is satisfied with the level of disclosure to it and to the stakeholders.

H W P Böttger
Chairman

Windhoek
16 August 2010

Statement of actuarial values of Momentum Life Assurance Namibia Limited

	2010	2009
	N$'000	N$'000
A brief summary of the financial position as at this date is as follows:		
Policyholders' fund	958 361	678 324
Other liabilities	29 605	37 247
Capital adequacy requirement	81 028	94 840
Free assets	267 379	191 519
Total funds (at actuarial value)	1 336 373	1 001 930
The above split may also be represented by the following items:		
Financial soundness liabilities	987 966	715 571
Free reserves for published financials	348 407	286 359
Total funds (at actuarial value)	1 336 373	1 001 930

The movement in the Free Reserves is an increase of N$62 048 000 (2009: N$70 140 000 decrease).

Certification

I have conducted an actuarial valuation of Momentum Life Assurance Namibia Limited according to generally accepted actuarial standards as at 30 June 2010, and certify that the company was financially sound at that date.

I am satisfied that the statement of actuarial values of assets and liabilities, read together with the financial statements, fairly presents the financial position of the company.

Jacques Malan
Fellow of the Institute of Actuaries
Valuator
23 August 2010

Independent auditor's report
To the members of FNB Namibia Holdings Limited

We have audited the group annual financial statements and the annual financial statements of FNB Namibia Holdings Limited, which comprise the consolidated and separate statements of financial position as at 30 June 2010, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes and the directors' report, as set out on pages 38 to 146.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act in Namibia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud and error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of FNB Namibia Holdings Limited as at 30 June 2010, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act in Namibia.

Deloitte & Touche

Deloitte & Touche
Registered Accountants and Auditors
Chartered Accountants (Namibia)

ICAN practice number: 9407

Per J Kock
Partner

PO Box 47, Windhoek, Namibia
7 September 2010

Regional executives:
GG Gelink (Chief Executive),
A Swiegers (Chief Operating Officer),
GM Pinnock

Resident partners:
VJ Mungunda (Managing Partner), RH McDonald, J Kock, H de Bruin

Directors' report

The directors present their annual report, which forms part of the annual financial statements of the group and of the company for the year ended 30 June 2010.

Nature of business

The company acts as an investment holding company and its main investments remain unchanged from the prior year, except for Momentum Life Assurance Namibia Limited. The shareholdings are:

First National Bank of Namibia Limited: a registered bank offering a full range of banking services	100%
Momentum Life Assurance Namibia Limited (formerly Swabou Life Assurance Company Limited): a life assurance company	51%
OUTsurance Insurance Company of Namibia Limited: a short-term insurance company	51%
Talas Properties (Windhoek) (Propriety) Limited: a property-owning company	100%
First National Asset Management and Trust Company of Namibia (Proprietary) Limited: a registered trust company involved in the administration of deceased estates	100%
RMB Asset Management (Namibia) (Proprietary) Limited: a registered asset management company	50%
FNB Namibia Unit Trusts Limited: a unit trusts management company	100%

Share capital

The company's authorised share capital remained unchanged at N$ 5 million.

The company's authorised share capital at year-end consists of 990 000 000 (2009: 990 000 000) ordinary shares of 0,5 cents each and 10 000 000 (2009: 10 000 000) cumulative convertible redeemable preference shares of 0,5 cents each.

The issued ordinary share capital remained unchanged at 267 593 250 ordinary shares and 2 cumulative convertible redeemable preference shares.

At the annual general meeting to be held on 24 November 2010, members will be asked to consider an ordinary resolution placing the number of un-issued ordinary and preference shares, exclusive of the number of shares reserved for purposes of the share incentive scheme as at that date, under the control of the directors as is currently the case, until the next annual general meeting.

Share analysis – ordinary shares

Based on information disclosed by the Namibian Stock Exchange and investigations conducted on behalf of the company, the following shareholders have a beneficial interest of 5% or more in the issued ordinary shares of the company:

FirstRand Bank Holdings Limited	59.4% (2009: 59.8%)
Government Institutions Pension Fund	14.4% (2009: 16.6%)

A detailed analysis of shareholders is set out on page 164.

Share analysis – preference shares

RMB-SI Investments (Proprietary) Limited	100% (2009: 100%)

FNB Share Incentive Scheme (the trust)

No new shares were allocated during the year by the company to the trust (2009: nil). Staff exercised options on 107 102 (2009: 21 700) shares during the year. The total number of shares held by the trust at 30 June 2010 amounts to 8 591 565 (2009: 8 698 667). Also refer to notes 8.2 and 31 of the annual financial statements.

Dividends

The following dividends were declared in respect of the current and previous financial years:

N$'000	2010	2009
Ordinary dividends		
Final dividend of 28 cents (2009: 28 cents)	74 926	74 926
Interim dividend of 31 cents (2009: 28 cents)	82 954	74 926
Total distribution for the 12 months of 59 cents per ordinary share (2009: 56 cents per ordinary share)	157 880	149 852
Preference dividends		
Dividend No. 5		315

Directors interest in FNB Namibia Holdings Limited

Details of the directors' holdings in the issued ordinary shares of FNB Namibia Holdings Limited are reflected in note 6.3 to the annual financial statements.

Interest of directors

At no time during the financial year were any contracts of significance entered into relative to the group's business in which a director had an interest.

Group results

The financial statements on pages 61 to 146 set out fully the financial position, results of operations and cash flows of the company and the group. Your attention is also drawn to the chairman's report, the chief executive officer's report and the chief financial officer's report on the financial results on pages 24 to 28.

Directorate

At the group's annual general meeting held on 25 November 2009, directors H-D Voigts, II Zaamwani-Kamwi and JK Macaskill, who retired by rotation in accordance with the provisions of the company's articles of association, made themselves available for re-election and were duly re-elected.

The composition of the board of FNB Namibia Holdings Limited is as follows:

H-D Voigts (Chairman)
H W P Böttger
C L R Haikali
C J Hinrichsen #
J R Khethe*
J K Macaskill *
S H Moir *
M N Ndilula
P T Nevonga
Adv VR Rukoro (Chief Executive Officer)
I I Zaamwani-Kamwi (Ms)

German * South African

All directors appointed since the last annual general meeting have to be confirmed at the next annual general meeting.

Directors' emoluments

Directors' emoluments are disclosed in note 6.1 to the annual financial statements.

Management by third parties

No part of the business of the company or of its subsidiary companies has been managed by a third party or by a company in which a director had a direct or indirect interest during this financial year.

Insurance

Comprehensive cover in respect of the bankers' bond, computer crime and professional indemnity risk is in place.

Property and equipment

There was no material change in the nature of property and equipment or in the policy regarding its use during the year.

Holding company

The holding company of FNB Namibia Holdings Limited is FirstRand Bank Holdings Limited and its ultimate holding company is FirstRand Limited, both of which are incorporated in the Republic of South Africa.

Subsidiaries

Interest in and aggregate profits of subsidiaries are set out in note 35.6 to the annual financial statements.

The following change in shareholding took place during the year. The group sold an additional 14% interest in Momentum Life Assurance Namibia Limited to Momentum Group Limited on 30 September 2009. The group's shareholding is now 51% (2009: 65%).

Company secretary and registered offices

Company secretary:	Y Katjirua
Registered office:	209 Independence Avenue, Windhoek
Postal address:	P O Box 195, Windhoek, Namibia

Events subsequent to the reporting date

There are no material events subsequent to the reporting date to report.

Accounting policies

1. Introduction

FNB Namibia Holdings Group (the group) is an integrated financial services group consisting of banking, insurance, asset management and unit trusts management operations.

The group adopted the following accounting policies in preparing its consolidated annual financial statements. The principal accounting policies are consistent in all material aspects with those adopted in the previous year, except for the adoption of:

- IFRS 2 Share-based Payment was amended during January 2008. The amendment clarifies that vesting conditions are performance and service conditions only and that cancellations of share options by parties other than the entity are to be accounted for in the same way as cancellations by the entity. This amendment is effective to annual periods commencing on or after 1 January 2009. This amendment has had no significant impact on the group's results.
- IFRS 2 Share-based Payment was amended during June 2009. The amendment clarifies how a share based payment transaction should be measured in a group share-based payment transaction. The amendment effectively replaces IFRIC 11 IFRS 2 – Group and Treasury Share Transactions and IFRIC 8 Group Cash-settled Share-based payment transaction. This amendment is effective to annual periods commencing on or after 1 January 2010. The Group has elected to early adopt the amendments to IFRS 2 for the year end July 2010. This amendment has had no significant impact on the group's results.
- IFRS 3 Business Combinations (revised) is effective to business combinations for which the acquisition date is on or after the first annual period beginning on or after 1 July 2009. The Standard is to be applied prospectively. The Standard applies to and prescribes the treatment of all transactions entered into by the group which meet the definition of a business combination.
- IFRS 7 Financial Instruments: Disclosures (amended) was amended in 2008 and these amendments are effective for annual periods commencing on or after 1 January 2009. The amendments require enhanced disclosures about the fair value measurements, and have established a three-level hierarchy for making fair value measurements. These enhanced disclosures do not have an impact on the recognition or measurement of amounts relating to financial instruments. The enhanced disclosures are only required for the period in which the amendments are effective and there is no requirement for comparative amounts to be presented.
- IFRS 8 Operating Segments is effective for annual periods beginning on or after 1 January 2009. This Standard replaces IAS 14 Segment Reporting and requires an entity to report financial and non financial information about its reportable operating segments. The adoption of this Standard will affect disclosures about the operating segments of the group but will not affect recognition and measurement. Further details are provided in accounting policy note 37.
- IAS 1 Presentation of Financial Statements (revised) is effective for annual periods beginning on or after 1 January 2009. The revised Standard prescribes the basis of the presentation of general purpose financial statements, guidelines for their structure and minimum requirements for their content. The adoption of this Standard will affect the presentation of the financial statements for both the current and comparative period, but will not affect recognition and measurement of any amounts recognised in the financial statements.
- IAS 27 Consolidated and Separate Financial Statements was amended in 2008. These amendments are effective for annual periods beginning on or after 1 July 2009. The amendments affect the treatment of non controlling interest and transactions with non controlling interests where control in the subsidiary is retained by the group. The amendments also affect the allocation of losses of a subsidiary to the non controlling interest. All of these changes are to be prospectively applied and do not require the restatement of amounts recognised prior to 1 July 2009.
- IAS 23 Borrowing Costs was amended to remove the option to immediately recognise borrowing costs related to a qualifying asset as an expense and is effective for annual periods commencing on or after 1 January 2009. This amendment does not impact the group, as it is the group's accounting policy to capitalise borrowing costs on qualifying assets
- IAS 32 Financial Instruments: Presentation was amended to require that certain puttable financial instruments and financial instruments that impose on the issuer an obligation to deliver a pro-rata share of the entity only on liquidation as equity. This amendment is applicable for annual periods commencing on or after 1 January 2009. This amendment has had no significant impact on the group's results and has not resulted in the restatement of prior year numbers.
- IAS 39 Financial Instruments: Recognition and Measurement was amended to clarify that inflation may only be hedged in instances where changes in inflation are contractually specified portions of cash flows of a recognised financial instrument. It also clarifies that an entity is permitted to designate purchased or net purchased options as a hedging instrument in a hedge

of a financial or non-financial item and to improve effectiveness, an entity is allowed to exclude the time value of money from the hedging instrument. This amendment is applicable for annual periods commencing on or after 1 July 2009 and has had no significant impact on the group's results.

- As part of its annual improvements project, the IASB made amendments to a number of accounting standards. The aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement. The annual improvements project for 2008 is effective for annual periods commencing on or after 1 January 2009. The group has adopted the amendments made as a result of the annual improvements project for 2008 during the current financial year. These amendments have not had a significant impact on the group's results nor has it resulted in the restatement of prior year numbers.
- IFRIC 15 Agreements for the Construction of Real Estate is effective for annual periods commencing on or after 1 January 2009. This Interpretation clarifies when real estate sales should be accounted for in terms of IAS 11 Construction Contracts or IAS 18 Revenue. This Interpretation is not applicable to the group.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation is effective for annual periods commencing on or after 1 October 2008. This Interpretation clarifies which risks can be hedged under a hedge if a net investment in a foreign operation and by which entities within the group the hedging instruments can be held in order to qualify as such a hedge. The group does not currently have investments in foreign operations and therefore this Interpretation is not applicable.
- IFRIC 17 Distributions of Non cash Assets to Owners is effective for annual periods beginning on or after 1 July 2009. This Interpretation provides guidance how distributions by the entity of assets other than cash as dividends to owners should be accounted for. The requirements of this Interpretation are to be prospectively applied. This Interpretation has no effect on the current reporting period as no such distributions have been made during the period.
- IFRIC 18 Transfers of Assets from Customers is effective for annual periods beginning on or after 1 July 2009. This Interpretation clarifies the accounting treatment of agreements in which an entity receives property, plant and equipment from a customer that must be used to connect the customer to a network or provide the customer with ongoing access to a supply of services or goods. This Interpretation has no effect on the group's financial statements as no such arrangements have been entered into.

2. Basis of presentation

The group's consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The group prepares its audited consolidated financial statements in accordance with the going concern principle using the historical cost basis, except for certain financial assets and liabilities.

These financial assets and liabilities include:

- financial assets and liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments;
- financial instruments elected to be carried at fair value through profit and loss;
- investment properties valued at fair value;
- employee benefits liabilities, valued using projected unit credit methods; and
- policyholder liabilities under insurance contracts that are valued in terms of Financial Soundness Valuation (FSV) basis as outlined below.

The preparation of audited consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are outlined in note 38.

All monetary information and figures presented in these financial statements are stated in thousand of Namibia Dollar (N$ '000), unless otherwise indicated.

3. Consolidation

3.1. Subsidiaries

The consolidated annual financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which the group, directly or indirectly, has the power to exercise control over the operations for its own benefit. The group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control. Subsidiaries are consolidated from the date on which the group acquires effective control. Consolidation is discontinued from the date that control over the subsidiary ceases.

The group consolidates a special purpose entity (SPE's) when the substance of the relationship between the group and the SPE indicates that the group controls the SPE.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

3.2. Business combinations

The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The consideration transferred for the acquisition is measured at the fair value of the assets transferred, equity instruments issued and the liabilities incurred or assumed at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the acquisition date fair value of any existing equity interest held in the subsidiary. Transaction costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non controlling interest in the subsidiary (also refer to accounting policy 3.3) and the acquisition-date fair value of any previous equity interest in the subsidiary over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

3.3. Non-controlling interest

Non-controlling interests in the net assets of subsidiaries are separately identified and presented from the group's equity therein. Non controlling interest can initially be measured either at fair value or at the non controlling interest's proportionate share of the subsidiary's identifiable net assets at the acquisition date. This is not an accounting policy election and the group will apply the choice of measurement basis on an acquisition by acquisition basis.

Subsequently the non-controlling interest consists of the amount attributed to such interest at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination.

Non controlling interests are treated as equity participants of the subsidiary company. The group treats all acquisitions and disposals of its non controlling interests in subsidiary companies, which does not result in a loss of control, as equity transactions. The carrying amounts of the controlling and non controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the group.

4. Associates

Associates are entities in which the group holds an equity interest of between 20% and 50% or over which it has the ability to exercise significant influence, but does not control. Investments acquired and held exclusively with the view of disposal in the near future (12 months) are not accounted for using the equity accounting method, but carried at fair value less cost to sell in terms of the requirements of IFRS 5.

The group includes the results of associates in its consolidated annual financial statements using the equity accounting method, from the effective date of acquisition to the effective date of disposal. The investment is initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

Earnings attributable to ordinary shareholders include the group's share of earnings of associates. Reserves include the group's share of post-acquisition movements in reserves of associates. The cumulative post acquisition movements are adjusted against the cost of the investment in the associate.

The group discontinues equity accounting when the carrying amount of the investment in an associate reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking.

After discontinuing equity accounting the group applies the requirements of IAS 39 to determine whether it is necessary to recognise any additional impairment loss with respect to the net investment in the associate as well as other exposures to the investee. Goodwill included in the carrying amount of the investment in associate is assessed for impairment in accordance with IAS 36 as part of the entire carrying value of the investment in the associate.

The group resumes equity accounting only after its share of the profits equals the share of losses not recognised. The group increases the carrying amount of investments with its share of the associate or joint venture's income when equity accounting is resumed.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates have been changed where necessary to ensure consistency with the policies adopted by the group.

5. Interest income and interest expense

The group recognises interest income and interest expense in the profit and loss component of the statement of comprehensive income for all interest-bearing instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the average expected life of the financial instruments or portfolios of financial instruments.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument (for example, pre-payment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

From an operational perspective, the group suspends the accrual of contractual interest on non-recoverable advances. However, in terms of IAS 39, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the discounted recoverable amount of the advance. This difference between the discounted and undiscounted recoverable amount is released to interest income over the expected collection period of the advance.

Instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or long-term liabilities. Dividends received or paid on these instruments are included and accrued in interest income and expense using the effective interest method.

6. Fair value income

The group includes profits, losses and fair value adjustments on trading financial instruments (including derivative instruments which do not qualify for hedge accounting in terms of IAS 39) as well as financial instruments at fair value through profit and loss in fair value income as it is earned.

7. Fee and commission income

The group generally recognises fee and commission income on an accrual basis when the service is rendered.

Certain fees and transaction costs that form an integral part of the effective interest rate of available-for-sale and amortised cost financial instruments are capitalised and recognised as part of the effective interest rate of the financial instrument over the expected life of the financial instruments. These fees and transaction costs are recognised as part of the net interest income and not as non-interest revenue.

Commission income on acceptances, bills and promissory notes endorsed is credited to income over the lives of the relevant instruments on a time apportionment basis.

8. Dividend income

The group recognises dividends when the group's right to receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

9. Foreign currency translation

9.1. Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated annual financial statements are presented in Namibia Dollars ("N$"), which is the functional and presentation currency of the holding company of the group.

9.2. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss component of the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities at fair value through profit or loss, are reported as part of the fair value gain or loss.

Foreign currency translation differences on monetary items classified as available-for-sale, such as foreign currency bonds designated as available-for-sale are recognised as a translation gain or loss in the profit and loss component of the statement of comprehensive income when incurred.

Translation differences on non-monetary items, classified as available-for-sale, such as equities are included in other comprehensive income component of the statement of comprehensive income when incurred.

10. Borrowing costs

The group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset up to the date on which construction or installation of the assets is substantially completed. Other borrowing costs are expensed when incurred.

11. Direct and indirect taxes

The tax expense represents the sum of the tax currently payable and deferred tax. Direct taxes comprise Namibian corporate tax.

Indirect taxes include various other taxes paid to central and local governments, including value added tax and stamp duties. Indirect taxes are disclosed separately from direct tax in the statement of comprehensive income.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affect neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The group recognises deferred tax assets if the directors of the group consider it probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly in other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in the profit and loss component of the statement of comprehensive income together with the deferred gain or loss.

12. Recognition of assets

12.1. Assets

The group recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the entity.

12.2. Contingent assets

The group discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the group's control.

13. Liabilities, provisions and contingent liabilities

13.1. Liabilities and provisions

The group recognises liabilities, including provisions, when:

- it has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of the obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in same class of obligations may be small.

13.2. Contingent liabilities

The group discloses a contingent liability when:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- it is not probable that an outflow of resources would be required to settle an obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

14. Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents comprise:

- coins and bank notes;
- money at call and short notice;
- balances with central banks; and
- balances with other banks.

All balances from date of acquisition included in cash and cash equivalents have a maturity date of less than three months.

15. Financial instruments

15.1. General

Financial instruments carried on the statement of financial position include all assets and liabilities, including derivative instruments, but exclude investments in associates and joint ventures, commodities, property and equipment, deferred tax, tax payable, intangible assets, inventory and post-retirement liabilities. The group shall recognise a financial asset or a financial liability on its statement of financial position when and only when, the entity becomes a party to the contractual provision of the instrument.

The group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- available-for-sale financial assets; and
- held-to-maturity investments.

Financial liabilities are classified in the following categories:

- financial liabilities at fair value through profit or loss; and
- financial liabilities at amortised cost.

Management determines the classification of its financial instruments at initial recognition.

Financial instruments are initially recognised at fair value plus transaction costs for all financial instruments not carried at fair value through profit or loss.

Available-for-sale financial assets and financial instruments at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment. Gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in the profit and loss component of the statement of comprehensive income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income as gains and losses from investment securities. However, interest calculated on available-for-sale financial assets using the effective interest method is recognised in the statement of comprehensive income as part of interest income. Dividends on available-for-sale equity instruments are recognised in the profit and loss component of the statement of comprehensive income when the entity's right to receive payment is established and are included in investment income.

The group recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset, is delivered or received. Otherwise such transactions are treated as derivatives until settlement.

The fair values of financial assets quoted in active markets are based on current bid prices. The fair values of financial liabilities quoted in active markets are based on current ask / offer prices. Alternatively, it derives fair value from cash flow models or other appropriate valuation models where an active market does not exist. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

15.1.1. Financial instruments assets at fair value through profit or loss

This category has two sub-categories: financial instruments held for trading, and those designated at fair value through profit or loss at inception.

A financial instrument is classified as a trading instrument if acquired principally for the purpose of selling in the short term or if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking. Derivatives are also categorised as held for trading unless they are designated as effective hedges.

Financial assets and liabilities are designated on initial recognition as at fair value through profit and loss to the extent that it produces more relevant information because it either:

(i) Results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or

(ii) Is a group of financial assets and/or financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/ or liabilities is provided internally to the entity's key management personnel; or

(iii) Is a financial asset or liability containing significant embedded derivatives that clearly require bifurcation.

The main financial assets and liabilities designated at fair value through profit and loss under criteria (i) are:

- Long-term liability/bond issued by the banking group as part of Tier II capital. The long-term liability has been designated to eliminate the accounting mismatch between the long-term liability and the underlying derivative. If the long-term liability/bond was not designated at fair value, the mismatch would be as a result of the long-term liability being recognised at amortised cost and the derivative and being recognised at fair value.

- Policyholder assets and liabilities under investment contracts. The liabilities under linked investment contracts have cash flows that are contractually determined with reference to the performance of the underlying assets. The changes in fair value of assets held in linked funds are recognised in the profit and loss component of the statement of compressive income. Liabilities to customers under other types of investments contracts are measured at amortised cost. If these assets were not designated on initial recognition, they would be classified as available-for-sale and the changes in their fair value would be recognised directly in other comprehensive income. This would result in a significant accounting mismatch, as the movements in the fair value of the policyholder liability are recognised directly in the profit and loss component of the statement of comprehensive income.

Financial instruments designated under criteria (ii), include:

- Financial assets held to meet liabilities under insurance contracts.

The amount of change during the period and cumulatively, in the fair value of designated loans and receivables and designated financial liabilities that is attributable to changes in their credit risk, is determined as the amount of change in fair value that is not attributable to changes in market conditions that gives rise to market risk, i.e. currency, interest rate and other price risk.

The group recognises fair value adjustments on financial assets and liabilities designated as at fair value through profit and loss in fair value income/loss. Interest income on these assets is included in the fair value adjustment and is included as fair value income in non interest income.

15.1.2. Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the banking group upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

This category also includes purchased loans and receivables, where the group has not designated such loans and receivables in any of the other financial asset categories.

15.1.3. Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. Were the group to sell other than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale.

The group carries held-to-maturity financial assets and investments at amortised cost using the effective interest method, less any impairment.

15.1.4. Available-for-sale

Available-for-sale investments are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The group recognises gains and losses arising from changes in the fair value of available-for-sale assets, in other comprehensive. It recognises interest income on these assets as part of interest income, based on the instrument's original effective interest rate. Interest income is excluded from the fair value gains and losses reported in other comprehensive income. When the advances and receivables or investment securities are disposed of or impaired, the related accumulated fair value adjustments are included in the profit and loss component of the statement of comprehensive income as gains and losses from investment securities.

Treasury bills, debt securities and equity shares intended to be held on a continuing basis, other than those designated at fair value through profit and loss are classified as available-for-sale.

15.2. Financial liabilities at amortised cost

Financial liabilities are measured at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

15.2.1 Policyholder liabilities under investment contracts

The group accounts for policyholder liabilities under investment contracts at fair value through profit and loss. Refer to sections below for a detailed description of the valuation of policyholder liabilities under investment contracts.

15.3. Embedded derivatives

The group treats derivatives embedded in other financial or non-financial instruments such as the conversion option in a convertible bond, as separate derivatives when:

- their risks and characteristics are not closely related to those of the host contract; and
- the host contract is not carried at fair value, with gains and losses reported in income.

Where embedded derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules.

15.4. Derecognising of assets and liabilities

The group derecognises a financial asset when:

- the contractual rights to the financial asset expires or forfeited by the group; or
- where there is a transfer of the contractual rights that comprise the financial asset; or
- the group retains the contractual rights of the financial assets but assumes a corresponding financial liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

Where the group retains substantially all the risks and rewards of ownership of the financial asset, the group continues to recognise the financial asset.

If a transfer does not result in derecognition because the group has retained substantially all the risks and rewards of ownership of the transferred asset, the group continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. In subsequent periods, the group recognises any income on the transferred asset and any expense incurred on the financial liability.

Where the group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the group determines whether it has retained control of the financial asset. In this case:

- If the group has not retained control, it derecognises the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer; or
- If the group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

15.5. Offsetting financial instruments

The group offsets financial assets and liabilities and reports the net balance in the statement of financial position where:

- there is a legally enforceable right to set off; and
- there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

16. Impairment of financial assets

16.1. General

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

16.2. Assets carried at amortised cost

The group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial assets’ carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit and loss component of the statement of comprehensive income. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument’s fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the group’s grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the profit and loss component of the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss component of the statement of comprehensive income.

16.2.1. Past due advances

Advances are considered past due in the following circumstances:

- Loans with a specific expiry date (e.g. term loans etc) are treated as overdue where the principal or interest is overdue and remains unpaid as at the reporting date.
- Consumer loans repayable by regular instalments (e.g. mortgage loans, personal loans) are treated as overdue when an instalment payment is overdue and remains unpaid as at the reporting date.
- A loan payable on demand is treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.

In these instances, the full outstanding amount is considered overdue even if part of it is not yet due. The days past due is referenced to the earliest due date of the loan.

The past due analysis is only performed for advances with specific expiry dates or instalment repayment dates or demand loans that have been demanded. The analysis is not applicable to overdraft products or products where no specific due date are be determined. The level of riskiness on these types of products is done with reference to the counterparty ratings of the exposures and reported as such.

16.2.2. Renegotiated advances

Financial assets that would otherwise be past due or impaired that have been renegotiated, are classified as neither past due nor impaired assets. Renegotiated advances are advances where, due to deterioration in the counterparty's financial condition, the bank granted a concession where original terms and conditions of the facility were amended. Where the advances were reclassified as neither past due nor impaired, the adherence to the new terms and conditions are closely monitored. These assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

16.3. Available-for-sale financial assets

The group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss, is removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss component of the statement of comprehensive income, the impairment loss is reversed through the profit and loss component of the statement of comprehensive income.

Impairment losses recognised in the profit and loss component of the statement of comprehensive income on equity instruments are not reversed through the profit and loss component of the statement of comprehensive income.

17. Derivative financial instruments and hedging

The group initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, in the statement of financial position at fair value. Derivatives are subsequently re-measured at their fair value with all movements in fair value recognised in the profit and loss component of the statement of comprehensive income, unless it is a designated and effective hedging instrument.

The fair value of publicly traded derivatives are based on quoted bid prices for assets held or liabilities to be issued, and current offer prices for assets to be acquired and liabilities held.

The fair value of non-traded derivatives is based on discounted cash flow models and option pricing models as appropriate, the group recognises derivatives as assets when the fair value is positive and as liabilities when the fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the group recognises profits or losses on day one.

Where fair value is determined using valuation techniques whose variables include non-observable market data, the difference between the fair value and the transaction price ("the day one profit or loss") is deferred in equity and released over the life of the instrument. However, where observable market factors that market participants would consider in setting a price subsequently become available, the balance of the deferred day one profit or loss is released to income.

The method of recognising the resulting fair value gains or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

- hedge of the fair value of recognised assets or liabilities or firm commitments ("fair value hedge"); or
- hedge of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction ("cash flow hedge").

The hedge of a foreign currency firm commitment can either be accounted for as a fair value or a cash flow hedge.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as, its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

17.1. Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss component of the statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the profit and loss component of the statement of comprehensive over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

17.2. Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the other comprehensive income component of the statement of comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss component of the statement of comprehensive income.

Amounts accumulated in equity are recycled to the profit and loss component of the statement of comprehensive income in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss component of the statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss component of the statement of comprehensive income.

Where the forecasted transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability. For financial assets and liabilities, the group transfers amounts deferred in equity to the profit and loss component of the statement of comprehensive income and classifies them as revenue or expense in the periods during which the hedged firm commitment or forecasted transaction affects the profit and loss component of the statement of comprehensive income.

18. Property and equipment

The group carries property and equipment at historical cost less depreciation and impairment, except for land which is carried at cost less impairment. Historical cost includes expenses that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replacement part is derecognised. All other repairs and maintenance are charged to the profit and loss component of the comprehensive income during the financial period in which they are incurred.

Property and equipment are depreciated on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

Freehold properties and properties held under finance lease are broken down into significant components that are depreciated to their respective residual values over the economic lives of these components.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in the profit and loss component of the statement of comprehensive income on disposal.

19. Investment properties

The group classifies investment properties as properties held to earn rental income and/or capital appreciation that are not occupied by the companies in the group.

Investment properties comprise freehold land and buildings and are carried at fair value. Fair value is based on active market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available the group uses valuation methods such as discounted cash flow projections or recent prices on less active markets. These valuations are reviewed annually by a combination of independent and internal valuation experts. Investment properties that are being redeveloped for continuing use as investment property, or for which that market has become less active, continues to be measured at fair value.

Property located on land that is held under operating lease is classified as investment property as long as it is held for long-term rental yields and is not occupied by the group. The initial cost of the property is the lower of the fair value of the property and the present value of the minimum lease payments. Subsequent to initial recognition the property is carried at fair value.

When investment properties become owner occupied, the group reclassifies it to property and equipment, using the fair value at the date of reclassification as the cost, and depreciates it on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over the expected useful lives.

Fair value adjustments on investment properties are included in the profit and loss component of the statement of comprehensive income within non interest income. These fair value gains or losses are adjusted for any double counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination.

The group carries properties under development at cost, less adjustments to reduce the cost to open market value, if appropriate.

20. Leases

20.1. A group company is the lessee

20.1.1. Finance leases

The group classifies leases as property and equipment where it assumes substantially all the benefits and risks of ownership as finance leases.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The group allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is recognised in the profit and loss over the lease period. The property and equipment acquired are depreciated over the useful life of the assets, unless it is not probable that the group will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

20.1.2. Operating leases

The group classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. It recognises operating lease payments in the profit and loss component of the statement of comprehensive income on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments.

The group recognises as an expense any penalty payment to the lessor for early termination of an operating lease, in the period in which termination takes place.

20.2. A group company is the lessor

20.2.1. Finance leases

The group recognises as advances assets sold under a finance lease at the present value of the lease payments. The difference between the gross receivable and the present value of the receivable represents unearned finance income. Lease income is recognised over the term of the lease using the effective interest rate method, which reflects a constant periodic rate of return.

20.2.2. Operating leases

The group includes in a separate category as "assets held under operating lease" property and equipment assets leased out under operating leases. It depreciates these assets over their expected useful lives on a basis consistent with similar owned property and equipment. Contingent rentals are expensed in the period incurred. Rental income is recognised on a straight-line basis over the lease term.

20.3. Instalment credit agreements

The group regards instalment credit agreements as financing transactions and includes the total rentals and instalments receivable hereunder, less unearned finance charges, in advances.

The group calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to income in proportion to capital balances outstanding.

21. Intangible assets

21.1. Goodwill

Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the group's share of the net assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For impairment purposes goodwill is allocated to the lowest components of the business that is expected to benefit from synergies of the combination and at which management monitors goodwill ("cash generating unit"). Each cash generating unit represents a grouping of assets no higher than a primary business or reporting segment as contemplated below.

