Annual Report 2012

FNB
Namibia Holdings

Contents

The preservation of biodiversity is not just a job for governments. International and non-governmental organisations, the private sector and each and every individual have a role to play in changing entrenched outlooks and ending destructive patterns of behaviour.

Kofi Annan, UN Secretary General
on the 2003 International Day of Biological Diversity

WesBank · FNB First National Bank Namibia · FNB Insurance Brokers · FNB Namibia Unit Trusts · RMB Namibia · OUTsurance Namibia

FNB by numbers
for the year ended 30 June 2012

ATM transactions (value)
N$ 9 billion

Cellphone banking transactions (number)
9 million

Speedpoint machines (number)
1 567

Total workforce (number)
1 837

Total assets
N$ 19.7 billion

ATMs (number)
177

Internet banking transactions (number)
14 million

Internet banking transactions (value)
N$ 236 billion

OUTsurance policyholders (number)
22 113

Branches & agencies (number)
50

ATM transactions (number)
18.7 million

FNB Namibia – our pride

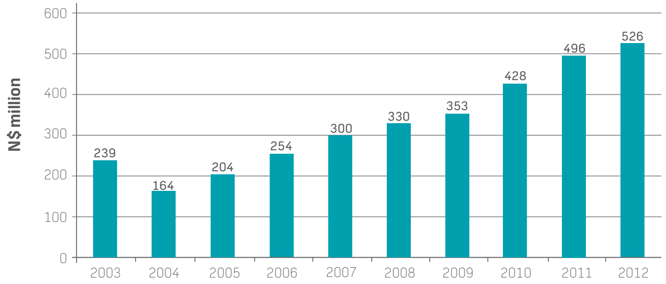
FNB Namibia Holdings Limited is the oldest financial services group in the country and the largest locally listed company on the Namibian Stock Exchange with a market capitalisation of N$4 billion. The company is a subsidiary of FirstRand EMA Holdings Limited and its holdings company, FirstRand Limited, which is dual listed in South Africa and Namibia

FNB is proud of its continued business successes that create shareholder wealth by serving the whole Namibian community in an integrated way. This allows the group to reinvest in the development of the country. We are, however, conscious of the fact that our approach needs to be sustainable. This we do by keeping a long term view and by playing a leading role in growing the Namibian economy through proper financial and risk management processes, keeping our systems and business processes up to date, fairly rewarding, training and caring for our staff, paying taxes and being sensitive towards the impact our business operations may have on our environment.

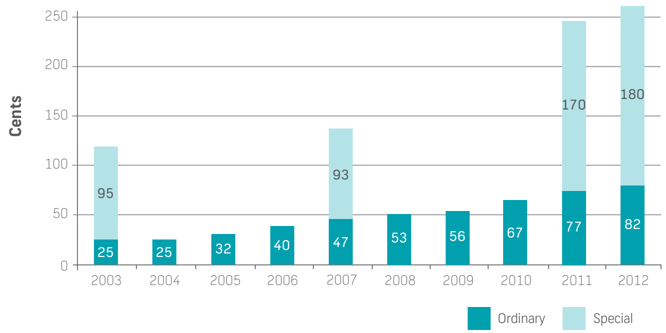
We are particularly aware of the importance in maintaining the delicate balance in the Namibian environment. Our approach to business is to consider the impact of our actions on the environment – whether expanding our network or considering financing propositions. With this in mind, we have highlighted a diversity of Namibian landscapes in this annual report.

Features of the group results

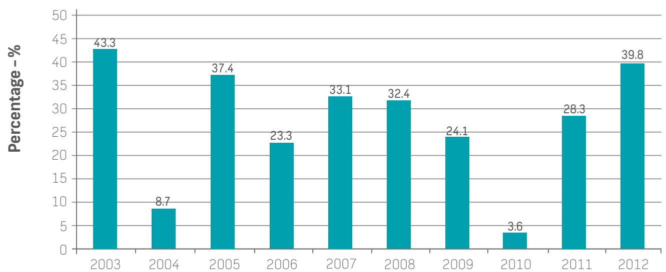
Headline earnings



Dividends per ordinary share declared



Return on average investment



	2012	2011
Share performance		
Continuing and discontinued operations		
Earnings per share (cents)	294.3	191.8
Diluted earnings per share (cents)	294.3	191.8
Headline and diluted headline earnings per share (cents)	203.1	191.6
Dividends per share (cents) - ordinary (declared for the year) - excluding special dividend	82.0	77.0
Dividends per share (cents) - ordinary (declared for the year) - including special dividend	262.0	247.0
Closing share price (cents) - ordinary	1 466	1 236
Market capitalisation (millions)	3 923	3 307
Number of shares in issue (millions) - ordinary*	259.0	258.8
Weighted number of shares in issue (millions) - ordinary*	259.0	258.7
Dividend cover (times) - excluding special dividend	2.4	2.4
Net asset value per share (cents)	911.6	703.2
Dividend yield (%) - ordinary dividend	5.6	6.2
Earnings yield (%) - ordinary shares	20.1	15.5
Price to Book ratio	1.6	1.8
Price: Earnings ratio - ordinary shares	5.0	6.4
** after consolidation of share trusts*		
Continuing operations		
Headline and diluted headline earnings per share (cents)	203.1	191.6
Selected ratios		
Return on average shareholders' equity (%)	36.4	26.3
Return on average shareholders' equity (%) - Normalised	25.8	24.6
Return on average assets (%)	4.1	3.0
Return on average assets (%) - Normalised	2.9	2.8
Cost to income ratio (%) *	52.4	52.2
** Excludes Momentum profit for 2012 and 2011 as well as proceeds and costs of sale*		
Capital adequacy		
Capital adequacy of FNB (%)	17.7	17.2
Solvency margin out OUTsurance (%)	39.5	35.1

Board of directors

Claus Jürgen Hinrichsen

Christiaan Lilongeni Ranga Haikali

Jabulani Richard Khethe

John Kienzley Macaskill

Mwahafar Ndakolute Ndilula

Petrus Tukondjeni Nevonga

Stuart Hilton Moir

Vekuii Reinhard Rukoro

Inge Ingenesia Zaamwani-Kamwi

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Board of directors
continued

Claus Jürgen Hinrichsen
Independent
Non-executive Chairman

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

John Kienzley Macaskill
Non-executive Director

Date of birth: 07 March 1950
Appointed: March 2003
BCom (BEM) – University of Pretoria; CAIB / AEP – UNISA
Directorships: FNB Namibia Holdings Limited, First National Bank of Namibia Limited, First National Bank of Botswana Limited, First National Bank Holdings (Botswana) Limited, FNB Mozambique SA, First National Bank Zambia Limited, FirstRand Bank Representative Office (Nigeria) Limited

Mwahafar Ndakolute Ndilula
Independent
Non-executive Director

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

Petrus Tukondjeni Nevonga
Independent
Non-executive Director

Date of birth: 26 October 1968
Appointed: May 2003
Post Graduate Diploma – Business Administration – UNAM, BTech (Business Administration) - Polytechnic of Namibia; Diploma in Human Resources Management - Polytechnic of Namibia
Directorships:FNB Namibia Holdings Ltd, Namibia Grape Company (Pty) Ltd, Effort Investment Holdings (Pty) Ltd, Endombo Enterprises (Pty) Ltd, Esindano Pharmaceutical (Pty) Ltd

Christiaan Lilongeni Ranga Haikali
Independent
Non-executive Director

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

Jabulani Richard Khethe
Non-executive Director

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

Stuart Hilton Moir
Independent
Non-executive Director

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

Vekuii Reinhard Rukoro
Chief Executive Officer

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

Inge Ingenesia Zaamwani-Kamwi
Independent
Non-executive Director

Date of birth: 11 November 1958
Appointed: January 2000
LLB (Hons) - London; LLM – Dundee
Directorships: FNB Namibia Holdings Ltd, First National Bank of Namibia Ltd, Namdeb Diamond Corporation (Pty) Ltd (CEO), Namgem Diamond Manufacturing (Pty) Ltd, Diamond Board of Namibia, Fishcor Ltd, Zantang Investments (Pty) Ltd, UNAM Council, Junior Achievement Namibia, Namibia Chamber of Commerce & Industry, National Planning Commission, Tungeni Africa Investments (Pty) Ltd, Extract Resources Ltd, and MCA Namibia
Trusteeships: XNET Trust Fund and FNB Share Incentive Trust

Group executive committee

Adv Vekuii Rukoro

Ester Kali

Brian Katjaerua

Yamillah Katjirua

Ian Leyenaar

Kobus Louw

Sylvia Müller

Andreas Mwoombola

Dixon Norval

Erwin Tjipuka

Stephen van Rhyn

Michelle van Wyk

Rowan Yeomans

Group executive committee
continued

Adv Vekuii Rukoro
Chief Executive Officer: FNB Namibia Holdings Group
Date of birth:
11 November 1954
LLB (Hons); LLM, Utter Barrister's, Advocate of the High Court of Namibia

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

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

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

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

Kobus Louw
Head: Corporate & Commercial
Date of birth:
7 December 1962
CAIB (SA), B.Econ, MBA

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

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

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

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

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

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

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

Economic review

Daniel Motinga
Group Economist

Developments in the global economy can best be described as characterised by stop-go activity and therefore the long-awaited recovery remains fragile.

Global economy remains fragile

Developments in the global economy can best be described as characterised by stop-go activity and therefore the long-awaited recovery remains fragile. During the first half of the financial year the world continued to lose growth momentum. Things changed slightly during the second half. According to the latest IMF report, global growth increased to 3.6% in the first quarter of 2012, largely because of temporary factors. There is limited scope for stronger growth.

Industrial production rebounded in the first quarter of 2012 but the biggest concern was the slowdown in the Chinese economy. Real GDP growth decelerated to 8.1% year on year in the first quarter of 2012, down from 8.9% in the previous quarter as export conditions remained weak – mainly because of sluggish demand from the euro area. The risk of a Chinese soft landing, combined with developments in the Middle East, had a negative impact on commodity prices.

The global environment has significant downside growth risk. Weaknesses in the labour and housing markets remain in key advanced economies and the need for balance sheet repair impedes the pace of global growth. The global Purchasing Managers' Index (PMI) for output posted another decline to 52.1 in May 2012 which speaks to global vulnerability. The IMF expects global growth to slow to 3.5% year on year, down from 3.9% in 2011.

Advanced economies will see a similar decline of 1.4% for 2012 compared to 1.6% the previous year. In the United States, expansion in economic activity is proceeding at a modest pace with real GDP increasing at 1.9% in the first quarter of 2012, down from 3% in the previous quarter.

For the United Kingdom – an important trade destination for Namibia – real GDP growth declined by 0.3% quarter on quarter in the first quarter of 2012. Both household consumption and investment made a negative contribution.

Since the advent of the great recession, emerging economies have experienced much stronger growth. Sub-Saharan Africa is projected to grow by 5.6% in 2012 and 5.9% in 2013. The growth outlook for most of Sub-Saharan Africa remains largely positive but those countries with closer trade and financial links with Europe can expect a more subdued outlook.

A key indicator of the lack-luster global picture is the weakness in world trade volumes which are projected to fall by 2.1 percentage points between 2011 and 2012.

Namibia growth slightly weaker

Preliminary national accounts data for 2011 shows that the economy grew by 4.9% year on year, much higher than our base forecast for 2011. Most of the growth came during the first half of the FNB financial year. Third and fourth quarter seasonally adjusted GDP grew by 7.0% and 2.6% respectively.

The primary sector was a key driver of this performance. For the full year of 2011 construction showed the fastest growth at 16.1%. It was followed by agriculture and forestry at 8.6%. Growth slowed during the first quarter of 2012 to 3.6%. The wholesale and retail sectors performed relatively better. However, the primary sector declined by 8.9% over this period. Manufacturing also declined by 3.6%. The construction sector grew by 11.4%.

However, it seems that growth might be slightly weaker during the first half of 2012 as production and off-take data for the first few months paints a mixed picture for mining. For example, the production of refined zinc was up 4% during the first quarter but diamonds were significantly down over the first five months, contrary to our expectations. It seems likely that production will remain flat. However, uranium was up 10% in the first three months of 2012 with export earnings of N$866 million. Seasonally adjusted first quarter GDP also slowed by 0.8%.

On the demand side there is a noticeable bullishness in consumer sentiment which augers well for domestic growth. Bank of Namibia data shows annualised growth of 12.3% for private sector credit extension for the period ending June 2012. New vehicle sales, a leading indicator of the strength of household spending, was up 32% for the period ending June 2012, helping to account for the strong growth in household borrowing. Household demand only grew by 2.4% during 2011. We foresee a significant acceleration in household spending over 2012 which bodes well for the retail sector. We forecast household demand to grow by more than 6% for 2012.

Inflation pressure abated during the second half of the financial year. In June 2012 it measured 5.6%, down from 6.4% in April. Inflation averaged 6% over the 2011/12 financial year which was positive from a monetary policy perspective. However we think the true situation will only reveal itself after July when traditional administered prices start to work through the system. NamPower got approval for a 17% increase in the bulk tariff and most local governments are pushing through significant hikes in electricity. For example, Windhoek raised its electricity prices on average by 15.1%. Therefore we think inflation will peak higher over the 2012 calendar period and average 7%.
The Bank of Namibia has kept interest rates unchanged since December 2010. We believe a combination of the risk to growth and

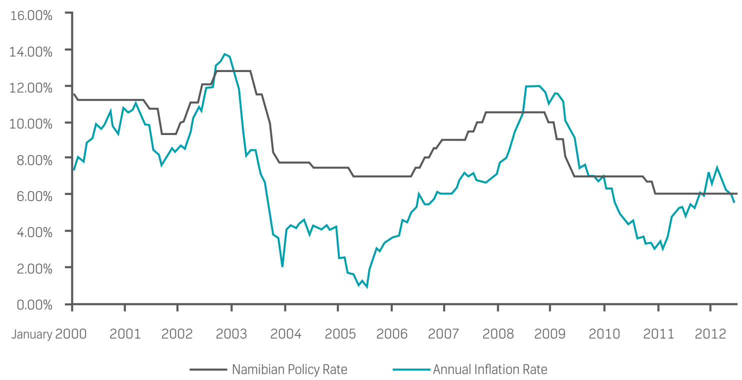
relatively robust credit demand will prompt the central bank to keep rates at a low level for longer.

Downside risks remain

Strong downside risks to global and local growth remain. The unresolved euro area crisis poses a key risk for Namibia. Our growth projection for 2013 is 4.7%. This optimistic forecast is based on the contribution from mining, especially uranium. We think developments in uranium will be key to Namibian growth. The Husab uranium project – recently taken over by China Guangdong Nuclear Power Company – holds significant upside potential and is expected to make Namibia the second biggest producer.

Overall, we remain bullish on domestic demand which we expect to anchor growth in the next financial year.

Namibia inflation
Source: CBS Namibia

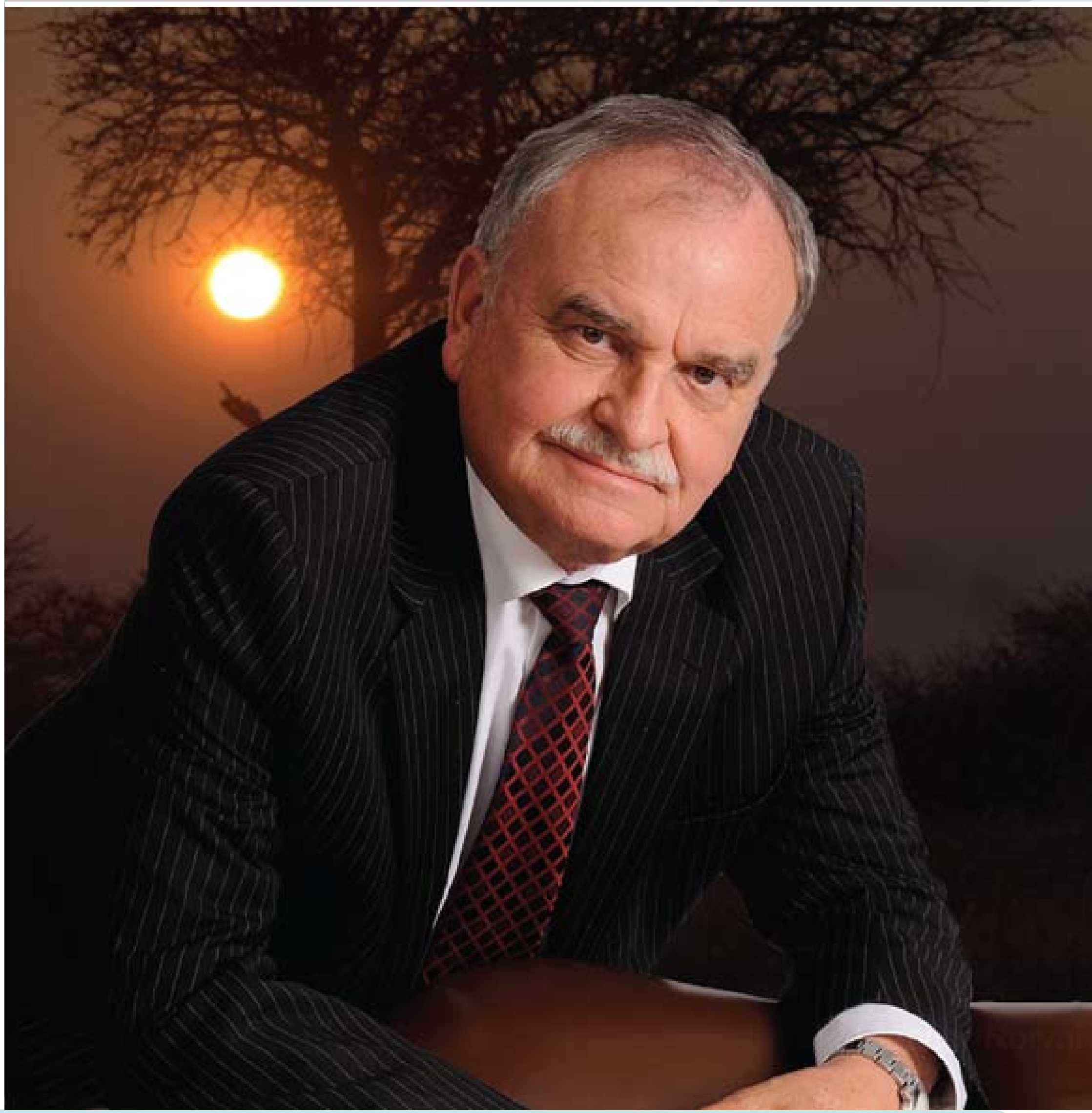


Namibia private sector credit extention
Source: Bank of Namibia

Chairman's report

Claus Hinrichsen
Chairman

It has always been our commitment to align our reporting to stakeholders with global best practice.



The FNB Board's culture of good corporate governance serves the needs of stakeholders by directing management to follow good business savvy, objectivity, accountability and integrity, applying appropriate corporate governance policies and practices in each business unit.

It has always been our commitment to align our reporting to stakeholders with global best practice. This is an evolving process and our 2012 annual report once again strives to present an integrated view of the FNB Namibia Holdings Group (FNB). A systematic approach was adopted to provide a comprehensive view, encompassing economic, social, environmental and financial performance, within the corporate governance and risk frameworks. The report is structured to provide information useful for understanding our business, its performance, the opportunities that exist and the challenges we have identified.

Operating with integrity and ensuring trust

As chairman I am particularly interested in our governance and decision-making processes, the ethical behavior of the group and the principles and values that govern our leadership. These I believe are vital ingredients for long-term sustainability.

After recent developments abroad in the international banking industry it is likely that we will continue to see changes in regulations for some time. The changes will be necessary to restore trust that banks act with integrity and operate transparently in dealing with all stakeholders. FNB will continue to play a leading role to ensure that such regulatory changes do not have unintended negative consequences. We will also maintain our focus on building a cooperative relationship with our regulators, promoting transparency and trust in our reporting and communications.

Good governance and sustainability, inextricably intertwined, are essential. Our decision-making processes within the group are robust and the corporate governance and risk reports reflect this.

I believe that fundamental to ensuring a sustainable business, the group must act ethically towards each of its stakeholders. Central to this is institutionalising FNB's values by instilling them in every staff member. A highlight of the year was an initiative to embed behaviour that reflects the values of accountability, integrity, innovation, respect and passion throughout the organisation. This drive will continue into the next financial year. As our values are a key component of our strategy, the board is proud to reflect that FNB remains principle-based - a critical ingredient for sustainable growth. Leadership is another important element of our success. The group continued to embark on various leadership development initiatives and the coming year will see a greater focus on developing junior leadership.

Market environment

The first half of the financial year was dominated by the Euro debt crisis, with the risk of disorderly defaults in Greece and Italy influencing the economic environment. Rating agencies have downgraded several economies in the light of the debt risk. Spain, one of our major trading partners, appears to follow the trend.

The IMF has downgraded the global growth outlook to 3.5% for 2012, mainly because of significant slowdown in Europe, which faces an uncertain future. However, the risk of an imminent collapse of European growth and the financial sector seems to be receding.

While indirectly impacted by the global market, we remain optimistic about Namibia and anticipate 4% growth in 2012 and 4.7% in 2013. A slowdown in mining production is likely but we expect good uranium production and a positive investment outlook over the medium term.

Household consumption and investment expenditure show signs of strength and vehicle sales reached the highest levels since November 2007. Growth in both business and household mortgage financing remains strong. We foresee good opportunities for business over the next financial year.

It was great news that financial exclusion in Namibia has reduced from 51% in 2007, to 31% in 2011 according to the latest FinScope figures. FNB Namibia worked closely with the Bank of Namibia (BoN) and the Ministry of Finance to bring wider access to banking services by developing and implementing low cost, safe and easy-to-use products for individuals and small businesses.

Our Group Economist reflects on global and local economic environments in more detail on pages 12 to 14 of this report.

Regulatory environment

On the issue of local ownership BoN has proposed a maximum foreign shareholding of 55%. Discussions continue.

BoN has also asked for comment on proposed guidelines for consumer protection. These cover issues of disclosure, complaints-handling procedures and reporting requirements. The guidelines set out general conduct standards as contained in a draft Code on Banking Practice. Discussions are ongoing.

A determination stipulating capital and other requirements for branches of foreign banking institutions to operate in Namibia was issued in January 2012 and came into effect on the 1 April 2012.

Overall the year under review was characterised by good cooperation between the group and BoN with an agreement to ensure a sustainable, strong and stable banking system in Namibia which will support the objectives of the Government's Vision 2030.

Financial inclusion remains high on the Government and BoN's agenda and FNB continues to play a leading role in giving effect to these requirements. Our efforts include participation in national campaigns such as the Ministry of Finance's Financial Literacy Initiative, to being the first Namibian bank to offer a basic bank account that exceeds BoN's minimum requirements.

Strategic initiatives

The 2012 financial year has seen FNB make good progress in achieving its objective of moving from the preferred to the most valued financial services provider in Namibia. This strategic plan continues to chart FNB's path through the global economic turmoil. It ensured we were not distracted by the many uncontrollable factors we had to contend with and enabled the group to achieve commendable financial results. Having such a strategy allowed FNB staff to focus on the important issues guided by our value system. This was supported by solid management information that allowed for performance-tracking on a regular basis.

The strategy was updated in one special area - business banking. It positioned FNB as more than a retail bank and focused on building relationships that add value to clients. This focus saw the launch of RMB Namibia and the development of a more integrated service approach to larger business customers from RMB Namibia, Corporate Division and Treasury.

With fierce competition in the financial services market, both by traditional and non-traditional players, and pressure on fees and margins, we continue to focus on that which will set us apart: our service excellence, the value we add and the relationships we build.

The Group CEO's report further discusses our performance against our strategy.

Group structure changes

The long pending sale of Momentum was concluded at the close of this financial year, following the unbundling of Momentum Group Limited out of the FirstRand Group in South Africa. Strategically, it paves the way for FNB to focus on core banking business and free-up equity while offering clients long-term insurance products through an arrangement with Metropolitan Life Namibia, on a fully commercial basis.

Dividend

The group's capital has benefitted from a windfall following the sale of Momentum as mentioned above. A special dividend of 180 cents was therefore declared to return this excess capital to shareholders. In addition, we are pleased to announce a final dividend for the year ending 30 June 2012 of 41 cents per ordinary share. Taking into account the dividend of 41 cents paid in April 2012, as well as the special dividend of 180 cents, ordinary shareholders will received a total dividend for the year of N$2.62 per ordinary share.

Appreciation

I wish to commend the Government for its commitment to maintaining political stability, thus creating a peaceful environment in which to conduct business. This commitment gives FNB great peace of mind. It encourages continued investment and injects impetus into the economy in all sectors, enabling Namibia to remain on course to achieve its Vision 2030.

In conclusion, I extend my appreciation and gratitude to my fellow directors, to all levels of management and, most importantly, to the employees of FNB who implement the strategic objectives set and approved by the board. You have done us proud by your sterling financial performance while upholding our corporate values.

Claus J. Hinrichsen
Chairperson

Abridged sustainability report

We are proud of our continued business successes that create shareholder wealth while reinvesting in the development of the country and its people in an integrated way.

FNB Namibia, through its Foundation, has teamed up with an international environmental awareness foundation, Global United Football Club, which has more than 300 of world's most famous former football players and coaches' as members. Namibia was chosen as one of a few international destinations where selected football celebrities played an exhibition match to raise awareness of the environmental challenges faced by our world. In Namibia the initiative was called waste not, want not. This strong environmental message was carried across all media across the world.

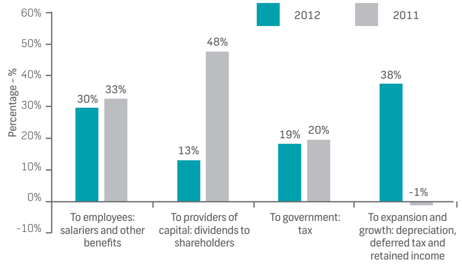
Sustainability part and parcel of our strategy

We aspire to be the local world-class financial services provider of first choice by creating sustainable wealth for all our stakeholders. Our future growth is solidly embedded in our strategic planning process and underpinned by our values. Both strategy and values are openly and regularly shared with all our employees.

We are proud of our continued business successes that create shareholder wealth while reinvesting in the development of the country and its people in an integrated way. Our sustainable approach plays a leading role in growing the Namibian economy through proper financial and risk management processes, keeping our systems and business processes up to date, fairly rewarding and developing our employees, paying taxes and being sensitive to the impact our business operations may have on the environment.

Testimony to the wealth the FNB group is able to create by providing clients with quality, value-added service is illustrated in the value added chart below.

Group value added statement



Ultimate responsibility for sustainable development rests with the board that approves our sustainable strategy annually. Through the group's governance structures, this responsibility is delegated to board and management committees.

Our material issues

Our material issues are identified by our strategic planning process and further informed by engaging with external and internal stakeholders and risk and compliance management. They are reviewed annually by our group executive committee.

Effectively managing these issues ensures that we move forward to reach our vision.

The material issues are:

- Ensuring long-term sustainable financial growth
  - Ensuring motivated employees
  - Improving financial, compliance and process efficiencies
  - Delivering effective value propositions at suitable cost to clients while maintaining service excellence.
  - Enhancing mutually beneficial relationships through key partnerships

The group manages these material issues through regular reporting to the group executive committee and ultimately to the board.

Stakeholder engagements

FNB Namibia operates according to a group philosophy governing how we interface with a broad range of stakeholders. We believe that the very existence of our business and its continued success depends on these relationships.

Stakeholders include employees, customers, suppliers, service providers, the communities we support, the natural and cultural environment in which we operate, Government and regulators as well as shareholders.

We actively measure and report our progress in creating stakeholder value and managing risks.

As a widely-recognised industry leader in Namibian financial services, FNB Namibia has, since independence, acted as a close ally of the Namibian Government in adding impetus to the national developmental objectives set out in the fourth national development plan. The objectives coincide with our goals as set out in our national vision 2030.

In Namibia, banks are working closely with the Bank of Namibia (BoN) to encourage financial inclusion and access to financial services. FNB has taken a clear lead in rolling out self-service channels and an entry-level basic banking account aimed at people without regular income and with low frequency banking needs.

FNB participated in various industry forums in the past year and was actively engaged with regulatory leaders on a range of topics.

Our customers

FNB has a proud heritage of more than a century of excellence in service delivery. It provides fully integrated financial services through a network of 50 branches and agencies, 222 ATMs and Mini-ATMs and 1,962 point-of-sale devices throughout Namibia.

Abridged sustainability report
continued

Our most important contribution to sustainable development is to support and facilitate economic growth. This is achieved through a range of credit, savings, investment and risk products for individuals and businesses.

Our banking products and services go to economically active and even inactive Namibians. Customers include entry-level consumers and high net-worth individuals. Our core focus is on delivering effective value propositions at suitable cost while maintaining service excellence.

The group's banking operation established a specialised division to advance credit and provide mentoring support for small and medium entrepreneurs. The division has grown considerably during the period under review, both in its mandate and in the number of loans advanced. Cooperation with international organisations has also expanded.

As part of an innovations programme, FNB Namibia's staff developed a unique system for customers wanting to provide their staff with a pension-backed home loan scheme. The improved system was implemented in 2011 and helped FNB to gain or retain business by delivering a substantial cost saving.

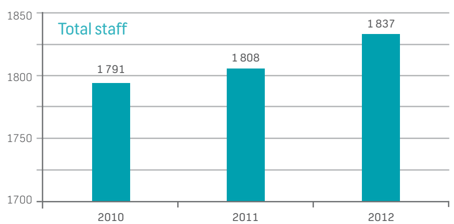
Account-holders with a Lifestyle Account with FNB have access to funeral cover of N$3 000. During the year 983 families made use of the benefits at N$2.5 million.

