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.

2.1 Interest and similar income

N$'000	2012 Group Fair value	2012 Group Amortised cost	2012 Group Total	2012 Company Fair value	2012 Company Amortised cost	2012 Company Total
Interest on:						
- Advances		1 298 288	1 298 288		1 259 230	1 259 230
- Cash and short term funds		86 136	86 136		86 136	86 136
- Investment securities	110 494	2 656	113 150	110 494	2 656	113 150
- Unwinding of discounted present value on non performing loans (note 10)		6 718	6 718		6 152	6 152
- Impaired advances		5 092	5 092		4 718	4 718
- Unwinding of discounted present value on off-market advances		4 844	4 844		4 844	4 844
- Net release of deferred fees and expenses		10 123	10 123		9 658	9 658
Interest and similar income	**110 494**	**1 413 857**	**1 524 351**	**110 494**	**1 373 394**	**1 483 888**

N$'000	2011 Group Fair value	2011 Group Amortised cost	2011 Group Total	2011 Company Fair value	2011 Company Amortised cost	2011 Company Total
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

2.2 Interest expense and similar charges

N$'000	Group and company 2012 Fair value	2012 Amortised cost	2012 Total	2011 Fair value	2011 Amortised cost	2011 Total
Interest on:						
- Deposits from banks and financial institutions		549	549		927	927
- Current accounts		68 239	68 239		71 097	71 097
- Savings deposits		5 668	5 668		5 098	5 098
- Call deposits		214 266	214 266		209 142	209 142
- Term deposits		123 515	123 515		119 949	119 949
- Negotiable certificates of deposits		198 090	198 090		147 312	147 312
- Tier two liabilities	17 548	7 743	25 291	23 554		23 554
Interest expense and similar charges	**17 548**	**618 070**	**635 618**	23 554	553 525	577 079

3. Non interest income

N$'000		Group 2012	Group 2011	Company 2012	Company 2011
3.1	**Fees and commissions**				
	- Card commissions	52 918	53 681	52 918	53 681
	- Cash deposit fees	102 574	75 623	102 574	75 470
	- Commissions - bills, drafts and cheques	22 815	15 567	22 798	15 865
	- Service fees	251 893	215 630	251 845	215 611
	- Fiduciary fees	1 993	2 007	1 993	2 007
	- Other fee and commission related income	191 815	173 820	191 343	180 183
	- Broking commission received	19 350	20 585	19 350	20 585
		643 358	556 913	**642 821**	563 402
	Fee and commission expense:				
	- Transaction processing fees	(34 061)	(29 790)	(34 061)	(29 973)
	- Cash sorting handling and transportation charges	(5 962)	(4 331)	(5 595)	(4 126)
	- Card and cheque book related	(1 860)	(1 180)	(1 860)	(1 180)
	- ATM commissions paid	(2 264)	(2 136)	(2 264)	(2 136)
	- Other	(11 158)	(7 922)	(11 158)	(7 922)
	Fee and commission expense	**(55 305)**	(45 359)	**(54 938)**	(45 337)
	Net fees and commission income	**588 053**	511 554	**587 883**	518 065

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

N$'000		Group 2012	Group 2011	Company 2012	Company 2011
3.2	**Fair value income**				
	Foreign exchange trading	67 624	62 449	67 624	62 449
	Treasury trading operations				
	- Debt instruments trading	5 458	3 766	5 458	3 766
	- Derivatives revaluation	(33 553)	(626)	(33 553)	(626)
	Designated at fair value through profit or loss	40 634		40 634	
		80 163	65 589	**80 163**	65 589

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. Non interest income *continued*

N$'000		Group 2012	Group 2011	Company 2012	Company 2011
3.3	**Gains less losses from investing activities**				
	- Gain on realisation of available-for-sale financial assets	9 475	484	9 475	484
	- Gains on investment securities designated at fair value through profit or loss		2 489		2 489
	- Dividends other	50	53	50	53
	- Dividends received from associate company				1 000
		9 525	3 026	**9 525**	4 026
3.4	**Other non interest income**				
	- Rental income	1 625	1 625		
	- Other income	2 461	643	2 444	642
	- Profit / (loss) on sale of property and equipment	4	595	4	(147)
		4 090	2 863	**2 448**	495
	Total non interest income	**681 831**	583 032	**680 019**	588 175
	Non interest income, analysis by category.				
3.5	**Non interest income**	**681 831**	583 032	**680 019**	588 175
	Fee and commission income: Instruments at amortised cost	588 053	511 554	587 883	518 065
	Fair value income: Held for trading	39 529	65 589	80 163	65 589
	Fair value income: Designated at fair value through profit or loss	40 634	2 489		2 489
	Fair value income: Financial assets available-for-sale	9 475	484	9 475	484
	Dividends received: Non financial assets and liabilities				1 000
	Dividends received: Financial assets available-for-sale	50	53	50	53
	Other non interest income: Non financial assets and liabilities	4 090	2 863	2 448	495

4. Operating expenses

N$'000	Group 2012	Group 2011	Company 2012	Company 2011
Auditors' remuneration				
- Current year	3 203	3 062	2 865	2 780
- Fees for other services	23	44	23	44
Auditors' remuneration	**3 226**	3 106	**2 888**	2 824
Amortisation of intangible assets				
- Trademarks	17 561	19 303	16 214	17 686
- Software	10 155	10 158	10 155	10 158
Amortisation of intangible assets (note 16)	**27 716**	29 461	**26 369**	27 844
Depreciation				
- Leasehold property	6 177	5 736	6 177	5 736
- Equipment	31 666	25 789	31 308	25 436
Automatic teller machines	2 820	2 478	2 820	2 478
Computer equipment	9 639	10 088	9 639	10 062
Furniture and fittings	11 523	7 002	11 334	6 863
Motor vehicles	384	224	384	224
Office equipment	7 300	5 997	7 131	5 809
Depreciation (note 15)	**37 843**	31 525	**37 485**	31 172
Operating lease charges				
- Properties	23 455	20 060	24 681	21 180
- Equipment	4 968	4 127	4 968	4 126
Operating lease charges	**28 423**	24 187	**29 649**	25 306
Directors' emoluments				
- Services as directors	1 993	1 855	1 993	1 855
- Other services	2 884	2 580	2 884	2 580
Directors' emoluments	**4 877**	4 435	**4 877**	4 435
Professional fees	7 347	3 566	7 285	3 529
Direct staff costs				
- Salaries, wages and allowances	328 077	306 357	328 077	306 357
- Off-market staff loans amortisation	4 844	5 930	4 844	5 930
- Contributions to employee funds	76 164	68 962	76 164	68 962
Defined contribution schemes: pension	36 733	33 990	36 733	33 990
Defined contribution schemes: medical	39 431	34 972	39 431	34 972
- Retirement fund surplus recognised (note 20.3)		(4 658)		(4 658)
- Severance pay provision: death in service (note 20.2)	(201)	1 177	(201)	1 177
- Post retirement medical expenses (note 20.2)	2 802	3 430	2 802	3 430
- Social security levies	1 107	1 206	1 107	1 206
- Share-based payments (note 25.1)	9 974	5 077	9 974	5 077
Direct staff costs	**422 767**	387 481	**422 767**	387 481
- Other	15 824	14 637	15 824	14 637
Total staff costs	**438 591**	402 118	**438 591**	402 118

4. Operating expenses *continued*

N$'000	Group 2012	Group 2011	Company 2012	Company 2011
Other operating costs				
– Insurance	9 853	12 847	9 681	12 658
– Advertising and marketing	43 610	43 300	43 627	43 726
– Property and maintenance related expenses	37 671	33 315	36 372	32 229
– Legal fees	4 377	4 464	4 315	4 281
– Postage	4 147	4 515	4 128	4 431
– Printing and stationery	12 579	11 382	12 592	11 382
– Telecommunications	10 514	11 522	10 678	11 522
– Travel and accommodation	8 419	9 010	8 419	9 010
– Computer and processing related costs	112 698	96 657	112 467	96 372
– Other	39 026	31 906	46 304	45 231
Other operating costs	**282 894**	258 918	**288 583**	270 842
Total operating expenses	**830 917**	757 316	**835 727**	768 070

5. Tax

N$'000	Group 2012	Group 2011	Company 2012	Company 2011
5.1 Indirect tax				
Value-added tax (net)	11 779	12 466	11 501	12 205
Stamp duties	4 525	4 417	4 524	4 417
Total indirect tax	**16 304**	16 883	**16 025**	16 622
5.2 Direct tax				
Namibian normal tax				
– Current				
Current year	251 886	223 017	236 172	204 385
– Deferred				
Current year	10 194	3 962	9 761	4 306
Total direct tax	**262 080**	226 979	**245 933**	208 691
Tax rate reconciliation – Namibian normal tax	%	%	%	%
Effective rate of tax	34.01%	34.34%	33.98%	34.29%
Total tax has been affected by:				
Non-taxable income	0.45%	0.30%	0.45%	0.30%
Non deductable amounts	(0.46%)	(0.64%)	(0.43%)	(0.59%)
Standard rate of tax	**34.00%**	34.00%	**34.00%**	34.00%

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	2012						
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 cash equivalents			968 800				968 800
Due by banks and other financial institutions			1 927 620				1 927 620
Derivative financial instruments	27 125						27 125
Advances		484 537	13 669 067				14 153 604
Investment securities	48 967		102 607	1 904 027			2 055 601
Accounts receivable			176 999				176 999
Investment in associate company						2 769	2 769
Property and equipment						256 568	256 568
Intangible assets						183 335	183 335
Total assets	**76 092**	**484 537**	**16 845 093**	**1 904 027**		**442 672**	**19 752 421**
Liabilities							
Deposits					16 679 315		16 679 315
Due to banks and other financial institutions					32 924		32 924
Derivative financial instruments	60 228						60 228
Creditors and accruals					158 563		158 563
Tax liability						144 702	144 702
Employee liabilities						125 119	125 119
Deferred tax liability						51 602	51 602
Tier two liabilities					392 627		392 627
Total liabilities	**60 228**				**17 263 429**	**321 423**	**17 645 080**

