Principal 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's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies are consistent in all material aspects with those adopted in the previous year, except for the adoption of:

– IFRS 7 Financial Instruments: Disclosures amended in October 2010 to include additional disclosure requirements 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 addresses disclosure in the annual financial statements and does not impact the recognition and measurement of financial assets.

– IAS 24 Related Party Disclosures was amended to remove certain 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 does not affect recognition and measurement.

– 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 2010 is effective for annual periods commencing on or after 1 January 2011. The group has adopted the amendments made as part of the annual improvement project for 2010 during the current financial year, with the exception of the improvements made to IFRS 3 and IAS 27, which were effective for annual periods commencing on or after 1 July 2010. These amendments do not have a significant impact on the group's results nor has it resulted in the restatement of prior year numbers.

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 policy 3.3) and the acquisition date fair value of any previous equity interest in the subsidiary over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in 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 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 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 favour 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.

3.5 Acquisitions of subsidiaries under common control

Common control is defined as a business combination in which all of the combining entities (subsidiaries) are ultimately controlled by the same party both before and after the business combination, and control is not transitory.

The cost of an acquisition of a subsidiary under common control is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Any costs directly attributable to the acquisition are written off against reserves. On acquisition the carrying values of assets and liabilities are not restated to fair value. The acquirer incorporates assets and liabilities at their pre-combination carrying amounts. Any excess/deficit of the purchase price over the pre-combination recorded ultimate holding company's net asset value of the subsidiary is adjusted directly to equity. Any differences to values of the subsidiary's underlying assets and liabilities compared to those presented by the ultimate holding company and adjustments to achieve harmonisation of accounting policies will be adjusted on consolidation. Under this approach comparatives are not restated.

The principles of when control arises are the same as those for interests in subsidiaries where purchase price accounting is applied.

4. Interest income and interest expense

The group recognises interest income and interest expense in profit and loss 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.

Fees and transaction costs that do not form an integral part of the effective interest rate are recognised as income when the outcome of the transaction involving the rendering of services can be reliably estimated. Fees related to services rendered are recognised as fee and commission income on an accrual basis when the service is rendered, for example banking fee and commission income and asset management and related fees The group recognises fees that are earned on the execution of a significant act, for example knowledge-based fee and commission income and non-banking fee and commission income when the significant act has been completed.

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. Fee and commission expenses

Fee and commission expenses are expenses that are incremental or directly attributable to the generation of fee and commission income. Fee and commission expenses include transaction and service fees, which are expensed as the services are received. Fee and commission expenses that form an integral part of the effective interest rate of a financial instrument are recognised as part of net interest income.

8. Dividend income

The group recognises dividends when the group's right to receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares, except to the extent that the scrip dividend is viewed as a bonus issue, with no cash alternative and the transaction lacks economic significance.

9. Foreign currency translation

9.1 Functional and presentation currency

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

9.2 Transactions and balances

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

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit and loss, 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 profit and loss when incurred.

Principal accounting policies
continued

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

10. Borrowing costs

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

11. Direct and indirect taxes

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

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

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

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

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

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

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

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

12. Recognition of assets

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

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

13. Liabilities, provisions and contingent liabilities

13.1 Liabilities and provisions
The group recognises liabilities, including provisions, when:

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

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

13.2 Contingent liabilities
The group discloses a contingent liability when:

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

14. Acceptances

Acceptances comprise undertakings by the group to pay bills of exchange drawn on customers. The group discloses acceptances as a contingent liability.

15. 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.

16. Financial instruments

16.1 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, assets and liabilities of insurance operations, deferred tax, tax payable, intangible assets, inventory and post retirement liabilities. The group recognises a financial asset or a financial liability in its statement of financial position when it becomes a party to the contractual provisions 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. Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique, the variables of which include only data from observable markets, the group defers such differences (day-one gains or losses). Day-one gains or losses are amortised on a straight-line basis over the life of the financial instrument. To the extent that the inputs determining the fair value of the instrument become observable, or on derecognition of the instrument, day-one gains or losses are recognised immediately in profit or loss.

Available-for-sale financial assets and financial instruments at fair value through profit or loss are subsequently measured at fair value. Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment. 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 other comprehensive income is recognised profit or loss as gains less losses from investment activities. However, interest calculated on available- for-sale financial assets using the effective interest method is recognised in profit or loss as part of interest income. Dividends on available-for-sale equity instruments are recognised in profit or loss 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.

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, the group 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.

16.2 Financial instruments at fair value through profit or loss
This category has two subcategories: financial instruments held for trading and those designated at fair value through profit or loss on initial recognition.

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:

- 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
- 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
- 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 various advances to customers, structured notes and other investments that form part of the investment banking division. These financial instruments have been designated to eliminate the accounting mismatch between these assets and the underlying derivatives and funding instruments. If the assets were not designated at fair value through profit or loss, the mismatch would be as a result of the assets being recognised at amortised cost and the derivatives and funding instruments being recognised at fair value.

Financial instruments designated under criteria (ii), include certain private equity and other investment securities.

The current and cumulative change in the fair value of designated loans and receivables and designated financial liabilities that is attributable to changes in credit risk, is determined as the 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.

Gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in profit or loss in the period in which they arise.

16.3 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 group upon initial recognition designates as at fair value through profit or loss;
- those that the 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.

16.4 Held-to-maturity investments

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 measures held-to-maturity investments at amortised cost using the effective interest method, less any impairment.

16.5 Available-for-sale financial assets

Available-for-sale financial assets are non derivative financial assets that are intended to be held for an indefinite period of time and 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 financial assets in other comprehensive income. It recognises interest income on these assets as part of interest income, based on the instrument's original effective interest rate using the effective interest method. Interest income is excluded from the fair value gains and losses reported in other comprehensive income. When the available-for-sale financial assets are disposed of or impaired, the related accumulated fair value adjustments are included in profit or loss as gains less losses from investment activities. Dividends on available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established and are included in investment income.

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.

16.6 Financial liabilities

Financial liabilities are measured at amortised cost, except for certain liabilities that are designated as at fair value through profit or loss. Interest paid is recognised in profit or loss over the period of the borrowing using the effective interest method. Discounts or premiums on financial liabilities carried at amortised cost are amortised on a basis that reflects the effective interest rate on the debentures over their life span.

The group classifies a financial instrument that it issues as a financial liability, or an equity instrument in accordance with the substance of the contractual agreement. If a financial instrument includes a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms, such as redeemable preference shares the financial instrument is classified as a financial liability. An instrument is classified as equity if it evidences a residual interest in the assets of the group after the deduction of liabilities.
Instruments with characteristics of debt, such as redeemable preference shares, are included in financial liabilities. Dividends paid on such instruments are included in interest expense.

16.7 Offsetting financial instruments

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

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

16.8 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;
- they meet the definition of a derivative; and
- the host contract is not carried at fair value, with gains and losses reported in profit or loss.

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

16.9 Derecognition

The group derecognises a financial asset when:

- the contractual rights to the asset expire; or
- where there is a transfer of the contractual rights to receive the cash flows of the financial asset and substantially all of the risks and rewards related to the ownership of the financial asset are transferred; or
- the group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and rewards 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 recognises 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 expired. 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.

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.

16.10 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 held under repurchase agreements. These financial liabilities are either carried at fair value or amortised cost.

Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances relating the repurchase transactions and recognised in line with the requirements of IAS 39 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. Securities lent to counterparties are retained in the consolidated financial statements of the group.

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 fair value income. The obligation to return these securities is recorded as a liability at fair value.

17. Impairment of financial assets

17.1 General

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

17.2 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.

Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the group about the following events:

- significant financial difficulty of the issuer or counterparty;
- a breach of contract, such as a default or delinquency in payments of principal or interest;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties or adverse changes in the market, economic or legal environment in which the entity operates; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be allocated to the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

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 profit and loss. 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 profit and loss.

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 profit and loss.

17.2.1 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.

17.2.2 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.

17.3 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 profit and loss. 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 profit and loss, the impairment loss is reversed through profit and loss.

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

In the case of a debt instrument classified as available-for-sale, the same objective evidence of impairment as for financial assets measured at amortised cost is considered in determining if an impairment exists. The difference between the acquisition cost and the current fair value less any previous impairment losses recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss. 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 profit or loss, the impairment loss is reversed through profit or loss.

18. 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 profit and loss, unless it is a designated and effective hedging instrument.

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

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

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

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

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

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

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

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

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

18.1 Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps are reflected in interest income or interest expense. Effective changes in fair value of currency futures are reflected in non interest income. The gains or losses relating to the ineffective portion is recorded as fair value income in non interest income.

If the hedge of an instrument carried at amortised cost no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of the hedged item is amortised to profit or loss based on a recalculated effective interest rate over the residual period to maturity, unless the hedge item has been derecognised, in which case it is released to profit or loss immediately. The adjustment of the carrying amount of a hedged equity instrument remains in retained earnings until disposal of the equity instrument.