We continued to promote the use of cost-effective electronic self-help channels and have maintained our free cellphone and online banking facility.

For more information, see the Chief Executive Officer's report.

Our employees

Our 1 837 permanent employees are key to our success, so we focus on building enduring and rewarding relationships with them and provide continuing opportunities to develop their full potential.



The Human Resources team has identified key drivers to direct the strategy in a collaborative effort.

Engaging employees

Employees are rated on their degree of engagement with the bank. Engagement scores measured in our annual survey fall short of acceptable levels and a focus on improving these is paramount for long-term sustainability. Various initiatives are underway to improve scores.

The Group Chief Executive Officer is determined to drive employee engagement and conducts annual road shows, visiting business units in all regions to address issues. Staff are encouraged to raise concerns directly with him.

Our weekly internal "*Insider*" communication as well as sms messages and plasma screen broadcasts are among the channels used by the CEO to drive engagement and the "live the values" campaigns.

Managing talent

We need the right talent to meet the demands of modern business. Our talent management programme identifies critical roles and the pool of talent available. Learning, development and career path planning play a key role. Employees are encouraged to formulate personal development plans.

We also recognise that, no matter how good our performance management systems are, we need to improve on communication and implementation.

Learning and development

During the year the group spent N$5 million on skills development, up 6% from the prior year and representing 5% of our payroll spend.

The company has a structured in-house training division. Its advanced curriculum enables employees to receive training in areas necessary for the execution of the group's strategic objectives. It is recognised that specialised skills transfer is both costly and time-consuming, but FNB remains committed to ensuring that staff are fully equipped to meet the group's strategic growth needs.

The training facility was revamped and enlarged during the year. External training by institutes of higher learning is used when special skills are required.

A recent employee survey indicated that this key driver of engagement also fell short of acceptable levels and there will be a focus on that this coming year. A needs analysis survey is being conducted, training material updated or developed and training curricula aligned with succession planning efforts and career development programmes.

Leadership development

The table below depicts the formal development programmes for the past two years:

Name of Programme	2012 Number of staff	2011 Number of staff
Care and Growth Leadership & Management development Programme	33	38
MBA	2	2
Internal Employee Bursary Students	5	4
External Bursary Students	1	7

A survey identified the need for leadership development programmes to be rolled out at middle management level. This will be done in the next financial year.

Health and wellness

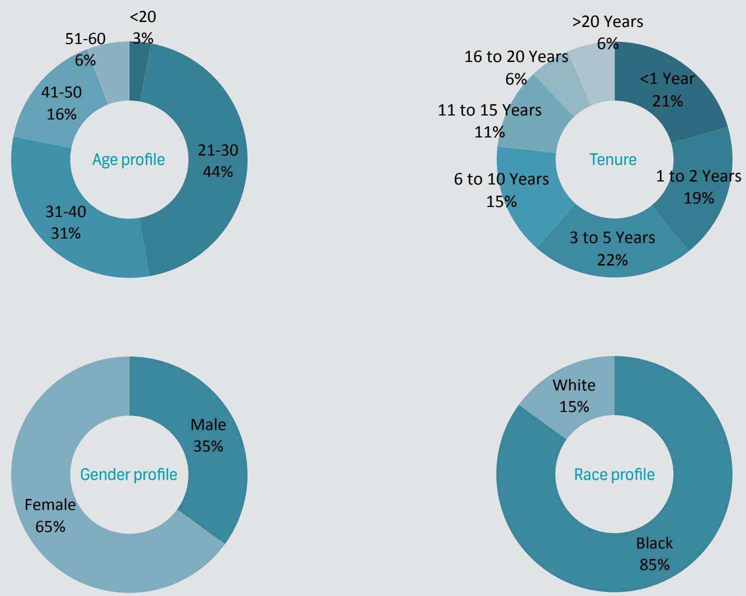
The wellbeing of our employees is critical to improving productivity by:

- Enhancing on-the-job performance and decision-making;
- Reducing absenteeism and time lost; and
- Improving staff morale, which leads to a lower turnover

Our employees belong to a medical aid scheme with contributions subsidised by the Group. FNB has recently increased the subsidy for non-clerical employees to 100%.

Our employee wellness programme (EWP) aims to ensure that employees are mentally and physically well and lead well balanced lifestyles at work and at home.

Employee statistics at 30 June 2012



A wellness coordinator works with educators across the country and in each business unit to encourage employees to take responsibility for their own health. We offer health screening assessments and health education initiatives and support national and international wellness drives tackling AIDS, cancer, malaria, drug abuse, illicit trafficking and gender violence.

Partnering with LifeAssist, our employees, their spouses / partners and immediate family can get advice by phone at any time of the day or night or use email or the web to seek help on health and wellness, or to get advice on financial and legal matters. Qualified experts are made available for face-to-face attention.

Transformation

Diversification of ownership base
FNB is listed on the Namibian Stock Exchange and is further diversifying its ownership base by implementing BEE and share incentive schemes. Please refer to pages 115 for further information.

Our BEE programme aims at wealth distribution and empowering the previously disadvantaged. It caters for staff members and BEE partners. The BEE programme started in 2005 and about 5% of equity in FNB Namibia Holdings was earmarked for transformation. This investment was valued at N$78 million in December 2004. It now stands at N$165 million. One percent was dedicated to black non-executive directors and a staff share trust. A total of 500 000 shares have been transferred to the Staff Assistance Trust, which uses annual dividends to help needy staff pay medical bills, cover educational needs or for any other deserving reason.

The company has 2 530 registered shareholders of which approximately 2 426 are Namibian. They own more than 110 million shares. The Namibian ownership was valued at approximately N$1.6 billion.

Diversification of leadership
The FNB Namibia Holdings Board has adopted the principle that the board needs to reflect Namibian society in respect of race and gender. Currently it compromises nine members of which six are black and one is female. Sixty per cent of board members are Namibian. Namibians make up 85% of executive management - 53% are black and 30% are female.

Our suppliers

There is no formal accreditation process in place, making it a challenge to monitor the allocation of contracts to BEE and SME accredited suppliers. Suppliers are urged to accredit themselves at the Namibian Preferential Procurement Council to enable FNB to build up a database and so meet its BEE spend targets.

In the last financial year a concerted effort was made to broaden our supplier base, especially in respect of building and renovation projects and daily repair and maintenance. An invitation to supply was placed in newspapers and bids for building projects were invited on open tender. Several new suppliers were identified and major renovation projects were allocated to new suppliers.

We will remain focused on accelerating our local procurement spend as part of our commitment to supporting local enterprises. We will also engage actively in supplier and product sourcing and research.

Our environment

In terms of current legislation, and within the Namibian operating environment, we endeavour to be environmentally aware in everything we do and to set new trends where we can.
In the last financial year, the light bulbs in the Talas East and City Centre buildings were replaced with more energy-efficient light bulbs. This remains a work in progress. We will keep on refining our environmental strategy.

During the year the air conditioning plant in head office was upgraded and coolant replaced with an ozone-friendly refrigerant. All new air conditioners are ozone friendly and existing units will be ungraded.

In the past two years FNB has facilitated a United Nations Development Programme backed initiative whereby 300 low-interest loans were granted to fund installation of solar power.

We continue to promote reduced paper use in branches and foresee that simplified account-opening procedures and an emphasis on electronic banking will lead to even greater paper savings.

Our communities

We spent N$2 813 684 on corporate social responsibility (CSR) initiatives in 2012. Under a new policy, the FNB Foundation brought together a series of operating principles as a guide to employees and a reference to other stakeholders like suppliers, beneficiaries and charity organisations. The CSR initiative embraces codes of corporate governance and best practice.

While the main focus is to support the group's strategy, cognisance is taken of national documents such as Namibia's Vision 2030 and international documents like the Millennium Development Goals as well as the UN Global Compact's guidelines on sustainability.

The group recognises the importance of CSR and has always been actively involved in social benefit activities. Its business behaviours are aimed not only at delivering commercial objectives but also to making a positive social impact. This means taking into account the interests of all stakeholders, the wider community and the environment.

The CSR philosophy is to meet the needs of present stakeholders without engaging in any activity that compromises the ability of a future generation to meet its own needs. It is closely aligned to its mission to create sustainable wealth for all stakeholders.

Effectively, this policy is a commitment to implementing sustainable business practices that enhance the company's credibility and reputation and support Namibia's development challenges. It enables the Group to incorporate CSR in its overall business strategy, achieving higher levels of performance and generating enhanced value.

It is based on a holistic approach (triple bottom line), defining CSR as an evolving but integrated method that considers sustainability first n all its core business activities. It includes a focus on social and environmental responsibilities. It identifies certain projects that have a high positive impact on society, while also providing long-term business benefits. Charity is not excluded, but such activities usually have a minimal business benefit and therefore receive less attention.

For the group, the policy is about moving beyond legal obligations and core responsibilities to social investments in the community and environment. The investments are long-term, sustainable and strategic in nature, and focus on projects that have direct or indirect business benefits and are responsive to national challenges.

FNB's Corporate Social Responsibility focal areas

The following seven areas have a significant relevance for its workforce, community, market and environment:

Key Focus Area
Educational development Programmes to improve school-level management and other skills in education – in support of Vision 2030 and, to a lesser extent, support to individual schools.
Skills development Programmes that enhance SME management skills, promote entrepreneurship and raise awareness of good corporate governance. They include relevant bursaries.
Community and health development & environmental guardianship Any programmes with regional or national focus that uplift and empower communities and protect the environment. They can be partnerships.
Consumer education, protection and financial inclusion Any programmes that advance consumer knowledge, access to finance and financial literacy.
Arts and culture Initiatives that preserve local artistic heritage while giving Namibians access to it, as well as supporting current artistic developments.
Sports development Team events, inside the borders of Namibia, premier league clubs, where possible working with national bodies.
Customer hospitality Activities that enhance customer relationships and the brand position of the group.

All business units are responsible for their core business activities (including recycling, waste reduction, staff development, financial returns and risk management). The Foundation is responsible for monitoring and approving all CSI and charity initiatives.

FNB's Corporate Social Responsibility focal areas *continued*

The major CSR projects supported for 2011/2012 are reported below:

Focus Area	CSR projects supported for 2011/2012
Educational development	**Junior Achievement: Aflatoun: N$150 000** The Foundation made a four-year commitment to Aflatoun, an internationally-acclaimed schools programme that trains teachers to educate young children on their rights, responsibilities, how to manage their personal finances and how to save. Its aim is to empower children to break the cycle of poverty by equipping them with the tools to put those rights into practice. This programme is managed and co-ordinated by Junior Achievement (JA) Namibia.
	African Leadership Institute FNB Inspectors' Academy: N$300 000 The African Leadership Institute, supported by the FNB Foundation, established an Inspectors Academy to transfer leadership skills and expertise to all school inspectors in all 13 regions of the country. Inspectors are expected to have a full understanding of what is happening on the ground and should communicate guidelines and policies to principals, to be cascaded down to classrooms. The African Leadership Institution has provided life-changing leadership training to more than 500 Namibians with the help of the FNB Foundation. A second programme to train Head of Departments at specific schools is now being supported by the Foundation.
Skills development	**CRIS: N$150 000** Criminals Return to Society (CRIS) works to reintegrate former prisoners, providing training, life skills support, counselling and assistance with job placements. The Foundation supports the training programme, particularly in the area of sewing and fashion design.
Community and health development & environmental guardianship	**Lifeline/Childline: N$100 000** The Foundation supported the annual Lifeline/Childline Lollipop campaign to raise awareness of Lifeline's work, provide children with the telephone number of their Helpline, and raise funds for Lifeline projects.
	Global United: N$350 000 FNB Namibia and Global United staged the FNB Global United Climate Kick programme for 2012 creating awareness of climate change and global warming. The theme was "Waste Not, Want Not" and was focussed on recycling. Initiatives including a recycling competition among schools and a customary soccer match between former Namibian and International heroes.
Consumer education, protection and financial inclusion	**SMEs Compete: N$800 000** SMEs Compete, a private sector training institution, provides continuous training for SMEs. It is funded by the FNB SME business unit in all areas of business. This is an initiative which sets SMEs up for success, ensuring that they grow into fully-fledged profit-making businesses.
Sports development	**Namibia National Olympic Committee: N$400 000** The first four Namibian athletes to qualify for the London Olympics in July 2012 were awarded sponsorship through the Namibia National Olympic Committee. The sponsorship covered special training and preparation. These athletes were, Helalia Johannes, Dan Craven, Gaby Ahrens and Beata Naigambo.
	Special Olympics Namibia: N$250 000 The FNB Foundation has provided support for Special Olympics over the past eight years and continues to assist Namibian athletes with intellectual challenges. Our support enabled SON athletes to participate in the 2011 Special Olympics in Greece.

The group recently launched "Helping from the Heart", a home-grown employee volunteer programme designed to encourage special initiatives. The overall programme will be coordinated and financed by the FNB Foundation.

The group pledges itself to systematically seek and support opportunities for corporate social investments into its business surroundings.

Chief executive officer's report

Making our strategy work

Adv. Vekuii Rukoro
Group Chief Executive Officer

Our ability to create sustained value for all our stakeholders lies in our passion to nurture and appreciate the valued partnerships that are responsible for our existence.

Our ability to create sustained value for all our stakeholders lies in our passion to nurture and appreciate the valued partnerships that are responsible for our existence.

For the FNB group, operating in these turbulent global times means being able to continually adapt, innovate and mould the way we do business to identify the underlying opportunities and we believe our strategy does just that.

The end of our 2012 financial year was the first year of our group strategic theme, aimed at moving from "Preferred to Valued Partner" (P2VP). FNB Namibia aspires to being a valued partner to all our stakeholders. Our annual report addresses how we interact with this wide and diverse group, meet their needs and create positive value for them. We have defined our stakeholders as:

- Our customers
- Our employees
- Our shareholders
- Government and regulators and
- Our communities and environment

Our stakeholders create the environment in which we operate. That is why we place a high level of importance on ensuring that they really do become lifetime partners.

The three-year strategy is built on four pillars - our people, our customers, efficiencies and key partnerships. Each pillar is vital and equally important. This report focuses on our performance as a group against our strategy; it reflects our achievements and the areas that we still need to address.

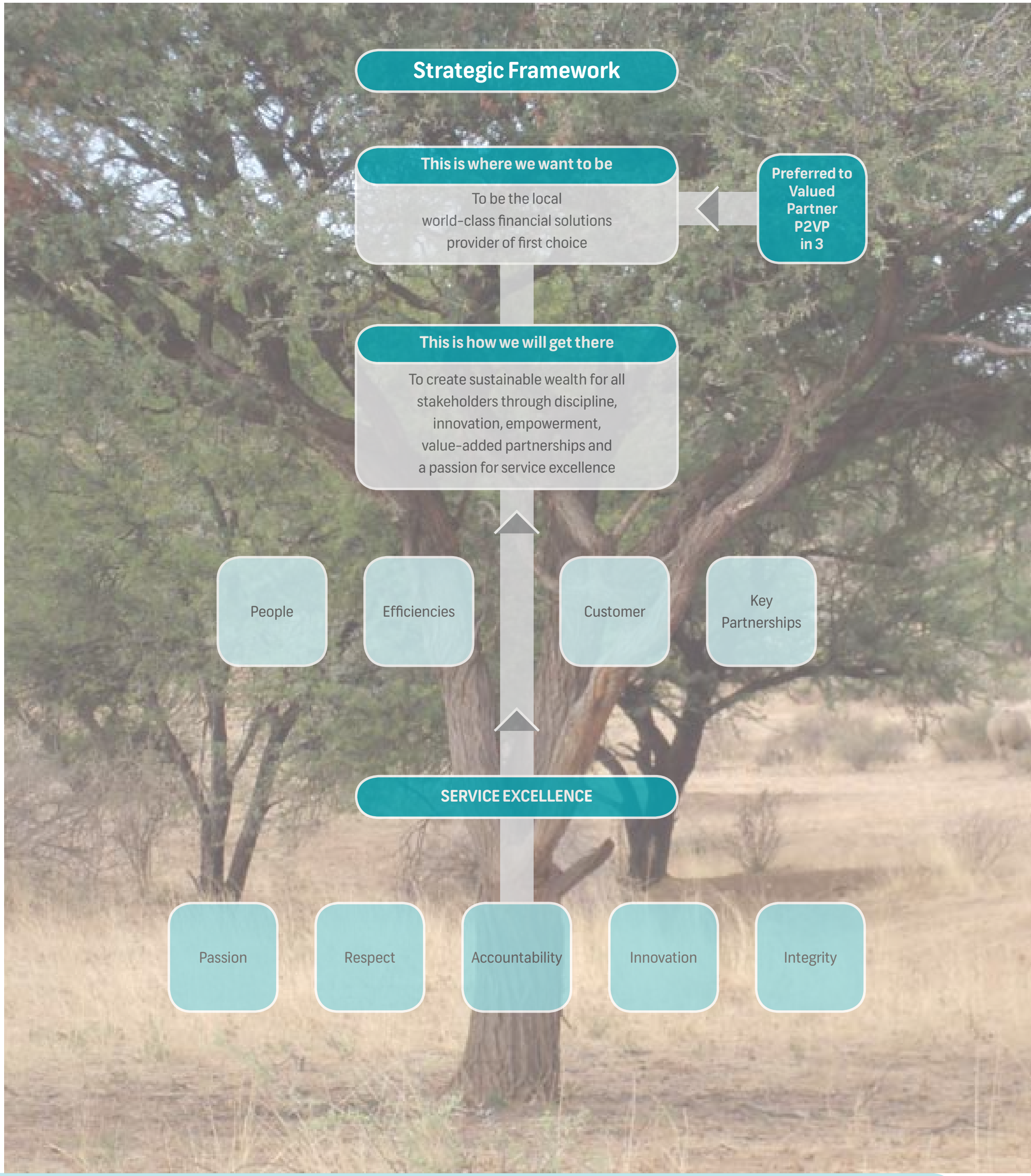
Our People

Our people remain the most important internal driver of success. That is why we focus on building enduring and rewarding relationships with staff to develop their maximum potential. Our objective is to position ourselves as **"employer of 1st choice"**.

Understanding our people

To understand our employees and recognise their needs we conduct an annual People Pillar Survey (PPS) which keeps us in touch with how our people perceive management and the organisation. The survey measures employee engagement across the group, and indicates the most important drivers. The outcome informs future strategy. Overall our employee engagement slipped by 1%, from 71% in 2011 to 70% in 2012.

Our response to the PPS Survey results is twofold; first, we critically review the business areas where problems have been identified. The Human Resources department and business unit leaders work together to address concerns and formulate action plans where necessary. These action plans are monitored monthly.



Chief executive officer's report
Making our strategy work *continued*

Understanding our people *continued*

Secondly, where a bigger concern is obvious, specific group initiatives are driven from the centre.

Although the group scored well in the drivers of strategy, direction and leadership, the biggest single cause of lower engagement was a generational gap of employees aged between 25-34 years, representing about half the total staff complement.

Recognizing their needs

We recognise that the youth in our organisation will play an important role in the FNB of tomorrow. Future leaders are incubated here. By targeting core focus areas we believe we will positively engage this younger generation, making them part of the solution by driving positive change among their peers.

Senior management has identified these focus areas:

Leadership:

- Promote a culture of value-driven leadership by continuing to drive "living the FNB values" throughout all levels.
- Enhance the value of current junior and middle management leadership programmes. This involves bringing together the brightest and best of the younger staff to ensure their voices are heard – and acted upon.
- Communicate pertinent information to staff through more relevant social media platforms.

Generational Diversity:

- A programme of cross-generational engagement to break down barriers. This includes learning how best to communicate and manage across the generation gap.
- Align all staff around FNB's brand mantra of helpfulness.

People Processes:

- Training and development, utilising our new HR Training Centre to its maximum, differentiating training, coaching and mentoring needs for routine, skilled and specialist areas.
- Ensuring that performance management and reward are consistent.

Another important aspect of our strategy is to ensure that we have the right people in the right jobs. We have appointed a talent sourcing official whose job is to identify and, through the talent management framework, manage the talent pool and critical roles throughout the organisation. Responsibilities include identifying potential successors and assisting with personal development plans. Our links with the greater FNB Africa enable us to give our people the chance to grow and learn across the borders in many other African countries.

FNB Namibia has also committed to participating in the Deloitte "Best Company To Work For" Survey. This, we hope, will help us to benchmark ourselves against other industries and better understand reported employment priorities. These insights will help us to optimise our people strategy and improve staff engagement.

Our customers

Our customers - the man on the street, the entrepreneurial business or the large corporate - have one common characteristic: they are dynamic, changing and adapting to volatile environments. Servicing customers is the reason why we exist; we need to understand and adapt to their changing needs.

We listen to what our customers have to say

Every year we use a Buzz Barometer survey to measure customer loyalty. The 2011 results indicate that we have made tremendous strides in this direction. The loyalty (net promoter score) for the group has, in a mere three years, more than doubled while that of Retail trebled. Net promoter scores in the challenging environment of Corporate did very well.

Every second year we carry out a "voice of the customer" survey, the most recent of which was at the end of 2011. The purpose is to determine customer response to the Buzz Barometer, understanding why customers remain loyal**.**

Each business unit is surveyed separately and is responsible for acting on the results. Our group service champion monitors the process.

FNB Namibia divides its market into two main segments, personal and business, each with a number of sub-segments. This enables the Group to identify opportunities and recruit or train staff with appropriate knowledge and experience, resulting in superior service and improved relationships. Customers get a bouquet of tailor-made products and services, ranging from transactional, investment and savings to lending and risk.

We also listen to the industry, government and regulators so that we can help them responsibly to attain their goals.

We respond

Firstly, adapting to where and how our customers transact

At FNB we are constantly looking at ways to make banking easier – and bring banking to customers. Exciting developments on the technology front this year include:

A truly mobile speedpoint, powered by a back-up battery pack charged by a solar panel. It operates wherever a GPRS signal is available. It was launched successfully at the Uis Hot Air Balloon Festival and was used by the Namibian Broadcasting Corporation in its campaign to persuade Namibians to pay their TV licenses.

Our FNB Speedpoints also pioneered perhaps the biggest Merchant setup via wireless links at the Hart van Windhoek festival, which was the largest "cash-less" event in Namibia until now.

In August 2011 FNB Namibia led the way in launching Debit and Credit Card for fuel ahead of an Industry solution. We believe that this bold step, which was met with both positive and negative feedback, acted as an ice-breaker. Debit and Credit cards are now an accepted payment mechanism for fuel.

Pre-Paid airtime for MTC was old hat, but we facilitated Post-Paid airtime for MTC customers, as well as airtime payments for Leo.

FNB Namibia is the only bank currently that facilitates high value payments on line. Amounts of N$5,000,000 and more can be processed from the Online Banking Enterprise platform, with no further manual action required by customers.

FNB Namibia was also the first bank to offer pre-paid electricity for Windhoek via its cellphone, online banking and ATM facilities. Plans are to extend the service to other areas until all Namibians have access to it.

Using the catch-phrase "from bricks to clicks", we continue to educate customers on more cost-effective electronic ways of transacting and believe that our cellphone and online banking channels are key. Our sales van criss-crosses the Namibian landscape to bring banking to the people. To make cellphone banking even more convenient to the largest language group in Namibia, brochures were translated into Oshiwambo.

Due to the ever increasing risk of fraud, and an overall increase in card swopping, FNB Namibia introduced PIN Guards for all our ATMs. This makes it much more difficult for "shoulder surfers" to look at PIN numbers when customers are transacting. Our Online Banking Enterprise platform (Business Use) has also enhanced security by introducing Management User Access, ensuring only "trusted PC's" can log onto the online system.

We continued to extend our footprint and enhance our FNB brand. During the year we opened a new representation point in Mondesa; invested in upgrading branch infrastructure; added eight ATM's; and made progress with our mini-ATM solution.

Secondly, a strong focus on building enduring and rewarding customer relationships

Traditionally FNB Namibia has been strongly positioned in the retail market. A major thrust is to increase our competitive advantage in the business and corporate sector, in particular the large corporate and SOE segment. Increasingly, we can deliver a more comprehensive range of products and services. The newly launched RMB Namibia, with its team of experts specialising in investment and merchant banking, has been set up to address the needs of existing and potential clients as well as local and international private sector investors.

This in turn means a focus on the Corporate and Investment Banking segment. Specific but aligned strategies for Corporate, International Banking and Global Market divisions which include all matters relating to the management and growth of business in a variety of industries.

Our **corporate** team is positioning itself competitively by concentrating on the unique needs within each industry segment and then identifying dedicated relationship managers to service them. Collaborating closely with RMB and the global markets division, we can create unique customer value propositions.

We have also increased our focus on the **corporate property market**, increasing the number of relationship managers to meet demand.

From a **global market** perspective, 2012 was characterised by severe volatility in currency and commodity prices following global and especially European turmoil. The global markets' division (previously known as Fixed Income, Currency and Commodities division of Treasury) generates mainly foreign exchange and fixed income revenues. Foreign exchange income growth was mainly generated from improved margins. However, turnover from existing and new client bases was depressed as a result of uncertainty in international markets. The fixed income desk solidified a strong performance by increasing local debt instruments. We will continue

Secondly, a strong focus on building enduring and rewarding customer relationships *continued*

to drive current strategies, which include selling structured solutions. In addition, we foresee that the positive outlook on debt origination opportunities from RMB Namibia will enhance revenue and skill transfer to the global market's distribution activities.

The trade division's revenue, albeit small, has shown solid growth, mainly from foreign guarantees on construction contracts. The exchange control division continues to provide excellent and speedy service. Our custody and trustee services division increased assets under management and continues its efforts to further its presence in the market.

Acknowledging the gap in our offering within the **business segment**, our strategy includes ensuring we have sufficient skilled relationship managers to focus on growth and provide a better service. Our **business, agriculture and tourism** strategy has been taking shape through a thorough process of understanding these segments individually but also aligning them to gain maximum benefit. Although agriculture and tourism strategies are well entrenched the third leg, business, now needs to be incorporated so that synergies can be achieved, driving down costs and maximising efficiencies.

Our networking platform called Biz Network, has reached new heights with customers enjoying the interaction with relationship managers as well as discussion on topical information to assist them in expanding. They are also able to share ideas and best practice with similar businesses across Southern Africa. This is just one of the advantages we offer business segment clients.

To further align with group strategy, **WesBank** continued to strengthen its corporate team and invest in training, especially in customer relations. Corporate breakfasts were introduced to encourage networking among clients. The continuing efforts paid off and this year WesBank celebrated attaining the N$2 billion mark in assets financed.

A continued shortage in structural supply and a fiercely competitive environment put pressure on margins and affected growth in home loans. **FNB home loans** maintain its strategy to write quality business. It regards it as important to strengthen relationships with the estate agents industry, which provides a channel for new business and rewards agents through the "Realtors Millionaire Club", an annual competition. We also continue to provide construction and management training, together with a "Basics for Building" booklet for contractors in the SME sector.

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

During the year **OUTsurance** launched its business insurance offering to the Namibian market. It can tailor a package to meet the unique needs of any business. Large or small..

Thirdly by delivering service excellence

In 2011 we reported that a group service champion had been appointed. Our service champion and team have been driving the following three critical factors in our quest to achieve service excellence.

Improved product knowledge to ensure staff can offer the correct products and services to meet individual needs – a tailor-made service.

Reduced service failures and improved query resolution through a customised electronic system. We actively log, resolve and monitor trends and service levels across the business to identify areas for further improvement. Customers can also log their own queries directly onto the system and they will receive SMS notifications on progress in resolving the query through our FNB in-contact messaging system.

Improving the group-wide service culture through training and rewarding service excellence.

And lastly, responding to the call from Government and regulators in support of their consumer initiatives

FNB Namibia formed a smart partnership with Government, through the Ministry of Finance, assisted by the Federal Republic of Germany and the Deutsche Gesellschaft für Internationale Zusammenarbeit GIZ, to be an active partner in driving the Financial Literacy Initiative (FLI). Officially launched in March 2012, the FLI was founded to assist Namibians to make informed judgments on managing their finances by embarking on an educational initiative (Bewise / Savewise / Spendwise).

FNB is also involved in the internationally acclaimed Aflatoun (empowering children) programme, which aims to improve social and financial skills in schools.

In June 2012 our bank proudly launched the revised CardWise Zero product, which is fully compliant with new requirements set for the Basic Bank Account by the Bank of Namibia (BoN) and implemented more than three months ahead of the October 2012 deadline set by BoN. The introduction of the CardWise Zero product is another step in FNB's efforts to keep to our brand promise: "How can we help you?". It is part of a drive to 100% financial inclusion, You do not need a regular income to bank with FNB.

To allow more SMEs to be included in the mainstream economy and address the shortage of skills, we enhanced our partnership with SME's Compete to train entrepreneurs. FNB Namibia also has a fully-fledged unit attending to the needs of SMEs.

Recognising that cost increases for food, transport and electricity keep household budgets under pressure, we have once again kept fee increases for 2012/2013 on average below inflation and in some cases we have even reduced them. We still offer significant value to customers with the Unlimited Electronic Pricing Option (UEPO) on Lifestyle accounts. This fee hasn't changed for five years.

Efficiencies

Why is this so important to us?

For the group to sustain success we need to adapt. Improving our organisation's efficiency will help ensure continued sustainable growth and development. One measure we use to evaluate our efficiency is the cost to income ratio. This is at 52.4%, making FNB a very efficient financial institution.

How we achieve efficiency

Our annual innovations campaign generates ideas that benefit efficiencies. Innovation is a core value of the group, and the campaign encourages staff to participate, and rewards those whose ideas are implemented.

