

# Accounting Policies

1. The Group adopts the following accounting policies in preparing its consolidated financial statements.

## 1.1 Basis of presentation

The consolidated and Company financial statements conform to Namibian Statements of Generally Accepted Accounting Practice.

The Group prepares its audited consolidated financial statements on a going concern basis using the historical cost basis, except for certain financial assets and liabilities where it adopts the fair value basis of accounting. These financial assets and liabilities include:

- financial assets and liabilities held for trading;
- financial assets classified as available for sale;
- derivative financial instruments; and
- financial instruments elected to be carried at fair value.

The principal accounting policies are consistent in all material respects with those adopted in the previous year, except where noted. The Group adjusts comparative figures to conform to changes in presentation in the current year.

In line with the accepted industry practice regarding the evolving interpretation of AC 132 - Consolidated financial statements and accounting for investments in subsidiaries - the Group has changed its accounting policy to consolidate its share

incentive scheme with effect from the current financial year.

AC 140 - Business combinations - became effective in respect of business combinations effected on or after 31 March 2004. The statement contains detailed transitional provisions as set out in note 1.23.2 below.

The Group has further changed its accounting policy to capitalise acquired trademarks, patents and similar assets where it derives a benefit in more than one accounting period from these assets. These capitalised intangible assets are amortised and subject to an annual impairment test. In prior years these intangible assets were expensed in the year in which they were generated or acquired.

## 1.2 Basis of consolidation

The consolidated 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 a long-term interest and 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.

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

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. Subsidiaries are consolidated from the date on which the Group acquires effective control. Consolidation is discontinued from the effective date of disposal. The Group recognises assets and liabilities acquired in its balance sheet at their estimated fair values at the date of acquisition. It eliminates all inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies.

## 1.3 Associate companies

Associate companies are companies in which the Group holds a long-term equity interest of between 20% and 50%, or over which it has the ability to exercise significant influence, but which it does not control.

The Group includes the results of associated companies in its consolidated financial statements using the equity accounting method from the effective dates of acquisition to the effective dates of disposal. The Group eliminates unrealised profits and losses on all transactions with its associated companies in determining its portion of the post-acquisition results of the associated companies.

Earnings attributable to ordinary shareholders include the Group's share of earnings of associated companies. The Group's reserves include its share of post-acquisition movements in reserves of the

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associated companies. The cumulative post-acquisition movements are adjusted against the cost of the investment in the associated companies.

The Group carries its interest in an associated company in its balance sheet at an amount that reflects its share of the net assets of the associated company. This amount includes any un-amortised excess or deficit of the purchase price over the fair value of the attributable assets of the associated company at date of acquisition.

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

The Group increases the carrying amount of investments with its share of the associated company's income when equity accounting is resumed.

Investments acquired and held exclusively with the view to disposal in the near future are not accounted for using the equity accounting method, but carried at fair value in terms of the requirements of AC133 (Financial instruments: recognition and measurement).

## 1.4 Revenue recognition

### 1.4.1 Interest income

The Group recognises interest income, excluding that arising from trading activities, on an accrual basis, applying

the effective yield on the assets. The effective yield takes into account all directly attributable external costs, discounts or premiums on the advance.

From an operational perspective, it suspends the accrual of contractual interest on the non-recoverable portion of an advance, when the recovery of the advance is considered doubtful. However, in terms of AC133, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the recoverable amount of the advance. The difference between the recoverable amount and the original carrying value 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. Dividends received on these instruments are included in interest income.

### 1.4.2 Trading 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 AC133), both realised and unrealised, in income as incurred.

### 1.4.3 Fee and commission income

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

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.

### 1.4.4 Services rendered

The Group recognises revenue for services rendered to customers based on the estimated outcome of the transactions.

When the outcome can be reliably estimated, transaction revenue is recognised by reference to the stage of completion of the transaction at the balance sheet date. The stage of completion is measured based on the amount of work performed.

When the outcome cannot be reliably estimated, revenue is recognised only to the extent of the expenses incurred that are recoverable.

### 1.4.5 Dividends

The Group recognises dividends 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.

## 1.5 Foreign currency translation

### 1.5.1 General

The Group presents its consolidated financial statements in Namibia Dollar (N\$), the measurement currency of the holding company ("the reporting currency"). Group entities record items in their financial statements using the

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currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("measurement currency").

