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 II 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 2009. 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 45.

The Consolidated Annual Financial Statements of the Group and Company, which appear on pages 41 to 156 have been approved by the board of directors and are signed on its behalf by:

H-D Voigts
Chairman

Adv VR Rukoro
Chief Executive Officer

Windhoek
13 August 2008

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. This committee assists the board in observing its responsibility for ensuring that the Group's financial and computer systems 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 internal and external auditors attend its meetings and have unrestricted access to the chairman of the committee.

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 the day-to-day management of the business;
2. To provide a forum for communication between the board of directors, management and the internal and external auditors; and
3. 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 and has found no material weakness in controls, and is satisfied with the level of disclosure to it and to the stakeholders.

H W P Böttger
Chairman

Windhoek
12 August 2008

Statement of actuarial values of Swabou Life Assurance Company Limited
as at 30 June

N$ thousand	2008	2007
A brief summary of the financial position as at this date is as follows:		
Policyholders' Fund	753 280	188 215
Other liabilities	41 442	13 543
Capital Adequacy Requirement	68 329	24 097
Free assets	276 783	86 767
Total Funds (at actuarial value)	1 139 834	312 622
The above split may also be represented by the following items:		
Financial Soundness Liabilities	794 722	201 758
Free reserves for published financials	345 112	110 864
Total funds (at actuarial value)	1 139 834	312 622

The movement in the Free Reserves is an increase of N$234 248 000.

Certification

I have conducted an actuarial valuation of the Swabou Life Assurance Company Limited according to generally accepted actuarial standards as at 30 June 2008, and certify that the Company was financially sound at that date.

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

Jacques Malan

Fellow of the Institute of Actuaries

Valuator

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 balance sheets as at 30 June 2008, and the consolidated and separate income statements, the consolidated and separate statements of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes and the directors' report, as set out on pages 46 to 156.

Directors' responsibility for the financial statements

The directors of the Company 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 in Namibia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud and error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 the directors, 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 2008, and its consolidated and separate financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act in Namibia.

Deloitte & Touche

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

Per VJ Mungunda
Partner

PO Box 47, Windhoek
5 September 2008

Regional executives: GG Gelink (Chief Executive), A Swiegers (Chief Operating Officer), GM Pinnock
Resident partners: VJ Mungunda (Managing Partner), RH McDonald, DJ Cilliers, J Kock

Directors' report

The directors present their annual report, which forms part of the Annual Financial Statements of the Group and of the Company for the year ended 30 June 2008.

Nature of business

The Company acts as an investment holding company and the main investments are the shareholding in:

- **First National Bank of Namibia Limited:** a registered bank offering a full range of banking services – 100%;
- **Swabou Life Assurance Company Limited:** a life assurance company – 65%;
- **Swabou Insurance Company Limited:** a short term insurance company – 51%;
- **Talas Properties (Windhoek) (Propriety) Limited:** a property-owning company – 100%;
- **First National Asset Management and Trust Company of Namibia (Proprietary) Limited:** a registered trust company involved in the administration of deceased estates – 100%;
- **RMB Asset Management (Namibia) (Proprietary) Limited:** a registered asset management company – 50%; and
- **FNB Namibia Unit Trusts Limited:** a unit trusts management company – 100%.

Share capital

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

The Company's authorised share capital at year-end consists of 990,000,000 (2007: 990,000,000) ordinary shares of 0,5 cents each and 10,000,000 (2007: 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 26 November 2008, 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 Bank Holdings Limited .... 58.3% ..... (2007: 59.2%)

Government Institutions Pension Fund .... 16.6% ..... (2007: 16.7%)

A detailed analysis of shareholders is set out on page 171.

Share analysis – preference shares

RMB-SI Investments (Proprietary) Limited .... 100% ...... (2007: 100%)

FNB Share Incentive Scheme

No new shares were allocated during the year by the Company to the Share Incentive Trust (2007: nil), while the Trust bought 14,458 new shares in the open market during the year (2007: 24,077). Staff exercised options on 75,432 shares during the year. The total number of shares held by the Share Incentive Trust at 30 June 2008 amounts to 3,209,398 (2007: 3,270,372). Also refer to note 8.4 of the Annual Financial Statements in this regard.

Directors' report

Directors interest in FNB Namibia Holdings Limited

Details of the directors' interest 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 41 to 156 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 our financial results on pages 12 to 34.

N$ thousand	2008	2007
Dividends		
The following dividends were declared in respect of the current and previous financial years:		
Ordinary dividends		
Special dividend No. 24 of 93 cents per ordinary share to shareholders registered on 16 March 2007.		248 862
Dividend No. 25 of 21 cents per ordinary share to shareholders registered on 16 March 2007.		56 195
Dividend No. 26 of 26 cents per ordinary share to shareholders registered on 22 September 2007.		69 574
Dividend No. 27 of 25 cents per ordinary share to shareholders registered on 17 March 2008.	66 898	
Dividend No. 28 of 28 cents per ordinary share to shareholders registered on 23 September 2008.	73 625	
Total distribution for the 12 months of 53 cents per ordinary share (2007 : 140 cents per ordinary share)	140 523	374 631
Preference dividends		
Dividend No. 3		1 107
Dividend No. 4	1 279	

Directorate

At the Group's annual general meeting held on 28 November 2007, Mr H W P Böttger, Mr S H Moir and Mr M N Ndilula, 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:

- H-D Voigts (Chairman)
- Adv VR Rukoro (Chief Executive Officer)
- J K Macaskill *
- H W P Böttger
- P T Nevonga
- I I Zaamwani-Kamwi (Ms)
- J R Khethe* (Appointed 1 July 2007)
- S H Moir *
- C L R Haikali
- M N Ndilula

* *South African*

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

Directors' report

Directors' emoluments

Directors' emoluments are disclosed in note 6.1 to the Annual Financial Statements.

Management by third parties

None of the business of the Company or of any subsidiary has been managed by a third party or by a company in which a director had an 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 Bank 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 18 to the Annual Financial Statements.

Company secretary and registered offices

Company secretary

Conville Britz (Appointed 16 August 2007)

Registered office

209 Independence Avenue
Windhoek

The postal address

PO Box 195
Windhoek
Namibia

Events subsequent to the balance sheet date

There are no material events subsequent to the balance sheet date to report.

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.

The Group adopts the following accounting policies in preparing its consolidated annual financial statements. The principal accounting policies are consistent in all material aspects with those adopted in the previous year, except for the adoption of:

- IFRS 7 *Financial Instruments:* Disclosures which are effective for years commencing on or after 1 January 2007. The Standard deals with the disclosure of financial instruments and the related qualitative and quantitative risks. The statement therefore does not impact the results of the Banking Group but does impact the disclosure related to financial instruments. Comparative information has been provided where applicable.
- Amendment to IAS 1 *Presentation of Financial Statements* effective for years commencing on or after 1 January 2007, regarding capital disclosures which requires specific disclosures regarding an entity's objectives, policies and processes for managing capital.

2 Basis of presentation

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 at fair value through profit and loss;
- investment properties valued at fair value; and
- policyholder liabilities under insurance contracts that are valued in terms of Financial Soundness Valuation ('FSV') basis as outlined below.

The preparation of 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

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 effective date of disposal or from the date that the Group ceases to control.

Minority shareholders are not treated as equity participants. Therefore, all acquisitions of minority interests or disposals by the Group of its minority interests in subsidiary companies, where control is maintained, are treated as transactions with external parties. Any differences between the purchase price and the book value of a minority interest acquired, is recorded in goodwill or in cases where the book value exceeds the purchase price, in the income statement for the year. All profits and losses arising as a result of the disposal of interest in subsidiaries to minorities, where control is maintained subsequent to disposal, are recorded in the income statement for the year.

Accounting policies

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.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company 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.

4 Associates

Associates are entities in which the Group holds an equity interest of between 20% and 50% or over which it has the ability to exercise significant influence, but does not control. 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 carried at fair value less cost to sell in terms of the requirements of IFRS 5.

The Group includes the results of associates in its consolidated annual 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. Reserves include the Group's share of post-acquisition movements in reserves of associates. The cumulative post-acquisition movements are adjusted against the cost of the investment in the associate.

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

After discontinuing equity accounting the Group applies the requirements of IAS 39 to determine whether it is necessary to recognise any additional impairment loss with respect to the net investment in the associate as well as other exposures to the investee. Goodwill included in the carrying amount of the investment in associate is assessed for impairment in accordance with IAS 36 as part of the entire carrying value of the investment in the associate.

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

Unrealised gains on transactions between the Group and its associates 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 have been changed where necessary to ensure consistency with the policies adopted by the Group.

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.

Accounting policies

5 Interest income and interest expense

The Group recognises interest income and interest expense in the income statement 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 expense on financial liabilities designated at fair value through profit or loss, which are not trading in nature, are recognised in interest income and expense.

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.

6 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 designated at fair value through profit or loss, as fair value income in non interest income as it is earned.

7 Fee and commission income

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

Certain fees and transaction costs that form an integral part of the effective interest rate of available-for-sale and amortised cost financial instruments are capitalised and recognised as part of the effective interest rate of the financial instrument over the expected life of the financial instruments. These fees and transaction costs are recognised as part of the net interest income and not as non-interest revenue.

Commission income on acceptances, bills and promissory notes endorsed is credited to income over the lives of the relevant instruments on a time apportionment basis.

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.

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

Accounting policies

statements are presented in Namibia Dollars ("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 the income statement, except when deferred in equity 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 not reported as part of the fair value gain or loss in equity, but are recognised as a translation gain or loss in the income statement when incurred.

Translation differences on non-monetary items, classified as available-for-sale, such as equities are included in the fair value reserve in equity 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 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 tax rates that have been enacted or substantively enacted by the balance sheet date, in each particular jurisdiction within which the Group operates.

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 balance sheet 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

Accounting policies

charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement 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 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.

All balances from date of acquisition included in cash and cash equivalents have a maturity date of less than three months.

15 Financial instruments

15.1 General

Financial instruments carried on the balance sheet include all assets and liabilities, including derivative instruments, but exclude investments in associates and joint ventures, commodities, property and equipment, deferred tax, tax payable, intangible assets, inventory and post-retirement liabilities. The Group shall recognise a financial asset or a financial liability on its balance sheet when and only when, the entity becomes a party to the contractual provision of the instrument.

Accounting policies

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- available-for-sale financial assets; and
- held-to-maturity investments.

Financial liabilities are classified in the following categories:

- financial liabilities at fair value through profit or loss; and
- financial liabilities at amortised cost.

Management determines the classification of its financial instruments at initial recognition.

Financial instruments are initially recognised at fair value plus transaction costs for all financial instruments not carried at fair value through profit or loss.

Available-for-sale financial assets and financial instruments at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment. Gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement as gains and losses from investment securities. However, interest calculated on available-for-sale financial assets using the effective interest method is recognised in the income statement as part of interest income. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established and are included in investment income.

The Group recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset, is delivered or received. Otherwise such transactions are treated as derivatives until settlement.

The fair values of financial assets quoted in active markets are based on current bid prices. The fair values of financial liabilities quoted in active markets are based on current ask / offer prices. Alternatively, it derives fair value from cash flow models or other appropriate valuation models where an active market does not exist. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

15.1.1 Financial instruments assets at fair value through profit or loss

This category has two sub-categories: financial instruments held for trading, and those designated at fair value through profit or loss at inception.

A financial instrument is classified as a trading instrument if acquired principally for the purpose of selling in the short term or if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking. Derivatives are also categorised as held for trading unless they are designated as effective hedges.

Financial assets and liabilities are designated on initial recognition as at fair value through profit and loss to the extent that it produces more relevant information because it either:

(i) Results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or

(ii) Is a group of financial assets and/or financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or

(iii) Is a financial asset or liability containing significant embedded derivatives that clearly require bifurcation.

Accounting policies

The main financial assets and liabilities designated at fair value through profit and loss under criteria (i) are:

- Long-term liability/Bond issued by the Banking Group as part of Tier II capital. The long-term liability has been designated to eliminate the accounting mismatch between the long-term liability and the underlying derivative. If the long-term liability/bond was not designated at fair value, the mismatch would be as a result of the long-term liability being recognised at amortised cost and the derivative being recognised at fair value.
- Policyholder assets and liabilities under investment contracts. The liabilities under linked investment contracts have cash flows that are contractually determined with reference to the performance of the underlying assets. The changes in fair value of assets held in linked funds are recognised in the income statement. Liabilities to customers under other types of investments contracts are measured at amortised cost. If these assets were not designated on initial recognition, they would be classified as available-for-sale and the changes in their fair value would be recognised directly in equity. This would result in a significant accounting mismatch, as the movements in the fair value of the policyholder liability are recognised directly in the income statement.

Financial instruments designated under criteria (ii), include:

- Financial assets held to meet liabilities under insurance contracts.

The amount of change during the period and cumulatively, in the fair value of designated loans and receivables and designated financial liabilities that is attributable to changes in their credit risk, is determined as the amount of change in fair value that is not attributable to changes in market conditions that gives rise to market risk, i.e. currency, interest rate and other price risk.

The Group recognises fair value adjustments on financial assets and liabilities designated as at fair value through profit and loss in trading income/loss.

15.1.2 Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the Banking Group upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

This category also includes purchased loans and receivables, where the Group has not designated such loans and receivables in any of the other financial asset categories.

15.1.3 Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale.

The Group carries held-to-maturity financial assets and investments at amortised cost using the effective interest method, less any impairment.

15.1.4 Available-for-sale

Available-for-sale investments are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The Group recognises gains and losses arising from changes in the fair value of available-for-sale assets, in equity.

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It recognises interest income on these assets as part of interest income, based on the instrument's original effective interest rate. Interest income is excluded from the fair value gains and losses reported in equity. When the advances and receivables or investment securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

Treasury bills, debt securities and equity shares intended to be held on a continuing basis, other than those designated at fair value through profit and loss are classified as available-for-sale.

15.1.5 Policyholder liabilities under investment contracts

The Group accounts for policyholder liabilities under investment contracts at fair value through profit and loss. Refer to sections below for a detailed description of the valuation of policyholder liabilities under investment contracts.

15.2 Financial liabilities at amortised cost

Financial liabilities are measured at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

15.3 Embedded derivatives

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

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

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

15.4 Derecognising of assets and liabilities

The Group derecognises a financial asset when:

- the contractual rights to the financial asset expires or is forfeited by the Group; or
- where there is a transfer of the contractual rights that comprise the financial asset; or
- the Group retains the contractual rights of the financial assets but assumes a corresponding financial liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

Where the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognise the financial asset.

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. In subsequent periods, the Group recognises any income on the transferred asset and any expense incurred on the financial liability.

Where the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group determines whether it has retained control of the financial asset. In this case:

- If the Group has not retained control, it derecognises the financial asset and 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 expires.

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15.5 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.

In certain instances accounts previously grouped together are now disclosed separately for more accurate disclosure, such as in the case of Nostro and CFC balances.

16 Impairment of financial assets

16.1 General

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

16.2 Assets carried at amortised cost

The Group assesses at each balance sheet 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.

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 assets' original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. 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

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assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

16.2.1.1 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.

16.2.1.2 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.

16.3 Available-for-sale financial assets

The Group assesses at each balance sheet 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 income statement, is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

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17 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 fair value. Derivatives are subsequently re-measured at their fair value with all movements in fair value recognised in the income statement, 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.

17.1 Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

17.2 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 non-distributable reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place).

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When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Where the forecasted transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability. For financial assets and liabilities, the Group transfers amounts deferred in equity to the income statement and classifies them as revenue or expense in the periods during which the hedged firm commitment or forecasted transaction affects the income statement.

18 Property and equipment

The Group carries property and equipment at historical cost less depreciation and impairment, except for land which is carried at cost less impairment. Historical cost includes expenses that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replacement part is derecognised. All other repairs and maintenance are charged to the income statement 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 periods of depreciation used are as follows:

- Leasehold premises .... Shorter of estimated life or period of lease
- Freehold property and property held under finance lease
  - Buildings and structures .... 50 years
  - Mechanical and electrical .... 20 years
  - Components .... 20 years
  - Sundries .... 20 years
- Computer equipment .... 3 years
- Furniture and fittings .... 10 years
- Motor vehicles .... 5 years
- Office equipment .... 4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in the income statement on disposal.

19 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.

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Investment properties comprise freehold land and buildings and are carried at fair value. Fair value is based on active market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available the Group uses valuation methods such as discounted cash flow projections or recent prices on less active markets. These valuations are reviewed annually by a combination of independent and internal valuation experts. Investment properties that are being redeveloped for continuing use as investment property, or for which that market has become less active, continues to be measured at fair value.

Property located on land that is held under operating lease is classified as investment property as long as it is held for long-term rental yields and is not occupied by the Group. The initial cost of the property is the lower of the fair value of the property and the present value of the minimum lease payments. Subsequent to initial recognition the property is carried at fair value.

When investment properties become owner occupied, the Group reclassifies it to property and equipment, using the fair value at the date of reclassification as the cost, and depreciates it on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over the expected useful lives.

Fair value adjustments on investment properties are included in the income statement as net fair value gains on assets at fair value through profit and loss. 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.

20 Leases

20.1 A Group company is the lessee

20.1.1 Finance leases

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

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The Group allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is recognised in the income statement 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.

20.1.2 Operating leases

The Group classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. It recognises operating lease payments in the 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, in the period in which termination takes place.

20.2 A Group company is the lessor

20.2.1 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.

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20.2.2 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.

20.3 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.

21 Intangible assets

21.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the Group’s share of the net assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For impairment purposes goodwill is allocated to the lowest components of the business that is expected to benefit from synergies of the combination and at which management monitors goodwill (“cash generating unit”). Each cash generating unit represents a grouping of assets no higher than a primary business or reporting segment as contemplated below.

21.2 Computer software development costs

The Group generally expenses computer software development costs in the financial period incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for the Group exceeding the costs incurred for more than one financial period, the Group capitalises such costs and recognises it as an intangible asset

The Group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years. Management reviews the carrying value wherever objective evidence of impairment exists. The carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

21.3 Other intangible assets

The Group generally expenses the costs incurred on internally generated intangible assets such as trademarks, concessions, patents and similar rights and assets, to the income statement in the period in which the costs are incurred. Internally generated intangible assets which are separately identifiable, where the costs can be reliably measured and where the Group is expected to derive a future benefit for more than one accounting period is capitalised.

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

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The Group carries capitalised trademarks, patents and similar assets at cost less amortisation and any impairments. It amortises these assets at a rate applicable to the expected useful life of the asset, but not exceeding 20 years. Management reviews the carrying value whenever objective evidence of impairment exists. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

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

21.4 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.

21.5 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 balance sheet at fair value less any accumulated amortisation and impairment losses.

22 Employee benefits

22.1 Post-employment benefits

The Group operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee-administered funds. The pension plan is generally funded by payments from employees and the relevant Group companies, taking account of the recommendations of independent qualified actuaries. For defined benefit plan the pension accounting costs are assessed using the projected unit credit method.

The liability recognised in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

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

The Pension Fund is registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Group employees. Qualified actuaries perform annual valuations.

For defined contribution plan, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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22.2 Post-retirement medical benefits

In terms of certain employment contracts, the Group provides for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. IAS 19 requires that the liabilities in respect thereof be reflected on the balance sheet.

The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plan.

The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and completing a minimum service period. Qualified actuaries perform annual valuations.

22.3 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. The Group has a present obligation when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan, without possibility of withdrawal or providing termination benefits as a result of an offer to encourage voluntary redundancy.

22.4 Leave pay accrual

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

22.5 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.

22.6 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.

23 Borrowings

The Group initially recognises borrowings, including debentures, at the fair value of the consideration received. Borrowings are subsequently measured at amortised cost except for financial liabilities designated at fair value. Discounts or premiums on debentures issued are amortised on a basis that reflects the effective interest rate on the debentures over their life span. Interest paid is recognised in the income statement 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.

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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 balance sheet and any difference between the carrying amount of the liability and the consideration paid is included in trading income.

24 Share Capital

24.1 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.

24.2 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 balance sheet date are not recognised but disclosed as a post balance sheet event.

24.3 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.

25 Segment Reporting

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

- unique products or services ("business segments"); or
- products or services within a particular economic environment ("geographical segments")

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.

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.

26 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.

27 Share based payment transactions

The Group operates 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

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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 balance sheet date, the Group revises its estimate of the number of options expected to vest. The Group recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to 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 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 insurance and investment products, non-current assets held as investments are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

Immediately before classification as held for sale, the measurement (carrying amount) of assets and liabilities in relation to a disposal group is recognised based upon the appropriate IFRS standards. On initial recognition as held for sale, the non-current assets and liabilities are recognised at the lower of carrying amount and fair value less costs to sell.

Any impairment losses on initial classification to held for sale are recognised in the income statement.

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 Insurance and investment contracts

This section outlines the main lines of business that forms part of the Group's in-force policy book.

