First National Bank of Namibia Limited

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2011

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

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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 banking 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 group has complied in all material aspects with the requirements set out in BID2 with regards to asset classification, suspension of interest and provisioning. The group's policies with regards this regard are stated in the notes on accounting policies, disclosed on pages 5 to 23.

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 banking group's business practices are required to be conducted in a manner that is above reproach. The board has adopted and is committed to the principles in the King III report on Corporate Governance. The board is responsible for internal controls. The controls throughout the group are directed towards risk areas. These areas are identified by operational management, confirmed by banking 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 2012. 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 consolidated annual financial statements of the group and company, which appear on pages 4 to 92 have been approved by the board of directors and are signed on its behalf by:

CJ Hinrichsen
Chairman
Windhoek
16 August 2011

I J M Leyenaar
Chief Executive Officer
Windhoek
16 August 2011

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

We have audited the group annual financial statements and the annual financial statements of First National Bank of Namibia Limited, which comprise the consolidated and separate statements of financial position as at 30 June 2011, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes and the directors' report, as set out on pages 4 to 90.

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 management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, 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 2011, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act in Namibia.

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

Per J Kock
Partner
PO Box 47, Windhoek, Namibia
27 September 2011

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, J Cronje

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 2011.

Nature of business

The company is 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 (2010: 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$569 million (2010: N$105 million), 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 24 to 92 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:

C J Hinrichsen # (Chairman)
H-D Voigts # (former Chairman) (retired 24 November 2010)
H W P Böttger (retired 24 November 2010)
J J Comalie (appointed 23 May 2011)
C J Giddy * (appointed 23 May 2011)
C L R Haikali
L J Haynes*
J K Macaskill *
S H Moir *
I J M Leyenaar * (Chief Executive Officer)
Adv VR 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

No part of the business of the company or of its subsidiary companies has been managed by a third party or by a company in which a director had 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

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

Events subsequent to the reporting date

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

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 1 First-time Adoption of International Financial Reporting Standards was amended during January 2010. 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 required enhanced disclosures about fair value measurement and liquidity risk. The amendment does not have an impact on the group as the group has already adopted IFRS.

- IAS 32 Financial Instruments: Presentation was amended during October 2009. 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 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. The amendment has had no impact on the group's results as no such arrangements have been entered into.

- 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 2009 is effective for annual periods commencing on or after 1 January 2010 and the improvements made to IFRS 3 and IAS 27 as part of the 2010 annual improvements project is effective for annual periods commencing on or after 1 July 2010. The group has adopted these amendments 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 19 Extinguishing Financial Liabilities with Equity Instruments is effective for annual periods commencing on or after 1 July 2010. This interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. These transactions are often referred to as debt for equity swaps. This Interpretation does not address the accounting by the creditor. This Interpretation has no effect on the group's financial statements as no such arrangements have been entered into.

2 Basis of preparation

The group's consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The group prepares its audited consolidated financial statements in accordance with the going concern principle using the historical cost basis, except for certain financial assets and liabilities.

These financial assets and liabilities include:

- financial assets and liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments;
- financial instruments 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 accounting policy note 28.

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.

Accounting policies continued

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

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

3.2 Business combinations

The group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The consideration transferred for the acquisition is measured at the fair value of the assets transferred, equity instruments issued and the liabilities incurred or assumed at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the acquisition date fair value of any existing equity interest held in the subsidiary. The contingent asset or liability is initially measured at fair value at acquisition date. A contingent obligation to pay contingent consideration is classified as equity or liability. The contingent asset or liability is subsequently measured at fair value with fair value changes recognised against the acquisition cost where they qualify as the measurement period adjustment as per IFRS 3 as recognised in accordance with the IFRS applicable to that asset or liability. Contingent considerations that are classified as equity are not re-measured after acquisition date. Transaction costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non controlling interest in the subsidiary and the acquisition date fair value of any previous equity interest in the subsidiary over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in profit or loss.

When control is achieved in stages, each transaction is accounted for separately and the identifiable assets, liabilities and contingent liabilities are measured at fair value at acquisition date.

3.3 Associates

Associates are entities in which the group holds an equity interest of between 20% and 50%, but has no control. The group is presumed to have significant influence where it holds an equity interest of between 20% and 50%. Investments acquired and held exclusively with the view to dispose of in the near future (within 12 months) are not accounted for using the equity accounting method, but are measured at fair value less cost to sell in terms of the requirements of IFRS 5.

The group includes the results of associates 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.

4 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.

Interest income on instruments designated at fair value through profit or loss are included in fair value income except to the extent that the interest relates to:

- where hedge accounting is applied; and
- interest on intercompany balances.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument (for example, pre-payment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

From an operational perspective, the group suspends the accrual of contractual interest on non-recoverable advances. However, in terms of IAS 39, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the discounted recoverable amount of the advance. This difference between the discounted and undiscounted recoverable amount is released to interest income over the expected collection period of the advance.

Instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or long-term liabilities. Dividends received or paid on these instruments are included and accrued in interest income and expense using the effective interest method.

5 Fair value income

The group includes profits, losses and fair value adjustments on trading financial instruments (including derivative instruments which do not qualify for hedge accounting in terms of IAS 39) as well as financial instruments at fair value through profit and loss in fair value income as it is earned.

6 Fee and commission income

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

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

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

7 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.

8 Foreign currency translation

8.1 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.

8.2 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.

Accounting policies continued

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.

9 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.

10 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.

11 Recognition of assets

11.1 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.

11.2 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.

12 Liabilities, provisions and contingent liabilities

12.1 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.

12.2 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.

13 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.

14 Financial instruments

14.1 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 recognise 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 income statement as gains and losses from investment securities. However, interest calculated on available-for-sale financial assets using the effective interest method is recognised in the income statement as part of interest income. Dividends on available-for-sale equity instruments are recognised in the 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.

14.2 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

Accounting policies continued

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.

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.

14.3 Loans and receivables

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

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

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

14.4 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.

14.5 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. 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.

14.6 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.

14.7 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.

14.8 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. A substantial modification of the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one.

14.9 Sale and repurchase agreements

The consolidated financial statements reflect securities sold subject to a linked repurchase agreement ("repos") as trading or investment securities. These instruments are recognised at fair value through profit or loss. The counterparty liability is included in deposits from other banks, other deposits, or deposits due to customers, as appropriate at amortised cost.

Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers as appropriate and recognised at amortised cost. The difference between purchase and resale price is treated as interest and accrued over the life of the reverse repos using the effective interest method.

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

14.10 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.

15 Impairment of financial assets

15.1 General

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

15.2 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

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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 we elect to foreclose or not.

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.

15.3 Past due advances

Advances are considered past due in the following circumstances:

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

In these instances, the full outstanding amount is considered overdue even if part of it is not yet due. The days past due is referenced to the earliest due date of the loan.

The past due analysis is only performed for advances with specific expiry dates or instalment repayment dates or demand loans that have been demanded. The analysis is not applicable to overdraft products or products where no specific due date are be determined. The level of riskiness on these types of products is done with reference to the counterparty ratings of the exposures and reported as such.

15.4 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.

15.5 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.

16 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.

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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.

16.1 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.

16.2 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.

17 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.

18 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.

19 Leases

19.1 A group company is the lessee

19.1.1 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.

19.1.2 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.

19.2 A group company is the lessor

19.2.1 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.

19.2.2 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.

19.3 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.

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20 Intangible assets

20.1 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.

20.2 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.

20.3 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.

21 Employee benefits

21.1 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.

21.2 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 require 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.

21.3 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.

21.4 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.

21.5 Leave pay accrual

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

21.6 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.

21.7 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.

22 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

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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.

23 Share Capital

23.1 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.

23.2 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.

24 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.

25 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.

25.1 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.

25.2 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.

26 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.

27 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.

28 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.

28.1 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's 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.

(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.

28.2 Fair value of derivatives

The fair values of financial instruments that are not quoted in

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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 notes 8 for a detailed analysis of the derivatives and the carrying amounts of the different types of derivative instruments. Note 30 provide additional details on the calculation of fair value of financial instruments not quoted in active markets.

28.3 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 judgment. In making this judgment the group evaluates among other factors the normal volatility in share prices. In addition, impairment may be appropriate when there is evidence of 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.

28.4 Income taxes

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

Refer to note 5 and 22 for more information regarding the direct and deferred tax charges, assets and liabilities

28.5 Financial risk management

The group's risk management policies are disclosed in the Risk Report on pages 172 to 179 of the annual report of FNB Namibia Group.

28.6 Recognition

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 18 to these financial statements.

28.7 Employee benefit liabilities

The cost of the benefits and the present value of the post retirement medical obligations and severance pay: death in service depends 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 21.

28.8 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 profit and loss. 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 has 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 25 for the detailed information regarding the share-based payment expense and the assumptions used in determining the expense, liability and reserve.

29 Standards issued and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the group's financial statements are listed below. This listing is of standards and interpretations issued, which the group reasonably expects to be applicable at a future date. The group intends to adopt those standards when they become effective.

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. Effective for annual periods commencing on or after 1 January 2011

This amendment is not expected to have an impact on the group.

IAS 1 Presentation of Items of Other Comprehensive Income (amended)

This amendment was issued to eliminate inconsistencies in the presentation of items in the statement of other comprehensive income. The amendment requires an entity to group the items of other comprehensive income on the basis of whether the amounts will subsequently be reclassified to profit or loss or not i.e. the statement of comprehensive income should be split between items that will be reclassified to profit or loss and items that will not be reclassified to profit or loss. Effective for annual periods commencing on or after 1 January 2012.

This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact of the revised disclosure is not expected to be significant.

IAS 12 Income Taxes (amended)

IAS 12 requires that deferred tax assets is measured based on whether the entity expects to recover the carrying amount of the asset through use or through sale. This assessment of the method of recovery may be difficult to assess for investment property measured using the fair value model. The amendment provides a practical solution by introducing a presumption that the carrying amount of such investment property will normally be recovered through sale. As a result of the amendment, SIC 12 Income Taxes - Recovery of Revalued Non-Depreciable Assets has been withdrawn. Effective for annual periods commencing on or after 1 January 2012

This amendment is not expected to have a significant impact on the group.

IAS 19 Employee Benefits (revised)

The main changes include the removal of the corridor approach, which allowed entities the option to defer the recognition of actuarial gains and losses on defined benefit plans. The revised standard requires that all remeasurement arising from defined benefit plans be presented in other comprehensive income. It also includes enhanced disclosure requirements for defined benefits plans. Effective for annual periods commencing on or after 1 January 2013

The group is in the process of assessing the impact the revised IAS 19 would have on the financial statements.

IAS 24 Related Party Disclosures (amended)

The amendment removes certain of the disclosure requirements for government related entities, clarifies the definition of a related party and introduces a requirement for entities to disclose commitments to related parties. Effective for 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 of the revised disclosure is not expected to be significant.

IAS 27 Separate Financial Statements (amended)

IAS 27 removes the accounting and disclosure requirements for consolidated financial statements as a result of the issue of IFRS 10 and IFRS 12, which establish new consolidation and disclosure standards. Effective for annual periods commencing on or after 1 January 2013.

Accounting policies continued

IAS 27 (amended) contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

This amendment is not expected to have a significant impact on the group's results.

IAS 28 Investments in Associates and Joint ventures (amended)

IAS 28 Investments in Associates and Joint Ventures (amended) supersedes IAS 28 Investments in Associates as a result of the issue of IFRS 11 and IFRS 12.The new IAS 28 prescribes the accounting for investment in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The disclosure requirements relating to these investments are now contained in IFRS 12. Effective for annual periods commencing on or after 1 January 2013.

This amendment is not expected to have a significant impact on the group's results.

IFRS 1 First-time Adoption of International Financial Reporting Standards (amended)

The amendments to IFRS 1 are set out in Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters. The first amendment replaces references to a fixed transition date of '1 January 2004' with 'the date of transition to IFRSs'. This eliminates the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. Effective for annual periods commencing on or after 1 July 2011.

These amendments will not have an impact on the group as it has already adopted IFRS.

IFRS 7 Financial instruments: Disclosures (amended); Transfer of financial assets

The amendments to IFRS 7 requires additional disclosure for financial assets transferred but not derecognised and for financial assets that are derecognised, but the entity retains some form of continuing involvement after the transaction. Effective for annual periods commencing on or after 1 July 2011.

