FNB

First National Bank

Namibia

2010

Annual financial statements

Our vision

To be the local world
class financial solutions
provider of first choice.

Our mission

To create wealth for our
stakeholders through
innovation, value-added
partnerships and a passion
for service excellence.

Our values

Integrity
Accountability
Innovation
Passion
Respect

This report is printed on paper made from sustainable forests and manufactured from chlorine-free pulp.

Contents

These annual financial statements should be read in conjunction with the FNB Namibia Holdings annual report, available on our website www.fnbnamibia.com.na

Directors' responsibility statement

To the member of First National Bank of Namibia 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 2011. On the basis of this review and in the light of the current financial position, the directors have no reason to believe that First National Bank of Namibia 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 3. The annual financial statements of the group and company, which appear on pages 4 to 72 have been approved by the board of directors and are signed on its behalf by:

H-D Voigts
Chairman

I J M Leyenaar
Chief Executive Officer

Windhoek
16 August 2010

Independent auditor's report
To the member of First National Bank of Namibia Limited

We have audited the group annual financial statements and annual financial statements of First National Bank of Namibia Limited, which comprise the consolidated and separate statement of financial position as at 30 June 2010, and the consolidated and separate statement of comprehensive income, the consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 4 to 72.

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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of First National Bank of Namibia Limited as at 30 June 2010, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act in Namibia.

Deloitte & Touche

Deloitte & Touche
Registered Accountants and Auditors
Chartered Accountants (Namibia)

ICAN practice number: 9407

Per J Kock
Partner

PO Box 47, Windhoek, Namibia
23 September 2010

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

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

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 2010.

Nature of business

The company is a registered bank offering a full range of banking services in Namibia.

Share capital

The company's authorised share capital at the end of reporting period consists of 4 000 (2009: 4 000) ordinary shares of N$1.
The issued ordinary share capital remained unchanged at 1 200 ordinary shares.

Dividends

During the current year dividends of N$105 113 000 (2009: N$119 860 000), were declared and paid by the company.

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 15 to 72 set out fully the financial position, results of operations and cash flows of the company and the group.

Directorate

The composition of the board of First National Bank of Namibia Limited is as follows:

H-D Voigts (Chairman)
H W P Böttger
C L R Haikali
C J Hinrichsen #
L J Haynes *
J K Macaskill *
S H Moir *
I J M Leyenaar * (Chief Executive Officer)
Adv V R Rukoro
I I Zaamwani-Kamwi (Ms)

German * South African

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

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 First National Bank of Namibia Limited is FNB Namibia Holdings Limited a NSX listed company and its ultimate holding company is FirstRand Limited dual listed on the NSX and JSE, which is incorporated in the Republic of South Africa.

Subsidiaries

Interest in subsidiaries and associates are set out in note 14 and 13 respectively to the annual financial statements.

Company secretary and registered offices

Company secretary:	Y Katjirua
Registration number:	2002/0180
Registered office:	209 Independence Avenue, Windhoek
Postal address:	PO Box 195, Windhoek, Namibia

Events subsequent to the reporting date

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

Accounting policies

1. Introduction

First National Bank of Namibia Group ("the group") is a financial services group providing banking services.

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

- IFRS 2 Share-based Payment was amended during January 2008. The amendment clarifies that vesting conditions are performance and service conditions only and 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 effective to annual periods commencing on or after 1 January 2009. This amendment has had no significant impact on the group's results.
- IFRS 2 Share-based Payment was amended during June 2009. The amendment clarifies how a share based payment transaction should be measured in a group share-based payment transaction. The amendment effectively replaces IFRIC 11 IFRS 2 – Group and Treasury Share Transactions and IFRIC 8 Group Cash-settled Share-based payment transaction. This amendment is effective to annual periods commencing on or after 1 January 2010.The group has elected to early adopt the amendments to IFRS 2 for the year-end June 2010. This amendment has had no significant impact on the group's results.
- IFRS 3 Business Combinations (revised) is effective to business combinations for which the acquisition date is on or after the first annual period beginning on or after 1 July 2009. The Standard is to be applied prospectively. The Standard applies to and prescribes the treatment of all transactions entered into by the group which meet the definition of a business combination. Further details are provided in accounting policy note 3.
- IFRS 7 Financial Instruments: Disclosures (amended) was amended in 2008 and these amendments are effective for annual periods commencing on or after 1 January 2009. The amendments require enhanced disclosures about the fair value measurements, and have established a three-level hierarchy for making fair value measurements. These enhanced disclosures do not have an impact on the recognition or measurement of amounts relating to financial instruments. The enhanced disclosures are only required for the period in which the amendments are effective and there is no requirement for comparative amounts to be presented.
- IFRS 8 Operating Segments is effective for annual periods beginning on or after 1 January 2009. This Standard replaces IAS 14 Segment Reporting and requires an entity to report financial and non financial information about its reportable operating segments. This Standard is not applicable to the group.
- IAS 1 Presentation of Financial Statements (revised) is effective for annual periods beginning on or after 1 January 2009. The revised Standard prescribes the basis of the presentation of general purpose financial statements, guidelines for their structure and minimum requirements for their content. The adoption of this Standard will affect the presentation of the financial statements for both the current and comparative period, but will not affect recognition and measurement of any amounts recognised in the financial statements.
- IAS 27 Consolidated and Separate Financial Statements was amended in 2008. These amendments are effective for annual periods beginning on or after 1 July 2009. The amendments affect the treatment of non controlling interest and transactions with non controlling interests where control in the subsidiary is retained by the group. The amendments also affect the allocation of losses of a subsidiary to the non controlling interest. All of these changes are to be prospectively applied and do not require the restatement of amounts recognised prior to 1 July 2009. Further details are provided in accounting policy note 3.
- IAS 23 Borrowing Costs was amended to remove the option to immediately recognise borrowing costs related to a qualifying asset as an expense and is effective for annual periods commencing on or after 1 January 2009. This amendment does not impact the group, as it is the group's accounting policy to capitalise borrowing costs on qualifying assets.
- IAS 32 Financial Instruments: Presentation was amended to require that 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. This amendment is applicable for annual periods commencing on or after 1 January 2009. This amendment has had no significant impact on the group's results and has not resulted in the restatement of prior year numbers.
- IAS 39 Financial Instruments: Recognition and Measurement was amended to clarify 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 applicable for annual periods commencing on or after 1 July 2009 and has had no significant impact on the group's results.
- As part of its annual improvements project, the IASB made amendments to a number of accounting standards. The aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement. The annual improvements project for 2008 is effective for annual periods commencing on or after 1 January 2009. The group has adopted the amendments made as a result of the annual improvements project for 2008 during the current financial year. These amendments have not had a significant impact on the group's results nor has it resulted in the restatement of prior year numbers.
- IFRIC 15 Agreements for the Construction of Real Estate is effective for annual periods commencing on or after 1 January 2009. This interpretation clarifies when real estate sales should be accounted for in terms of IAS 11 Construction Contracts or IAS 18 Revenue. This interpretation is not applicable to the group.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation is effective for annual periods commencing on or after 1 October 2008. This interpretation clarifies which risks can be hedged under a hedge if a net investment in a foreign operation and by which entities within the group the hedging instruments can be held in order to qualify as such a hedge. The group does not currently have investments in foreign operations and therefore this interpretation is not applicable.
- IFRIC 17 Distributions of Non Cash Assets to Owners is effective for annual periods beginning on or after 1 July 2009. This interpretation provides guidance how distributions by the entity of assets other than cash as dividends to owners should be accounted for. The requirements of this interpretation are to be prospectively applied. This interpretation has no effect on the current reporting period as no such distributions have been made during the period.
- IFRIC 18 Transfers of Assets from Customers is effective for annual periods beginning on or after 1 July 2009. This interpretation clarifies the accounting treatment of agreements in which an entity receives property, plant and equipment from a customer that must be used to connect the customer to a network or provide the customer with ongoing access to a supply of services or goods. This interpretation has no effect on the group's financial statements as no such arrangements have been entered into.

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; and
- investment properties valued at fair value.

The preparation of audited consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement 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 30.

All monetary information and figures presented in these financial statements are stated in thousand of Namibia Dollar (N$ '000), unless otherwise indicated.

3. Consolidation

3.1. Subsidiaries

The consolidated annual financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which the group, directly or indirectly, has the power to exercise control over the operations for its own benefit. The group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control. Subsidiaries are consolidated from the date on which the group acquires effective control. Consolidation is discontinued from the date that control over the subsidiary ceases.

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

3.2. Business combinations

The group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The consideration transferred for the acquisition is measured at the fair value of the assets transferred, equity instruments issued and the liabilities incurred or assumed at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the acquisition date fair value of any existing equity interest held in the subsidiary. Transaction costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred the amount of any non controlling interest in the subsidiary and the acquisition-date fair value of any previous equity interest in the subsidiary over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

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 of disposal in the near future (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 resumes equity accounting only after its share of the profits equals the share of losses not recognised. The group increases the carrying amount of investments with its share of the associate or joint venture's income when equity accounting is resumed.

Unrealised gains on transactions between the group and its associates 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.

5. Interest income and interest expense

The group recognises interest income and interest expense in the profit and loss component of the statement of comprehensive income for all interest-bearing instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the average expected life of the financial instruments or portfolios of financial instruments.

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 at fair value through profit and loss in fair value 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 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 profit and loss component of the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities at fair value through profit or loss, are reported as part of the fair value gain or loss.

Foreign currency translation differences on monetary items classified as available-for-sale, such as foreign currency bonds designated as available-for-sale are recognised as a translation gain or loss in the profit and loss component of the statement of comprehensive income when incurred.

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

10. Borrowing costs

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

11. Direct and indirect taxes

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

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

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

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

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

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

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

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly in other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in the profit and loss component of the statement of comprehensive income 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 statement of cash flows, cash and cash equivalents comprise:

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

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

15. Financial instruments

15.1. General

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

The group classifies its financial assets in the following categories:

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

Financial liabilities are classified in the following categories:

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

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

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

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

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

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

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.

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

Financial instruments designated under criteria (ii), include:

- Financial assets held to meet liabilities under insurance contracts.

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

The group recognises fair value adjustments on financial assets and liabilities designated as at fair value through profit and loss in fair value income/loss. Interest income on these assets is included in the fair value adjustment and is included as fair value income in non interest income.

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

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

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

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

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

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

- If the group has not retained control, it derecognises the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer; or
- If the group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

15.5. Offsetting financial instruments

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

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

16. 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 reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit and loss component of the statement of comprehensive income. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the group to reduce any differences between loss estimates and actual loss experience.

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

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

16.2.1. Past due advances

Advances are considered past due in the following circumstances:

- Loans with a specific expiry date (e.g. term loans etc) are treated as overdue where the principal or interest is overdue and remains unpaid as at the reporting date.
- Consumer loans repayable by regular instalments (e.g. mortgage loans, personal loans) are treated as overdue when an instalment payment is overdue and remains unpaid as at the reporting date.
- A loan payable on demand is treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.

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 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.

16.2.2. 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 reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss, is removed from other comprehensive income and recognised in the profit and loss component of the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss component of the statement of comprehensive income, the impairment loss is reversed through the profit and loss component of the statement of comprehensive income.

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

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 statement of financial position at fair value. Derivatives are subsequently re-measured at their fair value with all movements in fair value recognised in the profit and loss component of the statement of comprehensive income, unless it is a designated and effective hedging instrument.

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

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

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

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

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

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

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

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

The group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as, its risk management objective and strategy for undertaking various hedge transactions. The group also 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 profit and loss component of the statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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

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 other comprehensive income component of the statement of comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss component of the statement of comprehensive income.

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

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

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

Accounting policies

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 profit and loss component of the comprehensive income during the financial period in which they are incurred.

Property and equipment are depreciated on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

Freehold properties and properties held under finance lease are broken down into significant components that are depreciated to their respective residual values over the economic lives of these components.

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

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

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.

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

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

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

Fair value adjustments on investment properties are included in the profit and loss component of the statement of comprehensive income within non interest income. These fair value gains or losses are adjusted for any double counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination.

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

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 profit and loss over the lease period. The property and equipment acquired are depreciated over the useful life of the assets, unless it is not probable that the group will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

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 profit and loss component of the statement of comprehensive income on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments.

The group recognises as an expense any penalty payment to the lessor for early termination of an operating lease, in the period in which termination takes place.

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.

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 profit and loss component of the statement of comprehensive income 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 profit and loss component of the statement of comprehensive income in the period in which the costs are incurred. Internally generated intangible assets which are separately identifiable, where the costs can be reliably measured and where the group is expected to derive a future benefit for more than one accounting period is capitalised.

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

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

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

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 statement of financial position in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

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

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

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

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

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 statement of financial position.

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

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

22.3. Termination benefits

The group recognises termination benefits as a liability in the statement of financial position and as an expense in the profit and loss component of the statement of comprehensive income when it has a present obligation relating to termination. The group has a present obligation when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan, without possibility of withdrawal or providing termination benefits as a result of an offer to encourage voluntary redundancy.

22.4. Severance pay

The group recognises severance pay as a liability in the statement of financial position and as an expense in the profit and loss component of the statement of comprehensive income. The group is required to pay employees a severance benefit in terms of the new Labour Act of 2007, when:

- The employee is dismissed under certain circumstances; or
- Dies while employed.

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

22.5. Leave pay accrual

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

22.6. Bonuses

Management and staff bonuses are recognised as an expense in staff costs as incurred when it is probable that the economic benefits will be paid and the amount can be reliably measured.

22.7. Recognition of actuarial gains and losses

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

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

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

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

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

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 profit and loss component of the statement of comprehensive income on an effective interest rate basis.

The group separately measures and recognises the fair value of the debt component of an issued convertible bond in liabilities, with the residual value separately allocated to equity. It calculates interest on the debt portion of the instrument based on the market rate for a non-convertible instrument at the inception thereof.

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

Where the group purchases its own debt, the debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in fair value income.

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 reporting date are not recognised but disclosed as a post reporting date event.

25. Fiduciary activities

The group excludes assets and the income thereon, together with related undertakings to return such assets to customers, from these financial statements where it acts in a fiduciary capacity such as nominee, trustee or agent.

26. Share based payment transactions

The group operates equity settled and cash settled share based compensation plans for employees and historically disadvantaged individuals and organisations. All compensation plans are recognised in accordance with the accounting policy depending on whether it meets the equity-settled or cash-settled definition.

26.1. Equity-settled share based compensation plans

The group expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to a share based payment reserve in the statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair value of the options is determined excluding non market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, the group revises its estimate of the number of options expected to vest. The group recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

Amounts recognised for services received if the options granted do not vest because of failure to satisfy a vesting condition, are reversed through the statement of comprehensive income. If options are forfeited after the vesting date, an amount equal to the value of the options forfeited is debited against the share based payment reserve and credited against equity.

The proceeds received net of any attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

26.2. Cash-settled share based payment compensation plans

The group measures the services received and liability incurred in respect of cash-settled share based payment plans at the current fair value of the liability. The group re-measures the fair value of the liability at each reporting date until settled. The liability is recognised over the vesting period and any changes in the fair value of the liability are recognised in profit or loss.

27. Disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than continuing use. This classification is only met if the sale is highly probable and the assets or disposal groups are available for immediate sale.

In light of the group's primary business being the provision of banking products, non-current assets held as investments are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

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

Any impairment losses on initial classification to held for sale are recognised in the profit and loss component of the statement of comprehensive income.

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

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

28. Comparative figures

Where necessary, comparative figures are restated to be consistent with the disclosure in the current year. No figures were restated during the current year.

