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 1 First-time Adoption of International Financial Reporting Standards was amended during January 2010. 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 required enhanced disclosures about fair value measurement and liquidity risk. The amendment does not have an impact on the group as the group has already adopted IFRS.

- IAS 32 Financial Instruments: Presentation was amended during October 2009. 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 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. The amendment has had no impact on the group's results as no such arrangements have been entered into.

- 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 2009 is effective for annual periods commencing on or after 1 January 2010 and the improvements made to IFRS 3 and IAS 27 as part of the 2010 annual improvements project is effective for annual periods commencing on or after 1 July 2010. The group has adopted these amendments during the current financial year. These amendments have not had a significant impact on the group's results not has it resulted in the restatement of prior year numbers.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments is effective for annual periods commencing on or after 1 July 2010. This interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. These transactions are often referred to as debt for equity swaps. This Interpretation does not address the accounting by the creditor. This Interpretation has no effect on the group's financial statements as no such arrangements have been entered into.

2 Basis of preparation

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 39.

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. The contingent asset or liability is initially measured at fair value at acquisition date. A contingent obligation to pay contingent consideration is classified as equity or liability. The contingent asset or liability is subsequently measured at fair value with fair value changes recognised against the acquisition cost where they qualify as the measurement period adjustment as per IFRS 3 as recognised in accordance with the IFRS applicable to that asset or liability. Contingent considerations that are classified as equity are not re-measured after acquisition date. 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 policy3.3) 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 profit or loss.

When control is achieved in stages, each transaction is accounted for separately and the identifiable assets, liabilities and contingent liabilities are measured at fair value at acquisition date.

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.

3.4 Associates and joint ventures

Associates are entities in which the group holds an equity interest of between 20% and 50%, but has no control. The group is presumed to have significant influence where it holds an equity interest of between 20% and 50%. Joint ventures are entities in which the Group has joint control over the economic activity of the joint venture, through a contractual agreement. Investments acquired and held exclusively with the view to dispose of in the near future (within 12 months) are not accounted for using the equity accounting method, but are measured at fair value less cost to sell in terms of the requirements of IFRS 5.

The group includes the results of associates and joint ventures in its consolidated 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 and joint ventures. Other

Accounting policies continued

comprehensive income includes the group's share of other comprehensive income of associates and joint ventures. The cumulative post acquisition movements are adjusted against the cost of the investment in the associate or joint venture.

Goodwill on the acquisition of associates and joint ventures is included in the carrying amount of the investment in associates or joint ventures. The group assesses at each reporting period whether there is objective evidence in terms of IAS 39 that an investment in an associate or joint venture is impaired. If such evidence of impairment exists, the entire carrying amount, including the goodwill, is tested for impairment in terms of IAS 36.

Equity accounting is discontinued from the date that the group ceases to have significant influence over the associate or joint venture. The group measures at fair value any investment it has retained in the entity when significant influence is lost and recognises the resulting gain or loss in profit or loss. The gain or loss is measured as the difference between the fair value of this retained investment and the carrying amount of the original investment at the date significant influence is lost.

After discontinuing equity accounting, the group accounts for any retained investment in the entity in accordance with the relevant IFRS as appropriate. The group also applies the requirements of IAS 39 to determine whether there are any indicators of impairment. If such indicators are found to be present the requirements of IAS 36 are applied in testing the investment for impairment and determining the amount of any additional impairment loss with respect to the net investment in the associate or joint venture as well as other exposures to the investee.

The group does not account for any further losses of the associate or joint venture when the carrying amount of the investment in an associate or joint venture reaches zero, unless it has incurred obligations or guaranteed obligations in favor of the associated undertaking.

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 or joint ventures 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 and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

Investment in associates held in policyholder portfolios backing investment linked policyholder liabilities are designated on initial recognition at fair value through profit or loss in terms of the scope exemption in IAS 28.

4 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.

Interest income on instruments designated at fair value through profit or loss are included in fair value income except to the extent that the interest relates to:

- the group's insurance operations;
- funding liabilities that fund amortised cost assets;
- where hedge accounting is applied; and
- interest on intercompany balances.

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.

5 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. Trading related financial instruments designated at fair value through profit or loss exclude instruments relating to the group's insurance operations and the group's funding requirements.

6 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.

7 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, except to the extent that the scrip dividend is viewed as a bonus issue, with no cash alternative and the transaction lacks economic significance.

8 Foreign currency translation

8.1 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.

8.2 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.

9 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. Iternative and the transaction lacks economic significance.

10 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.

Accounting policies continued

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.

11 Recognition of assets

11.1 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.

11.2 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.

12 Liabilities, provisions and contingent liabilities

12.1 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.

12.2 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.

13 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.

14 Financial instruments

14.1 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 income statement 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 income statement 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.

14.2 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.

Accounting policies continued

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.

14.3 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.

14.4 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.

14.5 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.

14.6 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.

14.7 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.

14.8 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.

14.9 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. A substantial modification of the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one.