The main product groupings currently on the books of the Group are:

- Universal life smoothed-bonus policies: These policies have unit accounts, similar to unit trust investments. The policies might offer additional life or disability cover. The benefit structure might have a discretionary participating feature ("DPF"), or unit-linked to the fair value of the assets supporting the liabilities. On expiry of the contracts, the fair value of units is paid to policyholders.
- Pure risk products, which are intended to provide insurance against death, disability or medical contingencies and do not offer early termination values.
- Group risk business: The main products on offer within this category are group Permanent Health Insurance (PHI) cover, which provides regular annuity benefits while an insured is disabled, CPI-linked annuities, as well as lump sum death and disability benefits.
- Conventional (reversionary bonus or non-profit) policies: These policies do not have unit accounts like universal life products, but rather provide a guaranteed sum assured at death or maturity. The guaranteed payment is augmented by discretionary bonuses if the contract has DPF features. The difference between conventional and universal life DPF

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policy types is that, on universal life policies, annual bonus additions are made to the policy's investment account, whereas additions of bonuses on conventional policies are made to the lump sum payable on death or maturity.

- Health insurance products: These plans typically cover a variety of risks ranging from hospital benefits, outpatient surgery and day to day visits to physician offices.

Overview of discretionary participation features

A discretionary participating feature ("DPF") entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses. These additional benefits have the following features:

- The benefits constitutes a significant portion of the total contractual benefits payable under each policy;
- The timing and amount of the benefits are at the discretion of the Group;

Terminology that is commonly used in the Namibian insurance industry also refers to contracts with discretionary participating features as "with-profit" or "smoothed bonus" policies.

Distributions of bonuses on DPF contracts are performed annually. Bonuses are used as a mechanism to smooth returns distributed to policyholders, in order to reduce their uncertainty of benefit payments. The smoothing mechanism operates in such a way that the bonuses declared are normally lower than actual investment returns in buoyant market conditions, whereas declared bonuses normally exceed the actual investment returns during depressed market conditions. In buoyant market conditions, any investment returns which are not declared as bonuses in the year are transferred to a bonus stabilisation account, after the deduction of tax and management charges. This liability is held for future distribution to policyholders. The smoothing mechanism results in a degree of cross-subsidisation of investment returns and benefit payments between different classes and generations of DPF policyholders.

The factors which are considered in determining the discretionary bonus declared by are the investment return achieved on underlying assets in the period, the Group's bonus philosophy as regards to the intended level of smoothing for policyholders, the type of DPF contract under consideration and the existence of any contractual minimum bonus rate guarantees.

In addition, DPF contracts may incorporate embedded options including minimum guaranteed rate of bonus additions credited to a policy over its lifetime. These embedded options are accounted for in terms of the companies accounting policy for embedded derivatives.

29.1 Classification of contracts

The contracts issued by the Group transfer insurance risk; financial risk or both. As a result of the differing risks transferred by contracts, for the purposes of valuation and profit recognition, contracts are divided into investment and insurance contracts. Insurance contracts are those contracts that transfer significant insurance risk to the Group, whereas investment contracts transfer financial risk.

The classification of contracts is performed at the origination of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime unless the terms of the contract change to such an extent that it necessitates a change in classification.

29.1.1 Insurance contracts

An insurance contract is one that transfers significant insurance risk to the Group. Significant insurance risk exists when it is expected that the present value of benefits payable in terms of the policy on the occurrence of an insured event will materially differ from the amounts payable, had the insured event not occurred. Financial penalties levied on early termination of policy contracts are not taken into account when classifying the contracts. If the difference between the benefit payable on an insured event and a non-insured event arises solely from an early termination penalty, the contract is not classified as an insurance contract.

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Insurance contracts may transfer financial risk as well as insurance risk. However, in all instances where significant insurance risk is transferred, the contract is classified as an insurance contract.

The following typical type of contracts issued by the Group are classified as insurance contracts:

- Insurance policies providing lump sum benefits on death or disability of the policyholder. These contracts are issued for either a defined period or for the whole life of the policyholder.
- Life annuity policies where the policyholder transfers the risk of longevity to the Group;
- Policies which provide for retrenchment or funeral cover; and
- Policies providing Permanent Health Insurance (PHI).

The terms of these contracts may also allow for embedded options. These include minimum guaranteed rates of investment return resulting in a minimum level of benefit payable at expiry of the contractual term, after allowing for the cost of risk cover. These embedded options are treated in terms of the Group's policies in respect of embedded derivatives.

Insurance contracts and Insurance contract with DPF are within the scope of IFRS 4 and therefore accounted for in terms of the requirements of IFRS 4- Insurance contracts.

29.1.2 Investment contracts

These are contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate; financial instrument price; commodity price; foreign exchange rate; index prices or other variable.

Investment contracts with discretionary participating features (DPF)

These contracts fall within the scope of IFRS 4 and therefore are accounted for in terms of the requirements of IFRS 4.

A discretionary participating feature ("DPF") entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses. These additional benefits have the following features:

- The benefits constitutes a significant portion of the total contractual benefits payable under each policy;
- The timing and amount of the benefits are at the discretion of the Group;

The following types of contracts issued by the Group are classified as investment contracts with DPF:

- Universal life smoothed bonus policies, where discretionary bonuses are added to the investment account annually.
- Reversionary bonus policies, where discretionary bonuses are added to a guaranteed sum assured payable at the end of the contract term.

The carrying amounts in respect of the DPF benefits are included as liabilities on the balance sheet.

29.2 Valuation and recognition

29.2.1 Insurance contracts (with and without DPF) and investment contracts with DPF.

The next section provides detail in respect of the general valuation and profit recognition principles in respect of insurance contracts (with and without DPF) and investment contracts with DPF. The sections following thereafter give more detail on how these valuation assumptions are applied to particular product lines falling within the category.

Principles of valuation and profit recognition

Under IFRS 4, liabilities in respect of insurance and investment (with DPF) contracts are valued according to the requirements of the Namibian Long-Term Insurance Act (1998) and in accordance with professional guidance notes ("PGNs") issued by the Actuarial Society of South Africa (ASSA). Of particular relevance to the liability calculations, are the following actuarial guidance notes:

- PGN 104 (v6; Jan 2005): Life Offices – Valuation of Long-Term Insurers
- PGN 110 (v1.0; Dec 2003): Reserving for minimum investment return guarantees
- PGN 102 (Mar 1995): Life Offices – HIV/AIDS

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- PGN 105 (Nov 2002): Recommended AIDS extra mortality bases
- PGN 106 (v3.0; Jul 2005): Actuaries and Long-Term Insurance in South Africa

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

29.2.2 Valuation

Liabilities are valued in terms of the financial soundness valuation ("FSV") method as described in professional guidance note PGN 104, issued by the Actuarial Society of South Africa.

Where the value of the policyholder liability is negative, this is shown as an asset under insurance contracts. The asset is not offset against the liability.

The FSV method is a discounted cash flow method which requires the expected income (premiums and charges) and outgo (claims, expenses, tax) arising from each policy contract to be projected into the future, using appropriate assumptions regarding future investment returns, tax, inflation, claims experience and persistency. The projected expenses are only those required to service the existing policy book, and not the expenses expected to be incurred in acquiring future new business. Similarly, expected income from future sales is not included in the projection – only income emanating from the in-force policy book.

The assumptions used to project cash flows are best estimates of future experience. However, a degree of prudence is introduced by the addition of compulsory margins. The compulsory margins are defined by professional guidance note PGN 104. PGN104 allows for the addition of discretionary margins where necessary to avoid the premature recognition of profits on certain lines of business.

The projected cash flows (income less outgo) under each policy contract are discounted at a market-related rate of interest, to arrive at the liability held in respect of each policy contract. The discount rate used to value the liability is consistent with the market value of assets underlying the liability.

The valuation assumptions take into account current and expected future experience, as well as revised expectations of future income, claims and expenditure. The assumptions are applied to the whole in-force policy book. Differences between the assumptions used at the start and the end of the accounting period give rise to a revised liability quantification.

The effect of policyholder options that would result in a decrease in liabilities were excluded from the liabilities in order to prevent unnecessarily reducing the liabilities. Policyholder options that would result in an increase in the liabilities were incorporated into the valuation on a best estimate basis, as described above.

The expected level of early terminations is incorporated into the liabilities irrespective of whether this leads to an increase or a decrease in the liabilities.

If future experience under a policy contract is exactly in line with the assumptions employed at inception of the contract, the valuation margins will emerge as profits over the duration of a policy contract. This is known as the unwinding of margins.

In addition to the profit recognised at the origination of a policy contract, and the unwinding of margins, any differences between the best-estimate valuation assumptions and actual experience over each accounting period also give rise to profits and losses. These profits and losses emerge over the lifetime of a policy contract. Other sources of profit or loss include the change in liabilities from basis changes, profits on group business that are recognised as earned and shareholders' share of the cost of bonus for certain segregated DPF pools.

29.2.3 Recognition

29.2.3.1 Premiums

Premiums receivable from insurance contracts and investment contracts with DPF are recognised as revenue in the income statement, gross of commission and reinsurance premiums and excluding taxes and levies. Premiums and annuity considerations on insurance contracts are recognised when they are due in terms of the contract. Premium income received in advance is included in insurance and other payables.

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29.2.3.2 Benefits and claims

Insurance benefits and claims incurred under insurance contracts and investment contracts with DPF include death, disability, maturity, annuity and surrender payments and are recognised in the income statement gross of any related reinsurance recoveries. Death, disability and surrender claims are recognised when notified. Any of these types of claims that are notified but not paid before the balance sheet date are included in insurance and other payables. Maturity and annuity claims are recognised when they are due for payment in terms of the contract.

Group life benefits and benefits payable under health insurance contracts are accounted for as incurred. Provision is made for the estimated cost of benefit (together with the anticipated recoveries under re-insurance arrangements) notified but not settled at the balance sheet date.

Amounts unpaid under investment contacts are recorded as deductions from investment contract liabilities.

29.2.3.3 Reinsurance premiums

Reinsurance premiums are recognised as an expense in the income statement when they become due for payment, in terms of the contracts at the undiscounted amounts payable in terms of the contract.

29.2.3.4 Reinsurance recoveries

Reinsurance recoveries are recognised in the income statement in the same period as the related claim at the undiscounted amount receivable in terms of the contract.

29.2.3.5 Liability adequacy test for business with discounting liabilities

On insurance contracts, the liability adequacy test is inherent in the Financial Soundness Valuation methodology applied to these contracts and this meets the minimum requirements of the test required under IFRS 4.

29.2.3.6 Implicit recognition of a deferred acquisition cost (DAC) asset

Acquisition costs, disclosed as sales remuneration, for insurance contracts and investment contracts with DPF include all commission and expenses directly related to acquiring new business. The Financial Soundness Valuation methodology implicitly creates a deferred acquisition cost asset by reducing the liabilities to the extent of margins in the office premium intended to recoup acquisition costs. Thus, no explicit deferred acquisition cost asset is recognised in the balance sheet for contracts valued on this basis.

Application of the above valuation methodology to individual product lines.

29.2.4 Application of the above valuation methodology to individual product lines

The preceding paragraphs highlighted the principles followed in valuation and profit recognition in respect of insurance and investment (with DPF) contracts. The next section outlines how these principles are applied to the main product lines within this category.

29.2.4.1 Universal life smoothed bonus policies

Liabilities for individual smoothed bonus business are set equal to the fair value of units held by the policyholder at the balance sheet date. This is the so-called unit liability. In addition, the present value of expected future cash flows (income less outgo) in respect of each policy is added or deducted from the unit liability to arrive at the total liability in respect of each universal life policy contract. This adjustment represents the so-called Namibia Dollar liability. If future income is expected to exceed future outgo under a universal life policy contract, the Namibia Dollar liability is negative, whereas it is positive if future outgo is expected to exceed future income.

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Projected future outgo includes claims payments and maintenance expenses, whereas projected future income includes deductions of risk premium and other charges. In performing the projections of future income and outgo, allowance is made for future growth in unit account values at a level consistent with the assumed future market-related investment return, after allowing for contractual expense charges and tax.

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

In respect of smoothed-bonus universal life policies, bonus stabilisation accounts are also held. Bonus stabilisation reserves have been discussed above, but more detail about these provisions is given in the section below.

Profits arising from universal life policy contracts are recognised as described in above.

29.2.4.2 Conventional (reversionary or non-profit) policies

The liabilities for conventional policies are calculated as the difference between the present values of projected future benefits and expenses, and the present value of projected future premiums, using the best-estimate rate of return, plus prescribed margins as per PGN 104. It is assumed that current bonus rates (both reversionary and terminal bonus rates) will be maintained in future.

Profits arising on conventional policy contracts are recognised as described above.

29.2.4.3 Group risk business

The main liability types in respect of this class of business are:

- Discounted cash flow liabilities for Permanent Health Insurance claims-in-payment and CPI-linked annuities
- The liability related to the claims which relate to insurance events which have occurred before year end and thus have been incurred but have not been reported to the Group, this liability is known as the Incurred-but-not-reported (IBNR) liability claims on group risk benefits
- Unearned premium provisions in respect of risk exposure remaining after the balance sheet date (where premiums relating to the risk have been received before the balance sheet date.

The Group currently fully reinsures all Group risk business and no liabilities were held in respect of this class of business.

29.2.4.4 Policyholder bonus stabilisation accounts

DPF liabilities (insurance and investment) are adjusted by policyholder bonus stabilisation accounts. Bonus stabilisation accounts have been introduced under the general description of policy contracts issued by the Group.

If the fair value of the assets underlying a smoothed-bonus or conventional with-profit portfolio is greater than the policyholders' investment accounts (net premiums invested plus declared bonuses), a positive bonus stabilisation account is created which will be used to enhance future bonuses. Conversely, if assets are less than the investment accounts, a negative bonus stabilisation account is created.

The purpose with bonus stabilisation accounts is therefore to allocate all investment surpluses or deficits to policyholders after deduction of all related contractual charges.

Bonus stabilisation accounts are included in policyholder liabilities under insurance contracts and investment with DPF contracts.

29.2.4.5 Guaranteed maturity value liabilities

A number of contracts contain embedded derivatives in the form of guaranteed maturity values. The liability in respect of these guarantees is calculated using stochastic modeling techniques, whereby assets and liabilities are projected into the future

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under a range of possible future investment return scenarios. The expected present value of the cost of the guarantee over and above base liabilities is taken as the liability in respect of the guarantee.

The modeling approach is governed by professional guidance note PGN 110, which sets minimum criteria that the stochastic model should adhere to, being minimum numbers of simulations to be performed and minimum variability characteristics of the stochastic input parameters.

29.2.5 Discretionary margins

Discretionary margins are held in addition to the compulsory margins. These discretionary margins are used to ensure that profit and risk margins in the premiums are not capitalised prematurely so that profits are recognised in line with product design and in line with the risks borne by the Group.

The main discretionary margins utilised in the valuation are as follows:

- Investment stabilisation accounts are held to reduce the risk of future losses, caused by the impact of market fluctuations on capitalised fees and on the assets backing guaranteed liabilities. This liability is built up retrospectively and released if adverse market conditions cause a reduction in the capitalised value of fees or in the value of assets backing guaranteed liabilities.
- Additional prospective margins are held in respect of decrement assumptions and asset-related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected. This allows profits to be recognised in the period in which the risks are borne by the Group.

29.2.6 Options and guarantees

The effect of policyholder options that would result in a decrease in liabilities were excluded from the liabilities in order to prevent unnecessarily reducing the liabilities. Policyholder options that would result in an increase in the liabilities were incorporated into the valuation on a best estimate basis, as described above.

The expected level of early terminations is incorporated into the liabilities irrespective of whether this leads to an increase or a decrease in the liabilities.

The best estimates used to determine the value of the liabilities include estimates that take into account maturity, mortality and disability guarantees, as well as expected lapses and surrenders.

29.2.7 Embedded derivatives

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are fair valued through profit or loss.

A number of contracts contain embedded derivatives in the form of guaranteed maturity values. The liability in respect of these guarantees is calculated using stochastic modeling techniques, whereby assets and liabilities are projected into the future under a range of possible future investment return scenarios, with parameters calibrated to market data. The modeling approach is governed by professional guidance note PGN 110, which sets minimum criteria that the stochastic model should adhere to, being minimum numbers of simulations to be performed and minimum variability characteristics of the stochastic input parameters. The model is calibrated to use market-consistent assumptions and parameters as at the valuation date.

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29.2.8 Reinsurance contracts

Contracts entered into by the Group with reinsurers under which it is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified as loans and receivables), as well as long term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

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

Reinsurance liabilities consist of premiums payable for reinsurance contracts and are recognised as an expense when due. The Group assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss for the period. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

29.2.9 Receivables and payables related to insurance and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in the income statement. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated following the same method used for these financial assets.

29.3 Investment income

Investment income comprises interest and dividends.

Investment income is recognised on the accrual basis. Dividend income is brought to account when the last day of registration falls within the accounting period.

29.4 Expenses for marketing and administration

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

29.5 Commission

Insurance commission payments are net of reinsurance commission received and are expensed as incurred.

Commission on investment contracts is spread over the first five years of the policy. The commission costs attributable to the unearned premiums at the end of the financial year are deferred and carried forward to the following year.

30 Comparative figures

Where necessary, comparative figures are restated to be consistent with the disclosure in the current year. Details are provided in note 41.

Consolidated income statement

for the year ended 30 June

N$ thousand	Note	2008	2007
Interest and similar income	2	1 481 417	1 211 692
Interest expense and similar charges	2	(774 610)	(600 653)
Net interest income before impairment of advances		706 807	611 039
Impairment of advances	13	(72 405)	(67 767)
- impairment of advances: specific		(39 327)	(45 829)
- impairment of advances: portfolio		(33 078)	(21 938)
Net interest income after impairments of advances		634 402	543 272
Non interest income	3	433 520	378 793
- fees and commissions		334 050	285 298
- fair value income		29 661	7 868
- gains less losses from investment activities		35 344	68 074
- other non interest income		34 465	17 553
Net insurance premium income	4	159 842	120 231
- insurance premium revenue		185 521	150 979
- insurance premium ceded to reinsurers		(23 428)	(28 434)
- change in unearned premium provision		(2 251)	(2 314)
Net claims and benefits paid	5	(117 194)	(44 041)
- gross claims and benefits paid on insurance contracts		(132 103)	(54 325)
- insurance benefits recovered from reinsurers		14 909	10 284
Decrease / (increase) in value of policyholder liabilities: insurance contracts	25	84 550	(38 148)
Fair value adjustment to policyholder liabilities: investment contracts	26	(3 705)	(83)
Fair value adjustment to financial liabilities	28	15 948	8 432
Income from operations		1 207 363	968 456
Operating expenses	6	(625 932)	(521 088)
Net income from operations		581 431	447 368
Share of profit / (loss) from associates	17.5	5 681	(229)
Income before tax		587 112	447 139
Indirect tax	7.1	(18 404)	(12 579)
Profit before tax		568 708	434 560
Direct tax	7.2	(159 641)	(130 212)
Profit for the year		409 067	304 348
Attributable to:			
Non cumulative non redeemable preference shareholders		1 178	1 107
Equity holders of the Group		383 901	303 241
		385 079	304 348
Minority interest		23 988	
Profit for the year		409 067	304 348
Earnings per share (cents)	8.2	145.2	114.7
Dividends per share (cents)	8.3	51.0	137.0

Consolidated balance sheet
as at 30 June

N$ thousand	Note	2008	2007
Assets			
Cash and short term funds	10.1	345 323	226 173
Due from banks and other financial institutions	10.2	1 004 314	115 755
Derivative financial instruments	11	37 532	22 307
Advances	12	9 141 531	8 726 203
Investment securities	14	2 067 510	1 152 013
- held-for-trading		911 652	295 803
- other investments		1 155 858	856 210
Accounts receivable	15	94 582	154 722
Policy loans on investments contracts		19 407	2 630
Reinsurance assets	16	389 471	7 902
Investments in associates	17.3	5 044	263
Tax asset		17 456	
Deferred tax asset	7.3	19 706	33 803
Property and equipment	19	188 455	164 457
Investment properties	20	4 070	6 000
Intangible assets	21	67 105	61 544
Total assets		13 401 506	10 673 772
Equity and liabilities			
Liabilities			
Deposits and current accounts	22.1	9 676 281	7 817 107
Due to banks and other financial institutions	22.2	353 834	830 762
Derivative financial instruments	11	61 919	33 019
Creditors and accruals	23	246 681	150 484
Gross outstanding claims		1 430	2 373
Gross unearned premium		15 517	20 045
Provision for unintimated claims	24	1 826	1 854
Policyholder liabilities under insurance contracts	25	1 103 914	181 260
Policyholder liabilities under investment contracts	26	38 302	6 955
Post retirement benefit liability	27.1	37 539	33 883
Tax liability		1 190	104 151
Deferred tax liability	7.3	17	17
Long term liabilities	28	235 503	251 424
Total liabilities		11 773 953	9 433 334
Equity			
Capital and reserves attributable to ordinary equity holders			
Ordinary shares	28	1 321	1 321
Share premium	28	257 792	263 913
Distributable reserves		1 227 708	975 977
Non distributable reserves	29	(3 574)	(773)
Capital and reserves attributable to ordinary equity holders		1 483 247	1 240 438
Minority interest		144 306	
Total equity		1 627 553	1 240 438
Total equity and liabilities		13 401 506	10 673 772

