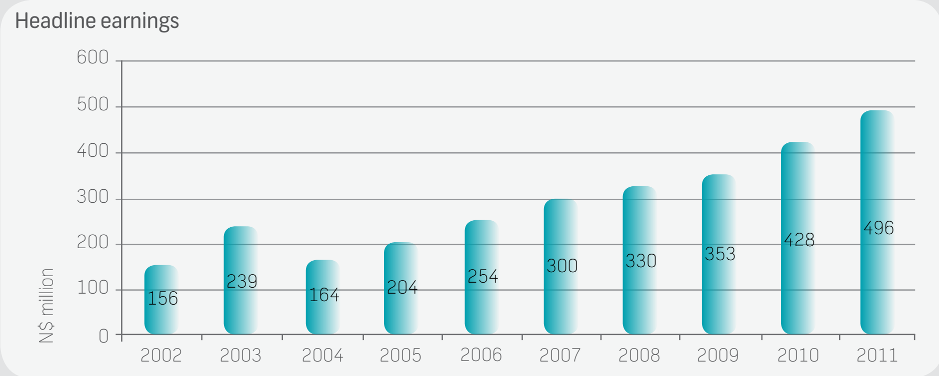
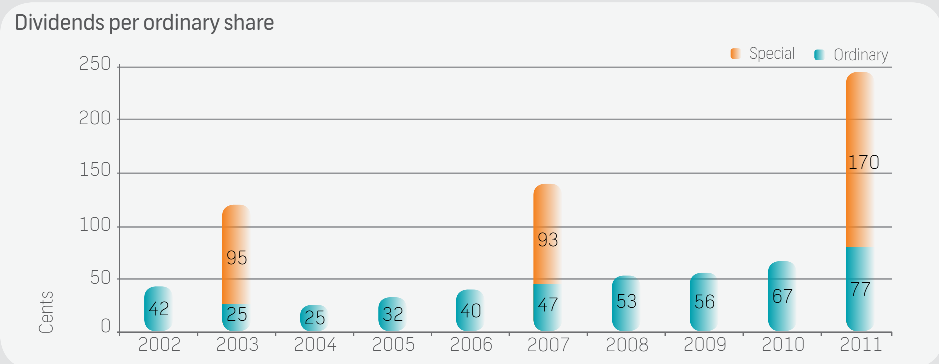
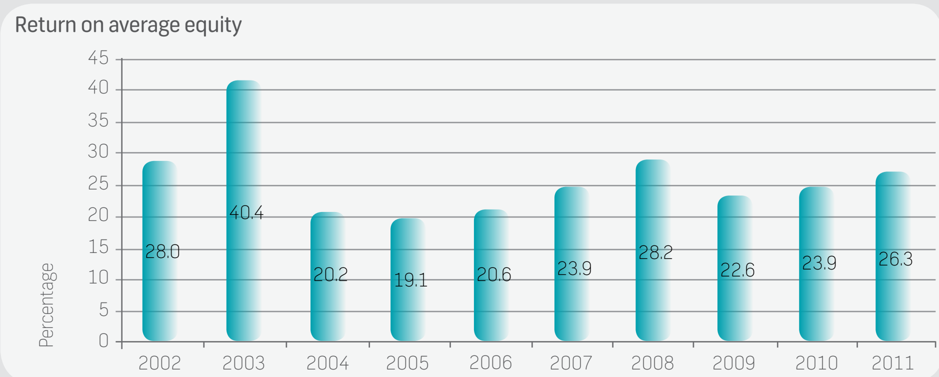
Contents

Features of the group results
for the year ending 30 June







	2011	2010
Share performance		
Earnings per share (cents)	191.8	166.1
Diluted earnings per share (cents)	191.8	166.1
Headline and diluted headline earnings per share (cents)	191.6	165.7
Ordinary dividend per ordinary share declared in year (cents)	77.0	67.0
Total dividend per ordinary share declared in year, including special (cents)	247.0	67.0
Closing share price (cents) - ordinary	1 236	1 156
Market capitalisation (millions)	3 307	3 093
Number of shares in issue (millions) - ordinary*	258.8	258.5
Weighted number of shares in issue (millions) - ordinary*	258.7	258.5
Dividend cover (times) - excluding special dividend	2.4	2.4
Net asset value per share (cents)	703.2	755.1
Dividend yield (%) - ordinary dividend	6.2	5.8
Earnings yield (%) - ordinary shares	15.5	14.4
Price to book ratio	1.8	1.6
Price: Earnings ratio - ordinary shares	6.4	7.0
** after consolidation of share trusts*		
Selected ratios		
Return on average shareholders' equity (%)	26.3	23.9
Return on average assets (%)	3.0	2.9
Cost to income ratio (%)	48.8	48.9
Capital adequacy		
Capital adequacy of FNB	16.6%	20.4%
Capital adequacy requirement (CAR) of Momentum Life (times)	3.0	4.3
Solvency margin of OUTsurance (%)	35.1	35.1

Financial statistics from continuing and discontinued operations

Board of directors

Claus Jürgen Hinrichsen

Independent
Non-executive Chairman

Date of birth: 9 May 1943
Appointed: March 2009
BA, LLB (Wits), BA Honours (UNISA),
Admitted Legal Practitioner
Directorships: Candida (Pty) Ltd, Tovsorel Investments (Pty) Ltd, Bismark (Pty) Ltd, Ausspannplaza Investments No.4 (Pty) Ltd
Trusteeships: Goreangab Trust, Namibia Legal Practitioners Trust, FNB Foundation

Jabulani Richard Khethe

Non-executive Director

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

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

Petrus Tukondjeni Nevonga

Independent
Non-executive Director

Date of birth: 26 October 1968
Appointed: May 2003
BTech (Business Administration) - Polytechnic of Namibia; Diploma in Human Resources Management - Polytechnic of Namibia
Directorships: FNB Namibia Holdings Ltd, Namibia Grape Company (Pty) Ltd, Effort Investment Holdings (Pty) Ltd, Endombo Enterprises (Pty) Ltd, Kuleni Fund Administrators (Pty) Ltd, Tulongeni Fishing (Pty) Ltd and Sovereign Capital (Pty) Ltd
Trusteeship: Government Institutions Pension Fund

Inge Ingenesia Zaamwani-Kamwi

Independent
Non-executive Director

Date of birth: 11 November 1958
Appointed: January 2000
LLB (Hons) - London; LLM – Dundee
Directorships: FNB Namibia Holdings Ltd, First National Bank of Namibia Ltd, Namdeb Diamond Corporation (Pty) Ltd (CEO), 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
Trusteeships: XNET Trust Fund and FNB Share Incentive Trust

Christiaan Lilongeni Ranga Haikali

Independent Non-executive Director

Date of birth: 25 October 1968
Appointed: November 2005
BBA (Entrepreneurship) UNAM
Directorships:FNB Namibia Holdings Ltd, First National Bank of Namibia Ltd, Prosperity Health, Africa Personnel Services, Namibia Stevedoring Services, HANU Investments cc, Preferred Management Services, NSWE (Pty) Ltd, APS International (Pty) Ltd, Chappa "AI Investments (Pty) Ltd, Petronam Investments (Pty) Ltd, Namibia Liquid Fuel, Oryx Investments (Pty) Ltd, Mertens Mining and Trading (Pty) Ltd, Duiker Investments 175 (Pty) Ltd, Tumba Holdings (Pty) Ltd, Surecast Mining and Construction (Pty Ltd, Vision Africa (Pty) Ltd, Tulongeni Strategic Investments (Pty) Ltd, Namibia Jetlink (Pty) Ltd, Ekango Retail Solutions (Pty) Ltd and Safland Property (Pty) Ltd
Trusteeships: Tulongeni Family Trust and Frontier Property Fund

Vekuii Reinhard Rukoro

Chief Executive Officer

Date of birth: 11 November 1954
Appointed: March 2006
LLM (International Law); Utter Barrister's Degree; LLB (Hons); enrolled as advocate of the High Court of Namibia in 1992
Directorships: FNB Namibia Holdings Ltd, First National Bank of Namibia Ltd, OUTsurance Insurance Company of Namibia Ltd, Momentum Life Assurance Company Ltd, RMB Asset Management (Namibia) (Pty) Ltd, Swabou Investments (Pty) Ltd and Namibian Employers' Federation
Trusteeships: Khomas Education & Training Fund (Ministry of Education, Khomas Region), FNB Foundation and Board of Governors of the Fidelity Fund of the Law Society of Namibia

Mwahafar Ndakolute Ndilula

Independent Non-executive Director

Date of birth: 19 February 1950
Appointed: November 2005
MPA / DDA - Liverpool University
Directorships: FNB Namibia Holdings Ltd, OUTsurance Insurance Company of Namibia Ltd (Chair), Momentum Life Assurance Company Ltd, Sovereign Asset Management (Pty) Ltd, Sovereign Investments (Pty) Ltd, Sovereign Capital (Pty) Ltd, Sovereign Properties (Pty) Ltd and Temako Green Energy (Pty) Ltd

Stuart Hilton Moir

Independent Non-executive Director

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

Group executive committee

Adv Vekuii Rukoro

Chief Executive Officer: FNB Namibia Holdings Group

Date of birth: 11 November 1954
LLB (Hons); LLM, Utter Barrister's, Advocate of the High Court of Namibia

Conville Britz

Head: Risk Management

Date of birth: 01 February1972
B.Compt (Hons), CTA, CA

Dixon Norval

Head: Strategic Marketing & Communications

Date of birth: 1 July 1959
BA Hons, MA, MBA

Kobus Louw

Head: Corporate & Commercial

Date of birth: 7 December 1962
CAIB (SA), B.Econ, MBA

Michelle Van Wyk

Group Treasurer

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

Rowan Yeomans

Head: Internal Audit

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

Stephen van Rhyn

Head: Information Technology

Date of birth: 19 June 1969
Post Graduate Diploma IT

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

Ester Kali
Head: Retail Banking
Date of birth: 28 August 1967
CAIB(SA), MBA, LDP

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

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

Sylvia Müller
Head: Credit
Date of birth: 16 November 1968
B Comm, PDA, CA

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

Yamillah Katjirua
Group Company Secretary and Compliance Officer
Date of birth: 1 October 1974
BJURIS, LLB, Certificate in Compliance SMDP

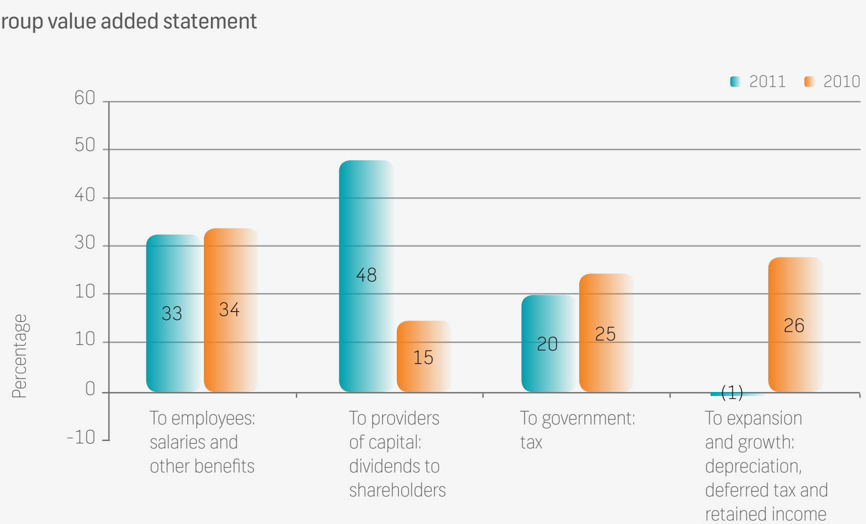
Brian Katjaerua
Group Legal Advisor
Date of birth: 13 April 1975
BJURIS, LLB, LLM, LLM, FA'ARB, Legal Practitioner of the High Court of Namibia

Group value added statement
for the year ended 30 June

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

N$ million	2011		2010	
Value added by continuing operations				
Income earned by providing financial services	1 415		1 387	
Cost of services	(563)		(643)	
Value added by financial services	852		744	
Non operating and other income and expenditure	344		207	
Value added by continuing operations	1 196		951	
Value added by discontinued operations	103		77	
Value added by continuing and discontinued operations	1 299		1 028	
Value allocated				
To employees: Salaries and other benefits	423	33%	348	34%
To providers of capital: Dividends to shareholders	626	48%	153	15%
To government: Tax	263	20%	253	25%
To expansion and growth: Depreciation, deferred tax and retained income	(13)	-1%	274	26%
	1 299	100%	1 028	100%

Note: 2010 information has been restated due to the classification of Momentum Namibia as a discontinued operation. See note 42 of the Annual Financial Statements.



Economic review

The global economy avoided the risk of a double dip over the period under review. Economic activity has expanded after the slowdown and is starting to proceed along a more self-sustained path. However, the growth momentum faced headwinds in the form of the credit default risk emanating in the Euro-periphery, and inflationary pressures in emerging economies such as China due in part to a sudden upsurge in commodity prices.

These risks, though well managed, put pressure on the medium-term growth outlook for the global economy. Furthermore, it is clear that regional differences on cyclical positions will persist.

Global recovery under pressure

Economic recovery in advanced economies in 2011 was negatively affected by natural disasters, the need for fiscal consolidation and continued private sector balance sheet repair which dampened growth. As a result the speed of recovery from the global crisis has remained subdued in the US. In Japan, the severe tsunami led to a contraction in output and introduced supply shocks to the global trading system. Other leading economies such as the UK experienced sluggish growth with heightened inflationary pressures.

In key emerging and developing economies the risk of overheating as a result of the commodity price cycle and the fiscal accommodation necessitated by the global crisis heightened inflationary pressures, particularly in Asia. Some central banks were forced to hike rates. Crucially, efforts to restrain growth by raising interest rates has started in earnest in countries like Australia and China, which may have a dampening effect on global growth.

Therefore global economic activity will slow down in 2011 and we believe it will remain unbalanced amid elevated downside risk. International Monetary Fund (IMF) projections in June 2011, the latest available, were that the global economy would grow by 4.3% this year after growing by 5.1% the previous year. The IMF also projects lower growth for the US – 2.5% against 2.9% the previous year – and about 2% for the Euro area after the dismal 1.6% of the previous year.

Emerging and developing economies are expected to experience more robust growth of 6.6% in 2011, with relative buoyancy into 2012. Sub-Saharan Africa is projected to grow by 5.5%. However, the IMF expects world trade volumes to slow to a growth rate of 8.2% after reaching 12.4% the previous year. The latest Purchasing Managers' Index (PMI) for global economic activity shows that major vulnerabilities remain even though the index recovered slightly in May 2011 after a marked deceleration the previous month.

Namibian economy pulling through

There is no official preliminary data on Namibia's 2010 growth as yet. However, data on livestock sales and mineral output suggest fairly strong growth after a contraction of 0.7% in 2009. FNB's assessment is that growth was above 3% – in line with trend growth for 2010.

Economic review continued

As anticipated, mining was central to the 2010 recovery, and will most likely continue to be. Diamond mining output increased by roughly 57% to 1.47 million carats which had a positive effect on value added. However, there is scope to ramp up production to pre-crisis levels of above 2 million carats over the next couple of years which is positive for medium-term growth. The expectation is that diamond production will most likely remain flat this year and accelerate from 2012. Uranium production rose by 6.5% to 5876 tonnes year on year and zinc production rose by more than 7% compared to less than 2% growth in 2009. The global commodity price surge is indeed positive for growth, which we forecast to come in at about 4%.

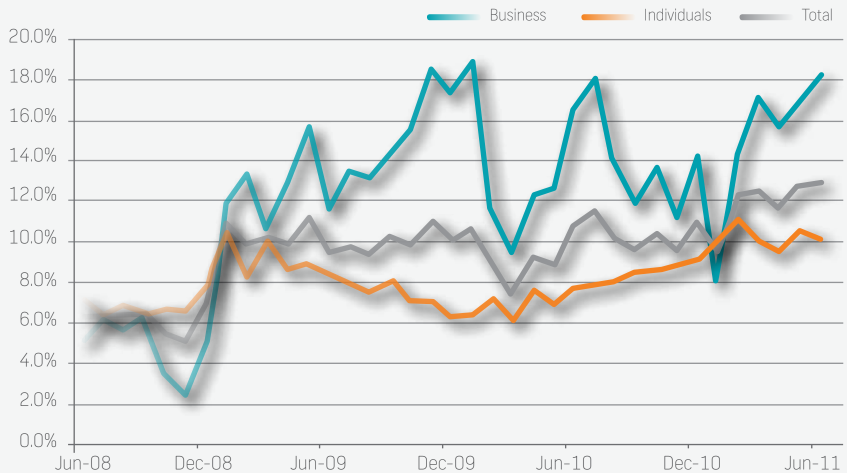
The outlook for this year and next is bullish, specifically in the light of the surprising pro-cyclical fiscal push arising from the new Medium Term Expenditure Framework (MTEF). Government has budgeted to spend 30% more in the new financial year – from N$28.8 billion to N$37.7 billion. We estimate that pure operational spend (excluding transfers) could go up by 20%. We are not that confident that government will spend the total allocation. But even if there is a spending lag, government could add 10% to GDP. Accordingly, FNB's 2011 growth forecast is 4.1%. Increased spending on transfers (for instance, for war veterans) would have a positive knock-on effect on household disposable income.

The response to benign interest rates and single digit inflation is finally taking hold and indicates an improvement in domestic demand. The latest Bank of Namibia (BoN) data show that private sector credit extension surged to 12.9% year on year in June 2011 after 9.3% in January and is the highest it has been since December 2007. The game changer is clearly the recovery in household credit demand. It increased by 10% year on year in June 2011 after a relatively lacklustre performance since March 2008. It suggests that the adjustment in this sector is finally here, albeit slow. Borrowing for asset-backed finance is accelerating and instalment finance has been growing since November 2010 at an annual average rate of 11.9%. New vehicles have shown an annual average growth rate of 16% over the same period.

Non-financial sector business credit extension continues to grow faster than household credit. Year on year growth came in at 18% in June 2011 after dipping to 8% in January. As was the case in 2010, most of the growth is in mortgages, which comprise the second most important business credit category after overdrafts. Business mortgage credit grew at an annualised rate of 33.6% in June 2011. Increased borrowing by business suggests new capacity, which augers well for future growth.

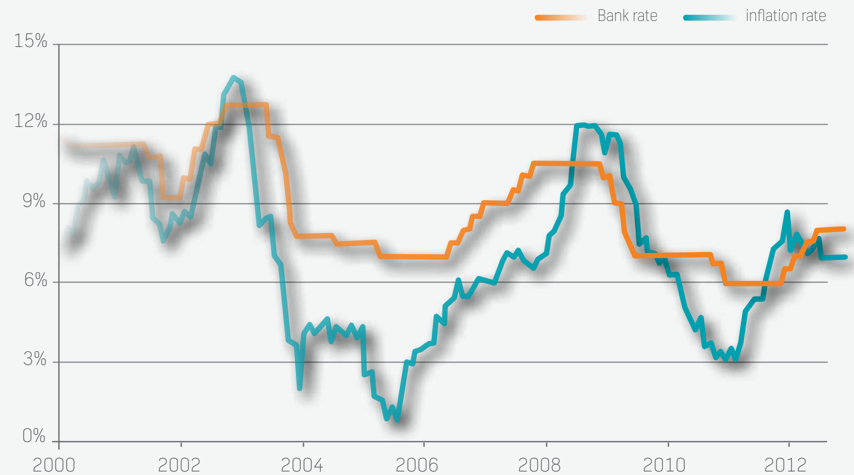
Namibia private sector credit extension

Source: Bank of Namibia



Namibia bank rate and inflation

Source: CBS Namibia, Bank of Namibia, FNB Namiba



Inflation pressure emerging

We expect inflation to accelerate in 2011 and 2012 because of the global commodity price cycle and upside risk. After averaging 4.5% in 2010, it increased to 5.2% year on year in May 2011 and we expect the trend to continue upwards to 5.7% given the likely inflationary effect of government spend as well as spillover effects from global fuel prices. But we still see inflation remaining in single digits for most of 2011 and perhaps 2012. Our forecast for next year is about 7%.

As expected, BoN left the repo rate unchanged at its June 2011 meeting. BoN has concerns about the global growth outlook despite some domestic recovery. FNB's view is that local vulnerabilities will continue to inform monetary policy and we may only see increased interest rates in December 2011 or even later. Rates should then go up by at least 50 basis points to help stem secondary inflation pressure and dampen inflation expectations. This rate increase window should help bring consumers back to the spending fold.

Economic outlook

Consensus is that there are many downside risks to the global growth outlook. The current Euro debt crisis remains a key risk for Namibia beyond 2011. Our growth projection is 5.1% for 2012. However, we share the IMF's relatively bullish outlook for emerging economies (including Namibia): 5% growth is feasible, particularly because of government spending and private sector credit extension trends which suggest that businesses are starting to invest ahead of the curve. The IMF expects global GDP to grow by 4.5% in 2012 which should provide some export momentum for Namibia. Furthermore, the Targeted Intervention Programme for Employment and Economic Growth (TIPEEG) may have a positive effect by increasing disposable income for contract workers.

We are bullish on vehicle sales into 2012 and expect a more pronounced recovery as the year progresses. The latest FNB Housing index shows that median residential property prices started to recover towards the first quarter. The supply of erven is a binding constraint in some local residential markets but indications are that these are being addressed, which should bring greater stability to the local housing market.

Daniel Motinga
Group economist

Chairman's report

It was an honour for me to step into the shoes of long-serving chairman Dieter Voigts in November 2010. I can assure you they are indeed very big shoes to fill, and it will be a challenge for me to grow into them. Challenges are there to be met and I plan to succeed in carrying out the duties and obligations bestowed upon me. Fortunately I have had the benefit of Dieter's exemplary guidance while I served as a non-executive board member under his chairmanship.

Market environment

The Namibian market, while indirectly impacted by the global economy, remained fairly stable. However, the financial services industry in Namibia, as in the rest of the world, is facing ever increasing pressure from consumers and non-traditional competitors. At FNB we chose to treat these trends as opportunities and to adapt the way we do business to accommodate external realities.

There is increasing pressure on us to extend financial inclusion by offering more appropriate and affordable propositions to marginalised Namibians. The only effective way to do this is through electronic services that are more affordable, easy to use and safe. These new offerings require increased financial literacy from both existing and potential customers. To this end, FNB has begun a variety of initiatives.

The group has continued to cater for niche markets with the establishment of Private Clients and a specialised unit focusing on corporate investment banking. We believe that the introduction of these units will fill a gap in the market and broaden our client base.

Strategic initiatives

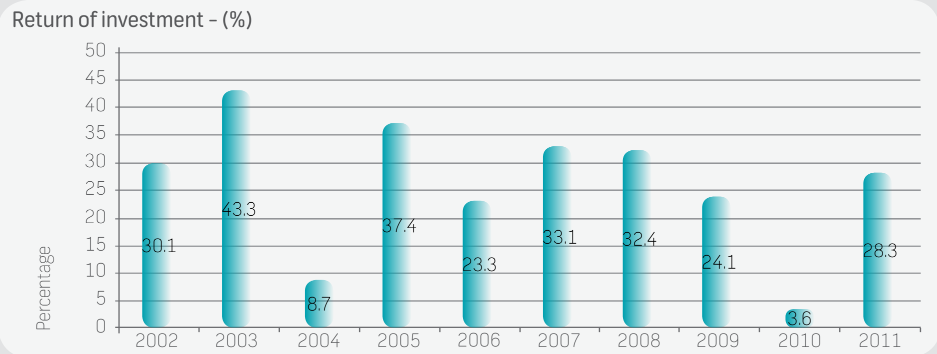
This report marks the end of FNB's L2Pin3 Strategy - moving from the leading to the preferred financial services group in Namibia in three years. This strategy guided the board and management to achieve the sterling results evidenced in this annual report. Looking back, the strategic plan chartered our path through the global economic turmoil and ensured that we were not distracted by the many uncontrollable factors we had to contend with in the past three years.

In preparation for the next three years, the strategic direction of the group was revisited by the senior management team, which prepared a plan that the board accepted. During the next period we will continue to focus on our people, our customers and efficiencies while adding a focus on key stakeholder relationships as a new strategic imperative. Our aim is to move from the preferred to the most valued financial services partner in Namibia (P2VPin3) over the next three years.

Group structure changes

The group announced its intention to sell its 51% stake in Momentum Namibia, including its 100% owned subsidiary RMB Asset Management Namibia (Pty) Ltd.

The board has also approved the purchase of 60% of the shares of FNB Insurance Brokers, thus enabling the group to own this brokerage 100%, effective 01 July 2011 and subsequently to take over management control thereof.



Dividend

It is with pride that I announce a final dividend for the year ended 30 June 2011 of 41 cents per ordinary share. Taking into account the dividend of 36 cents paid in April 2011 as well as the special dividend of N$1.70 paid in May 2011, ordinary shareholders will receive a total dividend for the year of N$2.47 per ordinary share. Indeed, a healthy return on investment.

Regulatory environment

Changes in the regulatory landscape continue. Bankers Association of Namibia (BAN) members met the October 2010 deadline to reduce the prime-repo spread by another 50 basis points as required by Bank of Namibia. Through BAN the commercial banks held numerous discussions with the Bank of Namibia to ensure that a sound and viable client base could be maintained while complying with the regulator's requests to extend products and services to the poorest.

Another milestone achieved between Bank of Namibia and BAN was the successful implementation of the early square-off in the Namibia Inter-bank Settlement System (NISS). The previous closure times were deemed to introduce operational and settlement risk to both parties. The early square-off is intended to align the opening and closing of the NISS settlement schedule with the business hours and treasury operations of commercial banks. Such projects allow banks to improve liquidity and reduce payment systems risk.

The past year saw the gazetting of the amended Banking Institutions Act and Payment System Management Act. Bank of Namibia also began to implement consolidated supervision with the first trial returns submitted for the FNB Namibia Holdings Group at 31 March 2011. The initiative on financial inclusion allowed the group to illustrate its commitment and innovation in bringing much needed services to a broad spectrum of Namibians.

Appreciation

In November 2010 we bade farewell to board chairman Dieter Voigts, who performed his duties with dignity and at all times achieved consensus in decision-making. At the same time Peter Böttger, chairman of the audit and risk committees, also retired. Peter was the first chairman of the audit committee, a position he served well until his retirement. Peter was instrumental in consolidating the sound risk and governance practices at FNB. I wish both these gentlemen a well-deserved retirement full of health and happiness.

To my fellow board members and the senior management staff, I express my gratitude for your understanding and patience in supporting me as a new chairman. I am privileged to be able to rely on your expertise and experience. I appreciate your constructive contribution in meetings which are flavoured with lively yet orderly discussions.

Lastly, I welcome two new banking group board members, Ms. Jenny Comalie and Mr. Colin Giddy. There is no doubt that these two newcomers will make an important contribution to the efficient running of board affairs, judged not only by their impressive track records but also by the personal impact they make elsewhere.

A team like this can only enhance the prevailing good FNB spirit.

Claus Hinrichsen
Chairman

Abridged sustainability report

FNB considers sustainability as an essential element of doing business and is making progress on integrating sustainable business practices at all levels in the business. We believe the existence of our business and its continued success depends on this approach. Central to success are our relationships we have with all our stakeholders. Our stakeholders are represented by our people, customers, suppliers, the communities, the natural environment, our regulators and related authorities, and our shareholders.

Our employees

Skills shortage in Namibia and in specific the financial services industry remains a key challenge, which necessitates our business to continuously maintain a dedicated focus on employee development and the retention of key staff. The group acknowledges the need for skills development and provided various opportunities and interventions aimed at skills development. Informal initiatives focus on succession and talent management initiatives which are complemented by coaching and mentoring programmes. The group also made available formal development programmes through institutions of higher learning, i.e. MBA, leadership and management development programmes.

The table below depicts the formal development programmes for 2011 financial year:

Name of programme	Number of staff	Value (N$'000)
Care and Growth Leadership & Management Programme	38	179
New Managers Development Programme	5	54
Management Development Programme	18	394
Senior Management Development Programme	10	332
MBA	2	157
Internal Employee Bursary Students	4	80
External Bursary Students	7	220

The group has incentive programmes, such as the trip to Victoria Falls earlier this year, which provided a memorable experience for a group of well deserving employees. We also provide various wellness services through our employee wellness programme to ensure that our employees maintain optimal physical, emotional and social wellbeing. The wellness programme provides benefits to its employees amongst others, unlimited telephonic counseling, Internet-based counseling, face to face counseling, legal advice and financial counseling services to mention but a few.

In line with the requirements of the Affirmative Action Act, the group through its AA Committee ensures that the employment equity plan is developed and implemented. The group has been achieving its goals and has succeeded in creating a workforce that is diverse in all aspects.

Our customers

FNB focuses on delivering financial services to meet our customers' needs and achieve sustainable growth. We are intent on providing banking services to the approximately 600 000 economically active Namibians and engage with customers ranging from entry-level consumers, corporates and public sector clients. A full range of products and services are available, inclusive of transactional, savings, investment and risk needs.

We continue to promote the use of cost-effective electronic channels, including Cellphone Banking. We were again able to keep our pricing increases in line with the consumer price index and continue to inform our customers about the most cost effective banking solutions by means of the most comprehensive pricing guide in Namibia.

Refer to the chief executive officer's report for additional information.