14.10 Sale and repurchase agreements

The consolidated financial statements reflect securities sold subject to a linked repurchase agreement ("repos") as trading or investment securities. These instruments are recognised at fair value through profit or loss. The counterparty liability is included in deposits from other banks, other deposits, or deposits due to customers, as appropriate at amortised cost.

Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers as appropriate and recognised at amortised cost. The difference between purchase and resale price is treated as interest and accrued over the life of the reverse repos using the effective interest method.

The group does not recognise securities borrowed in the consolidated financial statements, unless sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return these securities is recorded as a liability at fair value.

14.11 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.

15 Impairment of financial assets

15.1 General

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

15.2 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.

Accounting policies continued

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.

15.2.1 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.

15.2.2 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.

15.3 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.

16 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

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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.

16.1 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.

16.2 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.

17 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.

18 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.

19 Leases

19.1 A group company is the lessee

19.1.1 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.

19.1.2 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.

19.2 A group company is the lessor

19.2.1 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.

19.2.2 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.

19.3 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.

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20 Intangible assets

20.1 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.

20.2 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.

20.3 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 profit and loss component of the statement of comprehensive income.

20.4 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.

20.5 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.

21 Employee benefits

21.1 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.

21.2 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.

21.3 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.

21.4 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.

21.5 Leave pay accrual

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

21.6 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.

21.7 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

Accounting policies continued

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.

22 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.

23 Share Capital

23.1 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.

23.2 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.

23.3 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.

24 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.

25 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.

26 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.

26.1 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.

26.2 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.

27 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.

28 Discontinued operations

The group classifies a component as a discontinued operation when that component has been disposed of, or is classified as held for sale, and:

- it represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

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A component of a group comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes from the rest of the group.

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.

29.2 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.

29.3 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.

29.4 Valuation and recognition

29.4.1 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 (January 2005):
Life Offices – Valuation of Long-Term Insurers
PGN 110 (December 2007):
Reserving for minimum investment return guarantees
PGN 102 (March 1995):
Life Offices – HIV/AIDS
PGN 105 (March 2007):
Recommended AIDS extra mortality bases
PGN 106 (July 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).

Accounting policies continued

29.5 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.

29.6 Recognition

29.6.1 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.

29.6.2 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.

29.6.3 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.

29.6.4 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.

29.6.5 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.

29.6.6 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.

29.7 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.

29.7.1 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.

29.7.2 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.

29.7.3 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.

29.7.4 Policyholder bonus stabilisation accounts

DPF liabilities (insurance and investment) are adjusted by

Accounting policies continued

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.

29.7.5 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.

29.8 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.

29.9 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.

29.10 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.

29.11 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.

29.12 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. 13 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.

29.14 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.

29.15 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

The group adjusts comparative figures to conform to changes in presentation in the current year, where necessary.

Corporate governance report

Statement by the chairman of the board

The adoption of King III within the group presents us with an excellent opportunity to review and improve on our governance framework and structures.

Principle highlights for 2011

- The approval of a formal director appointment policy
- Review of governance framework
- After a review of the composition of the banking operations board we elected to appoint two new directors
- Two long serving directors Messrs. Voigts and Böttger retired
- Mr Hinrichsen was elected as chairman of the board

Corporate governance in the group

FNB board of directors provides overall guidance on the governance of the group with the aim of promoting greater corporate accountability, transparency, increase stakeholder confidence and the achievement sustainable growth. The board of directors subscribes to these principles and incorporates the principles in all business operations.

FNB is committed to the principles of good corporate governance as set out in King III Code on Corporate Governance and that the board of directors ensures it is implemented across the group and monitored consistently in all its operations.

The board of directors of the group through the directors' affairs and governance committee of the board assures all stakeholders that it has complied with the principle requirements of King III. The group believes that the implementation of its strategies is best managed at subsidiary and divisional level.

Application of King III Code on Corporate Governance

As an international best practice, the group adopted the King III Code on Corporate Governance during the 2011 financial year. A review of the governance framework and other guideline documents such as committee charters and terms of reference was conducted during the year under review to enhance them with the requirements and principles of the code and so that these best practice guides are incorporated in the management and operations across the group.

The NSX in partnership with FNB and industry role players committed to the development of a local Governance Code as King III has yet to be adopted by the NSX. The group will follow this Namibia code once adopted.

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, and ethics behaviour in all interactions 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 principles set in the code of ethics is underpinned and re-confirmed in the values of respect, innovation, integrity, passion and accountability adopted for the group.

Group board of directors

Functions of the board

The board is responsible and accountable for providing effective and ethical leadership and executes these functions by:

- Providing strategic leadership and guidance to management to build a sustainable business. The directors have a duty to exercise leadership, enterprise, integrity and judgment based on transparency, fairness, accountability and responsibility.
- Pronouncing and monitoring the implementation of the value system of the company thorough the code of ethics. 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.
- Ensuring active and positive stakeholder engagement in various aspects of the business. The board is 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.
- Control and oversight over the operations of the company through various governance structures including audit, risk, capital and compliance committee, remuneration committee and directors' affairs and governance committee.