Consolidated statement of changes in equity

for the year ended 30 June

N$ thousand	Share capital (Note 28)	Share premium (Note 28)	Distributable reserves	Non distributable reserves (Note29)	Total ordinary shareholders' funds	Minority interest	Total equity
	Ordinary share capital and ordinary shareholders' funds						
Balance at 1 July 2006	1 321	266 082	1 022 034	13 069	1 302 506		1 302 506
Movement in available for sale revaluation reserves							
Fair value gains and losses: bank				1 196	1 196		1 196
Fair value gains and losses: insurance				1 111	1 111		1 111
Amount removed from equity and recognised							
In the income statement: bank				(2 891)	(2 891)		(2 891)
In the income statement: insurance				(3 024)	(3 024)		(3 024)
Movement in other non distributable reserves							
Staff share option costs				1 595	1 595		1 595
BEE Consortium share option costs				1 006	1 006		1 006
Profit for the year			304 348		304 348		304 348
Ordinary final dividend: 25 October 2006			(60 800)		(60 800)		(60 800)
Ordinary special dividend: 30 March 2007			(245 825)		(245 825)		(245 825)
Ordinary interim dividend: 30 March 2007			(55 508)		(55 508)		(55 508)
Preference dividend: 30 June 2007			(1 107)		(1 107)		(1 107)
Transfer to/(from) contingency reserves			133	(133)			
Transfer to/(from) general risk reserves			8 104	(8 104)			
Elimination of shares held by Share Incentive Trust		(2 169)			(2 169)		(2 169)
Balance at 30 June 2007	1 321	263 913	971 379	3 825	1 240 438		1 240 438
Balance at 1 July 2007 as previously stated	1 321	263 913	971 379	3 825	1 240 438		1 240 438
Share based payments reserve			4 598	(4 598)			
Balance at 1 July 2007 as restated	1 321	263 913	975 977	(773)	1 240 438		1 240 438
Movement in available for sale revaluation reserves							
Fair value gains and losses: bank				195	195		195
Amount removed from equity and recognised							
In the income statement: bank				(2 612)	(2 612)		(2 612)
Staff share option costs			1 021		1 021		1 021
BEE Consortium share option costs			1 229		1 229		1 229
Profit for the year			385 079		385 079	23 988	409 067
Ordinary final dividend: 26 October 2007			(68 724)		(68 724)		(68 724)
Ordinary interim dividend: 28 March 2008			(66 080)		(66 080)		(66 080)
Preference dividend: 30 June 2008			(1 178)		(1 178)		(1 178)
Transfer to/(from) contingency reserves			384	(384)			
Effective change of shareholding of subsidiaries						120 318	120 318
Elimination of shares held by Share Incentive Trust		(6 121)			(6 121)		(6 121)
Balance at 30 June 2008	1 321	257 792	1 227 708	(3 574)	1 483 247	144 306	1 627 553

Consolidated cash flow statement

for the year ended 30 June

N$ thousand	Note	2008	2007
Cash flows from operating activities			
Cash receipts from customers		2 039 561	1 629 652
Interest and similar income		1 450 477	1 181 683
Other non-interest income		426 991	325 424
Net insurance premium received		162 093	122 545
Cash paid to customers, suppliers and employees		(1 464 151)	(1 123 221)
Interest expense and similar charges		(774 610)	(600 653)
Net claims and benefits paid		(117 194)	(44 041)
Total other operating expenses		(572 347)	(478 527)
Cash flows from operating activities	31.1	575 410	506 431
Increase in income earning assets		(1 583 847)	(1 034 716)
Due from banks and other financial institutions		(888 559)	54 370
Advances		(456 793)	(902 420)
Investment securities		(281 121)	(126 471)
Accounts receivable and similar accounts		42 626	(60 195)
Increase in deposits and other liabilities		1 474 395	743 574
Deposits		1 859 174	5 183
Due to banks and other financial institutions		(476 928)	706 538
Accounts payable and similar accounts		92 149	31 853
Net cash generated from operations		465 958	215 289
Tax paid	31.2	(278 486)	(69 237)
Net cash flow from operating activities		187 472	146 052
Cash flows from investment activities			
Purchase of property and equipment	31.3	(42 294)	(23 924)
Addition of Agency-in-force business		(1 893)	
Sale of share in Swabou Life Assurance Limited	31.4	113 293	
Sale of share in Swabou Insurance Company Limited	31.4	4 900	
Further investment in associate company	31.6		(1 029)
Dividends from associate company		900	791
Proceeds from the disposal of property and equipment		1 264	2 090
Net cash flow from investment activities		76 170	(22 072)
Cash flows from financing activities			
Purchase of shares for share purchase trust		(3 952)	(2 169)
Long term liabilities raised			259 856
Dividends paid	31.5	(140 540)	(363 668)
Net cash flow from financing activities		(144 492)	(105 981)
Net increase in cash and cash equivalents		119 150	17 999
Cash and cash equivalents at the beginning of the year	10.1	226 173	208 174
Cash and cash equivalents at the end of the year	10.1	345 323	226 173

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

N$ thousand	Fair value	Armortised cost	Total

1 Accounting policies

The accounting policies of the Group are set out on pages 49 to 73.

2 Analysis of interest income and interest expenditure, by category

N$ thousand	Fair value	Armortised cost	Total
2008			
Interest and similar income	84 505	1 396 912	1 481 417
- Advances		1 338 264	1 338 264
- Cash and short term funds		31 174	31 174
- Investment securities	84 505	16 641	101 146
- Unwinding of discounted present value on non performing loans		16 325	16 325
- Unwinding of discounted present value on off-market advances		8 104	8 104
- On impaired advances		(20 107)	(20 107)
- Net release in terms of deferred fee and expenses		6 511	6 511
Interest expense and similar charges	29 469	745 141	774 610
- Deposits from banks and financial institutions		25 665	25 665
- Current accounts		326 808	326 808
- Savings deposits		11 279	11 279
- Term deposits accounts		244 309	244 309
- Negotiable certificates of deposit		136 723	136 723
- Long term liabilities	23 815		23 815
- Other	5 654	357	6 011
2007			
Interest and similar income	66 172	1 145 520	1 211 692
- Advances		1 108 574	1 108 574
- Cash and short term funds		13 179	13 179
- Investment securities	66 172	4 035	70 207
- Unwinding of discounted present value on non performing loans		17 217	17 217
- Unwinding of discounted present value on off-market advances		7 813	7 813
- On impaired advances		(10 277)	(10 277)
- Net release in terms of deferred fee and expenses		4 979	4 979
Interest expense and similar charges	6 016	594 637	600 653
- Deposits from banks and financial institutions		27 865	27 865
- Current accounts		258 192	258 192
- Savings deposits		8 011	8 011
- Term deposit accounts		224 485	224 485
- Negotiable certificates of deposit		76 084	76 084
- Long term liabilities	6 016		6 016

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

3 Analysis of non interest income, by nature

N$ thousand	2008	2007
Fee and commission income:		
- Banking fee and commission income	299 719	261 566
- Card commissions	1 801	1 141
- Cash deposit fees	41 468	36 648
- Commissions: bills, drafts and cheques	22 121	16 094
- Service fees	130 020	113 256
- Other commissions	104 309	94 427
- Broking commission income	25 464	14 990
- Unit Trust and related fees	5 706	4 329
- Re-insurance commission received by insurance companies	3 161	4 413
Fee and commission income	334 050	285 298

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

N$ thousand	2008	2007
Fair value income:		
- Foreign exchange trading	42 944	20 054
- Treasury trading operations	(13 283)	(12 186)
- debt trading	33	(653)
- derivatives revaluation	(13 316)	(11 533)
Fair value income	29 661	7 868
Portfolio analysis for fair value income		
Held for trading	29 661	7 868
Fair value income	29 661	7 868

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, futures, 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.

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

3 Analysis of non interest income, by nature (continued)

N$ thousand	2008	2007
Gains less losses from investment activities		
- Gain on realisation of available-for-sale financial assets		
- Bank	2 612	2 891
- Insurance		3 024
- Dividends received	12 938	5 468
- Listed shares - available-for-sale	12 578	4 463
- Unit Trusts - available-for-sale	360	1 005
- Share of profit of associates (refer to note 17.5)	5 681	(229)
- Gains and losses on revaluation of portfolio investments of insurance operations	(14 437)	56 691
- Gain on sale of shares in subsidiaries	34 231	
Gross gains less losses from investment activities	41 025	67 845
Less / plus: profit / loss of associates (disclosed separately on face of income statement)	(5 681)	229
Gains less losses from investment activities	35 344	68 074
Other non interest income		
- Gain on initial recognition of Visa shares	15 658	
- (Loss) / gain on sale of property and equipment	(272)	614
- Rental Income	2 330	2 232
- Revaluation of investment properties	(1 930)	
- Income from related parties (refer note 35)	13 662	13 597
- Other income	5 017	1 110
Other non interest income	34 465	17 553
Total non interest income	433 520	378 793

Fiduciary income

Fiduciary income to the amount of N$9.5 million (2007: N$8.6 million) is included in fee and commission income.

3.1 Non interest income, by category

N$ thousand	2008	2007
Fee and commission income		
- Instruments at amortised cost	334 050	285 298
Fair value income		
- Held-for-trading	29 661	7 868
- Gains less losses from investment activities	35 344	68 074
- Held-for-trading	(14 437)	56 691
- Available-for-sale	15 550	11 383
- Other	34 231	
Other non interest income	34 465	17 553
Total	433 520	378 793

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

N$ thousand	2008	2007
4 Net insurance premium income		
Insurance premiums		
Long term insurance contracts		
Individual life	140 973	92 110
- Single premiums	31 784	20 566
- Recurring premiums	98 618	66 235
- Annuities	10 571	5 309
Employee benefits	10 338	7 316
- Single premiums and investment lump sums	192	530
- Recurring premiums	10 146	6 786
Health		
- Recurring premiums	652	879
Policy fees on investment contracts	526	1 587
Total long term insurance contracts	152 489	101 892
Short term insurance contracts		
Personal lines and Corporate	33 032	49 087
Total insurance premium income	185 521	150 979
Premium ceded to re-insurance	(23 428)	(28 434)
Life insurance contracts	(12 490)	(8 154)
Short - term insurance contracts	(10,938)	(20 280)
- Change in unearned premium provision	(2 251)	(2 314)
Net insurance premium revenue	159 842	120 231
Broken up as follows:	159 842	120 231
- Long term insurance contracts	139 999	93 738
- Short term insurance contracts	19 843	26 493

3.1 Insurance fund

	2008	2007
Balance at the beginning of the year	12 757	10 443
Transfer from income statement	2 251	2 314
Balance at the end of the year	15 008	12 757
The balance comprise of:		
Gross provision for unearned premiums	15 517	20 045
Re insurers' share of unearned premiums (refer note 16)	(509)	(7 288)
	15 008	12 757

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

N$ thousand	2008	2007

5 Net claims and benefits paid

Benefits paid in respect of long term insurance contracts		
Life insurance		
Individual life	118 309	29 232
- Death and disability	19 129	10 491
- Maturities	36 952	2 501
- Surrenders	41 596	15 648
- Lump sum annuities	639	592
- Annuities	19 993	
Employee benefits	1 536	1 015
Health	1 905	1 259
Gross claims and benefits paid on insurance contracts	121 750	31 506
Insurance benefits recovered from reinsurers	(12 333)	(2 167)
Net claims and benefits paid - Life insurance	109 417	29 339
Short-term insurance contracts		
- Personal lines and corporate claims	10 381	22 771
- Transfer (from)/to provision for unintimated claims (refer note 24)	(28)	48
Less: Re-insurance recoveries	(2 576)	(8 117)
Net claims and benefits paid - Short-term insurance contracts	7 777	14 702
Total net claims and benefits paid	117 194	44 041
Broken up as follows:	117 194	44 041
Gross claims and benefits paid on insurance contracts	132 103	54 325
Re insurance recoveries	(14 909)	(10 284)

6 Operating expenses

Fee and commission expense	29 280	31 135
Auditors' remuneration		
Audit fees	3 748	2 222
Fees for other services	72	201
- Technical advice	72	71
- Other		130
Prior year under provision	1 700	2 429
Auditors' remuneration	5 520	4 852
Amortisation of intangible assets		
Trademarks	11 087	15 025
Software	924	77
Agency force	1 000	
Value of in-force business	5 860	
Amortisation of intangible assets (refer to note 21)	18 871	15 102

Notes to the consolidated annual financial statements

for the year ended 30 June

N$ thousand	2008	2007
6 Operating expenses (continued)		
Depreciation		
Property	1 835	(4 158)
- Freehold property		(6 044)
- Leasehold property	1 835	1 886
Equipment	15 469	14 033
- Computer equipment	4 016	3 868
- Furniture and fittings	4 758	3 968
- Motor vehicles	1 104	787
- Office equipment	5 591	5 410
Depreciation (refer to note 19)	17 304	9 875
Operating lease charges		
- Property	8 037	5 977
- Equipment	3 528	2 654
Operating lease charges	11 565	8 631
Professional fees		
- Asset management fees	2 020	558
- Other	2 525	2 746
Professional fees	4 545	3 304
BEE consortium share option cost (refer note 8.4)	1 229	1 006
Direct staff costs		
- Salaries, wages and allowances	236 851	203 153
- Off-market staff loans amortisation	8 104	7 813
- Contributions to employee benefit funds	33 027	29 818
- Defined contribution schemes: pension	19 283	19 302
- Defined contribution schemes: medical	13 744	10 516
- Post retirement medical expense	3 656	4 333
- Social security levies	657	520
- Share based payments	1 021	1 595
Direct staff cost	283 316	247 232
Other	14 916	9 195
Total staff cost	298 232	256 427
Total directors' remuneration (refer note 6.1)	3 765	3 072

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

N$ thousand	2008	2007
6 Operating expenses (continued)		
Other operating costs		
- Insurance	6 950	6 154
- Advertising and marketing	39 092	29 314
- Property and maintenance related expenses	24 727	21 985
- Legal and other related expenses	2 624	1 946
- Postage	4 077	3 622
- Stationery and printing	11 682	11 958
- Telecommunications	14 290	13 052
- Conveyance of cash	3 485	3 502
- Travel and accommodation	8 850	5 899
- Computer and processing related costs	61 126	61 720
- Other operating expenditure	58 557	28 339
Other operating costs	235 460	187 491
Investment properties		
- Operating expenses	9	143
- Repairs and maintenance	152	50
Investment properties	161	193
Total operating expenses	625 932	521 088
Number of staff	1 601	1 463

6.1 Directors emoluments

Emoluments paid to directors of the Group for the year ended 30 June 2008 are set out below:

6.1.1 Executive directors:

N$ thousand	Fees as director	Pensionable salary	Bonus	Company contributions pension/ medical	Other allowance	Total
2008: VR Rukoro		1 108	1 037	126	317	2 588
		1 108	1 037	126	317	2 588
2007: VR Rukoro		1 040	500	105	320	1 965
		1 040	500	105	320	1 965

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

6 Operating expenses (continued)

6.1.2 Non-executive directors:

N$ thousand	Fees as director	Pensionable salary	Bonus	Company contributions pension/ medical	Other allowance	Total
2008						
Non-executive independent directors:						
H-D Voigts (Chairman)	247					247
HWP Böttger	234					234
II Zaamwani-Kamwi	183					183
PT Nevonga	35					35
EP Shiimi	18					18
SH Moir	208					208
R Haikali	168					168
M Ndilula	84					84
Other non-executive directors *:						
JK Macaskill						
JR Khethe						
	1 177	1 108	1 037	126	317	3 765
2007						
Non-executive independent directors:						
H-D Voigts (Chairman)	195					195
HWP Böttger	226					226
II Zaamwani-Kamwi	156					156
PT Nevonga	64					64
EP Shiimi	23					23
SH Moir	220					220
R Haikali	160					160
M Ndilula	63					63
Other non-executive directors *:						
JK Macaskill						
MT Lategan						
	1 107	1 040	500	105	320	3 072

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

N$ thousand	Paid by other group companies 2008	2007
6.1.3 Total directors' remuneration and fees:		
- Executive directors	2 588	1 965
- Non-executive directors	1 177	1 107
	3 765	3 072

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

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

6 Operating expenses (continued)

6.2 Share options

The executive directors have been allocated the following options. Refer note 8.4 for description of the terms of the FNB Share Incentive Trust.

The movement of share options per executive director is summarised below:

N$ thousand	Opening balance	Granted during the year	Strike price (cents)	Expiry date	Taken up this year (number of shares)	Benefits derived (N$)	Closing balance (number of shares)
Executive directors:							
VR Rukoro							
FNB Namibia Holdings Ltd shares	360 000	100 000	5.17 - 8.23	June 2010 Sep 2012	(130 000)	622 700	330 000
FirstRand Ltd shares	200 000	100 000	18.70	March 2011			300 000
Non-executive directors:							
FNB Namibia Holdings Ltd shares							
I Zaamwani-Kamwi	150 000		5.17	June 2010			150 000
PT Nevonga	150 000		5.17	June 2010			150 000

	2008		2007	
N$ thousand	Number of ordinary shares held	% held	Number of ordinary shares held	% held
6.3 Directors' holdings in shares:				
Directly:				
H-D Voigts	11 806	0.004	11 806	0.004
HWP Böttger	4 667	0.002	4 667	0.002
PT Nevonga	526			
MN Ndilula	300			
SH Moir	6 000	0.002	6 000	0.002
Indirectly:				
CLR Haikali	573 696	0.214	286 848	0.107
SH Moir	1 800			
MN Ndilula	725 594	0.271	362 797	0.136

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

N$ thousand	2008	2007
7 Tax		
7.1 Indirect tax		
Value-added taxation (net)	12 371	7 437
Stamp duties	6 033	5 142
Total indirect tax	18 404	12 579
7.2 Direct tax		
Namibian normal tax		
Current	139 665	159 827
- Current year	138 142	160 805
- Prior year	1 523	(978)
Deferred	19 976	(29 615)
- Current year	21 499	(29 615)
- Prior year	(1 523)	
Total direct tax	159 641	130 212

Tax rate reconciliation - Namibian normal tax	%	%
Effective rate of tax	28	30
Total tax has been affected by:		
Non-taxable income	4	5
Other permanent differences	3	
Standard rate of tax	35	35

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

7 Tax (continued)

7.3 Deferred tax

7.3.1 The movement on the deferred tax account is as follows:

N$ thousand	2008	2007
Entities with deferred tax liabilities		
Deferred tax liability		
- Balance at the beginning of the year	17	74 810
- (Originating)/reversing temporary differences		(74 793)
Total deferred tax liability	17	17
Deferred tax asset		
- Balance at the beginning of the year		(39 803)
- Reversing /(originating) temporary differences		39 803
Total deferred tax asset		
Net balance for the year for entities with deferred tax liabilities	17	17
Entities with deferred tax assets		
Deferred tax liability		
- Balance at the beginning of the year	95 324	91 315
- Originating temporary differences	20 581	4 009
Total deferred tax liability balance	115 905	95 324
Deferred tax asset		
- Balance at the beginning of the year	(129 127)	(130 493)
- Originating temporary differences	(6 484)	1 366
Total deferred tax asset	(135 611)	(129 127)
Net balance for the year for entities with deferred tax assets	(19 706)	(33 803)
Overall net deferred tax balance	(19 689)	(33 786)

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

Notes to the consolidated annual financial statements
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N$ thousand	Balance on 1 July 2007	Originating/ (revering) differences	Balance on 30 June 2008	Balance on 1 July 2006	Originating/ (revering) differences	Balance on 30 June 2007
7 Tax (continued)						
7.3 Deferred tax (continued)						
7.3.2 Deferred tax assets and liabilities and deferred tax charge/(credit) in the income statement are attributable to the following items:						
Entities with net deferred tax assets						
Deferred tax liabilities						
Instalment credit agreements	(43 426)	(2 123)	(45 549)	(48 751)	5 325	(43 426)
Accruals	(16 383)	(19 472)	(35 855)	(6 107)	(10 276)	(16 383)
Deferred staff costs	(17 165)	503	(16 662)	(20 686)	3 521	(17 165)
Fixed Assets	(16 947)	(84)	(17 031)	(15 771)	(1 176)	(16 947)
Other	(1 403)	595	(808)		(1 403)	(1 403)
Total deferred tax liabilities	(95 324)	(20 581)	(115 905)	(91 315)	(4 009)	(95 324)
Deferred tax assets						
On fair value adjustments of financial instruments	910	(11)	899		910	910
Tax losses	1 508	(1 508)		1 651	(143)	1 508
Provision for loan impairment	29 881	8 683	38 564	23 478	6 403	29 881
Post-retirement benefit liability	11 757	1 280	13 037	10 516	1 241	11 757
Other	85 071	(1 960)	83 111	94 848	(9 777)	85 071
Total net deferred tax asset	129 127	6 484	135 611	130 493	(1 366)	129 127
Net deferred tax assets	33 803	(14 097)	19 706	39 178	(5 375)	33 803
Entities with net deferred tax liabilities						
Deferred tax liabilities						
Instalment credit agreements				(74 799)	74 799	
Fixed Assets	(17)		(17)	(11)	(6)	(17)
Total deferred tax liabilities	(17)		(17)	(74 810)	74 793	(17)
Total net deferred tax asset: tax losses				39 803	(39 803)	
Net deferred tax liabilities	(17)		(17)	(35 007)	34 990	(17)
Net deferred tax	33 786	(14 097)	19 689	4 171	29 615	33 786
Charge through income statement deferred tax charge		19 976			(29 615)	
Created directly in equity		(5 879)				
		14 097			(29 615)	

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

8 Dividends and earnings per share

8.1 Headline earnings per share

The calculation of Group headline earnings per share is based on the headline earnings of N$329.6 million (2007: N$300.0 million) and the weighted average number of shares in issue of 264 383 852 (2007: 264 330 887).