The Group converts transactions in foreign currencies to Namibia Dollar at the spot rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to Namibia Dollar using the rates of exchange ruling at the financial year-end.

## 1.5.2 Other

Profits and losses from forward exchange contracts used to hedge potential exchange rate exposures are offset against gains and losses on the specific transaction being hedged, if the hedging criteria stipulated in AC 133 are met. In all other circumstances profits and losses from forward exchange contracts are recognised in income as incurred.

## 1.6 Share option costs

The Group expenses the costs associated with share options issued to employees over the vesting period of the instruments, on a basis similar to that envisaged by AC 139 (Share-based payment).

Options granted to employees are currently all settled by physical delivery of equity. The value of these options is measured based on the derived fair value of the options granted at the grant date thereof. Adjustments in respect of the total number of options that are expected to vest are made on an annual basis.

Options granted to Group employees are classified as Bermudan call options, which can be exercised over a staggered period. The fair values of these options are measured by the use of a binomial option pricing model. Adjustments to standard input parameters in the model have been made for expected life, non-transferability and early exercise.

Share option expenditure relating to employees of the Group is recognised as part of staff remuneration costs.

## 1.7 Taxation

The income tax expense represents the sum of the tax currently payable and deferred taxation.

Direct taxes include Namibian and foreign jurisdiction corporate tax payable.

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 income statement.

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 taxation rates that have been enacted or substantially enacted by the balance sheet date, in each particular jurisdiction within which the Group operates.

The Group calculates deferred taxation on the comprehensive basis using the liability

method on a balance sheet based approach. It calculates deferred tax liabilities or assets by applying corporate tax rates to the temporary differences existing at each balance sheet date between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities are recovered or settled.

The Group recognises deferred tax assets if the directors of FNB Namibia Holdings Limited consider it probable that future taxable income will be available against which the unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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## 1.8 Recognition of assets, liabilities and provisions

### 1.8.1 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 enterprise.

### 1.8.2 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.

### 1.8.3 Liabilities and provisions

The Group recognises liabilities, including provisions when:

- it has a present legal or constructive obligation as a result of past events, and
- 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.

### 1.8.4 Contingent liabilities

The Group discloses a contingent liability where:

- 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 enterprise, or

- it is not probable that an outflow of resources will be required to settle an obligation, or
- the amount of the obligation cannot be measured with sufficient reliability.

### 1.8.5 Sale and repurchase agreements and lending of securities

The financial statements reflect securities sold subject to a linked repurchase agreement (repos) as trading or investment securities. These instruments are measured at fair value, with changes in fair value reported in the income statement. The counterparty liability is included in deposits from other banks, other deposits, or deposits due to customers, as appropriate.

Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the reverse repos using the effective yield method. Securities lent to counterparties are retained in the financial statements of the Group.

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

## 1.9 Derecognition of assets and liabilities

The Group derecognises an asset when it loses control over the contractual rights that comprise the asset and consequently transfers the substantive risks and benefits associated with the asset. This occurs when the rights are realised, expire or are surrendered. A liability is derecognised when it is legally extinguished.

### 1.10 Offsetting financial instruments

The Group offsets financial assets and liabilities and reports the net balance in the balance sheet 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, and
- the maturity date for the financial asset and liability is the same, and
- the financial asset and liability is denominated in the same currency.

### 1.11 Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise:

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

### 1.12 Financial instruments

#### 1.12.1 General

Financial instruments carried on the balance sheet include all assets and

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liabilities, including derivative instruments, but exclude investments in subsidiary and associated companies, fixed assets, deferred taxation, taxation payable and intangible assets.

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

The Group initially recognises borrowings, including debentures, at the fair value of the consideration received. Discounts or premiums on debentures issued are amortised on a basis that reflects the effective yield on the debentures over their life span. Interest paid is brought to account on an effective interest rate basis.

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

Note 1.4 above contains the specific revenue recognition methods adopted for financial instruments held for trading purposes.

Where the Group purchases its own debt, the debt is presented on a net basis in the balance sheet and any difference between the carrying amount of the liability and the consideration paid is included in trading 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 to or the liability by it. Otherwise such transactions are treated as derivatives until settlement.