Other efficiencies came from new or enhanced systems and re-engineering of processes.

System efficiencies

The introduction of Account Opening Optimisation (AOO) will have far-reaching benefits by reducing the time taken to open accounts as well as the paper load. The rollout of AOO started in May 2012 and will continue across the country until the end of September.

FNB Cellphone Banking is also linked directly with MTC and Leo for In-Contact messages, streamlining delivery and making trouble-shooting easier since no third party is involved any more.

Customer education is key to driving efficiencies. This year we introduced educational SMS messages which go out automatically to account-holders. The messages provide a reminder that electronic channels cost less and are triggered when customers: withdraw cash or make a balance enquiry at another bank's ATM; make multiple withdrawals on one day; withdraw or deposit cash from a FNB Branch; and when insufficient funds are in the account for debit orders.

Process efficiencies

The group has established operational and credit process review committees responsible for critically reviewing internal processes and recommending improvements. They also review key group expenditure items to find ways to reduce costs.

Our retail business segment embarked on a capacity modeling process to determine the optimum number of staff within a branch operation and hence ensure effective utilisation of human resources.

Continuing our drive to convert from print to electronics, FNB Speedpoints division introduced e-mailing of merchant statements, saving costs and making the operation greener.

Customers still using manual branch processes like issuing bank cheques and paying salaries manually were contacted and introduced to Online banking, making the process simpler, faster and less costly for all.

Various efficiency projects in Treasury Support were successfully launched to enhance the service, improve risk management and raise overall compliance measures to even higher standards. With the introduction of Global Transactional Services support from FirstRand, we envisage further growth and optimisation opportunities in the Trade and Custody divisions.

Other efficiencies

A new head office development in Windhoek's CBD will house staff presently located in four buildings and unlock efficiencies – saving support and delivery costs, reducing travelling costs, centralising communication and energy resources, cutting telecommunication and external rental costs. The project should be completed in the second half of 2015.

Key Partnerships

Understanding who our partners are

In our 2011 annual report we introduced a fourth pillar to our strategic framework: Key Partnerships. Identifying them as a strategic focus area was fundamental to creating a sustainable business model due to the synergies they bring.

Because our partners have diverse and sometimes conflicting interests and different expectations, it was important to engage with them and understand their needs and concerns.

Key partners include government, regulators, main shareholder, board members, trade unions, consumer lobby groups, industry bodies and the general public.

We have various policies and methodologies to govern communications and conduct with them. They are informed by best practice, corporate governance and legislative requirements as well as risk and compliance management principles.

Below in more detail we describe our key partnerships, how and why we engage with them, and the platforms we use to respond.

Responding and contributing towards a valued partnership

The **Namibian Government** and its line ministries create the conducive business environment in which we operate. It is important for us to understand their vision for Namibia and how the group can proactively contribute to it.

We achieve this by engaging with **line ministers** as and when issues are raised. A regular platform we use is our annual budget synopsis which we co-host with Deloitte's. The Minister of Finance is our keynote speaker.

We engage with our **regulators,** both the **Bank of Namibia and NAMFISA**, on a continuing basis, both formally and informally, either in reply to specific questions or in response to draft determinations and legislation. We actively participate in working groups and forums and apply our minds when providing written responses in consultation processes.

Our people represent the FNB group in the following industry forums:

- The Banker's Association
- Payment Association of Namibia (PAN)
- Payment Clearing House (PCH) Card, Code line Clearing (CLC), Electronic Funds Transfer (EFT)
- Namibian Insurance Brokers Association
- Namibian Insurance Association
- We are also an industry leader on SADC Bankers Association Payment Integration Project.

Other than the regulatory and compliance engagements with our **board members**, we also hold quarterly board lunches where we invite a broad spectrum of stakeholders and create a platform for networking.

Excluding board level, engagement with our **main shareholder** is largely decentralised and takes place at business unit level. Business units sign service level agreements with their counterparts in SA, which informs the level of involvement in ongoing processes and new developments. The main focus is to leverage off skills and expertise and to ensure we are at the forefront of technological developments.

To cement our relationship with **trade unions**, we have undertaken to meet quarterly with union leaders. We will also establish a discussion forum between our HR department and the union, which will meet more regularly to discuss all other industrial relations matters.

Various open days are held with editors of **newspapers** and **analysts** to create a transparent platform for them to pose questions and understand the dynamics of our group better. Another forum is our annual results presentation in September.

FNB also seeks opportunities to engage in smart partnerships with members of the **general public**, to drive specific initiatives. Some examples include:

FNB Namibia, as a tourism industry partner, realised that reliable and up-to-date information pertaining to this industry's performance was not frequently available, hampering planning. So FNB Namibia, in partnership with FENATA, created the FNB Tourism Index to help individual businesses understand the tourism environment and enable them to plan ahead. -The index will come out in alternate months and will be factual, accurate and timely.

FNB's **Housing index** covers developments in the national housing market and measures the movement of house prices and volumes in different regions.

Other key partnerships are with our **vendors**, without whom it would be challenging to meet customer expectations.

Although we have sold our stake in **Momentum Life Insurance Namibia**, we remain strategic partners to enable us to continue to offer customers a comprehensive range of long-term insurance products, maintaining our role as a diversified financial services group.

Looking ahead

We continue the momentum of our core strategy P2VPin3 – preferred to valued partner in three years. The focus remains on our four strategic pillars and the specific imperatives which we believe will continue to ensure sustainable growth. The world we live in is a fast changing space. We need to remain innovative, ready to adapt, change and mould strategy as the landscape in which we operate changes and that our executive management team is up for the challenge.

Accolades

During the year under review FNB Namibia received the following accolades:

On 30 November 2011, for the third year in a row, FNB Namibia was selected as the best bank in Namibia and received the **Bracken Award** from the Banker Magazine for the fourth time.

FNB Namibia was selected one of the top five banks in Africa in the category "Best Local Bank in Africa" by an independent panel of respected judges. The awards are made by **the African Banker Magazine** and supported by multi-national corporations like VISA, the Private Sector Operations of the African Development Bank and the Corporate Council on Africa

FNB Namibia was ranked number one bank in Namibia, number 13 in Southern Africa and number 72 in Africa – up five places from last year – among the top 100 banks in Africa by the **African Business Magazine.**

We became the first Namibian financial services group to be awarded the "Best Banking Group in Namibia" title for 2012 by the **World Finance** banking awards.

RMB Namibia scooped the "Best Investment Bank in Namibia" title for 2012 by the **World Finance** banking awards after only being launched in September 2011.

Appreciation

I would like to thank our chairman, Claus Hinrichsen, for his leadership and my fellow board colleagues who play a vital role in governance, oversight and strategic guidance. I thank them for their ongoing commitment, participation and support in guiding the group to achieve sustainable wealth for all its stakeholders.

I would especially like to acknowledge and thank our staff as well as our customers for making us the preferred banking group in Namibia.

And lastly, I would like to thank the senior leadership and the rest of the team whose continued efforts, dedication and loyalty shaped an excellent group performance once again.

Adv. Vekuii Rukoro
Group Chief Executive Officer

Erwin Tjipuka
Group Chief Financial Officer

The financial performance is more accurately reflected by considering the performance of continuing operations, excluding the profit from the sale and the Momentum earnings contribution for the current and previous year.

Chief financial officer's report
Reporting on our success

Group overview

The 2012 results reflect the sale, concluded on 29 June 2012, of the group's 51% shareholding in Momentum Namibia to Metropolitan Life Namibia. The financial performance is therefore more accurately reflected by considering the performance of continuing operations, excluding the profit from the sale and the Momentum earnings contribution for the current and previous year.

After the Momentum sale, the group has two main operating entities: First National Bank of Namibia Limited ("FNB") and OUTsurance Insurance Company of Namibia Limited ("OUTsurance"). Both were profitable. FNB profit for the year was up 17% to N$509 million and OUTsurance profit rose by 48% to N$18 million. The group purchased the remaining 60% shareholding in FNB Insurance Brokers (Namibia) (Pty) Ltd (FNBIB) with effect from 1 July 2011, and is now a fully consolidated subsidiary. FNBIB is included in the other segment.

Profit from continuing operations increased by a healthy 16% to N$539 million (2011: N$464 million), underpinned by satisfactory advances growth, a continued reversal of bad debts and solid growth in non interest revenue. Operating expenses were well managed.

Taking the Momentum sale into account, profit for the year increased by 43% to N$772 million (2011: N$539 million). A profit of N$232 million on disposal of a subsidiary was recognised and the sale proceeds of N$342 million have contributed to the special dividend being declared. The profit attributable to discontinued operations amounted to N$2 million (2011: N$75 million). The decline is mainly due to a change in assumptions used to value policyholder liabilities. Following is a summary illustrating the effect of this on group headline earnings. Headline earnings from continuing operations increased by 15%.

Headline earnings contribution per segment

N$m	2012	2011	% change
FNB	501	434	15%
OUTsurance	9	6	50%
Other	15	17	-12%
Headline earnings from:			
continuing operations	525	457	15%
discontinued operations	1	38	-97%
Headline earnings	526	495	6%

Earnings per share rose to 294.3 cents (2011: 191.8 cents). Headline earnings were at 203.1 cents (2011: 191.6 cents). Return on average equity from continuing operations improved to 26% (2011: 25%). The cost to income ratio was 52.4% (2011: 52.2%), impacted by the inclusion of FNB Insurance Brokers in the current year.

Statement of comprehensive income

Interest income

Net interest income increased by 6% to N$889 million (2011: N$840 million). However, FNB's Investment Banking Division concluded a transaction which, for accounting purposes, is designated at fair value through profit and loss. Fair value income of N$41 million is therefore reflected under non interest income rather than interest income. If this had not been so, growth in interest income would have been close to the 11% growth in average advances.

Continued pressure on margins stemmed not only from the competitive Namibian market - both lending and funding - but also from prolonged low interest rates. FNB's compliance with Bank of Namibia's requirement to reduce the margin between prime and the bank rate by 50 basis points twice – in October 2009 and again in October 2010 - is still being felt. Margin was also sacrificed by the negative endowment effect on capital after the payment of a special dividend of N$379 million in May 2011. As in the prior year, some relief was obtained from the release of interest previously suspended. This was achieved by the on-going effort of our centralised recovery team to collect non-performing advances.

Impairment losses

The net impairment reversal of N$42 million for the year against a reversal of N$12 million in 2011 was on the back of the continued healthy profile of the advances book. Rigorous actuarial calculations based on historical data resulted in a considerable portfolio impairment release. Recoveries of previously impaired loans continued, albeit on a much smaller scale than in the previous year, although there has been recognition of new specific impairments. The prevailing lower interest rates together with the benefits of a centralised credit-collections team, effective early delinquency detection and a consistent and sound lending policy continued to pay off.

	2012		2011	
	N$m	% of average advances	N$m	% of average advances
Specific impairment (reversal)/recognition	(1.7)	0.0%	(17.4)	(0.1%)
PV of securities on non-performing loans	4.8		5.0	
Total specific impairments	3.1	0.0%	(12.4)	(0.1%)
Portfolio impairment	(45.0)			
Total impairment (reversal)/charge	(41.9)	(0.3%)	(12.4)	(0.1%)

Non interest income

Non interest revenue increased by 22% to N$740 million. Banking fee and commission income grew by 16% to N$630 million, despite pricing pressures. This is attributable to good growth in accounts and transaction volumes, as well as an annual price increase, mostly for inflation. The number of customers using the Unlimited Electronic Pricing Option, capped at N$98 a month, increased by 39%. There has been a 73% growth in cellphone banking users. Overall the volumes reflect FNB's strategy to promote less expensive electronic delivery channels. This puts revenue under pressure, making volume growth essential.

Fair value income contributed N$80 million (2011: N$66 million). This encompasses:

- foreign exchange trading of N$68 million for the year, an increase of N$5 million;
- a negative derivative revaluation of N$34 million mainly attributable to an interest rate swap; and
- designated at fair value through profit and loss income of N$41 million (2011: nil) stemming from a fair value advance.

There was a N$9 million gain under investment income resulting from the disposal of FNB's shares in Visa Incorporated during the year.

Following the incorporation of FNBIB during the year as a wholly owned subsidiary, the share of profit from associates reflects a decrease. However, the non interest income contribution attributable to FNBIB is N$37 million.

To come into line with industry practice, during the year the group reclassified fee and commission expenses that are incremental or directly attributable to the generation of fee and commission income from various operating expenses to the appropriate fee and commission categories. The prior year has been reclassified accordingly. The effect was a 1.5% improvement in the cost income ratio.

Net insurance premium income and net claims and benefits paid

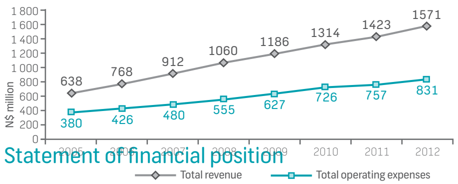
OUTsurance's premium income increased by 17%. It has levelled off as the business matures after the high initial take-off recorded on the launch of the personal lines products. A lower home owners' building loss ratio following a more moderate rainy season contributed to a reduction in net claims and benefits.

Operating expenses

Non interest expenditure increased by 15% to N$884 million. The year on year increase was negatively impacted by abnormalities, the largest of which was the inclusion for the first time of FNBIB's costs of N$34 million. Excluding abnormalities, the year on year increase was 8% which demonstrates sensible cost control. At the same time we continued to invest in new representation points and technology to improve efficiencies, leading to an improved customer experience.

The positive trend in the relationship between total revenue growth and the increase in operating costs in the banking group is illustrated below.

Operating "jaws" – banking group



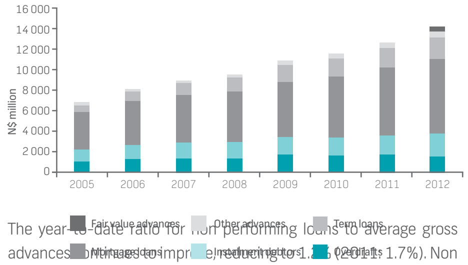
Statement of financial position

The group's total assets reflect growth of 15%. In 2011 the pending sale of Momentum resulted in assets and liabilities attributable to that company being classified as held for sale. As the sale was concluded prior to year end, the balances relating to Momentum are not consolidated in the statement of financial position for the current year.

The sizeable increase in cash and cash equivalents, balances due from banks and investment securities relate to short term investments by FNB employing funds accumulated on corporate demand accounts, due to the surplus liquidity in the market.

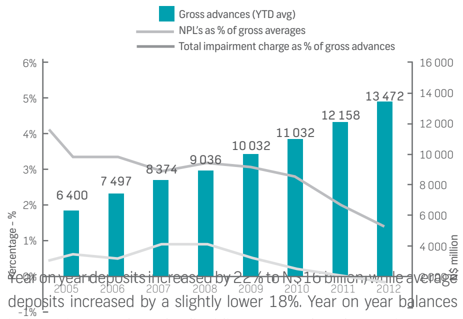
Gross average advances reflect a year on year increase of 11% to N$13.4 billion. Overdrafts grew by 18%, WesBank 17% and mortgage loans 9%. Mortgage loans constitute an average of 51% of FNB's advances book. This is not considered a concentration risk due to the stable Namibian property market. The relative composition of the various categories of advance is illustrated in the chart on the following page.

Advances composition



The year-to-date ratio for non performing loans to average gross advances continues to improve, reducing to 1.[illegible]% (2011: 1.7%). Non performing loans reduced by 17% to N$177 million (2011: N$212 million).

Gross advances vs. NPL's and impairments



Year on year deposits increased by 22% to N$16 billion, while average deposits increased by a slightly lower 18%. Year on year balances indicate increased surplus liquidity compared to the previous year. Diversification of sources of funding as well as term is monitored. Efforts to increase retail funding are meeting with success and the percentage of retail funding to total funding has increased.

In terms of the banking group's domestic medium term note programme, N$390 million Tier 2 capital was raised with a new bond issue in March 2012, replacing a N$260 million bond which was called on the same day. Fixed rate notes (FNBX22) to the value of N$110 million and floating rate notes (FNBJ22) to the value of N$280 million were issued. The additional N$130 million raised will allow the group to optimise on the mix between Tier 1 and Tier 2 capital.

Shareholder return

The group has maintained the 2.4 times dividend cover on profit

from continuing operations attributable to ordinary shareholders. This results in an ordinary dividend distribution for the year of 82 cents, up by 6%. In addition, a special dividend of N$1.80 per share was declared and will be paid in October 2012. The special dividend returns to shareholders surplus capital generated by the sale of Momentum (N$342 million), the N$9 million profit realised on the disposal of FNB's investment in Visa and the N$130 million additional tier 2 capital raised.

Value to shareholders is created by dividends and share price appreciation. Based on the closing share price on 30 June 2012 of N$14.66, a shareholder who purchased a single FNB Namibia Holdings share on 1 July 2011 at N$12.36 would have gained N$2.30 in capital appreciation. Together with the ordinary and special dividends totalling N$2.62, this equates to a return on investment of 40% for the year.

Capital management FNB

Introduction and objectives

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

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

Our process is articulated in the group's capital management framework which is re-assessed annually. The framework enables us to manage our capital in a consistent and aligned manner.

We incorporate stress testing in the capital management framework, determining sensitivities and core assumptions in the case of extreme but plausible events. Stress testing allows us to formulate our response, including risk mitigation actions, in advance of stressful conditions. Actual market events which occurred throughout the world's financial system in recent years have been used to inform our capital planning process.

In addition, our internal stress tests complement the Internal Capital Adequacy Assessment Process ("ICAAP") completed annually and submitted to Bank of Namibia (BoN) under prescribed determinations.

The outcome of the ICAAP process is a vital component of our internal capital management assessment.

Capital adequacy and planning

Supply of capital

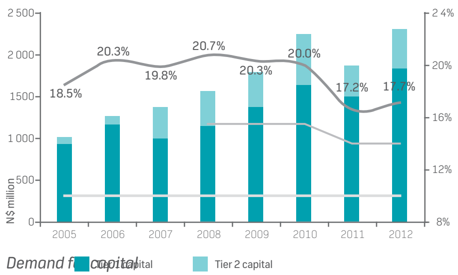
The group's planning process ensures that the total capital adequacy and Tier 1 ratios remain within approved ranges or above target levels across economic and business cycles. FNB is appropriately capitalised for a range of normal and severe scenarios and possible stress events. FNB aims to back all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

Total Capital

During the year FNB substantially exceeded the minimum capital adequacy requirements of the Bank of Namibia for both Tier 1 and Total Capital – the former by 6.72% and the latter by 7.67%.This was mainly attributable to internal capital generated of N$302million, being retained earnings after taking into account dividends. FNB also called the N$260 million subordinated bonds FNB17, part of its Tier 2 capital, and simultaneously issued a new bond (FNB22) to the value of N$390 million under the current N$400 million medium term note programme. The FNB22 qualifies as Tier 2 capital in terms of BON requirements.

The following graph depicts eight years' growth in capital components and capital adequacy:

Bank capital



Demand for capital

BoN requires banking institutions to hold a minimum amount of capital equal to 10% of the calculated risk weighted assets ("RWA") in terms of the standardised approach of Basel 2. The increase in risk weighted assets during the year is mainly attributable to the increase in credit risk arising mainly from growth in advances. In addition, operational risk increased in line with the growth in gross income.

Regulatory developments

The regulation and supervision of financial institutions continues to undergo significant changes in response to the global financial crisis. In December 2010, the Basel Committee issued final new requirements. Commonly referred to as Basel 3, it places greater emphasis on liquidity and leverage ratios of banks and also raises the quality and transparency of the capital base. As a subsidiary of a South African banking group we are preparing for the transition to Basel 3. The South African Reserve Bank is expected to finalise Basel 3 capital requirements in the second half of 2012. Once these have been set and the testing phase completed, FNB will be in a position to review its capital management framework to determine the range and targets it ought to be meeting.

During 2012 BoN introduced the consolidated supervision approach; an approach that we believe will not only complement our internal capital management framework but enhance optimum capital mix within the group. We are pleased to report that capital adequacy levels are more than satisfactory.

Capital adequacy of FNB

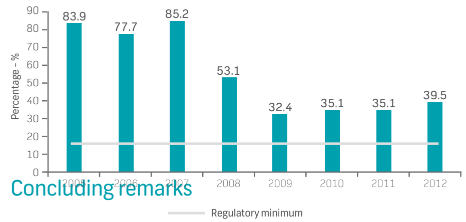
	2012 N$m	2011 N$m
Risk weighted assets		
Credit risk	11 640	9 539
Market risk	38	14
Operational risk	1 843	1 677
Total risk weighted assets	**13 521**	11 230
Regulatory capital		
Share capital and share premium	1 143	1 143
Retained profits	895	621
Capital impairment: intangible assets	(183)	(211)
Total tier 1	1 855	1 553
Eligible subordinated debt	390	260
General risk reserve, including portfolio impairment	144	119
Total tier 2	534	379
Total tier 1 and tier 2 capital	**2 389**	1 932
Capital adequacy ratios		
Tier 1	13.7%	13.8%
Tier 2	4.0%	3.4%
Total	**17.7%**	17.2%
Tier 1 leverage ratio	9.4%	9.7%

FNB calculates capital at a banking group level by using the Basel 2 framework. A standardised approach prescribed by BoN requires Namibian banks to calibrate their RWA for credit, operational and market risks.

OUTsurance

OUTsurance's capital adequacy is measured by the solvency margin that is the free reserve ratio of shareholders' funds expressed as a percentage of net premium income. The company targeted solvency margin range is between 25% and 50%, while the regulatory minimum is 15%. The solvency margin at 30 June 2012 was 39.5% (2011: 35.1%), a sound and healthy position. OUTsurance declared a dividend of N$10 million for the year (2011: N$5 million).

Solvency margin – (%)



Concluding remarks

Although the global outlook is uncertain, locally we anticipate increased household demand and growth opportunities in the mining sector. The Group is well positioned to benefit from increased local economic activity in retail and corporate investment banking arenas. Its robust balance sheet and strong capital position are important enablers to bring increased value to all stakeholders. Low interest rates and a disciplined lending policy make significant defaults unlikely. Our focus will continue to be on astute cost management, while investing in innovative systems to enhance service, improve efficiencies and ensure effective risk management.

ial Officer

Ten year review

Statement of comprehensive income

N$ million	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Continuing operations										
Interest and similar income	1 525	1 415	1 388	1 582	1 504	1 212	926	815	780	608
Interest expense and similar charges	(635)	(575)	(630)	(839)	(775)	(601)	(443)	(392)	(382)	(299)
Net interest income before impairment of advances	890	840	758	743	729	611	483	423	398	309
Impairment reversal / (recognition) losses on advances	42	12	(13)	(38)	(72)	(68)	(29)	(23)	(23)	(12)
Net interest income after impairment of advances	932	852	745	705	657	543	454	400	375	297
Non-interest income	740	605	574	433	403	380	344	281	218	184
Net insurance premium income	84	72	56	185	160	120	108	89	78	
Net claims and benefits paid	(41)	(41)	(38)	(125)	(117)	(44)	(42)	(30)	(27)	
Decrease / (increase) in value of policyholder liabilities: insurance contracts				73	84	(38)	(37)	(29)	(17)	
Fair value adjustment of policyholder liabilities: investment contracts				11	(4)		2	(2)		
Fair value adjustments to financial liabilities	4	(1)	(2)	(26)	16	8				
Income from operations	1 719	1 487	1 335	1 256	1 199	969	829	709	627	481
Operating expenses	(884)	(769)	(719)	(694)	(618)	(521)	(454)	(400)	(380)	(226)
Net income from operations	835	718	616	562	581	448	375	309	247	255
Share of profit from associates	3	5	5	2	6	(1)	(3)	1		
Income before tax	838	723	621	564	587	447	372	310	247	255
Indirect tax	(17)	(17)	(16)	(12)	(18)	(13)	(13)	(3)	(4)	(7)
Profit before tax	821	706	605	552	569	434	359	307	243	248
Direct tax	(282)	(242)	(202)	(185)	(160)	(130)	(102)	(91)	(78)	(7)
Profit for the year from continuing operations	539	464	403	367	409	304	257	216	165	241
Discontinued operations										
Profit attributable to discontinued operations	1	75	56							
Profit after tax on sale of discontinued operations	232									
Profit for the year	772	539	459	367	409	304	257	216	165	241
Equity holders of the parent	762	496	429	354	384	303	256	211	165	241
Non-controlling interests	10	43	30	12	24					
Non-cumulative non redeemable preference shareholders				1	1	1	1	5		
Reconciliation of earnings attributable to ordinary shareholders and headline earnings										
Earnings attributable to ordinary shareholders	762	496	429	354	384	303	256	211	165	241
Headline earnings adjustments										
(Profit) / Loss on sale of fixed assets			(1)		1		(1)	(6)	(1)	(2)
(Profit) / Loss on revaluation of investment property					1		(1)	(1)		
Reversal of impairment of associate companies					(4)	1	3			
Realised gain on available for sale financial assets	(9)			(1)	(2)	(4)	(3)			
(Profit) on disposal of subsidiary	(232)				(34)					
Impairment of intangible asset	5									
Gains on initial recognition of VISA shares					(16)					
Headline earnings	526	496	428	353	330	300	254	204	164	239

Statement of financial position

N$ million	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Assets										
Cash and short term funds	1 002	428	455	357	345	226	208	203	280	453
Due from banks and other financial institutions	1 926	763	851	479	1 004	116	170			
Derivatives financial instruments	27	24	57	130	38	22	39	5		
Advances	14 077	12 464	11 227	10 486	9 142	8 726	7 862	6 709	5 827	3 555
Investment securities	2 144	1 644	2 800	1 899	2 068	1 152	967	839	637	350
Accounts receivable	216	135	117	116	95	155	102	182	97	250
Tax asset				1	17			8	41	
Investment in associates	4	25	23	21	5			6	3	3
Property and equipment	287	279	267	236	188	164	158	152	142	81
Intangible assets	11	17	56	59	67	62	71	79	109	
Deferred tax asset	3	2	6	1	20	34	39	35	46	40
Policy loans on investment contracts			27	23	19	3	1			
Reinsurance assets	1	1	50	287	390	8	8	3		
Investment properties					4	6	6	12	18	
Non-current assets and disposal group held for sale		1 382	1	5						
Total assets	19 698	17 164	15 937	14 100	13 402	10 674	9 631	8 233	7 200	4 732
Equity and liabilities										
Liabilities										
Deposit	16 239	13 306	12 046	10 601	9 676	7 817	7 812	6 706	5 884	3 950
Due to banks and other financial institutions	48	44	54	23	354	831	124			
Short trading position		52								
Derivative financial instruments	60	22	58	116	62	33	40	4	17	
Creditors and accruals	230	229	185	297	247	152	114	133	102	162
Tax liability	152	24	32	5	1	104	1	17		
Employee liabilities	128	112	98	22	38	34	30	28	26	22
Deferred tax liability	19	3		18			35	46	36	
Policyholder liabilities under insurance contracts	45	42	999	927	1 104	188	147	109	77	
Policyholder liabilities under investment contracts			44	36	38					
Tier two liabilities	393	270	270	261	236	251				
Policy holders liabilities relating to discontinued operations				32	19	24	26	15	20	
Liabilities directly associated with disposal group held for sale		1 074								
Total liabilities	17 314	15 178	13 786	12 338	11 775	9 434	8 329	7 058	6 162	4 134
Equity										
Ordinary shares	1	1	1	1	1	1	1	1	1	1
Share premium	182	188	192	195	258	264	266	267	302	18
Reserves	2 179	1 631	1 759	1 444	1 224	975	1 035	907	735	579
Capital and reserves attributable to the group's ordinary equity holders	2 362	1 820	1 952	1 640	1 483	1 240	1 302	1 175	1 038	598
Non-controlling interest	22	166	199	122	144					
Total equity	2 384	1 986	2 151	1 762	1 627	1 240	1 302	1 175	1 038	598
Total equity and liabilities	19 698	17 164	15 937	14 100	13 402	10 674	9 631	8 233	7 200	4 732

Ten year review
continued

Ten year review: ratios and selected financial information

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Number of ordinary shares issued ('000)	267 593	267 593	267 593	267 593	267 593	267 593	267 593	267 593	260 771	201 700
Ordinary shares issued after share trust eliminated ('000)	259 016	258 789	258 502	258 395	264 384	264 323	264 347	264 347	259 071	200 000
Weighted number of ordinary shares in issue ('000)	258 992	258 699	258 471	260 226	264 384	264 331	264 347	258 496	259 071	200 000
Number of preference shares in issue	2	2	2	2	2	2	2	2	27.2mil	
Number of preference shares expected to convert									14.5mil	
Earnings per ordinary share (cents)	294.3	191.8	166.1	136.1	145.2	114.7	96.7	81.6	63.7	120.4
Headline and diluted headline earnings per share (cents)	203.1	191.6	165.7	135.6	124.6	113.5	95.0	78.7	63.4	119.6
Diluted earnings per share (cents)	294.3	191.8	166.1	136.1	145.2	114.7	96.7	81.6	60.4	120.4
Core operational earnings per share (cents)	203.1	191.7	165.6	135.6	124.6	113.5	95.0	78.7	67.3	79.6
Diluted core operational earnings per share (cents)	203.1	191.7	165.6	135.6	124.6	113.5	95.0	78.7	63.7	79.6
Return on assets (earnings on average assets) (%)	4.1	3.0	2.9	2.6	3.2	3.0	2.9	2.7	2.8	5.5
Return on assets (earnings on average assets) (%) - Normalised	2.9	2.8								
Return on equity (earnings on average equity) (%)	36.4	26.3	23.9	22.7	28.2	23.9	20.6	19.1	20.2	40.4
Return on equity (earnings on average equity) (%) - Normalised	25.8	24.6								
Core operational earnings on average assets (%)	2.9	3.0	2.8	2.6	2.7	3.0	2.8	2.6	2.9	3.6
Core operational earnings on average equity (%)	25.2	26.3	23.8	22.6	24.2	23.6	20.5	18.4	21.3	26.7
Cost to income ratio (%)	52.4	52.2	48.9	50.5	48.1	48.0	49.0	49.8	52.2	45.9
Critical mass (%) (excluding merger expenses in 2004)	4.5	4.5	4.5	4.9	4.6	4.9	4.7	4.9	5.3	4.8
Impairment (reversal)/charge vs. net advances (%)	(0.32)	(0.10)	0.1	0.4	0.8	0.8	0.4	0.4	0.5	0.4
Non-interest revenue as a % of total revenue	0.5	0.4	0.5	0.5	0.4	0.5	0.5	0.5	0.4	0.4
Share information:										
*Dividends per share - ordinary dividend declared (cents) **	82.0	77.0	67.0	56.0	53.0	47.0	40.0	32.0	25.0	25.0
** based on current year profits*										
*Dividends per share - ordinary dividend paid (cents) ***	82.0	72.0	59.0	55.0	48.0	44.0	34.0	28.5	11.5	25.0
*** based on dividends paid within financial year*										
Dividend per share - special dividend (cents)	180.0	170.0				93.0				95.0
Dividend yield - ordinary dividend (%)	5.6	6.2	5.8	4.7	5.3	5.9	5.7	5.3	5.4	5.6
Dividend yield - special dividend (%)	12.3	13.8				11.7				21.3
Dividend cover (times) based on total dividends	2.4	2.4	2.4	2.4	2.4	0.8	2.4	2.5	2.5	1.0
Earnings yield (%)	20.1	15.5	14.4	11.5	14.6	14.5	13.8	13.6	13.9	27.0
Closing share price - ordinary (cents)	1 466	1 236	1 156	1 180	996	792	700	600	460	446
Price / earnings ratio	5.0	6.4	7.0	8.7	6.9	6.9	7.2	7.4	7.2	3.7
Net asset value per share (cents)	912.0	703.2	755.1	634.9	561.0	469.3	492.7	444.6	400.7	298.9
Market capitalisation (N$ million)	3 923	3 307	3,093.4	3 158	2 665	2 119	1 873	1 606	1 200	900
Price to book	1.6	1.8	1.6	1.9	1.8	1.7	1.4	1.4	1.2	1.5
Capital adequacy										
Banking group	17.7	17.2	20.4	20.3	20.7	20.0	20.3	18.4	21.2	19.9
OUTsurance - solvency margin	39.5	35.1	35.1	32.4	53.1	85.2	77.7	83.9	75.0	
Number of staff	1 837	1 808	1 791	1 664	1 601	1 463	1 433	1 406	1 363	1 059

Glossary of Terms

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

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

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

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

Capital adequacy requirement (CAR):
This is the minimum amount of capital required to be held, as determined by the Authorities.