	2008				2007			
N$ thousand	Banking	Insurance	Other	Total	Banking	Insurance	Other	Total
Earnings attributable to ordinary equity holders of the Group	293 913	44 846	45 142	383 901	238 846	53 996	10 399	303 241
Profit / (loss) on sale of property and equipment	157	20		177	(359)	(68)		(427)
Loss on revaluation of investment property	1 255			1 255				
Reversal of impairment of associate companies	(4 154)			(4 154)	1 029			1 029
Realised gains from available for sale financial assets	(1 698)			(1 698)	(1 879)	(1 966)		(3 845)
Profit on sale of shares in subsidiaries			(34 231)	(34 231)				
Gains on initial recognition of VISA shares	(15 658)			(15 658)				
Headline earnings	273 815	44 866	10 911	329 592	237 637	51 962	10 399	299 998
Headline earnings per share				124.7				113.5

8.2 Earnings per share

The calculation of Group earnings per share is based on the earnings attributable to ordinary shareholders of N$383.9 million (2007: N$303.2 million) and the weighted average number of shares in issue of 264 383 852 (2007: 264 330 887). There are no dilution effects on the basic earnings per share.

Shares in issue	2008	2007
Opening balance: Actual number of ordinary shares in issue	267 593 250	267 593 250
Closing balance: Actual number of ordinary shares in issue	267 593 250	267 593 250
Elimination of shares held in Trust	(3 209 398)	(3 270 372)
Actual number of shares in issue (after treasury shares)	264 383 852	264 322 878
Calculation of weighted number of shares in issue:		
Opening balance: Actual number of ordinary shares in issue	267 593 250	267 593 250
Share Incentive Trust	(3 209 398)	(3 262 363)
Closing balance	264 383 852	264 330 887

Notes to the consolidated annual financial statements

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N$ thousand	2008	2007
8 Dividends and earnings per share (continued)		
8.3 Dividends per share		
A final dividend (dividend no. 23) of 23.0 cents per share was declared on 17 August 2006 in respect of the six months ended 30 June 2006 and payable on 25 October 2006.		60 800
A special dividend (dividend no. 24) of 93.0 cents per share was declared on 6 February 2007 for the six months ended 31 December 2006 and paid on 30 March 2007.		245 825
An interim dividend (dividend no. 25) of 21.0 cents per share was declared on 6 February 2007 for the six months ended 31 December 2006 and paid on 30 March 2007.		55 508
A final dividend (dividend no. 26) of 26.0 cents per share was declared on 16 August 2007 in respect of the six months ended 30 June 2007 and payable on 26 October 2007.	68 724	
An interim dividend (dividend no. 27) of 25.0 cents per share was declared on 6 February 2008 for the six months ended 31 December 2007 and paid on 28 March 2008.	66 080	
	134 804	362 133
Final dividend of 28.0 cents was (2007: 26.0 cents) declared subsequent to year-end (Refer to the Directors' report)	74 010	68 724

The dividend per share calculation in the current year and the prior year takes into account the elimination of the dividends to the Share Incentive Trust, which is consolidated on a Group level.

8.4 Share option schemes

	2008	2007
The income statement charge for share-based payments is as follows:		
FNB Share Incentive Trust	416	304
BEE Staff Incentive Scheme	287	325
Total of share trusts	703	629
Employees with FirstRand share options	318	966
Charge against staff costs (refer note 6)	1 021	1 595
BEE consortium share option cost (refer note 6)	1 229	1 006
Charge to income statement	2 250	2 601
The fair value of options granted at the end of the financial periods are as follows:		
FNB Share Incentive Trust	416	640
BEE Staff Incentive Scheme	287	775
Employees with FirstRand share options	318	966
BEE Consortium share option costs	2 235	2 217
Fair value of options granted	3 256	4 598

Notes to the consolidated annual financial statements
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8 Dividends and earnings per share (continued)

8.4 Share option schemes (continued)

FNB Namibia Holdings Ltd options are equity 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 an 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 expire.

BEE Share Incentive Scheme

The Group is firmly committed to the process of achieving transformation in Namibia. The company 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.

Funding is at 80% of prime and 100% of dividends received are used to service funding costs. The funding is repayable in 10 years.

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 first tranche vested and was exercised during the year.

Valuation methodology of share incentive scheme

Fair values for the share incentive schemes, are calculated at the date of grant using a modification of the Cox-Rubenstein binomial model. For valuation purposes, each call option granted has been valued as a Bermudan call option with a number of exercise dates. The days on which the options can be exercised has been assumed to be the last day that the share trade cum-dividend.

Market data consists of the following:

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

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:

Notes to the consolidated annual financial statements
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8 Dividends and earnings per share (continued)

8.4 Share option schemes (continued)

	FNB Share Incentive Trust		BEE Staff Incentive Scheme	
	2008	2007	2008	2007
Weighted average share price (cents)	577 - 901	700 - 792	700	517
Expected volatility (%)	4 - 9	2 - 11	7	19.65
Expected option life (years)	5	5	5	5
Expected risk free rate (%)	8	8	9	8
Number of options in force at the beginning of the year ('000)	3 256	2 321	1 858	1 607
Granted at prices ranging between (cents)	400 - 721	400 - 500	517	517
Number of options granted during the year ('000)	2 163	1 635		461
Granted at prices ranging between (cents)	823	721		517
Number of options exercised/released during the year ('000)	(712)	(380)	(574)	
Market value range at the date of exercise/release (cents)	721-996	700 - 721	996	
Number of options cancelled/lapse during the year ('000)	(166)	(320)	(45)	(210)
Granted at prices ranging between (cents)	517 - 721	400 - 517	517	517
Number of options in force at the end of the year ('000)	4 541	3 256	1 239	1 858
Granted at prices ranging between (cents)	517 - 823	400 - 721	517	517
Options are execercisable over the following periods:				
(first date able to release)				
Financial year 2009	1 014	971	785	465
Financial year 2010	1 623	972	454	465
Financial year 2011	1 200	527		
Financial year 2012	704			
	4 541	2 470	1 239	930

Notes to the consolidated annual financial statements
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9 Analysis of assets and liabilities by category

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies on pages 49 to 73 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 balance sheet per category of financial instrument to which they are assigned and therefore by measurement basis:

N$ thousand	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial assets and financial liabilities at amortised cost	Non financials assets and liabilities	Total
2008							
Assets							
Cash and short term funds			345 323				345 323
Due from banks and other financial institutions			1 004 314				1 004 314
Derivative financial instruments	37 532						37 532
Advances			9 141 531				9 141 531
Investment securities	911 652	6 588		1 149 270			2 067 510
Accounts receivable			94 582				94 582
Policy loans on investments contracts					19 407		19 407
Reinsurance assets						389 471	389 471
Investments in associates						5 044	5 044
Tax asset						17 456	17 456
Deferred tax asset						19 706	19 706
Property and equipment						188 455	188 455
Investment properties						4 070	4 070
Intangible assets						67 105	67 105
Total assets	949 184	6 588	10 585 750	1 149 270	19 407	691 307	13 401 506
Liabilities							
Deposits and current accounts					9 676 281		9 676 281
Due to banks and other financial institutions					353 834		353 834
Derivative financial instruments	61 919						61 919
Creditors and accruals						246 681	246 681
Gross outstanding claims						1 430	1 430
Gross unearned premium						15 517	15 517
Provision for unintimated claims						1 826	1 826
Policyholder liabilities under insurance contracts						1 103 914	1 103 914
Policyholder liabilities under investment contracts		38 302					38 302
Post retirement benefit liability						37 539	37 539
Tax liability						1 190	1 190
Deferred tax liability						17	17
Long term liabilities		235 503					235 503
Total liabilities	61 919	273 805			10 030 115	1 408 114	11 773 953

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

9 Analysis of assets and liabilities by category (continued)

2007

N$ thousand	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial assets and financial liabilities at amortised cost	Non financials assets and liabilities	Total
Assets							
Cash and short term funds			226 173				226 173
Due from banks and other financial institutions			115 755				115 755
Derivative financial instruments	22 307						22 307
Advances			8 726 203				8 726 203
Investment securities	295 803	6 329	17 599	832 282			1 152 013
Accounts receivable			154 722				154 722
Policy loans on investments contracts					2 630		2 630
Reinsurance assets						7 902	7 902
Investments in associates						263	263
Tax asset							
Deferred tax asset						33 803	33 803
Property and equipment						164 457	164 457
Investment properties						6 000	6 000
Intangible assets						61 544	61 544
Total assets	318 110	6 329	9 240 452	832 282	2 630	273 969	10 673 772
Liabilities							
Deposits and current accounts					7 817 107		7 817 107
Due to banks and other financial institutions					830 762		830 762
Derivative financial instruments	33 019						33 019
Creditors and accruals						150 484	150 484
Gross outstanding claims						2 373	2 373
Gross unearned premium						20 045	20 045
Provision for unintimated claims						1 854	1 854
Policyholder liabilities under insurance contracts						181 260	181 260
Policyholder liabilities under investment contracts		6 955					6 955
Post retirement benefit liability						33 883	33 883
Tax liability						104 151	104 151
Deferred tax liability						17	17
Long term liabilities		251 424					251 424
Total liabilities	33 019	258 379			8 647 869	494 067	9 433 334

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N$ thousand	2008	2007
10 Short term funds		
10.1 Cash and short term funds		
Coins and bank notes	212 093	120 587
Balances with central bank	102 619	91 764
Balances with other banks	30 611	13 822
Cash and short term funds	345 323	226 173

The carrying value approximates the fair value.

Mandatory reserve balances included in above:	102 618	91 762

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

10.2 Due from banks and other financial institutions

Due from banks and financial institutions - in the normal course of business	1 004 314	115 755
	1 004 314	115 755

The carrying value approximates the fair value.

Geographical split:		
Namibia	74 135	9 002
South Africa	629 967	17 727
North America	252 585	85 628
Europe	47 622	3 396
Other	5	2
	1 004 314	115 755

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11 Derivative financial instruments

Use of derivatives

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

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

Banking Group

Most of the Banking Group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities in derivatives are entered into principally for the purpose of generating profits from short-term fluctuations in price or margin. Positions may be traded actively or be held over a period of time to benefit from expected changes in currency rates, interest rates, equity prices or other market parameters. Trading includes market-making, positioning and arbitrage activities. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume; positioning means managing market risk positions in the expectation of benefiting from favourable movements in prices, rates or indices; arbitrage involves identifying and profiting from price differentials between markets and products.

As mentioned above, other 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.

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

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

The Group uses the following financial instruments for hedging purposes:

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

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

The Group's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in the Risk report on pages 163 to 168 of the Annual Report ("the Risk report").

Please refer to note 36 for information on how the fair value of derivatives is determined.

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for the year ended 30 June

11 Derivative financial instruments (continued)

N$ thousand	Assets Notional	Assets Fair value	Liabilities Notional	Liabilities Fair value
2008				
Held-for-trading				
Currency derivatives	357 994	14 317	289 299	13 855
- Forward rate agreements	271 930	3 333	203 235	2 871
- Options	86 064	10 984	86 064	10 984
Interest rate derivatives				
- Swaps	1 031 618	23 215	1 178 966	48 064
Total held-for-trading	1 389 612	37 532	1 468 265	61 919
2007				
Held-for-trading				
Currency derivatives	644 353	17 523	674 588	16 702
- Forward rate agreements	363 671	7 036	393 906	6 215
- Options	280 682	10 487	280 682	10 487
Interest rate derivatives				
- Swaps	1 852 228	4 784	2 097 039	16 317
Total held-for-trading	2 496 581	22 307	2 771 627	33 019

12 Advances

N$ thousand	2008	2007
Sector analysis		
All classified as loans and receivables		
Agriculture	330 263	202 953
Banks and financial services	58 452	124 682
Building and property development	1 435 155	1 248 885
Government and public authorities	314 386	335 011
Individuals	5 720 848	5 561 366
Manufacturing and commerce	1 072 311	727 378
Mining	21 772	26 912
Transport and communication	97 470	144 261
Other services	391 900	602 762
Notional value of advances	9 442 557	8 974 210
Contractual interest suspended	(55 940)	(45 642)
Gross advances	9 386 617	8 928 568
Impairment of advances (refer to note 13)	(245 086)	(202 365)
Net advances	9 141 531	8 726 203

Notes to the consolidated annual financial statements
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N$ thousand	2008	2007
12 Advances (continued)		
Geographic analysis (based on credit risk)		
Namibia	9 141 531	8 726 203
Category analysis		
Overdrafts and managed accounts	1 237 789	1 281 629
Loans to other financial institutions	58 452	158 470
Instalment sales	1 515 764	1 493 327
Lease payments receivable	67 881	45 421
Property finance	4 934 593	4 652 860
Personal loans	1 399 690	1 134 739
Preference share advances	112 882	132 196
Other	115 506	75 568
Notional value of advances	9 442 557	8 974 210
Contractual interest suspended	(55 940)	(45 642)
Gross advances	9 386 617	8 928 568
Impairment of advances (refer to note 13)	(245 086)	(202 365)
Net advances	9 141 531	8 726 203

A maturity analysis of advances is based on the remaining periods to contractual maturity from the year end. Refer note 42.3.

Fair value of advances disclosed in note 36.

N$ thousand	Within 1 year	Between 1 and 5 years	Total
2008			
Analysis of instalment sales and lease payments receivable			
Lease payments receivable	3 018	81 471	84 489
Suspensive sale instalments receivable	75 897	1 804 675	1 880 572
Sub total	78 915	1 886 146	1 965 061
Less: Unearned finance charges	(16 260)	(365 156)	(381 416)
Total	62 655	1 520 990	1 583 645
2007			
Lease payments receivable	9 214	29 517	38 731
Suspensive sale instalments receivable	32 502	1 830 768	1 863 270
Sub total	41 716	1 860 285	1 902 001
Less: Unearned finance charges	(6 902)	(356 351)	(363 253)
Total	34 814	1 503 934	1 538 748

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.

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13 Impairment of advances

2008

N$ thousand	Home Loans	Instalment sales	Overdrafts and managed accounts	Term Loans	**Total impairment**	Specific impairment	Portfolio impairment
Total impairments							
Analysis of movement in impairment of advances per class of advance							
Opening balance	67 636	37 592	67 940	29 197	**202 365**	88 283	114 082
Amounts written off	(2 474)	(10 063)	(1 994)	(1 997)	**(16 528)**	(16 528)	
Unwinding of discounted present value on non performing loans	(12 615)		(3 153)	(559)	**(16 327)**	(16 327)	
Net new impairments created	27 271	9 059	30 183	9 063	**75 576**	42 748	32 828
- impairments created	59 428	20 496	38 398	18 454	**136 776**	103 201	33 575
- impairments released	(32 157)	(11 437)	(8 215)	(9 391)	**(61 200)**	(60 453)	(747)
Closing balance	79 818	36 588	92 976	35 704	**245 086**	98 176	146 910
New and increased provision	59 428	20 496	38 398	18 454	**136 776**	103 201	33 575
Less provisions released rehabilitated bad debts	(32 157)	(11 437)	(8 215)	(9 141)	**(60 950)**	(60 453)	(497)
Less provisions released bad debts written off	(2 474)	(10 063)	(1 994)	(1 997)	**(16 528)**	(16 528)	
Recoveries of bad debts previously written off	(569)	(3 361)	(798)		**(4 728)**	(4 728)	
Bad debt written off	2 503	10 063	3 133	2 136	**17 835**	17 835	
Impairment loss recognised in the income statement	26 731	5 698	30 524	9 452	**72 405**	39 327	33 078

Significant loans and advances are monitored by the credit division and impaired according to the FNB Namibia 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:

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

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for the year ended 30 June

13 Impairment of advances (continued)

2007

N$ thousand	Home Loans	Instalment sales	Overdrafts and managed accounts	Term Loans	**Total impairment**	Specific impairment	Portfolio impairment
Total impairments							
Opening balance	39 686	31 014	75 441	20 873	**167 014**	74 870	92 144
Amounts written off	(8 503)	(6 856)			**(15 359)**	(15 359)	
Unwinding of discounted present value on non performing loans	(11 413)		(1 077)	(4 727)	**(17 217)**	(17 217)	
Net new impairments created	47 866	13 434	(6 424)	13 051	**67 927**	45 989	21 938
- impairments created	117 287	22 865	12 084	18 262	**170 498**	130 052	40 446
- impairments released	(69 421)	(9 431)	(18 508)	(5 211)	**(102 571)**	(84 063)	(18 508)
Closing balance	67 636	37 592	67 940	29 197	**202 365**	88 283	114 082
New and increased provision	117 287	22 865	12 084	18 262	**170 498**	130 052	40 446
Less provisions released rehabilitated bad debts	(69 421)	(9 431)	(18 508)	(5 211)	**(102 571)**	(84 063)	(18 508)
Less provisions released bad debts written off	(8 503)	(6 856)			**(15 359)**	(15 359)	
Recoveries of bad debts previously written off		(2 792)	(1 592)		**(4 384)**	(4 384)	
Bad debt written off	2 788	6 820	8 063	1 912	**19 583**	19 583	
Impairment loss recognised in the income statement	42 151	10 606	47	14 963	**67 767**	45 829	21 938

2008

N$ thousand	Total value including interest suspense	Security held	Specific impairments	Contractual interest suspended
Non performing lendings by sector				
Agriculture	1 147	841	225	94
Banks and financial services	2 454	1 437	657	388
Building and property development	77 061	33 455	26 155	17 868
Government and public authorities	420	17	300	103
Individuals	180 749	119 500	63 613	28 890
Manufacturing and commerce	9 938	2 794	3 269	4 209
Transport and communication	1 068	398	491	209
Other	10 209	5 183	3 467	4 179
Total non performing lendings	283 046	163 625	98 177	55 940
Non performing lendings by category				
Overdrafts and managed accounts	76 978	25 107	34 652	24 317
Instalment sales	27 688	2 460	20 162	5 574
Lease payments receivable	1 240	102	758	209
Home loans	157 484	126 231	36 364	20 719
Term loans	19 656	9 725	6 241	5 121
Total non performing lendings	283 046	163 625	98 177	55 940
Geographical split: Namibia	283 046			

The net recoverable amount on non performing loans is N$63 million.

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13 Impairment of advances (continued)

2007

N$ thousand	Total value including interest suspense	Security held	Specific impairments	Contractual interest suspended
Non performing lendings by sector				
Agriculture	325	200	68	61
Banks and financial services	7		7	1
Building and property development	55 178	21 687	22 863	11 291
Individuals	163 194	109 053	55 277	25 894
Manufacturing and commerce	11 165	2 782	4 395	4 703
Transport and communication	5 688	64	4 448	629
Other	8 792	4 954	1 224	3 063
Total non performing lendings	244 349	138 740	88 282	45 642
Non performing lendings by category				
Overdrafts and managed accounts	70 279	24 202	29 839	18 440
Instalment sales	28 720	4 020	20 330	4 560
Lease payments receivable	315		847	89
Home loans	126 831	102 353	31 580	17 367
Term loans	18 204	8 165	5 686	5 186
Total non performing lendings	244 349	138 740	88 282	45 642
Geographical split:				
Namibia	244 349			

The net recoverable amount on non performing loans is N$60 million.

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14 Investment securities

N$ thousand	Total fair value Held-for-trading	Designated at fair value through profit or loss	Available-for-sale	Total amortised cost Held-to-maturity	Loans and receivables	Total
2008						
Total						
Equities	493 105		13 690			506 795
Negotiable certificates of deposit			116 044			116 044
Treasury bills	3 478		540 660			544 138
Other government and government guaranteed stock			201 473			201 473
Other dated securities			66 109			66 109
Unit trust investments		6 588	16 326			22 914
RMB Asset Management Namibia	414 758					414 758
Other	311		194 968			195 279
Total	911 652	6 588	1149 270			2 067 510
Listed						
Equities	493 105		13 690			506 795
Other dated securities			6 265			6 265
Listed	493 105		19 955			513 060
Unlisted						
Negotiable certificates of deposit			116 044			116 044
Treasury bills	3 478		540 660			544 138
Other Government and Government guaranteed stock			201 473			201 473
Other dated securities			59 844			59 844
Unit trust investments		6 588	16 326			22 914
RMB Asset Management Namibia	414 758					414 758
Other	311		194 968			195 279
Unlisted	418 547	6 588	1129 315			1 554 450

Refer to note 36, fair value of financial instruments, for the methodologies used to determine the fair value of investment securities and other investments.

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14 Investment securities (continued)

2007

N$ thousand	Total fair value: Held-for-trading	Total fair value: Designated at fair value through profit or loss	Total fair value: Available-for-sale	Total amortised cost: Held-to-maturity	Total amortised cost: Loans and receivables	Total
Total						
Equities	192 237					192 237
Treasury bills	3 486		524 197	4 115		531 798
Other Government and Government guaranteed stock			278 805			278 805
Unit trust investments		6 329				6 329
RMB Asset Management Namibia	99 758					99 758
Other	322		23 935	1 230	17 599	43 086
Total	295 803	6 329	826 937	5 345	17 599	1 152 013
Listed						
Equities	192 237					192 237
Listed	192 237					192 237
Unlisted						
Treasury bills	3 486		524 197	4 115		531 798
Other Government and Government guaranteed stock			278 805			278 805
Unit trust investments		6 329				6 329
RMB Asset Management Namibia	99 758					99 758
Other	322		23 935	1 230	17 599	43 086
Unlisted	103 566	6 329	826 937	5 345	17 599	959 776

N$ thousand	2008	2007
Analysis of investment securities		
Listed: - Equities	506 795	192 237
- Debt	6 265	
	513 060	192 237
Unlisted: - Debt	1 554 450	959 776
- Total	2 067 510	1 152 013
Valuation of investments		
Market value of listed investments	513 060	192 237
Directors valuation of unlisted investments	1 554 450	959 776
Total valuation	2 067 510	1 152 013

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

Information regarding other investments as required in terms of Schedule 4 of the Companies Act is kept at the Company's registered offices. This information is open for inspection in terms of the provisions of Section 113 of the Companies Act.

