FNB
First National Bank

ANNUAL REPORT 2014

FNB IS TAKING A BOLD STEP INTO YOUR FUTURE

It is investing N$445 million in a new six-story headquarters building in Windhoek that will be state of the art – an ornament for the city, environmentally friendly and custom-designed for efficiency and effective service. It is destined to become a permanent monument to FNB's commitment to Namibia and its people.

Not that Namibians need any reminder of the role the group has played in the country's development so far. FNB Namibia is already deeply entrenched in the fabric of this society.

In the past decade market demands resulted in FNB growing rapidly in Windhoek. It has brought employment to 896 people, untidily spread out over four buildings and in pockets of rented space. It has been acutely conscious that it needs to consolidate its resources to enhance still more the service it brings to Namibians.

That dream will be realised within the next 12 months. The new building with its 15,948 sq metres of space will house head office and specialist business areas, eliminating the logistical and operational challenges of the past.

We know it will work wonders for staff morale and efficiency. A fragmented work environment is never ideal. And, better still, we are sure that it will bring even better service and greater satisfaction for our customers.

Best of all, this building will play a role in protecting the environment for all Namibians.

FNB aims to achieve a 4* certified Green Star building – an internationally recognised certification framework that represents best practice in Southern Africa. For Namibia, it will be a "first". Certification is in its infancy here and will require marked transformation in building and design parameters for all who seek it.

A key element of a 4* building is that its "green" nature is sustainable. This requires a holistic approach, not merely a handful of eco-gadgetry initiatives. It means that the building must use less energy and less water; that it minimises sewage and light pollution; that it takes nothing away from the existing urban structure, allowing development without additional burden to the gifts of nature.

In this year's annual report we share with you our excitement over what the new building symbolises.

Like all our business endeavours, it begins with a strong foundation and builds on innovation. Within 12 months FNB Namibia will be better placed than ever to drive new and innovative solutions for our clients and for the Namibian nation.

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DIRECTORS' RESPONSIBILITY STATEMENT

To the member of First National Bank of Namibia Limited

These consolidated annual financial statements are the responsibility of the company's directors. We also acknowledge responsibility for establishing accounting procedures that provide for the maintenance of documentation sufficient to support the consolidated annual financial statements. These consolidated annual financial statements present fairly the financial position, results of operations and cash flows of the banking group and company in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies Act of Namibia and have been prepared on basis consistent with those of the prior year, except where specifically disclosed in the consolidated annual financial statements. The consolidated annual financial statements incorporate full and responsible disclosure in line with the group's philosophy on corporate governance and as required by the Namibian Stock Exchange.

The directors have reviewed the appropriateness of the accounting policies, and concluded that estimates and judgements are prudent. The group has complied in all material respects with the requirements set out in BID2 with regards to asset classification, suspension of interest and provisioning. The group's policies with this regard are stated in the notes on accounting policies, disclosed on pages 5 to 24.

The directors report that the group's internal controls are designed to provide reasonable assurance as to the integrity and reliability of the financial statements, to adequately safeguard, verify and maintain accountability of assets and to prevent and detect fraudulent financial reporting. Such controls are based on established written policies and procedures. They are implemented by trained, skilled personnel with an appropriate segregation of duties and are monitored throughout the group.

The board members and employees are required to maintain the highest ethical standards and the group's business practices are required to be conducted in a manner that is above reproach. The board has adopted and is committed to the principles in the King III report on Corporate Governance. The board is responsible for internal controls. The controls throughout the group are directed towards risk areas. These areas are identified by operational management, confirmed by group management and tested by the internal auditors. All controls relating to these critical risk areas are closely monitored and subject to audit.

Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these internal financial controls occurred during the year.

The directors have reviewed the group's budget for the year to 30 June 2015. On the basis of this review and in the light of the current financial position, the directors have no reason to believe that First National Bank of Namibia Limited and its subsidiaries will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The group's external auditors, Deloitte & Touche, have audited the financial statements and their report appears on page 3. The consolidated annual financial statements of the group and company, which appear on pages 4 to 112 have been approved by the board of directors and are signed on its behalf by:

C J Hinrichsen
Chairman

I J M Leyenaar
Chief Executive Officer

Windhoek
8 August 2014

INDEPENDENT AUDITOR'S REPORT
To the Member of First National Bank of Namibia Limited

We have audited the consolidated annual financial statements and the separate annual financial statements of First National Bank of Namibia Limited, which comprise the consolidated and separate statements of financial position as at 30 June 2014, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes and the directors' report, as set out on pages 4 to 110.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of Namibia and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of First National Bank of Namibia Limited as at 30 June 2014, and their consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of Namibia.

Deloitte & Touche

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

Per RH Mc Donald
Partner

PO Box 47, Windhoek, Namibia
25 September 2014

Regional executives:
LL Bam (Chief Executive), A Swiegers (Chief Operating Officer), GM Pinnock

Resident partners:
E Tjipuka (Managing Partner), RH McDonald, J Kock, H de Bruin, J Cronje, A Akayombokwa

Director:
G Brand

DIRECTORS' REPORT

The directors present their annual report, which forms part of the annual financial statements of the group and of the company for the year ended 30 June 2014.

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

Share capital
The company's authorised share capital remained unchanged at N$4 000.

The company's authorised share capital at the end of reporting period consists of 4 000 (2013: 4 000) ordinary shares of N$ 1.

The issued ordinary share capital remained unchanged at 1 200 ordinary shares.

Dividends
During the current year dividends of N$267 million (2013: N$367 million), were declared and paid by the company.

Interest of directors
At no time during the financial year were any contracts of significance entered into relative to the group's business in which a director had an interest.

Group results
The financial statements on pages 26 to 112 set out fully the financial position, results of operations and cash flows of the company and the group.

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

- C J Hinrichsen # (Chairman)
- J J Comalie
- C J Giddy *
- C L R Haikali
- L J Haynes*
- S H Moir *
- I I Zaamwani-Kamwi (Ms)
- I J M Leyenaar * (Chief Executive Officer)
- P T Nevonga
- M N Ndilula
- J R Khethe *

 # German ** South African*

Board changes
Mr John Macaskill, an alternate director, retired from the board in May 2014.

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

Management by third parties
No part of the business of the company or of its subsidiary companies has been managed by a third party or by a company in which a director had an interest during this financial year.

Insurance
Comprehensive cover in respect of the bankers' bond, computer crime and professional indemnity risk is in place.

Property and equipment
There was no material change in the nature of property and equipment or in the policy regarding its use during the year.

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

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

Company secretary and registered offices

Company secretary
Y Katjirua

Registered office
209 Independence Avenue
Windhoek

Postal address
P O Box 195
Windhoek
Namibia

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

ACCOUNTING POLICIES

PRINCIPAL ACCOUNTING POLICIES

1. INTRODUCTION

Firs National Bank of Namibia group (the group) is an integrated financial services group consisting of banking services.

The group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies are consistent in all material aspects with those adopted in the previous year, except for the adoption of:

- The accounting requirements relating to defined benefit post-employment plans as set out in *IAS 19 Employee Benefits* as amended in June 2011. The main changes include the removal of the corridor approach, which allowed entities the option to defer the recognition of actuarial gains and losses on these plans. The standard also contains revisions to the calculation of the amount included in profit or loss in respect of the return on plan assets and enhanced disclosure requirements for defined benefit plans. Refer to accounting policy 22 for the accounting policy on defined benefit post-employment plans and note 33 for the impact of the change in accounting policy.
- A package of five standards on consolidation, joint arrangements, associates and disclosures was issued. These comprise *IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements (IAS 27R)* and *IAS 28 Investments in Associates and Joint Ventures (IAS 28R).* Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify the transitional provisions for the first-time application of the standards. In the current year, the group applied the requirements of the new and revised standards, together with the amendments regarding the transitional guidance
- IFRS 13 *Fair Value Measurement* was issued in order to eliminate inconsistencies in the guidance on how to measure fair value and disclosure requirements that exist under the different IFRS that require or permit fair value measurement. The revised measurement requirements did not have a significant impact on the net asset value of the group for the current financial year. The revised disclosure requirements of IFRS 13 have been incorporated in the notes to the annual financial statements for the year ended 30 June 2014. The requirements of IFRS 13 are applicable on a prospective basis and in terms of the transitional provisions no comparatives are required for the new disclosures. Therefore, no prior year amounts have been restated as a result of the adoption of IFRS 13 and comparative information has not been provided in the disclosures.
- The amendments to IFRS 7 *Financial Instruments: Disclosure* require entities to provide additional disclosures relating to recognised financial assets and financial liabilities that are set off in accordance with paragraph 42 of IAS 32 *Financial Instruments: Presentation*. The additional disclosures include information about the gross amounts subject to rights of set off, amounts set off in accordance with the accounting standards and the related net credit exposure as well as information about the rights under enforceable master netting and similar arrangements. This amendment addresses disclosure in the annual financial statements only and does not affect the amount of offsetting applied to financial assets and financial liabilities in the group's statement of financial position.

2. BASIS OF PREPARATION

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

These financial assets and liabilities include:

- financial assets and liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments;
- financial instruments elected to be carried at fair value through profit and loss;
- investment properties valued at fair value; and
- employee benefits liabilities, valued using projected unit credit methods.

The preparation of audited consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are outlined in these accounting policies.

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

3. CONSOLIDATION

3.1 Subsidiaries

The consolidated annual financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries.

Subsidiaries are all companies and structured entities over which the group has control. The group has control over an investee when the group is exposed, or has the rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

When assessing whether control exists the group considers all existing substantive rights that result in the current ability to direct relevant activities. Subsidiaries are consolidated from the date on which the group acquires effective control. Consolidation is discontinued from the date that control over the subsidiary ceases.

The group consolidates a structured entity when the substance of the relationship between the group and the structured entity indicates that the group controls the structured entity

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

ACCOUNTING POLICIES CONTINUED

3. CONSOLIDATION continued

3.2 Business combinations

The group uses the acquisition method of accounting to account for business combinations. A business is defined as an integrated set of activities and assets that are capable of being conducted and managed for the purposes of providing a return. It is presumed that a business exists if goodwill is present in the acquired set of assets and activities. Evidence to the contrary would be needed to overcome this presumption.

The consideration transferred for the acquisition is measured at the fair value of the assets transferred, equity instruments issued and the liabilities incurred or assumed at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the acquisition date fair value of any existing equity interest held in the subsidiary. The contingent consideration is initially measured at fair value on the acquisition date. An obligation to pay contingent consideration is classified as either a financial liability or equity based on the respective definitions set out in IAS 32. The group classifies any rights to the return of consideration previously transferred as a financial asset. Any asset or liability arising from a contingent consideration arrangement is subsequently measured at fair value.

Any changes resulting from additional and new information about events and circumstances that existed at the acquisition date and, if known, would have affected the measurement of the amounts recognised at that date, are considered to be measurement period adjustments. The group retrospectively adjusts the amounts recognised for measurement period adjustments. The measurement period ends when the acquirer receives all the information it was seeking about facts and circumstances that existed at the acquisition date or learns that information is not obtainable. The measurement period shall, however, not exceed one year from the acquisition date. To the extent that changes in the fair value relate to post-acquisition events, these changes are recognised in accordance with the IFRS applicable to the specific asset or liability. Contingent consideration that is classified as equity is not remeasured after the acquisition date.

Transaction costs are expensed as incurred.

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

Any difference between the sum of consideration transferred, the amount of any non-controlling interest in the subsidiary (also refer to accounting policy 3.3) and the acquisition date fair value of any previous equity interest in the subsidiary and the fair value of the group's share of the identifiable net assets acquired, is recorded as goodwill. If this amount is negative as in the case of a bargain purchase, the difference is recognised immediately in profit or loss.

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

3.3 Non controlling interest

Non-controlling interests in the net assets of subsidiaries are separately identified and presented from the group's equity. Non-controlling interests may initially be measured at either fair value or the non-controlling interests' proportionate share of the subsidiary's identifiable net assets at the acquisition date. This is not an accounting policy election and the group will apply the measurement choice on an acquisition by acquisition basis.

Subsequently the non-controlling interests consist of the amount attributed to such interest at initial recognition and the non-controlling interests' share of changes in equity of the subsidiary since the acquisition date.

Non-controlling interests are treated as equity participants of the subsidiary company. The group treats all acquisitions and disposals of its non-controlling interests in subsidiary companies, which do not result in a loss of control, as transactions with equity holders. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the group.

3.4 Associates

Associates are entities over which the group has significant influence but does not control or jointly control. Significant influence is presumed to exist when the group has power over between 20% and 50% of the voting rights.

The group includes the results of associates in its consolidated financial statements using the equity accounting method from the date of acquisition. Refer to accounting policy 3.5, equity accounting, for details on the application of the equity accounting method.

Equity accounting is discontinued from the date that the group ceases to have significant influence over the associate or from the date that the investment is classified as a non-current asset held for sale in accordance with IFRS 5.

Investments in associates acquired and held exclusively with the view to dispose of in the near future (within 12 months) are not accounted for using the equity accounting method, but are measured at fair value less cost to sell in terms of the requirements of IFRS 5.

3.5 Equity accounting

When equity accounting is applied to an investment in an associate or joint venture the investment is initially recognised at cost. The carrying amount is subsequently increased or decreased to recognise the group's share of the profit or loss from the investee after the date of acquisition. Goodwill on the acquisition of associates and joint ventures is included in the equity-accounted carrying amount.

Earnings attributable to ordinary shareholders include the group's share of earnings of associates and joint ventures. Other comprehensive income includes the group's share of other comprehensive income of associates and joint ventures.

ACCOUNTING POLICIES CONTINUED

3. CONSOLIDATION continued

3.5 Equity accounting continued

The cumulative post-acquisition movements are adjusted against the carrying amount of the investment in the associate or joint venture. Changes in our share of the net asset value that are not recorded in the investee's other comprehensive income are recorded directly in equity. These amounts are recycled to profit or loss when the investment ceases to be equity accounted.

The most recent audited annual financial statements of associates and joint ventures are used by the group in applying the equity method of accounting. These are not always drawn up to the same date as the financial statements of the group. Where the reporting date of the associate is different from that of the group, the group uses the most recently available financial statements of the associate as well as reviews the associates management accounts for material transactions during the in-between period. In instances where significant events occurred between the last reporting date of an associate or joint venture and the reporting date of the group, the effect of such events are adjusted for. The group has applied this principle consistently since adopting the equity accounting method for associates.

Certain loans and other long-term interests in associates and joint ventures are considered to be in substance part of the net investment in the entity when settlement is neither planned nor likely to occur in the foreseeable future. Such items may include preference shares and long-term receivables or loans but do not include trade receivables or any long-term loans for which adequate collateral exists. These loans and other long-term interests in associates and joint ventures are included in advances on the face of the statement of financial position. However, the value of such loans is included in the carrying amount of the investee for purposes of determining the share of losses of the investee attributable to the group and for impairment testing purposes.

At each reporting period the group assess whether there is any objective evidence as described in IAS 39 Financial Instruments: Recognition and Measurement in relation to an investment in an associate or joint venture. If such evidence of impairment exists, the entire carrying amount of the investment, including the goodwill and other long-term interests, is tested for impairment in terms of IAS 36 Impairment of Assets. Any resulting impairment losses are recognised in gains less losses from investing activities.

When equity accounting is discontinued the group measures any investment it has retained in the entity at fair value and recognises the resulting gain or loss in gains less losses from investing activities. The gain or loss is measured as the difference between the fair value of the retained investment and the carrying amount of the original investment at the date on which equity accounting is discontinued. After discontinuing equity accounting, the group accounts for any retained investment in the entity in accordance with the relevant IFRS as appropriate.

The group does not account for any further losses of the associate or joint venture when the carrying amount of the investment in an associate or joint venture reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking.

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

Unrealised gains on transactions between the group and its associates or joint ventures are eliminated to the extent of the group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of the associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

4. INTEREST INCOME AND INTEREST EXPENSE

The group recognises interest income and interest expense in profit and loss for all interest-bearing instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the *amortised* cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the average expected life of the financial instruments or portfolios of financial instruments.
Interest income on instruments designated at fair value through profit or loss are included in fair value income except to the extent that the interest relates to:

- funding liabilities that fund amortised cost assets:
- items to which hedge accounting is applied; and
- interest on intercompany balances.

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

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

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

5. FAIR VALUE INCOME

The group includes profits, losses and fair value adjustments on trading financial instruments (including derivative instruments which do not qualify for hedge accounting in terms of IAS 39) as well as financial instruments at fair value through profit and loss in fair value income as it is earned. Trading related financial instruments designated at fair value through profit or loss exclude instruments relating to the group's insurance operations and the group's funding requirements.

6. FEE AND COMMISSION INCOME

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

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

Fees and transaction costs that do not form an integral part of the effective interest rate are recognised as income when the outcome of the transaction involving the rendering of services can be reliably estimated. Fees related to services rendered are recognised as fee and commission income on an accrual basis when the service is rendered, for example banking fee and commission income and asset management and related fees The group recognises fees earned on the execution of a significant act, for example knowledge-based fee and commission income and non-banking fee and commission income when the significant act has been completed.

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

7. FEE AND COMMISSION EXPENSES

Fee and commission expenses are expenses that are incremental or directly attributable to the generation of fee and commission income. Fee and commission expenses include transaction and service fees, which are expensed as the services are received. Fee and commission expenses that form an integral part of the effective interest rate of a financial instrument are recognised as part of net interest income.

8. DIVIDEND INCOME

The group recognises dividends when the group's right to receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares, except to the extent that the scrip dividend is viewed as a bonus issue, with no cash alternative and the transaction lacks economic significance.

9. FOREIGN CURRENCY TRANSLATION

9.1 Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated annual financial statements are presented in Namibia Dollar ("N$"), which is the functional and presentation currency of the holding company of the group.

9.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit and loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

Translation differences on both monetary and non-monetary items that are recognised at fair value through profit or loss are reported as part of the fair value income in non-interest income. Translation differences on non-monetary items, such as equities, classified as available-for-sale, are reported as part of the fair value adjustment and are included in other comprehensive income

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost and other changes in the fair value of the security. Translation differences relating to changes in the amortised cost are recognised in profit or loss and other changes in the fair value are recognised in other comprehensive income.

Foreign exchange gains or losses on monetary items measured at amortised cost are included in a separate line item, foreign exchange differences, within non-interest income in profit or loss for the year.

10. BORROWING COSTS

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

11. DIRECT AND INDIRECT TAXES

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

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

ACCOUNTING POLICIES CONTINUED

11. DIRECT AND INDIRECT TAXES continued

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

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

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

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

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

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly in other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in profit and loss together with the deferred gain or loss.

12. RECOGNITION OF ASSETS

12.1 Assets

The group recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the entity.

12.2 Contingent assets

The group discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the group's control.

13. LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

13.1 Liabilities and provisions

The group recognises liabilities, including provisions, when:

- it has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of the obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

13.2 Contingent liabilities

The group discloses a contingent liability when:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- it is not probable that an outflow of resources would be required to settle an obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

14. CASH AND CASH EQUIVALENTS

In the statement of cash flows, cash and cash equivalents comprise:

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

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

15. FINANCIAL INSTRUMENTS

15.1 General

Financial instruments carried on the statement of financial position include all assets and liabilities, including derivative instruments which include insurance contracts where the insured item is a financial instrument at fair value through profit or loss. Investments in associates and joint ventures, commodities, property and equipment, assets and liabilities of insurance operations, deferred tax, tax payable, intangible assets, inventory and post retirement liabilities, non-current assets, disposal groups held for sale and provisions are excluded from financial instruments. The group recognises a financial asset or a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

The group classifies its financial assets in the following categories:

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

Financial liabilities are classified in the following categories:

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

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

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

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique, the variables of which include only data from observable markets, the group defers such differences (day-one gains or losses). Day-one gains or losses are amortised on a straight-line basis over the life of the financial instrument. To the extent that the inputs determining the fair value of the instrument become observable, or on derecognition of the instrument, day-one gains or losses are recognised immediately in profit or loss.

Available-for-sale financial assets and financial instruments at fair value through profit or loss are subsequently measured at fair value. Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss as gains less losses from investment activities. However, interest calculated on available- for-sale financial assets using the effective interest method is recognised in profit or loss as part of interest income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established and are included in investment income.

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

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

15.2 Financial instruments at fair value through profit or loss

This category has two subcategories: financial instruments held for trading and those designated at fair value through profit or loss on initial recognition.

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

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

- results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- is a group of financial assets and/or financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or
- is a financial asset or liability containing significant embedded derivatives that clearly require bifurcation.

The main financial assets and liabilities designated at fair value through profit and loss under criteria (i) are various advances to customers, structured notes and other investments that form part of the investment banking division. These financial instruments have been designated to eliminate the accounting mismatch between these assets and the underlying derivatives and funding instruments. If the assets were not designated at fair value through profit or loss, the mismatch would be as a result of the assets being recognised at amortised cost and the derivatives and funding instruments being recognised at fair value.

Financial instruments designated under criteria (ii), include certain private equity and other investment securities.

The current and cumulative change in the fair value of designated loans and receivables and designated financial liabilities that is

ACCOUNTING POLICIES CONTINUED

15. FINANCIAL INSTRUMENTS continued

attributable to changes in credit risk, is determined as the change in fair value that is not attributable to changes in market conditions that gives rise to market risk, i.e. currency, interest rate and other price risk.

Gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in profit or loss in the period in which they arise.

15.3 Loans and receivables

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

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

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

15.4 Held-to-maturity investments

Held-to-maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. If the group sells more than an insignificant amount of held-to-maturity investments, the entire category is considered to be tainted in terms of IAS 39 and would have to be reclassified as available-for-sale.

The group measures held-to-maturity investments at amortised cost using the effective interest method, less any impairment.

15.5 Available-for-sale financial assets

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

The group recognises gains and losses arising from changes in the fair value of available-for-sale financial assets in other comprehensive income. It recognises interest income on these assets as part of interest income, based on the instrument's original effective interest rate using the effective interest method. Interest income is excluded from the fair value gains and losses reported in other comprehensive income. When the available-for-sale financial assets are disposed of or impaired, the related accumulated fair value adjustments are included in profit or loss as gains less losses from investment activities. Dividends on available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established and are included in investment income.

