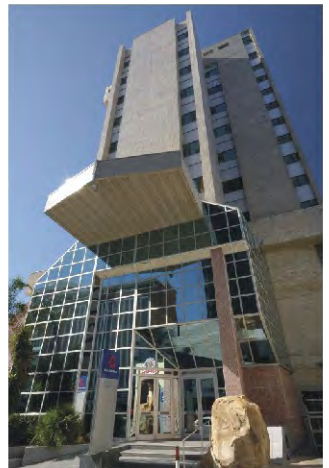


ANNUAL REPORT

2011



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Board of Directors



Koos Brandt
Chairman

Johan Swanepoel
Vice-chairman

Christo de Vries
Managing Director

Matheus Shikongo



Brian Black

Frans du Toit

Gida Nakazibwe-Sekandi

Eric Knuwds

Hellmut von Ludwiger
Group Company Secretary

Chairman's Report

Bank Windhoek – true Namibian banking

When a group of local entrepreneurs with a thorough knowledge of the local market set out to create a financially independent bank 29 years ago, the dream of a truly Namibian bank became a reality. The aim was to establish a bank governed and managed in Namibia with a uniquely Namibian ethos and local insight.

Since the establishment of Bank Windhoek, we have continued to show sound and sustained growth in a very competitive and highly regulated environment. By continuously investing in our people, building a sound support structure and by offering client-focused solutions, we have accelerated the Bank's outstanding growth. Bank Windhoek's existence continues to be characterised by a strong commitment to fulfilling its role as a partner in the development, economic growth and prosperity of Namibia.

During the period under review, Bank Windhoek returned another solid performance, and given relatively stable local financial and economic market conditions, the Bank will continue on a sustainable growth path. These achievements can be attributed to responsible and prudent management principles, combined with a dedicated staff contingent that operates in a unique organisational culture established over many years.

Bank Windhoek has become an employer of choice in the Namibian market and has, through the creation of local capacity, been able to export Namibian skills into the SADC region where our holding company, Capricorn Investment Holdings (CIH) operates. Bank Windhoek is the flagship brand of CIH and will continue to support the Group as it continues to

explore new and viable opportunities within the region.

The positive financial performance of Bank Windhoek during the year under review is also in part attributed to the stable political and macro-economic landscape within which we operate. Indeed, as demonstrated by the current turmoil in some of the countries in the Euro area, macro-economic and in particular debt sustainability, is essential for sustainable growth and economic development. It is worth noting that, due to the positive Namibian economic outlook, Fitch increased its sovereign credit rating for Namibia during the year under review. This improved rating will hopefully further strengthen Namibia's already strong credit fundamentals and enhance economic activity. Namibia, however, remains extremely vulnerable to eventualities occurring in Europe and the EU in particular.

Notwithstanding this positive outlook we remain aware of significant challenges facing Namibia, including a high unemployment rate and widespread and persistent poverty. Government is addressing these challenges and has introduced plans and programmes to address them head-on. The recently announced medium-term Targeted Intervention Programme for Employment and Economic Growth (TIPEEG) is but one example. We support these efforts and remain equally committed to playing our role in supporting Government's job creation and economic growth objectives. The Bank will continue expanding its banking services, including its branch and ATM network and other innovative and cost-efficient delivery channels, across Namibia to make banking more accessible to all Namibians.

Since the establishment of Bank Windhoek, we have continued to show sound and sustained growth in a very competitive and highly regulated environment.

HIGHLIGHTS

By investing in mutually beneficial relationships with our stakeholders, we demonstrate our long-term commitment towards the development and empowerment of Namibians and the local economy to ensure that, in future, together we will do even better.

Acknowledgements

We realise that the future success of Bank Windhoek is dependent on the enhancement of the country's economy as a whole and acknowledge that relationships and partnerships form an integral part of our organisation's success. By investing in mutually beneficial relationships with our stakeholders, we demonstrate our long-term commitment towards the development and empowerment of Namibians and the local economy to ensure that, in future, together we will do even better.

I would like to extend my gratitude to the management and staff of Bank Windhoek whose dedication and loyalty has been the cornerstone of our success. Without the support and trust of our esteemed clients, the Bank would not have been able to achieve the level of success we are celebrating. Furthermore, I want to take this opportunity to thank Mr James Hill for his support and dedication as Managing Director of Bank Windhoek from 2005 to 2011. As Bank Windhoek enters a new era there is no doubt that he leaves the Bank in a stronger position with proven potential, solid growth, capable and competent management and staff, a larger client base and an excellent track record of consistent performance.

On this note I wish to welcome Mr Christo de Vries as the Bank's new Managing Director. He brings with him a wealth of experience in all aspects of banking, in particular retail banking and risk and control management. He will no doubt add immense value and build on the successes of Bank Windhoek.



Koos Brandt
– Chairman

We are also honoured to welcome in our midst Mr Matheus Shikongo as a newly appointed director to the Board of Bank Windhoek. His experience and knowledge will be invaluable to the Bank.

To conclude, a special word of thanks to the Board of Directors, shareholders, government institutions, our esteemed clients and other stakeholders for their invaluable support in enabling the Bank to achieve another year of excellence.

J C Brandt
Chairman

Windhoek
7 September 2011

Economic Overview

The Global Economy

During 2010 the global economy bounced back from the greatest recession since the Second World War. In this regard, it is estimated that the global economy expanded by about 4.5% after it had contracted by about 1% during the preceding year. The sharp rebound was attributed to significant stimulus measures, including massive fiscal expansion and monetary easing. Notwithstanding the rapid rebound, the global economic recovery remains somewhat fluid and has been characterised as a so-called 'two speed recovery' by the International Monetary Fund (IMF). In view of this, growth of advanced economies is expected to remain below par in the medium term, while emerging and developing economies, led by China and India, are expected to record higher growth rates. Sub-Saharan Africa has become the second fastest growing region on the continent and 7 out of the top 10 fastest growing economies were located in sub-Saharan Africa during 2011. Although signs of weakness appeared in the global economy during the first quarter of 2011, the IMF in its June update on the World Economic Outlook, kept its overall growth projection of 4.3% for 2011 unchanged.

Influenced by stronger global demand, commodity prices recovered significantly throughout 2010 and by the first quarter of 2011, some commodity prices have exceeded their pre-crisis highs. Moreover, due to weather-related supply shocks, the price of food commodities, such as yellow maize and wheat, spiked significantly since the second half of 2011. However, since April 2011 there has been a general stabilisation in commodity prices, partly reflecting the unwinding of an earlier build-up of non-commercial derivative positives with increased general financial volatility, reaction to recent data

on softer global economic activity and an improved outlook for grain harvests in Russia; one of the world's largest suppliers of wheat. Much like commodity price developments, global financial conditions remained calm through much of 2010 and the first half of 2011. However, since May 2011, global financial conditions have become more volatile, reflecting market concerns about sovereign risks related to developments in the Euro area periphery and a concomitant softening of activity in major economies.

While the IMF largely rules out that the global economy would slide back into a recession, it nevertheless warns that the balance of risks to the outlook has tilted to the downside. These risks include heightened potential for spillovers from further deterioration in market confidence; market concerns about possible setbacks to the US recovery; and overheating pressures in some key emerging market economies that have intensified as observed in elevated consumer price inflation and, in some cases, high asset prices.

The Domestic Economy

In tandem with the global economy, the Namibian economy also showed a strong resurgence during 2010. After an estimated contraction of 0.7% in 2009, the Bank of Namibia estimates that the economy expanded by 4.6% in 2010. The economic recovery witnessed in 2010 was mainly due to a pickup in the pace of export oriented activities, in particular diamond mining. The secondary industries, led by the construction sector, also performed favourable compared to the preceding year. The Bank of Namibia estimates that the secondary industry expanded by about 4.7% in 2010 from 3.5% in the previous year. Also contributing to the strong performance of

Sub-Saharan Africa has become the second fastest growing region on the continent and 7 out of the top 10 fastest growing economies were located in sub-Saharan Africa during 2011.

HIGHLIGHTS

Namibia's annual inflation rate maintained its downward trend during the whole of 2010, starting the year at 6.3% in January and dropping to 3.1% in December. Consequently, for the year as a whole, the average annual inflation slowed to 4.5% from 8.5% during the preceding year.

the secondary industry was expansionary fiscal policies that led to increased investment in public and private sector infrastructure. On the other hand, the Bank of Namibia estimates a moderation in the pace of the tertiary industry output to 3.3% from 4.4% one year earlier.

During 2010, Namibia's monetary and financial sector remained fairly stable and price pressure remained largely under control. Although growth in broadly defined money supply slowed throughout 2010, the pace of private sector credit growth was relatively strong at 10.8%. The improved growth in private sector credit was reflected in higher demand for credit facilities by both businesses and households. Namibia's annual inflation rate maintained its downward trend during the whole of 2010, starting the year at 6.3% in January and dropping to 3.1% in December. Consequently, for the year as a whole, the average annual inflation slowed to 4.5% from 8.5% during the preceding year. Despite an improvement in exports earnings, the balance on Namibia's external current account deteriorated somewhat on account of reduced current transfers from the common SACU revenue pool. On the other hand, despite a significant expansionary budget, Namibia's total outstanding debt stock in relation to GDP declined to 14.7% in 2010 from 16.9% in the previous year.

Looking ahead, it is expected that the Namibian economy will continue to perform favourably in the medium term, with average annual growth rates of between 4% and 5% during the next three years. The expected stronger growth will be underpinned by relatively relaxed monetary conditions (interest rates are now at a historic low) and another expansionary fiscal budget. On the fiscal front, Government introduced a new programme aimed at curbing the escalating unemployment rate over the next three years and it is



Dr John Steytler
– Group Economist and Industry Advisor

expected that the total debt to GDP will increase to about 35% by the end of the next Medium Term Expenditure Framework covering the period 2011 / 2012 to 2013 / 2014.

As usual there are risks associated with any outlook. In the case of Namibia, the downside risks are closely related to potential spill over effects if the global economic outlook deteriorates. Another risk factor includes higher than envisaged inflation, although at this point in time, the average annual inflation rate is expected to remain in solid single digits in 2011. In addition, it will be necessary to look into the implementation of additional structural reforms, including improving the business climate to make Namibia more competitive in the long run and ensuring high and sustainable growth rates.

Operational Overview

The financial year – 30 June 2011

The financial year that ended on 30 June 2011 has been rewarding for stakeholders and I am pleased to present the Operational Overview featuring the highlights of our activities during this period. The financial results reported on are evidence of the dedication, knowledge and skills of the Bank's staff members and the loyalty and support of our clients. Thank you to my predecessor, Mr James Hill, whose fixed-term contract ended on 31 March 2011, for leading the Bank to its current position. I look forward to building on this strong foundation and to creating even more value for the Bank's stakeholders.

The period under review was characterised by low volatility in the currency and interest rate markets.

Operating Environment

The period under review was characterised by low volatility in the currency and interest rate markets. The local currency fluctuated between N\$7.80 and N\$6.50 to the US Dollar, while against the Euro the range was also tight; from N\$9.94 to N\$8.63.

Interest rates in Namibia moved to lower levels beginning on 8 July 2010 when Bank Windhoek led the move down with a 50bps cut in the Bank's prime overdraft rate to 10.75%. This was done in accordance with the request from the Bank of Namibia to close the spread between the prime and repo rates. In October 2010, when the repo rate was reduced by 25bps to 6.75%, the banks reduced their prime rates to 10.50% bringing the spread to 375bps. The repo rate ended the year at 6.00% and prime rate at 9.75%.

The world economy emerged from a severe recession triggered by the US housing

bubble and while the emerging economies were less hard hit than the developed countries, they were not left completely unscathed. Since Namibia's economy is closely linked to that of South Africa, contractions were felt. Assets under custody declined in value, but conditions improved moderately through the intervention of policy makers. Considering past events, trustees of pension funds will be focusing strongly on risk and compliance processes through their various service providers.

Looking ahead, there is continued uncertainty in the global economic environment and with increased regulation on capital and liquidity requirements, it will remain a challenging environment in which to responsibly navigate and grow our business. Risk management, to identify and address internal risks arising from the operations of the Bank, as well as external risks arising from the external environment in which the Bank operates, will remain a key focus.

Financial Performance

Despite the uncertainties associated with the aftermath of the global crisis and the legislative request to decrease interest margins, the Bank still achieved acceptable, yet slower, growth in net profit after tax to N\$276.9 million which represents 12% growth over the previous year. Major contributors to this positive performance were the Bank's focused funding strategy as well as improvements in the credit management processes, as reflected in the charge for bad debts ratio of 0.2% of gross advances. Operating expenses grew by a controlled 12% from the previous year resulting in an improved cost to

HIGHLIGHTS

Despite the uncertainties associated with the aftermath of the global crisis and the legislative request to decrease interest margins, the Bank still achieved an acceptable, yet slower, growth in net profit after tax of N\$276.9 million which represents a 12% growth over the previous year.

income ratio of 58% from 60% in the previous year. Investment in human capital continues to be the largest contributor to operating expenses with employee numbers increasing to 1 250 permanent employees, followed by information technology costs, as the Bank keeps abreast of advances in technology; an area identified by the Bank as a key strategic driver.

Gross advances increased with N\$1.7 billion, representing a growth of 15%, primarily as a result of new business from the mortgage loan portfolio. Regardless of this growth, the provision for bad debts is well maintained, below industry norms, at 0.8%. Deposits and debt securities have also grown 8% from the previous year as a result of instruments issued under the medium-term note programme.

Capital management remains a focus with the total risk-weighted capital ratio increasing from 12.6% in the previous year to 13.2% in the current year. N\$200 million of Tier 2 capital was raised during the year, a portion replacing Tier 2 capital instrument which matured. N\$93 million of dividends were declared and paid during the year, representing dividends of 1 905 cents per share.

Operational Highlights

A total of N\$400 million was successfully raised by our Treasury Department under the Bank Windhoek Medium Term Note Programme. A total of



Christo de Vries

— Managing Director

N\$200 million Tier 2 BW20 Subordinated Unsecured Callable Note and two Senior Debt floating rate issues, of N\$100 million each were issued to investors. The Bankers Association of Namibia (BAN), under its Treasury Subcommittee and chaired by Bank Windhoek's Treasurer, successfully launched two Namibian benchmark rates, namely the overnight and three-month WIBAR rates (Windhoek Interbank Agreed Rate).

Bank Windhoek maintains a representative footprint of 52 branches and agencies countrywide. As part of the Bank's expansion strategy and to improve service to its clients, a new service point was introduced at Omuthiya, under the auspices of the Ondangwa branch. The Bank's

OPERATIONAL OVERVIEW continued

Highlights from 2009 to 2011

Key statement of financial performance ratios

	2009	2010	2011
Non-interest income to total income ratio	37%	36%	34%
Cost to income ratio	59%	60%	58%
Net interest margin on total average assets	4.4%	4.3%	4.8%

Key statement of financial position ratios

	2009	2010	2011
Growth in gross loans and advances	17%	16%	15%
Impairment ratio as a percentage of gross loans	1.2%	0.9%	0.8%
Non-performing loans as a percentage of gross loans	1.7%	1.5%	1.5%
Growth in deposits and other debt instruments issued	21%	16%	8%

Capital ratios

	2009	2010	2011
Regulatory capital (N\$'000)	1,291,186	1,449,046	1,744,187
Leverage capital ratio	7.9%	8.0%	8.5%
Tier 1 risk-based capital ratio	10.3%	9.9%	9.9%
Total risk-based capital ratio	13.6%	12.6%	13.2%

branches at Ondangwa and Opuwo were upgraded and relocated during this period, whilst the Outjo branch was refurbished and upgraded. The Bank's sales and service processes were further refined to ensure that our clients are offered the appropriate products and services to satisfy their unique individual needs. As a result the number of actively transacting clients grew by 3.5%.

Bank Windhoek's Corporate and Executive Banking Division has, since its establishment in 2006, continuously provided tailor-made banking solutions and customer-centred services to Government, parastatals, international organisations, multinationals, South African and Namibian corporates as well as qualifying high net worth individuals. The division has shown satisfactory growth and it continues to play an important role in the growth of Bank Windhoek.

The Vehicle and Asset Finance Unit managed to perform well in a challenging and highly competitive market environment and grew its total advances book to N\$971 million from N\$847 million the previous year.

During 2010 / 2011 the Emerging Small and Medium Enterprises (ESME) branch grew steadily to an asset base in excess of N\$110 million. Successful partnerships with the Erongo Development Foundation, Rössing Foundation and the National Youth Council of Namibia remain in place, enabling small businesses to benefit from affordable finance and mentoring support.

BW Finance (Pty) Ltd continued to provide micro finance to government employees, as well as selected private companies, on the basis of a payroll deduction agreement.