Cost to income ratio (%):
Operating expenditure, excluding insurance risk related payments, and indirect taxes, divided by total income excluding unrealised gains and losses on the insurance investment portfolio.

Critical mass:
Operating expenditure as a percentage of total assets.

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

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

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

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

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

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

IAS:
International Accounting Standards

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

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

Interest in suspense:
Contractual interest suspended on non-performing loans.

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

Glossary of Terms
continued

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

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

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

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

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

Non performing loan (NPL):
A loan on which the recovery of the contractual interest and capital is doubtful.

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

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

Organic growth:
Non-acquisition growth.

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

Present value (PV):
The present value of future cash flow discounted at a specific discounting rate.

Return on average equity (ROE) (%):
Earnings attributable to ordinary shareholders divided by average ordinary shareholders' funds.

Probability of default (PD):
The probability that a counterparty will default within the next year and considers the likelihood of the counterparty to repay.

Return on average total assets (ROA) (%):
Earnings attributable to ordinary shareholders divided by average total assets.

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

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

SME:
Small and medium enterprise

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

Annual financial statements

Contents

Directors' responsibility statement

To the members of FNB Namibia Holdings Limited

These consolidated annual financial statements are the responsibility of the company's directors. We also acknowledge responsibility for establishing accounting procedures that provide for the maintenance of documentation sufficient to support the consolidated annual financial statements. These consolidated annual financial statements present fairly the financial position, results of operations and cash flows of the group and company in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies Act of Namibia and have been prepared on bases consistent with those of the prior year, except where specifically disclosed in the consolidated annual financial statements. The consolidated annual financial statements incorporate full and responsible disclosure in line with the group's philosophy on corporate governance and as required by the Namibian Stock Exchange.

The directors have reviewed the appropriateness of the accounting policies, and concluded that estimates and judgements are prudent.

The directors report that the group's internal controls are designed to provide reasonable assurance as to the integrity and reliability of the financial statements, to adequately safeguard, verify and maintain accountability of assets and to prevent and detect fraudulent financial reporting. Such controls are based on established written policies and procedures. They are implemented by trained, skilled personnel with an appropriate segregation of duties and are monitored throughout the group.

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

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

The directors have reviewed the group's budget for the year to 30 June 2013. On the basis of this review and in the light of the current financial position, the directors have no reason to believe that FNB Namibia Holdings Limited and its subsidiaries will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The group's external auditors, Deloitte & Touche, have audited the financial statements and their report appears on page 49. The consolidated annual financial statements of the group and company, which appear on pages 45 to 167 have been approved by the board of directors and are signed on its behalf by:

C J Hinrichsen
Chairman

Adv VR Rukoro
Chief Executive Officer

Windhoek
16 August 2012

Report of the audit committee to shareholders

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

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

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

– Obtain independent professional advice in the satisfaction of its duties at the cost of the group; and

– Have such direct access to the resources of the group as it may reasonably require including the external and internal auditors.

The primary objectives of the committee are:

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

2. To review accounting principles, policies and practices adopted in preparation of public financial information;

3. To review with external auditors the scope and results of their audit, as well as the review and approval of audit fee's and nomination of auditors for appointment by shareholders;

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

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

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

S H Moir
Chairman

Windhoek
15 August 2012

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

We have audited the group annual financial statements and the annual financial statements of FNB Namibia Holdings Limited, which comprise the consolidated and separate statements of financial position as at 30 June 2012, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes and the directors' report, as set out on pages 50 to 167.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of FNB Namibia Holdings Limited as at 30 June 2012, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act in Namibia.

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

Per RH Mc Donald
Partner

PO Box 47, Windhoek, Namibia
3 September 2012

Regional executives:
LL Bam (Chief Executive), A Swiegers (Chief Operating Officer), GM Pinnock

Resident partners:
VJ Mungunda (Managing Partner), RH Mc Donald, J Kock, H de Bruin, J Cronje, A Akayombokwa

Director:
G Brand

Directors' report

Nature of business

FNB Namibia Holdings Limited is the holding company of the FNB Namibia group of companies. Its main investments remain unchanged from the prior year, except for the sale of Momentum Life Assurance Namibia Limited on 29 June 2012 and the additional 60% acquisition of FNB Insurance Brokers (Pty) Ltd on 1 July 2011, increasing the group's holding in the company from 40% to 100%.

The shareholdings are:

–	**First National Bank of Namibia Ltd:** a registered bank offering a full range of banking services	100%
–	**FNB Insurance Brokers (Namibia) (Pty) Ltd:** a short-term insurance broking company	100%
–	**OUTsurance Insurance Company Ltd:** a short-term insurance company	51%
–	**Talas Properties (Windhoek) (Pty) Ltd:** a property-owning company	100%
–	**FNB Trust Services (Namibia) (Pty) Ltd:** administration of deceased estates*	100%
–	**FNB Namibia Unit Trusts Ltd:** a unit trusts management company	100%

* First Asset Management & Trust Company of Namibia (Pty) Ltd's name was changed to FNB Trust Services Namibia (Pty) Ltd

Share capital

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

The company's authorised share capital at year-end consists of 990 000 000 (2011: 990 000 000) ordinary shares of 0,5 cents each and 10 000 000 (2011: 10 000 000) cumulative convertible redeemable preference shares of 0,5 cents each.

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

At the annual general meeting to be held on 28 November 2012, members will be asked to consider an ordinary resolution placing the number of un-issued ordinary and preference shares, exclusive of the number of shares reserved for purposes of the share incentive scheme as at that date, under the control of the directors as is currently the case, until the next annual general meeting.

Share analysis – ordinary shares

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

FirstRand EMA Holdings Ltd	58.4%	(2011: 58.4%)
Government Institutions Pension Fund	14.8%	(2011: 14.7%)

A detailed analysis of shareholders is set out on page 192.

Share analysis – preference shares

RMB-SI Investments (Pty) Ltd	100%	(2011: 100%)

FNB Share Incentive Scheme (the trust)

No new shares were allocated during the year by the company to the trust (2011: nil). Staff exercised options on 2 056 000 (2011: 1 294 000) shares during the year. The total number of shares held by the trust at 30 June 2012 amounts to 8 077 465 (2011: 8 304 597). Also refer to notes 8.2 and 31 of the annual financial statements.

Dividends

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

N$'000	**2012**	2011
Ordinary dividends		
Final dividend of 41 cents (2011: 41 cents)	109 713	109 713
Interim dividend of 41 cents (2011: 36 cents)	109 713	96 334
Total distribution for the 12 months of 82 cents per ordinary share (2011: 77 cents per ordinary share)	219 426	206 047
Special dividends		
A special dividend of 180 (2011: 170 cents) cents per ordinary share	481 668	454 909

Director's interest in FNB Namibia Holdings Ltd

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

Interest of directors

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

Group results

The financial statements on pages 72 to 167 set out fully the financial position, results of operations and cash flows of the company and the group. Your attention is also drawn to the chairman's report, the chief executive officer's report and the chief financial officer's report on the financial results on pages 34 to 39.

Directorate

At the group's annual general meeting held on 24 November 2011, directors J R Kethe, M N Ndilula and P T Nevonga, who retired by rotation in accordance with the provisions of the company's articles of association, made themselves available for re-election and were duly re-elected. The composition of the board of FNB Namibia Holdings Limited is as follows:

- C J Hinrichsen # (Chair)
- J R Khethe*
- S H Moir *
- P T Nevonga
- I I Zaamwani-Kamwi (Ms)
- C L R Haikali
- J K Macaskill *
- M N Ndilula
- Adv VR Rukoro (CEO)

*# German * South African*

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

Directors' emoluments

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

Management by third parties

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

Insurance

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

Property and equipment

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

Holding company

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

Subsidiaries

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

Special resolutions

A special resolution is proposed at the AGM on 28 November 2012 to retract Clause 26.1 of the Articles of Association and replace 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.

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 of Association would be aligned with current legislation and Corporate Governance practices.

Company secretary and registered offices

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

Events subsequent to the reporting date

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

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.

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.

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.

Consolidated statement of comprehensive income
for the year ended 30 June

N$'000	Note	2012	2011
Continuing operations			
Interest and similar income	2	1 524 990	1 414 755
Interest expense and similar charges	2	(635 111)	(575 315)
Net interest income before impairment of advances		889 879	839 440
Impairment reversal on advances	13	41 913	12 398
Net interest income after impairment of advances		931 792	851 838
Non-interest income	3	739 585	604 861
Net insurance premium income	4	84 468	71 935
Net claims and benefits paid	5	(40 968)	(41 437)
Fair value adjustment to financial liabilities	28	4 391	(716)
Income from operations		1 719 268	1 486 481
Operating expenses	6	(884 105)	(768 918)
Net income from operations		835 163	717 563
Share of profit from associates after tax	16.4	3 045	4 951
Income before tax		838 208	722 514
Indirect tax	7.1	(17 381)	(17 019)
Profit before tax		820 827	705 495
Direct tax	7.2	(282 248)	(241 242)
Profit for the year from continuing operations		**538 579**	464 253
Discontinued operation			
Profit attributable to discontinued operation	21	1 858	74 792
Profit after tax on sale of discontinued operation	21	231 598	
Profit for the year		**772 035**	539 045
Other comprehensive income			
Gain on available-for-sale financial assets		7 102	227
Deferred income tax relating to other comprehensive income	19	(1 634)	162
Other comprehensive income for the year		**5 468**	389
Total comprehensive income for the year		**777 503**	539 434
Profit for the year attributable to:			
Ordinary shareholders		762 103	496 298
Equity holders of the parent		762 103	496 298
Non-controlling interests		9 932	42 747
Profit for the year		**772 035**	539 045
Total comprehensive income for the year attributable to:			
Ordinary shareholders		766 266	496 811
Equity holders of the parent		766 266	496 811
Non-controlling interests		11 237	42 623
Total comprehensive income for the year		**777 503**	539 434
Total comprehensive income for the year attributable to:			
Continuing operations		541 383	464 895
Discontinued operation		236 120	74 539
Total comprehensive income for the year		**777 503**	539 434
Earnings per share (cents)			
Basic and diluted earnings per share (cents)			
From continuing operations	8.2	204.5	177.1
From discontinued operation	8.2	89.8	14.7
		294.3	191.8

Consolidated statement of financial position
as at 30 June

N$'000	Note	2012	2011[1]	2010[1]
Assets				
Cash and cash equivalents	10.1	1 002 052	428 054	455 215
Due from banks and other financial institutions	10.2	1 925 741	763 051	851 182
Derivative financial instruments	11	27 125	24 161	57 119
Advances	12	14 076 753	12 464 342	11 226 660
Investment securities	14	2 144 424	1 643 526	2 799 659
Accounts receivable	15	215 636	135 118	117 610
Tax asset		606		
Investments in associates	16	3 903	24 696	22 594
Property and equipment	17	286 848	279 335	267 024
Intangible assets	18	10 709	17 115	56 360
Deferred tax asset	19	2 828	2 378	5 885
Policy loans on investments contracts				26 931
Reinsurance assets	20	927	425	50 080
Non-current assets and disposal group held for sale	21		1 381 729	753
Total assets		**19 697 552**	17 163 930	15 937 072
Equity and liabilities				
Liabilities				
Deposits	22.1	16 238 472	13 305 607	12 045 869
Due to banks and other financial institutions	22.2	48 429	43 910	54 346
Short trading positions	23		51 889	
Derivative financial instruments	11	60 227	21 743	58 019
Creditors and accruals	24	229 600	228 691	185 448
Tax liability		151 894	24 309	32 001
Employee liabilities	25	128 212	111 951	97 724
Deferred tax liability	19	19 337	3 473	
Policyholder liabilities under insurance contracts	26	45 125	41 722	999 119
Policyholder liabilities under investment contracts	27			43 831
Tier two liabilities	28	392 627	270 618	269 632
Liabilities directly associated with disposal group held for sale	21		1 074 169	
Total liabilities		**17 313 923**	15 178 082	13 785 989
Equity				
Capital and reserves attributable to equity holders				
Ordinary shares	29	1 295	1 294	1 291
Share premium	29	181 477	187 898	191 695
Reserves		2 179 264	1 630 930	1 758 631
Capital and reserves attributable to the group's ordinary equity holders		2 362 036	1 820 122	1 951 617
Non-controlling interests		21 593	165 726	199 466
Total equity		**2 383 629**	1 985 848	2 151 083
Total equity and liabilities		**19 697 552**	17 163 930	15 937 072

[1] Comparatives have been reclassified, refer to note 42

Consolidated statement of changes in equity

for the year ended 30 June

N$'000	Share capital	Share premium	Share capital and share premium	General risk reserve*	Share-based payment reserve	Available-for-sale reserve	Other reserves	Retained earnings	Reserves attributable to ordinary equity holders	Non-controlling interests	Total equity
Balance at 30 June 2010	1 291	191 695	192 986		12 474	11 302	4 057	1 730 798	1 758 631	199 466	2 151 083
Total comprehensive income for the year						513		496 298	496 811	42 623	539 434
Profit for the year								496 298	496 298	42 747	539 045
Other comprehensive income for the year						513			513	(124)	389
Staff share option transactions					2 123				2 123		2 123
Ordinary dividends								(626 206)	(626 206)	(75 950)	(702 156)
Transfer to / (from) contingency reserves							1 472	(1 472)			
Transfer of vested equity options					(6 569)			6 569			
Effective change of shareholding in subsidiaries								(429)	(429)	(413)	(842)
Consolidation of shares held by share trusts	3	(3 797)	(3 794)								(3 794)
Balance at 30 June 2011	1 294	187 898	189 192		8 028	11 815	5 529	1 605 558	1 630 930	165 726	1 985 848
Total comprehensive income for the year						4 163		762 103	766 266	11 237	777 503
Profit for the year								762 103	762 103	9 932	772 035
Other comprehensive income for the year						4 163			4 163	1 305	5 468
Staff share option transactions					4 203				4 203		4 203
Ordinary dividends								(212 360)	(212 360)	(26 778)	(239 138)
Transfer to / (from) reserves				42 232			1 218	(43 450)			
Effective change of shareholding in subsidiaries						(1 229)		(8 546)	(9 775)	(128 592)	(138 367)
Consolidation of shares held by share trusts	1	(6 421)	(6 420)								(6 420)
Balance at 30 June 2012	**1 295**	**181 477**	**182 772**	**42 232**	**12 231**	**14 749**	**6 747**	**2 103 305**	**2 179 264**	**21 593**	**2 383 629**

*Credit risk reserves in compliance with Bank of Namibia requirements

Consolidated statement of cash flows
for the year ended 30 June

	Note	2012	2011
Cash flows from operating activities from continuing operations			
Cash receipts from customers	32.2	2 354 932	2 066 235
Cash paid to customers, suppliers and employees	32.3	(1 477 924)	(1 315 583)
Cash flows from operating activities	32.1	877 008	750 652
Increase in income earning assets	32.4	(3 280 678)	(1 292 397)
Increase in deposits and other liabilities	32.5	2 962 947	1 402 245
Net cash generated from operations		559 277	860 500
Tax paid	32.6	(153 129)	(258 889)
Net cash flow from operating activities from continuing operations		**406 148**	601 611
Net cash flow from operating activities from discontinued operations	21.1		153 544
Cash flows from investing activities from continuing operations			
Purchase of property and equipment	32.7	(51 581)	(53 742)
Proceeds from the disposal of property and equipment		1 247	553
Proceeds from the disposal of non current asset held for sale			1 496
Acquisition of a controlling interest in FNBIB from 40% to 100% during the year	32.8	(10 202)	
Dividends from associate company		1 540	2 849
Proceeds from the sale of Momentum Namibia	32.9	342 403	
Net cash outflow from investing activities from continuing operations		**283 407**	(48 844)
Net cash outflow from investing activities from discontinuing operations	21.1		(1 433)
Cash flows from financing activities from continuing operations			
Redemption of tier two liabilities		(260 000)	
Proceeds from tier two liabilities		390 000	
Purchase of shares for share trusts		(6 419)	(3 794)
Dividends paid	32.10	(212 360)	(626 206)
Dividends paid non-controlling interests		(26 778)	(2 450)
Net cash outflow from financing activities from continuing operations		**(115 557)**	(632 450)
Net cash outflow from financing activities from discontinuing operations	21.1		(73 500)
Net increase in cash and cash equivalents		573 998	(1 071)
Cash and cash equivalents at the beginning of the year*		428 054	455 215
Cash and cash equivalent acquired**	36.7		5
Transfer to disposal group held-for-sale	21.1		(26 094)
Cash and cash equivalents at the end of the year*	10.1	**1 002 052**	428 054

*Includes mandatory reserve deposits with central bank.

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

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

1 Accounting policies

The accounting policies of the group are set out on pages 52 to 71.

2 Analysis of interest income and interest expenditure.

N$'000	2012 Fair value	2012 Amortised cost	2012 Non-financial assets and liabilities	2012 Total
Interest and similar income				
- Advances		1 293 179		1 293 179
- Cash and short term funds		91 246		91 246
- Investment securities	110 494	2 655		113 149
- Unwinding of discounted present value on non performing loans		6 718		6 718
- Unwinding of discounted present value on off-market advances		4 844		4 844
- On impaired advances		5 092		5 092
- Net release of deferred fee and expenses		10 123		10 123
- Other		639		639
	110 494	**1 414 496**		**1 524 990**
Interest expense and similar charges				
- Deposits from banks and financial institutions		549		549
- Current accounts		67 369		67 369
- Savings deposits		5 668		5 668
- Call deposits		214 266		214 266
- Term deposits		123 515		123 515
- Negotiable certificates of deposit		198 090		198 090
- Tier two liabilities	17 548	7 743		25 291
- Other			363	363
	17 548	**617 200**	**363**	**635 111**

N$'000	2011 Fair value	2011 Amortised cost	2011 Non-financial assets and liabilities	2011 Total
Interest and similar income				
- Advances		1 234 942		1 234 942
- Cash and short term funds		63 193		63 193
- Investment securities	84 662	9 238		93 900
- Unwinding of discounted present value on non performing loans		8 763		8 763
- Unwinding of discounted present value on off-market advances		5 930		5 930
- On impaired advances		(394)		(394)
- Net release of deferred fee and expenses		8 421		8 421
	84 662	1 330 093		1 414 755
Interest expense and similar charges				
- Deposits from banks and financial institutions		927		927
- Current accounts		69 122		69 122
- Savings deposits		5 098		5 098
- Call deposits		209 142		209 142
- Term deposits		119 855		119 855
- Negotiable certificates of deposit		147 312		147 312
- Tier two liabilities	23 554			23 554
- Other			305	305
	23 554	551 456	305	575 315

3 Non-interest income

N$'000	2012	2011
Fee and commission income:		
- Card commissions	52 918	53 681
- Cash deposit fees	102 574	75 623
- Commissions: bills, drafts and cheques	22 815	15 567
- Service fees	251 922	215 667
- Fiduciary service fees	8 053	7 687
- Other commissions	191 750	173 720
- Banking fee and commission income	630 032	541 945
- Brokerage income	53 333	20 599
- Unit trust and related fees	13 195	11 288
- Reinsurance commission received by insurance companies	2 711	2 752
Fee and commission income	**699 271**	576 584
Fee and commission expense:		
- Transaction processing fees	(34 061)	(29 790)
- Cash sorting handling and transportation charges	(1 860)	(1 180)
- Card and cheque book related	(5 963)	(4 332)
- Insurance operations	(3 258)	(3 143)
- ATM commissions paid	(2 264)	(2 136)
- Other	(11 158)	(7 923)
Fee and commission expense	**(58 564)**	(48 504)
Fee and commission income, by category		
- Instruments at amortised cost	621 979	534 258
- Non financial assets and liabilities	77 292	42 326
Fee and commission income	699 271	576 584
Fee and commission expenses	(58 564)	(48 504)
Net fee and commission income	**640 707**	528 080

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

N$'000	2012	2011
Fair value income:		
- Foreign exchange trading	67 624	62 449
- Treasury trading operations	(28 095)	3 140
- debt instruments trading	5 458	3 766
- derivatives revaluation	(33 553)	(626)
- Designated at fair value through profit or loss	40 634	
Fair value income	**80 163**	65 589
Portfolio analysis for fair value income		
Held for trading	39 529	65 589
Designated at fair value through profit or loss	40 634	
Fair value income	**80 163**	65 589

3 Non-interest income *continued*

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

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

N$'000	2012	2011
Gains less losses from investing activities		
- Gains on investment securities designated at fair value through profit or loss	668	2 880
- Gains on realisation of available-for-sale financial assets	9 475	484
- Dividends received	3 613	2 393
- Listed shares	147	124
- Unit trusts	3 466	2 269
- Share of profit from associates after tax (note 16.4)	3 045	4 951
Gross gains less losses from investing activities	**16 801**	10 708
Less: Share of profit from associates after tax (disclosed separately on face of the statement of comprehensive income)	(3 045)	(4 951)
Gains less losses from investing activities	**13 756**	5 757
Other non-interest income		
- Gain on sale of property and equipment	5	574
- Rental income	1 625	1 818
- Other income	3 329	3 043
Other non-interest income	**4 959**	5 435
Other non-interest income, by category		
- Non-financial assets and liabilities	4 959	5 435
	4 959	5 435
Total non-interest income	**739 585**	604 861

4 Net insurance premium income

N$'000	2012	2011
Short term insurance contracts		
Gross written premiums	100 150	87 834
Insurance premiums ceded to reinsurers	(14 149)	(13 724)
Change in unearned premium provision	(1 533)	(2 175)
Net insurance premium income	**84 468**	71 935

5 Net claims and benefits paid

N$'000	2012	2011
Short term insurance contracts		
Gross insurance contracts claims	43 494	43 038
Transfer to provision for unintimated claims (note 26)	836	1 042
Gross claims and benefits paid on insurance contracts	44 330	44 080
Insurance benefits recovered from reinsurers	(3 362)	(2 643)
Net claims and benefits paid	**40 968**	41 437

6 Operating expenses

N$'000	2012	2011
Auditors' remuneration		
- Audit fees	4 644	4 287
- Fees for other services	26	54
Auditors' remuneration	**4 670**	4 341
Amortisation of intangible assets		
- Trademarks	1 986	4 036
- Insurance broker business acquired	2 184	
- Software	10 156	10 158
Amortisation of intangible assets (note 18)	**14 326**	14 194
Depreciation		
- Freehold property	66	1 791
- Leasehold property	6 177	5 913
- Equipment	32 368	26 319
- Computer equipment	12 655	12 642
- Furniture and fittings	11 774	7 244
- Motor vehicles	421	224
- Office equipment	7 518	6 209
Depreciation (note 17)	**38 611**	34 023
Impairments incurred		
- Insurance broker business acquired	5 000	
Impairments incurred (note 18)	**5 000**	
Operating lease charges		
- Property	16 362	11 561
- Equipment	5 412	4 183
Operating lease charges	**21 773**	15 744
Professional fees		
- Asset management fees	3 984	3 329
- Other	12 830	3 801
Professional fees	**16 814**	7 130

6 Operating expenses *continued*

N$'000	2012	2011
Total directors' remuneration (note 6.1.3)	**5 507**	5 153
Direct staff costs		
- Salaries, wages and allowances	352 843	312 816
- Off-market staff loans amortisation	4 844	5 930
- Contributions to employee benefit funds	79 319	69 643
- Defined contribution schemes: pension	38 433	34 176
- Defined contribution schemes: medical	40 886	35 467
- Retirement fund surplus recognised		(4 719)
- Post retirement medical expense	2 802	3 514
- Severance pay: death in service	(32)	1 123
- Social security levies	1 167	1 219
- Share-based payments (note 31)	9 974	5 077
Direct staff costs	**450 917**	394 603
- Other staff related costs	16 350	13 129
Total staff costs	**467 267**	407 732
Other operating costs		
- Insurance	10 576	12 989
- Advertising and marketing	48 181	46 339
- Property and maintenance related expenses	38 506	34 423
- Legal and other related expenses	4 382	4 464
- Postage	4 677	4 964
- Stationery and printing	13 076	11 512
- Telecommunications	11 849	12 439
- Travel and accommodation	8 869	10 836
- Computer and processing related costs	113 481	97 075
- Other operating expenditure	56 540	45 560
Other operating costs	**310 137**	280 601
Total operating expenses	**884 105**	768 918

6 Operating expenses *continued*

6.1 Directors emoluments

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

N$'000

	Salary	Bonus	Pension and medical aid contributions	Other allowance	Total
6.1.1 Executive director:					
2012:					
VR Rukoro	1 557	1 676	291	319	3 843
	1 557	**1 676**	**291**	**319**	**3 843**
2011:					
VR Rukoro	1 437	1 392	274	319	3 422
	1 437	1 392	274	319	3 422

6.1.2 Non-executive directors:

	Fees as directors	
Non-executive independent directors:	**2012**	**2011**
CJ Hinrichsen (Chairman)	367	260
HWP Böttger (retired November 2010)		198
CLR Haikali	283	265
SH Moir	532	434
MN Ndilula	151	127
PT Nevonga	69	51
H-D Voigts (retired November 2010)		188
II Zaamwani-Kamwi	262	208
	1 664	1 731

Other non-executive directors :
JR Khethe
JK Macaskill

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

6.1.3 Total directors' remuneration and fees:

	2012	2011
- Executive director	3 843	3 422
- Non-executive directors	1 664	1 731
	5 507	5 153

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

6 Operating expenses *continued*

6.2 Share options

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

	Opening balance	Granted during the year	Strike price	Expiry date	Taken up this year (number of shares)	Closing balance (number of shares)	Benefit derived (N$'000)
Executive director:							
VR Rukoro							
FNB Namibia Holdings Ltd shares	486 067		5.17 - 12.26	Jun 2013 - Feb 2016	(124 734)	361 333	649
FirstRand Ltd shares	619 620	4 989	15.80 - 18.70	Nov 2013 - Nov 2014	(254 708)	369 901	1 839
Non-executive directors:							
FNB Namibia Holdings Ltd shares							
PT Nevonga	37 500		5.17	Jun-11	(37 500)		351

6.3 Directors' holdings in shares:

	2012		2011	
	Number of ordinary shares held	Percentage holding	Number of ordinary shares held	Percentage holding
Names:				
Directly:				
HWP Böttger (retired November 2010)	n/a	n/a	4 667	0.002%
SH Moir	6 000	0.002%	6 000	0.002%
PT Nevonga	61 665	0.023%	38 026	0.014%
VR Rukoro	-	0.000%	94 443	0.035%
HD Voigts (retired November 2010)	n/a	n/a	12 049	0.005%
II Zaamwani-Kamwi	54 463	0.020%	54 463	0.020%
Indirectly:				
CLR Haikali	3 011 899	1.126%	3 011 899	1.126%
SH Moir	3 800	0.001%	3 800	0.001%
MN Ndilula	5 749 989	2.149%	5 749 989	2.149%

7 Tax

N$'000	2012	2011
7.1 Indirect tax		
Value-added tax (net)	12 849	12 724
Stamp duties	4 532	4 295
Total indirect tax	**17 381**	17 019
7.2 Direct tax		
Normal tax		
- Current	268 468	234 100
- Deferred	13 780	7 142
Total direct tax	**282 248**	241 242

Tax rate reconciliation – normal tax	%	%
Effective rate of tax	34.4	34.2
Total tax has been affected by:		
Non-taxable income	0.6	(0.2)
Non-deductible expenses	(1.0)	
Standard rate of tax	**34.0**	34.0

8 Earnings and dividends per share

8.1 Headline earnings per share

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

	2012	2011
Headline earnings (N$'000)	526 025	495 599
Weighted average number of ordinary shares in issue	258 991 805	258 699 215
Headline earnings per share (cents)	**203.1**	191.6

	2012		2011	
	Gross	Net*	Gross	Net*
Earnings attributable to ordinary equity holders of the group	762 103	762 103	497 018	496 298
Profit on sale of property and equipment	(6)	(5)	(575)	(380)
Realised gains from available-for-sale financial assets	(9 475)	(9 475)	(484)	(319)
Profit on disposal of subsidiary	(231 598)	(231 598)		
Impairment of intangible asset	5 000	5 000		
Headline earnings	**526 024**	**526 025**	495 959	495 599

* Net of tax and non controlling interests

8.2 Earnings per share

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

	2012	2011
From continuing operations (N$'000)	529 557	458 154
From discontinued operations (N$'000)	232 546	38 144
Earnings attributable to ordinary shareholders (N$'000)	762 103	496 298
Weighted average number of ordinary shares in issue	258 991 805	258 699 215
From continuing operations (cents)	204.5	177.1
From discontinued operations (cents)	89.8	14.7
Basic earnings per share (cents)	**294.3**	191.8

Basic earning per share equals diluted earning per share as there are no potential dilutive ordinary shares in issue.