This amendment will result in additional disclosures in the annual financial statements and will not affect recognition and measurement.

IFRS 9 Financial Instruments

IFRS 9 is the first phase in the IASB's three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement. This phase deals with the classification and measurement of financial assets and financial liabilities. Financial assets can be classified as financial assets at amortised cost or fair value. The classification is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial liabilities can also be classified as financial liabilities at amortised cost or fair value in line with the existing requirements of IAS 39. If an entity elects to measure its financial liabilities at fair value, it should present the portion of the change in fair value due to changes in its own credit risk in other comprehensive income. Effective for 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.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a new control model for determining which entities should be consolidated. The standard also provides guidance on how to apply the principle of control to specific situations in order to identify whether an investor controls an investee. IFRS 10 supersedes a portion of IAS 27 Separate and Consolidated Financial Statements and SIC 12 Consolidation – Special Purpose Entities. Effective for annual periods commencing on or after 1 January 2013.

The group is in the process of assessing the impact that IFRS 10 would have on the financial statements. Until the process is completed, the group is unable to determine the significance of the impact of IFRS 10.

IFRS 11 Joint Arrangements

The standard supersedes IAS 31 Joint Ventures and aims to improve on IAS 31 by establishing accounting principles that are applicable to all joint arrangements. The standard distinguishes between two types of joint arrangements, joint operations and joint ventures. The accounting for joint operations remains unchanged from IAS 31 and all joint ventures should be equity accounted in the financial statements of the venturer. Effective for annual periods commencing on or after 1 January 2013.

The standard is not expected to have a significant impact on the group.

IFRS 12 Disclosure of Interests in Other Entities

The standard aims to provide consistent disclosure requirements for subsidiaries, joint arrangements, associates and structured entities. IFRS 12 requires disclosure of information that will enable users to evaluate the nature of the risks associated with the interest and the effect of the interest on the financial position, performance and cash flows of the reporting entity. Effective for annual periods commencing on or after 1 January 2013.

This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The group is still in the process of assessing the impact of the revised disclosure.

IFRS 13 Fair Value Measurement

IFRS 13 was issued in order to eliminate inconsistencies in the guidance on how to measure fair value and disclosure requirements that currently exist under the different IFRSs that require or permit fair value measurement. It provides a fair value hierarchy, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Effective for annual periods commencing on or after 1 January 2013.

The group is in the process of assessing the impact that IFRS 13 would have on the financial statements. Until the process is completed, the group is unable to determine the significance of the impact of IFRS 13.

Annual Improvements

As part of its annual improvements projects, the IASB has issued its 2010 annual improvement project. The annual improvement project's 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. Effective for 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 the improvement projects that are expected to affect the group.

Statements of comprehensive income
for the year ended 30 June

		Group		Company	
N$'000	Notes	2011	2010	2011	2010
Interest and similar income	2.1	1 417 337	1 390 232	1 370 011	1 341 017
Interest expense and similar charges	2.2	(577 079)	(630 189)	(577 079)	(630 189)
Net interest income before impairment of advances		840 258	760 043	792 932	710 828
Impairment reversal / (recognition) for losses on advances	10	12 398	(12 960)	12 967	(10 884)
Net interest income after impairment of advances		852 656	747 083	805 899	699 944
Non interest income	3	628 391	553 564	633 512	549 601
Fair value adjustment to financial liabilities	23	(716)	(2 307)	(716)	(2 307)
Income from operations		1 480 331	1 298 340	1 438 695	1 247 238
Operating expenses	4	(802 675)	(725 501)	(813 407)	(724 471)
Net income from operations		677 656	572 839	625 288	522 767
Share of profit from associate company	13	254	191		
Income before indirect tax		677 910	573 030	625 288	522 767
Indirect tax	5.1	(16 883)	(15 591)	(16 622)	(15 325)
Profit before direct tax		661 027	557 439	608 666	507 442
Direct tax	5.2	(226 979)	(187 287)	(208 691)	(169 897)
Profit for the year		434 048	370 152	399 975	337 545
Other comprehensive income					
Gain on available-for-sale financial assets		480	7 672	480	7 672
Income tax effect on other comprehensive income		162	(1 831)	162	(1 831)
Other comprehensive income for the year		642	5 841	642	5 841
Total comprehensive income for the year		434 690	375 993	400 617	343 386
Profit for the year attributable to:					
Ordinary shareholders		434 048	370 152	399 975	337 545
Total comprehensive income for the year attributable to:					
Ordinary shareholders		434 690	375 993	400 617	343 386

Statements of financial position
at 30 June

N$'000	Notes	Group 2011	Group 2010	Company 2011	Company 2010
Assets					
Cash and short term funds	7.1	412 913	402 129	412 913	402 129
Due by banks and other financial institutions	7.2	763 051	851 182	763 051	851 182
Derivative financial instruments	8	24 161	57 119	24 161	57 119
Advances	9	12 538 500	11 311 742	11 740 230	10 443 163
Investment securities	11	1 578 439	1 492 893	1 578 439	1 492 893
Accounts receivable	12	126 820	78 310	125 705	74 239
Investment in associate company	13	1 820	2 566	1 154	1 154
Investment in subsidiary company	14			600 657	711 352
Property and equipment	15	256 416	239 499	214 075	197 815
Intangible assets	16	211 051	240 512	207 741	235 585
Non current assets held for sale	17		753		
Total assets		15 913 171	14 676 705	15 668 126	14 466 631
Liabilities and equity					
Liabilities					
Deposits and current accounts	18.1	13 356 400	12 068 023	13 355 665	12 068 023
Due to banks and other financial institutions	18.2	43 910	53 346	43 910	53 346
Short trading positions	19	51 889		51 889	
Derivative financial instruments	8	21 743	58 019	21 743	58 019
Creditors and accruals	20	293 317	219 596	291 182	218 094
Tax liability		23 738	31 251	22 559	29 946
Post-employment benefit liabilities	21	34 536	31 110	34 536	31 110
Deferred tax liability	22	39 774	35 974	45 068	40 924
Long term liabilities	23	264 491	263 505	264 491	263 505
Total liabilities		14 129 798	12 760 824	14 131 043	12 762 967
Equity					
Ordinary shares	24	1	1	1	1
Share premium	24	1 142 791	1 142 791	1 142 791	1 142 791
Reserves		640 581	773 089	394 291	560 872
Total equity		1 783 373	1 915 881	1 537 083	1 703 664
Total liabilities and equity		15 913 171	14 676 705	15 668 126	14 466 631

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 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
Total comprehensive income for the year				642	434 048	434 690
Profit for the year					434 048	434 048
Other comprehensive income for the year				642		642
Share-based payments			2 123			2 123
Dividends paid					(569 321)	(569 321)
Balance at 30 June 2011	1	1 142 791	8 029	11 943	620 609	1 783 373
Company						
Balance at 1 July 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
Total comprehensive income for the year				642	399 975	400 617
Profit for the year					399 975	399 975
Other comprehensive income for the year				642		642
Share-based payments			2 123			2 123
Dividends paid					(569 321)	(569 321)
Balance at 30 June 2011	1	1 142 791	8 029	11 943	374 319	1 537 083

Statements of cash flows
for the year ended 30 June

N$'000	Notes	Group 2011	Group 2010	Company 2011	Company 2010
Cash flows from operating activities					
Cash receipts from customers	26.2	2 018 218	1 934 824	1 978 817	1 885 802
Cash paid to customers, suppliers and employees	26.3	(1 298 106)	(1 256 604)	(1 310 455)	(1 260 864)
Cash flows from operating activities	26.1	720 112	678 220	668 362	624 938
Increase in income earning assets	26.4	(1 242 577)	(1 664 895)	(1 318 687)	(1 734 558)
Increase in deposits and other liabilities	26.5	1 401 652	1 460 757	1 400 366	1 461 017
Tax paid	26.6	(247 655)	(209 364)	(228 719)	(192 211)
Net cash flows from operating activities		631 532	264 718	521 322	159 186
Cash flows from investing activities		(51 427)	(74 412)	58 783	31 120
Capital expenses to maintain operations	26.7	(53 506)	(83 277)	(52 495)	(82 989)
Reduction in loan to subsidiary				110 695	110 744
Reduction in investment in associate company	26.9		3 000		3 000
Proceeds from the disposal of non current asset held for sale		1 496	5 500		
Proceeds from sale of property and equipment		583	365	583	365
Cash flows from financing activities					
Dividends paid	26.8	(569 321)	(105 113)	(569 321)	(105 113)
Net increase in cash and cash equivalents		10 784	85 193	10 784	85 193
Cash and cash equivalents at beginning of the year *		402 129	316 936	402 129	316 936
Cash and cash equivalents at end of the year *	7.1	412 913	402 129	412 913	402 129

*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 23.

2 Analysis of interest income and interest expenditure

	2011					
	Group			Company		
N$'000	Fair value	Amortised cost	Total	Fair value	Amortised cost	Total
2.1 Interest and similar income						
Interest on:						
- Advances		1 240 463	1 240 463		1 197 222	1 197 222
- Cash and short term funds		60 253	60 253		60 253	60 253
- Investment securities	84 662	9 239	93 901	84 662	9 239	93 901
- Unwinding of discounted present value on non performing loans (note 10)		8 763	8 763		7 240	7 240
- Impaired advances		(394)	(394)		(2 417)	(2 417)
- Unwinding of discounted present value on off-market advances		5 930	5 930		5 930	5 930
- Net release of deferred fees and expenses		8 421	8 421		7 882	7 882
Interest and similar income	84 662	1 332 675	1 417 337	84 662	1 285 349	1 370 011

	2010					
	Group			Company		
N$'000	Fair value	Amortised cost	Total	Fair value	Amortised cost	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 fees 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

	Group and company					
	2011			2010		
N$'000	Fair value	Amortised cost	Total	Fair value	Amortised cost	Total
2.2 Interest expense and similar charges						
Interest on:						
- Deposits from banks and financial institutions		927	927		1 635	1 635
- Current accounts		280 239	280 239		278 849	278 849
- Savings deposits		5 098	5 098		5 577	5 577
- Term deposits		119 949	119 949		144 686	144 686
- Negotiable certificates of deposits		147 312	147 312		175 648	175 648
- Long term liabilities	23 554		23 554	23 794		23 794
Interest expense and similar charges	23 554	553 525	577 079	23 794	606 395	630 189

3 Non interest income

N$'000		Group 2011	Group 2010	Company 2011	Company 2010
3.1	**Fees and commissions**	542 593	467 263	549 082	465 523
	- Card commissions	1 977	1 246	1 977	1 246
	- Cash deposit fees	73 446	63 987	73 293	63 987
	- Commissions - bills, drafts and cheques	15 567	20 538	15 865	20 514
	- Service fees	215 629	179 794	215 611	179 753
	- Fiduciary fees	2 007	1 869	2 007	1 869
	- Other fee and commission related income	214 743	181 930	221 105	180 255
	- Broking commission received	19 224	17 899	19 224	17 899
	Certain of the above fees relates to the fact that the group provides custody and trustee services to third parties.				
3.2	**Fair value income**	65 589	76 943	65 589	76 943
	Foreign exchange trading	62 449	66 525	62 449	66 525
	Treasury trading operations				
	- Debt instruments trading	3 766	3 102	3 766	3 102
	- Other trading (derivatives gains and losses)	(626)	7 316	(626)	7 316
	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.				
3.3	**Gains from investing activities**	2 973	479	3 973	479
	- Gain on realisation of available-for-sale financial assets	484	42	484	42
	- Gains on investment securities designated at fair value through profit or loss	2 489	437	2 489	437
	- Dividends received from associate company			1 000	
3.4	**Other non interest income**	17 236	8 879	14 868	6 656
	- Income from related parties (note 28)	5 924	6 722	5 924	6 722
	- Rental income	1 625	1 730		
	- Other income / (loss)	9 092	(872)	9 091	65
	- Profit / (loss) on sale of property and equipment	595	1 299	(147)	(131)
	Total non interest income	628 391	553 564	633 512	549 601
3.5	**Non interest income, analysis by category**				
	Non interest income	628 391	553 564	633 512	549 601
	Fee and commission income: Instruments at amortised cost	542 593	467 263	549 082	465 523
	Fair value income: Held for trading	65 589	76 943	65 589	76 943
	Fair value income: Designated at fair value through profit or loss	2 489	437	2 489	437
	Fair value income: Financial assets available-for-sale	484	42	484	42
	Other non interest income: Non financial assets and liabilities	17 236	8 879	15 868	6 656