Board charter

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 has satisfied its responsibilities in terms of the board charter.

Board composition and independence of directors

The company has a unitary board. Its chairman is non-executive and independent, which independence is confirmed through an assessment. 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 sufficient independence is applied when making significant decisions.

The board of the company comprised of a total of nine directors. The following directors are considered to be independent in judgement and character:

CJ Hinrichsen
II Zaamwani-Kamwi
CLR Haikali
PT Nevonga
SH Moir
MN Ndilula

Messrs. JK Macaskill and JR Khethe are deemed not independent due to their roles with FirstRand EMA Holdings Ltd.

The interests of directors in equity of the company are detailed in note 6.2 of the annual financial statements. Messrs. Ndilula and Haikali are representatives of the BEE Consortia.

The Chief Financial Officer, Mr. E Tjipuka attends all meetings in an ex-officio capacity.

The board seeks and assesses the independence of the directors through the directors' affairs and governance committee.

The boards of major subsidiaries are similarly constituted with an appropriate mix of skills, experience and diversity.

Appointment

The board adopted a formal appointment process of directors 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 skill, 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, with a third of the directors rotating annually in accordance with the articles of association. A staggered rotation ensures continuity of experience and knowledge. A brief curriculum vita of each 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.

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 Holdings' board and committee meetings:

Board

	Aug-10	Nov-10	Feb-11	May-11
CJ Hinrichsen (chairman)[1]	√	√	√	√
H-D Voigts[2]	√	√	-	-
VR Rukoro	√	√	√	√
HWP Böttger[3]	√	√	-	-
CLR Haikali	√	√	√	√
JR Khethe	√	√	√	√
JK Macaskill	√	√	A	√
SH Moir	√	√	√	√
MN Ndilula	√	√	√	√
PT Nevonga	√	√	√	√
II Zaamwani-Kamwi (Ms)	√	√	√	√

[1] appointed chairman 24 November 2010
[2] retired as chairman and director 24 November 2010
[3] retired as director 24 November 2010
√ = attendance
A = apologies tendered
- = not applicable

Access to management and company resources

Directors have full and unrestricted access to management and all group information and resources. They are also entitled to seek independent professional advice and or training at the group's expense in support of their duties. Directors meet separately with management without the attendance of executive directors as well as with professional advisors without management's

Corporate governance report continued

presence. 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 formalised process that takes into account performance evaluation of the individual directors and the board as a whole. Directors undergo a formalised orientation programme at appointment and continuing professional development which includes exposure to new developments relevant to their role and the financial sector.

Training sessions were conducted for directors during the past year. These sessions covered important topics such as recent developments in the financial sector, corporate governance, updates on legislative developments, as well as relevant developments in the group's areas of operation.

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 the board charter. The chief executive officer's performance is evaluated against set objectives both as an executive director and as a director.

Subsidiary boards

The company has three major subsidiaries. These are:

- First National Bank of Namibia Limited;
- Momentum Life Assurance Company Limited; and
- OUTsurance Insurance Company Limited

These subsidiary boards are subject to oversight by regulatory authorities including the Bank of Namibia, Namibia Financial Institutions Supervisory Authority and the South African Reserve Bank.

All subsidiaries have boards of directors and executive management committees.

The subsidiaries have the benefit of group governance and administrative support and to that end various group-wide policies are applied across subsidiaries with specific adaption to fit the objectives of the subsidiary, where necessary.

Board committees

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 Senior credit risk committee which is a subcommittee of the risk committee.

All committees have formal terms of references and report to the board of directors. With the exception of Exco and senior 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.

Report of the Audit Committee Chairman

The global financial crisis experienced in varying degrees across the world was the backdrop that led to the group reviewing its financial and risk management framework and structures during 2011. The review was also necessitated by changes in the Companies Act and IFRS standards.

Membership and attendance

Audit committee

	Jul-10	Aug-10	Oct-10	Feb-11	Apr-11
SH Moir (chairman)	√	√	√	√	√
HWP Böttger[1]	√	√	√	-	-
JK Macaskill	√	√	A	A	A
II Zaamwani-Kamwi	A	√	A	√	√
VR Rukoro[2]	At	At	At	At	-
CJ Hinrichsen	-	At	-	At	-
H-D Voigts	-	At	-	-	-

[1] retired as chairman 24 November 2010
[2] executive member
√ = attendance
- = not applicable
A = apologies tendered
At = attended ex-officio

The committee consists of two independent non-executive directors and one non-executive director. 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.

Charter

The group audit committee's mandate is to ensure effective internal financial controls, financial risk identification and management and upholding the integrity of financial and integrated reporting and executes this mandate on behalf of the board.