Actual number of shares:		
Opening balance shares in issue as at 1 July	267 593 250	267 593 250
Closing balance shares in issue as at 30 June	267 593 250	267 593 250
Less shares held in FNB Namibia share trusts	(8 577 465)	(8 804 597)
Number of shares in issue (after elimination of shares in FNB Namibia share trusts)	**259 015 785**	258 788 653
Weighted number of shares:		
Actual number of shares in issue as at 1 July	267 593 250	267 593 250
Less weighted shares held in FNB Namibia share trusts	(8 601 445)	(8 894 035)
Weighted average number of shares in issue	**258 991 805**	258 699 215

8 Earnings and dividends per share *continued*

8.3 Dividend information

	2012 Cents	2012 N$'000	2011 Cents	2011 N$'000
A final dividend (dividend no. 32) of 36 cents per share was declared on 17 August 2010 in respect of the year ended 30 June 2010 and paid on 28 October 2010.			36	93 295
An interim dividend (dividend no. 33) of 36 cents per share was declared on 2 February 2011 for the period ended 31 December 2010 and paid on 8 April 2011.			36	93 295
A special dividend (dividend no. 34) of 170 cents per share was declared on 4 April 2011 and paid on 27 May 2011.			170	439 616
A final dividend (dividend no. 35) of 41 cents per share was declared on 17 August 2011 in respect of the year ended 30 June 2011 and paid on 27 October 2011.	41	106 180		
An interim dividend (dividend no. 36) of 41 cents per share was declared on 2 February 2012 for the period ended 31 December 2011 and paid on 12 April 2012.	41	106 180		
	82	**212 360**	242	626 206

A final dividend of 41 cents (2011: 41 cents) was declared subsequent to year-end (Refer to the Directors' report).

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

9 Analysis of assets and liabilities

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies on page 52 to page 71 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

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

2012								
N$'000	Note	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non-financial assets and liabilities	Total
Assets								
Cash and short term funds	10.1			1 002 052				1 002 052
Due from banks and other financial institutions	10.2			1 925 741				1 925 741
Derivative financial instruments	11	27 125						27 125
Advances	12		484 537	13 592 216				14 076 753
Investment securities	14	48 967	36 727	102 607	1 956 123			2 144 424
Accounts receivable	15			215 636				215 636
Tax asset							606	606
Investments in associates	16						3 903	3 903
Property and equipment	17						286 848	286 848
Intangible assets	18						10 709	10 709
Deferred tax asset	19						2 828	2 828
Reinsurance assets	20						927	927
Total assets		**76 092**	**521 264**	**16 838 252**	**1 956 123**		**305 822**	**19 697 552**
Liabilities								
Deposits	22.1					16 238 472		16 238 472
Due to banks and other financial institutions	22.2					48 429		48 429
Derivative financial instruments	11	60 227						60 227
Creditors and accruals	24					229 600		229 600
Tax liability							151 894	151 894
Employee liabilities	25						128 212	128 212
Deferred tax liability	19						19 337	19 337
Policyholder liabilities under insurance contracts	26						45 125	45 125
Tier two liabilities	28					392 627		392 627
Total liabilities		**60 227**				**16 909 128**	**344 568**	**17 313 923**

9 Analysis of assets and liabilities *continued*

2011								
N$'000	Note	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non financial assets and liabilities	Total
Assets								
Cash and short term funds	10.1			428 054				428 054
Due from banks and other financial institutions	10.2			763 051				763 051
Derivative financial instruments	11	24 161						24 161
Advances	12			12 464 342				12 464 342
Investment securities	14	64 319	38 255	53 626	1 487 326			1 643 526
Accounts receivable	15			135 118				135 118
Investments in associates	16						24 696	24 696
Property and equipment	17						279 335	279 335
Intangible assets	18						17 115	17 115
Deferred tax asset	19						2 378	2 378
Reinsurance assets	20						425	425
Non-current assets and disposal group held for sale	21						1 381 729	1 381 729
Total assets		88 480	38 255	13 844 191	1 487 326		1 705 678	17 163 930
Liabilities								
Deposits	22.1					13 305 607		13 305 607
Due to banks and other financial institutions	22.2					43 910		43 910
Short trading positions		51 889						51 889
Derivative financial instruments	11	21 743						21 743
Creditors and accruals	24					228 691		228 691
Tax liability							24 309	24 309
Employee liabilities	25						111 951	111 951
Deferred tax liability	19						3 473	3 473
Policyholder liabilities under insurance contracts	26						41 722	41 722
Tier two liabilities	28		270 618					270 618
Liabilities directly associated with disposal group held for sale	21						1 074 169	1 074 169
Total liabilities		73 632	270 618			13 578 208	1 255 624	15 178 082

10 Short term funds

10.1 Cash and short term funds

N$'000	2012	2011
Coins and bank notes	226 961	213 376
Balances with central bank	740 804	198 678
Balances with other banks	34 287	16 000
Cash and short term funds	**1 002 052**	428 054
The carrying value approximates the fair value.		
Mandatory reserve balances included in above:	**166 371**	148 787

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

10.2 Due by banks and other financial institutions

N$'000	2012	2011
Due by banks and financial institutions		
- In the normal course of business	1 925 741	763 051
	1 925 741	763 051
The carrying value approximates the fair value.		
Geographical split:		
Namibia	95 433	100 494
South Africa	1 206 512	30 406
North America	557 772	554 439
Europe	64 806	77 072
Other	1 218	640
	1 925 741	763 051

11 Derivative financial instruments

Use of derivatives

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

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

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

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

11 Derivative financial instruments *continued*

Use of derivatives *continued*

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

The group uses the following financial instruments for hedging purposes:
Forward rate agreements are negotiated interest rate futures that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount.

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

The group's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in the Risk Report on pages 180 to 188 of the Annual Report.

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

	2012			
	Assets		Liabilities	
N$'000	Notional	Fair value	Notional	Fair value
Held for trading				
Currency derivatives	781 306	**24 013**	697 485	**21 623**
- Forward rate agreements	229 601	**7 066**	145 780	**4 676**
- Options	551 705	**16 947**	551 705	**16 947**
Interest rate derivatives				
- Swaps	45 000	**3 112**	477 288	**38 604**
Total held for trading	**826 306**	**27 125**	**1 174 773**	**60 227**

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

12 Advances

N$'000	2012	2011
Notional value of advances	14 269 968	12 721 936
Contractual interest suspended	(35 674)	(45 966)
Gross advances	**14 234 294**	12 675 970
Sector analysis		
Agriculture	626 610	450 601
Banks and financial services	106 328	211 721
Building and property development	2 047 934	2 211 664
Government and public authorities	231 177	107 101
Individuals	8 069 555	7 183 622
Manufacturing and commerce	2 110 361	1 415 992
Mining	154 057	193 844
Transport and communication	247 856	216 825
Other services	640 416	684 600
Gross advances	14 234 294	12 675 970
Impairment of advances (note 13)	(157 541)	(211 628)
Net advances	**14 076 753**	12 464 342
Geographic analysis (based on credit risk)		
Namibia	**14 076 753**	12 464 342
Category analysis		
Overdrafts and cash management accounts	1 455 374	1 491 778
Loans to other financial institutions	106 328	286 121
Card loans	99 794	88 518
Instalment sales and hire purchase agreements	2 190 276	1 834 643
Lease payments receivable	127 983	89 229
Home loans	7 221 825	6 549 137
Term loans	2 088 335	1 907 245
Assets under agreement to resell		52 757
Investment bank term loans	484 537	
Other	459 842	376 542
Gross advances	14 234 294	12 675 970
Impairment of advances (note 13)	(157 541)	(211 628)
Net advances	**14 076 753**	12 464 342
Portfolio analysis		
Designated at fair value through profit and loss	484 537	
Loans and receivables	13 592 216	12 464 342
	14 076 753	12 464 342

Fair value of advances is disclosed in note 37.

12 Advances *continued*

N$'000	Within 1 year	Between 1 and 5 years	Total
Analysis of instalment sales and lease payments receivable			
2012			
Lease payments receivable	74 406	72 171	146 577
Suspensive sale instalments receivable	1 067 711	1 473 643	2 541 354
Sub total	1 142 117	1 545 814	2 687 931
Less: Unearned finance charges	(222 830)	(143 978)	(366 808)
Total	**919 287**	**1 401 836**	**2 321 123**
2011			
Lease payments receivable	50 022	51 676	101 698
Suspensive sale instalments receivable	997 983	1 119 740	2 117 723
Sub total	1 048 005	1 171 416	2 219 421
Less: Unearned finance charges	(173 171)	(118 123)	(291 294)
Total	874 834	1 053 293	1 928 127

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

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

Credit risk mitigation

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

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

It is the group's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a transaction, through physical inspection as appropriate. For mortgage portfolios, collateral valuations are updated on an ongoing basis through physical valuation where necessary. However in the event of default more detailed review and valuation of collateral are performed, this therefore yields a more accurate financial effect.

The valuation at inception is based on physical inspection.

12 Advances *continued*

Credit risk mitigation *continued*

The table below sets out the financial effect of collateral per class of advance:

	2012		**2011**	
N$'000	Performing	Non performing	Performing	Non performing
Instalment sales and lease payments receivables	4 743	2 294	1 500	1 781
Home loans	23 254	58 309	27 609	75 904
Total	**27 997**	**60 603**	29 109	77 685

The financial effect of collateral and other credit enhancements has been calculated with reference to the unsecured loss given default ("LGD") per class for the performing book (IBNR and portfolio specific impairments) and the non-performing book separately. The amounts disclosed above represent the difference between the statement of financial position impairment using the actual LGD and the proxy unsecured LGD for all secured portfolios.

Where there is no collateral or where collateral is disregarded for provisioning purposes, no financial effect was calculated.

13 Impairment of advances

2012

N$'000	Overdrafts and cash managed accounts	Card loans	Instalment sales and lease payments receivables	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
Analysis of movement in impairment of advances per class of advance								
Opening balance	63 271	2 550	32 803	45 705	67 299	211 628	64 643	146 985
Amounts written off	(3 397)	(431)	(3 373)	(2 119)	(2 289)	(11 609)	(11 609)	
Unwinding of discounted present value on non-performing loans	(1 011)			(5 029)	(678)	(6 718)	(6 718)	
Net new impairments created / (released)	(40 545)	89	6 353	2 606	(4 263)	(35 760)	9 240	(45 000)
Closing balance	18 318	2 208	35 783	41 163	60 069	157 541	55 556	101 985
Increase / decrease in provision	(40 545)	89	6 353	2 606	(4 263)	(35 760)	9 240	(45 000)
Recoveries of bad debts previously written off	(1 010)	(34)	(3 505)	(675)	(929)	(6 153)	(6 153)	
Impairment (release) / loss recognised in the statement of comprehensive income	(41 555)	55	2 848	1 931	(5 192)	(41 913)	3 087	(45 000)

2011

N$'000	Overdrafts and managed accounts	Card loans	Instalment sales and lease payments receivables	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
Opening balance	78 640	4 458	39 466	53 925	70 196	246 685	99 700	146 985
Amounts written off	(3 804)	(822)	(7 635)	(2 889)	(4 012)	(19 162)	(19 162)	
Unwinding of discounted present value on non-performing loans	(1 798)			(6 573)	(392)	(8 763)	(8 763)	
Net new impairments created / released	(9 767)	(1 086)	972	1 242	1 507	(7 132)	(7 132)	
Closing balance	63 271	2 550	32 803	45 705	67 299	211 628	64 643	146 985
Increase / decrease in provision	(9 767)	(1 086)	972	1 242	1 507	(7 132)	(7 132)	
Recoveries of bad debts previously written off	(619)	(48)	(3 412)	(904)	(283)	(5 266)	(5 266)	
Impairment (release) / loss recognised in the statement of comprehensive income	(10 386)	(1 134)	(2 440)	338	1 224	(12 398)	(12 398)	

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

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

- Breaches of loan covenants and conditions;
- The time period of overdue contractual payments;
- Actuarial credit models;
- Loss of employment or death of the borrower; and
- The probability of liquidation of the customer.

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

13 Impairment of advances *continued*

2012

N$'000	Total value net of interest in suspense	Security held and other recoveries	Specific impairments
Non-performing loans by sector			
Agriculture	6 236	4 173	2 365
Banks and financial services	186		186
Building and property development	18 336	8 726	11 195
Individuals	85 685	69 386	30 246
Manufacturing and commerce	19 850	16 495	5 947
Mining	217		217
Transport and communication	531	33	517
Other	10 902	5 213	4 883
Total non-performing loans	**141 943**	**104 026**	**55 556**
Non-performing loans by category			
Overdrafts and cash managed accounts	16 114	15 834	10 893
Card loans	1 643		1 643
Instalment sales and hire purchase agreements	11 963	2 385	8 493
Lease payments receivable	1 474	150	1 324
Home loans	96 079	73 097	26 811
Term loans	9 799	9 210	4 632
Other	4 871	3 350	1 760
Total non-performing loans	**141 943**	**104 026**	**55 556**
Non-performing loans by geographical area			
Namibia	**141 943**	**104 026**	**55 556**

2011

N$'000	Total value net of interest in suspense	Security held and other recoveries	Specific impairments
Non-performing loans by sector			
Agriculture	10 497	10 470	1 018
Banks and financial services	1 231		1 230
Building and property development	31 108	18 858	15 252
Individuals	97 578	79 681	36 077
Manufacturing and commerce	4 548	1 020	2 739
Mining	349		348
Transport and communication	901		910
Other	19 788	13 990	7 069
Total non-performing loans	166 000	124 019	64 643
Non-performing loans by category			
Overdrafts and cash managed accounts	14 051	7 940	9 900
Card loans	2 008		2 009
Instalment sales and hire purchase agreements	13 011	1 061	10 653
Lease payments receivable	4 963	2 510	2 453
Home loans	117 771	102 006	34 175
Term loans	7 537	10 502	5 300
Other	6 659		153
Total non-performing loans	166 000	124 019	64 643
Non-performing loans by geographical area			
Namibia	166 000	124 019	64 643

14 Investment securities

N$'000	2012 Held for trading	Designated at fair value through profit or loss	Available-for-sale	Loans and receivables	Total
Total					
Negotiable certificates of deposit				102 607	102 607
Treasury bills	7 028		1 559 962		1 566 990
Other government and government guaranteed stock	41 939		336 144		378 083
Other dated securities			7 921		7 921
Unit trust investments		36 727	52 096		88 823
Total	**48 967**	**36 727**	**1 956 123**	**102 607**	**2 144 424**
Listed					
Other government and government guaranteed stock	41 939		336 144		378 083
Other dated securities			7 921		7 921
	41 939		**344 065**		**386 004**
Unlisted					
Negotiable certificates of deposit				102 607	102 607
Treasury bills	7 028		1 559 962		1 566 990
Unit trust investments		36 727	52 096		88 823
	7 028	**36 727**	**1 612 058**	**102 607**	**1 758 420**

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

14 Investment securities *continued*

Analysis of investment securities

N$'000	2012	2011
Listed		
Equities		13 655
Debt	386 004	380 642
	386 004	394 297
Unlisted		
Debt	1 758 420	1 249 229
Total	**2 144 424**	1 643 526
Valuation of investments		
Market value of listed investments	386 004	394 297
Directors valuation of unlisted investments	1 758 535	1 249 229
Total valuation	**2 144 539**	1 643 526

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

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

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

No financial instruments held for trading form part of the group's liquid asset portfolio in terms of the Banking Institutions Act, (No 2 of 1998) and other foreign banking regulators requirements. The total liquid asset portfolio is N$2 324 million (2011: N$1 609 million).

15 Accounts receivable

N$'000	2012	2011
Accounts receivable		
– Items in transit	50 457	71 852
– Deferred staff cost	40 057	39 128
– Premium debtors	1 400	1 392
– Other accounts receivable	123 722	22 746
Accounts receivable	**215 636**	135 118

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

The carrying value of accounts receivable approximates the fair value.

16 Investment in associates

16.1 Details of investments in associates

All associate companies are unlisted.	Nature of business	Issued ordinary share capital N$	Number of ordinary shares held 2012	Number of ordinary shares held 2011	Year end
Namclear (Pty) Ltd	Interbank clearing house	4	1	1	31 December
Avril Payment Solutions (Pty) Ltd	Payroll administrators	10 000	1 000	1 000	28 February
FNB Insurance Brokers (Namibia) (Pty) Ltd*	Short term insurance brokers	5	5	2	30 June

16.2 Effective holdings and carrying amounts in associates

	Effective holding %		Group carrying amount		Group cost less amounts written off	
N$'000	2012	2011	2012	2011	2012	2011
Namclear (Pty) Ltd	25	25	2 769	1 820	1 154	1 154
Avril Payment Solutions (Pty) Ltd	10	10	1 134	578	1	1
FNB Insurance Brokers (Namibia) (Pty) Ltd*		40		22 298		17 702
Total			3 903	24 696	1 155	18 857

16.3 Movement in carrying value of associates

N$'000	2012	2011
Carrying value at beginning of the year	24 696	22 594
Transfer to investment in subsidiaries	(22 298)	
Share of associate earnings	3 045	4 951
Dividends received	(1 540)	(2 849)
Carrying value at end of the year	3 903	24 696
Valuation		
Unlisted investments at directors' valuation	3 903	24 696

16 Investment in associates *continued*

16.4 Summarised financial information of associates

	Total		Avril Payment Solutions (Pty) Ltd		Namclear (Pty) Ltd		FNB Insurance Brokers (Namibia) (Pty) Ltd*	
N$'000	2012	2011	Audited February 2012	Audited February 2011	Unaudited June 2012	Unaudited June 2011	N/a	Audited June 2011
Statement of financial position								
Non-current assets	1 396	201	26	90	1 370	3 974		14 208
Current assets	23 269	5 066	7 729	7 095	15 540	16 164		48 602
Non-current liabilities	(101)	(63)	(9)	(31)	(92)			
Current liabilities	(5 474)	(1 232)	(574)	(460)	(4 900)	(11 325)		(41 692)
Equity	19 090	3 972	7 172	6 694	11 918	8 813		21,118
Share of profits from associates								
After tax profit attributable to the group	3 045	4 951	2 096	1 958	949	253		2 740

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

* The group acquired a further 60% shareholding in FNB Insurance Brokers (Namibia) (Pty) Ltd during the year and its now a wholly owned subsidiary.

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

17 Property and equipment

N$'000	Cost 2012	Accumulated depreciation and impairments 2012	Carrying amount 2012	Cost 2011	Accumulated depreciation and impairments 2011	Carrying amount 2011
Property						
Freehold land and buildings	211 295	(32 551)	178 744	191 241	(33 972)	157 269
Leasehold property	34 184	(27 547)	6 637	30 869	(21 428)	9 441
	245 479	**(60 098)**	**185 381**	222 110	(55 400)	166 710
Equipment						
Computer equipment	89 809	(64 946)	24 863	84 085	(52 220)	31 865
Furniture and fittings	96 010	(45 132)	50 878	90 041	(36 067)	53 974
Motor vehicles	6 555	(2 819)	3 736	6 263	(2 758)	3 505
Office equipment	55 500	(33 510)	21 990	50 166	(26 885)	23 281
	247 874	**(146 407)**	**101 467**	230 555	(117 930)	112 625
Total	**493 353**	**(206 505)**	**286 848**	452 665	(173 330)	279 335

Movement in property and equipment - carrying amount

	Freehold land and buildings	Leasehold property	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Total
Carrying amount at 30 June 2010	147 393	12 672	39 318	48 276	4 400	14 965	267 024
Additions	33 702	4	5 163	4 351	722	9 800	53 742
Acquisition of a subsidiary			1	17			18
Transfer to non-current assets held for sale			(263)	(712)	(1 164)	(227)	(2 366)
Depreciation charge	(1 791)	(5 913)	(12 642)	(7 244)	(224)	(6 209)	(34 023)
Transfer between classes	(17 685)	2 678	496	9 530		4 981	
Transfer to repairs and maintenance	(4 338)						(4 338)
Disposals	(12)		(208)	(244)	(229)	(29)	(722)
Carrying amount at 30 June 2011	157 269	9 441	31 865	53 974	3 505	23 281	279 335
Additions	40 300	68	4 911	1 587	761	3 954	51 581
Acquisitions of subsidiary			400	423	219		1 042
Depreciation charge	(66)	(6 177)	(12 655)	(11 774)	(421)	(7 518)	(38 611)
Transfer between classes	(13 475)	3 340	765	7 058		2 312	
Transfer to repairs and maintenance	(5 257)						(5 257)
Disposals	(27)	(35)	(423)	(390)	(328)	(39)	(1 242)
Carrying amount at 30 June 2012	**178 744**	**6 637**	**24 863**	**50 878**	**3 736**	**21 990**	**286 848**

17 Property and equipment *continued*

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

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

During the current reporting period the group re-assessed the useful lives of small item fixed assets. Small item fixed assets are those items of property and equipment with a cost of less than N$7,000. The group has determined that from the 2012 financial year all small item fixed assets will be capitalised and be written off through the statement of comprehensive income inline with the wear and tear allowance period of three years. This change in estimate has been applied prospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The change in estimate resulted in accelerated depreciation of N$4.5 million in the current period relating to small item fixed assets that had been capitalised in prior periods and written off in full in the current period.

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

No assets were encumbered at 30 June 2012 nor 30 June 2011.

18 Intangible assets

N$ '000	Cost 2012	Accumulated amortisation and impairments 2012	Carrying amount 2012	Cost 2011	Accumulated amortisation and impairments 2011	Carrying amount 2011
Trademarks	83 375	(81 342)	2 033	88 308	(84 289)	4 019
Goodwill	100		100	100		100
Software	34 016	(31 176)	2 840	34 016	(21 020)	12 996
Value of insurance broker business acquired	12 920	(7 184)	5 736			
Total	**130 411**	**(119 702)**	**10 709**	122 424	(105 309)	17 115

Movement in intangibles – carrying amount

	Trademarks	Goodwill	Software	Value of insurance broker business acquired	Value of in-force business	Total
Carrying amount at 30 June 2010	18 110	100	23 154		14 996	56 360
Amortisation charge	(4 036)		(10 158)			(14 194)
Transfer to non-current assets held for sale	(10 055)				(14 996)	(25 051)
Carrying amount at 30 June 2011	4 019	100	12 996			17 115
Acquisition of subsidiary				12 920		12 920
Amortisation charge	(1 986)		(10 156)	(2 184)		(14 326)
Impairment recognised				(5 000)		(5 000)
Carrying amount at 30 June 2012	**2 033**	**100**	**2 840**	**5 736**		**10 709**

18 Intangible assets *continued*

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

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

Impairment of goodwill:

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

The CGU's to which the goodwill balance as at 30 June 2012 and 30 June 2011 relates to is FNB Namibia Unit Trust Company Ltd.

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

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

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

	Discount rate 2012	Discount rate 2011	Growth rate 2012	Growth rate 2011
FNB Namibia Unit Trusts Limited	15.00%	15.00%	8%	8%

19 Deferred tax

N$'000	2012	2011
19.1 The movement on the deferred tax account is as follows:		
Deferred tax liability		
Opening balance	(3 473)	5 885
- Charge to profit and loss	(17 498)	(9 196)
- Deferred tax on amounts charged directly to other comprehensive income	1 634	(162)
Net balance for the year for entities with deferred tax liabilities	**(19 337)**	(3 473)
Deferred tax asset		
Opening balance	2 378	
- Acquisition of subsidiary	247	
- Charge to profit and loss	203	2 378
Net balance for the year for entities with deferred tax assets	**2 828**	2 378
Total net deferred tax balance	**(16 509)**	(1 095)

19 Deferred tax *continued*

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

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

N$'000	2012 Opening balance	2012 Tax (charge) / release	2012 Closing balance	2011 Opening balance	2011 Tax (charge) / release	2011 Closing balance
Deferred tax (liabilities) / assets						
Instalment credit agreements	(51 741)	(1 442)	(53 183)	(48 820)	(2 921)	(51 741)
Accruals	(22 450)	(3 398)	(25 848)	(21 094)	(1 356)	(22 450)
Deferred staff costs	(13 304)	(315)	(13 619)	(15 183)	1 879	(13 304)
Property and equipment	(33 354)	668	(32 686)	(29 979)	(3 375)	(33 354)
Fair value adjustments of financial instruments	(2 680)	(1 634)	(4 314)	(2 842)	162	(2 680)
Provision for loan impairment	37 481	(11 475)	26 006	37 481		37 481
Post retirement benefits	11 778	297	12 075	10 583	1 195	11 778
Other	70 797	1 435	72 232	75 739	(4 942)	70 797
Net deferred tax (liabilities) / assets	(3 473)	(15 864)	(19 337)	5 885	(9 358)	(3 473)
Deferred tax assets						
Property and equipment	(73)	(22)	(95)		(73)	(73)
Other	2 451	472	2 923		2 451	2 451
Total net deferred tax assets	2 378	450	2 828		2 378	2 378
Charge through profit and loss		13 780			7 142	
Deferred tax on other comprehensive income		1 634			(162)	
		15 414			6 980	

20 Reinsurance assets

N$'000	2012	2011
Short term reinsurance contracts	927	425
Total reinsurance contracts	**927**	425

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

21 Disposal group held for sale and discontinued operations

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

During the prior year, following the unbundling of Momentum Group Limited out of the FirstRand Group in South Africa, FNB Namibia took a strategic decision to disinvest its stake in Momentum Namibia.

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

The transaction has been approved by the relevant authorities and is effective from 29 June 2012. The transaction is not subject to any suspensive conditions.

Discontinued operations

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

N$'000	2012*	2011
Interest and similar income	62 626	62 962
Net interest income	**62 626**	62 962
Non-interest income	56 254	67 409
Net insurance premium income	289 268	197 348
Net claims and benefits paid	(152 099)	(117 956)
Increase in value of policyholder liabilities: insurance contracts	(156 830)	(6 517)
Fair value adjustment of policyholder liabilities: investment contracts	(5 014)	(40 266)
Income from operations	**94 205**	162 980
Operating expenses	(79 852)	(76 377)
Income before tax	**14 353**	86 603
Indirect tax	(4 017)	(4 130)
Profit before tax	**10 336**	82 473
Direct tax	(8 478)	(7 681)
Profit after tax	**1 858**	74 792
Other comprehensive income		
Gain / (loss) on available-for-sale financial assets	2 664	(253)
Total other comprehensive income for the year	**2 664**	(253)
Total comprehensive income for the year	**4 522**	74 539

* This includes the profits up to the date that the discontinued operation was disposed of which is 29 June 2012

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

21 Disposal group held for sale and discontinued operations *continued*

Discontinued operations *continued*

N$'000	2012*	2011
Cash flow information		
Net cash flow from operating activities	94 953	153 544
Net cash flow from investing activities	(1 732)	(1 433)
Net cash flow from financing activities	(24 328)	(73 500)
Total cash flow	**68 893**	78 611
Profit from discontinued operation		
Profit after tax from discontinued operation	1 858	
Gain on disposal of discontinued operation	231 598	
Total profit for the year from discontinued operation	**233 456**	
Gain on disposal of discontinued operation		
Consideration received	366 387	
Attributable profit after tax from discontinued operation	948	
Net assets disposed of	133 841	
Gain on disposal	**231 598**	

Analysis of the assets and liabilities of Momentum Namibia group held for sale

N$'000	2012**	2011
Assets		
Cash and short term funds	28 216	26 094
Investment securities	1 429 091	1 256 870
Accounts receivable	30 949	37 594
Property and equipment	3 691	2 919
Intangible assets	22 733	16 015
Policy loans on investments contracts	23 354	24 617
Reinsurance assets	34 338	17 620
Total assets classified as disposal group held for sale	**1 572 412**	1 381 729
Liabilities		
Creditors and accruals	45 036	38 434
Gross outstanding claims	3 478	2 354
Tax liability	695	1 232
Post-employment benefit liabilities	344	286
Policyholder liabilities under insurance contracts	1 087 558	937 369
Policyholder liabilities under investment contracts	172 867	94 494
Total liabilities classified as disposal group held for sale	**1 309 978**	1 074 169
Net assets of disposal group held for sale	**262 434**	307 560

** The amounts in the 2012 column represents the carrying value of the assets and liabilities on the date of the disposal.