6. Analysis of assets and liabilities *continued*

Group N$'000	2011 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 cash equivalents			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					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					210 288		210 288
Tax liability						23 738	23 738
Employee liabilities						111 438	111 438
Deferred tax liability						39 774	39 774
Tier two liabilities		270 618					270 618
Total liabilities	73 632	270 618			13 610 598	174 950	14 129 798

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
	2012						
Assets							
Cash and cash equivalents			968 800				968 800
Due by banks and other financial institutions			1 927 620				1 927 620
Derivative financial instruments	27 125						27 125
Advances		484 537	12 950 522				13 435 059
Investment securities	48 967		102 607	1 904 027			2 055 601
Accounts receivable			175 076				175 076
Investment in associate company						1 154	1 154
Investment in subsidiary company						483 906	483 906
Property and equipment						213 561	213 561
Intangible assets						181 372	181 372
Total assets	**76 092**	**484 537**	**16 124 625**	**1 904 027**		**879 993**	**19 469 274**
Liabilities							
Deposits					16 678 090		16 678 090
Due to banks and other financial institutions					32 924		32 924
Derivative financial instruments	60 228						60 228
Creditors and accruals					155 991		155 991
Employee liabilities						125 119	125 119
Tax Liability						137 384	137 384
Deferred tax liability						56 463	56 463
Tier two liabilities					392 627		392 627
Total liabilities	**60 228**				**17 259 632**	**318 966**	**17 638 826**

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 cash equivalents			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					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					208 153		208 153
Tax liability						22 559	22 559
Employee liabilities						111 438	111 438
Deferred tax liability						45 068	45 068
Tier two liabilities		270 618					270 618
Total liabilities	73 632	270 618			13 607 728	179 065	14 131 043

7.1 Cash and cash equivalents

	Group		Company	
N$'000	**2012**	2011	**2012**	2011
Coins and bank notes	226 954	213 388	226 954	213 388
Balances with central bank	740 804	198 678	740 804	198 678
Balances with other banks	1 042	847	1 042	847
	968 800	412 913	**968 800**	412 913
Mandatory reserve balances included in above:	**166 371**	148 787	**166 371**	148 787

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

Due by banks and financial institutions				
- In the normal course of business	**1 927 620**	763 051	**1 927 620**	763 051

The carrying value approximates the fair value.

Geographical split:				
Namibia	97 312	100 494	97 312	100 494
South Africa	1 206 512	30 406	1 206 512	30 406
North America	557 772	554 439	557 772	554 439
Europe	64 806	77 072	64 806	77 072
Other	1 218	640	1 218	640
	1 927 620	763 051	**1 927 620**	763 051

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.

8. Derivative financial instruments

Further information pertaining to the risk management of the group is set out in note 30.

	Group and company 2012			
	Assets		Liabilities	
N$'000	Notional	Fair value	Notional	Fair value
Currency derivatives				
- Forward rate agreements	229 601	7 066	145 780	4 677
- Options	551 705	16 947	551 705	16 947
Interest rate derivatives				
- Swaps	45 000	3 112	477 288	38 604
Total held for trading	**826 306**	**27 125**	**1 174 773**	**60 228**

	Group and company 2011			
	Assets		Liabilities	
	Notional	Fair value	Notional	Fair value
Currency derivatives				
- Forward rate agreements	369 511	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	872 980	24 161	906 729	21 743

9. Advances

N$'000	Group 2012	Group 2011	Company 2012	Company 2011
Notional value of advances	14 346 819	12 796 094	13 612 325	11 981 716
Contractual interest suspended	(35 674)	(45 966)	(32 034)	(41 885)
Gross advances	**14 311 145**	12 750 128	**13 580 291**	11 939 831
Sector analysis				
Agriculture	626 610	450 602	626 610	450 602
Banks and financial services	183 163	285 878	183 163	285 878
Building and property development	2 047 934	2 211 664	2 047 934	2 211 664
Government and public authorities	231 177	107 101	231 177	107 101
Individuals	8 069 570	7 183 622	7 338 716	6 373 325
Manufacturing and commerce	2 109 457	1 415 992	2 109 457	1 415 992
Mining	154 057	193 844	154 057	193 844
Transport and communication	247 856	216 825	247 856	216 825
Other services	641 321	684 600	641 321	684 600
Gross advances	**14 311 145**	12 750 128	**13 580 291**	11 939 831
Impairment of advances (note 10)	(157 541)	(211 628)	(145 232)	(199 601)
Net advances	**14 153 604**	12 538 500	**13 435 059**	11 740 230
Geographic analysis (based on credit risk)				
Namibia	**14 153 604**	12 538 500	**13 435 059**	11 740 230
Category analysis				
Card loans	99 794	88 518	99 794	88 518
Overdrafts and managed accounts	1 378 539	1 492 021	1 378 532	1 492 021
Loans to other financial institutions	183 163	285 878	183 163	285 878
Instalment sales	2 190 276	1 834 643	2 190 271	1 834 637
Lease payments receivable	127 983	89 229	127 983	89 229
Home loans	7 221 825	6 549 139	6 490 983	5 738 848
Term loans	2 088 335	1 907 243	2 088 335	1 907 243
Assets under agreement to resell		52 757		52 757
Investment bank term loans	484 537		484 537	
Other	536 693	450 700	536 693	450 700
Gross advances	**14 311 145**	12 750 128	**13 580 291**	11 939 831
Impairment of advances (note 10)	(157 541)	(211 628)	(145 232)	(199 601)
Net advances	**14 153 604**	12 538 500	**13 435 059**	11 740 230
Portfolio analysis				
Designated at fair value through profit and loss	484 537		484 537	
Loans and receivables	13 669 067	12 538 500	12 950 522	11 740 230
	14 153 604	12 538 500	**13 435 059**	11 740 230

Fair value

The fair value of advances is set out in note 29.

A maturity analysis of advances is set out in note 30 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 2012 Within 1 year	Between 1 and 5 years	Total
Lease payments receivable	74 405	72 171	146 576
Suspensive sale Instalments receivable	1 067 711	1 473 643	2 541 354
	1 142 116	1 545 814	2 687 930
Less : Unearned finance charges	(222 830)	(143 978)	(366 808)
Total	**919 286**	**1 401 836**	**2 321 122**

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

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.

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.

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

The valuation at inception is based on physical inspection.

9. Advances *continued*

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

	Group and company			
	2012		2011	
	Performing	Non performing	Performing	Non performing
Installment sales and lease payments receivable	4 743	2 294	1 500	1 781
Home loans	23 254	58 309	27 609	75 904
	27 997	**60 603**	29 109	77 685

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

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

10. Impairment of advances

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

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

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

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

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
	Group 2012							
Opening balance	2 550	63 270	32 803	45 705	67 300	211 628	64 643	146 985
Amounts written off	(431)	(3 397)	(3 373)	(2 119)	(2 289)	(11 609)	(11 609)	
Unwinding of discounted present value on non performing loans		(1 011)		(5 029)	(678)	(6 718)	(6 718)	
Net new impairments created / (released)	89	(40 545)	6 353	2 606	(4 263)	(35 760)	9 240	(45 000)
Closing balance	**2 208**	**18 317**	**35 783**	**41 163**	**60 070**	**157 541**	**55 556**	**101 985**
Increase / (decrease) in provision	89	(40 545)	6 353	2 606	(4 263)	(35 760)	9 240	(45 000)
Recoveries of bad debts previously written off	(34)	(1 010)	(3 505)	(675)	(929)	(6 153)	(6 153)	
Impairment (release) / loss recognised in the statement of comprehensive income	**55**	**(41 555)**	**2 848**	**1 931**	**(5 192)**	**(41 913)**	**3 087**	**(45 000)**

N$'000	Card loans	Overdrafts and managed accounts	Instalment sales and lease receivables	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
	Group 2011							
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 / (released)	(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
Increase / (decrease) in 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)	

10. Impairment of advances *continued*

N$'000	Company 2012							
	Card loans	Overdrafts and managed accounts	Instalment sales and lease receivables	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
Opening balance	2 550	63 273	33 972	32 758	67 048	199 601	60 791	138 810
Amounts written off	(431)	(3 397)	(3 373)	(2 967)	(2 289)	(12 457)	(12 457)	
Unwinding of discounted present value on non performing loans		(1 011)		(4 463)	(678)	(6 152)	(6 152)	
Net new impairments created / (released)	89	(40 545)	6 353	2 606	(4 263)	(35 760)	9 240	(45 000)
Closing balance	**2 208**	**18 320**	**36 952**	**27 934**	**59 818**	**145 232**	**51 422**	**93 810**
Increase / (decrease) in provision	89	(40 545)	6 353	2 606	(4 263)	(35 760)	9 240	(45 000)
Recoveries of bad debts previously written off	(34)	(1 010)	(3 505)	(1 680)	(929)	(7 158)	(7 158)	
Impairment (release) / loss recognised in the statement of comprehensive income	**55**	**(41 555)**	**2 848**	**926**	**(5 192)**	**(42 918)**	**2 082**	**(45 000)**

N$'000	Company 2011							
	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	78 643	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 / (released)	(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
Increase / (decrease) in 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)	

10. Impairment of advances *continued*

N$'000	Group 2012 Total value net of interest in suspense	Group 2012 Security held	Group 2012 Specific impairments
Non performing lendings by sector			
Agriculture	6 236	4 173	2 365
Banks and financial services	186		186
Building and property development	18 336	8 726	11 195
Individuals	85 685	69 386	30 246
Manufacturing and commerce	18 946	16 495	5 947
Mining	217		217
Transport and communication	531	33	517
Other	11 806	5 213	4 883
Total non performing lendings	**141 943**	**104 026**	**55 556**
Non performing lendings by category			
Card loans	1 643		1 643
Overdrafts and managed accounts	16 114	15 834	10 893
Instalment sales	11 963	2 385	8 493
Lease payments receivable	1 474	150	1 324
Home loans	96 079	73 097	26 811
Term loans	9 799	9 210	4 632
Other	4 871	3 350	1 760
Total non performing lendings	**141 943**	**104 026**	**55 556**
Geographical split:			
Namibia	**141 943**	**104 026**	**55 556**