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

4 Operating expenses

N$'000	Group 2011	Group 2010	Company 2011	Company 2010
Auditors' remuneration				
- Current year	3 062	2 829	2 780	2 565
- Prior year under provision		74		74
- Fees for other services	44		44	
Auditors' remuneration	3 106	2 903	2 824	2 639
Amortisation of intangible assets				
- Trademarks	19 303	43 509	17 686	38 272
- Software	10 158	8 935	10 158	8 935
Amortisation of intangible assets (note 16)	29 461	52 444	27 844	47 207
Depreciation				
- Leasehold property	5 736	5 171	5 736	5 171
- Equipment	25 789	16 241	25 436	16 028
Automatic teller machines	2 478	738	2 478	738
Computer equipment	10 088	4 780	10 062	4 748
Furniture and fittings	7 002	6 594	6 863	6 460
Motor vehicles	224	193	224	193
Office equipment	5 997	3 936	5 809	3 889
Depreciation (note 15)	31 525	21 412	31 172	21 199
Operating lease charges				
- Properties	20 060	16 741	21 180	17 902
- Equipment	4 127	2 868	4 126	2 868
Operating lease charges	24 187	19 609	25 306	20 770
Directors' emoluments				
- Services as directors	1 855	1 686	1 855	1 686
- Other services	2 580	1 545	2 580	1 545
Directors' emoluments	4 435	3 231	4 435	3 231
Professional fees	3 566	2 599	3 529	2 569
Direct staff costs				
- Salaries, wages and allowances	306 357	280 480	306 357	280 480
- Off-market staff loans amortisation	5 930	5 967	5 930	5 967
- Contributions to employee funds	68 962	49 039	68 962	49 039
Defined contribution schemes: pension	33 990	29 969	33 990	29 969
Defined contribution schemes: medical	34 972	19 070	34 972	19 070
- Retirement fund surplus recognised (note 21.2)	(4 658)	(33 591)	(4 658)	(33 591)
- Severance pay provision: death in service (note 21.1)	1 177	3 051	1 177	3 051
- Post retirement medical expenses (note 21.1)	3 430	7 418	3 430	7 418
- Social security levies	1 206	1 011	1 206	1 011
- Share-based payments (note 25.1)	5 077	3 441	5 077	3 441
Direct staff costs	387 481	316 816	387 481	316 816
- Other	14 637	12 955	14 637	12 955
Total staff costs	402 118	329 771	402 118	329 771

4 Operating expenses continued

N$'000	Group 2011	Group 2010	Company 2011	Company 2010
Other operating costs				
- Insurance	12 847	8 415	12 658	8 233
- Advertising and marketing	43 300	40 013	43 726	40 206
- Property and maintenance related expenses	33 315	29 919	32 229	28 919
- Legal fees	4 464	3 876	4 281	3 553
- Postage	4 515	5 688	4 431	5 670
- Printing and stationery	11 573	10 709	11 573	10 686
- Telecommunications	11 522	13 822	11 522	13 821
- Conveyance of cash	4 062	4 843	4 062	4 843
- Travel and accomodation	9 010	8 267	9 010	8 267
- Computer and processing related costs	117 160	126 565	116 874	126 179
- Other	52 509	41 415	65 813	46 708
Other operating costs	304 277	293 532	316 179	297 085
Total operating expenses	802 675	725 501	813 407	724 471
Number of staff members (at end of year)	1 704	1 689	1 704	1 689

5 Tax

N$'000	Group 2011	Group 2010	Company 2011	Company 2010
5.1 Indirect tax				
Value-added tax (net)	12 466	10 962	12 205	10 697
Stamp duties	4 417	4 629	4 417	4 628
Total indirect tax	16 883	15 591	16 622	15 325
5.2 Direct tax				
Namibian normal tax				
- Current	223 017	219 915	204 385	201 971
- Deferred	3 962	(32 628)	4 306	(32 074)
Current year	3 962	(30 948)	4 306	(30 070)
Tax rate adjustment		(1 680)		(2 004)
Total direct tax	226 979	187 287	208 691	169 897
Tax rate reconciliation - Namibian normal tax	%	%	%	%
Effective rate of tax	34.3%	33.6%	34.3%	33.5%
Total tax has been affected by:				
Non-taxable income	0.3%	2.2%	0.3%	2.4%
Non deductable amounts	(0.6%)	(2.1%)	(0.6%)	(2.3%)
Tax rate change		0.3%		0.4%
Standard rate of tax	34.0%	34.0%	34.0%	34.0%

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

6 Analysis of assets and liabilities

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 23 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	2011						
N$'000	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			412 913				412 913
Due by banks and other financial institutions			763 051				763 051
Derivative financial instruments	24 161						24 161
Advances			12 538 500				12 538 500
Investment securities	64 319		53 626	1 460 494			1 578 439
Accounts receivable			126 820				126 820
Investment in associate company						1 820	1 820
Property and equipment						256 416	256 416
Intangible assets						211 051	211 051
Total assets	88 480		13 894 910	1 460 494		469 287	15 913 171
Liabilities							
Deposits and current accounts					13 356 400		13 356 400
Due to banks and other financial institutions					43 910		43 910
Short trading positions	51 889						51 889
Derivative financial instruments	21 743						21 743
Creditors and accruals		6 127			287 190		293 317
Tax liability						23 738	23 738
Post-employment benefit liabilities						34 536	34 536
Deferred tax liability						39 774	39 774
Long term liabilities		264 491					264 491
Total liabilities	73 632	270 618			13 687 500	98 048	14 129 798

6 Analysis of assets and liabilities continued

Group N$'000	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
	2010						
Assets							
Cash and short term funds			402 129				402 129
Due by 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

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for the year ended 30 June

6 Analysis of assets and liabilities continued

Company

N$'000	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
	2011						
Assets							
Cash and short term funds			412 913				412 913
Due by banks and other financial institutions			763 051				763 051
Derivative financial instruments	24 161						24 161
Advances			11 740 230				11 740 230
Investment securities	64 319		53 626	1 460 494			1 578 439
Accounts receivable			125 705				125 705
Investment in associate company						1 154	1 154
Investment in subsidiary company						600 657	600 657
Property and equipment						214 075	214 075
Intangible assets						207 741	207 741
Total assets	88 480		13 095 525	1 460 494		1 023 627	15 668 126
Liabilities							
Deposits and current accounts					13 355 665		13 355 665
Due to banks and other financial institutions					43 910		43 910
Short trading positions	51 889						51 889
Derivative financial instruments	21 743						21 743
Creditors and accruals		6 127			285 055		291 182
Post-employment benefit liabilities						34 536	34 536
Tax Liability						22 559	22 559
Deferred tax liability						45 068	45 068
Long term liabilities		264 491					264 491
Total liabilities	73 632	270 618			13 684 630	102 163	14 131 043

6 Analysis of assets and liabilities continued

Company

N$'000	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial assets and liabilities at amortised cost	Non financial assets and liabilities	Total
				2010			
Assets							
Cash and short term funds			402 129				402 129
Due by 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

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

7.1 Cash and short term funds

	Group		Company	
N$'000	2011	2010	2011	2010
Coins and bank notes	213 388	205 786	213 388	205 786
Balances with central bank	198 678	194 883	198 678	194 883
Balances with other banks	847	1 460	847	1 460
	412 913	402 129	412 913	402 129
Mandatory reserve balances included in above:	148 787	128 968	148 787	128 968

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank in terms of the Banking Institutions Act, 1998 (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 by banks and other financial institutions

	Group		Company	
N$'000	2011	2010	2011	2010
Due by banks and financial institutions				
- In the normal course of business	763 051	851 182	763 051	851 182
The carrying value approximates the fair value.				
Geographical split:				
Namibia	100 494	91	100 494	91
South Africa	30 406	663 230	30 406	663 230
North America	554 439	126 687	554 439	126 687
Europe	77 072	61 137	77 072	61 137
Other	640	37	640	37
	763 051	851 182	763 051	851 182

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 31.

	Group and company 2011			
	Assets		Liabilities	
N$'000	Notional	Fair value	Notional	Fair value
Currency derivatives				
- Forward rate agreements	396 511	10 556	313 650	8 548
- Options	198 469	7 806	198 469	7 806
Interest rate derivatives				
- Swaps	305 000	5 799	394 610	5 389
Total held for trading	899 980	24 161	906 729	21 743

	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

Notes to the annual financial statements
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9 Advances

N$'000	Group 2011	Group 2010	Company 2011	Company 2010
Sector analysis				
Agriculture including fishing	452 245	475 816	452 245	475 816
Banks and financial services	286 121	283 217	286 121	283 217
Building and property development	2 222 506	2 279 184	2 222 506	2 279 184
Government and public authorities	107 101	293 157	107 101	293 157
Individuals	7 207 518	6 397 357	6 393 140	5 509 318
Manufacturing and commerce	1 416 952	1 364 276	1 416 952	1 364 276
Mining	193 903	58 126	193 903	58 126
Transport and communication	217 072	170 620	217 072	170 620
Other services	692 676	291 445	692 676	291 445
Notional value of advances	12 796 094	11 613 198	11 981 716	10 725 159
Contractual interest suspended (note 10)	(45 966)	(54 771)	(41 885)	(48 438)
Gross advances	12 750 128	11 558 427	11 939 831	10 676 721
Impairment of advances (note 10)	(211 628)	(246 685)	(199 601)	(233 558)
Net advances	12 538 500	11 311 742	11 740 230	10 443 163
Geographic analysis (based on credit risk)				
Namibia	12 538 500	11 311 742	11 740 230	10 443 163
Category analysis				
Card loans	89 319	81 184	89 319	81 184
Overdrafts and managed accounts	1 507 856	1 303 790	1 507 856	1 303 790
Loans to other financial institutions	286 121	283 217	286 121	283 217
Instalment sales	1 838 370	1 667 693	1 838 370	1 667 693
Lease payments receivable	89 757	80 621	89 757	80 621
Home loans	6 568 820	5 988 951	5 754 442	5 100 912
Term loans	1 912 394	1 756 922	1 912 394	1 756 922
Assets under agreement to resell	52 757		52 757	
Other	450 700	450 820	450 700	450 820
Notional value of advances	12 796 094	11 613 198	11 981 716	10 725 159
Contractual interest suspended (note 10)	(45 966)	(54 771)	(41 885)	(48 438)
Gross advances	12 750 128	11 558 427	11 939 831	10 676 721
Impairment of advances (note 10)	(211 628)	(246 685)	(199 601)	(233 558)
Net advances	12 538 500	11 311 742	11 740 230	10 443 163

Fair value
The fair value of advances is set out in note 30.

A maturity analysis of advances is set out in note 31 and is based on the remaining periods to contractual maturity from the year-end.

9 Advances continued

Analysis of instalment sales and lease payments receivable

N$'000	Group and company 2011 Within 1 year	Between 1 and 5 years	Total
Lease payments receivable	50 022	51 676	101 698
Suspensive sale instalments receivable	997 983	1 119 740	2 117 723
	1 048 005	1 171 416	2 219 421
Less : Unearned finance charges	(173 171)	(118 123)	(291 294)
Total	874 834	1 053 293	1 928 127

N$'000	Group and company 2010 Within 1 year	Between 1 and 5 years	Total
Lease payments receivable	34 021	58 027	92 048
Suspensive sale instalments receivable	760 655	1 196 240	1 956 895
	794 676	1 254 267	2 048 943
Less : Unearned finance charges	(142 593)	(158 036)	(300 629)
Total	652 083	1 096 231	1 748 314

The group and company have 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.

Unearned finance charges analysis' comparative figures have been restated to reflect the changes in presentation in the current year.

Credit risk mitigation

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

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

The collateral is valued at inception of the credit agreement and subsequently in specific circumstances for example, when the advance becomes a non performing loan or when the group is to sell the asset on auction. Collateral is valued frequently.

The valuation at inception is based on physical inspection.