HIGHLIGHTS



Bank Windhoek maintains a representative footprint of 52 branches and agencies countrywide. As part of the Bank's expansion strategy and to improve service to our clients, a new service point was introduced at Omuthiya, under the auspices of our Ondangwa branch. The Bank's branches at Ondangwa and Opuwo were upgraded and relocated during this period, whilst the Outjo branch was refurbished and upgraded.

During the year, the subsidiary grew its loan book from N\$200 million to nearly N\$240 million, servicing in excess of 24 000 clients.

The Bank's Property Finance branch concluded the financial year with excellent results. The branch's mortgage loan portfolio surpassed N\$2.6 billion, whilst reaffirming its position as the leading financier in the Namibian market of large property development projects.

The Bank refined its risk management frameworks, policies and procedures to better manage identified risks. Bank Windhoek also successfully submitted its first ICAAP report in terms of the Basel II Accord.

The implementation of the Financial Intelligence Act, Act 3 of 2007, received priority attention during the year under review across all business units. The early detection, identification and proactive prevention of fraud and irregular activities on accounts remain a critical focus point.

The Bank made substantial investments in its technology infrastructure to improve customer service and

also to mitigate emerging risks. In the card transacting environment further emphasis and focus was placed on our Point-of-Sale (PoS) offering, as well as the PCI DSS (Payment Card Industry Data Security Standards) implementation.

The Bank continued to invest in its most important resource; its staff. Through Bank Windhoek's Learning and Development Centres in Windhoek, Oshakati, Keetmanshoop and Katima Mulilo, staff received customised training in the field of management, leadership, soft skills and specialised operational training to ensure that the Bank has sufficient skills to meet the challenge of growing the business and servicing its clients. The Corporate Wellness module continued to make a difference in the lives of employees and various initiatives and wellness awareness campaigns ensured that the Bank's employees realise the importance of a healthy balanced lifestyle.

During the past financial year the Marketing and Corporate Communication Services department focussed on effective communication and relationship management with the Bank's stakeholders and improving service quality through the entrenchment of the Bank's service charter. Various community and welfare projects were supported through a wide range of sponsorships and donations and also through the Bank Windhoek Social Investment Fund. The annual Bank Windhoek Cancer Apple Project raised N\$1.4 million in aid of the Cancer Association of Namibia. Consumer education remains a top priority for the Bank and during the period under review, the focus of consumer education centred around compliance to the Financial Intelligence Act and awareness on fraud including ATM, card, internet banking and cheque fraud.

The Bank received a number of accolades, including the award for the Best Bank in Namibia, awarded by Emeafinance, an international financial magazine. PMR.Africa also acknowledged Bank Windhoek with four awards in March 2011. The Bank would not have received these awards without the support, loyalty and trust of its clients.

OPERATIONAL OVERVIEW continued

The Bank received a number of accolades including the award for the Best Bank in Namibia, awarded by Emeafinance, an international financial magazine. PMR.Africa also acknowledged Bank Windhoek with four awards in March 2011. The Bank would not have received these awards without the support, loyalty and trust of its clients.

Outlook for the 2011 / 2012 Financial Year

The Bank's objective is to deliver sustainable long-term value to its shareholders. In order to deliver on this, it will focus on the following key performance indicators:

- Strengthening of the internal and external service culture
- Increasing collaboration between the companies of Capricorn Investment Holdings by taking full advantage of economies of scale
- Improving operating efficiencies and internal processes to enhance efficiency
- Managing risk and compliance to all regulatory requirements
- Focusing on controlled growth in advances by attracting good quality advances
- Talent management and succession planning for key positions in the Bank
- Continuous development of innovative products and services
- Continued investment through its Social Investment Fund in the communities within which the Bank operates.

Bank Windhoek remains committed to strive for excellence and to make a difference in the lives of all our stakeholders, as we truly believe that Together we do Better. Furthermore we will continue to deliver on the commitments we have made to our shareholders.

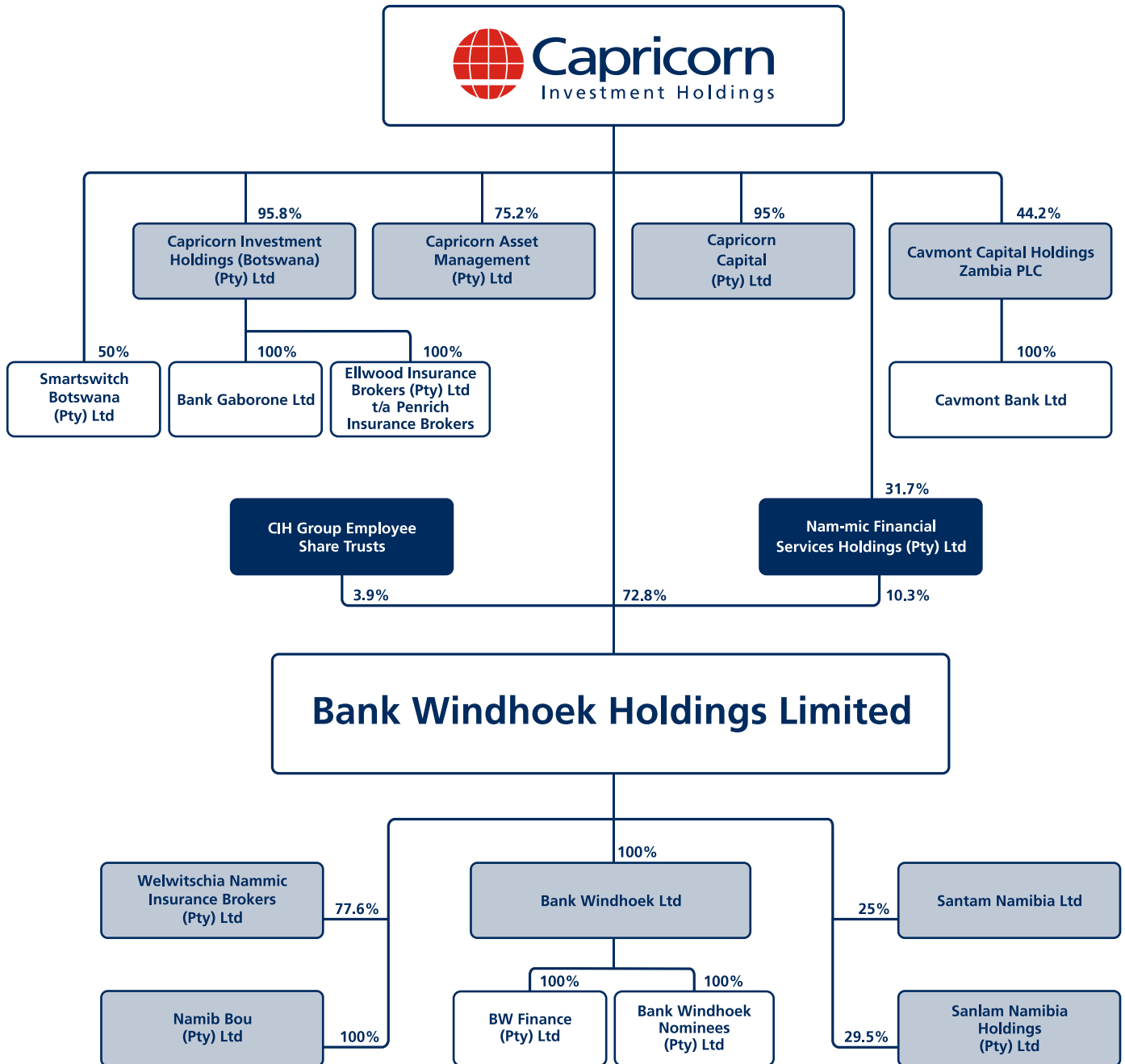
In 2012 we will celebrate 30 years of independent banking in Namibia, which is indeed a celebration of the entrepreneurial spirit of the group of local entrepreneurs who took a bold step in 1982 to establish Namibia's only independent bank.



C P de Vries
Managing Director

Group Structure

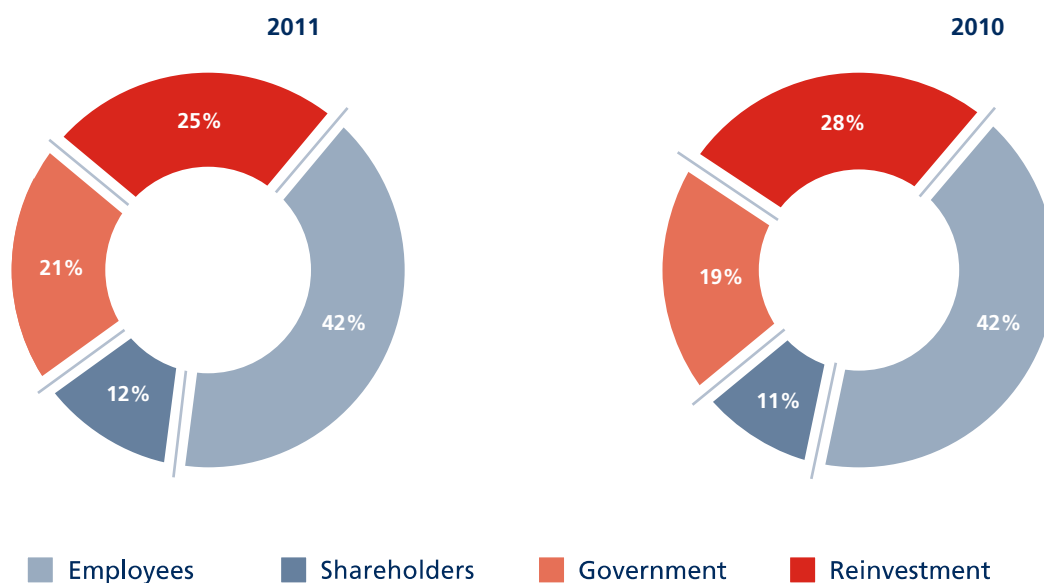
as at 30 June 2011



Value Added Statement

for the year ended 30 June 2011

	Group			
	2011 N\$'000	2011 %	2010 N\$'000	2010 %
Interest earned and other operating income	1,708,964		1,628,462	
Interest paid and direct costs of services	(936,507)		(953,290)	
Value added	772,457		675,172	
Distributed as follows:				
<i>To employees</i>				
Remuneration, pension and other benefits	323,868	42%	284,588	42%
<i>To providers of capital</i>				
Dividends to shareholders	93,000	12%	74,500	11%
<i>To Government</i>				
Taxes	159,050	21%	127,724	19%
– Direct	127,018		95,639	
– Indirect				
VAT	22,964		22,144	
Stamp duty	9,068		9,941	
<i>Reinvestment within the Group</i>				
Depreciation and amortisation	196,539	25%	188,360	28%
Distributable reserves	32,293		29,604	
	164,246		158,756	
	772,457	100%	675,172	100%



Annual Financial Statements

for the year ended 30 June 2011

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STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

for the year ended 30 June 2011

The directors are responsible for the preparation, integrity and objectivity of the financial statements that fairly present the state of affairs of the Company and of the Group at the end of the financial year and the net income and cash flow for the year and other information contained in this report.

To enable the directors to meet these responsibilities:

- the Board and management set standards and management implement systems of internal control, accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties;
- the Group's internal audit function, which operates unimpeded and independently from operational management and has unrestricted access to the Board Audit, Risk and Compliance Committee, appraises, evaluates and, when necessary, recommends improvements in the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business; and
- the Board Audit, Risk and Compliance Committee, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

The Group consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis.

The financial statements, presented on pages 22 to 75 have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the provisions of the Namibian Companies Act and the Banking Institutions Act.

The directors have no reason to believe that the Company and the Group as a whole will not be going concerns in the year ahead, based on forecasts and available cash resources. These financial statements have accordingly been prepared on a going concern basis.

The financial statements have been audited by the independent auditing firm, PricewaterhouseCoopers, who was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of Directors and committees of the Board. The directors believe that all representations made to the independent auditors during their audit were valid and appropriate. The independent auditors' report is presented on page 21.

The financial statements, set out on pages 22 to 75, were authorised and approved for issue by the Board of Directors on 7 September 2011 and are signed on their behalf:



J C Brandt
Chairman



C P de Vries
Managing Director

CORPORATE GOVERNANCE STATEMENT AND RISK REPORT

for the year ended 30 June 2011

Bank Windhoek Limited and its subsidiaries (the Group) are committed to the principles of corporate governance which are characterised by discipline, transparency, independence, accountability, responsibility, fairness and social responsibility. By subscribing to these principles, the Group believes all stakeholders' interests are promoted, including the creation of long-term share-holders value.

1. Board of Directors

The Board plays a pivotal role in the Group's corporate governance system. An overriding principle in regard to the Board's deliberations and approach to corporate governance will be that of intellectual honesty.

The Board, as constituted by the Companies Act, is governed by the board charter. The purpose of this board charter is to regulate how business is to be conducted by the Board in accordance with the principles of good corporate governance. The board charter sets out the specific responsibilities to be discharged by the board members collectively and the individual roles expected from them.

Role of the Board

An important role of the Board is to define the purpose of the Group, which is its strategic intent and objectives as a business enterprise, and its values, which is its organisational behaviour and norms to achieve its purpose. Both the purpose and the values should be clear, concise and achievable. The Board should also ensure that procedures and practices are in place that protect the Group's assets and reputation. The Group's strategy is considered and agreed annually, prior to the approval of the annual budget.

Responsibilities of the Board include the establishment, review and monitoring of strategic objectives, approval of major acquisitions, disposals and capital expenditure and overseeing the Group's systems of internal control, governance and risk management. A schedule of matters reserved for the Board's decision details key aspects of the Group's affairs that the Board does not delegate (including, among other things, approval of business plans and budgets, material expenditure and alterations to share capital).

Board leadership and composition

The Board provides leadership and vision to the Group in a way that will enhance shareholder value and ensure long-term sustainable development and growth of the Group.

There are two key tasks at the head of a company; the running of the Board and the executive responsibility for the running of the company's business. There should be a clear division of responsibilities at the head of the company to ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making. Based on this principle, the roles of the chairperson and managing director do not vest in the same person.

The Group has a unitary board, consisting of executive, non-executive and independent directors. Representation of independent directors on the Board is required and adhered to.

In terms of the Bank's Articles of Association ('Articles') the Board shall consist of not less than five members and in recent years the Board has averaged eight members. Currently, eight members constitute the Board at group level, including one executive director and four independent non-executive directors.

Board meetings

The meeting programme is approved by the Board annually and there should be no less than four meetings per year. During the year, all members of the Board attended all four meetings held with the exception of Mr M K Shikongo who was excused from attending one meeting.

Board members are required to observe the requirements of Section 234 of the Companies Act dealing with disclosures of interests and, where appropriate, board members should absent themselves from discussion or decisions on matters of potential conflict, unless resolved otherwise by the chairman or by the remaining members of the Board. No conflict of interests were observed during the reporting period.

Appointments

Procedures for appointments to the Board are formal and transparent. Members of the Board are recommended by the Group Nomination and Remuneration Committee which receives its mandate from the Board of the Group's ultimate holding company, Capricorn Investment Holdings Limited.

New board members will only hold office until the next annual general meeting at which they will retire and become available for election. Executive directors will be engaged on employment contracts, subject to short-term notice periods, unless approved by the Board. The Bank welcomed a new managing director on 1 June 2011 and was subject to induction training.

CORPORATE GOVERNANCE STATEMENT AND RISK REPORT continued

On appointment, non-executive directors will have the benefit of an induction programme aimed at deepening their understanding of the Company and the business environment and markets in which the Company operates, that includes background material, meetings with senior management and visits to the Company's facilities. All board members are expected to keep themselves abreast of changes and trends in the business and in the Company's environment and markets, which shall include changes and trends in the economic, political, social and legal climate generally.