2010

Annual financial statements

Statements of comprehensive income
for the year ended 30 June

N$'000	Notes	Group 2010	Group 2009	Company 2010	Company 2009
Interest and similar income	2.1	1 390 232	1 533 800	1 341 017	1 482 961
Interest expense and similar charges	2.2	(630 189)	(838 676)	(630 189)	(838 676)
Net interest income before impairment of advances		760 043	695 124	710 828	644 285
Impairment losses of advances	10	(12 960)	(38 412)	(10 884)	(34 424)
Net interest income after impairment of advances		747 083	656 712	699 944	609 861
Non interest income	3	553 564	490 747	549 601	486 571
Fair value adjustment to financial liabilities	22	(2 307)	(25 748)	(2 307)	(25 748)
Income from operations		1 298 340	1 121 711	1 247 238	1 070 684
Operating expenses	4	(725 501)	(626 598)	(724 471)	(626 162)
Net income from operations		572 839	495 113	522 767	444 522
Share of profit of associate company	13	191	522		
Income before indirect tax		573 030	495 635	522 767	444 522
Indirect tax	5.1	(15 591)	(10 848)	(15 325)	(10 547)
Profit before direct tax		557 439	484 787	507 442	433 975
Direct tax	5.2	(187 287)	(167 631)	(169 897)	(148 370)
Profit for the year		370 152	317 156	337 545	285 605
Other comprehensive income					
Net gain on available-for-sale financial assets		7 672	16 306	7 672	16 306
Income tax effect on other comprehensive income	21	(1 831)	(6 890)	(1 831)	(6 890)
Other comprehensive income for the year		5 841	9 416	5 841	9 416
Total comprehensive income for the year		375 993	326 572	343 386	295 021
Profit for the year attributable to:					
Ordinary shareholders		370 152	317 156	337 545	285 605
Total comprehensive income for the year attributable to:					
Ordinary shareholders		375 993	326 572	343 386	295 021

Statements of financial position
as at 30 June

N$'000	Notes	Group 2010	Group 2009	Company 2010	Company 2009
Assets					
Cash and short term funds	7.1	402 129	316 936	402 129	316 936
Due from banks and other financial institutions	7.2	851 182	479 236	851 182	479 236
Derivative financial instruments	8	57 119	130 487	57 119	130 487
Advances	9	11 311 742	10 574 999	10 443 163	9 635 710
Investment securities	11	1 492 893	919 642	1 492 893	919 642
Accounts receivable	12	78 310	83 567	74 239	82 187
Investment in associate company	13	2 566	5 375	1 154	4 154
Investment in subsidiary company	14			711 352	822 097
Property and equipment	15	239 499	211 475	197 815	169 866
Intangible assets	16	240 512	265 797	235 585	255 633
Non current assets held for sale	17	753	4 823		
Total assets		14 676 705	12 992 337	14 466 631	12 815 948
Liabilities and equity					
Liabilities					
Deposits and current accounts	18.1	12 068 023	10 600 680	12 068 023	10 600 680
Due to banks and other financial institutions	18.2	53 346	21 731	53 346	21 731
Derivative financial instruments	8	58 019	115 631	58 019	115 631
Creditors and accruals	19	219 596	256 635	218 094	255 647
Tax liability		31 251	4 184	29 946	3 998
Post-employment benefit liabilities	20	31 110	21 636	31 110	21 636
Deferred tax liability	21	35 974	66 771	40 924	71 166
Long term liabilities	22	263 505	261 238	263 505	261 238
Total liabilities		12 760 824	11 348 506	12 762 967	11 351 727
Equity					
Ordinary shares	23	1	1	1	1
Share premium	23	1 142 791	1 142 791	1 142 791	1 142 791
Reserves		773 089	501 039	560 872	321 429
Total equity		1 915 881	1 643 831	1 703 664	1 464 221
Total liabilities and equity		14 676 705	12 992 337	14 466 631	12 815 948

Statements of changes in equity

for the year ended 30 June

N$ '000	Share capital	Share premium	Share-based payment reserve	Available-for-sale reserve	Retained earnings	Total equity
Group						
Balance at 1 July 2008	1	1 142 791	2 699	(3 956)	293 547	1 435 082
Total comprehensive income for the year				9 416	317 156	326 572
Profit for the year					317 156	317 156
Other comprehensive income for the year				9 416		9 416
Share-based payments			2 037			2 037
Dividends paid					(119 860)	(119 860)
Balance at 30 June 2009	1	1 142 791	4 736	5 460	490 843	1 643 831
Total comprehensive income for the year				5 841	370 152	375 993
Profit for the year					370 152	370 152
Other comprehensive income for the year				5 841		5 841
Share-based payments			1 170			1 170
Dividends paid					(105 113)	(105 113)
Balance at 30 June 2010	1	1 142 791	5 906	11 301	755 882	1 915 881
Company						
Balance at 1 July 2008	1	1 142 791	2 699	(3 956)	145 488	1 287 023
Total comprehensive income for the year				9 416	285 605	295 021
Profit for the year					285 605	285 605
Other comprehensive income for the year				9 416		9 416
Share-based payments			2 037			2 037
Dividends paid					(119 860)	(119 860)
Balance at 30 June 2009	1	1 142 791	4 736	5 460	311 233	1 464 221
Total comprehensive income for the year				5 841	337 545	343 386
Profit for the year					337 545	337 545
Other comprehensive income for the year				5 841		5 841
Share-based payments			1 170			1 170
Dividends paid					(105 113)	(105 113)
Balance at 30 June 2010	1	1 142 791	5 906	11 301	543 665	1 703 664

Statements of cash flows

for the year ended 30 June

		Group		Company	
N$'000	Notes	2010	2009	2010	2009
Cash flows from operating activities					
Cash receipts from customers		1 934 824	1 948 799	1 885 802	1 898 885
Interest and similar income		1 366 843	1 499 224	1 320 354	1 453 483
Fees and commission income		467 263	390 220	465 523	387 539
Other non interest income		100 718	59 355	99 925	57 863
Cash paid to customers, suppliers and employees		(1 256 604)	(1 401 098)	(1 260 864)	(1 403 154)
Interest expense and similar charges		(630 189)	(838 676)	(630 189)	(838 676)
Total other operating expenditure		(626 415)	(562 422)	(630 675)	(564 478)
Cash flows from operating activities	25.1	678 220	547 701	624 938	495 731
(Increase) / decrease in income earning assets		(1 664 895)	(837 830)	(1 734 558)	(916 853)
Investment securities		(565 662)	39 967	(565 662)	39 967
Due from banks and other financial institutions		(371 946)	524 022	(371 946)	524 022
Accounts receivable and similar accounts		(973)	(10 773)	724	(12 570)
Advances		(726 314)	(1 391 046)	(797 674)	(1 468 272)
Increase / (decrease) in deposits and other liabilities		1 459 832	612 777	1 460 154	612 229
Deposits		1 467 343	924 317	1 467 343	924 317
Due to banks and other financial institutions		31 615	(331 707)	31 615	(331 707)
Accounts payable and similar accounts		(39 126)	20 167	(38 804)	19 619
Tax paid	25.2	(208 439)	(129 835)	(191 348)	(110 081)
Net cash flows from operating activities		264 718	192 813	159 186	81 026
Cash flows from investing activities		(74 412)	(70 995)	31 120	40 792
Capital expenses to maintain operations - acquired by means of cash	25.3	(83 277)	(71 349)	(82 989)	(71 343)
Reduction in loan to subsidiary				110 744	111 781
Reduction in investment in associate	25.5	3 000		3 000	
Proceeds from the disposal of non current asset held for sale		5 500			
Proceeds from sale of property and equipment		365	354	365	354
Cash flows from financing activities					
Dividends paid	25.4	(105 113)	(119 860)	(105 113)	(119 860)
Net increase in cash and cash equivalents		85 193	1 958	85 193	1 958
Cash and cash equivalents at beginning of the year *		316 936	314 978	316 936	314 978
Cash and cash equivalents at end of the year *	7.1	402 129	316 936	402 129	316 936

*Includes mandatory reserve deposits with central bank.

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

1 Accounting policies

The accounting policies of the group are set out on pages 5 to 13.

2 Analysis of interest income and interest expenditure, by category.

2.1 Interest and similar income

N$'000	2010 Group Fair value	Group Amortised cost	Group Total	Company Fair value	Company Amortised cost	Company Total
Interest on:						
- Advances		1 209 876	1 209 876		1 164 195	1 164 195
- Cash and short term funds		76 131	76 131		76 131	76 131
- Investment securities	75 708	17 167	92 875	75 708	17 167	92 875
- Unwinding of discounted present value on non performing loans (note 10)		9 992	9 992		7 702	7 702
- Impaired advances		(12 039)	(12 039)		(12 847)	(12 847)
- Unwinding of discounted present value on off-market advances		5 967	5 967		5 967	5 967
- Net release of deferred fee and expenses		7 430	7 430		6 994	6 994
Interest and similar income	75 708	1 314 524	1 390 232	75 708	1 265 309	1 341 017

N$'000	2009 Group Fair value	Group Amortised cost	Group Total	Company Fair value	Company Amortised cost	Company Total
Interest on:						
- Advances		1 376 228	1 376 228		1 329 243	1 329 243
- Cash and short term funds		50 698	50 698		50 698	50 698
- Investment securities	83 030	12 590	95 620	83 030	12 590	95 620
- Unwinding of discounted present value on non performing loans (note 10)		21 140	21 140		16 600	16 600
- Impaired advances		(23 322)	(23 322)		(22 078)	(22 078)
- Unwinding of discounted present value on off-market advances		6 594	6 594		6 594	6 594
- Net release of deferred fee and expenses		6 842	6 842		6 284	6 284
Interest and similar income	83 030	1 450 770	1 533 800	83 030	1 399 931	1 482 961

2.2 Interest expense and similar charges

N$'000	2010 Group Fair value	Group Amortised cost	Group Total	Company Fair value	Company Amortised cost	Company Total
Interest on:						
- Deposits from banks and financial institutions		1 635	1 635		1 635	1 635
- Current accounts		278 849	278 849		278 849	278 849
- Savings deposits		5 577	5 577		5 577	5 577
- Term deposits		144 686	144 686		144 686	144 686
- Negotiable certificates of deposits		175 648	175 648		175 648	175 648
- Long term liabilities	23 794		23 794	23 794		23 794
Interest expense and similar charges	23 794	606 395	630 189	23 794	606 395	630 189

N$'000	2009 Group Fair value	Group Amortised cost	Group Total	Company Fair value	Company Amortised cost	Company Total
Interest on:						
- Deposits from banks and financial institutions		16 218	16 218		16 218	16 218
- Current accounts		349 894	349 894		349 894	349 894
- Savings deposits		11 650	11 650		11 650	11 650
- Term deposits		238 406	238 406		238 406	238 406
- Negotiable certificates of deposits		191 740	191 740		191 740	191 740
- Long term liabilities	23 818		23 818	23 818		23 818
- Other	6 950		6 950	6 950		6 950
Interest expense and similar charges	30 768	807 908	838 676	30 768	807 908	838 676

3 Analysis of non interest income, by nature

N$'000		Group 2010	Group 2009	Company 2010	Company 2009
3.1	**Fees and commissions**	467 263	390 220	465 523	387 539
	- Card commissions	1 246	5 211	1 246	5 211
	- Cash deposit fees	63 987	54 509	63 987	54 509
	- Commissions: bills, drafts and cheques	20 538	17 867	20 514	17 837
	- Service fees	179 794	144 531	179 753	144 394
	- Fiduciary fees	1 869	220	1 869	220
	- Other fee and commission related income	181 930	149 625	180 255	147 111
	- Broking commission income	17 899	18 257	17 899	18 257

Certain of the above fees relate to the fact that the group provides custody and trustee services to third parties.

N$'000		Group 2010	Group 2009	Company 2010	Company 2009
3.2	**Fair value income**	76 943	84 925	76 943	84 925
	Foreign exchange trading	66 525	60 089	66 525	60 089
	Treasury trading operations				
	- Debt instruments trading	3 102	463	3 102	463
	- Other trading (derivatives gains and losses)	7 316	24 373	7 316	24 373

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, and translated foreign currency assets and liabilities. Interest rate instruments includes gains and losses from government securities, corporate debt securities, money market instruments, interest rate and currency swaps, options and other derivatives.

N$'000		Group 2010	Group 2009	Company 2010	Company 2009
3.3	**Gains less losses from investing activities**	479	1 842	479	1 842
	- Gains on realisation of available-for-sale financial assets	42	1 842	42	1 842
	- Gains on investment securities designated at fair value through profit or loss	437		437	
3.4	**Other non interest income**	8 879	13 760	6 656	12 265
	- Income from related parties (note 27)	6 722	12 153	6 722	12 153
	- Rental income	1 730	2 065		
	- Other (loss) / income	(872)	(543)	65	27
	- Profit / (loss) on sale of property and equipment	1 299	85	(131)	85
	Total non interest income	553 564	490 747	549 601	486 571
3.5	**Non interest income, analysis by category**				
	Non interest income	553 564	490 747	549 601	486 571
	Fee and commission income: Instruments at amortised cost	467 263	390 220	465 523	387 539
	Fair value income: Held for trading	76 943	84 925	76 943	84 925
	Fair value income: Designated at fair value through profit or loss	437		437	
	Fair value income: Financial assets available-for-sale	42	1 842	42	1 842
	Other non interest income: Non financial assets and liabilities	8 879	13 760	6 656	12 265

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

4 Operating expenses

N$'000	Group 2010	Group 2009	Company 2010	Company 2009
Auditors' remuneration	2 903	2 771	2 639	2 517
- Current year	2 829	2 558	2 565	2 304
- Prior year under provision	74	106	74	106
- Fees for other services		107		107
Amortisation of intangible assets (note 16)	52 444	23 493	47 207	21 189
- Trademarks	43 509	22 569	38 272	20 265
- Software	8 935	924	8 935	924
Depreciation (note 15)	21 412	15 357	21 199	15 174
- Leasehold property	5 171	2 505	5 171	2 505
- Equipment	16 241	12 852	16 028	12 669
- Automatic teller machines	738	510	738	510
- Computer equipment	4 780	3 039	4 748	3 007
- Furniture and fittings	6 594	6 360	6 460	6 229
- Motor vehicles	193	114	193	114
- Office equipment	3 936	2 829	3 889	2 809
Operating lease charges	19 609	19 719	20 770	18 697
- Properties	16 741	16 055	17 902	15 033
- Equipment	2 868	3 664	2 868	3 664
Directors' emoluments	3 231	6 703	3 231	6 703
- Services as directors	1 686	1 264	1 686	1 264
- Other services	1 545	5 439	1 545	5 439
All directors' emoluments are paid by the company, no directors' fees are paid by other group companies.				
Professional fees	2 599	2 500	2 569	2 425
Staff related costs	329 771	308 834	329 771	308 834
- Salaries, wages and allowances	280 480	246 951	280 480	246 951
- Off-market staff loans amortisation	5 967	6 594	5 967	6 594
- Contributions to employee benefit funds	49 039	36 967	49 039	36 967
- Defined contribution schemes: pension	29 969	21 374	29 969	21 374
- Defined contribution schemes: medical	19 070	15 593	19 070	15 593
- Retirement fund surplus recognised (note 20.2)	(33 591)		(33 591)	
- Severance pay provision: death in service (note 20.1)	3 051		3 051	
- Post retirement medical expenses (note 20.1)	7 418	5 406	7 418	5 406
- Social security levies	1 011	1 087	1 011	1 087
- Share-based payments (note 24)	3 441	2 037	3 441	2 037
- Other	12 955	9 792	12 955	9 792
Investment properties		118		
- Operating expenses		103		
- Repairs and maintenance		15		
Other operating costs	293 532	247 103	297 085	250 623
- Insurance	8 415	7 288	8 233	7 108
- Advertising and marketing	40 013	35 359	40 206	35 556
- Property and maintenance related expenses	29 919	29 020	28 919	28 639
- Legal fees	3 876	2 546	3 553	2 388
- Postage	5 688	4 586	5 670	4 586
- Printing and stationery	10 709	12 149	10 686	12 121
- Telecommunications	13 822	11 234	13 821	11 234
- Conveyance of cash	4 843	4 181	4 843	4 181
- Travel and accommodation	8 267	9 133	8 267	9 133
- Computer and processing related costs	126 565	83 058	126 179	82 756
- Other	41 415	48 549	46 708	52 921
Total operating expenses	725 501	626 598	724 471	626 162
Number of staff members (at end of year)	1 689	1 580	1 689	1 580