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

15.6 Classification of financial liabilities, equity instruments and compound financial instruments

The group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. If a financial instrument includes a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities on potentially unfavourable terms, such as redeemable preference shares, the financial instrument is classified as a financial liability. An instrument is classified as equity if it evidences a residual interest in the assets of the group after the deduction of liabilities.

Compound instruments are those financial instruments that have components of both financial liabilities and equity. At initial recognition the compound financial instruments are split into its separate components and accounted for as financial liabilities or equity as appropriate. The group separately measures and recognises the fair value of the debt component of an issued convertible bond as a financial liability, with the residual value allocated to equity.

The initial fair value of the liability component is recognised at the fair value of a similar non-convertible instrument. The equity component is initially recognised as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their carrying values.

15.7 Measurement of financial liabilities

Financial liabilities are measured at amortised cost, except for certain liabilities that are designated as at fair value through profit or loss. Interest expense is recognised in profit or loss over the period of the borrowing using the effective interest method. Refer to accounting policies 4 and 5 for the accounting treatment applied to interest expense and fair value gains or losses.

The group calculates interest on the liability component of compound financial instruments based on the market rate for a non-convertible instrument at the inception thereof.

15.8 Offsetting financial instruments

The group offsets financial assets and liabilities and presents the net amount in the statement of financial position where:

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

15.9 Embedded derivatives

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

15. FINANCIAL INSTRUMENTS continued

15.9 Embedded derivatives continued

- their risks and characteristics are not closely related to those of the host contract;
- they meet the definition of a derivative; and
- the host contract is not carried at fair value, with gains and losses reported in profit or loss.

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

15.10 Derecognition

The group derecognises a financial asset when:

- the contractual rights to the asset expire; or
- where there is a transfer of the contractual rights to receive the cash flows of the financial asset and substantially all of the risks and rewards related to the ownership of the financial asset are transferred; or
- the group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and rewards associated with the asset.

Where the group retains substantially all the risks and rewards of ownership of the financial asset, the group continues to recognise the financial asset in its entirety and recognises a financial liability for the consideration received. These financial assets and the related financial liabilities may not be offset.

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

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

The group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired. A substantial modification of the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability.

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

15.11 Sale and repurchase agreements

The consolidated financial statements reflect securities sold subject to a linked repurchase agreement (“repos”) as trading or investment securities. These instruments are recognised at fair value through profit or loss. The counterparty liability is included in deposits held under repurchase agreements. . These financial liabilities are either carried at fair value or amortised cost in line with the requirements of IAS 39.

Securities purchased under agreements to resell (“reverse repos”) are recorded as loans and advances relating the repurchase transactions and recognised in line with the requirements of IAS 39 The difference between purchase and resale price is treated as interest and accrued over the life of the reverse repos using the effective interest method.

Securities lent to counterparties are retained in the consolidated financial statements of the group. Any deposits arising from collateral provided by the counterparties are recognised as deposits under securities lending arrangements and are measured at either fair value or amortised cost in accordance with the requirements of IAS 39.

The group does not recognise securities borrowed in the consolidated financial statements, unless on sold to third parties, in which case the obligation to return these securities is recognised as a financial liability at fair value with any gains or losses included in fair value income.

16. IMPAIRMENT OF FINANCIAL ASSETS

16.1 General

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

16.2 Assets carried at amortised cost

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

Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the group about the following events:

- significant financial difficulty of the issuer or counterparty;
- a breach of contract, such as a default or delinquency in payments of principal or interest;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties or adverse changes in the market, economic or legal environment in which the entity operates; or

ACCOUNTING POLICIES CONTINUED

16. IMPAIRMENT OF FINANCIAL ASSETS continued

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be allocated to the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

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

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

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

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

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

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

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

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

16.2.1 Past due advances

Advances are considered past due in the following circumstances:

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

In these instances, the full outstanding amount is considered overdue even if part of it is not yet due. .

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

16.2.2 Renegotiated advances

Financial assets that would otherwise be past due that have been renegotiated are separately classified as neither past due nor impaired assets. Renegotiated advances are advances where, due to deterioration in the counterparty's financial condition, the group granted a concession where the original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance. Advances are only classified as renegotiated if the terms of the renegotiated contract have not yet expired and remain classified as such until the terms of the renegotiated contract

16. IMPAIRMENT OF FINANCIAL ASSETS continued

16.2 Assets carried at amortised cost continued

16.2.2 Renegotiated advances continued

expire. Where the advances are reclassified as neither past due nor impaired the adherence to the new terms and conditions is closely monitored.

Renegotiated advances exclude advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original. Non-performing advances cannot be reclassified as renegotiated unless the arrears balance has been repaid. Renegotiated but current financial assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

16.2.3 Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost or net realisable value. The group recognises repossessed assets as part of accounts receivable in the statement of financial position

16.3 Available-for-sale financial assets

The group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

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

Impairment losses recognised in profit and loss on equity instruments are not reversed through profit and loss.

In the case of a debt instrument classified as available-for-sale, the same objective evidence of impairment as for financial assets measured at amortised cost is considered in determining if impairment exists. The difference between the acquisition cost and the current fair value less any previous impairment losses recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

17. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The group initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, in the statement of financial position at fair value. Derivatives are subsequently re-measured at their fair value with all movements in fair value recognised in profit and loss, unless it is a designated and effective hedging instrument.

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

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

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

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

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

The group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as, its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

17.1 Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The interest accrued or paid relating to interest rate swaps and hedged items are reflected in interest income or interest expense. Effective changes in fair value of currency futures are reflected in non interest income. Other gains or losses, including the ineffective portion of all fair value hedges, are recorded as fair value income in non interest income.

If the hedge of an instrument carried at amortised cost no longer meets the criteria for hedge accounting, the cumulative adjustment

ACCOUNTING POLICIES CONTINUED

17. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING continued

to the carrying amount of the hedged item is amortised to profit or loss based on a recalculated effective interest rate over the residual period to maturity, unless the hedge item has been derecognised, in which case it is released to profit or loss immediately. However, if the hedge of an equity instrument carried at fair value no longer meets the criteria for hedge accounting, the cumulative adjustment of the carrying amount of a hedged equity instrument remains in retained earnings until disposal.

17.2 Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated as hedging instruments in effective cash flow hedges is recognised in the cash flow hedge reserve in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately as part of fair value income in non-interest income in profit or loss.

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

Amounts accumulated in other comprehensive income are reclassified to profit or loss in the periods in which the hedged item affects profit or loss. Where the forecast transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or liability, the gains or losses previously deferred in other comprehensive income are reclassified from other comprehensive income and included in the initial measurement of the non-financial asset or liability.

For financial assets and liabilities, if the risk being hedged is interest rate risk the amounts are included in interest income or interest expense when reclassified to profit or loss. The amount recognised in profit or loss for other risks relating to financial assets and liabilities is recognised in non-interest income as fair value income.

18. PROPERTY AND EQUIPMENT

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

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replacement part is derecognised. All other repairs and maintenance are charged to profit and loss during the financial period in which they are incurred.

Property and equipment are depreciated on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives. Freehold properties and properties held under finance lease are broken down into significant components that are depreciated to their respective residual values over the economic lives of these components.

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

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

19. INVESTMENT PROPERTIES

The group classifies investment properties as properties held to earn rental income and/or capital appreciation that are not occupied by the companies in the group.

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

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

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

If this information is not available the group uses valuation methods such as discounted cash flow projections, recent prices on less active markets, or current offers to purchase the particular property.

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

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

ACCOUNTING POLICIES CONTINUED

20. LEASES

20.1 A group company is the lessee

20.1.1 Finance leases

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

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The group allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is recognised in the profit and loss over the lease period. The property and equipment acquired are depreciated over the useful life of the assets, unless it is not probable that the group will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

20.1.2 Operating leases

The group classifies leases as operating leases if the lessor effectively retains the risks and rewards of ownership of the leased asset. The group recognises operating lease payments as an operating expense in profit or loss on a straight line basis over the period of the lease. Contingent rentals are expensed in the period incurred. Minimum rentals due after year end are disclosed as commitments.

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

20.2 A group company is the lessor

20.2.1 Finance leases

The group recognises as advances assets sold under a finance lease at the present value of the lease payments receivable. The difference between the gross receivable and the present value of the receivable represents unearned finance income. Unearned finance income is recognised as interest income over the term of the lease using the effective interest rate method, which reflects a constant periodic rate of return.

20.2.2 Operating leases

The group includes in a separate category as “assets held under operating lease” property and equipment assets leased out under operating leases. The group depreciates these assets over their expected useful lives on a basis consistent with similar owned property and equipment. Contingent rentals are expensed in the period incurred. Rental income is recognised on a straight-line basis over the lease term.

20.3 Instalment credit agreements

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

The group calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to income in proportion to capital balances outstanding.

21. INTANGIBLE ASSETS

21.1 Goodwill

Goodwill represents the excess of the consideration transferred, the fair value of the previous equity interests held and the non-controlling interest of an acquisition over the attributable fair value of the group’s share of the fair value of the identifiable net assets of the acquired subsidiary, or associate at the date of acquisition. Goodwill on the acquisition of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in the carrying amount of the investment.

21.2 Computer software development costs

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

The group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset.

21.3 Other intangible assets

The group expenses the costs incurred on internally generated intangible assets such as trademarks, patents and similar rights and assets, in profit or loss in the period in which the costs are incurred. The costs incurred on the development of separately identifiable internally generated intangible assets, are capitalised by the group if:

- the group is able to demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- it is the group’s intention to complete the intangible asset and use or sell it;
- the group will be able to use or sell the intangible asset;
- it is probable that the intangible asset will generate future economic benefits;
- adequate technical, financial and other resources are available to complete the development and to use or
- sell the intangible asset; and
- the expenditure attributable to the intangible asset can be reliably measured.

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

The group carries capitalised trademarks, patents and similar assets at cost less accumulated amortisation and any impairment. It amortises these assets at a rate applicable to the expected useful life of the asset.

21.4 Impairment of intangible assets

Management reviews the carrying value of intangible assets wherever objective evidence of impairment exists. An impairment loss is recognised immediately in profit or loss as operating expenses when the carrying value is more than the recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use.

ACCOUNTING POLICIES CONTINUED

21. INTANGIBLE ASSETS continued

21.4 Impairment of intangible assets continued

Goodwill is tested annually for impairment or more frequently if an impairment indicator exists at the reporting date and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not subsequently reversed.

For impairment purposes goodwill is allocated to the smallest component of the business that is expected to benefit from synergies of the combination and at which management monitors goodwill (cash generating unit). Each cash generating unit represents a grouping of assets no higher than an operating segment. The recoverable amount of a cash generating unit is the higher of fair value less costs to sell and value in use.

22. EMPLOYEE BENEFITS

22.1 Post-employment benefits

The group operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee administered funds. A defined contribution plan is one under which the group pays a fixed contribution and has no legal or constructive obligation to pay further contributions. All post-employment plans that do not meet the definition of a defined contribution plan are defined benefit plans.

For defined contribution plans the group recognises the contributions as an expense, included in staff costs, when the employees have rendered the service entitling them to the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The defined benefit plans are funded by contributions from employees and the relevant group companies, taking into account the recommendations of independent qualified actuaries.

The amount recognised in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. Where the value is a net asset, the amount recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The present value of the defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments required to settle the obligation resulting from employee service in current and prior periods. The discount rate used is the rate of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating to the terms of the related pension liability. In the absence of a deep and liquid bond market the rates on government bonds are used.

The following items are included in profit or loss for the period as part of staff costs:

- current service costs calculated on the projected unit credit method;
- past service costs relating to plan amendments made in the current period;
- gains or losses on curtailments that took place in the current period; and
- net interest income calculated by applying the discount rate at the beginning of the period to the net asset or liability.

All other remeasurements in respect of the obligation, including actuarial gains or losses, are recognised in other comprehensive income. The remeasurements recognised in other comprehensive income will not be reclassified to profit or loss.

These funds are registered in terms of the Pension Funds Act, 1956, and membership of the pension fund is compulsory for all group employees.

22.2 Termination benefits

The group recognises termination benefits as a liability in the statement of financial position and as an expense in profit or loss when it has a present obligation relating to termination. The group has a present obligation at the earlier of when the group can no longer withdraw the offer of the termination benefit and when the group recognises any related restructuring costs.

22.3 Severance pay

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

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

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

22.4 Leave pay accruals

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

22.5 Bonuses

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

23. BORROWINGS

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

The group separately measures and recognises the fair value of the debt component of an issued convertible bond in liabilities, with the residual value separately allocated to equity. It calculates interest on

23. BORROWINGS continued

the debt portion of the instrument based on the market rate for a non-convertible instrument at the inception thereof.

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

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

24. SHARE CAPITAL

24.1 Share issue costs

Instruments issued by the group are classified as equity when there is no obligation to transfer cash or assets. Incremental costs directly related to the issue of new shares or options are shown as a deduction from equity.

24.2 Dividends paid

Dividends on ordinary shares and non-cumulative non-redeemable preference shares are recognised against equity and a corresponding liability recognised when they have been appropriately approved by the company's shareholders and are no longer at the discretion of the entity. Dividends declared after the reporting date are not recognised but disclosed as a post reporting date event.

24.3 Shares held by employee share trusts

Certain of the group's remuneration schemes are operated through various share trusts. These share trusts are considered to be structured entities. In instances where the group has control over the share trust in terms of IFRS 10 they are consolidated. Where the employee share trusts which form part of the consolidated group purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity until they are sold. Where such shares are subsequently sold, any consideration received, net of any directly attributable incremental costs, and is included in shareholders' equity.

25. SEGMENT REPORTING

An operating segment is a component of the group that engages in business activities from which the group may earn revenues and incurs expenses and whose operating results are regularly reviewed by chief operating decision maker in order to make decisions about resources to be allocated to the segment and assess its performance. The chief operating decision maker has been identified as the chief executive officer of the group. The group's identification and measurement of operating segments is consistent with the internal reporting provided to the chief executive officer. The operating segments have been identified and classified in a manner that reflects the risks and rewards related to the segments' specific products and services offered in their specific markets. Additional information relating to each segments' specific products and services and major customers is also provided in the notes to the financial statements.

Operating segments whose total revenue, absolute profit or loss for the period or total assets are 10% or more of all the segments, are reported separately.

Assets, liabilities, revenue or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The group accounts for intersegment revenues and transfer as if the transactions were with third parties at current market prices. Tax is allocated to a particular segment on a pro-rata basis.

Funding is provided to business units and segments based at internally derived transfer pricing rates taking into account the funding structures of the group.

26. SHARE BASED PAYMENT TRANSACTIONS

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

26.1 Equity-settled share based compensation plans

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

The fair value of the options is determined excluding non market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, the group revises its estimate of the number of options expected to vest. The group recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to the share based payment reserve.

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

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

26.2 Cash-settled share based payment compensation plans

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

ACCOUNTING POLICIES CONTINUED

27. NON-CURRENT ASSETS DISPOSAL GROUPS HELD FOR SALE

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

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

Immediately before classification as held for sale, the carrying amount of non-current assets and liabilities in relation to a disposal group is recognised based upon the appropriate IFRS standards. On initial recognition as held for sale, the non-current assets and liabilities are in the measurement scope of IFRS 5 are recognised at the lower of carrying amount and fair value less costs to sell.

Any impairment losses on initial classification as held for sale are recognised in profit or loss. If a disposal group contains assets that are outside of the measurement scope of IFRS 5 any impairment loss is allocated to those non-current assets within the disposal group that are within the measurement scope of IFRS 5.

After initial recognition as held for sale the non-current assets are measured at fair value less costs to sell. Where the fair value less costs to sell is less than the carrying value, any additional impairment losses are recognised in profit or loss. Any increases in fair value less costs to sell are only recognised when realised.

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

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

28. DISCONTINUED OPERATIONS

The group classifies a component as a discontinued operation when that component has been disposed of, or is classified as held for sale, and:

- it represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

A component of a group comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes from the rest of the group.

29. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In preparing the financial statements, the group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior year.

29.1 Credit impairment losses on loans and advances

The group continuously assesses its credit portfolios for impairment. In determining whether an impairment loss should be recognised in the statement of comprehensive income, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

(a) Performing loans

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

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

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

(ii) The second part consists of the portfolio specific impairment (PSI) to reflect the decrease in estimated future cash flows for the sub segment of the performing portfolio where there is objective evidence of impairment. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable sub segments of the portfolio.

The assessment of whether objective evidence of impairment exists requires judgement and depends on the class of the financial asset. In the FNB Retail and WesBank portfolios the account status, namely arrears versus non arrears status, is taken as a primary indicator of an impairment event. In the FNB Commercial portfolios other indicators such as the existence of high risk accounts, based on internally assigned risk ratings and management judgement, are used, while the wholesale (includes RMB Investment Banking and RMB Corporate Banking) portfolio assessment includes a judgemental review of individual industries for objective signs of distress.

29. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

29.1 Credit impairment losses on loans and advances continued

(b) Non performing loans

Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay its obligations in full. Wesbank's loans are impaired upon its classification status, i.e. following an event driven approach and specific assessment of the likelihood to repay. Commercial and Wholesale loans are analysed on a case by case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for Commercial and Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 10 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

29.2 Impairment of available-for-sale equity instruments

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

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

29.3 Income taxes

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

Refer to note 5 and 21 for more information regarding the direct and deferred tax charges, assets and liabilities.

29.4 Impairment of goodwill

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash generating units ("CGU") has been determined based on value-in-use calculations, being the net present value of the discounted cash flows of the CGU less the tangible net asset value of the CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in note 16 to these financial statements.

29.5 Employee benefit liabilities

The cost of the benefits and the present value of the post retirement medical obligations and severance pay: death in service depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to the profit and loss arising from these obligations include the expected long term rate of return on the relevant plan assets, the discount rate and the expected salary and pension increase rates. Any changes in these assumptions will impact the charge to the profit and loss and may affect planned funding of the post retirement plans.

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

Additional information is provided in the note 19.

29.6 Share-based payments

Share-based payment costs arise from the issue of share options to employees. These share options are classified as equity-settled share-based payments and as such, the fair value cost is determined on date of grant on an actuarial basis using a number of assumptions. These assumptions used in determining the fair value cost include expected volatility, expected dividend yield, the discount rate and the expected forfeit of lapse rate.

The expected volatility assumption is determined based on a ruling historical volatility over the expected life of the options and comparable financial information. The expected dividend yield is determined based on historical dividend yields and management's estimates. The discount rate is based on zero coupon government bonds and has terms to maturity consistent with the assumed life of the share option. The expected forfeit rate has been based on historical experience and management estimates.

ACCOUNTING POLICIES CONTINUED

29.6 Share-based payments continued

Refer to note 25 for the detailed information regarding the share-based payment expense and the assumptions used in determining the expense, liability and reserve.

29.7 Subsidiaries and controlled structured entities

When assessing whether or not control exists the group considers all of the existing rights that it has as well as the existing rights that other investors have that result in the ability to direct the relevant activities of the investee. Only one party can have control over an investee, therefore if another investor has substantive rights that give them the current ability to direct the relevant activities of the investee then the group cannot have control over the investee. When the group assesses its rights specific consideration is given to the group's holding of voting rights relative to the dispersion of holdings of other investors that hold voting rights. In instances where it is not immediately clear who has power over the investee the group considers whether there is any evidence that it has the practical ability to direct the relevant activities of the investee unilaterally.

It is common business practice in many funding arrangements for the lender to have rights that allow it to restrict the borrower from undertaking activities that could significantly change it's credit risk to the detriment of the lender. These rights are known as protective rights and are designed to protect the lender's interests and not to give the lender power over the relevant activities of the borrower. Where the group has lending arrangements that contain protective rights these protective rights are not considered to give the group the current ability to direct the relevant activities of the borrower.

The Memorandum and Articles of association or shareholders agreements for many companies include provisions that are designed to protect the rights of the non-controlling shareholders. These rights may require a certain percentage of votes to be received before certain decision can be taken or they may require the non-controlling interests to approve certain decisions. The purpose of these rights is to protect the interests of the non-controlling shareholders and to ensure that the controlling shareholders don't act in a manner that prejudices the non-controlling shareholders. These rights are protective in nature and do not give the non-controlling shareholders power over the relevant activities of the entity. Where the group is a non-controlling shareholder and has such rights these rights alone are not considered sufficient to give the group power over the relevant activities of the investee.

When voting rights do not have a significant effect on the investee's returns the investee is considered to be a structured entity. When assessing whether the group has control over a structured entity specific consideration is given to the purpose and design of the structured entity and whether the group has power over decisions that relate to activities that the entity was designed to conduct.

When assessing whether the group has exposure or rights to variable returns and how variable those returns are the group considers the substance of the agreement regardless of the legal form of the returns. For example depending on the terms of the agreement preference shares that the group holds may give the group rights to fixed dividends similar to an interest return or they may give the group the right to participate in the residual profits of the investee.

The group only considers substantive rights that it or other investors have in relation to an investee when assessing control. Substantive rights are those rights that the group or other investors have the practical ability to exercise. Rights that are held by the group in an agency capacity are not considered to be substantive rights. The group considers the relationship between itself and the other investors when assessing whether it is acting as an agent, including the rights that another investor may have to remove the group from the relationship, i.e. the ability that the other investors may have to replace the group as an agent.

29.8 Associates

The group is presumed to have significant influence over an investee if it owns more than 20% of the voting rights and does not have control or joint control.

Significant influence may also arise from rights other than voting rights. These rights include, but are not limited to, the ability to appoint key management personnel and the ability to participate in the decision making processes of the investee.

The group considers both the rights that it has as well as currently exercisable rights that other investors have when assessing whether it has the practical ability to significantly influence the relevant activities of the investee.