To this end, it has adopted a charter that sets out the above mandate in detail, the membership, structure and authority. 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 expertise, resources and experience of the financial management function;
- Ensuring integrity, reliability and accuracy of accounting and financial reporting systems and resources;
- Evaluating the adequacy and effectiveness of internal audit assurance functions;
- Maintaining transparent and appropriate relationships with the external auditors;
- Reviewing the scope, quality and cost of the statutory audit and the independence and objectivity of the auditors;
- Ensuring that there is adequate reliance placed on effective internal, external and management assurance providers; and
- The committee is authorised to investigate any activity or concern externally on any matter within its terms of reference.

The committee assures all stakeholders that it met its obligations in terms of the charter in all material respects.

Report of the risk, capital and compliance committee chairman

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. Please refer to the risk report on pages 172 to 179 for further reading.

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 and compliance risks;
- Determining risk appetite of the group and its subsidiaries and monitoring compliance thereto;
- Ensuring that appropriate resources and systems are in place to identify and monitor risk controls;
- Ensuring that appropriate resources, systems and compliance with the law and codes of conduct; and
- Reviewing risk assessment reports risk monitoring reports, management responses and obtaining assurance regarding the effectiveness of the risk management process.

The committee is authorised to investigate any activity or concern within its terms of reference.

The committee consists of two independent non-executive directors and one non-executive director. The group chief executive officer, the group chief financial officer, the compliance officer, the head of risk and the head of internal audit attend meeting in an ex-officio capacity.

The committee assures the stakeholders that it met its obligations in terms of the charter in all material respects.

Membership and attendance

Risk, capital and compliance committee

	Jul-10	Oct-10	Feb-11	Apr-11
HWP Böttger[1]	√	√	-	-
JK Macaskill	√	A	A	A
SH Moir (Chairman)	√	√	√	√
II Zaamwani-Kamwi (Ms)	A	A	√	√
VR Rukoro	At	At	-	-

[1] retired 24 November 2010
√ = attendance
A = apologies tendered
At = attended ex-officio
- = not applicable

Corporate governance report continued

Report of the remuneration committee

The remuneration committee consists of non-executive directors with the group chief executive officer attending in an ex-officio capacity. Its primary objective is to develop and implement the remuneration philosophy and policy for the group.

Remuneration policy of the company is set out herein and follows the following principle:

- Achievement of market and internal equity;
- Fair and reasonable remuneration commensurate with skills and experience required for the position;
- Total remuneration which consists of salary, bonus and share option allocation for qualifying staff.

Its responsibilities are set out in the charter and mainly provide for:

- The determination of 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; and
- Reviewing and approving annual salary increases and bonus awards of staff.

Membership and attendance

Remuneration committee

	Jul-10	Nov-10	Jan-11	Mar-11
II Zaamwani-Kamwi (chairperson)	A	√	√	√
H-D Voigts[1]	√	√	-	-
VR Rukoro	At	At	At	-
CLR Haikali	√	√	√	√
JK Macaskill	√	√	A	√
SH Moir	√	√	√	√
CJ Hinrichsen[2]	-	√	√	√

[1] retired 24 November 2010
[2] appointed 24 November 2010
√ = attendance
A = apologies tendered
At = attended ex-officio
\- = not applicable

Non-executive director' fees

Non-executive directors' fees are based on market comparisons, and are reviewed on an annual basis in order to meet the remuneration philosophy of the group that advocates for fair and responsible remuneration. 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 annual financial statements.

Non-executive directors do not receive share options or other incentive awards other than for the implementation of the BEE/Transformation agreement entered into in 2005.

Further information on exposure of directors to the shares of the company is provided in note 6.3 of the annual financial statements.

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 is committed to the achievement equity in the workplace and has to that extent approved an affirmative action policy. The policy is aimed at achieving employment equity in the workplace and to 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.

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.

Charter

Its prime objectives are to assist the board in discharging its responsibilities relative to:

- Determine and evaluate the adequacy, efficiency and appropriateness of the corporate governance structures of the group;
- Board and board committee structures;
- The maintenance of 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 selection and appointment of new directors;
- The remuneration, other benefits and employment conditions of the CEO and subsidiary executive directors;
- The assessment of the effectiveness of the board as a whole and the contribution of each director, which self-assessment;
- Ensuring that succession plans are in place for key posts (as determined by the committee from time to time) in the group; and
- Reviewing the structure and composition of the boards of significant operating companies within the group.

Membership and attendance

Directors' affairs and governance committee

	Jul-10	Nov-10	Mar-11
CJ Hinrichsen (chairman)[1]	-	√	√
H-D Voigts[2]	√	√	-
CLR Haikali	√	√	√
JR Khethe[3]	-	√	A
JK Macaskill[4]	√	√	√

[1] appointed chairman 24 November 2010
[2] retired as chairman 24 November 2010
[3] appointed 24 November 2010
[4] resigned as full member and appointed alternate to JR Khethe 24 November 2010
√ = attendance
A = apologies tendered
- = not applicable

Board nomination and succession

The board approved a formalised board appointment and succession plan for independent non executive directors and executive management that takes into account the skills and experience of the current and prospective directors, the outcome of the board and director evaluation process as well as the group's commitment to the Financial Services Charter and other statutory requirements set by the various regulators.