18.2 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 cash flow hedge reserve in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately as part of fair value income in non interest income in profit or loss.

Amounts accumulated in other comprehensive income are reclassified to profit or loss in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place) and are recognised as part of non interest income.

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 recognised in the cash flow hedge reserve at that time remains in other comprehensive income and is recognised when the forecast transaction is recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to profit or loss.

Where the forecast transaction or a foreign currency firm commitment results in the recognition of a non financial asset or a liability, the gains or losses previously deferred in other comprehensive income are transferred from other comprehensive income 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 other comprehensive income to profit or loss and classifies them as revenue or expense in the periods during which the hedged firm commitment or forecast transaction affects profit or loss.

19. 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 profit and loss 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 profit and loss on disposal.

20. 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.

If this information is not available the group uses valuation methods such as discounted cash flow projections, recent prices on less active markets, or current offers to purchase the particular property.

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.

21. Leases

21.1 A group company is the lessee

21.1.1 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 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.

21.1.2 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 profit and loss 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.

21.2 A group company is the lessor

21.2.1 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.

21.2.2 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.

21.3 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.

22. Intangible assets

22.1 Goodwill

Goodwill represents the excess of the consideration transferred, the fair value of the previous equity interests held and the non-controlling interest of an acquisition over the attributable fair value of the group's share of the fair value of the identifiable net assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on the acquisition of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in the carrying amount of the investment.

Goodwill is tested annually for impairment, or more frequently if an impairment indicator exists at the reporting date 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 component 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 an operating segment. The recoverable amount of a cash generating unit is the higher of fair value less costs to sell and value in use.

22.2 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 profit and loss when incurred.

22.3 Other intangible assets

The group expenses the costs incurred on internally generated intangible assets such as trademarks, patents and similar rights and assets, in profit or loss in the period in which the costs are incurred. The costs incurred on the development of separately identifiable internally generated intangible assets, are capitalised by the group if:

- the group is able to demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- it is the group's intention to complete the intangible asset and use or sell it;
- the group will be able to use or sell the intangible asset;
- it is probable that the intangible asset will generate future economic benefits;
- adequate technical, financial and other resources are available to complete the development and to use or
- sell the intangible asset; and
- the expenditure attributable to the intangible asset can be reliably measured.

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 impairment. It amortises these assets at a rate applicable to the expected useful life of the asset. 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. The recoverable amount is the higher of fair value less cost to sell and value in use. Any impairment is recognised in profit or loss when incurred. Amortisation and impairments of intangible assets are reflected under operating expenses in profit or loss.

22.4 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.

22.5 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.

23. Employee benefits

23.1 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 plans are generally funded by payments from employees and the relevant group companies, taking account of the recommendations of independent qualified actuaries. For defined benefit plans 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 plans 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 or in the absence of a deep and liquid corporate bond market, the yield on government 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.

These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all group employees.

For defined contribution plans, 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.

23.2 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 assets and 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 plans.

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.

23.3 Termination benefits
The group recognises termination benefits as a liability in the statement of financial position and as an expense in profit or loss 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 the possibility of withdrawal or providing termination benefits as a result of an offer to encourage voluntary redundancy.

23.4 Severance pay
The group recognises severance pay as a liability in the statement of financial position and as an expense in profit and loss. 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.

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

23.6 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.

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

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

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

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

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

24. 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 profit and loss 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.

25. Share capital

25.1 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.

25.2 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.

25.3 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.

26. 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.

27. 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.

28. 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.

28.1 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 profit or loss, with a corresponding adjustment to the share based payment reserve.

Principal accounting policies
continued

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.

28.2 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.

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 profit and loss.

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

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

29. 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.

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.

30. Insurance

30.1 Classification of contracts
An insurance contact is a contract that transfers significant insurance risk to the group. Significant insurance risk exists when it is expected that the present value of the benefits payable in terms of the policy on the occurrence of an insured event will materially differ from the amount 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.

Contracts that transfer only financial risk and not insurance risk are classified as financial instruments. Financial risk refers to the risk of a possible change in the value of a financial instrument due to a change in interest rates, commodity prices, an index of prices, foreign exchange or other measureable variable.

The classification of contracts is performed at the initial recognition of each contract. The classification of the contract at initial recognition 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.

The group consolidates cell captives when the substance of the arrangement is such that the group controls the cell captive. Through its subsidiaries and controlled cell captives the group issues insurance contracts that are classified into two main categories, long and short term insurance contracts, based on the duration of the risk.

Long term insurance contracts

30.2 Long term insurance contracts
The following type of contracts issued by the group are classified as long term insurance contracts:

- Insurance policies providing lump sum benefits on death or disability of the policyholder;
- Policies that provide for retrenchment or funeral cover.

Liabilities under insurance 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. Of particular relevance to the liabilities are the following PGNs:

- PGN 104 (January 2005): Life Offices – Valuation of Long Term Insurers;
- 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.

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

30.3 Valuation
Policy holder liabilities under long term insurance contracts are valued in terms of the financial soundness valuation ("FSV") method as described in PGN 104, issued by the Actuarial Society of South Africa. The FSV method measures the liability at the amount of the best estimate of the future cash flows relating to the insurance contracts plus certain compulsory and discretionary margins. This methodology is applied to each product type depending on the nature of the contract and the associated risks.

The best estimate of future cash flows takes 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 policy book. Differences between the assumptions used at the start and end of the period give rise to revised liability quantification.

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 the initial recognition 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 as the group is released from risk, any differences between the best estimate valuation assumptions and actual experience over each accounting period also gives rise to profits and losses. These profits and losses emerge over the lifetime of the policy contract. The change in liabilities resulting from changes in the long term valuation assumptions is another source of profit or loss.

30.4 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 premiums are not capitalised prematurely so that profits are recognised in line with the 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 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; and
- An additional data reserve is held to protect against possible future losses due to data discrepancies.

30.5 Premium recognition
Premiums receivable from insurance contracts are recognised in profit or loss gross of commission and reinsurance premiums but net of taxes and levies.

Premium received in advance is included in creditors and accruals.

30.6 Recognition of claims and benefits
Insurance benefits and claims incurred under insurance contracts include death, disability, maturity and surrender payments and are recognised in profit or loss gross of any related reinsurance recoveries. Death, disability and surrender claims are recognised when notified. Maturity and annuity claims are recognised when they are due for payment in terms of the contract. The estimate of the expected settlement value of claims that are notified but not paid before the reporting date is included in creditors and accruals.

Principal accounting policies
continued

30.7 Liability adequacy test for business with prospective liabilities
Where the liability is calculated based on the present value of the future cash flows the valuation method projects future income and discounts it back to the valuation date to arrive at the liability. The methodology ensures that the liability will by definition be adequate and no additional liability adequacy test is required.

30.8 Liability adequacy test for business with retrospective liabilities
For liabilities measured retrospectively a liability adequacy test is performed in order to verify that the liability is sufficient to cover future claims and servicing expenses after the expected future income over the remaining contractual lifetime.

30.9 Acquisition costs
Acquisition costs for insurance contracts and investment contracts with DPF include all commission and expenses directly related to acquiring new business. The FSV methodology implicitly creates a deferred acquisition cost asset by reducing the liabilities to the extent of margins included in the premium that are intended to recover acquisition costs. Therefore no explicit deferred acquisition cost asset is recognised in the statement of financial position for contracts valued on this basis.

Short term insurance contracts

30.10 Insurance premium revenue
Gross premiums written comprise the premiums on contracts entered into during the year. Premiums are shown excluding any taxes and levies on the premium. Premiums are shown before the deduction of commission.
Premium revenue relates only to the earned portion of premiums and includes all premiums for the period of risk covered by the policy, regardless of whether or not these are due for payment in the accounting period.

30.11 Policyholder liabilities
Policyholder liabilities comprise a provision for claims reported but not paid, provision for claims incurred but not reported ("IBNR") and a provision for unearned premiums.

Policyholder liabilities are measured at the best estimate of the ultimate cost of settling all claims incurred, but unpaid at the reporting date, whether reported or not, and related internal and external claims handling expenses. The liability for outstanding claims is calculated by reviewing individual claims and making allowance for claims incurred but not yet reported, the IBNR provision, and the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. The company does not discount its liability for unpaid claims.

Adjustments to the amounts of policyholder liabilities established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used are reviewed annually.

Claims incurred include claims handling expenses paid during the financial year together with the estimated liability for compensation owed to policyholders or third parties affected by the policyholders. Claims handling expenses include, amongst others, fees incurred for legal expenses, loss adjusters and administration fees

The provision for unearned premiums comprises the proportion of gross premiums written which are estimated to be earned in the following or subsequent financial year. This is computed separately for each insurance contract using the method most reflective of any variation in the incidence of risk during the period covered by the contract

30.12 Liability adequacy test
The net liability recognised for insurance contracts is tested for adequacy by calculating current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability. Where a shortfall is identified, an additional liability and the related expense is recognised.