5 Tax

N$'000	Group 2010	Group 2009	Company 2010	Company 2009
5.1 Indirect tax				
Value-added tax (net)	10 962	7 311	10 697	7 009
Stamp duties	4 629	3 537	4 628	3 538
Total indirect tax	15 591	10 848	15 325	10 547
5.2 Direct tax				
Namibian normal tax				
- Current	219 915	138 932	201 971	119 913
- Current year	219 915	139 279	201 971	120 543
- Prior year adjustment		(347)		(630)
- Deferred	(32 628)	28 699	(32 074)	28 457
- Current year	(30 948)	28 699	(30 070)	28 457
- Tax rate adjustment	(1 680)		(2 004)	
Total direct tax	187 287	167 631	169 897	148 370
Tax rate reconciliation - Namibian normal tax	%	%	%	%
Effective rate of tax	33.6	34.6	33.5	34.2
Total tax has been affected by:				
Non-taxable income	2.2	0.7	2.4	0.7
Other permanent differences	(2.1)	(0.2)	(2.3)	0.2
Tax rate change	0.3		0.4	
Prior year		(0.1)		(0.1)
Standard rate of tax	34.0	35.0	34.0	35.0

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

6 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 page 5 to page 13 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the statement of financial position per category of financial instrument to which they are assigned and therefore by measurement basis:

Group

N$'000	2010 Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non financial assets and liabilities	Total
Assets							
Cash and short term funds			402 129				402 129
Due from banks and other financial institutions			851 182				851 182
Derivative financial instruments	57 119						57 119
Advances			11 311 742				11 311 742
Investment securities	51 720	50 437	247 105	1 143 631			1 492 893
Accounts receivable			78 310				78 310
Investment in associate company						2 566	2 566
Property and equipment						239 499	239 499
Intangible assets						240 512	240 512
Non current assets held for sale						753	753
Total assets	108 839	50 437	12 890 468	1 143 631		483 330	14 676 705
Liabilities							
Deposits and current accounts					12 068 023		12 068 023
Due to banks and other financial institutions					53 346		53 346
Derivative financial instruments	58 019						58 019
Creditors and accruals		6 127			213 469		219 596
Tax liability						31 251	31 251
Post-employment benefit liabilities						31 110	31 110
Deferred tax liability						35 974	35 974
Long term liabilities		263 505					263 505
Total liabilities	58 019	269 632			12 334 838	98 335	12 760 824

N$'000	2009 Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non financial assets and liabilities	Total
Assets							
Cash and short term funds			316 936				316 936
Due from banks and other financial institutions			479 236				479 236
Derivative financial instruments	130 487						130 487
Advances			10 574 999				10 574 999
Investment securities	547		100 230	818 865			919 642
Accounts receivable			83 567				83 567
Investment in associate company						5 375	5 375
Property and equipment						211 475	211 475
Intangible assets						265 797	265 797
Non current assets held for sale						4 823	4 823
Total assets	131 034		11 554 968	818 865		487 470	12 992 337
Liabilities							
Deposits and current accounts					10 600 680		10 600 680
Due to banks and other financial institutions					21 731		21 731
Derivative financial instruments	115 631						115 631
Creditors and accruals		6 127			250 508		256 635
Tax liability						4 184	4 184
Post-employment benefit liabilities						21 636	21 636
Deferred tax liability						66 771	66 771
Long term liabilities		261 238					261 238
Total liabilities	115 631	267 365			10 872 919	92 591	11 348 506

6 Analysis of assets and liabilities by category (continued)

Company

N$'000	2010 Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non financial assets and liabilities	Total
Assets							
Cash and short term funds			402 129				402 129
Due from banks and other financial institutions			851 182				851 182
Derivative financial instruments	57 119						57 119
Advances			10 443 163				10 443 163
Investment securities	51 720	50 437	247 105	1 143 631			1 492 893
Accounts receivable			74 239				74 239
Investment in associate company						1 154	1 154
Investment in subsidiary company						711 352	711 352
Property and equipment						197 815	197 815
Intangible assets						235 585	235 585
Total assets	108 839	50 437	12 017 818	1 143 631		1 145 906	14 466 631
Liabilities							
Deposits and current accounts					12 068 023		12 068 023
Due to banks and other financial institutions					53 346		53 346
Derivative financial instruments	58 019						58 019
Creditors and accruals		6 127			211 967		218 094
Tax Liability						29 946	29 946
Post-employment benefit liabilities						31 110	31 110
Deferred tax liability						40 924	40 924
Long term liabilities		263 505					263 505
Total liabilities	58 019	269 632			12 333 336	101 980	12 762 967

N$'000	2009 Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non financial assets and liabilities	Total
Assets							
Cash and short term funds			316 936				316 936
Due from banks and other financial institutions			479 236				479 236
Derivative financial instruments	130 487						130 487
Advances			9 635 710				9 635 710
Investment securities	547		100 230	818 865			919 642
Accounts receivable			82 187				82 187
Investment in associate company						4 154	4 154
Investment in subsidiary company						822 097	822 097
Property and equipment						169 866	169 866
Intangible assets						255 633	255 633
Total assets	131 034		10 614 299	818 865		1 251 750	12 815 948
Liabilities							
Deposits and current accounts					10 600 680		10 600 680
Due to banks and other financial institutions					21 731		21 731
Derivative financial instruments	115 631						115 631
Creditors and accruals		6 127			249 520		255 647
Tax liability						3 998	3 998
Post-employment benefit liabilities						21 636	21 636
Deferred tax liability						71 166	71 166
Long term liabilities		261 238					261 238
Total liabilities	115 631	267 365			10 871 931	96 800	11 351 727

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

7.1 Cash and short term funds

N$'000	Group 2010	Group 2009	Company 2010	Company 2009
Coins and bank notes	205 786	205 160	205 786	205 160
Balances with central bank	194 883	110 558	194 883	110 558
Balances with other banks	1 460	1 218	1 460	1 218
	402 129	316 936	402 129	316 936
Mandatory reserve balances included in above	128 968	110 558	128 968	110 558

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank in terms of the Banking Institutions Act, (No 2 of 1998). These deposits bear little or no interest.

Fair value

The carrying value approximates the fair value of total cash and short term funds.

7.2 Due from banks and other financial institutions

N$'000	Group 2010	Group 2009	Company 2010	Company 2009
Due from banks and financial institutions				
- In the normal course of business	851 182	479 236	851 182	479 236

The carrying value approximates the fair value.

N$'000	Group 2010	Group 2009	Company 2010	Company 2009
Geographical split:				
Namibia	91	115 722	91	115 722
South Africa	663 230	70 186	663 230	70 186
North America	126 687	242 147	126 687	242 147
Europe	61 137	51 181	61 137	51 181
Other	37		37	
	851 182	479 236	851 182	479 236

8 Derivative financial instruments

Use of derivatives

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

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

Interest rate derivatives comprising mainly 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.

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

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.

Further information pertaining to the risk management of the group is set out in note 32.

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

Group and company	2009			
	Assets		Liabilities	
	Notional	Fair value	Notional	Fair value
Currency derivatives				
- Forward rate agreements	1 200 328	101 818	1 156 590	86 485
- Options	228 166	19 396	228 166	19 396
Interest rate derivatives				
- Swaps	1 372 383	9 273	990 326	9 750
Total held for trading	2 800 877	130 487	2 375 082	115 631

9 Advances

N$'000	Group 2010	Group 2009	Company 2010	Company 2009
Sector analysis				
Agriculture	475 816	435 522	475 816	435 522
Banks and financial services	283 217	231 021	283 217	231 021
Building and property development	2 279 184	1 924 388	2 279 184	1 924 388
Government and public authorities	293 157	249 485	293 157	249 485
Individuals	6 397 357	5 979 482	5 509 318	5 019 508
Manufacturing and commerce	1 364 276	1 155 167	1 364 276	1 155 167
Mining	58 126	178 289	58 126	178 289
Transport and communication	170 620	227 025	170 620	227 025
Other services	291 445	520 661	291 445	520 661
Notional value of advances	11 613 198	10 901 040	10 725 159	9 941 066
Contractual interest suspended (note 10)	(54 771)	(72 718)	(48 438)	(65 379)
Gross advances	11 558 427	10 828 322	10 676 721	9 875 687
Impairment of advances (note 10)	(246 685)	(253 323)	(233 558)	(239 977)
Net advances	11 311 742	10 574 999	10 443 163	9 635 710
Geographic analysis (based on credit risk)				
Namibia	11 311 742	10 574 999	10 443 163	9 635 710
Category analysis				
Card loans	81 184	71 441	81 184	71 441
Overdrafts and managed accounts	1 303 790	1 456 182	1 303 790	1 456 182
Loans to other financial institutions	283 217	231 021	283 217	231 021
Instalment sales	1 667 693	1 646 467	1 667 693	1 646 467
Lease payments receivable	80 621	82 934	80 621	82 934
Home loans	5 988 951	5 363 017	5 100 912	4 403 036
Term loans	1 756 922	1 652 154	1 756 922	1 652 161
Preference share advances		89 886		89 886
Other	450 820	307 938	450 820	307 938
Notional value of advances	11 613 198	10 901 040	10 725 159	9 941 066
Contractual interest suspended (note 10)	(54 771)	(72 718)	(48 438)	(65 379)
Gross advances	11 558 427	10 828 322	10 676 721	9 875 687
Impairment of advances (note 10)	(246 685)	(253 323)	(233 558)	(239 977)
Net advances	11 311 742	10 574 999	10 443 163	9 635 710

Fair value

The fair value of advances is disclosed in note 29.

9.1 Advances (continued)

Analysis of instalment sales and lease payments receivable

Group and company

N$'000	2010 Within 1 year	2010 Between 1 and 5 years	2010 Total
Lease payments receivable	26 851	53 770	80 621
Suspensive sale instalments receivable	781 419	1 200 496	1 981 915
	808 270	1 254 266	2 062 536
Less : Unearned finance charges	(156 186)	(158 036)	(314 222)
Total	652 084	1 096 230	1 748 314

Group and company

N$'000	2009 Within 1 year	2009 Between 1 and 5 years	2009 Total
Lease payments receivable	41 550	41 672	83 222
Suspensive sale instalments receivable	908 081	1 060 316	1 968 397
	949 631	1 101 988	2 051 619
Less : Unearned finance charges	(188 402)	(133 816)	(322 218)
Total	761 229	968 172	1 729 401

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.

10 Impairment of advances

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.

Analysis of movement in impairment of advances per class of advance

Group	2010							
N$'000	Card loans	Overdrafts and managed accounts	Instalment sales and lease receivables	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
Opening balance	5 085	97 823	36 502	70 973	42 940	253 323	101 198	152 125
Amounts written off	(409)	(2 238)	(7 176)	(1 709)	(1 635)	(13 167)	(13 167)	
Unwinding of discounted present value on non performing loans		(1 084)		(8 731)	(177)	(9 992)	(9 992)	
Net new impairments created	(218)	(15 861)	10 140	(6 608)	29 068	16 521	21 661	(5 140)
- impairments created	1 030	20 923	31 906	31 161	44 649	129 669	82 298	47 371
- impairments released	(1 248)	(36 784)	(21 766)	(37 769)	(15 581)	(113 148)	(60 637)	(52 511)
Closing balance	4 458	78 640	39 466	53 925	70 196	246 685	99 700	146 985
New and increased provision	(218)	(15 861)	10 140	(6 608)	29 068	16 521	21 661	(5 140)
Recoveries of bad debts previously written off	1 446	(9 936)	6 022	1 143	(2 236)	(3 561)	(3 561)	
Impairment loss recognised in the statement of comprehensive income	1 228	(25 797)	16 162	(5 465)	26 832	12 960	18 100	(5 140)

Group	2009							
N$'000	Card loans	Overdrafts and managed accounts	Instalment sales and lease receivables	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
Opening balance		92 976	36 588	79 819	35 704	245 087	98 177	146 910
Amounts written off	1 277	(2 270)	(6 939)	(1 759)	(1 469)	(11 160)	(11 160)	
Unwinding of discounted present value on non performing loans		(3 566)		(16 845)	(729)	(21 140)	(21 140)	
Net new impairments created	3 808	10 683	6 853	9 758	9 434	40 536	35 321	5 215
- impairments created	3 808	26 651	21 045	51 380	21 510	124 394	107 597	16 797
- impairments released		(15 968)	(14 192)	(41 622)	(12 076)	(83 858)	(72 276)	(11 582)
Closing balance	5 085	97 823	36 502	70 973	42 940	253 323	101 198	152 125
New and increased provision	3 808	10 683	6 853	9 758	9 434	40 536	35 321	5 215
Recoveries of bad debts previously written off	(180)	2 191	(3 569)	(1 179)	613	(2 124)	(1 964)	(160)
Impairment loss recognised in the statement of comprehensive income	3 628	12 874	3 284	8 579	10 047	38 412	33 357	5 055

10 Impairment of advances (continued)

Analysis of movement in impairment of advances per class of advance

Company

N$'000	Card loans	Overdrafts and managed accounts	Instalment sales and lease receivables	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
	2010							
Opening balance	5 085	97 826	36 502	57 876	42 688	239 977	96 188	143 789
Amounts written off	(409)	(2 238)	(7 176)	(1 709)	(1 635)	(13 167)	(13 167)	
Unwinding of discounted present value on non performing loans		(1 084)		(6 441)	(177)	(7 702)	(7 702)	
Net new impairments created	(218)	(15 861)	10 140	(8 679)	29 068	14 450	19 590	(5 140)
- impairments created	1 030	20 923	31 906	29 090	44 649	127 598	80 227	47 371
- impairments released	(1 248)	(36 784)	(21 766)	(37 769)	(15 581)	(113 148)	(60 637)	(52 511)
Closing balance	4 458	78 643	39 466	41 047	69 944	233 558	94 909	138 649
New and increased provision	(218)	(15 861)	10 140	(8 679)	29 068	14 450	19 590	(5 140)
Recoveries of bad debts previously written off	1 446	(9 941)	6 022	1 143	(2 236)	(3 566)	(3 566)	
Impairment loss recognised in the statement of comprehensive income	1 228	(25 802)	16 162	(7 536)	26 832	10 884	16 024	(5 140)

Company

N$'000	Card loans	Overdrafts and managed accounts	Instalment sales and lease receivables	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
	2009							
Opening balance		92 976	36 588	65 740	35 453	230 757	90 560	140 197
Amounts written off	1 277	(2 269)	(6 939)	(745)	(1 470)	(10 146)	(10 146)	
Unwinding of discounted present value on non performing loans		(3 566)		(12 305)	(729)	(16 600)	(16 600)	
Net new impairments created	3 808	10 685	6 853	5 186	9 434	35 966	32 374	3 592
- impairments created	3 808	26 651	21 045	40 603	21 510	113 617	95 951	17 666
- impairments released		(15 966)	(14 192)	(35 417)	(12 076)	(77 651)	(63 577)	(14 074)
Closing balance	5 085	97 826	36 502	57 876	42 688	239 977	96 188	143 789
New and increased provision	3 808	10 685	6 853	5 186	9 434	35 966	32 374	3 592
Recoveries of bad debts previously written off	(180)	2 190	(3 569)	(596)	613	(1 542)	(1 542)	
Impairment loss recognised in the statement of comprehensive income	3 628	12 875	3 284	4 590	10 047	34 424	30 832	3 592