## **1.12.2 Advances and impairments for credit losses**

### **1.12.2.1 Originated advances**

The Group classifies advances as "Originated" where it provides money directly to a borrower or to a sub-participation agent at drawdown. Originated advances are carried at amortised cost. Third party expenses, such as legal fees incurred in securing a loan are treated as part of the transaction in determining the effective yield of the advance.

All advances are recognised when cash is advanced to borrowers.

### **1.12.2.2 Purchased advances and receivables and investment securities**

The Group classifies purchased advances and receivables and investment securities as held-to-maturity, available-for-sale or elected fair value assets.

Purchased advances and receivables (including sub-participations acquired after providing the original loan) and investment securities with a fixed maturity and fixed or determinable payments, where management has both the intent and the ability to hold to maturity, are

classified as "Held-to-maturity". However, purchased advances and receivables acquired from the originator at issue are classified as originated advances. The Group classifies purchased advances and receivables and investment securities where the intention is to hold 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, as "Available-for-sale" or as "At elected fair value". Management determines the appropriate classification at the time of purchase.

The Group recognises fair value adjustments on loans and advances classified as elected fair value in trading income. Interest income on these assets is included in the fair value adjustment. Fair value adjustments on loans and advances classified as available-for-sale are included directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

The Group carries held-to-maturity advances and receivables and investments at amortised cost using the effective yield method, less any impairment.

The Group classifies purchased advances and receivables acquired in terms of a business combination, where such advances and receivables were classified as "Originated" by the seller, as "Originated".

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## 1.12.3 Impairments for credit losses

### 1.12.3.1 General

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Financial assets are assessed on an annual basis to determine whether there is objective evidence of impairment.

### 1.12.3.2 Impairment of originated advances

The Group creates a specific impairment in respect of non-performing advances when there is objective evidence that it will not be able to collect all amounts due. The impairment is calculated as the difference between the carrying amount and the recoverable amount, calculated as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate at inception of the advance.

The Group creates further portfolio impairments in respect of performing advances where there is objective evidence that components of the advances portfolio contain losses at the balance sheet date, which will only be specifically identified in the future, or where insufficient data exists to reliably determine whether such losses exist. The portfolio impairments are based upon historical patterns of losses in each component of the performing portfolio, the credit ratings allocated to the borrowers and take account of the current economic climate in which the borrowers operate.

When an advance is uncollectible, it is written off against the related impairment. Subsequent recoveries are credited thereto.

The Group writes off advances once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

Statutory and other regulatory loan loss reserve requirements that exceed the specific and portfolio impairment amounts are dealt with in a General Risk Reserve as an appropriation of retained earnings.

The Group reverses impairments through the income statement, if the amount of the impairment subsequently decreases due to an event occurring after the initial impairment.

Property in possession is included in advances and is shown at the lower of cost and net realisable value.

### 1.12.3.3 Impairment of other financial assets carried at amortised cost

The Group calculates the impairment loss for assets carried at amortised cost as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

## 1.12.4 Trading securities

The Group includes in "Trading securities", securities that are:

- acquired for generating a profit from short-term fluctuations in price or dealer's margin, or
- included in a portfolio in which a pattern of short-term profit-taking exists, or
- designated as such on initial recognition.

The Group initially recognises trading securities at cost (which includes directly attributable transaction costs) on a settlement-date basis and subsequently re-measures them at fair value based on quoted bid prices. It includes all related realised and unrealised gains and losses in trading income. It reports interest earned on trading securities as non-interest income. Dividends received are included in dividend income.

The Group determines the fair value of listed trading instruments by reference to quoted bid prices, which may be adjusted where the bid/offer spreads for long-dated financial instruments are considered to be significant.

For non-trading, illiquid or unlisted financial instruments, the fair value is the amount for which assets or liabilities could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction, determined using various methods and on assumptions that are based on market conditions and risks existing at each balance sheet date. In the case of long-term debt or investment



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securities, these methods include using quoted market prices or dealer quotes for the same or similar securities, estimated discount values of future cash flows, replacement cost and termination cost.