21.2. Computer software development costs

The group generally expenses computer software development costs in the financial period incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for the group exceeding the costs incurred for more than one financial period, the group capitalises such costs and recognises it as an intangible asset.

The group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years. Management reviews the carrying value wherever objective evidence of impairment exists. The carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the profit and loss component of the statement of comprehensive income when incurred.

21.3. Other intangible assets

The group generally expenses the costs incurred on internally generated intangible assets such as trademarks, concessions, patents and similar rights and assets, to the profit and loss component of the statement of comprehensive income in the period in which the costs are incurred. Internally generated intangible assets which are separately identifiable, where the costs can be reliably measured and where the group is expected to derive a future benefit for more than one accounting period is capitalised.

The group capitalises material acquired trademarks, patents and similar rights where it will receive a benefit from these intangible assets in more than one financial period.

The group carries capitalised trademarks, patents and similar assets at cost less amortisation and any impairments. It amortises these assets at a rate applicable to the expected useful life of the asset, but not exceeding 20 years. Management reviews the carrying value whenever objective evidence of impairment exists. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the profit and loss component of the statement of comprehensive income when incurred.

Amortisation and impairments of intangible assets are reflected under operating expenses in the the profit and loss component of the statement of comprehensive income.

21.4. Agency Force

As a result of certain acquisitions and the application of purchase accounting, the group carries an agency force intangible asset representing the value of the agency force acquired in the acquisition. The value of the agency force is determined by estimating the future value of the new business generated by the agents acquired. The group amortises the agency force over its expected useful life.

21.5. Value of in-force business

As a result of certain acquisitions of insurance contracts and the application of purchase accounting, the group carries a customer contract intangible asset representing the present value of in-force ("PVIF") business acquired. PVIF is determined by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. The group amortises PVIF on the expected life of the contract as a constant percentage of expected gross margins over the estimated life of the acquired contracts. The estimated life is evaluated regularly. The PVIF is carried in the statement of financial position at fair value less any accumulated amortisation and impairment losses.

22. Employee benefits

22.1. Post-employment benefits

The group operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee-administered funds. The pension plan is generally funded by payments from employees and the relevant group companies, taking account of the recommendations of independent qualified actuaries. For defined benefit plan the pension accounting costs are assessed using the projected unit credit method.

The liability recognised in the statement of financial position in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The group recognises current service costs immediately, while it expenses past service costs, experience adjustments, changes in actuarial assumptions and plan amendments over the expected remaining working lives of employees. The costs are expensed immediately in the case of retired employees.

The Pension Fund is registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all group employees. Qualified actuaries perform annual valuations.

For defined contribution plan, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

22.2. Post-retirement medical benefits

In terms of certain employment contracts, the group provides for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. IAS 19 requires that the liabilities in respect thereof be reflected on the statement of financial position.

The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plan.

The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and completing a minimum service period. Qualified actuaries perform annual valuations.

22.3. Termination benefits

The group recognises termination benefits as a liability in the statement of financial position and as an expense in the profit and loss component of the statement of comprehensive income when it has a present obligation relating to termination. The group has a present obligation when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan, without possibility of withdrawal or providing termination benefits as a result of an offer to encourage voluntary redundancy.

22.4. Severance pay

The group recognises severance pay as a liability in the statement of financial position and as an expense in the profit and loss component of the statement of comprehensive income. The group is required to pay employees a severance benefit in terms of the new Labour Act of 2007, when:

- The employee is dismissed under certain circumstances; or
- Dies while employed.

The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plan. Qualified actuaries perform annual valuations.

22.5. Leave pay accrual

The group recognises in full employees rights to annual leave entitlement in respect of past service.

22.6. Bonuses

Management and staff bonuses are recognised as an expense in staff costs as incurred when it is probable that the economic benefits will be paid and the amount can be reliably measured.

22.7. Recognition of actuarial gains and losses

Recognition of actuarial gains and losses occurs as a result of:

- increases or decreases in the present value of defined benefit plan liabilities;
- increases or decreases in the fair value of plan assets; or
- a combination of the above.

Increases or decreases in the fair value of plan liabilities can be caused by changes in the discount rate used, expected salaries or number of employees, plan benefits and expected inflation rates.

Increases or decreases in the fair value of plan assets occur as a result of the difference between the actual and expected return on the plan assets.

The group does not recognise actuarial gains or losses below the corridor limit of 10% in the period under review, but defers such gains or losses to future periods.

23. Borrowings

The group initially recognises borrowings, including debentures, at the fair value of the consideration received. Borrowings are subsequently measured at amortised cost except for financial liabilities designated at fair value. Discounts or premiums on debentures issued are amortised on a basis that reflects the effective interest rate on the debentures over their life span. Interest paid is recognised in the profit and loss component of the statement of comprehensive income on an effective interest rate basis.

The group separately measures and recognises the fair value of the debt component of an issued convertible bond in liabilities, with the residual value separately allocated to equity. It calculates interest on the debt portion of the instrument based on the market rate for a non-convertible instrument at the inception thereof.

Instruments with characteristics of debt, such as redeemable preference shares, are included in liabilities. Dividends paid on such instruments are included in interest expense.

Where the group purchases its own debt, the debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in fair value income.

24. Share Capital

24.1. Share issue costs

Shares are classified as equity when there is no obligation to transfer cash or assets. Incremental costs directly related to the issue of new shares or options are shown as a deduction from equity. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

24.2. Dividends paid

Dividends on ordinary shares and non-cumulative non-redeemable preference shares are recognised against equity in the period in which they are approved by the company's shareholder. Dividends declared after the reporting date are not recognised but disclosed as a post reporting date event.

24.3. Shares held by employee share trusts

Where the employee share trusts which form part of the consolidated group purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity until they are sold. Where such shares are subsequently sold, any consideration received, net of any directly attributable incremental costs, is included in shareholders' equity.

25. Segment reporting

An operating segment is a component of the group that engages in business activities from which the group may earn revenues and incurs expenses and whose operating results are regularly reviewed by chief operating decision maker in order to make decisions about resources to be allocated to the segment and assess its performance. The chief operating decision maker has been identified as the chief executive officer of the group. The group's identification and measurement of operating segments is consistent with the internal reporting provided to the chief executive officer. The operating segments have been identified and classified in a manner that reflects the risks and rewards related to the segments' specific products and services offered in their specific markets. Additional information relating to each segments' specific products and services and major customers is also provided in the notes to the financial statements.

Operating segments whose total revenue, absolute profit or loss for the period or total assets are 10% or more of all the segments, are reported separately.

Assets, liabilities, revenue or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The group accounts for intersegment revenues and transfer as if the transactions were with third parties at current market prices. Tax is allocated to a particular segment on a pro-rata basis.

Funding is provided to business units and segments based at internally derived transfer pricing rates taking into account the funding structures of the group.

26. Fiduciary activities

The group excludes assets and the income thereon, together with related undertakings to return such assets to customers, from these financial statements where it acts in a fiduciary capacity such as nominee, trustee or agent.

27. Share based payment transactions

The group operates equity settled and cash settled share based compensation plans for employees and historically disadvantaged individuals and organisations. All compensation plans are recognised in accordance with the accounting policy depending on whether it meets the equity-settled or cash-settled definition.

27.1. Equity-settled share based compensation plans

The group expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to a share based payment reserve in the statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair value of the options is determined excluding non market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, the group revises its estimate of the number of options expected to vest. The group recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

Amounts recognised for services received if the options granted do not vest because of failure to satisfy a vesting condition, are reversed through the statement of comprehensive income. If options are forfeited after the vesting date, an amount equal to the value of the options forfeited is debited against the share based payment reserve and credited against equity.

The proceeds received net of any attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

27.2. Cash-settled share based payment compensation plans

The group measures the services received and liability incurred in respect of cash-settled share based payment plans at the current fair value of the liability. The group re-measures the fair value of the liability at each reporting date until settled. The liability is recognised over the vesting period and any changes in the fair value of the liability are recognised in profit or loss.

28. Disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than continuing use. This classification is only met if the sale is highly probable and the assets or disposal groups are available for immediate sale.

In light of the group's primary business being the provision of banking, insurance and investment products, non-current assets held as investments are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

Immediately before classification as held for sale, the measurement (carrying amount) of assets and liabilities in relation to a disposal group is recognised based upon the appropriate IFRS standards. On initial recognition as held for sale, the non-current assets and liabilities are recognised at the lower of carrying amount and fair value less costs to sell.

Any impairment losses on initial classification to held for sale are recognised in the profit and loss component of the statement of comprehensive income.

The non-current assets and disposal groups held for sale will be derecognised immediately when there is a change in intention to sell. Subsequent measurement of the asset or disposal group at that date, will be the lower of:

- its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale and;
- its recoverable amount at the date of the subsequent decision not to sell.

29. Insurance and investment contracts

This section outlines the main lines of business that forms part of the group's in-force policy book.

The main product groupings currently on the books of the group are:

- Universal life smoothed-bonus policies: These policies have unit accounts, similar to unit trust investments. The policies might offer additional life or disability cover. The benefit structure might have a discretionary participating feature ("DPF"), or unit-linked to the fair value of the assets supporting the liabilities. On expiry of the contracts, the fair value of units is paid to policyholders.
- Pure risk products, which are intended to provide insurance against death, disability or medical contingencies and do not offer early termination values.
- Company risk business: The main products on offer within this category are Group Permanent Health Insurance (PHI) cover and Group Life Assurance (GLA), which provides regular annuity benefits while an insured is disabled, as well as lump sum death and disability benefits.
- Conventional (reversionary bonus or non-profit) policies: These policies do not have unit accounts like

universal life products, but rather provide a guaranteed sum assured at death or maturity. The guaranteed payment is augmented by discretionary bonuses if the contract has DPF features. The difference between conventional and universal life DPF policy types is that, on universal life policies, annual bonus additions are made to the policy's investment account, whereas additions of bonuses on conventional policies are made to the lump sum payable on death or maturity.

- Health insurance products: These plans typically cover a variety of covers ranging from hospital benefits, outpatient surgery and day to day visits to physician offices.

Overview of discretionary participation features

A discretionary participating feature ("DPF") entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses. These additional benefits have the following features:

- The benefits constitutes a significant portion of the total contractual benefits payable under each policy;
- The timing and amount of the benefits are at the discretion of the group;

Terminology that is commonly used in the Namibian insurance industry also refers to contracts with discretionary participating features as "with-profit" or "smoothed bonus" policies.

Distributions of bonuses on DPF contracts are performed annually. Bonuses are used as a mechanism to smooth returns distributed to policyholders, in order to reduce their uncertainty of benefit payments. The smoothing mechanism operates in such a way that the bonuses declared are normally lower than actual investment returns in buoyant market conditions, whereas declared bonuses normally exceed the actual investment returns during depressed market conditions. In buoyant market conditions, any investment returns which are not declared as bonuses in the year are transferred to a bonus stabilisation account, after the deduction of tax and management charges. This liability is held for future distribution to policyholders. The smoothing mechanism results in a degree of cross-subsidisation of investment returns and benefit payments between different classes and generations of DPF policyholders.

The factors which are considered in determining the discretionary bonus declared by are the investment return achieved on underlying assets in the period, the group's bonus philosophy as regards to the intended level of smoothing for policyholders, the type of DPF contract under consideration and the existence of any contractual minimum bonus rate guarantees.

In addition, DPF contracts may incorporate embedded options including minimum guaranteed rate of bonus additions credited to a policy over its lifetime. These embedded options are accounted for in terms of the companies accounting policy for embedded derivatives.

29.1. Classification of contracts

The contracts issued by the group transfer insurance risk; financial risk or both. As a result of the differing risks transferred by contracts, for the purposes of valuation and profit recognition, contracts are divided into investment and insurance contracts. Insurance contracts are those contracts that transfer significant insurance risk to the group, whereas investment contracts transfer financial risk.

The classification of contracts is performed at the origination of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime unless the terms of the contract change to such an extent that it necessitates a change in classification.

29.1.1. Insurance contracts

An insurance contract is one that transfers significant insurance risk to the group. Significant insurance risk exists when it is expected that the present value of benefits payable in terms of the policy on the occurrence of an insured event will materially differ from the amounts payable, had the insured event not occurred. Financial penalties levied on early termination of policy contracts are not taken into account when classifying the contracts. If the difference between the benefit payable on an insured event and a non-insured event arises solely from an early termination penalty, the contract is not classified as an insurance contract.

Insurance contracts may transfer financial risk as well as insurance risk. However, in all instances where significant insurance risk is transferred, the contract is classified as an insurance contract.

The following typical type of contracts issued by the group are classified as insurance contracts:

- Insurance policies providing lump sum benefits on death or disability of the policyholder. These contracts are issued for either a defined period or for the whole life of the policyholder.
- Life annuity policies where the policyholder transfers the risk of longevity to the group;
- Policies which provide for retrenchment or funeral cover; and
- Policies providing Permanent Health Insurance (PHI).

The terms of these contracts may also allow for embedded options. These include minimum guaranteed rates of investment return resulting in a minimum level of benefit payable at expiry of the contractual term, after allowing for the cost of risk cover. These embedded options are treated in terms of the group's policies in respect of embedded derivatives.

Insurance contracts and Insurance contract with DPF are within the scope of IFRS4 and therefore accounted for in terms of the requirements of IFRS 4- Insurance contracts.

29.1.2. Investment contracts

These are contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate; financial instrument price; commodity price; foreign exchange rate; index prices or other variable.

Investment contracts with discretionary participating features (DPF). These contracts fall within the scope of IFRS 4 and therefore are accounted for in terms of the requirements of IFRS 4.

A DPF entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses. These additional benefits have the following features:

- The benefits constitutes a significant portion of the total contractual benefits payable under each policy;
- The timing and amount of the benefits are at the discretion of the group;

The following types of contracts issued by the group are classified as investment contracts with DPF:

- Universal life smoothed bonus policies, where discretionary bonuses are added to the investment account annually.
- Reversionary bonus policies, where discretionary bonuses are added to a guaranteed sum assured payable at the end of the contract term.

The carrying amounts in respect of the DPF benefits are included as liabilities on the statement of financial position.

29.2. Valuation and recognition

29.2.1. Insurance contracts (with and without DPF) and investment contracts with DPF

The next section provides detail in respect of the general valuation and profit recognition principles in respect of insurance contracts (with and without DPF) and investment contracts with DPF. The sections following thereafter give more detail on how these valuation assumptions are applied to particular product lines falling within the category.

Principles of valuation and profit recognition

Under IFRS4, liabilities in respect insurance and investment (with DPF) contracts are valued according to the requirements of the Namibian Long-Term Insurance Act (1998) and in accordance with professional guidance notes (PGNs) issued by the Actuarial Society of South Africa (ASSA). Of particular relevance to the liability calculations, are the following actuarial guidance notes:

PGN 104 (v6; Jan 2005): Life Offices – Valuation of Long-Term Insurers
PGN 110 (v1.0; Dec 2003): Reserving for minimum investment return guarantees
PGN 102 (Mar 1995): Life Offices – HIV/AIDS
PGN 105 (Nov 2002): Recommended AIDS extra mortality bases
PGN 106 (v3.0; Jul 2005): Actuaries and Long-Term Insurance in South Africa

These guidance notes are available on the website of the Actuarial Society of South Africa (www.actuarialsociety.org.za).

29.2.2. Valuation

Liabilities are valued in terms of the financial soundness valuation ("FSV") method as described in professional guidance note PGN 104, issued by the Actuarial Society of South Africa.

Where the value of the policyholder liability is negative, this is shown as an asset under insurance contracts. The asset is not offset against the liability.

The FSV method is a discounted cash flow method which requires the expected income (premiums and charges) and outgo (claims, expenses, tax) arising from each policy contract to be projected into the future, using appropriate assumptions regarding future investment returns, tax, inflation, claims experience and persistency. The projected expenses are only those required to service the existing policy book, and not the expenses expected to be incurred in acquiring future new business. Similarly, expected income from future sales is not included in the projection – only income emanating from the in-force policy book.

The assumptions used to project cash flows are best estimates of future experience. However, a degree of prudence is introduced by the addition of compulsory margins. The compulsory margins are defined by professional guidance note PGN 104. PGN104 allows for the addition of discretionary margins where necessary to avoid the premature recognition of profits on certain lines of business.

The projected cash flows (income less outgo) under each policy contract are discounted at a market-related rate of interest, to arrive at the liability held in respect of each policy contract. The discount rate used to value the liability is consistent with the market value of assets underlying the liability.

The valuation assumptions take into account current and expected future experience, as well as revised expectations of future income, claims and expenditure. The assumptions are applied to the whole in-force policy book. Differences between the assumptions used at the start and the end of the accounting period give rise to a revised liability quantification.

The effect of policyholder options that would result in a decrease in liabilities were excluded from the liabilities in order to prevent unnecessarily reducing the liabilities. Policyholder options that would result in an increase in the liabilities were incorporated into the valuation on a best estimate basis, as described above.

The expected level of early terminations is incorporated into the liabilities irrespective of whether this leads to an increase or a decrease in the liabilities.

If future experience under a policy contract is exactly in line with the assumptions employed at inception of the contract, the valuation margins will emerge as profits over the duration of a policy contract. This is known as the unwinding of margins.

In addition to the profit recognised at the origination of a policy contract, and the unwinding of margins, any differences between the best-estimate valuation assumptions and actual experience over each accounting period also give rise to profits and losses. These profits and losses emerge over the lifetime of a policy contract. Other sources of profit or loss include the change in liabilities from basis changes, profits on group business that are recognised as earned and shareholders' share of the cost of bonus for certain segregated DPF pools.

29.2.3 Recognition

29.2.3.1. Premiums

Premiums receivable from insurance contracts and investment contracts with DPF are recognised as revenue in the profit and loss component of the statement of comprehensive income, gross of commission and reinsurance premiums and excluding taxes and levies. Premiums and annuity considerations on insurance contracts are recognised when they are due in terms of the contract. Premium income received in advance is included in insurance and other payables.

29.2.3.2. Benefits and claims

Insurance benefits and claims incurred under insurance contracts and investment contracts with DPF include death, disability, maturity, annuity and surrender payments and are recognised in the profit and loss component of the statement of comprehensive income, gross of any related reinsurance recoveries. Death, disability and surrender claims are recognised when notified. Any of these types of claims that are notified but not paid before the reporting date are included in insurance and other payables. Maturity and annuity claims are recognised when they are due for payment in terms of the contract.

Group life benefits and benefits payable under health insurance contracts are accounted for as incurred. Provision is made for the estimated cost of benefit (together with the anticipated recoveries under re-insurance arrangements) notified but not settled at the reporting date.

Amounts unpaid under investment contacts are recorded as deductions from investment contract liabilities.

29.2.3.3. Reinsurance premiums

Reinsurance premiums are recognised as an expense in the profit and loss component of the statement of comprehensive income when they become due for payment, in terms of the contracts at the undiscounted amounts payable in terms of the contract.

29.2.3.4. Reinsurance recoveries

Reinsurance recoveries are recognised in the profit and loss component of the statement of comprehensive income in the same period as the related claim at the undiscounted amount receivable in terms of the contract.

29.2.3.5. Liability adequacy test for business with discounting liabilities

On insurance contracts, the liability adequacy test is inherent in the Financial Soundness Valuation methodology applied to these contracts and this meets the minimum requirements of the test required under IFRS4.

29.2.3.6. Implicit recognition of a deferred acquisition cost (DAC) asset

Acquisition costs, disclosed as sales remuneration, for insurance contracts and investment contracts with DPF include all commission and expenses directly related to acquiring new business. The Financial Soundness Valuation methodology implicitly creates a deferred acquisition cost asset by reducing the liabilities to the extent of margins in the office premium intended to recoup acquisition costs. Thus, no explicit deferred acquisition cost asset is recognised in the statement of financial positions for contracts valued on this basis.

29.2.4. Application of the above valuation methodology to individual product lines

The preceding paragraphs highlighted the principles followed in valuation and profit recognition in respect of insurance and investment (with DPF) contracts. The next section outlines how these principles are applied to the main product lines within this category.

29.2.4.1. Universal life smoothed bonus policies

Liabilities for individual smoothed bonus business are set equal to the fair value of units held by the policyholder at the reporting date. This is the so-called unit liability. In addition, the present value of expected future cash flows (income less outgo) in respect of each policy is added or deducted from the unit liability to arrive at the total liability in respect of each universal life policy contract. This adjustment represents the so-called Namibia Dollar liability. If future income is expected to exceed future outgo under a universal life policy contract, the Namibia Dollar liability is negative, whereas it is positive if future outgo is expected to exceed future income.

Projected future outgo includes claims payments and maintenance expenses, whereas projected future income includes deductions of risk premium and other charges. In performing the projections of future income and outgo, allowance is made for future growth in unit account values at a level consistent with the assumed future market-related investment return, after allowing for contractual expense charges and tax.

Future additions of bonuses to smoothed bonus policies are projected at levels that are consistent with and supported by the assumed rate of investment return, after allowing for contractual expense charges and tax.

In respect of smoothed-bonus universal life policies, bonus stabilisation accounts are also held. Bonus stabilisation reserves have been discussed above, but more detail about these provisions is given in the section below.

Profits arising from universal life policy contracts are recognised as described in above.

29.2.4.2. Conventional (reversionary or non-profit) policies

The liabilities for conventional policies are calculated as the difference between the present values of projected future benefits and expenses, and the present value of projected future premiums, using the best-estimate rate of return, plus prescribed margins as per PGN 104. It is assumed that current bonus rates (both reversionary and terminal bonus rates) will be maintained in future.

Profits arising on conventional policy contracts are recognised as described above.

29.2.4.3. Group risk business

The main liability types in respect of this class of business are:

- Discounted cash flow liabilities for Permanent Health Insurance claims-in-payment and CPI-linked annuities
- The liability related to the claims which relate to insurance events which have occurred before year end and thus have been incurred but have not been reported to the group, this liability is known as the Incurred-but-not-reported (IBNR) liability claims on group risk benefits
- Unearned premium provisions in respect of risk exposure remaining after the reporting date (where premiums relating to the risk have been received before the reporting date.

The group currently fully reinsures all group risk business and no liabilities were held in respect of this class of business.

29.2.4.4 Policyholder bonus stabilisation accounts

DPF liabilities (insurance and investment) are adjusted by policyholder bonus stabilisation accounts. Bonus stabilisation accounts have been introduced under the general description of policy contracts issued by the group.

If the fair value of the assets underlying a smoothed-bonus or conventional with-profit portfolio is greater than the policyholders' investment accounts (net premiums invested plus declared bonuses), a positive bonus stabilisation account is created which will be used to enhance future bonuses. Conversely, if assets are less than the investment accounts, a negative bonus stabilisation account is created.

The purpose with bonus stabilisation accounts is therefore to allocate all investment surpluses or deficits to policyholders after deduction of all related contractual charges.

Bonus stabilisation accounts are included in policyholder liabilities under insurance contracts and investment with DPF contracts.

29.2.4.5. Guaranteed maturity value liabilities

A number of contracts contain embedded derivatives in the form of guaranteed maturity values. The liability in respect of these guarantees is calculated using stochastic modeling techniques, whereby assets and liabilities are projected into the future under a range of possible future investment return scenarios. The expected present value of the cost of the guarantee over and above base liabilities is taken as the liability in respect of the guarantee.

The modeling approach is governed by professional guidance note PGN 110, which sets minimum criteria that the stochastic model should adhere to, being minimum numbers of simulations to be performed and minimum variability characteristics of the stochastic input parameters.

29.2.5. Discretionary margins

Discretionary margins are held in addition to the compulsory margins. These discretionary margins are used to ensure that profit and risk margins in the premiums are not capitalised prematurely so that profits are recognised in line with product design and in line with the risks borne by the group.

The main discretionary margins utilised in the valuation are as follows:

- Investment stabilisation accounts are held to reduce the risk of future losses, caused by the impact of market fluctuations on capitalised fees and on the assets backing guaranteed liabilities. This liability is built up retrospectively and released if adverse market conditions cause a reduction in the capitalised value of fees or in the value of assets backing guaranteed liabilities.
- Additional prospective margins are held in respect of decrement assumptions and asset-related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected. This allows profits to be recognised in the period in which the risks are borne by the group.
- An additional data reserve is held to protect against possible losses due to data discrepancies.

29.2.6. Options and guarantees

The effect of policyholder options that would result in a decrease in liabilities were excluded from the liabilities in order to prevent unnecessarily reducing the liabilities. Policyholder options that would result in an increase in the liabilities were incorporated into the valuation on a best estimate basis, as described above.

The expected level of early terminations is incorporated into the liabilities irrespective of whether this leads to an increase or a decrease in the liabilities.

The best estimates used to determine the value of the liabilities include estimates that take into account maturity, mortality and disability guarantees, as well as expected lapses and surrenders.

29.2.7. Embedded derivatives

The group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are fair valued through profit or loss.

A number of contracts contain embedded derivatives in the form of guaranteed maturity values. The liability in respect of these guarantees is calculated using stochastic modeling techniques, whereby assets and liabilities are projected into the future under a range of possible future investment return scenarios, with parameters calibrated to market data. The modeling approach is governed by professional guidance note PGN 110, which sets minimum criteria that the stochastic model should adhere to, being minimum numbers of simulations to be performed and minimum variability characteristics of the stochastic input parameters. The model is calibrated to use market-consistent assumptions and parameters as at the valuation date.

29.2.8. Reinsurance contracts

Contracts entered into by the group with reinsurers under which it is compensated for losses on one or more contracts issued by the group and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified as loans and receivables), as well as long term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Reinsurance liabilities consist of premiums payable for reinsurance contracts and are recognised as an expense when due.

The group assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss for the period. The group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

29.2.9. Receivables and payables related to insurance and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the group reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in the profit and loss component of the statement of comprehensive income. The group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated following the same method used for these financial assets.

29.3. Investment income

Investment income comprises interest and dividends.

Investment income is recognised on the accrual basis. Dividend income is brought to account when the last day of registration falls within the accounting period.

29.4. Expenses for marketing and administration

Marketing and administration expenses include administration expenditure, marketing and development expenditure as well as all other non-commission related expenditure, and are expensed as incurred.

29.5. Commission

Insurance commission payments are net of reinsurance commission received and are expensed as incurred.

Commission on investment contracts is spread over the first five years of the policy. The commission costs attributable to the unearned premiums at the end of the financial year are deferred and carried forward to the following year.

30. Comparative figures

Where necessary, comparative figures are restated to be consistent with the disclosure in the current year. No figures were restated during the current year.

Consolidated statement of comprehensive income
for the year ended 30 June

N$'000	Note	2010	2009
Interest and similar income	2	1 438 074	1 581 797
Interest expense and similar charges	2	(629 850)	(838 580)
Net interest income before impairment of advances		808 224	743 217
Impairment losses of advances	13	(12 960)	(38 412)
Net interest income after impairment of advances		795 264	704 805
Non interest income	3	644 414	433 434
Net insurance premium income	4	225 100	184 761
Net claims and benefits paid	5	(142 717)	(125 377)
Fair value adjustment to financial liabilities	26	(2 307)	(25 748)
(Increase) / decrease in value of policyholder liabilities: insurance contracts	27	(38 040)	72 720
Fair value adjustment of policyholder liabilities: investment contracts	28	2 525	11 438
Income from operations		1 484 239	1 256 033
Operating expenses	6	(803 084)	(694 054)
Net income from operations		681 155	561 979
Share of profit from associates	16.4	5 189	1 872
Income before tax		686 344	563 851
Indirect tax	7.1	(19 600)	(12 503)
Profit before tax		666 744	551 348
Direct tax	7.2	(207 849)	(184 589)
Profit for the year		458 895	366 759
Other comprehensive income			
Net gain on available-for-sale financial assets		7 672	16 307
Income tax relating to other comprehensive income	19	(1 831)	(6 890)
Other comprehensive income for the year		5 841	9 417
Total comprehensive income for the year		464 736	376 176
Profit for the year attributable to:			
Non cumulative non redeemable preference shareholders			315
Ordinary shareholders		429 278	354 165
Equity holders of the parent		429 278	354 480
Non-controlling interests		29 617	12 279
Profit for the year		458 895	366 759
Total comprehensive income for the year attributable to:			
Non cumulative non redeemable preference shareholders			315
Ordinary shareholders		435 119	363 582
Equity holders of the parent		435 119	363 897
Non-controlling interests		29 617	12 279
Total comprehensive income for the year		464 736	376 176
Basic and diluted earnings per share (cents)	8.2	166.1	136.1

Consolidated statement of financial position
as at 30 June

N$'000	Note	2010	2009
Assets			
Cash and short term funds	10.1	455 215	356 674
Due from banks and other financial institutions	10.2	851 182	479 256
Derivative financial instruments	11	57 119	130 487
Advances	12	11 226 660	10 486 434
Investment securities	14	2 799 659	1 898 611
Accounts receivable	15	117 610	116 208
Investments in associates	16	22 594	21 464
Tax asset			517
Property and equipment	17	267 024	236 406
Intangible assets	18	56 360	58 946
Deferred tax asset	19	5 885	508
Policy loans on investments contracts		26 931	22 767
Reinsurance assets	20	50 080	286 944
Non current assets held for sale	21	753	4 823
Total assets		15 937 072	14 100 045
Equity and liabilities			
Liabilities			
Deposits and current accounts	22.1	12 045 869	10 600 680
Due to banks and other financial institutions	22.2	54 346	22 731
Derivative financial instruments	11	58 019	115 631
Creditors and accruals	23	261 450	296 628
Gross outstanding claims		7 695	11 377
Gross unearned premium		20 127	18 058
Provision for unintimated claims	24	3 876	2 740
Tax liability		32 001	5 511
Post-employment benefit liabilities	25	31 302	21 671
Deferred tax liability	19		18 090
Long term liabilities	26	263 505	261 238
Policyholder liabilities under insurance contracts	27	963 968	927 304
Policyholder liabilities under investment contracts	28	43 831	36 066
Total liabilities		13 785 989	12 337 725
Equity			
Capital and reserves attributable to equity holders			
Ordinary shares	29	1 291	1 291
Share premium	29	191 695	195 066
Reserves		1 758 631	1 444 138
Capital and reserves attributable to the group's ordinary equity holders		1 951 617	1 640 495
Non-controlling interest		199 466	121 825
Total equity		2 151 083	1 762 320
Total equity and liabilities		15 937 072	14 100 045

Consolidated statement of changes in equity
for the year ended 30 June

N$'000	Share capital	Share premium	Share-based payment reserve	Available-for-sale reserve	Other reserves	Retained earnings	Reserves attributable to ordinary equity holders	Non-controlling interests	Total equity
Balance at 30 June 2008	1 321	257 792	6 848	(3 956)	382	1 220 860	1 224 134	144 306	1 627 553
Total comprehensive income for the year				9 417		354 480	363 897	12 279	376 176
Profit for the year						354 480	354 480	12 279	366 759
Other comprehensive income for the year				9 417			9 417		9 417
Staff share option transactions			2 037				2 037		2 037
BEE consortium share option transactions			1 220				1 220		1 220
Ordinary dividends						(146 243)	(146 243)	(35 000)	(181 243)
Preference dividends						(315)	(315)		(315)
Transfer to / (from) contingency reserves					2 064	(2 064)			
Effective change of shareholding in subsidiaries						(592)	(592)	240	(352)
Consolidation of shares held by share trusts	(30)	(62 726)							(62 756)
Balance at 30 June 2009	1 291	195 066	10 105	5 461	2 446	1 426 126	1 444 138	121 825	1 762 320
Total comprehensive income for the year				5 841		429 278	435 119	29 617	464 736
Profit for the year						429 278	429 278	29 617	458 895
Other comprehensive income for the year				5 841			5 841		5 841
Staff share option transactions			1 170				1 170		1 170
BEE consortium share option transactions			1 199				1 199		1 199
Ordinary dividends						(152 502)	(152 502)		(152 502)
Transfer to / (from) contingency reserves					1 611	(1 611)			
Effective change of shareholding in subsidiaries						29 507	29 507	48 024	77 531
Consolidation of shares held by share trusts		(3 371)							(3 371)
Balance at 30 June 2010	1 291	191 695	12 474	11 302	4 057	1 730 798	1 758 631	199 466	2 151 083

Consolidated statement of cash flows

for the year ended 30 June

N$'000	Note	2010	2009
Cash flows from operating activities			
Cash receipts from customers		2 243 767	2 219 484
Interest and similar income		1 414 685	1 547 221
Other non interest income		601 790	486 349
Net insurance premium received		227 292	185 914
Cash paid to customers, suppliers and employees		(1 490 211)	(1 603 391)
Interest expense and similar charges		(629 810)	(838 567)
Net claims and benefits paid		(142 717)	(125 377)
Total other operating expenses		(717 684)	(639 447)
Cash flows from operating activities	32.1	753 556	616 093
(Increase) / decrease in income earning assets		(1 712 805)	(659 769)
Due from banks and other financial institutions		(371 926)	525 058
Advances		(729 796)	(1 348 739)
Investment securities		(836 415)	92 967
Accounts receivable and similar accounts		(11 532)	(31 582)
Reinsurance assets		236 864	102 527
Increase / (decrease) in deposits and other liabilities		1 445 792	532 145
Deposits		1 445 189	924 399
Due to banks and other financial institutions		31 614	(331 103)
Accounts payable and similar accounts		(31 011)	(61 151)
Net cash generated from operations		486 543	488 469
Tax paid	32.2	(225 740)	(145 452)
Net cash flow from operating activities		260 803	343 017
Cash flows from investing activities			
Purchase of property and equipment	32.3	(59 157)	(69 138)
Purchase of software		(27 162)	(4 081)
Addition to Agency force business		(6 344)	
Proceeds from the disposal of property and equipment		376	415
Proceeds from the disposal of non current asset held for sale		5 500	
Net reduction / (increase) in investment in associates	32.4	726	(15 428)
Dividends from associate company		3 333	880
Proceeds from the sale of shares in Momentum Life Assurance Namibia Ltd	32.5	76 339	
Net cash outflow from investing activities		(6 389)	(87 352)
Cash flows from financing activities			
Purchase of shares for share trusts		(3 371)	(62 756)
Dividends paid	32.6	(152 502)	(181 558)
Net cash outflow from financing activities		(155 873)	(244 314)
Net increase in cash and cash equivalents		98 541	11 351
Cash and cash equivalents at the beginning of the year *		356 674	345 323
Cash and cash equivalents at the end of the year *	10.1	455 215	356 674

* Includes mandatory reserve deposits with central bank

Notes to the consolidated annual financial statements
for the year ended 30 June

1 Accounting policies

The accounting policies of the group are set out on pages 41 to 60.