Our environment

Reducing energy costs and carbon emissions require the quantification of energy usage and identifying energy saving opportunities. Reducing the use of paper and becoming more energy efficient continue to pose challenges to our operations. We continue to promote the reduction of paper usage by improved branch printing protocols and by ongoing campaigns and pricing structures to convince customers to opt for electronic statements

We will continue refining our emission reduction and energy saving strategy and other wastage reduction initiatives. We are in the process of implementing the recommendations of the energy audit that was performed on our head office building. This involves converting the existing light fittings and to install energy saving bulbs and ballasts.

Diversity of our people

We foresee a 22% saving on our energy consumption and if this realizes the intervention will be rolled out to the rest of our branches and business units all over the country.

Our operations

Improving efficiencies and reducing operational costs remains a key focus for the FNB group. In order to drive this, an Efficiency Committee has been established in 2008 already. This committee meets quarterly and aims at improving a minimum of 30 processes per quarter.

One of initiatives that led to major efficiency gains last year is the FNB Staff innovations campaign that is aimed at ensuring that FNB benefits from the innovative minds of its people.

Our suppliers

FNB, as one of Namibia's largest corporate groups and largest consumer of services, is in full support of the requirements of the new Financial Services Charter. Through our procurement policies we support Government's drive to grow local companies and to achieve a more balanced society.

In the 2010/2011 financial year we made use of 177 suppliers against which orders were placed of which only 5 are non-Namibian suppliers. New suppliers are sourced on a regular basis via tender invitations and requests for quotes. More than 96% of our procurement spend (excluding FirstRand group support services) are with local suppliers, while the sourcing of products and services are done primarily in the local market.

SME's have been invited to complete the supplier registration forms and were added to the FNB supplier database. BEE accreditation is required for tenders and this has a definite impact on the final score when evaluating and awarding tenders and contracts.

Transformation

FNB has committed to the Financial Sector Charter Strategy, Namibia Working Group on Financial Literacy and the consumer education forum initiatives driven through the private sector. FNB Namibia has adopted a transformation agenda that incorporates the following:

- Transfer of ownership as per the BEE Scheme, being Black Non-Executive Directors and Staff Share Trust and BEE Consortia;
- Advancement of and alleviation of specified needs of designated staff through the Staff Assistance Trust;
- Preferential procurement requirements for all our procurement expenses within the Procurement Policy;
- Meeting of Employment Equity targets set by our Board and agreed with the Employment Equity Commission on a regular basis;
- Corporate Social Investment initiatives through the FNB Foundation;
- SME financing through the SME Business Unit in First National Bank of Namibia Ltd; and
- Providing banking to the unbanked and under-banked through innovative products.

Approximately 5% of equity in FNB Namibia Holdings was earmarked for BEE/Transformation. One percent was dedicated to acquisition by the Black Non-Executive Directors and staff.

The FNB Namibia Holdings Board through the Directors Affairs and Governance Committee has adopted as one of the principles for board nomination the need for the board to be reflective of Namibian society in respect of race and gender. Currently the board compromises 9 members of which 6 are black and one is female. Fifty six percent of board members are Namibian.

Namibians make up 80% of senior management, while 53% are black and 27% female.

Our awards

We believe that our first responsibility is to look after the needs of all our stakeholders. To this end, it is always gratifying to receive acknowledgement for what we do.

FNB was awarded the prestigious Bracken Award as the best bank in Namibia with 144 other country winners for the third time at the Banker's 10th Bank of the Year Awards in association with UK Trade and Investment. Our home loans valuation methodology was also acknowledged through a PMR award for the most work done in the sector to stimulate economic growth and development in Namibia.

FNB Namibia was also rated as the top bank in Namibia by the independent African Business magazine that annually rates Africa's top 100 banks. This achievement was based on the level of Tier 1 capital.

Our priorities will continue on adding value to all our stakeholders, rather than focus on awards. However, we believe that as a top achiever, it is good to use external important rewards as a benchmark of success.

Our communities

FNB's corporate social responsibility programme is spearheaded by the FNB Foundation. The FNB Foundation is funded by 1% of the annual post tax profits of the group. Please refer to our corporate social responsibility report, which follows this report, for detailed information of initiatives supported.

Corporate social responsibility report

It was with pleasure and a sense of awe that I took over as chairperson of the FNB Foundation in March 2010. I was following in the footsteps of the founding chairperson, the late Mrs Jutta Rohwer, who was renowned for her contribution to social development, both through the foundation and her own charitable activities. I hope I can build on her legacy.

Namibia has achieved a great deal over the past 21 years, but we all know that it still faces many challenges. Many live in poverty, including thousands of children, and there are educational disadvantages to be overcome. There is no human dignity in poverty or in situations of violence within families and communities. We all have a responsibility to address these issues.

His Excellency President Pohamba and our founding father, President Nujoma, have called on numerous occasions for public-private partnerships in education, health and other sectors. FNB has heeded this call and has been and will continue to work with numerous organisations to make it happen. This type of cooperation is what Namibia needs.

FNB Namibia has a lot to contribute to community development and empowerment at different levels of society and in different parts of the country. The FNB Foundation quietly supports schools, community, cultural and other projects, empowering Namibians in development. FNB's staff members volunteer in local projects around the country.

I welcome two new trustees, former Deputy Minister of Education and Member of Parliament, Clara Bohitile, and FNB's group chairman, Claus Hinrichsen. They join long serving trustees Prince Shimmi, Vekuii Rukoro, FNB's group chief executive officer, and Dixon Norval, FNB's head of strategic marketing and communications. Regrettably, we bid Dieter Voigts goodbye when he retired as FNB's chairman and from the foundation.

During the year the FNB Foundation looked in-depth into the development of corporate social responsibility programmes in Namibia, and its own direction. It reaffirmed its commitment to contributing to social transformation and social justice, to building stable and empowered communities, and to enhancing skills. It understands that small projects can benefit communities, as well as the big ones that tend to get more publicity.

I would like to highlight two organisations with which the FNB Foundation has established new partnerships this year.

Lifeline/Childline

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

Lifeline/Childline has a proven record of supporting vulnerable individuals and families. They are leaders in child protection in Namibia. The FNB Foundation is pleased to support them in protecting the most vulnerable.

Katutura Football for Hope Centre

This is an initiative with FIFA. It offers services and programmes in the areas of public health, education and football for youth with and without intellectual disabilities. It celebrates FNB's vital role in giving Namibians the opportunity to share in Africa's first soccer world cup, hosted in neighbouring South Africa.

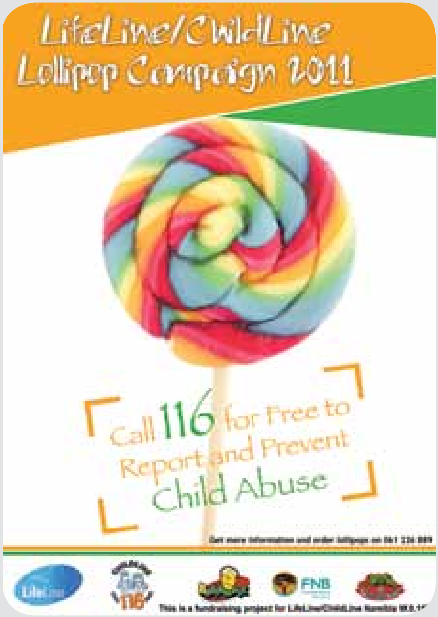
As the main sponsor, FNB Namibia will work closely with government ministries like Youth, National Services, Sport and Culture; Works and Transport and other bodies such as the National Planning Commission, Special Olympics International, community groups and service providers.

Overview of major projects for 2010/2011

ETSIP: The FNB Foundation heeded the call of the Ministry of Education to support its Education and Training Sector Improvement Program (ETSIP) and contributed a total of N$1.25 million. Namibian school principals have to manage schools with limited resources trying to ensure quality education. They must establish patterns of conduct where children and young people are feeling the effect of societal strain and discipline is becoming a major problem. The University of Namibia (UNAM) and University of Johannesburg (UJ) joined forces to liaise on the crucial topic of school management and leadership. The FNB Foundation and other corporate foundations sponsored ETSIP's Advanced Certificate in School Management which enabled 98 school principals from five regions to participate.

SMEs Compete: focuses on training, development and mentoring of small and medium enterprises. It has worked closely with the FNB SME Division over five years to assist entrepreneurs to turn their business ideas into viable ventures. This project was expanded to areas with a high concentration of SME activities such as the northern regions (including Oshakati, Ondangwa, Ongwediva, Outapi, Ohangwena), Katima Mulilo and more recently Lüderitz, Rundu and Keetmanshoop.

The African Leadership Institute (ALI): The FNB Foundation has contributed N$1.2 million towards this project. It has offered value-based life-changing leadership training to more than 500 leaders from government, churches and the private sector in Namibia. Between April 2009 and June 2010, 46 inspectors of education from all 13 regions participated as part of the FNB Inspectors' Academy. A further 17 inspectors are currently in training. The Foundation funded a second programme for heads of departments of the top 50 schools to



work with principals already trained. The hope is that this will create leadership teams in these schools and develop a next generation of principals.

The Arts Association Heritage Trust (AAHT): It was founded in 2006 to safeguard and promote the unique collection of artworks collected by the Arts Association of Namibia since 1947. These 1,438 artworks form the single most comprehensive and oldest collection in the country. It features ethnic works, early landscapes by Europeans and graphics by contemporary artists. The FNB foundation has contributed to a collection of works by John Muafangejo. The AAHT's vision is to preserve all the works for future generations.

The National Youth Council: It has changed the strategy of the Youth Expo and incorporated it to form part of the National Youth Week that took place from 27 to 30 April 2011, in Rundu, Kavango Region. The Youth Expo assembles young entrepreneurs to showcase their work and create a market for their products. The FNB Foundation has been the anchor sponsor for four years.

Child Development Foundation: A non-government, non-political, faith-based organisation, it gives HIV/Aids orphans and disadvantaged children an opportunity to shape their future by

Corporate social responsibility report continued

providing schooling for them. The FNB Foundation supported the visit of the Drakensberg Boys choir from South Africa to perform in Windhoek in March 2011, generating income for the Shalom School, which educates, feeds and cares for these needy Namibian children.

Special Olympics: A global organisation that provides year-round training and competition in Olympic-type sports for children and adults with disabilities. Preparation camps were held as a prelude to the 2011 Special Olympics World Summer Games in Greece in June. The FNB Foundation has been the main sponsor for the past seven years.

Spirit of Giving: A campaign in December each year, by FNB employees, to help various charities and individuals over the festive season. Contributions in 2010/11 included Christmas food to 30 families through the Helpende Hande charity organisation and food, clothes, blankets and toys to charities throughout the regions.

Aflatoun: An internationally acclaimed schools' programme, managed and coordinated by Junior Achievement (JA) Namibia. The FNB Foundation contributes N$200 000 a year. The programme trains teachers to educate young children in social skills and banking, including personal finances. It encourages a savings culture. The foundation and FNB are partnering Aflatoun in Namibia's north central regions. An estimated 100 000 to 150 000 children will benefit during the four years of FNB funding.

San Development Programme: A back-to-school awareness campaign run by the Office of the Prime Minister to encourage children from San communities to attend school and to make the environment conducive for studying. FNB Foundation has committed to support this project for the next three years.

Polytechnic Cultural Festival: The foundation contributed N$60 000. It has been the main sponsor for the last seven years. We try to support it in wider areas, like celebrating cultural heritages.

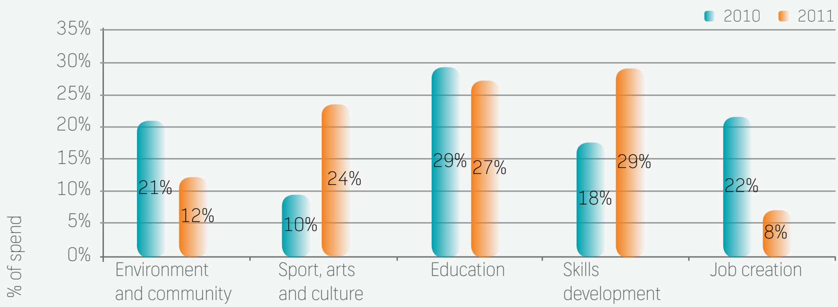
The Namibia Tennis Association: An annual commitment of N$204 000 is used mainly to give less privileged youth access to tennis development in Windhoek and the North. The foundation approved an additional funding of N$40 000 during 2010 to bring a similar facility to the coast.

Legendary Dress Making Competition: This has grown into an annual event celebrating the development of Namibia's traditional fashion design, with an emphasis on dresses in the Herero tradition. Each year a different theme is chosen. Many designers have been able to develop styles and businesses through the competition. In 2010, five of the winning dresses were displayed at a fashion show in Berlin, eliciting great interest.

Jan Mohr Senior Secondary School staged a production of King Lear for schools in the Khomas Region. This Shakespearean play was prescribed for NSSC Grade 12 English in 2010. Jan Mohr learners and teachers adapted it. Grade 12 learners from the Khomas Region were invited to the performances and a DVD was distributed to schools in other regions.

Jane Katjavivi
Chairperson of the FNB Foundation

Summary of the foundation's disbursements



Chief executive officer's report

The June 2011 year-end marks the conclusion of the final year of the group's strategic theme titled "L2Pin3". This strategy has seen the group emerge from being the "Leading Financial Services Group" to the "Preferred Financial Services Group" in Namibia within three years.

It is gratifying to report that independent surveys confirm that the FNB brand remains the most recognised financial services brand in Namibia. A high level of brand visibility was essential while we followed a rigorous strategy to improve brand equity. This involved an integrated marketing investment plan which focussed on initiatives to engage customers, opinion leaders and the public.

FNB chose to use sport as a platform. We have partnered with six Namibia Premier League soccer clubs and two Premier League rugby teams. We believe that supporting sports clubs has opened doors for a wide range of FNB business units and continues to improve brand equity. Two other valuable sport brand properties owned by FNB are the FNB Classic Clashes, involving 42 schools countrywide competing in soccer, rugby and netball; and the FNB Desert Dash, one of the longest single-leg endurance mountain bike races in the world.

During the year the group has delivered well on all aspects of its three strategic imperatives, namely people, customers and efficiencies. The end result is reflected in the sterling financial performance as reported by the Chief Financial Officer.

My report focuses on our three strategic pillars. They have contributed to our current accomplishments and have created a sustainable foundation for long-term success. The three pillars are our people, customers and efficiencies.

People pillar

Our people are the most important internal drivers of success. That is why we focus on building enduring and rewarding relationships with staff to develop maximum potential while supporting our strategic aims. Our objective is to be the "employer of choice". We try to ensure that we have the correct profile of people on board and facilitate development and retention of quality staff. Our leadership philosophy is focused on achieving mutual rewards and long-term sustainability.

Chief executive officer's report continued

The People Pillar Survey (PPS), conducted annually in March, keeps us in touch with how our people perceive management and the organisation. This "voice of our people" indicates where we need to focus and perhaps change to ensure FNB is the employer of choice. Our 2011 results showed an increase from 66% to 71% in employee engagement over the previous year. Overall satisfaction with FNB as a place of work has improved significantly, largely as a result of initiatives implemented by business units across the group. These ranged from improving benefits to, most importantly, communication.

The PPS results are heart-warming and indicate that our employees believe strongly in the goals and objectives of FNB Namibia, and that the group is in a stronger competitive position than last year. Morale has risen and employees see enough opportunity for growth and personal development. Although we are satisfied with the PPS results, the outcomes will be used to enhance the performance management system, as well as address employee perceptions. A 360º assessment has been introduced to help management identify areas requiring improvement.

Scarcity of skills continues to be a challenge. Because skills and talent give us a competitive advantage, we have implemented a talent management framework, which includes skills transfer and succession planning.

Customer pillar

FNB is especially aware that our customers are our reason for existence. Their demands are continually evolving. They demand more sophisticated and technically advanced products and services. The customer pillar ensures that we focus on ensuring that the FNB experience exceeds customer expectations.

We use a Buzz Barometer survey to measure customer satisfaction and to ensure we are doing what they want. The 2010 survey scores indicated that staff should continue to offer professional advice at all times. The loyalty (net promoter) score has more than doubled since 2008. The survey is complemented by a Voice of the Customer survey every two years.

A group service champion was appointed in the past year – yet another demonstration of our commitment to creating a memorable customer experience. The service champion focuses on co-ordinating service efforts across the business units.

We continually invest in new outlets. Our retail footprint was expanded with the opening of the Old Power Station outlet. For the convenience of business clients, the Northern Industrial agency was upgraded to a full branch and the Prosperita branch, opened late last year, put down roots.

Product development remains a priority. We realise that it is in the national interest to encourage a savings culture as well as contribute to an efficient funding strategy. The following new savings products were introduced last year: Bank Your Change, FNB Senior Fixed Deposits, FNB Effective Rate Fixed Deposit.

Innovative products help us to answer Government's call to improve access to banking for all Namibians. CardWise Zero and BankWise Zero were new accounts launched in the past year to close a gap in the market. These accounts have no fixed monthly fees - each transaction attracts a basic charge, making it affordable for entry level users who do not necessarily have a fixed monthly income or use their bank accounts regularly.

Another way to extend financial inclusion is by making financing available to the broader market is through our Easy loans. Loans ranging from N$1 000 to N$25 000 are available. A major advantage in the year under review was the approval of the government deduction code which allows deduction of repayments directly from government employee salaries, which in turn makes it easier for them to get access to finance.

FNB's SME lending policy has provided start-up and expansion capital to over 700 SME's with total loan value in excess of N$125 million. By following a well managed lending and SME

Chief executive officer's report continued

support approach, FNB has experienced an SME business success rate of more than 90%. Thanks to an agreement with the French Development Agency it will guarantee 50% of loans advanced by FNB to Namibian SMEs. Nearly N$100 million is available under this agreement.

We continue to invest in cost effective electronic delivery channels to meet rapidly growing demand. In the past year 23 new ATMs were installed countrywide, while we have continued to seek a solution to replace the aging mini ATMs.

Cellphone banking remains the most convenient and cost effective way of transacting. The number of active cell phone bankers increased by 172% this year. The platform will be further enhanced to allow for once-off payments, just as are made on-line. FNB is the first bank to offer Cellphone banking on both the Namibian networks.

Customers are becoming ever more aware of the efficiency and speed of on-line banking and on-line banking clients increased by 22% over the past 12 months. For clients required to make tax payments, FNB was the first Namibian bank to process electronic fund transfers directly to Inland Revenue.

FNB is committed to offering a secure electronic environment. Our innovative solutions include the unique in-contact messaging service and the one-time pin number. In addition, awareness campaigns keep our customers more vigilant on phishing and spyware. New ATMs also feature the latest anti-fraud technology. But the threat remains.

Agri and Tourism niche products continue to offer clients financing options that accommodate seasonal fluctuations. In 2011 a campaign was launched to synergise the successes of these complementary market opportunities, thus servicing the guest farming and trophy hunting segment on agricultural land. A mobile forex service for tourists was piloted this year with positive results indicating growth potential.

FNB Namibia Private Clients, introduced to fill a gap in our wealth offering, was launched in the year. This is another new niche offering designed to deliver highly innovative financial structuring and wealth management services to discerning clients. It is targeted at entrepreneurs, business professionals and other higher-earning individuals.

Housing in Namibia remains in short supply. FNB Home Loans offers housing loans across the full market spectrum. During the year it successfully launched a renewable energy loan scheme in consultation with the United Nations Development Programme and Ministry of Mines and Energy. It continues to provide construction and management training for building contractors in the SME sector and launched a "Basics for Building" booklet to guide entrepreneurs.

Home Loans relies heavily on the support of estate agents for a significant percentage of new business. To strengthen the relationship we introduced the "Realtors Millionaire Club" competition. FNB is the only bank to have taken such an initiative.

The PMR Silver Arrow was awarded to our property valuators department for "Institutions doing most in their sector to stimulate economic growth and development in the country" for the third year in a row.

During the year WesBank encouraged new hire-purchase business by running a lucky draw competition with a cash payment as prize. This boosted retail business in a slow market and enabled it to remain the market leader in the retail segment. It also ran a scheme with Pupkewitz dealerships for June whereby clients received a preferential interest rate or an extended financing term.

WesBank has strengthened its corporate team to pursue this segment with greater vigour in 2012. As part of this initiative it teamed up with the corporate business unit at the Mining Expo in May. Positive opportunities were identified and are being engaged.

Corporate and Commercial Division is adding value to customers' businesses through initiatives which include custody, trade and property finance and investment banking. In the new year we expect an increase in corporate activity with the launch of the newly created Investment Banking Division (IBD) which will work closely with Rand Merchant Bank.

Strong collaboration between Treasury and the FICC (Fixed Income, Currencies and Commodities) division of RMB saw innovative client solutions and operational efficiencies. This will continue to add value in future. We presented economic updates during the year at which our group economist and the currency strategist from RMB opened debate on the status and expectations of the local and South African economies, as well as matters of global impact. Furthermore, we are undertaking client training in specific Treasury products. This gave our clients a better understanding of some of the more sophisticated products and this is building trust and strengthening customer relationships.

Our International Business Centre (IBC), responsible for trade business and EXCON compliance, has experienced increased activity, especially in the foreign direct investment market. We foresee that this will have a positive result on the forex trading business. Our Custodial Service reported an increase in assets under management of 11% year on year.

Momentum Namibia has achieved new business growth of 21%. This was largely due to synergies developed between the life company and the bank; and to the exceptional growth in Myriad division sales, which exceeded expectations. Our In-house agency division also showed excellent growth of 16% in individual new business premiums.

Funds@Work, our Umbrella Pension Fund product, was launched in August 2010 and has shown remarkable growth. It has the potential to become one of the leading value propositions in the pension fund industry. We believe it offers a much needed alternative to high-end quality products in Namibia.

RMB Asset Management has increased its assets under management significantly to more than N$5 billion for the year. The pension fund market remains largely saturated with limited flow of new funds, but regulations in the pipeline will provide challenges and opportunities. A new range of pooled and unitised products has been introduced for retirement funds and has started to build a track record.

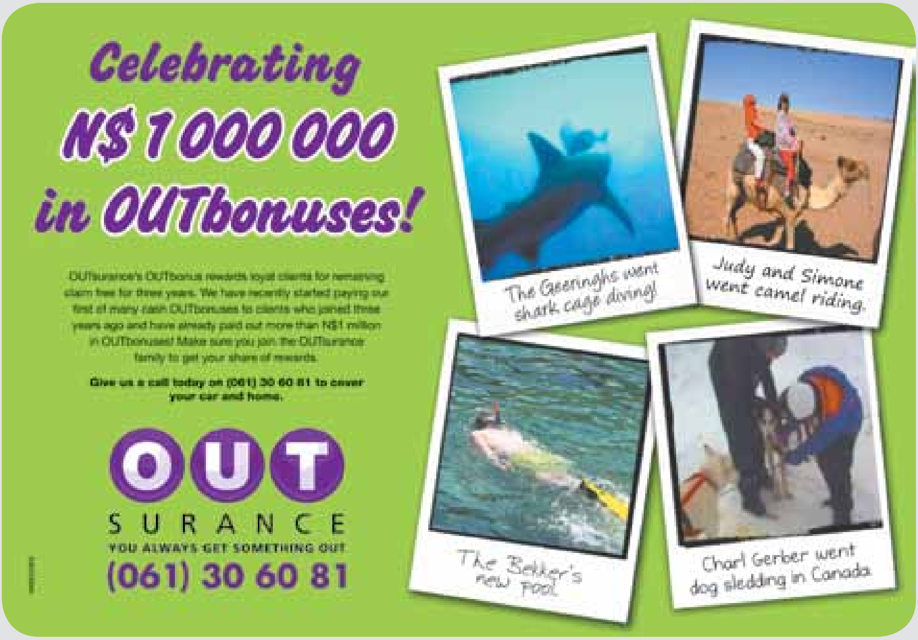
FNB Unit Trusts has established a second Money Market Fund to cater specifically for institutional investors.

OUTsurance remains the only direct insurance underwriter and offers unique and cost effective short-term insurance. Its distinctive feature is the OUTbonus, where clients are rewarded for three claim-free years. The first OUTbonus payment this year was well received by clients. Its emergency assistance is part of the value-added benefits available to clients.

Efficiency pillar

FNB has taken a strategic approach to cost management. As a result, our cost to income ratio has been maintained at 48% despite a squeeze in margins. Contributing to efficiencies is the innovation campaign, run annually. It aims to embed a culture of continuous growth and improvement in the organisation and to reward innovations.

Chief executive officer's report continued



An efficient branch network remains a crucial factor in servicing retail and institutional customers. As such it is key to group strategy. In the year under review we focused on making the existing structure and processes more efficient. But we have made headway in preparing for new systems that will reduce the time it takes to open customers' accounts, and create a new front-end telling system. We expect that this development will not only improve customer experience but reduce staff workload. Re-engineering some business processes has yielded significant success.

One high-impact initiative was to establish a Customer Contact Centre during the year – a one-stop support centre through which customer queries are routed. An on-line monitoring system tracks progress and ensures no long delays. Voice recording created a high service standard and security checks ensure client confidentiality.

Reducing unnecessary time in branch queues has been an age-old challenge. It led us to investigate a new queue management system which was piloted at the Rehoboth branch and will now be tested in our Windhoek outlets. If successful, it will be rolled out to some bigger branches in the new financial year. Meanwhile, we are encouraging customers to avoid branches and make use of more efficient electronic channels.

It is satisfying to report that our on-going efforts on the risk side of the business - including training, simplifying processes and empowering people - have resulted in reduced operational losses.

OUTsurance's effective claims management process continued to yield positive results as reflected in an improved loss ratio.

Efficiency has also been achieved through prudent balance sheet management. Supported by liquidity and interest rate policies, it has yielded positive results for the bank, despite further compression of margins in a low interest rate environment and pressures on the endowment portfolio. The second decrease in the prime lending rate of 50bps in November 2010 (not related to a decrease in the central bank's repo rate) contributed to further margin pressure but the ALM division managed to offset this with minimal impact on net interest income.

It is not only a consistent and sound lending policy but also the efficiencies of our centralised credit collections team and early delinquency detection processes that have paid off as reflected in the release on impairments.

Efficient use of capital is imperative to investors. With this in mind, a revised capital management framework was adopted during the year. As a result, excess capital was returned to shareholders via a special dividend in May. Consequently the return on equity has improved.

Elsewhere in this annual report you will be informed on our compliance and risk management which form an integral component of our efficiency pillar.

Looking ahead

The challenge for executive management was to continue thinking out of the box, and to come up with a new strategy for the next three-year strategy cycle to ensure sustained profitability. We managed to do just that. The board has been presented with a new strategic theme called "P2VPin3", which means moving from being a preferred to a valued partner in three years.

It will call for even more innovative strategies and tactics. Innovation is one of FNB's values and it is part of our DNA. The team is ready for the challenge.

As mentioned in the chairman's report, a fourth pillar has been added to our strategic framework. Partnerships were identified as fundamental in creating a sustainable business model due to the synergies they bring, together with the existing people, efficiencies and customer pillars.

Key partnerships include relationships with government, our main shareholder, board members and the general public.

The 2012 financial year will no doubt again be very challenging in terms of competition and through enhanced regulatory policy interventions - ranging from measures to give effect to financial inclusion to regulations governing ownership of banking institutions.

We trust that pragmatism and mutual interest will be the overriding factors in seeking workable solutions on policy and regulatory issues.

Our strategy is ready to confront any eventuality and to deliver on the expectations of our stakeholders. 2012 is the year to be with FNB Namibia.

Appreciation

The excellent financial results and operational performance would not have been possible without the conducive business environment created by the Namibian authorities - a privilege FNB does not take for granted. I wish to express my profound thanks to the Namibian Government, the various line ministries, municipalities and other organs. Our regulators, the Bank of Namibia and NAMFISA, have done a great job in carrying out their overseeing responsibilities.

We thank our shareholders and the board that represents their interests for having entrusted us with their enormous assets, and allowed us to operate within the owner-manager ethos of the FirstRand Group. Your trust and support is greatly appreciated.

A special word of appreciation goes to Messrs Dieter Voigts and Peter Böttger, respectively retired chairman of the FNB Namibia Holdings Board and retired chairman of the FNB Namibia Holdings Audit Committee. Both these gentlemen retired in November 2010 after serving the company for more than 20 years. We wish them a happy and healthy long life with their families.

Finally, a big thank you to the executive management team and the rest of the FNB team whose efforts, dedication and loyalty shaped the group's performance.

Adv. Vekuii Rukoro
Group Chief Executive Officer

Chief financial officer's report

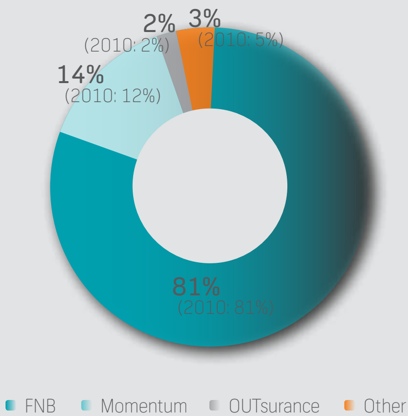
The results reported for the year ending 30 June 2011 bear testimony to the successful execution of the group's strategic plan, details of which were communicated in the CEO's report. The strategic plan created a solid operating platform that enabled the group to remain focused on the core business and deliver very pleasing results in a challenging year.

Headline earnings for the year ended 30 June 2011 increased by 16% to N$496 million (2010: N$428 million) and profit by 17% to N$539 million (2010: N$459 million). Earnings per share increased 15% to 191.8 cents (2010: 166.1 cents).

Return on average equity improved to 26% (2010: 24%), the enhancement partially attributable to the reduction in capital following the payment of the special dividend in May 2011. Pleasingly, the group's cost income ratio remained steady at 49%.