30. STATEMENTS ISSUED BUT NOT YET EFFECTIVE

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

IAS 16 (amended)
Property, Plant and Equipment – Depreciation Method

IAS 16 was amended to clarify that a depreciation method that is based on revenue generated by an activity that is not appropriate. This is because such a method reflects the pattern of the generation of economic benefits that arise from the operation of the business of which an asset is part, rather than the pattern of consumption of an asset's expected future economic benefits.

The amendment is not expected to have an impact on the group as the group does not apply a revenue-based depreciation approach.

IAS 16 (amended)
Property, Plant and Equipment – Bearer Plants

The amendment changes the financial reporting for bearer plants and indicates that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendment includes them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amendment falls outside the scope of the group's operations and will have no impact on the group.

ACCOUNTING POLICIES CONTINUED

30. STATEMENTS ISSUED BUT NOT YET EFFECTIVE continued

IAS 19
Employee Benefits

IAS 19 was amended to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. The amendment permits contributions that are independent of the number of years of service to be recognised as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to periods of service. Other contributions by employees or third parties that are not linked to service should be attributed to periods of service using the plan's contribution formula or on a straight-line basis. The amendments have been assessed and are not expected to have a significant impact on the group.

IAS 27 (amended)
Separate Financial Statements

Amendments issued in October 2012 provide investment entities an exemption from the consolidation of particular subsidiaries. If this exemption is applied, the amendments require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated). The group does not meet the definition of an investment entity and as such the exemption is not available to the group and will have no impact on the results.

IAS 32
Financial Instruments: Presentation

The amendments to IAS 32 clarify the existing requirements related to offsetting of financial assets and financial liabilities. The application guidance to the standard has been amended to clarify the practical application of the offsetting requirements. The amendments relate to presentation and as such will not have an impact on the net asset value or results of the group. The group has performed a preliminary assessment of the potential impact of the amendments and the results indicate that the effect is unlikely to result in significant changes in presentation for the group.

IAS 36 (amended)
Impairment of Assets

IAS 36 was amended to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed and clarifies the disclosures required. It also introduces an explicit requirement to disclose the discount rate used in determining impairment or impairment reversals where the recoverable amount, that is calculated based on fair value less costs of disposal, is determined using a present value technique. The amendment addresses disclosure in the annual financial statements and not recognition and measurement. The amendment will, therefore, have no impact on the group's results but may result in additional disclosure.

IAS 38
Intangible Assets

IAS 38 is amended to introduce a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate for the same reasons as in IAS 16. There are limited circumstances when the presumption can be overcome. The amendment is not expected to have an impact on the group as the group does not apply a revenue-based amortisation approach.

IAS 39 (amended)
Financial Instruments: Recognition and Measurement

IAS 39 has been amended to clarify that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty must happen as a consequence of a change in laws or regulations or the introduction of laws or regulations. The amendments have been assessed and are not expected to have a significant impact on the group.

IAS 41 (amended)
Agriculture

The amendment changes the financial reporting for bearer plants and indicates that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendment includes them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amendment falls outside the scope of the group's operations and will have no impact on the group.

IFRS 9
Financial Instruments

IFRS 9 was issued in its entirety for the first time on 24 July 2014. The final version of the standard incorporates amendments to the classification and measurement guidance as well as the accounting requirements for the impairment of financial assets measured at amortised cost. Prior to the final version of IFRS 9 being issued, the standard already contained some classification and measurement guidance: guidance on hedge accounting and guidance on the presentation of changes in own credit risk in respect of financial liabilities designated at fair value.

These elements of the final standard are discussed in detail below:

- The classification and measurement of financial instruments under IFRS 9 is based on both the business model and the rationale for holding the instruments as well as the contractual characteristics of the instruments.

ACCOUNTING POLICIES CONTINUED

IFRS 9
Financial Instruments continued

- Impairments in terms of IFRS 9 will be determined based on an expected loss model that considers the significant changes to the assets' credit risk and the expected loss that will arise in the event of default.
- IFRS 9 allows financial liabilities not held for trading to be measured at either amortised cost or fair value. If fair value is elected then changes in the fair value as a result of changes in own credit risk should be recognised in other comprehensive income.
- The hedge accounting requirements under IFRS 9 are closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Hedge effectiveness will now be proved based on management's risk management objectives rather than the 80%-125% band that was previously stipulated. IFRS 9 also allows for rebalancing of the hedge and the deferral of costs of hedging.

The final standard was issued on 24 July 2014. The group will now initiate a process to determine the impact of the standard on the group's statement of financial position and performance. Until the process has been completed the group is unable to quantify the expected impact of the standard.

IFRS 10 (amended)
Consolidated Financial Statements

Amendments issued in October 2012 provide investment entities an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measures the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 or IAS 39. The group does not meet the definition of an investment entity and as such the exemption is not available to the group and will have no impact on the results.

IFRS 12 (amended)
Disclosure of Interests in Other Entities

Amendments issued in October 2012 provide investment entities an exemption from the consolidation of particular subsidiaries. If this exemption is applied, the amendments require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, the nature of the relationship and certain transactions between the investment entity and its subsidiaries. The group does not meet the definition of an investment entity and as such the exemption is not available to the group and will have no impact on the results.

IFRS 14
Regulatory Deferral Accounts

IFRS 14 permits an entity which is a first-time adopter of IFRS to continue to account, with some limited changes, for regulatory deferral account balances in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. The standard falls outside the scope of the group's operations and will have no impact on the group.

IFRS 15
Revenue

IFRS 15 provides a single, principle-based model to be applied to all contracts with customers. The new standard requires companies to recognise revenue to depict the transfer of goods or services to customers that reflects the consideration to which the company expects to be entitled to in exchange for those goods or services. The new standard will also provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The standard also introduces enhanced disclosures about revenue. The group is in the process of assessing the impact that IFRS 15 will have on the financial statements. Until the process has been completed, the group is unable to determine the significance of the impact.

IFRIC 21
Levies

This interpretation provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 and those where the timing and amount of the levy is certain. The interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. Guidance provided indicates that the liability is recognised progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached. The interpretation falls outside the scope of the group's operations and will have no impact on the group.

Annual Improvements

The IASB issued the Annual Improvements 2010-2012 Cycle and the Annual Improvements 2011-2013 Cycle in December 2013, as its latest set of annual improvements to various accounting standards. The collection of amendments to IFRS is in response to six issues addressed during the 2010-2012 cycle and four issues addressed during the 2011-2013 cycle. The annual improvement project's aim is to clarify and improve accounting standards. The improvements include terminology and editorial changes which have a minimal effect on recognition and measurement. The amendments have been assessed and are not expected to have a significant impact on the group.

ACCOUNTING POLICIES CONTINUED

31. RECLASSIFICATION OF PRIOR YEAR NUMBERS

During the financial year the following reclassification was made to the statement of comprehensive income. Refer to note 33 for impact of reclassification of prior year.

STATEMENT OF COMPREHENSIVE INCOME	REASON FOR RESTATEMENT
Operating expenses Direct tax Actuarial gains and losses on post-employment retirement liabilities	Amendments to IAS 19 require that all actuarial gains and losses in respect of defined benefit post-employment plans are recognised in other comprehensive income. In addition the standard no longer requires the expected return on plan assets to be recognised in profit or loss, rather than a net interest income/expense be recognised on the net asset or liability. All other re-measurements relating to plan assets are also recognised in other comprehensive income.

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

STATEMENTS OF COMPREHENSIVE INCOME
for the year ended 30 June

N$'000	Notes	Group 2014	Group 2013*	Company 2014	Company 2013*
Interest and similar income	2.1	**1 909 025**	1 634 184	**1 862 507**	1 598 268
Interest expense and similar charges	2.2	**(772 116)**	(656 839)	**(772 116)**	(656 839)
Net interest income before impairment of advances		**1 136 909**	977 345	**1 090 391**	941 429
Impairment losses of advances	10	**(18 433)**	(23 366)	**(18 291)**	(24 087)
Net interest income after impairment of advances		**1 118 476**	953 979	**1 072 100**	917 342
Non-interest income	3	**1 002 808**	802 191	**1 001 100**	798 768
Income from operations		**2 121 284**	1 756 170	**2 073 200**	1 716 110
Operating expenses	4	**(1 005 278)**	(896 773)	**(1 012 055)**	(900 083)
Net income from operations		**1 116 006**	859 397	**1 061 145**	816 027
Share of profit / (loss)from associate after tax	13	**557**	(159)		
Income before indirect tax		**1 116 563**	859 238	**1 061 145**	816 027
Indirect tax	5.1	**(21 394)**	(19 105)	**(21 134)**	(18 848)
Profit before direct tax		**1 095 169**	840 133	**1 040 011**	797 179
Direct tax	5.2	**(364 588)**	(283 855)	**(346 298)**	(268 982)
Profit for the year		**730 581**	556 278	**693 713**	528 197
Other comprehensive income					
Items that will not subsequently be reclassified to profit and loss					
Actuarial gains and losses on post-employment benefit liabilities		**(1 885)**	3 874	**(1 885)**	3 874
Deferred income tax	21	**622**	(1 278)	**622**	(1 278)
		(1 263)	2 596	**(1 263)**	2 596
Items that will subsequently be reclassified to profit and loss					
Available-for-sale financial assets					
(Loss) / gain on available-for-sale financial assets		**(1 254)**	(7 427)	**(1 254)**	(7 427)
Deferred income tax	21	**414**	474	**414**	474
		(840)	(6 953)	**(840)**	(6 953)
Other comprehensive income for the year		**(2 103)**	(4 357)	**(2 103)**	(4 357)
Total comprehensive income for the year		**728 478**	551 921	**691 610**	523 840
Profit for the year attributable to:					
Ordinary shareholders		**730 581**	556 278	**693 713**	528 197
Total comprehensive income for the year attributable to:					
Ordinary shareholders		**728 478**	551 921	**691 610**	523 840

*Restated – refer to restatement of prior year numbers in note 33.

STATEMENTS OF FINANCIAL POSITION
as at 30 June

		Group		Company	
N$'000	Notes	**2014**	2013	**2014**	2013
Assets					
Cash and cash equivalents	7.1	**830 189**	664 060	**830 189**	664 060
Due from banks and other financial institutions	7.2	**1 766 327**	1 888 968	**1 766 327**	1 888 968
Derivative financial instruments	8	**92 031**	94 987	**92 031**	94 987
Advances	9	**20 067 543**	17 033 406	**19 471 861**	16 375 495
Investment securities	11	**2 687 376**	2 162 618	**2 687 376**	2 162 618
Accounts receivable	12	**103 263**	147 144	**88 544**	145 130
Investment in associate company	13	**3 168**	2 610	**1 154**	1 154
Investment in subsidiary company	14			**308 691**	393 845
Property and equipment	15	**522 412**	347 341	**480 241**	304 864
Intangible assets	16	**156 624**	175 635	**156 624**	174 767
Total assets		**26 228 933**	22 516 769	**25 883 038**	22 205 888
Liabilities and equity					
Liabilities					
Deposits	17.1	**21 603 391**	18 921 790	**21 602 073**	18 920 667
Due to banks and other financial institutions	17.2	**813 409**	319 084	**813 409**	319 084
Derivative financial instruments	8	**109 281**	128 612	**109 281**	128 612
Creditors and accruals	18	**241 768**	118 609	**237 709**	117 902
Employee liabilities	19	**146 055**	119 294	**146 055**	119 294
Tax liability		**55 488**	131 766	**52 872**	123 401
Other liabilities	20	**6 030**	9 806	**6 030**	9 806
Deferred tax liability	21	**93 635**	75 870	**97 575**	80 158
Tier two liabilities	22	**392 622**	392 620	**392 622**	392 620
Total liabilities		**23 461 679**	20 217 451	**23 457 626**	20 211 544
Equity					
Ordinary shares	23	**1**	1	**1**	1
Share premium	23	**1 142 791**	1 142 791	**1 142 791**	1 142 791
Reserves		**1 624 462**	1 156 526	**1 282 620**	851 552
Total equity		**2 767 254**	2 299 318	**2 425 412**	1 994 344
Total liabilities and equity		**26 228 933**	22 516 769	**25 883 038**	22 205 888

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June

N$'000	Share capital	Share premium	General risk reserve	Defined benefit post-employment reserve	Share-based payment reserve	Available-for-sale reserve	Retained earnings	Total equity
Group								
Balance at 1 July 2012	1	1 142 791	42 232		12 231	14 749	895 337	2 107 341
Prior period restatement on adoption of IAS 19R				1 330			(1 330)	
Restated balance at 1 July 2012	1	1 142 791	42 232	1 330	12 231	14 749	894 007	2 107 341
Total comprehensive income for the year				2 596		(6 953)	556 278	551 921
Profit for the year							556 278	556 278
Other comprehensive income for the year				2 596		(6 953)		(4 357)
Transfer to / (from) reserves			33 137				(33 137)	
Share-based payments					7 027			7 027
Transfer of vested equity options					(1 593)		1 593	
Dividends paid							(366 971)	(366 971)
Balance at 30 June 2013	**1**	**1 142 791**	**75 369**	**3 926**	**17 665**	**7 796**	**1 051 770**	**2 299 318**
Total comprehensive income for the year				**(1 263)**		**(840)**	**730 581**	**728 478**
Profit for the year							**730 581**	**730 581**
Other comprehensive income for the year				**(1 263)**		**(840)**		**(2 103)**
Transfer to / (from) reserves			**22 416**				**(22 416)**	
Share-based payments					**6 262**			**6 262**
Transfer of vested equity options					**(4 477)**		**4 477**	
Dividends paid							**(266 804)**	**(266 804)**
Balance at 30 June 2014	**1**	**1 142 791**	**97 785**	**2 663**	**19 450**	**6 956**	**1 497 608**	**2 767 254**

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June *continued*

N$'000	Share capital	Share premium	General risk reserve	Defined benefit post-employment reserve	Share-based payment reserve	Available-for-sale reserve	Retained earnings	Total equity
Company								
Balance at 1 July 2012	1	1 142 791	42 232		12 231	14 749	618 444	1 830 448
Prior period restatement on adoption of IAS 19R				1 330			(1 330)	
Restated balance at 1 July 2012	1	1 142 791	42 232	1 330	12 231	14 749	617 114	1 830 448
Total comprehensive income for the year				2 596		(6 953)	528 197	523 840
Profit for the year							528 197	528 197
Other comprehensive income for the year				2 596		(6 953)		(4 357)
Transfer to / (from) reserves			33 137				(33 137)	
Share-based payments					7 027			7 027
Transfer of vested equity options					(1 593)		1 593	
Dividends paid							(366 971)	(366 971)
Balance at 30 June 2013	**1**	**1 142 791**	**75 369**	**3 926**	**17 665**	**7 796**	**746 796**	**1 994 344**
Total comprehensive income for the year				**(1 263)**		**(840)**	**693 713**	**691 610**
Profit for the year							**693 713**	**693 713**
Other comprehensive income for the year				**(1 263)**		**(840)**		**(2 103)**
Transfer to / (from) reserves			**22 416**				**(22 416)**	
Share-based payments					**6 262**			**6 262**
Transfer of vested equity options					**(4 477)**		**4 477**	
Dividends paid							**(266 804)**	**(266 804)**
Balance at 30 June 2014	**1**	**1 142 791**	**97 785**	**2 663**	**19 450**	**6 956**	**1 155 766**	**2 425 412**

STATEMENTS OF CASH FLOWS
for the year ended 30 June

N$'000	Notes	Group 2014	Group 2013	Company 2014	Company 2013
Cash flows from operating activities					
Cash receipts from customers	26.2	**2 872 309**	2 413 792	**2 825 424**	2 376 302
Cash paid to customers, suppliers and employees	26.3	**(1 662 370)**	(1 456 683)	**(1 670 471)**	(1 461 515)
Cash flows from operating activities	26.1	**1 209 939**	957 109	**1 154 953**	914 787
Increase in income earning assets	26.4	**(3 389 107)**	(2 929 804)	**(3 431 193)**	(2 991 600)
Increase in deposits and other liabilities	26.5	**3 270 787**	2 464 823	**3 268 699**	2 466 397
Tax paid	26.6	**(433 365)**	(300 731)	**(419 509)**	(287 281)
Net cash flows from operating activities		**658 254**	191 397	**572 950**	102 303
Cash flows from investing activities		**(221 123)**	(127 066)	**(135 819)**	(37 972)
Capital expenses	26.7	**(221 393)**	(130 334)	**(221 243)**	(130 035)
Reduction in loan to subsidiary				**85 154**	90 061
Proceeds from sale of property and equipment		**270**	3 268	**270**	2 002
Cash flows from financing activities		**(271 002)**	(369 071)	**(271 002)**	(369 071)
Payment of finance lease liabilities		**(4 198)**	(2 100)	**(4 198)**	(2 100)
Dividends paid	26.8	**(266 804)**	(366 971)	**(266 804)**	(366 971)
Net movement in cash and cash equivalents		**166 129**	(304 740)	**166 129**	(304 740)
Cash and cash equivalents at beginning of the year *		**664 060**	968 800	**664 060**	968 800
Cash and cash equivalents at end of the year *	7.1	**830 189**	664 060	**830 189**	664 060

*Includes mandatory reserve deposits with central bank.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June

1. Accounting policies

The accounting policies of the group are set out on pages 5 to 24.

2. Analysis of interest income and interest expenditure.

	2014					
	Group			Company		
N$'000	Fair value	Amortised cost	Total	Fair value	Amortised cost	Total
2.1 Interest and similar income						
Interest on:						
- Advances		1 667 163	1 667 163		1 622 522	1 622 522
- Cash and cash equivalents		72 064	72 064		72 064	72 064
- Investment securities	143 700	3 599	147 299	143 700	3 599	147 299
- Unwinding of discounted present value on non performing loans (note 10)		6 560	6 560		5 836	5 836
- Unwinding of discounted present value on off-market advances		1 649	1 649		1 649	1 649
- Impaired advances		(880)	(880)		(1 418)	(1 418)
- Net release of deferred fees and expenses		15 170	15 170		14 555	14 555
Interest and similar income	143 700	1 765 325	1 909 025	143 700	1 718 807	1 862 507

	2013					
	Group			Company		
N$'000	Fair value	Amortised cost	Total	Fair value	Amortised cost	Total
Interest on:						
- Advances		1 423 710	1 423 710		1 388 230	1 388 230
- Cash and cash equivalents		62 088	62 088		62 088	62 088
- Investment securities	128 189	1 956	130 145	128 189	1 956	130 145
- Unwinding of discounted present value on non performing loans (note 10)		4 716	4 716		4 224	4 224
- Unwinding of discounted present value on off-market advances		4 933	4 933		4 933	4 933
- Impaired advances		(2 685)	(2 685)		(2 138)	(2 138)
- Net release of deferred fees and expenses		11 277	11 277		10 786	10 786
Interest and similar income	128 189	1 505 995	1 634 184	128 189	1 470 079	1 598 268

	2014			2013		
	Group and company			Group and company		
N$'000	Fair value	Amortised cost	Total	Fair value	Amortised cost	Total
2.2 Interest expense and similar charges						
Interest on:						
- Deposits from banks and financial institutions		23 806	23 806		1 273	1 273
- Current accounts		88 639	88 639		81 352	81 352
- Savings deposits		7 723	7 723		6 177	6 177
- Call deposits		218 196	218 196		189 906	189 906
- Term deposits		111 906	111 906		119 652	119 652
- Negotiable certificates of deposits		292 587	292 587		229 457	229 457
- Tier two liabilities		29 259	29 259		29 022	29 022
Interest expense and similar charges		772 116	772 116		656 839	656 839

3. Non-interest income

N$'000	Group 2014	Group 2013	Company 2014	Company 2013
3.1 Fees and commissions				
- Card commissions	**85 838**	50 770	**85 838**	50 770
- Cash deposit fees	**148 950**	119 195	**148 950**	119 195
- Commissions: bills, drafts and cheques	**30 840**	25 939	**30 840**	25 936
- Service fees	**373 215**	289 114	**373 145**	289 039
- Fiduciary fees	**1 086**	737	**1 086**	737
- Other fee and commission related income	**277 340**	236 695	**276 888**	236 210
- Broking commission received	**19 542**	19 290	**19 542**	19 290
	936 811	741 740	**936 289**	741 177
Fee and commission expense:				
- Transaction processing fees	**(54 452)**	(31 237)	**(54 451)**	(31 616)
- Cash sorting handling and transportation charges	**(6 882)**	(5 623)	**(6 882)**	(5 623)
- Card and cheque book related	**(4 569)**	(851)	**(4 569)**	(851)
- ATM commissions paid	**(2 511)**	(2 596)	**(2 511)**	(2 596)
- Other	**(4 323)**	(11 386)	**(4 323)**	(11 005)
Fee and commission expense	**(72 737)**	(51 692)	**(72 736)**	(51 691)
Net fees and commission income	**864 074**	690 048	**863 553**	689 486

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

N$'000	Group 2014	Group 2013	Company 2014	Company 2013
3.2 Fair value income				
Foreign exchange trading	**76 868**	68 131	**76 868**	68 131
Treasury trading operations				
- Debt instruments trading	**2 463**	3 287	**2 463**	3 287
- Derivatives revaluation	**1 525**	(7 821)	**1 525**	(7 821)
- Other	**2 253**	4 300	**2 253**	4 300
Designated at fair value through profit or loss	**48 007**	34 138	**48 007**	34 138
	131 116	102 035	**131 116**	102 035

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

3. Non-interest income *continued*

N$'000	Group 2014	Group 2013	Company 2014	Company 2013
3.3 Gains less losses from investing activities				
– Gains on investment securities designated at fair value through profit or loss	**5 225**	3 933	**5 225**	3 933
	5 225	3 933	**5 225**	3 933
3.4 Other non-interest income				
– Rental income	**1 240**	2 063		
– Other income	**1 384**	1 934	**1 437**	2 001
– (Loss)/gain on sale of property and equipment	**(231)**	2 178	**(231)**	1 312
	2 393	6 175	**1 206**	3 314
Total non interest income	**1 002 808**	802 191	**1 001 100**	798 768

Non-interest income, analysis by category.