No financial instruments held-for-trading form part of the Group's liquid asset portfolio in terms of the Banking Institutions Act, (No 2 of 1998) and other foreign banking regulators requirements. The total liquid asset portfolio is N$1 023 million (2007: N$934.3 million).

The maturity analysis for investment securities is set out in note 42.3.

Notes to the consolidated annual financial statements

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N$ thousand	2008	2007
15 Accounts receivable		
Accounts receivable		
- Items in transit	4 537	56 280
- Deferred staff cost	47 847	49 043
- Other accounts receivable	42 198	49 399
Accounts receivable	94 582	154 722

Fair value: The carrying value approximates the fair value of accounts receivable.

The credit quality of the above balances is provided in note 42.2.

N$ thousand	2008	2007
16 Reinsurance assets		
Short term reinsurance contracts: unearned premiums	509	7 288
Short term reinsurance contracts: outstanding claims		93
Life reinsurance contracts	388 962	521
Total reinsurance contracts	389 471	7 902

Fair value: The carrying value approximates the fair value of accounts receivable.

The credit quality of the above balances is provided in note 42.2.

17 Investment in associate companies

17.1 Details of investments in unlisted associate companies

N$ thousand	Nature of business	Issued ordinary share capital N$	Number of ordinary shares held	Year end
Unlisted				
Namclear (Pty) Ltd	Interbank clearing house	4	1	31 December
Avril Payment Solutions (Pty) Ltd	Payroll administrators	10 000	1 000	28 February
RMB Asset Management Namibia (Pty) Ltd	Asset Management	20	10 000	30 June

17.2 Effective holdings and carrying amounts in unlisted associate companies

N$ thousand	Effective Holding % 2008	Effective Holding % 2007	Carrying amount 2008	Carrying amount 2007	Costs less amounts written off 2008	Costs less amounts written off 2007
Unlisted						
Namclear (Pty) Ltd	25	25	4 853		4 154	
Avril Payment Solutions (Pty) Ltd	10	10	263	263	1	1
RMB Asset Management Namibia (Pty) Ltd	50	50				
Total unlisted			5 116	263	4 155	1

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17 Investment in associate companies (continued)

17.3 Detail information of unlisted associate companies

N$ thousand	2008	2007
Unlisted investments		
Carrying value at beginning of the year	263	1
Share of associate earnings:		
Profit for the year	1 527	800
Reversal of impairment in associate company	4 154	
Share of retained income at beginning of the year		253
Retained income at the end of the year	5 681	1 053
Dividends received for the year	(900)	(791)
Carrying value	5 044	263
Valuation		
Unlisted investments at directors' valuation	5 044	263

The directors' valuation of the associate investment is considered to approximate fair value.

			Avril Payment Solutions (Pty) Ltd		RMB Asset Management Namibia (Pty) Ltd		Namclear (Pty) Ltd	
			Unaudited February	Audited February	Unaudited June	Unaudited June	Audited December	Audited December
N$ thousand	2008	2007	2008	2007	2008	2007	2008	2007
17.4 Summarised financial information of associate companies								
Balance sheet								
Non-current assets	9 661	4 915	429	591	35	(45)	9 197	4 369
Current assets	18 317	19 267	1 864	2 428	1 992	1 563	14 461	15 276
Current liabilities	(7 702)	(10 089)	(313)	(211)	(4 445)	(4 154)	(2 944)	(5 724)
Non-current liabilities	(1 373)	(2 228)	(71)	(175)			(1 302)	(2 053)
Equity	18 903	11 865	1 909	2 633	(2 418)	(2 636)	19 412	11 868
17.5 Share of earnings of associate companies								
Income statement								
After tax profit attributable to the Group	1 527	800	828	800			699	
Impairment reversal / (Impairment)	4 154	(1 029)					4 154	(1 029)
Share of earnings of associate companies after impairment losses	5 681	(229)	828	800			4 853	(1 029)

Refer note 35.3 for details on loans to/(from) related parties.

The full carrying value of the investment in RMB Asset Management Namibia (Pty) Ltd was impaired in the 2006 financial year. The Group does not share in accumulated losses.

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18 Details of subsidiaries

Significant subsidiaries

All subsidiaries are unlisted.

The year-end of all the subsidiaries is 30 June.

	Nature of business	Date of acquisition	Country of incorporation	Number of shares	% 2008	% 2007
Banking operations:						
First National Bank of Namibia Ltd	Commercial banking	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:						
Swabou Life Assurance Company Ltd	Life assurance company	1 July 2003	Namibia	10,000,000 of N$1 each	65	100
Swabou Insurance Company Ltd	Short-term insurance	1 July 2003	Namibia	4,000,000 of N$1 each	51	100
Other:						
First National Asset Management & Trust Company of Namibia (Pty) Ltd	Estate and Trust services	1 October 1996	Namibia	200 of N$1 each	100	100
Talas Properties (Windhoek) (Pty) Ltd	Property Company	31 March 1988	Namibia	100 of N$1 each	100	100
FNB Namibia Unit Trusts Ltd	Unit Trusts Company	1 January 2006	Namibia	4,000,000 of N$1 each	100	100

*** FNB Namibia Holdings Limited was previously known as First National Bank of Namibia Ltd, which was established in 1988.*

The banking business transferred on 1 June 2003 to a newly formed company, called First National Bank of Namibia Ltd.

	Aggregate income of subsidiaries (before tax)		Total investment (Total indebtedness)	
N$ thousand	2008	2007	2008	2007
First National Bank of Namibia Ltd	378 139	301 583	1 142 792	1 142 792
Swabou Investments (Pty) Ltd	79 101	54 524		
First National Asset Management and Trust Company of Namibia (Pty) Ltd	29	1 245		
Talas Properties (Windhoek) (Pty) Ltd	18 017	1 181	2 967	2 967
Swabou Life Assurance Company Ltd	71 518	50 972	100 454	27 740
Swabou Insurance Company Ltd	7 812	5 948	6 298	12 348
FNB Namibia Unit Trusts Ltd	1 305	1 105	5 475	5 475
	555 921	416 558	1 257 986	1 191 322

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

N$ thousand	Cost 2008	Accumulated depreciation and impairments 2008	Net book value 2008	Cost 2007	Accumulated depreciation and impairments 2007	Net book value 2007
19 Property and equipment						
Property						
Freehold land and buildings	157 343	(33 442)	123 901	141 674	(33 437)	108 237
Leasehold property	14 488	(9 137)	5 351	13 818	(8 527)	5 291
	171 831	(42 579)	129 252	155 492	(41 964)	113 528
Equipment						
Computer equipment	36 173	(27 662)	8 511	36 690	(29 784)	6 906
Furniture and fittings	58 607	(22 838)	35 769	52 494	(23 666)	28 828
Motor vehicles	7 194	(4 135)	3 059	6 977	(3 798)	3 179
Office equipment	45 368	(33 504)	11 864	45 362	(33 346)	12 016
	147 342	(88 139)	59 203	141 523	(90 594)	50 929
Total	319 173	(130 718)	188 455	297 015	(132 558)	164 457

N$ thousand	Freehold land and buildings	Leasehold property	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Total
Movement in property and equipment - net book value							
Net book value at 30 June 2006	102 257	5 156	8 884	26 450	2 339	12 852	157 938
Additions	3 077	1 854	2 474	6 086	1 723	2 877	18 091
Work in progress transferred to equipment	(2 601)	167		329		2 105	
Depreciation charge for year	6 044	(1 886)	(3 868)	(3 968)	(787)	(5 410)	(9 875)
Transfer to repairs and maintenance	(221)						(221)
Disposals	(319)		(584)	(69)	(96)	(408)	(1 476)
Net book value at 30 June 2007	108 237	5 291	6 906	28 828	3 179	12 016	164 457
Additions	16 027	1 895	5 688	12 244	984	5 456	42 294
Depreciation charge for year		(1 835)	(4 016)	(4 758)	(1 104)	(5 591)	(17 304)
Transfer between asset classes			(33)			33	
Disposals	(363)		(34)	(545)		(50)	(992)
Net book value at 30 June 2008	123 901	5 351	8 511	35 769	3 059	11 864	188 455

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 113 of the Companies Act, 1973.

No assets were encumbered at 30 June 2008 nor 30 June 2007.

Notes to the consolidated annual financial statements

for the year ended 30 June

N$ thousand	2008	2007
20 Investment properties		
Market value at beginning of the year	6 000	6 000
Revaluations	(1 930)	
Balance at end of the year	4 070	6 000
Investment properties consist of office buildings only	4 070	6 000
Rental income received on investment properties (included in note 3 "Other non interest income")	254	405
Operating expenses on investment properties that generated rental income (included in note 6 "Operating expenses")	(161)	(193)
	93	212

The criteria used to distinguish between owner-occupied and investment property at Group level was based on the physical space occupied by Group companies in relation to total available space. The property was valued by Hanlie Lofty-Eaton (appointed appraiser by the Master of the High Court, Windhoek, in terms of Act 66 of 1965) at open market value on 30 June 2008. This valuation is performed annually.

There are no restrictions on the realisation of investment properties.

There are no material contractual obligations on investment properties and no investment property has been encumbered.

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 113 of the Companies Act, 1973.

21 Intangible assets

N$ thousand	2008	2007
Trademarks		
Gross amount	111 768	111 768
Less: Accumulated amortisation	(64 107)	(53 020)
	47 661	58 748
Movement in trademarks - book value		
Opening balance	58 748	70 713
Intergroup sale unclaimed VAT		3 060
Amortisation (refer note 6)	(11 087)	(15 025)
Closing balance	47 661	58 748
Goodwill		
Gross amount	100	100
Movement in goodwill - book value		
Opening balance	100	100
Closing balance	100	100

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

21 Intangible assets (continued)

N$ thousand	2008	2007
Software		
Gross amount	2 773	2 773
Less: Accumulated amortisation	(1 001)	(77)
	1 772	2 696
Movement in software - book value		
Opening balance	2 696	
Addition		2 773
Amortisation (refer note 6)	(924)	(77)
Closing balance	1 772	2 696
Agency force		
Gross amount	1 893	
Less: Accumulated amortisation	(1 000)	
	893	
Movement in agency force - book value		
Opening balance		
Addition with acquisition of Global Financial Advisors	1 893	
Amortisation (refer note 6)	(1 000)	
Closing balance	893	
Value of in-force business		
Gross amount	22 539	
Less: Accumulated amortisation	(5 860)	
	16 679	
Movement in value of in-force business - book value		
Opening balance		
Addition with acquisition of Southern Life Namibian Book	37 513	
Realisation of embedded value purchased	(14 974)	
Amortisation (refer note 6)	(5 860)	
Closing balance	16 679	
Total intangible assets	67 105	61 544

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 2008 and 30 June 2007 relates to 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, no write down of the carrying amount was necessary.

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

N$ thousand	2008	2007
22 Deposits		
22.1 Deposits and current accounts		
At amortised cost		
From customers	8 030 000	6 909 537
- Current accounts	5 519 035	4 016 279
- Savings accounts	375 460	364 417
- Term deposits	2 135 505	2 528 841
Other deposits		
- Negotiable certificates of deposit	1 646 281	907 570
Total Deposits and current accounts	9 676 281	7 817 107
The fair values of deposits and current accounts are disclosed in note 36.		
Geographical split: Namibia	9 676 281	7 817 107
22.2 Due to banks and other financial institutions		
From banks and financial institutions		
- In the normal course of business	353 834	830 762
Fair value of balance disclosed	353 834	830 762
Geographical split:		
Namibia	351 107	665 738
South Africa		165 024
North America	2 727	
	353 834	830 762

A maturity analysis of deposits and current accounts as set out in note 42.3 is based on the remaining periods to contractual maturity from the year end.

23 Creditors and accruals

N$ thousand	2008	2007
Accounts payable and accrued liabilities	56 353	28 973
Dividends payable	3 592	4 558
Short term portion of long term liabilities (note 28)	6 127	6 173
Other creditors	180 609	110 780
Creditors and accruals	246 681	150 484

The carrying value approximates the fair value.

24 Provision for unintimated claims

N$ thousand	2008	2007
Opening balance	1 854	1 806
Charge to the income statement (note 5)	(28)	48
Closing balance	1 826	1 854

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

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

25 Policyholders' liabilities under insurance contracts

N$ thousand	2008	2007
Opening balance	181 260	143 112
Balances acquired (transfer in of Southern Life Namibia book)	1 007 204	
Transfer to policyholder liabilities under insurance contracts		
- (Increase) / decrease in retrospective liabilities	(84 550)	38 148
Closing balance	1 103 914	181 260
Insurance contracts with discretionary participation features	509 902	159 697
Insurance contracts without discretionary participation features	205 076	21 563
Net policyholder liabilities under insurance contracts	714 978	181 260
Net actuarial liabilities under unmatured policies comprise the following:		
Linked (market related) business - Individual life	57 198	
Smoothed bonus business - Individual life	509 779	159 697
Annuities business	114 396	
Life business - Individual life	33 605	20 542
Health insurance business short-term		1 021
	714 978	181 260

The amounts above are based on the actuarial valuations of Swabou Life Assurance Company Limited at 30 June 2008. Below are the main assumptions that were used in determining the liabilities in respect of insurance contracts as at 30 June 2008.

Best estimate valuation assumptions

Economic assumptions

Risk-free return

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

	2008	2007
ZAR ten-year zero-coupon risk-free yield	9.92%	8.25%

Valuation interest rate

The gross valuation interest rate of 11% per annum for NAD denominated business (30 June 2007: 9.25% per annum) was calculated as a weighted investment return, representing the investment returns on a theoretical, balanced notional portfolio consisting of equities and bonds.

	2008	2007
Notional portfolio used as at 30 June:		
- Equities	70%	70%
- Government bonds	30%	30%
Assumed performance of other asset classes relative to government bonds:		
- Equities (including overseas equities)	+2.5% p.a	+2.5% p.a

Rounding to the nearest 0,25% was performed.

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

25 Policyholders' liabilities under insurance contracts (continued)

Inflation

An expense inflation rate of 7.41% (30 June 2007: 5.8%) per annum for NAD denominated business was used to project future renewal expenses. The NAD inflation rate was derived by deducting the 10-year real return on CPI-linked government bonds of 2.5% (30 June 2007: 2.7%) from the risk-free rate.

Tax

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

Mortality, morbidity and terminations

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

Assumptions in respect of mortality, morbidity and terminations were based on experience investigations performed in June 2007. The investigations covered a period of five years, from 2002 to 2007. The experience on policies and annuities were analysed.

Mortality and disability rates are adjusted to allow for expected deterioration in mortality rates as a result of Aids and for expected improvements in mortality rates in the case of annuity business. Allowance for AIDS was made according to professional guidance notes PGN 102 (Mar 1995): Life Offices - HIV/AIDS and PGN 105 (Nov 2002): Recommended AIDS extra mortality bases, issued by the Actuarial Society of South Africa.

Expenses

The sustainable annual renewal expense per policy was based on an analysis of budgeted expenses for the year ending 30 June 2008. The allocation distiguished between renewal and acquisition costs.

Expenses expected to be once-off in nature or not relating to long-term insurance business were removed from the actual expenses. Asset management expenses were expressed as an annual percentage of assets under management.

Policyholder bonuses

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

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

Discretionary bonus stabilization reserve and investment stabilization reserve

The philosophy underlying the business is that profits emerging from policyholder funds are retained in the fund and distributed to policyholders by means of annual bonus allocation to the non-vesting portion and policyholder investment accounts. Any undistributed profits at the end of each year are held in bonus smoothing reserves for subsequent allocation to policyholders.

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

25 Policyholders' liabilities under insurance contracts (continued)

Compulsory margins

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

Assumption	Margin	
Mortality	7.5%	- increase to assumption for assurance
Morbidity	10%	- increase to best-estimate assumption
Medical	15%	- increase to best-estimate assumption
Lapses	25%	(e.g. if best estimate is 10%, the margin is 2.5%) - increase or decrease, depending on which alternative increases liabilities
Surrenders	10%	- increase or decrease, depending on which alternative increases liabilities
Terminations for disability	10%	- decrease to best-estimate assumption
Income benefits in payment	10%	- decrease to best-estimate assumption
Expenses	10%	- increase to best-estimate assumption
Expense inflation	10%	(of estimated escalation rate) - increase to best-estimate assumption
Charge against investment	- 25 basis points reduction in the management return fee or an equivalent asset-based or investment performance-based margin - 25 basis points reduction in the assumed rate of future investment return on contracts that do not have an asset-based or investment performance-based fee	

Discretionary margins

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

Cost of capital charges levied against smoothed-bonus portfolios are not capitalised against current liabilities, but are recognised as and when they are earned. This avoids the premature recognition of income that is required to mitigate the additional cost of capital required to support smoothed bonus liabilities.

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

An additional data reserve equal to 5% of the value of the investment units held by policyholders are held to protect against possible losses due to data discrepancies.

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

N$ thousand	2008	2007
26 Policyholders' liability under investment contracts		
Opening balance	6 955	4 194
Balances acquired (transfer in of Southern Life Namibia book)	20 568	
Fair value adjustment to policyholder liabilities under investment contracts	3 705	83
Deposits received on investment contracts	8 202	5 614
Withdrawals on investment contracts	(602)	(1 349)
Fees on investment contracts	(526)	(1 587)
Closing balance	38 302	6 955
Investment contracts with discretionary participation features	38 302	6 955
Total policyholders' liabilities under investment contracts	38 302	6 955

N$ thousand	Total	Shorter than 1 year	Between 1 and 5 years
2008			
Smoothed bonus business			
- Individual life	38 302	6 713	31 589
Total policyholder liabilities under investment contracts	38 302	6 713	31 589
2007			
Smoothed bonus business			
- Individual life	6 955	1 254	5 701
Total policyholder liabilities under investment contracts	6 955	1 254	5 701

27 Employee benefits

27.1 Post-retirement benefit liability

The Group has a liability to subsidise the post-retirement medical expenditure of certain of its employees based on a defined benefit plan.

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

Salary cost increases are expected to be in line with the inflation rate, whereas medical cost increases are expected to be 1.75% higher than the inflation rate.

At 30 June 2008, the actuarially determined liability of the Group was N$37.5 million (2007: N$33.9 million).
The actuarial valuation is done on an annual basis.

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

27 Employee benefits (continued)

27.1 Post-retirement benefit liability (continued)

N$ thousand	2008	2007
Present value of unfunded liability	34 523	34 439
Unrecognised actuarial losses / (gains)	3 016	(556)
Post-retirement medical liability	37 539	33 883
The amounts recognised in the income statement are as follows:		
Current service cost	1 116	1 397
Interest cost	3 220	2 924
Net actuarial losses / (gains) recognised	(680)	12
Total included in staff costs (refer note 6)	3 656	4 333
Movement in post retirement medical liability		
Present value at the beginning of the year	33 883	30 225
Amounts recognised in the income statement as above	3 656	4 333
Benefits paid		(675)
Present value at the end of the year	37 539	33 883
Expected amounts to be recognised in the income statement in following financial year	5 142	4 336
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	11.25%	9.35%
Expected rates of salary increases (%)	10.25%	8.00%
Long-term increase in medical subsidies (%)	10.25%	8.10%
The effects of a 1% movement in the assumed health cost rate were as follows:		
Increase of 1% - Effect on the aggregate of the current service cost and interest cost	6 300	5 409
- Effect on the defined benefit obligation	41 881	42 178
Decrease of 1% - Effect on the aggregate of the current service cost and interest cost	4 123	3 550
- Effect on the defined benefit obligation	28 206	28 669
Net increase in rate used to value pensions, allowing for pension increases (%)	1.25%	1.25%
Mortality rate		
The average life expectancy in years of a pensioner retiring at age 60 on the balance sheet date		
is as follows: - Male	18	20
- Female	22	21
Employees covered	392	447

Five year analysis on total medical post-retirement plans (projected)	N$ thousand
As at 30 June 2009	38 817
As at 30 June 2010	43 585
As at 30 June 2011	48 932
As at 30 June 2012	54 992
As at 30 June 2013	61 867

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

27 Employee benefits (continued)

27.2 Pension fund

N$ thousand	2008	2007
Employer contribution to pension fund	19 157	19 302
Employer contribution to pension fund - executive director	126	105
Total employer contributions to pension fund (refer note 6)	19 283	19 407
Employee contribution to pension fund	13 062	13 160
Total contributions	32 345	32 567
Number of employees covered	1 574	1 404

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 fund is valued every three years. The last valuation was performed for the year ended 30 June 2007 and indicated that the fund was in a sound financial position.
The Pension Fund is a related party to the Group.