The group comprises three main operating entities: First National Bank of Namibia Limited ("FNB"), OUTsurance Insurance Company of Namibia Limited ("OUTsurance") and Momentum Life Assurance Namibia Ltd ("Momentum"). Momentum acquired 100% of RMB Asset Management Namibia during the year. In view of the group's decision to sell Momentum with effect from 1 July 2011, Momentum's results have therefore been reclassified as a discontinued operation for the 2011 financial results.

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



FNB's profit for the year increased by 17% to N$434 million (2010: N$370 million). This was a commendable performance taking into consideration a moderate growth in advances. The good growth in active accounts and increased transaction volumes in retail banking, as well recoveries of previously impaired loans were the main contributing factors.

OUTsurance's performance once again exceeded expectations as a result of increased sales, lower loss ratios and operational efficiencies. Profit for the year increased by 50% to N$12 million (30 June 2010: N$8 million).

Momentum's profit for the year amounted to N$75 million, an increase of 34% over the corresponding period last year (N$56 million). This is mainly due to a 33% increase in profits from insurance activities. New business annual premium income increased by 22% over the past year, mainly as a result of excellent sales from the Myriad product range, the tied agency division and FundsAtWork umbrella pension fund.

Statement of comprehensive income

Interest income

Net interest income before impairments grew by 11% to N$839 million (2010: N$758 million), matching growth in average advances.

This was a notable achievement against the background of FNB's compliance with Bank of Namibia's requirement to reduce the margin between prime and the bank rate by 50 basis points twice – October 2009 and again in October 2010. In addition, interest rates reaching the lowest levels ever in an independent Namibia contributed to a negative endowment effect. This put pressure on margins. Some relief was obtained from the release of interest previously suspended. However, it was FNB's effective interest rate management process that led to margins being preserved.

The significant components of the banking groups interest income are illustrated in the chart below.

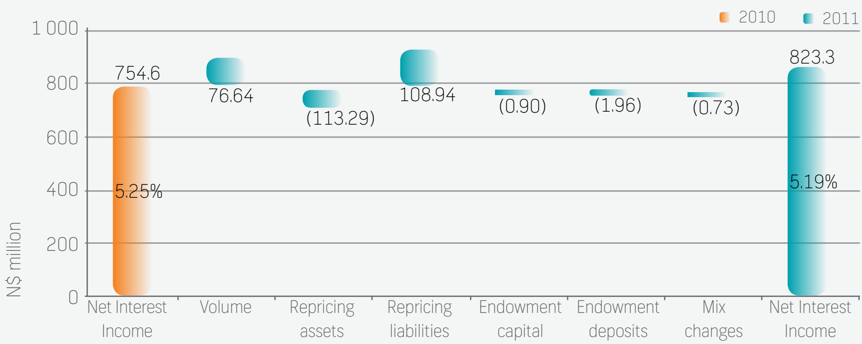
Impairment losses

The net impairment release of N$12 million for the year against a N$13 million charge in 2010 was achieved by a major recovery of a previously impaired loan. In addition, the prevailing lower interest rates together with the benefits of the centralised credit collections team and effective early delinquency detection and a consistent and sound lending policy paid off.

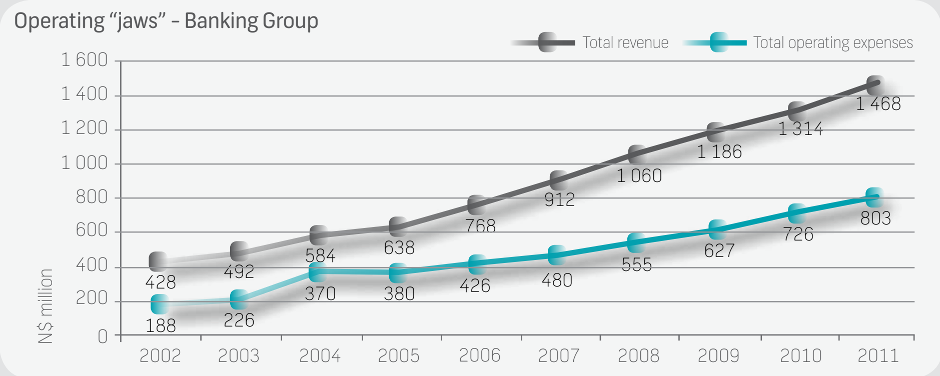
During the year no portfolio impairment was made compared to a release of N$5 million in 2010. The behavioral rating model used to calculate the portfolio provision is based on past experience. The decrease in the portfolio provision is therefore in tandem with the decrease in the number of actual defaults experienced.

The components of the movement in impairments, expressed as a percentage of average advances, are summarised in the table below.

	2011		2010	
	N$m	% of average advances	N$m	% of average advances
Specific impairment (reversal)/recognition	(17.4)	-0.1%	10.9	0.1%
PV of securities on non-performing loans	5.0		7.2	
	(12.4)	-0.1%	18.1	0.1%
Portfolio impairment			(5.1)	
Total impairment (reversal)/charge	(12.4)	-0.1%	13.0	0.1%



Chief financial officer's report continued



Non interest income

Non interest revenue increased by 14% to N$653 million. Banking fee and commission income grew by 16%, due to good growth in number of active accounts and transaction volumes, as well as an annual inflationary price increase. Clients are becoming more aware of the benefits of using more cost and time efficient electronic delivery channels and this has been a moderating effect on income growth. The number of customers making use of Electronic Pricing Option ("EPO"), which is capped at N$98 per month, increased by 53%.

Fair value income ended the year N$11 million below prior year. Foreign exchange income was marred by the Rand's strength, less volatility in currencies and lower volumes.

Net insurance premium income and net claims and benefits paid

OUTsurance's premium income increased by an above average 28% which continues to reflect the increased market penetration, although not as high as the 45% growth reported in 2010 which recorded the high take-off of the personal lines products. Net claims and benefits have slowed down to 8% as a result of the improved loss ratio.

Momentum's results are not reflected here has as they have been reclassified as a discontinued operation.

Operating expenses

Non interest expenditure increased by 14% to N$817 million, which has been impacted by staff costs which benefited from the pension fund contribution holiday the previous year. Other factors contributing to the increase include IT related costs associated with maintaining the localised core banking system together with expansion and the continued investment in technology to improve efficiencies.

The low inflation did assist in limiting increases in operating costs, although a strict focus on cost control is embedded in the day to day operations as well as the procurement process.

The chart above show a pleasing trend in the operating jaws of the banking group.

Tax

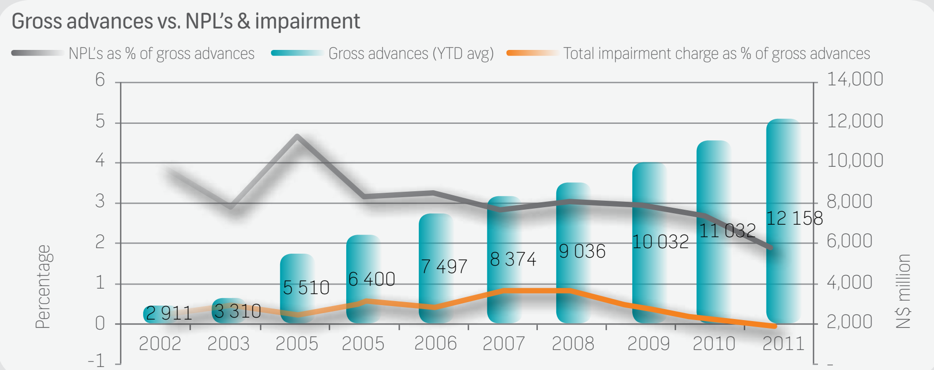
The group's effective tax rate increased to 34% from 33% in the prior year because of a decrease in non-taxable income in the current year.

Statement of financial position

The pending sale of Momentum has resulted in assets and liabilities attributable to Momentum being classified as held for sale and have been separately disclosed on the statement of financial position for the current year only. This results in certain categories of the statement of financial position relating to Momentum not being directly comparable with the prior year disclosure.

FNB's total assets showed moderate growth of 8%. Average year to date gross advances grew by 10%, mainly driven by home loans which grew at 11%. FNB remains the market leader in home loans. The chart on the following page illustrates FNB's consistent growth in advances.

Non performing loans have decreased in all categories of advances. The improved credit quality across all portfolios is a result of the combination of the group's sound lending policy, early warning system and lower interest rate environment. This very low level of non performing loans is not expected to be maintained as the interest rate cycle turns upwards and advances growth gains momentum. The year-to-date ratio for non performing loans to average gross advances continued to improve, reducing to 1.9% (2010: 2.7%). Non performing loans reduced by 24% to N$212 million (2010: N$280 million). The improving trend over the long term is illustrated below:



Average deposits increased by 10% to N$12 billion. Year on year balances indicate less surplus liquidity than in the prior year. Efforts to increase retail funding are meeting with success and the percentage of retail funding to total funding has increased in the past year.

Investment securities reflect a decrease of N$41 million due to the exclusion of Momentum in the current year. The banking group increased investment securities by N$85 million (6%), mainly to meet regulatory liquid asset requirements.

Dividend

The group has maintained the 2.4 times dividend cover on profit attributable to ordinary shareholders. This results in a total distribution for the year of 77 cents, up by 15%. In addition a special dividend of N$1.70 per share was declared and paid during the year.

Chief financial officer's report continued

Capital management

Banking operations

Introduction and objectives

The optimum level and composition of capital in the group is determined after taking into account the business organic growth plans – provided financial targets are met – as well as expectations of investors, targeted capital ratios, future business plans, dividend policy, plans for issuance of additional capital instruments, the need for an appropriate buffer in excess of minimum requirements as well any proposed regulatory changes.

It is our objective to maintain a strong capital base to support the growth of businesses and to exceed regulatory capital requirements at all times. A strong capital base serves as a foundation for growth and cushions against unexpected losses. We aim to be capitalised at the higher of economic capital or regulatory capital including a buffer.

Our capital management process is articulated in the group's capital management framework which is re-assessed and approved annually. The framework mandates us to manage our capital in a consistent and aligned manner to ensure shareholder value is maximised at all times.

The capital management process is also incorporated in the bank's Internal Capital Adequacy Assessment Process (ICAAP), which also covers stress testing and other scenarios used in determining the capital buffer over the regulatory minimum. The ICAAP document is approved annually by the Board of Directors, and submitted to the Bank of Namibia as part of the supervisory and review process. The ICAAP and stress tests are under frequent review and refinement and continue to inform the targeted buffer decision.

The board also approves the range of core assumptions and stress scenarios used in the ICAAP. These stress scenarios are severe, but plausible, and also allows for a summary of the necessary management action that will enable the bank to operate without disruption. Undoubtedly, stress testing allows us to formulate our response, including risk mitigation actions, in advance of conditions starting to exhibit the stress scenarios identified. The actual market stresses which occurred throughout the world's financial system in recent years have been used to inform our capital planning process and allow for a refinement of stress scenarios used.

Capital adequacy and planning

Supply of capital

The group's capital planning process ensures that the total capital adequacy and Tier 1 ratios remain within approved ranges or above target levels across economic and business cycles. The bank is appropriately capitalised under range of normal and severe scenarios as well as under range of stress events. The group aims to back all economic risk with Tier 1 capital as it offers the greatest capacity to absorb losses.

As mentioned earlier, the targeted level of capital takes into account any regulatory changes. In preparation for the transition to Basel II, the bank took the decision to target a higher regulatory ratio to ensure no business disruption during this transition period. Given the successful adoption of Basel II during the previous year, which was followed by a year of stable regulatory ratios, we took the decision to lower the targeted level of capital to 14%. The targeted level of 14% was informed by the stress testing exercise done as part of the ICAAP, with a Tier 1 level set at 12%. These targeted levels are well in excess of the regulatory minimums of 10% and 7% for Total Capital and Tier 1, respectively.

Forecasts and stress testing completed for the bank showed we would be operating well in excess of the targeted ratios for Total Capital and Tier 1, and consequently, the board declared a special dividend of N$379 million. Following the special dividend payout, the bank continued to report a solid total capital ratio of 16.6%, with a Tier 1 ratio of 12.6% – considered to be well above international averages and well ahead of the bank's internal target that takes into account stress and volatility.

Demand for capital

The Bank of Namibia ("BoN") requires banking institutions to hold a minimum amount of capital equal to, or more than, 10% of the calculated risk weighted assets in terms of the standardise approach of Basel II. The increase in risk weighted assets during the year is mainly attributable to the increase in credit risk due to increase in advances as well as increase in operational risk due to growth in gross income.

Regulatory developments

The regulation and supervision of financial institutions continues to undergo significant changes in response to the global financial crisis. In December 2010, the Basel Committee issued the final requirements commonly referred to as Basel III, with Basel 2.5 already included in the draft regulations of a number of jurisdictions. Basel III places greater emphasis on liquidity and leverage ratios of banks and also raise the quality and transparency of the capital base. As a subsidiary of a South African banking group, we are preparing for the transition to Basel 2.5 in January 2012. Whilst Basel 2.5 is not expected to impact the bank, we are mindful of Basel III proposals that will take effect at a holding entity level. We continue to work with our holding entity on the impact of such regulatory changes, but believe that our strong risk management culture will be augmented by such initiatives allowing us to put measures in place in anticipation of such requirements in Namibia and South Africa.

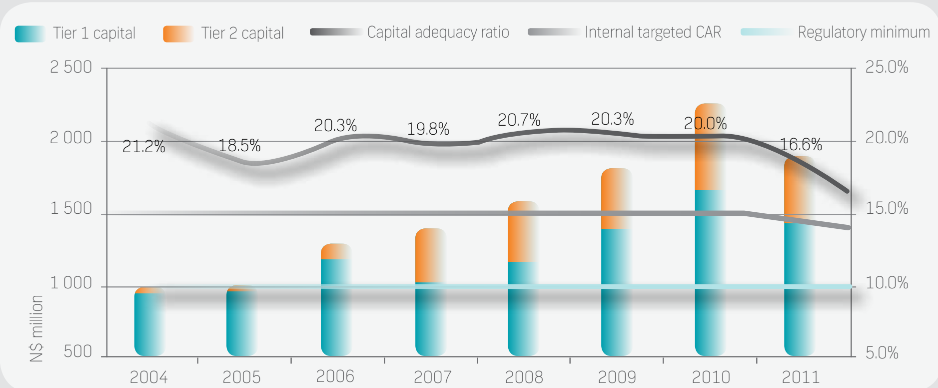
Bank of Namibia is also in the process of introducing the consolidated supervision approach which we embrace. We believe this regulatory approach will not only complement our internal capital management framework but also enhance optimum capital mix within the group between different capital components.

Meanwhile, FNB calculates capital at a banking group level using the Basel II framework as set out by Bank of Namibia. Basel II is structured around three pillars and the Determination (BID-5) gave effect to Basel II rules and implementation thereof.

The following graph depicts the 8 years growth in capital components and capital adequacy:

Capital adequacy of FNB

	2011 N$m	2010 N$m
Risk weighted assets		
Credit risk	9 539	8 474
Market risk	14	25
Operational risk	1 677	1 411
Total risk weighted assets	11 230	9 910
Regulatory capital		
Share capital and share premium	1 143	1 143
Retained profits	481	756
Capital impairment: intangible assets	(211)	(241)
Total tier 1	1 413	1 658
Eligible subordinated debt	260	260
General risk reserve, including portfolio impairment	119	106
Current audited board approved profits	72	
Total tier 2	451	366
Total tier 1 and tier 2 capital	1 864	2 024
Capital adequacy ratios		
Tier 1	12.6%	16.7%
Tier 2	4.0%	3.7%
Total	16.6%	20.4%
Tier 1 leverage ratio	8.9%	9.5%



Insurance operations

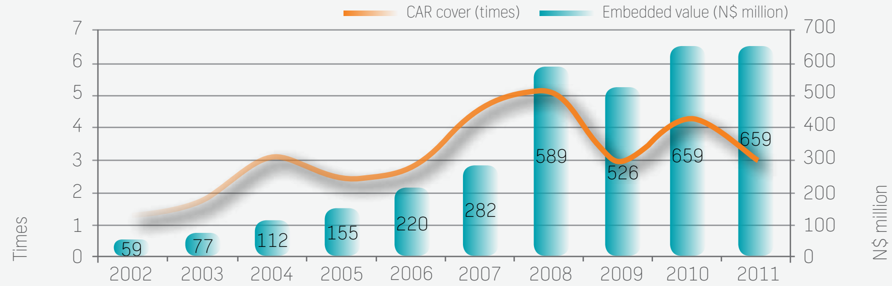
Momentum's policy is to invest capital required for the capital adequacy requirement (CAR) in cash or near cash instruments. The objective is to ensure a sufficient excess of assets over liabilities to guard against severely negative conditions in future. In terms of Momentum's capital management framework, a buffer of 1.9 times above that minimum is maintained.

The CAR of Momentum is N$93.1 million (30 June 2010: N$81.0 million). Free reserves cover the capital adequacy requirement 3.0 times (30 June 2010: 4.3 times). Momentum declared a dividend of N$150 million during the year (2010: Nil) as free reserves exceeded the targeted capitalisation of one 1.9 times CAR.

The embedded value remained at N$659.1 million (2010: N$659 million) due to the dividend payment. The value of in-force increased by 15% to N$416.1 million (30 June 2010: N$363.0 million) and the value of new business was N$77.8 million (30 June 2010: N$75.9 million).

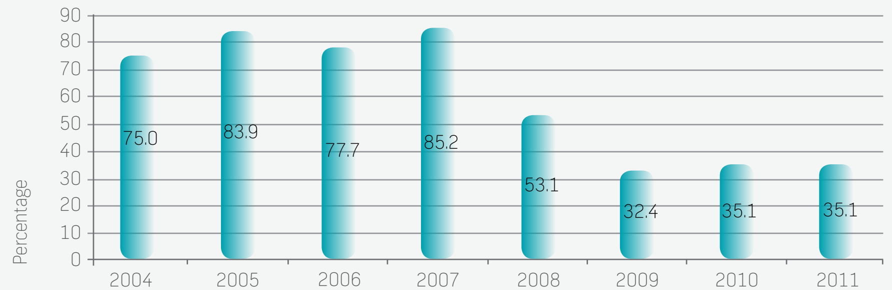
Chief financial officer's report continued

Embedded value and Capital adequacy ratio cover



OUTsurance's capital adequacy is measured by the solvency margin that is the free reserve ratio of shareholders' funds expressed as a percentage of net premium income. The company targeted solvency margin range is between 25% and 50%, while the regulatory minimum is 15%. The solvency margin at 30 June 2011 was 35% (2010: 35%), a sound and healthy position. OUTsurance declared a dividend of N$5 million during the year (2010: N$5 million).

Solvency margin



Conclusion

While the group is aware that some external risks remain, we are generally upbeat about growth potential in Namibian which will lead to an increase in economic activity. Our strong capital base and funding structure ensure that we are well-positioned to support an anticipated increased demand for credit. Our sound credit risk management processes will be maintained, although a more realistic impairment provision is expected as the business cycle normalises.

Driving our strategy over the next three years will be our continued focus on niche markets, with a renewed emphasis on corporate and investment banking. This will add critical mass to our business. At the same time we are heeding governments call for banking inclusion to the unbanked population where innovative electronic products will be an essential enabler.

Our strong focus on cost management and efficiencies will be maintained through the processes embedded in our efficiency pillar - part of our strategic framework.

The objective remains to create sustainable value for all stakeholders.

Erwin Tjipuka
Chief Financial Officer

Ten year review

N$ million	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Statement of financial position										
Advances	12 464	11 227	10 486	9 142	8 726	7 862	6 709	5 827	3 555	2 932
Total assets	17 164	15 937	14 100	13 402	10 674	9 631	8 233	7 200	4 732	4 072
Deposit and current accounts	13 306	12 046	10 601	9 676	7 817	7 812	6 706	5 884	3 950	3 271
Capital and reserves attributable to the group's ordinary equity holders	1 820	1 952	1 640	1 483	1 240	1 302	1 175	1 038	598	594
Non-controlling interest	166	199	122	144						
Total equity	1 986	2 151	1 762	1 627	1 240	1 302	1 175	1 038	598	594
Statement of comprehensive income										
Net interest income before impairment of advances	839	758	743	729	611	483	423	398	309	270
Impairment reversal / (recognition) losses on advances	12	(13)	(38)	(72)	(68)	(29)	(23)	(23)	(12)	(5)
Non interest income	653	574	433	403	380	344	281	218	184	158
Net insurance premium income	72	56	185	160	120	108	89	78		
Net claims and benefits paid	(41)	(38)	(125)	(117)	(44)	(42)	(30)	(27)		
Operating expenses	(817)	(719)	(694)	(618)	(521)	(454)	(400)	(380)	(226)	(188)
Profit for the year from continuing operations	464	403	334	344	254	222	195	151	241	156
Profit attributable to discontinued operations	75	56	33	65	50	35	21	14		
Profit for the year	539	459	367	409	304	257	216	165	241	156
Headline earnings	496	428	353	330	300	254	204	164	239	156
Other information										
Earnings per ordinary share (cents)	191.8	166.1	136.1	145.2	114.7	96.7	81.6	63.7	120.4	78.2
Headline earnings per share (cents)	191.6	165.7	135.6	124.6	113.5	95.0	78.7	63.4	119.6	78.2
Return on assets (earnings on average assets) (%)	3.0	2.9	2.6	3.2	3.0	2.9	2.7	2.8	5.5	4.2
Return on equity (earnings on average equity) (%)	26.3	23.9	22.6	28.2	23.9	20.6	19.1	20.2	40.4	28.0
Cost to income ratio (%)	48.8	48.9	50.5	48.1	48.0	49.0	49.8	52.2	45.9	44.0
Impairment reversal / (recognition) vs. average advances (%)	(0.1)	0.1	0.4	0.8	0.8	0.4	0.4	0.5	0.4	0.2
Market capitalisation	3 307	3 093	3 158	2 665	2 119	1 873	1 606	1 200	900	790
Price to Book	1.8	1.6	1.9	1.8	1.7	1.4	1.4	1.2	1.5	1.3
Dividend information:										
Dividends per share - ordinary dividend declared (cents) *	77.0	67.0	56.0	53.0	47.0	40.0	32.0	25.0	25.0	42.0
Dividend per share - special dividend (cents)	170.0				93.0				95.0	
Dividend yield - ordinary dividend (%)	6.2	5.8	4.7	5.3	5.9	5.7	5.3	5.4	5.6	10.6
Dividend cover (times) based on ordinary dividends	2.4	2.4	2.4	2.4	0.8	2.4	2.5	2.5	1.0	1.9
Earnings yield (%)	15.5	14.4	11.5	14.6	14.5	13.8	13.6	13.9	27.0	19.8
Closing share price - ordinary (cents)	1 236	1 156	1 180	996	792	700	600	460	446	395
Price / Earnings ratio	6.4	7.0	8.7	6.9	6.9	7.2	7.4	7.2	3.7	5.1
Number of staff	1 808	1 791	1 664	1 601	1 463	1 433	1 406	1 363	1 059	1 078

** based on current year profits*

Note : 2010 Statement of comprehensive income information has been restated due to the classification of Momentum Namibia as a discountinued operation. See note 42 of the Annual Financial Statements.

Glossary of terms

Amortised cost:

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

Bank rate

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

Basel II

The capital adequacy framework issued by the Bank for International Settlements aimed at aligning banks' capital requirements with relevant risk profile and risk practices.

BEE:

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

Capital adequacy requirement (CAR):

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

CAR cover:

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

Cost to income ratio (%):

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

Critical mass:

Operating expenditure as a percentage of total assets.

Derivatives:

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

Embedded value (EV):

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

Endowment effect:

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

Fair value:

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

Financial soundness valuation:

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

General risk reserve:

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

Headline earnings:

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

Hedge:

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

IAS:

International Accounting Standards

IFRS:

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

Impairment of advances:

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

Interest in suspense:

Contractual interest suspended on non-performing loans.

Interest margin on average advances (%):

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

Interest margin on average total assets (%):

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

Irrevocable facilities:

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

Loss given default (LGD):

The economic loss that will be suffered on an exposure following default of the counterparty, expressed as a percentage of the amount outstanding at the time of default.

Market capitalisation:

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

Mark-to-market:

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

Non performing loan (NPL):

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

Notional value:

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

Off market loans:

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

Organic growth:

Non-acquisition growth.

Portfolio impairments:

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

Present value (PV):

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

Return on average equity (ROE) (%):

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

Probability of default (PD):

The probability that a counterparty will default within the next year and considers the likelihood of the counterparty to repay.

Return on average total assets (ROA) (%):

Earnings attributable to ordinary shareholders divided by average total assets.

Share based payments:

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

Shareholder value:

The underlying principle used by management in making business decisions which ensures that returns exceed the cost of capital for shareholders.

SME:

Small and medium enterprise

Strike price:

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

TIPEEG:

Targeted Intervention Programme for Employment and Growth which is a government initiative to expedite implementation of government programmes and projects to address unemployment and support strategic high growth sectors in Namibia.

Unintimated claims:

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

ANNUAL FINANCIAL STATEMENTS

Contents

Directors' responsibility statement

To the members of FNB Namibia Holdings Limited

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

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

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

The directors have reviewed the group's budget for the year to 30 June 2012. On the basis of this review and in the light of the current financial position, the directors have no reason to believe that FNB Namibia Holdings Limited and its subsidiaries will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The group's external auditors, Deloitte & Touche, have audited the financial statements and their report appears on page 41. The consolidated annual financial statements of the group and company, which appear on pages 36 to 163 have been approved by the board of directors and are signed on its behalf by:

CJ Hinrichsen
Chairman
Windhoek
17 August 2011

Adv VR Rukoro
Chief Executive Officer
Windhoek
17 August 2011

Report of the audit committee to shareholders

The audit committee comprises of a majority of independent non-executive directors and it meets no less than four times a year. The chairperson of the audit committee is an independent non-executive director and not the chairperson of the board.

The primary function of the audit committee is to assist the board in fulfilling its responsibilities by monitoring decisions and processes designed to ensure that the group's financial and computer system provide reliable, accurate and up-to-date information to support the current financial position and that the published consolidated annual financial statements represent a fair reflection of its financial position. It also ensures that appropriate accounting policies, control and compliance procedures are on place. The head of internal audit and the external auditors attend its meetings and have unrestricted access to the chairman of the committee.

In carrying out its responsibilities the committee has full authority to investigate all matters that fall within its terms of reference. Accordingly, the committee may:

- Obtain independent professional advice in the satisfaction of its duties at the cost of the group; and
- Have such direct access to the resources of the group as it may reasonably require including the external and internal auditors.

The primary objectives of the committee are:

1. To assist the board of directors in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied in a day-to-day management of the business;
2. To review accounting principles, policies and practices adopted in preparation of public financial information;
3. To review with external auditors the scope and results of their audit, as well as the review and approval of audit fee's and nomination of auditors for appointment by shareholders;
4. To provide a forum for communication between the board of directors, management and the internal and external auditors; and
5. To introduce such measures as in the committee's opinion may serve to enhance the credibility and objectivity of the consolidated annual financial statements and affairs of the group.

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

S H Moir
Chairman
Windhoek
16 August 2011

Statement of actuarial values of Momentum Life Assurance Namibia Limited

	2011 N$'000	2010 N$'000
A brief summary of the financial position as at this date is as follows:		
Policyholders' fund	1 014 243	958 361
Other liabilities	43 280	29 605
Capital adequacy requirement	102 320	81 028
Free assets	172 488	267 379
Total funds (at actuarial value)	1 332 331	1 336 373
The above split may also be represented by the following items:		
Financial soundness liabilities	1 057 523	987 966
Free reserves for published financials	274 808	348 407
Total funds (at actuarial value)	1 332 331	1 336 373

The movement in the Free Reserves is a decrease of N$73 599 000 (2010: N$62 048 000 increase).

Certification

I have conducted an actuarial valuation of Momentum Life Assurance Namibia Limited according to generally accepted actuarial standards as at 30 June 2011, and certify that the Company was financially sound at that date.

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

Jacques Malan
Fellow of the Institute of Actuaries
Valuator
18 August 2011

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

We have audited the group annual financial statements and the annual financial statements of FNB Namibia Holdings Limited, which comprise the consolidated and separate statements of financial position as at 30 June 2011, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes and the directors' report, as set out on pages 42 to 163.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Namibian Companies Act, and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of FNB Namibia Holdings Limited as at 30 June 2011, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act in Namibia.

Deloitte & Touche

Deloitte & Touche
Registered Accountants and Auditors
Chartered Accountants (Namibia)
ICAN practice number: 9407

Per J Kock
Partner
PO Box 47, Windhoek, Namibia
6 September 2011

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

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

Directors' report

Nature of business

FNB Namibia Holdings Limited is the holding company of the FNB Namibia group of companies. Its main investments remain unchanged from the prior year, except for the sale of RMB Asset Management (Namibia) (Pty) Ltd to Momentum Life Assurance Namibia Limited. The shareholdings are:

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

Share capital

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

The company's authorised share capital at year-end consists of 990 000 000 (2010: 990 000 000) ordinary shares of 0,5 cents each and 10 000 000 (2010: 10 000 000) cumulative convertible redeemable preference shares of 0,5 cents each.

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

At the annual general meeting to be held on 24 November 2011, members will be asked to consider an ordinary resolution placing the number of un-issued ordinary and preference shares, exclusive of the number of shares reserved for purposes of the share incentive scheme as at that date, under the control of the directors as is currently the case, until the next annual general meeting.

Share analysis – ordinary shares

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

FirstRand EMA Holdings Limited	58.4% (2010: 59.4%)
Government Institutions Pension Fund	14.7% (2010: 14.4%)

A detailed analysis of shareholders is set out on page 184.