Board evaluation process

The directors affairs and governance committee conducts a formal board evaluation process. The process entails a review of the charter obligations of the board and of the committees as well as individual director requirements as set by various statutes and the articles of association of the company and the code of ethics. Executive directors are further assessed on their roles as executive management members. The format of the evaluation is both a peer review and self assessment.

The results are analysed and presented to the Directors' affairs and governance committee and chairpersons of the various committees. The results form an integral part of board nomination and training process.

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 and group chief financial 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

Corporate governance report continued

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 EMA Holdings Limited regarding the vesting of the tranches.

The committee is chaired by a non-executive director and membership includes representation of FirstRand EMA 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.

Although the option agreement lapsed on 30 June 2010 it was extended to December 2010 to allow for the full implementation of the deal. Refer to note 32 of the annual financial statements for further details of the BEE share scheme.

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's 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.

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 as amended 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 materially 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.

Social responsibility and sustainability

The group's corporate sustainability strategy aims to reinforce the effectiveness of business strategy through ensuring integrated monitoring and management of the group's financial and non financial performance. The group has defined sustainability as a corporate business practice which will, by understanding the financial, economic, social and environmental risks and opportunities faced by the company and its operating entities, enable it to remain a leading financial services provider. Corporate sustainability within the FNB context involves corporate social responsibility, sustainability and corporate social investment.

The group satisfies its social responsibility through the FNB Foundation which on a yearly basis supports worthy community upliftment initiatives. This foundation is funded by 1% of the annual post tax profits of the group. A board of trustees oversees the work of the foundation to ensure that the funds therein are properly managed and are used for their intended purpose.

The group also continues to provide bursaries to Namibians (not necessarily employed by the group), a policy which is in line with our commitment to developing the skills of all Namibians and thus contributing to the country's general economy.

These contributions form part of the group's efforts to support the Government's Vision 2030 which is aimed at creating jobs, wealth and prosperity for all Namibians. The group is committed to the social and economic transformation objectives as set out in the Financial Services Charter and actively engages in activities aimed at their achievement.

The group sustainability report contained herein provides further information on the social responsibly and investment initiatives.

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

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 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 appetite

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, capital and compliance committee and its subcommittees.

The risk appetite framework sets out principles, objectives and measures that links 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

Stress testing

Stress testing is a key focus area during the internal capital adequacy assessment process (ICAAP). A key objective of this process is to assess how much current and future capital the business would require when mitigating the risks it assumes in its pursuit of profits.

Through the use of stress testing and scenario analysis the bank is able to assess the performance of its business under the anticipated economic environment and evaluate the impact on its business during adverse and more favourable economic conditions.

The stress tests simulate the statement of financial position and profit and loss effects of stresses across the bank, analysing the impact on profits and the ability to maintain appropriate capital ratios. Insights gained are fully integrated into the management process that considers forward looking trends and the bank's financial performance and capital management over a medium term horizon.

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.

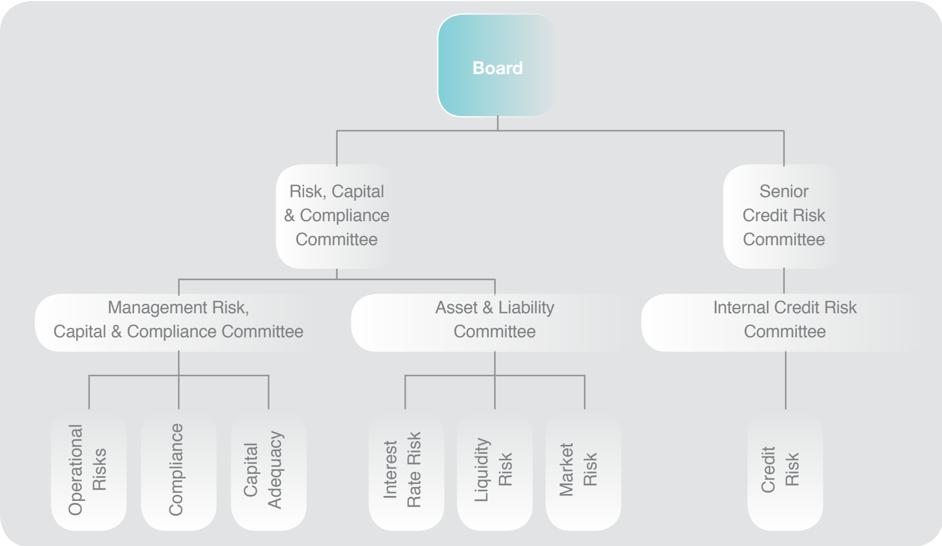
Risk governance

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, market and liquidity, operational and reputational risks. The diagram below is an overview of the risk governance structures within the group.



Credit risk

Credit risk is the group's most material risk. It 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.