Access to independent advice

The Company Secretary is available to provide assistance and information on governance and corporate administration to the directors as appropriate. The directors may also seek advice on such matters, or on other business related matters, directly from independent professional advisors, should they so wish. This is

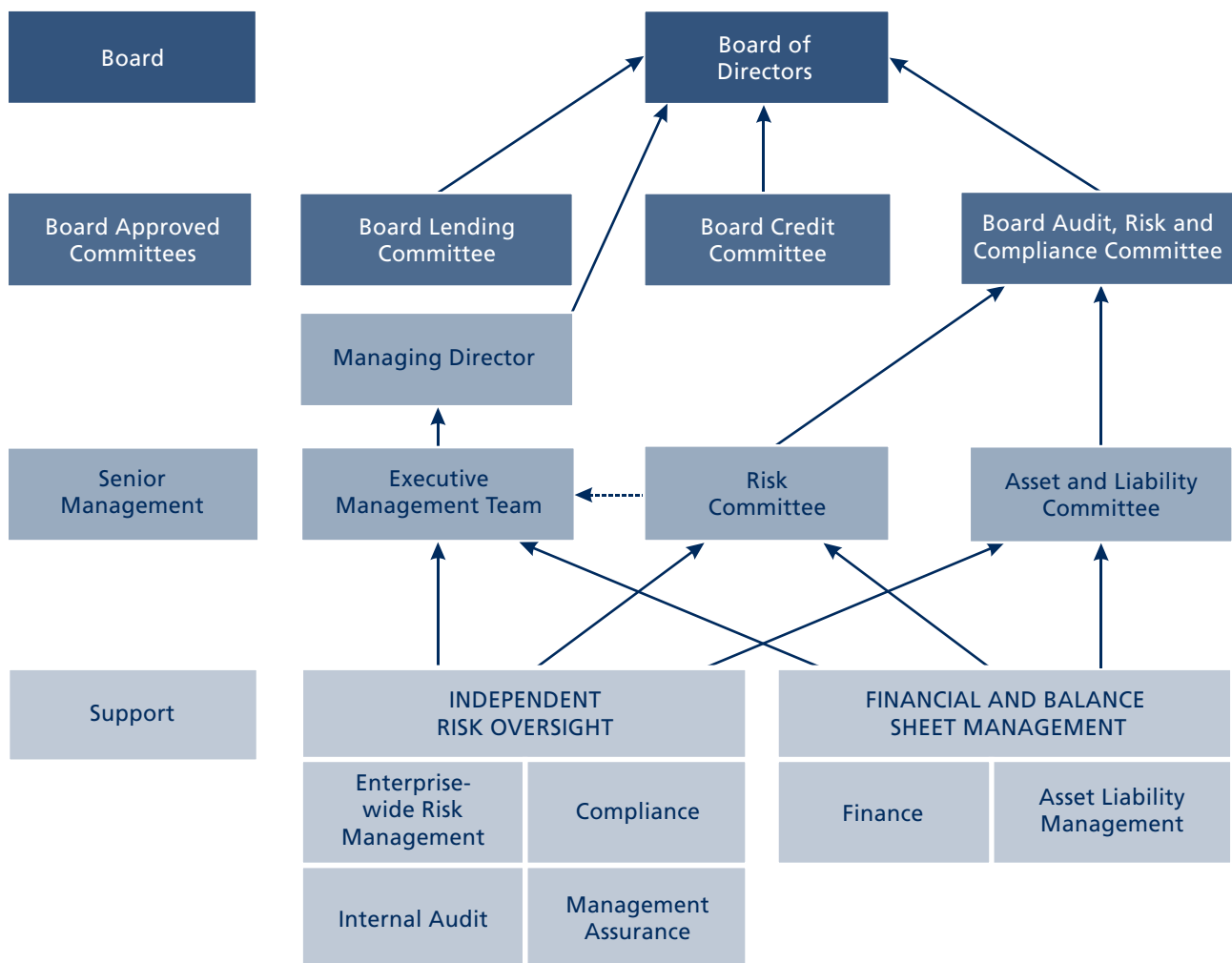
in addition to the advice provided by independent advisors to the Board Committees. No requests for external professional advice were received during the year.

2. Risk management

Risk management governance

The Board is ultimately accountable for any financial loss or reduction in shareholders value, and therefore has a duty to make the necessary enquiries to ensure that the requisite systems, practices and culture are in place to manage all risks to which the Group is exposed. These risk management / control responsibilities have primarily been delegated to the Board Audit, Risk and Compliance Committee (BARC), a subcommittee established by the Board.

The risk management structure of the Group is as follows:



The BARC, whose chairman is an independent non-executive director, was established to ensure the Bank's compliance with the requirements of the Banking Institutions Act, and more specifically to oversee sound risk management, accounting, internal audit, management assurance, internal control, compliance, forensics and ethics structures, and to liaise with the external auditors within the Group. Both the internal and external auditors have unrestricted access to this Committee, which ensures that their independence is in no way impaired.

During recent years and with the implementation of BASEL II, risk management within the Group has become a focal point. To assist the BARC in monitoring exposures to risks in the day-to-day operations, a Risk Committee comprising of members of the Executive Management Team and senior management, was established. The primary responsibility of this team is to evaluate the risk management model employed by the Group and to provide recommendations to manage identified, unidentified and potential risks.

The Enterprise-wide Risk Management (ERM) function, including operational risk analysis, market risk analysis and credit risk analysis, provides independent risk oversight. The Compliance function also reports to this unit and has a primary function of setting bank-wide standards for achieving compliance with the relevant laws, regulations and supervisory requirements, and industry and international best practice. The ERM function is headed by the Head: Risk Management, who is a member of the Executive Management Team. The Head: Risk Management reports directly to the managing director. He has unrestricted access to the chairman of the BARC. ERM is responsible for establishing and driving the implementation of risk management standards, methodology and processes.

Risk management framework

The Group has set in place an enterprise-wide risk management framework to receive information on the effectiveness of internal control procedures including the effectiveness of measures to identify and address significant internal risks arising from the operations of the Group, as well as external risks arising from the external environment in which the Group operates.

The risk management approach of the Group is to ensure that all risks that may have a significant negative impact or potential negative impact on the Group are identified and managed. The enterprise-wide risk

management policies, approved by the BARC, defines the major risks that the Group is exposed to, as well as how the identified risks should be assessed, monitored, controlled / mitigated and reported. This framework also establishes and quantifies the risk appetites for each category of principal risk the Group is exposed to.

In order for the Group to determine the extent to which potential events have an impact on the achievement of objectives, a risk assessment process is followed. Within this process, risks identified are subject to the assessment of the likelihood of occurrence, the magnitude of impact and its risk rating. Each risk is required to have a risk response, representing the Group's response to mitigate or accept the risk.

As operational risk events continuously evolve, arising from external market changes and other environmental factors, as well as from new products, activities and/or systems, the ongoing review of the operational risk management framework is a crucial link in the enterprise-wide risk management process. Risk management procedures enhanced during the year includes refining the process to identify and quantify operational loss events, the classification of these events in a risk matrix and the monitoring thereof.

Refer to note 3 to the financial statements for an analysis and quantitative disclosure in relation to credit, market and liquidity risk.

3. Internal control

The Group maintains systems of internal control over financial reporting and over safeguarding of assets against unauthorised acquisition, use or disposition. These are designed to provide reasonable assurance to the Group and each subsidiary's management and Board of Directors regarding the preparation of reliable published financial statements and the safeguarding of the Group's assets.

The systems include a documented organisational structure and division of responsibility, established policies and procedures which are communicated throughout the Group, and the proper training and development of its people.

The independent internal audit department is an independent and objective review and consulting department created to add value and improve systems of internal control. It helps the Group to accomplish its objectives by systematically reviewing current processes

CORPORATE GOVERNANCE STATEMENT AND RISK REPORT *continued*

for the year ended 30 June 2011

using a disciplined approach to establish the appropriateness of controls, the risk management process, the management control process and the governance process.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and the safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances.

The Group assesses its internal control systems on a continuous basis in relation to effective internal control over financial reporting. Based on its assessment, the Group believes that, as at 30 June 2011, its systems of internal control over financial reporting and over safeguarding of assets against unauthorised acquisitions, use or disposition, were adequate.

4. External auditors

The external audit policy, as issued by BARC, governs the work performed by the external auditors, both from an audit and non-audit perspective. The BARC approved the external auditors' terms of engagement, scope of work, the 2011 annual audit and the applicable levels of materiality. Based on written reports submitted, the Committee reviewed, with the external auditors, the findings of their work and confirmed that all significant matters had been satisfactorily resolved. There has been no significant non-audit work performed during the reporting period.

The Committee has also assessed the external auditors' independence and has concluded that the external auditors' independence was not impaired during the reporting period.

5. Code of ethics

As part of its corporate governance practise and to encourage an environment where loyalty, integrity and trust prevails, all employees are required to abide to the Group's code of ethics.

INDEPENDENT AUDITOR'S REPORT

to the Member of Bank Windhoek Limited

We have audited the group annual financial statements and annual financial statements of Bank Windhoek Limited, which comprise the consolidated and separate statements of financial position as at 30 June 2011, and the consolidated and separate statements of comprehensive income, changes in equity and 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 22 to 75.

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 controls as directors determine are 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Bank Windhoek Limited as at 30 June 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and requirements of the Companies Act of Namibia.



PricewaterhouseCoopers
Registered Accountants and Auditors
Chartered Accountants (Namibia)

Windhoek
7 September 2011

DIRECTORS' REPORT

The directors herewith submit their report with the annual financial statements of the Company and the Group for the year ended 30 June 2011.

1. General review

Bank Windhoek Limited conducts business as a registered bank and provides comprehensive banking services to its clients in Namibia. Although Bank Windhoek is an autonomous Namibian company, the Bank also provides international banking services through direct liaison with financial centres and institutions worldwide.

The following business activities are conducted through subsidiaries and joint ventures:

- **Bank Windhoek Nominees (Pty) Ltd**
– Custodian of third party investments
- **Intellect Investments Namibia (Pty) Ltd**
– Proprietor of Bank Windhoek trademark
- **BW Finance (Pty) Ltd**
– Micro lending
- **Bank Windhoek Properties (Pty) Ltd**
– Property investment
- **The Tourvest Namibia (Pty) Ltd / Bank Windhoek Ltd Joint Venture**
– Sales and purchases of foreign exchange
- **Namclear (Pty) Ltd**
– Payment clearing house

During the previous year, the Company disposed of its investment in Grootfontein Holdings (Pty) Ltd.

2. Financial results and dividends

Profit after tax was N\$276,930,000 (2010: N\$247,362,000). Full details of the financial results of the Group are set out on pages 24 to 75.

A prior year restatement occurred during the current year due to the assessment of the Group's self-insurance fund, which qualifies as a financial asset. This asset was previously not recognised. Refer to note 43 for further details.

During the year under review, dividends of 1905.3 cents per share (2010: 1526.3 cents per share) amounting to a total of N\$93.0 million (2010: N\$74.5 million) were declared by the Company.

3. Compliance to BID 2: Asset classification, suspension of interest and provisioning

The Bank has complied in all material aspects with the requirements set out in BID 2 with regard to asset classification, suspension of interest and provisioning.

4. Share capital

There were no changes to the share capital during the current and previous year.

5. Holding company and ultimate holding company

The Company is a wholly owned subsidiary of Bank Windhoek Holdings Limited, a company registered in Namibia. The ultimate holding company is Capricorn Investment Holdings Limited, also registered in Namibia.

6. Subsidiaries

The following information relates to the Company's financial interest in its unlisted subsidiaries:

	Issued ordinary share capital and premium and proportion held	Details of the Company's interest			
		Shares at cost		Indebtedness	
		2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
Bank Windhoek Nominees (Pty) Ltd					
– Issued ordinary share capital	100	-	-	-	-
– Proportion held	100%				
Intellect Investments Namibia (Pty) Ltd					
– Issued ordinary share capital	3,000,000	3,000	3,000	16,341	27,271
– Proportion held	100%				

6. Subsidiaries (continued)

	Issued ordinary share capital and premium and proportion held	Details of the Company's interest			
		Shares at cost		Indebtedness	
		2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
BW Finance (Pty) Ltd					
– Issued ordinary share capital	100	-	-	220,349	193,681
– Proportion held	100%				
Bank Windhoek Properties (Pty) Ltd					
– Issued ordinary share capital	1,000	19,799	19,799	4,039	5,280
– Proportion held	100%				

The Company's interest in the aggregate income earned of subsidiaries amounted to N\$10.5 million (2010: N\$7.1 million) for the year. No dividends were declared for the year (2010: Nil).

All subsidiaries are registered in Namibia.

7. Joint ventures

The following information relates to the Company's financial interest in its jointly controlled entity:

Namclear (Pty) Ltd					
– Issued ordinary share capital	4,616,004	1,154	1,154	-	-
– Proportion held	25%				

The following information relates to the Company's financial interest in its jointly controlled operations:

	Proportion held
The Tourvest Namibia (Pty) Ltd / Bank Windhoek Ltd Joint Venture	50%

8. Directors and Company Secretary

The following persons were directors of the Company during the financial year:

Non-executive:

J C Brandt	Chairman
J J Swanepoel	Vice-chairman
K B Black	
F J du Toit	
E Knouwds	
G Nakazibwe-Sekandi	
M K Shikongo	Appointed 5 October 2010

Executive:

C P de Vries	Managing Director (appointed 1 June 2011)
J M Hill	Managing Director (resigned 31 March 2011)

H G von Ludwiger was secretary of the Company during the year under review. The business and postal addresses of the company secretary are:

CIH House	PO Box 15
Kasino Street	Windhoek
Windhoek	Namibia
Namibia	

9. Post balance sheet events

No matter which is material to the financial affairs of the Company has occurred between the balance sheet date and the date of approval of the financial statements.

CONSOLIDATED AND SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 30 June 2011

	Notes	Group		Company	
		2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
Interest and similar income	5	1,351,540	1,300,366	1,334,045	1,285,662
Interest and similar expense	5	(680,223)	(732,626)	(680,156)	(732,553)
Net interest income		671,317	567,740	653,889	553,109
Impairment charges on loans and advances	6	(27,129)	(22,816)	(24,597)	(19,000)
Net interest income after loan impairment charges		644,188	544,924	629,292	534,109
Fee and commission income	7	303,228	263,504	296,223	257,725
Net trading income	8	44,445	50,518	44,445	50,518
Other operating income	9	5,836	8,946	21,314	24,855
Operating expenses	11	(593,907)	(530,259)	(603,016)	(542,615)
Operating profit		403,790	337,633	388,258	324,592
Share of profit of joint ventures	21	3,915	5,128	3,287	-
Profit before income tax		407,705	342,761	391,545	324,592
Income tax expense	12	(130,775)	(95,399)	(127,631)	(103,619)
Profit for the year		276,930	247,362	263,914	220,973
Other comprehensive income:					
Net gains on available-for-sale financial assets	16	852	1,025	852	1,025
Total comprehensive income for the year		277,782	248,387	264,766	221,998

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2011

	Notes	2011 N\$'000	Group 2010 N\$'000 As restated	2009 N\$'000 As restated
ASSETS				
Cash and balances with the Central Bank	13	448,561	700,970	328,619
Derivative financial instruments	14	488	653	626
Financial assets fair value through profit or loss	15	1,194,761	1,069,041	1,096,200
Investment securities	16	321,651	303,351	284,109
Due from other banks	17	362,238	403,711	465,079
Loans and advances to customers	18	13,023,983	11,339,715	9,711,337
Other assets	19	165,291	224,921	213,780
Interest in joint ventures	21	7,093	4,178	7,050
Intangible assets	22	13,369	2,877	3,836
Property, plant and equipment	23	129,233	129,947	134,901
Current tax asset		2,476	1,929	21,952
Deferred income tax asset	30	653	262	-
Total assets		15,669,797	14,181,555	12,267,489
LIABILITIES				
Derivative financial instruments	24	1,895	13,881	-
Due to other banks	25	246,974	-	-
Other deposits	26	3,188,906	3,970,799	2,084,583
Debt securities in issue	27	613,379	197,572	198,649
Deposits from customers	28	9,853,489	8,419,845	8,578,962
Other liabilities	29	188,703	194,497	199,121
Current tax liability		2,150	555	-
Deferred tax liability	30	135,030	130,882	130,860
Post-employment benefits	31	5,288	4,323	-
Total liabilities		14,235,814	12,932,354	11,192,175
EQUITY				
Share capital and premium	32	163,506	163,506	163,506
Non-distributable reserves	33	116,068	95,532	80,401
Distributable reserves	34	1,154,409	990,163	831,407
Total shareholders equity		1,433,983	1,249,201	1,075,314
Total equity and liabilities		15,669,797	14,181,555	12,267,489

COMPANY STATEMENT OF FINANCIAL POSITION

as at 30 June 2011

	Notes	2011 N\$'000	Company 2010 N\$'000 As restated	2009 N\$'000 As restated
ASSETS				
Cash and balances with the Central Bank	13	448,074	700,483	328,131
Derivative financial instruments	14	488	653	626
Financial assets fair value through profit or loss	15	1,194,761	1,069,041	1,096,200
Investment securities	16	321,651	303,351	284,109
Due from other banks	17	362,238	403,711	465,079
Loans and advances to customers	18	12,782,074	11,128,059	9,528,415
Other assets	19	165,291	225,044	213,776
Investment in subsidiaries	20	262,028	246,030	233,502
Interest in joint ventures	21	6,018	2,705	5,705
Intangible assets	22	11,451	-	-
Property, plant and equipment	23	106,437	106,189	108,681
Current tax asset		-	-	31,720
Total assets		15,660,511	14,185,266	12,295,944
LIABILITIES				
Derivative financial instruments	24	1,895	13,881	-
Due to other banks	25	246,974	-	-
Other deposits	26	3,188,906	3,970,799	2,084,583
Debt securities in issue	27	613,379	197,572	198,649
Deposits from customers	28	9,851,156	8,417,547	8,577,054
Other liabilities	29	186,574	192,313	194,903
Current tax liability		2,149	555	-
Deferred tax liability	30	135,031	130,883	130,860
Post-employment benefits	31	5,288	4,323	-
Total liabilities		14,231,352	12,927,873	11,186,049
EQUITY				
Share capital and premium	32	163,506	163,506	163,506
Non-distributable reserves	33	116,068	95,532	80,401
Distributable reserves	34	1,149,585	998,355	865,988
Total shareholders equity		1,429,159	1,257,393	1,109,895
Total equity and liabilities		15,660,511	14,185,266	12,295,944