Share analysis – preference shares

RMB-SI Investments (Proprietary) Limited	100% (2010: 100%)

FNB Share Incentive Scheme (the trust)

No new shares were allocated during the year by the company to the trust (2010: nil). Staff exercised options on 1 294 000 (2010: 107 102) shares during the year. The total number of shares held by the trust at 30 June 2011 amounts to 8 304 597 (2010: 8 591 565). Also refer to notes 8.2 and 32 of the annual financial statements.

Dividends

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

N$'000	2011	2010
Ordinary dividends		
Final dividend of 41 cents (2010: 36 cents)	109 713	96 334
Interim dividend of 36 cents (2010: 31 cents)	96 334	82 954
Total distribution for the 12 months of 77 cents per ordinary share (2010: 67 cents per ordinary share)	206 047	179 288
Special dividends		
A special dividend of 170 cents per ordinary share	454 909	

Directors interest in FNB Namibia Holdings Limited

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

Interest of directors

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

Group results

The financial statements on pages 66 to 163 set out fully the financial position, results of operations and cash flows of the company and the group. Your attention is also drawn to the chairman's report, the chief executive officer's report and the chief financial officer's report on the financial results on pages 19 to 32.

Directorate

At the group's annual general meeting held on 24 November 2010, directors H-D Voigts and H W P Böttger retired as independent directors. Mr. S H Moir, who retired by rotation in accordance with the provisions of the company's articles of association, made himself available for re-election and was duly re-elected.

Mr. C J Hinrichsen was appointed as Chairman on 24 November 2010 following the retirement of Mr. H-D Voigts.

The composition of the board of FNB Namibia Holdings Limited at 30 June 2011 and to the date of this report is as follows:
C J Hinrichsen # (Chairman)
C L R Haikali
J R Khethe*
J K Macaskill *
S H Moir *
M N Ndilula
P T Nevonga
Adv VR Rukoro (Chief Executive Officer)
I I Zaamwani-Kamwi (Ms)

German * South African

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

Directors' emoluments

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

Management by third parties

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

Insurance

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

Property and equipment

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

Holding company

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

Subsidiaries

Interest in and aggregate profits of subsidiaries are set out in note 36.6 to the annual financial statements.

Company secretary and registered offices

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

Events subsequent to the reporting date

Momentum Life Assurance Namibia Limited

In July 2011 the FNB Namibia Holdings' board agreed in principle to sell FNB Namibia's 51% interest in Momentum Life Assurance Namibia Limited to a Namibian entity that forms part of the MMI Holdings Limited ("MMI") stable. The terms of this transaction must still be finalised but the intention is to prepare the sale agreement so that the transaction will come into effect from 1 July 2011. The transaction is still subject to MMI's Namibian operation approving the terms of the transaction as well the necessary regulatory approvals. The parties hope to conclude the transaction by the end of November 2011.

FNB Insurance Brokers Namibia (Pty) Ltd

FNB Namibia has also reached an agreement to acquire the remaining 60% interest in FNB Insurance Brokers Namibia (Pty) Ltd, increasing the group's holding in the company from 40% to 100% with effect from 1 July 2011.

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

Accounting policies continued

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.

Accounting policies continued

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.

Accounting policies continued

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.

Consolidated statement of comprehensive income

for the year ended 30 June

N$'000	Note	2011	2010
Continuing operations			
Interest and similar income	2	1 414 755	1 387 482
Interest expense and similar charges	2	(575 315)	(629 850)
Net interest income before impairment of advances		839 440	757 632
Impairment reversal / (recognition) for losses on advances	13	12 398	(12 960)
Net interest income after impairment of advances		851 838	744 672
Non interest income	3	653 365	574 310
Net insurance premium income	4	71 935	56 226
Net claims and benefits paid	5	(41 437)	(38 302)
Fair value adjustment to financial liabilities	27	(716)	(2 307)
Income from operations		1 534 985	1 334 599
Operating expenses	6	(817 422)	(718 703)
Net income from operations		717 563	615 896
Share of profit from associates	16.4	4 951	5 189
Income before tax		722 514	621 085
Indirect tax	7.1	(17 019)	(16 048)
Profit before tax		705 495	605 037
Direct tax	7.2	(241 242)	(201 910)
Profit for the year from continuing operations		464 253	403 127
Discontinued operations			
Profit attributable to discontinued operations	21	74 792	55 768
Profit for the year		539 045	458 895
Other comprehensive income			
Continuing operations			
Gain on available-for-sale financial assets		480	7 672
Income tax relating to other comprehensive income	19	162	(1 831)
Discontinued operations			
Loss on available-for-sale financial assets relating to non current assets held for sale		(253)	
Other comprehensive income for the year		389	5 841
Total comprehensive income for the year		539 434	464 736
Profit for the year attributable to:			
Equity holders of the parent		496 298	429 278
Non-controlling interests		42 747	29 617
Profit for the year		539 045	458 895
Total comprehensive income for the year attributable to:			
Equity holders of the parent		496 811	435 119
Non-controlling interests		42 623	29 617
Total comprehensive income for the year		539 434	464 736
Earnings per share (cents)			
Basic and diluted earnings per share (cents)			
From continuing operations	8.2	177.1	154.4
From discontinued operations	8.2	14.7	11.7
		191.8	166.1

Consolidated statement of financial position
as at 30 June

N$'000	Note	2011	2010
Assets			
Cash and short term funds	10.1	428 054	455 215
Due from banks and other financial institutions	10.2	763 051	851 182
Derivative financial instruments	11	24 161	57 119
Advances	12	12 464 342	11 226 660
Investment securities	14	1 643 526	2 799 659
Accounts receivable	15	135 118	117 610
Investments in associates	16	24 696	22 594
Property and equipment	17	279 335	267 024
Intangible assets	18	17 115	56 360
Deferred tax asset	19	2 378	5 885
Policy loans on investments contracts			26 931
Reinsurance assets	20	425	50 080
Non current assets and disposal group held for sale	21	1 381 729	753
Total assets		17 163 930	15 937 072
Equity and liabilities			
Liabilities			
Deposits and current accounts	22.1	13 305 607	12 045 869
Due to banks and other financial institutions	22.2	43 910	54 346
Short trading positions	23	51 889	
Derivative financial instruments	11	21 743	58 019
Creditors and accruals	24	319 885	261 450
Gross outstanding claims		7 047	7 695
Gross unearned premium		22 058	20 127
Provision for unintimated claims	25	4 918	3 876
Tax liability		24 309	32 001
Post-employment benefit liabilities	26	34 583	31 302
Deferred tax liability	19	3 473	
Long term liabilities	27	264 491	263 505
Policyholder liabilities under insurance contracts	28		963 968
Policyholder liabilities under investment contracts	29		43 831
Liabilities directly associated with non current assets classified as held for sale	21	1 074 169	
Total liabilities		15 178 082	13 785 989
Equity			
Capital and reserves attributable to equity holders			
Ordinary shares	30	1 294	1 291
Share premium	30	187 898	191 695
Reserves		1 630 930	1 758 631
Capital and reserves attributable to the group's ordinary equity holders		1 820 122	1 951 617
Non-controlling interests		165 726	199 466
Total equity		1 985 848	2 151 083
Total equity and liabilities		17 163 930	15 937 072

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

N$'000	Share capital	Share premium	Share capital and share premium
Balance at 30 June 2009	1 291	195 066	196 357
Total comprehensive income for the year			
Profit for the year			
Other comprehensive income for the year			
Staff share option transactions			
BEE Consortium share option transactions			
Ordinary dividends			
Transfer to / (from) contingency reserves			
Effective change of shareholding in subsidiaries			
Consolidation of shares held by FNB Namibia share trusts		(3 371)	(3 371)
Balance at 30 June 2010	1 291	191 695	192 986
Total comprehensive income for the year			
Profit for the year			
Other comprehensive income for the year			
Staff share option transactions			
Ordinary dividends			
Transfer to / (from) contingency reserves			
Transfer of vested equity options			
Effective change of shareholding in subsidiaries			
Consolidation of shares held by FNB Namibia share trusts	3	(3 797)	(3 794)
Balance at 30 June 2011	1 294	187 898	189 192

Share-based payment reserve	Available-for-sale reserve	Other reserves	Retained earnings	Reserves attributable to ordinary equity holders	Non-controlling interests	Total equity
10 105	5 461	2 446	1 426 126	1 444 138	121 825	1 762 320
	5 841		429 278	435 119	29 617	464 736
			429 278	429 278	29 617	458 895
	5 841			5 841		5 841
1 170				1 170		1 170
1 199				1 199		1 199
			(152 502)	(152 502)		(152 502)
		1 611	(1 611)			
			29 507	29 507	48 024	77 531
						(3 371)
12 474	11 302	4 057	1 730 798	1 758 631	199 466	2 151 083
	513		496 298	496 811	42 623	539 434
			496 298	496 298	42 747	539 045
	513			513	(124)	389
2 123				2 123		2 123
			(626 206)	(626 206)	(75 950)	(702 156)
		1 472	(1 472)			
(6 569)			6 569			
			(429)	(429)	(413)	(842)
						(3 794)
8 028	11 815	5 529	1 605 558	1 630 930	165 726	1 985 848

Consolidated statement of cash flows

for the year ended 30 June

N$'000	Note	2011	Restated 2010
Cash flows from operating activities from continuing operations			
Cash receipts from customers	33.2	2 114 739	2 011 240
Cash paid to customers, suppliers and employees	33.3	(1 364 087)	(1 310 221)
Cash flows from operating activities	33.1	750 652	701 019
Increase in income earning assets	33.4	(1 292 397)	(1 679 399)
Increase in deposits and other liabilities	33.5	1 402 245	1 452 179
Net cash generated from operations		860 500	473 799
Tax paid	33.6	(258 889)	(216 910)
Net cash flow from operating activities from continuing operations		601 611	256 889
Net cash flow from operating activities from discontinued operations	21.1	153 544	3 914
Cash flows from investing activities from continuing operations			
Purchase of property and equipment	33.7	(53 742)	(58 029)
Purchase of software			(27 162)
Proceeds from the disposal of property and equipment		553	376
Proceeds from the disposal of non current asset held for sale		1 496	5 500
Net reduction in investment in associates	33.8		726
Dividends from associate company		2 849	3 333
Proceeds from the sale of shares in Momentum Namibia	33.9		76 339
Net cash flow from investing activities from continuing operations		(48 844)	1 083
Net cash outflow from investing activities from discontinuing operations	21.1	(1 433)	(7 472)
Cash flows from financing activities from continuing operations			
Purchase of shares for share trusts		(3 794)	(3 371)
Dividends paid	33.10	(626 206)	(152 502)
Dividends paid non-controlling interests		(2 450)	
Net cash outflow from financing activities from continuing operations		(632 450)	(155 873)
Net cash outflow from financing activities from discontinuing operations	21.1	(73 500)	
Net increase / (decrease) in cash and cash equivalents		(1 072)	98 541
Cash and cash equivalents at the beginning of the year*		455 215	356 674
Cash and cash equivalent acquired**	36.7	5	
Transfer to non current assets held for sale	21.1	(26 094)	
Cash and cash equivalents at the end of the year*	10.1	428 054	455 215

*Includes mandatory reserve deposits with central bank.

** Cash and cash equivalent acquired relate to cash held by subsidiary acquired during the year.

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

1 Accounting policies
The accounting policies of the group are set out on pages 44 to 65.

2 Analysis of interest income and interest expenditure.

N$'000	Fair value	Amortised cost	Non financial assets and liabilities	Total 2011
Interest and similar income	84 662	1 330 093		1 414 755
- Advances		1 234 942		1 234 942
- Cash and short term funds		63 193		63 193
- Investment securities	84 662	9 238		93 900
- Unwinding of discounted present value on non performing loans		8 763		8 763
- Unwinding of discounted present value on off-market advances		5 930		5 930
- On impaired advances		(394)		(394)
- Net release of deferred fee and expenses		8 421		8 421
Interest expense and similar charges	23 554	551 456	305	575 315
- Deposits from banks and financial institutions		927		927
- Current accounts		278 264		278 264
- Savings deposits		5 098		5 098
- Term deposits		119 855		119 855
- Negotiable certificates of deposit		147 312		147 312
- Long term liabilities	23 554			23 554
- Other			305	305

N$'000	Fair value	Amortised cost	Non financial assets and liabilities	Total 2010
Interest and similar income	75 708	1 311 774		1 387 482
- Advances		1 203 858		1 203 858
- Cash and short term funds		79 400		79 400
- Investment securities	75 708	17 166		92 874
- Unwinding of discounted present value on non performing loans		9 992		9 992
- Unwinding of discounted present value on off-market advances		5 967		5 967
- On impaired advances		(12 039)		(12 039)
- Net release of deferred fee and expenses		7 430		7 430
Interest expense and similar charges	23 794	605 574	482	629 850
- Deposits from banks and financial institutions		1 635		1 635
- Current accounts		278 301		278 301
- Savings deposits		5 577		5 577
- Term deposits		144 413		144 413
- Negotiable certificates of deposit		175 648		175 648
- Long term liabilities	23 794			23 794
- Other			482	482

Notes to the consolidated annual financial statements

for the year ended 30 June

3 Non interest income

N$'000	2011	2010
Fee and commission income:		
- Banking fee and commission income	539 768	456 270
- Card commissions	53 681	48 070
- Cash deposit fees	73 446	63 987
- Commissions: bills, drafts and cheques	15 567	20 538
- Service fees	215 667	179 850
- Fiduciary service fees	7 687	7 024
- Other commissions	173 720	136 801
- Broking commission income	20 599	19 391
- Unit trust and related fees	11 288	8 690
- Reinsurance commission received by insurance companies	2 752	2 173
Fee and commission income	574 407	486 524
Fee and commission income, by category		
- Instruments at amortised cost	532 081	449 246
- Non financial assets and liabilities	42 326	37 278
Fee and commission income	574 407	486 524

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

N$'000	2011	2010
Fair value income:		
- Foreign exchange trading	62 449	66 525
- Treasury trading operations	3 140	10 418
- debt instruments trading	3 766	3 102
- derivatives revaluation	(626)	7 316
Fair value income	65 589	76 943
Portfolio analysis for fair value income		
Held for trading	65 589	76 943
Fair value income	65 589	76 943

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, and translated foreign currency assets and liabilities.

Interest rate instruments includes the gains and losses from government securities, corporate debt securities, money market instruments, interest rate and currency swaps, options and other derivatives.

3 Non interest income continued

N$'000	2011	2010
Gains less losses from investing activities		
- Gains on investment securities designated at fair value through profit or loss	2 880	1 208
- Gains on realisation of available-for-sale financial assets	484	42
- Dividends received	2 393	1 647
- Listed shares	124	65
- Unit trusts	2 269	1 582
- Share of profit from associates (note 16.4)	4 951	5 189
Gross gains less losses from investing activities	10 708	8 086
Less: Share of profit from associates (disclosed separately on face of the statement of comprehensive income)	(4 951)	(5 189)
Gains less losses from investing activities	5 757	2 897
Other non interest income		
- Gain on sale of property and equipment	574	1 296
- Rental income	1 818	2 095
- Other income	5 220	4 555
Other non interest income	7 612	7 946
Other non interest income, by category		
- Non financial assets and liabilities	7 612	7 946
	7 612	7 946
Total non interest income	653 365	574 310

4 Net insurance premium income

N$'000	2011	2010
Short term insurance contracts		
Personal lines premium	87 834	69 931
Insurance premiums ceded to reinsurers	(13 724)	(11 513)
Change in unearned premium provision	(2 175)	(2 192)
Net insurance premium income	71 935	56 226

5 Net claims and benefits paid

Short term insurance contracts		
Personal lines claims	43 038	39 546
Transfer to provision for unintimated claims (note 25)	1 042	1 136
Gross claims and benefits paid on insurance contracts	44 080	40 682
Insurance benefits recovered from reinsurers	(2 643)	(2 380)
Net claims and benefits paid	41 437	38 302

Notes to the consolidated annual financial statements

for the year ended 30 June

6 Operating expenses

N$'000	2011	2010
Fee and commission expense: insurance related	3 143	2 552
Auditors' remuneration		
- Audit fees	4 287	3 921
- Fees for other services	54	96
- Prior year under provision		39
Auditors' remuneration	4 341	4 056
Amortisation of intangible assets		
- Trademarks	4 036	18 059
- Software	10 158	8 937
Amortisation of intangible assets (note 18)	14 194	26 996
Depreciation		
- Freehold property	1 791	
- Leasehold property	5 913	5 234
- Equipment	26 319	16 586
- Computer equipment	12 642	5 614
- Furniture and fittings	7 244	6 707
- Motor vehicles	224	193
- Office equipment	6 209	4 072
Depreciation (note 17)	34 023	21 820
Operating lease charges		
- Property	11 561	9 055
- Equipment	4 183	2 908
Operating lease charges	15 744	11 963
Professional fees		
- Asset management fees	3 329	813
- Other	3 801	2 729
Professional fees	7 130	3 542
BEE consortium share option cost (note 32)		1 199
Direct staff costs		
- Salaries, wages and allowances	312 816	285 274
- Off-market staff loans amortisation	5 930	5 967
- Contributions to employee benefit funds	69 643	49 430
- Defined contribution schemes: pension	34 176	30 103
- Defined contribution schemes: medical	35 467	19 327
- Retirement fund surplus recognised	(4 719)	(34 019)
- Post retirement medical expense	3 514	7 418
- Severance pay provision: death in service	1 123	3 069
- Social security levies	1 219	1 022
- Share-based payments (note 32)	5 077	3 441
Direct staff costs	394 603	321 602
- Other staff related costs	13 129	13 625
Total staff costs	407 732	335 227
Total directors' remuneration (note 6.1.3)	5 153	5 078

6 Operating expenses continued

N$'000	2011	2010
Other operating costs		
- Insurance	12 989	8 546
- Advertising and marketing	46 339	43 597
- Property and maintenance related expenses	34 423	30 865
- Legal and other related expenses	4 464	3 877
- Postage	4 964	5 716
- Stationery and printing	11 703	10 833
- Telecommunications	12 439	14 664
- Conveyance of cash	4 062	4 843
- Travel and accommodation	10 836	8 343
- Computer and processing related costs	117 578	126 973
- Other operating expenditure	66 165	48 013
Other operating costs	325 962	306 270
Total operating expenses	817 422	718 703

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

6.1 Directors emoluments

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

N$'000

	Salary	Bonus	Contributions to pension & medical	Other allowance	Total
6.1.1 Executive director:					
2011					
VR Rukoro	1 437	1 392	274	319	3 422
	1 437	1 392	274	319	3 422
2010					
VR Rukoro	1 386	1 288	256	319	3 249
	1 386	1 288	256	319	3 249

6.1.2 Non-executive directors:

	Fees as directors 2011	Fees as directors 2010
Non-executive independent directors:		
CJ Hinrichsen (Chairman)	260	109
HWP Böttger (retired November 2010)	198	358
CLR Haikali	265	245
SH Moir	434	366
MN Ndilula	127	127
PT Nevonga	51	57
H-D Voigts (retired November 2010)	188	357
II Zaamwani-Kamwi	208	210
	1 731	1 829
Other non-executive directors :		
JR Khethe		
JK Macaskill		
Executive directors and directors appointed by the main shareholder do not receive directors fees for services.		
6.1.3 Total directors' remuneration and fees:		
- Executive director	3 422	3 249
- Non-executive directors	1 731	1 829
	5 153	5 078

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

6.1 Directors emoluments continued

6.2 Share options

Share options allocated to directors and movements of share options are summarised below: Refer to note 32 for the description of terms of the share trusts.

N$'000	Opening balance	Granted during the year	Strike price	Expiry date	Taken up this year (number of shares)	Closing balance (number of shares)	Benefit derived (N$'000)
Executive director:							
VR Rukoro							
FNB Namibia Holdings Ltd shares	487 700	65 000	5.17 - 12.26	Jun 2010 - Feb 2016	(66 633)	486 067	514
FirstRand Ltd shares	619 620		15.80 - 18.70	Nov 2013 - Nov 2014		619 620	
Non-executive directors:							
FNB Namibia Holdings Ltd shares							
II Zaamwani-Kamwi	37 500		5.17	June 2010	(37 500)		240
PT Nevonga	37 500		5.17	June 2010		37 500	

6.3 Directors' holdings in shares:

	2011 Number of ordinary shares held	2011 Percentage holding	2010 Number of ordinary shares held	2010 Percentage holding
Names:				
Directly:				
HWP Böttger (retired November 2010)	4 667	0.002%	4 667	0.002%
SH Moir	6 000	0.002%	6 000	0.002%
PT Nevonga	38 026	0.014%	38 026	0.014%
VR Rukoro	94 443	0.035%	47 274	0.018%
H-D Voigts (retired November 2010)	12 049	0.005%	11 806	0.004%
II Zaamwani-Kamwi	54 463	0.020%	34 783	0.013%
Indirectly:				
CLR Haikali	3 011 899	1.126%	2 151 357	0.804%
SH Moir	3 800	0.001%	3 800	0.001%
MN Ndilula	5 749 989	2.149%	4 107 135	1.535%

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

7 Tax

N$'000	2011	2010
7.1 Indirect tax		
Value-added tax (net)	12 724	11 412
Stamp duties	4 295	4 636
Total indirect tax	17 019	16 048
7.2 Direct tax		
Normal tax		
- Current	234 100	227 208
Current year	234 100	228 683
Prior year adjustments		(1 475)
- Deferred	7 142	(25 298)
Current year	7 142	(25 008)
Tax rate change		(290)
Total direct tax	241 242	201 910
Tax rate reconciliation - normal tax	%	%
Effective rate of tax	34	33
Total tax has been affected by:		
Non-taxable income		1
Standard rate of tax	34	34

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

8 Earnings and dividends per share

8.1 Headline earnings per share

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

	2011	2010
Headline earnings (N$'000)	495 599	428 395
Weighted average number of ordinary shares in issue	258 699 215	258 470 862
Headline earnings per share (cents)	191.6	165.7

	2011			
	Banking	Insurance	Other	Total
Earnings attributable to ordinary equity holders of the group	434 047	44 492	17 759	496 298
Profit on sale of property and equipment			(380)	(380)
Realised gains from available-for-sale financial assets	(319)			(319)
Headline earnings	433 728	44 492	17 379	495 599

	2010			
	Banking	Insurance	Other	Total
Earnings attributable to ordinary equity holders of the group	370 152	34 274	24 852	429 278
Profit on sale of property and equipment			(856)	(856)
Realised gains from available-for-sale financial assets	(27)			(27)
Headline earnings	370 125	34 274	23 996	428 395

Notes to the consolidated annual financial statements

for the year ended 30 June

8 Earnings and dividends per share continued

8.2 Earnings per share

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

	2011	2010
From continuing operations (N$'000)	458 154	399 147
From discontinued operations (N$'000)	38 144	30 131
Earnings attributable to ordinary shareholders (N$'000)	496 298	429 278
Weighted average number of ordinary shares in issue	258 699 215	258 470 862
From continuing operations (cents)	177.1	154.4
From discontinued operations (cents)	14.7	11.7
Basic earnings per share (cents)	191.8	166.1
Basic earning per share equals diluted earning per share as there are no potential dilutive ordinary shares in issue.		
Actual number of shares:		
Opening balance shares in issue as at 1 July	267 593 250	267 593 250
Closing balance shares in issue as at 30 June	267 593 250	267 593 250
Less shares held in FNB Namibia share trusts	(8 804 597)	(9 091 565)
Number of shares in issue (after elimination of shares in FNB Namibia share trusts)	258 788 653	258 501 685
Weighted number of shares:		
Actual number of shares in issue as at 1 July	267 593 250	267 593 250
Less weighted shares held in FNB Namibia share trusts	(8 894 035)	(9 122 388)
Weighted average number of shares in issue	258 699 215	258 470 862

8 Earnings and dividends per share continued

8.3 Dividend information

	2011 Cents	2011 N$'000	2010 Cents	2010 N$'000
A final dividend (dividend no.30) of 28 cents per share was declared on 19 August 2009 in respect of the six months ended 30 June 2009 and paid on 28 October 2009.			28	72 350
An interim dividend (dividend no.31) of 31 cents per share was declared on 3 February 2010 for the six months ended 31 December 2009 and paid on 8 April 2010.			31	80 152
A final dividend (dividend no. 32) of 36 cents per share was declared on 17 August 2010 in respect of the six months ended 30 June 2010 and paid on 28 October 2010.	36	93 295		
An interim dividend (dividend no. 33) of 36 cents per share was declared on 2 February 2011 for the six months ended 31 December 2010 and paid on 8 April 2011.	36	93 295		
A special dividend (dividend no.34) of 170 cents per share was declared on 4 April 2011 and paid on 27 May 2011	170	439 616		
	242	626 206	59	152 502

A final dividend of 41 cents (2010: 36 cents) was declared subsequent to year-end (Refer to the Directors' report).

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

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

9 Analysis of assets and liabilities

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies on page 44 to page 65 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the financial assets and liabilities in the statement of financial position per category of financial instrument to which they are assigned and therefore by measurement basis:

		2011						
N$'000	Note	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non financial assets and liabilities	Total
Assets								
Cash and short term funds	10.1			428 054				428 054
Due from banks and other financial institutions	10.2			763 051				763 051
Derivative financial instruments	11	24 161						24 161
Advances	12			12 464 342				12 464 342
Investment securities	14	64 319	38 255	53 626	1 487 326			1 643 526
Accounts receivable	15			135 118				135 118
Investments in associates	16						24 696	24 696
Property and equipment	17						279 335	279 335
Intangible assets	18						17 115	17 115
Deferred tax asset	19						2 378	2 378
Reinsurance assets	20						425	425
Non current assets and disposal group held for sale	21						1 381 729	1 381 729
Total assets		88 480	38 255	13 844 191	1 487 326		1 705 678	17 163 930
Liabilities								
Deposits and current accounts	22.1					13 305 607		13 305 607
Due to banks and other financial institutions	22.2					43 910		43 910
Short trading positions	23	51 889						51 889
Derivative financial instruments	11	21 743						21 743
Creditors and accruals	24		6 127			313 758		319 885
Gross outstanding claims							7 047	7 047
Gross unearned premium							22 058	22 058
Provision for unintimated claims	25						4 918	4 918
Tax liability							24 309	24 309
Post-employment benefit liabilities	26						34 583	34 583
Deferred tax liability	19						3 473	3 473
Long term liabilities	27		264 491					264 491
Liabilities directly associated with non current assets classified as held for sale	21						1 074 169	1 074 169
Total liabilities		73 632	270 618			13 663 275	1 170 557	15 178 082

9 Analysis of assets and liabilities continued

N$'000		Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non financial assets and liabilities	Total
		2010						
Assets								
Cash and short term funds	10.1			455 215				455 215
Due from banks and other financial institutions	10.2			851 182				851 182
Derivative financial instruments	11	57 119						57 119
Advances	12			11 226 660				11 226 660
Investment securities	14	1 039 018	60 009	535 316	1 165 316			2 799 659
Accounts receivable	15			117 610				117 610
Investments in associates	16						22 594	22 594
Property and equipment	17						267 024	267 024
Intangible assets	18						56 360	56 360
Deferred tax asset	19						5 885	5 885
Policy loans on investments contracts				26 931				26 931
Reinsurance assets	20						50 080	50 080
Non current assets held for sale	21						753	753
Total assets		1 096 137	60 009	13 212 914	1 165 316		402 696	15 937 072
Liabilities								
Deposits and current accounts	22.1					12 045 869		12 045 869
Due to banks and other financial institutions	22.2					54 346		54 346
Derivative financial instruments	11	58 019						58 019
Creditors and accruals	24		6 127			255 323		261 450
Gross outstanding claims							7 695	7 695
Gross unearned premium							20 127	20 127
Provision for unintimated claims	25						3 876	3 876
Tax liability							32 001	32 001
Post-employment benefit liabilities	26						31 302	31 302
Long term liabilities	27		263 505					263 505
Policyholder liabilities under insurance contracts	28						963 968	963 968
Policyholder liabilities under investment contracts	29		43 831					43 831
Total liabilities		58 019	313 463			12 355 538	1 058 969	13 785 989

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

10 Short term funds

10.1 Cash and short term funds

N$'000	2011	2010
Coins and bank notes	213 376	205 788
Balances with central bank	198 678	194 883
Balances with other banks	16 000	54 544
Cash and short term funds	428 054	455 215
The carrying value approximates the fair value.		
Mandatory reserve balances included in above:	148 787	128 968

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

10.2 Due by banks and other financial institutions

N$'000	2011	2010
Due by banks and financial institutions		
- In the normal course of business	763 051	851 182
	763 051	851 182
The carrying value approximates the fair value.		
Geographical split:		
Namibia	100 494	92
South Africa	30 406	663 229
North America	554 439	126 687
Europe	77 072	61 137
Other	640	37
	763 051	851 182

11 Derivative financial instruments

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

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

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

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

11 Derivative financial instruments continued

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

The group uses the following financial instruments for hedging purposes:

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

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

The group's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in the Risk Report on pages 172 to 179 of the Annual Report ("the Risk Report").

Refer to note 37 for information on how the fair value of derivatives is determined.