Risk report continued

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.

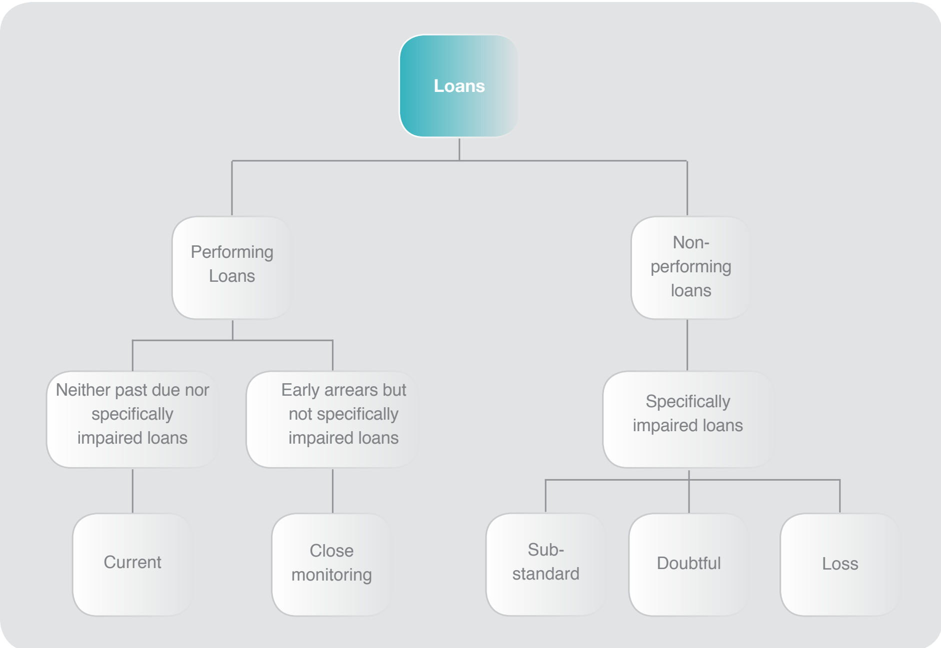
Specific impairments are evaluated on a case-by-case basis for all non-performing exposures. In determining specific impairments, the following factors are considered:

- 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.

The schematic presentation below outlines the classification process for advances:



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 and to replace funds when they are withdrawn. 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.

Liquidity risk is inherent in all banking operations and arises out of lapses in confidence which can be affected by a range of institution specific and market-wide events. These include, but are not limited to, market rumours, credit events, systemic shocks and even natural disasters.

Liquidity management is vital to preserving market confidence, safeguarding our reputation and ensuring sustainable growth, thereby fulfilling the economic role of maturity transformation (the process by which banks transform deposits from customers, which tend to be of a shorter-term nature, into loans, which tend to be of a longer-term nature).

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:

- establishing liquidity risk appetite;
- ensuring appropriate transfer pricing of liquidity costs;
- short- and long-term cash flow management;
- maintaining a structurally sound balance sheet;
- ensuring the availability of sufficient contingency liquidity;
- limiting concentration risk with regards to single client, top 10 clients, particular industry, etc.;
- preserving a diversified funding base;
- lengthening the funding profile, aiming to reduce the mismatch between assets and liabilities in the different time buckets; and
- undertaking regular liquidity stress testing.

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 in managing operational risk is to increase the efficiency and effectiveness of the group's resources and minimising operational losses in its processes. There has been an increased focus on measuring and managing operational risk across the business.

Operational risk management forms part of the day-to-day duties of management at all levels. The operational risk management framework includes tools that aim to assist management in identifying, assessing and monitoring operational risks. These tools include risk and control self assessments which analyses business activities together with the required set of controls and actions, to mitigate the risks. It also includes key risk indicators which enables monitoring of key controls instituted in processes that provides an early warning indicator of potential risk exposures / breakdown in controls.

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.

Risk report continued

Information risk management

Information risk is defined as the risk of accidental or intentional unauthorised use, modification, disclosure or destruction of the group's information resources, which compromises its confidentiality, integrity or availability.

Information Technology is an essential and integral element in managing the transactions, information and knowledge in our environment. It is fundamental to sustained growth.

A framework has been put in place that supports the effective and efficient management of information resources to enable the achievement of the group's objectives.

Focus is applied to ensure that expenditure on IT is optimised, continuity of operations is assured and that IT assets are safeguarded. Information security continues to receive attention so that the group can respond proactively to threats to data, systems and information.

Reputational risk

Reputational risk is the risk caused by damage to an organisation's reputation, name or brand, which may impair its ability to retain and generate business. 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 policies 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 and covers the risk pertaining to interest related instruments and foreign exchange risk arising from the on and off-balance sheet activities through the bank. 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 if dealing, confirmation, settlement and risk exposure measurement.

Counterparty risk

This risk arises from a counterparty to a transaction defaulting or 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.