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2011

Notes	Share capital and premium	Non-distributable reserves		Distributable reserves			Total equity	
	N\$'000	Insurance fund reserve N\$'000	Credit risk reserve N\$'000	Fair value reserve N\$'000	General banking reserve N\$'000	Retained earnings N\$'000	N\$'000	
GROUP								
	Balance at 1 July 2009, as previously stated	163,506	-	57,352	15,316	815,730	361	1,052,265
43	Restatement	-	-	-	-	-	23,049	23,049
	Transfer between reserves	-	23,049	-	-	-	(23,049)	-
	Balance at 1 July 2009, as restated	163,506	23,049	57,352	15,316	815,730	361	1,075,314
	Total comprehensive income for the year	-	-	-	1,025	-	247,362	248,387
	Transfer between reserves	-	-	15,131	-	157,647	(172,778)	-
35	Dividend for 2010	-	-	-	-	-	(74,500)	(74,500)
	Balance at 30 June 2010	163,506	23,049	72,483	16,341	973,377	445	1,249,201
	Balance at 1 July 2010, as restated	163,506	23,049	72,483	16,341	973,377	445	1,249,201
	Total comprehensive income for the year	-	-	-	852	-	276,930	277,782
	Transfer between reserves	-	5,568	14,968	-	158,922	(179,458)	-
35	Dividend for 2011	-	-	-	-	-	(93,000)	(93,000)
	Balance at 30 June 2011	163,506	28,617	87,451	17,193	1,132,299	4,917	1,433,983
COMPANY								
	Balance at 1 July 2009, as previously stated	163,506	-	57,352	15,316	815,730	34,942	1,086,846
43	Restatement	-	-	-	-	-	23,049	23,049
	Transfer between reserves	-	23,049	-	-	-	(23,049)	-
	Balance at 1 July 2009, as restated	163,506	23,049	57,352	15,316	815,730	34,942	1,109,895
	Total comprehensive income for the year	-	-	-	1,025	-	220,973	221,998
	Transfer between reserves	-	-	15,131	-	157,647	(172,778)	-
35	Dividend for 2010	-	-	-	-	-	(74,500)	(74,500)
	Balance at 30 June 2010	163,506	23,049	72,483	16,341	973,377	8,637	1,257,393
	Balance at 1 July 2010, as restated	163,506	23,049	72,483	16,341	973,377	8,637	1,257,393
	Total comprehensive income for the year	-	-	-	852	-	263,914	264,766
	Transfer between reserves	-	5,568	14,968	-	158,922	(179,458)	-
35	Dividend for 2011	-	-	-	-	-	(93,000)	(93,000)
	Balance at 30 June 2011	163,506	28,617	87,451	17,193	1,132,299	93	1,429,159

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

for the year ended 30 June 2011

	Notes	Group		Company	
		2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
Cash flows from operating activities					
Interest receipts		1,337,674	1,285,619	1,320,178	1,270,915
Interest payments		(651,676)	(714,093)	(651,609)	(714,020)
Commission and fees receipts		303,228	263,504	296,223	255,984
Other income received		46,287	73,508	60,766	91,158
Cash payments to employees and suppliers		(560,649)	(496,332)	(571,678)	(510,608)
Cash generated by operations	36	474,864	412,206	453,880	393,429
Dividends received		1,875	74	1,875	74
Income tax refund	37	574	-	-	-
Income tax paid	37	(126,545)	(75,061)	(121,889)	(71,321)
<i>Cash inflow from operating activities before changes in operating assets and liabilities</i>		350,768	337,219	333,866	322,182
<i>Changes in operating assets and liabilities</i>					
Net increase in financial assets designated at fair value		(48,432)	(561,928)	(48,432)	(561,928)
Net decrease in derivative financial instruments		(13,228)	(133)	(13,228)	(133)
Net increase in loans and advances to customers and banks		(1,727,492)	(1,688,009)	(1,694,707)	(1,655,458)
Net decrease / (increase) in other assets		59,630	(11,141)	59,728	(11,268)
Net (decrease) / increase in other deposits		(781,893)	1,886,216	(781,893)	1,886,216
Net increase / (decrease) in deposits from customers and amounts due to other banks		1,433,645	(159,117)	1,433,610	(159,507)
Net decrease in other liabilities		(5,794)	(4,623)	(5,743)	(2,591)
Net cash utilised in operating activities		(732,796)	(201,516)	(716,799)	(182,487)
Cash flows from investing activities					
Additions to property, plant and equipment	23	(28,884)	(31,206)	(28,884)	(31,206)
Proceeds from sale of property, plant and equipment		194	7,600	195	6,103
Additions to intangible assets	22	(14,000)	-	(14,000)	-
Increase in loans to subsidiaries		-	-	(15,998)	(14,245)
Distribution from joint venture		-	5,000	-	-
Proceeds from the sale of subsidiary		-	-	-	1,714
Net cash utilised in investing activities		(42,690)	(18,606)	(58,687)	(37,634)
Cash flows from financing activities					
Repayment of debt securities in issue	27	(113,541)	(19,610)	(113,541)	(19,610)
Proceeds from the issue of debt securities	27	500,801	-	500,801	-
Dividends paid	38	(93,000)	(74,500)	(93,000)	(74,500)
Proceeds from the reduction of capital in joint venture		-	3,000	-	3,000
Net cash generated from / (utilised) in financing activities		294,260	(91,110)	294,260	(91,110)
Net decrease in cash and cash equivalents		(481,226)	(311,232)	(481,226)	(311,231)
Cash and cash equivalents at the beginning of the year		1,202,161	1,513,393	1,201,674	1,512,905
Cash and cash equivalents at the end of the year	39	720,935	1,202,161	720,448	1,201,674

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2011

1. Basis of presentation

Bank Windhoek Limited Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued by the IASB effective at the time of preparing these statements. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

1.1 Going concern

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current financing. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

1.2 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 financial statements are presented in Namibia Dollar, which is the Group and the Company's functional and presentation currency.

1.3.1 Standards and interpretations issued affecting amounts reported and disclosures in the current year

Amendments to IFRS 2: Group cash-settled share-based payment transactions

The amendment clarifies the accounting for group cash-settled share-based payment transactions. The entity

receiving the goods or services shall measure the share-based payment transaction as equity-settled only when the awards granted are its own equity instruments, or the entity has no obligation to settle the share-based payment transaction. The entity settling a share-based payment transaction when another entity in the group receives the goods or services recognises the transaction as equity-settled only if it is settled in its own equity instruments. In all other cases, the transaction is accounted for as cash-settled. This amendment did not have any effect on the amounts reported as there were no such transactions occurring in the current year.

Amendments to IFRS 7 Financial Instruments: Disclosures (as part of Improvements to IFRSs issued in 2010)

The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The Group has applied the amendments in advance of their effective date (annual periods beginning on or after 1 January 2011). The amendments have been applied retrospectively.

Amendments to IAS 32 – Classification of rights issues

The amendment clarifies the accounting treatment when rights issues are denominated in a currency other than the functional currency of the issuer. The amendment states that if such rights are issued pro rata to an entity's existing shareholders for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. This amendment did not have any effect on the amounts reported as there were no such transactions occurring in the current year.

IFRIC 19 (AC 452) Extinguishing Financial Liabilities with Equity Instruments

This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. This amendment did not have any effect on the amounts reported as there were no such transactions occurring in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

1.3.2. Standards and interpretations issued but not yet effective

Effective date

These amendments are not expected to have a significant impact on the financial statements.

Amendment to IAS 19, 'Employee benefits'

These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.

Annual periods commencing on or after 1 January 2013

Amendment to IAS 1

'Financial statement presentation' regarding other comprehensive income

The main change resulting from these amendments is a requirement for entities to group items presented in Other comprehensive income (OCI) on the basis of whether they are potentially recycled to profit or loss (reclassification adjustments). The amendments do not address which items are presented in OCI.

Annual periods commencing on or after 1 July 2012

Amendment to IAS 12 – 'Income taxes' on deferred tax

Currently IAS 12, 'Income taxes', requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes – recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn.

Annual periods commencing on or after 1 January 2012

Amendment to IAS 24 – Related party disclosures

This amendment provides partial relief from the requirement for government related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party.

Annual periods commencing on or after 1 January 2011

IAS 27 (revised 2011) – Separate financial statements

This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

Annual periods commencing on or after 1 January 2013

IAS 28 (revised 2011) – Associates and joint ventures

This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

Annual periods commencing on or after 1 January 2013

Amendments to IFRS 1 – 'First time adoption' on hyperinflation and fixed dates

The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

Annual periods commencing on or after 1 July 2011

Amendment to IFRS 7 Disclosures – Transfer of financial assets

The amendments are intended to address concerns raised during the financial crisis by the G20, among others, that financial statements did not allow users to understand the ongoing risks the entity faced due to derecognised receivables and other financial assets.

Annual periods commencing on or after 1 July 2011

1.3.2. Standards and interpretations issued but not yet effective (continued)**Effective date***IFRS 9 – Financial Instruments (2009)*

This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value.

Annual periods commencing on or after 1 January 2013

IFRS 9 – Financial Instruments (2010)

The IASB has updated IFRS 9, 'Financial instruments' to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss.

Annual periods commencing on or after 1 January 2013

IFRS 10 – Consolidated financial statements

This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries.

Annual periods commencing on or after 1 January 2013

IFRS 11 – Joint arrangements

This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

Annual periods commencing on or after 1 January 2013

IFRS 12 – Disclosures of interests in other entities

This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

Annual periods commencing on or after 1 January 2013

IFRS 13 – Fair value measurement

This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

Annual periods commencing on or after 1 January 2013

IFRIC 14 (AC 447) – Pre-payments of a Minimum Funding Requirement (amendments)

This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 (AC 447) related to voluntary pension prepayments when there is a minimum funding requirement.

Annual periods commencing on or after 1 January 2011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated:

2.1 Consolidation

2.1.1 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

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

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries

have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

2.1.2 Transactions and non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.1.3 Joint ventures

Joint ventures are those enterprises over which the Company exercises joint control in terms of a contractual agreement.

A jointly controlled entity is a joint venture that involves the establishment of a company, partnership or legal entity. Jointly controlled operations involve the use of the assets and other resources of venturers. Each venturer uses its own assets and incurs its own liabilities. These joint ventures do not involve the establishment of a legal entity separate from the joint venturers themselves.

In respect of interests in jointly controlled operations, the Group recognises in its financial statements:

- its share of the jointly controlled assets, classified according to the nature of the assets;
- the assets that it controls, classified according to the nature of the assets;

- its share of liabilities that it incurs jointly with the other venturers in relation to the joint venture;
- any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and
- any expenses which it has incurred in respect of its interest in the joint venture.

Jointly controlled entities are accounted for by means of the equity method of accounting and are initially recognised at cost. The Group's investment in jointly controlled entities includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Adjustments are made to bring the accounting policies of jointly controlled entities in line with those of the Company, where appropriate, jointly controlled entities are measured at cost in the Company's financial statements.

2.2 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss under trading income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equity investments, whose changes in the fair value are presented in other comprehensive income, are included in the related reserve in equity.

2.3 Financial instruments

2.3.1 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

Financial assets are initially recognised at fair value, which is the cash consideration to originate or purchase the loan including any transaction costs, for all financial assets not carried at fair value through profit or loss.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers.

(i) *Financial assets at fair value through profit or loss*
A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. The designation cannot be subsequently changed. This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

Treasury bills, government stock and derivatives are designated in this category. Derivatives are designated as held for trading, unless they are designated and effective as hedging instruments.

Financial assets are designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

(i) *Financial assets at fair value through profit or loss (continued)*

customers or banks and debt securities in issue.

- financial assets are designated at fair value through profit or loss when they are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.
- financial instruments, such as debt securities held, containing one or more embedded derivatives that significantly modify the cash flows, are designated at fair value through profit and loss.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included under net gain from financial instruments designated at fair value through profit or loss in the profit or loss and in the period in which they arise. Interest income and expense and dividend income and expense on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are carried at amortised cost using the effective interest rate method. Interest calculated using the effective interest rate method is recognised in the profit or loss.

Loans and advances are classified in this category.

(iii) *Held-to-maturity*

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

Held-to-maturity investments are carried at amortised cost using the effective interest rate method. Interest calculated using the effective interest rate method is recognised in the profit or loss.

(iv) *Available-for-sale*

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in the statement of comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in the statement of comprehensive income should be recognised in the profit or loss.

However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale, as well as impairment losses, are recognised in the profit or loss. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in the profit or loss in 'Dividend income' when the Group's right to receive payment is established.

2.3.2 **Financial liabilities**

The Group recognises a financial liability when it becomes a party to the contractual terms of the financial instrument. The Group classifies its financial liabilities in the following categories: at amortised cost and financial liabilities at fair value through profit or loss.

(i) *At amortised cost*

The liability is recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, it is stated at amortised cost, any difference between proceeds net of transaction costs and the redemption value is recognised in the profit or loss over the period of the liability using the effective interest rate method.

The dividends on preference shares are recognised in the profit or loss as interest expense on an amortised cost basis using the effective interest rate method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an

equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Also classified in this category are deposits, the Group's debts in securities and other liabilities.

(ii) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Group as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller. Those financial instruments are recognised in the consolidated statement of financial position as 'Financial liabilities held for trading'.

Gains and losses arising from changes in fair value of financial liabilities classified held for trading are included in the profit or loss and are reported as 'Net gains / (losses) on financial instruments classified as held for trading'. Interest expense on financial liabilities held for trading are included in 'Net interest income'. The Group designated certain debt securities upon initial recognition as at fair value through profit or loss (fair value option); this designation cannot be changed subsequently. According to IAS 39, the fair value option is applied, as the debt securities consists of debt host and embedded derivatives that must otherwise be separated.

Financial liabilities for which the fair value option is applied are recognised in the consolidated statement of financial position as 'Financial liabilities designated at fair value'. Fair value changes relating to financial liabilities designated at fair value through profit or loss are recognised in 'Net gains on financial instruments designated at fair value through profit or loss'.

2.3.3 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges (e.g. FTSE, NYSE).

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the consolidated statement of financial position.

The Group uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

2.3.4 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.3.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2.3.5 Offsetting financial instruments (continued)

on a net basis, or realise the asset and settle the liability simultaneously.

2.3.6 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit or loss.

The method of recognising the resulting fair value gain 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:

- (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or,
- (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Group only applies hedge accounting when these criteria are met. Where these criteria are not met, derivatives are fair valued through profit or loss and these adjustments are disclosed separately.

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.

(i) Fair value hedge

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

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

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in equity are recycled to the profit or loss in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place). They are recorded in the revenue or expense line item associated with the related hedged item.

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

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the profit or loss and the derivatives are disclosed separately in the statement of financial position.

No hedge accounting existed at year-end.

2.4 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method. Securities lent to counterparties are also retained in the financial statements.

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

2.5 Impairment of financial assets**2.5.1 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 (or events) has an 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 assets is impaired includes observable

data that comes to the attention of the Group about the following loss events:

- (i) Significant financial difficulty of the issuer or obligator;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) 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 identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of borrowers 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 collectively assesses them 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 on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's 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 and the amount of the loss is recognised in the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

Impairment of loans and advances

Impairment losses are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

(i) Individually assessed loans and advances

Each loans and advances are assessed on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. The criteria used to determine that there is such objective evidence include the loss events described above. For those loans where objective evidence of impairment exists, impairment losses are determined considering the aggregate exposure to the client and the realisable value of security (or other credit mitigants) and likelihood of successful repossession.

(ii) Collectively assessed loans and advances

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated portfolio impairment. The calculation is based on the incurred but not identified ('IBNR') model, which takes into cognisance that it may take a period of time before management becomes aware of an objective evidence that a loan is impaired. Key inputs into this model are the historical average of probability of default and the historic average loss given default. The emergence period is also factored into the model, which represents management's view of the how long it takes for the objective evidence to become known to management.

To the extent that the unidentified impairments are insufficient to meet the minimum regulatory general provision, such shortfall is accommodated by a transfer of the applicable after-tax amount from distributable to non-distributable reserves.

When a loan is uncollectable, it is written off against the related provision for loan impairment. 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 or loss.

2.5.2 Assets carried at fair value

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 profit or loss, is removed from equity and recognised in the profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the 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 the profit or loss.

2.5.3 Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if the new terms are not met.