30.13 Contingency reserve
A reserve is created in respect of the group's short term insurance contracts as required by the regulatory authorities. The contingency reserve is calculated as 10% of the net written premiums in terms of the Short Term Insurance Act, 1998.

30.14 Reinsurance contracts held
The group seeks reinsurance in the ordinary course of business for the purpose of limiting its net loss potential through the diversification of its risks on both long and short term insurance contracts. Reinsurance arrangements do not relieve the company from its direct obligations to its policyholders.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

Reinsurance premiums are recognised as an expense in profit or loss when they become due for payment at the undiscounted amounts due in terms of the contract.

Reinsurance recoveries are recognised in profit or loss in the same period as the related claim at the undiscounted amount receivable in terms of the contract.

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

The benefits to which the group is entitled under its reinsurance contracts are recognised as assets. These assets consist of short term balances due from reinsurers on settled claims (included in accounts receivable) as well as receivables that are dependent on the expected claims and benefits arising under the related insurance contracts (classified as reinsurance assets).

Reinsurance assets are assessed for impairment if there is objective evidence, as a result of an event that occurred after its initial recognition, that the company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. Any difference between the carrying amount of the reinsurance asset and the recoverable amount is recognised as an impairment loss in profit or loss. The same indicators that are considered when assessing whether a financial asset measured at amortised cost is impaired are considered when assessing whether there is objective evidence of impairment of reinsurance assets.

Reinsurance liabilities comprise premiums payable for reinsurance contracts and are recognised as an expense when they fall due in terms of the contract. Reinsurance liabilities are included in creditors and accruals.

30.15 Receivables and payables related to long and short term insurance contracts and investment contracts
Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and policyholders. Receivables are included in the accounts receivable balance on the statement of financial position while payables are included in the creditors and accruals balance.

If there is objective evidence that an amount receivable under an insurance contract is impaired then the group reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in profit or loss. The same indicators that are considered when assessing whether a financial asset measured at amortised cost is impaired are considered when assessing whether there is objective evidence of impairment of receivables related to insurance.

31. Reclassification of prior year numbers

During the financial year some reclassifications were made to the statement of comprehensive income and statement of financial position. Refer to note 42 for the effect of the reclassifications on prior year.

CJ Hinrichsen (Chair)

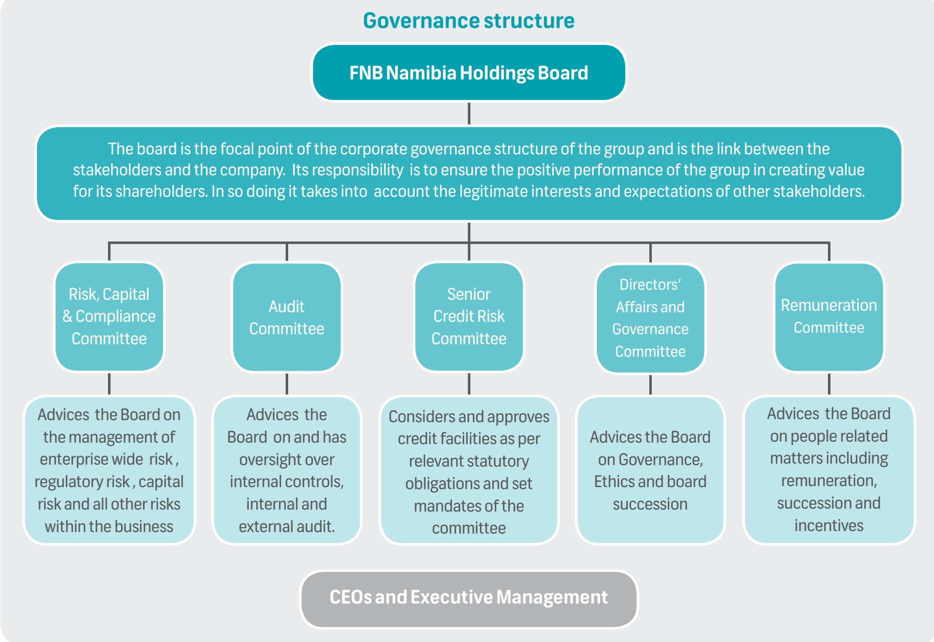
Statement by the chairman of the board

The board remained a source of strength and leadership during 2012 with the adoption of a renewed vision of remaining the preferred financial services provider. We focussed on the review of our governance framework including the various board charters.

Corporate governance in the group

The board of directors provides overall oversight and direction in the governance of the group with the aim of promoting greater corporate accountability, transparency, increase in stakeholder confidence and the achievement sustainable growth. The board of directors subscribes to these principles and ensures that they are incorporated 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 the board of directors ensures implementation across the group. This is 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 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 Namibian code once adopted. Refer to the table below.

The directors are satisfied that the way in which the group is directed and controlled, complies with the King III Code in all material respects.

Tools we use to apply good governance within the group:

- Formalised charters and mandates of accountability;
- Performance reviews against set objectives and mandates at individual, board or committee level; and
- Group-wide ethical leadership, management and people management policies and processes.

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 familiarise themselves with this code and to adhere to it. The Code of Ethics is additionally regarded as a strategic business imperative and a source of competitive advantage. The principles set in the Code of ethics are underpinned and re-confirmed in the values of respect, innovation, integrity, passion and accountability adopted for the group.

Role of the board of directors

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 and executive management committee.

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 enough 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 judgment and character.

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

Mr. JK Macaskill and Mr. JR Khethe are deemed not independent due to their various roles with FirstRand EMA Holdings Ltd, the ultimate majority shareholder of the company.

The interest of directors in equity of the company and contracts are detailed in note 36 of the report. Mr. Ndilula and Mr. Haikali are representatives of the BEE consortia and hold indirect shareholding in the company.

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 on an annual basis.

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

Nomination and succession

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 is included on pages 6 to 7 of this annual report. The reappointment of non-executive directors is not automatic and is subject to performance and eligibility.

The re-appointment of the following directors, who retire in terms of the articles of the company, would be discussed at the annual general meeting of the company:

- Mr. CJ Hinrichsen
- Mr. JK Macaskill
- Mr. CLR Haikali

Board and committee meetings and attendance

The board and committees meet at least on a quarterly basis, with additional meetings convened as and when necessary.

	Board					Audit Committee					Risk, Capital and Compliance Committee				Directors Affairs and Governance Committee			Remuneration Committee	
Name of Director	**Jul**	**Aug**	**Nov**	**Feb**	**May**	**Jul**	**Aug**	**Oct**	**Feb**	**Apr**	**Jul**	**Oct**	**Feb**	**Apr**	**Jul**	**Apr**	**May**	**Jul**	**Apr**
CJ Hinrichsen (chair) I NED	√	√	√	√	√	NM	NM	NM	At	At	NM	NM	At	NM	√	√	√	√	√
VR Rukoro (CEO) Executive	√	√	√	√	√	At	At	NM	At	NM	At	NM	At	NM	NM	NM	NM	At	At
CLR Haikali I NED	√	√	√	√	√	NM	NM	NM	NM	NM	NM	NM	NM	NM	√	√	√	√	√
JR Khethe NED	√	√	A	A	√	NM	NM	NM	NM	NM	NM	NM	NM	NM	A	√	√	NM	NM
JK Macaskill NED	√	√	√	A	√	√	√	A	A	√	√	A	A	√	At	At	At	√	√
SH Moir I NED	√	√	√	√	√	√	√	√	√	√	√	√	√	√	NM	NM	NM	√	√
MN Ndilula I NED	√	√	√	√	√	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
PT Nevonga I NED	√	√	√	√	√	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
II Zaamwani-Kamwi (Ms) I NED	A	√	√	√	√	√	√	√	√	A	√	√	√	√	NM	NM	NM	A	√

√ = attended
A = apologies
At = attended ex-officio
NM = not a member

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 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 formalised sessions, including induction that takes into account the performance evaluation of the individual directors and the board as a whole. Directors undergo a formalised induction 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, ICAAP, 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 charters. 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 two major subsidiaries. These are:

- First National Bank of Namibia Limited; and
- OUTsurance Insurance Company of Namibia 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 and report into the group on a quarterly basis. The group is represented on each subsidiary board by a director and or executive management member.

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.

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 judgments and estimates.

Group's compliance with regulatory requirements

As the group's main business is diversified into banking and non-banking financial service provision, the bank business is regulated by the Bank of Namibia in terms of the Banking Institutions Act No

2 of 1998 and determinations passed there under, while the long-term and short-term insurance, unit trusts and asset management businesses are regulated by the Namibia Financial Institutions Supervisory Authority ("NAMFISA") in terms of different legislation. FNB Namibia Holdings Limited is also listed on the Namibia Stock Exchange ("NSX"), and therefore obliged to comply with the Stock Exchanges Control Act of 1985 and the listing requirements of the exchange.