2 Analysis of interest income and interest expenditure, by category.

N$'000	Fair value	Amortised cost	Non financial assets and liabilities	Total
	2010			
Interest and similar income	105 428	1 332 646		1 438 074
- Advances		1 203 858		1 203 858
- Cash and short term funds		79 707		79 707
- Investment securities	105 428	37 731		143 159
- Unwinding of discounted present value on non performing loans		9 992		9 992
- Unwinding of discounted present value on off-market advances		5 967		5 967
- On impaired advances		(12 039)		(12 039)
- Net release of deferred fee and expenses		7 430		7 430
Interest expense and similar charges	23 794	605 574	482	629 850
- Deposits from banks and financial institutions		1 635		1 635
- Current accounts		278 301		278 301
- Savings deposits		5 577		5 577
- Term deposits		144 413		144 413
- Negotiable certificates of deposit		175 648		175 648
- Long term liabilities	23 794			23 794
- Other			482	482

N$'000	Fair value	Amortised cost	Non financial assets and liabilities	Total
	2009			
Interest and similar income	115 868	1 465 929		1 581 797
- Advances		1 364 779		1 364 779
- Cash and short term funds		58 856		58 856
- Investment securities	115 868	31 040		146 908
- Unwinding of discounted present value on non performing loans		21 140		21 140
- Unwinding of discounted present value on off-market advances		6 594		6 594
- On impaired advances		(23 322)		(23 322)
- Net release of deferred fee and expenses		6 842		6 842
Interest expense and similar charges	30 768	806 870	942	838 580
- Deposits from banks and financial institutions		16 218		16 218
- Current accounts		352 697		352 697
- Savings deposits		11 650		11 650
- Term deposits		234 565		234 565
- Negotiable certificates of deposit		191 740		191 740
- Long term liabilities	23 818			23 818
- Other	6 950		942	7 892

Notes to the consolidated annual financial statements
for the year ended 30 June

3 Non interest income

N$'000	2010	2009
Fee and commission income:		
- Banking fee and commission income	456 270	376 302
- Card commissions	48 070	31 436
- Cash deposit fees	63 987	54 509
- Commissions: bills, drafts and cheques	20 538	17 866
- Service fees	179 850	144 348
- Fiduciary service fees	7 024	5 425
- Other commissions	136 801	122 718
- Broking commission income	19 402	19 095
- Unit trust and related fees	8 690	6 656
- Reinsurance commission received by insurance companies	3 473	3 289
Fee and commission income	487 835	405 342
Fee and commission income, by category		
- Instruments at amortised cost	449 246	370 877
- Non financial assets and liabilities	38 589	34 465
Fee and commission income	487 835	405 342

Non banking fee and commission earned relate to fees and commissions earned for rendering services to clients other than those related to the banking operations. This includes commission earned on the sale of insurance products.

N$'000	2010	2009
Fair value income:		
- Foreign exchange trading	66 525	60 088
- Treasury trading operations	10 418	24 836
- debt instruments trading	3 102	463
- derivatives revaluation	7 316	24 373
Fair value income	76 943	84 924
Portfolio analysis for fair value income		
Held for trading	76 943	84 924
Fair value income	76 943	84 924

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, and translated foreign currency assets and liabilities.
Interest rate instruments includes the gains and losses from government securities, corporate debt securities, money market instruments, interest rate and currency swaps, options and other derivatives.

N$'000	2010	2009
Gains less losses from investing activities		
- Gains on investment securities designated at fair value through profit or loss	1 208	
- Gains on realisation of available-for-sale financial assets		
- Bank	42	1 842
- Dividends received	10 109	16 943
- Listed shares - available-for-sale	8 527	15 073
- Unit trusts - available-for-sale	1 582	1 870
- Share of profit of associates (note 16.4)	5 189	1 872
- Gains and losses on revaluation of portfolio investments of insurance operations	57 044	(94 085)
Gross gains less losses from investing activities	73 592	(73 428)
Less: Share of profit of associates (disclosed separately on face of the statement of comprehensive income)	(5 189)	(1 872)
Gains less losses from investing activities	68 403	(75 300)

Notes to the consolidated annual financial statements
for the year ended 30 June

3 Non interest income (continued)

N$'000	2010	2009
Other non interest income:		
- Gain on sale of property and equipment	1 296	84
- Rental income	2 095	2 525
- Other income	7 842	15 859
Other non interest income	11 233	18 468
Other non interest income, by category		
- Non financial assets and liabilities	11 233	18 468
	11 233	18 468
Total non interest income	644 414	433 434

4 Net insurance premium income

N$'000	2010	2009
Insurance premiums		
Long term insurance contracts		
Individual life	170 644	150 919
- Single premiums	20 634	23 478
- Recurring premiums	134 157	114 690
- Annuities	15 853	12 751
Employee benefits	11 712	10 089
- Single premiums and investment lump sums		185
- Recurring premiums	11 712	9 904
Health		
- Recurring premiums	39	218
Policy fees on investment contracts	3 818	183
Total long term insurance contracts	186 213	161 409
Short term insurance contracts		
Personal lines	69 931	52 128
Total insurance premium income	256 144	213 537
Premium ceded to reinsurers	(28 852)	(27 624)
Life insurance contracts	(17 339)	(16 628)
Short term insurance contracts	(11 513)	(10 996)
Change in unearned premium provision	(2 192)	(1 152)
Net insurance premium income	225 100	184 761
Comprising:	225 100	184 761
- Long term insurance contracts	168 874	144 781
- Short term insurance contracts	56 226	39 980

Notes to the consolidated annual financial statements
for the year ended 30 June

5 Net claims and benefits paid

N$'000	2010	2009
Benefits paid in respect of long term insurance contracts		
Individual life	119 813	122 813
- Death and disability	24 106	30 400
- Maturities	28 573	27 900
- Surrenders	30 843	33 293
- Lump sum annuities	951	852
- Annuities	35 340	30 368
Employee benefits	2 645	1 947
Health	914	889
Gross claims and benefits paid on long term insurance contracts	123 372	125 649
Insurance benefits recovered from reinsurers	(18 957)	(29 481)
Net claims and benefits paid on long term insurance contracts	104 415	96 168
Benefits paid in respect of short term insurance contracts		
- Personal lines claims	39 546	35 817
- Transfer to provision for unintimated claims (note 24)	1 136	914
Gross claims and benefits paid on short term insurance contracts	40 682	36 731
Less: Insurance benefits recovered from reinsurers	(2 380)	(7 522)
Net claims and benefits paid on short term insurance contracts	38 302	29 209
Total net claims and benefits paid	142 717	125 377
Comprising:	142 717	125 377
Gross claims and benefits paid on insurance contracts	164 054	162 380
Insurance benefits recovered from reinsurers	(21 337)	(37 003)

Notes to the consolidated annual financial statements
for the year ended 30 June

6 Operating expenses

N$'000	2010	2009
Fee and commission expense	26 472	20 756
Auditors' remuneration		
- Audit fees	4 867	4 430
- Fees for other services	96	117
- Prior year under provision	39	87
Auditors' remuneration	5 002	4 634
Amortisation of intangible assets		
- Trademarks	21 410	8 141
- Software	8 937	924
- Agency force		893
- Value of in-force business	5 745	2 282
Amortisation of intangible assets (note 18)	36 092	12 240
Depreciation		
- Leasehold property	5 234	2 511
- Equipment	17 293	12 610
- Computer equipment	5 801	3 723
- Furniture and fittings	6 818	5 672
- Motor vehicles	545	332
- Office equipment	4 129	2 883
Depreciation (note 17)	22 527	15 121
Operating lease charges		
- Property	10 532	9 942
- Equipment	2 908	3 671
Operating lease charges	13 440	13 613
Professional fees		
- Asset management fees	2 113	1 793
- Other	3 706	2 182
Professional fees	5 819	3 975
BEE consortium share option cost (note 31)	1 199	1 220
Direct staff costs		
- Salaries, wages and allowances	296 573	262 065
- Off-market staff loans amortisation	5 967	6 594
- Contributions to employee benefit funds	51 620	38 828
- Defined contribution schemes: pension	31 362	22 345
- Defined contribution schemes: medical	20 258	16 483
- Retirement fund surplus recognised (note 25.2)	(35 425)	
- Post retirement medical expense	7 470	5 406
- Severance pay provision: death in service	3 156	
- Social security levies	1 063	1 135
- Share-based payments (note 31)	3 441	2 037
Direct staff cost	333 865	316 065
- Other	13 735	11 350
Total staff cost	347 600	327 415

Notes to the consolidated annual financial statements
for the year ended 30 June

6 Operating expenses (continued)

N$'000	2010	2009
Total directors' remuneration (note 6.1.3)	5 159	4 502
Other operating costs		
- Insurance	8 585	7 531
- Advertising and marketing	45 816	41 991
- Property and maintenance related expenses	32 130	27 189
- Legal and other related expenses	3 854	2 591
- Postage	6 297	5 130
- Stationery and printing	11 906	13 172
- Telecommunications	15 486	12 612
- Conveyance of cash	4 843	4 181
- Travel and accommodation	9 147	9 716
- Computer and processing related costs	131 250	93 878
- Other operating expenditure	70 460	72 469
Other operating costs	339 774	290 460
Investment properties		
- Operating expenses		103
- Repairs and maintenance		15
Investment properties		118
Total operating expenses	803 084	694 054
Number of staff	1 791	1 664

Notes to the consolidated annual financial statements
for the year ended 30 June

6 Operating expenses (continued)

6.1 Directors emoluments

Emoluments paid to directors of the group are set out below:

N$'000

	Salary	Bonus	Contributions to pension/ medical	Other allowance	Total
6.1.1 Executive director:					
			2010		
VR Rukoro	1 386	1 288	256	319	3 249
	1 386	1 288	256	319	3 249
			2009		
VR Rukoro	1 317	1 312	143	320	3 092
	1 317	1 312	143	320	3 092

6.1.2 Non-executive directors:

	Fees as directors	
Non-executive independent directors:	**2010**	2009
H-D Voigts (Chairman)	357	318
HWP Böttger	358	261
II Zaamwani-Kamwi	210	143
PT Nevonga	57	43
SH Moir	366	315
CLR Haikali	245	185
MN Ndilula	127	96
CJ Hinrichsen	109	22
R Von Hase *	37	
F Truter *	44	
EP Shiimi *		27
* Services as directors of group subsidiaries.		
Other non-executive directors		
JK Macaskill		
JR Khethe		
	1 910	1 410

Executive directors and directors appointed by the main shareholder do not receive directors fees for services.

6.1.3 Total directors' remuneration and fees:

	2010	2009
- Executive director	3 249	3 092
- Non-executive directors	1 910	1 410
	5 159	4 502

Directors are not subject to service contracts which determine a fixed service period.

Notes to the consolidated annual financial statements
for the year ended 30 June

6.2 Share options

Share options allocated to directors and movements of share options are summarised below: Refer to note 31 for the description of terms of the share trusts.

	Opening balance	Granted during the year	Strike price (cents)	Expiry date	Taken up this year (number of shares)	Closing balance (number of shares)	Benefit derived (N$'000)
Executive director:							
VR Rukoro							
FNB Namibia Holdings Ltd shares	439 000	147 000	5.17 - 11.55	Jun 2010 - Oct 2013	(98 300)	487 700	577
FirstRand Ltd shares	550 000	69 620	15.80 - 18.70	Nov 2013 - Nov 2014		619 620	
Non-executive directors:							
FNB Namibia Holdings Ltd shares							
II Zaamwani-Kamwi	75 000		5.17	June 2010	(37 500)	37 500	249
PT Nevonga	75 000		5.17	June 2010	(37 500)	37 500	249

6.3 Directors' holdings in shares:

	2010 Number of ordinary shares held	2010 % held	2009 Number of ordinary shares held	2009 % held
Names:				
Directly:				
H-D Voigts	11 806	0.004%	11 806	0.004%
HWP Böttger	4 667	0.002%	4 667	0.002%
PT Nevonga	38 026	0.014%	526	0.000%
MN Ndilula			300	0.000%
SH Moir	6 000	0.002%	6 000	0.002%
VR Rukoro	47 274	0.018%		
II Zaamwani-Kamwi	34 783	0.013%	34 783	0.013%
Indirectly:				
CLR Haikali	2 151 357	0.804%	727 978	0.272%
SH Moir	3 800	0.001%	3 800	0.001%
MN Ndilula	4 107 135	1.535%	943 272	0.353%

Notes to the consolidated annual financial statements
for the year ended 30 June

7 Tax

N$'000	2010	2009
7.1 Indirect tax		
Value-added tax (net)	11 412	7 549
Stamp duties	8 188	4 954
Total indirect tax	19 600	12 503
7.2 Direct tax		
Namibian normal tax		
- Current	233 147	154 209
Current year	234 622	153 727
Prior year	(1 475)	482
- Deferred	(25 298)	30 380
Current year	(25 008)	30 380
Tax rate change	(290)	
Total direct tax	207 849	184 589
Tax rate reconciliation - Namibian normal tax	%	%
Effective rate of tax	31	33
Total tax has been affected by:		
Non-taxable income	5	2
Other permanent differences	(2)	
Standard rate of tax	34	35

The rate of corporate tax was changed from 35% to 34% by the Ministry of Finance during the year.

Notes to the consolidated annual financial statements
for the year ended 30 June

8 Earnings and dividends per share

8.1 Headline earnings per share

Headline earnings per share is calculated by dividing the group's attributable earnings to ordinary equity holders after excluding identifiable remeasurements, net of tax and non-controlling interest, by the weighted average number of ordinary shares in issue during the year.

	2010	2009
Headline earnings (N$'000)	428 395	352 912
Weighted average number of ordinary shares in issue	258 470 862	260 225 843
Headline earnings per share (cents)	165.7	135.6

	2010				2009			
	Banking	Insurance	Other	Total	Banking	Insurance	Other	Total
Earnings attributable to ordinary equity holders of the group	370 152	34 274	24 852	429 278	317 152	21 913	15 100	354 165
Profit on sale of property and equipment			(856)	(856)			(55)	(55)
Realised gains from available-for-sale financial assets	(27)			(27)	(1 198)			(1 198)
Headline earnings	370 125	34 274	23 996	428 395	315 954	21 913	15 045	352 912

8.2 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders of the group, obtained from the profit and loss component of the statement of comprehensive income, by the weighted average number of ordinary shares in issue during the year.

	2010	2009
Earnings attributable to ordinary shareholders (N$'000)	429 278	354 165
Weighted average number of ordinary shares in issue	258 470 862	260 225 843
Basic earnings per share (cents)	166.1	136.1
Basic earning per share equals diluted earning per share as there are no potential dilutive ordinary shares in issue.		
Actual number of shares:		
Shares in issue as at 1 July: opening balance	267 593 250	267 593 250
Number of shares in issue as at 30 June: closing balance	267 593 250	267 593 250
Adjustment for shares held in share trusts	(9 091 565)	(9 198 667)
Adjusted actual number of ordinary shares in issue	258 501 685	258 394 583
Weighted number of shares:		
Actual number of shares in issue as at 1 July	267 593 250	267 593 250
Adjustment for weighted shares held in share trusts	(9 122 388)	(7 367 407)
Weighted average number of ordinary shares in issue	258 470 862	260 225 843

Notes to the consolidated annual financial statements
for the year ended 30 June

8 Earnings and dividends per share (continued)

8.3 Dividends per share and paid	2010		2009	
	Cents	N$'000	Cents	N$'000
A final dividend (dividend no. 28) of 28.0 cents per share was declared on 13 August 2008 in respect of the six months ended 30 June 2008 and paid on 29 October 2008.			28	73 893
An interim dividend (dividend no. 29) of 28.0 cents per share was declared on 4 February 2009 for the six months ended 31 December 2008 and paid on 3 April 2009.			28	72 350
A final dividend (dividend no. 30) of 28.0 cents per share was declared on 19 August 2009 in respect of the six months ended 30 June 2009 and paid on 28 October 2009.	28	72 350		
An interim dividend (dividend no. 31) of 31.0 cents per share was declared on 3 February 2010 for the six months ended 31 December 2009 and paid on 8 April 2010.	31	80 152		
	59	152 502	56	146 243
A final dividend of 36 cents (2009: 28 cents) was declared subsequent to year-end.	36	93 060		

The dividend in the current year and the prior year takes into account the elimination of the dividends to the share trusts, which are consolidated on a group level.

Notes to the consolidated annual financial statements
for the year ended 30 June

9 Analysis of assets and liabilities by category

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies on page 41 to page 60 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the statement of financial position per category of financial instrument to which they are assigned and therefore by measurement basis:

	2010						
N$'000	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non financial assets and liabilities	Total
Assets							
Cash and short term funds			455 215				455 215
Due from banks and other financial institutions			851 182				851 182
Derivative financial instruments	57 119						57 119
Advances			11 226 660				11 226 660
Investment securities	1 039 018	60 009	535 316	1 165 316			2 799 659
Accounts receivable			117 610				117 610
Investments in associates						22 594	22 594
Property and equipment						267 024	267 024
Intangible assets						56 360	56 360
Deferred tax asset						5 885	5 885
Policy loans on investments contracts			26 931				26 931
Reinsurance assets						50 080	50 080
Non current assets held for sale						753	753
Total assets	1 096 137	60 009	13 212 914	1 165 316		402 696	15 937 072
Liabilities							
Deposits and current accounts					12 045 869		12 045 869
Due to banks and other financial institutions					54 346		54 346
Derivative financial instruments	58 019						58 019
Creditors and accruals		6 127			255 323		261 450
Gross outstanding claims						7 695	7 695
Gross unearned premium						20 127	20 127
Provision for unintimated claims						3 876	3 876
Tax liability						32 001	32 001
Post-employment benefit liabilities						31 302	31 302
Long term liabilities		263 505					263 505
Policyholder liabilities under insurance contracts						963 968	963 968
Policyholder liabilities under investment contracts		43 831					43 831
Total liabilities	58 019	313 463			12 355 538	1 058 969	13 785 989

Notes to the consolidated annual financial statements
for the year ended 30 June

9 Analysis of assets and liabilities by category (continued)

	2009						
N$'000	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non financial assets and liabilities	Total
Assets							
Cash and short term funds			356 674				356 674
Due from banks and other financial institutions			479 256				479 256
Derivative financial instruments	130 487						130 487
Advances			10 486 434				10 486 434
Investment securities	718 325	6 402	336 742	837 142			1 898 611
Accounts receivable			116 208				116 208
Investments in associates						21 464	21 464
Tax asset						517	517
Property and equipment						236 406	236 406
Intangible assets						58 946	58 946
Deferred tax asset						508	508
Policy loans on investments contracts			22 767				22 767
Reinsurance assets						286 944	286 944
Non current assets held for sale						4 823	4 823
Total assets	848 812	6 402	11 798 081	837 142		609 608	14 100 045
Liabilities							
Deposits and current accounts					10 600 680		10 600 680
Due to banks and other financial institutions					22 731		22 731
Derivative financial instruments	115 631						115 631
Creditors and accruals		6 127			290 501		296 628
Gross outstanding claims						11 377	11 377
Gross unearned premium						18 058	18 058
Provision for unintimated claims						2 740	2 740
Tax liability						5 511	5 511
Post-employment benefit liabilities						21 671	21 671
Deferred tax liability						18 090	18 090
Long term liabilities		261 238					261 238
Policyholder liabilities under insurance contracts						927 304	927 304
Policyholder liabilities under investment contracts		36 066					36 066
Total liabilities	115 631	303 431			10 913 912	1 004 751	12 337 725

Notes to the consolidated annual financial statements
for the year ended 30 June

10 Short term funds

10.1 Cash and short term funds

N$'000	2010	2009
Coins and bank notes	205 788	205 168
Balances with central bank	194 883	110 558
Balances with other banks	54 544	40 948
Cash and short term funds	455 215	356 674
The carrying value approximates the fair value.		
Mandatory reserve balances included in above :	128 968	110 558

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, which is not available for use in the group's day to day operations. These deposits bear little or no interest.

10.2 Due from banks and other financial institutions

N$'000	2010	2009
Due from banks and financial institutions		
- In the normal course of business	851 182	479 256
	851 182	479 256
The carrying value approximates the fair value.		
Geographical split:		
Namibia	92	115 742
South Africa	663 229	70 186
North America	126 687	242 147
Europe	61 137	51 181
Other	37	
	851 182	479 256

Notes to the consolidated annual financial statements
for the year ended 30 June

11 Derivative financial instruments

Use of derivatives
Derivative contracts are not entered into for speculative purposes by the group. For accounting purposes, derivative instruments are classified as held for trading. The group transacts in derivatives for two purposes: to create risk management solutions for clients and to manage and hedge the group's own risks.

The group's derivative activities do not give rise to significant open positions in portfolios of derivatives. Positions are managed constantly to ensure that they remain within acceptable risk levels, with offsetting deals being utilised to achieve this where necessary.

Banking group
Interest rate derivatives comprising mainly of interest rate swaps and forward rate agreements are utilised for hedging purposes to eliminate uncertainty and to reduce the risk that the group faces due to volatile interest rates.

As mentioned above, derivatives classified as held for trading include non qualifying hedging derivatives, ineffective hedging derivatives and the component of hedging derivatives that are excluded from assessing hedge effectiveness. Non qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting. These include derivatives managed in conjunction with financial instruments designated at fair value.

The notional amounts of the derivative instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not present the group's exposure to credit or pricing risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) based on changes in market interest rates. The aggregate notional amount of derivative financial instruments, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair value can fluctuate significantly, overtime.

The group uses the following financial instruments for hedging purposes:

Forward rate agreements are negotiated interest rate futures that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another, resulting in the economic exchange of interest rates (for example fixed rate for floating rate). No exchange of principal takes place.

The group's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in the Risk Report on pages 153 to 159 of the Annual Report ("the Risk Report").

Please refer to note 36 for information on how the fair value of derivatives is determined.

Notes to the consolidated annual financial statements
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11 Derivative financial instruments (continued)

	2010			
	Assets		Liabilities	
N$'000	Notional	Fair value	Notional	Fair value
Held for trading				
Currency derivatives	445 862	47 486	457 737	54 625
- Forward rate agreements	440 348	38 391	452 223	45 530
- Options	5 514	9 095	5 514	9 095
Interest rate derivatives				
- Swaps	349 800	9 633	112 122	3 394
Total held for trading	795 662	57 119	569 859	58 019

	2009			
	Assets		Liabilities	
N$'000	Notional	Fair value	Notional	Fair value
Held for trading				
Currency derivatives	1 428 494	121 214	1 384 756	105 882
- Forward rate agreements	1 200 328	101 818	1 156 590	86 486
- Options	228 166	19 396	228 166	19 396
Interest rate derivatives				
- Swaps	1 372 383	9 273	990 326	9 749
Total held for trading	2 800 877	130 487	2 375 082	115 631

Notes to the consolidated annual financial statements
for the year ended 30 June

12 Advances

N$'000	2010	2009
All advances are classified as loans and receivables		
Sector analysis		
Agriculture	475 816	435 521
Banks and financial services	198 135	231 021
Building and property development	2 279 184	1 916 732
Government and public authorities	293 157	249 485
Individuals	6 397 357	5 979 482
Manufacturing and commerce	1 364 276	1 155 166
Mining	58 126	178 289
Transport and communication	170 620	227 025
Other services	291 445	439 754
Notional value of advances	11 528 116	10 812 475
Contractual interest suspended	(54 771)	(72 718)
Gross advances	11 473 345	10 739 757
Impairment of advances (note 13)	(246 685)	(253 323)
Net advances	11 226 660	10 486 434
Geographic analysis (based on credit risk)		
Namibia	11 226 660	10 486 434
Category analysis		
Overdrafts and managed accounts	1 303 790	1 456 183
Loans to other financial institutions	283 217	231 021
Card loans	81 184	71 441
Instalment sales	1 667 693	1 646 467
Lease payments receivable	80 621	82 934
Home loans	5 988 951	5 363 017
Term loans	1 756 922	1 652 154
Preference share advances		89 886
Other	365 738	219 372
Notional value of advances	11 528 116	10 812 475
Contractual interest suspended	(54 771)	(72 718)
Gross advances	11 473 345	10 739 757
Impairment of advances (note 13)	(246 685)	(253 323)
Net advances	11 226 660	10 486 434

Fair value of advances is disclosed in note 36.

Notes to the consolidated annual financial statements
for the year ended 30 June

12 Advances (continued)

N$'000	Within 1 year	Between 1 and 5 years	Total
2010			
Analysis of instalment sales and lease payments receivable			
Lease payments receivable	26 851	53 770	80 621
Suspensive sale instalments receivable	781 419	1 200 496	1 981 915
Sub total	808 270	1 254 266	2 062 536
Less: Unearned finance charges	(156 186)	(158 036)	(314 222)
Total	652 084	1 096 230	1 748 314
2009			
Lease payments receivable	41 550	41 673	83 223
Suspensive sale instalments receivable	908 080	1 060 316	1 968 396
Sub total	949 630	1 101 989	2 051 619
Less: Unearned finance charges	(188 402)	(133 816)	(322 218)
Total	761 228	968 173	1 729 401

The group has not sold or pledged any advances to third parties.

Under the terms of lease agreements, no contingent rentals are payable. These agreements relate to motor vehicles and equipment.

Notes to the consolidated annual financial statements

for the year ended 30 June

13 Impairment of advances

N$'000	2010 Overdrafts and managed accounts	Card loans	Instalment sales	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
Analysis of movement in impairment of advances per class of advance								
Opening balance	97 823	5 085	36 502	70 973	42 940	253 323	101 198	152 125
Amounts written off	(2 238)	(409)	(7 176)	(1 709)	(1 635)	(13 167)	(13 167)	
Unwinding of discounted present value on non performing loans	(1 084)			(8 731)	(177)	(9 992)	(9 992)	
Net new impairments created	(15 861)	(218)	10 140	(6 608)	29 068	16 521	21 661	(5 140)
- impairments created	20 923	1 030	31 906	31 161	44 649	129 669	82 298	47 371
- impairments released	(36 784)	(1 248)	(21 766)	(37 769)	(15 581)	(113 148)	(60 637)	(52 511)
Closing balance	78 640	4 458	39 466	53 925	70 196	246 685	99 700	146 985
New and increased provision	(15 861)	(218)	10 140	(6 608)	29 068	16 521	21 661	(5 140)
Recoveries of bad debts previously written off	(9 936)	1 446	6 022	1 143	(2 236)	(3 561)	(3 561)	
Impairment loss recognised in the statement of comprehensive income	(25 797)	1 228	16 162	(5 465)	26 832	12 960	18 100	(5 140)

N$'000	2009 Overdrafts and managed accounts	Card loans	Instalment sales	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
Opening balance	92 976		36 588	79 818	35 704	245 086	98 176	146 910
Amounts written off	(2 270)	1 277	(6 939)	(1 758)	(1 469)	(11 159)	(11 159)	
Unwinding of discounted present value on non performing loans	(3 566)			(16 845)	(729)	(21 140)	(21 140)	
Net new impairments created	10 683	3 808	6 853	9 758	9 434	40 536	35 321	5 215
- impairments created	26 651	3 808	21 045	51 380	21 510	124 394	107 597	16 797
- impairments released	(15 968)		(14 192)	(41 622)	(12 076)	(83 858)	(72 276)	(11 582)
Closing balance	97 823	5 085	36 502	70 973	42 940	253 323	101 198	152 125
New and increased provision	10 683	3 808	6 853	9 758	9 434	40 536	35 321	5 215
Recoveries of bad debts previously written off	2 191	(180)	(3 569)	(1 179)	613	(2 124)	(1 964)	(160)
Impairment loss recognised in the statement of comprehensive income	12 874	3 628	3 284	8 579	10 047	38 412	33 357	5 055

Notes to the consolidated annual financial statements
for the year ended 30 June

13 Impairment of advances (continued)

Significant loans and advances are monitored by the credit division and impaired according to the FNB Namibia impairment policy when an indication of impairment is observed.

The following factors are considered when determining whether there is objective evidence that the asset has been impaired:

- The estimated amount of collateral held against the loans and advances;
- Breaches of loan covenants and conditions;
- The time period of overdue contractual payments;
- Loss given default (LGD), probability of default (PD) and exposure at default (EAD);
- Actuarial credit models;
- Loss of employment or death of the borrower; and
- The probability of liquidation of the customer.