Momentum Namibia group was previously disclosed as the Long term insurance segment in the segment report.

22 Deposits

22.1 Deposits and current accounts

N$'000	2012 At amortised cost	2011 At amortised cost
Category analysis		
- Current accounts	5 619 343	4 262 215
- Call deposits	4 378 298	3 996 382
- Savings accounts	415 000	355 308
- Fixed and notice deposits	2 335 471	2 002 094
- Negotiable certificates of deposit	3 490 360	2 689 608
Total deposits and current accounts	**16 238 472**	13 305 607

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

Geographical split: Namibia	**16 238 472**	13 305 607

22.2 Due to banks and other financial institutions

N$'000	2012 At amortised cost	2011 At amortised cost
To banks and financial institutions		
- In the normal course of business	48 429	43 910
Fair value of balance disclosed	**48 429**	43 910
Geographical split: Namibia	**48 429**	43 910

23 Short trading positions

N$'000	2012	2011
Government and government guaranteed stock		51 889
Short trading securities		51 889

Short trading positions are carried at fair value.

24 Creditors and accruals

N$'000		2012	2011[1]	2010[1]
Accounts payable and accrued liabilities		203 337	109 250	141 474
Items in transit		26 263	119 441	43 932
Preference dividends payable				42
Creditors and accruals		**229 600**	228 691	185 448

The carrying value of creditors and accruals approximates fair value.

25 Employee liabilities

N$'000		2012	2011[1]	2010[1]
Staff related accruals	25.1	83 139	72 014	64 195
Cash settled share-based payment liability*		9 374	5 354	2 401
Post-employment benefit liabilities	25.2	35 699	34 583	31 128
Closing balance		**128 212**	111 951	97 724

* Refer to note 31 (remuneration schemes) for more detail on the cash settled share-based payment schemes.

25.1 Staff related accruals

The staff related accruals consists mainly of the accrual for leave pay, staff bonuses.

N$'000	2012	2011[1]	2010[1]
Opening balance	72 014	64 195	52 279
- Acquisitions/(disposals) of subsidiaries	2 337	828	
- Transfer to non-current assets and disposal groups held for sale		(3 346)	
- Charge to profit or loss	32 633	27 301	21 318
- Utilised	(23 845)	(16 964)	(9 402)
Closing balance	**83 139**	72 014	64 195

[1] Comparatives have been reclassified, refer to note 42

25 Employee liabilities *continued*

25.2 Post-employment benefit liabilities

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

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

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

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

The independent actuarial valuations are done on an annual basis.

	2012			2011		
N$ '000	Medical	Severance Pay	Total	Medical	Severance Pay	Total
Present value of unfunded liabilities	29 105	4 111	33 216	30 016	4 200	34 216
Unrecognised actuarial (losses) / gains	2 483		2 483	367		367
Post-employment benefit liabilities	**31 588**	**4 111**	**35 699**	30 383	4 200	34 583
The amounts recognised in the statement of comprehensive income are as follows:						
Current service cost	165	363	528	170	919	1 089
Past service cost		128	128	1 137	4	1 141
Interest cost	2 553	344	2 897	2 541	283	2 824
Net actuarial gains recognised	84	(867)	(783)	(418)		(418)
Total included in staff costs (including discontinued operations)	**2 802**	**(32)**	**2 770**	3 430	1 206	4 636
Movement in post-employment liabilities						
Present value at the beginning of the year	30 383	4 200	34 583	28 146	3 156	31 302
Amounts recognised in the profit and loss as above	2 802	(32)	2 770	3 430	1 206	4 636
Transfer to non current liabilities held for sale				(87)	(87)	(174)
Benefits paid	(1 597)	(57)	(1 654)	(1 106)	(75)	(1 181)
Present value at the end of the year	**31 588**	**4 111**	**35 699**	30 383	4 200	34 583

25 Employee liabilities *continued*

25.2 Post-employment benefit liabilities *continued*

The principal actuarial assumptions used for accounting purposes were:

N$'000	2012 Medical	2012 Severance	2011 Medical	2011 Severance
Discount rate (%)	8.38%	8.38%	8.51%	8.51%
Medical aid inflation (%)	7.38%		7.51%	
Salary inflation (%)		6.88%		7.01%

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

N$'000	2012 Health costs	2012 Salary cost	2011 Health costs	2011 Salary cost
Increase of 1%				
Effect on the aggregate of the current service cost and interest cost	447	77	426	81
Effect on the defined benefit obligation	4 399	409	4 429	419
Decrease of 1%				
Effect on the aggregate of the current service cost and interest cost	359	68	340	70
Effect on the defined benefit obligation	3 593	361	3 555	370
Mortality rate				
The average life expectancy in years of a pensioner retiring at age 60 on the reporting date is as follows:				
Male	15	n/a	19	n/a
Female	17	n/a	23	n/a
Employees covered	122	1 789	129	1 732

25.3 Defined contribution pension fund

N$'000	2012	2011
Employer contribution to pension fund	38 433	34 176
Employer contribution to pension fund - executive director	291	274
Total employer contributions to pension fund (including discontinued operations)	38 724	34 450
Employees contribution to pension fund	17 588	15 762
Total contributions	**56 312**	50 212
Number of employees covered	1 887	1 803

The group provides for retirement benefits by making payments to a pension fund, which is independent of the group and was registered in Namibia in 1995 in accordance with the requirements of the Pension Funds' Act. The fund is a defined contribution fund and is subject to the Pension Funds' Act (No 24 of 1956). The last valuation was performed for the year ended 30 June 2011 and indicated that the fund was in a sound financial position.

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

26 Policyholder liabilities under insurance contracts

N$'000	2012	2011[1]	2010[1]
Short-term insurance contracts			
Claims outstanding			
Claims reported and loss adjustment expenses	7 985	6 919	6 109
Claims incurred but not reported	5 754	4 918	3 876
Insurance contract cash bonuses	8 267	7 838	5 041
Unearned premiums	23 484	22 058	20 127
Gross	45 490	41 733	35 153
Claims reported and loss adjustment expenses	(365)	(11)	(2)
Recoverable from reinsurance	(365)	(11)	(2)
Claims outstanding			
Claims reported and loss adjustment expenses	7 620	6 908	6 107
Claims incurred but not reported	5 754	4 918	3 876
Insurance contract cash bonuses	8 267	7 838	5 041
Unearned premiums	23 484	22 058	20 127
Net	45 125	41 722	35 151
Long-term insurance contracts			
Balance at the beginning of the year		963 968	927 304
- Increase in retrospective liabilities (discontinued operation)		6 517	38 040
- Unwind of discount rate		8 955	23 802
- New business		30 554	35 400
- Change in economic assumptions		(1 302)	(5 913)
- Expected cash flows		(12 859)	(56 113)
- Expected release of margins		(100 678)	(61 850)
- Expected variances		(83 238)	50
Premiums received on insurance contracts		192 817	182 710
Policyholder benefits on insurance contracts		(111 649)	(107 961)
Fair value adjustments on insurance contracts		83 917	27 915
Reinsurance (net)			(1 376)
Transfer to investment contracts		(33 116)	
Transfer to disposal group held for sale (note 21.1)		(937 369)	
Balance at the end of the year			963 968
Insurance contracts with discretionary participation features			488 470
Insurance contracts without discretionary participation features			426 060
Net policyholder liabilities under insurance contracts			914 530
Total	45 125	41 722	999 119

[1] Comparatives have been reclassified, refer to note 42

26 Policyholder liabilities under insurance contracts *continued*

	2012	2011	2010
Actuarial liabilities under unmatured policies comprise the following:			
Linked (market related) business - Individual life			116 145
Smoothed bonus business - Individual life			398 735
Annuities business			310 026
Life business			
- Individual life			89 624
			914 530

The amounts above are based on the actuarial valuations of Momentum Life Assurance Namibia Limited at 30 June 2011.

27 Policyholder liabilities under investment contracts

N$'000	2012	2011
Balance at the beginning of the year		43 831
Fair value adjustment to policyholder liabilities under investment contracts (discontinued operation)		40 266
Deposits received on investment contracts		28 167
Policyholder benefits on investment contracts		(13 289)
Fees on investment contracts		(4 481)
Transfer to disposal group held for sale (note 21.1)		(94 494)
Balance at the end of the year		
Investment contracts with discretionary participation features		
Total policyholder liabilities under investment contracts		

28 Tier two liabilities

N$'000				2012	2011 [1]	2010 [1]
Subordinated debt instruments	**Interest rate**	**Final maturity date**	**Note**			
FNB 17 fixed rate notes	9.15%	29 March 2017	i		260 000	260 000
FNB X22 fixed rate notes	8.88%	29 March 2022	ii	110 000		
FNB J22 floating rate notes	Three-month JIBAR + 1.65%	29 March 2022	iii	280 000		
Accrued interest				2 627	6 227	5 957
				392 627	266 227	265 957
Fair value adjustment (financial liability elected fair value)					4 391	3 675
Total				**392 627**	270 618	269 632
Fair value adjustment for the year				4 391	(716)	(2 307)

(i) On 29 March 2012 the group exercised its option to redeem the N$260 million subordinated, unsecured callable notes. Interest was paid semi-annually in arrear on 29 March and 29 September of each year.

(ii) The 8,88% fixed rate notes may be redeemed in full at the option of the group on 29 March 2017. Interest is paid semi-annually in arrear on 29 March and 29 September of each year.

(iii) The three-month JIBAR plus 1,65% floating rate notes may be redeemed in full at the option of the group on 29 March 2017. Interest is paid quarterly on 29 March, 29 June, 29 September and 29 December of each year.

These notes are listed on the Namibian Stock Exchange (NSX).

The notes listed above qualify as Tier 2 capital for First National Bank of Namibia Limited.

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

[1] Comparatives have been reclassified, refer to note 42

29 Share capital and share premium

	2012	2011
Authorised		
990 000 000 (2011: 990 000 000) ordinary shares with a par value of N$0.005 per share	4 950	4 950
10 000 000 (2011: 10 000 000) cumulative convertible redeemable preference shares with a par value of N$0.005 per share	50	50
	5 000	5 000
Issued		
267 593 250 (2011: 267 593 250) ordinary shares with a par value of N$0.005 per share	1 338	1 338
2 (2011: 2) cumulative convertible redeemable preference shares with a par value of N$0.005 per share		
Elimination		
-shares held by FNB Namibia share trusts	(43)	(44)
	1 295	1 294

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

	2012	2011
Share premium	181 477	187 898

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

All issued shares are fully paid up.

30 Other reserves

N$'000	2012	2011
OUTsurance Insurance Company of Namibia Ltd - Contingency reserve	6 747	5 529
	6 747	5 529

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

31 Remuneration schemes

	2012	2011
The statement of comprehensive income charge for share-based payments is as follows:		
FNB Share Incentive Trust	4 203	2 831
Total of share trusts	4 203	2 831
Employees with FirstRand share options and share appreciation rights	5 771	2 246
Charge against staff costs (note 6)	9 974	5 077

Share option schemes

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

FNB and FirstRand Share Incentive Scheme

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

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

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

BEE Share Incentive Scheme

The group is firmly committed to the process of achieving transformation in Namibia. The group specifically wishes to ensure that the long-term benefits of the BEE transaction reach the widest possible community of black Namibians.
FirstRand Bank Holdings Ltd made available 13 379 663 shares, representing 5% of its investment in FNB Namibia Holdings Ltd at the time, to a BEE transaction. Of this total number, 4% was allocated to BEE partners and 1% was allocated to black employees and black non-executive directors. The 1% allocation to staff includes a number of shares to be put separately into a trust of which the dividend income is to support educational needs of such staff members and their family members. The rest of the 1% allocation is used, through a trust, to allocate options to staff members.

Vesting conditions as follows:

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

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

Valuation methodology

Share incentive scheme

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

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

31 Remuneration schemes *continued*

Market data consists of the following:

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

Dividend data of the following:

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

Employee statistic assumptions:

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

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

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

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

	FNB Share Incentive Trust		BEE Staff Incentive Scheme	
	2012	**2011**	**2012**	**2011**
Weighted average share price (N$)	517 - 1226	517 - 1180	700	700
Expected volatility (%)	4 - 17	4 - 17	7	7
Expected option life (years)	5	5	5	5
Expected risk free rate (%)	7.05 - 9.47	7.05 - 9.47	9	9

	FNB Share Incentive Trust		BEE Staff Incentive Scheme	
	2012	**2011**	**2012**	**2011**
Share option schemes				
Number of options in force at the beginning of the year ('000)	10 204	9 797	62	446
Granted at prices ranging between (cents)	517 - 1155	517 - 1155	517	517
Number of options granted during the year ('000)	2 807	2 296		
Granted at prices ranging between (cents)	1236	1226		
Number of options exercised/released during the year ('000)	(2 056)	(1 294)		(384)
Market value range at the date of exercise/release (cents)	517-1226	1180		1226
Number of options cancelled/lapse during the year ('000)	(340)	(595)		
Granted at prices ranging between (cents)	517 - 1226	517 - 1226		
Number of options in force at the end of the year ('000)	10 615	10 204	62	62
Granted at prices ranging between (cents)	517 - 1226	517 - 1180	517	517

31 Remuneration schemes *continued*

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

Options are exercisable over the following periods: (first date able to release)	FNB Share Incentive Trust		BEE Staff Incentive Scheme	
	2012	**2011**	**2012**	**2011**
Financial year 2012		2 396		446
Financial year 2013	4 089	2 738	62	62
Financial year 2014	2 224	2 003		
Financial year 2015	2 431	1 606		
Financial year 2016	936	726		
Financial year 2017	935	735		
Total	**10 615**	10 204	**62**	508

32 Cash flow information

N$'000	**2012**	**2011**
32.1 Reconciliation of operating profit before tax to cash flow from operating activities		
Profit before tax	820 827	705 495
Adjusted for:		
- Share of earnings of associate companies after impairment losses	(3 045)	(4 951)
- Amortisation and impairment of intangibles	19 326	14 194
- Depreciation of property and equipment	38 611	34 023
- Transfer from revaluation reserve: available-for-sale financial assets	(9 475)	(484)
- Transfer of work in progress to repairs and maintenance	5 257	4 338
- Share-based payment expenses	9 974	5 077
- Impairment release / losses of advances	(41 913)	(12 398)
- Provision for post-employment benefit obligations	1 174	3 530
- Other employment accruals	4 866	2 222
- Creation and revaluation of derivative financial instruments	35 521	(3 318)
- Policyholders fund and insurance fund transfers	1 532	2 175
- Transfer to provision for unintimated claims	836	1 042
- Fair value adjustment to financial liabilities	(4 391)	716
- Non cash flow movements in interest accrual on financial liabilities	(2 627)	(270)
- Unwinding of discounted present value on non-performing loans	(6 718)	(8 763)
- Unwinding of discounted present value on off-market loans	(4 844)	(5 930)
- Net release of deferred fee and expenses	(10 123)	(8 421)
- Off-market staff loans amortisation	4 844	5 930
- Profit on sale of property and equipment	(5)	(574)
- Indirect tax	17 381	17 019
Cash flows from operating activities	**877 008**	750 652
32.2 Cash receipts from customers		
Interest and similar income	1 503 305	1 391 641
Other non-interest income	765 626	600 484
Net insurance premium received	86 001	74 110
	2 354 932	2 066 235

32 Cash flow information *continued*

N$'000		2012	2011
32.3	**Cash paid to customers, suppliers and employees**		
	Interest expense and similar charges	(637 738)	(575 584)
	Net claims and benefits paid	(40 131)	(40 395)
	Total other operating expenses	(800 055)	(699 604)
		(1 477 924)	(1 315 583)
32.4	**Increase in income earning assets**		
	Due from banks and other financial institutions	(1 162 690)	88 131
	Advances	(1 548 812)	(1 202 170)
	Investment securities	(510 373)	(132 136)
	Accounts receivable and similar accounts	(58 300)	(46 439)
	Reinsurance assets	(503)	217
		(3 280 678)	(1 292 397)
32.5	**Increase in deposits and other liabilities**		
	Deposits	2 978 541	1 259 738
	Due to banks and other financial institutions	4 519	(10 436)
	Short trading positions	(51 889)	51 889
	Accounts payable and similar accounts	31 776	101 054
		2 962 947	1 402 245
32.6	**Tax paid**		
	Amounts payable at beginning of the year	(32 048)	(39 818)
	Indirect tax	(17 381)	(17 019)
	Current tax charge	(268 468)	(234 100)
	Amounts payable at end of the year	164 768	32 048
	Total tax paid	(153 129)	(258 889)
32.7	**Capital expenses to maintain operations**		
	Purchase of property and equipment, settled in cash	(51 581)	(53 742)
32.8	**Acquisition of subsidiary**		
	FNB Insurance Brokers (Namibia) (Pty) Ltd ("FNBIBN")		
	The group acquired the remaining 60% in FNBIBN (note 36.7)	(10 202)	
32.9	**Proceed on disposal of subsidiary**		
	Momentum Life Assurance Namibia Limited		
	The group sold its interest in Momentum Life Assurance Namibia Limited to Momentum Group Limited on 29 June 2012 (note 21)	342 403	
32.10	**Dividends paid**		
	Dividends approved and recognised in the group statement of changes in equity.	(212 360)	(626 206)
	Total dividends paid	(212 360)	(626 206)

33 Contingent liabilities and capital commitments

N$'000	2012	2011
Contingencies		
Guarantees *	655 385	722 290
Letters of credit	54 028	47 756
Total contingencies	709 413	770 046
Irrevocable unutilised facilities	641 215	434 880
Total contingencies and commitments	1 350 628	1 204 926

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

Legal proceedings

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

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

Commitments:

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

	2012	2011
- Contracted for	8 464	9 727
- Not contracted for	408 150	
Comprising of:		
- Capital commitments contracted for at the reporting date but not yet incurred are as follows:		
- Property and equipment	8 464	9 727
- Capital commitments not yet contracted for at the reporting date but have been approved by the directors:		
- Property and equipment	408 150	

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

Group leasing arrangements:

N$'000	2012 Next year	2012 2nd to 5th year	2012 After 5th year	2011 Next year	2011 2nd to 5th year	2011 After 5th year
Office premises	14 021	21 663	821	12 233	19 774	1 042
Equipment				27		
	14 021	21 663	821	12 260	19 774	1 042

Notice periods on operating lease contracts are between 3-6 months, no operating lease contract is fixed and escalation clauses range between 7% and 10% (2011: 7% and 10%).

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

34 Collateral held

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

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

N$'000	2012 Fair value of collateral obtained	2012 Fair value of collateral sold or re-pledged	2011 Fair value of collateral obtained	2011 Fair value of collateral sold or re-pledged
Investment securities			52 757	
Total			52 757	

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

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

N$'000	2012	2011
Collateral taken possession of and recognised on the statement of financial position in accounts receivable, note 15 :		
Property	2 693	1 906
Total	**2 693**	1 906

35 Loans and receivables designated as fair value through profit or loss

Certain instruments designated at fair value through profit or loss would meet the definition for classification as loans and receivables in terms of IAS 39 were it not for the fair value designation i.e. unquoted debt instruments. The table below contains details on the carrying value of the advance designated as fair value through profit or loss.

N$'000	2012 Carrying value	2011 Carrying value
Included in advances	**484 537**	

The change in credit risk is the difference between fair value of the advances based on the original credit spreads and the fair value of the advances based on the most recent market observable credit spreads.

The was no change in credit risk due to the difference between fair value of the advances based on the original credit spreads and the fair value of the advances based on the most recent market observable credit spreads.

36 Related parties

The group defines related parties as :

(i) The parent company;
(ii) Subsidiaries;
(iii) Associate companies;
(iv) Entities that have significant influence over the group. If an investor has significant influence over the group that investor and its subsidiaries are related parties of the group. The group is FNB Namibia Holdings Limited and its subsidiaries;
(v) Post-retirement benefit funds (pension fund);
(vi) Key management personnel being the FNB Namibia Holdings Limited board of directors and the group executive committee;
(vii) Close family members of key management personnel (individual's spouse/domestic partner and children; domestic partner's children and dependants of individual or domestic partner); and
(viii) Entities controlled, jointly controlled or significantly influenced by any individual referred to in (vi) and (vii).

FNB Namibia Holdings Limited is listed on the Namibian Stock Exchange and is 58.4% (2011: 58.4%) owned by FirstRand EMA Holdings Limited, with its ultimate holding company FirstRand Limited, which is incorporated in South Africa, listed on the JSE Limited and on the NSX.

36.1 Subsidiaries

Details of interest in subsidiaries are disclosed in note 36.6.

36.2 Associates

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

36.3 Details of transactions with relevant related parties appear below:

N$'000	Groups that have significant influence over the group and their subsidiaries 2012	Groups that have significant influence over the group and their subsidiaries 2011	Associates 2012	Associates 2011
Loans and advances				
Balance 1 July	84 148	816 217		
Advanced during year	1 170 169			
Repayments during year		(732 069)		
Balance 30 June	**1 254 317**	84 148		
Derivative instrument: assets	17 534	8 085		
Deposits				
Balance 1 July	(32 090)	(52 496)	(50 499)	(44 104)
Received during year				(14 408)
Repaid during year	2 114	20 406	42 626	8 013
Balance 30 June	**(29 976)**	(32 090)	**(7 873)**	(50 499)
Derivative instrument: liabilities	(44 392)	(18 930)		
Accounts receivable				
Balance 1 July				
Advanced during the year	50 000			
Balance 30 June	**50 000**			

36 Related parties *continued*

	Groups that have significant influence over the group and their subsidiaries 2012	2011	Associates 2012	2011
Accounts payable				
Balance 1 July				
Received during the year	(13 889)			
Balance 30 June	**(13 889)**			
Interest received	63 592	54 721		
Interest paid			(115)	(2 076)
Dividends paid	128 143	381 271		
Non-interest income				
Commission	3 628	2 177		251
Rental income			967	757
	3 628	2 177	**967**	1 008
Non-interest expenditure				
Computer and processing related costs	70 615	70 410		
Internal audit and compliance	1 390	1 371		
Insurance	4 910	4 946		
ATM processing costs	2 264	2 136		
Payroll processing	3 937	2 965		
Management fees	10 959	8 755		
Administration fee: OUTsurance SA	18 736	15 018		
Other sundry	13 399	10 877		
Clearing cost			5 638	5 290
	126 210	116 478	**5 638**	5 290

36 Related parties *continued*

36.4 Transactions with key management personnel:

N$'000	2012	2011
Advances		
Balance 1 July	36 809	42 397
Advanced during year	1 992	16 292
Repayments during year	(11 245)	(26 018)
Interest earned	2 736	4 138
Balance 30 June	**30 292**	36 809

No impairment has been recognised for loans granted to key management (2011: nil).
Mortgage loans are repayable monthly over 20 years.

N$'000	2012	2011
Current and credit card accounts		
Credit balance 1 July	(14 001)	(11 284)
Net deposits and withdrawals	1 413	(3 357)
Net service fees and bank charges	224	1 090
Interest income	85	356
Interest expense	(252)	(806)
Balance 30 June	**(12 531)**	(14 001)
Instalment finance		
Balance 1 July	4 297	3 676
Issued during year	3 441	2 174
Repayments during year	(3 916)	(1 856)
Interest earned	380	303
Balance 30 June	**4 202**	4 297
Life and disability insurance		
Aggregate insured cover	14 989	10 310
Premiums received	113	101
Investment products		
Opening balance	22 021	24 470
Deposits and withdrawals	(6 154)	(4 098)
Net investment return	975	1 657
Commission and other transaction fees	(93)	(8)
Fund closing balance	**16 749**	22 021

Shares and share options held
Directors holding in shares is disclosed in note 6.

N$'000	2012	2011
Aggregate details		
Share options held	2 806	3 044
Key management compensation		
Salaries and other short-term benefits	22 281	19 948
Contribution to defined contribution schemes	2 093	2 603
Share based payments	2 637	1 741
Total compensation	**27 011**	24 292

A listing of the board of directors of the group is detailed on pages 4 to 7 of the annual report.

36.5 Post employment benefit plans

Refer to note 25.2 on detailed disclosure of the movement on the post-employment benefit liability.

36 Related parties *continued*

36.6 Details of subsidiaries

Significant subsidiaries	Nature of business	Date of acquisition	Country of incorporation	Number of shares	Effective holding % 2012	% 2011
All subsidiaries are unlisted.						
The year end of all the subsidiaries is 30 June.						
Banking operations:						
First National Bank of Namibia Ltd	Commercial bank	1 June 2003	Namibia	1,200 of N$1 each	100	100
Swabou Investments (Pty) Ltd	Home loan investment company	1 July 2003	Namibia	2 of N$0.05 each	100	100
Insurance operations:						
Momentum Life Assurance Namibia Ltd*	Life assurance company	1 July 2003	Namibia	10,000,000 of N$1 each		51
OUTsurance Insurance Company of Namibia Ltd	Short-term insurance	1 July 2003	Namibia	4,000,000 of N$1 each	51	51
Other:						
FNB Trust Services Namibia (Pty) Ltd***	Estate and trust services	1 October 1996	Namibia	200 of N$1 each	100	100
FNB Insurance Brokers (Namibia) (Pty) Ltd	Short term insurance broker	1 July 2011	Namibia	100 of N$1 each	100	
FNB Namibia Unit Trusts Ltd	Unit trusts management company	1 January 2006	Namibia	4,000,000 of N$1 each	100	100
Momentum Asset Management Namibia (Pty) Ltd**	Asset manager	1 July 2010	Namibia	20,000 of N$1 each		51
Talas Properties (Windhoek) (Pty) Ltd	Property company	31 March 1988	Namibia	100 of N$1 each	100	100

* Momentum Life Assurance Namibia Limited was classified as held for sale during the prior year and sold during the current year.

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

*** First National Asset Management & Trust Company of Namibia (Pty) Ltd.'s name was changed to FNB Trust Services Namibia (Pty) Ltd.

36 Related parties *continued*

36.6 Details of subsidiaries

N$ '000	Aggregate income of subsidiaries (before tax) 2012	2011	Total investment 2012	2011
First National Bank of Namibia Ltd	723 890	608 666	1 142 792	1 142 792
Swabou Investments (Pty) Ltd	46 751	65 846		
Momentum Life Assurance Namibia Ltd*	4 611	80 187		79 276
OUTsurance Insurance Company of Namibia Ltd	27 001	18 462	6 511	6 298
FNB Trust Services Namibia (Pty) Ltd	1 495	1 223		
FNB Insurance Brokers (Namibia) (Pty) Ltd	1 943		27 904	
FNB Namibia Unit Trusts Ltd	2 362	2 340	5 475	5 475
Momentum Asset Management Namibia (Pty) Ltd	5 349	3 904		
Talas Properties (Windhoek) (Pty) Ltd	9 844	20 800	2 967	2 967
	823 246	801 428	1 185 649	1 236 808

36 Related parties *continued*

36.7 Acquisition and disposal of subsidiaries and associates

FNB Insurance Brokers (Namibia) (Pty) Ltd

On 1 July 2011 the group acquired the remaining 60% of FNB Insurance Brokers (Namibia) (Pty) Ltd ("FNBIB"). The group previously held 40% shareholding and the remaining 60% was held by FNB Insurance Brokers Holdings (SA) (Pty) Ltd.

FNBIB is a short term insurance broker incorporated in the Republic of Namibia. FNBIB contributed N$1.9 million profit before tax to the group for the year ended 30 June 2012.

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

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

Identifiable assets acquired and liabilities assumed at their consolidated carrying value

N$'000	2012
Assets	
Cash and short term funds	45 675
Accounts receivable	3 173
Property and equipment	1 042
Intangible assets	12 920
Total assets acquired	**62 810**
Liabilities	
Creditors and accruals	16 630
Amounts due to fellow subsidiary companies	25 062
Total liabilities acquired	**41 692**
Net identifiable assets value as at date of acquisition	**21 118**
Total cash consideration transferred	10 202
Add: Value of previously held equity interest in acquire at acquisition date	22 298
Excess paid on change of shareholding in subsidiary	(11 382)
Net identifiable assets value as at date of acquisition	**21 118**

36 Related parties *continued*

36.7 Acquisition and disposal of subsidiaries and associates

Momentum Asset Management (Namibia) (Pty) Limited

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

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

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

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

Identifiable assets acquired and liabilities assumed at their consolidated carrying value

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

37 Fair value of financial instruments

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

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

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

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

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

Level 1 - Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 - Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 - Fair value is determined using a valuation technique and inputs that are not based on observable market data (i.e. unobservable inputs).

The following principle methods and assumptions are used to determine the fair value of financial instruments:

Investments securities
Unlisted equities
The fair value of unlisted equities is determined using a price earnings (P/E) model.

The earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued and the relevance and reliability of the available information.

The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions which have taken place.

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

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

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

37 Fair value of financial instruments *continued*

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

Derivatives
Market prices are obtained from trading exchanges, when the derivatives are traded. If the derivatives are not traded the following techniques are used:

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

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

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

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

Deposits
Fair value of deposits is determined by discounting future cash flows using a swap curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioral aspects into account.

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

The fair value of deposits will only be determined for deposits that have a maturity profile of longer than 30 days. For all non term products it is assumed that fair value equals amortised cost.