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

10. Impairment of advances (continued)

Group

N$'000	2010 Total value including interest in suspense	Security held	Specific impairments	Contractual interest suspended
Non performing lendings by sector				
Agriculture	8 223	7 363	759	1 156
Banks and financial services	2 561	1 820	532	365
Building and property development	75 921	36 405	24 457	15 621
Government and public authorities	1 060	27	659	375
Individuals	157 364	92 945	57 357	34 098
Manufacturing and commerce	26 074	11 674	12 514	2 068
Mining	365		360	4
Transport and communication	5 109	1 765	2 015	666
Other	2 951	1 517	1 047	418
Total non performing lendings	279 628	153 516	99 700	54 771
Non performing lendings by category				
Card loans	3 458		3 917	468
Overdrafts and managed accounts	81 660	32 988	41 085	14 847
Instalment sales	27 964	1 220	18 355	6 115
Lease payments receivable	7 506	1 769	1 414	415
Home loans	133 173	109 071	27 080	26 808
Term loans	25 867	8 468	7 849	6 118
Total non performing lendings	279 628	153 516	99 700	54 771
Geographical split:				
Namibia	279 628			
Net recoverable amount of the non performing loans:	71 341			

Group

N$'000	2009 Total value including interest in suspense	Security held	Specific impairments	Contractual interest suspended
Non performing lendings by sector				
Agriculture	3 692	3 004	101	611
Banks and financial services	178		77	102
Building and property development	77 631	29 312	24 022	25 189
Government and public authorities	1 060	27	671	268
Individuals	200 151	121 020	67 312	37 020
Manufacturing and commerce	15 184	5 273	5 790	4 290
Transport and communication	1 466		1 320	147
Other	9 895	4 106	1 905	5 091
Total non performing lendings	309 257	162 742	101 198	72 718
Non performing lendings by category				
Card loans	3 582		3 650	299
Overdrafts and managed accounts	89 722	27 361	34 918	32 554
Instalment sales	34 578	1 809	21 439	6 769
Lease payments receivable	1 513	30	895	289
Home loans	161 808	127 470	33 148	26 872
Term loans	18 054	6 072	7 148	5 935
Total non performing lendings	309 257	162 742	101 198	72 718
Geographical split:				
Namibia	309 257			
Net recoverable amount of the non performing loans:	73 797			

10. Impairment of advances (continued)

Company

N$'000	2010 Total value including interest in suspense	Security held	Specific impairments	Contractual interest suspended
Non performing lendings by sector				
Agriculture	8 223	7 363	759	1 156
Banks and financial services	2 561	1 820	532	365
Building and property development	75 921	36 405	24 457	15 621
Government and public authorities	1 060	27	659	375
Individuals	128 095	69 644	52 926	27 769
Manufacturing and commerce	26 074	11 674	12 514	2 068
Mining	5 109	1 765	2 015	666
Transport and communication	2 951	1 517	1 047	418
Other	249 994	130 215	94 909	48 438
Total non performing lendings				
Non performing lendings by category	3 458		3 917	468
Card loans	81 660	32 988	41 085	14 847
Overdrafts and managed accounts	27 964	1 220	18 355	6 115
Instalment sales	7 506	1 769	1 414	415
Lease payments receivable	103 539	85 770	22 289	20 475
Home loans	25 867	8 468	7 849	6 118
Term loans	249 994	130 215	94 909	48 438
Total non performing lendings				
Geographical split:				
Namibia	249 994			
Net recoverable amount of the non performing loans:	71 341			

Company

N$'000	2009 Total value including interest in suspense	Security held	Specific impairments	Contractual interest suspended
Non performing lendings by sector				
Agriculture	3 692	3 004	101	611
Banks and financial services	178		77	102
Building and property development	77 631	29 312	24 022	25 189
Government and public authorities	1 060	27	671	268
Individuals	164 287	88 319	62 302	29 681
Manufacturing and commerce	15 184	5 273	5 790	4 290
Mining	1 466		1 320	147
Transport and communication	9 895	4 106	1 905	5 091
Other	273 393	130 041	96 188	65 379
Total non performing lendings				
Non performing lendings by category	3 582		3 650	299
Card loans	89 722	27 361	34 918	32 554
Overdrafts and managed accounts	34 578	1 809	21 439	6 769
Instalment sales	1 513	30	895	289
Lease payments receivable	125 944	94 769	28 138	19 533
Home loans	18 054	6 072	7 148	5 935
Term loans	273 393	130 041	96 188	65 379
Total non performing lendings				
Geographical split:				
Namibia	273 393			
Net recoverable amount of the non performing loans:	73 797			

11 Investment securities

Group and company – 2010

N$'000	Fair value: Held for trading	Fair value: Available-for-sale	Fair value: Designated at fair value through profit or loss	Amortised cost: Loans and receivables	Total
Listed					
Equities		11 591			11 591
Other government and government guaranteed stock		243 303			243 303
Other dated securities		7 088			7 088
Total		261 982			261 982
Unlisted					
Negotiable certificates of deposits				247 105	247 105
Treasury bills	51 720	603 415			655 135
Other dated securities		278 234			278 234
Money market unit trust investments			50 437		50 437
Total	51 720	881 649	50 437	247 105	1 230 911
Total investment securities	51 720	1 143 631	50 437	247 105	1 492 893
Valuation of investments					
Market value of listed investments					261 982
Directors valuation of unlisted investments					1 230 770
Total valuation					1 492 752

Group and company – 2009

N$'000	Fair value: Held for trading	Fair value: Available-for-sale	Fair value: Designated at fair value through profit or loss	Amortised cost: Loans and receivables	Total
Listed					
Equities		10 300			10 300
Other government and government guaranteed stock		267 900			267 900
Other dated securities		7 016			7 016
Total		285 216			285 216
Unlisted					
Negotiable certificates of deposits				100 230	100 230
Treasury bills	547	354 594			355 141
Other dated securities		179 055			179 055
Total	547	533 649		100 230	634 426
Total investment securities	547	818 865		100 230	919 642
Valuation of investments					
Market value of listed investments					285 215
Directors valuation of unlisted investments					634 473
Total valuation					919 688

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

Refer to note 29, fair value of financial instruments, for the methodologies used to determine the fair value of investment securities.

Information regarding other investments as required in terms of Schedule 4 of the Companies Act 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$1 455 million (2009: N$1 158 million).

The investment in government stock has been reclassified from unlisted to listed investments, to reflect market information. This reclassification has no effect on the profit and loss or on the financial position. Comparative figures reclassified to align with 2010 classification.

12 Account receivable

N$'000	Group 2010	Group 2009	Company 2010	Company 2009
Accounts receivable				
- Items in transit	27 063	32 956	24 092	31 960
- Deferred staff costs	38 931	44 655	38 931	44 655
- Other accounts receivable	12 316	5 956	11 216	5 572
Total	78 310	83 567	74 239	82 187

The carrying value approximates the fair value of accounts receivable.
The credit quality of the above balances is provided in the risk management note 32.

13 Investment in associate company

Details of investments in unlisted associate company

Group and company

N$ '000	Nature of business	Issued ordinary share capital N$	Number of ordinary shares held	Year end
Namclear (Pty) Ltd	Interbank clearing house	4	1	31 December

There has been no change from the prior year.

Effective holdings and carrying amounts in unlisted associate company

N$ '000	Effective holding % 2010	Effective holding % 2009	Group carrying amount 2010	Group carrying amount 2009	Investments at cost less impairments 2010	Investments at cost less impairments 2009
Namclear (Pty) Ltd	25	25	2 566	5 375	1 154	4 154
Total unlisted			2 566	5 375	1 154	4 154

Detail information of unlisted associate company

Namclear (Pty) Ltd	Group Unaudited June 2010	Group Unaudited June 2009	Company Unaudited June 2010	Company Unaudited June 2009
Opening balance	5 375	4 853	4 154	4 154
Share of profit	191	522		
Reduction of its share premium during the year	(3 000)		(3 000)	
Closing balance	2 566	5 375	1 154	4 154
Comprising				
Cost of investment	4 154	4 154	4 154	4 154
Reduction of its share premium during the year	(3 000)		(3 000)	
Share of reserves	1 412	1 221		
	2 566	5 375	1 154	4 154
Valuation				
Unlisted investment at directors' valuation	2 566	5 375	1 154	4 154

Summarised financial information of associate company

N$ '000 Namclear (Pty) Ltd	Group Unaudited June 2010	Group Unaudited June 2009
Statement of financial position		
Non-current assets	3 991	7 270
Current assets	14 139	22 157
Current liabilities	(6 404)	(4 695)
Non-current liabilities	(1 101)	(3 263)
Equity	10 625	21 469
Total share of profit of associate company	191	522

Refer to note 27 for details of related party balances and transactions.

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.

14 Investment in subsidiary company

Significant subsidiary	Nature of business	Date of acquisition	Country of incorporation	Listed/ unlisted	Effective holding % 2010	Effective holding % 2009
Swabou Investments (Pty) Ltd Number of shares issued: 2 of 0.5 cents each (2009: 2 of 0.5 cents each)	Home loans	1 July 2003	Namibia	Unlisted	100	100

N$ '000	Aggregate income of subsidiary (before tax) 2010	2009	Total indebtedness 2010	2009	Total investment 2010	2009
Swabou Investments (Pty) Ltd	63 769	67 841	711 352	822 097	711 352	822 097

Interest paid by Swabou Investments (Pty) Ltd to First National Bank of Namibia Ltd totalled N$58 million (2009: N$90.5 million).

15 Property and equipment

Group N$ '000	Cost 2010	Accumulated depreciation and impairments 2010	Carrying amount 2010	Cost 2009	Accumulated depreciation and impairments 2009	Carrying amount 2009
Property						
Freehold land and buildings	144 891	(19 361)	125 530	135 900	(18 916)	116 984
Leasehold property	27 966	(15 467)	12 499	21 830	(10 338)	11 492
	172 857	(34 828)	138 029	157 730	(29 254)	128 476
Equipment						
Automatic teller machines	18 892	(13 024)	5 868	16 680	(12 286)	4 394
Computer equipment	60 624	(27 551)	33 073	48 097	(23 126)	24 971
Furniture and fittings	76 259	(29 909)	46 350	63 309	(23 874)	39 435
Motor vehicles	6 201	(2 966)	3 235	6 109	(2 932)	3 177
Office equipment	34 268	(21 324)	12 944	28 973	(17 951)	11 022
	196 244	(94 774)	101 470	163 168	(80 169)	82 999
Total	369 101	(129 602)	239 499	320 898	(109 423)	211 475

Movement in property and equipment - carrying amount

N$ '000	Freehold land and buildings	Leasehold property	Equipment	Total
Carrying amount at 1 July 2008	101 652	5 341	57 322	164 315
Additions	41 504	66	25 698	67 268
Transfer between classes	(20 819)	8 592	12 227	
Depreciation charge for year		(2 505)	(12 852)	(15 357)
Disposals	(2)	(2)	(265)	(269)
Reclassified to held for sale	(753)			(753)
Transfers to repairs and maintenance	(4 598)		869	(3 729)
Carrying amount at 30 June 2009	116 984	11 492	82 999	211 475
Additions	36 363	27	19 728	56 118
Transfer between classes	(21 631)	6 151	15 480	
Depreciation charge for year		(5 171)	(16 241)	(21 412)
Transfers to repairs and maintenance	(5 298)			(5 298)
Disposals	(888)		(496)	(1 384)
Carrying amount at 30 June 2010	125 530	12 499	101 470	239 499

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. Property and equipment is unencumbered at 30 June 2010 or 30 June 2009.

15 Property and equipment (continued)

Company N$ '000	Cost 2010	Accumulated depreciation and impairments 2010	Carrying amount 2010	Cost 2009	Accumulated depreciation and impairments 2009	Carrying amount 2009
Property						
Freehold land and buildings	86 250	(1 093)	85 157	77 704	(1 093)	76 611
Leasehold property	27 966	(15 467)	12 499	21 830	(10 338)	11 492
	114 216	(16 560)	97 656	99 534	(11 431)	88 103
Equipment						
Automatic teller machines	18 892	(13 024)	5 868	16 679	(12 286)	4 393
Computer equipment	60 527	(27 481)	33 046	48 000	(23 088)	24 912
Furniture and fittings	74 886	(29 591)	45 295	61 997	(23 690)	38 307
Motor vehicles	6 201	(2 966)	3 235	6 109	(2 932)	3 177
Office equipment	33 907	(21 192)	12 715	28 841	(17 867)	10 974
	194 413	(94 254)	100 159	161 626	(79 863)	81 763
Total	308 629	(110 814)	197 815	261 160	(91 294)	169 866

Movement in property and equipment - carrying amount

N$'000	Freehold land and buildings	Leasehold property	Equipment	Total
Carrying amount at 1 July 2008	60 530	5 341	55 904	121 775
Additions	41 498	66	25 699	67 263
Transfer between classes	(20 819)	8 592	12 227	
Depreciation charge for year		(2 505)	(12 669)	(15 174)
Transfers to repairs and maintenance	(4 596)		867	(3 729)
Disposals	(2)	(2)	(265)	(269)
Carrying amount at 30 June 2009	76 611	11 492	81 763	169 866
Additions	36 363	27	19 440	55 830
Transfer between classes	(21 631)	6 151	15 480	
Depreciation charge for year		(5 171)	(16 028)	(21 199)
Transfers to repairs and maintenance	(5 298)			(5 298)
Disposals	(888)		(496)	(1 384)
Carrying amount at 30 June 2010	85 157	12 499	100 159	197 815

The useful life of each asset is assessed individualy. The list below provides information on the benchmark used when assessing the useful life of the individual assets:

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

16 Intangible assets

N$ '000	Group 2010	Group 2009	Company 2010	Company 2009
Trademarks				
Gross amount	380 714	380 714	354 099	354 099
Less: Accumulated amortisation	(211 322)	(167 813)	(189 634)	(151 362)
	169 392	212 901	164 465	202 737
Movement in trademarks - carrying amount				
Opening balance	212 901	235 470	202 737	223 002
Amortisation (note 4)	(43 509)	(22 569)	(38 272)	(20 265)
Closing balance	169 392	212 901	164 465	202 737
FNB Namibia trademark	147 838	159 284	147 838	159 284
Swabou trademark	21 554	53 617	16 627	43 453
	169 392	212 901	164 465	202 737
Software				
Gross amount	34 013	6 854	34 013	6 854
Less: Accumulated amortisation	(10 860)	(1 925)	(10 860)	(1 925)
	23 153	4 929	23 153	4 929
Movement in software - carrying amount				
Opening balance	4 929	1 772	4 929	1 772
Additions	27 159	4 081	27 159	4 081
Amortisation (note 4)	(8 935)	(924)	(8 935)	(924)
Closing balance	23 153	4 929	23 153	4 929
Goodwill - carrying amount	47 967	47 967	47 967	47 967
Total closing balance of intangible assets	240 512	265 797	235 585	255 633
Total amortisation charge for intangible assets (note 4)	(52 444)	(23 493)	(47 207)	(21 189)

Change in estimate:

The review of the useful lives of trademarks during the year resulted in the following change in the amortisation trend:

N$ '000	Group and company 2010	2011	2012	2013	2014
Amortisation charge increase / (decrease)	22 542	(809)	(1 596)	(2 332)	(3 023)

The FNB Namibia trademark is amortised over a period of 20 years, of which 14 years remain at the end of 2010.

The amortisation period of the remaining Swabou trademark is partly based on a diminishing amortisation profile and a fixed amortisation profile, both of which ensure the trademark to be fully amortised within the next 4 years.

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

The CGU's to which the goodwill balance as at 30 June 2010 relates to First National Bank of Namibia 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.

17 Non current assets held for sale

N$ '000	Group 2010	Group 2009	Company 2010	Company 2009
Land and buildings				
Investment properties (reclassified in prior year)		4 070		
Property and equipment (note 15) (reclassified in prior year)	753	753		
Balance at end of the year	753	4 823		

The group has publicly advertised the properties for sale since last year. The properties for sale consists of surplus office buildings. Negotiations are in progress for the sale of the property in Tsumeb. The sale of the Walvis Bay property included in the opening balance was concluded during the year. No impairment loss was recognised on the reclassification of the properties held for sale.