	2011			
	Assets		Liabilities	
N$'000	Notional	Fair value	Notional	Fair value
Held for trading				
Currency derivatives	594 980	18 362	512 119	16 355
- Forward rate agreements	396 511	10 556	313 650	8 549
- Options	198 469	7 806	198 469	7 806
Interest rate derivatives				
- Swaps	305 000	5 799	394 610	5 388
Total held for trading	899 980	24 161	906 729	21 743

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

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

12 Advances

N$'000	2011	2010
Sector analysis		
Agriculture	452 244	475 816
Banks and financial services	211 964	198 135
Building and property development	2 222 506	2 279 184
Government and public authorities	107 101	293 157
Individuals	7 207 518	6 397 357
Manufacturing and commerce	1 416 952	1 364 276
Mining	193 903	58 126
Transport and communication	217 072	170 620
Other services	692 676	291 445
Notional value of advances	12 721 936	11 528 116
Contractual interest suspended	(45 966)	(54 771)
Gross advances	12 675 970	11 473 345
Impairment of advances (note 13)	(211 628)	(246 685)
Net advances	12 464 342	11 226 660
Geographic analysis (based on credit risk)		
Namibia	12 464 342	11 226 660
Category analysis		
Overdrafts and managed accounts	1 507 856	1 303 790
Loans to other financial institutions	286 121	283 217
Card loans	89 319	81 184
Instalment sales	1 838 370	1 667 693
Lease payments receivable	89 757	80 621
Home loans	6 568 820	5 988 951
Term loans	1 912 394	1 756 922
Assets under agreement to resell	52 757	
Other	376 542	365 738
Notional value of advances	12 721 936	11 528 116
Contractual interest suspended	(45 966)	(54 771)
Gross advances	12 675 970	11 473 345
Impairment of advances (note 13)	(211 628)	(246 685)
Net advances	12 464 342	11 226 660

All advances are classified as loans and receivables.
Fair value of advances is disclosed in note 37.

12 Advances continued

N$'000	Within 1 year	Between 1 and 5 years	Total
Analysis of instalment sales and lease payments receivable			
2011			
Lease payments receivable	50 022	51 676	101 698
Suspensive sale instalments receivable	997 983	1 119 740	2 117 723
Sub total	1 048 005	1 171 416	2 219 421
Less: Unearned finance charges	(173 171)	(118 123)	(291 294)
Total	874 834	1 053 293	1 928 127
2010			
Lease payments receivable	34 021	58 026	92 047
Suspensive sale instalments receivable	760 655	1 196 240	1 956 895
Sub total	794 676	1 254 266	2 048 942
Less: Unearned finance charges	(142 592)	(158 036)	(300 628)
Total	652 084	1 096 230	1 748 314

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

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

Unearned finance charges analysis comparative figures have been restated to reflect the changes in presentation in the current year.

Credit risk mitigation

Collateral is an important mitigant of credit risk. In accordance with the group credit risk management strategy the following principle types of collateral are held as security for monies lent by the group:

- Vehicle finance: Vehicles subject to the finance agreement normally serve as collateral. In general, vehicles which make up the collateral can be sold when the customer has defaulted under the agreement and has either signed a voluntary notice of surrender or the bank has obtained judgement against the customer.
- Property finance: Collateral consists of first and second mortgages over property, as well as personal guarantees.
- Personal loans and overdrafts exposures are generally secured via cession of call deposits, investment policies, debtors and personal guarantees.
- Credit card exposures are generally unsecured.
- Agricultural finance: Collateral consist of first and second covering bonds over the farms.

The collateral is valued at inception of the credit agreement and subsequently in specific circumstances for example, when the advance becomes a non performing loan or when the group is to sell the asset on auction. Collateral is valued frequently.

The valuation at inception is based on physical inspection.

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

13 Impairment of advances

N$'000	2011 Overdrafts and managed accounts
Analysis of movement in impairment of advances per class of advance	
Opening balance	78 640
Amounts written off	(3 804)
Unwinding of discounted present value on non performing loans	(1 798)
Net new impairments created / released	(9 767)
Closing balance	63 271
New and increased provision	(9 767)
Recoveries of bad debts previously written off	(619)
Impairment (release) / loss recognised in the statement of comprehensive income	(10 386)

N$'000	2010 Overdrafts and managed accounts
Opening balance	97 823
Amounts written off	(2 238)
Unwinding of discounted present value on non performing loans	(1 084)
Net new impairments created / released	(15 861)
Closing balance	78 640
New and increased provision	(15 861)
Recoveries of bad debts previously written off	(9 936)
Impairment (release) / loss recognised in the statement of comprehensive income	(25 797)

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

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

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

Where objective evidence of impairment exists impairment testing is performed based on the loss given default ("LGD"), probability of default ("PD") and exposure at default ("EAD").

2011						
Card loans	Instalment sales	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
4 458	39 466	53 925	70 196	246 685	99 700	146 985
(822)	(7 635)	(2 889)	(4 012)	(19 162)	(19 162)	
		(6 573)	(392)	(8 763)	(8 763)	
(1 086)	972	1 242	1 507	(7 132)	(7 132)	
2 550	32 803	45 705	67 299	211 628	64 643	146 985
(1 086)	972	1 242	1 507	(7 132)	(7 132)	
(48)	(3 412)	(904)	(283)	(5 266)	(5 266)	
(1 134)	(2 440)	338	1 224	(12 398)	(12 398)	

2010						
Card loans	Instalment sales	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
5 085	36 502	70 973	42 940	253 323	101 198	152 125
(409)	(7 176)	(1 709)	(1 635)	(13 167)	(13 167)	
		(8 731)	(177)	(9 992)	(9 992)	
(218)	10 140	(6 608)	29 068	16 521	21 661	(5 140)
4 458	39 466	53 925	70 196	246 685	99 700	146 985
(218)	10 140	(6 608)	29 068	16 521	21 661	(5 140)
1 446	6 022	1 143	(2 236)	(3 561)	(3 561)	
1 228	16 162	(5 465)	26 832	12 960	18 100	(5 140)

Notes to the consolidated annual financial statements

for the year ended 30 June

13 Impairment of advances continued

N$'000	2011 Total value including interest in suspense	Security held	Specific impairments	Contractual interest suspended
Non performing lendings by sector				
Agriculture	13 783	10 470	1 018	1 643
Banks and financial services	1 717		1 230	243
Building and property development	52 792	18 858	15 252	10 842
Government and public authorities				
Individuals	145 370	79 681	36 077	23 896
Manufacturing and commerce	6 468	1 020	2 739	960
Mining	467		348	59
Transport and communication	1 395		910	247
Other	35 940	13 990	7 069	8 076
Total non performing lendings	257 932	124 019	64 643	45 966
Non performing lendings by category				
Overdrafts and managed accounts	30 059	7 940	9 900	8 004
Card loans	3 610		2 009	801
Instalment sales	20 465	1 061	10 653	3 727
Lease payments receivable	6 019	2 510	2 453	528
Home loans	174 365	102 006	34 175	28 297
Term loans	15 639	10 502	5 300	4 051
Other	7 775		153	558
Total non performing lendings	257 932	124 019	64 643	45 966
Non performing lendings by geographical area				
Namibia	257 932	124 019	64 643	45 966
Net recoverable amount of non performing loans:	124 019			

13 Impairment of advances continued

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

Notes to the consolidated annual financial statements

for the year ended 30 June

14 Investment securities

N$'000	2011 Held for trading	2011 Designated at fair value through profit or loss	2011 Available-for-sale	2011 Loans and receivables	2011 Total
Total					
Equities		1 382	12 273		13 655
Negotiable certificates of deposit				53 626	53 626
Treasury bills	2 990		1 079 098		1 082 088
Other government and government guaranteed stock	61 329		311 963		373 292
Other dated securities			57 161		57 161
Unit trust investments		36 873	26 831		63 704
Total	64 319	38 255	1 487 326	53 626	1 643 526
Listed					
Equities		1 382	12 273		13 655
Other government and government guaranteed stock	61 329		311 963		373 292
Other dated securities			7 350		7 350
	61 329	1 382	331 586		394 297
Unlisted					
Negotiable certificates of deposit				53 626	53 626
Treasury bills	2 990		1 079 098		1 082 088
Other dated securities			49 811		49 811
Unit trust investments		36 873	26 831		63 704
	2 990	36 873	1 155 740	53 626	1 249 229

14 Investment securities continued

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

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

14 Investment securities continued

Analysis of investment securities

N$'000	2011	2010
Listed		
Equities	13 655	377 307
Debt	380 642	250 391
	394 297	627 698
Unlisted		
Debt	1 249 229	2 171 961
Total	1 643 526	2 799 659
Valuation of investments		
Market value of listed investments	394 297	627 698
Directors valuation of unlisted investments	1 249 229	2 172 966
Total valuation	1 643 526	2 800 664

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

Refer to note 37 on fair value of financial instruments for the methodologies used to determine the fair value of investment securities.

Information regarding other investments as required in terms of Schedule 4 of the Companies Act, 2004 is kept at the company's registered offices. This information is open for inspection in terms of the provisions of Section 120 of the Companies Act.

No financial instruments held for trading form part of the group's liquid asset portfolio in terms of the Banking Institutions Act, (No 2 of 1998) and other foreign banking regulators requirements. The total liquid asset portfolio is N$1 609 million (2010: N$1 455 million).

15 Accounts receivable

N$'000	2011	2010
Accounts receivable		
- Items in transit	71 852	27 043
- Deferred staff cost	39 128	38 931
- Premium debtors	1 392	24 465
- Other accounts receivable	22 746	27 171
Accounts receivable	135 118	117 610

Information about the credit quality of the above balances is set out in the risk management note 41.

The carrying value of accounts receivable approximates the fair value.

16 Investments in associates

16.1 Details of investments in associates

All associate companies are unlisted.	Nature of business	Issued ordinary share capital N$	Number of ordinary shares held 2011	Number of ordinary shares held 2010	Year end
Avril Payment Solutions (Pty) Ltd	Payroll administrators	10 000	1 000	1 000	28 February
FNB Insurance Brokers (Namibia) (Pty) Ltd	Short term insurance brokers	5	2	2	30 June
Namclear (Pty) Ltd	Interbank clearing house	4	1	1	31 December

16.2 Effective holdings and carrying amounts in associate companies

	Effective holding %		Group carrying amount		Group costs less amounts written off	
N$'000	2011	2010	2011	2010	2011	2010
Avril Payment Solutions (Pty) Ltd	10	10	578	468	1	1
FNB Insurance Brokers (Namibia) (Pty) Ltd	40	40	22 298	19 558	17 702	17 702
Namclear (Pty) Ltd	25	25	1 820	2 568	1 154	1 154
RMB Asset Management (Namibia) (Pty) Ltd*		50				
Total			24 696	22 594	18 857	18 857

16.3 Detail information of associate companies

N$'000	2011	2010
Carrying value at beginning of the year	22 594	21 464
Net reduction in investment in associates		(726)
Share of associate earnings	4 951	5 189
Dividends received	(2 849)	(3 333)
Carrying value	24 696	22 594
Valuation		
Unlisted investments at directors' valuation	24 696	22 594

Notes to the consolidated annual financial statements

for the year ended 30 June

16 Investments in associates continued

16.4 Summarised financial information of associate companies

N$'000	Total		Avril Payment Solutions (Pty) Ltd		FNB Insurance Brokers (Namibia) (Pty) Ltd		Namclear (Pty) Ltd		RMB Asset Management (Namibia) (Pty) Ltd	
	2011	2010	Audited Feb 2011	Audited Feb 2010	Un-audited Jun 2011	Audited Jun 2010	Un-audited Jun 2011	Un-audited Jun 2010	2011	Audited June 2010
Statement of financial position										
Non-current assets	20 149	22 657	90	201	16 085	18 447	3 974	3 991	n/a	18
Current assets	71 678	56 577	7 095	5 066	48 419	34 943	16 164	14 139	n/a	2 429
Current liabilities	(56 608)	(50 764)	(460)	(1 232)	(44 823)	(39 839)	(11 325)	(6 404)	n/a	(3 289)
Non-current liabilities	(31)	(1 164)	(31)	(63)				(1 101)	n/a	
Equity	35 188	27 306	6 694	3 972	19 681	13 551	8 813	10 625		(842)
Share of profits from associates										
After tax profit attributable to the group	4 951	5 189	1 958	1 111	2 740	3 887	253	191		

Refer note 36.3 for details on loans to / (from) related parties.

*Momentum Life Assurance Namibia Ltd acquired 100% shareholding in RMB Asset Management (Namibia) (Pty) Ltd during the year.

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

17 Property and equipment

N$'000	2011 Cost	2011 Accumulated depreciation and impairments	2011 Carrying amount	2010 Cost	2010 Accumulated depreciation and impairments	2010 Carrying amount
Property						
Freehold land and buildings	191 241	(33 972)	157 269	180 775	(33 382)	147 393
Leasehold property	30 869	(21 428)	9 441	28 218	(15 546)	12 672
	222 110	(55 400)	166 710	208 993	(48 928)	160 065
Equipment						
Computer equipment	84 085	(52 220)	31 865	80 722	(41 404)	39 318
Furniture and fittings	90 041	(36 067)	53 974	79 331	(31 055)	48 276
Motor vehicles	6 263	(2 758)	3 505	8 188	(3 788)	4 400
Office equipment	50 166	(26 885)	23 281	36 889	(21 924)	14 965
	230 555	(117 930)	112 625	205 130	(98 171)	106 959
Total	452 665	(173 330)	279 335	414 123	(147 099)	267 024

Movement in property and equipment - carrying amount

	Freehold land and buildings	Leasehold property	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Total
Carrying amount at 30 June 2009	138 848	11 498	29 875	40 951	4 065	11 169	236 406
Additions	36 362	27	15 168	3 871	945	2 784	59 157
Depreciation charge (continuing operations)		(5 234)	(5 614)	(6 707)	(193)	(4 072)	(21 820)
Depreciation charge (discontinued operations)			(187)	(111)	(352)	(57)	(707)
Transfer between classes	(22 315)	6 381	138	10 623		5 173	
Transfer to repairs and maintenance	(5 502)						(5 502)
Disposals			(62)	(351)	(65)	(32)	(510)
Carrying amount at 30 June 2010	147 393	12 672	39 318	48 276	4 400	14 965	267 024
Additions	33 702	4	5 163	4 351	722	9 800	53 742
Acquisitions of subsidiaries			1	17			18
Transfer to non current assets held for sale			(263)	(712)	(1 164)	(227)	(2 366)
Depreciation charge	(1 791)	(5 913)	(12 642)	(7 244)	(224)	(6 209)	(34 023)
Transfer between classes	(17 685)	2 678	496	9 530		4 981	
Transfer to repairs and maintenance	(4 338)						(4 338)
Disposals	(12)		(208)	(244)	(229)	(29)	(722)
Carrying amount at 30 June 2011	157 269	9 441	31 865	53 974	3 505	23 281	279 335

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

17 Property and equipment continued

The useful life of each asset is assessed individually. The table below provides information on the benchmarks used when assessing the useful life of the individual assets:

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

Information regarding land and buildings as required in terms of Schedule 4 of the Companies Act is kept at the company's registered offices. This information will be open for inspection in terms of the provisions of section 120 of the Companies Act, 2004.

No assets were encumbered at 30 June 2011 nor 30 June 2010.

18 Intangible assets

N$ '000	2011 Cost	2011 Accumulated amortisation and impairments	2011 Carrying amount	2010 Cost	2010 Accumulated amotisation and impaiments	2010 Carrying amount
Trademarks	88 308	(84 289)	4 019	111 768	(93 658)	18 110
Goodwill	100		100	100		100
Software	34 016	(21 020)	12 996	34 016	(10 862)	23 154
Agency force				1 893	(1 893)	
Value of in-force business				28 883	(13 887)	14 996
Total	122 424	(105 309)	17 115	176 660	(120 300)	56 360

Movement in intangibles - carrying amount

	Trademarks	Goodwill	Software	Value of in-force business	Total
Carrying amount at 30 June 2009	39 520	100	4 929	14 397	58 946
Additions			27 162	6 344	33 506
Amortisation charge (continuing operations) (note 6)	(18 059)		(8 937)		(26 996)
Amortisation charge (discontinued operations)	(3 351)			(5 745)	(9 096)
Carrying amount at 30 June 2010	18 110	100	23 154	14 996	56 360
Additions					
Amortisation charge (note 6)	(4 036)		(10 158)		(14 194)
Transfer to non current assets held for sale	(10 055)			(14 996)	(25 051)
Carrying amount at 30 June 2011	4 019	100	12 996		17 115

The useful life of each intangible asset is assessed individually. The table below provides information on the benchmarks used when assessing the useful lives of the individual intangible assets.

Software	3 years
Trademarks	10 - 20 years
Other	3 - 10 years

Notes to the consolidated annual financial statements

for the year ended 30 June

18 Intangible assets continued

Impairment of goodwill:

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

The CGU's to which the goodwill balance as at 30 June 2011 and 30 June 2010 relates to is FNB Namibia Unit Trust Company Ltd.

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

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

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

	Discount rate		Growth rate	
	2011	2010	2011	2010
FNB Namibia Unit Trusts Limited	15.00%	15.50%	8%	8%

19 Deferred tax

N$'000	2011	2010
19.1 The movement on the deferred tax account is as follows:		
Deferred tax liability		
Opening balance	117 918	140 770
- Tax rate adjustment		(4 022)
- Charge to profit and loss component of the statement of comprehensive income	5 449	(16 999)
- Deferred tax on amounts charged directly to other comprehensive income	162	(1 831)
Total credit balance	123 529	117 918
Deferred tax asset		
Opening balance	(123 803)	(122 680)
- Tax rate adjustment		4 312
- Charge to profit and loss component of the statement of comprehensive income	3 747	(5 435)
Total debit balance	(120 056)	(123 803)
Net balance for the year for entities with deferred tax (assets) / liabilities	3 473	(5 885)
Deferred tax liability		
Opening balance		5
- Tax rate adjustment		
- Charge to profit and loss component of the statement of comprehensive income	73	(5)
Total credit balance	73	
Deferred tax asset		
Opening balance		(513)
- Charge to profit and loss component of the statement of comprehensive income	(2 451)	513
- Deferred tax on amounts charged directly to other comprehensive income		
Total debit balance	(2 451)	
Net balance for the year for entities with deferred tax assets	(2 378)	
Total net deferred tax balance	1 095	(5 885)

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

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

19 Deferred tax continued

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

N$'000	2011 Opening balance	2011 Originating /(reversing) differences	2011 Closing balance	2010 Opening balance	2010 Originating /(reversing) differences	2010 Closing balance
Deferred tax liabilities						
Instalment credit agreements	(48 820)	(2 921)	(51 741)	(75 747)	26 927	(48 820)
Accruals	(21 094)	(1 356)	(22 450)	(26 082)	4 988	(21 094)
Deferred staff costs	(15 183)	1 879	(13 304)	(15 629)	446	(15 183)
Property and equipment	(29 979)	(3 375)	(33 354)	(22 091)	(7 888)	(29 979)
Fair value adjustments of financial instruments	(2 842)	162	(2 680)	(1 011)	(1 831)	(2 842)
Other				(210)	210	
Total net deferred tax liabilities	(117 918)	(5 611)	(123 529)	(140 770)	22 852	(117 918)
Deferred tax assets						
Provision for loan impairment	37 481		37 481	39 933	(2 452)	37 481
Post retirement benefits	10 583	1 195	11 778	7 573	3 010	10 583
Other	75 739	(4 942)	70 797	75 174	565	75 739
Total net deferred tax asset	123 803	(3 747)	120 056	122 680	1 123	123 803
Net deferred tax (liabilities) / assets	5 885	(9 358)	(3 473)	(18 090)	23 975	5 885
Deferred tax liabilities						
Property and equipment		(73)	(73)	(5)	5	
Other		2 451	2 451	513	(513)	
Total net deferred tax liabilities		2 378	2 378	508	(508)	
Net deferred tax assets		2 378	2 378	508	(508)	
Total deferred tax (liabilities) / asset	5 885	(6 980)	(1 095)	(17 582)	23 467	5 885
Charge through profit and loss		7 142			(25 298)	
Deferred tax on other comprehensive income		(162)			1 831	
		6 980			(23 467)	

20 Reinsurance assets

N$'000	2011	2010
Short term reinsurance contracts	425	642
Long term reinsurance contracts		49 438
Total reinsurance contracts	425	50 080

Information about the credit quality of the above balances is provided in the risk management note 41.

21 Non current assets and disposal group held for sale

21.1 Disposal group held for sale and discontinued operations relating to the sale of Momentum Namibia

During the current financial year, the group took a decision to sell its shareholding in Momentum Namibia.

The pending transaction resulted in FNB Namibia classifying Momentum Namibia as a disposal group held for sale in line with the requirements of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (IFRS 5). The assets and liabilities attributable to Momentum Namibia, classified as held for sale, have been separately disclosed on the statement of financial position. In addition, Momentum Namibia qualifies as a discontinued operation as it is a component of FNB Namibia that has been classified as held for sale and represents a separate major line of business. In line with the requirements of IFRS 5, the income and expenses relating to Momentum Namibia have been presented in the statement of comprehensive income as a single amount relating to the after tax profit and other comprehensive income relating to discontinued operations.

It is anticipated that the sale transaction will be completed by the end of November 2011.

Discontinued operations

Income and expenses recognised in the statement of comprehensive income relating to the discontinued operations of Momentum Namibia:

N$'000	2011	2010
Interest and similar income	62 962	50 592
Net interest income	62 962	50 592
Non interest income	98 615	70 104
Net insurance premium income	197 348	165 056
Net claims and benefits paid	(117 956)	(100 597)
Increase in value of policyholder liabilities: insurance contracts	(6 517)	(38 040)
Fair value adjustment of policyholder liabilities: investment contracts	(40 266)	2 525
Income from operations	194 186	149 640
Operating expenses	(107 583)	(84 381)
Income before tax	86 603	65 259
Indirect tax	(4 130)	(3 552)
Profit before tax	82 473	61 707
Direct tax	(7 681)	(5 939)
Profit after tax	74 792	55 768
Other comprehensive income		
Loss on available-for-sale financial assets	(253)	
Total comprehensive income for the year	74 539	55 768

At the date that Momentum Namibia was classified as held for sale, its fair value less cost to sell exceeded its consolidated carrying value and no gain or loss was recognised on the classification date.

	2011	2010
Cash flow information		
Net cash flow from operating activities	153 544	3 914
Net cash flow from investing activities	(1 433)	(7 472)
Net cash flow from financing activities	(73 500)	
Total cash flow	78 611	(3 558)

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

21 Non current assets and disposal group held for sale continued

Statement of financial position of Momentum Namibia group held for sale

N$'000	2011	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non financial assets and liabilities
Assets							
Cash and short term funds	26 094			26 094			
Investment securities	1 256 870	1 054 919			201 951		
Accounts receivable	37 594			37 594			
Property and equipment	2 919						2 919
Intangible assets	16 015						16 015
Policy loans on investments contracts	24 617			24 617			
Reinsurance assets	17 620						17 620
Total assets classified as disposal group held for sale	1 381 729	1 054 919		88 305	201 951		36 554
Liabilities							
Creditors and accruals	38 434					38 434	
Gross outstanding claims	2 354						2 354
Tax liability	1 232						1 232
Post-employment benefit liabilities	286						286
Policyholder liabilities under insurance contracts	937 369						937 369
Policyholder liabilities under investment contracts	94 494		94 494				
Total liabilities classified as disposal group held for sale	1 074 169		94 494			38 434	941 241
Net assets of disposal group held for sale	307 560						

For additional information on how the fair value of financial instruments designated at fair value through profit or loss has been determined, refer to note 37.

Refer to notes 28 and 29 for additional information on the measurement of policyholder liabilities under insurance and investment contracts.

21.2 Non current assets held for sale

N$'000	2011	2010
Land and buildings		
Property and equipment (classified as held for sale in 2009)		753

The property held for sale at the end of last year was sold during the year, and consisted of surplus office buildings. No impairment loss was recognised on the reclassification of the properties held for sale. The properties were part of the banking operations segment.

22 Deposits

22.1 Deposits and current accounts

N$'000	2011 At amortised cost	2010 At amortised cost
From customers	10 615 999	9 908 575
- Current accounts	8 258 650	7 346 552
- Savings accounts	355 308	318 915
- Term deposits	2 002 041	2 243 108
Other deposits		
- Negotiable certificates of deposit	2 689 608	2 137 294
Total deposits and current accounts	13 305 607	12 045 869

The fair values of deposits and current accounts are disclosed in note 37.

Geographical split: Namibia	13 305 607	12 045 869

22.2 Due to banks and other financial institutions

N$'000	2011 At amortised cost	2010 At amortised cost
To banks and financial institutions		
- In the normal course of business	43 910	54 346
Fair value of balance disclosed	43 910	54 346
Geographical split:		
Namibia	43 910	54 346

Notes to the consolidated annual financial statements

for the year ended 30 June

23 Short trading positions

N$'000	2011	2010
Government and government guaranteed stock	51 889	
Short trading securities	51 889	

Short trading positions are carried at fair value.

24 Creditors and accruals

N$'000	2011	2010
Accounts payable and accrued liabilities	194 317	211 349
Items in transit	119 441	43 932
Preference dividends payable		42
Short term portion of long term liabilities (note 27)	6 127	6 127
Creditors and accruals	319 885	261 450

The carrying value of creditors and accruals approximates the fair value.

25 Provision for unintimated claims

N$'000	2011	2010
Opening balance	3 876	2 740
Charge to the statement of comprehensive income (note 5)	1 042	1 136
Closing balance	4 918	3 876

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

26 Post-employment benefit liabilities

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

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

2) A severance pay provision is carried in terms of the Labour Act of 2007 and relates to when employment services are terminated by dismissal under certain circumstances or if they die while employed.

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

The actuarial valuations are done on an annual basis.

	2011			2010		
N$ '000	Medical	Severance Pay	Total	Medical	Severance Pay	Total
Present value of unfunded liabilities	30 016	4 200	34 216	28 455	3 156	31 611
Unrecognised actuarial losses / (gains)	367		367	(309)		(309)
Post-employment benefit liabilities	30 383	4 200	34 583	28 146	3 156	31 302
The amounts recognised in the statement of comprehensive income are as follows:						
Current service cost	170	919	1 089	4 322	214	4 536
Past service cost	1 137	4	1 141		2 906	2 906
Interest cost	2 541	283	2 824	2 389	296	2 685
Net actuarial (gains) / losses recognised	(418)		(418)	759	(260)	499
Total included in staff costs (including discontinued operations)	3 430	1 206	4 636	7 470	3 156	10 626
Movement in post-employment liabilities						
Present value at the beginning of the year	28 146	3 156	31 302	21 671		21 671
Amounts recognised in the profit and loss as above	3 430	1 206	4 636	7 470	3 156	10 626
Transfer to non current liabilities held for sale	(87)	(87)	(174)			
Benefits paid	(1 106)	(75)	(1 181)	(995)		(995)
Present value at the end of the year	30 383	4 200	34 583	28 146	3 156	31 302
Expected amounts to be recognised in the statement of comprehensive income in following financial year	1 258	703	1 961	1 866	517	2 383
The principal actuarial assumptions used for accounting purposes were:						
Discount rate (%)	8.51%	8.51%		9.04%	8.94%	
Medical aid inflations (%)	7.51%			8.02%		
Salary inflations (%)		7.01%			7.44%	

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

26 Post-employment benefit liabilities continued

The effects of a 1% movement in the assumed costs were as follows:

	Health costs	Salary cost	Health costs	Salary cost
Increase of 1%				
Effect on the aggregate of the current service cost and interest cost	426	81	388	84
Effect on the defined benefit obligation	4 429	419	3 942	318
Decrease of 1%				
Effect on the aggregate of the current service cost and interest cost	340	70	313	72
Effect on the defined benefit obligation	3 555	370	3 193	279
Mortality rate The average life expectancy in years of a pensioner retiring at age 60 on the reporting date is as follows:				
Male	19	n/a	20	n/a
Female	23	n/a	19	n/a
Employees covered	129	1 732	131	1 791

Five year analysis on post retirement medical plans (projected)

	N$'000
As at 30 June 2012	31 643
As at 30 June 2013	32 967
As at 30 June 2014	34 369
As at 30 June 2015	35 817
As at 30 June 2016	37 355

26.2 Defined contribution pension fund

N$'000	2011	2010
Employer contribution to pension fund	35 440	31 106
Employer contribution to pension fund - executive director	274	256
Total employer contributions to pension fund (including discontinued operations)	35 714	31 362
Employees contribution to pension fund	15 762	12 338
Total contributions	51 476	43 700
Number of employees covered	1 803	1 746

The group provides for retirement benefits by making payments to a pension fund, which is independent of the group and was registered in Namibia in 1995 in accordance with the requirements of the Pension Funds' Act. The fund is a defined contribution fund and is subject to the Pension Funds' Act (No 24 of 1956). The last valuation was performed for the year ended 30 June 2010 and indicated that the fund was in a sound financial position.

During the year, the group recognised the pension fund surplus attributable to the employer as approved by the Registrar of Pension Fund, amounting to N$ 4.9 million (2010: N$35 million), including amounts relating to discontinued operations. The surplus was utilised to fund the employer contributions to the pension fund.

The pension fund is a related party to the group.

27 Long term liabilities

N$'000	2011	2010
FNB 17 fixed rate notes	260 000	260 000
Accrued interest	6 227	5 957
	266 227	265 957
Fair value adjustment (financial liability elected fair value)	4 391	3 675
Fair value	270 618	269 632
Less portion payable within 12 months transferred to current liabilities (note 24)	(6 127)	(6 127)
	264 491	263 505
Fair value adjustment for the year	(716)	(2 307)

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

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

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

The fair value movement of the bond attributable to changes in credit risk is N$ Nil (2010: N$ Nil) for the group. The change in fair value of the designated financial liability attributable to changes in credit risk has been calculated by reference to the change in credit risk implicit in the market value of the bond.