## 1.12.5 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 balance sheet at cost (including transaction costs) and subsequently re-measures these instruments at their fair value. Subsequent movements in fair value are recognised in income, except when hedging criteria are met.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of designated fair value hedges and derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

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

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

## 1.12.6 Trade receivables and trade payables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade payables are stated at their nominal value.

## 1.13 Property and equipment

### 1.13.1 Owner-occupied

The Group carries owner-occupied property and equipment at cost less accumulated depreciation.

It depreciates property and equipment 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. Management reviews useful lives periodically to evaluate their appropriateness and current and future depreciation charges are adjusted accordingly.

The periods of depreciation used are as follows:

Leasehold property	Shorter of estimated life or period of lease
Freehold property	50 years
Computer equipment	3 years
Furniture and fittings	10 years
Motor vehicles	5 years
Office equipment	4 years

The Group impairs an asset to its estimated recoverable amount where there is a permanent diminution in the carrying value of an asset.

Repairs and renewals are charged to income as they are incurred.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds

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received, and are recorded in income on disposal.

Assets held under finance leases (note 14 below) are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

## 1.13.2 Investment properties

The Group classifies investment properties as properties held to earn rental income and/or for capital appreciation. It carries investment properties at fair value based on valuations by professional valuers. Valuations are carried out annually. Fair value movements are recorded in income in the year in which they arise.

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

## 1.14 Accounting for leases – where a group company is the lessee

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

### 1.14.1 Finance leases

Finance leases are capitalised at the fair value of the underlying asset at the date of acquisition, or, if lower, at the estimated present value of the underlying minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

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 charged to the income statement over the lease period. The property and equipment acquired are depreciated over the useful life of the asset, on a basis consistent with similar owned fixed assets.

### 1.14.2 Operating leases

The Group classifies leases of assets, where the lessor effectively retains the risks and benefits of ownership, as operating leases. It charges operating lease payments to the income statement 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 before the lease period has expired, in the period in which termination takes place.

## 1.15 Accounting for leases – where a group company is the lessor

### 1.15.1 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.

### 1.15.2 Operating leases

The Group includes in property and equipment assets leased out under operating leases. It depreciates these assets over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognised on a straight-line basis over the lease term.

### 1.15.3 Instalment credit agreements

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

It 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.

## 1.16 Intangible assets

### 1.16.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on associated companies is included in the carrying value of the associated company.

#### 1.16.1.1 Goodwill arising from business combinations before 31 March 2004

The Group capitalises and amortises goodwill on a straight-line basis over the period of expected benefit, limited to 20 years. The carrying amount of goodwill is reviewed periodically and written down for



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permanent impairment where considered necessary.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. The Group presents negative goodwill in the same balance sheet classification as goodwill.

The Group recognises negative goodwill that relates to expectations of future losses and expenses which are identified in its plan for the acquisition, and can be measured reliably, but which do not represent identifiable liabilities, in the income statement when the future losses and expenses are recognised. It recognises any remaining negative goodwill, not exceeding the fair value of the non-monetary assets acquired, in the income statement over the remaining useful life of those assets. Negative goodwill in excess of the fair value of those assets is recognised in the income statement immediately.

## 1.16.1.2 Goodwill arising from business combinations after 31 March 2004

Goodwill that arises in a business combination on or after 31 March 2004 is not amortised. An annual impairment test is performed and any impairment calculated is expensed to the income statement.

Impairment tests are performed on all cash generating units to which goodwill can be allocated. A cash-generating unit is the smallest group of assets that

generates cash inflows that are largely independent of the cash inflows generated by other groups of assets.

Where it is possible to allocate goodwill to a cash generating unit, a bottom-up test is performed by comparing the recoverable amount of the cash-generating unit under review to its carrying amount (including the carrying amount of the allocated goodwill, if any) and recognising any impairment loss. If, in performing the bottom-up test, the Group could not allocate the carrying amount of goodwill on a reasonable and consistent basis to the cash-generating unit under review, the Group also performs a top-down test to identify the smallest cash-generating unit that includes the cash-generating unit under review and to which the carrying amount of goodwill can be allocated on a reasonable and consistent basis (the 'larger' cash-generating unit). The Group compares the recoverable amount of the larger cash-generating unit to its carrying amount (including the carrying amount of allocated goodwill) and recognises any impairment loss.