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 policyholders 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 geographical 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.

ii. Group risk business

Employee benefit products provide life and disability cover to members of a group, such as employees of companies or

Risk report continued

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 2011. 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 discontinued products.

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 reinsurancers 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 avariety 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 evaluating 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 for 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 41 of these annual financial statements.

SHAREHOLDERS' INFORMATION

Contents

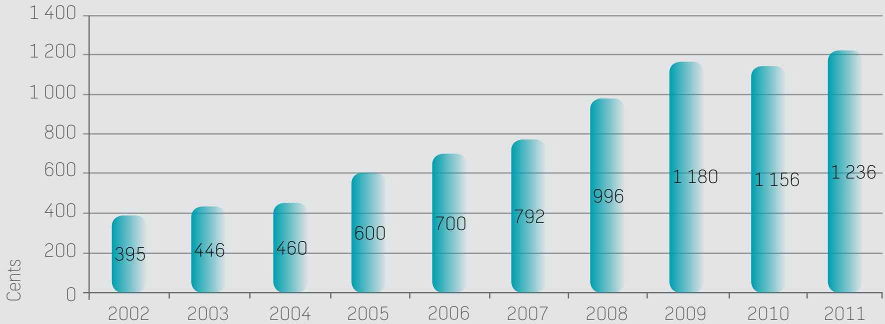
Shareholders' diary

Financial year-end	30 June
Declaration of final dividend	17 August 2011
Announcement of results	6 September 2011
Publication of annual financial statements	7 September 2011
Last record date	7 October 2011
Payment of final dividend	27 October 2011
Annual general meeting	24 November 2011
Publication of interim results	February
Declaration of interim dividend	February
Payment of interim dividend	April

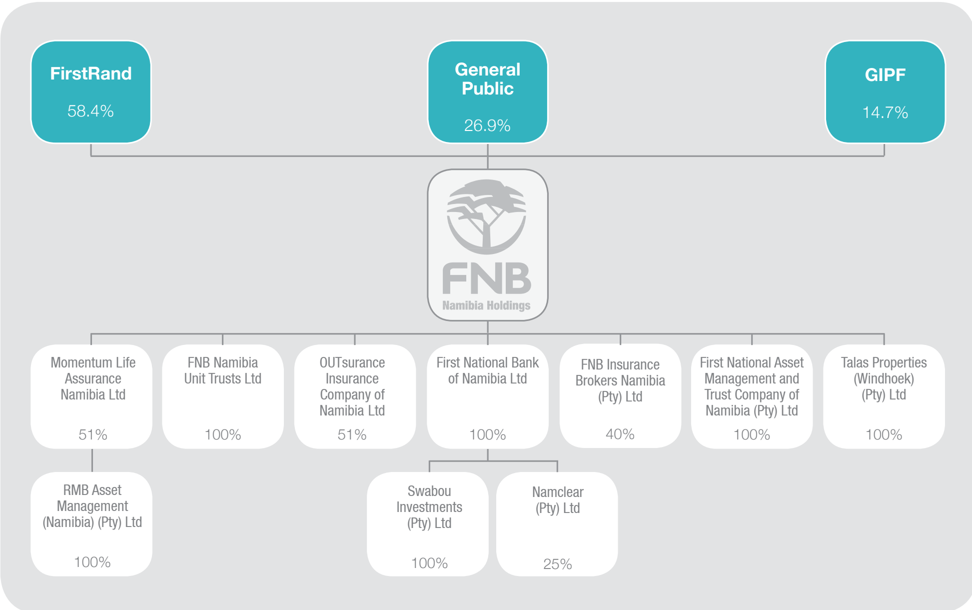
Stock exchange performance

Stock exchange performance	**2011**	**2010**
Share price (cents)		
- high for the year	1 240	1 180
- low for the year	1 154	1 100
- closing price per share	1 236	1 156
Number of shares traded (000's)	2 274	4 207
Value of shares traded (N$ '000's)	27 274	49 284
Number of shares traded as percentage of issued shares (%)	0.85	1.57

Closing share price – ordinary



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)	100	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 share holders	%	Number of shares	%
Shareholder range				
1 - 999	1 117	44.0	404 858	0.1
1 000 - 1 999	390	15.4	502 648	0.2
2 000 - 2 999	185	7.3	448 712	0.2
3 000 - 3 999	87	3.4	295 853	0.1
4 000 - 4 999	54	2.1	236 826	0.1
5 000 - 9 999	209	8.2	1 404 113	0.5
over 10 000	497	19.6	264 300 240	98.8
Total issued ordinary share capital	2 539	100.0	267 593 250	100.0
Distribution of shares				
Corporate bodies	27	1.1	165 414 220	61.8
Private individuals	2 484	97.8	15 494 003	5.8
Trusts	28	1.1	86 685 027	32.4
Total issued ordinary share capital	2 539	100.0	267 593 250	100.0
Ten major shareholders[1]				
FirstRand EMA Holdings Limited			156 298 219	58.4
Government Institutions Pension Fund			39 390 292	14.7
FNB Employee Share Incentive Trust			8 304 597	3.1
Allan Gray Investment Trust			6 104 266	2.3
Old Mutual			5 943 458	2.2
Sovereign Capital (Pty) Ltd			5 749 989	2.1
Boston The African Emerging Markets Fund - State Street Bank			5 053 438	1.9
Rossing Pension Fund			3 042 424	1.1
Chappa'ai Investments Forty Two (Pty) Ltd			3 011 899	1.1
Sanlam Life Namibia Ltd			2 667 195	1.0

[1] Beneficial holdings determined from the share register as well additional disclosure obtained from nominee companies in terms of section 147 of the Companies Act.