	2010			
N$'000	Total value including interest in suspense	Security held	Specific impairments	Contractual interest suspended
Non performing lendings by sector				
Agriculture	8 223	7 363	759	1 156
Banks and financial services	2 561	1 820	532	365
Building and property development	75 921	36 405	24 457	15 621
Government and public authorities	1 060	27	659	375
Individuals	157 364	92 945	57 357	34 098
Manufacturing and commerce	26 074	11 674	12 514	2 068
Mining	365		360	4
Transport and communication	5 109	1 765	2 015	666
Other	2 951	1 517	1 047	418
Total non performing lendings	279 628	153 516	99 700	54 771
Non performing lendings by category				
Overdrafts and managed accounts	81 660	32 988	41 085	14 847
Card loans	3 458		3 917	468
Instalment sales	27 964	1 220	18 355	6 115
Lease payments receivable	7 506	1 769	1 414	415
Home loans	133 173	109 071	27 080	26 808
Term loans	25 867	8 468	7 849	6 118
Total non performing lendings	279 628	153 516	99 700	54 771
Non performing lendings by geographical area				
Namibia	279 628	153 516	99 700	54 771
Net recoverable amount of non performing loans:	71 341			

Notes to the consolidated annual financial statements
for the year ended 30 June

13 Impairment of advances (continued)

N$'000	2009 Total value including interest in suspense	Security held	Specific impairments	Contractual interest suspended
Non performing lendings by sector				
Agriculture	3 692	3 004	101	611
Banks and financial services	178		77	102
Building and property development	77 631	29 312	24 022	25 189
Government and public authorities	1 060	26	671	268
Individuals	200 151	121 020	67 312	37 020
Manufacturing and commerce	15 184	5 273	5 790	4 290
Transport and communication	1 466		1 320	147
Other	9 895	4 107	1 905	5 091
Total non performing lendings	309 257	162 742	101 198	72 718
Non performing lendings by category				
Overdrafts and managed accounts	89 722	27 361	34 920	32 554
Card loans	3 582		3 650	299
Instalment sales	34 578	1 809	21 439	6 769
Lease payments receivable	1 513	30	894	289
Home loans	161 808	127 470	33 147	26 872
Term loans	18 054	6 072	7 148	5 935
Total non performing lendings	309 257	162 742	101 198	72 718
Non performing lendings by geographical area				
Namibia	309 257	162 742	101 198	72 718
Net recoverable amount of non performing loans:	73 797			

Notes to the consolidated annual financial statements
for the year ended 30 June

14 Investment securities

N$'000	2010				
	Total fair value		Total amortised cost		
	Held for trading	Designated at fair value through profit or loss	Available-for-sale	Loans and receivables	Total
Total					
Equities	364 459	1 257	11 591		377 307
Negotiable certificates of deposit				247 105	247 105
Treasury bills	51 720		603 414		655 134
Other government and government guaranteed stock			243 303		243 303
Other dated securities			285 322		285 322
Unit trust investments		58 752	21 686		80 438
RMB Asset Management Namibia portfolio	622 736				622 736
Other and money market investments	103			288 211	288 314
Total	1 039 018	60 009	1 165 316	535 316	2 799 659
Listed					
Equities	364 459	1 257	11 591		377 307
Other government and government guaranteed stock			243 303		243 303
Other dated securities			7 088		7 088
	364 459	1 257	261 982		627 698
Unlisted					
Negotiable certificates of deposit				247 105	247 105
Treasury bills	51 720		603 414		655 134
Other dated securities			278 234		278 234
Unit trust investments		58 752	21 686		80 438
RMB Asset Management Namibia portfolio	622 736				622 736
Other and money market investments	103			288 211	288 314
	674 559	58 752	903 334	535 316	2 171 961

Notes to the consolidated annual financial statements
for the year ended 30 June

14 Investment securities (continued)

	2009				
		Total fair value		Total amortised cost	
N$'000	Held for trading	Designated at fair value through profit or loss	Available-for-sale	Loans and receivables	Total
Total					
Equities	328 346		10 300		338 646
Negotiable certificates of deposit				100 230	100 230
Treasury bills	547		354 594		355 141
Other government and government guaranteed stock			267 900		267 900
Other dated securities			186 068		186 068
Unit trust investments	28	6 402	18 280		24 710
RMB Asset Management Namibia portfolio	389 316				389 316
Other and money market investments	88			236 512	236 600
Total	718 325	6 402	837 142	336 742	1 898 611
Listed					
Equities	328 346		10 300		338 646
Other government and government guaranteed stock			267 900		267 900
Other dated securities			7 016		7 016
	328 346		285 216		613 562
Unlisted					
Negotiable certificates of deposit				100 230	100 230
Treasury bills	547		354 594		355 141
Other dated securities			179 052		179 052
Unit trust investments	28	6 402	18 280		24 710
RMB Asset Management Namibia portfolio	389 316				389 316
Other and money market investments	88			236 512	236 600
	389 979	6 402	551 926	336 742	1 285 049

Analysis of investment securities

N$'000	2010	2009
Listed		
Equities	377 307	338 646
Debt	250 391	274 916
	627 698	613 562
Unlisted		
Debt	2 171 961	1 285 049
Total	2 799 659	1 898 611
Valuation of investments		
Market value of listed investments	627 698	613 562
Directors valuation of unlisted investments	2 172 966	1 285 456
Total valuation	2 800 664	1 899 018

Notes to the consolidated annual financial statements
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14 Investment securities (continued)

The directors' valuation of unlisted investments is considered to approximate fair value.

Refer to note 36, fair value of financial instruments for the methodologies used to determine the fair value of investment securities.

Information regarding other investments as required in terms of Schedule 4 of the Companies Act is kept at the company's registered offices. This information is open for inspection in terms of the provisions of Section 113 of the Companies Act.

No financial instruments held for trading form part of the group's liquid asset portfolio in terms of the Banking Institutions Act, (No 2 of 1998) and other foreign banking regulators requirements. The total liquid asset portfolio is N$1 455 million (2009: N$1 158 million).

The investment in government stock has been reclassified from unlisted to listed investments, to reflect market information. This reclassification has no effect on the profit and loss or on the financial position. Comparative figures reclassified to align with 2010 classification.

15 Accounts receivable

N$'000	2010	2009
Accounts receivable		
- Items in transit	27 043	32 019
- Deferred staff cost	38 931	44 655
- Premium debtors	24 465	24 183
- Other accounts receivable	27 171	15 351
Accounts receivable	117 610	116 208

Information about the credit quality of the above balances is set out in the risk management note 40.
The carrying value approximates the fair value.

Notes to the consolidated annual financial statements
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16 Investment in associates

16.1 Details of investments in associates

All associate companies are unlisted.

	Nature of business	Issued ordinary share capital N$	Number of ordinary shares held 2010	Number of ordinary shares held 2009	Year end
Avril Payment Solutions (Pty) Ltd	Payroll administrators	10 000	1 000	1 000	28 February
FNB Insurance Brokers (Namibia) (Pty) Ltd	Short term insurance brokers	5	2	2	30 June
Namclear (Pty) Ltd	Interbank clearing house	4	1	1	31 December
RMB Asset Management Namibia (Pty) Ltd	Asset management	20 000	10 000	10 000	30 June

16.2 Effective holdings and carrying amounts in associate companies

	Effective holding %		Group carrying amount		Group costs less amounts written off	
N$'000	2010	2009	2010	2009	2010	2009
Avril Payment Solutions (Pty) Ltd	10	10	468	291	1	1
FNB Insurance Brokers (Namibia) (Pty) Ltd	40	40	19 558	15 797	17 702	15 428
Namclear (Pty) Ltd	25	25	2 568	5 376	1 154	4 154
RMB Asset Management Namibia (Pty) Ltd	50	50				
Total			22 594	21 464	18 857	19 583

16.3 Detail information of associate companies

N$'000	2010	2009
Carrying value at beginning of the year	21 464	5 044
Net (reduction) / increase in investment in associates	(726)	15 428
Share of associate earnings	5 189	1 872
Dividends received	(3 333)	(880)
Carrying value	22 594	21 464
Valuation		
Unlisted investments at directors' valuation	22 594	21 464

Notes to the consolidated annual financial statements

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16 Investment in associates (continued)

16.4 Summarised financial information of associate companies

N$'000	Total 2010	Total 2009	Avril Payment Solutions (Pty) Ltd Unaudited February 2010	Avril Payment Solutions (Pty) Ltd Audited February 2009	FNB Insurance Brokers (Namibia) (Pty) Ltd Unaudited June 2010	FNB Insurance Brokers (Namibia) (Pty) Ltd Audited June 2009	Namclear (Pty) Ltd Unaudited June 2010	Namclear (Pty) Ltd Unaudited June 2009	RMB Asset Management Namibia (Pty) Ltd Unaudited June 2010	RMB Asset Management Namibia (Pty) Ltd Audited June 2009
Statement of financial position										
Non-current assets	17 734	28 667	201	464	13 524	20 906	3 991	7 270	18	27
Current assets	53 439	50 269	5 066	3 348	31 805	22 832	14 139	22 157	2 429	1 932
Current liabilities	(42 545)	(43 204)	(1 232)	(837)	(31 620)	(32 856)	(6 404)	(4 695)	(3 289)	(4 816)
Non-current liabilities	(1 164)	(3 330)	(63)	(67)			(1 101)	(3 263)		
Equity	27 464	32 402	3 972	2 908	13 709	10 882	10 625	21 469	(842)	(2 857)
Share of profits from associates										
After tax profit attributable to the group	5 189	1 872	1 111	980	3 887	369	191	523		

Refer note 35.3 for details on loans to / (from) related parties.

The full carrying value of the investment in RMB Asset Management Namibia (Pty) Ltd was impaired in the 2006 financial year. The group does not share in accumulated losses.

The most recent audited annual financial statements of associates are used by the group in applying the equity method of accounting for associates. These are not always drawn up to the same date as the financial statements of the group. In instances where significant events occurred between the last financial statement date of an associate and the financial statement date of the group, the effect of such events are adjusted for, where material. Where the last financial statement date of an associate was more than three months before the financial statement date of the group, the group uses the unaudited management accounts of the associate. The group has applied this principle consistently since adopting the equity accounting method for associates.

Notes to the consolidated annual financial statements
for the year ended 30 June

17 Property and equipment

N$'000	Cost 2010	Accumulated depreciation and impairments 2010	Carrying amount 2010	Cost 2009	Accumulated depreciation and impairments 2009	Carrying amount 2009
Property						
Freehold land and buildings	180 775	(33 382)	147 393	172 230	(33 382)	138 848
Leasehold property	28 218	(15 546)	12 672	21 852	(10 354)	11 498
	208 993	(48 928)	160 065	194 082	(43 736)	150 346
Equipment						
Computer equipment	80 722	(41 404)	39 318	65 945	(36 070)	29 875
Furniture and fittings	79 331	(31 055)	48 276	65 834	(24 883)	40 951
Motor vehicles	8 188	(3 788)	4 400	7 468	(3 403)	4 065
Office equipment	36 889	(21 924)	14 965	29 532	(18 363)	11 169
	205 130	(98 171)	106 959	168 779	(82 719)	86 060
Total	414 123	(147 099)	267 024	362 861	(126 455)	236 406

Movement in property and equipment - carrying amount

	Freehold land and buildings	Leasehold property	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Total
Carrying amount at 30 June 2008	123 901	5 351	8 511	35 769	3 059	11 864	188 455
Additions	20 684	8 660	20 953	11 054	1 405	6 382	69 138
Depreciation charge		(2 511)	(3 723)	(5 672)	(332)	(2 883)	(15 121)
Transfer between classes			4 141			(4 141)	
Transfer to repairs and maintenance	(4 982)						(4 982)
Reclassfied as held for sale	(753)						(753)
Disposals	(2)	(2)	(7)	(200)	(67)	(53)	(331)
Carrying amount at 30 June 2009	138 848	11 498	29 875	40 951	4 065	11 169	236 406
Additions	36 362	27	15 168	3 871	945	2 784	59 157
Depreciation charge		(5 234)	(5 801)	(6 818)	(545)	(4 129)	(22 527)
Transfer between classes	(22 315)	6 381	138	10 623		5 173	
Transfer to repairs and maintenance	(5 502)						(5 502)
Disposals			(62)	(351)	(65)	(32)	(510)
Carrying amount at 30 June 2010	147 393	12 672	39 318	48 276	4 400	14 965	267 024

The useful life of each asset is assessed individualy. The list below provides information on the benchmark used when assessing the useful life of the individual assets:

Leasehold premises	Shorter of estimated life or period of lease
Freehold property	
- Buildings and structures	50 years
- Mechanical and electrical	20 years
- Components	20 years
- Sundries	20 years
Computer equipment (including atm's)	3 - 5 years
Furniture and fittings	3 - 10 years
Motor vehicles	5 years
Office equipment	3 to 6 years

Information regarding land and buildings as required in terms of Schedule 4 of the Companies Act is kept at the company's registered offices. This information will be open for inspection in terms of the provisions of section 113 of the Companies Act, 1973.
No assets were encumbered at 30 June 2010 nor 30 June 2009.

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18 Intangible assets

N$ '000	Cost 2010	Accumulated amortisation and impairments 2010	Carrying amount 2010	Cost 2009	Accumulated amortisation and impairments 2009	Carrying amount 2009
Trademarks	111 768	(93 658)	18 110	111 768	(72 248)	39 520
Goodwill	100		100	100		100
Software	34 016	(10 862)	23 154	6 854	(1 925)	4 929
Agency force	1 893	(1 893)		1 893	(1 893)	
Value of in-force business	28 883	(13 887)	14 996	22 539	(8 142)	14 397
Total	176 660	(120 300)	56 360	143 154	(84 208)	58 946

Movement in intangibles - carrying amount

	Trademarks	Goodwill	Software	Agency force	Value of in-force business	Total
Carrying amount at 30 June 2008	47 661	100	1 772	893	16 679	67 105
Additions			4 081			4 081
Amortisation charge (note 6)	(8 141)		(924)	(893)	(2 282)	(12 240)
Carrying amount at 30 June 2009	39 520	100	4 929		14 397	58 946
Additions			27 162		6 344	33 506
Amortisation charge (note 6)	(21 410)		(8 937)		(5 745)	(36 092)
Carrying amount at 30 June 2010	18 110	100	23 154		14 996	56 360

Change in estimate:

The review of the useful lives of trademarks during the year, resulted in the following change in the amortisation trend:

	2010	2011	2012	2013	2014
Amortisation charge increase / (decrease)	14 424	(518)	(1 021)	(1 492)	(1 935)

Impairment of goodwill:

For impairment testing purposes, goodwill is allocated to cash-generating units (CGU) at the lowest level of operating activity (business) to which it relates, and is therefore not combined at group level.

The CGU's to which the goodwill balance as at 30 June 2010 and 30 June 2009 relates to is FNB Namibia Unit Trust Company Ltd.

When testing for impairment, the recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one year period. Cash flows beyond one year are extrapolated using the estimated growth rate for the CGU. The growth rate does not exceed the long-term average past growth rate for the business in which the CGU operates.

The discount rate used is the weighted average cost of capital for the specific segment, adjusted for specific risks relating to the segment. Some of the other assumptions include investment returns, expense inflation rates, tax rates and new business growth.

The group assessed the recoverable amount of goodwill, and determined that no write down of the carrying amount was necessary.

	Discount rate		Growth rate	
	2010	2009	2010	2009
FNB Namibia Unit Trusts Limited	15.50%	14.50%	8%	5%

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19 Deferred tax

N$'000	2010	2009
19.1 The movement on the deferred tax account is as follows:		
Deferred tax liability		
Opening balance	140 770	115 905
- Tax rate adjustment	(4 022)	
- Charge to profit and loss component of the statement of comprehensive income	(16 999)	31 755
- Deferred tax on amounts charged directly to other comprehensive income	(1 831)	(6 890)
Total credit balance	117 918	140 770
Deferred tax asset		
Opening balance	(122 680)	(135 611)
- Tax rate adjustment	4 312	
- Charge to profit and loss component of the statement of comprehensive income	(5 435)	12 931
- Deferred tax on amounts charged directly to other comprehensive income		
Total debit balance	(123 803)	(122 680)
Net balance for the year for entities with deferred tax (assets) / liabilities	(5 885)	18 090
Deferred tax liability		
Opening balance	5	17
- Tax rate adjustment		
- Charge to profit and loss component of the statement of comprehensive income	(5)	(12)
- Deferred tax on amounts charged directly to other comprehensive income		
Total credit balance		5
Deferred tax asset		
Opening balance	(513)	
- Tax rate adjustment		
- Charge to profit and loss component of the statement of comprehensive income	513	(513)
- Deferred tax on amounts charged directly to other comprehensive income		
Total debit balance		(513)
Net balance for the year for entities with deferred tax liabilities		(508)
Total net deferred tax balance	(5 885)	17 582

Deferred tax assets and liabilities are offset when the income taxes relate to the same fiscal authority, same legal entity and there is a legal right to set-off.

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19 Deferred tax (continued)

19.2 Deferred tax assets and liabilities and deferred tax charge / (credit) in the comprehensive income are attributable to the following items:

N$'000	2010 Opening balance	2010 Originating / (reversing) differences	2010 Closing balance	2009 Opening balance	2009 Originating / (reversing) differences	2009 Closing balance
Deferred tax liabilities						
Instalment credit agreements	(75 747)	26 927	(48 820)	(45 549)	(30 198)	(75 747)
Accruals	(26 082)	4 988	(21 094)	(35 855)	9 773	(26 082)
Deferred staff costs	(15 629)	446	(15 183)	(16 662)	1 033	(15 629)
Property and equipment	(22 091)	(7 888)	(29 979)	(17 031)	(5 060)	(22 091)
Fair value adjustments of financial instruments	(1 011)	(1 831)	(2 842)		(1 011)	(1 011)
Other	(210)	210		(808)	598	(210)
Total net deferred tax liabilities	(140 770)	22 852	(117 918)	(115 905)	(24 864)	(140 770)
Deferred tax assets						
Fair value adjustments of financial instruments				899	(899)	
Provision for loan impairment	39 933	(2 452)	37 481	38 564	1 369	39 933
Post-employment benefits	7 573	3 010	10 583	13 037	(5 464)	7 573
Other	75 174	565	75 739	83 111	(7 937)	75 174
Total net deferred tax asset	122 680	1 123	123 803	135 611	(12 931)	122 680
Net deferred tax assets	(18 090)	23 975	5 885	19 706	(37 795)	(18 090)
Deferred tax liabilities						
Property and equipment	(5)	5		(17)	12	(5)
Other	513	(513)			513	513
Total net deferred tax liabilities	508	(508)		(17)	525	508
Net deferred tax liabilities	508	(508)		(17)	525	508
Net deferred tax	(17 582)	23 467	5 885	19 689	(37 270)	(17 582)
Charge through profit and loss		(25 298)			30 380	
Deferred tax on other comprehensive income		1 831			6 890	
		(23 467)			37 270	

Notes to the consolidated annual financial statements
for the year ended 30 June

20 Reinsurance assets

N$'000	2010	2009
Short term reinsurance contracts: unearned premiums	642	1 898
Life reinsurance contracts	49 438	285 046
Total reinsurance contracts	50 080	286 944

Information about the credit quality of the above balances is provided in the risk management note 40.

21 Non current assets held for sale

N$'000	2010	2009
Land and buildings		
Investment properties (reclassified in prior year)		4 070
Property and equipment (note 17) (reclassified in prior year)	753	753
Total non current assets held for sale	753	4 823

The group has publicly advertised the properties for sale since last year. The properties for sale consists of surplus office buildings. Negotiations are in progress for the sale of the property in Tsumeb. The sale of the Walvis Bay property included in the opening balance was concluded during the year. No impairment loss was recognised on the reclassification of the properties held for sale. The properties were part of the banking operations segment.

22 Deposits

22.1 Deposits and current accounts

N$'000	2010 At amortised cost	2009 At amortised cost
From customers	9 908 575	9 134 767
- Current accounts	7 346 552	6 414 424
- Savings accounts	318 915	416 453
- Term deposits	2 243 108	2 303 890
Other deposits		
- Negotiable certificates of deposit	2 137 294	1 465 913
Total deposits and current accounts	12 045 869	10 600 680

The fair values of deposits and current accounts are disclosed in note 36.

Geographical split: Namibia	12 045 869	10 600 680

Notes to the consolidated annual financial statements
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22 Deposits (continued)

22.2 Due to banks and other financial institutions

N$'000	2010 At amortised cost	2009 At amortised cost
To banks and financial institutions		
- In the normal course of business	54 346	22 731
Fair value of balance disclosed	54 346	22 731
Geographical split: Namibia	54 346	22 731

23 Creditors and accruals

N$'000	2010	2009
Accounts payable and accrued liabilities	211 349	255 767
Items in transit	43 932	11 881
Preference dividends payable	42	2 670
Short term portion of long term liabilities (note 26)	6 127	6 127
Post retirement benefit liability lump sums due (note 25.1)		20 183
Creditors and accruals	261 450	296 628

The carrying value approximates the fair value.

24 Provision for unintimated claims

N$'000	2010	2009
Opening balance	2 740	1 826
Charge to the statement of comprehensive income (note 5)	1 136	914
Closing balance	3 876	2 740

This provision is raised for possible claim incidents incurred before year-end but only reported there-after, related to the short term insurance industry.

Notes to the consolidated annual financial statements
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25 Employee benefits

25.1 Post-employment benefit liabilities

- The group has a liability to subsidise the post retirement medical expenditure of certain of its employees which constitutes a defined benefit plan. All employees who join the employ of the group on or after 1 December 1998 are not entitled to the post retirement medical aid subsidy.

  The actuarial method used to value the liabilities is the project unit credit method prescribed by IAS 19 Employee Benefits. The liability is measured as the present value of the employers' share of continuation member contributions to the medical scheme. Continuing member contributions are projected into the future year using the assumption rate of health care cost inflation and are then discounted back using the discount rate. The group subsidises medical aid contributions for all eligible members at various rates.

  Salary cost increases are expected to be in line with the inflation rate, whereas medical cost increases are expected to be 1.75% higher than the inflation rate.

- A severance pay provision was created in the current year in accordance with a recently issued recognition and measurement guidance on the severance payments to employees. This is in terms of the (new) Labour Act of 2007 and relates to when employment services are terminated by dismissal under certain circumstances or if they die while employed.

  The severance pay liability is unfunded and is valued using the project unit credit method prescribed by IAS 19 Employee Benefits.

  The actuarial valuations are done on an annual basis.

	2010			2009
N$'000	Medical	Severance pay	Total	Medical
Present value of unfunded liabilities	28 455	3 156	31 611	21 239
Unrecognised actuarial (losses) / gains	(309)		(309)	432
Post-employment benefit liabilities	28 146	3 156	31 302	21 671
The amounts recognised in the statement of comprehensive income are as follows:				
Current service cost	4 322	214	4 536	1 257
Past service cost		2 906	2 906	
Interest cost	2 389	296	2 685	3 885
Net actuarial gains recognised	759	(260)	499	264
Total included in staff costs (note 6)	7 470	3 156	10 626	5 406
Movement in post-employment liabilities				
Present value at the beginning of the year	21 671		21 671	37 539
Amounts recognised in the profit and loss as above	7 470	3 156	10 626	5 406
Lump sum benefits paid (note 23)				(20 183)
Benefits paid	(995)		(995)	(1 091)
Present value at the end of the year	28 146	3 156	31 302	21 671
Expected amounts to be recognised in the statement of comprehensive income in following financial year	1 866	517	2 383	1 681
The principal actuarial assumptions used for accounting purposes were:				
Discount rate (%)	9.04%	8.94%		11.25%
Expected rates of salary increases (%)	10.25%	7.44%		10.25%
Long term increase in medical subsidies (%)	8.02%			10.25%
The effects of a 1% movement in the assumed costs were as follows				
Increase of 1%	Health costs	Salary cost		Health costs
Effect on the aggregate of the current service cost and interest cost	388	84		491
Effect on the defined benefit obligation	3 942	318		3 396
Decrease of 1%				
Effect on the aggregate of the current service cost and interest cost	313	72		380
Effect on the defined benefit obligation	3 193	279		2 691

Notes to the consolidated annual financial statements
for the year ended 30 June

25 Employee benefits (continued)

25.1 Post-employment benefit liabilities (continued)

N$'000	2010 Medical	2010 Severance pay	2009 Medical
Mortality rate The average life expectancy in years of a pensioner retiring at age 60 on the reporting date is as follows:			
Male	20	20	18
Female	19	19	21
Employees covered	131	1 791	112

Five year analysis on post retirement medical plans (projected)

	N$'000
As at 30 June 2011	30 209
As at 30 June 2012	32 075
As at 30 June 2013	34 087
As at 30 June 2014	36 278
As at 30 June 2015	38 684

25.2 Defined contribution pension fund

N$'000	2010	2009
Employer contribution to pension fund	31 106	22 202
Employer contribution to pension fund - executive director	256	143
Total employer contributions to pension fund (note 6)	31 362	22 345
Employees contribution to pension fund	12 338	15 137
Total contributions	43 700	37 482
Number of employees covered	1 785	1 650

The group provides for retirement benefits by making payments to a pension fund, which is independent of the group and was registered in Namibia in 1995 in accordance with the requirements of the Pension Funds' Act. The fund is a defined contribution fund and is subject to the Pension Funds' Act (No 24 of 1956). The fund is valued every three years. The last valuation was performed for the year ended 30 June 2009 and indicated that the fund was in a sound financial position.

During the year, the group recognised the pension fund surplus attributable to the employer as approved by the Registrar of Pension Fund, amounting to N$35 million. The surplus was utilised to fund the employer contributions to the pension fund.

The pension fund is a related party to the group.

Notes to the consolidated annual financial statements
for the year ended 30 June

26 Long term liabilities

N$'000	2010	2009
FNB 17 fixed rate notes	260 000	260 000
Accrued interest	5 957	5 997
	265 957	265 997
Fair value adjustment (financial liability elected fair value)	3 675	1 368
Fair value	269 632	267 365
Less: Portion payable within 12 months transferred to current liabilities (note 23)	(6 127)	(6 127)
	263 505	261 238
Fair value adjustment for the year	(2 307)	(25 748)

On 29 March 2007, First National Bank of Namibia Limited issued N$260 million subordinated, unsecured callable notes, with a maturity date of 29 March 2017. The notes are callable by First National Bank of Namibia Limited on 29 March 2012. The coupon rate is fixed at 9.15% per annum, payable semi annually on 29 March and 29 September, until the optional redemption date 29 March 2012. Should the notes not be redeemed, then interest is payable thereafter at the floating rate of Namibian 3 months Treasury Bill rate + 1.5%.

These notes are listed on the Namibian Stock Exchange. The fair value is calculated based on quoted market prices.

An accounting mismatch would arise if the debt securities in issue were accounted for at amortised cost, because the related derivative, an interest rate swap, is measured at fair value with movements in the fair value taken through the statement of comprehensive income. By designating the long term debt at fair value, the movement in the fair value of the long term debt will be recorded in the statement of comprehensive income.

The fair value movement of the bond attributable to changes in credit risk is N$ Nil (2009: N$ Nil) for the group. The change in fair value of the designated financial liability attributable to changes in credit risk has been calculated by reference to the change in credit risk implicit in the market value of the bond.

The amount that would contractually be paid at maturity for financial liabilities designated at fair value through profit and loss for the group is N$260 million (2009: N$260 million), N$ 3.7 million (2009: N$1.4 million) lower than the carrying amount.

Refer to note 36, fair value of financial instruments for the methodologies used to determine the fair value of long term liabilities.

Notes to the consolidated annual financial statements
for the year ended 30 June

27 Policyholder liabilities under insurance contracts

N$'000	2010	2009
Balance at the beginning of the year	927 304	1 103 914
- Increase/ (decrease) in retrospective liabilities	38 040	(72 720)
- Unwind of discount rate	23 802	8 463
- New business	35 400	12 861
- Change in economic assumptions	(5 913)	6 545
- Expected cash flows	(56 113)	(37 055)
- Expected release of margins	(61 850)	(46 709)
- Expected variances	50	(4 573)
Premiums received on insurance contracts	182 710	142 784
Policyholder benefits on insurance contracts	(107 961)	(90 362)
Fair value adjustments on insurance contracts	27 915	(64 674)
Reinsurance (net)	(1 376)	(103 890)
Balance at the end of the year	963 968	927 304
Insurance contracts with discretionary participation features	488 470	396 311
Insurance contracts without discretionary participation features	426 060	245 947
Net policyholder liabilities under insurance contracts	914 530	642 258
Actuarial liabilities under unmatured policies comprise the following:		
Linked (market related) business - Individual life	116 145	91 843
Smoothed bonus business - Individual life	398 735	371 867
Annuities business	310 026	109 826
Life business		
- Individual life	89 624	68 722
	914 530	642 258

The amounts above are based on the actuarial valuations of Momentum Life Assurance Namibia Limited at 30 June 2010. Below are the main assumptions that were used in determining the liabilities in respect of insurance contracts as at 30 June 2010.

Best estimate valuation assumptions

Economic assumptions

Risk-free return

The ten-year zero-coupon risk-free yield, derived from S.A. government bonds, is used as the starting point to determine the gross valuation interest rate for Namibian Dollar (NAD) denominated business.

	2010	2009
ZAR ten-year zero-coupon risk-free yield	8.94%	8.93%

Valuation interest rate

The gross valuation interest rate of 10.5% (2009: 10.5%) per annum for NAD denominated business was calculated as a weighted investment return, representing the investment returns on a theoretical, balanced notional portfolio consisting of equities and bonds.

	2010	2009
Notional portfolio used as at 30 June:		
- Equities	60%	60%
- Government bonds	40%	40%
Assumed performance of other asset classes relative to government bonds:		
- Equities (including overseas equities)	+3.5% p.a	+3.5% p.a

Rounding to the nearest 0,25% was performed.

Inflation

An expense inflation rate of 6.56% (2009: 6.8%) per annum for NAD denominated business was used to project future renewal expenses. The NAD inflation rate was derived by deducting the 10-year real return on CPI-linked R197 government bonds of 2.98% (2009: 2.95%) from the risk-free rate.

Notes to the consolidated annual financial statements
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27 Policyholder liabilities under insurance contracts (continued)

Tax
To provide for tax, the gross valuation interest rate expected to be earned in future was reduced appropriately for taxable business and retirement annuity business. These reductions in the investment return represent the expected tax payable on the assumed investment return on the notional policyholders' portfolio.

Mortality, morbidity and terminations
Demographic assumptions, such as those in respect of future mortality, disability and persistency rates are set based by calibrating standard tables to internal experience investigations. The investigations are performed and assumptions set for individual product lines, but ensuring that assumptions are consistent where experience is not expected to deviate between product lines.

Assumptions in respect of mortality, morbidity and terminations were based on experience investigations performed in July 2010. The investigations covered a period of five years, from 2004 to 2009. The experience on policies and annuities were analysed.

Mortality and disability rates are adjusted to allow for expected deterioration in mortality rates as a result of Aids and for expected improvements in mortality rates in the case of annuity business. Allowance for AIDS was made according to professional guidance notes PGN 102 (Mar 1995): Life Offices - HIV/AIDS and PGN 105 (Mar 2007): Recommended AIDS extra mortality bases, issued by the Actuarial Society of South Africa.

Expenses
The sustainable annual renewal expense per policy was based on an analysis of budgeted expenses for the year ending 30 June 2010. The allocation distinguished between renewal and acquisition costs.

Expenses expected to be once-off in nature or not relating to long-term insurance business were removed from the actual expenses.

Asset management expenses were expressed as an annual percentage of assets under management.

Policyholder bonuses
Future additions of discretionary bonuses to smoothed bonus (universal life) policies have been projected at levels that are consistent with and supported by the assumed rate of investment return, after allowing for contractual expense charges and tax.

On conventional policies, it is assumed that current bonus rates (both reversionary and terminal bonus rates) will be maintained in future.

Notes to the consolidated annual financial statements
for the year ended 30 June

27 Policyholder liabilities under insurance contracts (continued)

N$'000

Compulsory margins
The compulsory margins to best-estimate assumptions are detailed in actuarial professional guidance note PGN104 and are intended to provide a minimum level of financial resilience in the liabilities to ensure that profits are not recognised prematurely. The following prescribed margins were applied to the best estimate assumptions applicable to individual life business:

Assumption	Margin
- Mortality	7.5% - increase to assumption for assurance
- Morbidity	10% - increase to best-estimate assumption
- Medical	15% - increase to best-estimate assumption
- Lapses	25% (e.g. if best estimate is 10%, the margin is 2.5%) - increase or decrease, depending on which alternative increases liabilities
- Surrenders	10% - increase or decrease, depending on which alternative increases liabilities
- Terminations for disability	10% - decrease to best-estimate assumption
- Income benefits in payment	10% - decrease to best-estimate assumption
- Expenses	10% - increase to best-estimate assumption
- Expense inflation	10% (of estimated escalation rate) - increase to best-estimate assumption
- Charge against investment return	- 25 basis points reduction in the management fee or an equivalent asset-based or investment performance-based margin; - 25 basis points reduction in the assumed rate of future investment return on contracts that do not have an asset-based or investment performance-based fee

Discretionary margins
As described in the accounting policies, discretionary margins are used to prevent the premature capitalisation of profit. The specific discretionary margins that are added to the best-estimate assumptions are as follows:

An additional HIV/AIDS reserve equal to 15% of mortality reserves are held to protect against an unanticipated worsening of mortality experience due HIV/AIDS experience.