N$'000	Group 2014	Group 2013	Company 2014	Company 2013
3.5 Non-interest income				
Non-interest income	**1 002 808**	802 191	**1 001 100**	798 768
Fee and commission income: Instruments at amortised cost	**864 074**	690 048	**863 553**	689 486
Fair value income: Held for trading	**83 109**	67 897	**83 109**	67 897
Fair value income: Designated at fair value through profit or loss	**53 232**	38 071	**53 232**	38 071
Other non-interest income: Non financial assets and liabilities	**2 393**	6 175	**1 206**	3 314

4. Operating expenses

N$'000	Group 2014	Group 2013	Company 2014	Company 2013
Auditors' remuneration				
- Current year	**3 591**	3 407	**3 345**	3 370
- Fees for other services	**124**	42	**124**	23
- Prior year under provision		86		
Auditors' remuneration	**3 715**	3 535	**3 469**	3 393
Operating lease charges				
- Properties	**32 813**	29 438	**32 768**	29 514
- Equipment	**7 255**	6 092	**7 255**	6 092
Operating lease charges	**40 068**	35 530	**40 023**	35 606
Directors' emoluments				
- Services as directors	**1 812**	1 843	**1 812**	1 843
- Other services	**3 641**	3 125	**3 641**	3 125
Directors' emoluments	**5 453**	4 968	**5 453**	4 968
Direct staff costs				
- Salaries, wages and allowances	**398 013**	359 358	**398 013**	359 358
- Off-market staff loans amortisation	**1 649**	4 933	**1 649**	4 933
- Contributions to employee funds	**93 379**	83 141	**93 379**	83 141
Defined contribution schemes: pension	**41 740**	38 519	**41 740**	38 519
Defined contribution schemes: medical	**51 639**	44 622	**51 639**	44 622
- Severance pay provision: death in service	**264**	(391)	**264**	(391)
- Post-retirement medical expenses	**2 368**	1 289	**2 368**	1 289
- Social security levies	**2 742**	1 334	**2 742**	1 334
- Share-based payments (note 25)	**11 236**	9 976	**11 236**	9 976
Direct staff costs	**509 651**	459 640	**509 651**	459 640
- Other	**4 654**	6 118	**4 654**	6 118
Total staff costs	**514 305**	465 758	**514 305**	465 758
Other operating costs				
- Advertising and marketing	**53 061**	48 379	**53 061**	48 379
- Amortisation of intangible assets (note 16)	**19 012**	20 201	**18 144**	19 105
- Computer and processing related costs	**151 453**	125 496	**151 344**	125 321
- Depreciation (note 15)	**41 541**	36 744	**41 087**	36 318
- Insurance	**8 425**	8 487	**8 278**	8 310
- Legal fees	**5 771**	5 144	**5 771**	5 022
- Postage	**4 097**	3 640	**4 097**	3 640
- Printing and stationery	**13 699**	15 786	**13 698**	15 786
- Professional fees	**3 651**	1 491	**3 651**	1 491
- Property and maintenance related expenses	**51 661**	45 664	**49 993**	42 647
- Telecommunications	**14 723**	15 177	**14 723**	15 177
- Travel and accommodation	**11 641**	10 928	**11 641**	10 928
- Other expenditure	**63 002**	49 846	**73 317**	58 234
Other operating costs	**441 737**	386 982	**448 805**	390 358
Total operating expenses	**1 005 278**	896 773	**1 012 055**	900 083

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

5. Tax

N$'000	Group 2014	Group 2013	Company 2014	Company 2013
5.1 Indirect tax				
Value-added tax (net)	**16 120**	13 584	**15 860**	13 327
Stamp duties	**5 274**	5 521	**5 274**	5 521
Total indirect tax	**21 394**	19 105	**21 134**	18 848
5.2 Direct tax				
Namibian normal tax				
– Current				
Current year	**345 787**	260 392	**327 844**	246 094
– Deferred				
Current year	**18 801**	25 646	**18 454**	25 202
Tax rate change		(2 183)		(2 314)
Total direct tax	**364 588**	283 855	**346 298**	268 982
Tax rate reconciliation – Namibian normal tax	**%**	%	**%**	%
Effective rate of tax	**33.29%**	33.79%	**33.30%**	33.74%
Total tax has been affected by:				
Non-taxable income	**0.04%**	0.12%	**0.04%**	0.09%
Non deductable amounts	**(0.33%)**	(0.16%)	**(0.34%)**	(0.12%)
Tax rate change		0.3%		0.3%
Standard rate of tax	**33.00%**	34.0%	**33.0%**	34.0%

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 24 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	2014						
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			830 189				830 189
Due by banks and other financial institutions			1 766 327				1 766 327
Derivative financial instruments	92 031						92 031
Advances		538 583	19 528 960				20 067 543
Investment securities	31 663	96 407	75 567	2 483 739			2 687 376
Accounts receivable			26 489			76 774	103 263
Investment in associate company						3 168	3 168
Property and equipment						522 412	522 412
Intangible assets						156 624	156 624
Total assets	123 694	634 990	22 227 532	2 483 739		758 978	26 228 933
Liabilities							
Deposits					21 603 391		21 603 391
Due to banks and other financial institutions					813 409		813 409
Derivative financial instruments	109 281						109 281
Creditors and accruals					15 152	226 616	241 768
Tax liability						55 488	55 488
Employee liabilities						146 055	146 055
Other liabilities					6 030		6 030
Deferred tax liability						93 635	93 635
Tier two liabilities					392 622		392 622
Total liabilities	109 281				22 830 604	521 794	23 461 679

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

6. Analysis of assets and liabilities *continued*

Group

N$'000	2013						
	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			664 060				664 060
Due by banks and other financial institutions			1 888 968				1 888 968
Derivative financial instruments	94 987						94 987
Advances		564 111	16 469 294				17 033 406
Investment securities	11 596	99 182		2 051 840			2 162 618
Accounts receivable			70 384			76 760	147 144
Investment in associate company						2 610	2 610
Property and equipment						347 341	347 341
Intangible assets						175 635	175 635
Total assets	106 584	663 294	19 092 706	2 051 840		602 347	22 516 769
Liabilities							
Deposits					18 921 790		18 921 790
Due to banks and other financial institutions					319 084		319 084
Derivative financial instruments	128 612						128 612
Creditors and accruals					7 866	110 743	118 609
Tax liability						131 766	131 766
Employee liabilities						119 294	119 294
Other liabilities					9 806		9 806
Deferred tax liability						75 870	75 870
Tier two liabilities					392 620		392 620
Total liabilities	128 612				19 651 166	437 673	20 217 451

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
	2014						
Assets							
Cash and cash equivalents			830 189				830 189
Due by banks and other financial institutions			1 766 327				1 766 327
Derivative financial instruments	92 031						92 031
Advances		538 583	18 933 279				19 471 861
Investment securities	31 663	96 407	75 567	2 483 739			2 687 376
Accounts receivable			26 422			62 122	88 544
Investment in associate company						1 154	1 154
Investment in subsidiary company						308 691	308 691
Property and equipment						480 241	480 241
Intangible assets						156 624	156 624
Total assets	123 694	634 990	21 631 784	2 483 739		1 008 832	25 883 038
Liabilities							
Deposits					21 602 073		21 602 073
Due to banks and other financial institutions					813 409		813 409
Derivative financial instruments	109 281						109 281
Creditors and accruals					15 134	222 575	237 709
Employee liabilities						146 055	146 055
Tax Liability						52 872	52 872
Other liabilities					6 030		6 030
Deferred tax liability						97 575	97 575
Tier two liabilities					392 622		392 622
Total liabilities	109 281				22 829 268	519 077	23 457 626

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

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
	2013						
Assets							
Cash and cash equivalents			664 060				664 060
Due by banks and other financial institutions			1 888 968				1 888 968
Derivative financial instruments	94 987						94 987
Advances		564 111	15 811 384				16 375 495
Investment securities	11 596	99 182		2 051 840			2 162 618
Accounts receivable			69 093			76 037	145 130
Investment in associate company						1 154	1 154
Investment in subsidiary company						393 845	393 845
Property and equipment						304 864	304 864
Intangible assets						174 767	174 767
Total assets	106 584	663 294	18 433 505	2 051 840		950 667	22 205 888
Liabilities							
Deposits					18 920 667		18 920 667
Due to banks and other financial institutions					319 084		319 084
Derivative financial instruments	128 612						128 612
Creditors and accruals					7 848	110 054	117 902
Employee liabilities						119 294	119 294
Tax Liability						123 401	123 401
Other liabilities					9 806		9 806
Deferred tax liability						80 158	80 158
Tier two liabilities					392 620		392 620
Total liabilities	128 612				19 650 025	432 907	20 211 544

7. Short-term funds

7.1 Cash and cash equivalents

N$'000	Group 2014	Group 2013	Company 2014	Company 2013
Coins and bank notes	**395 753**	340 244	**395 753**	340 243
Balances with central bank	**434 436**	317 817	**434 436**	317 817
Balances with other banks		5 999		5 999
	830 189	664 060	**830 189**	664 060
Mandatory reserve balances included in above:	**246 500**	214 794	**246 500**	214 794

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 from banks and other financial institutions

N$'000	Group 2014	Group 2013	Company 2014	Company 2013
Due from banks and financial institutions				
- In the normal course of business	**1 766 327**	1 888 968	**1 766 327**	1 888 968

The carrying value approximates the fair value.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

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 or hedging. The held for trading classification includes two types of derivative instruments: those used in sales activities, and those that are economic hedges but do not meet the criteria to qualify for hedge accounting.

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, over time.

The group uses the following financial instruments for hedging purposes:

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

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

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

8. Derivative financial instruments *continued*

Use of derivatives *continued*

N$'000	Group and company 2014			
	Assets		Liabilities	
	Notional	Fair value	Notional	Fair value
Currency derivatives				
– Forward rate agreements	**497 172**	**13 258**	**705 970**	**12 469**
– Options	**554 595**	**75 976**	**554 595**	**75 976**
Interest rate derivatives				
– Swaps	**138 740**	**2 797**	**1 254 864**	**20 836**
Total held for trading	**1 190 507**	**92 031**	**2 515 429**	**109 281**

N$'000	Group and company 2013			
	Assets		Liabilities	
	Notional	Fair value	Notional	Fair value
Currency derivatives				
– Forward rate agreements	258 274	49 173	239 626	49 167
– Options	1 092 527	43 574	1 092 527	43 574
Interest rate derivatives				
– Swaps	305 973	2 240	909 397	35 871
Total held for trading	1 656 774	94 987	2 241 550	128 612

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

9. Advances

N$'000	Group 2014	Group 2013	Company 2014	Company 2013
Notional value of advances	**20 236 853**	17 206 910	**19 628 574**	16 535 479
Contractual interest suspended	**(22 452)**	(25 955)	**(19 803)**	(22 769)
Gross advances	**20 214 401**	17 180 955	**19 608 771**	16 512 710
Sector analysis				
Agriculture	**915 316**	797 276	**915 316**	797 276
Banks and financial services	**259 465**	248 206	**259 465**	248 206
Building and property development	**2 354 333**	2 399 600	**2 354 333**	2 399 600
Government and public authorities	**1 229 070**	575 793	**1 229 070**	575 793
Individuals	**10 540 132**	9 120 824	**9 934 502**	8 452 579
Manufacturing and commerce	**3 234 403**	2 524 071	**3 234 403**	2 524 071
Mining	**341 911**	425 342	**341 911**	425 342
Transport and communication	**415 697**	315 462	**415 697**	315 462
Other services	**924 074**	774 381	**924 074**	774 381
Gross advances	**20 214 401**	17 180 955	**19 608 771**	16 512 710
Impairment of advances (note 10)	**(146 858)**	(147 549)	**(136 910)**	(137 215)
Net advances	**20 067 543**	17 033 406	**19 471 861**	16 375 495
Geographic analysis (based on credit risk)				
Namibia	**20 067 543**	17 033 406	**19 471 861**	16 375 495
Category analysis				
Card loans	**155 306**	131 962	**155 306**	131 962
Overdrafts and managed accounts	**1 858 795**	1 814 830	**1 858 795**	1 814 830
Loans to other financial institutions	**259 465**	248 206	**259 465**	248 206
Instalment sales	**2 822 953**	2 466 792	**2 822 953**	2 466 792
Lease payments receivable	**214 022**	171 490	**214 022**	171 490
Home loans	**9 667 351**	8 442 123	**9 061 721**	7 773 878
Term loans	**4 367 724**	3 123 339	**4 367 724**	3 123 339
Preference share advance	**28 818**		**28 818**	
Investment bank term loans	**576 659**	564 111	**576 659**	564 111
Other	**263 308**	218 099	**263 308**	218 099
Gross advances	**20 214 401**	17 180 955	**19 608 771**	16 512 710
Impairment of advances (note 10)	**(146 858)**	(147 549)	**(136 910)**	(137 215)
Net advances	**20 067 543**	**17 033 406**	**19 471 861**	**16 375 495**
Portfolio analysis				
Designated at fair value through profit and loss	**538 583**	564 111	**538 583**	564 111
Loans and receivables	**19 528 960**	16 469 295	**18 933 278**	15 811 384
	20 067 543	17 033 406	**19 471 861**	16 375 495

Fair value

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

A maturity analysis of advances is set out in note 32 and is based on the remaining periods to contractual maturity from the year-end.

9. **Advances** *continued*

N$'000	**Analysis of Instalment sales and lease payments receivable**	**Group and company 2014**		
		Within 1 year	**Between 1 and 5 years**	**Total**
	Lease payments receivable	**150 368**	**94 366**	**244 734**
	Suspensive sale Instalments receivable	**1 654 555**	**1 627 117**	**3 281 672**
		1 804 923	**1 721 483**	**3 526 406**
	Less : Unearned finance charges	**(294 006)**	**(192 718)**	**(486 724)**
	Total	**1 510 917**	**1 528 765**	**3 039 682**

N$'000		Group and company 2013		
		Within 1 year	Between 1 and 5 years	Total
	Lease payments receivable	97 562	97 089	194 651
	Suspensive sale Instalments receivable	1 188 946	1 660 980	2 849 926
		1 286 508	1 758 069	3 044 577
	Less : Unearned finance charges	(244 144)	(159 388)	(403 532)
	Total	1 042 364	1 598 681	2 641 045

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

9. Advances *continued*

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.

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

	Group and company			
	2014		2013	
N$'000	**Performing**	**Non performing**	Performing	Non performing
Instalment sales and lease payments receivable	**2 504**	**6 461**	4 988	13 196
Home loans	**19 371**	**51 480**	18 607	148 291
	21 875	**57 941**	23 595	161 487

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").

Analysis of movement in impairment of advances per class of advance

	Group 2014	
N$'000	**Card loans**	**Overdrafts and managed accounts**
Opening balance	**1 277**	**46 509**
Amounts written off	**(1 632)**	**(8 055)**
Unwinding of discounted present value on non performing loans		**(1 123)**
Net new impairments created / (released)	**1 596**	**8 032**
Closing balance	**1 241**	**45 363**
Increase / (decrease) in provision	**1 596**	**8 032**
(Recoveries) / write-offs of bad debts	**(1 010)**	**(3 070)**
Impairment charge / (release) recognised in the statement of comprehensive income	**586**	**4 962**

	Group 2013	
N$'000	Card loans	Overdrafts and managed accounts
Opening balance	2 208	18 317
Amounts written off	(1 403)	(14 389)
Unwinding of discounted present value on non performing loans		(1 364)
Net new impairments created / (released)	472	43 945
Closing balance	1 277	46 509
Increase / (decrease) in provision	472	43 945
(Recoveries) / write-offs of bad debts	11 165	(1 001)
Impairment (release) / loss recognised in the statement of comprehensive income	11 637	42 944

Instalment sales and lease receivables	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
44 509	**17 938**	**37 316**	**147 549**	**51 374**	**96 175**
(5 626)	**(653)**	**(4 242)**	**(20 208)**	**(20 208)**	
	(4 949)	**(488)**	**(6 560)**	**(6 560)**	
807	**7 292**	**8 350**	**26 077**	**18 602**	**7 475**
39 690	**19 628**	**40 936**	**146 858**	**43 208**	**103 650**
807	**7 292**	**8 350**	**26 077**	**18 602**	**7 475**
(2 203)	**(496)**	**(865)**	**(7 644)**	**(7 644)**	
(1 396)	**6 796**	**7 485**	**18 433**	**10 958**	**7 475**

Instalment sales and lease receivables	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
35 783	41 163	60 070	157 541	55 556	101 985
(2 368)	(1 431)	(2 781)	(22 372)	(22 372)	
	(3 126)	(226)	(4 716)	(4 716)	
11 094	(18 668)	(19 747)	17 096	22 906	(5 810)
44 509	17 938	37 316	147 549	51 374	96 175
11 094	(18 668)	(19 747)	17 096	22 906	(5 810)
(2 781)	(562)	(551)	6 270	6 270	
8 313	(19 230)	(20 298)	23 366	29 176	(5 810)

10. Impairment of advances *continued*

N$'000	Company 2014 Card loans	Company 2014 Overdrafts and managed accounts
Opening balance	**1 277**	**46 509**
Amounts written off	**(1 632)**	**(8 055)**
Unwinding of discounted present value on non performing loans		**(1 123)**
Net new impairments created / (released)	**1 596**	**8 032**
Closing balance	**1 241**	**45 363**
Increase / (decrease) in provision	**1 596**	**8 032**
(Recoveries) / write-offs of bad debts	**(1 012)**	**(3 070)**
Impairment charge / (release) recognised in the statement of comprehensive income	**584**	**4 962**

N$'000	Company 2013 Card loans	Company 2013 Overdrafts and managed accounts
Opening balance	2 208	18 330
Amounts written off	(1 403)	(14 389)
Unwinding of discounted present value on non performing loans		(1 364)
Net new impairments created / (released)	472	43 945
Closing balance	1 277	46 509
Increase / (decrease) in provision	472	43 945
Recoveries of bad debts previously written off	11 165	(1 001)
Impairment (release) / loss recognised in the statement of comprehensive income	11 637	42 944

	Instalment sales and lease receivables	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
	44 509	**7 604**	**37 316**	**137 215**	**49 215**	**88 000**
	(5 626)	**(852)**	**(4 242)**	**(20 406)**	**(20 406)**	
		(4 225)	**(488)**	**(5 836)**	**(5 836)**	
	807	**7 152**	**8 350**	**25 937**	**18 462**	**7 475**
	39 690	**9 679**	**40 936**	**136 910**	**41 435**	**95 475**
	807	**7 152**	**8 350**	**25 937**	**18 462**	**7 475**
	(2 203)	**(496)**	**(865)**	**(7 646)**	**(7 646)**	
	(1 396)	**6 656**	**7 485**	**18 291**	**10 816**	**7 475**

	Instalment sales and lease receivables	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
	36 952	27 934	59 818	145 232	51 422	93 810
	(2 368)	(1 431)	(2 782)	(22 372)	(21 452)	
		(2 634)	(226)	(4 224)	(4 224)	
	9 925	(16 265)	(19 747)	18 579	24 389	(5 810)
	44 509	7 604	37 316	137 215	49 215	88 000
	11 094	(17 186)	(19 747)	18 579	24 389	(5 810)
	(2 781)	(1 323)	(551)	5 508	5 508	
	8 313	(18 509)	(20 298)	24 087	29 897	(5 810)

10. Impairment of advances *continued*

Group N$'000	2014 Total value net of interest in suspense	 Security held	 Specific impairments
Non performing lendings by sector			
Agriculture	993	672	321
Banks and financial services	75		75
Building and property development	15 217	13 324	1 893
Individuals	100 283	68 413	31 870
Manufacturing and commerce	20 341	14 104	6 237
Transport and communication	1 694	529	1 165
Other	2 448	801	1 647
Total non performing lendings	141 051	97 843	43 208
Non performing lendings by category			
Card loans	1 043		1 043
Overdrafts and managed accounts	9 593	2 216	7 377
Instalment sales	14 346	904	13 442
Lease payments receivable	1 394	359	1 035
Home loans	97 089	82 050	15 039
Term loans	17 586	12 313	5 272
Total non performing lendings	141 051	97 844	43 208
Geographical split:			
Namibia	141 051	97 843	43 208

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

10. Impairment of advances *continued*

Group

N$'000	2013		
	Total value net of interest in suspense	Security held	Specific impairments
Non performing lendings by sector			
Agriculture	5 348	3 941	1 407
Banks and financial services	90		90
Building and property development	16 454	10 001	6 453
Individuals	98 478	67 068	31 410
Manufacturing and commerce	21 157	14 934	6 223
Mining	30		30
Transport and communication	1 244	394	850
Other	15 626	10 715	4 911
Total non performing lendings	158 427	107 053	51 374
Non performing lendings by category			
Card loans	1 067		1 067
Overdrafts and managed accounts	20 999	11 465	9 534
Instalment sales	15 425	827	14 598
Lease payments receivable	6 875	522	6 353
Home loans	99 439	84 444	14 995
Term loans	14 622	9 795	4 827
Total non performing lendings	158 427	107 053	51 374
Geographical split:			
Namibia	158 427	107 053	51 374

10. Impairment of advances *continued*

Company

N$'000	2014		
	Total value net of interest in suspense	**Security held**	**Specific impairments**
Non performing lendings by sector			
Agriculture	993	673	320
Banks and financial services	75		75
Building and property development	15 217	13 324	1 893
Individuals	87 361	68 413	30 098
Manufacturing and commerce	20 341	14 104	6 237
Mining			
Transport and communication	1 694	529	1 165
Other	2 448	801	1 647
Total non performing lendings	128 129	97 844	41 435
Non performing lendings by category			
Card loans	1 043		1 043
Overdrafts and managed accounts	9 593	2 216	7 377
Instalment sales	14 346	904	13 442
Lease payments receivable	1 394	359	1 035
Home loans	84 167	82 050	13 267
Term loans	17 586	12 315	5 271
Total non performing lendings	128 129	97 844	41 435
Geographical split:			
Namibia	128 129	97 844	41 435

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

10. Impairment of advances *continued*

Company

N$'000	2013		
	Total value net of interest in suspense	Security held	Specific impairments
Non performing lendings by sector			
Agriculture	5 348	3 941	1 407
Banks and financial services	90		90
Building and property development	16 454	10 001	6 453
Individuals	81 441	52 190	29 251
Manufacturing and commerce	21 157	14 934	6 223
Mining	30		30
Transport and communication	1 244	394	850
Other	15 626	10 715	4 911
Total non performing lendings	141 390	92 175	49 215
Non performing lendings by category			
Card loans	1 067		1 067
Overdrafts and managed accounts	20 999	11 465	9 534
Instalment sales	15 425	827	14 598
Lease payments receivable	6 875	522	6 353
Home loans	82 402	69 566	12 836
Term loans	14 622	9 795	4 827
Total non performing lendings	141 390	92 175	49 215
Geographical split:			
Namibia	141 390	92 175	49 215

11. Investment securities

Group and company

N$'000	2014 Held for trading	Available -for-sale	Designated at fair value through profit and loss	Loans and receivables	Total
Total listed					
Other government and guaranteed stock	**24 469**	**399 478**			**423 947**
Total	**24 469**	**399 478**			**423 947**
Total unlisted					
Treasury bills	**7 194**	**2 084 261**			**2 091 455**
Other undated securities			**96 407**		**96 407**
Negotiable certificates of deposits				**75 567**	**75 567**
Total	**7 194**	**2 084 261**	**96 407**	**75 567**	**2 263 429**
Total investment securities	**31 663**	**2 483 739**	**96 407**	**75 567**	**2 687 376**
Valuation of investments					
Market value of listed investments					**423 947**
Directors' valuation of unlisted investments					**2 262 732**
Total valuation					**2 686 680**

N$'000	2013 Held for trading	Available -for-sale	Designated at fair value through profit and loss	Total
Total listed				
Other government and guaranteed stock	7 378	324 353		331 731
Total	7 378	324 353		331 731
Total unlisted				
Treasury bills	4 218	1 727 487		1 731 705
Other undated securities			99 182	99 182
Total	4 218	1 727 487	99 182	1 830 887
Total investment securities	11 596	2 051 840	99 182	2 162 618
Valuation of investments				
Market value of listed investments				331 731
Directors' valuation of unlisted investments				1 830 887
Total valuation				2 162 618

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

11. Investment securities *continued*

Group and company

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

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

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

No financial instruments held for trading form part of the group's liquid asset portfolio in terms of the Banking Institutions Act, (No 2 of 1998) and other foreign banking regulators requirements. The total liquid asset portfolio is N$2 187 million (2013: N$2 697 million).