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

Loans and advances to customers
The group has elected to designate the term loan book in the investment banking division at fair value through profit or loss. The fair value is determined using a valuation technique that uses both inputs that are based on observable market data and unobservable data. The group also determines the fair value of the amortised cost book for disclosure purposes.

The interest rate component of the valuation uses observable inputs from market interest rate curves. To calculate the fair value of credit the group uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria.

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

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

37 Fair value of financial instruments *continued*

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

N$'000	2012 Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
Investment securities (note 14)		1 956 123		1 956 123
Financial assets designated at fair value through profit or loss				
Advances (note 12)			484 537	484 537
Investment securities (note 14)		36 727		36 727
Financial assets held for trading				
Derivative financial instruments (note 11)		27 125		27 125
Investment securities (note 14)		48 967		48 967
Total financial assets		**2 068 942**	**484 537**	**2 553 479**
Liabilities				
Financial liabilities held for trading				
Derivative financial instruments (note 11)		60 227		60 227
Total financial liabilities		**60 227**		**60 227**

N$'000	2011 Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
Investment securities (note 14)	12 273	1 475 053		1 487 326
Financial assets designated at fair value through profit or loss				
Investment securities (note 14)	1 382	36 873		38 255
Financial assets held for trading				
Derivative financial instruments (note 11)		24 161		24 161
Investment securities (note 14)		64 319		64 319
Total financial assets	13 655	1 600 406		1 614 061
Liabilities				
Financial liabilities designated at fair value through profit or loss				
Tier two liabilities (note 28)		270 618		270 618
Financial liabilities held for trading				
Short trading position (note 23)	51 889			51 889
Derivative financial instruments (note 11)		21 743		21 743
Total financial liabilities	51 889	292 361		344 250

During the reporting period ending 30 June 2012 (30 June 2011), there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

37 Fair value of financial instruments *continued*

Changes in level 3 fair value instruments

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

N$'000	Fair value on June 2011	Gains or losses recognised in profit and loss	Purchases/ (sales)/issues/ (settlements)	Discontinued operations	Fair value on June 2012
Assets					
Advances (note 12)		15 785	468 752		484 537
Total		15 785	468 752		484 537

N$'000	Fair value on June 2010	Gains or losses recognised in profit and loss (discontinued operations)	Gains or losses recognised in profit and loss (discontinued operations)	Discontinued operations	Fair value on June 2011
Liabilities					
Policyholder liabilities under investment contracts	7 365	4 011		(11 376)	
Total		4 011		(11 376)	

Changes in the group's best estimate of the non-observable inputs (Level 3) could affect the reported fair values recognised on statement of financial position and the movement in fair values recognised in the statement of comprehensive. However, changing these inputs to reasonably possible alternatives would change the fair value using more positive reasonable assumptions to N$532,992 (2011:N$5 342) and using more negative reasonable possible assumptions to N$436,084 (2011:N$9 463). These amounts are based on the assumptions without first tier margins and additional first tier margins respectively.

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

37 Fair value of financial instruments *continued*

Changes in level 3 fair value instruments *continued*

N$'000	2012 Gains or losses recognised in profit and loss	Gains or losses recognised in other comprehensive income	Total gains or loss
Assets			
Advances	40 635		40 635
Total	**40 635**		40 635

N$'000	2011 Gains or losses recognised in profit and loss	Gains or losses recognised in other comprehensive income	Total gains or loss
Liabilities			
Policyholder liabilities under investment contracts	4 011		4 011
Total	4 011		4 011

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

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

N$'000	2012 Carrying value	2012 Fair value	2011 Carrying value	2011 Fair value
Assets				
Total advances at amortised cost (note 12)	13 592 216	13 870 508	12 464 342	12 479 661
Total investments at amortised cost (note 14)	102 607	102 722	53 626	53 626
Total financial assets at amortised cost	**13 694 823**	**13 973 230**	12 517 968	12 533 287
Liabilities				
Total deposits at amortised cost (note 22)	16 238 472	16 301 485	13 305 607	13 177 916
Total financial liabilities at amortised cost	**16 238 472**	**16 301 485**	13 305 607	13 177 916

37 Fair value of financial instruments *continued*

Day one profit or loss

In accordance with the group's accounting policies, if there are significant unobservable inputs used in a valuation technique, the financial instrument is recognised at the transaction price and any day one profit is deferred. The balance is related to advances designated at fair value trough profit or loss.

The table below sets out the aggregate day one profits yet to be recognised in profit or loss at the beginning and end of the year with a reconciliation of changes in the balance during the year:

N$'000	2012	2011
Unrecognised profit at the beginning of the year		
Additional profit on new transactions	18 344	
Recognised in profit or loss during the year	(2 371)	
Unrecognised profit at the end of the year	**15 973**	

38 Segment information

38.1 Reportable segments

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

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

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

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

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

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

38 Segment information (continued)

38.2 Reportable segments

Statement of comprehensive income
for the year ended 30 June

N$'000	Group 2012	Group 2011	Banking operations 2012	Banking operations 2011	Long term insurance 2012	Long term insurance 2011	Short term insurance 2012	Short term insurance 2011	Other 2012	Other 2011
Continuing operations										
Net interest income	889 879	839 440	888 733	840 258			2 294	2 500	(1 148)	(3 318)
Net interest income - external	889 879	839 440	891 027	839 440						
Net interest income - internal			(2 294)	818			2 294	2 500	(1 148)	(3 318)
Impairment reversal / (recognition) losses on advances	41 913	12 398	41 913	12 398						
Net interest income after impairment of advances	931 792	851 838	930 646	852 656			2 294	2 500	(1 148)	(3 318)
Non-interest income	739 585	604 861	681 831	583 032			3 872	2 924	53 882	18 907
Net insurance premium income	84 468	71 935					84 468	71 935		
Net claims and benefits paid	(40 968)	(41 437)					(40 968)	(41 437)		
Fair value adjustment to financial liabilities	4 391	(716)	4 391	(716)						
Income from operations	1 719 268	1 486 481	1 616 868	1 434 972			49 666	35 922	52 734	15 589
Operating expenses	(884 105)	(768 918)	(830 917)	(757 316)			(22 667)	(17 511)	(30 521)	5 907
Net income from operations	835 163	717 563	785 951	677 656			26 999	18 411	22 213	21 496
Share of profit from associates after tax	3 045	4 951	949	253					2 096	4 698
Income before tax	838 208	722 514	786 900	677 909			26 999	18 411	24 309	26 194
Indirect tax	(17 381)	(17 019)	(16 304)	(16 883)					(1 077)	(136)
Profit before tax	820 827	705 495	770 596	661 026			26 999	18 411	23 232	26 058
Direct tax	(282 248)	(241 242)	(262 080)	(226 979)			(8 590)	(5 964)	(11 578)	(8 299)
Profit for the year from continuing operations	538 579	464 253	508 516	434 047			18 409	12 447	11 654	17 759
Discontinued operations										
Profit attributable to discontinued operations	1 858	74 792			1 858	74 792				
Profit after tax on discontinued operations	231 598								231 598	
Profit for the year	**772 035**	539 045	**508 516**	434 047	**1 858**	74 792	**18 409**	12 447	**243 252**	17 759
Attributable to:										
Ordinary shareholders	762 103	496 298	508 516	434 047	948	38 144	9 387	6 348	243 252	17 759
Equity holders of the parent	762 103	496 298	508 516	434 047	948	38 144	9 387	6 348	243 252	17 759
Non-controlling interests	9 932	42 747			910	36 648	9 022	6 099		
Profit for the year	**772 035**	539 045	**508 516**	434 047	**1 858**	74 792	**18 409**	12 447	**243 252**	17 759
Headline earnings (note 8)	526 025	495 599	500 568	433 728	948	38 144	9 387	6 348	15 122	17 379
Other information										
Depreciation and amortisation	(57 935)	(48 217)	(65 558)	(60 984)	(10 106)	(9 935)	(22)	(44)	7 645	12 811
Rental income			772	871					9 505	8 947
Rental expense			(9 505)	(8 947)	(772)	(871)	(63)	(71)		
Capital expenditure	51 581	53 742	44 232	53 506	1 433	1 433			7 349	236

38 Segment information *continued*

Statement of financial position
as at 30 June

N$'000	Group 2012	Group 2011	Banking operations 2012	Banking operations 2011	Long term insurance 2012	Long term insurance 2011	Short term insurance 2012	Short term insurance 2011	Other 2012	Other 2011
Assets										
Cash and short term funds	1 002 052	428 054	968 800	412 913			40 936	41 950	(7 684)	(26 809)
Due from banks and other financial institutions	1 925 741	763 051	1 927 620	763 051					(1 879)	
Derivative financial instruments	27 125	24 161	27 125	24 161						
Advances	14 076 753	12 464 342	14 153 604	12 538 500					(76 851)	(74 158)
Investment securities	2 144 424	1 643 526	2 055 602	1 578 439			52 096	26 831	36 727	38 256
Investments in associates	3 903	24 696	2 769	1 820					1 134	22 876
Other assets	517 554	434 371	616 901	594 286			5 727	4 608	(105 075)	(164 523)
Non-current assets and disposal group held for sale		1 381 729				1 381 729				
Total assets	**19 697 552**	17 163 930	**19 752 421**	15 913 170		1 381 729	**98 759**	73 389	**(153 628)**	(204 358)
Equity and liabilities										
Liabilities										
Deposits	16 238 472	13 305 607	16 679 315	13 356 400					(440 843)	(50 793)
Due to banks and other financial institutions	48 429	43 910	32 924	43 910					15 505	
Short trading positions		51 889		51 889						
Derivative financial instruments	60 227	21 743	60 227	21 743						
Other liabilities	574 168	410 146	479 990	385 238			61 234	48 075	32 944	(23 167)
Tier two liabilities	392 627	270 618	392 627	270 618						
Liabilities directly associated with disposal groups held for sale		1 074 169				1 074 169				
Total liabilities	**17 313 923**	15 178 082	**17 645 083**	14 129 798		1 074 169	**61 234**	48 075	**(392 394)**	(73 960)
Equity										
Capital and reserves attributable to ordinary equity holders										
Ordinary shares	1 295	1 294	1	1		10 000	4 000	4 000	(2 706)	(12 707)
Share premium	181 477	187 898	1 142 791	1 142 791		185 368			(961 314)	(1 140 261)
Reserves	2 179 264	1 630 930	964 546	640 580		112 192	33 525	21 314	1 181 193	856 844
Capital and reserves attributable to ordinary equity holders	2 362 036	1 820 122	2 107 338	1 783 372		307 560	37 525	25 314	217 173	(296 124)
Non-controlling interests	21 593	165 726							21 593	165 726
Total equity	2 383 629	1 985 848	2 107 338	1 783 372		307 560	37 525	25 314	238 766	(130 398)
Total equity and liabilities	**19 697 552**	17 163 930	**19 752 421**	15 913 170		1 381 729	**98 759**	73 389	**(153 628)**	(204 358)

39 Critical accounting estimates and judgements in applying accounting policies

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

39.1 Credit impairment losses on loans and advances

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

(a) Performing loans

The performing portfolio is split into two parts:

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

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

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

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

(b) Non-performing loans

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

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

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

39 Critical accounting estimates and judgements in applying accounting policies *continued*

39.2 Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by independent qualified senior personnel. All models are certified before they are used, and models are calibrated and back tested to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments. Note 37 provides additional details on the calculation of fair value of financial instruments not quoted in active markets and an analysis of the effect of changes in managements' estimates on the fair value of financial instruments.

39.3 Impairment of available-for-sale equity instruments

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

39.4 Income taxes

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

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

39.5 Impairment of goodwill

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

39.6 Employee benefit liabilities

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

Additional information is provided in the note 25.

39.7 Share-based payments

Share based payment transactions of the group are classified as either cash settled or equity settled. The amounts recognised in respect of these share based payment transactions are determined by applying valuation techniques that are based on various assumptions and estimates that require judgment in their application. These assumptions and estimates include expected volatility, expected dividend yield, the discount rate and the expected forfeit or lapse rate.

39 Critical accounting estimates and judgements in applying accounting policies *continued*

39.7 Share-based payments *continued*

The expected volatility assumption is determined based on a ruling historical volatility over the expected life of the options and comparable financial information. The expected dividend yield is determined based on historical dividend yields and management's estimates. The discount rate is based on zero coupon government bonds and have terms to maturity consistent with the assumed life of the share option. The expected forfeit rate has been based on historical experience and management estimates.

Refer to note 31 for the detailed information regarding the share based payment expense and the assumptions used in determining the expense, liability and reserve.

39.8 Valuation of policyholders liabilities under insurance contracts

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

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

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

40 Standards and interpretations issued but not yet effective

	The group will comply with the following new standards and interpretations from the stated effective date.	**Effective date**
IAS 1 (amended)	**Presentation of Items of Other Comprehensive Income** This amendment was issued to eliminate inconsistencies in the presentation of items in the statement of other comprehensive income. The amendment requires an entity to group the items of other comprehensive income on the basis of whether the amounts will subsequently be reclassified to profit or loss or not i.e. the statement of comprehensive income should be split between items that will be reclassified to profit or loss and items that will not be reclassified to profit or loss. This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact of the revised disclosure is not expected to be significant.	Annual periods commencing on or after 1 January 2012.
IAS 12 (amended)	**Income Taxes** IAS 12 requires that deferred tax assets is measured based on whether the entity expects to recover the carrying amount of the asset through use or through sale. This assessment of the method of recovery may be difficult to assess for investment property measured using the fair value model. The amendment provides a practical solution by introducing a presumption that the carrying amount of such investment property will normally be recovered through sale. As a result of the amendment, SIC 12 Income Taxes - Recovery of Revalued Non-Depreciable Assets has been withdrawn. This amendment is not expected to have a significant impact on the group.	Annual periods commencing on or after 1 January 2012
IAS 19 (revised)	**Employee Benefits** The main changes include the removal of the corridor approach, which allowed entities the option to defer the recognition of actuarial gains and losses on defined benefit plans. The revised standard requires that all remeasurement arising from defined benefit plans be presented in other comprehensive income. It also includes enhanced disclosure requirements for defined benefits plans. The group is in the process of assessing the impact the revised IAS 19 would have on the financial statements.	Annual periods commencing on or after 1 January 2013
IAS 27 (amended)	**Separate Financial Statements** IAS 27 removes the accounting and disclosure requirements for consolidated financial statements as a result of the issue of IFRS 10 and IFRS 12, which establish new consolidation and disclosure standards. IAS 27 (amended) contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. This amendment is not expected to have a significant impact on the group's results.	Annual periods commencing on or after 1 January 2013
IAS 28 (amended)	**Investments in Associates and Joint ventures** IAS 28 Investments in Associates and Joint Ventures (amended) supersedes IAS 28 Investments in Associates as a result of the issue of IFRS 11 and IFRS 12.The new IAS 28 prescribes the accounting for investment in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The disclosure requirements relating to these investments are now contained in IFRS 12. This amendment is not expected to have a significant impact on the group's results.	Annual periods commencing on or after 1 January 2013

40 Standards and interpretations issued but not yet effective *continued*

IAS 32	**Financial Instruments: Presentation** This amendment requires entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set off in its statement of financial position and the effects of set-off on the entity's rights and obligations. This amendment is not expected to have a significant impact on the group's results.	Annual periods commencing on or after 1 January 2014
IFRS 1 (amended)	**First-time Adoption of International Financial Reporting Standards** On 13 March 2012 the IASB published an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. It provides the same relief to first-time adopters as is granted to existing preparers of IFRS financial statements when applying IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. The group is not a first-time adopter and this amended standard will therefore have no impact.	Annual periods commencing on or after 1 July 2013
IFRS 7 (amended)	**Financial Instruments: Disclosures** This amendment requires entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set off in its statement of financial position and the effects of set-off on the entity's rights and obligations. This amendment is not expected to have a significant impact on the group's disclosures.	Annual periods commencing on or after 1 July 2013
IFRS 9	**Financial Instruments** IFRS 9 is the first phase in the IASB's three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement. This phase deals with the classification and measurement of financial assets and financial liabilities. Financial assets can be classified as financial assets at amortised cost or fair value. The classification is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial liabilities can also be classified as financial liabilities at amortised cost or fair value in line with the existing requirements of IAS 39. If an entity elects to measure its financial liabilities at fair value, it should present the portion of the change in fair value due to changes in its own credit risk in other comprehensive income. The group is in the process of assessing the impact that IFRS 9 would have on the financial statements. Until the process is completed, the group is unable to determine the significance of the impact of IFRS 9.	Annual periods beginning on or after 1 January 2015
IFRS 10	**Consolidated Financial Statements** IFRS 10 establishes a new control model for determining which entities should be consolidated. The standard also provides guidance on how to apply the principle of control to specific situations in order to identify whether an investor controls an investee. IFRS 10 supersedes a portion of IAS 27 Separate and Consolidated Financial Statements and SIC 12 Consolidation – Special Purpose Entities. The group is in the process of assessing the impact that IFRS 10 would have on the financial statements. Until the process is completed, the group is unable to determine the significance of the impact of IFRS 10.	Annual periods commencing on or after 1 January 2013

40 Standards and interpretations issued but not yet effective *continued*

IFRS 11	**Joint Arrangements** The standard supersedes IAS 31 Joint Ventures and aims to improve on IAS 31 by establishing accounting principles that are applicable to all joint arrangements. The standard distinguishes between two types of joint arrangements, joint operations and joint ventures. The accounting for joint operations remains unchanged from IAS 31 and all joint ventures should be equity accounted in the financial statements of the venturer. The standard is not expected to have a significant impact on the group.	Annual periods commencing on or after 1 January 2013
IFRS 12	**Disclosure of Interests in Other Entities** The standard aims to provide consistent disclosure requirements for subsidiaries, joint arrangements, associates and structured entities. IFRS 12 requires disclosure of information that will enable users to evaluate the nature of the risks associated with the interest and the effect of the interest on the financial position, performance and cash flows of the reporting entity. This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The group is still in the process of assessing the impact of the revised disclosure.	Annual periods commencing on or after 1 January 2013
IFRS 13	**Fair Value Measurement** IFRS 13 was issued in order to eliminate inconsistencies in the guidance on how to measure fair value and disclosure requirements that currently exist under the different IFRSs that require or permit fair value measurement. It provides a fair value hierarchy, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The group is in the process of assessing the impact that IFRS 13 would have on the financial statements. Until the process is completed, the group is unable to determine the significance of the impact of IFRS 13.	Annual periods commencing on or after 1 January 2013
IFRIC 20	**Stripping Costs in the Production Phase of a Surface Mine** This Interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs'). The Interpretation falls outside the scope of the groups operations and will have no impact on the group.	Annual periods commencing on or after 1 January 2013
Annual Improvements	**Improvements to IFRS** The IASB issued Annual Improvements 2009-2011 Cycle in May 2012, as its latest set of annual improvements. The collection of amendments to International Financial Reporting Standards is in response to six issues addressed during the 2009-2011 cycle. There are no significant changes in the improvement projects that are expected to affect the group.	Annual periods commencing on or after 1 January 2013

41 Risk management

The risk report of the group appears on page 180 to 188 of this annual report. The report describes the various risks the group is exposed to, as well as the methodology and instruments to mitigate these risks. Risk control policies and exposures limits for key risk areas of the group are approved by the board, while operational policies and control procedures are approved by the relevant risk committees. The main financial risk that the business is exposed to are detailed in this note.

41.1 Maximum exposure to credit risk

Total exposure (items where credit risk exposure exist)

N$'000	2012	2011
Cash and short term funds	775 091	214 678
- Balances with other banks	34 287	16 000
- Balances with central bank	740 804	198 678
Due from banks and other financial institutions	1 925 741	763 051
Advances	14 076 753	12 464 342
- Overdraft and cash managed accounts	1 543 384	1 722 703
- Card loans	97 586	85 968
- Instalment sales and hire purchase agreements	2 154 493	1 801 840
- Lease payments receivables	127 983	89 229
- Home loans	7 180 662	6 494 818
- Term loans	2 028 266	1 841 043
- Investment bank term loans	484 537	
- Other	459 842	428 741
Derivatives	27 125	24 161
Debt investment securities	2 144 424	1 629 871
- Listed investment securities	386 004	380 642
- Unlisted investment securities	1 758 420	1 249 229
Accounts receivable	175 579	95 990
Reinsurance assets	927	425
Amounts not recognised (on the statement of financial position)	1 350 628	1 204 926
Guarantees	655 385	722 290
Letters of credit	54 028	47 756
Irrevocable commitments	641 215	434 880
Total	**20 476 268**	16 397 444

41.2 FR rating mapping to international and national rating scales

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

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

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

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

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

41 Risk management *continued*

41.3 Credit quality

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

2012

N$'000	Total neither past due nor impaired	Card loans	Overdraft and cash managed accounts	Instalment sales	Home loans	Term loans	Investment bank term loans	Other
FR 28 - 91	13 890 745	96 382	1 531 154	2 292 696	6 974 273	2 056 733	484 537	454 970
Above FR 92	66 692	1 257	14 434	8 372	42 629			
Total	**13 957 437**	**97 639**	**1 545 588**	**2 301 068**	**7 016 902**	**2 056 733**	**484 537**	**454 970**

2011

N$'000	Total neither past due nor impaired	Card loans	Overdraft and cash managed accounts	Instalment sales	Home loans	Term loans	Other
FR 28 - 91	11 557 185	81 633	1 219 904	1 736 562	6 231 430	1 865 015	422 641
Above FR 92	895 870	4 212	543 944	162 241	156 275	29 198	
Total	12 453 055	85 845	1 763 848	1 898 803	6 387 705	1 894 213	422 641

2012

N$'000	Investment securities	Derivatives	Cash and short term funds	Due from banks and other financial institutions	Total
Credit quality of financial assets other than advances neither past due nor impaired					
International scale mapping (National equivalent):					
AAA to BB- (A to BBB)	2 055 602	27 125	775 091	1 925 741	4 783 559
Unrated	88 822				88 822
Total	**2 144 424**	**27 125**	**775 091**	**1 925 741**	**4 872 381**

2011

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

41 Risk management *continued*

41.3 Credit quality *continued*

N$'000 Age analysis	Neither past due nor impaired	Renegotiated but current	31 - 60 days	61 - 90 days	Impaired	Total
2012						
Advances						
- Card loans	97 639		32	480	1 643	99 794
- Overdraft and cash managed accounts	1 545 588				16 114	1 561 702
- Instalment sales and lease payments receivables	2 301 068		3 750	4	13 437	2 318 259
- Home loans	7 016 902		36 458	72 386	96 079	7 221 825
- Term loans	2 056 733		5 895	15 908	9 799	2 088 335
- Investment bank term loans	484 537					484 537
- Other	454 970		1		4 871	459 842
	13 957 437		**46 136**	**88 778**	**141 943**	**14 234 294**
Accounts receivable						
- Items in transit	50 457					50 457
- Deferred staff cost	40 057					40 057
- Other accounts receivable	125 122					125 122
	215 636					**215 636**
Reinsurance assets	927					927
Total	**14 174 000**		**46 136**	**88 778**	**141 943**	**14 450 857**

41 Risk management *continued*

41.3 Credit quality *continued*

N$'000 Age analysis	Neither past due nor impaired	Renegotiated but current	31 - 60 days	61 - 90 days	Impaired	Total
2011						
Advances						
- Card loans	85 845		29	635	2 008	88 517
- Overdraft and cash managed accounts	1 763 848				14 051	1 777 899
- Instalment sales and lease payments receivables	1 898 803		5 900	1 195	17 974	1 923 872
- Home loans	6 387 705		25 733	17 928	117 771	6 549 137
- Term loans	1 894 213		3 420	2 075	7 537	1 907 245
- Other	422 641				6 659	429 300
	12 453 055		35 082	21 833	166 000	12 675 970
Accounts receivable						
- Items in transit	71 852					71 852
- Deferred staff cost	39 128					39 128
- Other accounts receivable	24 138					24 138
	135 118					135 118
Reinsurance assets	425					425
Total	12 588 598		35 082	21 833	166 000	12 811 513

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

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

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

41 Risk management *continued*

41.4 Liquidity cash flow analysis (undiscounted cash flow)

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

	2012			
	Term to maturity			
N$'000	Total	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits	16 771 579	13 163 958	2 568 116	1 039 505
Due to banks and other financial institutions	48 429	48 429		
Derivative financial instruments	60 227	60 227		
Creditors and accruals	229 600	222 899	6 701	
Tier two liabilities	687 938	9 963	20 120	657 855
Financial liabilities	**17 797 773**	**13 505 476**	**2 594 937**	**1 697 360**
Off statement of financial position				
Financial and other guarantees	709 413	473 980	232 433	3 000
Facilities not drawn	3 045 116	3 045 116		

	2011			
	Term to maturity			
N$'000	Total	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits	13 809 709	10 804 719	2 225 816	779 174
Due to banks and other financial institutions	43 910	43 910		
Short trading positions	51 889	51 889		
Derivative financial instruments	21 743	21 743		
Creditors and accruals	228 691	184 871	33 999	9 821
Tier two liabilities	283 790		23 790	260 000
Financial liabilities	14 439 732	11 107 132	2 283 605	1 048 995
Off statement of financial position				
Financial and other guarantees	770 047	579 022	166 001	25 024
Facilities not drawn	2 657 626	2 657 626		

41 Risk management *continued*

41.4 Liquidity cash flow analysis (discounted cash flow) *continued*

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

	2012			
		Term to maturity		
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and short term funds	**1 002 052**	1 002 052		
Due from banks and other financial institutions	**1 925 741**	1 925 741		
Derivative financial instruments	**27 125**	27 125		
Advances	**14 076 753**	1 966 639	557 592	11 552 522
Investment securities	**2 144 424**	377 694	1 080 379	686 351
Accounts receivable	**215 636**	106 802	69 658	39 176
Financial assets	**19 391 731**	5 406 053	1 707 629	12 278 049
Non-financial assets	**305 821**			
Total assets	**19 697 552**			
Liabilities				
Deposits	**16 238 472**	12 968 595	2 423 751	846 126
Due to banks and other financial institutions	**48 429**	48 429		
Derivative financial instruments	**60 227**	60 227		
Creditors and accruals	**229 600**	217 329	12 271	
Tier two liabilities	**392 627**	2 627		390 000
Financial liabilities	**16 969 355**	13 297 207	2 436 022	1 236 126
Non-financial liabilities	**344 568**			
Total liabilities	**17 313 923**			
Total equity	**2 383 629**			
Total equity and liabilities	**19 697 552**			
Net liquidity gap		(7 891 154)	(728 393)	11 041 923
Cumulative liquidity gap		(7 891 154)	(8 619 547)	2 422 376

41 Risk management *continued*

41.4 Liquidity cash flow analysis (discounted cash flow) *continued*

	2011			
		Term to maturity		
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and short term funds	428 054	428 054		
Due from banks and other financial institutions	763 051	763 051		
Derivative financial instruments	24 161	24 161		
Advances	12 464 342	1 845 790	473 373	10 145 179
Investment securities	1 643 526	777 359	482 163	384 004
Accounts receivable	135 118	92 357	4 807	37 954
Financial assets	15 458 252	3 930 772	960 343	10 567 137
Non-financial assets	1 705 678			
Total assets	17 163 930			
Liabilities				
Deposits	13 305 607	10 711 751	2 050 853	543 003
Due to banks and other financial institutions	43 910	43 910		
Short trading positions	51 889	51 889		
Derivative financial instruments	21 743	21 743		
Creditors and accruals	228 691	178 038	40 832	9 821
Tier two liabilities	270 618	6 127		264 491
Financial liabilities	13 922 458	11 013 458	2 091 685	817 315
Non-financial liabilities	1 255 624			
Total liabilities	15 178 082			
Total equity	1 985 848			
Total equity and liabilities	17 163 930			
Net liquidity gap		(7 082 686)	(1 131 342)	9 749 822
Cumulative liquidity gap		(7 082 686)	(8 214 026)	1 535 796

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

41 Risk management *continued*

Liquidity mismatch analysis

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

41.5 Repricing profile

	2012				
N$'000	Carrying amount	<3 months	>3 but ≤ 12 months	> 12 months	Non rate sensitive
Total assets	**19 697 552**	16 732 567	1 398 152	619 056	947 777
Total equity and liabilities	**19 697 552**	15 048 779	1 499 329	131 420	3 018 024
Net repricing gap		1 683 788	(101 177)	487 636	(2 070 247)
Cumulative repricing gap		1 683 788	1 582 611	2 070 247	

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

41 Risk management *continued*

41.6 Foreign currency risk

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

N$'000	2012 Total	NAD	USD	EUR	Other
Assets					
Cash and short term funds	**1 002 052**	927 840	69 313	4 241	658
Due from banks and other financial institutions	**1 925 741**	1 301 946	557 772	60 701	5 322
Derivative financial instruments	**27 125**	7 944	14 974	2 001	2 206
Advances	**14 076 753**	14 076 753			
Investment securities	**2 144 424**	2 144 424			
Accounts receivable	**215 636**	215 636			
Financial assets	**19 391 731**	18 674 543	642 059	66 943	8 186
Non-financial assets	**305 821**	305 821			
Total assets	**19 697 552**	18 980 364	642 059	66 943	8 186
Liabilities					
Deposits	**16 238 472**	15 643 032	545 414	49 286	740
Due to banks and other financial institutions	**48 429**	48 429			
Derivative financial instruments	**60 227**	50 718	7 591	1 150	768
Creditors and accruals	**229 600**	229 600			
Tier two liabilities	**392 627**	392 627			
Financial liabilities	**16 969 355**	16 364 406	553 005	50 436	1 508
Non-financial liabilities	**344 568**	344 568			
Total liabilities	**17 313 923**	16 708 974	553 005	50 436	1 508
Total equity	**2 383 629**	2 383 629			
Total equity and liabilities	**19 697 552**	19 092 603	553 005	50 436	1 508