An additional data reserve equal to 15% of the value of the investment units held by policyholders are held to protect against possible losses due to data discrepancies.

An investment stabilisation reserve is held for protection against negative movements in the market. Its level remained unchanged over the valuation period.

Notes to the consolidated annual financial statements
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28 Policyholder liabilities under investment contracts

N$'000	2010	2009
Balance at the beginning of the year	36 066	38 302
Fair value adjustment to policyholder liabilities under investment contracts	(2 525)	(11 438)
Deposits received on investment contracts	17 655	11 000
Withdrawals on investment contracts	(3 547)	(1 615)
Fees on investment contracts	(3 818)	(183)
Balance at the end of the year	43 831	36 066
Investment contracts with discretionary participation features	43 831	36 066
Total policyholder liabilities under investment contracts	43 831	36 066

	2010		
	Total	Shorter than 1 year	Between 1 and 5 years
Linked (market related) business			
- Individual life	27 658	2 957	24 701
Smoothed bonus business			
- Individual life	16 173	3 928	12 245
Total policyholder liabilities under investment contracts	43 831	6 885	36 946

	2009		
	Total	Shorter than 1 year	Between 1 and 5 years
Linked (market related) business			
- Individual life	20 726	2 554	18 172
Smoothed bonus business			
- Individual life	15 340	3 740	11 600
Total policyholder liabilities under investment contracts	36 066	6 294	29 772

Notes to the consolidated annual financial statements
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29 Share capital and share premium

N$'000	2010	2009
Authorised		
990 000 000 (2009: 990 000 000) ordinary shares with a par value of 0.5 cents per share	4 950	4 950
10 000 000 (2009: 10 000 000) cumulative convertible redeemable preference shares with a par value of 0.5 cents per share	50	50
	5 000	5 000
Issued		
267 593 250 (2009: 267 593 250) ordinary shares with a par value of 0.5 cents per share	1 338	1 338
2 (2009: 2) cumulative convertible redeemable preference shares with a par value of 0.5 cents per share		
Elimination		
-shares held by FNB Namibia share trusts	(47)	(47)
	1 291	1 291
Term of preference shares: redeemable at 31 days notice by either party. The dividend rights in terms of the agreement with the shareholder are based on the actual profits made, per agreed adjustments, of a portion of the short-term insurance business.		
Share premium	191 695	195 066

A detailed reconciliation of the movements in the share capital and premium balances is set out in the statement of changes in equity. The unissued ordinary and preference shares are under the control of the directors until the next annual general meeting.

All issued shares are fully paid up.

30 Other reserves

N$'000	2010	2009
OUTsurance Insurance Company of Namibia Ltd - Contingency reserve	4 057	2 446
	4 057	2 446

A detailed reconciliation of the movements in the respective reserve balances is set out in the statement of changes in equity.

Notes to the consolidated annual financial statements
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31 Remuneration schemes

	2010	2009
The statement of comprehensive income charge for share-based payments is as follows:		
FNB Share Incentive Trust	2 083	1 641
BEE Staff Incentive Scheme	65	159
Total of share trusts	2 148	1 800
Employees with FirstRand share options and share appreciation rights	1 293	237
Charge against staff costs (note 6)	3 441	2 037
BEE consortium share option cost (note 6)	1 199	1 220
Charge to statement of comprehensive income	4 640	3 257

Share option schemes
FNB Namibia Holdings Ltd options are equity settled, except for the FirstRand Limited share appreciation scheme which is cash settled. The following is a summary of the share incentive schemes:

FNB and FirstRand Share Incentive Scheme
The purpose of this scheme is to provide a facility to employees of the FNB Namibia Holdings Group to acquire shares in FNB Namibia Holdings Limited. The primary purpose of this scheme is to appropriately attract, incentivise and retain employees within the FNB Namibia Holdings Group. For options allocated, delivery may only be taken by the participant 3, 4 and 5 years after the option is exercised at a rate of 33.3% per annum.

The group does not have an exposure to market movement on its own shares as all options are hedged through a share incentive trust that houses the shares until the options are exercised or expires.

BEE Share Incentive Scheme
The group is firmly committed to the process of achieving transformation in Namibia. The group specifically wishes to ensure that the long-term benefits of the BEE transaction reach the widest possible community of black Namibians.

FirstRand Bank Holdings Ltd made available 13 379 663 shares, representing 5% of its investment in FNB Namibia Holdings Ltd at the time, to a BEE transaction. Of this total number, 4% was allocated to BEE partners and 1% was allocated to black employees and black non-executive directors. The 1% allocation to staff includes a number of shares to be put separately into a trust of which the dividend income is to support educational needs of such staff members and their family members. The rest of the 1% allocation is used, through a trust, to allocate options to staff members. Funding is at 80% of prime and 100% of dividends received are used to service funding costs. The funding is repayable in 10 years.

Vesting conditions as follows:
Black staff and black non-executive directors:
- 50% after year 3 and 25% per year in years 4 and 5 respectively.

BEE Partners:
- Upon meeting certain performance criteria, share options will vest 1/5th every year over a minimum period of 5 years. The third tranche vested and was exercised during the prior year.

Valuation methodology
Share incentive scheme
Fair values for the share incentive schemes, are calculated at the date of grant using a modification of the Cox-Rubenstein binomial model. For valuation purposes, each call option granted has been valued as a Bermudan call option with a number of exercise dates.

The days on which the options can be exercised has been assumed to be the last day that the share trade cum-dividend.

Market data consists of the following:
- Volatility is the expected volatility over the period of the option. In the absence of other available date, historical volatility can be used as a proxy for expected volatility.

- The interest rate is the risk-free rate of return, recorded on the date of the option grant, on a South African government zero coupon bond of a term equal to the expected life of the option.

Dividend data of the following:
- The last dividend paid is the N$ amount of the last dividend before the options were granted;
- The last dividend date is the ex-date of the last dividend; and
- The annual expected dividend growth, which is based on publicly available information.

Notes to the consolidated annual financial statements
for the year ended 30 June

31 Remuneration schemes (continued)

Employee statistic assumptions:
- Annual employee turnover is the average annual rate that employees participating in the option scheme are expected to leave before the options have vested.

  The number of iterations is the number to be used in the binomial model, which is limited to 500.

  The weighted average number of forfeitures is based on the major grants because these grants have a more reliable cancellation or forfeiture pattern.

The significant weighted average assumptions used to estimate the fair value of options granted and the IFRS 2 expenses for the year under review are:

	FNB Share Incentive Trust		BEE Staff Incentive Scheme	
	2010	2009	2010	2009
Weighted average share price (N$)	517 - 1180	400 - 1155	700	700
Expected volatility (%)	4 - 17	4 - 17	7	7
Expected option life (years)	5	5	5	5
Expected risk free rate (%)	7.05 - 9.47	8.89 - 14.46	9	9

	FNB Share Incentive Trust		BEE Staff Incentive Scheme	
	2010	2009	2010	2009
Share option schemes				
Number of options in force at the beginning of the year ('000)	7 726	4 541	566	1 239
Granted at prices ranging between (cents)	517 - 1155	517 - 823		517
Number of options granted during the year ('000)	2 829	3 751		
Granted at prices ranging between (cents)	1180	1155		
Number of options exercised/released during the year ('000)	(586)	(447)	(407)	(554)
Market value range at the date of exercise/release (cents)	1180	1180	1180	1180
Number of options cancelled/lapse during the year ('000)	(172)	(119)		(119)
Granted at prices ranging between (cents)	517 - 1180	517 - 1155		
Number of options in force at the end of the year ('000)	9 797	7 726	159	566
Granted at prices ranging between (cents)	517 - 1180	517 - 1155	517	517
Options are execercisable over the following periods: (first date able to release)				
Financial year 2010		967		566
Financial year 2011	1 533	1 166	159	
Financial year 2012	2 351	2 413		
Financial year 2013	2 815	1 934		
Financial year 2014	2 155	1 246		
Financial year 2015	943			
Total	9 797	7 726	159	566

Notes to the consolidated annual financial statements
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32 Cash flow information

N$'000	2010	2009
32.1 Reconciliation of operating profit before tax to cash flow from operating activities		
Profit before tax	666 744	551 348
Adjusted for:		
- Share of earnings of associate companies after impairment losses	(5 189)	(1 872)
- Amortisation of intangibles	36 092	12 240
- Depreciation of property and equipment	22 527	15 121
- Transfer from revaluation reserve: available-for-sale financial asset	(42)	(1 842)
- Unrealised profits on revaluation of investments	(57 044)	94 085
- Transfer of work in progress to repairs and maintenance	5 502	4 982
- Share-based payment expenses	4 640	3 257
- Impairment losses of advances	12 960	38 412
- Provision for post-employment benefit obligations	9 631	4 571
- Other employment accruals	1 042	7 842
- Creation and revaluation of derivative financial instruments	15 757	(39 243)
- Policyholders fund and insurance fund transfers	37 707	(83 006)
- Fair value adjustment to financial liabilities	2 307	25 748
- Non cash flow movements in interest accrual on financial liabilities	40	13
- Unwinding of discounted present value on non-performing loan	(9 992)	(21 140)
- Unwinding of discounted present value on off-market loans	(5 967)	(6 594)
- Net release of deferred fee and expenses	(7 430)	(6 842)
- Off-market staff loans amortisation	5 967	6 594
- Profit on sale of property and equipment	(1 296)	(84)
- Indirect tax	19 600	12 503
Cash flows from operating activities	753 556	616 093
32.2 Tax paid		
Amounts payable at beginning of the year	(4 994)	16 266
Indirect tax	(19 600)	(12 503)
Current tax charge	(233 147)	(154 209)
Amounts payable at end of the year	32 001	4 994
Total tax paid	(225 740)	(145 452)
32.3 Capital expenses to maintain operations		
Purchase of property and equipment, settled in cash	(59 157)	(69 138)

Notes to the consolidated annual financial statements
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32 Cash flow information (continued)

N$'000	2010	2009
32.4 Net reduction / (increase) in investment in associates		
FNB Insurance Brokers (Namibia) (Pty) Ltd ("FNBIBN")		
The group made an additional contribution to maintain its 40% interest in FNBIBN, during the current year.	(2 274)	
During the previous year, the group acquired a 40% interest in FNBIBN.		(15 428)
Namclear (Pty) Ltd		
Namclear (Pty) Ltd reduced its share premium during the year, and paid out to all its shareholders. The group's shareholding remained 25%.	3 000	
Net cash received / (paid) from investment in associates	726	(15 428)
32.5 Sale of shares in subsidiary		
Momentum Life Assurance Namibia Limited		
The group sold an additional 14% interest in Momentum Life Assurance Namibia Limited to Momentum Group Limited on 30 September 2009. The group's shareholding is now 51%.	76 339	
32.6 Dividends paid		
Dividends approved and recognised in the group statement of changes in equity.	(152 502)	(181 558)

Notes to the consolidated annual financial statements
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33 Contingent liabilities and capital commitments

N$'000	2010	2009
Contingencies		
Guarantees *	654 104	647 729
Letters of credit	33 959	67 379
Total contingencies	688 063	715 108
Irrevocable unutilised facilities	311 754	224 497
Total contingencies and commitments	999 817	939 605

* Guarantees consist predominantly of endorsements and performance guarantees.
The fair value of guarantees approximate the face value as disclosed.
Irrevocable facilities were restated for 2009 as the internal definition was refined to exclude facilities that the group can terminate by written notice.

Legal proceedings

There are a number of legal or potential claims against the group, the outcome of which cannot at present be foreseen. These claims are not regarded as material, either on an individual or group basis.

Provision is made for all liabilities which are expected to materialise.

Commitments:

Commitments in respect of capital expenditure and long-term investments approved by directors:

	2010	2009
- Contracted for	10 871	30 160
Made up of the following:		
- Capital commitments contracted for at the reporting date but not yet incurred are as follows:		
- Property and equipment	10 871	30 160

Funds to meet these commitments will be provided from group resources.

Group leasing arrangements:

	2010		2009	
	Next year	2nd to 5th year	Next year	2nd to 5th year
Office premises	13 262	18 838	8 696	13 484
Equipment	60	8	1 086	164
	13 322	18 846	9 782	13 648

Notice periods on operating lease contracts are between 3-6 months, no operating lease contract is fixed and escalation clauses range between 7% and 10% (2009: 7% and 10%).

The group has various operating lease agreements, which may or may not contain renewal options. The lease terms do not contain restrictions on the group's activities concerning dividends, additional funding or further leasing.

There were no commitments under operating leases after 5 years.

Notes to the consolidated annual financial statements
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34 Collateral pledged and assets held

N$'000	2010	2009
The group has pledged assets as security for the following liabilities:		
Due to banks and other financial institutions		
- Repo facility at Bank of Namibia		1 598
Total		1 598

The group pledges assets under the following terms and conditions:

Mandatory reserve deposits are also held with the Central Bank in accordance with statutory requirements. These deposits are not available to finance the banking group's day-to-day operations.

Collateral in the form of other investment securities is pledged when the banking group utilises the Bank of Namibia credit facility. These transactions are conducted under the terms and conditions that are usual and customary to standard credit facilities with central banks.

N$'000	2010	2009
Assets pledged to secure the above liabilities are carried at and included under the following:		
Investment securities		
- Treasury bills		1 775
Total		1 775

Notes to the consolidated annual financial statements
for the year ended 30 June

35 Related parties

The group defines related parties as :
- The parent company
- Subsidiary companies
- Associate companies
- Key management personnel of the FNB Namibia Holdings Ltd and its subsidiaries board of directors and the group executive committee.
- *Key management personnel includes close family members of key management personnel. Close family members are those family members who may be expected to influence, or be influenced by that individual in dealings with the group. This may include the individual's spouse/domestic partner and children, domestic partner's children and dependants of individual or domestic partner.*

- Enterprises which are controlled by these individuals through their majority shareholding or their role as chairman and/or CEO in those companies.

FNB Namibia Holdings Limited is listed on the Namibian Stock Exchange and is 59.4% (2009: 59.8%) owned by FirstRand Bank Holdings Limited, with its ultimate holding company FirstRand Limited, which is incorporated in South Africa, listed on the JSE Limited and on the NSX.

35.1 Subsidiaries

Details of interest in subsidiaries are disclosed in note 35.6.

35.2 Associates

Details of investments in associate companies are disclosed in note 16.

35.3 Details of transactions with relevant related parties appear below:

	FirstRand Bank Ltd		FNB Insurance Brokers (Namibia) (Pty) Ltd		Namclear (Pty) Ltd	
N$'000	2010	2009	2010	2009	2010	2009
Loans and advances						
Balance 1 July	104 372	749 763				
Issued during year	711 845					
Repayments during year		(645 391)				
Balance 30 June	816 217	104 372				
Derivative instrument: assets	11 146	2 393				
Deposits						
Balance 1 July	(19 386)	(35 945)	(23 867)	(23 867)	(19 440)	(13 031)
Received during year	(33 110)		(9 082)			(6 409)
Repaid during year		16 559			8 285	
Balance 30 June	(52 496)	(19 386)	(32 949)	(23 867)	(11 155)	(19 440)
Derivative instrument: liabilities	(40 884)	(82 862)				
Interest received	74 425	39 222				
Interest paid			(1 223)	(764)	(441)	(737)
Dividends paid	(94 096)	(89 827)				

Notes to the consolidated annual financial statements
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35 Related parties (continued)

35.3 Details of transactions with relevant related parties appear below (continued):

	Total		FirstRand Bank Ltd		Momentum Group Ltd		FNB Insurance Brokers (Namibia) (Pty) Ltd		Namclear (Pty) Ltd	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Non interest income										
Commission	2 510	3 752	2 385	3 340			125	412		
FNB Card reward		5 787		5 787						
Rental income	670	603							670	603
	3 180	10 142	2 385	9 127			125	412	670	603
Non interest expenditure										
Reinsurance premium	17 339	16 628			17 339	16 628				
Computer and processing related costs	60 491	47 792	60 491	47 792						
Internal audit and compliance	1 273	899	1 273	899						
Insurance	4 695	2 095	4 695	2 095						
ATM processing costs	1 996	671	1 996	671						
Payroll processing	1 382	1 005	1 382	1 005						
Management fees	5 981	4 451	4 295	3 681	1 686	770				
Administration fee: OUTsurance SA	9 566	9 103	9 566	9 103						
Other sundry	3 985	4 549	3 985	4 549						
Clearing cost	5 939	5 909							5 939	5 909
	112 647	93 102	87 683	69 795	19 025	17 398			5 939	5 909

Notes to the consolidated annual financial statements
for the year ended 30 June

35 Related parties (continued)

35.4 Transactions with key management personnel:

N$'000	2010	2009
Advances		
Balance 1 July	45 524	35 933
Issued during year	9 793	26 677
Repayments during year	(16 760)	(21 603)
Interest earned	3 840	4 517
Balance 30 June	42 397	45 524
No impairment has been recognised for loans granted to key management (2009: nil). Mortgage loans are repayable monthly over 20 years.		
Current and credit card accounts		
Credit balance 1 July	(8 689)	(3 534)
Net deposits and withdrawals	(4 077)	(6 823)
Net service fees and bank charges	1 418	1 827
Interest income	449	397
Interest expense	(385)	(556)
Balance 30 June	(11 284)	(8 689)
Instalment finance		
Balance 1 July	3 600	2 508
Issued during year	3 377	1 393
Repayments during year	(3 879)	(415)
Interest earned	578	114
Balance 30 June	3 676	3 600
Life and disability insurance		
Aggregate insured cover	6 352	5 475
Premiums received	64	50
Investment products		
Opening balance	3 055	376
Deposits	18 601	2 718
Net investment return	2 816	33
Commission and other transaction fees	(2)	(72)
Fund closing balance	24 470	3 055
Shares and share options held		
Directors holding in shares is disclosed in note 6.		
Aggregate details		
Share options held	2 856	2 704
Key management compensation		
Salaries and other short-term benefits	16 899	19 598
Contribution to defined contribution schemes	2 165	1 533
Share-based payments	1 038	1 162
Total compensation	20 102	22 293

A listing of the board of directors of the group is detailed on page 4 of the annual report.

35.5 Post-employment benefit plans

Refer to note 25.1 on detailed disclosure of the movement on the post-employment benefit liability. The pension fund is a related party to the group, refer note 25.2.

Notes to the consolidated annual financial statements

for the year ended 30 June

35 Related parties (continued)

35.6 Details of subsidiaries

Significant subsidiaries	Nature of business	Date of acquisition	Country of incorporation	Number of shares	Effective holding % 2010	Effective holding % 2009
All subsidiaries are unlisted. The year end of all the subsidiaries is 30 June.						
Banking operations:						
First National Bank of Namibia Ltd	Commercial bank	1 June 2003	Namibia	1 200 of N$1 each	100	100
Swabou Investments (Pty) Ltd	Home loan investment company	1 July 2003	Namibia	2 of N$0.05 each	100	100
Insurance operations:						
Momentum Life Assurance Namibia Ltd**	Life assurance company	1 July 2003	Namibia	10 000 000 of N$1 each	51	65
OUTsurance Insurance Company of Namibia Ltd	Short-term insurance	1 July 2003	Namibia	4 000 000 of N$1 each	51	51
Other:						
First National Asset Management & Trust Company of Namibia (Pty) Ltd	Estate and trust services	1 October 1996	Namibia	200 of N$1 each	100	100
FNB Namibia Unit Trusts Ltd	Unit trusts company	1 January 2006	Namibia	4 000 000 of N$1 each	100	100
Talas Properties (Windhoek) (Pty) Ltd	Property company	31 March 1988	Namibia	100 of N$1 each	100	100

N$'000	Aggregate income of subsidiaries (before tax) 2010	Aggregate income of subsidiaries (before tax) 2009	Total investment (Total Indebtedness) 2010	Total investment (Total Indebtedness) 2009
First National Bank of Namibia Ltd	507 442	432 697	1 142 792	1 142 792
Swabou Investments (Pty) Ltd	63 769	67 841		
Momentum Life Assurance Namibia Ltd**	61 707	40 701	79 276	101 038
OUTsurance Insurance Company of Namibia Ltd	11 571	2 127	6 298	6 298
First National Asset Management and Trust Company of Namibia (Pty) Ltd	1 671	900		
FNB Namibia Unit Trusts Ltd	3 522	2 082	5 475	5 475
Talas Properties (Windhoek) (Pty) Ltd	13 799	23 559	2 967	2 967
	663 481	569 907	1 236 808	1 258 570

** Swabou Life Assurance Company Ltd changed its name to Momentum Life Assurance Namibia Limited during the year under review.

Notes to the consolidated annual financial statements
for the year ended 30 June

36 Fair value of financial instruments

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a market transaction between knowledgeable, willing parties. When determining fair value it is presumed that the entity is a going concern and is therefore not an amount that represents a forced transaction, involuntary liquidation or a distressed sale.

When determining the fair value of a financial instrument, preference is given to prices quoted in an active market. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

If a particular instrument is not traded in an active market the group uses a valuation technique to determine the fair value of the financial instrument. The valuation techniques employed by the group include, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option-pricing models, and discounted cash flow techniques.

The objective of using a valuation technique is to determine what the transaction price would have been at the measurement date. Therefore maximum use is made of inputs that are observable in the market and entity-specific inputs are only used when there is no market information available. All valuation techniques take into account the relevant factors that other market participants would have considered in setting a price for the financial instrument and are consistent with accepted methodologies for pricing financial instruments.

The group classifies instruments measured at fair value using a fair value hierarchy that reflects the significance of the inputs used. The group's fair value hierarchy has the following levels:

Level 1 - Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 - Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 - Fair value is determined using a valuation technique and inputs that are not based on observable market data (i.e. unobservable inputs).

The specific valuation methodologies/techniques, per significant instrument type, can be summarised as follows:
Investments securities

Unlisted equities
The fair value of unlisted equities is determined using a price earnings (P/E) model.

The earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued and the relevance and reliability of the available information.

The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions which have taken place.

Negotiable certificates of deposit
Where market prices are not available for a specific instrument fair value is determined using discounted cash flow techniques. Inputs to these models include as far as possible information which is consistent with similar market quoted instruments.

Treasury Bills
Treasury bills are valued by means of the Bond Exchange of South Africa ("BESA") bond pricing model using Namibian money market dealers closing mark to market bond yield.

Government, public and utility stocks
Where market prices are not available the fair value is estimated using quoted market prices of securities with similar credit, maturity and yield characteristics.

Other dated securities
Fair value of other dated securities is determined by using a discounted cash flow model. The discount curve is derived from similar market quoted instruments.

Notes to the consolidated annual financial statements
for the year ended 30 June

36 Fair value of financial instruments (continued)

Derivatives
Contracts for difference are valued by using the differential between the market price and the traded price multiplied by the notional amount.

Market prices are obtained from applicable trading exchanges.

Option contracts are valued using the Black-Scholes model. Inputs are obtained from market observable data. Where prices are obtainable from trading exchanges the value per the exchange is used.

Forward contracts are valued by discounting the projected cash flows to obtain the present value of the forward contract. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.

Forward rate agreements are valued by means of the discounted cash flow model. The discount rate is determined using a yield curve of similar market traded instruments. The reset rate is determined in terms of the legal agreement.

Swaps are valued by discounting the expected cash flows using discount and forward rates determined from similar market traded instruments. The reset rate of each swaplet is determined in terms of legal documents pertaining to the swap.

Deposits and current accounts
Fair value of deposits and current accounts is determined by discounting future cash flows using a swap curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account as these are considered to have an immaterial impact on the economic value of the instruments.

Call deposits are valued at the undiscounted amount of the cash balance, this is considered appropriate because of the short term nature of these instruments.

Fair valuation will only be applied to deposits having a maturity profile of longer than 30 days. For all non term products it is assumed that fair value will equal the amortised cost.

Loans and advances to customers
The fair value of advances is the present value of the expected future cash flows determined using an appropriate discount rate adjusted for the credit spreads where necessary.

Projected cash flows, taking into account behaviour, loss given default and probability of default are grouped according to their maturity dates.

The discount rate for fixed interest rate instruments is adjusted by an appropriate risk premium while floating rate cash flows are discounted by means of a yield curve which represents the projected cash flows.

Long term liabilities
Fair value of debentures, unsecured debt securities and finance lease liabilities are determined by discounting the future cash flows at market related interest rates.

The fair value of subordinated notes and fixed and floating rate bonds are determined by discounting the future cash flows at market related interest rates.

Notes to the consolidated annual financial statements
for the year ended 30 June

36 Fair value of financial instruments (continued)

The following table presents the financial instruments recognised at fair value in the statement of financial position of the group.

N$'000	Level 1	Level 2	Level 3	2010 Total
Assets				
Available-for-sale financial assets				
Investment securities (note 14)	11 591	1 153 725		1 165 316
Financial assets designated at fair value through profit or loss				
Investment securities (note 14)	1 257	58 752		60 009
Financial assets held for trading				
Derivative financial instruments (note 11)		57 119		57 119
Investment securities (note 14)	540 762	498 256		1 039 018
Total financial assets	553 610	1 767 852		2 321 462
Liabilities				
Financial liabilities designated at fair value through profit or loss				
Long term liabilities (note 26)		263 505		263 505
Long term liabilities (current portion) (note 26)		6 127		6 127
Policyholder liabilities under investment contracts (note 28)		36 466	7 365	43 831
Financial liabilities held for trading				
Derivative financial instruments (note 11)		58 019		58 019
Total financial liabilities		364 117	7 365	371 482

During the reporting period ending 30 June 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Notes to the consolidated annual financial statements
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36 Fair value of financial instruments (continued)

Changes in level 3 fair value instruments

The group classifies financial instruments in Level 3 of the fair value hierarchy when the significant inputs into the valuation model are not observable. In addition, the valuation model for Level 3 financial instruments typically also relies on a number of inputs that are readily observable, either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

N$'000	Fair value on June 2009	Gains or losses recognised in profit and loss	Purchases, Sales, Issues and Settlements	Fair value on June 2010
Liabilities				
Policyholder liabilities under investment contracts	4 384	2 981		7 365
Total financial liabilities classified at level 3	4 384	2 981		7 365

Changes in the group's best estimate of the non-observable inputs (Level 3) could affect the reported fair values recognised on the statement of financial position and the movement in fair values recognised in the statement of comprehensive income. However, changing these inputs to reasonably possible alternatives would change the fair value using more positive reasonable assumptions to N$5 342 and using more negative reasonable possible assumptions to N$9 463. These amounts are based on the assumptions without first tier margins and additional first tier margins respectively.

The table below presents the total gains (losses) relating to financial instrument classified in Level 3 that are still held on 30 June. With the exception of interest on funding instruments all of these gains or losses are recognised in non interest income.

N$'000	Gains or losses recognised in profit and loss	Gains or losses recognised in other comprehensive income	Total gains or loss
Liabilities			
Policyholder liabilities under investment contracts	2 981		2 981
Total financial liabilities classified at level 3	2 981		2 981

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position.

For all other instruments the carrying value is equal to or a reasonable approximation of the fair value.

	2010		2009	
N$'000	Carrying value	Fair value	Carrying value	Fair value
Assets				
Total advances at amortised cost (note 12)	11 226 660	11 380 538	10 486 434	10 488 409
Total investments at amortised cost (note 14)	535 316	536 321	336 742	337 149
Total financial assets at amortised cost	11 761 976	11 916 859	10 823 176	10 825 558
Liabilities				
Total deposits and current accounts at amortised cost (note 22)	12 045 869	11 289 748	10 600 680	10 590 368
Total financial liabilities at amortised cost	12 045 869	11 289 748	10 600 680	10 590 368

Notes to the consolidated annual financial statements
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37 Segment information

37.1 Reportable segments

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The table below sets out the group's various operating segments and the details of the various products and services provided by each of the reportable segments.

Primary segments (business)	Brands	Description	Product and services
Banking operations	First National Bank WesBank	Corporate and retail banking Motor vehicle and instalment finance	Comprehensive banking packages for individuals and corporate
Long term insurance	Momentum	Provides long term risk and investment products	Life insurance, investment products
Short term insurance	OUTsurance	Short term insurance	Short term insurance

In terms of IFRS 8 a customer is regarded as a major customer, if the revenue from transactions with this customer exceeds 10% or more of the entity's revenue. The group has no major customer as defined and is therefore not reliant on the revenue from one or more major customers.

The segmental analysis is based on the management accounts for the respective segments. The management accounts are prepared in terms of IFRS measurement and recognition principles.

In order to ensure that the total segment results, assets and liabilities agree to the amounts reported for the group in terms of IFRS, the operations that don't qualify as separate segments are reported in the other column. All consolidation adjustments have also been recorded in this column.

Geographical segments

The group operates within the borders of Namibia and no segment operations are outside Namibia.