The board is satisfied that the group materially complied with all these laws and regulations for the past year and none of the regulatory authorities, through their on-going supervision mechanisms, expressed any material dissatisfaction with the manner in which the group conducts its business. With regard to the regulatory requirement to localise the core banking system reported on during the prior year, confirmation of compliance therewith was received from the Bank of Namibia during 2011.

Social responsibility and sustainability

The croup'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 development initiatives. This foundation is funded by 1% of the annual headline earnings profit 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 Institutions Charter and actively engages in activities aimed 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 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.

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 audit committee.

All committees have formal terms of references and report to the board of directors. With the exception of Exco and credit risk committee, they are chaired by independent non-executive directors and have a majority of independent non-executive directors. Independent professional advice may be obtained at the group's expense in support of their duties.

Report of the audit committee chairman

Mr. S.H Moir (chair)

The aftermath of the economic crisis has seen an increased focus on the oversight role of the audit committee on both internal and external risk areas as well as financial disclosure. The board approved a revised disclosure policy and has required detailed analysis of root cause analysis of all events as well as requesting investigations on matters out of own initiative.

Composition of the audit committee

The committee consists of three independent non-executive directors and a non-executive director, following the appointment of Ms Comalie to the committee. The committee's membership has a good understanding of financial risks, financial and sustainability reporting and internal controls taking into account the group's size and the financial services industry requirements.

Members: Mr. S.H Moir (chair), Mr. JK Macaskill, Ms. II Zaawani-Kamwi and Ms JJ Comalie (appointed May 2012).

The chairman of the audit committee is an independent non-executive director and three of the four members are independent non-executive directors. The group chief executive officer, group chief financial officer. head of internal audit, head of risk, head of compliance and external auditors attend all meetings in an ex-officio capacity. The external auditors and chief internal auditor meet independently with the non-executive members of the committee at least on an annual basis and as and when required.

Focus areas of the committee

The group audit committee's mandate, as set out in a board approved charter, 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.

The audit committee performed its role in respect of the entire group of companies. 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.
- Ensuring that the integrated sustainability reporting obligations are met.
- The committee is authorised to investigate any activity or concern externally on any matter within its terms of reference.

Financial statements

The audit committee reviews and monitors the integrity and completeness of the company's financial report. The committee members have ensured that changes in accounting policies are presented in detail to facilitate understanding of accounting practices for complex areas.

Stakeholders are herewith assured that the accounting policies and practices within the group are in compliance with IFRS and regulatory requirements.

Integrated reporting

The committee has reviewed the integrated sustainability report within the annual report. The committee anticipated with the continual evolvement of the integrated reports generated at management level and with the independent review the role of the committee would change significantly during 2012.

Internal audit and internal controls

The internal audit function forms a critical pillar in the provision of independent assurance and facilitated the monitoring the effectiveness of internal control environment against set policies and scope. The committee assures stakeholders that the internal audit function and internal control and risk management environment were effective during the year under review.

Annual general meeting

The chairman of the audit committee will be in attendance at the AGM to confirm the audit committee report and encourages stakeholders to forward questions for consideration by the committee and the external auditors.

The committee assures stakeholders that:

- The committee has reviewed a documented assessment including key assumptions, prepared by management of the going concern status of the company had has accordingly confirmed to the board that the company will be a going concern for the foreseeable future.
- The financial statements of the group accurately reflect the financial position and records of the group.
- Effective accounting practices and policies have been maintained.
- The skills and resources of the internal audit and finance functions are adequate and all requirements have been met.
- Internal controls of the group have been effective in all material respects during the year under review.
- The skills, experience and overall performance of the external auditor was acceptable and it recommends to shareholders that Deloitte & Touche be re-appointed as external auditors of the group for 2012/13 financial year. The committee assures the stakeholders that it met its obligations in terms of the charter in all material respects.

Plans for 2012/13

- Further implementation of integrated sustainability reporting program including the internal control environment underpinning these.
- Implementation of the combined assurance philosophy aimed at aligning and leveraging of the risk and assurance functions as performed by risk, external and internal auditors.
- Implement a formal review of the effectiveness of the internal control environment and risk management processes.

The committee met five times during the 2011/12 financial year.

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.

Report of the risk, capital and compliance committee chairman

S.H Moir (chair)

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 following for further reading. The risk management framework, risk appetite, maturity level and material losses are detailed in the risk report.

Composition of the risk, capital and compliance committee

The committee consists of three independent non-executive directors and a non-executive director. Ms Comalie was appointed in May 2012. The committee's members have a good understanding of risks and risk management taking into account the group's size and the banking sector requirements. The group chief executive officer, the group chief financial officer, group head of risk, head of compliance and the head of internal audit attend meetings in an ex-officio capacity.

Members: Mr. SH Moir (chair), Ms. JJ Comalie (appointed May 2012), Mr. JK Macaskill, Ms. II Zaawani-Kamwi

Focus areas of the committee

The responsibility of the group risk, capital and compliance committee is summarised as follows:

- Reviewing of reports on key risks 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, systems are in place to identify and monitor and mitigate risk.
- Ensuring that appropriate resources, systems are employed in the management of regulatory risk and receiving reports thereto.
- Reviewing risk assessment reports on detailing risk monitoring reports, management responses and obtaining assurance regarding the effectiveness of the risk management process.
- Ensuring the effective management of credit and concentration risk.
- Ensuring and maintaining an internal capital adequacy assessment process ("ICAAP").

The committee is authorised to investigate any activity or concern externally on any matter within its terms of reference at the cost of the group.

The committee met four times during the year under review

The committee assures stakeholders that:

- The committee has maintained a reporting system that enables the committee to monitor changes in the group's risk profile
- It met its obligations in terms of the charter in all material respects.

Report of the remuneration committee

Zaamwani-Kamwi (Chair)

Composition of the remuneration committee
The remuneration committee consists of non-executive directors with the executive officers attending in ex-officio capacities.

Its primary objective is to develop and implement the remuneration philosophy and policy for the group and discharging accountability over the human capital resources within the group.

Members - Ms II Zaawani-Kamwi (chair), Mr. JK Macaskill, Mr. SH Moir, Mr. CLR Haikali, Mr. CJ Hinrichsen

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

- The importance of ensuring that remuneration is reflective of the performance of the company and shareholder expectations.
- Attracting, retaining and motivating people with the ability, experience and skill to successfully implement business strategy.
- Creating a recognizable alignment between rewards for employees, particularly executive directors and senior management and the risk of exposure of shareholder and other stakeholders.
- The achievement of market and internal equity with air and reasonable remuneration commensurate with skills, experience required for the position and the performance of the individual.
- Incentivising employees to deliver consistent performance in line with strategic goals and risk tolerances and rewarding success appropriately.
- Total reward including guaranteed pay, discretionary performance bonus, incentives, recognition schemes and long term incentive schemes for qualifying staff. The rules and management of the FNB Share Incentive Scheme and Black Directors and Employees Share Trust Scheme are set out in the notes of the annual report.
- Competitive and balanced reward philosophy that recognises that talented and motivated people are a key differentiator for the company to achieve its strategic objectives.
- Supply and demand factors for scarce skills and retention of critical skills and the overall performance of the business and the individual play a critical role in determination of remuneration.

Focus areas of the committee

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, but not limited to fees.
- On recommendation of the majority shareholder, the remuneration committee has overview of all forms of remuneration and rewards to senior management including, but not limited to, basic pay, bonus and incentive payments, restraint of trade, issuing of share options; and other benefits.
- Reviewing and approving annual salary increases and bonus awards of staff.
- Approving general human resource management policies, including succession of key management positions and talent management.

The CFO attends all committee meetings in an ex-officio capacity. The committee met two times during the year.

Executive remuneration

Executive and senior management members are employed on fairly standard employment contracts as all other employees. Remuneration is benchmarked against peers and aligned to the group's remuneration philosophy and there is a significant performance related component to the said remuneration. Performance targets are set for the group as a whole and for individual targets for the business arm and include non-financial measures such as customer service and human capital management. In line with its risk/reward alignment philosophy the group introduced a share option scheme as a long term incentive awarded to select staff members based on performance and long term strategic value to the organization. Further details on the scheme are provided in the notes of the annual financial statements.

The remuneration of the executive directors is disclosed in the notes of the annual financial statements. The committee took note of the recommendations of King III that companies disclose the remuneration of its three highest paid employees who are not directors. After due consideration of this provision the committee with concurrence of the board resolved that the disclosure of the remuneration of the executives sufficiently illustrates the alignment between reward and shareholder return.

Non-executive director remuneration

Non-executive directors' fees are based on market comparisons, and are reviewed on an annual basis to 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 the notes of the annual financial statements.

Non-executive directors do not receive share option or other incentive awards safe for the implementation of the BEE/Transformation agreement entered into in 2005. Further information on exposure of directors to the shares of the company are provided in the notes 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 remuneration committee. 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 within it workforce in compliance with internal and regulatory obligations and has to that extend 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 and has met its set targets.

Directors' affairs and governance committee

CJ Hinrichsen (Chair)

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.