41 Risk management *continued*

41.6 Foreign currency risk *continued*

N$'000	2011 Total	NAD	USD	EUR	Other
Assets					
Cash and short term funds	428 054	390 320	29 344	6 936	1 454
Due from banks and other financial institutions	763 051	131 050	554 438	22 886	54 677
Derivative financial instruments	24 161	5 814	15 771	2 576	
Advances	12 464 342	12 464 342			
Investment securities	1 643 526	1 631 253	12 273		
Accounts receivable	135 118	135 118			
Financial assets	15 458 252	14 757 897	611 826	32 398	56 131
Non-financial assets	1 705 678	1 705 678			
Total assets	17 163 930	16 463 575	611 826	32 398	56 131
Liabilities					
Deposits	13 305 607	12 739 704	512 144	53 081	678
Due to banks and other financial institutions	43 910	43 910			
Short trading positions	51 889	51 889			
Derivative financial instruments	21 743	5 394	13 963	2 386	
Creditors and accruals	228 691	228 691			
Tier two liabilities	270 618	270 618			
Financial liabilities	13 922 458	13 340 206	526 107	55 467	678
Non-financial liabilities	1 255 624	1 255 624			
Total liabilities	15 178 082	14 595 830	526 107	55 467	678
Total equity	1 985 848	1 985 848			
Total equity and liabilities	17 163 930	16 581 678	526 107	55 467	678

41 Risk management *continued*

41.7 Average balances and effective interest rates

N$'000	2012 Average balance N$'000	2012 Average rate %	2012 Interest income/ expense N$'000	2011 Average balance N$'000	2011 Average rate %	2011 Interest income/ expense N$'000
Assets						
Cash and short term funds, balance with banks	**2 500 700**	3.6	91 246	1 935 163	3.3	63 193
Advances	**13 249 730**	10.0	1 320 595	11 841 980	10.6	1 257 662
Investment securities	**1 910 073**	5.9	113 149	1 490 476	6.3	93 900
Interest-earning assets	**17 660 503**	8.6	1 524 990	15 267 619	9.3	1 414 755
Non-interest-earning assets	**1 960 998**			1 921 782		
Total assets	**19 621 501**	7.8	1 524 990	17 189 401	8.2	1 414 755
Liabilities						
Deposits, balance due to banks	**15 503 138**	3.9	609 457	13 148 568	4.2	551 456
Tier two liabilities	**300 295**	8.4	25 291	273 866	8.6	23 554
Other interest			363			305
Interest-earning liabilities	**15 803 433**	4.0	635 111	13 422 434	4.3	575 315
Non-interest-earning bearing liabilities	**1 651 555**			1 534 303		
Total liabilities	**17 454 988**	3.6	635 111	14 956 737	3.8	575 315
Total equity	**2 166 513**			2 232 664		
Total equity and liabilities	**19 621 501**	3.2	635 111	17 189 401	3.3	575 315

41.8 Sensitivity analysis

Banking market risk

Net interest income sensitivity

Assuming no management intervention, a parallel 200 (2011:100) basis point increase in all yield curves would increase the forecast net interest income for the next year by N$115.6 million (2011: N$46.3 million), while a parallel decrease in all yield curves would decrease the forecast income by N$115.6 million (2011: N$46.3 million)

Equity price risk sensitivity

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

N$'000	2012 10% reduction in fair value	2012 10% increase in fair value	2011 10% reduction in fair value	2011 10% increase in fair value
Impact on equity (available-for-sale-reserve)			1 227	(1 227)

Foreign currency risk sensitivity analysis

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

42 Reclassification of prior year

Statement of comprehensive income 30 June 2011

N$'000	Amount as previously reported	Amount as reclassified	Reclassifications	Explanation
Interest and similar income	1 414 755	1 414 755		
Interest expense and similar charges	(575 315)	(575 315)		
Net interest income before impairment of advances	839 440	839 440		
Impairment release on advances	12 398	12 398		
Net interest income after impairment of advances	851 838	851 838		
Non-interest income	653 365	604 861	48 504	Note I
Net insurance premium income	71 935	71 935		
Net claims and benefits paid	(41 437)	(41 437)		
Fair value adjustment to financial liabilities	(716)	(716)		
Income from operations	1 534 985	1 486 481	48 504	
Operating expenses	(817 422)	(768 918)	(48 504)	Note I
Net income from operations	717 563	717 563		
Share of profit from associates after tax	4 951	4 951		
Income before tax	722 514	722 514		
Indirect tax	(17 019)	(17 019)		
Profit before tax	705 495	705 495		
Direct tax	(241 242)	(241 242)		Reclassification had no impact on profit for the year
Profit for the year from continuing operations	464 253	464 253		
Discontinued operations				
Profit attributable to discontinued operations	74 792	74 792		
Profit for the year	539 045	539 045		

Statement of cash flows

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

Consolidated statement of financial position
as at 30 June

42 Reclassification of prior year *continued*

N$'000	Amount as previously reported	Amount as reclassified	Reclassifications	Explanation
Assets				
Cash and short term funds	428 054	428 054		
Due from banks and other financial institutions	763 051	763 051		
Derivative financial instruments	24 161	24 161		
Advances	12 464 342	12 464 342		
Investment securities	1 643 526	1 643 526		
Accounts receivable	135 118	135 118		
Investments in associates	24 696	24 696		
Tax asset				
Property and equipment	279 335	279 335		
Intangible assets	17 115	17 115		
Deferred tax asset	2 378	2 378		
Policy loans on investments contracts				
Reinsurance assets	425	425		
Non-current assets and disposal group held for sale	1 381 729	1 381 729		
Total assets	17 163 930	17 163 930		
Equity and liabilities				
Liabilities				
Deposits	13 305 607	13 305 607		
Due to banks and other financial institutions	43 910	43 910		
Short trading positions	51 889	51 889		
Derivative financial instruments	21 743	21 743		
Creditors and accruals	319 885	228 691	(91 194)	Note II
Gross outstanding claims	7 047		(7 047)	Note II
Gross unearned premium	22 058		(22 058)	Note II
Policyholder liabilities under insurance contracts	4 918	41 722	36 804	Note II
Employee liabilities		111 951	111 951	Note II
Tax liability	24 309	24 309		
Post-employment benefit liabilities	34 583		(34 583)	Note II
Deferred tax liability	3 473	3 473		
Tier two liabilities	264 491	270 618	6 127	Note II
Policyholder liabilities under insurance contracts				
Policyholder liabilities under investment contracts				
Liabilities directly associated with disposal groups held for sale	1 074 169	1 074 169		
Total liabilities	15 178 082	15 178 082		
Equity				
Capital and reserves attributable to equity holders				
Ordinary shares	1 294	1 294		
Share premium	187 898	187 898		
Reserves	1 630 930	1 630 930		
Capital and reserves attributable to the group's ordinary equity holders	1 820 122	1 820 122		
Non-controlling interests	165 726	165 726		
Total equity	1 985 848	1 985 848		
Total equity and liabilities	17 163 930	17 163 930		

42 Reclassification of prior year *continued*

Note I

Fee and commission expenses that are incremental or directly attributable to the generation of fee and commission income have been reclassified out of various operating expense lines into the fee and commission expense line. In addition, the presentation of fee and commission expenses has been updated by presenting it as part of fee and commission income and not as part of operating expenses. The presentation was updated to be in line with industry practice.

Note II

During the current year a comprehensive review of the liability disclosure was undertaken by the group in order to ensure that the group's disclosures were consistent with industry practice and to provide more detailed and useful information in the financial statements. A reclassification was required to bring the comparative numbers in line with the updated presentation.

Company statement of comprehensive income
for the year ended 30 June

N$'000	Note	2012	2011
Interest and similar income	2	357	916
Net interest income		**357**	916
Non-interest income			
- gains less losses from investing activities	3	510 930	653 856
Income from operations		**511 287**	654 772
Operating expenses	4	(6 531)	(1 181)
Income before tax		**504 756**	653 591
Indirect tax	5	(777)	(9)
Profit before tax		**503 979**	653 582
Direct tax	5	(123)	(324)
Total comprehensive income for the year		**503 856**	653 258
Attributable to:			
Equity holders of the company		503 856	653 258

Company statement of financial position
as at 30 June

N$'000	Note	2012	2011
Assets			
Accounts receivable		26 166	2 103
Loan to group company	7	345 652	4 771
Investment securities	8	3 467	9 153
Investment in associates	9	263	17 965
Investment in subsidiaries	10	1 185 649	1 157 532
Non-current asset held for sale	10		79 276
Total assets		**1 561 197**	1 270 800
Equity and liabilities			
Liabilities			
Tax liability		83	33
Creditors and accruals		6 806	889
Total liabilities		**6 889**	922
Equity			
Ordinary shares	11	1 338	1 338
Share premium	11	280 810	280 810
Reserves		1 272 160	987 730
Capital and reserves attributable to ordinary equity holders		**1 554 308**	1 269 878
Total equity and liabilities		**1 561 197**	1 270 800

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

N$'000	Share capital	Share premium	Share-based payment reserve	Retained earnings	Total ordinary shareholders' funds
Balance at 1 July 2010	1 338	280 810	6 569	975 479	1 264 196
Total comprehensive income for the year				653 258	653 258
Transfer of vested equity options			(6 569)	6 569	
Ordinary dividends				(647 576)	(647 576)
Balance at 30 June 2011	1 338	280 810		987 730	1 269 878
Total comprehensive income for the year				503 856	503 856
Ordinary dividends				(219 426)	(219 426)
Balance at 30 June 2012	**1 338**	**280 810**		**1 272 160**	**1 554 308**

Company statement of cash flows
for the year ended 30 June

N$'000	Note	2012	2011
Cash flows from operating activities			
Cash generated from operations*		217 367	653 466
Working capital changes			
- Increase/decrease in accounts receivable		(79)	2 579
- Increase/decrease in accounts payable		5 917	847
Net cash generated from operations		223 205	656 892
Indirect tax paid	5	(777)	(9)
Tax (paid) / refund**		(73)	(392)
Net cash flow from operating activities		222 355	656 491
Cash flows from investing activities			
Proceeds on sale of Momentum Namibia		342 403	
Net increase in loans to group company		(340 881)	(1 144)
Sale / (purchase) of investment securities		5 964	(7 771)
Increase in investment in OUTsurance Namibia		(213)	
Acquisition of a controlling interest in FNBIB from 40% to 100% during the year	9	(10 202)	
Net cash flow from investing activities		(2 929)	(8 915)
Cash flows from financing activities			
Dividends paid		(219 426)	(647 576)
Net cash flow from financing activities		(219 426)	(647 576)
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year			
Cash and cash equivalents at the end of the year			
*** Reconciliation of income before tax to cash generated by operations**			
Income before tax		504 756	653 591
Adjusted for:			
- Revaluation of investment securities		(278)	(125)
- Profit on sale of Momentum Namibia		(287 111)	
		217 367	653 466
****Tax paid**			
Amounts payable/ (receivable) at beginning of the year		(33)	(101)
Current tax per comprehensive income		(123)	(324)
Amounts payable at end of the year		83	33
Total tax paid / (refund)		(73)	(392)

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

N$'000 — 2012 — 2011

1 Accounting policies

The financial statements of FNB Namibia Holdings Limited are prepared according to the same accounting principles used in preparing the consolidated financial statements of FNB Namibia group. For detailed accounting policies refer to pages 52 to 71 of this annual report.

2 Analysis of interest income and expenses

	Amortised cost 2012	2011
Interest received: loan account with group company	357	916

3 Non-interest income

	2012	2011
Gains less losses from investing activities		
- Dividends received		
- Subsidiaries	221 612	651 110
- Associates	1 540	1 850
- Unit trust investments	279	771
- Equities	110	
- Revaluation of investment securities through profit or loss	278	125
- Net profit realised on sale of Momentum Namibia	287 111	
The company sold its interest in Momentum Life Assurance Namibia Limited.		
Gross gains less losses from investing activities	**510 930**	653 856

4 Operating expenses

	2012	2011
Auditors' remuneration		
- Audit fees	1 016	949
Professional fees	5 400	
Other operating costs		
- Other operating expenses	115	232
Total operating expenses	**6 531**	1 181

5 Tax

	2012	2011
Indirect tax		
Value added tax	777	9
Total indirect tax	**777**	9
Direct tax		
Namibian normal tax		
- Current year	(123)	(324)
	(123)	(324)

The company provided for tax at 34% (2011: 34%) of the taxable income (interest income). The effective tax rate is 0.02% (2011: 0.05%).

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

N$'000	2012	2011
6 Dividends		
A final dividend (dividend no. 32) of 36 cents per share was declared on 17 August 2010 in respect of the year ended 30 June 2010 and paid on 28 October 2010.		96 334
An interim dividend (dividend no. 33) of 36 cents per share was declared on 2 February 2011 for the period ended 31 December 2010 and paid on 8 April 2011.		96 334
A special dividend (dividend no. 34) of 170 cents per share was declared on 4 April 2011 and paid on 27 May 2011		454 908
A final dividend (dividend no. 35) of 41 cents per share was declared on 17 August 2011 in respect of the year ended 30 June 2011 and paid on 27 October 2011.	109 713	
An interim dividend (dividend no. 36) of 41 cents per share was declared on 2 February 2012 for the period ended 31 December 2011 and paid on 12 April 2012.	109 713	
	219 426	647 576

Final dividend of 41 cents (2011: 41 cents) per share was declared subsequent to year-end.

7 Loan to / (from) group company

Balances with Talas Properties (Windhoek) (Pty) Ltd

	2012	2011
Balance at 1 July	4 771	3 627
Increase / decrease during the year	340 881	1 144
Balance at 30 June	**345 652**	4 771

Refer to note 2 for the interest received

8 Investment securities

	2012	2011
Listed		
Equities		1 382
Unlisted		
Unit trust investments	3 467	7 771
Total	**3 467**	9 153

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

8 Investment securities *continued*

8.1 Fair value hierarchy disclosure

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

	2012			
	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss				
Investment securities		**3 467**		**3 467**

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

9 Investments in associates

N$'000	2012	2011
Unlisted investments		
Carrying value at beginning of the year	17 965	17 965
Acquisition of a controlling interest in FNBIB from 40% to 100% during the year.	(17 702)	
Carrying value at end of the year	**263**	17 965
The list of associates are:		
Avril Payment Solutions (Pty) Ltd	263	263
FNB Insurance Brokers (Namibia) (Pty) Ltd		17 702

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

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

N$'000	2012	2011
10 Investments in subsidiaries		
Unlisted investments		
Carrying value at beginning of the year	1 157 532	1 236 808
Acquisition of a controlling interest in FNBIB from 40% to 100% during the year.	27 904	
Additional investment in OUTsurance	213	
Investment in Momentum Life Assurance Namibia Limited classified as non current held for sale in the prior year		(79 276)
Carrying value at end of the year	**1 185 649**	1 157 532
The list of subsidiaries are:		
First National Bank of Namibia Ltd	1 142 792	1 142 792
Swabou Investments (Pty) Ltd		
FNB Trust Services Namibia (Pty) Ltd		
Talas Properties (Windhoek) (Pty) Ltd	2 967	2 967
OUTsurance Insurance Company of Namibia Ltd	6 511	6 298
FNB Insurance Brokers (Namibia) (Pty) Ltd	27 904	
FNB Namibia Unit Trust Ltd	5 475	5 475
	1 185 649	1 157 532
**Momentum Life Assurance Namibia Limited disposed during the year.		79 276

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

The carrying amount of these investment is N$ nil.

Refer to note 21 in the group financial statements for full details of non current asset held for sale.
Refer to note 36.6 in the group financial statements for full details of investment in subsidiaries.
Refer to note 36.3 in the group financial statements for full related party transactions and balances.

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

N$'000	2012	2011
11 Share capital		
Authorised		
990 000 000 (2011: 990 000 000) ordinary shares with a par value of N$0.005 per share	4 950	4 950
10 000 000 (2011: 10 000 000) cumulative convertible redeemable preference shares with a par value of N$0.005 per share	50	50
	5 000	5 000
Issued		
267 593 250 (2011: 267 593 250) ordinary shares with a par value of N$0.005 per share	1 338	1 338
2 (2011: 2) cumulative convertible redeemable preference shares with a par value of N$0.005 per share		
	1 338	1 338
Share premium	**280 810**	280 810

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

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

All issued shares are fully paid up.

12 Liquidity, credit and market risk information

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

Accounts receivable and creditors and accruals are repayable on demand or short notice and within Namibia, except for the N$24 million loan balance that relates to the portion of the price on the sale of Momentum Namibia that is payable based on the performance of the book.

13 Related party transactions

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

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

Corporate governance report

CJ Hinrichsen (Chair)

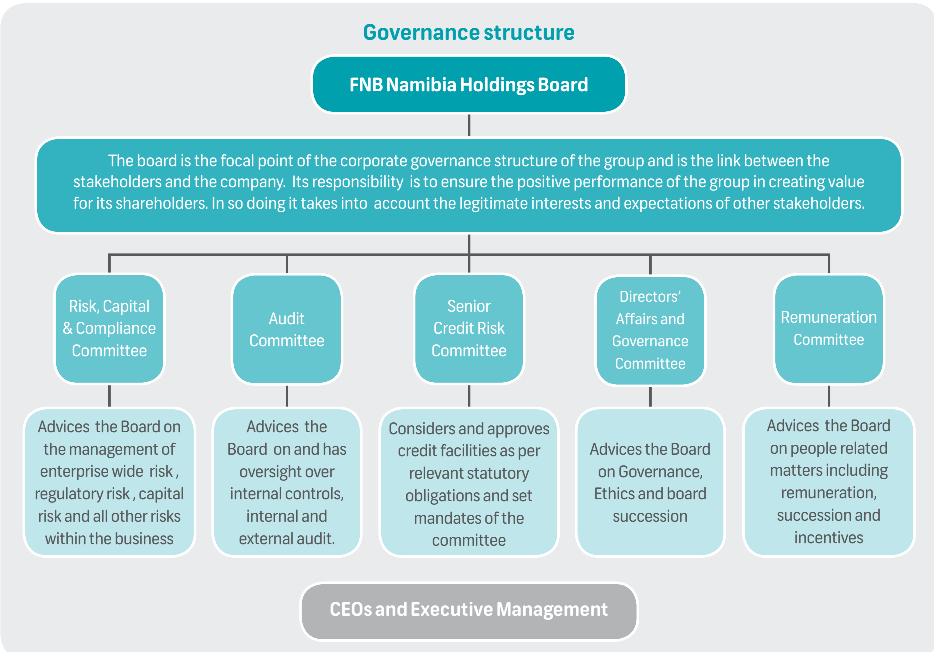
Statement by the chairman of the board

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 programmes including:
  - the continuity of non-executive directors;
  - the regular review of the competence of the board of directors, including the skills, experience and other qualities required to enhance
  - the effectiveness of the board; and
- the selection and appointment of new directors;
- The 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")

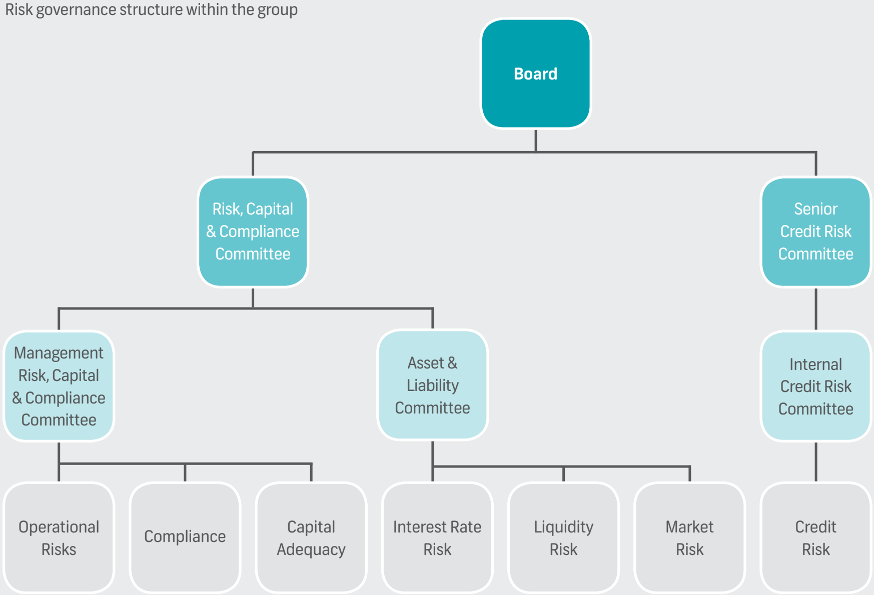
The group's exco is required to implement strategies approved by the board and manage the affairs of the group. Meetings are held once a month. Exco is chaired by the group chief executive officer. Membership includes key members of senior management. Exco has the following sub-committees:

- 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



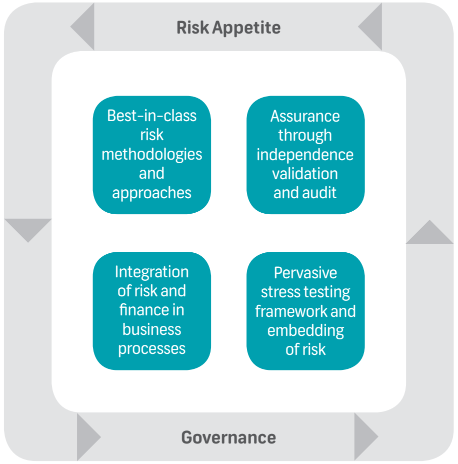
Introduction

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.

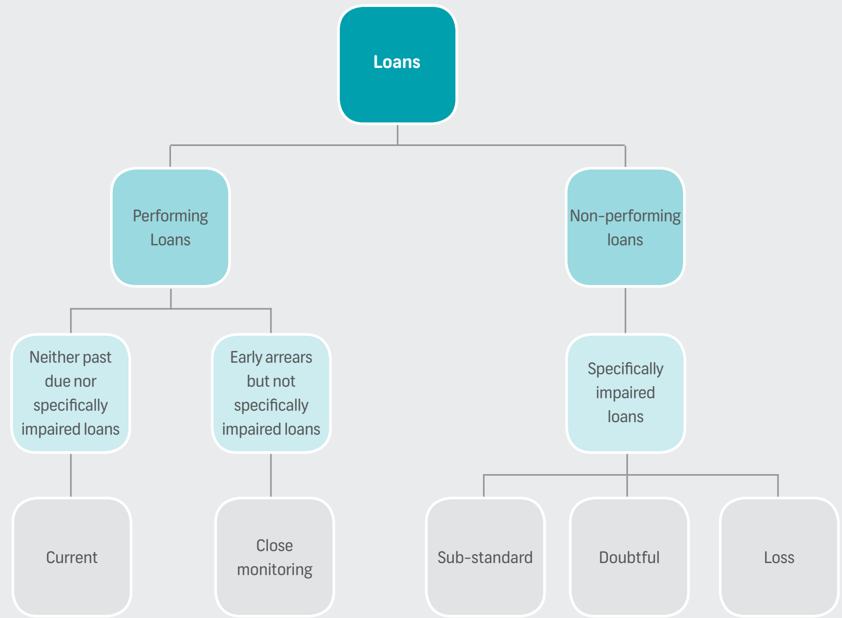
Credit risk classification and impairment policy
It is policy to make provision for specific impairments and to ensure that calculations for portfolio impairment are promptly made on a consistent basis. The external auditors review these impairments during the annual audit. Two types of impairments are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

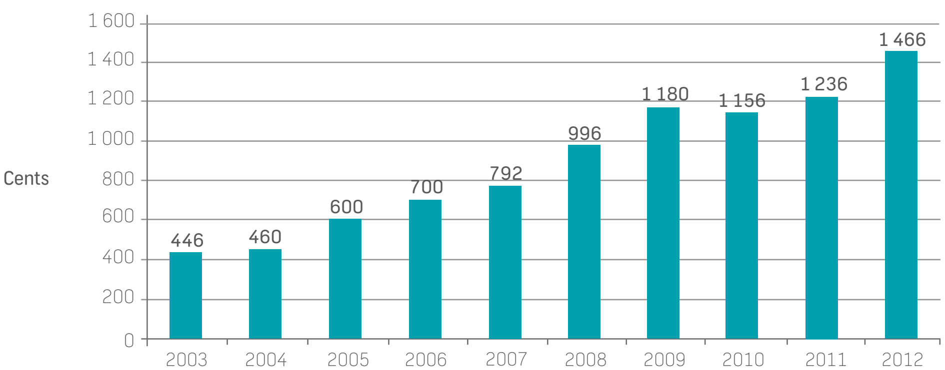
Shareholders' diary

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

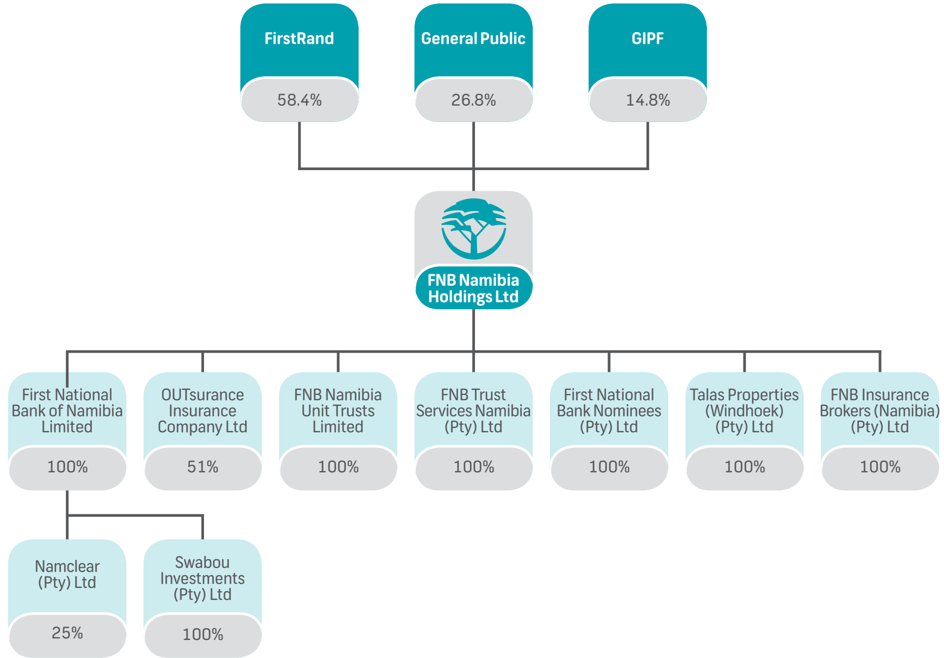
Stock exchange performance

	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.

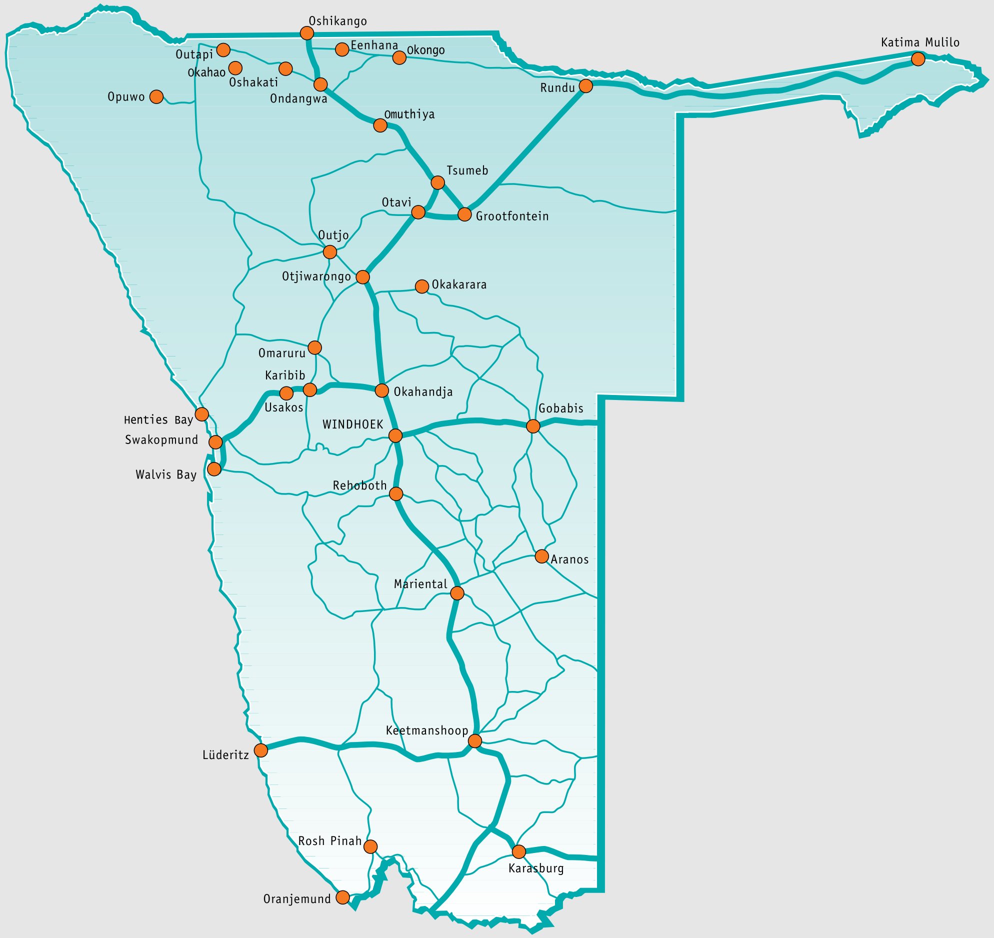
7. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries of the Company.

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

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