The amount that would contractually be paid at maturity for financial liabilities designated at fair value through profit and loss for the group is N$260 million (2010: N$260 million), N$ 4.4 million (2010: N$3.7 million) lower than the carrying amount.

Refer to note 37, fair value of financial instruments for the methodologies used to determine the fair value of long term liabilities.

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

28 Policyholder liabilities under insurance contracts

N$'000	2011	2010
Balance at the beginning of the year	963 968	927 304
- Increase in retrospective liabilities (discontinued operation)	6 517	38 040
- Unwind of discount rate	8 955	23 802
- New business	30 554	35 400
- Change in economic assumptions	(1 302)	(5 913)
- Expected cash flows	(12 859)	(56 113)
- Expected release of margins	(100 678)	(61 850)
- Expected variances	(83 238)	50
Premiums received on insurance contracts	192 817	182 710
Policyholder benefits on insurance contracts	(111 649)	(107 961)
Fair value adjustments on insurance contracts	83 917	27 915
Reinsurance (net)		(1 376)
Transfer between investment contracts	(33 116)	
Transfer to non current assets held for sale (note 21.1)	(937 369)	
Balance at the end of the year		963 968
Insurance contracts with discretionary participation features		488 470
Insurance contracts without discretionary participation features		426 060
Net policyholder liabilities under insurance contracts		914 530
Actuarial liabilities under unmatured policies comprise the following:		
Linked (market related) business - Individual life		116 145
Smoothed bonus business - Individual life		398 735
Annuities business		310 026
Life business		
- Individual life		89 624
		914 530

The amounts above are based on the actuarial valuations of Momentum Life Assurance Namibia Limited at 30 June 2011. Below are the main assumptions that were used in determining the liabilities in respect of insurance contracts as at 30 June 2011 (note 21.1).

Best estimate valuation assumptions

Economic assumptions

Risk-free return

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

	2011	2010
ZAR ten-year zero-coupon risk-free yield	8.51%	8.94%

Valuation interest rate

The gross valuation interest rate of 8.30% (2010: 10.50%) per annum for NAD denominated business was calculated as a weighted investment return, representing the investment returns on a theoretical, balanced notional portfolio consisting of equities and bonds.

	2011	2010
Notional portfolio used as at 30 June:		
- Equities	20%	60%
- Government bonds	80%	40%
Assumed performance of other asset classes relative to government bonds:		
- Equities (including overseas equities)	+3.5% p.a	+3.5% p.a

Rounding to the nearest 0,25% was performed.

28 Policyholder liabilities under insurance contracts continued

Inflation

An expense inflation rate of 6.58% (2010: 6.56%) per annum for NAD denominated business was used to project future renewal expenses. The NAD inflation rate was derived by deducting the 10-year real return on CPI-linked R197 government bonds of 2.52% (2010: 2.98%) from the risk-free rate.

Tax

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

Mortality, morbidity and terminations

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

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

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

Expenses

The sustainable annual renewal expense per policy was based on an analysis of budgeted expenses for the year ending 30 June 2011. The allocation distinguished between renewal and acquisition costs.

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

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

Policyholder bonuses

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

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

Notes to the consolidated annual financial statements

for the year ended 30 June

28 Policyholder liabilities under insurance contracts continued

N$'000

Compulsory margins

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

Assumption	Margin	
- Mortality	7.5%	- increase to assumption for assurance
- Morbidity	10%	- increase to best-estimate assumption
- Medical	15%	- increase to best-estimate assumption
- Lapses	25%	(e.g. if best estimate is 10%, the margin is 2.5%) - increase or decrease, depending on which alternative increases liabilities
- Surrenders	10%	- increase or decrease, depending on which alternative increases liabilities
- Terminations for disability	10%	- decrease to best-estimate assumption
- Income benefits in payment	10%	- decrease to best-estimate assumption
- Expenses	10%	- increase to best-estimate assumption
- Expense inflation	10%	(of estimated escalation rate) - increase to best-estimate assumption
- Charge against investment return	- 25 basis points	reduction in the management fee or an equivalent asset-based or investment performance-based margin;
	- 25 basis points	reduction in the management fee or an equivalent asset-based or investment performance-based margin;

Discretionary margins

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

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

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

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

29 Policyholder liabilities under investment contracts

N$'000	2011	2010
Balance at the beginning of the year	43 831	36 066
Fair value adjustment to policyholder liabilities under investment contracts (discontinued operation)	40 266	(2 525)
Deposits received on investment contracts	28 167	17 655
Withdrawals on investment contracts	(13 289)	(3 547)
Fees on investment contracts	(4 481)	(3 818)
Transfer to non current assets held for sale (note 21.1)	(94 494)	
Balance at the end of the year		43 831
Investment contracts with discretionary participation features		43 831
Total policyholder liabilities under investment contracts		43 831

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

Notes to the consolidated annual financial statements

for the year ended 30 June

30 Share capital and share premium

N$'000	2011	2010
Authorised		
990 000 000 (2010: 990 000 000) ordinary shares with a par value of 0.5 cents per share	4 950	4 950
10 000 000 (2010: 10 000 000) cumulative convertible redeemable preference shares with a par value of 0.5 cents per share	50	50
	5 000	5 000
Issued		
267 593 250 (2010: 267 593 250) ordinary shares with a par value of 0.5 cents per share	1 338	1 338
2 (2010: 2) cumulative convertible redeemable preference shares with a par value of 0.5 cents per share		
Elimination		
- shares held by FNB Namibia share trusts	(44)	(47)
	1 294	1 291
Term of preference shares: redeemable at 31 days notice by either party. The dividend rights in terms of the agreement with the shareholder are based on the actual profits made, per agreed adjustments, of a portion of the short-term insurance business.		
Share premium	187 898	191 695

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

All issued shares are fully paid up.

31 Other reserves

N$'000	2011	2010
OUTsurance Insurance Company of Namibia Ltd - Contingency reserve	5 529	4 057
	5 529	4 057

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

32 Remuneration schemes

	2011	2010
The statement of comprehensive income charge for share-based payments is as follows:		
FNB Share Incentive Trust	2 831	2 083
BEE Staff Incentive Scheme		65
Total of share trusts	2 831	2 148
Employees with FirstRand share options and share appreciation rights	2 246	1 293
Charge against staff costs (note 6)	5 077	3 441
BEE consortium share option cost (note 6)		1 199
Charge to statement of comprehensive income	5 077	4 640

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

FNB and FirstRand Share Incentive Scheme
The purpose of this scheme is to provide a facility to employees of the FNB Namibia Holdings Group to acquire shares in FNB Namibia Holdings Limited. The primary purpose of this scheme is to appropriately attract, incentivise and retain employees within the FNB Namibia Holdings Group.

For options allocated, delivery may only be taken by the participant 3, 4 and 5 years after the option is exercised at a rate of 33.3% per annum.

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

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

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

Vesting conditions as follows:
- Black staff and black non-executive directors:

50% after year 3 and 25% per year in years 4 and 5 respectively.

- BEE Partners:

Upon meeting certain performance criteria, share options will vest 1/5th every year over a minimum period of 5 years. The fourth and fifth tranche vested and was exercised during the year.

Valuation methodology

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

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

Market data consists of the following:
- Volatility is the expected volatility over the period of the option. In the absence of other available date, historical volatility can be used as a proxy for expected volatility.
- The interest rate is the risk-free rate of return, recorded on the date of the option grant, on a South African government zero coupon bond of a term equal to the expected life of the option.

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

32 Remuneration schemes continued

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

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

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

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

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

	FNB Share Incentive Trust		BEE Staff Incentive Scheme	
	2011	2010	2011	2010
Weighted average share price (N$)	517 - 1226	517 - 1180	700	700
Expected volatility (%)	4 - 17	4 - 17	7	7
Expected option life (years)	5	5	5	5
Expected risk free rate (%)	7.05 - 9.47	7.05 - 9.47	9	9

	FNB Share Incentive Trust		BEE Staff Incentive Scheme	
	2011	2010	2011	2010
Share option schemes				
Number of options in force at the beginning of the year ('000)	9 797	7 726	446	892
Granted at prices ranging between (cents)	517 - 1155	517 - 1155	517	517
Number of options granted during the year ('000)	2 296	2 829		
Granted at prices ranging between (cents)	1226	1180		
Number of options exercised/released during the year ('000)	(1 294)	(586)	(384)	(446)
Market value range at the date of exercise/release (cents)	517-1226	1180	1226	1180
Number of options cancelled/lapse during the year ('000)	(595)	(172)		
Granted at prices ranging between (cents)	517 - 1226	517 - 1180		
Number of options in force at the end of the year ('000)	10 204	9 797	62	446
Granted at prices ranging between (cents)	517 - 1226	517 - 1180	517	517
Options are execercisable over the following periods: (first date able to release)				
Financial year 2011		1 533		446
Financial year 2012	2 396	2 351	62	
Financial year 2013	2 738	2 815		
Financial year 2014	2 003	2 155		
Financial year 2015	1 606	943		
Financial year 2016	726			
Financial year 2017	735			
Total	10 204	9 797	62	446

33 Cash flow information

N$'000	2011	2010
33.1 Reconciliation of operating profit before tax to cash flow from operating activities		
Profit before tax	705 495	605 037
Adjusted for:		
- Share of earnings from associate companies after impairment losses	(4 951)	(5 189)
- Amortisation of intangibles	14 194	26 996
- Depreciation of property and equipment	34 023	21 820
- Transfer from revaluation reserve: available-for-sale financial asset	(484)	(42)
- Transfer of work in progress to repairs and maintenance	4 338	5 502
- Share-based payment expenses	5 077	4 640
- Impairment losses of advances	(12 398)	12 960
- Provision for post-employment benefit obligations	3 530	9 492
- Other employment accruals	2 222	1 041
- Creation and revaluation of derivative financial instruments	(3 318)	15 757
- Policyholders fund and insurance fund transfers	2 175	2 192
- Transfer to provisions for unintimated claims	1 042	1 136
- Fair value adjustment to financial liabilities	716	2 307
- Non cash flow movements in interest accrual on financial liabilities	(270)	40
- Unwinding of discounted present value on non-performing loan	(8 763)	(9 992)
- Unwinding of discounted present value on off-market loans	(5 930)	(5 967)
- Net release of deferred fee and expenses	(8 421)	(7 430)
- Off-market staff loans amortisation	5 930	5 967
- Profit on sale of property and equipment	(574)	(1 296)
- Indirect tax	17 019	16 048
Cash flows from operating activities	750 652	701 019
33.2 Cash receipts from customers		
Interest and similar income	1 391 641	1 364 093
Other non interest income	648 988	588 729
Net insurance premium received	74 110	58 418
	2 114 739	2 011 240
33.3 Cash paid to customers, suppliers and employees		
Interest expense and similar charges	(575 584)	(629 810)
Net claims and benefits paid	(40 395)	(37 166)
Total other operating expenses	(748 108)	(643 245)
	(1 364 087)	(1 310 221)
33.4 Increase in income earning assets		
Due from banks and other financial institutions	88 131	(371 926)
Advances	(1 202 170)	(729 796)
Investment securities	(132 136)	(572 212)
Accounts receivable and similar accounts	(46 439)	(6 721)
Reinsurance assets	217	1 256
	(1 292 397)	(1 679 399)
33.5 Increase in deposits and other liabilities		
Deposits	1 259 738	1 445 189
Due to banks and other financial institutions	(10 436)	31 614
Short trading positions	51 889	
Accounts payable and similar accounts	101 054	(24 624)
	1 402 245	1 452 179

Notes to the consolidated annual financial statements

for the year ended 30 June

33 Cash flow information continued

N$'000	2011	2010
33.6 Tax paid		
Amounts payable at beginning of the year	(39 818)	(13 472)
Indirect tax	(17 019)	(16 048)
Current tax charge	(234 100)	(227 208)
Amounts payable at end of the year	32 048	39 818
Total tax paid	(258 889)	(216 910)
33.7 Capital expenses to maintain operations (including discontinued operations)		
Purchase of property and equipment, settled in cash	(53 742)	(58 029)
33.8 Net reduction / (increase) in investment in associates		
FNB Insurance Brokers (Namibia) (Pty) Ltd ("FNBIBN")		
The group made an additional contribution to maintain its 40% interest in FNBIBN, during the prior year.		(2 274)
Namclear (Pty) Ltd		
Namclear (Pty) Ltd reduced its share premium during the prior year, and paid out to all its shareholders. The group's shareholding remained 25%.		3 000
Net cash received from investment in associates		726
33.9 Sale of shares in subsidiary		
Momentum Life Assurance Namibia Limited		
The group sold an additional 14% interest in Momentum Life Assurance Namibia Limited to Momentum Group Limited on 30 September 2009.		76 339
33.10 Dividends paid		
Dividends approved and recognised in the group statement of changes in equity.	(626 206)	(152 502)
Total dividends paid	(626 206)	(152 502)

34 Contingent liabilities and capital commitments

N$'000	2011	2010
Contingencies		
Guarantees *	722 290	654 104
Letters of credit	47 756	33 959
Total contingencies	770 046	688 063
Irrevocable unutilised facilities	434 880	311 754
Total contingencies and commitments	1 204 926	999 817

* Guarantees consist predominantly of endorsements and performance guarantees.
The fair value of guarantees approximates the face value as disclosed.

Legal proceedings

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

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

Commitments:

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

	2011	2010
- Contracted for	9 727	10 871

Comprising of:

- Capital commitments contracted for at the reporting date but not yet incurred are as follows:

	2011	2010
- Property and equipment	9 727	10 871

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

Group leasing arrangements:

	2011			2010	
	Next year	2nd to 5th year	After 5th year	Next year	2nd to 5th year
Office premises	12 233	19 774	1 042	13 262	18 838
Equipment	27			60	8
	12 260	19 774	1 042	13 322	18 846

Notice periods on operating lease contracts are between 3-6 months, no operating lease contract is fixed and escalation clauses range between 7% and 10% (2010: 7% and 10%).

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

Notes to the consolidated annual financial statements

for the year ended 30 June

35 Collateral held

Under the standard terms for certain of the securities lending arrangements that the group enters into, the recipient of collateral has an unrestricted right to sell or repledge the assets in the absence of default but subject to the group returning equivalent securities on settlement of the transaction.

Collateral the group holds that it has the ability to sell or repledge in the absence of default by the owner of the collateral:

	2011		2010	
N$'000	Fair value of collateral obtained	Fair value of collateral sold or re-pledged	Fair value of collateral obtained	Fair value of collateral sold or re-pledged
Investment securities	52 757			
Total	52 757			

When the group takes possession of collateral that is not cash or not readily convertible into cash the group determines a minimum sale amount ("pre-set sale amount") and auctions the asset for the pre-set sale amount.

Where the group is unable to obtain the pre-set sale amount in an auction, the group will continue to hold the asset while actively marketing it to ensure an appropriate value is obtained.

N$'000	2011	2010
Collateral taken possession of and recognised on the statement of financial position:		
Property	1 906	3 320
Total	1 906	3 320

36 Related parties

The group defines related parties as :

(i) The parent company
(ii) Subsidiary and fellow subsidiaries
(iii) Associate companies
(iv) Associates and joint ventures of other members of the group
(v) Post retirement benefit funds (Pension Funds);
(vi) Key management personnel being the FNB Namibia Holdings Limited board of directors and the group executive committee; and
(vii) Close family members of key management personnel. Close family members are those family members who may be expected to influence, or be influenced by that individual in dealings with the group. These may include entities controlled, jointly controlled or significantly influenced by any individual referred to in (vi) and (vii). FNB Namibia Holdings Limited is listed on the Namibian Stock Exchange and is 58.4% (2010: 59.4%) owned by FirstRand Bank Holdings Limited, with its ultimate holding company FirstRand Limited, which is incorporated in South Africa, listed on the JSE Limited and on the NSX.

36.1 Subsidiaries

Details of interest in subsidiaries are disclosed in note 36.6.

36.2 Associates

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

36.3 Details of transactions with relevant related parties appear below:

	FirstRand Bank Ltd		FNB Insurance Brokers (Namibia) (Pty) Ltd		Namclear (Pty) Ltd	
N$'000	2011	2010	2011	2010	2011	2010
Loans and advances						
Balance 1 July	816 217	104 372				
Issued during year		711 845				
Repayments during year	(732 069)					
Balance 30 June	84 148	816 217				
Derivative instrument: assets	8 085	11 146				
Deposits						
Balance 1 July	(52 496)	(19 386)	(32 949)	(23 867)	(11 155)	(19 440)
Received during year		(33 110)	(14 408)	(9 082)		
Repaid during year	20 406				8 013	8 285
Balance 30 June	(32 090)	(52 496)	(47 357)	(32 949)	(3 142)	(11 155)
Derivative instrument: liabilities	(18 930)	(40 884)				
Interest received	54 721	74 425				
Interest paid			(1 901)	(1 223)	(175)	(441)
Dividends paid	(381 271)	(94 096)				

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

36 Related parties continued

	Total		FirstRand Bank Ltd		Momentum Group Ltd		FNB Insurance Brokers (Namibia) (Pty) Ltd		Namclear (Pty) Ltd	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Non interest income										
Commission	2 428	2 510	2 177	2 385			251	125		
Rental income	757	670							757	670
	3 185	3 180	2 177	2 385			251	125	757	670
Non interest expenditure										
Reinsurance premium	19 744	17 339			19 744	17 339				
Computer and processing related costs	70 410	60 491	70 410	60 491						
Internal audit and compliance	1 371	1 273	1 371	1 273						
Insurance	4 946	4 695	4 946	4 695						
ATM processing costs	2 136	1 996	2 136	1 996						
Payroll processing	2 965	1 382	2 965	1 382						
Management fees	13 002	5 981	8 755	4 295	4 247	1 686				
Administration fee: OUTsurance SA	15 018	9 566	15 018	9 566						
Other sundry	10 877	3 985	10 877	3 985						
Clearing cost	5 290	5 939							5 290	5 939
	145 759	112 647	116 478	87 683	23 991	19 025			5 290	5 939

36 Related parties continued

36.4 Transactions with key management personnel:

N$'000	2011	2010
Advances		
Balance 1 July	42 397	45 524
Issued during year	16 292	9 793
Repayments during year	(26 018)	(16 760)
Interest earned	4 138	3 840
Balance 30 June	36 809	42 397
No impairment has been recognised for loans granted to key management (2010: nil). Mortgage loans are repayable monthly over 20 years.		
Current and credit card accounts		
Credit balance 1 July	(11 284)	(8 689)
Net deposits and withdrawals	(3 357)	(4 077)
Net service fees and bank charges	1 090	1 418
Interest income	356	449
Interest expense	(806)	(385)
Balance 30 June	(14 001)	(11 284)
Instalment finance		
Balance 1 July	3 676	3 600
Issued during year	2 174	3 377
Repayments during year	(1 856)	(3 879)
Interest earned	303	578
Balance 30 June	4 297	3 676
Life and disability insurance		
Aggregate insured cover	10 310	6 352
Premiums received	101	64
Investment products		
Opening balance	24 470	3 055
Deposits and withdrawals	(4 098)	18 601
Net investment return	1 657	2 816
Commission and other transaction fees	(8)	(2)
Fund closing balance	22 021	24 470
Shares and share options held		
Directors holding in shares is disclosed in note 6.		
Aggregate details		
Share options held	3 044	2 856
Key management compensation		
Salaries and other short-term benefits	19 948	16 899
Contribution to defined contribution schemes	2 603	2 165
Share based payments	1 741	1 038
Total compensation	24 292	20 102

A listing of the board of directors of the group is detailed on pages 4 and 5 of the annual report.

36.5 Post-employment benefit plans

Refer to note 26.1 on detailed disclosure of the movement on the post-employment benefit liability.

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

36 Related parties continued

36.6 Details of subsidiaries

Significant subsidiaries	Nature of business	Date of acquisition	Country of incorporation	Number of shares	Effective holding % 2011	Effective holding % 2010
All subsidiaries are unlisted. The year end of all the subsidiaries is 30 June.						
Banking operations:						
First National Bank of Namibia Ltd	Commercial bank	1 Jun 2003	Namibia	1,200 of N$1 each	100	100
Swabou Investments (Pty) Ltd	Home loan investment company	1 Jul 2003	Namibia	2 of N$0.05 each	100	100
Insurance operations:						
Momentum Life Assurance Namibia Ltd*	Life assurance company	1 Jul 2003	Namibia	10,000,000 of N$1 each	51	51
OUTsurance Insurance Company of Namibia Ltd	Short-term insurance	1 Jul 2003	Namibia	4,000,000 of N$1 each	51	51
Other:						
First National Asset Management & Trust Company of Namibia (Pty) Ltd	Estate and trust services	1 Oct 1996	Namibia	200 of N$1 each	100	100
FNB Namibia Unit Trusts Ltd	Unit trusts company	1 Jan 2006	Namibia	4,000,000 of N$1 each	100	100
RMB Asset Management Namibia (Pty) Ltd**	Asset manager	1 Jul 2010	Namibia	20,000 of N$1 each	51	
Talas Properties (Windhoek) (Pty) Ltd	Property company	31 Mar 1988	Namibia	100 of N$1each	100	100

*Momentum Life Assurance Namibia Limited is classified as non current asset held for sale.

**Momentum Life Assurance Namibia Limited acquired a 100% interest in RMB Asset Management Namibia (Pty) Ltd during the year under review.

36 Related parties continued

N$ '000	Aggregate income of subsidiaries (before tax) 2011	2010	Total investment (Total Indebtedness) 2011	2010
First National Bank of Namibia Ltd	608 666	507 442	1 142 792	1 142 792
Swabou Investments (Pty) Ltd	65 846	63 769		
Momentum Life Assurance Namibia Ltd*	80 187	61 707	79 276	79 276
OUTsurance Insurance Company of Namibia Ltd	18 462	11 571	6 298	6 298
First National Asset Management and Trust Company of Namibia (Pty) Ltd	1 223	1 671		
FNB Namibia Unit Trusts Ltd	2 340	3 522	5 475	5 475
RMB Asset Management (Pty) Ltd**	3 904			
Talas Properties (Windhoek) (Pty) Ltd	20 800	13 799	2 967	2 967
	801 428	663 481	1 236 808	1 236 808

36.7 Acquisition and disposal of subsidiaries and associates

RMB Asset Management (Namibia) (Pty) Limited

On 1 July 2010, the group, through Momentum Namibia , acquired 100% of RMB Asset Management (Namibia) (Pty) Ltd ("RMBAMN"). The group previously held 50% shareholding and the other 50% was held by Momentum Group Limited (SA). The primary reason for the shareholding restructuring was to align the Namibian group to the shareholding of the ultimate holding companies.

RMBAMN is an asset manager and is incorporated in the Republic of Namibia. RMBAMN contributed N$2.7 million profit after tax to the group for the year ended 30 June 2011.

This transaction was accounted for as a common control transaction, as these entities were ultimately controlled by the same party, FirstRand Ltd, before and after the transaction. RMBAMN was previously accounted as an associate and was disposed of at its consolidated carrying value. The consideration received was equal to the net consolidated carrying value. The transaction was accounted for at the consolidated carrying value in line with the group's policy for common control transactions.

The details of the recognised amounts of assets and liabilities assumed at the acquisition date are set out below:

Identifiable assets acquired and liabilities assumed

N$'000	2011
Assets	
Cash and short term funds	5
Accounts receivable	1 423
Amounts due by fellow subsidiary companies	1 000
Property and equipment	18
Total assets acquired	2 446
Liabilities	
Creditors and accruals	429
Amounts due to fellow subsidiary companies	2 859
Total liabilities acquired	3 288
Net identifiable asset value as at date of acquisition	(842)
Non-controlling interest at acquisition	(413)
Loss on acquisition	(429)
Net identifiable asset value as at date of acquisition	(842)

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

37 Fair value of financial instruments

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

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

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

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

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

Level 1 - Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - Fair value is determined using a valuation technique and inputs that are not based on observable market data (i.e. unobservable inputs).

The specific valuation methodologies/techniques, per significant instrument type, can be summarised as follows:

Investments securities

Unlisted equities
The fair value of unlisted equities is determined using a price earnings (P/E) model.
The earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued and the relevance and reliability of the available information.

Negotiable certificates of deposit
Where market prices are not available for a specific instrument fair value is determined using discounted cash flow techniques. Inputs to these models include as far as possible information which is consistent with similar market quoted instruments.

Treasury Bills
Treasury bills are valued by means of the Bond Exchange of South Africa ("BESA") bond pricing model using Namibian money market dealers closing mark to market bond yield.

Government, public and utility stocks
Where market prices are not available the fair value is estimated using quoted market prices of securities with similar credit, maturity and yield characteristics.

Other dated securities
Fair value of other dated securities is determined by using a discounted cash flow model. The discount curve is derived from similar market quoted instruments.

37 Fair value of financial instruments

Derivatives

Contracts for difference are valued by using the differential between the market price and the traded price multiplied by the notional amount. Market prices are obtained from applicable trading exchanges.

Option contracts are valued using the Black-Scholes model. Inputs are obtained from market observable data. Where prices are obtainable from trading exchanges the value per the exchange is used.

Forward contracts are valued by discounting the projected cash flows to obtain the present value of the forward contract. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.

Forward rate agreements are valued by means of the discounted cash flow model. The discount rate is determined using a yield curve of similar market traded instruments. The reset rate is determined in terms of the legal agreement.

Swaps are valued by discounting the expected cash flows using discount and forward rates determined from similar market traded instruments. The reset rate of each swaplet is determined in terms of legal documents pertaining to the swap.

Deposits and current accounts

Fair value of deposits and current accounts is determined by discounting future cash flows using a swap curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioral aspects into account as these are considered to have an immaterial impact on the economic value of the instruments.

Call deposits are valued at the undiscounted amount of the cash balance, this is considered appropriate because of the short term nature of these instruments.

Fair valuation will only be applied to deposits having a maturity profile of longer than 30 days. For all non term products it is assumed that fair value will equal the amortised cost.

Short trading positions

The fair value of listed short trading positions is their market quoted prices. The fair value of unlisted short trading positions are based on the directors' valuation using suitable valuation methods.

Loans and advances to customers

The fair value of advances is the present value of the expected future cash flows determined using an appropriate discount rate adjusted for the credit spreads where necessary.

Projected cash flows, taking into account behavior, loss given default and probability of default are grouped according to their maturity dates.

The discount rate for fixed interest rate instruments is adjusted by an appropriate risk premium while floating rate cash flows are discounted by means of a yield curve which represents the projected cash flows.

Long term liabilities

Fair value of debentures, unsecured debt securities and finance lease liabilities are determined by discounting the future cash flows at market related interest rates.

The fair value of subordinated notes and fixed and floating rate bonds are determined by discounting the future cash flows at market related interest rates.

The following table presents the financial instruments recognised at fair value in the statement of financial position of the group.

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

37 Fair value of financial instruments continued

N$'000	Level 1	Level 2	Level 3	2011 Total
Assets				
Available-for-sale financial assets				
Investment securities (note 14)	12 273	1 475 053		1 487 326
Financial assets designated at fair value through profit or loss				
Investment securities (note 14)	1 382	36 873		38 255
Financial assets held for trading				
Derivative financial instruments (note 11)		24 161		24 161
Investment securities (note 14)		64 319		64 319
Total financial assets	13 655	1 600 406		1 614 061
Liabilities				
Financial liabilities designated at fair value through profit or loss				
Long term liabilities (note 27)		264 491		264 491
Long term liabilities (current portion) (note 27)		6 127		6 127
Financial liabilities held for trading				
Short trading position (note 23)	51 889			51 889
Derivative financial instruments (note 11)		21 743		21 743
Total financial liabilities	51 889	292 361		344 250

N$'000	Level 1	Level 2	Level 3	2010 Total
Assets				
Available-for-sale financial assets				
Investment securities (note 14)	11 591	1 153 725		1 165 316
Financial assets designated at fair value through profit or loss				
Investment securities (note 14)	1 257	58 752		60 009
Financial assets held for trading				
Derivative financial instruments (note 11)		57 119		57 119
Investment securities (note 14)	540 762	498 256		1 039 018
Total financial assets	553 610	1 767 852		2 321 462
Liabilities				
Financial liabilities designated at fair value through profit or loss				
Long term liabilities (note 27)		263 505		263 505
Long term liabilities (current portion) (note 27)		6 127		6 127
Policyholder liabilities under investment contracts (note 29)		36 466	7 365	43 831
Financial liabilities held for trading				
Derivative financial instruments (note 11)		58 019		58 019
Total financial liabilities		364 117	7 365	371 482

37 Fair value of financial instruments continued

During the reporting period ending 30 June 2011 (30 June 2010), there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Changes in level 3 fair value instruments

The group classifies financial instruments in Level 3 of the fair value hierarchy when significant inputs into the valuation model are not observable. In addition to the valuation model for Level 3 financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

	Fair value on June 2010	Gains or losses recognised in profit and loss (discontinued operations)	Discontinued operations	Fair value on June 2011
Liabilities				
Policyholder liabilities under investment contracts	7 365	4 011	(11 376)	
Total financial liabilities classified at level 3	7 365	4 011	(11 376)	

Changes in the group's best estimate of the non-observable inputs (Level 3) could affect the reported fair values recognised on statement of financial position and the movement in fair values recognised in the statement of comprehensive. However, changing these inputs to reasonably possible alternatives would change the fair value using more positive reasonable assumptions to N$7 293 (2010: N$5 342) and using more negative reasonable possible assumptions to N$15 218 (2010: N$9 463). These amounts are based on the assumptions without first tier margins and additional first tier margins respectively.

The table below presents the total gains (losses) relating to financial instrument classified in Level 3 that are still held on 30 June. With the exception of interest on funding instruments all of these gains or losses are recognised in non interest income.