28 Long term liabilities

N$ thousand	2008	2007
FNB 17 fixed rate notes	260 000	260 000
Accrued interest	6 010	6 029
	266 010	266 029
Fair value adjustment (financial liability elected fair value)	(24 380)	(8 432)
Fair value	241 630	257 597
Less: Portion payable within 12 months transferred to Creditors and Accruals (note 23)	(6 127)	(6 173)
	235 503	251 424
Fair value adjustment for the year	15 948	8 432

On 29 March 2007, First National Bank of Namibia Limited issued N$260 million subordinated, unsecured callable notes, with a maturity date of 29 March 2017. The notes are callable by First National Bank of Namibia Limited on 29 March 2012. The coupon rate is fixed at 9.15% per annum, payable semi annually on 29 March and 29 September, until the optional redemption date 29 March 2012. Should the notes not be redeemed, then interest is payable thereafter at the floating rate of Namibian 3 months Treasury Bill rate + 1.5%.
These notes are listed on the Namibian Stock Exchange.
An accounting mismatch would arise if the debt securities in issue were accounted for at amortised cost, because the related derivative, an interest rate swap, is measured at fair value with movements in the fair value taken through the income statement. By designating the long term debt at fair value, the movement in the fair value of the long term debt will be recorded in the income statement.
The fair value movement of the bond attributable to changes in credit risk is N$ Nil (2007: N$ Nil) for the group and company. The change in fair value of the designated financial liability attributable to changes in credit risk has been calculated by reference to the change in credit risk implicit in the market value of the bond.
The amount that would contractually be paid at maturity for financial liabilities designated at fair value through profit and loss for the group is N$260 million (2007: N$260 million), N$24.4 million (2007: N$8.4 million) higher than the carrying amount.
The fair value is calculated based on quoted market prices.

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

29 Share capital and share premium

N$ thousand	2008	2007
Authorised		
990 000 000 (2007: 990 000 000) ordinary shares with a par value of 0.5 cents per share	4 950	4 950
10 000 000 (2007: 10 000 000) cumulative convertible redeemable preference shares with a par value of 0.5 cents per share	50	50
	5 000	5 000
Issued		
267 593 250 (2007: 267 593 250) ordinary shares with a par value of 0.5 cents per share	1 338	1 338
2 (2007: 2) cumulative convertible redeemable preference shares with a par value of 0.5 cents per share		
Elimination of shares held by Share Incentive Trust	(17)	(17)
	1 321	1 321

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.

Refer note 8.4 for details on the share options schemes.

N$ thousand	2008	2007
Share premium	257 792	263 913

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 shares are under the control of the directors until the next annual general meeting.

All issued shares are fully paid up.

30 Non distributable reserves

N$ thousand	2008	2007
Other non distributable reserves: Swabou Insurance Company Ltd – Contingency reserve	382	766
Other non distributable reserves: First National Bank of Namibia Ltd – Available-for-sale financial assets	(3 956)	(1 539)
	(3 574)	(773)

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

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

N$ thousand	2008	2007
31 Cash flow information		
31.1 Reconciliation of operating income to cash flow from operating activities		
Income before tax	587 112	447 139
Adjusted for:		
- Share of earnings of associate companies after impairment losses	(5 681)	229
- Depreciation, amortisation and impairment of property, equipment and intangible assets	36 175	24 977
- Profit on sale of subsidiary	(34 231)	
- Transfer from revaluation reserve: available for sale financial asset	(2 612)	(5 915)
- Unrealised profits on revaluation of investments	14 437	(56 691)
- Transfer of work in progress to repairs and maintenance		221
- Revaluation of investment property	1 930	
- Share payment cost	2 250	2 601
- Impairment of advances	72 405	67 767
- Provision for post-employment benefit obligations	3 656	4 333
- Other employment provisions	3 400	2 616
- Creation of derivative financial instruments	13 675	9 851
- Policyholders fund and insurance fund transfers	(78 594)	40 545
- Fair value adjustment to financial liability	(15 948)	(8 432)
- Unwinding of discounted present value on non-performing loan	(16 325)	(17 217)
- Unwinding of discounted present value on off-market loans	(8 104)	(7 813)
- Net release ito deferred fee and expenses	(6 511)	(4 979)
- Off market staff loans amortisation	8 104	7 813
- Profit on sale of fixed assets	272	(614)
Cash flows from operating activities	575 410	506 431
31.2 Taxation paid		
Amounts unpaid at beginning of the year	(104 151)	(982)
Indirect taxes	(18 404)	(12 579)
Current taxation charge	(139 665)	(159 827)
Amounts (overpaid)/underpaid at end of the year	(16 266)	104 151
Total taxation paid	(278 486)	(69 237)

31.3 Capital expenses to maintain operations

During the year, the Group acquired property and equipment with an aggregate cost of N$42.3 million (2007: N$23.9 milion) of which the full amount was settled in cash.

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

N$ thousand	2008	2007
31 Cash flow information (continued)		
31.4 Sale of shares in subsidiaries		
Swabou Life Assurance Company Ltd		
Net asset value on 30 June 2008	141 049	
Capital injections: FNB Namibia Holdings Ltd	38 235	
Capital injections: Momentum Ltd	100 737	
Net asset value after restructuring	280 021	
Net asset value acquired through transfer of Southern Life Namibia book:	37 513	
Investment securities	638 836	
Reinsurance assets	388 936	
Intangible asset	37 513	
Policyholder liability: Insurance contracts	(1 007 204)	
Policyholder liability: Investment contracts	(20 568)	
	317 534	
35% share sold to Momentum Group Limited	(115 418)	
	202 116	
Profit on disposal	(34 231)	
Subsequent transfers	21 156	
Intangible asset	(37 513)	
Holdings capital injection	(38 235)	
Cash paid by Momentum Group Limited	113 293	
Swabou Insurance Company Ltd		
Net asset value 30 June 2007	22 568	
Dividend paid	(12 568)	
Net asset value after dividend	10 000	
49% share sold to FirstRand STI Holdings Limited - cash received	4 900	
31.5 Dividends paid		
Amounts unpaid at beginning of the year	(4 558)	(4 986)
Dividends approved	(135 982)	(363 240)
Amounts unpaid at end of the year		4 558
Total dividends paid	(140 540)	(363 668)
31.6 Further investment in associate company		
A further investment was made in 2007 in the associate company, Namclear (Pty) Ltd, and subsequently impaired. The company recorded profits in 2008, refer to note 17 for details of the investment.		(1 029)

Notes to the consolidated annual financial statements
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32 Contingent liabilities and capital commitments

N$ thousand	2008	2007
Contingencies		
Guarantees	442 862	360 612
Letters of credit	121 519	56 309
Total contingencies	564 381	416 921
Irrevocable unutilised facilities		
- original maturity one year or less	939 125	937 453
- original maturity more than one year	192 745	238 391
Total contingencies and commitments	1 696 251	1 592 765

Guarantees consist predominantly of endorsements and performance guarantees.

The fair value of guarantees approximate 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.

	2008	2007
Commitments in respect of capital expenditure and long-term investments		
Commitments in respect of capital expenditure and long-term investments approved by directors		
- Contracted for	29 170	17 969
- Not contracted for	992	61 042
Made up of the following:		
Capital commitments contracted for at the balance sheet date but not yet incurred are as follows:		
- Property and equipment	29 170	17 969
Capital commitments not yet contracted for at balance sheet date but have been approved by the directors:		
- Property and equipment	992	61 042

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

Contingent liabilities or contingent assets may arise as a result from unresolved matters with the taxation authority. It is not foreseen that these adjustments will be material to the Group.

Notes to the consolidated annual financial statements

for the year ended 30 June

32 Contingent liabilities and capital commitments (continued)

Group leasing arrangements:

N$ thousand	Next year	2nd to 5th year
2008		
Office premises	6 201	8 230
Equipment	132	55
	6 333	8 285

Notice periods on operating lease contracts are between 3-6 months, no operating lease contract is fixed and escalation clauses range between 6% and 8%.

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.

N$ thousand	Next year	2nd to 5th year
2007		
Office premises	8 957	12 268
Equipment	1 372	476
	10 329	12 744

There were no commitments under operating leases after 5 years.

33 Trust activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making purchase and sale decisions in relation to a wide range of financial instruments. Refer to note 3 for the income earned on these activities.

Notes to the consolidated annual financial statements
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N$ thousand	2008	2007
34 Collateral pledged and assets held		
The Group have pledged assets as security for the following liabilities:		
Due to banks and other financial institutions		
- Repo facility at Bank of Namibia	117 837	14 382
Total	117 837	14 382

The Group pledges assets under the following terms and conditions:

Mandatory reserve deposits are also held with the Central Bank in accordance with statutory requirements. These deposits are not available to finance the Banking Group's day-to-day operations. Collateral in the form of other investment securities is pledged when the Banking Group utilises the Bank of Namibia credit facility. These transactions are conducted under the terms and conditions that are usual and customary to standard credit facilities with central banks.

	2008	2007
Assets pledged to secure the above liabilities are carried at and included under the following:		
Investment securities and other securities		
- other securities	130 930	15 980
Total	130 930	15 980

35 Related parties

The Group defines related parties as:

- The parent company
- Subsidiary companies
- Associate companies
- Key management personnel of the FNB Namibia Holdings Ltd and its subsidiaries board of directors and the Group executive committee.
- Key management personnel includes close family members of key management personnel. Close family members are those family members who may be expected to influence, or be influenced by that individual in dealings with the Group. This may include the individual's spouse/domestic partner and children, domestic partner's children and dependants of individual or domestic partner.
- Enterprises which are controlled by these individuals through their majority shareholding or their role as chairman and/or CEO in those companies

The ultimate parent of FNB Namibia Holdings Limited is FirstRand Limited, incorporated in South Africa.

FNB Namibia Holdings Limited is listed on the Namibian Stock Exchange and is 58.3% owned by FirstRand Bank Holdings Limited, with its ultimate holding company listed on the JSE Limited and the NSX, FirstRand Limited.

35.1 Subsidiaries

Details of interest in subsidiaries are disclosed in note 18.

Transactions with fellow subsidiaries appear in the table below (these are not eliminated on consolidation).

35.2 Associate

Details of investments in associate company are disclosed in note 17.

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

35 Related parties (continued)

35.3 Details of transactions with relevant related parties appear below:

N$ thousand	FirstRand Bank Bank Ltd RMB Corporate Finance Division	FirstRand Bank Ltd	RMB International Dublin Ltd	Namclear (Pty) Ltd
2008				
Loans and advances				
Balance 1 July	29 112	21		
Issued during year	605 562	115 068		
Repayments during year				
Balance 30 June	634 674	115 089		
Interest received	45 913			
Deposits				
Balance 1 July	(15 779)	(165 323)		
Received during year				(13 031)
Repaid during year	11 384	133 773		
Balance 30 June	(4 395)	(31 550)		(13 031)
Interest paid		1 539		212
Derivative instrument: assets		31 579		
Derivative instrument: liabilities		28 770		
Dividends paid		136 473		

N$ thousand	Total	Namclear (Pty) Ltd	FirstRand Bank Ltd
Non interest income			
Commission	1 548		1 548
FNB Card reward	11 572		11 572
Rental income	542	542	
	13 662	542	13 120
Non interest expenditure			
Computer processing costs	20 080		20 080
Internal audit and compliance	878		878
ATM processing costs	959		959
Payroll processing	888		888
Management fees	5 919		5 919
Other sundry	12 311		12 311
Clearing cost	5 452	5 452	
	46 487	5 452	41 035

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

35 Related parties (continued)

35.3 Details of transactions with relevant related parties appear below (continued):

2007

N$ thousand	FirstRand Bank Bank Ltd RMB Corporate Finance Division	First National Bank of Swaziland	FirstRand Bank Ltd	RMB International Dublin Ltd	Namclear (Pty) Ltd
Loans and advances					
Balance 1 July	103 269		21 081		
Issued during year	(74 157)			143 400	
Repayments during year			(21 060)	(143 400)	
Balance 30 June	29 112		21		
Interest received	33 582			3 629	
Deposits					
Balance 1 July		(50 000)	(2 891)		
Received during year	(15 779)				
Repaid during year		50 000	(162 432)		
Balance 30 June	(15 779)		(165 323)		
Interest paid		(532)			
Derivative instrument: assets			3 344		
Derivative instrument: liabilities			(11 684)		
Dividends paid			209 007		

N$ thousand	Total	FirstLink Insurance	Namclear (Pty) Ltd	FirstRand Bank Ltd
Non interest income				
Commission	4 242	2 463		1 779
FNB Card reward	8 279			8 279
Policy fees	588	588		
Rental income	488		488	
	13 597	3 051	488	10 058
Non interest expenditure				
Computer processing costs	15 524			15 524
Internal audit and compliance	1 174			1 174
ATM processing costs	625			625
Payroll processing	983			983
Management fees	4 102			4 102
Other sundry	12 345			12 345
Clearing cost	5 948		5 948	
	40 701		5 948	34 753

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

35 Related parties (continued)

35.4 Transactions with key management personnel:

N$ thousand	2008	2007
Advances		
Balance 1 July	38 299	18 510
Issued during year	13 276	23 489
Repayments during year	(20 580)	(6 441)
Interest earned	4 938	2 741
Balance 30 June	35 933	38 299
No impairment has been recognised for loans granted to key management (2007: nil).		
Mortgage loans are repayable monthly over 20 years.		
Cheque and current accounts		
Credit balance 1 July	(5 918)	(8 594)
Net deposits and withdrawals	998	3 003
Net service fees and bank charges	1 316	1 006
Interest income	248	438
Interest expense	(178)	(1 771)
Balance 30 June	(3 534)	(5 918)
Instalment finance		
Balance 1 July	3 323	2 946
Issued during year	862	1 449
Repayments during year	(2 129)	(1 333)
Interest earned	452	261
Balance 30 June	2 508	3 323
Life and disability insurance		
Aggregate insured cover	5 853	2 460
Premiums received	59	16
Investment products		
Opening balance	5 412	
Deposits	5 365	5 283
Net investment return	(354)	167
Commission and other transaction fees	(12)	(38)
Fund closing balance	10 411	5 412
Shares and share options held		
Directors holding in shares is disclosed in note 6.3		
Aggregate details		
Share options held	1 615	1 259

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

35 Related parties (continued)

35. 4 Transactions with key management personnel (continued):

N$ thousand	2008	2007
Key management compensation		
Salaries and other short-term benefits	11 585	8 668
Contribution to defined contribution schems	882	500
Total compensation	12 467	9 168
Termination benefits paid		68
	12 467	9 236

A listing of the board of directors of the Group is detailed on page 47 of the annual report.

35.5 Post employment benefit plan

Refer note 27.1 on detail disclosure of the movement on the post-retirement benefit liability. The pension fund is a related party to the Group, refer note 27.2.

36 Fair value of financial instruments

The Group determines fair value with the maximum possible use of quoted market prices and/or observable market data as indicated in the accounting policy note. If market prices are not available or the market for a financial instrument is not active, fair value is determined by using valuation technique that make maximum use of market inputs.

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

Fair value is described in IFRS as the value for which an asset can be exchanged or a liability settled between knowledgeable, willing parties in an arms length transaction. The best evidence of fair value is a price quoted in an active market. It is the Group's policy to make use of such information when it is available for example the valuation of futures, listed bonds and listed equities. Where there is no active market for a particular instrument the Group determines the value based on valuation techniques. Where available these valuation techniques give preference to inputs which are observable in an active market.

The following describes the principle methods and assumptions 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 as far as possible information which is consistent with similar market quoted instruments.

Notes to the consolidated annual financial statements

for the year ended 30 June

36 Fair value of financial instruments (continued)

Treasury Bills

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

Government, public and utility stocks

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

Other dated securities

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

Derivatives

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

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

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

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

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

Deposits and current accounts

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

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

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

Loans and advances to customers

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

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

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

Notes to the consolidated annual financial statements

for the year ended 30 June

36 Fair value of financial instruments (continued)

Long term liabilities

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

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

The fair value of the post retirement funding liability has been calculated based on the value of the corresponding assets, since the value of the liability is limited to the value of the assets in the cell captive.

The following represents the fair values of financial instruments not carried at fair value on the balance sheet. For all other instruments the carrying value is equal to or a reasonable approximation of the fair value.

N$ thousand	Carrying value	Fair value
2008		
Assets		
Advances		
Overdrafts and managed accounts	1 237 789	1 237 789
Loans to other financial institutions	58 452	58 452
Instalment sales	1 515 764	1 500 947
Lease payments receivable	67 881	67 768
Home loans	4 934 593	5 605 028
Term loans	1 399 690	1 586 663
Preference share advances	112 882	112 882
Other	115 506	115 506
Notional value of advances	9 442 557	10 285 035
Contractual interest suspended	(55 940)	(55 940)
Gross advances	9 386 617	10 229 095
Impairment of advances (note 13)	(245 086)	(245 086)
Net advances	9 141 531	9 984 009
Liabilities		
Deposits and current accounts		
From customers		
- Current accounts	5 519 035	5 519 117
- Savings account	375 460	375 460
- Term deposits	2 135 505	2 101 404
Other deposits		
- Negotiable certificates of deposit	1 646 281	1 645 548
Total deposits and current accounts	9 676 281	9 641 529

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

36 Fair value of financial instruments (continued)

N$ thousand	Carrying value	Fair value
2007		
Assets		
Advances		
Overdrafts and managed accounts	1 281 629	1 302 969
Loans to other financial institutions	158 470	137 130
Instalment sales	1 493 327	1 487 714
Lease payments receivable	45 421	45 250
Home loans	4 652 860	4 621 040
Term loans	1 134 739	1 129 576
Preference share advances	132 196	132 196
Other	75 568	75 568
Notional value of advances	8 974 210	8 931 443
Contractual interest suspended	(45 642)	(45 642)
Gross advances	8 928 568	8 885 801
Impairment of advances (note 13)	(202 365)	(202 365)
Net advances	8 726 203	8 683 436
Liabilities		
From customers		
- Current accounts	4 016 279	4 016 279
- Savings account	364 418	364 418
- Term deposits	2 528 841	2 486 751
Other deposits		
- Negotiable certificates of deposit	907 570	902 809
Total deposits and current accounts	7 817 108	7 770 257

Notes to the consolidated annual financial statements

for the year ended 30 June

36 Fair value of financial instruments (continued)

Basis of valuation of financial assets and liabilities recognised at fair value

N$ thousand	Assets Investment securities	Derivatives	Liabilities Debt instruments	Derivatives
2008				
Fair value determined:				
- purely from quoted market prices	1 281 585		235 503	
- using internal valuation techniques based on market quoted inputs	785 925	37 532		61 919
Total	2 067 510	37 532	235 503	61 919
2007				
Fair value determined:				
- purely from quoted market prices	1 005 054		251 424	
- using internal valuation techniques based on market quoted inputs	142 844	22 307		33 019
Total	1 147 898	22 307	251 424	33 019

N$ thousand	Change in fair value recognised in the income statement *	Change in fair value recognised in equity**
2008		
Fair value determined:		
purely from quoted market prices		
- foreign exchange trading	42 944	
- debt instruments: assets	33	6 972
- debt instruments: liability	15 948	
- equity		(7 167)
using internal valuation techniques based on market quoted inputs		
- derivatives	(13 316)	
Total	45 609	(195)
2007		
Fair value determined:		
purely from quoted market prices		
- foreign exchange trading	20 054	
- debt instruments: assets	(653)	(1 539)
- debt instruments: liability	8 432	
- equity		
using internal valuation techniques based on market quoted inputs		
- derivatives	(11 533)	
Total	16 300	(1 539)

* On instruments held for trading and designated at fair value through profit or loss

** On available for sale instruments

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37 Segment information

Primary segments

Income statement

N$ thousand	Total 2008	Total 2007	Banking operations 2008	Banking operations 2007	Long term insurance 2008	Long term insurance 2007	Short term insurance 2008	Short term insurance 2007	Other* 2008	Other* 2007
Net interest income before impairment of advances	706 807	611 039	684 244	604 095	24 044	10 767	2 805	1 448	(4 286)	(5 271)
Impairment of advances	(72 405)	(67 767)	(72 405)	(67 767)						
Net interest income after impairments of advances	634 402	543 272	611 839	536 328	24 044		2 805	1 448	(4 286)	(5 271)
Non interest income	433 520	378 793	376 327	308 182	3 078	58 151	7 398	7 305	46 717	5 155
- Fee and commission income	334 050	285 298	312 485	271 274	1 058	921	5 637	3 492	14 870	9 611
- Fair value income	29 661	4 055	29 661	7 868						(3 813)
- Gains less losses from investment activities	35 344	68 074	2 612	2 891	(2 006)	56 691	1 761	3 813	32 977	8 492
- Other non interest income	34 465	17 553	31 569	26 149	4 026	539			(1 130)	(9 135)
Net insurance premium income	159 842	120 231			139 999	93 737	19 843	26 494		
Insurance premium revenue	185 521	150 979			152 489	101 891	33 032	49 088		
Premium ceded to reinsurers	(23 428)	(28 434)			(12 490)	(8 154)	(10 938)	(20 280)		
Change in unearned premium	(2 251)	(2 314)					(2 251)	(2 314)		
Net claims and benefits paid	(117 194)	(44 041)			(109 417)	(29 339)	(7 777)	(14 702)		
Gross claims and benefits paid on insurance contracts	(132 103)	(54 325)			(121 750)	(31 506)	(10 353)	(22 819)		
Re-insurance recoveries	14 909	10 284			12 333	2 167	2 576	8 117		
Increase in value of policyholder liabilities: insurance contracts	84 550	(38 148)			84 550	(38 148)				
Increase in value of policyholder liabilities: investment contracts	(3 705)	(83)			(3 705)	(83)				
Fair value adjustment to financial liabilities	15 948	8 432	15 948	8 432						
Income from operations	1 207 363	968 456	1 004 114	852 942	138 549	95 085	22 269	20 545	42 431	(116)
Operating expenses	(625 932)	(521 088)	(554 941)	(480 286)	(65 362)	(43 410)	(14 457)	(14 597)	8 828	17 205
Net income from operations	581 431	447 368	449 173	372 656	73 187	51 675	7 812	5 948	51 259	17 089
Share of profit/(loss) of associate companies	5 681	(229)	4 853	(1 029)		520			828	280
Income before tax	587 112	447 139	454 026	371 627	73 187	52 195	7 812	5 948	52 087	17 369
Indirect tax	(18 404)	(12 579)	(16 571)	(10 915)	(1 668)	(1 223)			(165)	(441)
Profit before tax	568 708	434 560	437 455	360 712	71 519	50 972	7 812	5 948	51 922	16 928
Direct tax	(159 641)	(130 212)	(143 542)	(121 866)	(6 761)	(1 416)	(2 558)	(401)	(6 780)	(6 529)
Profit for the year	409 067	304 348	293 913	238 846	64 758	49 556	5 254	5 547	45 142	10 399