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

10 Impairment of advances

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

The following factors are considered when determining whether there is objective evidence that the asset has been impaired:
- 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 2011							
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	4 458	78 640	39 466	53 925	70 196	246 685	99 700	146 985
Amounts written off	(822)	(3 804)	(7 635)	(2 889)	(4 012)	(19 162)	(19 162)	
Unwinding of discounted present value on non performing loans		(1 799)		(6 573)	(391)	(8 763)	(8 763)	
Net new impairments created	(1 086)	(9 767)	972	1 242	1 507	(7 132)	(7 132)	
Closing balance	2 550	63 270	32 803	45 705	67 300	211 628	64 643	146 985
New and increased provision	(1 086)	(9 767)	972	1 242	1 507	(7 132)	(7 132)	
Recoveries of bad debts previously written off	(48)	(619)	(3 412)	(904)	(283)	(5 266)	(5 266)	
Impairment (release) / loss recognised in the statement of comprehensive income	(1 134)	(10 386)	(2 440)	338	1 224	(12 398)	(12 398)	

	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	97 826	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)
Closing balance	4 458	78 643	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/(release) recognised in the statement of comprehensive income	1 228	(25 797)	16 162	(5 465)	26 832	12 960	18 100	(5 140)

10 Impairment of advances continued

Analysis of movement in impairment of advances per class of advance

N$'000	Card loans	Overdrafts and managed accounts	Instalment sales and lease receivables	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
	Company 2011							
Opening balance	4 458	78 643	39 466	41 047	69 944	233 558	94 909	138 649
Amounts written off	(822)	(3 804)	(7 635)	(2 889)	(4 012)	(19 162)	(19 323)	161
Unwinding of discounted present value on non performing loans		(1 799)		(5 050)	(391)	(7 240)	(7 240)	
Net new impairments created	(1 086)	(9 767)	2 141	(350)	1 507	(7 555)	(7 555)	
Closing balance	2 550	63 273	33 972	32 758	67 048	199 601	60 791	138 810
New and increased provision	(1 086)	(9 767)	2 141	(350)	1 507	(7 555)	(7 555)	
Recoveries of bad debts previously written off	(48)	(619)	(3 412)	(1 050)	(283)	(5 412)	(5 412)	
Impairment (release) / loss recognised in the statement of comprehensive income	(1 134)	(10 386)	(1 271)	(1 400)	1 224	(12 967)	(12 967)	

N$'000	Card loans	Overdrafts and managed accounts	Instalment sales and lease receivables	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
	Company 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)
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/(release) recognised in the statement of comprehensive income	1 228	(25 802)	16 162	(7 536)	26 832	10 884	16 024	(5 140)

Notes to the annual financial statements
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10. Impairment of advances continued

Group N$'000	2011 Total value including interest in suspense	Security held	Specific impairments	Contractual interest suspended
Non performing lendings by sector				
Agriculture	13 783	10 470	1 018	1 643
Banks and financial services	1 717		1 230	243
Building and property development	52 792	18 858	15 252	10 842
Individuals	145 370	79 681	36 077	23 896
Manufacturing and commerce	6 468	1 020	2 739	960
Mining	467		348	59
Transport and communication	1 395		910	247
Other	35 940	13 990	7 069	8 076
Total non performing lendings	257 932	124 019	64 643	45 966
Non performing lendings by category				
Card loans	3 610		2 009	801
Overdrafts and managed accounts	30 059	7 940	9 900	8 004
Instalment sales	20 465	1 061	10 653	3 727
Lease payments receivable	6 019	2 510	2 453	528
Home loans	174 365	102 006	34 175	28 297
Term loans	15 639	3 812	5 300	4 051
Other	7 775	6 690	153	558
Total non performing lendings	257 932	124 019	64 643	45 966
Geographical split:				
Namibia	257 932			
Net recoverable amount of the non performing loans:	124 019			

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:	153 516			

Recoverable amount of non performing loans' comparative figures have been restated to reflect the changes in presentation in the current year.

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

10. Impairment of advances continued

Company N$'000	2011 Total value including interest in suspense	Security held	Specific impairments	Contractual interest suspended
Non performing lendings by sector				
Agriculture	13 783	10 470	1 018	1 643
Banks and financial services	1 717		1 230	243
Building and property development	52 792	18 858	15 252	10 842
Individuals	122 135	60 092	32 225	19 815
Manufacturing and commerce	6 468	1 020	2 739	960
Mining	467		348	59
Transport and communication	1 395		910	247
Other	35 940	13 990	7 069	8 076
Total non performing lendings	234 697	104 430	60 791	41 885
Non performing lendings by category				
Card loans	3 610		2 009	801
Overdrafts and managed accounts	30 059	7 940	9 900	8 004
Instalment sales	20 465	1 061	10 653	3 727
Lease payments receivable	6 019	2 510	2 453	528
Home loans	151 130	82 417	30 323	24 216
Term loans	15 639	3 812	5 300	4 051
Other	7 775	6 690	153	558
Total non performing lendings	234 697	104 430	60 791	41 885
Geographical split:				
Namibia	234 697			
Net recoverable amount of the non performing loans:	104 430			

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
Transport and communication	5 109	1 765	2 015	666
Other	2 951	1 517	1 047	418
Total non performing lendings	249 994	130 215	94 909	48 438
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	103 539	85 770	22 289	20 475
Term loans	25 867	8 468	7 849	6 118
Total non performing lendings	249 994	130 215	94 909	48 438
Geographical split:				
Namibia	249 994			
Net recoverable amount of the non performing loans:	130 215			

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

11 Investment securities

Group and company

N$'000	2011 Held for trading	2011 Available-for-sale	2011 Loans and receivables	2011 Total
Total listed				
Equities		12 273		12 273
Other government and guaranteed stock	61 329	311 963		373 292
Other dated securities		7 350		7 350
Total	61 329	331 586		392 915
Total unlisted				
Negotiable certificates of deposits			53 626	53 626
Treasury bills	2 990	1 079 098		1 082 088
Other dated securities		49 810		49 810
Total	2 990	1 128 908	53 626	1 185 524
Total investment securities	64 319	1 460 494	53 626	1 578 439
Valuation of investments				
Market value of listed investments				392 915
Directors valuation of unlisted investments				1 185 524
Total valuation				1 578 439

N$'000	2010 Held for trading	2010 Available-for-sale	2010 Designated at fair value through profit or loss	2010 Loans and receivables	2010 Total
Total listed					
Equities		11 591			11 591
Other government and guaranteed stock		243 303			243 303
Other dated securities		7 088			7 088
Total		261 982			261 982
Total 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

11 Investment securities continued

Group and company

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

Refer to note 30, fair value of financial instruments for the methodologies used to determine the fair value of investment securities.

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

No financial instruments held for trading form part of the group's liquid asset portfolio in terms of the Banking Institutions Act, (No 2 of 1998) and other foreign banking regulators requirements. The total liquid asset portfolio is N$1 609 million (2010: N$1 455 million).

12 Accounts receivable

	Group		Company	
N$'000	2011	2010	2011	2010
Accounts receivable				
- Items in transit	71 762	27 063	71 774	24 092
- Deferred staff costs	39 128	38 931	39 128	38 931
- Other accounts receivable	15 930	12 316	14 803	11 216
Total	126 820	78 310	125 705	74 239

The carrying value of accounts receivable approximates the fair value.

The credit quality of the above balances is provided in the risk management note 31.

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

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
Unlisted investment				
Namclear (Pty) Ltd	Interbank clearing house	4	1	31 Dec

There has been no change from the prior year.

Effective holdings and carrying amounts in unlisted associate company

N$'000	Effective holding % 2011	Effective holding % 2010	Group carrying amount 2011	Group carrying amount 2010	Investments at cost less impairments 2011	Investments at cost less impairments 2010
Unlisted investment						
Namclear (Pty) Ltd	25	25	1 820	2 566	1 154	1 154
Total unlisted			1 820	2 566	1 154	1 154

Detail information of unlisted associate company

	Group Namclear (Pty) Ltd Unaudited June 2011	Group Namclear (Pty) Ltd Unaudited June 2010	Company Namclear (Pty) Ltd Unaudited June 2011	Company Namclear (Pty) Ltd Unaudited June 2010
Opening balance	2 566	5 375	1 154	4 154
Share of profit	254	191		
Dividends received	(1 000)			
Reduction of its share premium during the prior year		(3 000)		(3 000)
Closing balance	1 820	2 566	1 154	1 154

Summarised financial information of associate company

N$'000	Group Namclear (Pty) Ltd Unaudited June 2011	Group Namclear (Pty) Ltd Unaudited June 2010
Statement of financial position		
Non-current assets	3 974	3 991
Current assets	16 164	14 139
Current liabilities	(11 325)	(6 404)
Non-current liabilities		(1 101)
Equity	8 813	10 625
Total share of profits from associate company	254	191

Refer to note 28 for details of related party balances and transactions.

13 Investment in associate company continued

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 % 2011	Effective holding % 2010
Swabou Investments (Pty) Ltd Number of shares issued: 2 of 0.5 cents each (2010: 2 of 0.5 cents each)	Home loans	1 July 2003	Namibia	Unlisted	100	100

N$'000	Aggregate income of subsidiary (before tax) 2011	Aggregate income of subsidiary (before tax) 2010	Total Indebtness 2011	Total Indebtness 2010	Total investment 2011	Total investment 2010
Swabou Investments (Pty) Ltd	65 846	63 769	600 657	711 352	600 657	711 352

Interest paid by Swabou Investments (Pty) Ltd to First National Bank of Namibia Ltd totalled N$48 million (2010: N$58 million).

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

15 Property and equipment

Group N$'000	Cost 2011	Accumulated depreciation and impairments 2011	Carrying amount 2011	Cost 2010	Accumulated depreciation and impairments 2010	Carrying amount 2010
Property						
Freehold land and buildings	156 124	(18 916)	137 208	144 891	(19 361)	125 530
Leasehold property	30 613	(21 172)	9 441	27 966	(15 467)	12 499
	186 737	(40 088)	146 649	172 857	(34 828)	138 029
Equipment						
Automatic teller machines	22 555	(15 502)	7 053	18 892	(13 024)	5 868
Computer equipment	61 083	(36 354)	24 729	60 624	(27 551)	33 073
Furniture and fittings	88 562	(35 714)	52 848	76 259	(29 909)	46 350
Motor vehicles	6 263	(2 758)	3 505	6 201	(2 966)	3 235
Office equipment	48 095	(26 463)	21 632	34 268	(21 324)	12 944
	226 558	(116 791)	109 767	196 244	(94 774)	101 470
Total	413 295	(156 879)	256 416	369 101	(129 602)	239 499

Movement in property and equipment - carrying amount

N$'000	Freehold land and buildings	Leasehold property	Equipment	Total
Carrying amount at 1 July 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
Additions	33 696		19 810	53 506
Transfer between classes	(18 018)	2 678	15 340	
Depreciation charge for year		(5 736)	(25 789)	(31 525)
Transfers to repairs and maintenance	(4 000)			(4 000)
Disposals			(1 064)	(1 064)
Carrying amount at 30 June 2011	137 208	9 441	109 767	256 416

Information regarding land and buildings as required in terms of Schedule 4 of the Companies Act is kept at the Company's registered offices. This information will be open for inspection in terms of the provisions of Section 120 of the Companies Act, 2004. Property and equipment is unencumbered at 30 June 2011 or 30 June 2010.