The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to goodwill allocated to the cash-generating unit,
- then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

In allocating an impairment loss as mentioned above, the carrying amount of an asset can not be reduced below the highest of:

- its net selling price (if determinable),
- its value in use (if determinable), and
- zero.

Impairment losses recognised against goodwill may not be reversed.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired (including contingent liabilities) over the cost of acquisition. Negative goodwill is recognised in profit in the year in which it arises.

## 1.16.1.3 Disposal of a subsidiary, associate or jointly controlled entity

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

## 1.16.2 Computer software development costs

The Group generally expenses computer software development costs in the year 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 accounting period, the Group capitalises such costs and recognise them as an intangible asset.

The Group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these

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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 on an annual basis. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

## 1.16.3 Other intangible assets

The Group does not attribute value to internally developed trademarks, concessions, patents and similar rights and assets, including franchises and management contracts.

The Group generally expenses the costs incurred on trademarks, concessions, patents and similar rights and assets, whether purchased or created by it, to the income statement in the period in which the costs are incurred.

However, the Group capitalises acquired trademarks, patents and similar rights where it will receive a benefit from these intangible assets in more than one accounting period.

The Group carries capitalised trademarks, patents and similar assets at cost less amortisation and any impairments. It amortises these assets at a rate applicable to the expected useful life of the asset, but not exceeding 20 years. Management reviews the carrying value on an annual basis. The carrying value is written down to estimated recoverable amount when a permanent decrease in

value occurs. Any impairment is recognised in the income statement when incurred.

Amortisation of and impairments of intangible assets are reflected under operating expenditure in the income statement.

## 1.17. Employee benefits

### 1.17.1 Pension fund

The Group operates a defined contribution scheme, the assets of which are held in separate trustee-administered funds. The pension plan is generally funded by payments from employees and the relevant Group companies, taking account of the recommendations of independent qualified actuaries.

These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Group employees. Qualified actuaries perform regular valuations.

Pension fund contributions are expensed as incurred.

### 1.17.2 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. This scheme operates as a defined benefit plan which is funded by the relevant Group companies taking account of the recommendations of independent qualified actuaries.

The Group writes off current service costs immediately while it expenses past service costs, experience adjustments, changes in actuarial assumptions and plans amendments over the expected remaining working lives of employees. The costs are written off immediately in the case of retired employees.

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.

### 1.17.3 Termination benefits

The Group recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination.

### 1.17.4 Leave pay provision

The Group recognises in full employees' rights to annual leave entitlement in respect of past service. These costs are expensed as incurred over the employment period of the employee.

### 1.17.5 Recognition of actuarial gains and losses

Actuarial gains or losses occur 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

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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.

An enterprise has the option of recognising actuarial gains and losses that fall within a specific range ("corridor") in the accounting period in which such loss or gain occurs or defer them to the following accounting period. A portion of the actuarial gains or losses that are in excess of the corridor must be recognised as income or expense in the current accounting period.

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.

## 1.18 Acceptances and guarantees

Acceptances and guarantees comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group accounts for and discloses acceptances as a contingent liability.

## 1.19 Related party transactions

All related party transactions are at arm's length and incurred in the ordinary course of business.

In accordance with the requirements of AC 126 - Related party disclosure - transactions with related parties of the Group that eliminate on consolidation are

not disclosed.

## 1.20 Segment reporting

The Group defines a segment as a distinguishable component or business that provides either:

- unique products or services ("business segment"), or
- products or services within a particular economic environment ("geographical segment"),

subject to risks and rewards that are different from those of other segments.

Segments with a majority of revenue earned from charges to external customers and whose revenue, results or assets are 10% or more of all the segments, are reported separately.

## 1.21 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.

## 1.22 Policies relating to Insurance operations

### 1.22.1 General

#### Premium income

The Insurance operations reflect premium income relating to insurance business net of reinsurance premiums.

### 1.22.2 Life insurance

#### Premium income

Individual life investment funds, lump sums, annuities and single premiums are accounted for when the collection of the premiums in terms of the policy contract is reasonably assured.

All other individual life premiums are accounted for when they become due and payable.

#### Policyholder benefits

The Insurance operations show policyholder benefit payments in respect of insurance contracts net of reinsurance recoveries and accounts for such transactions when claims are intimated.