18 Deposits

N$ '000	Group 2010	Group 2009	Company 2010	Company 2009
18.1 Deposit and current accounts				
At amortised cost				
From customers				
- Current accounts	7 368 706	6 414 423	7 368 706	6 414 423
- Savings account	318 915	416 454	318 915	416 454
- Term deposits	2 243 108	2 303 890	2 243 108	2 303 890
Other deposits				
- Negotiable certificates of deposit	2 137 294	1 465 913	2 137 294	1 465 913
	12 068 023	10 600 680	12 068 023	10 600 680
Geographic analysis (based on counterparty risk)				
Namibia	12 068 023	10 600 680	12 068 023	10 600 680

The fair values of deposits and current accounts is set out in note 29.

18.2 Due to banks and other financial institutions

N$ '000	Group 2010	Group 2009	Company 2010	Company 2009
At amortised cost				
Due to banks and financial institutions				
- In the normal course of business	53 346	21 731	53 346	21 731
	53 346	21 731	53 346	21 731
Geographic analysis (based on counterparty risk)				
Namibia	53 346	21 731	53 346	21 731

The fair values of deposits and current accounts is set out in note 29.

19 Creditors and accruals

N$ '000	Group 2010	Group 2009	Company 2010	Company 2009
Accounts payable and accrued liabilities	169 537	218 444	168 035	217 456
Items in transit	43 932	11 881	43 932	11 881
Short-term portion of long-term liabilities (note 22)	6 127	6 127	6 127	6 127
Post retirement benefit liability lump sum (note 20)		20 183		20 183
	219 596	256 635	218 094	255 647

All amounts are expected to be settled within twelve months.
The carrying value approximates the fair value.

20 Employee benefits

20.1 Post-employment benefit liabilities

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

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

  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.

- A severance pay provision was created in the current year in accordance with a recently issued recognition and measurement guidance on the severance payments to employees. This is in terms of the (new) Labour Act of 2007 and relates to when employment services are terminated by dismissal under certain circumstances or if they die while employed.

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

  The actuarial valuations are done on an annual basis.

Group and company

N$ '000	2010 Medical	2010 Severance Pay	2010 Total	2009 Medical
Present value of unfunded liabilities	28 110	3 051	31 161	20 937
Unrecognised actuarial (gains) / losses	(51)		(51)	699
Post-employment liabilities	28 059	3 051	31 110	21 636
The amounts recognised in the statement of comprehensive income are as follows:				
Current service cost	4 313	207	4 520	1 217
Past service cost		2 809	2 809	
Interest cost	2 355	286	2 641	3 832
Net actuarial gains recognised	750	(251)	499	357
Total included in staff costs (note 4)	7 418	3 051	10 469	5 406
Movement in post-employment liabilities				
Present value at the beginning of the year	21 636		21 636	37 248
Amounts recognised in the profit and loss as above	7 418	3 051	10 469	5 406
Lumpsum benefits paid (note 19)				(20 183)
Benefits paid	(995)		(995)	(835)
Present value at the end of the year	28 059	3 051	31 110	21 636
Expected benefits payable in following financial year	1 860	489	2 349	5 049
The principal actuarial assumptions used for accounting purposes were:				
Discount rate (%)	9.04%	8.94%		11.25%
Expected rates of salary increases (%)	10.25%	7.44%		10.25%
Long-term increase in medical subsidies (%)	8.02%			10.25%
The effects of a 1% movement in the assumed costs were as follows:				
Increase of 1%	Health costs	Salary costs		Health costs
Effect on the aggregate of the current service cost and interest cost	388	84		491
Effect on the defined benefit obligation	3 942	318		3 396
Decrease of 1%				
Effect on the aggregate of the current service cost and interest cost	313	72		380
Effect on the defined benefit obligation	3 193	279		2 691
Mortality rate				
The average remaining life expectancy in years of a pensioner retiring at age 60 on the reporting date is as follows:				
Male	20	20		18
Female	19	19		21
Employees covered	129	1 689		112

20 Employee benefits (continued)

20.1 Post-employment benefit liabilities (continued)

Five year analysis on total medical post retirement plans (projected)

	N$'000
As at 30 June 2011	29 748
As at 30 June 2012	31 585
As at 30 June 2013	33 567
As at 30 June 2014	35 724
As at 30 June 2015	38 093

20.2 Defined contribution pension fund

N$'000	Group and company 2010	2009
Employer contributions to pension fund	29 787	21 048
Employer contributions to pension fund - executive director	182	326
Total employer contributions to pension fund (note 4)	29 969	21 374
Employee contributions to pension fund	11 340	14 351
Total contributions	41 309	35 725
Number of employees covered	1 684	1 574

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 2009 and indicated that the fund was in a sound financial position. The pension fund is a related party to the group.

During the year, the group recognised the pension fund surplus attributable to the employer as approved by the Registrar of Pension Funds, amounting to N$34 million. The surplus was utilised to fund the employer contributions to the pension fund.

21 Deferred tax liability

N$'000	Group 2010	Group 2009	Company 2010	Company 2009
The movement on the deferred tax account is as follows:				
Deferred tax liabilities				
- Balance at the beginning of the year	138 545	113 217	140 412	115 709
- Originating temporary differences	(23 201)	25 328	(23 805)	24 703
Total credit balance	115 344	138 545	116 607	140 412
Deferred tax asset				
- Balance at the beginning of the year	(71 774)	(82 035)	(69 245)	(79 889)
- Reversing temporary differences	(7 596)	10 261	(6 438)	10 643
Total debit balance	(79 370)	(71 774)	(75 683)	(69 246)
Net balance for the year for entities with deferred tax liabilities	35 974	66 771	40 924	71 166

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

Group N$'000	2010 Opening balance	2010 Originating /(reversing) differences	2010 Closing balance	2009 Opening balance	2009 Originating /(reversing) differences	2009 Closing balance
Deferred tax liabilities						
Instalment credit agreements	75 749	(26 929)	48 820	45 551	30 198	75 749
Accruals	26 082	(4 988)	21 094	35 855	(9 773)	26 082
Revaluation of available-for-sale financial assets	1 012	1 831	2 843		1 012	1 012
Property and equipment	20 072	6 290	26 362	15 148	4 924	20 072
Deferred staff cost	15 630	(447)	15 183	16 663	(1 033)	15 630
Derivatives		1 042	1 042			
Total deferred tax liabilities	138 545	(23 201)	115 344	113 217	25 328	138 545
Deferred tax assets						
Provision for loan impairment	(70 368)	17 703	(52 665)	(68 999)	(1 369)	(70 368)
Provision for post-employment benefits	(7 572)	(3 005)	(10 577)	(13 036)	5 464	(7 572)
Other	6 166	(22 294)	(16 128)		6 166	6 166
Total deferred tax assets	(71 774)	(7 596)	(79 370)	(82 035)	10 261	(71 774)
Total net deferred tax	66 771	(30 797)	35 974	31 182	35 589	66 771
Charge through profit and loss (note 5)		(32 628)			28 699	
Deferred tax on other comprehensive income		1 831			6 890	
Total		(30 797)			35 589	

Company N$'000	2010 Opening balance	2010 Originating /(reversing) differences	2010 Closing balance	2009 Opening balance	2009 Originating /(reversing) differences	2009 Closing balance
Deferred tax liabilities						
Instalment credit agreements	75 750	(26 930)	48 820	45 552	30 198	75 750
Accruals	26 060	(4 966)	21 094	35 856	(9 796)	26 060
Revaluation of available-for-sale financial assets	1 012	1 831	2 843		1 012	1 012
Property and equipment	21 961	5 664	27 625	17 639	4 322	21 961
Deferred staff cost	15 629	(446)	15 183	16 662	(1 033)	15 629
Derivatives		1 042	1 042			
Total deferred tax liabilities	140 412	(23 805)	116 607	115 709	24 703	140 412
Deferred tax assets						
Provision for loan impairment	(54 448)	3 869	(50 579)	(53 463)	(985)	(54 448)
Revaluation of available-for-sale financial assets				(5 879)	5 879	
Provision for post-employment benefits	(7 572)	(3 005)	(10 577)	(13 037)	5 465	(7 572)
Derivatives	(470)	470		11	(481)	(470)
Other	(6 755)	(7 772)	(14 527)	(7 521)	766	(6 755)
Total deferred tax assets	(69 245)	(6 438)	(75 683)	(79 889)	10 644	(69 245)
Total net deferred tax	71 167	(30 243)	40 924	35 820	35 347	71 166
Charge through profit and loss (note 5)		(32 074)			28 457	
Deferred tax on other comprehensive income		1 831			6 890	
Total		(30 243)			35 347	

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

22 Long term liabilities

N$ '000	Group and company 2010	2009
FNB 17 fixed rate notes	260 000	260 000
Accrued interest	5 957	5 997
	265 957	265 997
Fair value adjustment (financial liability elected fair value)	3 675	1 368
Fair value	269 632	267 365
Less: Portion payable within 12 months transferred to Creditors and accruals (note 19)	(6 127)	(6 127)
	263 505	261 238
Fair value adjustment for the year	(2 307)	(25 748)

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 statement of comprehensive income. By designating the long term debt at fair value, the movement in the fair value of the long term debt will be recorded in the statement of comprehensive income.

The fair value movement of the bond attributable to changes in credit risk is N$ Nil (2009: 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 bank's listed bond.

The amount that would contractually be paid at maturity for financial liabilities designated at fair value through profit and loss for the group and company is N$260 million (2009: N$260 million), N$ 3.7 million (2009: N$1.4 million) lower than the carrying amount.

The fair value is calculated based on quoted market prices.

23 Ordinary shares

N$ '000	Group and company 2010	2009
Authorised		
4 000 (2009: 4 000) ordinary shares with a par value of N$1 per share	4	4
Issued and fully paid up		
1 200 (2009: 1 200) ordinary shares with a par value of N$1 per share	1	1
Share premium	1 142 791	1 142 791

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

The issued share capital is fully paid up.

24 Share option schemes

N$'000	Group and company 2010	Group and company 2009
The statement of comprehensive income charge for share-based payments is as follows:		
FNB Share Incentive Trust	2 083	1 641
BEE Staff Incentive Scheme	65	159
Total of share trusts	2 148	1 800
Employees with FirstRand share options and share appreciation rights	1 293	237
Charge against staff costs (note 4)	3 441	2 037

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

FNB Namibia and FirstRand Share Incentive schemes
The purpose of this schemes is to provide a facility to employees of the FNB Namibia Holdings group to acquire shares in FNB Namibia Holdings Limited and FirstRand Limited. The primary purpose of the schemes 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 company does not have an exposure to market movements on FNB Namibia Holdings Limited shares as all options are hedged through a share incentive trust that houses the shares until the options are exercised or expires.

BEE Share Incentive scheme
The group is firmly committed to the process of achieving transformation in Namibia. The 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 Limited at the time, to a BEE transaction. Of this total number, 4% was allocated to BEE partners and 1% was allocated to black employees and black non-executive directors. The 1% allocation to staff includes a number of shares to be put separately into a trust of which the dividend income is to support educational needs of such staff members and their family members. The rest of the 1% allocation is used, through a trust, to allocate options to staff members.

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

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

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

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

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.

24 Share option schemes (continued)

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 share-based payment expenses for the year under review are:

Group and company	FNB Share Incentive Trust		BEE Staff Incentive Scheme	
N$'000	2010	2009	2010	2009
Weighted average exercise price (N$)	517 - 1180	400 - 1155	700	700
Expected volatility (%)	4 - 17	4 - 17	7	7
Expected option life (years)	5	5	5	5
Expected risk free rate (%)	7.05 - 9.47	8.89 - 14.46	9	9
Share option schemes				
Number of options in force at the beginning of the year ('000)	7 726	4 541	566	1 239
Granted at prices ranging between (cents)	517 - 1155	517 - 823		517
Number of options granted during the year ('000)	2 829	3 751		
Granted at prices ranging between (cents)	1180	1155		
Number of options exercised/released during the year ('000)	(586)	(447)	(407)	(554)
Market value range at the date of exercise/release (cents)	1180	1180	1180	1180
Number of options cancelled/lapse during the year ('000)	(172)	(119)		(119)
Granted at prices ranging between (cents)	517 - 1180	517 - 1155		
Number of options in force at the end of the year ('000)	9 797	7 726	159	566
Granted at prices ranging between (cents)	517 - 1180	517 - 1155	517	517
Options are exercisable over the following periods: ('000) (first date able to release)				
Financial year 2010		967		566
Financial year 2011	1 533	1 166	159	
Financial year 2012	2 351	2 413		
Financial year 2013	2 815	1 934		
Financial year 2014	2 155	1 246		
Financial year 2015	943			
	9 797	7 726	159	566

25 Cash flow information

N$ '000	Group 2010	Group 2009	Company 2010	Company 2009
25.1 Reconciliation of operating profit to cash flows from operating activities				
Profit before tax	557 439	484 787	507 442	433 975
Adjusted for:				
- Depreciation, amortisation and impairment costs	73 856	38 850	68 406	36 361
- Transfer to repairs and maintenance	5 298	3 729	5 298	3 729
- Impairment losses of advances	12 960	38 412	10 884	34 424
- Fair value adjustment to financial liabilities	2 307	25 748	2 307	25 748
- Provision for post-employment benefit obligations	9 474	5 406	9 634	5 406
- Other employment accruals	1 051	7 559	1 051	7 559
- Creation and revaluation of derivative financial instruments	15 757	(39 244)	15 757	(39 244)
- (Profit) / loss on sale of property and equipment	(1 299)	(85)	131	(85)
- Share-based payment costs	3 441	2 037	3 441	2 037
- Unwinding of discounted present value of securities on non-performing loans (note 10)	(9 992)	(21 140)	(7 702)	(16 600)
- Unwinding of discounted present value on off-market advances (note 2)	(5 967)	(6 594)	(5 967)	(6 594)
- Net release of deferred fee and expenses	(7 430)	(6 842)	(6 994)	(6 284)
- Transfer from revaluation reserve: available-for-sale financial asset	(42)	(1 842)	(42)	(1 842)
- Off-market staff loans amortisation (note 4)	5 967	6 594	5 967	6 594
- Share of profit of associate company	(191)	(522)		
- Indirect tax (note 5)	15 591	10 848	15 325	10 547
Cash flows from operating activities	678 220	547 701	624 938	495 731
25.2 Tax paid				
Amounts (payable) / receivable at beginning of the year	(4 184)	15 761	(3 998)	16 381
Indirect taxes	(15 591)	(10 848)	(15 325)	(10 547)
Current tax charge	(219 915)	(138 932)	(201 971)	(119 913)
Amounts payable at end of the year	31 251	4 184	29 946	3 998
Total tax paid	(208 439)	(129 835)	(191 348)	(110 081)
25.3 Capital expenses				
Purchase of property, equipment and software, settled in cash	83 277	71 349	82 989	71 343
25.4 Dividends paid	105 113	119 860	105 113	119 860
25.5 Net reduction in investment in associate Namclear (Pty) Ltd				
Namclear (Pty) Ltd reduced its share premium during the year, and paid out to all its shareholders. The shareholding remained at 25%.	3 000		3 000	
Net cash received from investment in associate	3 000		3 000	

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

26 Contingent liabilities and capital commitments

N$ '000	Group and company 2010	2009
Contingencies		
Guarantees	654 104	647 729
Letters of credit	33 959	67 379
Total contingencies	688 063	715 108
Irrevocable unutilised facilities	311 754	224 497
Total contingencies and commitments	999 817	939 605

Guarantees consist predominantly of endorsements and performance guarantees.

The fair value of guarantees approximate the face value as disclosed.

Irrevocable facilities were restated for 2009 as the internal definition was refined to exclude facilities that the group can terminate by written notice.

N$ '000	2010	2009
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	10 871	30 160
Made up of the following:		
Capital commitments contracted for at the reporting date but not yet incurred are as follows:		
- Property and equipment	10 871	30 160

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

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.

Group and company leasing arrangements:

N$ '000	2010 Next year	2010 2nd to 5th year	2009 Next year	2009 2nd to 5th year
Office premises	9 979	15 002	8 649	13 484
Equipment	60	8	1 086	164
	10 039	15 010	9 735	13 648

Notice periods on operating lease contracts are between 3-6 months, no operating lease contract is fixed and escalation clauses range between 7% and 10% (2009: 7% and 10%).