2.6 Intangible assets

2.6.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating

units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

2.6.2 Computer software and development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which ranges between three to seven years depending on the project life cycle.

2.6.3 Trademarks

Trademarks and licences are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 10 years.

2.7 Property, plant and equipment

Land and buildings comprise mainly of branches and offices. All property, plant and equipment is stated at historical cost less accumulated depreciation. Historical

cost includes expenditure that is 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 replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Motor vehicles	5 years
– Furniture and fittings	8,3 years
– Office equipment	6,67 years
– Computer equipment	3-5 years
– Buildings	30 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the profit or loss.

Investment properties held by Group companies and which are occupied by other Group companies are recognised as property, plant and equipment in the Group financial statements.

2.8 Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed property is included under other assets as inventory as it is held for sale in the ordinary course of business, at the lower of cost or net realisable value, and are derecognised when the assets are sold to third parties.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2.9 Impairment of non-financial assets (continued)

recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversals of the impairment at each reporting date.

2.10 Leases

2.10.1 A Group company is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the Group are primarily operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.10.2 A Group company is the lessor

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

2.11 Cash and cash equivalents

Cash and cash equivalents are stated at cost which approximates fair value due to the short-term nature of these instruments.

For the purposes of the statement of cashflow, cash and cash equivalents comprise balances with less than three months' maturity from the reporting date, including cash and non-restricted balances with the Central Bank, treasury bills and other eligible bills,

placements with other banks, short-term government securities and money market investments, as well as short-term borrowings from other banks.

2.12 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The Group recognises no provisions for future operating losses.

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

2.13 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdraft and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of

similar transactions and history or past losses, supplemented by the judgement of management.

Any increase in the liability relating to financial guarantees is taken to the profit or loss under operating expenses.

2.14 Post-employment benefits

2.14.1 Pension obligations

The Group operates a defined contribution plan. The plan is generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group provides no other post-retirement benefits to their retirees.

2.14.2 Severance pay provision

In terms of the new Labour Act of 2007, the Group is required to make payments (or provide other benefits) to employees when it terminates their employment. The implications of this requirement is that severance pay has to be paid to all employees when the employee:

- (i) is dismissed (except if due to misconduct or poor performance); or
- (ii) dies while employed.

The Group therefore has an obligation, more specifically a defined benefit, in terms of IAS 19 Employee benefit. The benefit is not funded by any plan assets as defined in IAS 19.

2.14.3 Leave pay

Employee benefits in the form of annual leave entitlements are provided for when they accrue to employees with reference to services rendered up to the reporting date.

2.14.4 Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.15 Deferred and current income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.15.1 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts and tax losses carried forward and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. 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. 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 affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2.15.2 Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2.16.1 Net trading income

Net trading income comprises all gains and losses from changes in the fair value of financial assets and liabilities held for trading as well as foreign exchange gains and losses arising from instruments held for trading.

2.16.2 Interest income and expense

Interest income and expense are recognised in the profit or loss for all instruments measured at amortised cost using the effective interest rate 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 relevant period. 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, prepayment 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.

Interest income and expense and dividend income and expense on financial assets at fair value through profit or loss are included in 'Net interest income' or 'Dividend income', respectively.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.16.3 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionment basis. Asset management fees related to investment funds are recognised over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

2.16.4 Other income

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreements. Dividend income is recognised when the right to receive payment is established.

2.17 Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

2.18 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are declared by the Board of Directors.

Dividends for the year that are declared after the reporting date are dealt with in the post balance sheet events note under the directors' report.

2.19 Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.20 Operating segments

The Group considers its banking operations as one operating segment. This is in a manner consistent with the internal reporting provided to the chief operating decision-maker, identified as the managing director of the Group. The chief operating decision-maker is the person that allocates resources to and assesses the performance of the operating segment(s) of an entity.

In assessing the performance of the banking operation, the managing director reviews the various aggregated revenue streams, the total costs and the assets and liabilities related to banking activity, which have been disclosed in the various notes to the consolidated financial statements.

3. Financial risk management

Assuming financial risks is inherent within any business environment. Managing these risks continues to play a pivotal role within the Group to ensure an appropriate balance is reached between risks and returns.

The Board of Directors is ultimately responsible to ensure that the Group is not exposed to risks which may

have a negative impact on its financial performance, and which may ultimately have an adverse effect on the continued operations of the Group. However, it is the responsibility of management to identify risks, whether real or anticipated, within their business units, and take appropriate actions.

Management's approach to risk management is to ensure all risks are identified and managed, and the returns are balanced with the risks taken. Compliance with a set of comprehensive risk management policies are an integral part of the Group's day-to-day activities and systems of internal controls have been implemented to prevent and detect risks.

The following key principles are the foundations of the Bank's risk management process:

- Adoption of a risk management framework which applies to all business units and risk types;
- Risk assessment, measurement, monitoring and reporting;
- Independent reviews; and
- Risk governance processes.

The following subcommittees have been formed to assist the Board of Directors to manage risks:

Asset and Liability Committee (ALCO)

The Group trades in financial instruments where it takes positions in traded instruments, including derivatives, to take advantage of short-term market movements in bonds and in currency, interest rate and commodity prices. Amongst other responsibilities, ALCO is tasked to monitor the risks associated with these activities. Risk management includes the setting of trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. In addition, with the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

The ALCO also carries the primary responsibility of monitoring the Group's liquidity position, as well as formulating the funding strategy. During the year, a subcommittee of ALCO, the interest rate subcommittee, was established. The interest rate subcommittee reviews the economic environment and recommends to ALCO interest rate views. ALCO activities are reported to the Board, Audit, Risk and Compliance Committee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

Board Credit Committee (BCC) and Board Lending Committee

One of the Group's primary activities is lending to retail and commercial borrowers. The Bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The BCC and Board Lending Committee are tasked to ensure this objective is achieved by ensuring credit exposures remain within an acceptable range of credit standing. Such exposures involve not just loans and advances reflected on the statement of financial position; but also guarantees and other commitments such as letters of credit.

Risk Committee

In addition to the above committees, a Risk Committee, comprising of members of the executive management team and reporting to the Board Audit, Risk and Compliance Committee, was established. Its primary responsibilities are to:

- evaluate the risk management model employed by the Group in terms of effectiveness and efficient deployment of resources (i.e. cost versus benefit);
- discuss and identify gaps and weaknesses in the management information system (MIS) to enable management to make the correct decisions;
- discuss the findings and recommendations of the Bank's risk functions and evaluate whether appropriate action has been taken when necessary;
- enhance general risk awareness within the Bank;
- monitor the management of risks to ensure that the Group complies with the Bank of Namibia's guidelines for effective risk management; and
- to discuss in detail any identified, unidentified and potential risks that are material to the Group.

The Board of Directors, through its Board Audit, Risk and Compliance Committee (BARC), also places reliance on the function of internal audit to detect whether business units comply with the risk management policies and report non-compliance thereof.

Significant risks to which the Group is exposed are discussed below. Quantitative disclosures are based on Group results as the Company results do not vary significantly from the Group results.

3.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the reporting date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the reporting date. Credit risk, together with large exposures, are monitored by the Board Credit and Board Lending committees.

In addition to credit risk through a loan, the Group is exposed to counterparty credit risk, which is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Unlike credit exposures to loan, exposures to counterparty credit could result in a positive or negative impact to the financial performance of the Group, depending on the underlying market factors. Such risk is associated primarily with derivative transactions.

3.1.1 Risk limit control and mitigation policies

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks, including exposures to industry segments, are monitored on a monthly basis and are subject to an annual or more frequent review. Limits on the level of credit risk by country are approved by the Board of Directors.

Exposure to credit risk is managed upfront when an application for credit is received. The Credit Risk Management Model is utilised by the Group and assess the three components of safety, desirability and profitability. Throughout the lifespan of the credit facility, regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations is assessed and lending limits are changed where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but for a portion of personal lending no such collateral or guarantee can be obtained. The amount the Group is willing to lend unsecured is also capped and approved by the Board.

Placements with banks, including loans and advances to banks, are subject to normal credit processes. Credit

limits to these banks take into consideration ratings performed by external rating agencies.

Some other specific control and mitigation measures are outlined below:

(i) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- cash which is deposited with and ceded to the Group;
- deposit with any registered financial institution and ceded to the Group;
- life assurance policy with a confirmed surrender value; and
- any other form of tangible collateral security subject to approval by the Credit Department.

Valuation methodologies and period of validity on collaterals are outlined in established policies, which are approved by the Board.

Long-term finance and lending to corporate entities are generally secured. In addition, in order to minimise the credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Although revolving individual credit facilities are generally unsecured, these are only granted to clients after stringent credit reviews.

(ii) Derivatives

The Group maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

(iii) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities reflected on the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative financial instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(iv) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurance that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

3.1.2 Impairment and provisions

The Group employs various techniques to determine the specific and general impairment of its financial assets.

Loans and advances are individually assessed for impairment when they have been flagged as being past due more than 90 days. Other financial assets are impaired according to the general impairment policy as per note 2.5.1.

For regulatory purposes, the Group adheres to BID 2 with regard to asset classification, suspension of interest and provisioning.

(i) Loans and advances neither past due nor impaired

This category comprises of the following:

- Loans and advances to banks have not been impaired as these placements are made to banks that have high credit standing and, by policy, limits

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

(i) *Loans and advances individually impaired (continued)*
the amounts of credit exposure to any one financial institution.

– Loans and advances to customers in this category primarily comprise structured finance to large corporate clients, which have no evidence of a deterioration of credit quality.

(ii) *Loans and advances subject to general impairment*
The total loans and advances to customers portfolio is subject to collective assessment as described in note 2.5.1.

(iii) *Loans and advances individually impaired*
The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is N\$193.2 million (2010: N\$172.8 million). The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, is as follows:

	Overdrafts N\$'000	Term loans N\$'000	Mortgages N\$'000	Instalment finance N\$'000	TOTAL N\$'000
As at 30 June 2011					
Individually impaired loans	59,028	38,645	65,002	30,477	193,152
Fair value of tangible collateral	31,793	22,748	54,364	10,929	119,834
As at 30 June 2010					
Individually impaired loans	45,238	36,126	67,359	24,114	172,837
Fair value of collateral	21,380	18,683	55,393	7,926	103,382

Loans and advances are summarised as follows:

	2011		2010	
	Loans and advances to customers N\$'000	Due from other banks N\$'000	Loans and advances to customers N\$'000	Due from other banks N\$'000
Neither past due nor impaired	151,357	362,238	7,915	403,711
Loans and advances not past due but subject to general impairment	12,790,457	-	11,262,316	-
Individually impaired	193,152	-	172,837	-
Gross	13,134,966	362,238	11,443,068	403,711
Less: allowance for impairment	110,984	-	103,353	-
Net	13,023,982	362,238	11,339,715	403,711

(iii) *Loans and advances individually impaired*
(continued)

Further information of the impairment allowance for loans and advances to customers is provided in note 18.

3.1.3 Repossessed collateral

The Group obtained assets by taking possession of collateral held as security. The value of the assets still on the statement of financial position are as follows:

	Carrying amount	
	2011 N\$'000	2010 N\$'000
<i>Nature of assets</i>		
Residential property	1,126	2,220

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the statement of financial position within other assets.

3.1.4 Credit risk weighted amounts

The following risk weighted amounts, including related impairments and write-off, have been assigned to the components of credit risk, as defined in BID 5 – Determination on Capital Adequacy:

	Exposure N\$'000	2011		Written-off N\$'000
		Impairment N\$'000	Risk-weighted amounts N\$'000	
<i>Counterparties</i>	1,340,882	-	-	-
Sovereign and Central Bank	145,394	-	72,382	-
Public sector entities	338,805	-	67,761	-
Banks	2,568,374	5,318	2,562,452	-
Corporate	4,338,264	51,860	3,233,206	17,324
Retail	3,664,800	5,763	1,845,997	2,604
Residential mortgage properties	2,418,621	214	2,425,710	-
Commercial real estate	924,875	-	657,078	-
Other assets	15,740,015	63,155	10,864,586	19,928

Only claims on banks are risk-weighted based on external credit assessment. The Group utilises available external rating agencies' ratings on both short-term and long-term exposures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

3.1.5 Credit risk concentration by industry

The following table breaks down the Group's main credit exposure at their gross amounts, as categorised by the industry sectors of our counterparties:

	Cash and balances with the Central Bank	Derivative financial instruments and investment securities	Financial assets designated at fair value through profit or loss	Due from other banks	Loans and advances to customers	Other assets	TOTAL
	N\$'000	N\$'000	N\$'000	N\$'000	N\$'000	N\$'000	N\$'000
As at 30 June 2011							
Agriculture and forestry	-	-	-	-	892,760	-	892,760
Fishing	-	-	-	-	277,017	-	277,017
Mining	-	-	6,833	-	45,860	-	52,693
Manufacturing	-	-	-	-	498,956	-	498,956
Building and construction	-	-	-	-	883,883	-	883,883
Electricity, gas and water	-	-	-	-	35,866	-	35,866
Trade and accommodation	-	-	-	-	4,863,061	-	4,863,061
Transport and communication	-	-	-	-	256,223	-	256,223
Finance and insurance	128,076	304,946	29,198	362,238	610,799	-	1,435,257
Real estate and business services	-	-	-	-	2,861,723	-	2,861,723
Government	320,485	-	1,158,730	-	11,781	-	1,490,996
Individuals	-	-	-	-	1,883,051	-	1,883,051
Other	-	17,193	-	-	13,986	164,165	195,344
	<u>448,561</u>	<u>322,139</u>	<u>1,194,761</u>	<u>362,238</u>	<u>13,134,966</u>	<u>164,165</u>	<u>15,626,830</u>
As at 30 June 2010							
Agriculture and forestry	-	-	-	-	479,909	-	479,909
Fishing	-	-	-	-	187,807	-	187,807
Mining	-	-	2,068	-	139,136	-	141,204
Manufacturing	-	-	-	-	238,383	-	238,383
Building and construction	-	-	-	-	133,837	-	133,837
Electricity, gas and water	-	-	-	-	31,090	-	31,090
Trade and accommodation	-	-	-	-	396,093	-	396,093
Transport and communication	-	-	-	-	140,669	-	140,669
Finance and insurance	211,129	287,663	112,323	403,711	1,795,345	-	2,810,171
Real estate and business services	-	-	-	-	3,359,234	-	3,359,234
Government	489,841	-	954,650	-	163,782	-	1,608,273
Individuals	-	-	-	-	4,267,510	-	4,267,510
Other	-	16,341	-	-	110,273	222,701	349,315
	<u>700,970</u>	<u>304,004</u>	<u>1,069,041</u>	<u>403,711</u>	<u>11,443,068</u>	<u>222,701</u>	<u>14,143,495</u>

During the year, a review of the sectoral information for loans and advances was performed, resulting in various accounts being reclassified from the category 'individual' to 'trade and accommodation'.

3.1.6 Credit risk concentration by country

	Due from other banks	Loans and advances to customers	Total exposure on the statement of financial position N\$'000
	N\$'000	N\$'000	N\$'000
As at 30 June 2011			
Botswana	-	39,553	39,553
South Africa	273,088	-	273,088
United Kingdom	1,177	-	1,177
United States of America	84,926	-	84,926
Other countries	3,047	-	3,047
	<u>362,238</u>	<u>39,553</u>	<u>401,791</u>
As at 30 June 2010			
Botswana	194	19,957	20,151
South Africa	225,262	-	225,262
United Kingdom	2,125	-	2,125
United States of America	3,298	-	3,298
Other countries	2,513	-	2,513
	<u>233,392</u>	<u>19,957</u>	<u>253,349</u>

There are no exposures to other countries which are not recorded on the statement of financial position.

3.2 Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. It is the Group's policy not to enter into long-term, unhedged fixed interest rate contracts for loans and advances. Interest rate structures of deposits reflect the interest rate view and strategy of the ALCO and maturity structures of term deposits are in line with the ALCO policy.

3.2.1 Market risk measurement techniques

The Group employs several measurement techniques to assess potential exposures to market change. Sensitivity analysis is applied to measure the impact of changes in interest rates. This measure is of importance in assessing the exposure of the Group's trading portfolio and the effect of such changes on the interest margin.

Other measurement techniques include comprehensive analysis of maturities, both from the advance and funding perspective.

3.2.2 Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

3.2.2 Foreign exchange risk (continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk at 30 June. Included in the table are the Group's financial instruments at the carrying amounts, categorised by currency.