#### Life insurance operating profits

The life insurance operating profits are determined in accordance with the guidance note on Financial Soundness Valuations issued by the Actuarial Society of South Africa, PGN104 (1998).

The operating surpluses arising from life and health insurance business are determined by the annual actuarial valuation. These surpluses are arrived at after taking into account the increase in actuarial liabilities under unmaturing policies, provisions for policyholder bonuses and adjustments to contingency and other reserves within the life funds.

Gains or losses arising from the fair valuation of shareholders' assets designated as "Held for trading" are accounted for in the income statement.

# Accounting Policies continued

## Commission

Commission payments are net of reinsurance commission received. Life insurance business commissions are expensed as incurred.

## Marketing and administration expenses

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

## Policyholder contracts

The Insurance operations classify all policyholder contracts that transfer significant insurance risk as insurance contracts. These contracts are valued in terms of the Financial Soundness Valuation (FSV) basis contained in PGN104 issued by the Actuarial Society of South Africa and are reflected as "Policyholder liabilities under insurance contracts" (previously the Policyholders' Fund).

## 1.22.3 Short-term insurance

### Premium income

Premiums written are accounted for in the period in which the risk incepts. Unearned premiums are carried forward and are calculated by estimating the proportion of annual premiums that relate to future periods.

## Claims

Claims are written off in full as incurred.

Provision is made for the estimated cost of claims (net of anticipated recoveries

under re-insurance arrangements) notified but not settled at the balance sheet date and the estimated cost of claims incurred but not reported at that date. The provision for claims incurred but not reported is calculated on the best available information of historical trends and management's estimates of future claims costs. No additional "unexpired risk" provision is made as management considers the "outstanding claims" and "unearned premiums" provisions to be adequate provision for anticipated future operational losses.

## Commissions

The commission attributable to the unearned premiums at the end of the financial period is deferred and carried forward to the following period.

## Contingency reserve

The contingency reserve as required by the Short-term Insurance Act, 1998, is provided for in full out of the reserves available for distribution and is disclosed as a non distributable reserve. The reserve may only be utilised with the consent of the Registrar of Insurance.

## 1.23 Changes in accounting policy

### 1.23.1 Consolidation of share incentive schemes

In line with the evolving acceptable industry practice regarding the interpretation of AC 132 - Consolidated financial statements and accounting for investments in subsidiaries - the Group has changed its accounting policy to consolidate its share incentive schemes with effect from the current financial year.

### 1.23.2 Business combinations

AC 140 - Business Combinations - is effective in respect of business combinations where the agreement date is on or after 31 March 2004.

The statement stipulates various changes in respect to the accounting for business combinations, including:

- only allowing the use of the "purchase" method of accounting for business combinations;
- disallowing the future amortisation of goodwill, and instead introducing a yearly impairment test thereof;
- introducing rules for the allocation of impaired goodwill;
- amending and refining the process for determination of goodwill at acquisition; and
- mandatory recognition of negative goodwill in income in the year that it arises.

AC 140 should be applied prospectively from the first annual reporting period commencing on or after 31 March 2004 in respect of goodwill arising on business combinations on or after this date. All other requirements of the statement must be applied with effect from 1 April 2004.

However, the transitional provisions to AC 140 require that in respect of goodwill arising from a business combination prior to 31 March 2004, with effect from the beginning of the first annual reporting period commencing after this date (i.e. 1 July 2004 for the Group), an entity must:

- discontinue the amortisation of goodwill through the income statement;

# Accounting Policies continued

- eliminate the carrying amount of amortised goodwill with a corresponding reduction in the carrying amount of goodwill; and
- perform an annual impairment test on goodwill, with any impairments expensed against income in the year incurred.

Similarly, the carrying amount of negative goodwill arising from a business combination before 31 March 2004 must be written back to opening retained income at the beginning of the first annual reporting period commencing on or after 31 March 2004.

This change in accounting policy does not have an effect on goodwill in the current year, as the Swabou transaction was concluded prior to 31 March 2004 (1 July 2003).