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

There were no commitments under operating leases after 5 years.

27 Related parties

The group defines related parties as:

- The parent company
- Subsidiary companies
- Associate companies
- Key management personnel at First National Bank of Namibia Ltd or FNB Namibia Holdings Ltd 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 First National Bank of Namibia Limited is FirstRand Limited, incorporated in South Africa.

27.1 Subsidiary

Details of interests in the subsidiary are disclosed in note 14.
Transactions with fellow subsidiaries appear in the table below (these are not eliminated on consolidation).
Transactions within the group are eliminated on consolidation and not disclosed below.

27.2 Associate

Details of the investment in the associate company are disclosed in note 13.

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

27 Related parties (continued)

27.3 Details of transactions with relevant related parties appear below:

Group and company N$'000	2010 FirstRand Bank Ltd	FNB Namibia Holdings Ltd	FNB Employee Share Trust	Namclear (Pty) Ltd	Talas Properties (Windhoek) (Pty) Ltd
Loans and advances					
Balance 1 July	104 372		80 906		7 657
Issued during year	711 845		4 177		
Repayments during year					(7 657)
Balance 30 June	816 217		85 083		
Deposits					
Balance 1 July	(19 386)			(19 441)	(31 131)
Received during year	(33 110)				
Repayments during year				8 287	8 977
Balance 30 June	(52 496)			(11 154)	(22 154)
Interest received	74 425				
Interest paid				(441)	(178)
Dividends paid		(105 113)			
Derivative instruments: assets	11 146				
Derivative instruments: liabilities	(40 884)				

Group and company N$'000	2010 Total	FirstRand Bank Ltd	Momentum Life Assurance Namibia Ltd	Talas Properties (Windhoek) (Pty) Ltd	First National Asset Management and Trust Company of Namibia (Pty) Ltd	Namclear (Pty) Ltd
Non interest income						
Commission	3 688	2 385	1 144		159	
Rental and property income	2 061		1 391			670
Management fees	973		973			
	6 722	2 385	3 508		159	670
Non interest expenditure						
Computer processing costs	96 320	96 320				
Internal audit and compliance	1 273	1 273				
ATM processing costs	1 996	1 996				
Payroll processing	1 381	1 381				
Management fees	5 980	5 980				
Insurance	4 695	4 695				
Rental paid	7 838			7 838		
Other sundry	11 150	4 985	6 165			
Clearing cost	5 939					5 939
	136 572	116 630	6 165	7 838		5 939

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

27 Related parties (continued)

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

Group and company

2009

N$'000	FirstRand Bank Ltd	FNB Namibia Holdings Ltd	Namclear (Pty) Ltd	Talas Properties (Windhoek) (Pty) Ltd
Loans and advances				
Balance 1 July	749 763			
Issued during year				
Repayments during year	(645 391)			
Balance 30 June	104 372			
Deposits				
Balance 1 July	(35 945)		(13 032)	(31 131)
Received during year			(6 409)	
Repayments during year	16 559			
Balance 30 June	(19 386)		(19 441)	(31 131)
Interest received	39 222			
Interest paid			(737)	(300)
Dividends paid		(119 860)		
Derivative instruments: assets	17 004			
Derivative instruments: liabilities	(8 905)			

Group and company

2009

N$'000	Total	FirstRand Bank Ltd	Momentum Life Assurance Namibia Ltd	Talas Properties (Windhoek) (Pty) Ltd	First National Asset Management and Trust Company of Namibia (Pty) Ltd	Namclear (Pty) Ltd
Non interest income						
Commission	3 558	3 340	590		218	
FNB Card reward	6 377	5 787				
Rental and property income	1 439		836			603
Management fees	779		779			
	12 153	9 127	2 205		218	603
Non interest expenditure						
Computer processing costs	44 753	44 753				
Internal audit and compliance	899	899				
Insurance	2 095	2 095				
ATM processing costs	671	671				
Payroll processing	1 005	1 005				
Management fees	3 341	3 341				
Rental paid	6 993			6 993		
Other sundry	6 169		6 169			
Clearing cost	5 909					5 909
	71 835	52 764	6 169	6 993		5 909

27 Related parties (continued)

27.4 Key management personnel

N$'000	Group and company 2010	2009
Advances		
Balance 1 July	45 524	35 933
Issued during year	6 518	26 677
Repayments during year	(13 790)	(21 603)
Interest earned	3 838	4 517
Balance 30 June	42 090	45 524

No impairment has been recognised for loans granted to key management (2009: nil). Mortgage loans are repayable monthly over 20 years.

	2010	2009
Credit Cards		
Balance 1 July	202	
Total annual spend	1 778	1 246
Repayments	(1 823)	(1 098)
Interest earned	30	43
Fees earned	15	11
Balance 30 June	202	202

	2010	2009
Cheque and current accounts		
Credit balance 1 July	(8 585)	(3 534)
Net deposits and withdrawals	(4 539)	(6 719)
Net service fees and bank charges	1 395	1 827
Interest income	330	397
Interest expense	(378)	(556)
Balance 30 June	(11 777)	(8 585)

	2010	2009
Instalment finance		
Balance 1 July	3 537	3 320
Issued during year	3 111	518
Repayments during year	(3 505)	(415)
Interest earned	525	114
Balance 30 June	3 668	3 537
Shares and share options held		
Share options held by members of key management	2 856	2 704

Key management compensation	2010	2009
Salaries and other short-term benefits	16 899	19 598
Contribution to defined contribution schemes	2 165	1 533
Share-based payments	1 038	1 162
Total compensation	20 102	22 293

A listing of the board of directors of the group appears in the directors report.

27.5 Post-employment benefit plan

Refer note 20.1 on detail disclosure of the movements on the post-employment benefit liabilities. The pension fund is a related party to the group, refer note 20.2.

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

28 Collateral pledged and assets held

N$'000	2010	2009
The group and company have pledged assets as security for the following liabilities:		
Due to banks and other financial institutions		
- Repo facility at Bank of Namibia		1 598
Total		1 598

The group pledges assets under the following terms and conditions:

Mandatory reserve deposits are also held with the Bank of Namibia in accordance with statutory requirements. These deposits are not available to finance the group's day-to-day operations.

Collateral in the form of other investment securities is pledged when the 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.

N$'000	2010	2009
Assets pledged to secure the above liabilities are carried at and included under the following:		
Investment securities: Treasury bills		1 775
Total		1 775

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

29 Fair value of financial instruments

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

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

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

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

The group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements, this is done for instruments recognised at fair value. The group's fair value hierarchy has the following levels:

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

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

Level 3 - Fair value is determined using a valuation technique and inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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-Schools 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.

29 Fair value of financial instruments (continued)

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.

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

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

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

	2010			
N$'000	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
Investment securities (note 11)	11 591	1 132 040		1 143 631
Financial assets designated at fair value through profit or loss				
Investment securities (note 11)		50 437		50 437
Financial assets held for trading				
Derivative financial instruments (note 8)		57 119		57 119
Investment securities (note 11)		51 720		51 720
Total financial assets	11 591	1 291 316		1 302 907
Liabilities				
Financial liabilities designated at fair value through profit or loss				
Long term liabilities (note 22)		263 505		263 505
Long term liabilities (current portion) (note 22)		6 127		6 127
Financial liabilities held for trading				
Derivative financial instruments (note 8)		58 019		58 019
Total financial liabilities		327 651		327 651

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

29 Fair value of financial instruments (continued)

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

	Group 2010		Company 2010	
N$'000	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Total advances at amortised cost	11 311 742	11 465 622	10 443 163	10 584 786
Other investments at amortised cost	247 105	246 963	247 105	246 963
Liabilities				
Total deposits and current accounts	12 068 023	11 311 901	12 068 023	11 311 901

	Group 2009		Company 2009	
N$'000	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Total advances at amortised cost	10 574 999	10 579 063	9 635 710	9 636 466
Other investments at amortised cost	100 230	100 277	100 230	100 277
Liabilities				
Total deposits and current accounts	10 600 680	10 590 369	10 600 680	10 590 369

30 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 end of reporting period. In determining whether an impairment loss should be recorded in the statement of comprehensive income, 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.

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 10 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 8 for a detailed analysis of the derivatives and the carrying amounts of the different types of derivative instruments. Note 29 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 statement of comprehensive income, 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.

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

(d) Income taxes
The group is subject to direct tax in Namibia. 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 5 and 21 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 153 to 159 of the annual report of FNB Namibia group. The repricing analysis (note 32) 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 note 16 to these financial statements.

(g) Employee benefit liabilities
The cost of the benefits and the present value of the post retirement medical obligations and severance pay: death in service 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 profit and loss arising from these obligations include the expected long term rate of return on the relevant plan assets, the discount rate and the expected salary and pension increase rates. Any changes in these assumptions will impact the charge to the profit and loss and may affect planned funding of the post retirement 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 severance pay 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 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 20.

(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 statement of comprehensive income. 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 24 for the detailed information regarding the share-based payment expense and the assumptions used in determining the expense, liability and reserve.

31 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.

		Effective date
IFRS 1 (amended)	**Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1")**	
	The amendment provides relief to first-time adopters of International Financial Reporting Standards from providing the additional disclosures introduced in March 2009 by the amendment to IFRS 7 *Improving Disclosures about Financial Instruments.* The additional disclosure requirements included in the amendment to IFRS 7 requires enhanced disclosures about the fair value measurement and liquidity risk.	Annual periods commencing on or after 1 July 2010
	This amendment will not have an impact on the group, as the group has already adopted IFRS.	
IFRIC 14 (amended)	**IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**	
	The amendment applies in limited circumstances when an entity is subject to minimum funding requirements and makes a voluntary early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.	Annual periods commencing on or after 1 January 2011
	This amendment is not expected to have an impact to the group.	
IFRIC 19	**Extinguishing Financial Liabilities with Equity Instruments**	
	The interpretation provides guidance on the accounting treatment of transactions where a financial liability is extinguished by the issue of equity instruments. These transactions are often referred to as debt for equity swaps.	Annual periods commencing on or after 1 July 2010
	This amendment is not expected to impact the group's results significantly.	
IFRS 9	**Financial Instruments**	
	The IFRS is the first phase in the IASB's three-part project to replace the current IAS 39 *Financial Instruments: Recognition and Measurement.* This phase deals with the classification and measurement of financial assets. Financial assets can be classified as financial assets at amortised cost or fair value. The classification is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.	Annual periods beginning on or after 1 January 2013
	The group is in the process of assessing the impact that IFRS 9 would have on the financial statements. Until the process is completed, the group is unable to determine the significance of the impact of IFRS 9.	
IAS 24 (amended)	**Related Party Disclosures**	
	The amendment removes certain of the disclosure requirements for government related entities and clarifies the definition of a related party.	Annual periods commencing on or after 1 January 2011
	This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact on the revised disclosure is not expected to be significant.	
IAS 32 (amended)	**Classification of rights issues**	
	The amendment clarifies the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. The amendment requires the rights issues offered pro rata to all of an entity's existing shareholders to be classified as equity instruments regardless of the currency in which the exercise price is denominated.	Annual periods commencing on or after 1 February 2010
	This amendment is not expected to have an impact to the group.	
Annual Improvements	**Improvements to IFRS**	
	As part of its annual improvements projects, the IASB has issued its editions 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.	
	Annual improvements projects undertaken in the 2009 calendar year.	Annual periods commencing on or after 1 January 2010
	Annual improvements projects undertaken in the 2010 calendar year.	Annual periods commencing on or after 1 January 2011 except for the improvements to IFRS 3 and IAS 27 that are effective for annual periods commencing on or after 1 July 2010
	There are no significant changes in either of the improvement projects that are expected to affect the group.	

32 Risk management

The unaudited risk report of the FNB Namibia group appears on pages 153 to 159 of the said annual report, which is appended as a separate document to this set of financial statements. The report describes the various risks the group is exposed to, as well as the methodology and instruments to mitigate these risks. Risk control policies and exposures limits for the key risk areas of the group are approved by the board, while operational policies and controls procedures are approved by the relevant risk committees. The main financial risks that the business is exposed to are detailed in this note.

32.1 Maximum exposure to credit risk

Total exposure

	Group		Company	
N$'000	2010	2009	2010	2009
Cash and short term funds	196 343	111 776	196 343	111 776
- Balances with central banks	194 883	110 558	194 883	110 558
- Balances with other banks	1 460	1 218	1 460	1 218
Due from banks and other financial institutions	851 182	479 236	851 182	479 236
Advances	11 311 742	10 574 999	10 443 163	9 635 710
- Card loans	76 258	66 059	76 258	66 059
- Overdraft and managed accounts	1 493 520	1 556 963	1 493 520	1 556 963
- Instalment sales and lease receivables	1 702 318	1 685 842	1 702 318	1 685 842
- Home loans	5 908 218	5 265 172	5 039 639	4 325 883
- Term loans	1 680 608	1 603 139	1 680 608	1 603 139
- Other	450 820	397 824	450 820	397 824
Derivative financial instruments	57 119	130 487	57 119	130 487
Debt investment securities	1 481 302	909 342	1 481 302	909 342
- Listed investment securities	250 391	274 916	250 391	274 916
- Unlisted investment securities	1 230 911	634 426	1 230 911	634 426
Accounts receivable	39 379	38 912	35 308	37 532
Amounts not recognised on the statement of financial position	999 817	939 605	999 817	939 605
Guarantees	654 104	647 729	654 104	647 729
Letters of credit	33 959	67 379	33 959	67 379
Irrevocable commitments	311 754	224 497	311 754	224 497
Total	14 936 884	13 184 357	14 064 234	12 243 688

32.2 FR rating mapping to international and national rating scales

The group categorises current exposures according to an internal rating scale, the FR ratings, ranging from FR 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 curent 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.