15 Property and equipment continued

Company N$'000	Cost 2011	Accumulated depreciation and impairments 2011	Carrying amount 2011	Cost 2010	Accumulated depreciation and impairments 2010	Carrying amount 2010
Property						
Freehold land and buildings	97 856	(1 093)	96 763	86 250	(1 093)	85 157
Leasehold property	30 613	(21 172)	9 441	27 966	(15 467)	12 499
	128 469	(22 265)	106 204	114 216	(16 560)	97 656
Equipment						
Automatic teller machines	22 555	(15 502)	7 053	18 892	(13 024)	5 868
Computer equipment	60 986	(36 257)	24 729	60 527	(27 481)	33 047
Furniture and fittings	87 038	(35 257)	51 781	74 886	(29 591)	45 294
Motor vehicles	6 263	(2 758)	3 505	6 201	(2 966)	3 235
Office equipment	46 947	(26 144)	20 803	33 907	(21 192)	12 715
	223 789	(115 918)	107 871	194 413	(94 254)	100 159
Total	352 258	(138 183)	214 075	308 629	(110 814)	197 815

Movement in property and equipment - carrying amount

N$'000	Freehold land and buildings	Leasehold property	Equipment	Total
Carrying amount at 30 June 2010	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
Additions	33 624		18 871	52 495
Transfer between classes	(17 665)	2 678	14 987	
Depreciation charge for year		(5 736)	(25 436)	(31 172)
Transfers to repairs and maintenance	(4 353)			(4 353)
Disposals			(710)	(710)
Carrying amount at 30 June 2011	96 763	9 441	107 871	214 075

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 to 6 years

Notes to the annual financial statements
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16 Intangible assets

N$'000	Group 2011	Group 2010	Company 2011	Company 2010
Trademarks				
Gross amount	380 714	380 714	354 099	354 099
Less: Accumulated amortisation	(230 625)	(211 322)	(207 320)	(189 634)
	150 089	169 392	146 779	164 465
Movement in trademarks - carrying amount				
Opening balance	169 392	212 901	164 465	202 737
Amortisation (note 4)	(19 303)	(43 509)	(17 686)	(38 272)
Closing balance	150 089	169 392	146 779	164 465
FNB Namibia Trademark	136 392	147 838	136 392	147 838
Swabou Trademark	13 697	21 554	10 387	16 627
	150 089	169 392	146 779	164 465
Software				
Gross amount	34 006	34 013	34 006	34 013
Less: Accumulated amortisation	(21 011)	(10 860)	(21 011)	(10 860)
	12 995	23 153	12 995	23 153
Movement in software - carrying amount				
Opening balance	23 153	4 929	23 153	4 929
Additions		27 159		27 159
Amortisation (note 4)	(10 158)	(8 935)	(10 158)	(8 935)
Closing balance	12 995	23 153	12 995	23 153
Goodwill - carrying amount	47 967	47 967	47 967	47 967
Total closing balance of intangible assets	211 051	240 512	207 741	235 585
Total amortisation charge for intangible assets (note 4)	(29 461)	(52 444)	(27 844)	(47 207)

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

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

The FNB Namibia Trademark is amortised over a period of 20 years, of which 13 years remain at the end of 2011.

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 3 years.

16 Intangible assets continued

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 2011 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

	Group		Company	
N$'000	2011	2010	2011	2010
Land and buildings				
Property and equipment (classified as held for sale in 2009)		753		

The property held for sale at the end of last year was sold during the year, and consisted of surplus office buildings. No impairment loss was recognised on the reclassification of the properties held for sale.

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

18 Deposits

N$'000	Group 2011	Group 2010	Company 2011	Company 2010
18.1 Deposits and current accounts				
At amortised cost				
From customers				
- Current accounts	8 307 665	7 368 706	8 306 930	7 368 706
- Savings account	355 308	318 915	355 308	318 915
- Term deposits	2 003 819	2 243 108	2 003 819	2 243 108
Other deposits				
- Negotiable certificates of deposit	2 689 608	2 137 294	2 689 608	2 137 294
	13 356 400	12 068 023	13 355 665	12 068 023
Geographic analysis (based on counterparty risk)				
Namibia	13 356 400	12 068 023	13 355 665	12 068 023

The fair values of deposits and current accounts is set out in note 30.

N$'000	Group 2011	Group 2010	Company 2011	Company 2010
18.2 Due to banks and other financial institutions				
At amortised cost				
Due to banks and financial institutions				
- In the normal course of business	43 910	53 346	43 910	53 346
	43 910	53 346	43 910	53 346
Geographic analysis (based on counterparty risk)				
Namibia	43 910	53 346	43 910	53 346

The fair values of deposits and current accounts is set out in note 30.

19 Short trading positions

N$'000	Group 2011	Group 2010	Company 2011	Company 2010
Government and government guaranteed stock	51 889		51 889	
Short trading securities	51 889		51 889	

Short trading positions are carried at fair value.

20 Creditors and accruals

N$'000	Group 2011	Group 2010	Company 2011	Company 2010
Accounts payable and accrued liabilities	167 749	169 537	165 614	168 035
Items in transit	119 441	43 932	119 441	43 932
Short-term portion of long-term liabilities (note 23)	6 127	6 127	6 127	6 127
	293 317	219 596	291 182	218 094

All amounts are expected to be settled within twelve months.
The carrying value of creditors and accruals approximates fair value.

21 Employee benefits

21.1 Post-employment benefit liabilities

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

The actuarial method used to value the liabilities is the project unit credit method prescribed by IAS 19 *Employee Benefits*. The liability is measured as the present value of the 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.

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

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

The actuarial valuations are done on an annual basis.

	Group and company					
	2011			2010		
N$'000	Medical	Severance Pay	Total	Medical	Severance Pay	Total
Present value of unfunded liabilities	30 016	4 153	34 169	28 110	3 051	31 161
Unrecognised actuarial losses	367		367	(51)		(51)
Post-employment liabilities	30 383	4 153	34 536	28 059	3 051	31 110
The amounts recognised in the statement of comprehensive income are as follows:						
Current service cost	170	906	1 076	4 313	207	4 520
Past service cost	1 137		1 137		2 809	2 809
Interest cost	2 541	271	2 812	2 355	286	2 641
Net actuarial gains recognised	(418)		(418)	750	(251)	499
Total included in staff costs (note 4)	3 430	1 177	4 607	7 418	3 051	10 469
Movement in post-employment liabilities						
Present value at the beginning of the year	28 059	3 051	31 110	21 636		21 636
Amounts recognised in the profit and loss as above	3 430	1 177	4 607	7 418	3 051	10 469
Benefits paid	(1 106)	(75)	(1 181)	(995)		(995)
Present value at the end of the year	30 383	4 153	34 536	28 059	3 051	31 110
Expected benefits payable in following financial year	1 258	695	1 953	1 860	489	2 349
The principal actuarial assumptions used for accounting purposes were:						
Discount rate (%)	8.51%	8.51%		9.04%	8.94%	
Medical aid inflations (%)	7.51%			8.02%		
Salary inflations (%)		7.01%			7.44%	

Notes to the annual financial statements
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21 Employee benefits continued

21.1 Post-employment benefit liabilities (continued)

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

	Health costs	Salary costs	Health costs	Salary costs
Increase of 1%				
Effect on the aggregate of the current service cost and interest cost	426	81	388	84
Effect on the defined benefit obligation	4 429	419	3 942	318
Decrease of 1%				
Effect on the aggregate of the current service cost and interest cost	340	70	313	72
Effect on the defined benefit obligation	3 555	370	3 193	279
Mortality rate				
The average remaining life expectancy in years of a pensioner retiring at age 60 on the reporting date is as follows:				
Male	19	n/a	20	n/a
Female	23	n/a	19	n/a
Employees covered	129	1 687	129	1689

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

	N$'000
As at 30 June 2012	31 504
As at 30 June 2013	32 828
As at 30 June 2014	34 230
As at 30 June 2015	35 678
As at 30 June 2016	37 216

21.2 Pension fund

	Group and company	
N$'000	2011	2010
Employer contributions to pension fund	33 820	29 787
Employer contributions to pension fund - executive director	170	182
Total employer contributions to pension fund (note 4)	33 990	29 969
Employee contributions to pension fund	14 744	11 340
Total contributions	48 734	41 309
Number of employees covered	1 695	1 639

The group provides for retirement benefits by making payments to a pension fund, which is independent of the group and was registered in Namibia in 1995 in accordance with the requirements of the Pension Funds' Act. The fund is a defined contribution fund and is subject to the Pension Funds' Act (No 24 of 1956). The last valuation was performed for the year ended 30 June 2010 and indicated that the fund was in a sound financial position.

During the year, the group recognised the pension fund surplus attributable to the employer as approved by the Registrar of Pension Fund, amounting to N$4.6 million (2010: N$34 million). The surplus was utilised to fund the employer contributions to the pension fund.

The pension fund is a related party to the group.

22 Deferred tax liability

N$'000	Group 2011	Group 2010	Company 2011	Company 2010
The movement on the deferred tax account is as follows:				
Deferred tax liabilities				
- Balance at the beginning of the year	115 344	138 545	116 607	140 412
- Originating temporary differences	4 373	(23 201)	4 132	(23 805)
Total credit balance	119 717	115 344	120 739	116 607
Deferred tax asset				
- Balance at the beginning of the year	(79 370)	(71 774)	(75 683)	(69 245)
- Reversing temporary differences	(573)	(7 596)	12	(6 438)
Total debit balance	(79 943)	(79 370)	(75 671)	(75 683)
Net balance for the year for entities with deferred tax liabilities	39 774	35 974	45 068	40 924

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	2011 Opening balance	2011 Originating / (reversing) differences	2011 Closing balance	2010 Opening balance	2010 Originating / (reversing) differences	2010 Closing balance
Deferred tax liabilities						
Accruals	21 094	1 356	22 450	26 082	(4 988)	21 094
Deferred staff cost	15 183	(1 879)	13 304	15 630	(447)	15 183
Derivatives	1 042	(1 042)			1 042	1 042
Instalment credit agreements	48 820	2 920	51 740	75 749	(26 929)	48 820
Property and equipment	26 362	3 180	29 542	20 072	6 290	26 362
Revaluation of available-for-sale financial assets	2 843	(162)	2 681	1 012	1 831	2 843
Total deferred tax liabilities	115 344	4 373	119 717	138 545	(23 201)	115 344
Deferred tax assets						
Derivatives		(1 183)	(1 183)			
Provision for loan impairment	(52 665)	1 880	(50 785)	(70 368)	17 703	(52 665)
Provision for post-retirement benefits	(10 577)	(1 191)	(11 768)	(7 572)	(3 005)	(10 577)
Other	(16 128)	(79)	(16 207)	6 166	(22 294)	(16 128)
Total deferred tax assets	(79 370)	(573)	(79 943)	(71 774)	(7 596)	(79 370)
Total net deferred tax	35 974	3 800	39 774	66 771	(30 797)	35 974
Charge through profit and loss		3 962			(32 628)	
Deferred tax on other comprehensive income		(162)			1 831	
Total		3 800			(30 797)	

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22 Deferred tax liability continued

Company

N$'000	2011 Opening balance	2011 Originating / (reversing) differences	2011 Closing balance	2010 Opening balance	2010 Originating / (reversing) differences	2010 Closing balance
Deferred tax liabilities						
Instalment credit agreements	48 820	2 920	51 740	75 750	(26 930)	48 820
Accruals	21 094	1 356	22 450	26 060	(4 966)	21 094
Revaluation of available-for-sale financial assets	2 843	(162)	2 681	1 012	1 831	2 843
Property and equipment	27 625	2 939	30 564	21 961	5 664	27 625
Deferred staff cost	15 183	(1 879)	13 304	15 629	(446)	15 183
Derivatives	1 042	(1 042)			1 042	1 042
Total deferred tax liabilities	116 607	4 132	120 739	140 412	(23 805)	116 607
Deferred tax assets						
Provision for loan impairment	(50 579)	1 879	(48 700)	(54 448)	3 869	(50 579)
Provision for post-retirement benefits	(10 577)	(1 191)	(11 768)	(7 572)	(3 005)	(10 577)
Derivatives		(1 183)	(1 183)	(470)	470	
Other	(14 527)	507	(14 020)	(6 755)	(7 772)	(14 527)
Total deferred tax assets	(75 683)	12	(75 671)	(69 245)	(6 438)	(75 683)
Total net deferred tax	40 924	4 144	45 068	71 167	(30 243)	40 924
Charge through profit and loss		4 306			(32 074)	
Deferred tax on other comprehensive income		(162)			1 831	
Total		4 144			(30 243)	

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

23 Long term liabilities

N$'000	Group and company 2011	2010
FNB 17 fixed rate notes	260 000	260 000
Accrued interest	6 227	5 957
	266 227	265 957
Fair value adjustment (financial liability elected fair value)	4 391	3 675
Fair value	270 618	269 632
Less: Portion payable within 12 months transferred to Creditors and accruals (note 20)	(6 127)	(6 127)
	264 491	263 505
Fair value adjustment for the year	(716)	(2 307)

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 (2010: 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 (2010: N$260 million), N$ 4.4 million (2010: N$3.7 million) lower than the carrying amount.

The fair value is calculated based on quoted market prices.