Concentration of foreign denominated currency financial instruments

	US\$ N\$'000	€ N\$'000	£ N\$'000	Other N\$'000	Total N\$'000
As at 30 June 2011					
ASSETS					
Cash and balances with the Central Bank	9,512	1,759	31	47	11,349
Derivative financial instruments	-	-	-	488	488
Financial assets at fair value through profit or loss	-	-	6,833	-	6,833
Investment securities	17,193	-	-	-	17,193
Due from other banks	165,194	37,473	1,177	35,511	239,355
Loans and advances to customers	2,882	1,851	47	-	4,780
Total financial assets	194,781	41,083	8,088	36,046	279,998
As at 30 June 2011					
LIABILITIES					
Due to other banks	20,705	-	8,269	-	28,974
Deposits from customers	155,332	31,770	1,735	30	188,867
Total financial liabilities	176,037	31,770	10,004	30	217,841
Net financial position	18,744	9,313	(1,916)	36,016	62,157
Credit commitments	17,164	4,727	118	398	22,407
As at 30 June 2010					
Total financial assets	158,676	21,288	4,684	20,465	205,113
Total financial liabilities	165,797	22,177	1,975	903	190,852
Net financial position	(7,121)	(889)	2,709	19,562	14,261
Credit commitments	11,783	12,434	584	793	25,594

	Effect on net profit	
	2011 N\$ '000	2010 N\$ '000
The following is a sensitivity analysis, monitored on the following major currencies of non-equity instruments, had a 3.5% change arisen on the various currencies:		
US Dollar / Namibia Dollar	4,417	(1,900)
British Pound / Namibia Dollar	3,177	(290)
Euro / Namibia Dollar	(723)	1,087
The following effect of a 3.5% change would arise on equity instruments:		
Effect of British Pound denominated equity instrument on net profit before tax	239	72
Effect of US Dollar denominated equity instrument on equity	601	572

3.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes

but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Interest rate risk analysis

	Up to 1 month N\$ '000	1 – 3 months N\$ '000	3 – 12 months N\$ '000	1 – 5 years N\$ '000	Non-interest sensitive N\$ '000	Total N\$ '000
As at 30 June 2011						
ASSETS						
Cash and balances with the Central Bank	182,150	-	-	-	266,411	448,561
Derivative financial instruments	488	-	-	-	-	488
Financial assets designated at fair value through profit or loss	223,145	182,222	744,759	37,802	6,833	1,194,761
Investment securities	304,458	-	-	-	17,193	321,651
Due from other banks	335,077	-	-	-	89,150	424,227
Loans and advances to customers	13,016,605	-	-	-	7,377	13,023,982
Other assets	43,360	-	-	-	120,805	164,165
Total assets	14,105,283	182,222	744,759	37,802	507,769	15,577,835
LIABILITIES						
Derivative financial instruments	(1,895)	-	-	-	-	(1,895)
Due to other banks	(218,000)	-	-	-	(28,974)	(246,974)
Other deposits	(319,166)	(227,800)	(2,595,250)	-	(46,690)	(3,188,906)
Debt securities in issue	-	-	-	-	(613,379)	(613,379)
Deposits from customers	(9,664,692)	-	-	-	(188,797)	(9,853,489)
Other liabilities	-	-	-	-	(188,703)	(188,703)
Total liabilities	(10,203,753)	(227,800)	(2,595,250)	-	(1,066,543)	(14,093,346)
Interest sensitivity gap	3,901,530	(45,578)	(1,850,491)	37,802	(558,774)	1,484,489
Cumulative interest sensitivity gap	3,901,530	3,855,952	2,005,461	2,043,263	1,484,489	-
As at 30 June 2010						
Interest sensitivity gap	4,852,267	(1,418,646)	(3,389,774)	785,138	381,859	1,210,844
Cumulative interest sensitivity gap	4,852,267	3,433,621	43,847	828,985	1,210,844	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

	2011 N\$'000	2010 N\$'000
The following interest rate sensitivity is based on the effect of changes to the interest rate over a six month period on net interest income:		
100 basis points increase	22,130	27,127
100 basis points decrease	<u>(22,817)</u>	<u>(25,492)</u>
The following interest rate sensitivity is based on the effect of changes to the interest rate on financial assets classified as available-for-sale on net interest income:		
100 basis points increase	2,957	2,529
100 basis points decrease	<u>(2,957)</u>	<u>(2,529)</u>

3.2.4 Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified either as available-for-sale or fair value through profit or loss. These securities are listed on FTSE and NYSE.

The Group generally does not undertake equity exposure. The exposure arose due to specific circumstances and are managed individually.

The following sensitivity analysis indicates the impact of a 10% change in the securities valuation:

	2011 N\$'000	2010 N\$'000
Effect on equity	1,719	1,634
Effect on net profit before taxation	<u>683</u>	<u>207</u>

3.2.5 Market risk capital charge

The following capital charges have been assigned to the components of market risk, as defined in BID 5 – Determination on Capital Adequacy:

	Capital charge	
	2011 N\$'000	2010 N\$'000
Interest rate risk	5,613	2,223
Foreign exchange risk	<u>9,099</u>	<u>842</u>

3.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn.

Asset liquidity risk represents the availability of sufficient assets in liquid form to meet pressing obligations. In situations where liquid assets on hand could be utilised to earn a higher return instead of paying current obligations, the opportunity cost also plays a role (i.e. potential higher return less the cost of obtaining replacement liquidity). Liquidity management must attempt to match the most appropriate available liquidity to the most appropriate maturing liabilities.

Funding liquidity risk relates to an enterprise's capability to generate funding at short notice at reasonable expense to meet pressing liquidity requirements.

The Group's liquidity management process is outlined in the liquidity policy which includes inter alia the Group's funding strategy. Procedures, as set out in this policy, include the following:

- Daily monitoring of liquid assets;
- Proactive identification of liquidity requirements and maturing assets;
- Liquid asset minimum limit;
- Proactively identify short, medium and long-term liquidity requirements; and
- Relationship management with other financial institutions.

The table below presents the cash flows payable by the Group by remaining contractual maturities at the date of the consolidated statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flow, hence it does not reconcile to the values reflected on the statement of financial position:

	Up to 1 month N\$ '000	1 – 3 months N\$ '000	3 – 12 months N\$ '000	1 – 5 years N\$ '000	Over 5 years N\$ '000	Total N\$ '000
FINANCIAL LIABILITIES						
As at 30 June 2011						
Derivative financial instruments	-	1,895	-	-	-	1,895
Due to other banks	246,974	-	-	-	-	246,974
Other deposits	501,650	550,886	1,368,568	957,669	-	3,378,773
Debt securities in issue	117,270	-	22,891	611,274	-	751,435
Deposits from customers	7,667,058	1,484,049	706,583	27,989	-	9,885,679
Other liabilities	188,703	-	-	-	-	188,703
Total liabilities (contractual maturity dates)	8,721,655	2,036,830	2,098,042	1,596,932	-	14,453,459
Commitments	2,472,734	-	-	-	-	2,472,734
As at 30 June 2010						
Derivative financial instruments	13,868	(301)	261	-	53	13,881
Other deposits	571,650	868,237	2,673,304	11,861	-	4,125,052
Debt securities in issue	94,750	-	5,080	130,480	-	230,310
Deposits from customers	5,943,667	1,478,645	958,987	53,774	-	8,435,073
Other liabilities	194,497	-	-	-	-	194,497
Total liabilities (contractual maturity dates)	6,818,432	2,346,581	3,637,632	196,115	53	12,998,813
Commitments	1,937,526	-	-	-	-	1,937,526

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

3.4 Fair values of financial assets and liabilities

(a) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date.

(i) Cash and balances with the Central Bank

Due to its short-term nature, the carrying amount approximates the fair value of these financial assets.

(ii) Derivative financial instruments and financial assets designated at fair value through profit or loss

Financial instruments are measured at fair value using valuation techniques supported by observable market prices or rates.

(iii) Investment securities

For listed investment securities, the fair value is derived by using stock market prices, adjusted for any restrictions on its tradability. Unlisted investments are valued using market prices for similar instruments.

(iv) Due to and from other banks

Amounts due to and from other banks include inter-bank placements. The fair value of overnight deposits is their carrying amount.

(v) Loans and advances to customers

The nominal value less impairment provision approximates the fair value.

(vi) Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

(vii) Debt securities in issue

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair values of these instruments were N\$617,275,034 (2010: N\$196,434,354).

(viii) Other deposits

The carrying amount approximates the fair value of these financial liabilities.

(ix) Trade receivables and payables

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair value, due to the short-term nature of these assets and liabilities.

(x) Financial instruments not recorded on the statement of financial position

The estimated fair values of the financial instruments not recorded on the statement of financial position are based on market prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

(b) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like JIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

(b) Fair value hierarchy (continued)

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Assets and liabilities measured at fair value

	Level 1 N\$'000	Level 2 N\$'000	Total N\$'000
As at 30 June 2011			
<i>Financial assets at fair value through profit or loss</i>			
Debt securities	-	1,187,928	1,187,928
Equity securities	6,833	-	6,833
Derivative financial instruments	-	488	488
<i>Available-for-sale financial assets</i>			
Debt securities	-	304,458	304,458
Equity securities	17,193	-	17,193
	<u>24,026</u>	<u>1,492,874</u>	<u>1,516,900</u>
<i>Financial liabilities at fair value through profit or loss</i>			
Derivative financial instruments	-	1,895	1,895
	-	<u>1,895</u>	<u>1,895</u>
As at 30 June 2010			
<i>Financial assets at fair value through profit or loss</i>			
Debt securities	-	1,066,973	1,066,973
Equity securities	2,068	-	2,068
Derivative financial instruments	-	653	653
<i>Available-for-sale financial assets</i>			
Debt securities	-	287,010	287,010
Equity securities	16,341	-	16,341
	<u>18,409</u>	<u>1,354,636</u>	<u>1,373,045</u>
<i>Financial liabilities at fair value through profit or loss</i>			
Derivative financial instruments	-	13,881	13,881

3.5 Classification of financial instruments

Financial assets and liabilities are classified as follows:

	Available- for-sale N\$'000	Fair value through profit or loss N\$'000	Loans and receivables N\$'000	Total N\$'000
FINANCIAL ASSETS				
Cash and balances with the Central Bank	-	-	448,561	448,561
Derivative financial instruments	-	488	-	488
Financial assets at fair value through profit or loss	-	1,194,761	-	1,194,761
Investment securities	321,651	-	-	321,651
Due from other banks	-	-	362,238	362,238
Loans and advances to customers	-	-	13,023,983	13,023,983
Other assets	-	-	164,165	164,165
	<u>321,651</u>	<u>1,195,249</u>	<u>13,998,947</u>	<u>15,515,847</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

3.5 Classification of financial instruments (continued)

	Fair value through profit or loss N\$'000	Other financial liabilities N\$'000	Total N\$'000
FINANCIAL LIABILITIES			
Derivative financial instruments	1,895	-	1,895
Due to other banks	-	246,974	246,974
Other deposits	-	3,188,906	3,188,906
Debt securities in issue	-	613,379	613,379
Deposits from customers	-	9,853,489	9,853,489
Other liabilities	-	188,703	188,703
	<u>1,895</u>	<u>14,091,451</u>	<u>14,093,346</u>

3.6 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on statement of financial position, are to:

- comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for the shareholders and benefits for other stakeholders; and
- maintain a strong capital base to support the development of its business.

The Bank of Namibia requires each bank or banking group to hold the minimum level of the regulatory capital of N\$10 million, as well as to maintain the following capital adequacy ratios:

- Tier 1 capital to total assets, as reported in the statutory return, at a minimum of 6%, referred to as leverage capital ratio;
- Tier 1 capital to the risk-weighted assets at a minimum of 7%, referred to as Tier 1 risk-based capital ratio; and
- The total regulatory capital to risk weighted assets at a minimum of 10%, referred to as total risk-based capital ratio.

The Group's regulatory capital is divided into three tiers:

- Tier 1 capital: share capital (net of any book values of the treasury shares, if any), minority interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital;
- Tier 2 capital: qualifying subordinated loan capital and collective impairment allowances; and
- Tier 3 capital: includes short-term subordinated debt that may be used only to cover a portion of banking institution's capital charges for market risk.

The Bank of Namibia has adopted a standardised approach to BASEL II, with risk-weighted assets being measured at three different levels, operational risk, market risk and credit risk.

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended 30 June. During these two years, the Group complied with all of the externally imposed capital requirements to which they are subjected.

	2011 N\$'000	2010 N\$'000
Share capital and premium	163,506	163,506
General banking reserves	1,132,299	973,377
Retained earnings	4,917	445
Total qualifying Tier 1 capital	<u>1,300,722</u>	<u>1,137,328</u>
Subordinated debt	312,215	197,572
Portfolio impairment	131,244	114,146
Total qualifying Tier 2 capital	<u>443,459</u>	<u>311,718</u>
Tier 3 capital	-	-
Total regulatory capital	<u>1,744,181</u>	<u>1,449,046</u>

3.6 Capital management (continued)

	2011 N\$'000	2010 N\$'000
Operational risk	1,187,798	1,039,075
Credit risk	11,864,020	10,454,211
Market risk	147,117	30,646
Total risk-weighted assets	13,198,935	11,523,932
Capital adequacy ratios:		
Leverage capital ratio	8.5%	8.0%
Tier 1 risk-based capital ratio	9.9%	9.9%
Total risk-based capital ratio	13.2%	12.6%

In addition the above minimum capital requirements, Bank of Namibia requires the Group to perform an Internal Capital Adequacy and Assessment Process (ICAAP) in terms of Pillar II of BASEL II, which has been documented and approved by the Board. The process results in:

- the identification of the Group's risk exposures;
- quantification of risk appetites for the major risks identified; and
- control measures to mitigate the major risks.

Based on the ICAAP assessment performed on 30 September 2010, which includes a capital projection for the next five years, it is envisaged the Group's capital will be able to maintain its capital ratios and will not require additional capital above the minimum requirements.

4. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses

Estimates in assessing the general impairment are dependant on the analysis of historical data relating to probability of default, emergence period and loss given default. Specific impairment is triggered for individual non-performing loans. Non-performing loans comprise of loans due and unpaid for longer than 60 days, as well as other loans where events have been identified which would compromise the repayability of the loan.

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.

(b) Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. There were no such evidence requiring impairment for the year ended 30 June 2011.

(c) Fair value of financial instruments

The fair value of financial instruments requires the use of estimates and judgements. Refer to 3.4 above for methodology and assumptions utilised.

(d) Post-employment benefits

The present value of the severance pay liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the liability. The assumptions used in determining the net cost include the discount rate. The Group determined this discount rate based on the yield of South African government bonds. Other key assumptions are based on generally accepted demographic tables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
5. Net interest income				
<i>Interest and similar income</i>				
Loans and advances	1,233,753	1,147,744	1,198,206	1,096,857
Cash and short-term funds	41,463	38,247	41,463	38,247
Financial assets designated at fair value through profit or loss	55,194	96,157	55,194	114,375
Available-for-sale financial assets	17,448	18,218	17,448	18,218
Loans to subsidiaries	-	-	18,052	17,965
Other	3,682	-	3,682	-
	<u>1,351,540</u>	<u>1,300,366</u>	<u>1,334,045</u>	<u>1,285,662</u>
<i>Interest and similar expense</i>				
Banks and customers	651,676	714,092	651,609	714,019
Debt securities in issue	28,547	18,533	28,547	18,534
	<u>680,223</u>	<u>732,625</u>	<u>680,156</u>	<u>732,553</u>
6. Impairment charges on loans and advances				
Increase in specific impairment	25,644	21,307	22,682	16,828
Increase in portfolio impairment	1,915	2,172	1,915	2,172
Amounts recovered during the year	(430)	(663)	-	-
	<u>27,129</u>	<u>22,816</u>	<u>24,597</u>	<u>19,000</u>
7. Fee and commission income				
Transactions and related fees	289,433	252,018	285,570	248,386
Commissions	9,541	7,753	6,399	5,606
Trust and other fiduciary fees	4,254	3,733	4,254	3,733
	<u>303,228</u>	<u>263,504</u>	<u>296,223</u>	<u>257,725</u>
8. Net trading income				
Net foreign exchange gains and losses from trading assets	37,154	49,200	37,154	49,200
Net gain from financial instruments designated at fair value through profit or loss	7,291	1,318	7,291	1,318
	<u>44,445</u>	<u>50,518</u>	<u>44,445</u>	<u>50,518</u>
9. Other operating income				
Dividend income	875	74	1,875	74
(Loss) / profit on sale of property, plant and equipment	(618)	85	(618)	(129)
Profit on sale of subsidiary	-	-	-	214
Profit distribution by joint venture	-	-	-	5,000
Management fees received	1,674	1,985	16,152	14,065
Support services rendered	3,030	4,966	3,030	4,966
Other	875	1,836	875	665
	<u>5,836</u>	<u>8,946</u>	<u>21,314</u>	<u>24,855</u>