Members – Mr. CJ Hirichsen (chairperson), Mr. JR Khethe, Mr. CLR Haikali,

Focus areas of the committee

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 a board directorship continuity pro-grammes including:
    - the continuity of non-executive directors;
    - the regular review of the competence of the board of directors, including the skills, experience and other qualities required to enhance
    - the effectiveness of the board; and
- the selection and appointment of new directors;
- The assessment of the effectiveness of the board as a whole and the contribution of each director, which self-assessment; and
- The committee reviews the structure and composition of the boards of significant operating companies within the group.

Board nomination and succession

The board approved a formalised board appointment and succession for independent non executive directors and executive management that takes into account the skills, 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 Sector Strategy 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 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.

The committee met three times during the year.

Management committees

Adv VR Rukoro (Chair)

Strategic committee ("Stratco")

This committee assists the board in the formulation of strategies and meets once a month. Membership consists of the group chief executive officer, bank chief executive officer, head of retail banking, group chief financial officer and group chief strategy officer.

Executive committee ("Exco")

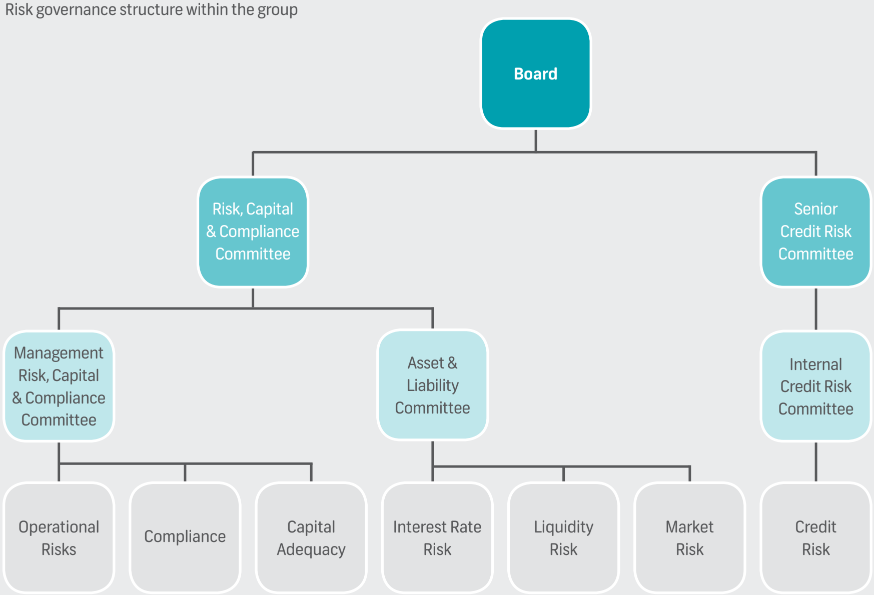
The group's exco is required to implement strategies approved by the board and manage the affairs of the group. Meetings are held once a month. Exco is chaired by the group chief executive officer. Membership includes key members of senior management. Exco has the following sub-committees:

- asset and liability management committee (ALCO);
- procurement committee
- investment committee
- operational risk and compliance committee
- transformation committee

Changes to key management

The head of risk, Mr. Conville Britz resigned during November 2011 and Mr. Johan du Plessis was appointed to fill the vacancy subsequent to year end. Stakeholders are assured that the skills and experience of the management members are effective and appropriate to ensure that the objectives of the group are attained.

Risk governance structure within the group



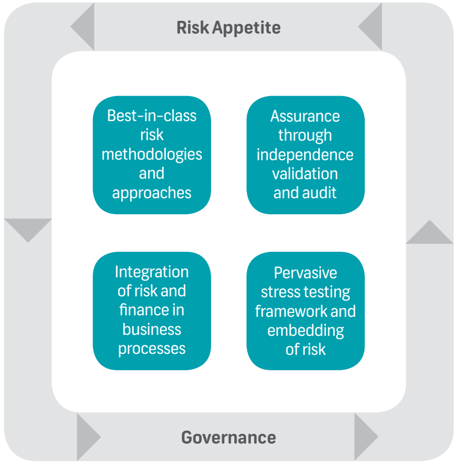
Introduction

FNB Holding's primary business objective is the generation of sustainable profits. The effective management of financial and non-financial risk is fundamental to the successful and sustainable realisation of the group's strategic objectives. Risk taking is an essential part of the group's business and we recognise risk assessment, monitoring and management as core competencies and important differentiators in the competitive environment in which we operate. As an integrated financial services provider, the group wants to be appropriately represented in all significant earnings pools across all chosen markets and risk taking activities. This entails building revenue streams that are diverse and creating long term value via sustainable earnings pools with acceptable earnings volatility.

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. As mentioned, the 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.

As a company built on a strong and pervasive "owner-manager culture", the adherence to the validity, methodology and scope of risk management is deeply embedded in the group's tactical and strategic decision making. Accordingly capital is seen as a scarce resource and the imperative to protect its reputation means that risk is considered in a holistic and integrated manner. The economic crisis precipitated by the turmoil in the world's financial markets and the failure of financial institutions internationally has dramatically underscored the need for an integrated risk and capital management approach alongside the renewed emphasis on sustainable earnings. Consequently, the group has adopted a comprehensive approach to risk and capital management that comprises six core components, illustrated graphically in the chart below:



These core components are:

- The groups risk appetite frames all organisational decision making and forms the basis for the group's continuing efforts to improve its risk identification, assessment and management capabilities. The articulation of risk appetite is closely related to the level of earnings volatility the group is willing to accept, its target capitalisation level and the allocation of capital and risk capacity. Sound capital management practices are a core component of the group's business strategy and support the management of its businesses within risk appetite constraints.
- A strong governance structure and policy framework fosters the embedding of risk considerations in existing business processes and ensures that consistent standards across the group's operating units exist.
- Best practice risk methodologies have been developed in and for the respective business areas. These have been modelled on existing and emerging best practice in the global financial services industry and are constantly reviewed, challenged and enhanced by deployed and central risk management teams.
- An integrated approach to managing risk has been established to facilitate the pro-active exchange of information between individual risk areas and between risk and finance functions. In doing so, the organisation aims to eliminate any "risk silo" thinking across different risk types and ensure an increasing integration of the traditionally separate domains of risk and finance.
- The group plans to implement a comprehensive, consistent and integrated approach to stress testing that is embedded as a business planning and management tool, emphasising scenario based analyses in all its decision processes. This will enable the group to draw on strong expertise in individual risk areas and the finance functions to ensure optimal decision making in pursuit of stable, growing and sustainable earnings.
- Independent oversight, validation and audit functions ensure a high standard across methodological, operational and process components of the group's risk and capital management efforts. These functions independently review and challenge deployed and centralised risk, business and support functions and are directly responsible for providing board members with assurance that the group remains within its chosen risk appetite and adheres to the standards and practices set by the board.

The above approach is further supported by the following risk principles adopted in each business unit;

- assignment of responsibility and accountability for all risks
- adoption of a framework for integrated risk management
- protection of our reputation
- comprehensive risk governance structures

Risk appetite

The group's business as a financial intermediary is based on the identification, measurement, pricing, and ultimately the taking and management of risk. It does not aim to eliminate risk entirely but to assume it deliberately in a measured, calculated and controlled fashion pursuant to its business objectives. The level of risk the bank is willing to take on – its risk appetite – is determined by the group's board, which also assumes responsibility for ensuring that risks are adequately managed and controlled through the its Risk, Capital and Compliance Committee ("RCC") and its subcommittees.

The group's risk appetite framework sets out specific principles, objectives and measures that link diverse considerations such as strategy setting, risk considerations, target capitalisation levels and acceptable levels of earnings volatility. As each business is ultimately tasked with the generation of sustainable returns, risk appetite acts as a constraint on the assumption of ever more risk in the pursuit of profits – both in quantum and in kind. For example, a marginal

Risk appetite *continued*

increase in return in exchange for disproportionately more volatile earnings is not acceptable. Similarly, certain types of risk, such as risks to its reputation, are incompatible with the group's business philosophy and thus fall outside its risk appetite. In addition to these considerations, risk appetite finds its primary quantitative expression in two metrics, namely:

- the level of earnings volatility the group is willing to accept from certain risks that are core to its business; and
- the level of capitalisation it seeks to maintain

These two metrics define the group's risk capacity and this expression of risk appetite is calibrated against broader financial targets such as the level of dividend coverage and acceptable levels of impairment rates. As a function of the business environment and stakeholders' expectations, and together with the primary risk appetite metrics, these provide firm boundaries for the organisation's chosen path of growth.

Thus, in setting the group's risk appetite, the executive committee and the board balance the organisation's overall risk capacity with a bottom up view of the planned risk profile for each business. It is in this process that the bank ultimately seeks to achieve an optimal trade-off between its ability to take on risk and the sustainability of the returns it delivers to its shareholders.