## 1.23.3 Expensing of share options granted to employees

In combination with the consolidation of the share trusts referred to in note 1.23.1 above, the Group has adopted a policy to expense the costs associated with the granting of share options to employees, on a basis similar to that proposed by the new accounting statement AC 139 - Share-based payments ("AC 139"). The Banking Group has however not early adopted AC 139.

The principal set out in AC 139 is to expense share options granted to employees.

Options granted to Group employees are currently all settled through the physical

delivery of equity. As such, these options would be classified as an equity-settled share-based payment in terms of AC 139.

The Banking Group has determined the value of the options granted and expensed the associated costs on the basis set out in note 6 above, which is similar to the requirements of AC 139.

The current year effect of this change is immaterial.

## 1.23.4 Impact of the changes in accounting policy on opening equity

The table below sets out the effect of the changes in accounting policy on opening retained income:

N\$ '000	
Closing balance at 30 June 2003	543 373
Retained income adjusted for:	
Impact of consolidation of share trust	1 615
Restated opening balance at 1 July 2003	544 988

# Income Statements

for the year ended 30 June

N\$ '000	Notes	Group 2004	Group 2003	Company 2004	Company 2003
<b>Banking operations</b>					
Interest income	3	773 592	607 592		546 220
Interest expenditure	4	(382 937)	(300 031)		(270 964)
<b>Net interest income before impairment of advances</b>		<b>390 655</b>	<b>307 561</b>		<b>275 256</b>
Impairment of advances	12	(22 957)	(11 597)		(8 446)
<b>Net interest income after impairment of advances</b>		<b>367 698</b>	<b>295 964</b>		<b>266 810</b>
Non-interest income	5	205 569	184 353	43 836	450 060
<b>Net income from operations</b>		<b>573 267</b>	<b>480 317</b>	<b>43 836</b>	<b>716 870</b>
Operating expenditure	6	(340 604)	(225 990)	(78)	(210 698)
Merger related expenses		(10 082)			
<b>Income from banking operations</b>		<b>222 581</b>	<b>254 327</b>	<b>43 758</b>	<b>506 172</b>
<b>Insurance operations</b>					
Income		71 368			
Investment activities		16 952			
Claims & policyholders' benefits		(27 137)			
Insurance funds		(21 182)			
Expenses		(15 718)			
<b>Income from insurance operations</b>	25.1	<b>24 283</b>			
<b>Total income before share of earnings of associate companies</b>		<b>246 864</b>	<b>254 327</b>	<b>43 758</b>	<b>506 172</b>
Share of earnings of associate companies	15.4	98		(144)	
<b>Income before indirect taxation</b>		<b>246 962</b>	<b>254 327</b>	<b>43 614</b>	<b>506 172</b>
Indirect taxation	7.1	(3 844)	(6 627)		(6 664)
<b>Income before direct taxation</b>		<b>243 118</b>	<b>247 700</b>	<b>43 614</b>	<b>499 508</b>
Direct taxation	7.2	(78 004)	(6 824)	28	(75 431)
<b>Earnings attributable to ordinary shareholders</b>		<b>165 114</b>	<b>240 876</b>	<b>43 642</b>	<b>424 077</b>
<b>Reconciliation of earnings attributable to ordinary shareholders and headline earnings</b>					
Earnings attributable to ordinary shareholders		165 114	240 876		
Less: profit on sale of fixed assets		(826)	(1 586)		
Less: profit on revaluation of investment property		(63)			
<b>Headline earnings</b>	8.1	<b>164 225</b>	<b>239 290</b>		
<b>Reconciliation of headline earnings and core operational earnings</b>					
Headline earnings		164 225	239 290		
Less: once-off deferred tax asset created on restructuring			(80 119)		
Plus: merger expenses		10 082			
<b>Core operational earnings</b>		<b>174 307</b>	<b>159 171</b>		
<b>Headline earnings per share (cents)</b>	8.1	<b>63.4</b>	<b>119.1</b>		
<b>Earnings per share (cents)</b>	8.2	<b>63.7</b>	<b>119.9</b>		
<b>Diluted earnings per share (cents)</b>	8.3	<b>60.4</b>	<b>119.9</b>		
<b>Core operational earnings per share (cents)</b>	8.4	<b>67.3</b>	<b>79.2</b>		
<b>Dividends per share (cents)</b>	8.5	<b>11.5</b>	<b>120.0</b>		