24 Ordinary shares

N$'000	Group and company 2011	2010
Authorised		
4 000 (2010: 4 000) ordinary shares with a par value of N$1 per share	4	4
Issued and fully paid up		
1 200 (2010: 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.

Notes to the annual financial statements
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25 Share option schemes

N$'000	Group and company 2011	2010
The statement of comprehensive income charge for share-based payments is as follows:		
FNB Share Incentive Trust	2 831	2 083
BEE Staff Incentive Scheme		65
Total of share trusts	2 831	2 148
Employees with FirstRand share options and share appreciation rights	2 246	1 293
Charge against staff costs (note 4)	5 077	3 441

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 scheme 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 this scheme is to appropriately attract, incentivise and retain employees within the FNB Namibia Holdings Group.

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

The company does not have exposure to market movement 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.

25 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$'000	2011	2010	2011	2010
Weighted average exercise price (N$)	517 - 1226	517 - 1180	700	700
Expected volatility (%)	4 - 17	4 - 17	7	7
Expected option life	5	5	5	5
Expected risk free rate (%)	7.05 - 9.47	7.05 - 9.47	9	9
Share option schemes				
Number of options in force at the beginning of the year ('000)	9 797	7 726	446	892
Granted at prices ranging between (cents)	517 - 1155	517 - 1155	517	517
Number of options granted during the year ('000)	2 296	2 829		
Granted at prices ranging between (cents)	1226	1180		
Number of options exercised/released during the year ('000)	(1 294)	(586)	(384)	(446)
Market value range at the date of exercise/release (cents)	517-1226	1180	1226	1180
Number of options cancelled/lapse during the year ('000)	(595)	(172)		
Granted at prices ranging between (cents)	517 - 1226	517 - 1180		
Number of options in force at the end of the year ('000)	10 204	9 797	62	446
Granted at prices ranging between (cents)	517 - 1226	517 - 1180	517	517
Options are execercisable over the following periods: ('000) (first date able to release)				
Financial year 2011		1 533		446
Financial year 2012	2 396	2 351	62	
Financial year 2013	2 738	2 815		
Financial year 2014	2 003	2 155		
Financial year 2015	1 606	943		
Financial year 2016	726			
Financial year 2017	735			
	10 204	9 797	62	446

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for the year ended 30 June

26 Cash flow information

N$'000	Group 2011	Group 2010	Company 2011	Company 2010
26.1 Reconciliation of operating profit to cash flows from operating activities				
Profit before tax	661 027	557 439	608 666	507 442
Adjusted for:				
- Depreciation, amortisation and impairment costs	60 986	73 856	59 016	68 406
- Transfer to repairs and maintenance	4 000	5 298	4 353	5 298
- Impairment (reversal) / recognition for losses on advances	(12 398)	12 960	(12 967)	10 884
- Fair value adjustment to financial liabilities	716	2 307	716	2 307
- Provision for post-employment benefit obligations	3 426	9 474	3 426	9 634
- Other employment accruals	2 231	1 051	2 231	1 051
- Creation and revaluation of derivative financial instruments	(3 319)	15 757	(3 319)	15 757
- (Loss) / profit on sale of property and equipment	(595)	(1 299)	147	131
- Share-based payment costs	5 077	3 441	5 077	3 441
- Unwinding of discounted present value on non-performing loans (note 10)	(8 763)	(9 992)	(7 240)	(7 702)
- Unwinding of discounted present value on off-market advances (note 2.1)	(5 930)	(5 967)	(5 930)	(5 967)
- Net release of deferred fee and expenses	(8 421)	(7 430)	(7 882)	(6 994)
- Transfer from revaluation reserve: available-for-sale financial asset	(484)	(42)	(484)	(42)
- Off-market staff loans amortisation (note 4)	5 930	5 967	5 930	5 967
- Share of profit from associate company	(254)	(191)		
- Indirect tax (note 5)	16 883	15 591	16 622	15 325
Cash flows from operating activities	720 112	678 220	668 362	624 938
26.2 Cash receipts from customers				
Interest and similar income	1 394 225	1 366 843	1 348 960	1 320 354
Fees and commission income	542 593	467 263	549 082	465 523
Other non interest income	81 400	100 718	80 775	99 925
	2 018 218	1 934 824	1 978 817	1 885 802
26.3 Cash paid to customers, suppliers and employees				
Interest expense and similar charges	(577 079)	(630 189)	(577 079)	(630 189)
Total other operating expenditure	(721 027)	(626 415)	(733 374)	(630 675)
	(1 298 106)	(1 256 604)	(1 310 455)	(1 260 864)
26.4 Increase in income earning assets				
Investment securities	(86 034)	(565 662)	(86 034)	(565 662)
Due by banks and other financial institutions	88 132	(371 946)	88 132	(371 946)
Accounts receivable and similar accounts	(53 426)	(973)	(57 736)	724
Advances	(1 191 249)	(726 314)	(1 263 049)	(797 674)
	(1 242 577)	(1 664 895)	(1 318 687)	(1 734 558)

26 Cash flow information continued

N$'000	Group 2011	Group 2010	Company 2011	Company 2010
26.5 Increase in deposits and other liabilities				
Deposits	1 288 377	1 467 343	1 288 642	1 467 343
Due to banks and other financial institutions	(9 437)	31 615	(9 437)	31 615
Accounts payable and similar accounts	70 823	(38 201)	70 272	(37 941)
Short trading positions	51 889		51 889	
	1 401 652	1 460 757	1 400 366	1 461 017
26.6 Tax paid				
Amounts payable at beginning of the year	(38 746)	(12 602)	(37 224)	(12 138)
Indirect taxes	(16 883)	(15 591)	(16 622)	(15 325)
Current tax charge	(223 017)	(219 915)	(204 385)	(201 971)
Amounts payable at end of the year	30 991	38 744	29 512	37 223
Total tax paid	(247 655)	(209 364)	(228 719)	(192 211)
26.7 Capital expenses				
Purchase of property, equipment and software, settled in cash	53 506	83 277	52 495	82 989
26.8 Dividends paid	569 321	105 113	569 321	105 113
26.9 Net reduction in investment in associate				
Namclear (Pty) Ltd				
Namclear (Pty) Ltd reduced its share premium during the prior 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

27 Contingent liabilities and capital commitments

N$'000	Group and company 2011	Group and company 2010
Contingencies		
Guarantees	722 290	654 104
Letters of credit	47 756	33 959
Total contingencies	770 046	688 063
Irrevocable unutilised facilities	434 880	311 754
Total contingencies and commitments	1 204 926	999 817
Guarantees consist predominantly of endorsements and performance guarantees		
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	9 727	10 871
Comprising of:		
Capital commitments contracted for at the reporting date but not yet incurred are as follows:		
- Property and equipment	9 727	10 871

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.

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

27 Contingent liabilities and capital commitments continued

Group and company leasing arrangements:

N$'000	2011 Next year	2011 2nd to 5th year	2011 After 5 years	2010 Next year	2010 2nd to 5th year
Office premises	11 790	17 279	1 042	9 979	15 002
Equipment	27			60	8
	11 817	17 279	1 042	10 039	15 010

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% (2010: 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.

28 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.

28.1 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.

28.2 Associate

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

28 Related parties continued

28.3 Details of transactions with relevant related parties appear below:

2011

N$'000	Group				
	FirstRand Bank Ltd	FNB Namibia Holdings Ltd	FNB Namibia Employee Share Trust	Namclear (Pty) Ltd	Talas Properties (Windhoek) (Pty) Ltd
Loans and advances					
Balance 1 July	816 217		85 083		
Repayments during year	(732 069)		(10 926)		
Balance 30 June	84 148		74 157		
Derivative instruments: assets	8 085				
Deposits					
Balance 1 July	(52 496)			(11 154)	(22 154)
Repayments during year	20 406			8 012	11 343
Balance 30 June	(32 090)			(3 142)	(10 811)
Interest received	54 721		5 562		
Interest paid				(175)	(1 993)
Dividends paid		(569 321)			
Derivative instruments: liabilities	(18 930)				

2011

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	3 234	2 177	890		167	
Rental and property income	1 628		871			757
Management fees	1 062		1 062			
	5 924	2 177	2 823		167	757
Non-interest expenditure						
Computer processing costs	70 410	70 410				
Internal audit and compliance	1 371	1 371				
ATM processing costs	2 136	2 136				
Payroll processing	2 936	2 936				
Management fees	8 755	8 755				
Insurance	4 946	4 946				
Rental paid	8 947			8 947		
Other sundry	18 128	10 877	7 251			
Clearing cost	5 290					5 290
	122 919	101 431	7 251	8 947		5 290

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for the year ended 30 June

28 Related parties continued

2010

N$'000	FirstRand Bank Ltd	FNB Namibia Holdings Ltd	Group FNB Namibia 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		
Derivative instruments: assets	11 146				
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		6 066		
Interest paid				(441)	(178)
Dividends paid		(105 113)			
Derivative instruments: liabilities	(40 884)				

2010

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	3 688	2 385			159	
Rental and property income	2 061					670
Management fees	973					
	6 722	2 385			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

28.4 Key management personnel

Loans and advances

N$'000	Group and company 2011	2010
Advances		
Balance 1 July	42 090	45 524
Issued during year	8 547	6 518
Repayments during year	(21 320)	(13 790)
Interest earned	3 829	3 838
Balance 30 June	33 146	42 090

No impairment has been recognised for loans granted to key management (2010: nil).
Mortgage loans are repayable monthly over 20 years.

N$'000	2011	2010
Current and credit card accounts		
Credit balance 1 July	(11 575)	(8 383)
Net deposits and withdrawals	(2 917)	(4 584)
Net service fees and bank charges	1 097	1 410
Interest income	453	360
Interest expense	(809)	(378)
Balance 30 June	(13 751)	(11 575)
Instalment finance		
Balance 1 July	3 668	3 537
Issued during year	1 980	3 111
Repayments during year	(1 790)	(3 505)
Interest earned	287	525
Balance 30 June	4 145	3 668
Shares and share options held		
Share options held by members of key management	2 927	2 856
Key management compensation		
Salaries and other short-term benefits	19 948	16 899
Contribution to defined contribution schemes	2 603	2 165
Share-based payments	1 568	1 038
Total compensation	24 119	20 102

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

28.5 Post-employment benefit plan

Refer note 21.1 on detail disclosure of the movements on the post-employment benefit liabilities. The Pension Fund is a related party to the group, refer note 21.2.

One member of key management is entitled to the post-employment medical benefit and contributions will only be made on retirement. The liability raised for post-retirement medical benefits includes this member.

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29 Collateral held

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

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

	2011		2010	
N$'000	Fair value of collateral obtained	Fair value of collateral sold or re-pledged	Fair value of collateral obtained	Fair value of collateral sold or re-pledged
Investment securities	52 757			
Total	52 757			

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

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

N$'000	2011	2010
Collateral taken possession of and recognised on the statement of financial position:		
Property	1 906	3 320
Total	1 906	3 320

30 Fair value of financial instruments

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

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

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

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

The group classifies 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 included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (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.

Notes to the annual financial statements
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30 Fair value of financial instruments continued

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.

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.

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

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.

30 Fair value of financial instruments continued

N$'000	2011 Group and company Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
Investment securities (note 11)	12 273	1 448 221		1 460 494
Financial assets held for trading				
Derivative financial instruments (note 8)		24 161		24 161
Investment securities (note 11)		64 319		64 319
Total financial assets	12 273	1 536 701		1 548 974
Liabilities				
Financial liabilities designated at fair value through profit or loss				
Long term liabilities (note 23)		264 491		264 491
Long term liabilities (current portion) (note 23)		6 127		6 127
Financial liabilities held for trading				
Short trading positions (note 19)	51 889			51 889
Derivative financial instruments (note 8)		21 743		21 743
Total financial liabilities	51 889	292 361		344 250

N$'000	2010 Group and company 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 23)		263 505		263 505
Long term liabilities (current portion) (note 23)		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

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30 Fair value of financial instruments continued

During the reporting period ending 30 June 2011 (30 June 2010), there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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		Company	
	2011		2011	
N$'000	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Total advances at amortised cost	12 538 500	12 726 373	11 740 230	11 917 105
Other investments at amortised cost	53 626	53 626	53 626	53 626
Liabilities				
Total deposits and current accounts	13 356 400	13 186 162	13 355 665	13 186 162

	Group		Company	
	2010		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

31 Risk management

The unaudited risk report of the FNB Namibia group appears on pages 172 to 179 of the said annual report, which is appended as a separate document to this set of financial statements. The reported 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.