for the year ended 30 June 2011

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
10. Staff costs				
Wages and salaries	298,670	257,507	298,670	257,507
Staff training and transfer cost	3,688	4,170	3,688	4,170
Pension costs – defined contribution plan	20,537	18,588	20,537	18,588
Severance pay liability	973	4,323	973	4,323
	<u>323,868</u>	<u>284,588</u>	<u>323,868</u>	<u>284,588</u>
11. Operating expenses				
<i>Expenses by nature</i>				
Advertising and marketing	19,058	18,021	19,058	18,021
Amortisation and impairment of intangibles	3,508	959	2,549	-
Association transaction fees	25,761	23,831	25,761	23,831
Auditors remuneration				
– Audit fees	1,742	1,981	1,690	1,922
– Fees for other services	109	341	109	341
Directors' emoluments				
– Non-executive directors	-	-	1,974	2,003
Depreciation and impairment of property, plant and equipment	28,785	28,645	27,824	27,684
Intragroup consultancy and management fees	21,406	12,861	19,610	12,861
Operating lease rentals – immovable property	35,803	33,291	36,765	34,253
Professional services	8,602	7,309	8,602	7,309
Repairs and maintenance	13,804	14,712	13,804	14,712
Royalties paid on trademark	722	729	13,722	14,229
Staff costs (note 10)	323,868	284,588	323,868	284,588
Technology costs	31,367	31,544	31,367	31,544
Other expenses	79,372	71,447	76,313	69,317
	<u>593,907</u>	<u>530,259</u>	<u>603,016</u>	<u>542,615</u>
12. Income tax expense				
The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:				
Profit before tax	407,705	342,761	391,545	324,592
Tax at the applicable tax rate of 34% (2010: 34%)	138,620	116,539	133,125	110,361
Prior year adjustment	-	(8,964)	-	1,658
Non-taxable income	(5,530)	(10,055)	(5,494)	(9,826)
Non-deductible expense	453	326	-	1,426
Utilised tax loss previously not recognised	(442)	(2,447)	-	-
Special allowance	(2,326)	-	-	-
Income tax expense	<u>130,775</u>	<u>95,399</u>	<u>127,631</u>	<u>103,619</u>
Effective tax rate	<u>32%</u>	<u>28%</u>	<u>33%</u>	<u>32%</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
12. Income tax expense (continued)				
Income tax expense comprises of the following:				
Current tax	127,018	95,639	123,483	103,596
– current year	127,018	104,925	123,483	102,345
– prior year	-	(9,286)	-	1,251
Deferred tax	3,757	(240)	4,148	23
– current year	3,757	(561)	4,148	(384)
– prior year	-	321	-	407
	<u>130,775</u>	<u>95,399</u>	<u>127,631</u>	<u>103,619</u>
13. Cash and balances with the Central Bank				
Cash and bank balances	128,076	211,129	127,589	210,642
Balances with the Central Bank other than mandatory reserve deposits	182,150	364,020	182,150	364,020
Included in cash and cash equivalents	310,226	575,149	309,739	574,662
Mandatory reserve deposits with the Central Bank	138,335	125,821	138,335	125,821
	<u>448,561</u>	<u>700,970</u>	<u>448,074</u>	<u>700,483</u>
Mandatory reserve deposits are not available for use in the Group's day-to-day operations. Cash and bank balances as well as mandatory reserve deposits with the Central Bank are non-interest-bearing.				
14. Derivative financial instruments				
Currency swap	488	-	488	-
Interest rate swaps	-	653	-	653
	<u>488</u>	<u>653</u>	<u>488</u>	<u>653</u>
A currency swap is a contract to exchange cash flows denominated in foreign currency. The notional amount at the initiation of the contract was N\$19 million.				
15. Financial assets at fair value through profit or loss				
Treasury bills	1,120,928	930,247	1,120,928	930,247
Government stocks	37,802	24,403	37,802	24,403
Equity securities	6,833	2,068	6,833	2,068
Money market investment	29,198	101,453	29,198	101,453
Other debt securities	-	10,870	-	10,870
	<u>1,194,761</u>	<u>1,069,041</u>	<u>1,194,761</u>	<u>1,069,041</u>

The above debt securities are managed and their performance evaluated on a fair value basis in accordance with a documented risk management strategy. Treasury bills with a nominal value of N\$305,000,000 (2010: N\$670,000,000) are available at Bank of Namibia for collateral

should the need arise. At year-end, there were no treasury bills utilised for security purposes (2010: NIL) at Bank of Namibia, although N\$108.9 million of Treasury Bills have been collateralised under a sale-and-buyback agreement, which matured on 05 July 2011.

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
16. Investment securities				
Securities available-for-sale – Listed	17,193	16,341	17,193	16,341
Securities available-for-sale – Unlisted	304,458	287,010	304,458	287,010
	<u>321,651</u>	<u>303,351</u>	<u>321,651</u>	<u>303,351</u>
The movement during the year is summarised as follows:				
Opening balance	303,351	284,109	303,351	284,109
Interest capitalised	17,448	18,217	17,448	18,217
Fair value gains	852	1,025	852	1,025
	<u>321,651</u>	<u>303,351</u>	<u>321,651</u>	<u>303,351</u>
17. Due from other banks				
Placement with other banks	<u>362,238</u>	<u>403,711</u>	<u>362,238</u>	<u>403,711</u>
18. Loans and advances to customers				
Group				
Overdrafts	2,157,334	2,048,605	2,157,334	2,048,605
Term loans	2,675,288	2,394,252	2,431,686	2,179,548
Mortgages	6,083,407	5,074,037	6,083,407	5,074,037
Instalment finance	2,079,801	1,787,583	2,079,801	1,787,583
Other	139,137	138,591	139,137	138,591
<i>Gross loans and advances</i>	<u>13,134,967</u>	<u>11,443,068</u>	<u>12,891,365</u>	<u>11,228,364</u>
<i>Less impairment</i>				
Specific impairment	67,719	62,003	66,026	58,955
Portfolio impairment	43,265	41,350	43,265	41,350
	<u>13,023,983</u>	<u>11,339,715</u>	<u>12,782,074</u>	<u>11,128,059</u>
Movement in impairment for the Group and the Company is as follows:				
Balance at the beginning of the year	103,353	113,335	100,305	109,912
Provision for loan impairment	27,559	23,479	24,597	19,000
Amounts written off during the year as uncollectible	(19,928)	(33,461)	(15,611)	(28,607)
Balance at the end of the year	<u>110,984</u>	<u>103,353</u>	<u>109,291</u>	<u>100,305</u>
	2011		2010	
	N\$'000	%	N\$'000	%
Maturity analysis of gross loans and advances to customers for the Group were as follows:				
Repayable within 1 month	2,325,995	17.7	2,145,709	19.0
Repayable after 1 month but within 3 months	177,540	1.4	42,583	0.9
Repayable after 3 months but within 6 months	123,549	0.9	103,147	0.4
Repayable after 6 months	10,507,883	80.0	9,151,629	79.7
	<u>13,134,966</u>	<u>100.0</u>	<u>11,443,068</u>	<u>100.0</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
18. Loans and advances to customers (continued)				
The loans and advances to customers include instalment finance receivables which may be analysed as follows:				
Repayable within 1 year	141,683	67,770	141,683	67,770
Repayable after 1 year but within 5 years	2,601,277	1,970,997	2,601,277	1,970,997
Repayable after 5 years	11,659	42,370	11,659	42,370
Gross investment in instalment finances	2,754,619	2,081,137	2,754,619	2,081,137
Unearned future finance income on instalment finances	(706,212)	(374,954)	(706,212)	(374,954)
Net investment in instalment finances	<u>2,048,407</u>	<u>1,706,183</u>	<u>2,048,407</u>	<u>1,706,183</u>

19. Other assets

	2011	2010	2009
	N\$'000	N\$'000 As restated	N\$'000 As restated
Group			
Insurance fund asset (refer to note 43)	43,360	34,923	34,923
Accounts receivable and prepayments	9,371	11,263	10,201
Repossessed property	1,126	2,220	3,689
Due from related parties	4,656	2,319	797
Clearing, settlement and internal accounts	106,778	174,196	164,170
	<u>165,291</u>	<u>224,921</u>	<u>213,780</u>
Current	121,931	189,998	178,857
Non-current	43,360	34,923	34,923
Company			
Insurance fund asset (refer to note 43)	43,360	34,923	34,923
Accounts receivable and prepayments	9,371	11,368	10,197
Repossessed property	1,126	2,220	3,689
Due from related parties	4,656	2,319	797
Clearing, settlement and internal accounts	106,778	174,214	164,170
	<u>165,291</u>	<u>225,044</u>	<u>213,776</u>
Current	121,931	190,121	178,853
Non-current	43,360	34,923	34,923

	Company	
	2011 N\$'000	2010 N\$'000
20. Investment in subsidiaries		
Shares at cost	21,299	21,299
Indebtedness	240,729	224,731
	<u>262,028</u>	<u>246,030</u>
Directors' valuation of investment in shares	<u>63,292</u>	<u>62,178</u>

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
21. Interest in joint ventures				
The value of the Group's share in assets, liabilities, income and expenditure is not significant to the Group as a whole. These components are therefore not disclosed.				
<i>21.1 Jointly controlled entity</i>				
Opening balance	2,601	5,368	1,023	4,023
Reduction in share capital	-	(3,000)	-	(3,000)
The Group's share of the profit in the joint venture	628	233	-	-
Reclassification	-	-	131	-
Dividends	(1,000)	-	-	-
Closing balance	2,229	2,601	1,154	1,023
Bank Windhoek Limited obtained a 25% interest in Namclear (Pty) Ltd during 2005. According to the joint venture agreement, a unanimous vote from all shareholders is required to effect a resolution.				
<i>21.2 Jointly controlled operations</i>				
Opening balance	1,577	1,682	1,682	1,682
The Group's share of the profit in the joint venture	3,287	4,895	3,287	-
Reclassification	-	-	(105)	-
Profit distribution	-	(5,000)	-	-
Closing balance	4,864	1,577	4,864	1,682
The Group has a 50% share in a joint venture with American Express Foreign Exchange. The joint venture was established to carry on the travel-related foreign exchange business of buying and selling of foreign notes and travellers cheques and travel related drafts in Namibia.				
Total interest in joint ventures	7,093	4,178	6,018	2,705
Directors' valuation of investment in shares	7,093	4,178	7,093	4,178

22. Intangible assets

Group	Software and related development costs	Trademark	Total
	N\$'000	N\$'000	N\$'000
Year-end – 30 June 2011			
Cost at 1 July 2010			
Cost	49,269	7,203	56,472
Additions	14,000	-	14,000
Cost at 30 June 2011	63,269	7,203	70,472

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

	Software and related develop- ment costs N\$'000	Trademark N\$'000	Total N\$'000
22. Intangible assets (continued)			
Year-end – 30 June 2011			
<i>Amortisation and impairment</i>			
Amortisation and impairment at 1 July 2010	49,269	4,326	53,595
Charge for the year	1,845	959	2,804
Impairment for the year	704	-	704
Amortisation and impairment at 30 June 2011	51,818	5,285	57,103
<i>Net book value at 30 June 2011</i>	11,451	1,918	13,369
Year-end – 30 June 2010			
<i>Cost</i>			
Balance as at the beginning and end of the year	49,269	7,203	56,472
<i>Amortisation and impairment</i>			
Amortisation at 1 July 2009	49,269	3,367	52,636
Charge for the year	-	959	959
Amortisation and impairment at 30 June 2010	49,269	4,326	53,595
<i>Net book value at 30 June 2010</i>	-	2,877	2,877

Intangible assets consist of computer software, including its related acquisition and development costs, as well as trademark costs associated with the Bank Windhoek trademark. The software and development costs are owned by the Company, whilst the trademark is owned by the subsidiary, Intellect Investment Namibia (Pty) Ltd.

23. Property, plant and equipment

	Freehold land and buildings N\$'000	Computer equipment N\$'000	Vehicles N\$'000	Furniture and fittings and other office equipment N\$'000	Total N\$'000
Group					
Year-end – 30 June 2011					
<i>Cost</i>					
Cost at 1 July 2010	53,953	133,408	10,755	111,944	310,060
Additions	-	16,341	1,899	10,644	28,884
Transfers	(4,590)	1,394	-	3,196	-
Disposals	(577)	(411)	(349)	(2,058)	(3,395)
Cost at 30 June 2011	48,786	150,732	12,305	123,726	335,549

	Freehold land and buildings	Computer and other equipment	Vehicles	Furniture and fittings and other office equipment	Total
	N\$'000	N\$'000	N\$'000	N\$'000	N\$'000
23. Property, plant and equipment (continued)					
<i>Depreciation and impairment</i>					
Depreciation at 1 July 2010	8,244	100,383	7,872	63,614	180,113
Charge for the period	1,687	12,729	1,228	11,736	27,380
Depreciation on transfers	-	950	-	(950)	-
Depreciation on disposals	(433)	(310)	(325)	(1,514)	(2,582)
Impairment	-	1,405	-	-	1,405
Depreciation at 30 June 2011	9,498	115,157	8,775	72,886	206,316
<i>Net book value at 30 June 2011</i>	39,288	35,575	3,530	50,840	129,233
Year-end – 30 June 2010					
<i>Cost</i>					
Cost at 1 July 2009	52,781	123,284	10,397	100,420	286,882
Additions	4,970	14,937	548	10,751	31,206
Transfers	(2,298)	1,129	-	1,169	-
Disposals	(1,500)	(5,942)	(190)	(396)	(8,028)
Cost at 30 June 2010	53,953	133,408	10,755	111,944	310,060
<i>Depreciation and impairment</i>					
Depreciation at 1 July 2009	6,567	86,156	6,661	52,597	151,981
Charge for the period	1,677	14,559	1,253	11,156	28,645
Depreciation on transfers	-	(240)	-	240	-
Depreciation on disposals	-	(92)	(42)	(379)	(513)
Depreciation at 30 June 2010	8,244	100,383	7,872	63,614	180,113
<i>Net book value at 30 June 2010</i>	45,709	33,025	2,883	48,330	129,947

Details regarding the fixed properties are available to shareholders at the registered office of the Company. All property, plant and equipment are owned by the Company other than land and building with a cost of N\$26.2 million, which is owned by Bank Windhoek Properties (Pty) Ltd, a subsidiary of Bank Windhoek Limited. The building is occupied by Bank Windhoek Limited. The net carrying value of the building as at 30 June 2011 is N\$22.8 million (2010: N\$23.8 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
24. Derivative financial instruments				
Foreign exchange currency contracts	-	13,828	-	13,828
Currency swap	-	53	-	53
Interest rate swaps	1,895	-	1,895	-
	<u>1,895</u>	<u>13,881</u>	<u>1,895</u>	<u>13,881</u>
Interest rate swaps are commitments to exchange one set of cash flows for another and result in an economic exchange of a fixed rate for a floating rate or vice versa. No exchange of principal takes place.				
The notional principal amount of the outstanding interest rate swap contracts at 30 June 2011 was N\$500 million (2010: N\$675 million).				
25. Due to other banks				
Current accounts	28,974	-	28,974	-
Borrowings from other banks	218,000	-	218,000	-
	<u>246,974</u>	<u>-</u>	<u>246,974</u>	<u>-</u>
26. Other deposits				
Negotiable certificates of deposit (NCDs)	<u>3,188,906</u>	<u>3,970,799</u>	<u>3,188,906</u>	<u>3,970,799</u>
27. Debt securities in issue				
Balance as at 1 July	197,572	198,649	197,572	198,649
Redemption	(90,000)	-	(90,000)	-
Additions	500,801	-	500,801	-
Effective interest rate adjustment	28,547	18,533	28,547	18,533
Coupon payment	(23,541)	(19,610)	(23,541)	(19,610)
Balance as at 30 June	<u>613,379</u>	<u>197,572</u>	<u>613,379</u>	<u>197,572</u>
Current	-	93,508	-	93,508
Non-current	613,379	104,064	613,379	104,064
	<u>613,379</u>	<u>197,572</u>	<u>613,379</u>	<u>197,572</u>

Debt securities in issue comprises of subordinated debts, senior debt and promissory notes with a combined nominal value of N\$600 million.

During the year, N\$400 million of subordinated and senior debt was issued under the Group's Domestic Medium Term Note Programme, a programme registered with the Namibian Stock Exchange.

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
28. Deposits from customers				
Current accounts	2,948,970	2,591,466	2,948,970	2,591,466
Savings accounts	691,829	591,125	691,829	591,125
Other deposits	6,212,690	5,237,254	6,210,357	5,234,956
	<u>9,853,489</u>	<u>8,419,845</u>	<u>9,851,156</u>	<u>8,417,547</u>

	2011		2010	
	N\$'000	%	N\$'000	%
Group				
Maturity analysis within the customer current, savings, deposit account portfolio for the Group were as follows:				
Withdrawable on demand	7,433,402	75.4	5,834,468	69.3
Maturing within 1 month	233,449	2.4	238,754	2.8
Maturing after 1 month but within 6 months	1,972,198	20.0	1,470,847	17.5
Maturing after 6 months	214,440	2.2	875,776	10.4
	<u>9,853,489</u>	<u>100.0</u>	<u>8,419,845</u>	<u>100.0</u>

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
29. Other liabilities				
Creditors	14,764	14,824	14,764	14,824
Accruals	66,481	51,696	66,481	51,696
Receiver of Revenue	4,532	9,134	2,600	7,109
Clearing, settlement and internal accounts	102,926	118,843	102,729	118,684
	<u>188,703</u>	<u>194,497</u>	<u>186,574</u>	<u>192,313</u>

30. Deferred income tax

Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 34% (2010: 34%).