N$'000	Group 2011 Total value net of interest in suspense	Group 2011 Security held	Group 2011 Specific impairments
Non performing lendings by sector			
Agriculture	10 497	10 470	1 018
Banks and financial services	1 231		1 230
Building and property development	31 108	18 858	15 252
Individuals	97 578	79 681	36 077
Manufacturing and commerce	4 548	1 020	2 739
Mining	349		348
Transport and communication	901		910
Other	19 788	13 990	7 069
Total non performing lendings	166 000	124 019	64 643
Non performing lendings by category			
Card loans	2 008		2 009
Overdrafts and managed accounts	14 051	7 940	9 900
Instalment sales	13 011	1 061	10 653
Lease payments receivable	4 963	2 510	2 453
Home loans	117 771	102 006	34 175
Term loans	7 537	3 812	5 300
Other	6 659	6 690	153
Total non performing lendings	166 000	124 019	64 643
Geographical split:			
Namibia	166 000	124 019	64 643

10. Impairment of advances *continued*

N$'000	Company 2012 Total value net of interest in suspense	Company 2012 Security held	Company 2012 Specific impairments
Non performing lendings by sector			
Agriculture	6 236	4 173	2 365
Banks and financial services	186		186
Building and property development	18 336	8 726	11 195
Individuals	71 020	55 502	26 112
Manufacturing and commerce	18 946	16 495	5 947
Mining	217		217
Transport and communication	531	33	517
Other	11 806	5 213	4 883
Total non performing lendings	**127 278**	**90 142**	**51 422**
Non performing lendings by category			
Card loans	1 643		1 643
Overdrafts and managed accounts	16 114	15 834	10 893
Instalment sales	11 963	2 385	8 493
Lease payments receivable	1 474	150	1 324
Home loans	81 414	59 213	22 677
Term loans	9 799	9 210	4 632
Other	4 871	3 350	1 760
Total non performing lendings	**127 278**	**90 142**	**51 422**
Geographical split:			
Namibia	**127 278**	**90 142**	**51 422**

	Company 2011 Total value net of interest in suspense	Company 2011 Security held	Company 2011 Specific impairments
Non performing lendings by sector			
Agriculture	10 497	10 470	1 018
Banks and financial services	1 231		1 230
Building and property development	31 108	18 858	15 252
Individuals	82 505	60 092	32 225
Manufacturing and commerce	4 548	1 020	2 739
Mining	349		348
Transport and communication	901		910
Other	19 789	13 990	7 069
Total non performing lendings	150 928	104 430	60 791
Non performing lendings by category			
Card loans	2 008		2 009
Overdrafts and managed accounts	14 051	7 940	9 900
Instalment sales	13 011	1 061	10 653
Lease payments receivable	4 963	2 510	2 453
Home loans	102 698	82 417	30 323
Term loans	7 538	3 812	5 300
Other	6 659	6 690	153
Total non performing lendings	150 928	104 430	60 791
Geographical split:			
Namibia	150 928	104 430	60 791

11. Investment securities

N$'000	Held for trading	Available-for-sale	Loans and receivables	Total
		Group and company 2012		
Total listed				
Other government and guaranteed stock	41 939	336 144		378 083
Other dated securities		7 921		7 921
Total	**41 939**	**344 065**		**386 004**
Total unlisted				
Negotiable certificates of deposits			102 607	102 607
Treasury bills	7 028	1 559 962		1 566 990
Other dated securities				
Total	**7 028**	**1 559 962**	**102 607**	**1 669 597**
Total investment securities	**48 967**	**1 904 027**	**102 607**	**2 055 601**
Valuation of investments				
Market value of listed investments				386 004
Directors valuation of unlisted investments				1 669 713
Total valuation				**2 055 717**

N$'000	Held for trading	Available-for-sale	Loans and receivables	Total
		Group and company 2011		
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

11. Investment securities *continued*

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

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

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

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

12. Accounts receivable

	Group		Company	
N$'000	**2012**	2011	**2012**	2011
Accounts receivable				
- Items in transit	50 430	71 762	50 415	71 774
- Deferred staff costs	40 057	39 128	40 057	39 128
- Other accounts receivable	86 512	15 930	84 604	14 803
Total	**176 999**	126 820	**175 076**	125 705

The carrying value of accounts receivable approximates the fair value.

The credit quality of the above balances is provided in the risk management note 30.

13. Investment in associate company

Details of investments in unlisted associate company

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

There has been no change from the prior year.

Effective holdings and carrying amounts in unlisted associate company

	Effective holding %		Group carrying amount		Investment at cost less impairments	
N$ '000	**2012**	2011	**2012**	2011	**2012**	2011
Unlisted investment						
Namclear (Pty) Ltd	25	25	2 769	1 820	1 154	1 154
Total unlisted			**2 769**	1 820	**1 154**	1 154

Detail information of unlisted associate company

	Namclear (Pty) Ltd		Namclear (Pty) Ltd	
	Unaudited June 2012	Unaudited June 2011	**Unaudited June 2012**	Unaudited June 2011
Opening balance	1 820	2 566	1 154	1 154
Share of profit	949	254		
Dividends received		(1 000)		
Closing balance	**2 769**	1 820	**1 154**	1 154
Valuation				
Unlisted investment at directors' valuation	**2 769**	1 820	**1 154**	1 154

13. Investment in associate company *continued*

Summarised financial information of associate company

N$ '000	Group Namclear (Pty) Ltd **Unaudited June 2012**	Unaudited June 2011
Statement of financial position		
Non-current assets	1 370	3 974
Current assets	15 540	16 164
Current liabilities	(4 900)	(11 325)
Non-current liabilities	(92)	
Equity	**11 918**	8 813
Total share of profits from associate company	**949**	254

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

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

14. Investment in subsidiary company

Significant subsidiary	Nature of business	Date of acquisition	Country of incorporation	Listed/ unlisted	Effective holding **% 2012**	% 2011
Swabou Investments (Pty) Ltd Number of shares issued: 2 of 0.5 cents each (2011: 2 of 0.5 cents each)	Home loans	1 July 2003	Namibia	Unlisted	100	100

N$ '000	Aggregate income of subsidiary (before tax) **2012**	2011	Total Indebtness **2012**	2011	Total investment **2012**	2011
Swabou Investments (Pty) Ltd	**45 623**	65 846	**483 906**	600 657	**483 906**	600 657

Interest paid by Swabou Investments (Pty) Ltd to First National Bank of Namibia Ltd totalled N$40 million (2011: N$48 million).

15. Property and equipment

N$ '000	Cost 2012	Accumulated depreciation and impairments 2012	Carrying amount 2012	Cost 2011	Accumulated depreciation and impairments 2011	Carrying amount 2011
	Group					
Property						
Freehold land and buildings	170 502	(18 916)	151 586	156 124	(18 916)	137 208
Leasehold property	33 928	(27 291)	6 637	30 613	(21 172)	9 441
	204 430	(46 207)	158 223	186 737	(40 088)	146 649
Equipment						
Automatic teller machines	24 551	(17 476)	7 075	22 555	(15 502)	7 053
Computer equipment	62 214	(44 783)	17 431	61 083	(36 354)	24 729
Furniture and fittings	93 781	(44 231)	49 550	88 562	(35 714)	52 848
Motor vehicles	6 555	(2 819)	3 736	6 263	(2 758)	3 505
Office equipment	53 429	(32 876)	20 553	48 095	(26 463)	21 632
	240 530	(142 185)	98 345	226 558	(116 791)	109 767
Total	**444 960**	**(188 392)**	**256 568**	413 295	(156 879)	256 416

Movement in property and equipment – carrying amount

N$ '000	Freehold land and buildings	Leasehold property	Equipment	Total
	Group			
Carrying amount at 1 July 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
Additions	33 142	68	11 022	44 232
Transfer between classes	(13 475)	3 340	10 135	
Depreciation charge for year		(6 177)	(31 666)	(37 843)
Transfers to repairs and maintenance	(5 262)			(5 262)
Disposals	(27)	(35)	(913)	(975)
Carrying amount at 30 June 2012	**151 586**	**6 637**	**98 345**	**256 568**

15. Property and equipment *continued*

N$ '000	Cost 2012	Accumulated depreciation and impairments 2012	Carrying amount 2012	Cost 2011	Accumulated depreciation and impairments 2011	Carrying amount 2011
	Company					
Property						
Freehold land and buildings	112 234	(1 093)	111 141	97 856	(1 093)	96 763
Leasehold property	33 928	(27 291)	6 637	30 613	(21 172)	9 441
	146 162	(28 384)	117 778	128 469	(22 265)	106 204
Equipment						
Automatic teller machines	24 551	(17 476)	7 075	22 555	(15 502)	7 053
Computer equipment	62 117	(44 686)	17 431	60 986	(36 257)	24 729
Furniture and fittings	92 247	(43 586)	48 661	87 038	(35 257)	51 781
Motor vehicles	6 555	(2 819)	3 736	6 263	(2 758)	3 505
Office equipment	51 268	(32 388)	18 880	46 947	(26 144)	20 803
	236 738	(140 955)	95 783	223 789	(115 918)	107 871
Total	**382 900**	**(169 339)**	**213 561**	352 258	(138 183)	214 075

Movement in property and equipment – carrying amount

N$'000	Freehold land and buildings	Leasehold property	Equipment	Total
	Company			
Carrying amount at 1 July 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
Additions	33 142	68	10 000	43 210
Transfer between classes	(13 475)	3 340	10 135	
Depreciation charge for year		(6 177)	(31 308)	(37 485)
Transfers to repairs and maintenance	(5 262)			(5 262)
Disposals	(27)	(35)	(915)	(977)
Carrying amount at 30 June 2012	**111 141**	**6 637**	**95 783**	**213 561**

15. Property and equipment *continued*

The useful life of each asset is assessed individually. 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

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

Information regarding land and buildings as required in terms of Schedule 4 of the Companies Act is kept at the Company's registered offices. This information will be open for inspection in terms of the provisions of Section 120 of the Companies Act, 2004. Property and equipment is unencumbered at 30 June 2012 or 30 June 2011.