Risk governance

The group's board retains ultimate responsibility for ensuring that risks are adequately identified, measured, monitored and managed. The board believes that a culture focused on risk paired with an effective governance structure is a prerequisite for managing risk effectively. In addition, effective risk management requires multiple points of control, or safeguards that should be applied consistently at various levels throughout the organisation. There are three primary lines of defence across the group's operations

Risk ownership – Risk taking is inherent in the individual businesses' activities and, as such, business management carries the primary responsibility for the risks in its business, in particular with respect to identifying and managing it appropriately.

Risk control – Business heads are supported in this by deployed risk management functions that are involved in all business decisions and that are represented at executive level across all franchises. These are overseen by an independent, central risk control function, namely Enterprise Risk Management ("ERM").

Independent assurance – The third major control point involves functions providing independent assurance on the adequacy and effectiveness of risk management practices across the group. These are the internal audit functions at a business and at a group level and external auditors who are also present at relevant board committee meetings.

The risk management and governance structure explicitly recognises these lines of control and embeds them as a policy of the FNB Holdings board.

The three lines of defence model is the backbone of the Enterprise Risk Management Framework.

Responsibilities of the three lines of defence

First line of defence

The board and management of FNB Namibia Holdings group are responsible for the implementation and the management of risk

Second line of defence

The FNB group sets policies accross the group and conduct monitoring to ensure that the implementation of risk principles adhere to regulations and legislation

Third line of defence

Internal audit, together with external audit and independant actuaries provide additional assurance on the effectiveness of risk management in the organisation

Risk management framework

The risk management structure is set out in the Business Performance and Risk Management Framework ("BPRMF"). As a policy of both the board and the executive committee, it delineates the roles and responsibilities of key stakeholders in business, support and control functions across the group. As indicated, the BPRMF stipulates that the head of each business unit is responsible for managing risk in line with the BPRMF and other relevant frameworks of the group. Therefore, it emphasises the embedding of risk management as a core discipline and the requirement for giving explicit consideration to potential risks in all business decisions in line with the group's focus on ensuring the sustainability of earnings. Business ownership of risk and responsibility for risk management constitutes the first line of control applied across the group.

Risk policies and procedures

In the ordinary course of our business, we are exposed to various risks, including credit, interest rate and liquidity, operational and reputational risks. The diagram below is an overview of the risk being managed within the group.

Risk Universe

Capital Risk

Market Risk
- Banking book
- Trading book

Credit Risk

Information Technology Risk

Compliance Risk

People Risk

Reputation Risk

Liquidity Risk

New Business Risk

Strategic Risk

Credit Risk

Accounting and Taxation Risk

Investment Risk

Environmental Risk

Transformation Risk

Insurance Risk
- Underwriting risk
- Insurance risk

Capital management

The adequacy of the regulatory capital of the group under variety of conditions is assessed and managed using stress testing. Stress testing is an integral part of the internal capital adequacy assessment process. Under this process, appropriate scenarios 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.

Credit risk

Credit risk is the group's most material risk and as such, receives sufficient attention from all levels of management. This is evident in the credit risk information provided to the credit committees and the health of the provisions created.

Credit risk represents the risk of loss to the group as a result of a client or counterparty being unable or unwilling to meet its contractual obligations. In terms of the potential impact on earnings and related capital impact, this is the most significant risk for the group.

Credit risk arises from two types of transactions:

- Lending transactions, giving rise to counterparty risk (the risk that a counterparty to a transaction will be unable or unwilling to repay capital and interest on advances and loans granted to it);
- Trading transactions, giving rise to issuer and settlement risk. Issuer risk is the risk that payments due from the issuer of a financial instrument will not be received.Settlement risk is the risk that settlement of a transaction does not take place as expected, with one party effecting settlement as they fall due but not receiving settlements to which they are entitled.

Management and measurement of credit risk
The senior credit risk committee is responsible for managing credit risk. This committee operates under the bank board's approved discretionary limits, policies and procedures, and at least two bank board members in addition to the bank CEO participate in these meetings.

A centralised decision making structure with decentralised limits is the basis on which applications for credit are entertained.

Decentralised limits tend to be relatively low to ensure a high degree of centralised involvement in all areas where credit risk is incurred.

The group applies the following fundamental principles to manage credit risk:

- a clear definition of our target market;
- a quantitative and qualitative assessment of the credit worthiness of our counterparties;
- appropriate credit granting criteria;
- an analysis of all related risks, including concentration risks (concentration risk includes asset class, industry and counterparty concentration);
- prudential limits;
- regular monitoring of existing and potential exposures once facilities have been approved; and
- a high level of executive involvement and non-executive awareness of decision-making and review.

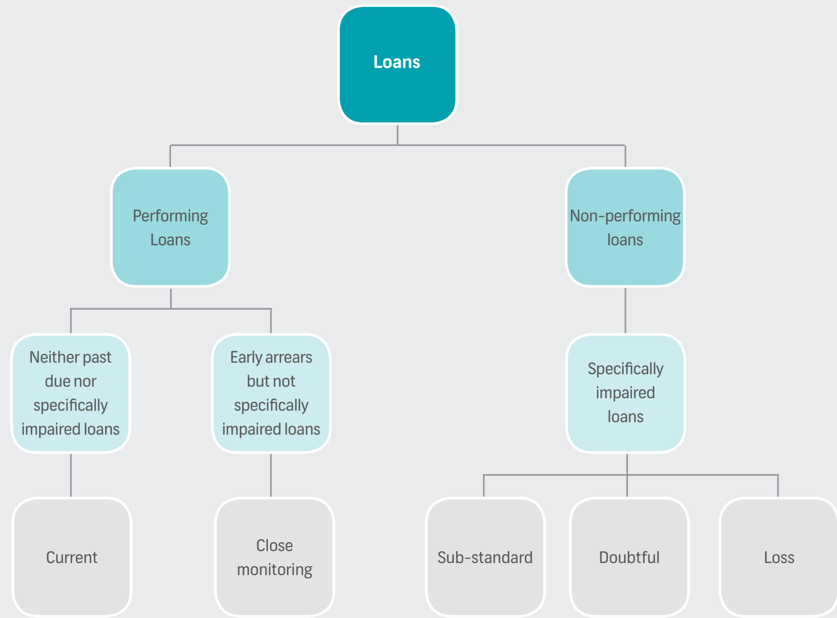
Credit risk classification and impairment policy
It is policy to make provision for specific impairments and to ensure that calculations for portfolio impairment are promptly made on a consistent basis. The external auditors review these impairments during the annual audit. Two types of impairments are in place: specific and portfolio.

Specific impairments
The specific impairment represents the quantification of actual and inherent losses from individually identified exposures.Specific impairments are evaluated on a case-by-case basis for all non-performing exposures. In determining specific impairments, the following factors are considered:

- our exposure to the customer;
- capability of the client to generate sufficient cashflow to service debt obligations;
- viability of the client's business;
- amount and timing of expected cash flows;
- realisable value of security held taking the time value of money into account; and
- deduction of any recovery related costs.

Portfolio impairments
The portfolio impairment supplements the specific impairment as outlined above and provides additional cover, based on prevailing market conditions and current default statistics.

A schematic presentation outlining the classification process for advances



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.

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.

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.

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 on-going 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 of 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.

As part of the risk framework, management perfroms regular stress and scenario analysis for all market risk exposures.

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 riThe 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.

Financial crime

The group has zero tolerance to financial crime, both internal and external. Incidents are fully investigated to understand source and cause, achieve recovery and initiate legal action, and implement appropriate mitigating action.

During the year a strong focus was maintained on minimising our losses experienced as a consequence of fraud.

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. A Code of Ethics is in place to assist and guide staff on matters.

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 element in managing the transactions, information and knowledge in our environment. It is an integral part of the business, and is fundamental to its 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.

OUTsurance Namibia risk management

OUTsurance Namibia has adopted the Enterprise Risk Management Strategy and Framework to provide reasonable assurance that risks are being managed in line with the best practices, our values and the risk principles of FNB Namibia Holdings Ltd. This framework is designed according to the corporate governance principles for sound risk management. The framework also outlines the key risk categories, the risk appetite, as well as risk management and combined assurance processes that form the basis of the reports to the board.

The risk management philosophy is to proactively undertake and direct actions to attain and preserve the group's objectives and values in a sustainable and profitable environment. At OUTsurance this is achieved through the active overseeing of business, insurance and technology risks as a central part of the group's strategic management. Risk Management is aligned with business strategy and embeds a risk management culture into business operations.

The key business objectives and values, and related material risks addressed within the Risk Management Strategy and Framework are to ensure sustainability, profitability and optimal return on capital, and to safeguard policyholders' interests. Risk and Governance oversight is provided by the OUTsurance Holdings Ltd Board and the FNB Namibia Holdings Ltd Board.