	2011 N\$'000	2010 N\$'000 As restated	2009 N\$'000 As restated
Group			
The movement on the deferred income tax account is as follows:			
Balance as at 1 July	130,620	130,860	117,613
Income statement charge	3,757	(240)	1,373
Prior year restatement (refer to note 43)	-	-	11,874
Balance as at 30 June	<u>134,377</u>	<u>130,620</u>	<u>130,860</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

	2011 N\$'000	2010 N\$'000 As restated	2009 N\$'000 As restated
30. Deferred income tax (continued)			
Deferred income tax asset and liability are attributable to the following items:			
<i>Deferred income tax asset</i>			
Accruals	16,944	14,542	7,135
Loan loss provisions	6,758	3,646	3,822
Assessed loss	442	-	-
Derivative financial instruments	478	-	-
Other temporary differences	-	262	-
	<u>24,622</u>	<u>18,450</u>	<u>10,957</u>
<i>Deferred income tax liability</i>			
Accelerated tax depreciation and amortisation	19,749	19,994	20,298
Loans and receivables	11,055	15,225	12,926
Government stock and other securities	125,801	113,799	106,120
Derivative financial instruments	-	52	213
Other temporary differences	2,394	-	2,260
	<u>158,999</u>	<u>149,070</u>	<u>141,817</u>
Net deferred income tax liability	<u>134,377</u>	<u>130,620</u>	<u>130,860</u>
Company			
The movement on the deferred income tax account is as follows:			
Balance as at 1 July	130,883	130,860	117,613
Income statement charge	4,148	23	1,373
Prior year restatement (refer to note 43)	-	-	11,874
Balance as at 30 June	<u>135,031</u>	<u>130,883</u>	<u>130,860</u>
Deferred income tax asset and liability are attributable to the following items:			
<i>Deferred income tax asset</i>			
Accruals	16,944	14,542	7,135
Loan loss provisions	6,758	3,646	3,822
Derivative financial instruments	478	-	-
	<u>24,180</u>	<u>18,188</u>	<u>10,957</u>
<i>Deferred income tax liability</i>			
Accelerated tax depreciation and amortisation	19,961	19,994	20,298
Loans and receivables	11,055	15,225	12,926
Government stock and other securities	126,721	113,799	106,120
Derivative financial instruments	-	53	213
Other temporary differences	1,474	-	2,260
	<u>159,211</u>	<u>149,071</u>	<u>141,817</u>
Net deferred income tax liability	<u>135,031</u>	<u>130,883</u>	<u>130,860</u>

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
31. Post-employment benefits				
<i>31.1 Severance pay liability</i>				
A valuation was performed on 30 June 2010 by an independent actuary on the Group's liability with respect to severance pay. The benefit is not funded.				
The amount recognised in the consolidated statement of financial position is determined as follows:				
Present value of unfunded obligation	5,288	4,323	4,323	4,323
The movement in the severance pay obligation over the year is as follows:				
As at 1 July	4,323	-	4,323	-
Recognition of severance pay obligation	-	3,735	-	3,735
Current service costs	973	588	973	588
Benefits paid	(8)	-	(8)	-
As at 30 June	5,288	4,323	5,288	4,323
The amounts recognised in the consolidated income statement are as follows:				
Past service costs	-	3,735	-	3,735
Current service costs	973	588	973	588
	973	4,323	973	4,323
The principle actuarial assumptions used were as follows:				
Discount rate	9.05	9.05	9.05	9.05
Inflation rate	5.90	5.90	5.90	5.90
Salary increases	7.40	7.40	7.40	7.40
The following sensitivity of the overall liability to changes in principle assumption is:				
Salary increase 1% lower per annum	4,085	4,085	4,085	4,085
Salary increase 1% higher per annum	4,587	4,587	4,587	4,587

31.2 Medical aid scheme

Bank Windhoek Limited has no liability in respect of post-retirement medical aid contributions.

31.3 Pension schemes

All full-time permanent employees are members of the CIH Group Retirement Fund, a defined contribution plan, which has been registered in Namibia in accordance with the requirements of the Pension Funds Act. The fund is governed by the Pension Funds Act 1956, which requires an actuarial valuation every three years. The latest actuarial valuation was carried out on 31 March 2010 and in

the actuary's opinion the fund was in a sound financial position at that date. The valuation confirmed that the value of the assets in the fund exceeded the value of the actuarially determined liabilities.

Bank Windhoek Limited currently contributes 12% of basic salary to the fund whilst the members contribute 7.5%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
32. Share capital and premium				
Ordinary share capital and premium				
<i>Authorised</i>				
5,000,000 shares of N\$1 each	5,000	5,000	5,000	5,000
<i>Issued</i>				
At 30 June	4,881	4,881	4,881	4,881
<i>Share premium</i>				
At 1 July	158,625	158,625	158,625	158,625
Shares issued	-	-	-	-
At 30 June	158,625	158,625	158,625	158,625
Total	163,506	163,506	163,506	163,506
The total issued number of ordinary shares at year-end was 4,880,564 (2010: 4,880,564). The directors are authorised annually at the annual general meeting to issue any unissued share capital.				
Preference share capital				
<i>Authorised</i>				
750,000 10% redeemable cumulative shares at N\$1 each	750	750	750	750
33. Non-distributable reserves				
<i>33.1 Credit risk reserve</i>				
Balance as at 1 July	72,483	57,352	72,483	57,352
Transfer from retained earnings	14,968	15,131	14,968	15,131
Balance as at 30 June	87,451	72,483	87,451	72,483
The regulatory credit risk reserve was introduced in order to meet the regulatory requirements for the loan loss portfolio impairment.				
<i>33.2 Insurance fund reserve</i>				
Balance as at 1 July, as restated (refer to note 43)	23,049	23,049	23,049	23,049
Transfer from retained earnings	5,568	-	5,568	-
Balance as at 30 June	28,617	23,049	28,617	23,049
The insurance reserve was created to fund a portion, net of deferred tax, of the regulatory requirement to hold a certain level of insurance specific for banking risk.				
Total non-distributable reserves	116,068	95,532	116,068	95,532

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
34. Distributable reserves				
<i>34.1 General banking reserve</i>				
Balance as at 1 July	973,377	815,730	973,377	815,730
Transfer from retained earnings	158,922	157,647	158,922	157,647
Balance as at 30 June	<u>1,132,299</u>	<u>973,377</u>	<u>1,132,299</u>	<u>973,377</u>
The general banking reserve is maintained to fund future expansion.				
<i>34.2 Retained earnings</i>				
Balance as at 1 July, as previously stated	445	361	8,637	34,942
Restatement (refer to note 43)	-	23,049	-	23,049
Transfers to reserves	-	(23,049)	-	(23,049)
Balance as at 1 July, as restated	445	361	8,637	34,942
Net profit for the year	276,930	247,362	263,914	220,973
Transfers to reserves	(179,458)	(172,778)	(179,458)	(172,778)
Dividends declared	(93,000)	(74,500)	(93,000)	(74,500)
Balance as at 30 June	<u>4,917</u>	<u>445</u>	<u>93</u>	<u>8,637</u>
<i>34.3 Fair value reserve</i>				
Balance as at 1 July	16,341	15,316	16,341	15,316
Revaluation of available-for-sale equity instruments	852	1,025	852	1,025
Balance as at 30 June	<u>17,193</u>	<u>16,341</u>	<u>17,193</u>	<u>16,341</u>
Total distributable reserves	<u>1,154,409</u>	<u>990,163</u>	<u>1,149,585</u>	<u>998,355</u>
35. Dividends per share				
During the year under review, dividends of 1905.3 cents per share (2010: 1526.3 cents per share) amounting to a total of N\$93.0 million (2010: N\$74.5 million) were paid and declared by the Company.				
36. Cash generated by operations				
Profit before income tax	407,705	342,761	391,545	324,592
Dividends received	(875)	(74)	(1,875)	(74)
Adjusted for non-cash items:				
– Effective interest on debt securities in issue	28,547	18,533	28,547	18,533
– Interest receivable	(17,448)	(18,217)	(17,448)	(18,217)
– Unrealised foreign exchange loss	-	13,828	-	13,828
– Share of joint venture profits	(3,915)	(5,128)	(3,287)	-
– Depreciation, amortisation and impairment	32,293	29,604	30,373	27,684
– Loss / (Profit) on sale of property, plant and equipment	618	(85)	618	(85)
– Adjustment to fair value of financial instruments	(155)	3,845	(155)	3,845
– Provision for impairment losses	27,129	22,816	24,597	19,000
– Provision for post-employment benefits	965	4,323	965	4,323
	<u>474,864</u>	<u>412,206</u>	<u>453,880</u>	<u>393,429</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
37. Income tax paid / refund (net)				
Amounts receivable / (payable) as at 1 July	(1,373)	(21,952)	555	(31,720)
Amounts charged to the income statement	127,018	95,639	123,483	103,596
Amounts receivable / (payable) as at 30 June	326	1,374	(2,149)	(555)
	<u>125,971</u>	<u>75,061</u>	<u>121,889</u>	<u>71,321</u>
38. Dividends paid				
Dividends declared and paid during the year	<u>93,000</u>	<u>74,500</u>	<u>93,000</u>	<u>74,500</u>
39. Cash and cash equivalents				
For the purpose of the cash flow statement, cash and cash equivalents comprises the following balances with less than 90 days maturity:				
Cash and balances with the Central Bank (note 13)	310,226	575,149	309,739	574,662
Treasury bills and government stocks with a maturity of less than 90 days (note 15)	266,247	121,848	266,247	121,848
Money market investments (note 15)	29,198	101,453	29,198	101,453
Placement with other banks (note 17)	362,238	403,711	362,238	403,711
Borrowings from other banks (note 25)	(246,974)	-	(246,974)	-
	<u>720,935</u>	<u>1,202,161</u>	<u>720,448</u>	<u>1,201,674</u>
40. Contingent assets, liabilities and commitments				
<i>40.1 Capital commitments</i>				
Authorised but not contracted for	<u>66,762</u>	<u>55,950</u>	<u>66,762</u>	<u>55,950</u>
<i>40.2 Operating lease commitments</i>				
Office premises				
– Not later than 1 year	22,273	23,161	22,273	23,161
– Later than 1 year and not later than 5 years	36,162	39,307	36,162	39,307
	<u>58,435</u>	<u>62,468</u>	<u>58,435</u>	<u>62,468</u>
Funds to meet these commitments will be provided from own resources.				
<i>40.3 Letters of credit and liabilities under guarantees</i>	<u>962,340</u>	<u>738,433</u>	<u>962,340</u>	<u>738,433</u>
<i>40.4 Loan commitment</i>	<u>1,510,394</u>	<u>1,199,093</u>	<u>1,510,394</u>	<u>1,199,093</u>

40.5 Unit trust repurchase agreement

The Bank has entered into an agreement with Capricorn Unit Trust Management Company Limited as follows: In the event of a credit default event the Bank will refund the Selekt Fund for any shortfall that may occur in the realisation of the capital of specified portfolio assets pertaining to investments held in the largest five South African Banks and Government Stock. A credit default event is defined

as any event that destroys or significantly reduces the value of a security or jeopardises the future return capabilities of the security or non-performance of the investment in terms of complying with the original investment agreement, specifically related to the investment's maturity date and applicable maturity value and interest payments. The guarantee is subject to certain set conditions

40.5 Unit trust repurchase agreement (continued)
and is limited to the realised shortfall between the last determined market value of the underlying investments and the realised value of the underlying investment.

In addition to the monitoring of the guarantee under the risk management framework described in note 3, the interbank limits take into account the total exposure, being the combined exposure of the Bank and the Fund, to any one counterparty. This combined exposure also complies with limits set by the Bank of Namibia and is appropriately monitored.

As there was no credit default event at year-end, there was no shortfall that needed to be quantified.

41. Related party transactions

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. No provision have been recognised in respect of loans given to related parties (2010: NIL).

During the year the Group and Company transacted with the following related parties:

Entity	Relationship	Type of transactions
Capricorn Investment Holdings Ltd	Ultimate holding company	Consulting services Support services Banking relationship
Bank Gaborone Ltd	Subsidiary of ultimate holding company	Support services Banking relationship
Capricorn Asset Management (Pty) Ltd	Subsidiary of ultimate holding company	Support services Banking relationship
Capricorn Capital (Pty) Ltd	Subsidiary of ultimate holding company	Support services Banking relationship
Cavmont Capital Holdings Zambia	Associate of ultimate holding company	Support services
Nam-mic Financial Services (Pty) Ltd	Associate of ultimate holding company	Support services Banking relationship
Bank Windhoek Holdings Ltd	Parent company	Support services Banking relationship
Namib Bou (Pty) Ltd	Fellow subsidiary	Valuation services Support services Banking relationship
Welwitschia Nam-mic (Pty) Ltd	Fellow subsidiary	Commission Support services Banking relationship
Bank Windhoek Properties (Pty) Ltd	Subsidiary	Rental
BW Finance (Pty) Ltd	Subsidiary	Support services Banking relationship
Intellect Investments Namibia (Pty) Ltd	Subsidiary	Royalties
Namclear (Pty) Ltd	Joint venture	Technology services Banking relationship
The Tourvest Namibia (Pty) Ltd / Bank Windhoek Ltd Joint Venture	Joint venture	Support services Banking relationship

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
41. Related party transactions (continued)				
The volumes of related party transactions and outstanding balances at the year-end are as follows:				
<i>41.1 Receivables from related parties</i>				
Parent company	105	104	105	104
Fellow subsidiaries	21,921	367	21,921	367
Subsidiaries	-	-	-	226,231
Indirect related parties	113,611	126,750	113,611	126,750
Joint venture in which the Group is a venturer	121	-	121	729
Key management personnel	12,058	11,061	12,058	11,061
<i>41.2 Payable to related parties</i>				
Parent company	14,963	6,867	14,963	6,867
Fellow subsidiaries	1,066	2,382	1,066	2,382
Subsidiaries	-	-	487	488
Indirect related parties	162,643	156,095	162,643	156,095
Joint venture in which the Group is a venturer	7,314	-	7,314	729
Key management personnel	5,276	3,598	5,276	3,598
<i>41.3 Income received from related parties</i>				
Parent company	-	4	-	4
Fellow subsidiaries	2,340	335	2,340	335
Subsidiaries	-	-	27,728	5,066
Indirect related parties	7,136	2,843	7,136	3,261
Key management personnel	37	858	37	858
<i>41.4 Expenses paid to related parties</i>				
Parent company	3,802	3,173	3,802	3,173
Fellow subsidiaries	1,132	1,102	1,132	1,102
Subsidiaries	-	-	13,000	42,485
Indirect related parties	10,634	8,495	10,634	8,495
Key management personnel	1,211	23	1,211	23
<i>41.5 Compensation paid to key management personnel</i>				
	19,322	19,735	19,322	19,735

Key management comprise of the executive management team, which includes executive directors.

Directors sitting fees are disclosed under note 11.

42. Assets under custody

As at year-end, the Group has N\$3,543.9 million (2010: N\$1,693.3 million) of assets under custody.

43. Prior period restatement

In terms of BID 14, the Group is required to maintain an insurance coverage specifically for banking risks which includes, inter alia, fraudulent activities and professional indemnity. A review of the cost structure of the required insurance resulted in the risks being spread between re-insurance and self-insurance. A fund, managed and administered by a third party insurer, was created in 2005 to cater for the risk exposures related to the Group's self insurance. The Group,

however, recorded the combined insurance premiums as operating expense in the year the premiums were paid. On review of the contract related to the self-insurance fund, it has been assessed that the fund meets the definition of a financial asset, although the usage of the fund is restricted due to regulatory requirements.

The effect of the restatement on the Group and Company financial statements is as follows:

	Other assets	Deferred tax	Opening retained earnings	Insurance fund reserve
30 June 2009				
As previous stated	178,857	118,986	361	-
Restatement				
- Gross	34,923	11,874	34,923	
- Taxation			(11,874)	
- Net			23,049	
Transfer to non-distributable reserve			(23,049)	23,049
As restated	213,780	130,860	361	23,049
30 June 2010				
As previous stated	189,998	118,746	445	-
Restatement				
- Gross	34,923	11,874	34,923	
- Taxation			(11,874)	
- Net			23,049	
Transfer to non-distributable reserve			(23,049)	23,049
As restated	224,921	130,620	445	23,049

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