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37 Segment information (continued)

N$ thousand	Total 2008	Total 2007	Banking operations 2008	Banking operations 2007	Long term insurance 2008	Long term insurance 2007	Short term insurance 2008	Short term insurance 2007	Other* 2008	Other* 2007
Income statement (continued)										
Reconciliation to headline earnings based on after tax segmental profits:										
Profit after tax	409 067	304 348	293 913	238 846	64 758	49 556	5 254	5 547	45 142	10 399
Attributable to preference shareholders	(1 178)	(1 107)					(1 178)	(1 107)		
Attributable to minority shareholders	(23 988)				(22 665)		(1 323)			
Attributable to ordinary shareholders	383 901	303 241	293 913	238 846	42 093	49 556	2 753	4 440	45 142	10 399
Add: loss/(profit) on sale of property and equipment	177	(427)	157	(359)		(29)	20	(39)		
Add: loss on revaluation of investment property	1 255		1 255							
Reversal of impairment of associate companies	(4 154)	(1 029)	(4 154)	(1 029)						
Gains on initial recognition of VISA shares	(15 658)		(15 658)							
Profit on sale of shares in subsidiaries	(34 231)								(34 231)	
Less: Realised income from available for sale financial assets	(1 698)	(3 845)	(1 698)	(1 879)				(1 966)		
Headline earnings	329 592	297 940	273 815	235 579	42 093	49 527	2 773	2 435	10 911	10 399
Income statement includes										
Depreciation	17 304	9 875	17 417	11 784	330	49	21	310	(464)	(2 268)
Amortisation	18 871	18 453	26 440	30 066	10 211	3 351			(17 780)	(14 964)
	36 175	28 328	43 857	41 850	10 541	3 400	21	310	(18 244)	(17 232)
Intersegmental transactions included in segmental results and eliminated on consolidation**										
Non interest revenue:										
- Royalties received	300	723	300	723						
- Rental received	816	643	816	643						
Operating expenses										
- Royalties paid	(300)	(723)					(300)	(723)		
- Rental paid	(816)	(643)			(759)	(99)	(57)	(544)		
Balance sheet includes										
Segment assets	13 401 506	10 673 772	12 032 390	10 523 851	1 189 897	342 808	51 802	53 890	127 417	(246 777)
Segment liabilities	11 773 953	9 433 334	10 597 332	9 217 222	794 723	210 759	39 096	31 322	342 802	(25 969)
Advances (after ISP, before provisions)	9 386 617	8 928 568	9 432 876	8 970 022					(46 259)	(41 454)
Non-performing loans	283 046	244 349	283 046	244 349						
Capital expenditure incurred	42 294	18 091	28 481	18 485	295	393		16	13 518	(803)

** The segment called "Other" includes head office charges and other Group companies*

*** Intersegmental transactions are concluded at the market value.*

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38 Average balance sheet and effective interest rates

N$ thousand	30 June 2008 Average balance	30 June 2008 Average rate %	30 June 2008 Interest income	30 June 2007 Average balance	30 June 2007 Average rate %	30 June 2007 Interest income
Assets						
Cash and short-term funds	561 188	1.2	6 651	90 085	2.7	2 437
Due by banks and other financial institutions	423 106	5.8	24 523	772 901	6.4	49 763
Derivative financial instruments	7 344			429		
Advances	8 807 776	15.3	1 349 097	8 745 384	12.4	1 081 526
Investment securities	1 968 544	5.1	101 146	783 634	9.9	77 966
Accounts receivable	275 355			412 406		
Investment in associate companies	357			18		
Intangible assets	82 540			38 562		
Investment property, property and equipment	188 803			163 340		
Deferred taxation assets	51 647			41 077		
Total Assets	12 366 660	12.0	1 481 417	11 047 836	11.0	1 211 692
Liabilities and equity						
Liabilities						
Deposits and current accounts	9 096 660	8.0	726 669	8 084 042	7.0	566 772
Due to banks and other financial institutions	241 260	10.0	24 126	1 078 615	2.6	27 865
Derivative financial instruments	23 192			414		
Policyholder liabilities	862 488			197 168		
Creditors and accruals	237 293			117 625		
Taxation liability	48 025			103 856		
Post retirement benefit fund liability	36 506			34 425		
Deferred taxation liabilities						
Long term liabilities	265 496	9.0	23 815	264 011	2.3	6 016
Total liabilities	10 810 920	7.2	774 610	9 880 156	6.1	600 653
Total equity	1 555 740			1 167 680		
Total equity and liabilities	12 366 660	6.3	774 610	11 047 836	5.4	600 653

39 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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.

(a) Credit impairment losses on loans and advances

The Group assesses its credit portfolios for impairment at each balance sheet 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.

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39 Critical accounting estimates and judgements in applying accounting policies (continued)

For purposes of these judgements the performing portfolio is split into two parts:

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

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

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

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

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.

(b) Fair value of derivatives

The fair value 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.

Refer to note 11 for a detailed analysis of the derivatives and the carrying amounts of the different types of derivative instruments. Note 36 provides additional details on the calculation of fair value of financial instruments not quoted in active markets.

(c) Impairment of available-for-sale equity instruments

The Group determines that available-for-sale equity instruments are impaired and recognised as such in the income statement, when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share prices. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Group determined that the impairment of available-for-sale equity instruments were not appropriate for the year under review.

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

39 Critical accounting estimates and judgements in applying accounting policies (continued)

(d) Income taxes

The Group is subject to direct tax in a number of jurisdictions. 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 for more information regarding the direct and deferred tax charges, assets and liabilities.

(e) Financial risk management

The Group's risk management policies are disclosed in the Risk report on pages 163 to 168 of the annual report. The repricing analysis on note 42.5 forms part of the audited annual financial statements.

(f) 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 less the tangible net asset value of the CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in notes to these financial statements.

(g) Employee benefit liabilities

The cost of the benefits and the present value of the defined benefit pension funds 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 the income statement 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 the income statement and may affect planned funding of the pension plans.

The assumptions related to the expected return on plan assets are determined in a uniform basis, considering long term historical returns, assets allocation and future estimations of long term investment returns. The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the expected cash outflows required to settle the pension and post retirement medical obligations. In determining the appropriate discount rate, the Group considers the interest rate on high quality corporate bonds and government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales and country specific conditions. The inflation rate used is a rate within the government's monetary policy target for inflation and is calculated as the difference between the yields on portfolios of fixed interest government bonds and a portfolio of index linked bonds of a similar term. Additional information is provided in the note 27.

(h) Share-based payments

Share-based payment costs arise from the issue of share options to employees. These share options are classified as equity-settled share-based payments and as such, the fair value cost is determined on date of grant on an actuarial basis using a number of assumptions. These assumptions used in determining the fair value cost include expected volatility, expected dividend yield, the discount rate and the expected forfeit of lapse rate. In accordance with the principles of valuing equity-settled share-based payments, only a change in the actual experience of forfeits compared to the estimated forfeit rate assumption, will impact on the charge in the income statement. All other assumptions are determined at grant date and are not amended.

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 8.4 for the detailed information regarding the share-based payment expense and the assumptions used in determining the expense, liability and reserve.

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

40 Standards and interpretations issued but not yet effective

The Group will comply with the following new standards and interpretations applicable to its business from the stated effective date.

Standards		Effective date
IFRIC 12	**Service concession arrangements** The interpretation addresses the accounting by private sector operators involved in the provision of public sector infrastructure and assets and services. This interpretation is not applicable to the Group.	Annual periods commencing on or after 1 March 2008
IFRIC 13	**Customer Loyalty Programmes** The interpretation requires entities to allocate some of the proceeds of the initial sale to the award credits (such as 'points' or travel miles) and recognise that portion of the proceeds as revenue only when the entity has fulfilled its obligations. An entity may fulfil its obligation by supplying awards themselves or engaging a third party to do so. This interpretation will not change the Group's current accounting treatment of customer loyalty programmes.	Annual periods commencing on or after 1 July 2008
IFRIC 14	**The limit on a defined benefit asset, minimum funding requirements and their interaction** This interpretation clarifies that an additional liability need not be recognised by the employer unless the contributions that are payable under the minimum funding requirement cannot be returned to the company. This interpretation is not applicable to the Group.	Annual periods commencing on or after 1 March 2009
IFRIC 15 Amendments	**Real Estate Sales** The interpretation clarifies when real estate sales should be accounted for in terms of IAS 11 Construction Contracts or IAS 18 Revenue. The interpretation is not applicable to the Group.	Annual periods commencing on or after 1 January 2009
IFRIC 16	**Hedges of a Net Investment of a Foreign Operation** The interpretation clarifies which risks can be hedged under a hedge of the net investment in a foreign operation and by which entities within the Group the hedging instruments can be held in order to qualify as a hedge of a net investment in a foreign operation. The Group does not currently apply hedge accounting to net investments in foreign operations.	Annual periods commencing on or after 1 October 2008
IFRS 1 and IAS 27 (revised)	**Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate** The amendments to IFRS 1 allow first-time adopters of IFRS 1 to use a deemed cost option for determining the cost of an investment in a subsidiary, jointly controlled entity or associate. This amendment will not impact the Group as the Group adopted IFRS in full in the financial year ending 30 June 2006. Consequently, IFRS 1 is not longer appropriate.	Annual periods commencing on or after 1 January 2009
IFRS 2 (amended)	**Vesting Conditions and Cancellations** The amendments to IFRS 2 clarify that vesting conditions are performance conditions and service conditions only. The amendment also clarify that cancellations of share options by parties other than the entity are to be accounted for in the same way as cancellations by the entity. This amendment is not expected to impact the Group's results significantly.	Annual periods commencing on or after 1 January 2009
IFRS 3 and IAS 27 (revised)	**Revision to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements** The revised IFRS 3 retains the current basic requirements. The most significant amendments are that the acquisition related costs will now be recognised as an expense in the income statement when incurred, rather than including it in goodwill. The revised IFRS 3 also states that contingent consideration must be recognised and measured at fair value at the acquisition date.	Annual periods commencing on or after 1 July 2009

Notes to the consolidated annual financial statements
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Standards		Effective date

40 Standards and interpretations issued but not yet effective (continued)

IFRS 3 and IAS 27 (revised)	**Revision to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (continued)** Subsequent changes in fair value are recognised in accordance with other IFRSs, usually in the income statement rather than by adjusting goodwill. The amendment to IAS 27 requires that changes in a parent's ownership interest in a subsidiary that does not result in a loss of control to be accounted for within equity. The amendments are expected to affect the Group's accounting for business combinations that arise after the effective date. The amendment to IAS 27 requires that transactions with minorities be accounted for equity, which is the current accounting policy of the Group.	Annual periods commencing on or after 1 July 2009
IFRS 8	**Operating Segments** IFRS 8 replaces IAS 14 Segment Reporting. IFRS 8 requires an entity to report financial and descriptive information about its reportable operating segments. Operating segments are components of an entity about which separate financial information is available and that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assessing performance. The standard addresses disclosure in the annual financial statements and will not effect recognition and measurement. The impact on the revised disclosure is not expected to be significant.	Annual periods commencing on or after 1 January 2009
IAS 1 (revised)	**Presentation of Financial Statements** The amendments to IAS 1 will result in an additional financial statement component "Statement of Comprehensive Income". This statement will include all changes to the net asset value of the Banking Group which are not shown in profit or loss as a result. The amendments will have no impact on the results of the Group, but will result in changes to the.presentation of the financial statements	Annual periods commencing on or after 1 January 2009
IAS 23 (amended)	**Borrowing Costs** The amendment removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The capitalisation of borrowing costs as part of the cost of such assets is therefore now required. The Group's accounting policy is to capitalise borrowing costs on a qualifying asset. The amendment will therefore not have an effect on the Group's results.	Annual periods commencing on or after 1 January 2009
IAS 32 (amended)	**Financial Instruments Puttable at Fair value** The amendment to IAS 32 requires the classification of certain puttable financial instruments and financial instruments that impose on the issuer an obligation to deliver a pro-rata share of the entity only on liquidation as equity. The amendments sets out specific criteria that are to be met to present the instruments as equity together with related disclosure requirements. This amendment is not expected to have an impact to the Group.	Annual periods commencing on or after 1 January 2009
IAS 39 (amended)	**Eligible Hedged Items** The amendment clarifies that inflation may only be hedged in instances where changes in inflation are contractually specified portions of cash flows of a recognised financial instrument. It also clarifies that an entity is permitted to designate purchased or net purchased options as a hedging instrument in a hedge of a financial or non-financial item and to improve effectiveness, an entity is allowed to exclude the time value of money from the hedging instrument. This amendment is not expected to have a significant impact to the Group.	Annual periods commencing on or after 1 July 2009

Notes to the consolidated annual financial statements
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Standards	Effective date

40 Standards and interpretations issued but not yet effective (continued)

Standards	Effective date
Annual Improvements project As part of its first annual improvements projects, the IASB has issued its edition of annual improvements. The annual improvement projects aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement. There are no significant changes in the current year's improvement that will affect the Group.	Annual periods commencing on or after 1 January 2009

41 Restatement of prior year amounts due to improved classification

Certain balances as at 30 June 2007 were restated in the current year to allow for improved classification. These re-classifications do not change the profit before taxes or the taxation charge, and hence, only gross amounts are disclosed below.

N$ thousand	June 2007 As restated	June 2007 As previously presented	Reclassification
Balance sheet			
Gross outstanding claims	2 373	444	1 929
Creditors and accruals	150 484	152 413	(1 929)
Distributable reserves	975 977	971 379	4 598
Non distributable reserves	(773)	3 825	(4 598)
Net effect of reclassification			

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

42 Risk management

The Risk report of the Group appears on pages 163 to 168 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 exposure limits for the 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 risks that the business is exposed to are detailed in this note.

42.1 Maximum exposure to credit risk

N$ thousand	2008	2007
Total exposure		
Cash and short term funds	133 230	105 586
- Balances with other banks	30 611	13 822
- Balances with central bank	102 619	91 764
Due from banks and other financial institutions	1 004 314	115 755
Advances	9 141 531	8 726 203
- Overdraft and managed accounts	1 178 949	1 353 718
- Instalment sales	1 473 603	1 451 175
- Lease payments receiables	67 672	45 332
- Home loans	4 834 055	4 567 858
- Term loans	1 358 864	1 100 356
- Other	228 388	207 764
Derivative financial instruments	37 532	22 307
Investment securities	1 560 715	959 776
Listed investment securities - Debt	6 265	
Unlisted investment securities - Debt	1 554 450	959 776
Accounts receivable	46 735	105 679
Amounts not recognised (off-balance sheet)	1 696 251	1 592 765
Guarantees	442 862	360 612
Letters of credit	121 519	56 309
Irrevocable commitments	1 131 870	1 175 844
Total	13 620 307	11 628 071

42.2 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 42.2.1 for the FR rating mapping to international and national rating scales.

N$ thousand	Total neither past due nor impaired	Overdraft and managed accounts	Instalment sales	Home loans	Term loans
2008					
FR 28 - 91	8 561 038	1 172 875	1 560 378	4 348 453	1 479 332
Above FR 92	193 368	40 438	6 910	84 063	61 957
Total	8 754 406	1 213 313	1 567 288	4 432 516	1 541 289
2007					
FR 28 - 91	7 971 074	1 222 350	1 477 524	4 083 223	1 187 976
Above FR 92	338 412	106 064	39 206	178 449	14 693
Total	8 309 486	1 328 414	1 516 730	4 261 672	1 202 670

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

42 Risk management (continued)

42.2 Credit quality (continued)

N$ thousand	Negotiable certificates of deposits	Treasury bills	Other Government and Government guaranteed stock	Other dated securities	Other investment securities	Derivatives	Cash and short term funds	Due from banks and other financial institutions	Total
2008									
Credit quality of financial assets other than advances neither past due nor impaired									
International scale mapping (National equivalent):									
AAA to BB- (A to BBB)	116 044	544 138	201 473	66 109	159 384	32 280	345 323	1 004 314	2 469 065
Unrated					473 567	5 252			478 819
Total	116 044	544 138	201 473	66 109	632 951	37 532	345 323	1 004 314	2 947 884
2007									
Credit quality of financial assets other than advances neither past due nor impaired									
International scale mapping (National equivalent):									
AAA to BB- (A to BBB)		531 798	278 805			10 466	226 173	115 755	1 162 997
Unrated				99 758	241 652	11 841			353 251
Total		531 798	278 805	99 758	241 652	22 307	226 173	115 755	1 516 248

42.2.1 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 1 to FR 100, with the FR 1 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 S&P.*

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

42 Risk management (continued)

42.2 Credit quality (continued)

N$ thousand	Neither past due nor impaired	Renegotiated but current	Past due but not impaired 1-30 days	31-60 days	61-90 days	Impaired	Total
2008							
Age analysis							
Advances							
- Overdraft and managed accounts	1 213 313		4 435			52 661	1 270 409
- Instalment sales	1 567 288		36 450	1 727	1 358	23 146	1 629 969
- Home loans	4 432 516		207 282	51 586	83 958	136 765	4 912 107
- Term loans	1 541 289		10 880	2 681	4 749	14 533	1 574 132
	8 754 406		259 047	55 994	90 065	227 105	9 386 617
Accounts receivable							
- Items in transit	4 537						4 537
- Deferred staff cost	47 847						47 847
- Other accounts receivable	42 198						42 198
	94 582						94 582
Policy loans on investments contracts	19 407						19 407
Total	8 868 395		259 047	55 994	90 065	227 105	9 500 606
2007							
Age analysis							
Advances							
- Overdraft and managed accounts	1 328 414		44 910			51 838	1 425 162
- Instalment sales	1 516 730		35 287	1 494	538	24 385	1 578 434
- Home loans	4 261 672		184 381	53 459	85 227	109 464	4 694 203
- Term loans	1 202 670		6 875	4 385	3 820	13 019	1 230 769
	8 309 486		271 453	59 338	89 585	198 706	8 928 568
Accounts receivable							
- Items in transit	56 280						56 280
- Deferred staff cost	49 043						49 043
- Other accounts receivable	49 399						49 399
	154 722						154 722
Policy loans on investments contracts	2 630						2 630
Total	8 466 838		271 453	59 338	89 585	198 706	9 085 920

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.