16. Intangible assets

N$ '000	Group 2012	Group 2011	Company 2012	Company 2011
Trademarks				
Gross amount	380 713	380 714	354 099	354 099
Less: Accumulated amortisation	(248 185)	(230 625)	(223 534)	(207 320)
	132 528	150 089	**130 565**	146 779
Movement in trademarks – carrying amount				
Opening balance	150 089	169 392	146 779	164 465
Amortisation (note 4)	(17 561)	(19 303)	(16 214)	(17 686)
Closing balance	**132 528**	150 089	**130 565**	146 779
FNB Namibia Trademark	124 947	136 392	124 947	136 392
Swabou Trademark	7 581	13 697	5 618	10 387
	132 528	150 089	**130 565**	146 779
Software				
Gross amount	34 016	34 006	34 016	34 006
Less: Accumulated amortisation	(31 176)	(21 011)	(31 176)	(21 011)
	2 840	12 995	**2 840**	12 995
Movement in software – carrying amount				
Opening balance	12 995	23 153	12 995	23 153
Amortisation (note 4)	(10 155)	(10 158)	(10 155)	(10 158)
Closing balance	**2 840**	12 995	**2 840**	12 995
Goodwill – carrying amount	47 967	47 967	47 967	47 967
Total closing balance of intangible assets	**183 335**	211 051	**181 372**	207 741
Total amortisation charge for intangible assets (note 4)	**(27 716)**	(29 461)	**(26 369)**	(27 844)

16. Intangible assets *continued*

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

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

The FNB Namibia Trademark is amortised over a period of 20 years, of which 12 years remain at the end of 2012.

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 2 years.

Impairment of goodwill

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

The CGU's to which the goodwill balance as at 30 June 2012 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. Deposits

N$ '000	Group 2012	Group 2011	Company 2012	Company 2011
17.1 Deposits and current accounts				
At amortised cost				
- Current accounts	6 024 811	4 288 055	6 023 586	4 287 320
- Call deposits	4 413 673	4 021 388	4 413 673	4 021 388
- Savings account	415 000	355 308	415 000	355 308
- Term deposits	2 335 471	2 002 041	2 335 471	2 002 041
- Negotiable certificates of deposit	3 490 360	2 689 608	3 490 360	2 689 608
	16 679 315	13 356 400	**16 678 090**	13 355 665
Geographic analysis (based on counterparty risk)				
Namibia	**16 679 315**	13 356 400	**16 678 090**	13 355 665

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

N$ '000	Group 2012	Group 2011	Company 2012	Company 2011
17.2 Due to banks and other financial institutions				
At amortised cost				
Due to banks and financial institutions				
- In the normal course of business	32 924	43 910	32 924	43 910
	32 924	43 910	**32 924**	43 910
Geographic analysis (based on counterparty risk)				
Namibia	**32 924**	43 910	**32 924**	43 910

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

18. Short trading positions

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

Short trading positions are carried at fair value.

19. Creditors and accruals

N$ '000	Group 2012	Group 2011 [1]	Group 2010 [1]	Company 2012	Company 2011 [1]	Company 2010 [1]
Accounts payable and accrued liabilities	132 300	90 847	103 303	129 728	88 712	101 801
Items in transit	26 263	119 441	43 932	26 263	119 441	43 932
	158 563	210 288	147 235	**155 991**	208 153	145 733

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

20. Employee liabilities

N$'000		Group and company 2012	Group and company 2011 [1]	Group and company 2010 [1]
Staff related accruals	20.1	80 261	71 547	63 833
Cash settled share-based payment liability*		9 374	5 355	2 401
Post-employment benefit liabilities	20.2	35 484	34 536	31 110
Closing balance		**125 119**	111 438	97 344

* Refer to note 24 for more detail on the cash settled share-based payment schemes.

20.1 Staff related accruals

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

N$'000	Group and company 2012	Group and company 2011 [1]	Group and company 2010 [1]
Opening balance	71 547	63 833	56 373
- Charge to profit or loss			
- Additional provisions created	31 778	27 231	21 051
- Utilised	(23 064)	(19 517)	(13 591)
Closing balance	**80 261**	71 547	63 833

[1] Comparatives have been reclassified, refer to note 31

20. Employee liabilities *continued*

20.2 Post-employment benefit liabilities

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

The actuarial method used to value the liabilities is the project unit credit method prescribed by IAS 19 *Employee Benefits.* The liability is measured as the present value of the 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 independent actuarial valuations are done on an annual basis.

	Group and company					
	2012			2011		
N$ '000	Medical	Severance pay	Total	Medical	Severance pay	Total
Present value of unfunded liabilities	29 105	3 896	33 001	30 016	4 153	34 169
Unrecognised actuarial losses	2 483		2 483	367		367
Post-employment liabilities	**31 588**	**3 896**	**35 484**	30 383	4 153	34 536
The amounts recognised in the statement of comprehensive income are as follows:						
Current service cost	165	355	520	170	906	1 076
Past service cost				1 137		1 137
Interest cost	2 553	338	2 891	2 541	271	2 812
Net actuarial gains/(losses) recognised	84	(894)	(810)	(418)		(418)
Total included in staff costs (note 4)	**2 802**	**(201)**	**2 601**	3 430	1 177	4 607
Movement in post-employment liabilities						
Present value at the beginning of the year	30 383	4 153	34 536	28 059	3 051	31 110
Amounts recognised in the profit and loss as above	2 802	(201)	2 601	3 430	1 177	4 607
Benefits paid	(1 597)	(56)	(1 653)	(1 106)	(75)	(1 181)
Present value at the end of the year	**31 588**	**3 896**	**35 484**	30 383	4 153	34 536
Expected benefits payable in following financial year	2 752	737	3 489	1 258	695	1 953
The principal actuarial assumptions used for accounting purposes were:						
Discount rate (%)	8.38%	8.38%		8.51%	8.51%	
Medical aid inflation (%)	7.38%			7.51%		
Salary inflation (%)		6.88%			7.01%	

20. Employee liabilities *continued*

20.2 Post-employment benefit liabilities *continued*

The effects of a 1% movement in the assumed costs were as follows	Group and company 2012 Health costs	2012 Salary costs	2011 Health costs	2011 Salary costs
Increase of 1%				
Effect on the aggregate of the current service cost and interest cost	447	77	426	81
Effect on the defined benefit obligation	4 399	409	4 429	419
Decrease of 1%				
Effect on the aggregate of the current service cost and interest cost	359	68	340	70
Effect on the defined benefit obligation	3 593	361	3 555	370
Mortality rate				
The average remaining life expectancy in years of a pensioner retiring at age 60 on the reporting date is as follows:				
Male	15	n/a	19	n/a
Female	17	n/a	23	n/a
Employees covered	123	1 695	129	1 687

N$'000	Group and company 2012	2011
20.3 Pension fund		
Employer contributions to pension fund	36 552	33 820
Employer contributions to pension fund – executive director	181	170
Total employer contributions to pension fund (note 4)	36 733	33 990
Employee contributions to pension fund	16 491	14 744
Total contributions	**53 224**	48 734
Number of employees covered	1 707	1 695

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

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

21. Deferred tax liability

N$'000	Group 2012	Group 2011	Company 2012	Company 2011
The movement on the deferred tax account is as follows:				
Taxable temporary differences				
- Balance at the beginning of the year	119 717	115 344	120 739	116 607
- Originating temporary differences	6 049	4 373	5 523	4 132
Total	**125 766**	119 717	**126 262**	120 739
Deductible temporary differences				
- Balance at the beginning of the year	(79 943)	(79 370)	(75 671)	(75 683)
- Reversing temporary differences	5 779	(573)	5 872	12
Total	**(74 164)**	(79 943)	**(69 799)**	(75 671)
Deferred tax liability	**51 602**	39 774	**56 463**	45 068

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

N$'000	Group 2012 Opening balance	Group 2012 Originating / (reversing) differences	Group 2012 Closing balance	Group 2011 Opening balance	Group 2011 Originating / (reversing) differences	Group 2011 Closing balance
Accruals	22 450	3 398	25 848	21 094	1 356	22 450
Deferred staff cost	13 304	314	13 618	15 183	(1 879)	13 304
Derivatives				1 042	(1 042)	
Instalment credit agreements	51 740	1 443	53 183	48 820	2 920	51 740
Property and equipment	29 542	(740)	28 802	26 362	3 180	29 542
Revaluation of available-for-sale financial assets	2 681	1 634	4 315	2 843	(162)	2 681
Total taxable temporary differences	**119 717**	**6 049**	**125 766**	115 344	4 373	119 717
Derivatives	(1 183)	(5 347)	(6 530)		(1 183)	(1 183)
Provision for loan impairment	(50 785)	11 159	(39 626)	(52 665)	1 880	(50 785)
Provision for post-retirement benefits	(11 768)	(297)	(12 065)	(10 577)	(1 191)	(11 768)
Other	(16 207)	264	(15 943)	(16 128)	(79)	(16 207)
Total deductible temporary differences	**(79 943)**	**5 779**	**(74 164)**	(79 370)	(573)	(79 943)
Total deferred tax liability	**39 774**	**11 828**	**51 602**	35 974	3 800	39 774
Charge through profit and loss		10 194			3 962	
Deferred tax on other comprehensive income		1 634			(162)	
Total		**11 828**			3 800	

21. Deferred tax liability *continued*

	Company					
	2012			2011		
N$'000	Opening balance	Originating / (reversing) differences	Closing balance	Opening balance	Originating / (reversing) differences	Closing balance
Accruals	22 450	3 398	25 848	21 094	1 356	22 450
Deferred staff cost	13 304	314	13 618	15 183	(1 879)	13 304
Derivatives				1 042	(1 042)	
Instalment credit agreements	51 740	1 443	53 183	48 820	2 920	51 740
Property and equipment	30 564	(1 266)	29 298	27 625	2 939	30 564
Revaluation of available-for-sale financial assets	2 681	1 634	4 315	2 843	(162)	2 681
Total taxable temporary differences	**120 739**	**5 523**	**126 262**	116 607	4 132	120 739
Derivatives	(1 183)	(5 347)	(6 530)		(1 183)	(1 183)
Provision for loan impairment	(48 700)	11 159	(37 541)	(50 579)	1 879	(48 700)
Provision for post-retirement benefits	(11 768)	(297)	(12 065)	(10 577)	(1 191)	(11 768)
Other	(14 020)	357	(13 663)	(14 527)	507	(14 020)
Total deductible temporary differences	**(75 671)**	**5 872**	**(69 799)**	(75 683)	12	(75 671)
Total deferred tax liability	**45 068**	**11 395**	**56 463**	40 924	4 144	45 068
Charge through profit and loss		9 761			4 306	
Deferred tax on other comprehensive income		1 634			(162)	
Total		**11 395**			4 144	

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.