Insurance risks

The primary activity of OUTsurance relates to the assumption of possible loss arising from risks to which OUTsurance is exposed through the sale of short-term insurance products. Insurance risks relate to property, personal accident, liability, motor, transportation and other miscellaneous perils that may result from a contract of insurance. The risk is based on the uncertainty regarding the timing, magnitude and frequency of such potential losses. The theory of probability forms the core base of the risk management model. Through the continuous sale of insurance products and subsequent growth in the pool of insured risks, OUTsurance can diversify its portfolio of risks and therefore minimise the impact of variability of insurance losses affecting that portfolio. Insurance perils are unpredictable in nature, timing and extent which expose the group to a risk that the effect of future insured losses could exceed the expected value of such losses.

OUTsurance manages its insurance risk through its reinsurance programme which is structured to protect the company against material losses to either a single insured risk, or a group of insured

OUTsurance Namibia risk management *continued*

Insurance risks *continued*
risks in the case of a catastrophe where there would tend to be a concentration of insured risks.

Underwriting strategy
OUTsurance aims to diversify the pool of insured perils through writing a balanced portfolio of insurance risks over a large geographical area. Products are priced using statistical regression techniques which identify risk factors through correlations identified in past loss experiences. Risk factors would typically include factors such as age of the insured person, past loss experiences, past insurance history, type and value of asset covered, security measures taken to protect the asset, major use of the covered item, and so forth. Risks are priced and accepted on an individual basis and as such there is a minimal cross subsidy between risks. Insurance premiums charged for a certain pool of risks are adjusted frequently according to the normalised loss ratios experienced on that pool of risks.

Insurance risk is monitored within OUTsurance on a daily basis to ensure that risks accepted for its own account are within the limits set by the OUTsurance board. Exception reporting is used to identify areas of concentration of risk so that management are able to consider the levels adopted in the reinsurance programme covering that pool of risk.

Risks are rated individually by programmes loaded onto the computer system based on information captured by staff for each risk. Conditions and exclusions are also automatically set at an individual risk level. Individual risks are only automatically accepted up to predetermined thresholds which vary by risk type. Risks with larger exposure than the thresholds are automatically referred and underwritten individually by the actuarial department. These limits are set at a substantially lower level than the reinsurance retention limits. No risks which exceed the upper limits of the reinsurance can be accepted without the necessary facultative cover being arranged. No-claim bonuses, whereby clients are rewarded for not claiming, also form part of the underwriting strategy. Multi-claimants are also monitored and managed by increasing conditions of cover or ultimately cancelling cover.

Reinsurance strategy
OUTsurance reinsures a portion of the risk it assumes through its reinsurance programme in order to control the exposure of the group to losses arising from insurance contracts and in order to protect the profitability of the business and its capital. A suite of treaties are purchased in order to limit losses suffered from individual and collective insurance risks. Facultative reinsurance is purchased for certain individual risks that have been identified as being outside the limits set for these risks. The retention limits are modelled to optimise the balance between acceptable volatility and reinsurance cost. Acceptable volatility is as defined by the limits set by the board.

Concentrations of risk and mitigating policies
Risk concentrations are monitored by means of exception reporting. When large risks are underwritten individually, the impacts which they could have on risk concentrations are considered before they are accepted. Marketing efforts are also coordinated to attract business from a wide geographical spread. Risks which could lead to an accumulation of claims as a result of a single event are declined due to diversification and overall pool of risk covered. Focus is placed to attract large numbers of relatively small independent risks which would lead to very stable and predictable claims experience.

Exposure to catastrophes and policies mitigating this risk
Catastrophe modelling is performed to determine the impact of different types of catastrophe events (including natural disasters) in different geographical areas, at different levels of severity and at different times of the day. Catastrophe limits are set so as to render satisfactory results to these simulations. The catastrophe cover is also placed with reinsurers with a reputable credit rating and cognisance is taken of the geographical spread of the other risks underwritten by the reinsurers in order to reduce correlation of our exposure with the balance of their exposure. These reinsurance models are run at least annually to take account of changes in the portfolio and to take the latest potential loss information into account.

Shareholders' information

Contents

Shareholders' information

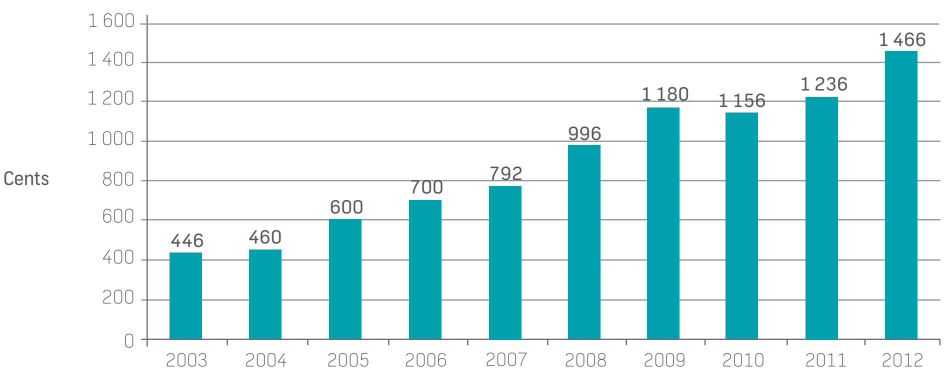
Shareholders' diary

Financial year end	30 June 2012
Declaration of final dividend	16 August 2012
Announcement of results	5 September 2012
Publication of annual financial statements	6 September 2012
Last record date	5 October 2012
Payment of final dividend	30 October 2012
Annual general meeting	28 November 2012
Publication of interim results	February
Declaration of interim dividend	February
Payment of interim dividend	April

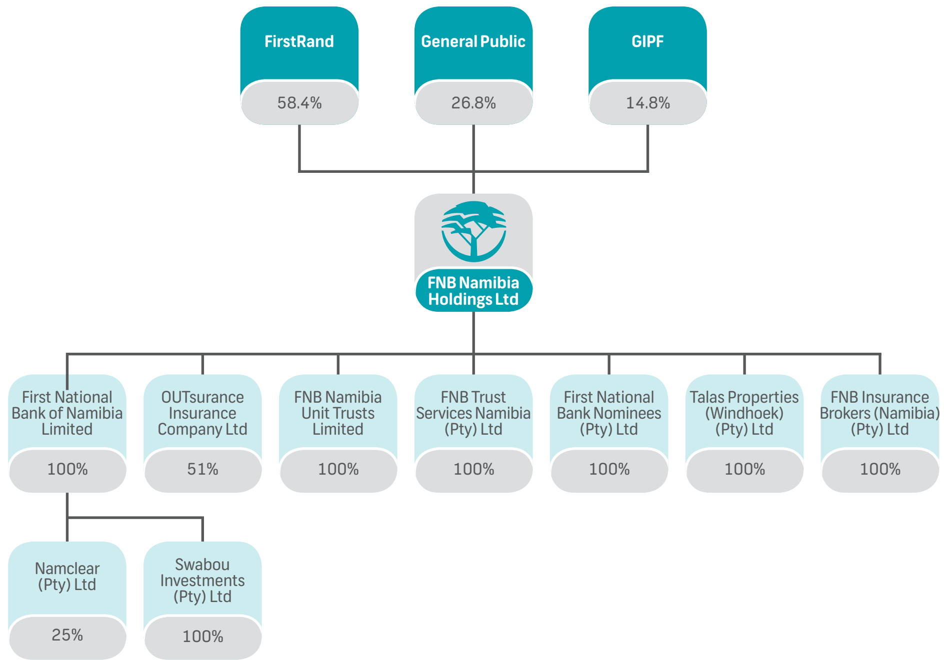
Stock exchange performance

	2012	2011
Share price (cents)		
– high for the year	1 476	1 240
– low for the year	1 241	1 154
– closing price per share	1 466	1 236
Number of shares traded (000's)	2 251	2 274
Value of shares traded (N$ '000's)	30 676	27 274
Number of shares traded as percentage of issued shares (%)	0.84	0.85
Average price of shares traded (cents)	1 363	1 199

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
FNB Trust Services (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	100	78/02244/07
FNB Namibia Unit Trust Ltd	100	89/485
Namclear (Pty) Ltd	25	97/004
OUTsurance Insurance Company of Namibia Ltd	51	89/524
Sunrise Properties (Pty) Ltd	100	88/065
Swabou Investments (Pty) Ltd	100	94/081
Talas Properties (Windhoek) (Pty) Ltd	100	282/68

Shareholders' analysis

	Number of shareholders	%	Number of shares	%
Shareholder range				
1 - 999	1 119	44.2	407 218	0.1
1 000 - 1 999	389	15.4	501 666	0.2
2 000 - 2 999	186	7.3	451 291	0.2
3 000 - 3 999	85	3.4	288 516	0.1
4 000 - 4 999	54	2.1	237 115	0.1
5 000 - 9 999	204	8.1	1 363 914	0.5
over 10 000	493	19.5	264 343 530	98.8
Total issued ordinary share capital	2 530	100.0	267 593 250	100.0
Distribution of shares				
Corporate bodies	26	1.0	165 187 690	61.7
Private individuals	2 473	97.8	15 389 505	5.8
Trusts	31	1.2	87 016 055	32.5
Total issued ordinary share capital	2 530	100.0	267 593 250	100.0
Ten major shareholders				
FirstRand EMA Holdings Limited			156 298 219	58.4
Government Institutions Pension Fund			39 568 472	14.8
FNB Employee Share Incentive Trust			8 077 465	3.0
CBN Nominees (Pty) Ltd			6 221 907	2.3
Old Mutual Life Assurance Company Namibia (Pty) Ltd			5 943 458	2.2
Sovereign Capital (Pty) Ltd			5 749 989	2.1
Boston The African Emerging Markets Fund			5 577 186	2.1
Allan Gray Investment Trust			5 393 267	2.0
Chappa'ai Investments Forty Two (Pty) Ltd			3 011 899	1.1
Rossing Pension Fund			2 853 842	1.1

Two issued preference shares were in existence at 30 June 2012 (2011: 2). These were preference shares were issued to RMB-SI Investments (Proprietary) Limited to facilitate a structured insurance transaction with OUTsurance Insurance Company of Namibia Limited.