Notes to the consolidated annual financial statements
for the year ended 30 June

37 Segment information (continued)

37.2 Reportable segments (continued)

Statement of comprehensive income for the year ended 30 June

N$'000	Group 2010	Group 2009
Net interest income	808 224	743 217
Net interest income - external	808 224	743 217
Net interest income - internal		
Impairment losses of advances	(12 960)	(38 412)
Net interest income after impairment of advances	795 264	704 805
Non interest income	644 414	433 434
Net insurance premium income	225 100	184 761
Net claims and benefits paid	(142 717)	(125 377)
Fair value adjustment to financial liabilities	(2 307)	(25 748)
(Increase) / decrease in value of policyholder liabilities: insurance contracts	(38 040)	72 720
Fair value adjustment of policyholder liabilities: investment contracts	2 525	11 438
Income from operations	1 484 239	1 256 033
Operating expenses	(803 084)	(694 054)
Net income from operations	681 155	561 979
Share of profit from associates	5 189	1 872
Income before tax	686 344	563 851
Indirect tax	(19 600)	(12 503)
Profit before tax	666 744	551 348
Direct tax	(207 849)	(184 589)
Profit for the year	458 895	366 759
Other comprehensive income		
Net gain on available-for-sale financial assets	7 672	16 307
Income tax effect on other comprehensive income	(1 831)	(6 890)
Other comprehensive income for the year	5 841	9 417
Total comprehensive income for the year	464 736	376 176
Attributable to:		
Non cumulative non redeemable preference shareholders		315
Ordinary shareholders	429 278	354 165
Equity holders of the parent	429 278	354 480
Non-controlling interests	29 617	12 279
Profit for the year	458 895	366 759
Attributable to:		
Non cumulative non redeemable preference shareholders		315
Ordinary shareholders	435 119	363 582
Equity holders of the parent	435 119	363 897
Non-controlling interests	29 617	12 279
Total comprehensive income for the year	464 736	376 176
Headline earnings (note 8)	428 395	352 912
Other information		
Depreciation and amortisation	(58 619)	(27 361)
Rental income		
Rental expense		
Capital expenditure	92 663	73 219

Notes to the consolidated annual financial statements
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Banking operations		Long term insurance		Short term insurance		Other	
2010	2009	2010	2009	2010	2009	2010	2009
760 043	695 124	50 592	51 116	1 963	2 037	(4 374)	(5 060)
778 195	710 552	30 029	32 665				
(18 152)	(15 428)	20 563	18 451	1 963	2 037	(4 374)	(5 060)
(12 960)	(38 412)						
747 083	656 712	50 592	51 116	1 963	2 037	(4 374)	(5 060)
553 564	490 746	70 104	(73 396)	5 290	5 628	15 456	10 456
		168 874	144 781	56 226	39 980		
		(104 415)	(96 168)	(38 302)	(29 209)		
(2 307)	(25 748)						
		(38 040)	72 720				
		2 525	11 438				
1 298 340	1 121 710	149 640	110 491	25 177	18 436	11 082	5 396
(725 501)	(626 603)	(84 381)	(68 504)	(13 606)	(15 607)	20 404	16 660
572 839	495 107	65 259	41 987	11 571	2 829	31 486	22 056
191	523					4 998	1 349
573 030	495 630	65 259	41 987	11 571	2 829	36 484	23 405
(15 591)	(10 847)	(3 552)	(1 285)			(457)	(371)
557 439	484 783	61 707	40 702	11 571	2 829	36 027	23 034
(187 287)	(167 631)	(5 939)	(7 782)	(3 448)	(1 242)	(11 175)	(7 934)
370 152	317 152	55 768	32 920	8 123	1 587	24 852	15 100
7 672	16 307						
(1 831)	(6 890)						
5 841	9 417						
375 993	326 569	55 768	32 920	8 123	1 587	24 852	15 100
					315		
370 152	317 152	30 131	21 398	4 143	515	24 852	15 100
370 152	317 152	30 131	21 398	4 143	830	24 852	15 100
		25 637	11 522	3 980	757		
370 152	317 152	55 768	32 920	8 123	1 587	24 852	15 100
					315		
375 993	326 569	30 131	21 398	4 143	515	24 852	15 100
375 993	326 569	30 131	21 398	4 143	830	24 852	15 100
		25 637	11 522	3 980	757		
375 993	326 569	55 768	32 920	8 123	1 587	24 852	15 100
370 125	315 954	30 131	21 398	4 143	515	23 996	15 045
(74 402)	(38 851)	(9 097)	(7 009)	(84)	(37)	24 964	17 670
879	836					7 838	6 715
(7 838)	(6 715)	(879)	(836)	(95)			
89 624	71 349	1 129	1 490		130	1 910	250

Notes to the consolidated annual financial statements
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37 Segment information (continued)

Statement of financial position
as at 30 June

	Group	
N$'000	2010	2009
Assets		
Cash and short term funds	455 215	356 674
Due from banks and other financial institutions	851 182	479 256
Derivative financial instruments	57 119	130 487
Advances	11 226 660	10 486 434
Investment securities	2 799 659	1 898 611
Accounts receivable	117 610	116 208
Investments in associates	22 594	21 464
Tax asset		517
Property and equipment	267 024	236 406
Intangible assets	56 360	58 946
Deferred tax asset	5 885	508
Policy loans on investments contracts	26 931	22 767
Reinsurance assets	50 080	286 944
Non current assets held for sale	753	4 823
Total assets	15 937 072	14 100 045
Equity and liabilities		
Liabilities		
Deposits and current accounts	12 045 869	10 600 680
Due to banks and other financial institutions	54 346	22 731
Derivative financial instruments	58 019	115 631
Creditors and accruals	261 450	296 628
Gross outstanding claims	7 695	11 377
Gross unearned premium	20 127	18 058
Provision for unintimated claims	3 876	2 740
Tax liability	32 001	5 511
Post-employment benefit liabilities	31 302	21 671
Deferred tax liability		18 090
Long term liabilities	263 505	261 238
Policyholder liabilities under insurance contracts	963 968	927 304
Policyholder liabilities under investment contracts	43 831	36 066
Total liabilities	13 785 989	12 337 725
Equity		
Capital and reserves attributable to equity holders		
Ordinary shares	1 291	1 291
Share premium	191 695	195 066
Reserves	1 758 631	1 444 138
Capital and reserves attributable to the group's ordinary equity holders	1 951 617	1 640 495
Non-controlling interest	199 466	121 825
Total equity	2 151 083	1 762 320
Total equity and liabilities	15 937 072	14 100 045

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Banking operations		Long term insurance		Short term insurance		Other	
2010	2009	2010	2009	2010	2009	2010	2009
402 129	316 936	18 704	13 670	34 382	26 067		1
851 182	479 216						40
57 119	130 487						
11 311 742	10 574 998					(85 082)	(88 564)
1 492 893	919 641	1 275 508	954 261	21 687	18 280	9 571	6 429
78 310	79 548	22 999	23 212	1 503	1 266	14 798	12 182
2 566	5 375					20 028	16 089
							517
239 499	211 475	2 366	1 952	88	172	25 071	22 807
240 512	265 797	25 049	27 803			(209 201)	(234 654)
				1 531	497	4 354	11
		26 931	22 767				
		49 438	285 046	642	1 898		
753	4 823						
14 676 705	12 988 296	1 420 995	1 328 711	59 833	48 180	(220 461)	(265 142)
12 068 023	10 600 680					(22 154)	
53 346	22 731					1 000	
58 019	115 631						
219 596	251 597	27 466	30 865	9 725	9 723	4 663	4 443
		1 448	5 866	6 247	5 511		
				20 127	18 058		
				3 876	2 740		
31 251	4 184	245	481	12	634	493	212
31 110	21 636	174	35			18	
35 974	66 771					(35 974)	(48 681)
263 505	261 238						
		963 968	927 304				
		43 831	36 066				
12 760 824	11 344 468	1 037 132	1 000 617	39 987	36 666	(51 954)	(44 026)
1	1	10 000	10 000	4 000	4 000	(12 710)	(12 710)
1 142 791	1 142 791	185 368	185 368			(1 136 464)	(1 133 093)
773 089	501 036	188 495	132 726	15 846	7 514	781 201	802 862
1 915 881	1 643 828	383 863	328 094	19 846	11 514	(367 973)	(342 941)
						199 466	121 825
1 915 881	1 643 828	383 863	328 094	19 846	11 514	(168 507)	(221 116)
14 676 705	12 988 296	1 420 995	1 328 711	59 833	48 180	(220 461)	(265 142)

Notes to the consolidated annual financial statements
for the year ended 30 June

38 Critical accounting estimates and judgements in applying accounting policies

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Credit impairment losses on loans and advances
The group assesses its credit portfolios for impairment at each end of reporting period. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

For purposes of these judgements the performing portfolio is split into two parts:

(i) The first part consists of the portion of the performing portfolio where there is objective evidence of the occurrence of an impairment event. In the Retail and WesBank portfolios the account status, namely arrears versus non arrears status, is taken as a primary indicator of an impairment event. In the Commercial portfolios other indicators such as the existence of "high risk" accounts, based on internally assigned risk ratings and management judgement, are used, while the Wholesale portfolio assessment includes a judgemental review of individual industries for objective signs of distress.

A portfolio specific impairment ("PSI") calculation to reflect the decrease in estimated future cash flows is performed for this sub segment of the performing portfolio. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable sub segments of the portfolio.

(ii) The second part consists of the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified. A so called incurred-but-not-reported ("IBNR") provision is calculated on this sub segment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non performing status and similar risk indicators over an estimated loss emergence period.

Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 - 12 months.

Non performing loans
Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay its obligations in full. WesBank's loans are impaired upon its classification status, i.e. following an event driven approach and specific assessment of the likelihood to repay. Commercial and Wholesale loans are analysed on a case by case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for Commercial and Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 13 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

Notes to the consolidated annual financial statements
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38 Critical accounting estimates and judgements in applying accounting policies (continued)

(b) Fair value of derivatives
The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by independent qualified senior personnel. All models are certified before they are used, and models are calibrated and back tested to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments.

Refer to notes 11 for a detailed analysis of the derivatives and the carrying amounts of the different types of derivative instruments. Note 36 provides additional details on the calculation of fair value of financial instruments not quoted in active markets.

(c) Impairment of available-for-sale equity instruments
The group determines that available-for-sale equity instruments are impaired and recognised as such in the statement of comprehensive income, when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgement. In making this judgement the group evaluates among other factors the normal volatility in share prices. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The group determined that the impairment of available-for-sale equity instruments were not appropriate for the year under review.

(d) Income taxes
There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The group recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

Refer to note 7 and 19 for more information regarding the direct and deferred tax charges, assets and liabilities.

(e) Financial risk management
The group's risk management policies are disclosed in the Risk Report on pages 153 to 159 of the annual report. The repricing analysis is provided in note 40.

(f) Impairment of goodwill
The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash generating units ("CGU") has been determined based on value-in-use calculations, being the net present value of the discounted cash flows of the CGU less the tangible net asset value of the CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in note 18 to these financial statements.

(g) Employee benefit liabilities
The cost of the benefits and the present value of the post retirement medical obligations and severance pay: death in service depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to the profit and loss arising from these obligations include the expected long term rate of return on the relevant plan assets, the discount rate and the expected salary and pension increase rates. Any changes in these assumptions will impact the charge to the profit and loss and may affect planned funding of the post retirement plans.

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38 Critical accounting estimates and judgements in applying accounting policies (continued)

(g) Employee benefit liabilities (continued)

The assumptions related to the expected return on plan assets are determined in a uniform basis, considering long term historical returns, assets allocation and future estimations of long term investment returns. The group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the expected cash outflows required to settle the severance pay and post retirement medical obligations. In determining the appropriate discount rate, the group considers the interest rate on high quality corporate bonds and government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related liability. The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales and country specific conditions. The inflation rate used is a rate within the government's monetary policy target for inflation and is calculated as the difference between the yields on portfolios of fixed interest government bonds and a portfolio of index linked bonds of a similar term.

Additional information is provided in the note 25.

(h) Share-based payments

Share-based payment costs arise from the issue of share options to employees. These share options are classified as equity-settled share-based payments and as such, the fair value cost is determined on date of grant on an actuarial basis using a number of assumptions. These assumptions used in determining the fair value cost include expected volatility, expected dividend yield, the discount rate and the expected forfeit of lapse rate. In accordance with the principles of valuing equity-settled share-based payments, only a change in the actual experience of forfeits compared to the estimated forfeit rate assumption, will impact on the charge in profit and loss. All other assumptions are determined at grant date and are not amended.

The expected volatility assumption is determined based on a ruling historical volatility over the expected life of the options and comparable financial information. The expected dividend yield is determined based on historical dividend yields and management's estimates. The discount rate is based on zero coupon government bonds and have terms to maturity consistent with the assumed life of the share option. The expected forfeit rate has been based on historical experience and management estimates.

Refer to note 31 for the detailed information regarding the share-based payment expense and the assumptions used in determining the expense, liability and reserve.

(i) Valuation of policyholders liabilities under insurance contracts

The actuarial value of policyholder liabilities arising from long term insurance contracts is determined using the Financial Soundness Valuation method as described in the actuarial guidance note PGN 104 of the Actuarial Society of South Africa. The method requires the following assumptions:

- The best estimate for a particular assumption is determined;
- Prescribed margins are then applied, as required by the Long term Insurance Act; and
- Discretionary margins may be applied, as required by the valuation methodology or if the statutory actuary considers such margins necessary to cover the risk inherent in the contracts.

Best estimate assumptions as to mortality and morbidity, expenses, investment income and tax are used that may vary at each end of reporting date. A margin for adverse deviations is included in the assumptions. Improvements in estimates have a positive impact on the value of the liabilities and related assets, while deteriorations in estimates have a negative impact.

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39 Standards and interpretations issued but not yet effective

The group will comply with the following new standards and interpretations applicable to its business from the stated effective date.

		Effective date
IFRS 1 (amended)	**Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1")** The amendment provides relief to first-time adopters of International Financial Reporting Standards from providing the additional disclosures introduced in March 2009 by the amendment to IFRS 7 *Improving Disclosures about Financial Instruments*. The additional disclosure requirements included in the amendment to IFRS 7 requires enhanced disclosures about the fair value measurement and liquidity risk. This amendment will not have an impact on the group, as the group has already adopted IFRS.	Annual periods commencing on or after 1 July 2010
IFRIC 14 (amended)	**IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** The amendment applies in limited circumstances when an entity is subject to minimum funding requirements and makes a voluntary early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. This amendment is not expected to have an impact to the group.	Annual periods commencing on or after 1 January 2011
IFRIC 19	**Extinguishing Financial Liabilities with Equity Instruments** The interpretation provides guidance on the accounting treatment of transactions where a financial liability is extinguished by the issue of equity instruments. These transactions are often referred to as debt for equity swaps. This amendment is not expected to impact the group's results significantly.	Annual periods beginning on or after 1 July 2010
IFRS 9	**Financial Instruments** The IFRS is the first phase in the IASB's three-part project to replace the current IAS 39 *Financial Instruments: Recognition and Measurement*. This phase deals with the classification and measurement of financial assets. Financial assets can be classified as financial assets at amortised cost or fair value. The classification is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The group is in the process of assessing the impact that IFRS 9 would have on the financial statements. Until the process is completed, the group is unable to determine the significance of the impact of the IFRS 9.	Annual periods beginning on or after 1 January 2013
IAS 24 (amended)	**Related Party Disclosures** The amendment removes certain of the disclosure requirements for government related entities and clarifies the definition of a related party. This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact on the revised disclosure is not expected to be significant.	Annual periods commencing on or after 1 January 2011
IAS 32 (amended)	**Classification of rights issues** The amendment clarifies the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. The amendment requires the rights issues offered pro rata to all of an entity's existing shareholders to be classified as equity instruments regardless of the currency in which the exercise price is denominated. This amendment is not expected to have an impact to the group.	Annual periods beginning on or after 1 February 2010

Notes to the consolidated annual financial statements

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39 Standards and interpretations issued but not yet effective (continued)

The group will comply with the following new standards and interpretations applicable to its business from the stated effective date.

		Effective date
Annual Improvements	**Improvements to IFRS** As part of its annual improvements projects, the IASB has issued its editions of annual improvements. The annual improvement projects aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement.	
	Annual improvements projects undertaken in the 2009 calendar year.	Annual periods commencing on or after 1 January 2010
	Annual improvements projects undertaken in the 2010 calendar year.	Annual periods commencing on or after 1 January 2011 except for the improvements to IFRS 3 and IAS 27 that are effective for annual periods commencing on or after 1 July 2010
	There are no significant changes in the either of the improvement projects that are expected to affect the group.	

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40 Risk management

The risk report of the group appears on page 153 to 159 of this annual report. The report describes the various risks the group is exposed to, as well as the methodology and instruments to mitigate these risks. Risk control policies and exposure limits for key risk areas of the group are approved by the board, while operational policies and control procedures are approved by the relevant risk committees. The main financial risk that the business is exposed to are detailed in this note.

40.1 Maximum exposure to credit risk

Total exposure (items where credit risk exposure exist)

N$'000	2010	2009
Cash and short term funds	249 427	151 506
- Balances with other banks	54 544	40 948
- Balances with central bank	194 883	110 558
Due from banks and other financial institutions	851 182	479 256
Advances	11 226 660	10 486 434
- Overdraft and managed accounts	1 493 520	1 556 827
- Card loans	76 258	66 057
- Instalment sales	1 622 112	1 603 196
- Lease payments receivables	80 206	82 645
- Home loans	5 908 218	5 265 172
- Term loans	1 680 608	1 603 279
- Other	365 738	309 258
Derivatives	57 119	130 487
Debt investment securities	2 422 352	1 559 965
- Listed investment securities	250 391	274 916
- Unlisted investment securities	2 171 961	1 285 049
Accounts receivable	78 679	71 553
Reinsurance assets	50 080	286 944
Amounts not recognised on the statement of financial position	999 817	939 605
Guarantees	654 104	647 729
Letters of credit	33 959	67 379
Irrevocable commitments	311 754	224 497
Total	15 935 316	14 105 750

40.2 FR rating mapping to international and national rating scales

The group categorises current exposures according to an internal rating scale, the FR ratings, ranging from FR 1 to FR 100, with the FR 1 being the best rating with the lowest probability of default. The FR ratings have been mapped to default probabilities as well as external rating agency international rating scales.

The ratings and the associated probability of default ("PD") reflect two different conventions. The "point in time" PDs reflect the default expectations under the current economic cycle whereas the "through the cycle" PDs reflect a longer term of average over the economic cycle.

The FR scale is summarised in the following table, together with a mapping to international scale rating from external agencies:

FR Rating	Mid point PD	International scale mapping*
FR 28 - 91	3.73%	AAA to B-
Above FR 92		Below B-

* Indicative mapping to international rating scale of Fitch and Standard and Poor's.

Notes to the consolidated annual financial statements
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40 Risk management (continued)

40.3 Credit quality

The table below presents an analysis of the credit quality of neither past due nor impaired (i.e. performing) advances. (refer to note 40.2 for the FR rating mapping to international and national rating scales):

	2010						
N$'000	Total neither past due nor impaired	Overdraft and managed accounts	Card loans	Instalment sales	Home loans	Term loans	Other
FR 28 - 91	10 070 310	657 383	70 586	1 675 193	5 604 523	1 696 887	365 738
Above FR 92	88 585	6 489	3 139	802	76 751	1 404	
Total	10 158 895	663 872	73 725	1 675 995	5 681 274	1 698 291	365 738

	2009						
N$'000	Total neither past due nor impaired	Overdraft and managed accounts	Card loans	Instalment sales	Home loans	Term loans	Other
FR 28 - 91	9 543 164	946 574	67 978	1 670 070	5 036 203	1 571 462	250 877
Above FR 92	92 547	4 368	41	8 142	48 389	31 607	
Total	9 635 711	950 942	68 019	1 678 212	5 084 592	1 603 069	250 877

	2010				
N$'000	Investment securities	Derivatives	Cash and short term funds	Due from banks and other financial institutions	Total
Credit quality of financial assets other than advances neither past due nor impaired					
International scale mapping (National equivalent):					
AAA to BB- (A to BBB)	2 053 703	7 632	249 427	851 182	3 161 944
Unrated	368 649	49 487			418 136
Total	2 422 352	57 119	249 427	851 182	3 580 080

	2009				
N$'000	Investment securities	Derivatives	Cash and short term funds	Due from banks and other financial institutions	Total
Credit quality of financial assets other than advances neither past due nor impaired					
International scale mapping (National equivalent):					
AAA to BB- (A to BBB)	1 298 744	2 393	151 506	479 256	1 931 899
Unrated	261 222	128 094			389 316
Total	1 559 966	130 487	151 506	479 256	2 321 215

Notes to the consolidated annual financial statements
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40 Risk management (continued)

40.3 Credit quality (continued)

N$'000	2010						
			Past due but not impaired				
Age analysis	**Neither past due nor impaired**	**Renegotiated but current**	**1 - 30 days**	**31 - 60 days**	**61 - 90 days**	**Impaired**	**Total**
Advances							
- Overdraft and managed accounts	663 872		541 284	211 815	88 377	66 813	1 572 161
- Card loans	73 725		397	146	3 458	2 990	80 716
- Instalment sales and lease payments receivable	1 675 995		8 909	5 836	22 104	28 940	1 741 784
- Home loans	5 681 274		50 789	45 459	78 256	106 365	5 962 143
- Term loans	1 698 291			20 847	11 916	19 749	1 750 803
- Other	365 738						365 738
	10 158 895		601 379	284 103	204 111	224 857	11 473 345
Accounts receivable							
- Items in transit	27 043						27 043
- Deferred staff cost	38 931						38 931
- Other accounts receivable	51 636						51 636
	117 610						117 610
Policy loans on investments contracts	26 931						26 931
Reinsurance assets	50 080						50 080
Total	10 353 516		601 379	284 103	204 111	224 857	11 667 966

N$'000	2009						
			Past due but not impaired				
Age analysis	Neither past due nor impaired	Renegotiated but current	1 - 30 days	31 - 60 days	61 - 90 days	Impaired	Total
Advances							
- Overdraft and managed accounts	950 942		584 331		77 136	57 276	1 669 685
- Card loans	68 019			834	457	3 307	72 617
- Instalment sales and lease payments receivable	1 678 212			23 809	5 878	25 289	1 733 188
- Home loans	5 084 592			121 058	42 823	138 427	5 386 900
- Term loans	1 603 069			9 429	1 752	12 240	1 626 490
- Other	250 877						250 877
	9 635 711		584 331	155 130	128 046	236 539	10 739 757
Accounts receivable							
- Items in transit	32 019						32 019
- Deferred staff cost	44 655						44 655
- Other accounts receivable	39 534						39 534
	116 208						116 208
Policy loans on investments contracts	22 767						22 767
Reinsurance assets	286 944						286 944
Total	10 061 630		584 331	155 130	128 046	236 539	11 165 676

The above assets are managed with reference to the days in arrears and include assets where monthly payments are due as residential mortgages, instalment sale products, and personal loans.
The assets in the wholesale segment and commercial segment are generally not managed with reference to monthly payments in arrears as these assets are reviewed on an individual portfolio basis.

Notes to the consolidated annual financial statements

for the year ended 30 June

40 Risk management (continued)

40.4 Liquidity cash flow analysis (undiscounted cash flow)

Maturity analysis of liabilities based on undiscounted amount of the contractual payment.

	2010			
		Term to maturity		
N$'000	Total	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits and current accounts	12 103 818	10 065 915	1 990 460	47 443
Due to banks and other financial institutions	54 346	54 346		
Derivative financial instruments	58 019	58 019		
Creditors and accruals	261 450	214 156	40 982	6 312
Long term liabilities	307 580		23 790	283 790
Policyholder liabilities under investment contracts	43 831	5 223	1 662	36 946
Financial liabilities	12 829 044	10 397 659	2 056 894	374 491
Off statement of financial position				
Financial and other guarantees	688 063	531 144	54 707	102 212
Facilities not drawn	1 871 678	1 871 678		

	2009			
		Term to maturity		
N$'000	Total	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits and current accounts	11 059 205	9 080 534	1 925 123	53 548
Due to banks and other financial institutions	22 731	22 731		
Derivative financial instruments	115 631	53 626	56 247	5 758
Creditors and accruals	296 628	278 327	18 301	
Long term liabilities	331 370		23 790	307 580
Policyholder liabilities under investment contracts	36 066	4 825	1 469	29 772
Financial liabilities	11 861 631	9 440 043	2 024 930	396 658
Off statement of financial position				
Financial and other guarantees	715 108	449 763	223 459	41 886
Facilities not drawn	1 650 685	1 650 685		

Notes to the consolidated annual financial statements
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40 Risk management (continued)

40.4 Liquidity cash flow analysis (discounted cash flow)

The table below represents the contractual discounted cash flows of assets and liabilities.

	2010			
		Term to maturity		
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and short term funds	455 215	455 215		
Due from banks and other financial institutions	851 182	851 182		
Derivative financial instruments	57 119	57 119		
Advances	11 226 660	2 211 999	515 314	8 499 347
Investment securities	2 799 659	2 329 809	226 498	243 352
Accounts receivable	117 610	58 013	42 011	17 586
Policy loans on investments contracts	26 931	26 931		
Financial assets	15 534 376	5 990 268	783 823	8 760 285
Non-financial assets	402 696			
Total assets	15 937 072			
Liabilities				
Deposits and current accounts	12 045 869	10 084 539	1 918 263	43 067
Due to banks and other financial institutions	54 346	54 346		
Derivative financial instruments	58 019	58 019		
Creditors and accruals	261 450	214 156	40 982	6 312
Long term liabilities	263 505			263 505
Policyholder liabilities under investment contracts	43 831	5 223	1 662	36 946
Financial liabilities	12 727 020	10 416 283	1 960 907	349 830
Non-financial liabilities	1 058 969			
Total liabilities	13 785 989			
Total equity	2 151 083			
Total equity and liabilities	15 937 072			
Net liquidity gap		(4 426 015)	(1 177 084)	8 410 455
Cumulative liquidity gap		(4 426 015)	(5 603 099)	2 807 356

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40 Risk management (continued)

40.4 Liquidity cash flow analysis (discounted cash flow) (continued)

The table below represents the contractual discounted cash flows of assets and liabilities.

		2009		
		Term to maturity		
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and short term funds	356 674	356 674		
Due from banks and other financial institutions	479 256	479 256		
Derivative financial instruments	130 487	75 833	48 695	5 959
Advances	10 486 434	2 238 454	573 587	7 674 393
Investment securities	1 898 611	565 224	468 998	864 389
Accounts receivable	116 208	116 208		
Policy loans on investments contracts	22 767	22 767		
Financial assets	13 490 437	3 854 416	1 091 280	8 544 741
Non-financial assets	609 608			
Total assets	14 100 045			
Liabilities				
Deposits and current accounts	10 600 680	8 765 620	1 782 540	52 520
Due to banks and other financial institutions	22 731	22 731		
Derivative financial instruments	115 631	53 626	56 247	5 758
Creditors and accruals	296 628	278 327	18 301	
Long term liabilities	261 238			261 238
Policyholder liabilities under investment contracts	36 066	4 825	1 469	29 772
Financial liabilities	11 332 974	9 125 129	1 858 557	349 288
Non-financial liabilities	1 004 751			
Total liabilities	12 337 725			
Total equity	1 762 320			
Total equity and liabilities	14 100 045			
Net liquidity gap		(5 270 713)	(767 277)	8 195 453
Cumulative liquidity gap		(5 270 713)	(6 037 990)	2 157 463

The table above represents the contractual discounted cash flows of assets and liabilities. Relying solely on the contractual liquidity mismatch when looking at a bank's maturity analysis would overstate the risk, since this represents the absolute worst case maturity analysis. As an industry phenomenon in Namibia, banks are particularly negatively gapped (contractually) in the shorter term due to the country's structural liquidity position. This implies that more short term obligations are due than short term assets maturing, hence the group's calculation of an adjusted liquidity mismatch analysis, applying the methodology of business under normal circumstances and a framework to manage this mismatch.

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40 Risk management (continued)

Liquidity mismatch analysis

The purpose of liquidity mismatch is to anticipate the maturities in the statement of financial position when business is done under normal conditions, i.e. applying behaviorally adjusted assumptions. This analysis disregards the overstated liquidity risk reflected in the contractual mismatch, when business as usual applies. Through analysis of various products and segments on the statement of financial position the “business as usual” liquidity gap is derived. It describes the liquidity gap of the bank after taking into account product behavioral assumptions for rolling of maturities and days to realise assets. For example , a cheque account deposit which has an ambiguous maturity classified as having a maturity profile on demand. The behavior (under normal circumstances and on an going concern basis) of such an account is, however, of a long term nature when assuming reinvestment takes place. Similarly the wholesale call loan book has a contractual maturity on call, but a portion of the wholesale book may not be called upon, due to customer relationship repercussions or other incentives.

40.5 Repricing profile

	2010				
N$'000	Carrying amount	Within 3 months	After 3 months, but within 6 months	After 12 months	Non rate sensitive
Total assets	15 937 072	13 921 565	633 954	429 594	951 959
Total equity and liabilities	15 937 072	10 549 381	1 549 270	265 069	3 573 352
Net repricing gap		3 372 184	(915 316)	164 525	(2 621 393)
Cumulative repricing gap		3 372 184	2 456 868	2 621 393	

	2009				
N$'000	Carrying amount	Within 3 months	After 3 months, but within 6 months	After 12 months	Non rate sensitive
Total assets	14 100 045	12 056 272	440 611	398 066	1 205 096
Total equity and liabilities	14 100 045	8 788 352	1 782 540	313 757	3 215 396
Net repricing gap		3 267 920	(1 341 929)	84 309	(2 010 300)
Cumulative repricing gap		3 267 920	1 925 991	2 010 300	

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40 Risk management (continued)

40.6 Foreign currency risk

The group takes on exposure to the effect of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarises the groups assets and liabilities at carrying amounts, categorised by currency, as at the statement of financial position date.

N$'000	2010 Total	NAD	USD	EUR	Other
Assets					
Cash and short term funds	455 215	402 179	47 927	4 187	922
Due from banks and other financial institutions	851 182	663 321	126 687	58 683	2 491
Derivative financial instruments	57 119	9 633	2 095	39 688	5 703
Advances	11 226 660	11 226 660			
Investment securities	2 799 659	2 728 099	71 560		
Accounts receivable	117 610	117 610			
Policy loans on investments contracts	26 931	26 931			
Financial assets	15 534 376	15 174 433	248 269	102 558	9 116
Non-financial assets	402 696	402 696			
Total assets	15 937 072	15 577 129	248 269	102 558	9 116
Liabilities					
Deposits and current accounts	12 045 869	11 877 691	117 971	50 207	
Due to banks and other financial institutions	54 346	54 346			
Derivative financial instruments	58 019	3 394	2 411	39 197	13 017
Creditors and accruals	261 450	261 450			
Long term liabilities	263 505	263 505			
Policyholder liabilities under investment contracts	43 831	43 831			
Financial liabilities	12 727 020	12 504 217	120 382	89 404	13 017
Non-financial liabilities	1 058 969	1 058 969			
Total liabilities	13 785 989	13 563 186	120 382	89 404	13 017
Total equity	2 151 083	2 151 083			
Total equity and liabilities	15 937 072	15 714 269	120 382	89 404	13 017

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40 Risk management (continued)

40.6 Foreign currency risk (continued)

N$'000	2009 Total	NAD	USD	EUR	Other
Assets					
Cash and short term funds	356 674	319 141	26 126	9 298	2 109
Due from banks and other financial institutions	479 256	183 976	242 147	51 181	1 952
Derivative financial instruments	130 487	9 273	15 848	41 847	63 519
Advances	10 486 434	10 486 434			
Investment securities	1 898 611	1 888 311	10 300		
Accounts receivable	116 208	116 208			
Policy loans on investments contracts	22 767	22 767			
Financial assets	13 490 437	13 026 110	294 421	102 326	67 580
Non-financial assets	609 608	609 608			
Total assets	14 100 045	13 635 718	294 421	102 326	67 580
Liabilities					
Deposits and current accounts	10 600 680	10 306 304	235 703	58 673	
Due to banks and other financial institutions	22 731	22 731			
Derivative financial instruments	115 631	9 748	13 633	37 881	54 369
Creditors and accruals	296 628	296 628			
Long term liabilities	261 238	261 238			
Policyholder liabilities under investment contracts	36 066	36 066			
Financial liabilities	11 332 974	10 932 715	249 336	96 554	54 369
Non-financial liabilities	1 004 751	1 004 751			
Total liabilities	12 337 725	11 937 466	249 336	96 554	54 369
Total equity	1 762 320	1 762 320			
Total equity and liabilities	14 100 045	13 699 786	249 336	96 554	54 369

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40 Risk management (continued)

40.7 Average balances and effective interest rates

N$'000	2010 Average balance N$'000	2010 Average rate %	2010 Interest income/ expense N$'000	2009 Average balance N$'000	2009 Average rate %	2009 Interest income/ expense N$'000
Assets						
Cash and short term funds, balance with banks	1 813 319	4.4	79 707	1 221 630	4.9	58 856
Advances	10 695 543	11.4	1 215 208	9 731 483	14.1	1 376 033
Investment securities	2 338 994	6.2	143 159	1 957 837	7.5	146 908
Other interest						
Interest-earning assets	14 847 856	9.7	1 438 074	12 910 950	12.3	1 581 797
Non-interest-earning assets	764 722			958 843		
Total assets	15 612 578	9.3	1 438 074	13 869 793	11.4	1 581 797
Liabilities						
Deposits and current accounts, balance due to banks	11 952 129	5.1	605 574	10 408 384	7.8	806 870
Long term liabilities	267 809	8.9	23 794	261 883	9.1	23 818
Other interest			482			7 892
Interest-earning liabilities	12 219 938	5.2	629 850	10 670 267	7.9	838 580
Non-interest-earning bearing liabilities	1 409 647			1 477 907		
Total liabilities	13 629 585	4.6	629 850	12 148 174	6.9	838 580
Total equity	1 982 993			1 721 619		
Total equity and liabilities	15 612 578	4.0	629 850	13 869 793	6.0	838 580

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40 Risk management (continued)

40.8 Sensitivity analysis

Banking market risk

Net interest income sensitivity

Assuming no management intervention, a parallel 100 basis point increase in all yield curves would increase the forecast net interest income for the next year by N$40 million (2009: N$30 million), while a parallel decrease in all yield curves would decrease the forecast income by N$46 million (2009: N$38 million)

Equity price risk sensitivity

The table below illustrates the market sensitivity for all non-trading equity investments assuming a 10% shift in the fair value, the analysis is before tax.

	10% reduction in fair value	10% increase in fair value	10% reduction in fair value	10% increase in fair value
	2010		2009	
	N$'000	N$'000	N$'000	N$'000
Impact on equity (available-for-sale-reserve)	1 159	(1 159)	1 030	(1 030)

Foreign currency risk sensitivity analysis

Including foreign denominated cash, the group does not ordinarily hold open exposures in respect of the banking book of any significance. All gains and losses on foreign exposures and derivatives are reported in profit and loss.