22. Tier two liabilities

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

[1] Comparatives have been reclassified, refer to note 31.

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

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

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

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

The notes listed above qualify as tier two capital for First National Bank of Namibia Limited.

Refer to note 29, fair value of financial instruments for the methodologies used to determine the fair value of tier two liabilities.

23. Ordinary shares

N$ '000	Group and company 2012	2011
Authorised		
4 000 (2011: 4 000) ordinary shares with a par value of N$1 per share	4	4
Issued and fully paid up		
1 200 (2011: 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.

24. Remuneration schemes

N$'000	Group and company 2012	2011
The statement of comprehensive income charge for share-based payments is as follows:		
FNB Share Incentive Trust	4 203	2 831
Employees with FirstRand share options and share appreciation rights	5 771	2 246
Charge against staff costs (note 4)	**9 974**	5 077

Share option schemes

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

FNB 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.

24. Remuneration schemes *continued*

Dividend data of the following:

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

Employee statistic assumptions:

- Annual employee turnover is the average annual rate that employees participating in the option scheme are expected to leave before the options have vested.
- The number of iterations is the number to be used in the binomial model, which is limited to 500.
- The weighted average number of forfeitures is based on the major grants because these grants have a more reliable cancellation or forfeiture pattern.
- The significant weighted average assumptions used to estimate the fair value of options granted and the IFRS 2 share based payment expenses for the year under review are:

	Group and company			
	FNB Share Incentive Trust		BEE Staff Incentive Scheme	
N$'000	**2012**	2011	**2012**	2011
Weighted average exercise price (N$)	517 - 1226	517 - 1226	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)	10 204	9 797	446	446
Granted at prices ranging between (cents)	517 - 1155	517 - 1155	517	517
Number of options granted during the year ('000)	2 807	2 296		
Granted at prices ranging between (cents)	1 236	1 226		
Number of options exercised/released during the year ('000)	(2 056)	(1 294)	(384)	(384)
Market value range at the date of exercise/release (cents)	517-1 226	517-1 226	1 226	1 226
Number of options cancelled/lapse during the year ('000)	(340)	(595)		
Granted at prices ranging between (cents)	517 - 1 226	517 - 1 226		
Number of options in force at the end of the year ('000)	**10 615**	10 204	**62**	62
Granted at prices ranging between (cents)	**517 - 1 236**	517 - 1 226	**517**	517
Options are execercisable over the following periods: ('000) (first date able to release)				
Financial year 2012		2 396	62	62
Financial year 2013	4 089	2 738		
Financial year 2014	2 224	2 003		
Financial year 2015	2 431	1 606		
Financial year 2016	936	726		
Financial year 2017	935	735		
	10 615	10 204	**62**	62

25. Cash flow information

N$ '000	Group 2012	Group 2011	Company 2012	Company 2011
25.1 Reconciliation of operating profit to cash flows from operating activities				
Profit before tax	770 596	661 027	723 846	608 666
Adjusted for:				
- Depreciation, amortisation and impairment costs	65 558	60 986	63 854	59 016
- Transfer to repairs and maintenance	5 262	4 000	5 262	4 353
- Impairment (reversal) / recognition for losses on advances	(41 913)	(12 398)	(42 918)	(12 967)
- Fair value adjustment to financial liabilities	(4 391)	716	(4 391)	716
- Provision for post-employment benefit obligations	948	3 426	948	3 426
- Other employment accruals	31 778	27 231	31 778	27 231
- Creation and revaluation of derivative financial instruments	35 521	(3 319)	35 521	(3 319)
- (Loss) / profit on sale of property and equipment	(4)	(595)	(4)	147
- Share-based payment costs	9 974	5 077	9 974	5 077
- Unwinding of discounted present value on non-performing loans (note 10)	(6 718)	(8 763)	(6 152)	(7 240)
- Unwinding of discounted present value on off-market advances (note 2.1)	(4 844)	(5 930)	(4 844)	(5 930)
- Net release of deferred fee and expenses	(10 123)	(8 421)	(9 658)	(7 882)
- Transfer from revaluation reserve: available-for-sale financial assets	(9 475)	(484)	(9 475)	(484)
- Off-market staff loans amortisation (note 4)	4 844	5 930	4 844	5 930
- Share of profit from associate company	(949)	(254)		
- Indirect tax (note 5)	16 304	16 883	16 025	16 622
Cash flows from operating activities	**862 368**	745 112	**814 610**	693 362
25.2 Cash receipts from customers				
Interest and similar income	1 502 666	1 394 224	1 463 234	1 348 959
Fees and commission income	588 053	511 554	587 883	518 065
Other non interest income	119 821	67 080	118 178	66 454
	2 210 540	1 972 858	**2 169 295**	1 933 478
25.3 Cash paid to customers, suppliers and employees				
Interest expense and similar charges	(635 618)	(577 079)	(635 618)	(577 079)
Total other operating expenditure	(712 554)	(650 667)	(719 067)	(663 037)
	(1 348 172)	(1 227 746)	**(1 354 685)**	(1 240 116)
25.4 Increase in income earning assets				
Investment securities	(486 637)	(86 034)	(486 637)	(86 034)
Due by banks and other financial institutions	(1 164 569)	88 132	(1 164 569)	88 132
Accounts receivable and similar accounts	(59 294)	(53 426)	(56 500)	(57 736)
Advances	(1 551 505)	(1 191 249)	(1 631 259)	(1 263 049)
	(3 262 005)	(1 242 577)	**(3 338 965)**	(1 318 687)
25.5 Increase in deposits and other liabilities				
Deposits	3 322 915	1 288 377	3 322 425	1 288 642
Due to banks and other financial institutions	(10 985)	(9 437)	(10 985)	(9 437)
Accounts payable and similar accounts	(57 492)	45 823	(60 045)	44 272
Short trading positions	(51 889)	51 889	(51 889)	51 889
	3 202 549	1 376 652	**3 199 506**	1 375 366

25. Cash flow information *continued*

N$ '000	Group 2012	Group 2011	Company 2012	Company 2011
25.6 Tax paid				
Amounts payable at beginning of the year	(30 991)	(38 746)	(29 512)	(37 224)
Indirect taxes	(16 304)	(16 883)	(16 025)	(16 622)
Current tax charge	(251 885)	(223 017)	(236 170)	(204 385)
Amounts payable at end of the year	156 964	30 991	149 477	29 512
Total tax paid	**(142 216)**	(247 655)	**(132 230)**	(228 719)
25.7 Capital expenses				
Purchase of property, equipment and software, settled in cash	**44 232**	53 506	**43 210**	52 495
25.8 Dividends paid	**191 556**	569 321	**191 556**	569 321

26. Contingent liabilities and capital commitments

N$ '000	Group and company 2012	Group and company 2011
Contingencies		
Guarantees	655 385	722 290
Letters of credit	54 027	47 756
Total contingencies	709 412	770 046
Irrevocable unutilised facilities	641 215	434 880
Total contingencies and commitments	**1 350 627**	1 204 926
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	8 464	9 727
- Not contracted for	408 150	
Comprising of:		
Capital commitments contracted for at the reporting date but not yet incurred are as follows:		
- Property and equipment	8 464	9 727
Capital commitments not yet contracted for at the reporting date but have been approved by the directors:		
- Property and equipment	408 150	

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

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.

26. Contingent liabilities and capital commitments *continued*

Group and company leasing arrangements:

N$ '000	2012			2011		
	Next year	2nd to 5th year	After 5 years	Next year	2nd to 5th year	After 5 years
Office premises	14 021	21 663	821	11 790	17 279	1 042
Equipment				27		
	14 021	**21 663**	**821**	11 817	17 279	1 042

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

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

27. Related parties

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

27.1 Subsidiary

Details of interests in the subsidiary are disclosed in note 14.

27.2 Associate

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

27. Related parties *continued*

27.3 Details of transactions with relevant related parties appear below:

	2012		
N$'000	Parent	Fellow subsidiaries	Associate
Loans and advances			
Balance 1 July	84 148	74 157	
Issued during year	1 182 986	2 695	
Repayments during year			
Balance 30 June	**1 267 134**	**76 852**	
Derivative instruments: assets	17 534		
Deposits			
Balance 1 July	(32 090)	(23 633)	(3 142)
Received during year		(395 139)	(88 157)
Repayments during year	145 979	34 668	97 993
Balance 30 June	**113 889**	**(384 104)**	**6 694**
Accounts receivable			
Balance 1 July			
Issued during year	50 000		
Balance 30 June	**50 000**		
Accounts payable			
Balance 1 July			
Received during year	(13 876)		
Balance 30 June	**(13 876)**		
Interest received	63 592	628	116
Interest paid		639	
Dividends paid	(191 556)		
Derivative instruments: liabilities	(44 392)		

27. Related parties *continued*

N$'000	2012 Total	2012 Parent	2012 Fellow subsidiaries	2012 Associate
Non-interest income				
Commission	(2 160)	(864)	(1 296)	
Rental and property income	(2 702)		(1 735)	(967)
Management fees	(1 345)		(1 345)	
	(6 207)	**(864)**	**(4 376)**	**(967)**
Non-interest expenditure				
Computer processing costs	79 426	79 426		
Internal audit and compliance	1 390	1 390		
ATM processing costs	2 264	2 264		
Payroll processing	3 981	3 981		
Management fees	15 772	15 772		
Insurance	4 910	4 910		
Rental paid	9 505		9 505	
Other sundry	9 158	9 158		
Clearing cost	5 638			5 638
	132 044	**116 901**	**9 505**	**5 638**