Notes to the consolidated annual financial statements

for the year ended 30 June

42 Risk management (continued)

42.3 Liquidity risk

N$ thousand	Carrying amount	Term to maturity Call - 3 months	4 - 12 months	Over 12 months
2008				
Maturity analysis of assets and liabilities based on the present value of the expected payment				
Assets				
Cash and short term funds	345 323	345 323		
Due by bank and other financial institutions	1 004 314	904 868	99 446	
Derivative financial instruments	37 532	36 478	657	397
Advances	9 141 531	1 180 556	516 793	7 444 182
Investment securities	2 067 510	1 617 288	262 828	187 394
- held-for-trading	911 652	910 420	1 232	
- other investments	1 155 858	706 868	261 596	187 394
Accounts receivable	94 582	46 735	8 104	39 743
Policy loans on investments contracts	19 407	19 407		
Reinsurance assets	389 471	535	388 936	
Investments in associates	5 044			5 044
Tax asset	17 456		17 456	
Property and equipment	188 455			188 455
Investment property	4 070			4 070
Deferred tax asset	19 706			19 706
Intangible assets	67 105			67 105
Total assets	13 401 506	4 151 190	1 294 220	7 956 096
Equity and liabilities				
Deposits and current accounts	9 676 281	8 188 000	1 454 316	33 965
Due to bank and other financial institutions	353 834	353 834		
Derivative financial instruments	61 919	11 152	7 827	42 940
Creditors and accruals	246 681	182 544	64 137	
Gross outstanding claims	1 430		1 430	
Gross unearned premium	15 517		15 517	
Provision for unintimated claims	1 826		1 826	
Tax liability	1 190		1 190	
Policyholder liabilities under insurance contracts	1 103 914	90 406	26 906	986 602
Policyholder liabilities under investment contracts	38 302	6 712	1 355	30 235
Post retirement benefit liability	37 539			37 539
Deferred tax liability	17			17
Long term liabilities	235 503			235 503
Shareholders' equity	1 483 247			1 483 247
Minority interest	144 306			144 306
Total equity and liabilities	13 401 506	8 832 648	1 574 504	2 994 354
Net liquidity gap		(4 681 458)	(280 284)	4 961 742

Notes to the consolidated annual financial statements
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42 Risk management (continued)

42.3 Liquidity risk (continued)

2007

Maturity analysis of assets and liabilities based on the present value of the expected payment

N$ thousand	Carrying amount	Term to maturity Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and short term funds	226 173	226 173		
Due by bank and other financial institutions	115 755	115 755		
Derivative financial instruments	22 307	16 448	5 179	680
Advances	8 726 203	1 489 074	465 596	6 771 533
Investment securities	1 152 013	599 266	358 591	194 156
- held-for-trading	295 803	295 803		
- other investments	856 210	303 463	358 591	194 156
Accounts receivable	154 722	148 102	6 620	
Policy loans on investments contracts	2 630		2 630	
Reinsurance assets	7 902		7 902	
Investments in associates	263			263
Property and equipment	164 457			164 457
Investment property	6 000			6 000
Deferred tax asset	33 803			33 803
Intangible assets	61 544			61 544
Total assets	10 673 772	2 594 818	846 518	7 232 436
Equity and liabilities				
Deposits and current accounts	7 817 107	6 476 343	1 262 415	78 349
Due to bank and other financial institutions	830 762	785 574	45 188	
Derivative financial instruments	33 019	22 005	7 127	3 887
Creditors and accruals	150 484	86 297	64 187	
Gross outstanding claims	2 373		2 373	
Gross unearned premium	20 045		20 045	
Provision for unintimated claims	1 854		1 854	
Policyholder liabilities under insurance contracts	181 260			181 260
Policyholder liabilities under investment contracts	6 955			6 955
Tax liability	104 151		104 151	
Post retirement benefit liability	33 883			33 883
Deferred tax liability	17			17
Long term liabilities	251 424			251 424
Shareholders' equity	1 240 438			1 240 438
Total equity and liabilities	10 673 772	7 370 219	1 507 340	1 796 213
Net liquidity gap		(4 775 401)	(660 822)	5 436 223

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for the year ended 30 June

42 Risk management (continued)

42.3 Liquidity risk (continued)

2008

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

N$ thousand	Total amount	Term to maturity: Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits and current accounts	9 788 728	8 266 245	1 488 518	33 965
Due to bank and other financial institutions	353 834	353 834		
Derivative financial instruments	61 919	11 152	7 827	42 940
Creditors and accruals	246 681	182 544	64 137	
Gross outstanding claims	1 430		1 430	
Gross uneaned premium	15 517		15 517	
Policyholder liabilities under insurance contracts	1 103 914	90 406	26 906	986 602
Policyholder liabilities under investment contracts	38 302	6 712	1 355	30 235
Tax liability	1 190		1 190	
Post retirement medical liability	37 539			37 539
Deferred tax liability	17			17
Long term liabilities	355 160		23 790	331 370
Financial and other guarantees	564 381	500 951	28 893	34 537
Facilities not drawn	1 131 870	1 131 870		
Total liabilities	13 700 482	10 543 714	1 659 563	1 497 205

2007

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

N$ thousand	Total amount	Term to maturity: Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits and current accounts	7 817 107	6 476 343	1 262 415	78 349
Due to bank and other financial institutions	830 762	785 574	45 188	
Derivative financial instruments	33 019	22 005	7 127	3 887
Creditors and accruals	150 484	86 297	64 187	
Gross outstanding claims	2 373		2 373	
Gross uneaned premium	20 045		20 045	
Provision for unintimated claims	1 854		1 854	
Policyholder liabilities under insurance contracts	181 260			181 260
Policyholder liabilities under investment contracts	6 955			6 955
Tax liability	104 151		104 151	
Post retirement benefit liability	33 883			33 883
Deferred tax liability	17			17
Long term liabilities	378 950		23 790	355 160
Financial and other guarantees	414 624	343 147	50 967	20 510
Facilities not drawn	937 454	937 454		
Total liabilities	10 912 938	8 650 820	1 582 097	680 021

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

42 Risk management (continued)

42.4 Currency risk

2008

The table below summarise the Group's assets and liabilities at carrying amounts, categorised by currency, as at the balance sheet date.

		Currency concentration				
N$ thousand	Total amount	NAD	ZAR	USD	EUR	Other
Assets						
Cash and short term funds	345 323	237 295	10 100	91 541	5 657	730
Due by bank and other financial institutions	1 004 314	74 141	629 961	252 585	46 926	701
Derivative financial instruments	37 532		23 215	3 995	10 271	51
Advances	9 141 531	9 141 531				
Investment securities	2 067 510	2 006 942	60 568			
- held-for-trading	911 652	911 652				
- other investments	1 155 858	1 095 290	60 568			
Accounts receivable	94 582	94 582				
Policy loans on investments contracts	19 407	19 407				
Reinsurance assets	389 471	389 471				
Investments in associates	5 044	5 044				
Tax asset	17 456	17 456				
Deferred tax asset	19 706	19 706				
Property and equipment	188 455	188 455				
Investment property	4 070	4 070				
Intangible assets	67 105	67 105				
Total assets	13 401 506	12 265 205	723 844	348 121	62 854	1 482
Equity and liabilities						
Deposits and current accounts	9 676 281	9 385 316		255 312	35 653	
Due to bank and other financial institutions	353 834	351 107		2 727		
Derivative financial instruments	61 919	19 820	28 770	3 172	10 157	
Creditors and accruals	246 681	246 681				
Gross outstanding claims	1 430	1 430				
Gross unearned premium	15 517	15 517				
Provision for unintimated claims	1 826	1 826				
Policyholder liabilities under insurance contracts	1 103 914	1 103 914				
Policyholder liabilities under investment contracts	38 302	38 302				
Tax liability	1 190	1 190				
Post retirement benefit liability	37 539	37 539				
Deferred tax liability	17	17				
Long term liabilities	235 503	235 503				
Shareholders' equity	1 483 247	1 483 247				
Minority interest	144 306	144 306				
Total equity and liabilities	13 401 506	13 065 715	28 770	261 211	45 810	

Notes to the consolidated annual financial statements
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42 Risk management (continued)

42.4 Currency risk (continued)

2007

The table below summarise the Group's assets and liabilities at carrying amounts, categorized by currency, as at the balance sheet date.

N$ thousand	Total amount	Currency concentration NAD	ZAR	USD	EUR	Other
Assets						
Cash and short term funds	226 173	105 689	4 870	105 879	8 170	1 565
Due by bank and other financial institutions	115 755	12 400	17 727	85 628		
Derivative financial instruments	22 307		4 865	11 186	5 499	757
Advances	8 726 203	8 726 203				
Investment securities	1 152 013	1 152 013				
- held-for-trading	295 803	295 803				
- other investments	856 210	856 210				
Accounts receivable	154 722	154 722				
Policy loans on investments contracts	2 630	2 630				
Reinsurance assets	7 902	7 902				
Investment in associate	263	263				
Property and equipment	164 457	164 457				
Investment property	6 000	6 000				
Deferred tax asset	33 803	33 803				
Intangible assets	61 544	61 544				
Total assets	10 673 772	10 427 626	27 462	202 693	13 669	2 322
Equity and liabilities						
Deposits and current accounts	7 817 107	7 379 975	437 132			
Due to bank and other financial institutions	830 762	664 465	166 297			
Derivative financial instruments	33 019		16 317	10 333	5 237	1 132
Creditors and accruals	150 484	150 484				
Gross outstanding claims	2 373	2 373				
Gross unearned premium	20 045	20 045				
Provision for unintimated claims	1 854	1 854				
Policyholder liabilities under insurance contracts	181 260	181 260				
Policyholder liabilities under investment contracts	6 955	6 955				
Tax liability	104 151	104 151				
Post retirement benefit liability	33 883	33 883				
Deferred tax liability	17	17				
Long term liabilities	251 424	251 424				
Shareholders' equity	1 240 438	1 240 438				
Total equity and liabilities	10 673 772	10 037 324	619 746	10 333	5 237	1 132

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

42 Risk management (continued)

42.5 Repricing profile

N$ thousand	Carrying amount	Repricing profile: Call - 3 months	4 - 12 months	Over 12 months	Non interest bearing
2008					
Items are allocated to time periods with reference to the earlier of the next contractual interest rate repricing date and the maturity date.					
Assets					
Cash and short term funds	345 323	30 611			314 712
Due by bank and other financial institutions	1 004 314	1 004 314			
Derivative financial instruments	37 532	2 586			34 946
Advances	9 141 531	9 141 531			
Investment securities	2 067 510	1 617 288	262 828	187 394	
- held-for-trading	911 652	910 420	1 232		
- other investments	1 155 858	706 868	261 596	187 394	
Accounts receivable	94 582				94 582
Policy loans on investments contracts	19 407				19 407
Reinsurance assets	389 471				389 471
Investments in associates	5 044				5 044
Tax asset	17 456				17 456
Property and equipment	188 455				188 455
Investment property	4 070				4 070
Deferred tax asset	19 706				19 706
Intangible assets	67 105				67 105
Total assets	13 401 506	11 796 330	262 828	187 394	1 154 954
Equity and liabilities					
Deposits and current accounts	9 676 281	8 188 000	1 454 316	33 965	
Due to bank and other financial institutions	353 834	353 834			
Derivative financial instruments	61 919		28 770		33 149
Creditors and accruals	246 681				246 681
Gross outstanding claims	1 430				1 430
Gross unearned premium	15 517				15 517
Provision for unintimated claims	1 826				1 826
Policyholder liabilities under insurance contracts	1 103 914				1 103 914
Policyholder liabilities under investment contracts	38 302				38 302
Tax liability	1 190				1 190
Post retirement benefit liability	37 539				37 539
Deferred tax liability	17				17
Long term liabilities	235 503			235 503	
Shareholders' equity	1 483 247				1 483 247
Minority interest	144 306				144 306
Total equity and liabilities	13 401 506	8 541 834	1 483 086	269 468	3 107 118
Net interest sensitivity gap		3 254 496	(1 220 258)	(82 074)	(1 952 164)

Notes to the consolidated annual financial statements

for the year ended 30 June

42 Risk management (continued)

42.5 Repricing profile (continued)

2007

Items are allocated to time periods with reference to the earlier of the next contractual interest rate repricing date and the maturity date.

N$ thousand	Carrying amount	Repricing profile: Call - 3 months	4 - 12 months	Over 12 months	Non interest bearing
Assets					
Cash and short term funds	226 173	8 547			217 626
Due by bank and other financial institutions	115 755	115 755			
Derivative financial instruments	22 307	22 307			
Advances	8 726 203	8 689 196	7 146	29 861	
Investment securities	1 152 013	612 239	362 761	173 294	3 719
- held-for-trading	295 803	292 084			3 719
- other investments	856 210	320 155	362 761	173 294	
Accounts receivable	154 722				154 722
Policy loans on investments contracts	2 630				2 630
Reinsurance assets	7 902				7 902
Investment in associates	263				263
Property and equipment	164 457				164 457
Investment property	6 000				6 000
Deferred tax asset	33 803				33 803
Intangible assets	61 544				61 544
Total assets	10 673 772	9 448 044	369 907	203 155	652 666
Equity and liabilities					
Deposits and current accounts	7 817 107	6 476 343	1 262 415	78 349	
Due to bank and other financial institutions	830 762	785 574	45 188		
Derivative financial instruments	33 019	33 019			
Creditors and accruals	150 484				150 484
Gross outstanding claims	2 373				2 373
Gross unearned premium	20 045				20 045
Provision for unintimated claims	1 854				1 854
Policyholder liabilities under insurance contracts	181 260				181 260
Policyholder liabilities under investment contracts	6 955				6 955
Tax liability	104 151				104 151
Post retirement benefit liability	33 883				33 883
Deferred tax liability	17				17
Long term liabilities	251 424			251 424	
Shareholders' equity	1 240 438				1 240 438
Total equity and liabilities	10 673 772	7 294 936	1 307 603	329 773	1 741 460
Net interest sensitivity gap		2 153 108	(937 696)	(126 618)	(1 088 794)

Notes to the consolidated annual financial statements

for the year ended 30 June

42 Risk management (continued)

42.6 Sensitivity analysis

Banking market risk

Net interest income sensitivity

Assuming no management intervention, a parallel 100 basis point increase in all yield curves would increase the forecast net interest income for the next year by N$29 million (2007: N$23 million), while a parallel decrease in all yield curves would decrease the forecast income by N$29 million (2007: N$23 million).

Foreign currency risk sensitivity analysis

Other than 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 derivates are reported in profit and loss.

Insurance risk sensitivity

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

N$ thousand		2008	2007
Policyholders liabilities under insurance contracts		714 978	181 260
Change in liability			
Worse mortality	10%	2 207	1 961
Worse morbidity	10%	384	1 132
Worse PI inception rates	10%		
Lower investment returns	-1%	13 361	3 316
Worse terminations	-10%	7 646	5 814
Worse expenses	10%	6 996	3 213
Worse expenses inflation	10%	9 887	1 824

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

42 Risk management (continued)

42.6 Sensitivity analysis (continued)

Market risk sensitivity on insurance busines

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

N$ thousand		Impact on profit/(loss)	Impact on equity
2008			
Interest rate risk			
Local government bonds			
Lower limit	9.17%	(499 834)	(904 675)
Upper limit	10.67%	499 834	928 783
Cash			
Lower limit	11.17%	(138 657)	(341 696)
Upper limit	12.67%	138 657	341 696
Equity price risk			
Lower limit	10.50%	(2 129 193)	(5 438 951)
Upper limit	14.50%	2 129 193	5 438 951
2007			
Interest rate risk			
Local government bonds			
Lower limit	7.50%	(170 781)	(319 014)
Upper limit	9.00%	170 781	329 233
Cash			
Lower limit	9.50%	(47 376)	(118 523)
Upper limit	11.00%	47 376	118 523
Equity price risk			
Lower limit	8.75%	(727 493)	(1 887 805)
Upper limit	12.75%	727 493	1 887 805

FNB Namibia Holdings Limited
Company income statement
for the year ended 30 June

N$ thousand	Note	2008	2007
Interest expense and similar charges	8	(4 334)	
Non interest income			
- gains less losses from investment activities	2	208 688	460 237
Income from operations		204 354	460 237
Operating expenses	3	(3 171)	(2 103)
Net income from operations		201 183	458 134
Share of profit from associates			280
Income before tax		201 183	458 414
Indirect tax	4	(127)	(351)
Profit before tax		201 056	458 063
Direct tax	4		504
Profit for the year		201 056	458 567
Attributable to:			
Equity holders of the Company		201 056	458 567

Company balance sheet
as at 30 June

	Note	2008	2007
Assets			
Accounts receivable		1 300	
Loan to Group company	8		1 862
Investment in associates	6	263	263
Investment in subsidiaries	7	1 257 986	1 191 322
Tax asset		279	
Total assets		1 259 828	1 193 447
Equity and liabilities			
Liabilities			
Loan from Group company	8	36 804	
Creditors and accruals		1 212	3 659
Tax liability			34 493
Total liabilities		38 016	38 152
Equity			
Share capital	9	1 338	1 338
Share premium	9	280 810	280 810
Distributable reserves		935 514	870 930
Non distributable reserves	10	4 150	2 217
Capital and reserves attributable to ordinary equity holders		1 221 812	1 155 295
Total equity and liabilities		1 259 828	1 193 447

FNB Namibia Holdings Limited
Company statement of changes in equity

for the year ended 30 June

N$ thousand	Share capital	Share premium	Distributable reserves	Non distributable reserves	Total ordinary shareholders' funds
Balance at 1 July 2006	1 338	280 810	778 966	1 211	1 062 325
Profit for the year			458 567		458 567
BEE Consortium share option costs				1 006	1 006
Ordinary final dividend: 25 October 2006			(61 546)		(61 546)
Ordinary special dividend: 30 March 2007			(248 862)		(248 862)
Ordinary interim dividend: 30 March 2007			(56 195)		(56 195)
Balance at 30 June 2007	1 338	280 810	870 930	2 217	1 155 295
Balance at 1 July 2007	1 338	280 810	870 930	2 217	1 155 295
Profit for the year			201 056		201 056
Staff share option costs				704	704
BEE Consortium share option costs				1 229	1 229
Ordinary final dividend: 26 October 2007			(69 574)		(69 574)
Ordinary interim dividend: 28 March 2008			(66 898)		(66 898)
Balance at 30 June 2008	1 338	280 810	935 514	4 150	1 221 812

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

N$ thousand	2008	2007
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. Refer to the consolidated financial statements for the accounting policies on pages 49 to 73.		
2 Non interest income		
Gains less losses from investment activities		
Dividends received		
- Subsidiaries	174 708	460 237
- Associates	900	
Profit realised on sale of interest in subsidiaries	33 080	
The company sold 35% of its interest in Swabou Assurance Company Limited to Momentum Group Limited, and a 49% of Swabou Insurance Company Limited to FirstRand STI Holdings Limited, and realised the profit of N$33.1 million. Refer to note 31 of the consolidated financial statements for the cashflow information on these transactions.		
Gross gains less losses from investment activities	208 688	460 237
3 Operating expenses		
Auditors' remuneration		
- Audit fees	748	745
- Fees for other services		12
- Prior year under provision	374	
Total Auditors' remuneration	1 122	757
Professional fees		12
BEE consortium share option costs	1 229	1 006
Other share option costs	704	
Other operating costs		
- Legal and other related expenses		9
- Stationery and printing		178
- Other operating expenditure	116	140
Total operating expenditure	3 171	2 103
4 Tax		
Indirect Tax		
Value added tax	127	351
Total indirect tax	127	351
Direct Tax		
Normal tax		
Current		
- Current year		34 493
Deferred		
- Current year		
- Prior year adjustment		(34 997)
Total direct tax		(504)

The effective tax rate of the Company is 0% (2007: 0%) as the Company earned no significant taxable income.

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

N$ thousand	2008	2007
5 Dividends per share		
A final dividend (dividend no. 23) of 23.0 cents per share was declared on 17 August 2006 in respect of the six months ended 30 June 2006 and payable on 25 October 2006		61 546
A special dividend (dividend no. 24) of 93.0 cents per share was declared on 6 February 2007 for the six months ended 31 December 2006 and paid on 30 March 2007.		248 862
An interim dividend (dividend no. 25) of 21.0 cents per share was declared on 6 February 2007 for the six months ended 31 December 2006 and paid on 30 March 2007.		56 195
A final dividend (dividend no. 26) of 26.0 cents per share was declared on 16 August 2007 in respect of the six months ended 30 June 2007 and payable on 26 October 2007.	69 574	
An interim dividend (dividend no. 27) of 25.0 cents per share was declared on 6 February 2008 for the six months ended 31 December 2007 and paid on 28 March 2008.	66 898	
	136 472	366 603
Final dividend of 28.0 cents was (2007: 26.0 cents) declared subsequent to year-end	74 926	69 574

6 Investments in associates

	2008	2007
Unlisted investments		
Carrying value at beginning of the year	263	263
Carrying value at end of the year	263	263

The list of associates are:	Nature of business	2008	2007
Avril Payment Solutions (Pty) Ltd	Payroll administrators	263	263
RMB Asset Management Namibia (Pty) Ltd	Asset Management		

Refer to note 17 in the consolidated financial statements for details of associates.

Refer to note 35 in the consolidated financial statements for related party tranasctions and balances.

7 Investments in subsidiaries

	2008	2007
Unlisted investments		
Carrying value at beginning of the year	1 191 322	1 191 322
Net movements	66 664	
Carrying value at end of the year	1 257 986	1 191 322

The list of subsidiaries are:	Nature of business	2008	2007
First National Bank of Namibia Ltd	Commercial Bank	1 142 792	1 142 792
Swabou Investments (Pty) Ltd	Home loan investment co		
First National Asset Management and Trust Company (Pty) Ltd	Estate and Trust services		
Talas Properties (Windhoek) (Pty) Ltd	Property Company	2 967	2 967
Swabou Life Assurance Company Limited	Long term insurance	100 454	27 740
Swabou Insurance Company Ltd	Short term insurance	6 298	12 348
FNB Namibia Unit Trust Ltd	Unit Trust Management Company	5 475	5 475
		1 257 986	1 191 322

Refer to note 18 in the consolidated financial statements for details of investment in subsidiaries.

Refer to note 35 in the consolidated financial statements for related party tranasctions and balances.

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

N$ thousand	2008	2007
8 Loan (from)/to Group company		
Balances with Talas Properties (Windhoek) (Pty) Ltd		
Balance at 1 July	1 862	93 910
Received during the year	(38 666)	(124 782)
Repaid during year		32 734
Balance at 30 June	(36 804)	1 862
Interest paid	4 334	
9 Share capital and share premium		
Authorised		
990 000 000 (2007: 990 000 000) ordinary shares with a par value of 0.5 cents per share	4 950	4 950
10 000 000 (2007: 10 000 000) cumulative convertible redeemable preference shares with a par value of 0.5 cents per share	50	50
	5 000	5 000
Issued		
267 593 250 (2007: 267 593 250) ordinary shares with a par value of 0.5 cents per share	1 338	1 338
2 (2007: 2) cumulative convertible redeemable preference shares with a par value of 0.5 cents 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 shares are under the control of the directors until the next annual general meeting.

All issued shares are fully paid up.

10 Non distributable reserves

	2008	2007
Share-based payment reserve	4 150	2 217

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

11 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.