12. Accounts receivable

	Group		Company	
N$'000	**2014**	2013	**2014**	2013
Accounts receivable				
– Items in transit	**31 755**	39 301	**17 792**	39 298
– Deferred staff costs	**43 684**	39 840	**43 684**	39 840
– Other accounts receivable	**27 824**	68 003	**27 068**	65 992
Total	**103 263**	147 144	**88 544**	145 130

The carrying value of accounts receivable approximates the fair value.

The credit quality of the above balances is provided in the risk management note 32.

13. Investment in associate company

Details of investments in unlisted associate company

Group and Company

N$ '000	Nature of relationship	Place of business	Ownership %	Year end
Unlisted investment				
Namclear (Pty) Ltd	Interbank clearing house	Windhoek	25	31 Dec

There has been no change from the prior year.

Effective holdings and carrying amounts in unlisted associate company

	Group carrying amount		Investment at cost less impairments	
N$ '000	**2014**	2013	**2014**	2013
Unlisted investment				
Namclear (Pty) Ltd	**3 168**	2 611	**1 154**	1 154

Detail information of unlisted associate company

	Namclear (Pty) Ltd		Namclear (Pty) Ltd	
N$ '000	**Unaudited June 2014**	Unaudited June 2013	**Unaudited June 2014**	Unaudited June 2013
Opening balance	**2 611**	2 770	**1 154**	1 154
Share of profits / (losses)	**557**	(159)		
Closing balance	**3 168**	2 611	**1 154**	1 154
Valuation				
Unlisted investment at directors' valuation	**3 168**	2 611	**1 154**	1 154

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

13. Investment in associate company *continued*

Summarised financial information of associate company

N$ '000	Group Namclear (Pty) Ltd Unaudited June 2014	Group Namclear (Pty) Ltd Unaudited June 2013
Statement of financial position		
Non-current assets	**41 072**	44 315
Current assets	**3 441**	5 951
Current liabilities	**(30 703)**	(4 134)
Non-current liabilities	**(3 391)**	(35 816)
Equity	**10 419**	10 316
Statement of comprehensive income		
Revenue	**13 976**	10 106
Profit/Loss for the period	**2 229**	(632)
Total comprehensive income for the period	**2 229**	(632)
Total share of losses / profits from associate company	**557**	(159)

Refer to note 29 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 % 2014	Effective holding % 2013
Swabou Investments (Pty) Ltd Number of shares issued: 2 of 0.5 cents each (2013: 2 of 0.5 cents each)	Home loans	1 July 2003	Namibia	Unlisted	100	100

N$ '000	Aggregate income of subsidiary (before tax) 2014	Aggregate income of subsidiary (before tax) 2013	Total Indebtness 2014	Total Indebtness 2013	Total investment 2014	Total investment 2013
Swabou Investments (Pty) Ltd	**44 449**	44 208	**308 691**	393 845	**308 691**	393 845

Interest paid by Swabou Investments (Pty) Ltd to First National Bank of Namibia Ltd totalled N$18 million (2013: N$34 million).

15. Property and equipment

Group N$ '000	Cost 2014	Accumulated depreciation and impairments 2014	Carrying amount 2014	Cost 2013	Accumulated depreciation and impairments 2013	Carrying amount 2013
Property						
Freehold land and buildings	**380 588**	**(18 313)**	**362 275**	220 338	(18 313)	202 025
Leasehold property	**44 272**	**(33 098)**	**11 174**	40 376	(30 592)	9 784
	424 860	**(51 411)**	**373 449**	260 714	(48 905)	211 809
Equipment						
Automatic teller machines	**28 317**	**(6 856)**	**21 461**	31 052	(18 166)	12 886
Capitalised lease equipment	**12 289**	**(5 462)**	**6 827**	12 289	(1 365)	10 924
Computer equipment	**74 034**	**(53 960)**	**20 074**	79 078	(52 165)	26 913
Furniture and fittings	**127 482**	**(60 691)**	**66 791**	107 293	(52 905)	54 388
Motor vehicles	**7 402**	**(3 526)**	**3 876**	6 826	(3 049)	3 777
Office equipment	**76 802**	**(46 868)**	**29 934**	64 764	(38 120)	26 644
	326 326	**(177 363)**	**148 963**	301 302	(165 770)	135 532
Total	**751 186**	**(228 774)**	**522 412**	562 016	(214 675)	347 341

Movement in property and equipment – carrying amount

N$ '000	Freehold land and buildings	Leasehold property	Equipment	Total
Carrying amount at 1 July 2012	151 586	6 637	98 345	256 568
Additions	73 419	187	56 516	130 122
Transfer between classes	(20 979)	6 926	14 053	
Depreciation charge for year		(3 966)	(32 778)	(36 744)
Transfers to repairs and maintenance	(1 454)			(1 454)
Disposals	(547)		(604)	(1 151)
Carrying amount at 30 June 2013	**202 025**	**9 784**	**135 532**	**347 341**
Additions	**189 999**	**241**	**31 153**	**221 393**
Transfer between classes	**(25 462)**	**5 969**	**19 493**	
Depreciation charge for year		**(4 817)**	**(36 724)**	**(41 541)**
Transfers to repairs and maintenance	**(4 277)**			**(4 277)**
Disposals	**(10)**	**(3)**	**(491)**	**(504)**
Carrying amount at 30 June 2014	**362 275**	**11 174**	**148 963**	**522 412**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

15. Property and equipment *continued*

Company

N$ '000	Cost 2014	Accumulated depreciation and impairments 2014	Carrying amount 2014	Cost 2013	Accumulated depreciation and impairments 2013	Carrying amount 2013
Property						
Freehold land and buildings	**323 265**	**(1 087)**	**322 178**	163 068	(1 087)	161 980
Leasehold property	**44 273**	**(33 098)**	**11 175**	40 376	(30 592)	9 784
	367 538	**(34 185)**	**333 353**	203 444	(31 680)	171 764
Equipment						
Automatic teller machines	**28 317**	**(6 856)**	**21 461**	31 052	(18 166)	12 886
Capitalised lease equipment	**12 289**	**(5 462)**	**6 827**	12 289	(1 365)	10 924
Computer equipment	**73 938**	**(53 871)**	**20 067**	78 989	(52 078)	26 911
Furniture and fittings	**125 847**	**(59 740)**	**66 107**	105 732	(52 109)	53 622
Motor vehicles	**7 402**	**(3 525)**	**3 877**	6 826	(3 049)	3 777
Office equipment	**74 411**	**(45 862)**	**28 549**	62 392	(37 411)	24 981
	322 204	**(175 316)**	**146 888**	297 278	(164 178)	133 100
Total	**689 742**	**(209 501)**	**480 241**	500 722	(195 858)	304 864

Movement in property and equipment – carrying amount

N$'000	Freehold land and buildings	Leasehold property	Equipment	Total
Carrying amount at 1 July 2012	111 141	6 637	95 783	213 561
Additions	73 419	187	56 217	129 823
Transfer between classes	(20 979)	6 926	14 053	
Depreciation charge for year		(3 966)	(32 352)	(36 318)
Transfers to repairs and maintenance	(1 454)			(1 454)
Disposals	(147)		(601)	(748)
Carrying amount at 30 June 2013	**161 980**	**9 784**	**133 100**	**304 864**
Additions	**189 947**	**241**	**31 055**	**221 243**
Transfer between classes	**(25 462)**	**5 969**	**19 493**	
Depreciation charge for year		**(4 817)**	**(36 270)**	**(41 087)**
Transfers to repairs and maintenance	**(4 277)**			**(4 277)**
Disposals	**(10)**	**(3)**	**(489)**	**(502)**
Carrying amount at 30 June 2014	**322 178**	**11 174**	**146 888**	**480 241**

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

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.

Equipment leased serves as security for the finance lease liabilities. Refer to note 20 for liabilities that are related to the finance lease assets. No assets were encumbered at 30 June 2014.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

16. Intangible assets

N$ '000	Group 2014	Group 2013	Company 2014	Company 2013
Trademarks				
Gross amount	**380 713**	380 713	**354 099**	354 098
Less: Accumulated amortisation	**(278 657)**	(264 153)	**(252 043)**	(238 406)
	102 056	116 560	**102 056**	115 692
Movement in trademarks – carrying amount				
Opening balance	**116 560**	132 528	**115 692**	130 564
Amortisation (note 4)	**(14 504)**	(15 968)	**(13 636)**	(14 872)
Closing balance	**102 056**	116 560	**102 056**	115 692
FNB Namibia Trademark	**102 056**	113 502	**102 056**	113 502
Swabou Trademark		3 058		2 190
	102 056	116 560	**102 056**	115 692
Software				
Gross amount	**46 516**	46 516	**46 516**	46 516
Less: Accumulated amortisation	**(39 915)**	(35 408)	**(39 915)**	(35 408)
	6 601	11 108	**6 601**	11 108
Movement in software – carrying amount				
Opening balance	**11 108**	2 840	**11 108**	2 840
Additions		12 501		12 501
Amortisation (note 4)	**(4 508)**	(4 233)	**(4 508)**	(4 233)
Closing balance	**6 601**	11 108	**6 601**	11 108
Goodwill – carrying amount	**47 967**	47 967	**47 967**	47 967
Total closing balance of intangible assets	**156 624**	175 635	**156 624**	174 767
Total amortisation charge for intangible assets (note 4)	**(19 012)**	(20 201)	**(18 144)**	(19 105)

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 10 years remain at the end of 2014.

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 during the year.

16. Intangible assets *continued*

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

The CGU's to which the goodwill balance as at 30 June 2014 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 and current accounts

	Group		Company	
N$ '000	**2014**	2013	**2014**	2013
17.1 Deposits				
At amortised cost				
- Current accounts	**8 355 731**	6 396 221	**8 354 413**	6 395 098
- Call deposits	**4 920 441**	5 122 549	**4 920 441**	5 122 549
- Savings account	**558 840**	466 533	**558 840**	466 533
- Term deposits	**2 790 205**	2 575 835	**2 790 205**	2 575 835
- Negotiable certificates of deposit	**4 978 174**	4 360 652	**4 978 174**	4 360 652
	21 603 391	18 921 790	**21 602 073**	18 920 667
Geographic analysis (based on counterparty risk)				
Namibia	**21 603 391**	18 921 790	**21 602 073**	18 920 667

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

	Group		Company	
17.2 Due to banks and other financial institutions				
At amortised cost				
Due to banks and financial institutions				
- In the normal course of business	**813 409**	319 084	**813 409**	319 084
	813 409	319 084	**813 409**	319 084
Geographic analysis (based on counterparty risk)				
Namibia	**813 409**	319 084	**813 409**	319 084

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

18. Creditors and accruals

N$ '000	Group 2014	Group 2013	Company 2014	Company 2013
Accounts payable and accrued liabilities	**106 122**	83 390	**102 063**	82 685
Items in transit	**135 646**	35 219	**135 646**	35 217
	241 768	118 609	**237 709**	117 902

All amounts are expected to be settled within twelve months.

The carrying value of creditors and accruals approximates fair value.

19. Employee liabilities

N$ '000	Notes	Group and company 2014	Group and company 2013
Staff related accruals	19.1	**106 573**	83 658
Cash settled share-based payment liability*		**5 956**	4 861
Post-employment benefit liabilities	19.2	**33 526**	30 775
Closing balance		**146 055**	119 294

* Refer to note 25 for more detail on the cash settled share-based payment schemes.

19.1 Staff related accruals

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

N$ '000	Group and company 2014	Group and company 2013
Opening balance	**83 658**	80 261
- Charge to profit or loss	**46 854**	24 456
- Utilised	**(23 939)**	(21 059)
Closing balance	**106 573**	83 658

19.2 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 projected 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.

19. Employee liabilities *continued*

19.2 Post-employment benefit liabilities *continued*

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 employees die while employed.

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

The actuarial valuations are done on an annual basis.

	Group and company					
	2014			2013		
N$ '000	Medical	Severance Pay	Total	Medical	Severance Pay	Total
Present value of unfunded liabilities	**29 655**	**3 871**	**33 526**	27 542	3 233	30 775
Post-employment liabilities	**29 655**	**3 871**	**33 526**	27 542	3 233	30 775
The amounts recognised in the statement of comprehensive income are as follows:						
Profit and loss portion						
Current service cost	**255**	**228**	**483**	(873)	331	(542)
Interest cost	**2 162**	**253**	**2 415**	2 162	326	2 488
Total included in staff costs (note 4)	**2 417**	**481**	**2 898**	1 289	657	1 946
Recognised in other comprehensive income						
Actuarial gains and losses recognised	**1 290**	**595**	**1 885**	(3 874)		(3 874)
Total included in staff costs	**1 290**	**595**	**1 885**	(3 874)		(3 874)
Movement in post-employment liabilities						
Present value at the beginning of the year	**27 542**	**3 233**	**30 775**	31 588	3 896	35 484
Current service cost	**255**	**228**	**483**	(873)	331	(542)
Interest cost	**2 162**	**253**	**2 415**	2 162	326	2 488
Benefits paid	**(1 594)**	**(438)**	**(2 032)**	(1 461)	(1 320)	(2 781)
Re-measurements : Recognised in OCI						
- Actuarial (gains) losses from changes in demographic assumptions	**1 290**	**595**	**1 885**	(3 874)		(3 874)
Present value at the end of the year	**29 655**	**3 871**	**33 526**	27 542	3 233	30 775
The principal actuarial assumptions used for accounting purposes were:						
Discount rate (%)	**8.73%**	**8.12%**		8.00%	8.00%	
Medical aid inflation (%)	**7.81%**			7.00%		
Salary inflation (%)		**7.45%**			6.50%	
Male	**43**			13	n/a	
Female	**68**			25	n/a	
Employees covered	**111**	**1 763**		115	1 825	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

19. Employee liabilities *continued*

N$'000	Group and company 2014	2013
19.3 Pension fund		
Employer contributions to pension fund	**41 487**	38 328
Employer contributions to pension fund – executive director	**253**	191
Total employer contributions to pension fund (note 4)	**41 740**	38 519
Employee contributions to pension fund	**18 268**	16 859
Total contributions	**60 008**	55 378
Number of employees covered	**1 763**	1 788

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 2013 and indicated that the fund was in a sound financial position.

The pension fund is a related party to the group.

20. Other liabilities

N$ '000	Notes	Group and company 2014	2013
Finance lease liability	20.1	**6 030**	9 806
Total other liabilities		**6 030**	9 806

20.1 Finance lease liabilities

Finance lease liabilities		
Not later than 1 year	**4 198**	4 198
Later than 1 year and not later than 5 years	**2 099**	6 297
Total finance lease liabilities	**6 297**	10 495
Future finance charges on finance leases	**(267)**	(689)
Present value of finance lease liability	**6 030**	9 806
Not later than 1 year	**4 122**	4 057
Later than 1 year and not later than 5 years	**1 908**	5 749
Total finance lease liabilities	**6 030**	9 806

Refer to note 15 for assets that secure the finance lease liabilities.

20.2 Leasing arrangements

The group leased various information technology equipment under a finance lease. The lease term is 3 years with no escalation clauses. The group has the option to pay a reduced secondary term charge or to purchase the equipment at its market value. The lease terms do not contain restrictions on the group's activities concerning dividends or additional funding.

21. Deferred tax liability

	Group		Company	
N$'000	**2014**	2013	**2014**	2013
The movement on the deferred tax account is as follows:				
Taxable temporary differences				
– Balance at the beginning of the year	**145 281**	125 766	**144 376**	126 262
– Originating temporary differences	**19 969**	23 806	**20 509**	22 377
– Tax rate adjustment		(4 291)		(4 263)
Total credit balance	**165 250**	145 281	**164 885**	144 376
Deductible temporary differences				
– Balance at the beginning of the year	**(69 411)**	(74 164)	**(64 218)**	(69 799)
– Reversing temporary differences	**(2 204)**	2 645	**(3 092)**	3 473
– Tax rate adjustment		2 108		2 108
Total debit balance	**(71 615)**	(69 411)	**(67 310)**	(64 218)
Net balance for the year for entities with deferred tax liabilities	**93 635**	75 870	**97 575**	80 158

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

21. Deferred tax liability *continued*

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

Group N$'000	2014 Opening balance	2014 Originating / (reversing) differences	2014 Closing balance	2013 Opening balance	2013 Originating / (reversing) differences	2013 Closing balance
Accruals	**34 824**	**10 931**	**45 755**	25 848	8 976	34 824
Deferred staff cost	**13 146**	**1 270**	**14 416**	13 618	(472)	13 146
Instalment credit agreements	**65 029**	**3 941**	**68 970**	53 183	11 846	65 029
Property and equipment	**28 441**	**4 241**	**32 682**	28 802	(361)	28 441
Revaluation of available-for-sale financial assets	**3 841**	**(414)**	**3 427**	4 315	(474)	3 841
Total taxable temporary diffferences	**145 281**	**19 969**	**165 250**	125 766	19 515	145 281
Derivatives	**(9 075)**	**139**	**(8 936)**	(6 530)	(2 545)	(9 075)
Provision for loan impairment	**(36 951)**	**(3 119)**	**(40 070)**	(39 626)	2 675	(36 951)
Provision for post-retirement benefits	**(10 156)**	**(908)**	**(11 064)**	(12 065)	1 909	(10 156)
Other	**(13 229)**	**1 684**	**(11 545)**	(15 943)	2 714	(13 229)
Total deductible temporary differences	**(69 411)**	**(2 204)**	**(71 615)**	(74 164)	4 753	(69 411)
Total deferred tax liability	**75 870**	**17 765**	**93 635**	51 602	24 268	75 870
Charge through profit and loss		**18 801**			23 463	
Deferred tax on other comprehensive income		**(1 036)**			805	
Total		**17 765**			24 268	

21. Deferred tax liability *continued*

Company N$'000	2014 Opening balance	2014 Originating / (reversing) differences	2014 Closing balance	2013 Opening balance	2013 Originating / (reversing) differences	2013 Closing balance
Accruals	**34 825**	**10 930**	**45 755**	25 849	8 976	34 825
Deferred staff cost	**13 146**	**1 270**	**14 416**	13 618	(472)	13 146
Instalment credit agreements	**65 029**	**3 941**	**68 970**	53 183	11 846	65 029
Property and equipment	**27 535**	**4 782**	**32 317**	29 298	(1 763)	27 535
Revaluation of available-for-sale financial assets	**3 841**	**(414)**	**3 427**	4 315	(474)	3 841
Total taxable temporary diffferences	**144 376**	**20 509**	**164 885**	126 263	18 113	144 376
Derivatives	**(9 075)**	**139**	**(8 936)**	(6 530)	(2 545)	(9 075)
Provision for loan impairment	**(34 927)**	**(3 119)**	**(38 046)**	(37 541)	2 614	(34 927)
Provision for post-retirement benefits	**(10 156)**	**(908)**	**(11 064)**	(12 065)	1 909	(10 156)
Other	**(10 060)**	**796**	**(9 264)**	(13 663)	3 603	(10 060)
Total deductible temporary differences	**(64 218)**	**(3 092)**	**(67 310)**	(69 799)	5 581	(64 218)
Total deferred tax liability	**80 158**	**17 417**	**97 575**	56 464	23 694	80 158
Charge through profit and loss		**18 454**			22 890	
Deferred tax on other comprehensive income		**(1 036)**			804	
Total		**17 417**			23 694	

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

22. Tier two liabilities

N$ '000				Group and company 2014	Group and company 2013
Subordinated debt instruments	**Interest rate**	**Final maturity date**	Note		
FNB X22 fixed rate notes	8.88%	29 March 2022	ii	**110 000**	110 000
FNB J22 floating rate notes	Three-month JIBAR + 1.65%	29 March 2022	iii	**280 000**	280 000
Accrued interest				**2 622**	2 620
Total				**392 622**	392 620

(i) 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.