27. Related parties *continued*

N$'000	2011 Parent	2011 Fellow subsidiaries	2011 Associate
Loans and advances			
Balance 1 July	816 217	85 083	
Issued during year			
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)	(22 154)	(11 154)
Received during year			
Repayments during year	20 406	11 343	8 012
Balance 30 June	(32 090)	(10 811)	(3 142)
Interest received	54 721	5 562	
Interest paid		(1 993)	(175)
Dividends paid	(569 321)		
Derivative instruments: liabilities	(18 930)		

N$'000	2011 Total	2011 Parent	2011 Fellow subsidiaries	2011 Associate
Non-interest income				
Commission	3 234	2 177	1 057	
Rental and property income	1 628		871	757
Management fees	1 062		1 062	
	5 924	2 177	2 990	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	16 198	5 290

27. Related parties *continued*

27.4 Key management personnel

N$'000	Group and company 2012	2011
Loans and advances		
Advances		
Balance 1 July	33 146	42 090
Issued during year	1 997	8 547
Repayments during year	(10 946)	(21 320)
Interest earned	2 414	3 829
Balance 30 June	**26 611**	33 146

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

N$'000	2012	2011
Current and credit card accounts		
Credit balance 1 July	(13 751)	(11 575)
Net deposits and withdrawals	1 069	(2 917)
Net service fees and bank charges	230	1 097
Interest income	38	453
Interest expense	(213)	(809)
Balance 30 June	**(12 627)**	(13 751)
Installment finance		
Balance 1 July	4 145	3 668
Issued during year	4 564	1 980
Repayments during year	(3 568)	(1 790)
Interest earned	408	287
Balance 30 June	**5 549**	4 145
Shares and share options held		
Share options held by members of key management	2 678	2 927
Key management compensation		
Salaries and other short-term benefits	22 210	19 948
Contribution to defined contribution schemes	2 086	2 603
Share-based payments	2 637	1 568
Total compensation	**26 933**	24 119

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

27.5 Post-employment benefit plan

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

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.

28. Collateral held

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

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

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

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

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

N$'000	**2012**	2011
Collateral taken possession of and recognised on the statement of financial position in accounts receivable, note 12:		
Property	2 693	1 906
Total	**2 693**	1 906

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

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

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

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

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

29. Fair value of financial instruments *continued*

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

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

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

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

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

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

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.

29. Fair value of financial instruments *continued*

Loans and advances to customers

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

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

Other and tier two liabilities

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

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

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

	Group and company 2012			
N$'000	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
Investment securities (note 11)		1 904 027		1 904 027
Financial assets designated at fair value through profit or loss				
Advances (Note 9)			484 537	484 537
Financial assets held for trading				
Derivative financial instruments (note 8)		27 125		27 125
Investment securities (note 11)		48 967		48 967
Total financial assets		**1 980 119**	**484 537**	**2 464 656**
Liabilities				
Financial liabilities held for trading				
Derivative financial instruments (note 8)		60 228		60 228
Total financial liabilities		**60 228**		**60 228**

29. Fair value of financial instruments *continued*

N$'000	Level 1	Level 2	Level 3	Total
	Group and company 2011			
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				
Tier two liabilities (note 22)		270 618		270 618
Financial liabilities held for trading				
Short trading positions (note 18)	51 889			51 889
Derivative financial instruments (note 8)		21 743		21 743
Total financial liabilities	51 889	292 361		344 250

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

Changes in level 3 fair value instruments

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

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

Changes in the group's best estimate of the non-observable inputs (Level 3) could affect the reported fair values recognised on statement of financial position and the movement in fair values recognised in the statement of comprehensive income. However, changing these inputs to reasonably possible alternatives would change the fair value using more positive reasonable assumptions to N$532 992 and using more negative reasonable possible assumptions to N$436 084.

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

29. Fair value of financial instruments *continued*

N$'000	Gains or (losses) recognised in profit and loss	2012 Gains or (losses) recognised in other comprehensive income	Total gains or loss
Assets			
Advances	40 635		40 635
Total financial assets classified at level 3	**40 635**		**40 635**

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

N$'000	Group 2012 Carrying amount	Group 2012 Fair value	Company 2012 Carrying amount	Company 2012 Fair value
Assets				
Total advances at amortised cost	13 669 067	13 947 360	12 950 522	13 214 186
Other investments at amortised cost	102 607	102 722	102 607	102 722
Liabilities				
Total deposits and current accounts	16 679 315	16 714 874	16 678 090	16 713 647

N$'000	Group 2011 Carrying amount	Group 2011 Fair value	Company 2011 Carrying amount	Company 2011 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

29. Fair value of financial instruments *continued*

Day one profit or loss

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

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

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

Loans and receivables designated as fair value trough profit or loss

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

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

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

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

30. Risk management

The unaudited risk report of the FNB Namibia group appears on pages 180 to 188 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.

30.1 Maximum exposure to credit risk

Total exposure

	Group		Company	
N$'000	**2012**	2011	**2012**	2011
Cash and cash equivalents	741 846	199 525	741 846	199 525
- Balances with central banks	740 804	198 678	740 804	198 678
- Balances with other banks	1 042	847	1 042	847
Due by banks and other financial institutions	1 927 620	763 051	1 927 620	763 051
Advances	14 153 604	12 538 500	13 435 059	11 740 230
- Card loans	97 586	85 968	97 586	85 968
- Overdraft and managed accounts	1 543 385	1 722 702	1 543 374	1 722 702
- Instalment sales and lease receivables	2 282 476	1 891 069	2 281 302	1 891 069
- Home loans	7 180 662	6 494 818	6 463 050	5 696 548
- Term loans	2 028 265	1 841 043	2 028 517	1 841 043
- Investment bank term loans	484 537		484 537	
- Assets under agreement to resell		52 757		52 757
- Other	536 693	450 143	536 693	450 143
Derivative financial instruments	27 125	24 161	27 125	24 161
Debt investment securities	2 055 601	1 566 166	2 047 680	1 566 166
- Listed investment securities	386 004	380 642	378 083	380 642
- Unlisted investment securities	1 669 597	1 185 524	1 669 597	1 185 524
Accounts receivable	136 942	87 692	135 020	86 577
Amounts not recognised (in the statement of financial position)	1 350 627	1 204 926	1 350 627	1 204 926
Guarantees	655 385	722 290	655 385	722 290
Letters of credit	54 027	47 756	54 027	47 756
Irrevocable commitments	641 215	434 880	641 215	434 880
Total	**20 393 365**	16 384 021	**19 664 977**	15 584 636

30.2 FR rating mapping to international and national rating scales

The group categorises current exposures according to an internal rating scale, the FR ratings, ranging from FR 1 to FR 100, with the FR 1 being the best rating with the lowest probability of default. The FR ratings have been mapped to default probabilities as well as external rating agency international rating scales.

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

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

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

* Indicative mapping to international rating scale of Fitch and S&P.

30. Risk management *continued*

30.3 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 30.2 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	Investment bank term loans	Other
2012								
FR 28 - 91	13 967 597	96 382	1 531 154	2 292 696	6 974 273	2 056 733	484 537	531 822
Above FR 92	66 692	1 257	14 434	8 372	42 629			
Total	**14 034 289**	**97 639**	**1 545 588**	**2 301 068**	**7 016 902**	**2 056 733**	**484 537**	**531 822**
2011								
FR 28 - 91	11 631 339	81 632	1 224 220	1 736 562	6 268 288	1 817 180		503 457
Above FR 92	895 871	4 213	543 944	162 241	156 275	29 198		
Total	12 527 210	85 845	1 768 164	1 898 803	6 424 563	1 846 378		503 457

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

	Group				
N$'000	Investment securities	Derivatives	Cash and short term funds	Due by banks and other financial institutions	Total
International scale mapping (National equivalent):					
2012					
AAA to BB- (A to BBB)	2 055 601	27 125	741 847	1 927 620	4 752 103
Unrated					
Total	**2 055 601**	**27 125**	**741 847**	**1 927 620**	**4 752 103**
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

30. Risk management *continued*

30.3 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 30.2 for the FR rating mapping to international and national rating scales):

	Company							
N$'000	Total neither past due nor impaired	Card loans	Overdraft and managed accounts	Instalment sales and lease receivables	Home loans	Term loans	Investment bank term loans	Other
2012								
FR 28 - 91	13 264 903	96 382	1 531 147	2 292 693	6 271 589	2 056 733	484 537	531 822
Above FR 92	66 692	1 257	14 434	8 372	42 629			
Total	**13 331 595**	**97 639**	**1 545 581**	**2 301 065**	**6 314 218**	**2 056 733**	**484 537**	**531 822**
2011								
FR 28 - 91	10 834 741	81 632	1 224 220	1 736 562	5 471 690	1 817 180		503 457
Above FR 92	895 871	4 213	543 944	162 241	156 275	29 198		
Total	11 730 612	85 845	1 768 164	1 898 803	5 627 965	1 846 378		503 457

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

	Company				
N$'000	Investment securities	Derivatives	Cash and short term funds	Due by banks and other financial institutions	Total
International scale mapping (National equivalent):					
2012					
AAA to BB- (A to BBB)	2 055 601	27 125	741 847	1 927 620	4 752 103
Unrated					
Total	**2 055 601**	**27 125**	**741 847**	**1 927 620**	**4 752 103**
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