31.1 Maximum exposure to credit risk

Total exposure

	Group		Company	
N$'000	2011	2010	2011	2010
Cash and short term funds	199 525	196 343	199 525	196 343
- Balances with central banks	198 678	194 883	198 678	194 883
- Balances with other banks	847	1 460	847	1 460
Due by banks and other financial institutions	763 051	851 182	763 051	851 182
Advances	12 538 500	11 311 742	11 740 230	10 443 163
- Card loans	85 968	76 258	85 968	76 258
- Overdraft and managed accounts	1 722 702	1 493 520	1 722 702	1 493 520
- Instalment sales and lease receivables	1 891 069	1 702 318	1 891 069	1 702 318
- Home loans	6 494 818	5 908 218	5 696 548	5 039 639
- Term loans	1 841 043	1 680 608	1 841 043	1 680 608
- Assets under agreement to resell	52 757		52 757	
- Other	450 143	450 820	450 143	450 820
Derivative financial instruments	24 161	57 119	24 161	57 119
Debt investment securities	1 566 166	1 481 302	1 556 166	1 481 302
- Listed investment securities	380 642	250 391	380 642	250 391
- Unlisted investment securities	1 185 524	1 230 911	1 185 524	1 230 911
Accounts receivable	87 692	39 379	86 577	35 308
Amounts not recognised on the statement of financial position	1 204 926	999 817	1 204 926	999 817
Guarantees	722 290	654 104	722 290	654 104
Letters of credit	47 756	33 959	47 756	33 959
Irrevocable commitments	434 880	311 754	434 880	311 754
Total	16 384 021	14 936 884	15 560 475	14 064 234

31.2 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 relfect 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.

31 Risk management continued

31.3 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 31.2 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
2011							
FR 28 - 91	11 455 473	81 632	1 232 293	1 723 549	6 151 822	1 762 720	503 457
Above FR 92	895 871	4 213	543 944	162 241	156 275	29 198	
Total	12 351 344	85 845	1 776 237	1 885 790	6 308 097	1 791 918	503 457
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

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

N$'000	Investment securities	Derivatives	Cash and short term funds	Due by banks and other financial institutions	Total
International scale mapping (National equivalent):					
2011					
AAA to BB- (A to BBB)	1 566 166	5 135	199 524	763 051	2 533 876
Unrated		19 026			19 026
Total	1 566 166	24 161	199 524	763 051	2 552 902
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

31.3 **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 31.2 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	Homeloans	Term loans	Other
2011							
FR 28 - 91	10 641 102	81 632	1 232 293	1 723 549	5 337 451	1 762 720	503 457
Above FR 92	895 871	4 213	543 944	162 241	156 275	29 198	
Total	11 536 973	85 845	1 776 237	1 885 790	5 493 726	1 791 918	503 457
2010							
FR 28 - 91	9 315 222	70 586	657 380	1 675 193	4 764 356	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	663 869	1 675 995	4 841 107	1 698 291	450 820

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

N$'000	Investment securities	Derivatives	Cash and short term funds	Due by banks and other financial institutions	Total
International scale mapping (National equivalent):					
2011					
AAA to BB- (A to BBB)	1 566 166	5 135	199 524	763 051	2 533 876
Unrated		19 026			19 026
Total	1 566 166	24 161	199 524	763 051	2 552 902
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

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31 Risk management continued

31.4 Credit risk management

Group

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
2011							
Advances							
- Card loans	85 845			29	635	2 009	88 518
- Overdraft and managed accounts	1 776 237					9 735	1 785 972
- Instalment sales and lease receivables	1 885 790		13 013	5 900	1 195	17 974	1 923 872
- Home loans	6 308 097		107 850	25 733	17 928	80 915	6 540 523
- Term loans	1 791 918		55 003	3 460	2 075	55 330	1 907 786
- Other	503 457						503 457
Sub total	12 351 344		175 866	35 122	21 833	165 963	12 750 128
Accounts receivable							
- Items in transit	71 762						71 762
- Deferred staff cost	39 128						39 128
- Other accounts receivable	15 930						15 930
Sub total	126 820						126 820
Total	12 478 164		175 866	35 122	21 834	165 962	12 876 948
2010							
Advances							
- Card loans	73 725		397	146	3 458	2 990	80 716
- Overdraft and managed accounts	1 505 348					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	11 085 453		60 095	72 288	115 734	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	11 163 763		60 095	72 288	115 734	224 857	11 636 737

31 Risk management continued

31.4 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
2011							
Advances							
- Card loans	85 845			29	635	2 009	88 518
- Overdraft and managed accounts	1 776 237					9 735	1 785 972
- Instalment sales and lease receivables	1 885 790		13 013	5 900	1 195	17 974	1 923 872
- Home loans	5 493 726		125 623	22 503	15 705	72 669	5 730 225
- Term loans	1 791 918		55 003	3 460	2 075	55 330	1 907 786
- Other	503 457						503 457
Sub total	11 536 973		193 639	31 892	19 610	157 717	11 939 831
Accounts receivable							
- Items in transit	71 774						71 774
- Deferred staff cost	39 128						39 128
- Other accounts receivable	14 803						14 803
Sub total	125 705						125 705
Total	11 662 678		193 639	31 892	19 610	157 717	12 065 536
2010							
Advances							
- Card loans	73 725		397	146	3 458	2 990	80 716
- Overdraft and managed accounts	1 505 347					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	10 245 282		52 584	65 566	104 161	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	10 319 521		52 584	65 566	104 161	209 128	10 750 960

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

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

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

Notes to the annual financial statements
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31 Risk management continued

31.5 Liquidity risk management

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

	Group 2011			
		Term to maturity		
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and short term funds	412 913	412 913		
Due by banks and other financial institutions	763 051	763 051		
Derivative financial instruments	24 161	24 161		
Advances	12 538 500	1 845 790	473 373	10 219 337
Investment securities	1 578 439	767 358	482 163	328 918
Accounts receivable	126 820	84 059	4 807	37 954
Financial assets	15 443 884	3 897 332	960 343	10 586 209
Non financial assets	469 287			
Total assets	15 913 171			
Equity and liabilities				
Deposits and current accounts	13 356 400	10 762 544	2 050 853	543 003
Due to banks and other financial institutions	43 910	43 910		
Short trading positions	51 889	51 889		
Derivative financial instruments	21 743	21 743		
Creditors and accruals	293 317	226 860	66 457	
Long term liabilities	264 491			264 491
Financial liabilities	14 031 750	11 106 946	2 117 310	807 494
Non financial liabilities	98 048			
Total liabilities	14 129 798			
Total equity	1 783 373			
Total equity and liabilities	15 913 171			
Net liquidity gap		(7 209 614)	(1 156 967)	9 778 715
Cumulative liquidity gap		(7 209 614)	(8 366 581)	1 412 134

31 Risk management continued

31.5 Liquidity risk management continued

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

	Group 2010			
		Term to maturity		
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and short term funds	402 129	402 129		
Due by 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

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

31 Risk management continued

31.5 Liquidity risk management continued

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

N$'000	Group 2011 Term to maturity Total amount	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits and current accounts	13 902 490	10 897 500	2 225 816	779 174
Due to banks and other financial institutions	43 910	43 910		
Short trading positions	51 889	51 889		
Derivative financial instruments	21 743	21 743		
Creditors and accruals	293 317	226 860	66 457	
Long term liabilities	283 790		23 790	260 000
Financial liabilities	14 597 139	11 241 902	2 316 063	1 039 174
Off statement of financial position				
Financial and other guarantees	770 047	579 022	166 001	25 024
Facilities not drawn	2 657 626	2 657 626		

N$'000	Group 2010 Term to maturity 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	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		

31 Risk management continued

31.5 Liquidity risk management continued

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

N$'000	Company 2011 Carrying amount	Term to maturity Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and short term funds	412 913	412 913		
Due by banks and other financial institutions	763 051	763 051		
Derivative financial instruments	24 161	24 161		
Advances	11 740 230	1 845 790	473 373	9 421 067
Investment securities	1 578 439	767 358	482 163	328 918
Accounts receivable	125 705	125 705		
Financial sssets	14 644 499	3 938 978	955 536	9 749 985
Non financial assets	1 023 627			
Total assets	15 668 126			
Equity and liabilities				
Deposits and current accounts	13 355 665	10 761 809	2 050 853	543 003
Due to banks and other financial institutions	43 910	43 910		
Short trading positions	51 889	51 889		
Derivative financial instruments	21 743	21 743		
Creditors and accruals	291 182	224 725	66 457	
Long term liabilities	264 491			264 491
Financial liabilities	14 028 880	11 104 076	2 117 310	807 494
Non financial liabilities	102 163			
Total liabilities	14 131 043			
Total equity	1 537 083			
Total equity and liabilities	15 668 126			
Net liquidity gap		(7 165 098)	(1 161 774)	8 942 491
Cumulative liquidity gap		(7 165 098)	(8 326 872)	615 619

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31 Risk management continued

31.5 Liquidity risk management continued

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

	Company 2010			
		Term to maturity		
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and short term funds	402 129	402 129		
Due by 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

31 Risk management continued

31.5 Liquidity risk management continued

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

N$'000	Company 2011 Total amount	Term to maturity Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits and current accounts	13 901 760	10 896 770	2 225 816	779 174
Due to banks and other financial institutions	43 910	43 910		
Short trading positions	51 889	51 889		
Derivative financial instruments	21 743	21 743		
Creditors and accruals	291 182	224 725	66 457	
Long term liabilities	283 790		23 790	260 000
Financial liabilities	14 594 274	11 239 037	2 316 063	1 039 174
Off statement of financial position				
Financial and other guarantees	770 047	579 022	166 001	25 024
Facilities not drawn	2 657 626	2 657 626		

N$'000	Company 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	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		

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31 Risk management continued

31.6 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 2011 Currency concentration				
N$'000	Total amount	NAD	USD	EUR	Other
Assets					
Cash and short term funds	412 913	375 179	29 344	6 936	1 454
Due by banks and other financial institutions	763 051	131 050	554 438	22 886	54 677
Derivative financial instruments	24 161	5 814	15 771	2 576	
Advances	12 538 500	12 538 500			
Investment securities	1 578 439	1 566 166	12 273		
Accounts receivable	126 820	126 820			
Financial assets	15 443 884	14 743 529	611 826	32 398	56 131
Non financial assets	469 287	469 287			
Total assets	15 913 171	15 212 816	611 826	32 398	56 131
Equity and liabilities					
Deposits and current accounts	13 356 400	12 790 497	512 144	53 081	678
Due to banks and other financial institutions	43 910	43 910			
Short trading positions	51 889	51 889			
Derivative financial instruments	21 743	5 394	13 963	2 386	
Creditors and accruals	293 317	293 317			
Long term liabilities	264 491	264 491			
Financial liabilities	14 031 750	13 449 498	526 107	55 467	678
Non financial liabilities	98 048	98 048			
Total liabilities	14 129 798	13 547 546	526 107	55 467	678
Total equity	1 783 373	1 783 373			
Total equity and liabilities	15 913 171	15 330 919	526 107	55 467	678

31 Risk management continued

31.6 Foreign currency continued

	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 by 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

Notes to the annual financial statements
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31 Risk management continued

31.6 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 2011 Currency concentration				
N$'000	Total amount	NAD	USD	EUR	Other
Assets					
Cash and short term funds	412 913	375 179	29 344	6 936	1 454
Due by banks and other financial institutions	763 051	131 050	554 438	22 886	54 677
Derivative financial instruments	24 161	5 814	15 771	2 576	
Advances	11 740 230	11 740 230			
Investment securities	1 578 439	1 566 166	12 273		
Accounts receivable	125 705	125 705			
Financial assets	14 644 499	13 944 144	611 826	32 398	56 131
Non financial assets	1 023 627	1 023 627			
Total assets	15 668 126	14 967 771	611 826	32 398	56 131
Equity and liabilities					
Deposits and current accounts	13 355 665	12 789 762	512 144	53 081	678
Due to banks and other financial institutions	43 910	43 910			
Short trading positions	51 889	51 889			
Derivative financial instruments	21 743	5 394	13 963	2 386	
Creditors and accruals	291 182	291 182			
Long term liabilities	264 491	264 491			
Financial liabilities	14 028 880	13 446 628	526 107	55 467	678
Non financial liabilities	102 163	102 163			
Total liabilities	14 131 043	13 548 791	526 107	55 467	678
Total equity	1 537 083	1 537 083			
Total equity and liabilities	15 668 126	15 085 874	526 107	55 467	678