(ii) 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 30, 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 2014	Group and company 2013
Authorised		
4 000 (2013: 4 000) ordinary shares with a par value of N$1 per share	**4**	4
Issued and fully paid up		
1 200 (2013: 1 200) ordinary shares with a par value of N$1 per share	**1**	1
Share premium	**1 142 791**	1 142 791

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

The issued share capital is fully paid up.

24. General risk reserves

N$'000	Group and company 2014	Group and company 2013
First National Bank of Namibia Limited - Credit risk reserve	**97 785**	75 369
	97 785	75 369

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

25. Remuneration schemes

N$'000	Group and company 2014	Group and company 2013
The statement of comprehensive income charge for share-based payments is as follows:		
FNB Share Incentive Trust	**6 262**	7 027
Employees with FirstRand share options and share appreciation rights	**4 974**	2 949
Charge against staff costs (note 4)	**11 236**	9 976

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

FNB Namibia and FirstRand Share Incentive Schemes
The purpose of this scheme is to provide a facility to employees of the FNB Namibia Holdings Group to acquire shares in FNB Namibia Holdings Limited and FirstRand Limited. The primary purpose of this scheme is to appropriately attract, incentivise and retain employees within the FNB Namibia Holdings Group.

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

The company does not have exposure to market movement on FNB Namibia Holdings Limited shares as all options are hedged through a share incentive trust that houses the shares until the options are exercised or expires.

BEE Share Incentive Scheme
The group is firmly committed to the process of achieving transformation in Namibia. The company specifically wishes to ensure that the long-term benefits of the BEE transaction reach the widest possible community of black Namibians.

FirstRand Bank Holdings Ltd made available 13 379 663 shares, representing 5% of its investment in FNB Namibia Holdings Limited at the time, to a BEE transaction. Of this total number, 4% was allocated to BEE partners and 1% was allocated to black employees and black non-executive directors. The 1% allocation to staff includes a number of shares to be put separately into a trust of which the dividend income is to support educational needs of such staff members and their family members. The rest of the 1% allocation is used, through a trust, to allocate options to staff members.

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

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

Market data consists of the following:
- Volatility is the expected volatility over the period of the option. In the absence of other available date, historical volatility can be used as a proxy for expected volatility.

- The interest rate is the Risk-free rate of return, recorded on the date of the option grant, on a South African government zero coupon bond of a term equal to the expected life of the option.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

25. Remuneration schemes *continued*

Employee statistic assumptions:

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

	Group and company			
	FNB Share Incentive Trust		BEE Staff Incentive Scheme	
N$'000	**2014**	2013	**2014**	2013
Weighted average exercise price (N$)	**721 - 1932**	517 - 1457	**700**	700
Expected volatility (%)	**4 - 17**	4 - 17	**7**	7
Expected option life	**5**	5	**5**	5
Expected risk free rate (%)	**5.81 - 7.69**	7.05 - 9.47	**9**	9
Share option schemes				
Number of options in force at the beginning of the year ('000)	**9 045**	10 615	**35**	62
Granted at prices (cents)	**721 - 1932**	517 - 1457	**517**	517
Number of options granted during the year ('000)	**2 697**	2 536		
Granted at prices ranging between (cents)	**1 932**	1 457		
Number of options exercised/released during the year ('000)	**(2 152)**	(3 075)	**(35)**	(27)
Market value range at the date of exercise/release (cents)	**1912 - 2274**	517-1226	**517**	517
Number of options cancelled/lapse during the year ('000)	**(758)**	(1 031)		
Granted at prices ranging between (cents)	517 - 1932	517 - 1457		
Number of options in force at the end of the year ('000)	**8 832**	9 045		35
Granted at prices ranging between (cents)	**721 - 1932**	517 - 1457		517
Options are execercisable over the following periods: ('000)				
(first date able to release)				
Financial year 2014		2 909		35
Financial year 2015	**2 542**	1 726		
Financial year 2016	**1 521**	2 028		
Financial year 2017	**2 356**	1 620		
Financial year 2018	**1 577**	762		
Financial year 2019	**836**			
	8 832	9 045		35

26. Cash flow information

N$ '000	Group 2014	Group 2013	Company 2014	Company 2013
26.1 Reconciliation of operating profit to cash flows from operating activities				
Profit before tax	**1 095 169**	840 133	**1 040 011**	797 179
Adjusted for:				
– Depreciation, amortisation and impairment costs	**60 553**	56 945	**59 231**	55 423
– Transfer to repairs and maintenance	**(4 277)**	1 454	**(4 277)**	1 454
– Impairment charge / (reversal) on advances	**18 433**	23 366	**18 291**	24 087
– Provision for post-employment benefit obligations	**(996)**	(4 710)	**(996)**	(4 710)
– Other employment accruals	**46 858**	28 330	**46 858**	28 330
– Creation and revaluation of derivative financial instruments	**(16 375)**	522	**(16 375)**	522
– Profit on sale of property and equipment	**231**	(2 178)	**231**	(1 312)
– Share-based payment costs	**11 236**	9 976	**11 236**	9 976
– Unwinding of discounted present value on non-performing loans (note 10)	**(6 560)**	(4 716)	**(5 836)**	(4 224)
– Unwinding of discounted present value on off-market advances (note 2.1)	**(1 649)**	(4 933)	**(1 649)**	(4 933)
– Net release of deferred fee and expenses	**(15 170)**	(11 277)	**(14 555)**	(10 786)
– Transfer from revaluation reserve: available-for-sale financial assets				
– Off-market staff loans amortisation (note 4)	**1 649**	4 933	**1 649**	4 933
– Share of loss / (profit) from associate company	**(557)**	159		
– Indirect tax (note 5)	**21 394**	19 105	**21 134**	18 848
Cash flows from operating activities	**1 209 939**	957 109	**1 154 953**	914 787
26.2 Cash receipts from customers				
Interest and similar income	**1 885 646**	1 613 258	**1 840 468**	1 578 325
Fees and commission income	**864 074**	690 047	**863 554**	689 486
Other non interest income	**122 589**	110 487	**121 402**	108 491
	2 872 309	2 413 792	**2 825 424**	2 376 302
26.3 Cash paid to customers, suppliers and employees				
Interest expense and similar charges	**(772 116)**	(656 839)	**(772 006)**	(656 839)
Total other operating expenditure	**(890 254)**	(799 844)	**(898 465)**	(804 676)
	(1 662 370)	(1 456 683)	**(1 670 471)**	(1 461 515)

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for the year ended 30 June *continued*

26. Cash flow information *continued*

N$ '000	Group 2014	Group 2013	Company 2014	Company 2013
26.4 Increase in income earning assets				
Investment securities	**(524 758)**	(107 017)	**(524 758)**	(107 017)
Due by banks and other financial institutions	**122 641**	38 652	**122 641**	38 652
Accounts receivable and similar accounts	**42 237**	20 803	**63 578**	21 346
Advances	**(3 029 227)**	(2 882 242)	**(3 092 654)**	(2 944 581)
	(3 389 107)	(2 929 804)	**(3 431 193)**	(2 991 600)
26.5 Increase in deposits and other liabilities				
Deposits	**2 681 601**	2 242 476	**2 681 406**	2 242 576
Due to banks and other financial institutions	**494 325**	286 160	**494 325**	286 160
Accounts payable and similar accounts	**94 861**	(63 813)	**92 968**	(62 339)
	3 270 787	2 464 823	**3 268 699**	2 466 397
26.6 Tax paid				
Amounts payable at beginning of the year	**(135 726)**	(156 960)	**(127 138)**	(149 477)
Indirect taxes	**(21 394)**	(19 105)	**(21 134)**	(18 848)
Current tax charge	**(345 787)**	(260 392)	**(327 844)**	(246 094)
Amounts payable at end of the year	**69 542**	135 726	**56 607**	127 138
Total tax paid	**(433 365)**	(300 731)	**(419 509)**	(287 281)
26.7 Capital expenses				
Purchase of property, equipment and software, settled in cash	**221 393**	130 334	**221 243**	130 035
26.8 Dividends paid				
	266 804	366 971	**266 804**	366 971

27. Contingent liabilities and capital commitments

N$ '000	Group and company 2014	Group and company 2013
Contingencies		
Guarantees *	**815 655**	780 063
Letters of credit	**179 041**	40 950
Total contingencies	**994 696**	821 013
Irrevocable unutilised facilities	**3 715 345**	3 557 298
Total contingencies and commitments	**4 710 041**	4 378 311

* Guarantees consist predominantly of endorsements and performance guarantees

The fair value of guarantees aproximates the face value as disclosed

N$ '000	2014	2013
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	**260 000**	390 396
- Not contracted for	**918**	918
Comprising of:		
Capital commitments contracted for at the reporting date but not yet incurred are as follows:		
- Property and equipment	**260 000**	390 396
Capital commitments not yet contracted for at the reporting date but have been approved by the directors:		
- Property and equipment	**918**	918

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

Legal proceedings

There are a number of legal or potential claims against the group, the outcome of which cannot at present be foreseen. These claims are not regarded as material, either on an individual or group basis.

Provision is made for all liabilities which are expected to materialise.

Group and company leasing arrangements:

	2014			2013		
N$ '000	Next year	2nd to 5th year	After 5 years	Next year	2nd to 5th year	After 5 years
Office premises	**21 236**	**35 860**	**4 669**	15 820	25 605	460
	21 236	**35 860**	**4 669**	15 820	25 605	460

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% (2013: 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

28. Collateral

N$'000	2014	2013
28.1 Collateral taken possession of and recognised on the statement of financial position in accounts receivable, note 12:		
Property	**5 568**	1 706
Total	**5 568**	1 706
28.2 Collateral pledged		

The group has pledged assets as security for the following liabilities:

	2014	2013
Derivatives (note 8)		
Currency derivative	**79 277**	
Interest rate derivative	**19 290**	
	98 567	

The group pledges assets under the following terms and conditions:

Collateral in the form of cash and cash equivalents are pledged when the banking group utilises the RMB credit facility over the limit. These transactions are conducted under the terms and conditions that are usual and customary to standard credit facilities.

Assets pledged to secure the above liabilities are carried at and included under the following:

	2014	2013
Due from banks and other financial institutions (note 7)	**44 597**	

29. Related parties

The group defines related parties as :

(i) Subsidiary companies and fellow subsidiaries
(ii) Associate companies
(iii) 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;
(iv) Post-retirement benefit funds (pension fund);
(v) Key management personnel being the First National Bank of Namibia Limited board of directors and the group executive committee; and
(vi) 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
(vii) 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.

29.1 Subsidiary

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

29. Related parties *continued*

29.2 Associate

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

29.3 Details of transactions with relevant related parties appear below:

2014

N$'000	Parent	Fellow subsidiaries	Associate
Money at call and short notice			
Balance 1 July	1 117 208	68 725	28 918
Issued during year	8 636	8 037	(2 748)
Repayments during year	(219 277)		
Balance 30 June	906 567	76 762	26 170
Derivative instruments: assets	7 916		
Other deposits and loans			
Balance 1 July	(315 367)	(35 082)	
Received during year	1 120 323	(26 626)	91 221
Repayments during year			(90 914)
Balance 30 June	804 956	(61 708)	307
Accounts receivable			
Balance 1 July	50 000		
Issued during year			
Repayments during year	(50 000)		
Balance 30 June			
Accounts payable			
Balance 1 July			
Received during year	5 635		
Repayments during year			
Balance 30 June	5 635		
Interest received	53 554	4 092	17
Interest paid	23 596	6 027	1 401
Dividends paid	266 804		
Derivative instruments: liabilities	99 673		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

29. Related parties *continued*

29.3 Details of transactions with relevant related parties appear below *continued*:

2014

N$'000	Total	Parent	Fellow subsidiaries	Associate
Non-interest income				
Commission	1 430	130	1 300	
Rental and property income	13			13
Management fees	1 453		1 453	
	2 896	130	2 753	13
Non-interest expenditure				
Computer processing costs	94 245	94 245		
Internal audit and compliance	1 291	1 291		
ATM processing costs	2 511	2 511		
Payroll processing	6 183	6 183		
Management fees	16 254	16 254		
Insurance	8 080	8 080		
Rental paid	10 857		10 857	
Other sundry	13 602	13 602		
Clearing cost	6 090			6 090
	159 113	142 166	10 857	6 090

29. Related parties *continued*

29.3 Details of transactions with relevant related parties appear below *continued*:

2013

N$'000	Parent	Fellow subsidiaries	Associate
Loans and advances			
Balance 1 July	1 267 134	76 852	
Issued during year			32 600
Repayments during year	(149 926)	(8 127)	(3 682)
Balance 30 June	1 117 208	68 725	28 918
Derivative instruments: assets	32 441		
Deposits			
Balance 1 July	113 889	(384 104)	(7 873)
Received during year	285 391	(359 301)	7 873
Repayments during year	(83 913)	708 323	
Balance 30 June	315 367	(35 082)	
Accounts Receivable			
Balance 1 July	50 000		
Issued during year			
Repayments during year			
Balance 30 June	50 000		
Accounts payable			
Balance 1 July	(13 876)		
Received during year			
Repayments during year	13 876		
Balance 30 June			
Interest received	46 891	4 809	507
Interest paid	(1 045)	(7 441)	(41)
Dividends paid	366 971		
Derivative instruments: liabilities	(105 415)		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

29. Related parties *continued*

29.3 Details of transactions with relevant related parties appear below *continued*:

2013

N$'000	Total	Parent	Fellow subsidiaries	Associate
Non-interest income				
Commission	5 044	5 044		
Fair value income	7 523	7 523		
Rental and property income	511		229	282
Management fees	1 259		1 259	
	14 337	12 567	1 488	282
Non-interest expenditure				
Computer processing costs	95 494	95 494		
Internal audit and compliance	1 500	1 500		
ATM processing costs	2 596	2 596		
Payroll processing	4 661	4 661		
Management fees	14 906	14 906		
Insurance	7 181	7 181		
Rental paid	10 053		10 053	
Other sundry	13 189	13 189		
Clearing cost	5 466			5 466
	155 046	139 527	10 053	5 466

29. Related parties *continued*

29.4 Key management personnel

N$'000 Loans and advances	Group and company 2014	Group and company 2013
Advances		
Balance 1 July	**24 931**	26 611
Advanced during year	**7 391**	12 562
Repayments during year	**(10 658)**	(16 471)
Interest earned	**1 888**	2 229
Balance 30 June	**23 552**	24 931

No impairment has been recognised for loans granted to key management (2013: nil).
Mortgage loans are repayable monthly over 20 years.

Current and credit card accounts		
Credit balance 1 July	**(11 928)**	(12 627)
Net deposits and withdrawals	**7 163**	677
Net service fees and bank charges	**169**	194
Interest income	**42**	65
Interest expense	**(247)**	(237)
Balance 30 June	**(4 801)**	(11 928)
Instalment finance		
Balance 1 July	**6 344**	5 549
Advanced during year	**3 634**	5 665
Repayments during year	**(3 549)**	(5 392)
Interest earned	**236**	522
Balance 30 June	**6 665**	6 344
Shares and share options held		
Share options held by members of key management	**2 034**	2 034
Key management compensation		
Salaries and other short-term benefits	**28 774**	31 693
Contribution to defined contribution schemes	**2 797**	2 513
Share-based payments	**5 285**	4 845
Total compensation	**36 856**	39 051

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

29.5 Post-employment benefit plan

Refer note 19.2 on detail disclosure of the movements on the post-employment benefit liabilities. The Pension Fund is a related party to the group, refer note 19.3.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

30. Fair value measurements

30.1 Valuation methodology

In terms of IFRS, the group is required to or elects to measure certain assets and liabilities at fair value. The group has established control frameworks and processes to independently validate its valuation techniques and inputs used to determine its fair value measurements. Technical teams are responsible for the selection, implementation and any changes to the valuation techniques used to determine fair value measurements. Valuation committees comprising representatives from key management have been established at an overall group level and are responsible for overseeing the valuation control process and considering the appropriateness of the valuation techniques applied in fair value measurement. The valuation models and methodologies are subject to independent review and approval by the required technical teams, valuation committees, relevant risk committees and external auditors annually or more frequently if considered appropriate.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date i.e. an exit price. Fair value is therefore a market based measurement and when measuring fair value the group uses the assumptions that market participants would use when pricing an asset or liability under current market conditions, including assumptions about risk. When determining fair value it is presumed that the entity is a going concern and the fair value is therefore not an amount that represents a forced transaction, involuntary liquidation or a distressed sale.

Fair value measurements are determined by the group on both a recurring and non-recurring basis.

Recurring fair value measurements
Recurring fair value measurements are those for assets and liabilities that IFRS requires or permits to be recognised at fair value and are recognised in the statement of financial position at reporting date. This includes financial assets, financial liabilities and non-financial assets, including investment properties and commodities, that the group measures at fair value at the end of each reporting period.

Financial instruments
When determining the fair value of a financial instrument, where the financial instrument has a bid or ask price (for example in a dealer market), the group uses the price within the bid-ask spread that is most representative of fair value in the circumstances. Although not a requirement, the group uses the bid price for financial assets or the ask/offer price for financial liabilities where this best represents fair value.

When determining the fair value of a financial liability or the group's own equity instruments the quoted price for the transfer of an identical or similar liability or own equity instrument is used. Where this is not available, and an identical item is held by another party as an asset, the fair value of the liability or own equity instrument is measured using the quoted price in an active market of the identical item, if that price is available, or using observable inputs (such as the quoted price in an inactive market for the identical item) or using another valuation technique.

Where the group has any financial liability with a demand feature, such as demand deposits, the fair value is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid where the time value of money is significant.

Non-financial assets
When determining the fair value of a non-financial asset, a market participant's ability to generate economic benefits by using the assets in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use, is taken into account. This includes the use of the asset that is physically possible, legally permissible and financially feasible. In determining the fair value of the group's investment properties and commodities, the highest and best use of the assets was their current use.

Non-recurring fair value measurements
Non-recurring fair value measurements are those triggered by particular circumstances and include the classification of assets and liabilities as non-current assets or disposal groups held for sale under IFRS 5 where fair value less costs to sell is the recoverable amount, IFRS 3 business combinations where assets and liabilities are measured at fair value at acquisition date, and IAS 36 impairments of assets where fair value less costs to sell is the recoverable amount. These fair value measurements are determined on a case by case basis as they occur within each reporting period.

Other fair value measurements
Other fair value measurements include assets and liabilities not measured at fair value but for which fair value disclosures are required under another IFRS e.g. financial instruments at amortised cost. The fair value for these items is determined by using observable quoted market prices where these are available, such as market prices quoted on BESA, or in accordance with generally acceptable pricing models such as a discounted cash flow analysis. Except for the amounts included under point 30.2 below, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

30. Fair value measurements *continued*

30.2 Fair value hierarchy and measurements

The group classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item. If this information is not available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. The valuation techniques employed by the group include, inter alia, 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.

Where a valuation model is applied and the group cannot mark-to-market, it applies a mark-to-model approach, subject to prudent valuation adjustments. Mark-to-model is defined as any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input. When applying mark-to-model, an extra degree of conservatism is applied. The group will consider the following in assessing whether a mark-to-model valuation is appropriate:

- As far as possible, market inputs are sourced in line with market prices;
- Generally accepted valuation methodologies are consistently used for particular products unless deemed inappropriate by the relevant governance forums;
- Where a model has been developed in-house, it is based on appropriate assumptions, which have been assessed and challenged by suitably qualified parties independent of the development process;
- Formal change control procedures are in place;
- Awareness of the weaknesses of the models used and appropriate reflection in the valuation output;
- The model is subject to periodic review to determine the accuracy of its performance; and
- Valuation adjustments are only made when appropriate, for example, to cover the uncertainty of the model valuation.

Level 1
Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities where this is readily available and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. This category includes listed bonds and equity, exchange-traded derivatives, exchange-traded commodities and short trading positions.

Level 2
Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly such as quoted prices for similar items in an active market or for an identical item in an inactive market, or valuation models using observable inputs or inputs derived from observable market data. This category includes loans and advances to customers, equities listed in an inactive market, certain debt instruments, private equity investments, non-recourse investments and deposits, over the counter derivatives, deposits, other liabilities, Tier 2 liabilities, commodities which are not exchange-traded and investment properties.

Level 3
Fair value is determined using a valuation technique and significant inputs that are not based on observable market data (i.e. unobservable inputs) such as an entity's own assumptions about what market participants would assume in pricing assets and liabilities. The assumptions applied by the group are set out in the table below. This category includes certain loans and advances to customers, certain over the counter derivatives such as equity options, investments in debt instruments, private equity investments, and certain deposits such as credit linked notes.