30. Risk management *continued*

30.4 Credit risk management

N$'000	Group: Age analysis: Neither past due nor impaired	Re-negotiated but current	Past due but not impaired: 31 - 60 days	Past due but not impaired: 61 - 90 days	Impaired	Total
2012						
Advances						
- Card loans	97 639		32	480	1 643	99 794
- Overdraft and managed accounts	1 545 588				16 114	1 561 702
- Instalment sales and lease receivables	2 301 068		3 750	4	13 437	2 318 259
- Home loans	7 016 902		36 458	72 386	96 079	7 221 825
- Term loans	2 056 733		5 895	15 908	9 799	2 088 335
- Investment bank term loans	484 537					484 537
- Other	531 822				4 871	536 693
Sub total	**14 034 289**		**46 135**	**88 778**	**141 943**	**14 311 145**
Accounts receivable						
- Items in transit	50 430					50 430
- Deferred Staff cost	40 057					40 057
- Other accounts receivable	86 512					86 512
Sub total	**176 999**					**176 999**
Total	**14 211 288**		**46 135**	**88 778**	**141 943**	**14 488 144**
2011						
Advances						
- Card loans	85 845		29	635	2 009	88 518
- Overdraft and managed accounts	1 768 164				9 735	1 777 899
- Installment sales and lease receivables	1 898 803		5 900	1 195	17 974	1 923 872
- Home loans	6 424 563		25 733	17 928	80 915	6 549 139
- Term loans	1 846 378		3 460	2 075	55 330	1 907 243
- Other	503 457					503 457
Sub total	12 527 210		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	12 654 030		35 122	21 833	165 963	12 876 948

30. Risk management *continued*

30.4 Credit risk management *continued*

	Company					
	Age analysis					
			Past due but not impaired			
N$'000	Neither past due nor impaired	Re-negotiated but current	31 - 60 days	61 - 90 days	Impaired	Total
2012						
Advances						
- Card loans	97 639		32	480	1 643	99 794
- Overdraft and managed accounts	1 545 588				16 114	1 561 695
- Instalment sales and lease receivables	2 301 065		3 750	3	13 437	2 318 254
- Home loans	6 314 218		31 938	63 413	81 414	6 490 983
- Term loans	2 056 733		5 895	15 908	9 799	2 088 335
- Investment bank term loans	484 537					484 537
- Other	531 822				4 871	536 693
Sub total	**13 331 595**		**41 615**	**79 804**	**127 278**	**13 580 291**
Accounts receivable						
- Items in transit	50 415					50 415
- Deferred Staff cost	40 057					40 057
- Other accounts receivable	84 604					84 604
Sub total	**175 076**					**175 076**
Total	**13 506 671**		**41 615**	**79 804**	**127 278**	**13 755 367**
2011						
Advances						
- Card loans	85 845		29	635	2 009	88 518
- Overdraft and managed accounts	1 768 164				9 735	1 777 899
- Installment sales and lease receivables	1 898 803		5 900	1 195	17 974	1 923 872
- Home loans	5 627 965		22 503	15 705	72 669	5 738 842
- Term loans	1 846 378		3 460	2 075	55 330	1 907 243
- Other	503 457					503 457
Sub total	11 730 612		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	11 856 317		31 892	19 610	157 717	12 065 536

The above assets are managed with reference to the days in arrears and include assets where monthly payments are due as residential mortgages, installment 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.

30. Risk management *continued*

30.5 Liquidity risk management

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

	Group 2012 Term to maturity			
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and cash equivalents	968 800	968 800		
Due by banks and other financial institutions	1 927 620	1 927 620		
Derivative financial instruments	27 125	27 125		
Advances	14 153 604	1 966 639	557 592	11 629 373
Investment securities	2 055 601	377 693	1 080 379	597 529
Accounts receivable	176 999	68 165	69 658	39 176
Financial assets	**19 309 749**	**5 336 042**	**1 707 629**	**12 266 078**
Non financial assets	**442 672**			
Total assets	**19 752 421**			
Equity and liabilities				
Deposits	16 679 315	13 409 438	2 423 751	846 126
Due to banks and other financial institutions	32 924	32 924		
Derivative financial instruments	60 228	60 228		
Creditors and accruals	158 563	151 862	6 701	
Tier two liabilities	392 627	2 627		390 000
Financial liabilities	**17 323 657**	**13 657 079**	**2 430 452**	**1 236 126**
Non financial liabilities	**321 423**			
Total liabilities	**17 645 080**			
Total equity	**2 107 341**			
Total equity and liabilities	**19 752 421**			
Net liquidity gap		**(8 321 037)**	**(722 823)**	**11 029 952**
Cumulative liquidity gap		**(8 321 037)**	**(9 043 860)**	**1 986 092**

30. Risk management *continued*

30.5 Liquidity risk management *continued*

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 cash equivalents	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	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	210 288	177 628	32 660	
Tier two liabilities	270 618			270 618
Financial liabilities	13 954 848	11 057 714	2 083 513	813 621
Non financial liabilities	174 950			
Total liabilities	14 129 798			
Total equity	1 783 373			
Total equity and liabilities	15 913 171			
Net liquidity gap		(7 160 382)	(1 123 170)	9 772 588
Cumulative liquidity gap		(7 160 382)	(8 283 552)	1 489 036

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

30. Risk management *continued*

30.5 Liquidity risk management *continued*

Liquidity mismatch analysis

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

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

	Group 2012 Term to maturity			
N$'000	Total amount	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits	17 212 421	13 604 800	2 568 116	1 039 505
Due to banks and other financial institutions	32 924	32 924		
Derivative financial instruments	60 228	60 228		
Creditors and accruals	158 563	151 862	6 701	
Tier two liabilities	687 938	9 963	20 120	657 855
Financial liabilities	**18 152 074**	**13 859 777**	**2 594 937**	**1 697 360**
Off statement of financial position				
Financial and other guarantees	709 413	473 980	232 433	3 000
Facilities not drawn	3 045 116	3 045 116		

	Group 2011 Term to maturity			
N$'000	Total amount	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits	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	210 291	177 631	32 660	
Tier two liabilities	283 790		23 790	260 000
Financial liabilities	14 514 113	11 192 673	2 282 266	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		

30. Risk management *continued*

30.5 Liquidity risk management *continued*

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

	Company			
	2012			
	Term to maturity			
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and cash equivalents	968 800	968 800		
Due by banks and other financial institutions	1 927 620	1 927 620		
Derivative financial instruments	27 125	27 125		
Advances	13 435 059	1 248 094	557 592	11 629 373
Investment securities	2 055 601	377 693	1 080 379	597 529
Accounts receivable	175 076	175 076		
Financial assets	**18 589 281**	**4 724 408**	**1 637 971**	**12 226 902**
Non financial assets	**879 993**			
Total assets	**19 469 274**			
Equity and liabilities				
Deposits	16 678 090	13 408 213	2 423 751	846 126
Due to banks and other financial institutions	32 924	32 924		
Derivative financial instruments	60 228	60 228		
Creditors and accruals	155 991	149 290	6 701	
Tier two liabilities	392 627	2 627		390 000
Financial liabilities	**17 319 860**	**13 653 282**	**2 430 452**	**1 236 126**
Non financial liabilities	**318 966**			
Total liabilities	**17 638 826**			
Total equity	**1 830 448**			
Total equity and liabilities	**19 469 274**			
Net liquidity gap		**(8 928 874)**	**(792 481)**	**10 990 776**
Cumulative liquidity gap		**(8 928 874)**	**(9 721 355)**	**1 269 421**

30. Risk management *continued*

30.5 Liquidity risk management *continued*

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

	Company 2011 Term to maturity			
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and cash equivalents	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 assets	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	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	208 153	175 493	32 660	
Tier two liabilities	270 618			270 618
Financial liabilities	13 951 978	11 054 844	2 083 513	813 621
Non financial liabilities	179 065			
Total liabilities	14 131 043			
Total equity	1 537 083			
Total equity and liabilities	15 668 126			
Net liquidity gap		(7 115 866)	(1 127 977)	8 936 364
Cumulative liquidity gap		(7 115 866)	(8 243 843)	692 521

30. Risk management *continued*

30.5 Liquidity risk management *continued*

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

	Company 2012 Term to maturity			
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits	17 211 197	13 603 576	2 568 116	1 039 505
Due to banks and other financial institutions	32 924	32 924		
Derivative financial instruments	60 228	60 228		
Creditors and accruals	155 991	149 290	6 701	
Tier two liabilities	687 938	9 963	20 120	657 855
Financial liabilities	**18 148 278**	**13 855 981**	**2 594 937**	**1 697 360**
Off statement of financial position				
Financial and other guarantees	709 413	473 980	232 433	3 000
Facilities not drawn	3 045 116	3 045 116		

	Company 2011 Term to maturity			
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits	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	208 153	175 493	32 660	
Tier two liabilities	283 790		23 790	260 000
Financial liabilities	14 511 245	11 189 805	2 282 266	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		

30. Risk management *continued*

30.6 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 2012 Currency concentration				
N$'000	Total amount	NAD	USD	EUR	Other
Assets					
Cash and cash equivalents	968 800	894 588	69 313	4 241	658
Due by banks and other financial institutions	1 927 620	1 303 825	557 772	60 701	5 322
Derivative financial instruments	27 125	7 944	14 974	2 001	2 206
Advances	14 153 604	14 153 604			
Investment securities	2 055 601	2 055 601			
Accounts receivable	176 999	176 999			
Financial assets	**19 309 749**	**18 592 561**	**642 059**	**66 943**	**8 186**
Non financial assets	**442 672**	**442 672**			
Total assets	**19 752 421**	**19 035 233**	**642 059**	**66 943**	**8 186**
Equity and liabilities					
Deposits	16 679 315	16 083 875	545 414	49 286	740
Due to banks and other financial institutions	32 924	32 924			
Derivative financial instruments	60 228	50 719	7 591	1 150	768
Creditors and accruals	158 563	158 563			
Tier two liabilities	392 627	392 627			
Financial liabilities	**17 323 657**	**16 718 708**	**553 005**	**50 436**	**1 508**
Non financial liabilities	**321 423**	**321 423**			
Total liabilities	**17 645 080**	**17 040 131**	**553 005**	**50 436**	**1 508**
Total equity	**2 107 341**	**2 107 341**			
Total equity and liabilities	**19 752 421**	**19 147 472**	**553 005**	**50 436**	**1 508**

30. Risk management *continued*

30.6 Foreign currency *continued*

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 cash equivalents	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	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	210 288	210 288			
Tier two liabilities	270 618	270 618			
Financial liabilities	13 954 848	13 372 596	526 107	55 467	678
Non financial liabilities	174 950	174 950			
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