	2011		
	Gains or losses recognised in profit and loss (discontinued operations)	Gains or losses recognised in other comprehensive income	Total gains or loss
Liabilities			
Policyholder liabilities under investment contracts	4 011		4 011
Total financial liabilities classified at level 3	4 011		4 011

	2010		
	Gains or losses recognised in profit and loss (discontinued operations)	Gains or losses recognised in other comprehensive income	Total gains or loss
Liabilities			
Policyholder liabilities under investment contracts	2 981		2 981
Total financial liabilities classified at level 3	2 981		2 981

37 Fair value of financial instruments continued

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position.

For all other instruments the carrying value is equal to or a reasonable approximation of the fair value.

N$'000	2011 Carrying value	2011 Fair value	2010 Carrying value	2010 Fair value
Assets				
Total advances at amortised cost (note 12)	12 464 342	12 479 661	11 226 660	11 380 538
Total investments at amortised cost (note 14)	53 626	53 626	535 316	536 321
Total financial assets at amortised cost	12 517 968	12 533 287	11 761 976	11 916 859
Liabilities				
Total deposits and current accounts at amortised cost (note 22)	13 305 607	13 177 916	12 045 869	11 289 748
Total financial liabilities at amortised cost	13 305 607	13 177 916	12 045 869	11 289 748

38 Segment information

38.1 Reportable segments

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The table below sets out the group's various operating segments and the details of the various products and services provided by each of the reportable segments.

Primary segments (business)	Brands	Description	Product and services
Banking operations	First National Bank	Corporate and retail banking	Comprehensive banking packages for individuals and corporate
	WesBank	Motor vehicle and instalment finance	
Long term insurance	Momentum	Provides long term risk and investment products	Life insurance, investment products
Short term insurance	OUTsurance	Short term insurance	Short term insurance

Major customers

In terms of IFRS 8 a customer is regarded as a major customer, if the revenue from transactions with this customer exceeds 10% or more of the entity's revenue. The group has no major customer as defined and is therefore not reliant on the revenue from one or more major customers.

The segmental analysis is based on the management accounts for the respective segments. The management accounts are prepared in terms of IFRS measurement and recognition principles.

In order to ensure that the total segment results, assets and liabilities agree to the amounts reported for the group in terms of IFRS, the operations that don't qualify as separate segments are reported in the other column. All consolidation adjustments have also been recorded in this column.

Geographical segments

The group operates within the borders of Namibia, and no segment operations are outside Namibia.

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

38 Segment information continued

38.2 Reportable segments continued

Statement of comprehensive income for the year ended 30 June

N$'000	Group 2011	Group 2010
Continuing operations		
Net interest income	839 440	757 632
Net interest income - external	839 440	757 632
Net interest income - internal		
Impairment reversal / (recognition) losses on advances	12 398	(12 960)
Net interest income after impairment of advances	851 838	744 672
Non interest income	653 365	574 310
Net insurance premium income	71 935	56 226
Net claims and benefits paid	(41 437)	(38 302)
Fair value adjustment to financial liabilities	(716)	(2 307)
Income from operations	1 534 985	1 334 599
Operating expenses	(817 422)	(718 703)
Net income from operations	717 563	615 896
Share of profit from associates	4 951	5 189
Income before tax	722 514	621 085
Indirect tax	(17 019)	(16 048)
Profit before tax	705 495	605 037
Direct tax	(241 242)	(201 910)
Profit for the year from continuing operations	464 253	403 127
Discontinued operations		
Profit attributable to discontinued operations	74 792	55 768
Profit for the year	539 045	458 895
Other comprehensive income		
Gain on available-for-sale financial assets	227	7 672
Income tax effect on other comprehensive income	162	(1 831)
Other comprehensive income for the year	389	5 841
Total comprehensive income for the year	539 434	464 736
Attributable to:		
Equity holders of the parent	496 298	429 278
Non-controlling interests	42 747	29 617
Profit for the year	539 045	458 895
Attributable to:		
Equity holders of the parent	496 811	435 119
Non-controlling interests	42 623	29 617
Total comprehensive income for the year	539 434	464 736
Headline earnings (note 8)	495 599	428 395
Other information		
Depreciation and amortisation	(58 152)	(58 619)
Rental income		
Rental expense		
Capital expenditure	55 175	92 663

	Banking operations		Long term insurance		Short term insurance		Other	
	2011	2010	2011	2010	2011	2010	2011	2010
	840 258	760 043			2 500	1 963	(3 318)	(4 374)
	839 440	778 195						
	818	(18 152)			2 500	1 963	(3 318)	(4 374)
	12 398	(12 960)						
	852 656	747 083			2 500	1 963	(3 318)	(4 374)
	628 391	553 564			6 067	5 290	18 907	15 456
					71 935	56 226		
					(41 437)	(38 302)		
	(716)	(2 307)						
	1 480 331	1 298 340			39 065	25 177	15 589	11 082
	(802 675)	(725 501)			(20 654)	(13 606)	5 907	20 404
	677 656	572 839			18 411	11 571	21 496	31 486
	253	191					4 698	4 998
	677 909	573 030			18 411	11 571	26 194	36 484
	(16 883)	(15 591)					(136)	(457)
	661 026	557 439			18 411	11 571	26 058	36 027
	(226 979)	(187 287)			(5 964)	(3 448)	(8 299)	(11 175)
	434 047	370 152			12 447	8 123	17 759	24 852
			74 792	55 768				
	434 047	370 152	74 792	55 768	12 447	8 123	17 759	24 852
	480	7 672	(253)					
	162	(1 831)						
	642	5 841	(253)					
	434 689	375 993	74 539	55 768	12 447	8 123	17 759	24 852
	434 047	370 152	38 144	30 131	6 348	4 143	17 759	24 852
			36 648	25 637	6 099	3 980		
	434 047	370 152	74 792	55 768	12 447	8 123	17 759	24 852
	434 689	375 993	38 015	30 131	6 348	4 143	17 759	24 852
			36 524	25 637	6 099	3 980		
	434 689	375 993	74 539	55 768	12 447	8 123	17 759	24 852
	433 728	370 125	38 144	30 131	6 348	4 143	17 379	23 996
	(60 984)	(74 402)	(9 935)	(9 097)	(44)	(84)	12 811	24 964
	871	879					8 947	7 838
	(8 947)	(7 838)	(871)	(879)	(71)	(95)		
	53 506	89 624	1 433	1 129			236	1 910

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

38 Segment information (continued)

Statement of financial position as at 30 June

	Group	
N$'000	2011	2010
Assets		
Cash and short term funds	428 054	455 215
Due from banks and other financial institutions	763 051	851 182
Derivative financial instruments	24 161	57 119
Advances	12 464 342	11 226 660
Investment securities	1 643 526	2 799 659
Investments in associates	24 696	22 594
Other assets	434 371	523 890
Non current assets and disposal group held for sale	1 381 729	753
Total assets	17 163 930	15 937 072
Equity and liabilities		
Liabilities		
Deposits and current accounts	13 305 607	12 045 869
Due to banks and other financial institutions	43 910	54 346
Short trading positions	51 889	
Derivative financial instruments	21 743	58 019
Other liabilities	416 273	1 364 250
Long term liabilities	264 491	263 505
Liabilities directly associated with non current assets classified as held for sale	1 074 169	
Total liabilities	15 178 082	13 785 989
Equity		
Capital and reserves attributable to ordinary equity holders		
Ordinary shares	1 294	1 291
Share premium	187 898	191 695
Reserves	1 630 930	1 758 631
Capital and reserves attributable to ordinary equity holders	1 820 122	1 951 617
Non-controlling interests	165 726	199 466
Total equity	1 985 848	2 151 083
Total equity and liabilities	17 163 930	15 937 072

Banking operations		Long term insurance		Short term insurance		Other	
2011	2010	2011	2010	2011	2010	2011	2010
412 913	402 129		18 704	41 950	34 382	(26 809)	
763 051	851 182						
24 161	57 119						
12 538 500	11 311 742					(74 158)	(85 082)
1 578 439	1 492 893		1 275 508	26 831	21 687	38 256	9 571
1 820	2 566					22 876	20 028
594 286	558 321		126 783	4 608	3 764	(164 523)	(164 978)
	753	1 381 729					
15 913 170	14 676 705	1 381 729	1 420 995	73 389	59 833	(204 358)	(220 461)
13 356 400	12 068 023					(50 793)	(22 154)
43 910	53 346						1 000
51 889							
21 743	58 019						
391 365	317 931		1 037 132	48 075	39 987	(23 167)	(30 800)
264 491	263 505						
		1 074 169					
14 129 798	12 760 824	1 074 169	1 037 132	48 075	39 987	(73 960)	(51 954)
1	1	10 000	10 000	4 000	4 000	(12 707)	(12 710)
1 142 791	1 142 791	185 368	185 368			(1 140 261)	(1 136 464)
640 580	773 089	112 192	188 495	21 314	15 846	856 844	781 201
1 783 372	1 915 881	307 560	383 863	25 314	19 846	(296 124)	(367 973)
						165 726	199 466
1 783 372	1 915 881	307 560	383 863	25 314	19 846	(130 398)	(168 507)
15 913 170	14 676 705	1 381 729	1 420 995	73 389	59 833	(204 358)	(220 461)

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

39 Critical accounting estimates and judgements in applying accounting policies

In preparing the financial statements, the group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

39.1 Credit impairment losses on loans and advances

The group assesses its credit portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in the income statement, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

(a) Performing loans

The performing portfolio is split into two parts:

(i) The first part consists of the portion of the performing portfolio where there is objective evidence of the occurrence of an impairment event. In the Retail and WesBank portfolios the account status, namely arrears versus non arrears status, is taken as a primary indicator of an impairment event. In the Commercial portfolios other indicators such as the existence of high risk accounts, based on internally assigned risk ratings and management judgement, are used, while the Wholesale portfolio assessment includes a judgemental review of individual industries for objective signs of distress.

A portfolio specific impairment ("PSI") calculation to reflect the decrease in estimated future cash flows is performed for this sub segment of the performing portfolio. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable sub segments of the portfolio.

(ii) The second part consists of the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified. A so called incurred but not reported ("IBNR") provision is calculated on this sub segment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non performing status and similar risk indicators over an estimated loss emergence period.

Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate, external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 - 12 months.

(b) Non performing loans

Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay its obligations in full. WesBank's loans are impaired upon its classification status, i.e. following an event driven approach and specific assessment of the likelihood to repay. Commercial and Wholesale loans are analysed on a case by case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for Commercial and Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 13 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

39.2 Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by independent qualified senior personnel. All models are certified before they are used, and models are calibrated and back tested to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments. Note 36 provides additional details on the calculation of fair value of financial instruments not quoted in active markets and an analysis of the effect of changes in managements' estimates on the fair value of financial instruments.

39 Critical accounting estimates and judgements in applying accounting policies continued

39.3 Impairment of available-for-sale equity instruments

The group determines that available-for-sale equity instruments are impaired and recognised as such in profit or loss, when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the group evaluates factors such as, inter alia, the normal volatility in share prices, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

39.4 Income taxes

There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The group recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

Refer to note 7 and 19 for more information regarding the direct and deferred tax charges, assets and liabilities.

39.5 Impairment of goodwill

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash generating units ("CGU") has been determined based on value-in-use calculations, being the net present value of the discounted cash flows of the CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in note 18.

39.6 Employee benefit liabilities

The cost of the benefits and the present value of the severance pay (death in service) and post retirement medical obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to profit or loss arising from these obligations include the expected long term rate of return on the relevant plan assets, the discount rate and the expected salary and pension increase rates. Any changes in these assumptions will impact the charge to profit or loss and may affect planned funding of the pension plans.

Additional information is provided in the note 26.

39.7 Share-based payments

Share based payment transactions of the group are classified as either cash settled or equity settled. The amounts recognised in respect of these share based payment transactions are determined by applying valuation techniques that are based on various assumptions and estimates that require judgment in their application. These assumptions and estimates include expected volatility, expected dividend yield, the discount rate and the expected forfeit or lapse rate. The expected volatility assumption is determined based on a ruling historical volatility over the expected life of the options and comparable financial information. The expected dividend yield is determined based on historical dividend yields and management's estimates. The discount rate is based on zero coupon government bonds and have terms to maturity consistent with the assumed life of the share option. The expected forfeit rate has been based on historical experience and management estimates.

Refer to note 32 for the detailed information regarding the share based payment expense and the assumptions used in determining the expense, liability and reserve.

39.8 Valuation of policyholders liabilities under insurance contracts

The actuarial value of policyholder liabilities arising from long term insurance contracts is determined using the Financial Soundness Valuation method as described in the actuarial guidance note PGN 104 of the Actuarial Society of South Africa.

The method requires the following assumptions:
- The best estimate for a particular assumption is determined;
- Prescribed margins are then applied, as required by the Long term Insurance Act; and
- Discretionary margins may be applied, as required by the valuation methodology or if the statutory actuary considers such margins necessary to cover the risk inherent in the contracts.

Best estimate assumptions as to mortality and morbidity, expenses, investment income and tax are used that may vary at each end of reporting date. A margin for adverse deviations is included in the assumptions. Improvements in estimates have a positive impact on the value of the liabilities and related assets, while deteriorations in estimates have a negative impact.

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

40 Standards and interpretations issued but not yet effective

The group will comply with the following new standards and interpretations from the stated effective date.

IFRIC 14 (amended)	**IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** The amendment applies in limited circumstances when an entity is subject to minimum funding requirements and makes a voluntary early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. This amendment is not expected to have an impact on the group.	Annual periods commencing on or after 1 January 2011
IAS 1 (amended)	**Presentation of Items of Other Comprehensive Income** This amendment was issued to eliminate inconsistencies in the presentation of items in the statement of other comprehensive income. The amendment requires an entity to group the items of other comprehensive income on the basis of whether the amounts will subsequently be reclassified to profit or loss or not i.e. the statement of comprehensive income should be split between items that will be reclassified to profit or loss and items that will not be reclassified to profit or loss. This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact of the revised disclosure is not expected to be significant.	Annual periods commencing on or after 1 January 2012
IAS 12 (amended)	**Income Taxes** IAS 12 requires that deferred tax assets is measured based on whether the entity expects to recover the carrying amount of the asset through use or through sale. This assessment of the method of recovery may be difficult to assess for investment property measured using the fair value model. The amendment provides a practical solution by introducing a presumption that the carrying amount of such investment property will normally be recovered through sale. As a result of the amendment, SIC 12 Income Taxes - Recovery of Revalued Non-Depreciable Assets has been withdrawn. This amendment is not expected to have a significant impact on the group.	Annual periods commencing on or after 1 January 2012
IAS 19 (revised)	**Employee Benefits** The main changes include the removal of the corridor approach, which allowed entities the option to defer the recognition of actuarial gains and losses on defined benefit plans. The revised standard requires that all remeasurement arising from defined benefit plans be presented in other comprehensive income. It also includes enhanced disclosure requirements for defined benefits plans. The group is in the process of assessing the impact the revised IAS 19 would have on the financial statements.	Annual periods commencing on or after 1 January 2013
IAS 24 (amended)	**Related Party Disclosures** The amendment removes certain of the disclosure requirements for government related entities, clarifies the definition of a related party and introduces a requirement for entities to disclose commitments to related parties. This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact of the revised disclosure is not expected to be significant.	Annual periods commencing on or after 1 January 2011
IAS 27 (amended)	**Separate Financial Statements** IAS 27 removes the accounting and disclosure requirements for consolidated financial statements as a result of the issue of IFRS 10 and IFRS 12, which establish new consolidation and disclosure standards.	Annual periods commencing on or after 1 January 2013

40 Standards and interpretations issued but not yet effective continued

IAS 27 (amended)	**Separate Financial Statements** continued IAS 27 (amended) contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. This amendment is not expected to have a significant impact on the group's results.	Annual periods commencing on or after 1 January 2013
IAS 28 (amended)	**Investments in Associates and Joint ventures** IAS 28 Investments in Associates and Joint Ventures (amended) supersedes IAS 28 Investments in Associates as a result of the issue of IFRS 11 and IFRS 12.The new IAS 28 prescribes the accounting for investment in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The disclosure requirements relating to these investments are now contained in IFRS 12. This amendment is not expected to have a significant impact on the group's results.	Annual periods commencing on or after 1 January 2013
IFRS 1 (amended)	**First-time Adoption of International Financial Reporting Standards** The amendments to IFRS 1 are set out in Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters. The first amendment replaces references to a fixed transition date of '1 January 2004' with 'the date of transition to IFRSs'. This eliminates the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. These amendments will not have an impact on the group as it has already adopted IFRS.	Annual periods commencing on or after 1 July 2011
IFRS 7 (amended)	**Transfers of Financial Assets** The amendments to IFRS 7 requires additional disclosure for financial assets transferred but not derecognised and for financial assets that are derecognised, but the entity retains some form of continuing involvement after the transaction. This amendment will result in additional disclosures in the annual financial statements and will not affect recognition and measurement.	Annual periods commencing on or after 1 July 2011
IFRS 9	**Financial Instruments** IFRS 9 is the first phase in the IASB's three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement. This phase deals with the classification and measurement of financial assets and financial liabilities. Financial assets can be classified as financial assets at amortised cost or fair value. The classification is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial liabilities can also be classified as financial liabilities at amortised cost or fair value in line with the existing requirements of IAS 39. If an entity elects to measure its financial liabilities at fair value, it should present the portion of the change in fair value due to changes in its own credit risk in other comprehensive income. The group is in the process of assessing the impact that IFRS 9 would have on the financial statements. Until the process is completed, the group is unable to determine the significance of the impact of IFRS 9.	Annual periods beginning on or after 1 January 2013

Notes to the consolidated annual financial statements

for the year ended 30 June

40 Standards and interpretations issued but not yet effective continued

IFRS 10	**Consolidated Financial Statements** IFRS 10 establishes a new control model for determining which entities should be consolidated. The standard also provides guidance on how to apply the principle of control to specific situations in order to identify whether an investor controls an investee. IFRS 10 supersedes a portion of IAS 27 Separate and Consolidated Financial Statements and SIC 12 Consolidation – Special Purpose Entities. The group is in the process of assessing the impact that IFRS 10 would have on the financial statements. Until the process is completed, the group is unable to determine the significance of the impact of IFRS 10.	Annual periods commencing on or after 1 January 2013
IFRS 11	**Joint Arrangements** The standard supersedes IAS 31 Joint Ventures and aims to improve on IAS 31 by establishing accounting principles that are applicable to all joint arrangements. The standard distinguishes between two types of joint arrangements, joint operations and joint ventures. The accounting for joint operations remains unchanged from IAS 31 and all joint ventures should be equity accounted in the financial statements of the venturer. The standard is not expected to have a significant impact on the group.	Annual periods commencing on or after 1 January 2013
IFRS 12	**Disclosure of Interests in Other Entities** The standard aims to provide consistent disclosure requirements for subsidiaries, joint arrangements, associates and structured entities. IFRS 12 requires disclosure of information that will enable users to evaluate the nature of the risks associated with the interest and the effect of the interest on the financial position, performance and cash flows of the reporting entity. This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The group is still in the process of assessing the impact of the revised disclosure.	Annual periods commencing on or after 1 January 2013
IFRS 13	**Fair Value Measurement** IFRS 13 was issued in order to eliminate inconsistencies in the guidance on how to measure fair value and disclosure requirements that currently exist under the different IFRSs that require or permit fair value measurement. It provides a fair value hierarchy, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The group is in the process of assessing the impact that IFRS 13 would have on the financial statements. Until the process is completed, the group is unable to determine the significance of the impact of IFRS 13.	Annual periods commencing on or after 1 January 2013
Annual	**Improvements to IFRS** As part of its annual improvements projects, the IASB has issued its 2010 annual improvement project. The annual improvement project's 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. There are no significant changes in the improvement projects that are expected to affect the group.	Annual periods commencing on or after 1 January 2011 except for the improvements to IFRS 3 and IAS 27 that are effective for annual periods commencing on or after 1 July 2010

41 Risk management

The risk report of the group appears on page 172 to 179 of this annual report. The report describes the various risks the group is exposed to, as well as the methodology and instruments to mitigate these risks. Risk control policies and exposures limits for key risk areas of the group are approved by the board, while operational policies and control procedures are approved by the relevant risk committees. The main financial risk that the business is exposed to are detailed in this note.

41.1 Maximum exposure to credit risk

Total exposure (items where credit risk exposure exist)

N$'000	2011	2010
Cash and short term funds	214 678	249 427
- Balances with other banks	16 000	54 544
- Balances with central bank	198 678	194 883
Due from banks and other financial institutions	763 051	851 182
Advances	12 464 342	11 226 660
- Overdraft and managed accounts	1 722 703	1 493 520
- Card loans	85 968	76 258
- Instalment sales	1 801 840	1 622 112
- Lease payments receivables	89 229	80 206
- Home loans	6 494 818	5 908 218
- Term loans	1 841 043	1 680 608
- Other	428 741	365 738
Derivatives	24 161	57 119
Debt investment securities	1 629 871	2 422 352
- Listed investment securities	380 642	250 391
- Unlisted investment securities	1 249 229	2 171 961
Accounts receivable	95 990	78 679
Reinsurance assets	425	50 080
Amounts not recognised on the statement of financial position	1 204 926	999 817
Guarantees	722 290	654 104
Letters of credit	47 756	33 959
Irrevocable commitments	434 880	311 754
Total	16 397 444	15 935 316

41.2 FR rating mapping to international and national rating scales

The group categorises current exposures according to an internal rating scale, the FR ratings, ranging from FR 28 to FR 100, with the FR 28 being the best rating with the lowest probability of default. The FR ratings have been mapped to default probabilities as well as external rating agency international rating scales.

The ratings and the associated probability of default ("PD") reflect two different conventions. The "point in time" PDs reflect the default expectations under the current economic cycle whereas the "through the cycle" PDs reflect a longer term of average over the economic cycle.

The FR scale is summarised in the following table, together with a mapping to international scale rating from external agencies:

FR Rating	Mid point PD	International scale mapping*
FR 28 - 91	3.73%	AAA to B-
Above FR 92		Below B-

* Indicative mapping to international rating scale of Fitch and Standard and Poor's.

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

41 Risk management continued

41.3 Credit quality continued

N$'000	2011						
			Past due but not impaired				
Age analysis	Neither past due nor impaired	Renegotiated but current	1 - 30 days	31 - 60 days	61 - 90 days	Impaired	Total
Advances							
- Overdraft and managed accounts	1 776 237					22 055	1 798 292
- Card loans	85 845			29	635	2 809	89 318
- Instalment sales and lease payments receivables	1 885 790		13 013	5 900	1 195	22 229	1 928 127
- Home loans	6 308 097		107 851	25 733	17 928	146 068	6 605 677
- Term loans	1 791 918		55 005	3 420	2 075	11 588	1 864 006
- Other	429 299					7 217	436 516
	12 277 186		175 869	35 082	21 833	211 966	12 721 936
Accounts receivable							
- Items in transit	71 852						71 852
- Deferred staff cost	39 128						39 128
- Other accounts receivable	24 138						24 138
	135 118						135 118
Reinsurance assets	425						425
Total	12 412 729		175 869	35 082	21 833	211 966	12 857 479

41 Risk management continued

41.3 Credit quality continued

N$'000 Age analysis	Neither past due nor impaired	Renegotiated but current	Past due but not impaired 1 - 30 days	31 - 60 days	61 - 90 days	Impaired	Total
	2010						
Advances							
- Overdraft and managed accounts	1 505 348					66 813	1 572 161
- Card loans	73 725		397	146	3 458	2 990	80 716
- Instalment sales and lease payments receivables	1 675 995		8 909	5 836	22 104	28 940	1 741 784
- Home loans	5 681 274		50 789	45 459	78 256	106 365	5 962 143
- Term loans	1 698 291			20 847	11 916	19 749	1 750 803
- Other	365 738						365 738
	11 000 371		60 095	72 288	115 734	224 857	11 473 345
Accounts receivable							
- Items in transit	27 043						27 043
- Deferred staff cost	38 931						38 931
- Other accounts receivable	51 636						51 636
	117 610						117 610
Policy loans on investments contracts	26 931						26 931
Reinsurance assets	50 080						50 080
Total	11 194 992		60 095	72 288	115 734	224 857	11 667 966

The above assets are managed with reference to the days in arrears and include assets where monthly payments are due as residential mortgages, instalment sale products, and personal loans.

The assets in the wholesale segment and commercial segment are generally not managed with reference to monthly payments in arrears as these assets are reviewed on an individual portfolio basis.

Advances age analysis comparative figures have been restated to reflect the changes in presentation in the current year.

Notes to the consolidated annual financial statements

for the year ended 30 June

41 Risk management continued

41.3 Credit quality

The table below presents an analysis of the credit quality of neither past due nor impaired (i.e. performing) advances. (refer to note 41.2 for the FR rating mapping to international and national rating scales):

	2011						
N$'000	Total neither past due nor impaired	Ovedraft and Managed accounts	Card loans	Instalment sales	Home loans	Term loans	Other
FR 28 - 91	11 381 315	1 232 293	81 632	1 723 549	6 151 822	1 762 720	429 299
Above FR 92	895 871	543 944	4 213	162 241	156 275	29 198	
Total	12 277 186	1 776 237	85 845	1 885 790	6 308 097	1 791 918	429 299

	2010						
N$'000	Total neither past due nor impaired	Ovedraft and Managed accounts	Card loans	Instalment sales	Home loans	Term loans	Other
FR 28 - 91	10 911 786	1 498 859	70 586	1 675 193	5 604 523	1 696 887	365 738
Above FR 92	88 585	6 489	3 139	802	76 751	1 404	
Total	11 000 371	1 505 348	73 725	1 675 995	5 681 274	1 698 291	365 738

	2011				
N$'000	Investment securities	Derivatives	Cash and short term funds	Due from banks and other financial institutions	Total
Credit quality of financial assets other than advances neither past due nor impaired					
International scale mapping (National equivalent):					
AAA to BB- (A to BBB)	1 566 167	5 135	214 679	765 022	2 551 003
Unrated	63 704	19 026			82 730
Total	1 629 871	24 161	214 679	765 022	2 633 733

	2010				
N$'000	Investment securities	Derivatives	Cash and short term funds	Due from banks and other financial institutions	Total
Credit quality of financial assets other than advances neither past due nor impaired					
International scale mapping (National equivalent):					
AAA to BB- (A to BBB)	2 053 703	7 632	249 427	851 182	3 161 944
Unrated	368 649	49 487			418 136
Total	2 422 352	57 119	249 427	851 182	3 580 080

41 Risk management continued

41.4 Liquidity cash flow analysis (undiscounted cash flow)

Maturity analysis of liabilities based on undiscounted amount of the contractual payment.

	2011			
		Term to maturity		
N$'000	Total	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits and current accounts	13 809 709	10 804 719	2 225 816	779 174
Due to banks and other financial institutions	43 910	43 910		
Short trading positions	51 889	51 889		
Derivative financial instruments	21 743	21 743		
Creditors and accruals	319 885	235 365	74 699	9 821
Long term liabilities	283 790		23 790	260 000
Financial liabilities	14 530 926	11 157 626	2 324 305	1 048 995
Off statement of financial position				
Financial and other guarantees	770 047	579 022	166 001	25 024
Facilities not drawn	2 657 626	2 657 626		

	2010			
		Term to maturity		
N$'000	Total	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits and current accounts	12 103 818	10 065 915	1 990 460	47 443
Due to banks and other financial institutions	54 346	54 346		
Derivative financial instruments	58 019	58 019		
Creditors and accruals	261 450	214 156	40 982	6 312
Long term liabilities	307 580		23 790	283 790
Policyholder liabilities under investment contracts	43 831	5 223	1 662	36 946
Financial liabilities	12 829 044	10 397 659	2 056 894	374 491
Off statement of financial position				
Financial and other guarantees	688 063	531 144	54 707	102 212
Facilities not drawn	1 871 678	1 871 678		

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

41 Risk management continued

41.4 Liquidity cash flow analysis (discounted cash flow)

The table below represents the contractual discounted cash flows of assets and liabilities.

	2011			
	Term to maturity			
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and short term funds	428 054	428 054		
Due from banks and other financial institutions	763 051	763 051		
Derivative financial instruments	24 161	24 161		
Advances	12 464 342	1 845 790	473 373	10 145 179
Investment securities	1 643 526	777 359	482 163	384 004
Accounts receivable	135 118	92 357	4 807	37 954
Financial assets	15 458 252	3 930 772	960 343	10 567 137
Non-financial assets	1 705 678			
Total assets	17 163 930			
Liabilities				
Deposits and current accounts	13 305 607	10 711 751	2 050 853	543 003
Due to banks and other financial institutions	43 910	43 910		
Short trading positions	51 889	51 889		
Derivative financial instruments	21 743	21 743		
Creditors and accruals	319 885	235 365	74 699	9 821
Long term liabilities	264 491			264 491
Financial liabilities	14 007 525	11 064 658	2 125 552	817 315
Non-financial liabilities	1 170 557			
Total liabilities	15 178 082			
Total equity	1 985 848			
Total equity and liabilities	17 163 930			
Net liquidity gap		(7 133 886)	(1 165 209)	9 749 822
Cumulative liquidity gap		(7 133 886)	(8 299 095)	1 450 727

41 Risk management continued

41.4 Liquidity cash flow analysis (discounted cash flow) continued

The table below represents the contractual discounted cash flows of assets and liabilities.