The table below sets out the valuation techniques applied by the group for recurring fair value measurements of assets and liabilities categorised as Level 2 and Level 3 in the fair value hierarchy:

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

30. Fair value measurements *continued*

30.2 Fair value hierarchy and measurements *continued*

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Derivative financial instruments					
Option contracts	Level 2 and Level 3	Option pricing model	The Black Scholes model is used.	Strike price of the option; market related discount rate; forward rate and cap and floor volatility.	Volatilities
Swaps	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date of each swaplet is determined in terms of legal documents pertaining to the swap.	Market interest rates and curves	Not applicable
Forward rate agreements	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rates and curves	Not applicable
Forward contracts	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Market interest rates and curves	Not applicable
Loans and advances to customers					
Investment banking book*	Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate. 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. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance. Similarly an increase in credit rating would result in a decrease in the spread below the base rate and an increase of the fair value of the advance.	Market interest rates and curves	Credit inputs
Other loans and advances	Level 2 and Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period.	Market interest rates and curves	Credit inputs

30. Fair value measurements *continued*

30.2 Fair value hierarchy and measurements *continued*

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Investment securities and other investments					
Equities/ bonds listed in an inactive market	Level 2	Discounted cash flows	For listed equities and bonds, the listed price is used where the market is active (i.e. Level 1). However if the market is not active and the listed price is not representative of fair value, these are classified as Level 2 and a valuation technique is used, for example the discounted cash flow is used for listed bonds. This will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
Unlisted bonds	Level 2 and Level 3	Discounted cash flows	Unlisted bonds are valued similarly to advances measured at fair value. The future cash flows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period.	Market interest rates and curves	Credit inputs
Unlisted equities	Level 2 and Level 3	Price earnings ("P/E") model	For unlisted equities, 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. 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 that have taken place.	Market transactions	Growth rates and P/E ratios
Negotiable certificates of deposit	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate. Inputs to these models include information that is consistent with similar market quoted instruments, where available.	Market interest rates and curves	Not applicable
Treasury Bills	Level 2	BESA bond pricing model	The BESA bond pricing model uses the BESA mark to market bond yield.	Market interest rates and curves	Not applicable

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

30. Fair value measurements *continued*

30.2 Fair value hierarchy and measurements *continued*

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Deposits					
Call and non-term deposits	Level 2	None - the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand i.e. the undiscounted amount of the deposit.	None - the undiscounted amount approximates fair value and no valuation is performed	Not applicable
Deposits that represent collateral on credit linked notes	Level 3	Discounted cash flows	These deposits represent the collateral leg of credit linked notes. The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves	Credit inputs on related advance
Other deposits	Level 2 and Level 3	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves	Credit inputs
Other liabilities and Tier 2 liabilities					
	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
Financial assets and liabilities not measured at fair value but for which fair value is disclosed					
	Level 2 and Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate and curves adjusted for credit inputs.	Market interest rates and curves	Credit inputs

** The group has elected to designate certain investment banking book advances at fair value through profit or loss. The designation is on a deal basis. Credit risk is not observable and has a significant impact on the fair value measurement of these advances and as such, these advances are classified as Level 3 on the fair value hierarchy.*

For non-recurring fair value measurements, the fair value measurements are determined on a case by case basis as they occur within each reporting period. The fair value hierarchy classification and valuation technique applied in determining fair value will depend on the underlying asset or liability being measured. Where the underlying assets or liabilities are those for which recurring fair value measurements are required as listed in the table above, the technique applied and the inputs into the models would be in line with those as set out in the table. Where the underlying assets or liabilities are not items for which recurring fair value measurements are required, for example property and equipment or intangible assets, the carrying value is considered to be equal to or a reasonable approximation of the fair value. This will be assessed per transaction and details will be provided in the relevant notes. There were no such transactions for the current year.

During the current reporting period there were no changes in the valuation techniques used by the group.

30. Fair value measurements *continued*

30.2 Fair value hierarchy and measurements *continued*

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

N$'000	Group and company 2014 Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
Investment securities (note 11)		**2 483 739**		**2 483 739**
Financial assets designated at fair value through profit or loss				
Advances (Note 9)			**538 583**	**538 583**
Investment securities (note 11)		**96 407**		**96 407**
Financial assets held for trading				
Derivative financial instruments (note 8)		**92 031**		**92 031**
Investment securities (note 11)		**31 663**		**31 663**
Total financial assets		**2 703 840**	**538 583**	**3 242 423**
Liabilities				
Financial liabilities held for trading				
Derivative financial instruments (note 8)		**109 281**		**109 281**
Total financial liabilities		**109 281**		**109 281**

N$'000	Group and company 2013 Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
Investment securities (note 11)		2 051 840		2 051 840
Financial assets designated at fair value through profit or loss				
Advances (Note 9)			564 111	564 111
Investment securities (note 11)		99 182		99 182
Financial assets held for trading				
Derivative financial instruments (note 8)		94 987		94 987
Investment securities (note 11)		11 596		11 596
Total financial assets		2 257 605	564 111	2 821 716
Liabilities				
Financial liabilities held for trading				
Derivative financial instruments (note 8)		128 612		128 612
Total financial liabilities		128 612		128 612

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for the year ended 30 June *continued*

30. Fair value measurements *continued*

30.2 Fair value hierarchy and measurements *continued*

During the reporting period ending 30 June 2014 (30 June 2013), 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.

Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives

Fair values of financial instruments recognised in the financial statements may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data. In these instances, the net fair value recorded in the financial statements is the sum of three components:

(i) the value given by application of a valuation model, based upon the group's best estimate of the most appropriate model inputs;

(ii) any fair value adjustments to account for market features not included within valuation model (for example, bid mid spreads, counterparty credit spreads and / or market data uncertainty); and

(iii) day one profit or loss, or an unamortised element thereof, not recognised immediately in the income statement in accordance with the group's accounting policy, and separately detailed within this note below.

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.

Changes in level 3 fair value instruments

N$'000	**Fair value on June 2013**	**Purchases/ (sales)/issues/ (settlements)**	**Gains or losses recognised in profit and loss**	**Fair value on June 2014**
Assets				
Advances	**564 111**	**(77 227)**	**51 699**	**538 583**

N$'000	Fair value on June 2012	Purchases/ (sales)/issues/ (settlements)	Gains or losses recognised in profit and loss	Fair value on June 2013
Assets				
Advances	484 537	90 071	(10 497)	564 111

30. Fair value measurements *continued*

30.2 Fair value hierarchy and measurements *continued*

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$594 440 and using more negative reasonable possible assumptions to N$484 724.

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.

	2014		
N$'000	**Gains or (losses) recognised in profit and loss**	**Gains or (losses) recognised in other comprehensive income**	**Total gains or loss**
Assets			
Advances	48 007		48 007
Total financial assets classified at level 3	**48 007**		**48 007**

	2013		
N$'000	Gains or (losses) recognised in profit and loss	Gains or (losses) recognised in other comprehensive income	Total gains or loss
Assets			
Advances	34 138		34 138
Total financial assets classified at level 3	**34 138**		**34 138**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

30. Fair value measurements *continued*

30.2 Fair value hierarchy and measurements *continued*

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position.

For all other instruments the carrying value is equal to or a reasonable approximation of the fair value.

	Group		Company		
	2014		2014		
N$'000	Carrying amount	Fair value	Carrying amount	Fair value	Fair value hierachy
Assets					
Total advances at amortised cost	**19 528 960**	**21 345 154**	**18 933 278**	**20 694 073**	**Level 2**
Investment securities	**75 567**	**74 870**	**75 567**	**74 870**	**Level 2**
Liabilities					
Total deposits and current accounts	**21 603 391**	**21 575 676**	**21 602 073**	**21 574 360**	**Level 2**
Tier two liabilities	**392 622**	**393 874**	**392 622**	**393 874**	**Level 2**

	Group		Company	
	2013		2013	
N$'000	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Total advances at amortised cost	16 469 295	16 871 894	15 811 384	16 197 900
Liabilities				
Total deposits and current accounts	18 921 790	18 891 279	18 920 667	18 890 157
Tier two liabilities	392 620	395 233	392 620	395 233

30. Fair value measurements *continued*

30.2 Fair value hierarchy and measurements *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 through 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	**2014**	2013
Unrecognised profit at the beginning of the year	**12 281**	15 973
Additional profit on new transactions		
Recognised in profit or loss during the year	**(3 692)**	(3 692)
Unrecognised profit at the end of the year	**8 589**	12 281

Loans and receivables designated as fair value through 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	**2014**	2013
	Carrying value	
Included in advances	**538 583**	564 111

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.

31. Financial instruments subject to offsetting, master netting arrangements and similar agreements

In accordance with IAS 32 the group offsets financial assets and financial liabilities and presents the net amount in the statement of financial position only if there is both a legally enforceable right to offset and there is an intention to settle the amounts on a net basis or to realise the asset and settle the liability simultaneously.

The group is subject to a MNA in the form of an ISDA agreement with a derivative counterparty. Due to the fact that ISDA agreements under which derivatives are traded are not legally enforceable within Namibia, in the normal course of business or on bankruptcy, the IAS 32 set-off requirements of legal enforceability is not met thus no financial assets and financial liiabilities have been presented on the net amount in the statement of financial position.

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for the year ended 30 June *continued*

32. Risk management

The unaudited risk report of the FNB Namibia group appears on pages 48 to 56 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.

32.1 Maximum exposure to credit risk

Total exposure

	Group		Company	
N$'000	**2014**	2013	**2014**	2013
Cash and cash equivalents	**434 436**	323 816	**434 436**	323 816
– Balances with central banks	**434 436**	317 817	**434 436**	317 817
– Balances with other banks		5 999		5 999
Due by banks and other financial institutions	**1 766 327**	1 888 968	**1 766 327**	1 888 968
Advances	**20 067 543**	17 033 406	**19 471 861**	16 375 495
– Card loans	**154 065**	130 684	**154 065**	130 684
– Overdraft and managed accounts	**2 072 897**	2 016 526	**2 072 896**	2 016 526
– Instalment sales and lease receivables	**2 997 285**	2 593 773	**2 997 285**	2 593 773
– Home loans	**9 647 723**	8 424 185	**9 052 042**	7 766 274
– Term loans	**4 326 788**	3 086 025	**4 326 788**	3 086 025
– Investment bank term loans	**576 659**	564 111	**576 659**	564 111
– Preference share advance	**28 818**		**28 818**	
– Other	**263 308**	218 102	**263 308**	218 102
Derivative financial instruments	**92 031**	94 987	**92 031**	94 987
Debt investment securities	**2 687 376**	2 162 618	**2 687 376**	2 162 618
– Listed investment securities	**423 947**	331 731	**423 947**	331 731
– Unlisted investment securities	**2 263 429**	1 830 887	**2 263 429**	1 830 887
Accounts receivable	**59 579**	107 304	**44 860**	105 290
Amounts not recognised (in the statement of financial position)	**4 710 041**	4 378 311	**4 710 041**	4 378 311
Guarantees	**815 655**	780 063	**815 655**	780 063
Letters of credit	**179 041**	40 950	**179 041**	40 950
Irrevocable commitments	**3 715 345**	3 557 298	**3 715 345**	3 557 298
Total	**29 817 333**	25 989 410	**29 206 932**	25 329 483

32. Risk management *continued*

32.2 FR rating mapping to international and national rating scales

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

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

32. Risk management *continued*

32.3 Credit quality *continued*

The table below presents an analysis of the credit quality of neither past due nor impaired (i.e. performing) advances (refer to note 32 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	Preference share advance	Other
2014									
FR 28 - 91	**19 578 848**	**140 334**	**2 097 985**	**2 973 199**	**9 249 346**	**4 249 199**	**576 659**	**28 818**	**263 308**
Above FR 92	**101 154**	**865**	**1 760**	**7 281**	**65 833**	**25 416**			
Total	**19 680 002**	**141 199**	**2 099 745**	**2 980 480**	**9 315 179**	**4 274 615**	**576 659**	**28 818**	**263 308**
2013									
FR 28 - 91	16 703 219	126 466	2 001 534	2 572 762	8 135 278	3 084 966	564 111		218 102
Above FR 92	98 748	4 429	39 649	6 574	43 417	4 679			
Total	16 801 967	130 895	2 041 183	2 579 336	8 178 695	3 089 645	564 111		218 102

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

N$'000	Investment securities	Derivatives	Cash and short term funds	Due from banks and other financial institutions	Accounts receivable	Total
International scale mapping (National equivalent):						
2014						
AAA to BB- (A to BBB)	**2 590 969**	**92 031**	**434 436**	**1 766 327**	**26 489**	**4 910 252**
Unrated	**96 407**					**96 407**
Total	**2 687 376**	**92 031**	**434 436**	**1 766 327**	**26 489**	**5 006 659**
2013						
AAA to BB- (A to BBB)	2 063 435	94 987	323 817	1 888 968	70 384	4 441 591
Unrated	99 182					99 182
Total	2 162 617	94 987	323 817	1 888 968	70 384	4 540 773

32. Risk management *continued*

32.3 Credit quality *continued*

The table below presents an analysis of the credit quality of neither past due nor impaired (i.e. performing) advances (refer to note 32 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	Preference share advance	Other
2014									
FR 28 - 91	**19 057 380**	**140 334**	**2 097 985**	**2 973 199**	**8 727 878**	**4 249 199**	**576 659**	**28 818**	**263 308**
Above FR 92	**101 154**	**865**	**1 760**	**7 281**	**65 833**	**25 416**			
Total	**19 158 534**	**141 199**	**2 099 745**	**2 980 480**	**8 793 711**	**4 274 615**	**576 659**	**28 818**	**263 308**
2013									
FR 28 - 91	16 055 826	126 466	2 001 534	2 572 762	7 487 885	3 084 966	564 111		218 102
Above FR 92	98 748	4 429	39 649	6 574	43 417	4 679			
Total	16 154 574	130 895	2 041 183	2 579 336	7 531 302	3 089 645	564 111		218 102

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

N$'000	Investment securities	Derivatives	Cash and cash equivalents	Due by banks and other financial institutions	Accounts receivable	Total
International scale mapping (National equivalent):						
2014						
AAA to BB- (A to BBB)	**2 590 969**	**92 031**	**434 436**	**1 766 327**	**26 422**	**4 910 185**
Unrated	**96 407**					**96 407**
Total	**2 687 376**	**92 031**	**434 436**	**1 766 327**	**26 422**	**5 006 592**
2013						
AAA to BB- (A to BBB)	2 063 435	94 987	323 817	1 888 968	69 093	4 440 300
Unrated	99 182					99 182
Total	2 162 617	94 987	323 817	1 888 968	69 093	4 539 482

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

32. Risk management *continued*

32.4 Credit risk management

Group N$'000	Age analysis				
	Neither past due nor impaired	Past due but not impaired		Impaired	Total
		One instalment	Two instalments		
2014					
Advances					
– Card loans	**141 199**			**1 043**	**142 242**
– Home loans	**9 315 179**	**290 252**	**46 863**	**97 089**	**9 749 383**
– Instalment sales and lease receivables	**2 980 480**			**15 740**	**2 996 220**
– Investment bank term loans	**576 659**				**576 659**
– Overdraft and managed accounts	**2 099 745**	**10 876**	**2 963**	**9 593**	**2 123 177**
– Preference share advance	**28 818**				**28 818**
– Term loans	**4 274 615**	**38 397**	**3 998**	**17 586**	**4 334 595**
– Other	**263 308**				**263 308**
Sub total	**19 680 002**	**339 525**	**53 824**	**141 051**	**20 214 401**
Accounts receivable					
– Items in transit	**31 755**				**31 755**
– Deferred Staff cost	**43 684**				**43 684**
– Other accounts receivable	**27 824**				**27 824**
Sub total	**103 263**				**103 263**
Total	**19 783 265**	**339 525**	**53 824**	**141 051**	**20 317 664**
2013					
Advances					
– Card loans	130 895			1 067	131 962
– Overdraft and managed accounts	2 041 183			21 853	2 063 036
– Instalment sales and lease receivables	2 579 336	29 103	7 543	22 300	2 638 282
– Home loans	8 178 695	136 885	31 439	95 104	8 442 123
– Term loans	3 089 645	12 170	3 421	18 103	3 123 339
– Investment bank term loans	564 111				564 111
– Other	218 102				218 102
Sub total	16 801 967	178 158	42 403	158 427	17 180 955
Accounts receivable					
– Items in transit	39 301				39 301
– Deferred staff cost	39 840				39 840
– Other accounts receivable	68 003				68 003
Sub total	147 144				147 144
Total	16 949 111	178 158	42 403	158 427	17 328 099

32. Risk management *continued*

32.4 Credit risk management *continued*

Company

N$'000	Age analysis: Neither past due nor impaired	Past due but not impaired: One instalment	Past due but not impaired: Two instalments	Impaired	Total
2014					
Advances					
– Card loans	**141 199**			**1 043**	**142 242**
– Home loans	**8 793 711**	**226 987**	**38 887**	**84 167**	**9 143 752**
– Instalment sales and lease receivables	**2 980 480**			**15 740**	**2 996 220**
– Investment bank term loans	**576 659**				**576 659**
– Overdraft and managed accounts	**2 099 745**	**10 876**	**2 963**	**9 593**	**2 123 177**
– Preference share advance	**28 818**				**28 818**
– Term loans	**4 274 614**	**38 397**	**3 998**	**17 586**	**4 334 595**
– Other	**263 308**				**263 308**
Sub total	**19 158 534**	**276 260**	**45 847**	**128 129**	**19 608 770**
Accounts receivable					
– Items in transit	**17 792**				**17 792**
– Deferred Staff cost	**43 684**				**43 684**
– Other accounts receivable	**27 068**				**27 068**
Sub total	**88 544**				**88 544**
Total	**19 247 079**	**276 260**	**45 847**	**128 129**	**19 697 315**
2013					
Advances					
– Card loans	130 895			1 067	131 962
– Overdraft and managed accounts	2 041 183			21 853	2 063 036
– Instalment sales and lease receivables	2 579 336	29 103	7 543	22 300	2 638 282
– Home loans	7 531 302	130 386	34 124	78 066	7 773 878
– Term loans	3 089 645	12 170	3 421	18 103	3 123 339
– Investment bank term loans	564 111				564 111
– Other	218 102				218 102
Sub total	16 154 574	171 659	45 088	141 389	16 512 710
Accounts receivable					
– Items in transit	39 298				39 298
– Deferred Staff cost	39 840				39 840
– Other accounts receivable	65 992				65 992
Sub total	145 130				145 130
Total	16 299 704	171 659	45 088	141 389	16 657 840

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for the year ended 30 June *continued*

32. Risk management *continued*

32.4 Credit risk management *continued*

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.

32.5 Liquidity risk management

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

	Group 2014			
		Term to maturity		
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and cash equivalents	830 189	830 189		
Due by banks and other financial institutions	1 766 327	1 766 327		
Derivative financial instruments	92 031	92 031		
Advances	20 067 543	1 919 051	851 837	17 296 655
Investment securities	2 687 376	1 325 867	1 053 831	307 678
Accounts receivable	26 489	26 489		
Financial assets	25 469 955	5 959 954	1 905 668	17 604 333
Non financial assets	758 978			
Total assets	26 228 933			
Equity and liabilities				
Deposits	21 603 391	16 640 117	3 382 850	1 580 424
Due to banks and other financial institutions	813 409	86 908	74 322	652 179
Derivative financial instruments	109 281	109 281		
Creditors and accruals	15 152	15 152		
Other liabilities	6 030	1 025	3 097	1 908
Tier two liabilities	392 622	2 622		390 000
Financial liabilities	22 939 885	16 855 105	3 460 269	2 624 511
Non financial liabilities	521 794			
Total liabilities	23 461 679			
Total equity	2 767 254			
Total equity and liabilities	26 228 933			
Net liquidity gap		(10 895 148)	(1 554 601)	14 979 823
Cumulative liquidity gap		(10 895 148)	(12 449 749)	2 530 073

32. Risk management *continued*

32.5 Liquidity risk management *continued*

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

	Group 2013 Term to maturity			
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and cash equivalents	664 060	664 060		
Due by banks and other financial institutions	1 888 968	1 888 968		
Derivative financial instruments	94 987	94 987		
Advances	17 033 406	1 966 639	931 520	14 135 246
Investment securities	2 162 618	605 433	1 333 320	223 865
Accounts receivable	70 384	69 703	681	
Financial assets	21 914 423	5 289 791	2 265 521	14 398 091
Non financial assets	602 346			
Total assets	22 516 769			
Equity and liabilities				
Deposits	18 921 790	14 213 561	2 971 401	1 736 828
Due to banks and other financial institutions	319 084	79 373	44 830	194 881
Derivative financial instruments	128 612	128 612		
Creditors and accruals	7 866	1 908	1 946	4 012
Other liabilities	9 806	1 050	4 031	4 725
Tier two liabilities	392 620	2 620		390 000
Financial liabilities	19 779 778	14 427 124	3 022 208	2 330 446
Non financial liabilities	437 673			
Total liabilities	20 217 451			
Total equity	2 299 318			
Total equity and liabilities	22 516 769			
Net liquidity gap		(9 136 466)	(756 687)	12 067 645
Cumulative liquidity gap		(9 136 466)	(9 893 153)	2 174 492

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

32. Risk management *continued*

32.5 Liquidity risk management *continued*

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

	Company 2014 Term to maturity			
N$'000	Carrying amount	Call – 3 months	4 – 12 months	Over 12 months
Assets				
Cash and cash equivalents	830 189	830 189		
Due by banks and other financial institutions	1 766 327	1 766 327		
Derivative financial instruments	92 031	92 031		
Advances	19 471 861	1 323 369	851 837	17 296 655
Investment securities	2 687 376	1 325 867	1 053 831	307 678
Accounts receivable	26 422	26 422		
Financial assets	24 874 206	5 364 205	1 905 668	17 604 333
Non financial assets	1 008 832			
Total assets	25 883 038	5 364 205	1 905 668	17 604 333
Equity and liabilities				
Deposits	21 602 073	16 638 800	3 382 850	1 580 423
Due to banks and other financial institutions	813 409	86 908	74 322	652 179
Derivative financial instruments	109 281	109 281		
Creditors and accruals	15 134	15 134		
Other liabilities	6 030	1 025	3097	1 908
Tier two liabilities	392 622	2 622		390 000
Financial liabilities	22 938 549	16 853 770	3 460 269	2 624 510
Non financial liabilities	519 077			
Total liabilities	23 457 626	16 853 770	3 460 269	2 624 510
Total equity	2 425 412			
Total equity and liabilities	25 883 039	16 853 770	3 460 269	2 624 510
Net liquidity gap		(11 489 563)	(1 554 601)	14 979 823
Cumulative liquidity gap		(11 489 563)	(13 044 164)	1 935 658