Two issued preference shares were in existence at 30 June 2011 (2010: 2). These were preference shares 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-fourth (24th) 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 2011 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 2011 be adopted.

3. Ordinary resolution number 3:

RESOLVED THAT the final dividend declared on 17 August 2011 of 41 cents per ordinary share be and hereby is approved.

4. Ordinary resolution number 4:

To re-elect the undermentioned directors who retire in terms of the Company's Articles of Association and who, being eligible, offers themselves for re-election:

4.1 Jabulani Richard Khethe

Non-executive director

Date of birth: 26 March1963
Appointed: July 2007
Educational qualifications: BCom (Banking) - University of Pretoria; MBA - BOND University
Directorships: FNB Namibia Holdings Ltd, First National Bank of Botswana Ltd, FNB Mozambique SA

4.2 Mwahafar Ndakolute Ndilula

Independent non-executive director

Date of birth: 19 February 1950
Appointed: November 2005
Educational qualifications: 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, Sovereign Investments (Pty) Ltd, Sovereign Capital (Pty) Ltd, Sovereign Properties (Pty) Ltd and Temako Green Energy (Pty) Ltd

4.3 Petrus Tukondjeni Nevonga

Independent non-executive director

Date of birth: 26 October 1968
Appointed: May 2003
Educational qualifications: 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, Kuleni Fund Administrators (Pty) Ltd, Tulongeni Fishing (Pty) Ltd and Sovereign Capital (Pty) Ltd
Trusteeship: Government Institutions Pension Fund

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 {Act 28 of 2004("the 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 reappointed 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 non-executive directors, as set out in note 6 to the annual financial statements for the year ended 30 June 2011, be approved.

9. Ordinary resolution number 9:

RESOLVED THAT the remuneration policy as set out in the Remuneration Committee Report be approved.

10. Ordinary resolution number 10:

RESOLVED THAT the following directors be re-appointed as members of the Audit Committee:

Notice of annual general meeting continued

10.1 Stuart Hilton Moir

Independent Non-executive Director

Date of birth: 23 June 1948
Appointed: November 2005
PMD - Harvard University; CAIB (SA); B.Com; CIS
Directorships: FNB Namibia Holdings Ltd, First National Bank of Namibia Ltd, Momentum Life Assurance Company Ltd (Chair), FNB Insurance Brokers (Namibia) Pty Ltd, Stimulus Investments Ltd, FNB Namibia Unit Trust Ltd
Trusteeships: Nampro Trust and FNB BEE Trust

10.2 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 Limited, First National Bank of Namibia Limited, First National Bank of Botswana Limited, First National Bank Holdings (Botswana) Limited, FNB Mozambique SA, First National Bank Zambia Limited, FirstRand Bank Representative Office (Nigeria) Limited

10.3 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), Namgem Diamond Manufacturing (Pty) Ltd, Diamond Board of Namibia, Fishcor Ltd, Zantang Investments (Pty) Ltd, UNAM Council, Junior Achievement Namibia, Namibia Chamber of Commerce & Industry, National Planning Commission, Tungeni Africa Investments (Pty) Ltd, Extract Resources Ltd, and MCA Namibia
Trusteeship: XNET Trust Fund and FNB Share Incentive Trust

11. Ordinary resolution number 11:

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 196 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 Tuesday, 22 November 2011.

By order of the board FNB Namibia Holdings Limited

Yamillah Katjirua
Company Secretary
7 September 2011

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

Form of proxy

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 2011			
3. Ordinary resolution 3: Approval of final dividend declared			
4. Ordinary resolution 4: Election of directors			
4.1 Jabulani Richard Khethe			
4.2 Mwahafar Ndakolute Ndilula			
4.3 Petrus Tukondjeni Nevonga			
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: Approval of remuneration policy			
10. Ordinary resolution 10: Appointment of Audit Committee members			
10.1 Stuart Hilton Moir			
10.2 John Kienzley Macaskill			
10.3 Inge Ingenesia Zaamwani-Kamwi			
11. Ordinary resolution 11: 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 ________________________ 2011

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 Tuesday, 22 November 2011. 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 Tuesday, 22 November 2011.

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.

FNB Namibia Holdings Limited
(Incorporated in the Republic of Namibia)
(Registration number: 88/024)
(Share code: FNB) (ISIN: NA 0003475176)
("the Company")