32 Risk management (continued)

32.3 Credit quality

The table below presents an analysis of the credit quality of neither past due nor impaired (i.e. performing) advances (refer to note 32.2 for the FR rating mapping to international and national rating scales):

Group

N$'000	Total neither past due nor impaired	Card loans	Overdraft and managed accounts	Instalment sales and lease receivables	Home loans	Term loans	Other
2010							
FR 28 - 91	10 155 392	70 586	657 383	1 675 193	5 604 523	1 696 887	450 820
Above FR 92	88 585	3 139	6 489	802	76 751	1 404	
Total	10 243 977	73 725	663 872	1 675 995	5 681 274	1 698 291	450 820
2009							
FR 28 - 91	9 631 749	67 978	946 574	1 670 070	5 036 203	1 571 462	339 462
Above FR 92	92 546	41	4 367	8 142	48 389	31 607	
Total	9 724 295	68 019	950 941	1 678 212	5 084 592	1 603 069	339 462

Credit quality of financial assets other than advances neither past due nor impaired

N$'000	Investment securities	Derivatives	Cash and short term funds	Due from banks and other financial institutions	Total
International scale mapping (National equivalent):					
2010					
AAA to BB- (A to BBB)	1 430 865	7 632	196 343	851 182	2 486 022
Unrated	50 437	49 487			99 924
Total	1 481 302	57 119	196 343	851 182	2 585 946
2009					
AAA to BB- (A to BBB)	909 342	4 293	316 936	386 504	1 617 075
Unrated		126 194		92 732	218 926
Total	909 342	130 487	316 936	479 236	1 836 001

32 Risk management (continued)

32.3 Credit quality (continued)

The table below presents an analysis of the credit quality of neither past due nor impaired (i.e. performing) advances (refer to note 32.2 for the FR rating mapping to international and national rating scales):

Company

N$'000	Total neither past due nor impaired	Card loans	Overdraft and managed accounts	Instalment sales and lease receivables	Home loans	Term loans	Other
2010							
FR 28 - 91	9 315 222	70 586	657 383	1 675 193	4 764 353	1 696 887	450 820
Above FR 92	88 585	3 139	6 489	802	76 751	1 404	
Total	9 403 807	73 725	663 872	1 675 995	4 841 104	1 698 291	450 820
2009							
FR 28 - 91	8 732 509	67 978	946 574	1 670 070	4 136 963	1 571 462	339 462
Above FR 92	92 546	41	4 367	8 142	48 389	31 607	
Total	8 825 055	68 019	950 941	1 678 212	4 185 352	1 603 069	339 462

Credit quality of financial assets other than advances neither past due nor impaired

N$'000	Investment securities	Derivatives	Cash and short term funds	Due from banks and other financial institutions	Total
International scale mapping (National equivalent):					
2010					
AAA to BB- (A to BBB)	1 430 865	7 632	196 343	851 182	2 486 022
Unrated	50 437	49 487			99 924
Total	1 481 302	57 119	196 343	851 182	2 585 946
2009					
AAA to BB- (A to BBB)	909 342	4 293	316 936	386 504	1 617 075
Unrated		126 194		92 732	218 926
Total	909 342	130 487	316 936	479 236	1 836 001

32 Risk management (continued)

32.4 Credit risk management

Group

	Age analysis						
			Past due but not impaired				
N$'000	Neither past due nor impaired	Renegotiated but current	1 - 30 days	31 - 60 days	61 - 90 days	Impaired	Total
2010							
Advances							
- Card loans	73 725		397	146	3 458	2 990	80 716
- Overdraft and managed accounts	663 872		541 284	211 815	88 377	66 813	1 572 161
- Instalment sales and lease receivables	1 675 995		8 909	5 836	22 104	28 940	1 741 784
- Home loans	5 681 274		50 789	45 459	78 256	106 365	5 962 143
- Term loans	1 698 291			20 847	11 916	19 749	1 750 803
- Other	450 820						450 820
Sub total	10 243 977		601 379	284 103	204 111	224 857	11 558 427
Accounts receivable							
- Items in transit	27 063						27 063
- Deferred staff cost	38 931						38 931
- Other accounts receivable	12 316						12 316
Sub total	78 310						78 310
Total	10 322 287		601 379	284 103	204 111	224 857	11 636 737
2009							
Advances							
- Card loans	68 019			834	457	3 307	72 617
- Overdraft and managed accounts	950 941		584 332		77 136	57 276	1 669 685
- Instalment sales and lease receivables	1 678 212			23 809	5 878	25 289	1 733 188
- Home loans	5 084 592			121 058	42 803	138 427	5 386 880
- Term loans	1 603 069			9 429	1 752	12 240	1 626 490
- Other	339 462						339 462
Sub total	9 724 295		584 332	155 130	128 026	236 539	10 828 322
Accounts receivable							
- Items in transit	32 956						32 956
- Deferred staff cost	44 655						44 655
- Other accounts receivable	5 956						5 956
Sub total	83 567						83 567
Total	9 807 862		584 332	155 130	128 026	236 539	10 911 889

32 Risk management (continued)

32.4 Credit risk management (continued)

Company

N$'000	Neither past due nor impaired	Renegotiated but current	Age analysis – Past due but not impaired: 1 - 30 days	31 - 60 days	61 - 90 days	Impaired	Total
2010							
Advances							
- Card loans	73 725		397	146	3 458	2 990	80 716
- Overdraft and managed accounts	663 872		541 283	211 815	88 377	66 813	1 572 160
- Instalment sales and lease receivables	1 675 992		8 909	5 836	22 104	28 940	1 741 781
- Home loans	4 841 107		43 278	38 737	66 683	90 636	5 080 441
- Term loans	1 698 291			20 847	11 916	19 749	1 750 803
- Other	450 820						450 820
Sub total	9 403 807		593 867	277 381	192 538	209 128	10 676 721
Accounts receivable							
- Items in transit	24 092						24 092
- Deferred staff cost	38 931						38 931
- Other accounts receivable	11 216						11 216
Sub total	74 239						74 239
Total	9 478 046		593 867	277 381	192 538	209 128	10 750 960
2009							
Advances							
- Card loans	68 019			834	457	3 307	72 617
- Overdraft and managed accounts	950 941		584 332		77 136	57 276	1 669 685
- Instalment sales and lease receivables	1 678 212			23 809	5 878	25 289	1 733 188
- Home loans	4 185 352			99 676	35 239	113 978	4 434 245
- Term loans	1 603 069			9 429	1 752	12 240	1 626 490
- Other	339 462						339 462
Sub total	8 825 055		584 332	133 748	120 462	212 090	9 875 687
Accounts receivable							
- Items in transit	31 960						31 960
- Deferred staff cost	44 655						44 655
- Other accounts receivable	5 572						5 572
Sub total	82 187						82 187
Total	8 907 242		584 332	133 748	120 462	212 090	9 957 874

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.

32 Risk management (continued)

32.5 Liquidity risk management

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

Group

N$'000	2010 Carrying amount	Term to maturity Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and short term funds	402 129	402 129		
Due from banks and other financial institutions	851 182	851 182		
Derivative financial instruments	57 119	57 119		
Advances	11 311 742	2 274 928	515 314	8 521 500
Investment securities	1 492 893	1 023 043	226 498	243 352
Accounts receivable	78 310	78 310		
Financial assets	14 193 375	4 686 711	741 812	8 764 852
Non financial assets	483 330			
Total assets	14 676 705			
Equity and liabilities				
Deposits and current accounts	12 068 023	10 106 692	1 918 264	43 067
Due to banks and other financial institutions	53 346	53 346		
Derivative financial instruments	58 019	58 019		
Creditors and accruals	219 596	212 768	6 828	
Long term liabilities	263 505			263 505
Financial liabilities	12 662 489	10 430 825	1 925 092	306 572
Non financial liabilities	98 335			
Total liabilities	12 760 824			
Total equity	1 915 881			
Total equity and liabilities	14 676 705			
Net liquidity gap		(5 744 114)	(1 183 280)	8 458 280
Cumulative liquidity gap		(5 744 114)	(6 927 394)	1 530 886

Group

N$'000	2009 Carrying amount	Term to maturity Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and short term funds	316 936	316 936		
Due from banks and other financial institutions	479 236	479 236		
Derivative financial instruments	130 487	75 833	48 695	5 959
Advances	10 574 999	2 327 019	573 587	7 674 393
Investment securities	919 642	454 090	189 762	275 790
Accounts receivable	83 567	83 567		
Financial assets	12 504 867	3 736 681	812 044	7 956 142
Non financial assets	487 470			
Total assets	12 992 337			
Equity and liabilities				
Deposits and current accounts	10 600 680	8 765 620	1 782 540	52 520
Due to banks and other financial institutions	21 731	21 731		
Derivative financial instruments	115 631	53 626	56 247	5 758
Creditors and accruals	256 635	189 911	66 724	
Long term liabilities	261 238			261 238
Financial liabilities	11 255 915	9 030 888	1 905 511	319 516
Non financial liabilities	92 591			
Total liabilities	11 348 506			
Total equity	1 643 831			
Total equity and liabilities	12 992 337			
Net liquidity gap		(5 294 207)	(1 093 467)	7 636 626
Cumulative liquidity gap		(5 294 207)	(6 387 674)	1 248 952

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

32 Risk management (continued)

32.5 Liquidity risk management (continued)

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

Group

N$'000	2010 Total amount	Term to maturity Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits and current accounts	12 126 969	10 089 066	1 990 460	47 443
Due to banks and other financial institutions	53 346	53 346		
Derivative financial instruments	58 019	58 019		
Creditors and accruals	219 596	219 596		
Long term liabilities	307 580		23 790	283 790
Financial liabilities	12 765 510	10 420 027	2 014 250	331 233
Off statement of financial position				
Financial and other guarantees	688 063	531 144	54 707	102 212
Facilities not drawn	1 871 678	1 871 678		

Group

N$'000	2009 Total amount	Term to maturity Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits and current accounts	11 059 205	9 080 534	1 925 123	53 548
Due to banks and other financial institutions	21 731	21 731		
Derivative financial instruments	115 631	53 626	56 247	5 758
Creditors and accruals	256 635	189 910	66 725	
Long term liabilities	331 370		23 790	307 580
Financial liabilities	11 784 572	9 345 801	2 071 885	366 886
Off statement of financial position				
Financial and other guarantees	715 108	449 763	223 459	41 886
Facilities not drawn	1 650 685	1 650 685		

32 Risk management (continued)

32.5 Liquidity risk management (continued)

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

Company

N$'000	2010 Carrying amount	Term to maturity Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and short term funds	402 129	402 129		
Due from banks and other financial institutions	851 182	851 182		
Derivative financial instruments	57 119	57 119		
Advances	10 443 163	2 274 750	515 012	7 653 401
Investment securities	1 492 893	1 023 043	226 498	243 352
Accounts receivable	74 239	74 239		
Financial assets	13 320 725	4 682 462	741 510	7 896 753
Non financial assets	1 145 906			
Total assets	14 466 631			
Equity and liabilities				
Deposits and current accounts	12 068 023	10 106 692	1 918 264	43 067
Due to banks and other financial institutions	53 346	53 346		
Derivative financial instruments	58 019	58 019		
Creditors and accruals	218 094	211 266	6 828	
Long term liabilities	263 505			263 505
Financial liabilities	12 660 987	10 429 323	1 925 092	306 572
Non financial liabilities	101 980			
Total liabilities	12 762 967			
Total equity	1 703 664			
Total equity and liabilities	14 466 631			
Net liquidity gap		(5 746 861)	(1 183 582)	7 590 181
Cumulative liquidity gap		(5 746 861)	(6 930 443)	659 738

Company

N$'000	2009 Carrying amount	Term to maturity Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and short term funds	316 936	316 936		
Due from banks and other financial institutions	479 236	379 790	99 446	
Derivative financial instruments	130 487	75 833	48 695	5 959
Advances	9 635 710	1 387 730	573 587	7 674 393
Investment securities	919 642	469 419	262 828	187 395
Accounts receivable	82 187	82 187		
Financial assets	11 564 198	2 711 895	984 556	7 867 747
Non financial assets	1 251 750			
Total assets	12 815 948			
Equity and liabilities				
Deposits and current accounts	10 600 680	8 765 620	1 782 540	52 520
Due to banks and other financial institutions	21 731	21 731		
Derivative financial instruments	115 631	53 626	56 247	5 758
Creditors and accruals	255 647	189 179	66 468	
Long term liabilities	261 238			261 238
Financial liabilities	11 254 927	9 030 156	1 905 255	319 516
Non financial liabilities	96 800			
Total liabilities	11 351 727			
Total equity	1 464 221			
Total equity and liabilities	12 815 948			
Net liquidity gap		(6 318 261)	(920 699)	7 548 231
Cumulative liquidity gap		(6 318 261)	(7 238 960)	309 271

32 Risk management (continued)

32.5 Liquidity risk management (continued)

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

Company	2010			
	Term to maturity			
N$'000	Total amount	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits and current accounts	12 126 969	10 089 066	1 990 460	47 443
Due to banks and other financial institutions	53 346	53 346		
Derivative financial instruments	58 019	58 019		
Creditors and accruals	218 094	218 094		
Long term liabilities	307 580		23 790	283 790
Financial liabilities	12 764 008	10 418 525	2 014 250	331 233
Off statement of financial position				
Financial and other guarantees	688 063	531 144	54 707	102 212
Facilities not drawn	1 871 678	1 871 678		

Company	2009			
	Term to maturity			
N$'000	Total amount	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits and current accounts	11 059 205	9 080 534	1 925 123	53 548
Due to banks and other financial institutions	21 731	21 731		
Derivative financial instruments	115 631	53 626	56 247	5 758
Creditors and accruals	256 635	189 910	66 725	
Long term liabilities	331 370		23 790	307 580
Financial liabilities	11 784 572	9 345 801	2 071 885	366 886
Off statement of financial position				
Financial and other guarantees	715 108	449 763	223 459	41 886
Facilities not drawn	1 650 685	1 650 685		

32 Risk management (continued)

32.6 Foreign currency

The table below summarise the group's assets and liabilities at carrying amounts, categorised by currency, as at the end of reporting period.

Group	2010				
	Currency concentration				
N$'000	Total amount	NAD	USD	EUR	Other
Assets					
Cash and short term funds	402 129	349 093	47 927	4 187	922
Due from banks and other financial institutions	851 182	663 321	126 687	58 683	2 491
Derivative financial instruments	57 119	9 633	2 095	39 688	5 703
Advances	11 311 742	11 311 742			
Investment securities	1 492 893	1 481 302	11 591		
Accounts receivable	78 310	78 310			
Financial assets	14 193 375	13 893 401	188 300	102 558	9 116
Non financial assets	483 330	483 330			
Total assets	14 676 705	14 376 731	188 300	102 558	9 116
Equity and liabilities					
Deposits and current accounts	12 068 023	11 899 845	117 971	50 207	
Due to banks and other financial institutions	53 346	53 346			
Derivative financial instruments	58 019	3 394	2 411	39 197	13 017
Creditors and accruals	219 596	219 596			
Long term liabilities	263 505	263 505			
Financial liabilities	12 662 489	12 439 686	120 382	89 404	13 017
Non financial liabilities	98 335	98 335			
Total liabilities	12 760 824	12 538 021	120 382	89 404	13 017
Total equity	1 915 881	1 915 881			
Total equity and liabilities	14 676 705	14 453 902	120 382	89 404	13 017

Group	2009				
	Currency concentration				
N$'000	Total amount	NAD	USD	EUR	Other
Assets					
Cash and short term funds	316 936	279 403	26 126	9 298	2 109
Due from banks and other financial institutions	479 236	183 956	242 147	51 181	1 952
Derivative financial instruments	130 487	9 273	15 848	41 847	63 519
Advances	10 574 999	10 574 999			
Investment securities	919 642	909 342	10 300		
Accounts receivable	83 567	83 567			
Financial assets	12 504 867	12 040 540	294 421	102 326	67 580
Non financial assets	487 470	487 470			
Total assets	12 992 337	12 528 010	294 421	102 326	67 580
Equity and liabilities					
Deposits and current accounts	10 600 680	10 306 304	235 703	58 673	
Due to banks and other financial institutions	21 731	21 731			
Derivative financial instruments	115 631	9 748	13 633	37 881	54 369
Creditors and accruals	256 635	256 635			
Long term liabilities	261 238	261 238			
Financial liabilities	11 255 915	10 855 656	249 336	96 554	54 369
Non financial liabilities	92 591	92 591			
Total liabilities	11 348 506	10 948 247	249 336	96 554	54 369
Total equity	1 643 831	1 643 831			
Total equity and liabilities	12 992 337	12 592 078	249 336	96 554	54 369

32 Risk management (continued)

32.6 Foreign currency (continued)

The table below summarise the company's assets and liabilities at carrying amounts, categorised by currency, as at the end of reporting period.