Insurance risk sensitivity

The results of the sensitivity testing in the table below illustrate that the assumptions regarding future mortality and morbidity experience have an impact on the actuarial liability. This is to be expected given the nature of the business (risk insurance). This implies future trends in mortality and morbidity experience, whether positive or negative , will impact on profits in the future. The sensitivities provided, in isolation, are not amounts that can be simply extrapolated to determine prospective earnings forecasts.

		2010 N$'000	2009 N$'000
Policyholders liabilities under Insurance Contracts		963 968	927 304
Change in liability			
Worse mortality	10%	3 093	2 967
Worse morbidity	10%	492	485
Worse PI inception rates	10%		
Lower investment returns	-1%	23 144	16 505
Worse terminations	-10%	5 026	10 256
Worse expenses	10%	8 864	7 224
Worse expenses inflation	10%	13 794	9 870

Notes to the consolidated annual financial statements
for the year ended 30 June

40 Risk management (continued)

40.8 Sensitivity analysis (continued)

Market risk sensitivity on insurance business

The table below shows the result of sensitivity testing on the group's profit or loss (before tax) and equity for reasonable possible changes in the risk variables. The sensitivity analysis indicates the effect of changes in the risk factors arising from the impact of the changes in these factors on the group's financial assets and liabilities.The sensitivity analysis does not take into consideration the group's assets and liabilities are actively managed.

		2010	
		Impact on profit/(loss) N$'000	Impact on equity N$'000
Interest rate risk			
Local government bonds			
Lower limit	8.19%	(187)	(261)
Upper limit	9.69%	187	270
Cash			
Lower limit	6.19%	(2 467)	(343)
Upper limit	7.69%	2 467	343
Equity price risk			
Lower limit	10.44%	(1 451)	(5 213)
Upper limit	14.44%	1 451	5 213

		2009	
		Impact on profit/(loss) N$'000	Impact on equity N$'000
Interest rate risk			
Local government bonds			
Lower limit	8.18%	(195)	(129)
Upper limit	9.68%	195	724
Cash			
Lower limit	6.18%	(1 923)	(278)
Upper limit	7.68%	1 923	278
Equity price risk			
Lower limit	10.43%	(1 177)	(4 230)
Upper limit	14.43%	1 177	4 230

FNB Namibia Holdings Limited

Company statement of comprehensive income for the year ended 30 June

N$'000	Note	2010	2009
Interest and similar income	2	298	
Interest expense and similar charges	2	(367)	(1 662)
Net interest expense		(69)	(1 662)
Non interest income			
- gains less losses from investing activities	3	165 128	187 714
Income from operations		165 059	186 052
Operating expenses	4	(2 230)	(2 079)
Income before tax		162 829	183 973
Indirect tax	5	(239)	(101)
Profit before tax		162 590	183 872
Direct tax	5	1 235	
Total comprehensive income for the year		163 825	183 872
Attributable to:			
Equity holders of the company		163 825	183 872

Company statement of financial position as at 30 June

N$'000	Note	2010	2009
Assets			
Accounts receivable		4 682	2 190
Loan to group company	7	3 627	
Investment securities	8	1 257	
Investment in associates	9	17 965	15 691
Investment in subsidiaries	10	1 236 808	1 258 570
Tax asset			279
Total assets		1 264 339	1 276 730
Equity and liabilities			
Liabilities			
Tax liability		101	
Loan from group company	7		17 530
Creditors and accruals		42	2 148
Total liabilities		143	19 678
Equity			
Ordinary shares	11	1 338	1 338
Share premium	11	280 810	280 810
Reserves		982 048	974 904
Capital and reserves attributable to ordinary equity holders		1 264 196	1 257 052
Total equity and liabilities		1 264 339	1 276 730

FNB Namibia Holdings Limited

Company statement of changes in equity
for the year ended 30 June

N$'000	Share capital	Share premium	Share-based payment reserve	Retained earnings	Total ordinary shareholders' funds
Balance at 1 July 2008	1 338	280 810	4 150	935 514	1 221 812
Total comprehensive income for the year				183 872	183 872
BEE consortium share option costs			1 220		1 220
Ordinary dividends				(149 852)	(149 852)
Balance at 30 June 2009	1 338	280 810	5 370	969 534	1 257 052
Total comprehensive income for the year				163 825	163 825
BEE consortium share option costs			1 199		1 199
Ordinary dividends				(157 880)	(157 880)
Balance at 30 June 2010	1 338	280 810	6 569	975 479	1 264 196

Company statement of cash flows
for the year ended 30 June

N$'000	Note	2010	2009
Cash flows from operating activities			
Cash generated from operations*		109 294	185 193
Working capital changes			
- Increase/decrease in accounts receivable		(2 492)	(890)
- Increase/decrease in accounts payable		(2 106)	936
Net cash generated from operations		104 696	185 239
Indirect tax paid	5	(239)	(101)
Tax refund		1 615	
Net cash flow from operating activities		106 072	185 138
Cash flows from investing activities			
Net decrease in loans from group company		(21 157)	(19 274)
Purchase of investment securities		(1 100)	
Proceeds on sale of shares in subsidiary		76 339	
Increase in investment in associate	9	(2 274)	(15 428)
Investment in subsidiary			(584)
Net cash flow from investing activities		51 808	(35 286)
Cash flows from financing activities			
Dividends paid		(157 880)	(149 852)
Net cash flow from financing activities		(157 880)	(149 852)
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year			
Cash and cash equivalents at the end of the year		-	-
*** Reconciliation of income before tax to cash generated by operations**			
Income before tax		162 829	183 973
Adjusted for:			
- Revaluation of investment securities		(157)	
- Profit on sale of shares in subsidiaries		(54 577)	
- Share-based payment cost		1 199	1 220
		109 294	185 193

FNB Namibia Holdings Limited

Notes to the company annual financial statements for the year ended 30 June

N$'000	2010	2009

1 Accounting policies

The financial statements of FNB Namibia Holdings Limited are prepared according to the same accounting principles used in preparing the consolidated financial statements of FNB Namibia group. For detailed accounting policies refer to pages 41 to 60 of this annual report.

2 Analysis of interest income and expenses

	Amortised cost	
Interest received: loan account with group company	298	
Interest paid: loan account with group company	(367)	(1 662)

3 Non interest income

	2010	2009
Gains less losses from investing activities		
- Dividends received		
- Subsidiaries	106 739	186 834
- Associates	3 477	880
- Unit trust investments	178	
- Revaluation of investment securities through profit or loss	157	
- Net profit realised on sale of interest in subsidiary	54 577	
The company sold an additional 14% interest in Momentum Life Assurance Namibia Limited to Momentum Group Limited on 30 September 2009. The company's shareholding is now 51%.		
Gross gains less losses from investing activities	165 128	187 714

4 Operating expenses

	2010	2009
Auditors' remuneration		
- Audit fees	914	857
Professional fees	111	
BEE consortium share option expenses	1 199	1 220
Other operating costs		
- Other operating expenses	6	2
Total operating expenses	2 230	2 079

5 Tax

	2010	2009
Indirect Tax		
Value added tax	239	101
Total indirect tax	239	101
Direct Tax		
Namibian normal tax		
- Current year	(101)	
- Prior year	1 336	
	1 235	

During 2010, Inland Revenue finalised the tax assesments for the period 2001, 2002, 2003 and 2007, as objected by the company. The final tax outcome being a refund in the current period. The company provided for tax at 34% of the taxable income (interest income). In the prior year, the company did not earn taxable income, the effective tax rate is -1% (2009: 0%).

FNB Namibia Holdings Limited

Notes to the company annual financial statements

for the year ended 30 June

N$'000	2010	2009
6 Dividends		
A final dividend (dividend no. 28) of 28 cents per share was declared on 16 August 2007 in respect of the six months ended 30 June 2008 and paid on 29 October 2008.		74 926
An interim dividend (dividend no. 29) of 28 cents per share was declared on 6 February 2008 for the six months ended 31 December 2008 and paid on 3 April 2009.		74 926
A final dividend (dividend no. 30) of 28 cents per share was declared on 19 August 2009 in respect of the six months ended 30 June 2009 and paid on 28 October 2009.	74 926	
An interim dividend (dividend no. 31) of 31 cents per share was declared on 3 February 2010 for the six months ended 31 December 2009 and paid on 8 April 2010.	82 954	
	157 880	149 852

Final dividend of 36 cents (2009: 28 cents) per share was declared subsequent to year-end.

7 Loan to / (from) group company

Balances with Talas Properties (Windhoek) (Pty) Ltd

	2010	2009
Balance at 1 July	(17 530)	(36 804)
Repaid / received during the year	21 157	19 274
Balance at 30 June	3 627	(17 530)

Refer to note 2 for the interest received and paid details

8 Investment securities

	2010	2009
Listed		
Equities	1 257	

8.1 Fair value hierarchy disclosure

The company shows an investment in equities and this is measured at fair value and analysed below by valuation technique. The classification of instruments is based on the lowest level input that is significant to fair value measurement in its entirety. A description of the nature of the techniques used to calculate valuations and definitions of Levels is set out in note 36 of the group financial statements.

	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss				
Investment securities	1 257			1 257

FNB Namibia Holdings Limited
Notes to the company annual financial statements
for the year ended 30 June

N$'000	2010	2009
9 Investments in associates		
Unlisted investments		
Carrying value at beginning of the year	15 691	263
The company made an additional contribution to maintain its 40% interest in FNBIBN, during the current year.	2 274	
During the previous year, the company acquired a 40% interest in FNBIBN.		15 428
Carrying value at end of the year	17 965	15 691
The list of associates are:		
Avril Payment Solutions (Pty) Ltd	263	263
FNB Insurance Brokers (Namibia) (Pty) Ltd	17 702	15 428
RMB Asset Management Namibia (Pty) Ltd		

Refer to note 16 in the group financial statements for full details of associates.
Refer to note 35 in the group financial statements for full related party transactions and balances.

N$'000	2010	2009
10 Investments in subsidiaries		
Unlisted investments		
Carrying value at beginning of the year	1 258 570	1 257 986
Net movements in investment in subsidiaries	(21 762)	584
Carrying value at end of the year	1 236 808	1 258 570
The list of subsidiaries are:		
First National Bank of Namibia Ltd	1 142 792	1 142 792
Swabou Investments (Pty) Ltd		
First National Asset Management and Trust Company (Pty) Ltd		
Talas Properties (Windhoek) (Pty) Ltd	2 967	2 967
Momentum Life Assurance Namibia Limited**	79 276	101 038
OUTsurance Insurance Company of Namibia Ltd	6 298	6 298
FNB Namibia Unit Trust Ltd	5 475	5 475
	1 236 808	1 258 570

** Swabou Life Assurance Company Ltd changed its name to Momentum Life Assurance Namibia Limited during the year under review.

Refer to note 35.6 in the group financial statements for full details of investment in subsidiaries.
Refer to note 35.3 in the group financial statements for full related party transactions and balances.

FNB Namibia Holdings Limited

Notes to the company annual financial statements

for the year ended 30 June

11 Share capital

	2010	2009
Authorised		
990 000 000 (2009: 990 000 000) ordinary shares with a par value of 0.5 cents per share	4 950	4 950
10 000 000 (2009: 10 000 000) cumulative convertible redeemable preference shares with a par value of 0.5 cents per share	50	50
	5 000	5 000
Issued		
267 593 250 (2007: 267 593 250) ordinary shares with a par value of 0.5 cents per share	1 338	1 338
2 (2009: 2) cumulative convertible redeemable preference shares with a par value of 0.5 cents per share		
	1 338	1 338
Share premium	280 810	280 810

Term of preference shares: redeemable at 31 days notice by either party. The dividend rights in terms of the agreement with the shareholder are based on the actual profits made, per agreed adjustments, of a portion of the short term insurance business.

The unissued ordinary and preference shares are under the control of the directors until the next annual general meeting.

All issued shares are fully paid up.

12 Liquidity, credit and market risk information

The assets and liabilities of the company consist mainly of non-financial assets and liabilities which are not subject to liquidity, credit and market risk for IFRS 7 purposes.

Accounts receivable and creditors and accruals are repayable on demand or short notice and within Namibia.

13 Related party transactions

During the year and the prior year, the company entered into transactions with its subsidiaries, disclosed in detail in the relevant notes of the company financial statements.

Refer to note 35 in the group financial statements for full related party transactions and balances.

Corporate governance statement

Introduction

Corporate governance is aimed at promoting greater corporate accountability, transparency and stakeholder confidence and the board of directors subscribe to these principles and incorporate the principles of leadership, sustainability and good corporate citizenship.

Corporate governance is standardised across the group to ensure the high standards the group has set itself are implemented and monitored consistently in all its operations.

The group is committed to being a good corporate citizen and a world class leader in the financial services industry, and this can be confirmed by examining the group's practices. The group believes that the implementation of its strategies is best managed at subsidiary and divisional level. While the non-executive directors acknowledge the need for their independence, they recognise the importance of good communication and close cooperation with executive directors. Teamwork between directors is an essential part of the group's philosophy.

Application of King Code on Corporate Governance

The group subscribes to the principles of the Code of Corporate Practices and Conduct (King Code). The directors are satisfied that the way in which the group is directed and controlled, complies with this Code in all material respects.

Code of ethics

The board is responsible to cultivate and promote an ethical corporate culture within which integrity permeates throughout the company as set out in the group's Code of Ethics. The object of the group's code of ethics is to enable employees to always act according to defined ethical principles. This code commits all employees to the highest standards of integrity, behaviour and ethics in dealing with all stakeholders. All staff are required to, at all times familiarise themselves with this code and to adhere to it, as it is regarded as a strategic business imperative and a source of competitive advantage.

The board of directors

Functions of the board

The board is responsible and accountable for providing effective corporate governance, direction and control of the company. The directors have a duty to exercise leadership, enterprise, integrity and judgment based on transparency, fairness, accountability and responsibility.

All directors subscribe to the code of ethics which forms part of the board charter, and their performance is monitored by the directors' affairs and governance committee.

In terms of its charter, the board is responsible for appointing the chief executive officer of the holding company and its subsidiaries, adopting a corporate strategy, major plans of action, policies and procedures as well as monitoring operational performance. This includes identifying risks which impact on the group's sustainability and monitoring risk management and internal controls, compliance management, corporate governance, business plans, key performance indicators, including non-financial criteria and annual budgets.

The board is also responsible for managing successful and productive relationships with all stakeholders that foster trust and confidence in the company. All directors, both executives and non-executives, carry full fiduciary responsibility and owe a duty of care and skill to the group in terms of governing legislation.

Composition

The company has a unitary board. Its chairman is non-executive and independent. The roles of the chairman and chief executive officer are separate and distinct, and the number and stature of independent directors serving on the board ensures that enough independence is applied when making significant decisions.

The board of the company comprised of eleven directors: one executive director and ten non-executive directors. Of the non-executive directors, eight are independent. The board seeks and assesses the independence of the directors through the Director's Affairs and Governance Committee.

The boards of major group subsidiaries are similarly constituted with an appropriate mix of skills, experience and diversity.

Appointment

The appointment of directors is set out in a formalised process and appointments are made at the annual shareholder's meeting. The board of directors on the recommendation of the directors' affairs and governance committee, which serves as the nominations committee for the group, appoints the directors in compliance with regulatory requirements.

The board takes cognisance of the need to ensure that its composition is appropriately diversified in terms of different skills, experience, diversity, size and demographics to serve the interest of the company and its stakeholders.

All non-executive directors are subject to retirement by rotation and re-election by shareholders periodically in accordance with the articles of association.

A staggered rotation ensures continuity of experience and knowledge. A brief curriculum vita the director standing for election or re-election at the annual general meeting accompanies the notice of the meeting. The reappointment of non-executive directors is not automatic and is subject to performance and eligibility. The board does not believe it should limit the number of terms an individual may serve. Long-serving directors provide valuable insight into the operations and future of the company based on their experience of the group's history, policies and objectives.

The board believes that 70 is an appropriate retirement age for directors. Directors will only be nominated for re-election after their 70th birthday at the discretion of the board.

Board meetings

The board meets quarterly, with additional meetings convened as and when necessary.

The board met four times during the year and the table below shows the attendance of directors at the FNB Namibia Holding's board meetings as well as board committee meetings:

	Board					Audit Committee					Risk, Capital and Compliance Committee			Directors Affairs and Governance Committee			Remuneration Committee		
Name of Director	Aug 09	Oct 09	Nov 09	Feb 10	May 10	July 09	Aug 09	Oct 09	Feb 10	Apr 10	July 09	Nov 09	Apr 10	Aug 09	Oct 09	Mar 10	July 09	Mar 10	May 10
H-D Voigts (chairman) I NED	√	√	√	√	√	NM	NM	NM	NM	NM	NM	NM	NM	√	√	√	A	√	√
VR Rukoro (CEO) Executive	√	√	√	√	√	NM	At	At	NM	At	NM	NM	At	At	At	At	At	At	At
HWP Böttger I NED	√	√	√	√	A	√	√	√	√	√	√	√	√	NM	NM	NM	NM	NM	NM
CLR Haikali I NED	√	√	A	A	√	NM	NM	NM	NM	NM	NM	NM	NM	√	√	√	√	√	√
JR Khethe NED	√	A	√	√	√	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
JK Macaskill NED	√	√	√	A	√	√	√	√	A	√	√	A	√	√	√	√	√	√	√
SH Moir I NED	√	√	√	√	√	√	√	√	√	√	√	√	√	NM	NM	NM	√	√	√
MN Ndilula I NED	√	A	√	√	√	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
PT Nevonga I NED	√	A	√	√	√	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
II Zaamwani-Kamwi (Ms) I NED	A	√	√	√	√	√	√	√	√	A	A	√	A	NM	NM	NM	A	√	√
CJ Hinrichsen I NED	√	√	√	√	A	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM

A = apologies tendered NM – not a member I NED – Independent NED NED – Non Executive Director At – attendee

Directors have full and unrestricted access to management and all group information and properties. They are also entitled to seek independent professional advice and or training at the group's expense in support of their duties. Directors may meet separately with management without the attendance of executive directors. Professional advisors, officers or members of staff whose input may be required, are invited to attend meetings at the discretion of the chairperson. These invitees have no votes at these meetings.

Directors Development

Training and development of directors is conducted through a formalized process that takes into account performance evaluation of the directors and the board as a whole. Directors undergo a formalized orientation programme at appointment and continuing professional development which includes exposure to new developments relevant to their role and the company.

Training sessions were conducted for directors during the past year. These sessions covered important topics such as recent developments on corporate governance, updates on legislative developments, as well as relevant developments in the groups' areas of operation. Directors are also at liberty to propose training topics as their discretion.

Directors Evaluation

The board of directors' through the directors' affairs and governance committee conducts annual performance evaluation of the board, committees and individual directors on the various functions as set out in charters. The chief executive officer's performance is evaluated against set objectives both as an executive director and as a director.

Subsidiary boards and board committees

The company has three major subsidiaries. These are:

- First National Bank of Namibia Limited;
- Momentum Life Assurance Namibia Limited; and
- OUTsurance Insurance Company Limited

These subsidiary boards are subject to oversight by regulatory authorities including the Bank of Namibia, South African Reserve Bank and the Namibia Financial Institutions Supervisory Authority.

The board of directors of Momentum Life Assurance established a Risk, Audit, Compliance and Actuarial Subcommittee of the Board. The Momentum Risk, Audit, Compliance and Actuarial Committee reports both to the Group (Main) Risk, Capital and Compliance Committee and to the Momentum Life Assurance Board of Directors.

All subsidiaries have executive management committees and board of directors.

Board committees assist the directors in the discharge of their duties and responsibilities.

At company level, in addition to the executive management committee (Exco), the following Board committees exist:

- Audit,
- Risk, Capital and Compliance
- Remuneration,
- Directors' affairs and governance, and
- The Credit risk Committee which is a subcommittee of the Audit Committee.

All committees have formal terms of references and report to the board of directors. With the exception of Exco and credit risk committee, they are chaired by independent non-executive directors and have a majority of independent non-executive directors. Independent professional advice may be obtained at the group's expense in support of their duties.

Audit committee

The group's audit committee assists the board in discharging its responsibilities relative to internal controls, financial control and reporting, shareholder reporting and corporate governance generally. To this end, it has adopted a terms of reference dealing with membership, structure, authority and duties. The group's audit committee has complied with its terms of reference.

Generally, the responsibility of the group audit committee could be summed up as follows:

- Ensuring the integrity, reliability and accuracy of accounting and financial reporting systems and resources;
- Evaluating the adequacy and effectiveness of internal audit;
- Maintaining transparent and appropriate relationships with the external auditors; and
- Reviewing the scope, quality and cost of the statutory audit and the independence and objectivity of the auditors.

The committee is authorised to investigate any activity or concern externally on any matter within its terms of reference.

The committee consists of non-executive directors. The group chief executive officer, the group chief financial officer and the head of internal audit attend ex-officio. The external auditors attend all meetings.

The committee met five times during the year.

Risk, Capital and Compliance Committee

The group's risk, capital and compliance committee assists the board in discharging its responsibilities relative to its responsibility of risk governance, risk policy determination, risk assessment and reporting. The committee adopted terms of reference dealing with membership, structure, authority and duties. The group's risk, capital and compliance committee has complied with its terms of reference and objectives set for the period.

Generally, the responsibility of the group risk, capital and compliance committee could be summed up as follows:

- Determining the risk universe of the company including IT risks
- Determining risk tolerance levels and monitoring compliance thereto;
- Ensuring that appropriate systems are in place to identify and monitor risk, controls and compliance with the law and codes of conduct;
- Reviewing risk assessment reports on detailing risk monitoring reports, management responses and obtaining assurance regarding the effectiveness of the risk management process;
- Ensuring the group meets capital adequacy requirements.

The committee is authorised to investigate any activity or concern externally on any matter within its terms of reference.

The committee consists of non-executive directors. The group chief executive officer, the group chief financial officer and the head of internal audit attend ex-officio. The committee met three times during the year.

Remuneration committee

The committee consists of non-executive directors with the group chief executive officer attending in an ex-officio capacity.

Its primary objective is to develop the remuneration policy for the group. It is responsible for:

- The remuneration, bonus and share incentive scheme policies and practices in the group;
- All forms of remuneration and reward to directors (including a preview of executive directors' remuneration proposals, whose remuneration is approved by the directors' affairs and governance committee) including, but not limited to fees
- On recommendation of the majority shareholder the Remuneration Committee has overview of all forms of remuneration and rewards to senior management including, but not limited to, basic pay, bonus and incentive payments, restraint of trade, issuing of share options; and other benefits,
- Reviewing of proposals to the board and shareholders on non-executive director remuneration, and
- Reviewing and approving annual salary increases and bonus awards of staff.

Non-executive directors' fees are based on market comparisons, and are reviewed on an annual basis. These fees are paid on a retainer as well as attendance basis. There are no contractual arrangements for compensation for loss of office. The remuneration of directors for the financial year is set out in note 6.1 of the group's annual financial statements.

The committee met three times during the year.

Directors' affairs and governance committee

This is a committee of the board of FNB Namibia Holdings Limited and those companies within the group and is appointed in terms of its articles of association.

Its prime objectives are to assist the board in discharging its responsibilities relative to:

- Its determination and evaluation of the adequacy, efficiency and appropriateness of the corporate governance structures of the group;
- Board and board committee structures;
- The maintenance of a board directorship continuity programmes including:
    - the continuity of non-executive directors;
    - the regular review of the competence of the board of directors, including the skills, experience and other qualities required to enhance the effectiveness of the board; and
    - the selection and appointment of new directors;
- The remuneration, other benefits and employment conditions of the ceo and executive directors;
- The self-assessment of the effectiveness of the board as a whole and the contribution of each director, which self-assessment shall be co-ordinated by the chairperson of the board; and
- Ensuring that succession plans are in place for key posts (as determined by the committee from time to time) in the group.

The committee reviews the structure and composition of the boards of significant operating companies within the group.

The committee is composed of three non-executive directors, two of which are independent.

The committee met three times during the year.

Strategic committee ("Stratco")

This committee assists the board in the formulation of strategies and meets once a month. Membership consists of the group chief executive officer, bank chief executive officer, head of retail banking, group chief financial officer and group chief strategy officer.

Executive committee ("Exco")

The group's exco is required to implement strategies approved by the board and manage the affairs of the group. Meetings are held once a month. Exco is chaired by the group chief executive officer. Membership includes key members of senior management.

Exco has the following sub-committees:

- asset and liability management committee (ALCO);
- procurement;
- investment committee;
- operational risk and compliance committee; and
- balance sheet management committee.

BEE committee

This committee was established in terms of the BEE agreement entered into between FirstRand Bank Holdings Limited, FNB Namibia Holdings Limited and the BEE consortia. The purpose of this committee is to monitor the progress made by the consortia in meeting their targets for the vesting of their share options and to make recommendations to FirstRand Bank Holdings Limited regarding the vesting of the tranches. The committee is chaired by a non-executive director and membership includes representation of FirstRand Bank Holdings Limited, the consortia and members of the executive management of the group. The committee meets every quarter and is assisted by a management committee.

Share dealings

Directors, senior executives, participants in the share option schemes, or persons who may have knowledge of price sensitive information may not trade in the company's shares during the closed period as defined in terms of the NSX rules (said period extends from the end of the financial year until after the publication of the financial results). This prohibition also covers periods where the company is trading under cautionary announcements. Additional closed periods may be invoked by the board.

All dealings in shares by the directors require prior approval by the chairman, are disclosed on SENS, and the group company secretary files all records of all such share dealings and approvals. Details of trades in shares by staff members who may have access to price sensitive information is also disclosed to the group remuneration committee.

Financial statements

The directors are responsible for monitoring and approving the financial statements to ensure that they fairly present the group's affairs and the profit or loss at the end of the financial year. The independent auditors are responsible for expressing an opinion on the fairness with which these financial statements represents the financial position of the group.

The financial statements in this report have been prepared by management in accordance with the International Financial Reporting Standards ("IFRS") and in the manner required by the Namibian Companies' Act and the Namibian Stock Exchange. They are based on appropriate accounting policies that have been consistently applied, except as indicated, and which are supported by reasonable and prudent judgements and estimates.

Auditor independence

The group's annual financial statements have been audited by the independent auditors, Deloitte & Touche. The group believes that the auditors have observed the highest level of business and professional ethics. It has no reason to believe that they have not at all times acted with unimpaired independence. The audit committee has confirmed the independence of the external auditors for the reporting period.

Details of fees paid to the external auditors are disclosed in the notes of the financial statements, together with details of non audit services and the fees paid in respect thereof.

Succession planning

The group approved a succession policy setting out principles of talent management and development of its key resource, its human capital and the group CEO provides periodic reports to the board.

The group benefits from an extensive pool of people with diverse experience and competence at senior management level.

A formal succession plan is in place for key positions within the group and is updated on a regular basis. The board is confident that it should be possible to identify suitable short-term and long-term replacements from within the group should the need arise.

Employment equity

The group has an affirmative action policy to achieve employment equity in the workplace and enhance business competitiveness. Developing all employees is critical to the success of the programme and emphasis is placed on training, monitoring and promotion of existing staff.

The group has received its Affirmative Action Compliance Certificate from the Employment Equity Commission annually since inception.

Group's compliance with regulatory requirements

As the group's main business is diversified into banking and non-banking financial service provision, the bank business is regulated by the Bank of Namibia in terms of the Banking Institutions Act No 2 of 1998 and determinations passed there under, while the long-term and short-term insurance, unit trusts and asset management businesses are regulated by the Namibia Financial Institutions Supervisory Authority ("NAMFISA") in terms of different legislation. FNB Namibia Holdings Limited is also listed on the Namibia Stock Exchange ("NSX"), and therefore obliged to comply with the Stock Exchanges Control Act of 1985 and the listing requirements of the exchange.

The board is satisfied that the group complied with all these laws and regulations for the past year and none of the regulatory authorities, through their ongoing supervision mechanisms, expressed any material dissatisfaction with the manner in which the group conducts its business.

Group company secretary

The group company secretary, Ms Yamillah Katjirua, is suitably qualified and empowered and has access to the group's resources. She provides support and guidance to the board in matters relating to governance and ethical practices across the group. She is also responsible for the induction programs of new directors to ensure that they settle well in their new responsibilities and ensuring that board members are kept abreast of relevant changes in legislation and governance principles. All directors have unrestricted access to the group company secretary.

Communication with shareholders

The group recognizes that effective communication with stakeholders is essential to good governance and to this end the group distributes information to shareholders through the Stock Exchange News Service (SENS), the print media and its website to ensure transparent and effective communication with shareholders in order to build and maintain relationships. Following the publication of its financial results, it engages with investors and analysts both locally and internationally to present the results and answer questions in respect thereof.

Shareholders are encouraged to attend the annual general meeting and participate in the affairs of their company.

Risk report

Introduction

Risk-taking, in an appropriate manner, is a fundamental part of the group's business activity and an essential component of its planning process. This is achieved by keeping risk management at the centre of the executive agenda and by building a culture in which risk management is embedded in the everyday management of the business.

The level of risk the group is willing to take on – its risk appetite – is determined by the board, which also assumes responsibility that risks are managed through the Risk, Compliance and Capital Committee and its subcommittees.

The risk appetite framework sets out principles, objectives and measures that link considerations such as strategy formulation, risk considerations, target capitalisation levels as well as earnings volatility. Risk appetite acts as the constraint on the assumption of ever more risk in the pursuit of profits. Through this process the business strategy will determine the mix and nature of business activities, which in turn would determine the risks that are introduced to the business. It is then required to understand how the risk profile would behave during the different economic cycles, what earnings volatility it would introduce and what capital it would consume. The quality of the earnings must also be understood, as well as the risks taken to produce the earnings.

The board acknowledges its overall responsibility for the process of risk management, as well as for reviewing its effectiveness. Executive management is accountable to the board for designing, implementing and monitoring the process of risk management, as well as integrating it with the day-to-day activities of the group. It should be noted that this process is designed to manage, rather than eliminate, the risk of failure to achieve the group's business objectives, and can only provide reasonable, and not absolute, assurance against material loss.

The group remains committed to the objective of increasing shareholder value by developing and growing business that is consistent with its risk appetite, and through building more effective risk management capabilities. Responsibility for risk management resides at all levels within the group, from the executive down through the organisation to each manager. We are seeking an appropriate balance in our business, and continue to build the risk management capabilities that will help us to deliver our growth plans in a controlled environment.

Risk management principles

Risk management in the group is guided by several principles, the most important of which are:

- assignment of responsibility and accountability for all risks
- adoption of a framework for integrated risk management
- protection of our reputation
- risk governance

Responsibility and accountability

The responsibility for risk management resides with management at all levels, from members of the board to individuals throughout the group.

Overall risk management policies, risk appetite and tolerances are established on a group basis by senior management, reviewed and where appropriate, approved by the board of directors. These policies are clearly communicated throughout the group and apply to all businesses within the group.

Integrated Risk Management Framework

The Business Performance and Risk Management Framework as adopted by the group is effective, comprehensive and consistent for the purposes that it has been developed. Under this framework, responsibilities for risk management remain with line-management. Management allocates resources to support the framework.

Risks are appropriately identified, evaluated and managed, considering the interrelationships between risks. This process happens on a continuous basis. Under this framework, structured risk self-assessments take place on a recurring basis. Risk assessments consider both the likelihood of an event occurring, as well as the impact the risk would have, should the event in question occur.

Protection of our reputation

A strong corporate reputation is a valuable asset to a financial institution.

By managing and controlling the risks incurred in the course of conducting business, the group protects its reputation. This means avoiding large concentrations of exposures of all kinds, as well as transactions that are sensitive for tax, legal, regulatory, social, environmental or accounting reasons. A cautious approach is adopted to other risks that cannot be sensibly evaluated or priced.

Risk governance

Risk governance is the approach that balances the demands for entrepreneurship, control and transparency, while supporting the group's objectives with an efficient decision-making process.

The management of risk in the group is guided and monitored by a number of committees. The details regarding the composition and main responsibilities of our board of directors and board committees are contained in the corporate governance statement of the annual report.

Risk, policies and procedures

In the ordinary course of our business, we are exposed to various risks, including credit, interest rate and liquidity, operational and reputational risks. Below is an overview.