Notice of annual general meeting

Notice is hereby given that the twenty-fifth (25th) 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 28 November 2012 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 2012 be adopted.

3. Ordinary resolution number 3:
RESOLVED THAT the final dividend declared on 16 August 2012 of 41 cents per ordinary share be and hereby is approved.

4. Ordinary resolution number 4:
RESOLVED to re-elect the under mentioned directors who retire in terms of the Company's Articles of Association and who, being eligible, offer themselves for re-election. Biographical information of the directors to be re-elected is set out on pages 6 to 7 of the annual report

4.1 To resolve that Mr. JM Macaskill be and hereby is re-elected as a director of the company

4.2 To resolve that Mr. CJ Hinrichsen be and hereby is re-elected as a director of the company

4.3 To resolve that Mr. CLR Haikali be and hereby is re-elected as a director of the company

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 control of the directors who are hereby authorised to allot or issue shares on such terms and conditions as they deem fit, subject to the provisions of the Banking Institutions Act 2 of 1998, Companies Act 28 of 2004 ("the Act"), the Articles of Association of the Company and the Listings Requirements of the Namibia 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 annual fees of the non-executive directors, as reflected below be approved for the year to 30 June 2013

Board	N$
Chairperson	146,485.44
Member	61,035.60
Audit Committee	
Chairperson	130,177.49
Member	62,942.96
Risk, Capital and Compliance Committee	
Chairperson	85,831.31
Member	45,776.70
Remuneration Committee	
Chairperson	33,645.87
Member	22,430.58
Directors' Affairs and Governance Committee	
Chairperson	42,057.34
Member	24,032.77
Credit Committee	
Member	137,330.10
FNB Banking Group	
Chairperson	192,262.14
Member	91,553.40

The fee proposed represents a 6.00% increase on those paid in respect of the financial year ended 30 June 2012.

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

10. Ordinary resolution number 10 *(continued)*:

10.1 Mr. SH Moir (Chairperson)
10.2 Mr. JK Macaskill
10.3 Ms. II Zaamwani-Kamwi
10.4 Ms. JJ Comalie (co-opted member)

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.

12. Special resolution number 1/2012:
RESOLVED TO retract Clause 26.1 of the Articles of Association and replace same with:

26.1 The Directors may from time to time declare a dividend in accordance with Section 28 of the Banking Institutions Act, to be paid to the shareholders in proportion to the number of shares held by them in each class, as appear to the directors to be justified by the profits of the company. Dividends shall be declared payable to members registered as such on a date subsequent to the date of the declaration of the dividend or the date of confirmation of the dividend, whichever is later, in further compliance with any rules of the Namibian Stock Exchange or rules of any stock exchange to which the company is listed.

Voting for special resolution:
The percentage voting rights required for this special resolution number 1/2012 to be adopted is at least 75% of the voting rights exercised on the resolution.

Reason:
To align the companies articles with current legislation and developments in Corporate Governance.

Effect:
The effect of the above change in the Articles of Association of the company would be that the Articles would be aligned with current legislation and Corporate Governance practices.

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 Monday, 26 November 2012.

By order of the board FNB Namibia Holdings Limited

Yamillah Katjirua
Company Secretary
6 September 2012

Registered office
First National Bank Building
209 Independence Avenue
P O Box 195, Windhoek, Namibia

Transfer secretaries
4 Robert Mugabe Avenue, Windhoek
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 Mr. JM Macaskill			
4.2 Mr. CJ Hinrichsen			
4.3 Mr. CLR Haikali			
5. Ordinary resolution 5: FNB Share Incentive Trust			
6. Ordinary resolution 6: Control of unissued shares			
7. Ordinary resolution 7: Re-appointment of external auditors and remuneration			
8. Ordinary resolution 8: Approval of non-executive director remuneration			
9. Ordinary resolution 9: Approval of Remuneration Policy			
10. Ordinary resolution 10: Appointment of Audit Committee members			
10.1 Mr. SH Moir			
10.2 Mr. JK Macaskill			
10.3 Ms. II Zaamwani-Kamwi			
10.4 Ms. JJ Comalie			
11. Ordinary resolution 11: Authority to sign documents			
12. Special resolution 1/2012: Amendment of clause 26.1 Articles of Association			

* 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 ______________ 2012

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, 4 Robert Mugabe Avenue (entrance on Berg Street), Windhoek(PO Box 2401) Windhoek, Namibia by no later than 15:00 on Monday, 26 November 2012. Alternatively, forms of proxy may be sent to the Company's transfer secretaries by way of telefax (+264 61 248531), provided that such telefaxes are received by the transfer secretaries by no later than 15:00 on Monday, 26 November 2012.

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.

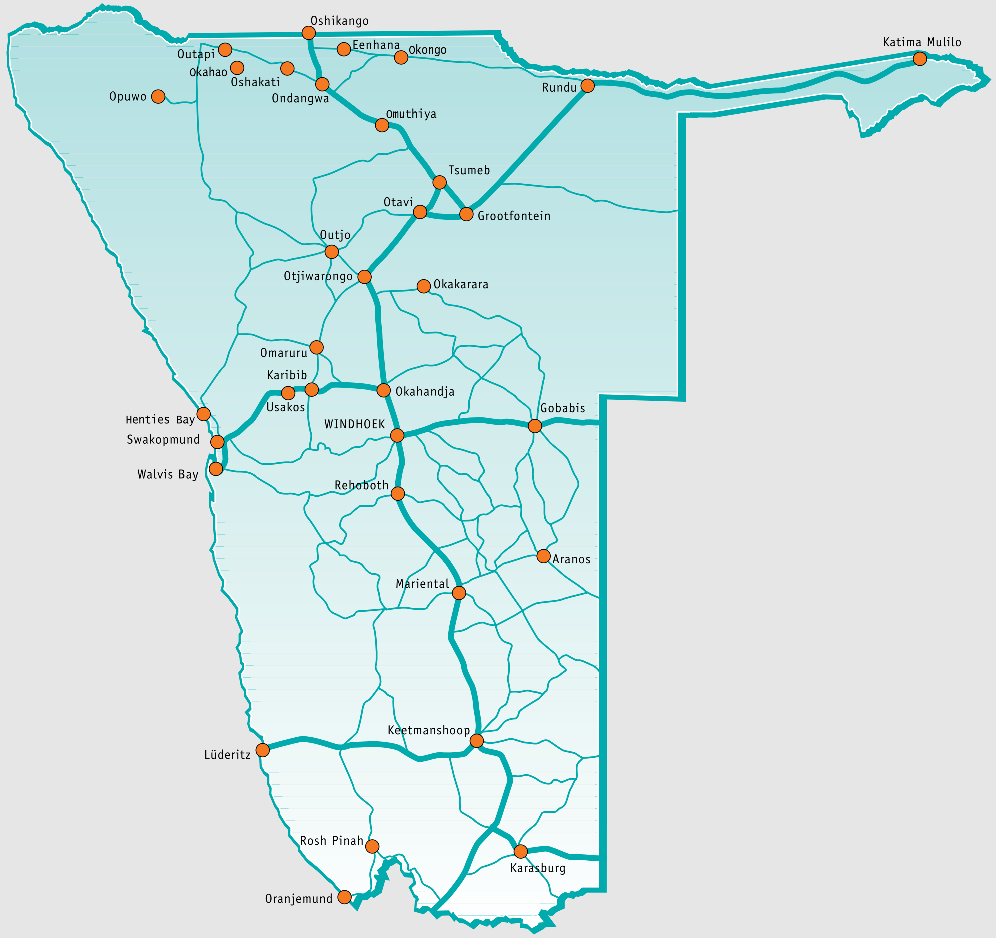
7. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries of the Company.

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

FNB Representation Points



Please call FNB at (061) 299 2111 or access our website to assist you in locating the branch most convenient to you.

www.fnbnamibia.com.na