30. Risk management *continued*

30.6 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 2012 Currency concentration				
N$'000	Total amount	NAD	USD	EUR	Other
Assets					
Cash and cash equivalents	968 800	894 588	69 313	4 241	658
Due by banks and other financial institutions	1 927 620	1 303 825	557 772	60 701	5 322
Derivative financial instruments	27 125	7 944	14 974	2 001	2 206
Advances	13 435 059	13 435 059			
Investment securities	2 055 601	2 055 601			
Accounts receivable	175 076	175 076			
Financial assets	**18 589 281**	**17 872 093**	**642 059**	**66 943**	**8 186**
Non financial assets	**879 993**	**879 993**			
Total assets	**19 469 274**	**18 752 086**	**642 059**	**66 943**	**8 186**
Equity and liabilities					
Deposits	16 678 090	16 082 650	545 414	49 286	740
Due to banks and other financial institutions	32 924	32 924			
Derivative financial instruments	60 228	50 719	7 591	1 150	768
Creditors and accruals	155 991	155 991			
Tier two liabilities	392 627	392 627			
Financial liabilities	**17 319 860**	**16 714 911**	**553 005**	**50 436**	**1 508**
Non financial liabilities	**318 966**	**318 966**			
Total liabilities	**17 638 826**	**17 033 877**	**553 005**	**50 436**	**1 508**
Total equity	**1 830 448**	**1 830 448**			

Total equity and liabilities	**19 469 274**	**18 864 325**	**553 005**	**50 436**	**1 508**

30. Risk management *continued*

30.6 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 cash equivalents	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	13 356 400	12 790 497	512 144	53 081	678
Due to banks and other financial institutions	43 910	43 910			
Derivative financial instruments	21 743	5 394	13 963	2 386	
Creditors and accruals	208 153	208 153			
Tier two liabilities	270 618	270 618			
Financial liabilities	13 900 824	13 318 572	526 107	55 467	678
Non financial liabilities	230 219	230 219			
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

30. Risk management *continued*

30.7 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 2012 Repricing profile				
N$'000	Carrying amount	< 3 months	> 3 but ≤ 12 months	> 12 months	Non rate sensitive
Total assets	**19 752 421**	**16 888 307**	**1 398 152**	**619 056**	**846 906**
Total equity and liabilities	**19 752 421**	**15 474 116**	**1 499 329**	**131 420**	**2 647 556**
Net repricing gap		**1 414 191**	**(101 177)**	**487 636**	**(1 800 650)**
Cumulative repricing gap		**1 414 191**	**1 313 014**	**1 800 650**	

	Group 2011 Repricing profile				
N$'000	Carrying amount	< 3 months	> 3 but ≤ 12 months	> 12 months	Non rate sensitive
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	

	Company 2012 Repricing profile				
N$'000	Carrying amount	< 3 months	> 3 but ≤ 12 months	> 12 months	Non rate sensitive
Total assets	**19 469 274**	**16 121 254**	**1 398 152**	**619 056**	**1 330 812**
Total equity and liabilities	**19 469 274**	**15 474 116**	**1 499 329**	**131 420**	**2 364 409**
Net repricing gap		**647 138**	**(101 177)**	**487 636**	**(1 033 597)**
Cumulative repricing gap		**647 138**	**545 961**	**1 033 597**	

	Company 2011 Repricing profile				
N$'000	Carrying amount	< 3 months	> 3 but ≤ 12 months	> 12 months	Non rate sensitive
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	

30. Risk management *continued*

30.8 Average balances and effective interest rates

	Group					
	2012			2011		
N$'000	Average balance	Average rate %	Interest income/ expense	Average balance	Average rate %	Interest income/ expense
Assets						
Cash and cash equivalents, including balance with banks	2 443 868	3.5	86 136	1 295 634	4.7	60 253
Advances	13 315 569	10.0	1 325 065	12 422 528	10.2	1 263 183
Investment securities	1 843 817	6.1	113 150	1 525 406	6.2	93 901
Interest-earning assets	**17 603 254**	**8.7**	**1 524 351**	15 243 568	9.3	1 417 337
Non-interest-earning assets	**613 304**			603 927		
Total Assets	**18 216 558**	**8.4**	**1 524 351**	15 847 495	8.9	1 417 337
Liabilities						
Deposits and current accounts, balance due to banks	15 509 683	3.9	610 327	13 373 288	4.1	553 525
Tier two liabilities	300 295	8.4	25 291	268 008	8.8	23 554
Interest-earning liabilities	**15 809 978**	**4.0**	**635 618**	13 641 296	4.2	577 079
Non-interest-earning bearing liabilities	**454 597**			414 483		
Total liabilities	**16 264 575**	**3.9**	**635 618**	14 055 779	4.1	577 079
Total equity	**1 951 983**			1 791 716		
Total equity and liabilities	**18 216 558**	**3.5**	**635 618**	15 847 495	3.6	577 079

	Company					
	2012			2011		
N$'000	Average balance	Average rate %	Interest income/ expense	Average balance	Average rate %	Interest income/ expense
Assets						
Cash and cash equivalents, including balance with banks	2 443 868	3.5	86 136	1 295 634	4.7	60 253
Advances	12 556 482	10.2	1 284 602	11 619 349	10.5	1 215 857
Investment securities	1 843 817	6.1	113 150	1 525 406	6.2	93 901
Interest-earning assets	**16 844 167**	**8.8**	**1 483 888**	14 440 389	9.5	1 370 011
Non-interest-earning assets	**1 111 211**			1 156 803		
Total Assets	**17 955 378**	**8.3**	**1 483 888**	15 597 192	8.8	1 370 011
Liabilities						
Deposits and current accounts, balance due to banks	15 508 895	3.9	610 327	13 372 611	4.1	553 525
Tier two liabilities	300 295	8.4	25 291	268 008	8.8	23 554
Interest-earning liabilities	**15 809 190**	**4.0**	**635 618**	13 640 619	4.2	577 079
Non-interest-earning bearing liabilities	**453 644**			408 852		
Total liabilities	**16 262 834**	**3.9**	**635 618**	14 049 471	4.1	577 079
Total equity	**1 692 544**			1 547 721		
Total equity and liabilities	**17 955 378**	**3.5**	**635 618**	15 597 192	3.7	577 079

30. Risk management *continued*

30.9 Sensitivity analysis

Net interest income sensitivity

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

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.

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

31. Reclassification of prior year

Statement of comprehensive income 30 June 2011

N$'000	Group Amount as previously reported 2011	Amount as restated 2011	Difference	Explanation
Interest and similar income	1 417 337	1 417 337		
Interest expense and similar charges	(577 079)	(577 079)		
Net interest income before impairment of advances	**840 258**	840 258		
Impairment reversal / (recognition) losses on advances	12 398	12 398		
Net interest income after impairment of advances	**852 656**	852 656		
Non interest income	628 391	583 032	45 359	Note (i)
Fair value adjustment to financial liabilities	(716)	(716)		
Income from operations	**1 480 331**	1 434 972	45 359	Note (i)
Operating expenses	(802 675)	(757 316)	(45 359)	Note (i)
Net income from operations	**677 656**	677 656		
Share of profit from associate company	254	254		
Income before indirect tax	**677 910**	677 910		
Indirect tax	(16 883)	(16 883)		
Profit before direct tax	**661 027**	661 027		
Direct tax	(226 979)	(226 979)		
Profit for the year	**434 048**	434 048		

31. Reclassification of prior year *continued*

Statement of cash flows

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

Consolidated statement of financial position as at 30 June

N$'000	Group Amount as previously reported 2011	Amount as restated 2011	Difference*	Explanation
Assets				
Cash and cash equivalents	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	12538 500		
Investment securities	1 578 439	1578 439		
Accounts receivable	126 820	126 820		
Investment in associate company	1 820	1 820		
Investment in subsidiary company				
Property and equipment	256 416	256 416		
Intangible assets	211 051	211 051		
Non current held for sale				
Total assets	**15 913 171**	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	293 317	210 288	83 029	Note (ii)
Employee liabilities		111 438	(111 438)	Note (ii)
Tax liability	23 738	23 738		
Post-employment benefit liabilities	34 536		34 536	Note (ii)
Deferred tax liability	39 774	39 774		
Tier two liabilities	264 491	270 618	(6 127)	Note (ii)
Total liabilities	**14 129 798**	14 129 798		
Equity				
Ordinary shares	1	1		
Share premium	1 142 791	1 142 791		
Reserves	640 581	640 581		
Total equity	**1 783 373**	1 783 373		
Total liabilities and equity	**15 913 171**	15 913 171		

*Company not reflected as adjustments on the statement of financial position are the same for group and company

31. Reclassification of prior year *continued*

Note (i)

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

Note (ii)

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

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 – and six other factors: expectations of investors; targeted capital ratios; future business plans; plans for additional capital instruments; the need for an appropriate buffer in excess of minimum requirements; and any proposed regulatory changes.

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

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

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

In addition, our internal stress tests complement the Internal Capital Adequacy Assessment Process ("ICAAP") completed annually and submitted to Bank of Namibia (BoN) under prescribed determinations. The outcome of the ICAAP process is a vital component of our internal capital management assessment.

Capital adequacy and planning

Supply of capital

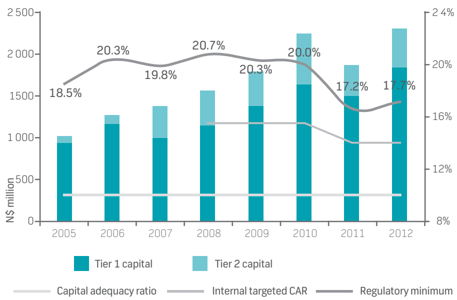
The group's planning process ensures that the total capital adequacy and Tier 1 ratios remain within approved ranges or above target levels across economic and business cycles. FNB is appropriately capitalised for a range of normal and severe scenarios and possible stress events. FNB aims to back all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

Total Capital

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

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

Bank capital



Demand for capital

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

Regulatory developments

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

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

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

Capital adequacy of FNB

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