31 Risk management continued

31.6 Foreign currency continued

N$'000	Company 2010 Total amount	Currency concentration NAD	USD	EUR	Other
Assets					
Cash and short term funds	402 129	349 093	47 927	4 187	922
Due by 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	14 166 657	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

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31 Risk management continued

31.7 Repricing

The repricing profile of the group's books 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 2011 Repricing profile				
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months	Non interest bearing
Total assets	15 913 171	13 999 655	583 240	335 557	994 719
Total equity and liabilities	15 913 171	11 795 475	1 593 903	267 309	2 256 484
Net repricing gap		2 204 180	(1 010 663)	68 248	(1 261 765)
Cumulative repricing gap		2 204 180	1 193 517	1 261 765	

	Group 2010 Repricing profile				
N$'000	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	

	Company 2011 Repricing profile				
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months	Non interest bearing
Total assets	15 668 126	13 201 387	583 240	335 557	1 547 942
Total equity and liabilities	15 668 126	11 795 475	1 593 903	267 309	2 011 439
Net repricing gap		1 405 912	(1 010 663)	68 248	(463 497)
Cumulative repricing gap		1 405 912	395 249	463 497	

	Company 2010 Repricing profile				
N$'000	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	

31 Risk management continued

31.8 Average balances and effective interest rates

Group	2011			2010		
	Average balance	Average rate	Interest income/ expense	Average balance	Average rate	Interest income/ expense
N$'000	N$'000	%	N$'000	N$'000	%	N$'000
Assets						
Cash and short term funds, including balance with banks	1 295 634	4.7	60 253	1 763 327	4.3	76 131
Advances	12 422 528	10.2	1 263 183	10 770 372	11.3	1 221 226
Investment securities	1 525 406	6.2	93 901	1 241 195	7.5	92 875
Interest-earning assets	15 243 568	9.3	1 417 337	13 774 894	10.1	1 390 232
Non-interest-earning assets	603 927			551 487		
Total Assets	15 847 495	8.9	1 417 337	14 326 381	9.7	1 390 232
Liabilities						
Deposits and current accounts, balance due to banks	13 373 288	4.1	553 525	11 951 129	5.1	606 395
Long term liabilities	268 008	8.8	23 554	267 809	8.9	23 794
Interest-earning liabilities	13 641 296	4.2	577 079	12 218 938	5.2	630 189
Non-interest-earning bearing liabilities	414 483			320 370		
Total liabilities	14 055 779	4.1	577 079	12 539 308	5.0	630 189
Total equity	1 791 716			1 799 625		
Total equity and liabilities	15 847 495	3.6	577 079	14 338 932	4.4	630 189

Company	2011			2010		
	Average balance	Average rate	Interest income/ expense	Average balance	Average rate	Interest income/ expense
N$'000	N$'000	%	N$'000	N$'000	%	N$'000
Assets						
Cash and short term funds, including balance with banks	1 295 634	4.7	60 253	1 763 327	4.3	76 131
Advances	11 619 349	10.5	1 215 857	9 872 769	11.9	1 172 011
Investment securities	1 525 406	6.2	93 901	1 241 195	7.5	92 875
Interest-earning assets	14 440 389	9.5	1 370 011	12 877 291	10.4	1 341 017
Non-interest-earning assets	1 156 803			1 243 362		
Total Assets	15 597 192	8.8	1 370 011	14 120 653	9.5	1 341 017
Liabilities						
Deposits and current accounts, balance due to banks	13 372 611	4.1	553 525	11 951 129	5.1	606 395
Long term liabilities	268 008	8.8	23 554	267 809	8.9	23 794
Interest-earning liabilities	13 640 619	4.2	577 079	12 218 938	5.2	630 189
Non-interest-earning bearing liabilities	408 852			301 704		
Total liabilities	14 049 471	4.1	577 079	12 520 642	5.0	630 189
Total equity	1 547 721			1 600 011		
Total equity and liabilities	15 597 192	3.7	577 079	14 120 653	4.5	630 189

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

31 Risk management continued

31.9 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$46.3 million (2010: N$40 million), while a parallel decrease in all yield curves would decrease the forecast income by N$46.3 million (2010: N$46 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.

	10% reduction in fair value	10% increase in fair value	10% reduction in fair value	10% increase in fair value
	2011		2010	
	N$'000	N$'000	N$'000	N$'000
Impact on equity (available-for-sale-reserve)	1 227	(1 227)	1 159	(1 159)

Annexure A: Capital management

Capital management

Introduction and objectives

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

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

Our capital management process is articulated in the group's capital management framework which is re-assessed and approved annually. The framework mandates us to manage our capital in a consistent and aligned manner to ensure shareholder value is maximised at all times.

The capital management process is also incorporated in the bank's Internal Capital Adequacy Assessment Process (ICAAP), which also covers stress testing and other scenarios used in determining the capital buffer over the regulatory minimum. The ICAAP document is approved annually by the Board of Directors, and submitted to Bank of Namibia as part of the supervisory and review process. The ICAAP and stress tests are under frequent review and refinement and continue to inform the targeted buffer decision.

The board also approves the range of core assumptions and stress scenarios used in the ICAAP. These stress scenarios are severe, but plausible, and also allows for a summary of the necessary management action that will enable the bank to operate without disruption. Undoubtedly, stress testing allows us to formulate our response, including risk mitigation actions, in advance of conditions starting to exhibit the stress scenarios identified. The actual market stresses which occurred throughout the world's financial system in recent years have been used to inform our capital planning process and allow for a refinement of stress scenarios used.

Capital adequacy and planning

Supply of capital

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

As mentioned earlier, the targeted level of capital takes into account any regulatory changes. In preparation for the transition to Basel II, the bank took the decision to target a higher regulatory ratio to ensure no business disruption during this transition period. Given the successful adoption of Basel II during the previous year, which was followed by a year of stable regulatory ratios, we took the decision to lower the targeted level of capital to 14%. The targeted level of 14% was informed by the stress testing exercise done as part of the ICAAP, with a Tier 1 level set at 12%. These targeted levels are well in excess of the regulatory minimums of 10% and 7% for Total Capital and Tier 1, respectively.

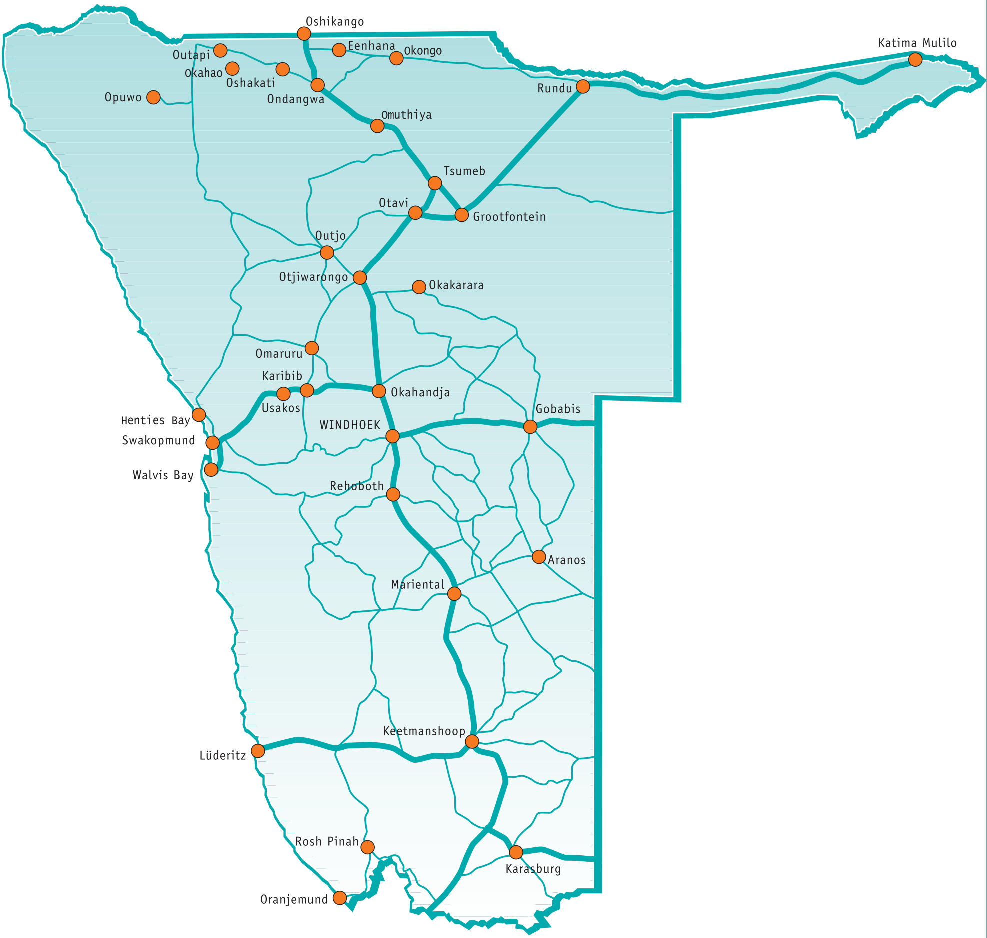
Forecasts and stress testing completed for the bank showed we would be operating well in excess of the targeted ratios for Total Capital and Tier 1, and consequently, the board declared a special dividend of N$379 million.

Following the special dividend payout, the bank continued to report a solid total capital ratio of 16.6%, with a Tier 1 ratio of 12.6% – considered to be well above international averages and well ahead of the bank's internal target that takes into account stress and volatility.

Demand for capital

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 in terms of the standardise approach of Basel II. The increase in risk weighted assets during the year is mainly attributable to the increase in credit risk due to increase in advances as well as increase in operational risk due to growth in gross income.

FNB Representation Points



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Annexure A: Capital management continued

Regulatory developments

The regulation and supervision of financial institutions continues to undergo significant changes in response to the global financial crisis. In December 2010, the Basel Committee issued the final requirements commonly referred to as Basel III, with Basel 2.5 already included in the draft regulations of a number of jurisdictions. Basel 3 places greater emphasis on liquidity and leverage ratios of banks and also raise the quality and transparency of the capital base. As a subsidiary of a South African banking group, we are preparing for the transition to Basel 2.5 in January 2012. Whilst Basel 2.5 is not expected to impact the bank, we are mindful of Basel III proposals that will take effect at a holding entity level. We continue to work with our holding entity on the impact of such regulatory changes, but believe that our strong risk management culture will be augmented by such initiatives allowing us to put measures in place in anticipation of such requirements in Namibia and South Africa.

Bank of Namibia is also in the process of introducing the consolidated supervision approach which we embrace. We believe this regulatory approach will not only complement our internal capital management framework but also enhance optimum capital mix within the group between different capital components.

Meanwhile, FNB calculates capital at a group level using the Basel II framework as set out by Bank of Namibia. Basel II is structured around three pillars and the Determination (BID-5) gave effect to Basel II rules and implementation thereof.

The following graph depicts the 8 years growth in capital components and capital adequacy:

Capital adequacy of FNB

	2011 N$m	2010 N$m
Risk weighted assets		
Credit risk	9 539	8 474
Market risk	14	25
Operational risk	1 677	1 411
Total risk weighted assets	11 230	9 910
Regulatory capital		
Share capital and share premium	1 143	1 143
Retained profits	481	756
Capital impairment: intangible assets	(211)	(241)
Total tier 1	1 413	1 658
Eligible subordinated debt	260	260
General risk reserve, including portfolio impairment	119	106
Current audited board approved profits	72	
Total tier 2	451	366
Total tier 1 and tier 2 capital	1 864	2 024
Capital adequacy ratios		
Tier 1	12.6%	16.7%
Tier 2	4.0%	3.7%
Total	16.6%	20.4%
Tier 1 leverage ratio	8.9%	9.5%