Credit risk

Credit risk represents the risk of loss to the group as a result of a client or counterparty being unable or unwilling to meet its contractual obligations. In terms of the potential impact on earnings and related capital impact, this is the most significant risk for the group.

Credit risk arises from two types of transactions:

- Lending transactions, giving rise to counterparty risk (the risk that a counterparty to a transaction will be unable or unwilling to repay capital and interest on advances and loans granted to it);
- Trading transactions, giving rise to issuer and settlement risk. Issuer risk is the risk that payments due from the issuer of a financial instrument will not be received. Settlement risk is the risk that settlement of a transaction does not take place as expected, with one party effecting settlement as they fall due but not receiving settlements to which they are entitled.

Management and measurement of credit risk

The senior credit risk committee is responsible for managing credit risk. This committee operates under the bank board's approved discretionary limits, policies and procedures, and at least two bank board members in addition to the bank CEO participate in these meetings.

A centralised decision making structure with decentralised limits is the basis on which applications for credit are entertained. Decentralised limits tend to be relatively low to ensure a high degree of centralised involvement in all areas where credit risk is incurred.

The group applies the following fundamental principles to manage credit risk:

- a clear definition of our target market;
- a quantitative and qualitative assessment of the credit worthiness of our counterparties;
- appropriate credit granting criteria;
- an analysis of all related risks, including concentration risks (concentration risk includes asset class, industry and counterparty concentration);
- prudential limits;
- regular monitoring of existing and potential exposures once facilities have been approved; and
- a high level of executive involvement and non-executive awareness of decision-making and review.

Credit risk classification and impairment policy

It is policy to make provision for specific impairments and to ensure that calculations for portfolio impairment are promptly made on a consistent basis. The external auditors review these impairments during the annual audit. Two types of impairments are in place: specific and portfolio.

Specific impairments

The specific impairment represents the quantification of actual and inherent losses from individually identified exposures.

Specific impairments are evaluated on a case-by-case basis for all non-performing exposures.

In determining specific impairments, the following factors are considered:

- our exposure to the customer;
- capability of the client to generate sufficient cashflow to service debt obligations;
- viability of the client's business;
- amount and timing of expected cash flows;
- realisable value of security held taking the time value of money into account; and
- deduction of any recovery related costs.

Portfolio impairments

The portfolio impairment supplements the specific impairment as outlined above and provides additional cover, based on prevailing market conditions and current default statistics.

Balance sheet risk management

This includes the financial risks relating to our asset and liability portfolios, comprising liquidity, funding concentration and interest rate risks on the balance sheet. The Treasury division manages the liquidity mismatch and interest rate risk arising from our asset and liability portfolios. It is required to exercise tight control on funding, liquidity, concentration and interest rate risk within defined parameters.

The asset and liability management committee (ALCO) manages the balance sheet risks on a consistent basis with pre-approved principles and policies. The balance sheet position is regularly reported to the executive committee as well as the board of directors through reporting to its Risk, Capital and Compliance Committee.

Interest rate risk

Interest rate risk is the impact on the net interest earnings and sensitivity to economic value, as a result of increases or decreases in the absolute levels of interest rates. It is managed by ongoing measurement of the interest rate mismatch and basis risk, translated into sensitivity of interest income and economic value across varying interest rate scenarios. The objective of interest rate risk management is to protect the balance sheet and income statement from potential adverse effects arising from the exposure to the components of interest rate risk.

The group bases its interest rate risk management processes on the following fundamental steps:

- measurement and assessment of interest rate mismatch gaps detailing the sources of interest rate exposure at a point in time, which forms the basis for:
  - translations into interest income sensitivity analysis; and
  - daily management of interest rate risk by Treasury subject to independent ALCO review.

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet all payment obligations as liabilities fall due. It is also the risk of not being able to realise assets when required to do so to meet repayment obligations in a stress scenario.

Sources of liquidity risk include unforeseen withdrawals of demand deposits, restricted access to new funding with appropriate maturity and interest rate characteristics, inability to liquidate a marketable asset timeously with minimal risk of capital loss, unpredicted customer non-payment of a loan obligation and a sudden increased demand for loans.

Liquidity management is vital to preserving market confidence, safeguarding our reputation and ensuring sustainable growth. The objective of liquidity management is to optimally fund the group under normal and stressed conditions.

The following elements form part of the liquidity management process:

- short and long-term cash flow management;
- maintaining a structurally sound balance sheet;
- ensuring the availability of sufficient contingency liquidity;
- preserving a diversified funding base;
- undertaking regular liquidity stress testing and
- maintaining contingency funding plans.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is inherent in the group's operations. The goal is to manage this risk to acceptable levels and to minimise unexpected events. Senior management is responsible for identifying and mitigating operational risks.

Operational risk includes amongst others the management of business continuity risk, information security risk, information risk management as well as our response to financial crime.

Business continuity risk

The group has a comprehensive programme to assess and enhance our capability to support the availability of systems, restore technology platforms, resume operations and deliver core business processes in the event of problems.

Information risk management

Changes to IT systems can introduce risk if not properly planned, assessed and implemented with care. During the year under review, we implemented a localised version of our core banking platform. The implementation process was well managed and no unexpected incidents occurred. The platform continues to perform to expectations.

Information security continues to receive attention so that the group can respond proactively to threats to data, systems and information.

Changes to line and business continuity environments are subject to a robust process to minimise disruptions.

Financial crime

The group has zero tolerance to financial crime, both internal and external. Incidents are fully investigated to understand source and cause, achieve recovery and initiate legal action, and implement appropriate mitigating action.

Reputational risk

Reputational risk is the risk caused by damage to an organisation's reputation, name or brand. Such damage may result from a breakdown of trust, confidence or business relationships, and can arise if other risks emerge and are not dealt with.

The group enforces polices and practices to manage reputational risk. Its strong values statement is regularly and proactively reinforced, as is its commitment to sound corporate governance practices. All activities, processes and decisions are bound by carefully considered principles.

It fosters an acute awareness at all levels of the impact of practices that may result in the breakdown of trust and confidence in the organisation. Policies and practices are regularly enforced through transparent communication, accurate reporting, internal audit and regulatory compliance review and risk management practices.

Solvency risk

Insolvency is the chronic condition of being unable to pay one's debts in full. An insolvent company cannot discharge its debts. It must either be liquidated or rescued. A group's solvency may be threatened if other risks have been mismanaged.

Capital adequacy is an exclusive concept which bankers, insurance companies, analysts and regulators attempt to measure in various ways. For further reference to capital adequacy, refer to the chief financial officer's report.

Market risk

Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices. Exchange rate risks as well as Interest rate risk are the primary risks in this category. The bank operates within a risk management framework where principles of managing risks associated with trading positions are set.

Trading limits are approved by the board, with the day-to-day operations and utilisation thereof resting with the group treasurer. Accordingly, the risk of adverse movements arising from interest rates is managed in the dealing room within treasury, where operations take place within limits assigned to each dealer, based on his/her knowledge, expertise and experience. The group treasurer and independent risk manager monitor the trading portfolio daily and report weekly to relevant risk monitoring structures in the group and to the chief executive officer of the bank.

Market risk related operational risk

All activities are authorised and conducted using operational systems that are adequate for the recording, valuation and settlement of all transactions. Security measures are in place to prevent access of unauthorised persons. In line with generally accepted good risk management practices, the group has an adequate segregation of duties in respect of dealing, confirmation, settlement and risk exposure measurement.

Counterparty risk

This risk arises from a counterparty to a transaction failing to meet punctually a financial commitment. The risk is managed in the dealing room, by allotting counterparty trading limits on foreign exchange, capital market and the money market transactions. The risk manager monitors these limits daily and reports deviations to relevant executive management.

Insurance risk

Insurance risk is the risk that future risk claims and expenses will exceed the value placed on insurance liabilities. It occurs due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. The timing is specifically influenced by future mortality, longevity, morbidity, withdrawal and expenses about which assumptions are made in order to place a value on the liabilities. Deviations from assumptions will result in actual cash flows differing from those projected in the policyholder liability calculations. As such, each assumption represents a source of uncertainty.

The larger the portfolio of uncorrelated insurance risks, the smaller the relative variability around the expected outcome will be. In addition, a more diversified portfolio of risks is less likely to be affected across the board by a change in any subset of the risks.

In determining the value of insurance liabilities, assumptions need to be made regarding future rates of mortality, morbidity, termination rates, expenses and investment performance. The uncertainty of these rates may result in actual experience being different from that assumed and hence actual cash flows being different from those projected, and, in the extreme, that the actual claims and benefits exceed the liabilities.

Insurance events are by nature random and the actual number and amount of claims and benefits could be different from the number and amount of claims and benefits estimated. The larger the portfolio of contracts, the smaller the expected variation between actual and expected experience becomes. In addition, the more diversified a portfolio of risks, the smaller the impact of deviation of actual experience in a particular risk factor, compared to the assumption. The lack of diversification in respect of type and amount of risk can increase insurance risk.

Momentum Namibia is exposed to the following types of risks as a result of the insurance contracts it issues:

- Mortality, longevity and morbidity risk;
- Persistency risk;
- Expense risk; and
- Business volume risk.

The main insurance risks are set out below, as well as Momentum Namibia's approach to the management of these risks.

Mortality, longevity and morbidity risks

The risk that actual experience in respect of the rates of mortality and morbidity may be higher than what is assumed in pricing and valuation varies, depending on the terms of different products. The material classes of business most affected by these risks are discussed below.

i. Individual insurance business

Products are sold directly to individuals providing benefits on death and disability, including impairment, or in the event of suffering a critical illness. The main insurance risk relates to the possibility that rates of death or disability may be higher than expected. This may be due to:

- Normal statistical variation due to the random nature of insurance events;
- Incorrect assumptions regarding future experience;
- Natural catastrophes such as floods or earthquakes, and unnatural catastrophes such as acts of terrorism;
- The impact of HIV/AIDS or epidemics such as bird or swine flu;
- Anti-selection such as where a client who has a pre-existing condition or disease purchases a product where a benefit will be paid on death or in the event of contracting such a disease;
- The effect of selective withdrawal which means policy-holders are less likely to withdraw voluntarily if they are more likely to need the cover in the foreseeable future;
- Economic conditions resulting in more disability claims; and
- Concentration risk, which is the risk of a large number of claims from a single event or in a particular geo-graphical area.

For contracts with fixed and guaranteed benefits and fixed future premiums there are no mitigating terms that reduce the risk accepted by Momentum Namibia. Therefore the company employs the following underwriting controls to ensure that only acceptable risks are accepted:

- Underwriting, which is the assessment of health risk, hazardous pursuits or financial risk, including the requirement of a negative HIV test as a condition for accepting risk, charging extra premiums or declining cover where applicable based on the outcome of the underwriting, and differentiating premiums for risk factors such as age and smoker status;
- Appropriate pricing including allowing for known risks based on actual claims experience, and making use of profit-testing techniques;
- Regular review of premium rates and approval of the approach to setting premium rates by the Statutory Actuary;
- A guarantee period shorter than the policy term applies to risk business, and enables Momentum Namibia to review premium rates on in-force contracts during the life of contracts. The guarantee period on whole-life products is generally within the range of 10 to 15 years; and
- Appropriate policy conditions, including setting appropriate maximum income replacement ratios in the case of products providing disability benefits, and approval of policy conditions by the Statutory Actuary.

The following additional controls and measures are in place in order to ensure that Momentum Namibia manages it's exposure to mortality and morbidity risk:

- Claims assessment processes to ensure only valid claims are paid;
- Reserving for AIDS risk in accordance with the guidelines issued by the Actuarial Society of South Africa as set out in Professional Guidance Note ("PGN") 105; and
- Reinsurance to limit Momentum Namibia's liability on particularly large claims or substandard risks. On individual pure risk business, Momentum Namibia reinsures up to N$900 000 per life of the mortality risk and of the morbidity risk. The maximum retention on aggregate mortality and morbidity risks on any one life is N$900 000 (2009: N$100 000).

ii. Group risk business

Employee benefit products provide life and disability cover to members of a group, such as employees of companies or members of trade unions. Typical benefits are:

- Life insurance (mostly lump sum, but some children and spouse's annuities)
- Disability insurance (lump sum and income protection)
- Dread disease cover and
- Continuation of insurance option

The products are, as a rule, quite simple and mostly basic products with a one-year renewable term. In most cases the products are compulsory for all employees although it has become more common recently to provide members with a degree of choice when selecting risk benefits.

Underwriting on group business is much less stringent than for individual business as there is typically less scope for anti-selection. The main reason for this is that participation in Momentum Namibia's insurance programmes is normally compulsory, and as a rule members have limited choice in the level of benefits. Where choice in benefits and levels is offered, this is accompanied by an increase in the level of underwriting to combat anti-selection.

Groups are priced using standard mortality and morbidity tables plus an explicit AIDS loading. The price for an individual scheme is adjusted for the following risk factors:

- Region
- Salary structure
- Gender structure
- Industry

Momentum Namibia reinsures all lump sum benefits and disability income benefits.

iii. Individual annuity business

Annuity contracts provide a specified regular income in return for a lump sum consideration. The income is normally provided for the life of the annuitant. In the case of a joint-life annuity, the income is payable until the death of the last survivor. The income may furthermore be paid for a minimum guaranteed period and may be fixed or increased at a fixed rate or in line with inflation. The mortality risk in this case is that the annuitants may live longer than assumed in the pricing of the contract. This is known as the risk of longevity.

iv. Permanent health insurance business

Momentum Namibia also pays Permanent Health Insurance ("PHI") income to disabled employees, the bulk of which are from employee benefit insured schemes. The income payments continue to the earlier of death, recovery or retirement of the disabled employee. There is therefore the risk of lower recovery rates or lower mortality rates than assumed, resulting in claims being paid for longer periods. Claims in payment are reviewed annually to ensure claimants still qualify and rehabilitation is managed and encouraged.

Momentum Namibia reinsures all Permanent Health Insurance benefits.

Persistency risk

Persistency risk relates to the risk that policyholders may cease or reduce their contributions, or withdraw their benefits and terminate their contracts prior to the contractual maturity date of a contract. Expenses such as commission and acquisition expenses are largely incurred at outset of the contract. These upfront costs are expected to be recouped over the term of a contract from fees and charges from the contract. Therefore, if the contract or premiums are terminated before the contractual date, expenses might not have been fully recovered, resulting in losses being incurred. As a result, the amount payable on withdrawal normally makes provision for recouping any outstanding expenses. However, losses may still occur if the expenses incurred exceed the value of a policy, which normally happens early on in the term of recurring premium policies, or where the withdrawal amount does not fully allow for the recovery of all expenses not recouped. This may either be due to a regulatory minimum applying, or because of product design.

In addition to setting realistic assumptions with regards to termination rates (rates of withdrawal and lapse), based on Momentum Namibia's actual experience specific amounts are set aside to cover the expected cost of any lost charges when policyholders cease their premiums or terminate their contracts.

Expense risk

There is a risk that Momentum Namibia may experience a loss due to actual expenses being higher than those assumed when pricing and valuing policies. This may be due to inefficiencies, higher than expected inflation, lower than expected volumes of new business or higher than expected terminations resulting in a smaller in-force book size.

Momentum Namibia regularly performs expense investigations and sets pricing and valuation assumptions to be in line with actual experience, with allowance for inflation. The latest investigation was performed at 30 June 2010. The inflation assumption furthermore allows for the expected gradual shrinking of the number of policies arising from the run-off of books closed to new business arising from past acquisitions.

Business volume risk

There is a risk that Momentum Namibia may not sell sufficient volumes of new business to meet the expenses associated with distribution and administration. A significant portion of the new business acquisition costs are variable and relate directly to sales volumes. The fixed cost component can be scaled down if there is an indication of a permanent decline in business volumes.

Insurance risk sensitivity

Sensitivity testing determines that the assumptions regarding future mortality and morbidity experience have an impact on the actuarial liability. This is to be expected given the nature of the business (risk insurance). This implies future trends in mortality and morbidity experience, whether positive or negative, will impact on profits in the future. The sensitivity provided, in isolation, are not amounts that can be simply extrapolated to determine prospective earnings forecasts.

Reinsurance risk

Reinsurance risk is the risk of default from reinsurance companies contracted. The company only enters into reinsurance treaties with reinsurances within the FirstRand Company or subsidiaries of large international reinsurance companies and no instances of default have yet been encountered.

Claims risk

Pro-active training of staff takes place to ensure that fraudulent claims are identified and investigated timeously. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risk. The conduct of staff within the group is subject to the group's code of ethics, which is communicated to all staff.

Capital management

The adequacy of the regulatory capital of the group under variety of conditions is assessed and managed using stress testing. Stress testing is an integral part of the internal capital adequacy assessment process. Under this process, appropriate scenario's are defined and developed, the values of the risk factors are determined, which is then followed by the modelling process, which aims to assess the impacts changes in the risk factors would have on earnings and also capital. The outcomes of stress tests are first reported to the right stakeholders, reviewed and then appropriate remedial actions are decided upon.

The capital management information is set out in the CFO's report.

Internal audit

The group's internal audit function performs an independent appraisal activity with the full cooperation of the board and management. It has the authority to independently determine the scope and extent of work to be performed. Its objective is to assist executive management with the effective discharge of their responsibilities by examining and evaluation of the group's activities, resultant business risks and systems of internal control. Its mandate requires it to bring any significant control weaknesses to the attention of management and the audit committee for remedial action.

Based on the recommendations of executive management and review of the group audit committee, the board relies on the adoption of appropriate risk management practices and internal control. Internal audit reports functionally to the group audit committee and administratively to the CEO of the group.

Nothing has come to the attention of the directors or the external or internal auditors to indicate that any material breakdown in the functioning of internal controls and systems has occurred at a group level during the year under review.

Internal control

Internal control comprises methods and procedures implemented by management to safeguard assets, prevent and detect error and fraud, and ensure the accuracy and completeness of accounting records and the timely preparation of reliable financial information.

The directors are responsible for maintaining an adequate system of internal control. Such a system reduces, but cannot eliminate, the possibility of fraud and error. Shareholders, depositors, policyholders and regulatory authorities have a vested interest in the accuracy and integrity of the financial statements and in knowing that accountability of assets is adequately safeguarded, verified and maintained. These controls are based on established written policies and procedures and are implemented by skilled personnel with an appropriate segregation of duties.

To ensure that the group's business practices are beyond reproach, all employees are required to maintain the highest ethical standards. Nothing has come to the attention of the directors to indicate that any material breakdown in controls, procedures and systems has occurred during the year under review.

Audited quantitative risk management information, which forms an integral part of this Risk Report, is disclosed in note 40 of these annual financial statements.

2010

Shareholders' information

Contents

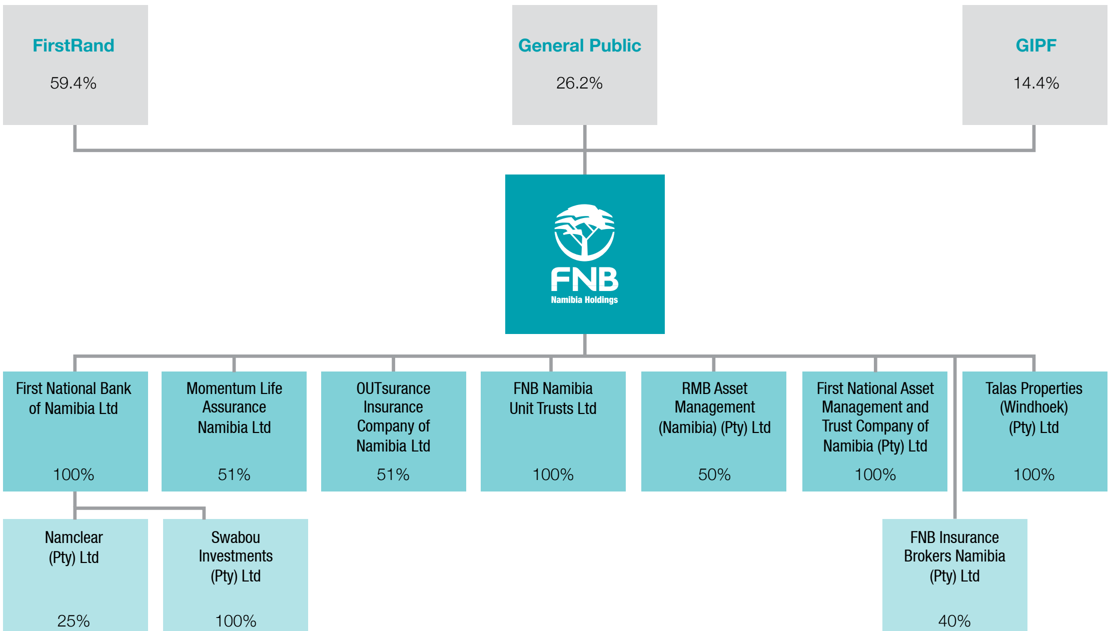
Shareholders' diary

Financial year-end	30 June
Declaration of final dividend	17 August 2010
Announcement of results	13 September 2010
Publication of annual financial statements	15 September 2010
Last record date	1 October 2010
Payment of final dividend	28 October 2010
Annual general meeting	24 November 2010
Publication of interim results	February
Declaration of interim dividend	February
Payment of interim dividend	April

Stock exchange performance

Share price (cents)	2010	2009
- high for the year	1 180	1 180
- low for the year	1 100	996
- closing price per share	1 156	1 180
Number of shares traded (000's)	4 207	12 034
Value of shares traded (N$ '000's)	49 284	140 509
Number of shares traded as percentage of issued shares (%)	1.57	4.49

Group structure of FNB Namibia group



Group corporate information

Company name	Holdings %	Registration number
FNB Namibia Holdings Ltd		88/024
First Finance (Pty) Ltd	100	2002/058
First National Asset Management and Trust Company of Namibia (Pty) Ltd	100	91/125
First National Bank Nominees Namibia (Pty) Ltd	100	96/138
First National Bank of Namibia Ltd	100	2002/0180
FNB Insurance Brokers Namibia (Pty) Ltd	40	78/02244/07
FNB Namibia Unit Trusts Ltd	100	89/485
Momentum Life Assurance Company Ltd	51	91/369
Namclear (Pty) Ltd	25	97/004
Namibia Properties Investment (Pty) Ltd	100	2003/0645
OUTsurance Insurance Company of Namibia Ltd	51	89/524
RMB Asset Management (Namibia) (Pty) (Ltd)	50	2003/781
Sunrise Properties (Pty) Ltd	100	88/065
Swabou Investments (Pty) Ltd	100	94/081
Talas Properties (Windhoek) (Pty) Ltd	100	282/68

Shareholders' analysis

	Number of shareholders	%	Number of shares	%
Shareholder range				
1 - 999	1 111	43.5	404 879	0.2
1 000 - 1 999	404	15.8	520 294	0.2
2 000 - 2 999	191	7.5	463 103	0.2
3 000 - 3 999	86	3.4	289 912	0.1
4 000 - 4 999	52	2.0	226 887	0.1
5 000 - 9 999	213	8.3	1 424 000	0.5
over 10 000	498	19.5	264 264 175	98.7
Total issued ordinary share capital	2 555	100.0	267 593 250	100.0
Distribution of shares				
Corporate bodies	27	1.1	165 502 979	61.8
Nominee companies	7	0.3	76 495 886	28.6
Private individuals	2 502	97.9	15 535 065	5.8
Trusts	19	0.7	10 059 320	3.8
Total issued ordinary share capital	2 555	100.0	267 593 250	100.0
Major shareholders				
FirstRand Bank Holdings Limited			158 905 198	59.4
Government Institutions Pension Fund*			38 435 473	14.4
Standard Bank (Namibia) Nominees (Pty) Ltd			28 251 698	10.6
FNB Employee Share Incentive Trust			8 591 565	3.2
CBN Nominees (Pty) Ltd			6 660 260	2.5
Sovereign Capital (Pty) Ltd			4 107 135	1.5
Chappa'ai Investments Forty Two (Pty) Ltd			2 151 357	0.8

* All Government Institutions Pension Fund shares are held by Standard Bank (Namibia) Nominees (Proprietary) Limited.

FirstRand Bank Holdings Limited, Standard Bank (Namibia) Nominees (Proprietary) Limited and Government Institutions Pension Fund are the only shareholders who beneficially hold more than 5% of the issued ordinary shares in the Company. The nominee companies mentioned above are registered shareholders in the Company, but hold the shares on behalf of other beneficial owners.

Two issued preference shares were in existence at 30 June 2010 (2009: 2). These were preference shares were issued to RMB-SI Investments (Proprietary) Limited to facilitate a structured insurance transaction with OUTsurance Insurance Company of Namibia Limited.

Notice of annual general meeting

Notice is hereby given that the twenty-third (23rd) Annual General Meeting of the shareholders of the Company will be held in the Boardroom, 4th Floor, First National Bank Building, 209 Independence Avenue, Windhoek, on 24 November 2010 at 15:00 for the following business:

1. Ordinary resolution number 1:

RESOLVED THAT the minutes of the previous annual general meeting be and hereby are approved.

2. Ordinary resolution number 2:

RESOLVED THAT the annual financial statements for the year ended 30 June 2010 be adopted.

3. Ordinary resolution number 3:

RESOLVED THAT the final dividend declared on 17 August 2010 of 36 cents per ordinary share be and hereby is approved.

4. Ordinary resolution number 4:

To approve the appointment of Mr. Moir as director who retires, together with Mr. Herbert Waldemar Peter Böttger and Mr. Hans-Dietrich Voigts, in terms of the Company's Articles of Association; and where Mr. Moir who, being eligible, offers himself for re-election:

Brief curricula vitae of the Director appears after this notice.

5. Ordinary resolution number 5:

RESOLVED THAT all the ordinary shares required for the purpose of carrying out the terms of the FNB Employee Share Incentive Scheme ("the scheme") be and are hereby specifically placed under the control of the Trustees of the scheme, who are hereby authorised and shall have the power to allot and issue those shares as they become required for the purposes of carrying out and giving effect to the terms of the scheme.

6. Ordinary resolution number 6:

RESOLVED THAT all the authorised but unissued shares in the capital of the Company be and are hereby placed under the direct control of the directors who are hereby authorised to allot or issue shares on such terms and such conditions as they deem fit, subject to the provisions of the Companies Act, the Articles of Association of the Company and the Listings Requirements of the Namibian Stock Exchange ("NSX"), which provide, inter alia, that:

- such issue of shares shall not in the aggregate exceed 10% of the Company's shares in issue; and
- the resolution for the issue of shares must be approved by a 75% majority of votes cast in favour of such resolution.

7. Ordinary resolution number 7:

RESOLVED THAT Deloitte & Touche be re-appointed as auditors of the Company and authorise the directors to determine the remuneration of the auditors.

8. Ordinary resolution number 8:

RESOLVED THAT the remuneration of the directors as set out in note 6 to the annual financial statements for the year ended 30 June 2010 be approved.

9. Ordinary resolution number 9:

RESOLVED THAT any one or more of the directors selected by the board of directors be and are authorised to do all such things, sign all such documents, procure the doing of all such things and the signature of all such documents as may be necessary or incidental to give effect to all of the resolutions proposed and passed at which this resolution is proposed.

Voting:

All holders of FNB Namibia Holdings Ltd shares will be entitled to attend and vote at the annual general meeting. On a show of hands, every holder of FNB Namibia Holdings Ltd shares who is present in person, or in the case of a company, the representative appointed in terms of section 188 of the Companies Act, shall have one vote.

On a poll, the holders of ordinary shares present in person or by proxy will each be entitled to one vote for every ordinary share held.

Proxies:

Each member entitled to attend and vote at the annual general meeting is entitled to appoint one or more proxies (none of whom need be a member of the Company) to attend, speak and, on a poll, to vote in his/her stead.

The form of proxy for the annual general meeting, which sets out the relevant instructions for its completion, accompanies this notice and may also be obtained on request from the transfer secretaries of the Company.

In order to be effective, duly completed forms of proxy must be received at the office of the transfer secretaries of the Company by no later than 15:00 on Monday, 22 November 2010.

By order of the board FNB Namibia Holdings Limited.

Yamillah Katjirua
Company Secretary

16 September 2010
Registered office
First National Bank Building
209 Independence Avenue
P O Box 195, Windhoek, Namibia

Transfer secretaries
Transfer Secretaries (Proprietary) Limited
Shop 8, Kaiserkrone Centre, Post Street Mall
P O Box 2401, Windhoek, Namibia

Curricula vitae of the director

Stuart Hilton Moir

Date of birth: 23 June 1948
Independent Non-executive Chairman
Appointed: November 2005
PMD - Harvard University; CAIB (SA); B.Comm; CIS
Directorships: FNB Namibia Holdings Ltd, First National Bank of Namibia Ltd, Momentum Life Assurance Namibia Ltd (Chair), FNB Insurance Brokers (Namibia) Pty Ltd, Stimulus Investments Ltd

Form of proxy

FNB Namibia Holdings Limited
(Incorporated in the Republic of Namibia)
(Registration number: 88/024)
(Share code: FNB) (ISIN: NA 0003475176)
("the Company")

I / We ______________________________ (name in full)

being the holder(s) of ______________ ordinary shares in the Company do hereby appoint:

1. ______________________________ or failing him/her

2. ______________________________ or failing him/her

3. the chairman of the annual general meeting,
as my/our proxy to act for me/us at the annual general meeting (as the case may be) which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at each adjournment thereof and to vote on such resolution in respect of the shares in the issued capital of the Company registered in my/our name/s in accordance with the following instructions (see note):

	For*	Against*	Abstain*
1. Ordinary resolution 1: Approval of minutes of the previous annual general meeting			
2. Ordinary resolution 2: Adoption of annual financial statements for 30 June 2010			
3. Ordinary resolution 3: Approval of final dividend declared			
4. Ordinary resolution 4: Election of directors			
4.1 Mr. S H Moir			
5. Ordinary resolution 5: FNB Employee Share Incentive Scheme			
6. Ordinary resolution 6: Control of unissued shares			
7. Ordinary resolution 7: Re-appointment of auditors			
8. Ordinary resolution 8: Approval of directors' remuneration			
9. Ordinary resolution 9: Authority to sign documents			

* Insert an X in the appropriate spaces above to indicate how you wish your votes to be cast. However, if you wish to cast your votes in respect of less than all of the shares that you own in the Company, insert the number of ordinary shares held in respect of which you desire to vote.

Signed at ______________ this ______________ day of ______________ 2010

Signature ______________________________

Assisted by me (where applicable) ______________________________

Each member is entitled to appoint one or more proxies (none of whom need be a member of the Company) to attend, speak and, on a poll, vote in place of that member at the annual general meeting.

Notes

1. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space/s provided, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialed by the member. The person whose name stands first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. Please insert an "X" in the relevant spaces according to how you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of shares than you own in the Company, insert the number of ordinary shares held in respect of which you wish to vote. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of the member's votes exercisable thereat. A member or the proxy is not obliged to use all the votes exercisable by the member or by the proxy, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the member or by the proxy.

3. Forms of proxy must be received at the Company's transfer secretaries, Transfer Secretaries (Proprietary) Limited, Shop 8, Kaiserkrone Centre, Post Street Mall (PO Box 2401) Windhoek, Namibia by no later than 15:00 on Monday, 22 November 2010. Alternatively, forms of proxy may be sent to the Company's transfer secretaries by way of telefax (+264 61 248531), provided that such telefaxes are received by the transfer secretaries by no later than 15:00 on Monday, 22 November 2010.

4. The completion and lodging of this form of proxy will not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.

5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the Company's transfer secretaries or waived by the chairman of the annual general meeting.

6. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.

7. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries of the Company.

8. The chairman of the annual general meeting may reject or accept a form of proxy which is completed and/or received, other than in accordance with these notes, if the chairman is satisfied as to the manner in which the member wishes to vote.

9. Where there are joint holders of ordinary shares:
    i. any one holder may sign the form of proxy;
    ii. the vote of the senior (for that purpose seniority will be determined by the order in which the names of the member appear in FNB Namibia Holdings Ltd's register of members) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote/s of the other joint shareholder/s.

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FNB representation points

Please call FNB at (061) 299 2111 or access our website
to assist in locating the branch most convenient to you.

www.fnbnamibia.com.na