Company	2010				
	Currency concentration				
N$'000	Total amount	NAD	USD	EUR	Other
Assets					
Cash and short term funds	402 129	349 093	47 927	4 187	922
Due from banks and other financial institutions	851 182	663 321	126 687	58 683	2 491
Derivative financial instruments	57 119	9 633	2 095	39 688	5 703
Advances	10 443 163	10 443 163			
Investment securities	1 492 893	1 481 302	11 591		
Accounts receivable	74 239	74 239			
Financial assets	13 320 725	13 020 751	188 300	102 558	9 116
Non financial assets	1 145 906	1 145 906			
Total assets	14 466 631	14 166 757	188 300	102 558	9 116
Equity and liabilities					
Deposits and current accounts	12 068 023	11 899 845	117 971	50 207	
Due to banks and other financial institutions	53 346	53 346			
Derivative financial instruments	58 019	3 394	2 411	39 197	13 017
Creditors and accruals	218 094	218 094			
Long term liabilities	263 505	263 505			
Financial liabilities	12 660 987	12 438 184	120 382	89 404	13 017
Non financial liabilities	101 980	101 980			
Total liabilities	12 762 967	12 540 164	120 382	89 404	13 017
Total equity	1 703 664	1 703 664			
Total equity and liabilities	14 466 631	14 243 828	120 382	89 404	13 017

Company	2009				
	Currency concentration				
N$'000	Total amount	NAD	USD	EUR	Other
Assets					
Cash and short term funds	316 936	279 403	26 126	9 298	2 109
Due from banks and other financial institutions	479 236	183 956	242 147	51 181	1 952
Derivative financial instruments	130 487	9 273	15 848	41 847	63 519
Advances	9 635 710	9 635 710			
Investment securities	919 642	909 342	10 300		
Accounts receivable	82 187	82 187			
Financial assets	11 564 198	11 099 871	294 421	102 326	67 580
Non financial assets	1 251 750	1 251 750			
Total assets	12 815 948	12 351 621	294 421	102 326	67 580
Equity and liabilities					
Deposits and current accounts	10 600 680	10 306 304	235 703	58 673	
Due to banks and other financial institutions	21 731	21 731			
Derivative financial instruments	115 631	9 748	13 633	37 881	54 369
Creditors and accruals	255 647	255 647			
Long term liabilities	261 238	261 238			
Financial liabilities	11 254 927	10 854 668	249 336	96 554	54 369
Non financial liabilities	96 800	96 800			
Total liabilities	11 351 727	10 951 468	249 336	96 554	54 369
Total equity	1 464 221	1 464 221			
Total equity and liabilities	12 815 948	12 415 689	249 336	96 554	54 369

32 Risk management (continued)

32.7 Repricing

The repricing profile is depicted in the table below. Items are allocated to time periods with reference to the earlier of the next contractual interest rate repricing date and the maturity date.

Group

N$'000	2010 Repricing profile				
	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months	Non interest bearing
Total assets	14 676 705	13 222 934	345 901	429 594	678 276
Total equity and liabilities	14 676 705	10 570 536	1 549 270	265 069	2 291 830
Net repricing gap		2 652 398	(1 203 369)	164 525	(1 613 554)
Cumulative repricing gap		2 652 398	1 449 029	1 613 554	

Group

N$'000	2009 Repricing profile				
	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months	Non interest bearing
Total assets	12 992 337	11 358 864	206 647	398 067	1 028 759
Total equity and liabilities	12 992 337	8 787 353	1 782 540	313 757	2 108 687
Net repricing gap		2 571 511	(1 575 893)	84 310	(1 079 928)
Cumulative repricing gap		2 571 511	995 618	1 079 928	

Company

N$'000	2010 Repricing profile				
	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months	Non interest bearing
Total assets	14 466 631	12 354 354	345 901	429 594	1 336 782
Total equity and liabilities	14 466 631	10 570 535	1 549 270	265 069	2 081 757
Net repricing gap		1 783 819	(1 203 369)	164 525	(744 975)
Cumulative repricing gap		1 783 819	580 450	744 975	

Company

N$'000	2009 Repricing profile				
	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months	Non interest bearing
Total assets	12 815 948	10 432 460	206 647	398 067	1 778 774
Total equity and liabilities	12 815 948	8 787 353	1 782 540	313 757	1 932 298
Net repricing gap		1 645 107	(1 575 893)	84 310	(153 524)
Cumulative repricing gap		1 645 107	69 214	153 524	

32.8 Average balances and effective interest rates

Group

N$'000	2010 Average balance N$'000	2010 Average rate %	2010 Interest income/ expense N$'000	2009 Average balance N$'000	2009 Average rate %	2009 Interest income/ expense N$'000
Assets						
Cash and short term funds, balance with banks	1 763 327	4.3	76 131	1 188 298	5.2	62 191
Advances	10 770 372	11.3	1 221 226	9 798 701	14.0	1 375 989
Investment securities	1 241 195	7.5	92 875	958 984	10.0	95 620
Interest-earning assets	13 774 894	10.1	1 390 232	11 945 983	12.8	1 533 800
Non-interest-earning assets	551 487			597 089		
Total assets	14 326 381	9.7	1 390 232	12 543 072	12.2	1 533 800
Liabilities						
Deposits and current accounts, balance due to banks	11 951 129	5.1	606 395	10 406 367	7.8	814 858
Long term liabilities	267 809	8.9	23 794	261 883	9.1	23 818
Interest-earning liabilities	12 218 938	5.2	630 189	10 668 250	7.9	838 676
Non-interest-earning bearing liabilities	307 818			320 370		
Total liabilities	12 526 756	5.0	630 189	10 988 620	7.6	838 676
Total equity	1 799 625			1 554 452		
Total equity and liabilities	14 326 381	4.4	630 189	12 543 072	6.7	838 676

Company

N$'000	2010 Average balance N$'000	2010 Average rate %	2010 Interest income/ expense N$'000	2009 Average balance N$'000	2009 Average rate %	2009 Interest income/ expense N$'000
Assets						
Cash and short term funds, balance with banks	1 763 327	4.3	76 131	1 188 297	5.2	62 191
Advances	9 872 769	11.9	1 172 011	8 824 273	15.0	1 325 150
Investment securities	1 241 195	7.5	92 875	958 984	10.0	95 620
Interest-earning assets	12 877 291	10.4	1 341 017	10 971 554	13.5	1 482 961
Non-interest-earning assets	1 243 362			516 450		
Total assets	14 120 653	9.5	1 341 017	11 488 004	12.9	1 482 961
Liabilities						
Deposits and current accounts, balance due to banks	11 951 129	5.1	606 395	9 538 838	8.5	814 858
Long term liabilities	267 809	8.9	23 794	261 883	9.1	23 818
Interest-earning liabilities	12 218 938	5.2	630 189	9 800 721	8.6	838 676
Non-interest-earning bearing liabilities	301 704			318 831		
Total liabilities	12 520 642	5.0	630 189	10 119 552	8.3	838 676
Total equity	1 600 011			1 368 452		
Total equity and liabilities	14 120 653	4.5	630 189	11 488 004	7.3	838 676

32 Risk management (continued)

32.9 Sensitivity analysis

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$40 million (2009: N$30 million), while a parallel decrease in all yield curves would decrease the forecast income by N$46 million (2009: N$38 million).

Foreign currency risk sensitivity analysis
Including foreign denominated cash, the group and company 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.

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

Group and company	2010		2009	
	10% reduction in fair value	10% increase in fair value	10% reduction in fair value	10% increase in fair value
	N$'000	N$'000	N$'000	N$'000
Impact on equity (available-for-sale-reserve)	**1 159**	**(1 159)**	1 030	(1 030)

Annexure A: Capital management

Capital management

The optimal level of capital in a banking institution is determined by balancing the requirements of the regulator, the shareholders, deposit holders and debt holders.

Principles

For a banking institution, capital serves as a foundation for growth and a cushion against unexpected losses. It mitigates economic risk that might otherwise threaten its continuation or lead to loss of faith by stakeholders. It is the policy of the bank to be capitalised at the higher figure of economic capital or regulatory capital inclusive of a buffer.

Economic capital is defined as the capital which the group must hold, commensurate with its risk profile, under severe stress conditions, to give comfort to third party stakeholders that it will be able to discharge its obligations in accordance with an indicated degree of certainty even under stress conditions, and would continue to operate as a going concern. Tests are performed regularly to assess whether the bank is appropriately capitalised.

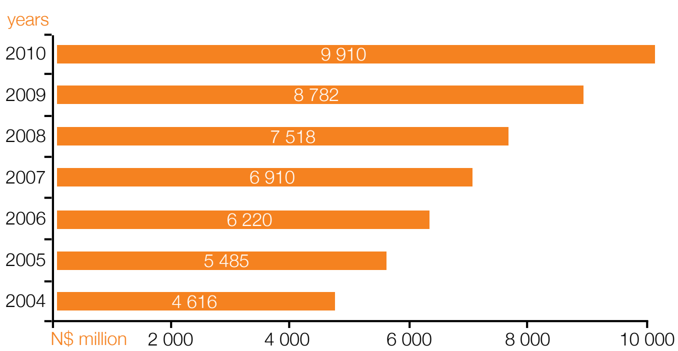
Demand for capital

The Bank of Namibia ("BoN") requires banking institutions to hold a minimum amount of capital equal to, or more than, 10% of the calculated risk weighted assets. During the year under review, BoN implemented guidelines developed by the Basel Committee on Banking Supervision – Basel II as provided for in terms of the Banking Institutions Act 1998 (Act No. 2 of 1998) for supervisory purposes. The guidelines include the techniques to calculate capital adequacy ratio as a key prudential measures. First National Bank of Namibia Limited is required to determine its capital adequacy ratio using the standardised approach. The guidelines provide a range of options for determining the capital requirements for credit risk and operational risk to allow banks and supervisors to select approaches that are most appropriate for their operations and their financial market infrastructure. In addition, the guidelines also allow for a limited degree of national discretion in the way in which each of these options may be applied, to adapt the standards to different conditions of national market. With options available, BoN opted for standardised approach to be applicable to all the banks under its jurisdiction. The standardised approach is less risk sensitive as compared to internal ratings based approach ("IRB") which has incentives in terms of capital relief but not necessarily suitable for the Namibian financial market.

The main changes between the old and newly adopted guidelines lie in the calculation of risk weighted assets and the closer alignment of capital levels to true underlying economic risks. Compliance with Basel II guidelines revealed that there is no material increase in our current economic capital estimates or minimum regulatory levels.

As a subsidiary of a South African Banking Group, where the principles of Basel II were adopted on 1 January 2008, First National Bank of Namibia Limited has complied with the standardised approach to calculate capital for credit, market, equity and operational risks, currently requiring a minimum of 9.5% by the SARB method of calculating risk weighted assets.

The following graph depicts the growth in risk weighted assets since 2004:



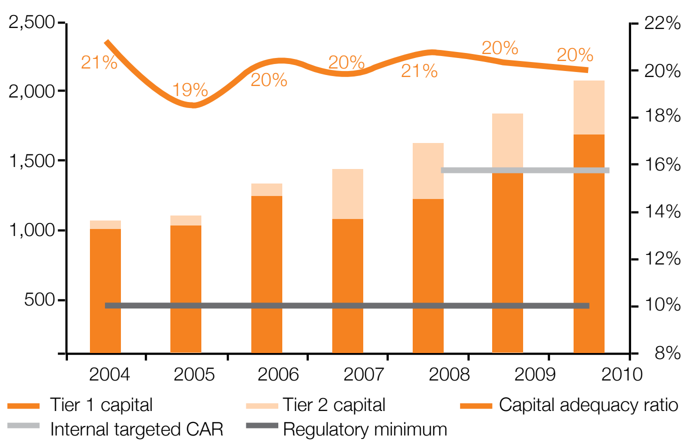
Supply of capital

As the bank generates earnings that are adequate to meet new capital requirements, the focus of management is on arriving at the most cost-effective capital structure. The relatively higher cost of capital, as against debt, means capital levels have to be managed to the minimum required, thus increasing the true economic value added to shareholders.

The implementation of the Basel II principles has allowed current year profit to form part of qualifying capital once appropriated by the board on quarterly bases. Maximum exposures to single borrowers are linked to the capital base. This results in the determination of maximum exposure being reviewed quarterly and could facilitate balance sheet growth during the year.

The board of directors approved a 5.5% buffer above the 10% minimum level determined by the Bank of Namibia. The buffer is also influenced by economic capital requirements.

The following graph depicts the capital adequacy ratio and internal target:



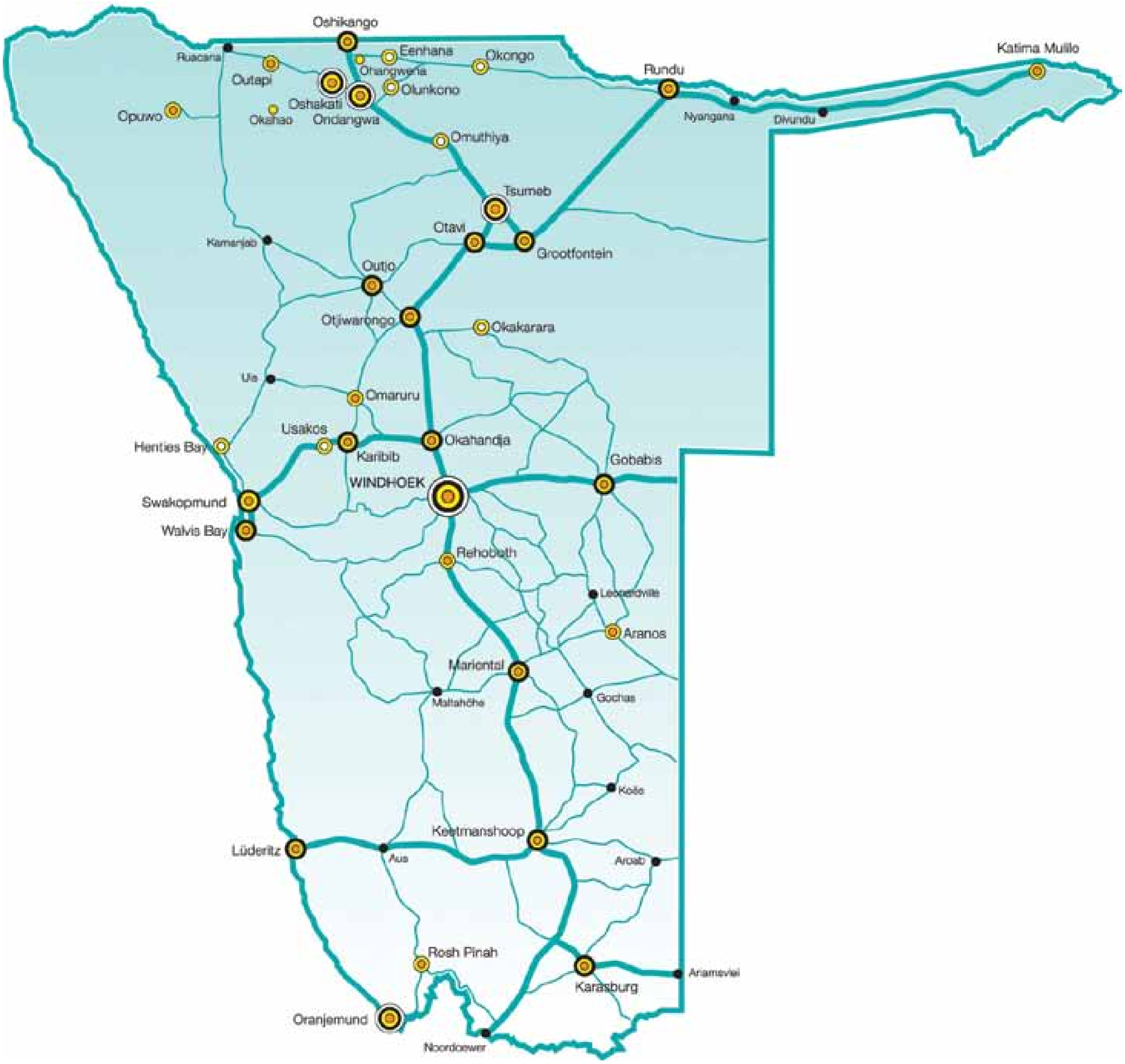
Dividend payment

The group declared an interim dividend of N$83 million in March 2010 and a final dividend of N$94 million in August 2010.

Capital adequacy of the group on 30 June

N$ million	BII 2010	BI 2009
Risk weighted assets		
Credit risk		
Portfolios subject to Basel II	8 474	
Portfolios subject to Basel I		8 782
Market risk		
Standardised approach	25	
Operational risk		
Standardised approach	1 411	
Total risk weighted assets (RWAs)	**9 910**	**8 782**
Regulatory capital		
Tier 1		
Share capital and share premium	1 143	1 143
Retained profits	756	491
Capital impairment: intangible assets	(241)	(261)
Total tier 1	**1 658**	**1 373**
Tier 2		
Eligible subordinated debt	260	260
General risk reserve, including portfolio impairment	106	152
Total tier 2	**366**	**412**
Total tier 1 and tier 2 capital	**2 024**	**1 785**
Capital adequacy ratios		
Tier 1	16.7%	15.6%
Tier 2	3.7%	4.7%
Total	**20.4%**	**20.3%**

FNB representation points



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