32. Risk management *continued*

32.5 Liquidity risk management *continued*

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

	Company 2013 Term to maturity			
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and cash equivalents	664 060	664 060		
Due by banks and other financial institutions	1 888 968	1 888 968		
Derivative financial instruments	94 987	94 987		
Advances	16 375 495	1 912 048	931 520	13 531 927
Investment securities	2 162 618	605 433	1 333 320	223 865
Accounts receivable	69 093	68 412	681	
Financial assets	21 255 221	5 233 908	2 265 521	13 755 792
Non financial assets	950 667			
Total assets	22 205 888	5 233 908	2 265 521	13 755 792
Equity and liabilities				
Deposits	18 920 667	14 212 438	2 971 401	1 736 828
Due to banks and other financial institutions	319 084	79 373	44 830	194 881
Derivative financial instruments	128 612	128 612		
Creditors and accruals	7 848	1 890	1 946	4 012
Other liabilities	9 806	1 050	4 031	4 725
Tier two liabilities	392 620	2 620		390 000
Financial liabilities	19 778 637	14 425 983	3 022 208	2 330 446
Non financial liabilities	432 907			
Total liabilities	20 211 544	14 425 983	3 022 208	2 330 446
Total equity	1 994 344			
Total equity and liabilities	22 205 888	14 425 983	3 022 208	2 330 446
Net liquidity gap		(9 191 208)	(756 687)	11 464 326
Cumulative liquidity gap		(9 191 208)	(9 947 895)	1 516 431

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

32. Risk management *continued*

32.5 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 2014 Term to maturity			
N$'000	Total amount	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits	22 023 774	13 836 316	2 820 754	5 366 704
Due to banks and other financial institutions	996 520	88 204	104 964	803 352
Derivative financial instruments	109 281	109 281		
Creditors and accruals	15 152	15 152		
Other liabilities	6 298	1 050	4 198	1 050
Tier two liabilities	632 626	10 116	20 582	601 928
Financial liabilities	23 783 651	14 060 119	2 950 498	6 773 034
Off statement of financial position				
Financial and other guarantees	994 696	471 235	523 461	
Facilities not drawn	3 715 345	3 715 345		

	Group 2013 Term to maturity			
N$'000	Total amount	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits	19 463 311	14 286 820	3 108 014	2 068 477
Due to banks and other financial institutions	332 450	79 758	49 119	203 573
Derivative financial instruments	128 612	128 612		
Creditors and accruals	7 866	1 908	1 946	4 012
Other liabilities	10 495	1 050	4 198	5 247
Tier two liabilities	646 465	9 644	19 164	617 657
Financial liabilities	20 589 199	14 507 792	3 182 441	2 898 966
Off statement of financial position				
Financial and other guarantees	821 014	514 363	274 906	31 745
Facilities not drawn	3 557 298	3 557 298		

32. Risk management *continued*

32.5 Liquidity risk management *continued*

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

N$'000	Company 2014 Term to maturity Total amount	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits	**22 023 774**	**13 836 316**	**2 820 754**	**5 366 704**
Due to banks and other financial institutions	**996 520**	**88 204**	**104 964**	**803 352**
Derivative financial instruments	**109 281**	**109 281**		
Creditors and accruals	**15 134**	**15 134**		
Other liabilities	**6 298**	**1 050**	**4 198**	**1 050**
Tier two liabilities	**632 626**	**10 116**	**20 582**	**601 928**
Financial liabilities	**23 783 633**	**14 060 101**	**2 950 496**	**6 773 034**
Off statement of financial position				
Financial and other guarantees	**994 696**	**471 235**	**523 461**	
Facilities not drawn	**3 715 345**	**3 715 345**		

N$'000	Company 2013 Term to maturity Total amount	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits	19 463 311	14 286 820	3 108 014	2 068 477
Due to banks and other financial institutions	332 450	79 758	49 119	203 573
Derivative financial instruments	128 612	128 612		
Creditors and accruals	7 848	1 890	1 946	4 012
Other liabilities	10 495	1 050	4198	5 247
Tier two liabilities	646 465	9 644	19 164	617 657
Financial liabilities	20 589 181	14 507 774	3 182 441	2 898 966
Off statement of financial position				
Financial and other guarantees	821 014	514 363	274 906	31 745
Facilities not drawn	3 557 298	3 557 298		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

32. Risk management *continued*

32.6 Foreign currency

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

	Group 2014 Currency concentration				
N$'000	Total amount	NAD	USD	EUR	Other
Assets					
Cash and cash equivalents	830 189	764 843	59 456	5 160	730
Due by banks and other financial institutions	1 766 327	984 456	727 836	51 128	2 907
Derivative financial instruments	92 031	4 912	51 005	8 372	27 742
Advances	20 067 543	19 316 122	751 421		
Investment securities	2 687 376	2 687 376			
Accounts receivable	26 489	26 489			
Financial assets	25 469 955	23 784 198	1 589 718	64 660	31 379
Non financial assets	758 978	758 978			
Total assets	26 228 933	24 543 176	1 589 718	64 660	31 379
Equity and liabilities					
Deposits	21 603 391	20 911 636	639 127	51 299	1 329
Due to banks and other financial institutions	813 409	62 481	750 928		
Derivative financial instruments	109 281	22 945	50 910	7 848	27 578
Creditors and accruals	15 152	15 152			
Other liabilities	6 030	6 030			
Tier two liabilities	392 622	392 622			
Financial liabilities	22 939 885	21 410 866	1 440 965	59 147	28 907
Non financial liabilities	521 794	521 794			
Total liabilities	23 461 679	21 932 660	1 440 965	59 147	28 907
Total equity	2 767 254	2 767 254			
Total equity and liabilities	26 228 933	24 699 914	1 440 965	59 147	28 907

32. Risk management *continued*

32.6 Foreign currency *continued*

	Group 2013 Currency concentration				
N$'000	Total amount	NAD	USD	EUR	Other
Assets					
Cash and cash equivalents	664 060	580 754	68 453	7 920	6 933
Due by banks and other financial institutions	1 888 968	1 291 310	514 848	74 706	8 104
Derivative financial instruments	94 987	2 239	77 450	5 105	10 193
Advances	17 033 406	16 778 752	254 654		
Investment securities	2 162 618	2 162 618			
Accounts receivable	70 384	70 384			
Financial assets	21 914 423	20 886 057	915 405	87 731	25 230
Non financial assets	602 346	602 346			
Total assets	22 516 769	21 488 403	915 405	87 731	25 230
Equity and liabilities					
Deposits	18 921 790	18 419 659	424 696	75 699	1 736
Due to banks and other financial institutions	319 084	61 296	254 270		3 518
Derivative financial instruments	128 612	35 872	76 540	6 122	10 078
Creditors and accruals	7 866	7 866			
Other liabilities	9 806	9 806			
Tier two liabilities	392 620	392 620			
Financial liabilities	19 779 778	18 927 119	755 506	81 821	15 332
Non financial liabilities	437 673	437 673			
Total liabilities	20 217 451	19 364 792	755 506	81 821	15 332
Total equity	2 299 318	2 299 318			
Total equity and liabilities	22 516 769	21 664 110	755 506	81 821	15 332

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

32. Risk management *continued*

32.6 Foreign currency *continued*

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

	Company 2014 Currency concentration				
N$'000	Total amount	NAD	USD	EUR	Other
Assets					
Cash and cash equivalents	830 189	764 843	59 456	5 160	730
Due by banks and other financial institutions	1 766 327	984 456	727 836	51 128	2 907
Derivative financial instruments	92 031	4 912	51 005	8 372	27 742
Advances	19 471 861	18 720 440	751 421		
Investment securities	2 687 376	2 687 376			
Accounts receivable	26 422	26 422			
Financial assets	24 874 206	23 188 449	1 589 718	64 660	31 379
Non financial assets	1 008 832	1 008 832			
Total assets	25 883 038	24 197 281	1 589 718	64 660	31 379
Equity and liabilities					
Deposits	21 602 073	20 910 318	639 127	51 299	1 329
Due to banks and other financial institutions	813 409	62 481	750 928		
Derivative financial instruments	109 281	22 945	50 910	7 848	27 578
Creditors and accruals	15 134	15 134			
Other liabilities	6 030	6 030			
Tier two liabilities	392 622	392 622			
Financial liabilities	22 938 549	21 409 530	1 440 965	59 147	28 907
Non financial liabilities	519 077	519 077			
Total liabilities	23 457 626	21 928 607	1 440 965	59 147	28 907
Total equity	2 425 412	2 425 412			
Total equity and liabilities	25 883 038	24 354 029	1 440 965	59 147	28 907

32. Risk management *continued*

32.6 Foreign currency *continued*

N$'000	Company 2013 Currency concentration Total amount	NAD	USD	EUR	Other
Assets					
Cash and cash equivalents	664 060	580 754	68 453	7 920	6 933
Due by banks and other financial institutions	1 888 968	1 291 310	514 848	74 706	8 104
Derivative financial instruments	94 987	2 239	77 450	5 105	10 193
Advances	16 375 495	16 120 841	254 654		
Investment securities	2 162 618	2 162 618			
Accounts receivable	69 093	69 093			
Financial assets	21 255 221	20 226 855	915 405	87 731	25 230
Non financial assets	950 667	950 667			
Total assets	22 205 888	21 177 522	915 405	87 731	25 230
Equity and liabilities					
Deposits	18 920 667	18 418 536	424 696	75 699	1 736
Due to banks and other financial institutions	319 084	61 296	254 270		3 518
Derivative financial instruments	128 612	35 872	76 540	6 122	10 078
Creditors and accruals	7 848	7 848			
Other liabilities	9 806	9 806			
Tier two liabilities	392 620	392 620			
Financial liabilities	19 768 832	18 916 173	755 506	81 821	15 332
Non financial liabilities	432 907	432 907			
Total liabilities	20 211 544	19 358 885	755 506	81 821	15 332
Total equity	1 994 344	1 994 344			
Total equity and liabilities	22 205 888	21 353 229	755 506	81 821	15 332

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

32. Risk management *continued*

32.7 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 2014 Repricing profile				
N$'000	**Carrying amount**	**< 3 months**	**> 3 but ≤ 12 months**	**> 12 months**	**Non rate sensitive**
Total assets	**26 228 933**	**23 221 379**	**1 115 557**	**472 914**	**1 419 083**
Total equity and liabilities	**26 228 933**	**20 158 859**	**2 492 037**	**267 807**	**3 310 230**
Net repricing gap		**3 062 520**	**(1 376 480)**	**205 107**	**(1 891 147)**
Cumulative repricing gap		**3 062 520**	**1 686 040**	**1 891 147**	

	Group 2013 Repricing profile				
N$'000	Carrying amount	< 3 months	> 3 but ≤ 12 months	> 12 months	Non rate sensitive
Total assets	22 516 769	19 546 825	1 334 704	580 975	1 054 264
Total equity and liabilities	22 516 769	14 440 109	2 971 401	2 221 984	2 883 274
Net repricing gap		5 106 716	(1 636 697)	(1 641 009)	(1 829 010)
Cumulative repricing gap		5 106 716	3 470 019	1 829 010	

	Company 2014 Repricing profile				
N$'000	**Carrying amount**	**< 3 months**	**> 3 but ≤ 12 months**	**> 12 months**	**Non rate sensitive**
Total assets	**25 883 038**	**22 625 696**	**1 115 557**	**472 914**	**1 668 871**
Total equity and liabilities	**25 883 038**	**20 157 542**	**2 492 037**	**267 807**	**2 965 652**
Net repricing gap		**2 468 154**	**(1 376 480)**	**205 107**	**(1 296 781)**
Cumulative repricing gap		**2 468 154**	**1 091 674**	**1 296 781**	

	Company 2013 Repricing profile				
N$'000	Carrying amount	< 3 months	> 3 but ≤ 12 months	> 12 months	Non rate sensitive
Total assets	22 205 888	18 842 099	1 334 704	580 975	1 448 110
Total equity and liabilities	22 205 888	14 440 109	2 971 401	2 221 984	2 572 394
Net repricing gap		4 401 990	(1 636 697)	(1 641 009)	(1 124 284)
Cumulative repricing gap		4 401 990	2 765 293	1 124 284	

32. Risk management *continued*

32.8 Average balances and effective interest rates

Group N$'000	2014 Average balance N$'000	2014 Average rate %	2014 Interest income/ expense N$'000	2013 Average balance N$'000	2013 Average rate %	2013 Interest income/ expense N$'000
Assets						
Cash and cash equivalents, including balance with banks	**2 874 133**	**2.5**	**72 064**	2 385 835	2.6	62 087
Advances	**18 470 004**	**9.1**	**1 689 661**	15 571 242	9.3	1 441 951
Investment securities	**2 555 689**	**5.8**	**147 299**	2 254 051	6.1	130 145
Interest-earning assets	**23 899 824**	**8.0**	**1 909 025**	20 211 128	8.1	1 634 183
Non-interest-earning assets	**816 720**			654 901		
Total Assets	**24 716 545**	**7.7**	**1 909 025**	20 866 029	7.8	1 634 183
Liabilities						
Deposits and current accounts, balance due to banks	**21 165 554**	**3.5**	**742 857**	17 757 016	3.5	627 817
Tier two liabilities	**393 868**	**7.4**	**29 259**	393 748	7.4	29 022
Interest-earning liabilities	**21 559 421**	**3.6**	**772 116**	18 150 764	4.2	656 839
Non-interest-earning bearing liabilities	**565 267**			485 895		
Total liabilities	**22 124 686**	**3.5**	**772 116**	18 636 659	3.5	656 839
Total equity	**2 591 858**			2 229 370		
Total equity and liabilities	**24 716 545**	**3.1**	**772 116**	20 866 029	3.1	656 839

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June *continued*

32. Risk management *continued*

32.8 Average balances and effective interest rates

Company	2014			2013		
	Average balance	Average rate	Interest income/ expense	Average balance	Average rate	Interest income/ expense
N$'000	N$'000	%	N$'000	N$'000	%	N$'000
Assets						
Cash and cash equivalents, including balance with banks	**2 874 133**	**2.5**	**72 064**	2 385 835	2.6	62 087
Advances	**17 843 141**	**9.2**	**1 643 144**	14 885 056	9.4	1 406 035
Investment securities	**2 555 689**	**5.8**	**147 299**	2 254 051	5.8	130 145
Interest-earning assets	**23 272 962**	**8.0**	**1 862 507**	19 524 942	8.2	1 598 267
Non-interest-earning assets	**1 123 147**			1 047 628		
Total Assets	**24 396 109**	**7.6**	**1 862 507**	20 572 570	7.8	1 598 267
Liabilities						
Deposits and current accounts, balance due to banks	**21 164 303**	**3.5**	**742 857**	17 755 789	3.5	627 817
Tier two liabilities	**393 868**	**7.4**	**29 259**	393 748	7.4	29 022
Interest-earning liabilities	**21 558 170**	**3.6**	**772 116**	18 149 537	3.6	656 839
Non-interest-earning bearing liabilities	**565 224**			470 503		
Total liabilities	**22 123 394**	**3.5**	**772 116**	18 620 040	3.5	656 839
Total equity	**2 272 715**			1 952 530		
Total equity and liabilities	**24 396 109**	**3.2**	**772 116**	20 572 570	3.2	656 839

32.9 Sensitivity analysis

Net interest income sensitivity

Assuming no management intervention, a parallel 200 (2013: 200) basis point increase in all yield curves would increase the forecast net interest income for the next year by N$181.75 million (2013: N$103.34 million), while a parallel decrease in all yield curves would decrease the forecast income by N$181.75 million (2013: N$103.34 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.

33. Restatement of 30 June 2013 results

Description of restatements

IAS 19

Amendments to IAS 19 require that all actuarial gains and losses in respect of defined benefit post-employment plans are recognised in other comprehensive income. In addition the standard no longer requires the expected return on plan assets to be recognised in profit or loss, rather that a net interest income/expense be recognised on the net asset or liability. All other re-measurements relating to plan assets are also recognised in other comprehensive income

Statement of comprehensive income	30 June 2013		
N$'000	As previously reported	IAS 19	Restated
Interest and similar income	1 634 184		1 634 184
Interest expense and similar charges	(656 839)		(656 839)
Net interest income before impairment of advances	**977 345**		**977 345**
Impairment of advances	(23 366)		(23 366)
Net interest income after impairment of advances	**953 979**		**953 979**
Non-interest income	802 191		802 191
Income from operations	**1 756 170**		**1 756 170**
Operating expenses	(892 899)	(3 874)	(896 773)
Net income from operations	**863 271**	(3 874)	859 397
Share of profit of associates after tax	(159)		(159)
Income before tax	**863 112**	**(3 874)**	**859 238**
Indirect tax	(19 105)		(19 105)
Profit before tax	**844 007**	**(3 874)**	**840 133**
Income tax expense	(285 133)	1 278	(283 855)
Profit for the year	**558 873**	**(2 596)**	**556 278**
Other comprehensive income			
Available-for-sale financial assets			
(Losses)/gains arising during the year	(7 427)		(7 427)
Deferred income tax	474		474
Items that may not be subsequently reclassified to profit or loss:			
Actuarial gains/(losses) on defined benefit post-employment plans			
Gains/(losses) arising during the year		3 874	3 874
Deferred income tax		(1 278)	(1 278)
Other comprehensive income for the year	**(6 953)**	**2 596**	**(4 357)**
Total comprehensive income for the year	**551 920**		**551 920**

No restatements impacted the statement of financial position. Adjustments for group and company were the same.

APPENDIX A:
Capital management

The overall capital management objective is to maintain sound capital ratios to ensure confidence in the solvency and quality of capital in the group during calm and turbulent periods in the economy and financial markets.

The board-approved capital plan is updated annually by the group CFO and covers a three-year horizon. The main purpose of the plan is to optimise the level and composition of capital to support the group's strategy, and takes the following into account:

- Targeted capital ratios
- Current regulatory developments and proposed changes
- Future business plans
- Appropriate buffers in excess of minimum requirements
- Stress testing scenarios
- Rating agency requirements

The group maintains a capital position commensurate with its overall risk profile and control environment as determined by the internal capital adequacy assessment (ICAAP). The board considers the ICAAP when setting an internal capital buffer over the minimum regulatory requirement.

ICAAP is key to the group's risk and capital management processes as it is an integral tool in meeting the capital management objectives. ICAAP allows and facilitates:

- the link between business strategy, risk introduced and capital required to support the strategy;
- the establishment of frameworks, policies and procedures for the effective management of material risks;
- the embedding of a responsible risk culture at all levels in the organisation;
- the effective allocation and management of capital in the organisation;
- the development of recognised stress tests to provide useful information which serve as early warnings/triggers, so that contingency plans can be implemented; and
- the determination of the capital management strategy and how the group will manage its capital during business as well periods of stress.

Stress testing and scenario analysis are an integral part of capital planning, and are used to ensure that the group ICAAP considers the impact of extreme but plausible scenarios on its risk profile and capital position. It provides insight into the potential impact of significant adverse events and how these could be mitigated through appropriate management actions.

Management has established appropriate governance structures in our capital planning and assessment methodology. The key committees involved in the process are the Asset and Liability (ALCO), Balance Sheet Management as well as Risk, Capital and Compliance (RCC) Committees.

Capital adequacy

Supply of capital

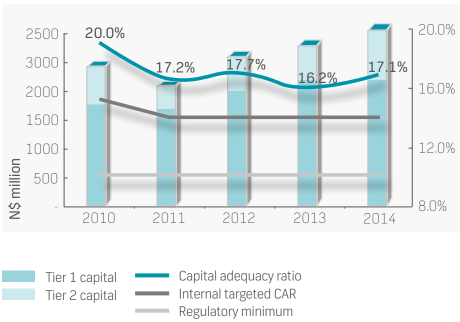
The group's planning process ensures that the total capital adequacy and tier 1 ratios remain within approved ranges or above target levels across economic and business cycles. FNB is appropriately capitalised for a range of normal and severe scenarios and possible stress events as attested in the latest ICAAP completed. FNB aims to back all economic risk with tier 1 capital, which offers the greatest capacity to absorb losses. Although the group's internal capital generation remains strong, the group seeks to hold limited excess capital above the approved target range, unless required to support business growth plans and future regulatory changes.

During the year FNB comfortably exceeded the regulatory minimum requirements, and also operated in excess of the group's internal target levels for both total capital and tier one capital. At 30 June 2014 total capital adequacy ratio is 17.1%, with tier 1 at 13.8%. The level of capital mostly reflects internal capital generated of N$461 million, being retained earnings after taking into account dividends.

Demand for capital

Risk weighted assets (RWA) continue to define the demand for capital in accordance with the group's strategic direction and risk appetite. Credit risk, as the dominant risk, remained the key driver of growth in RWA during the year and closely tracked the change in advances. In addition, operational risk increased in line with the growth in gross income.

The following graph depicts the change in capital levels over the past five years, with the capital adequacy ratio continuing to exceed the minimum requirement:



Regulatory developments and current compliance

Since the implementation of Basel II in Namibia on 1January 2010, the group has fully complied with the Basel II framework as set out under the Banking Institution's Determination (BID-5) by the Bank of Namibia (BON). The standardised approaches for determining the capital requirements for credit, operational and market risks are still applied whilst engaging the BON on the potential implementation of more advanced approaches in the future.

As a subsidiary of a South African banking group, FNB adopted Basel III on 1 January 2013 and has been reporting on this basis to the South African Reserve Bank (SARB). On 1 January 2014, the SARB increased its minimum capital ratios to 10.25 per cent as part of its transition to the end state minimum requirements communicated to all South African banking groups. FNB Namibia comfortably exceeded the requirements set out by the SARB.

More regulatory changes are expected, especially given the potential implementation of Basel III rules in Namibia. As a result of these potential changes, the group believes it is appropriate to remain both strongly capitalised, well in excess of regulatory minimum requirements.

Capital adequacy of FNB

N$'000	**2014** **N$m**	2013 N$m
Risk weighted assets		
Credit risk	**15 666**	13 830
Market risk	**35**	38
Operational risk	**2 335**	2 041
Total risk weighted assets	**18 036**	15 909
Regulatory capital		
Share capital and share premium	**1 143**	1 143
Retained profits	**1 498**	1 056
50% investment in deconsolidated entities		
Capital impairment: intangible assets	**(157)**	(176)
Total tier 1 capital	**2 484**	2 023
Eligible subordinated debt	**390**	390
50% investment in deconsolidated entities		
General risk reserve, including portfolio impairment	**201**	171
Total tier 2	**591**	561
Total tier 1 and tier 2 capital	**3 075**	2 584
Capital adequacy ratios		
Tier 1	**13.8%**	12.7%
Tier 2	**3.3%**	3.5%
Total	**17.1%**	16.2%
Tier 1 leverage ratio	**9.5%**	9.0%

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