		2010		
		Term to maturity		
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and short term funds	455 215	455 215		
Due from banks and other financial institutions	851 182	851 182		
Derivative financial instruments	57 119	57 119		
Advances	11 226 660	2 211 999	515 314	8 499 347
Investment securities	2 799 659	2 329 809	226 498	243 352
Accounts receivable	117 610	58 013	42 011	17 586
Policy loans on investments contracts	26 931	26 931		
Financial assets	15 534 376	5 990 268	783 823	8 760 285
Non-financial assets	402 696			
Total assets	15 937 072			
Liabilities				
Deposits and current accounts	12 045 869	10 084 539	1 918 263	43 067
Due to banks and other financial institutions	54 346	54 346		
Derivative financial instruments	58 019	58 019		
Creditors and accruals	261 450	214 156	40 982	6 312
Long term liabilities	263 505			263 505
Policyholder liabilities under investment contracts	43 831	5 223	1 662	36 946
Financial liabilities	12 727 020	10 416 283	1 960 907	349 830
Non-financial liabilities	1 058 969			
Total liabilities	13 785 989			
Total equity	2 151 083			
Total equity and liabilities	15 937 072			
Net liquidity gap		(4 426 015)	(1 177 084)	8 410 455
Cumulative liquidity gap		(4 426 015)	(5 603 099)	2 807 356

The table above represents the contractual discounted cash flows of assets and liabilities. Relying solely on the contractual liquidity mismatch when looking at a bank's maturity analysis would overstate the risk, since this represents the absolute worst case maturity analysis. As an industry phenomenon in Namibia, banks are particularly negatively gapped (contractually) in the shorter term due to the country's structural liquidity position. This implies that more short term obligations are due than short term assets maturing, hence the group's calculation of an adjusted liquidity mismatch analysis, applying the methodology of business under normal circumstances and a framework to manage this mismatch.

41 Risk management continued

Liquidity mismatch analysis

The purpose of liquidity mismatch is to anticipate the maturities in the statement of financial position when business is done under normal conditions, i.e. applying behaviorally adjusted assumptions. This analysis disregards the overstated liquidity risk reflected in the contractual mismatch, when business as usual applies. Through analysis of various products and segments on the statement of financial position the "business as usual" liquidity gap is derived. It describes the liquidity gap of the bank after taking into account product behavioral assumptions for rolling of maturities and days to realise assets. For example , a cheque account deposit which has an ambiguous maturity classified as having a maturity profile on demand. The behavior (under normal circumstances and on an going concern basis) of such an account is, however, of a long term nature when assuming reinvestment takes place. Similarly the wholesale call loan book has a contractual maturity on call, but a portion of the wholesale book may not be called upon, due to customer relationship repercussions or other incentives.

41.5 Repricing profile

	2011				
N$'000	Carrying amount	Within 3 months	After 3 months, but within 6 months	After 12 months	Non rate sensitive
Total assets	17 163 930	14 006 332	583 240	335 557	2 238 801
Total equity and liabilities	17 163 930	11 754 768	1 593 903	267 309	3 547 950
Net repricing gap		2 251 564	(1 010 663)	68 248	(1 309 149)
Cumulative repricing gap		2 251 564	1 240 901	1 309 149	

	2010				
N$'000	Carrying amount	Within 3 months	After 3 months, but within 6 months	After 12 months	Non rate sensitive
Total assets	15 937 072	13 921 565	633 954	429 594	951 959
Total equity and liabilities	15 937 072	10 549 381	1 549 270	265 069	3 573 352
Net repricing gap		3 372 184	(915 316)	164 525	(2 621 393)
Cumulative repricing gap		3 372 184	2 456 868	2 621 393	

41 **Risk management** continued

41.6 Foreign currency risk

The group takes on exposure to the effect of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarises the groups assets and liabilities at carrying amounts, categorised by currency, as at the statement of financial position date.

	2011				
N$'000	Total	NAD	USD	EUR	Other
Assets					
Cash and short term funds	428 054	390 320	29 344	6 936	1 454
Due from banks and other financial institutions	763 051	131 050	554 438	22 886	54 677
Derivative financial instruments	24 161	5 814	15 771	2 576	
Advances	12 464 342	12 464 342			
Investment securities	1 643 526	1 631 253	12 273		
Accounts receivable	135 118	135 118			
Financial assets	15 458 252	14 757 897	611 826	32 398	56 131
Non-financial assets	1 705 678	1 705 678			
Total assets	17 163 930	16 463 575	611 826	32 398	56 131
Liabilities					
Deposits and current accounts	13 305 607	12 739 704	512 144	53 081	678
Due to banks and other financial institutions	43 910	43 910			
Short trading positions	51 889	51 889			
Derivative financial instruments	21 743	5 394	13 963	2 386	
Creditors and accruals	319 885	319 885			
Long term liabilities	264 491	264 491			
Financial liabilities	14 007 525	13 425 273	526 107	55 467	678
Non-financial liabilities	1 170 557	1 170 557			
Total liabilities	15 178 082	14 595 830	526 107	55 467	678
Total equity	1 985 848	1 985 848			
Total equity and liabilities	17 163 930	16 581 678	526 107	55 467	678

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

41 Risk management continued

41.6 Foreign currency risk continued

	2010				
N$'000	Total	NAD	USD	EUR	Other
Assets					
Cash and short term funds	455 215	402 179	47 927	4 187	922
Due from banks and other financial institutions	851 182	663 321	126 687	58 683	2 491
Derivative financial instruments	57 119	9 633	2 095	39 688	5 703
Advances	11 226 660	11 226 660			
Investment securities	2 799 659	2 728 099	71 560		
Accounts receivable	117 610	117 610			
Policy loans on investments contracts	26 931	26 931			
Financial assets	15 534 376	15 174 433	248 269	102 558	9 116
Non-financial assets	402 696	402 696			
Total assets	15 937 072	15 577 129	248 269	102 558	9 116
Liabilities					
Deposits and current accounts	12 045 869	11 877 691	117 971	50 207	
Due to banks and other financial institutions	54 346	54 346			
Derivative financial instruments	58 019	3 394	2 411	39 197	13 017
Creditors and accruals	261 450	261 450			
Long term liabilities	263 505	263 505			
Policyholder liabilities under investment contracts	43 831	43 831			
Financial liabilities	12 727 020	12 504 217	120 382	89 404	13 017
Non-financial liabilities	1 058 969	1 058 969			
Total liabilities	13 785 989	13 563 186	120 382	89 404	13 017
Total equity	2 151 083	2 151 083			
Total equity and liabilities	15 937 072	15 714 269	120 382	89 404	13 017

41 Risk management continued

41.7 Average balances and effective interest rates

N$'000	2011 Average balance N$'000	2011 Average rate %	2011 Interest income/ expense N$'000	2010 Average balance N$'000	2010 Average rate %	2010 Interest income/ expense N$'000
Assets						
Cash and short term funds, balance with banks	1 935 163	3.3	63 193	1 813 319	4.4	79 707
Advances	11 841 980	10.6	1 257 662	10 695 543	11.4	1 215 208
Investment securities	1 490 476	6.3	93 900	2 338 994	6.1	143 159
Interest-earning assets	15 267 619	9.3	1 414 755	14 847 856	9.7	1 438 074
Non-interest-earning assets	1 921 782			764 722		
Total assets	17 189 401	8.2	1 414 755	15 612 578	9.2	1 438 074
Liabilities						
Deposits and current accounts, balance due to banks	13 148 568	4.2	551 456	11 952 129	5.1	605 574
Long term liabilities	273 866	8.6	23 554	267 809	8.9	23 794
Other interest			305			482
Interest-earning liabilities	13 422 434	4.3	575 315	12 219 938	5.2	629 850
Non-interest-earning bearing liabilities	1 534 303			1 409 647		
Total liabilities	14 956 737	3.8	575 315	13 629 585	4.6	629 850
Total equity	2 232 664			1 982 993		
Total equity and liabilities	17 189 401	3.3	575 315	15 612 578	4.0	629 850

41 Risk management continued

41.8 Sensitivity analysis

Banking market risk

Net interest income sensitivity

Assuming no management intervention, a parallel 100 basis point increase in all yield curves would increase the forecast net interest income for the next year by N$46.3 million (2010: N$40 million), while a parallel decrease in all yield curves would decrease the forecast income by N$46.3 million (2010: N$46 million).

Equity price risk sensitivity

The table below illustrates the market sensitivity for all non-trading equity investments assuming a 10% shift in the fair value, the analysis is before tax.

	10% reduction in fair value	10% increase in fair value	10% reduction in fair value	10% increase in fair value
	2011		2010	
	N$'000	N$'000	N$'000	N$'000
Impact on equity (available-for-sale-reserve)	1 227	(1 227)	1 159	(1 159)

Foreign currency risk sensitivity analysis

Including foreign denominated cash, the group does not ordinarily hold open exposures in respect of the banking book of any significance. All gains and losses on foreign exposures and derivatives are reported in profit and loss.

Insurance risk sensitivity

The results of the sensitivity testing in the table below illustrate that the assumptions regarding future mortality and morbidity experience have an impact on the actuarial liability. This is to be expected given the nature of the business (risk insurance). This implies that future trends in mortality and morbidity experience, whether positive or negative, will impact on profits in the future. The sensitivities provided, in isolation, are not amounts that can be simply extrapolated to determine prospective earnings forecasts.

		2011	2010
		N$'000	N$'000
Policyholders liabilities under Insurance Contracts			963 968
Change in liability			
Worse mortality	10%	6 455	3 093
Worse morbidity	10%	2 348	492
Worse PI inception rates	10%		
Lower investment returns	-1%	18 860	23 144
Worse terminations	-10%	5 312	5 026
Worse expenses	10%	5 402	8 864
Worse expenses inflation	10%	11 288	13 794

41 Risk management continued

41.8 Sensitivity analysis continued

Market risk sensitivity on insurance business

The table below shows the result of sensitivity testing on the group's profit or loss (before tax) and equity for reasonable possible changes in the risk variables. The sensitivity analysis indicates the effect of changes in the risk factors arising from the impact of the changes in these factors on the group's financial assets and liabilities.The sensitivity analysis does not take into consideration that the group's assets and liabilities are actively managed.

		2011 Impact on profit/(loss) N$'000	2011 Impact on equity N$'000
Interest rate risk			
Local government bonds			
Lower limit	7.76%	(918)	(173)
Upper limit	9.26%	918	179
Cash			
Lower limit	7.76%	(986)	(424)
Upper limit	7.26%	986	424
Equity price risk			
Lower limit	10.01%	(1 767)	(6 454)
Upper limit	14.01%	1 767	6 454

		2010 Impact on profit/(loss) N$'000	2010 Impact on equity N$'000
Interest rate risk			
Local government bonds			
Lower limit	8.19%	(187)	(261)
Upper limit	9.69%	187	270
Cash			
Lower limit	6.19%	(2 467)	(343)
Upper limit	7.69%	2 467	343
Equity price risk			
Lower limit	10.44%	(1 451)	(5 213)
Upper limit	14.44%	1 451	5 213

Notes to the consolidated annual financial statements

for the year ended 30 June

42 Reclassification of prior year numbers

Statement of comprehensive income 30 June 2010

N$'000	Amount as previously reported	Amount as reclassified	Reclassi-fications	Explanation
Interest and similar income	1 438 074	1 387 482	50 592	Momentum Namibia reclassified as a discontinued operation in terms of IFRS 5.
Interest expense and similar charges	(629 850)	(629 850)		
Net interest income before impairment of advances	808 224	757 632	50 592	
Impairment losses of advances	(12 960)	(12 960)		
Net interest income after impairment of advances	795 264	744 672	50 592	
Non interest income	644 414	574 310	70 104	
Net insurance premium income	225 100	56 226	168 874	
Net claims and benefits paid	(142 717)	(38 302)	(104 415)	
Fair value adjustment to financial liabilities	(2 307)	(2 307)		
(Increase) / decrease in value of policyholder liabilities: insurance contracts	(38 040)		(38 040)	
Fair value adjustment of policyholder liabilities: investment contracts	2 525		2 525	
Income from operations	1 484 239	1 334 599	149 640	
Operating expenses	(803 084)	(718 703)	(84 381)	
Net income from operations	681 155	615 896	65 259	
Share of profit from associates	5 189	5 189		
Income before tax	686 344	621 085	65 259	
Indirect tax	(19 600)	(16 048)	(3 552)	
Profit before tax	666 744	605 037	61 707	
Direct tax	(207 849)	(201 910)	(5 939)	
Profit for the year from continuing operations	458 895	403 127	55 768	
Discontinued operations				
Profit attributable to discontinued operations		55 768	(55 768)	Reclassification had no impact on profit for the year
Profit for the year	458 895	458 895	(0)	

Statement of cash flows

As a consequence of the above reclassifications, the statement of cash flows has been accordingly restated.

COMPANY FINANCIAL STATEMENTS

FNB Namibia Holdings Limited

Company statement of comprehensive income for the year ended 30 June

N$'000	Note	2011	2010
Interest and similar income	2	916	298
Interest expense and similar charges	2		(367)
Net interest expense		916	(69)
Non interest income			
- gains less losses from investing activities	3	653 856	165 128
Income from operations		654 772	165 059
Operating expenses	4	(1 181)	(2 230)
Income before tax		653 591	162 829
Indirect tax	5	(9)	(239)
Profit before tax		653 582	162 590
Direct tax	5	(324)	1 235
Total comprehensive income for the year		653 258	163 825
Attributable to:			
Equity holders of the company		653 258	163 825

Company statement of financial position as at 30 June

N$'000	Note	2011	2010
Assets			
Accounts receivable		2 103	4 682
Loan to group company	7	4 771	3 627
Investment securities	8	9 153	1 257
Investments in associates	9	17 965	17 965
Investments in subsidiaries	10	1 157 532	1 236 808
Non current asset held for sale	10	79 276	
Total assets		1 270 800	1 264 339
Equity and liabilities			
Liabilities			
Tax liability		33	101
Creditors and accruals		889	42
Total liabilities		922	143
Equity			
Ordinary shares	11	1 338	1 338
Share premium	11	280 810	280 810
Reserves		987 730	982 048
Capital and reserves attributable to ordinary equity holders		1 269 878	1 264 196
Total equity and liabilities		1 270 800	1 264 339

FNB Namibia Holdings Limited

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

N$'000	Share capital	Share premium	Share-based payment reserve	Retained earnings	Total ordinary shareholders' funds
Balance at 1 July 2009	1 338	280 810	5 370	969 534	1 257 052
Total comprehensive income for the year				163 825	163 825
BEE consortium share option costs			1 199		1 199
Ordinary dividends				(157 880)	(157 880)
Balance at 30 June 2010	1 338	280 810	6 569	975 479	1 264 196
Total comprehensive income for the year				653 258	653 258
Transfer of vested equity options			(6 569)	6 569	
Ordinary dividends				(647 576)	(647 576)
Balance at 30 June 2011	1 338	280 810		987 730	1 269 878

FNB Namibia Holdings Limited
Company statement of cash flows for the year ended 30 June

N$'000	Note	2011	2010
Cash flows from operating activities			
Cash generated from operations*		653 466	109 294
Working capital changes			
- Increase/decrease in accounts receivable		2 579	(2 492)
- Increase/decrease in accounts payable		847	(2 106)
Net cash generated from operations		656 892	104 696
Indirect tax paid	5	(9)	(239)
Tax (paid) / refund**		(392)	1 615
Net cash flow from operating activities		656 491	106 072
Cash flows from investing activities			
Net increase in loans to group company		(1 144)	(21 157)
Purchase of investment securities		(7 771)	(1 100)
Proceeds on sale of shares in subsidiary			76 339
Increase in investment in associate	9		2 274
Net cash flow from investing activities		(8 915)	51 808
Cash flows from financing activities			
Dividends paid		(647 576)	(157 880)
Net cash flow from financing activities		(647 576)	(157 880)
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year			
Cash and cash equivalents at the end of the year			
*** Reconciliation of income before tax to cash generated by operations**			
Income before tax		653 591	162 829
Adjusted for:			
- Revaluation of investment securities		(125)	(157)
- Profit on sale of shares in subsidiary			(54 577)
- Share-based payment cost			1 199
		653 466	109 294
****Tax paid**			
Amounts payable/ (receivable) at beginning of the year		(101)	279
Current tax per comprehensive income		(324)	1 235
Amounts payable at end of the year		33	101
Total tax paid / (refund)		(392)	1 615

FNB Namibia Holdings Limited
Notes to the company annual financial statements for the year ended 30 June

N$'000	2011	2010
1 Accounting policies		
The financial statements of FNB Namibia Holdings Limited are prepared according to the same accounting principles used in preparing the consolidated financial statements of FNB Namibia group. For detailed accounting policies refer to pages 44 to 65 of this annual report.		
2 Analysis of interest income and expenses	Amortised cost	
Interest received: loan account with group company	916	298
Interest paid: loan account with group company		(367)
3 Non interest income		
Gains less losses from investing activities		
- Dividends received		
- Subsidiaries	651 110	106 739
- Associates	1 850	3 477
- Unit trust investments	771	178
- Revaluation of investment securities through profit or loss	125	157
- Net profit realised on sale of interest in subsidiary		54 577
The company sold an additional 14% interest in Momentum Life Assurance Namibia Limited to Momentum Group Limited on 30 September 2009. The company's shareholding reduced to 51%.		
Gross gains less losses from investing activities	653 856	165 128
4 Operating expenses		
Auditors' remuneration		
- Audit fees	949	914
Professional fees		111
BEE consortium share option expenses		1 199
Other operating costs		
- Other operating expenses	232	6
Total operating expenses	1 181	2 230

FNB Namibia Holdings Limited

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

N$'000	2011	2010
5 Tax		
Indirect Tax		
Value added tax	9	239
Total indirect tax	9	239
Direct Tax		
Namibian normal tax		
- Current year	(324)	(101)
- Prior year		1 336
	(324)	1 235

The company provided for tax at 34% (2010: 34%) of the taxable income (interest income). The effective tax rate is 0.05% (2010: -1%). During 2010, Inland Revenue finalised the tax assessments for the period 2001, 2002, 2003 and 2007, as objected by the company. The final tax outcome being a refund in the 2010 period.

N$'000	2011	2010
6 Dividends		
A final dividend (dividend no. 30) of 28 cents per share was declared on 19 August 2009 in respect of the six months ended 30 June 2009 and paid on 28 October 2009.		74 926
An interim dividend (dividend no. 31) of 31 cents per share was declared on 3 February 2010 for the six months ended 31 December 2009 and paid on 8 April 2010.		82 954
A final dividend (dividend no. 32) of 36 cents per share was declared on 17 August 2010 in respect of the six months ended 30 June 2010 and paid on 28 October 2010.	96 334	
An interim dividend (dividend no. 33) of 36 cents per share was declared on 2 February 2011 for the six months ended 31 December 2010 and paid on 8 April 2011.	96 334	
A special dividend (dividend no.34) of 170.0 cents per share was declared on 4 April 2011 and paid on 27 May 2011	454 908	
	647 576	157 880

Final dividend of 41 cents (2010: 36 cents) per share was declared subsequent to year-end.

N$'000	2011	2010

7 Loan to / (from) group company

Balances with Talas Properties (Windhoek) (Pty) Ltd

	2011	2010
Balance at 1 July	3 627	(17 530)
Repaid / received during the year	1 144	21 157
Balance at 30 June	4 771	3 627

Refer to note 2 for on the interest received and paid

8 Investment securities

	2011	2010
Listed		
Equities	1 382	1 257
Unlisted		
Unit trust investments	7 771	
Total	9 153	1 257

8.1 Fair value hierarchy disclosure

The company shows an investment in equities and this is measured at fair value and analysed below by valuation technique. The classification of instruments is based on the lowest level input that is significant to fair value measurement in its entirety. A description of the nature of the techniques used to calculate valuations and definitions of Levels is set out in note 37 of the group financial statements.

	Level 1	Level 2	Level 3	2011 Total
Financial assets designated at fair value through profit or loss				
Investment securities	1 382	7 771		9 153

	Level 1	Level 2	Level 3	2010 Total
Financial assets designated at fair value through profit or loss				
Investment securities	1 257			1 257

9 Investments in associates

	2011	2010
Unlisted investments		
Carrying value at beginning of the year	17 965	15 691
The company made an additional contribution to maintain its 40% interest in FNBIBN, during the prior year.		2 274
Carrying value at end of the year	17 965	17 965
The list of associates are:		
Avril Payment Solutions (Pty) Ltd	263	263
FNB Insurance Brokers (Namibia) (Pty) Ltd	17 702	17 702

Refer to note 16 in the group financial statements for full details of associates.
Refer to note 36 in the group financial statements for full related party transactions and balances.

FNB Namibia Holdings Limited

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

N$'000	2011	2010
10 Investments in subsidiaries		
Unlisted investments		
Carrying value at beginning of the year	1 236 808	1 258 570
Decrease in investment in Momentum Life Assurance Namibia Limited		(21 762)
Investment in Momentum Life Assurance Namibia Limited classified as non current held for sale	(79 276)	
Carrying value at end of the year	1 157 532	1 236 808
The list of subsidiaries are:		
First National Bank of Namibia Ltd	1 142 792	1 142 792
Swabou Investments (Pty) Ltd		
First National Asset Management and Trust Company (Pty) Ltd		
Talas Properties (Windhoek) (Pty) Ltd	2 967	2 967
Momentum Life Assurance Namibia Limited**		79 276
OUTsurance Insurance Company of Namibia Ltd	6 298	6 298
FNB Namibia Unit Trust Ltd	5 475	5 475
	1 157 532	1 236 808
**Momentum Life Assurance Namibia Limited is classified as non current asset held for sale.	79 276	

The following share trusts are controlled by FNB Namibia Holdings Limited:
FNB Namibia incentive share trust
FNB Namibia staff assistance trust

The carrying amount of these investment is N$ nil.

Refer to note 21 in the group financial statements for full details of non current asset held for sale.

Refer to note 36.6 in the group financial statements for full details of investment in subsidiaries.

Refer to note 36.3 in the group financial statements for full related party transactions and balances.

N$'000	2011	2010
11 Share capital		
Authorised		
990 000 000 (2010: 990 000 000) ordinary shares with a par value of 0.5 cents per share	4 950	4 950
10 000 000 (2010: 10 000 000) cumulative convertible redeemable preference shares with a par value of 0.5 cents per share	50	50
	5 000	5 000
Issued		
267 593 250 (2010: 267 593 250) ordinary shares with a par value of 0.5 cents per share 2 (2010: 2) cumulative convertible redeemable preference shares with a par value of 0.5 cents per share	1 338	1 338
	1 338	1 338
Share premium	280 810	280 810

Term of preference shares: redeemable at 31 days notice by either party. The dividend rights in terms of the agreement with the shareholder are based on the actual profits made, per agreed adjustments, of a portion of the short term insurance business.

The unissued ordinary and preference shares are under the control of the directors until the next annual general meeting.

All issued shares are fully paid up.

12 Liquidity, credit and market risk information

The assets and liabilities of the company consist mainly of non-financial assets and liabilities which are not subject to liquidity, credit and market risk for IFRS 7 purposes.

Accounts receivable and creditors and accruals are repayable on demand or short notice and within Namibia.

13 Related party transactions

During the year and the prior year, the company entered into transactions with its subsidiaries, disclosed in detail in the relevant notes of the company financial statements.

Refer to note 36 in the group financial statements for full related party transactions and balances.

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.

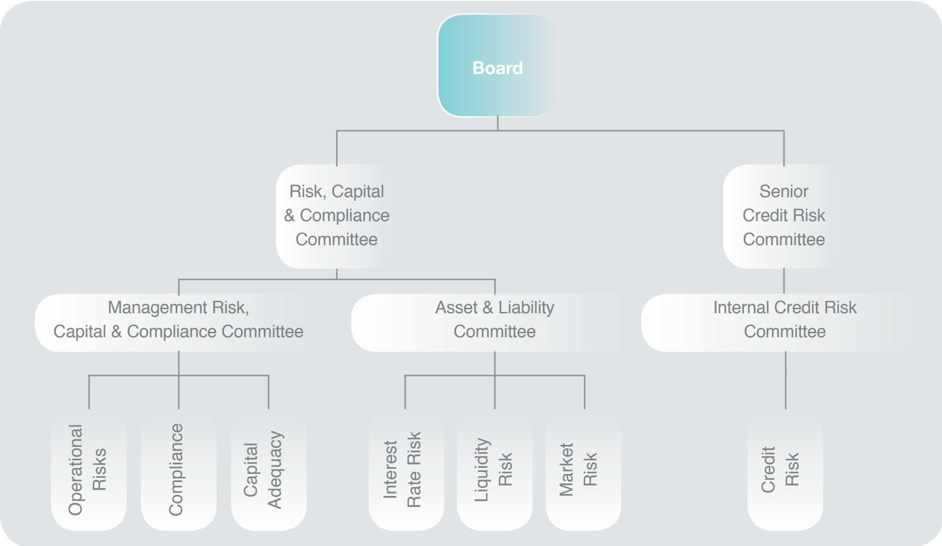
Risk governance

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.

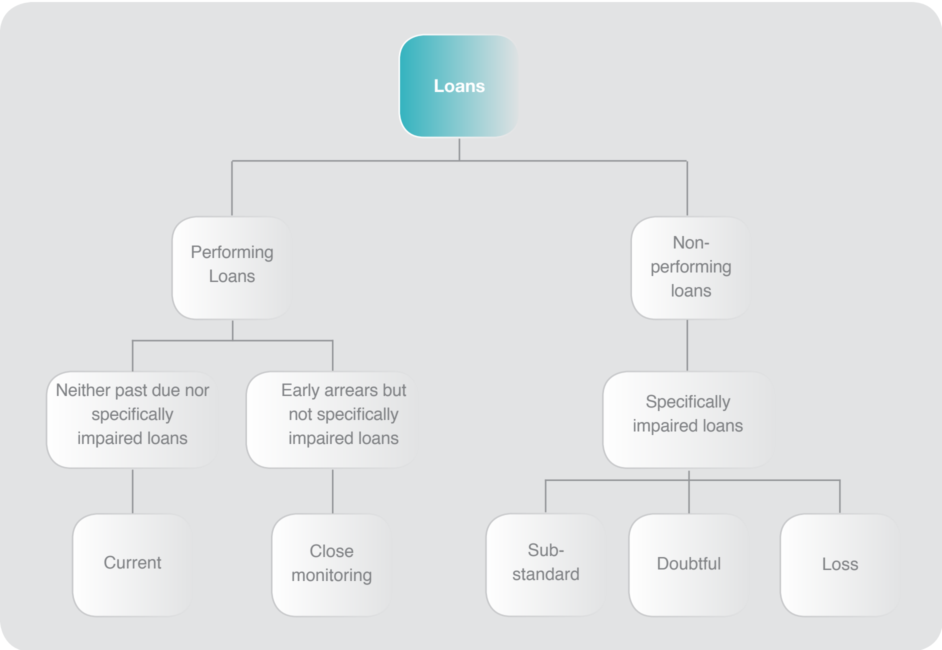
Specific impairments are evaluated on a case-by-case basis for all non-performing exposures. In determining specific impairments, the following factors are considered:

- 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

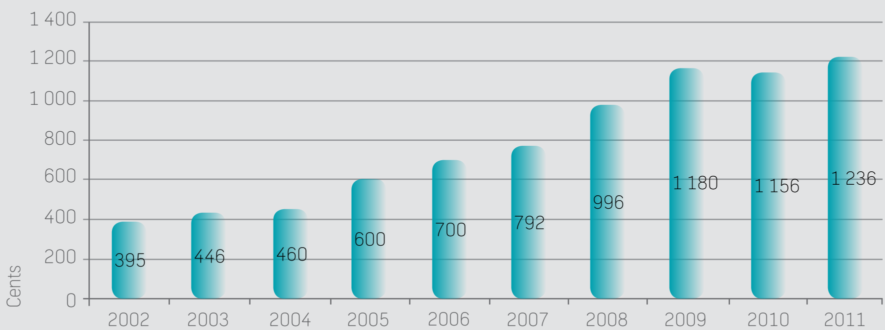
Shareholders' diary

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

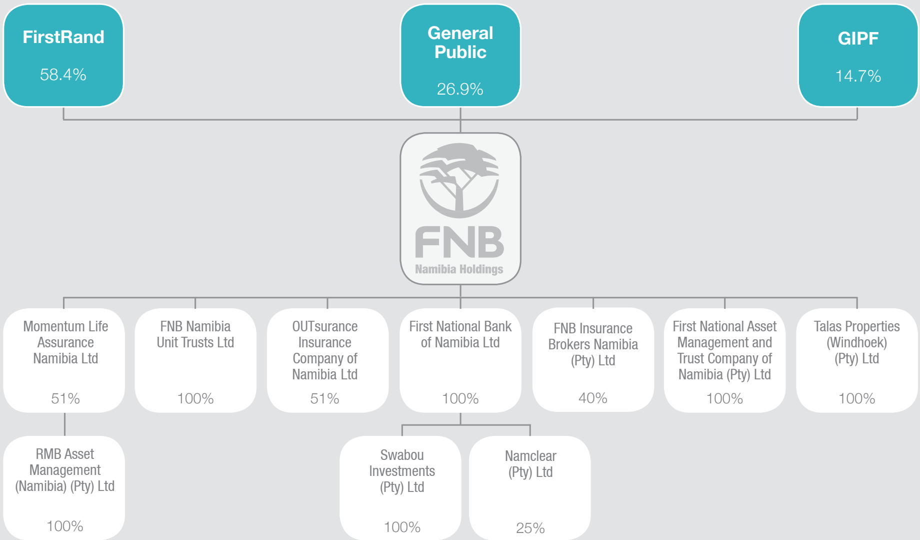
Stock exchange performance

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")