

Standard Bank Namibia Limited

Annual report 2012

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Our reports

This report is the **Standard Bank Namibia Limited (SBN) annual financial statements** and only includes financial information. In addition to this report, SBN Holdings Limited produces a full annual report to cater for the needs of our diverse stakeholders.

The financial results and commentary describe the results of Standard Bank Namibia Limited (the Bank or SBN). SBN is a wholly owned subsidiary of SBN Holdings Limited and is incorporated in Namibia.

Celebrating 98 years of moving Namibia forward

Standard Bank Namibia's first branch opened in 1915 in Luderitz. Standard Bank is one of Namibia's oldest companies. The bank's original vision was to understand its customers better, have people with strong knowledge of local business conditions and to do a better job of connecting borrowers with lenders. This vision created the platform for the kind of bank it would become and the qualities on which its customers and clients would come to rely.

Over its history, Standard Bank Namibia has grown from a mere few staff members to over 1 500 today, and extended its roots deep into the fabric of Namibian society. We have evolved and adapted along with our customers and clients, growing a rich heritage while nurturing and protecting our reputation. We uphold high standards of corporate governance and are committed to advancing the principles and practices of sustainable development. We are inspired to advance national development objectives.

Our success and growth over the long term is built on making a difference in the communities in which we operate. **We are committed to moving Namibia forward.**

Our values

Serving our customers

Growing our people

Delivering to our shareholders

Being **proactive**

Working in **teams**

Guarding against **arrogance**

Respecting each other

Upholding the highest levels of **integrity**

Review of performance

N\$276 million

headline earnings
(2011: N\$301 million)

19.3%

return on equity
(2011: 21.0%)

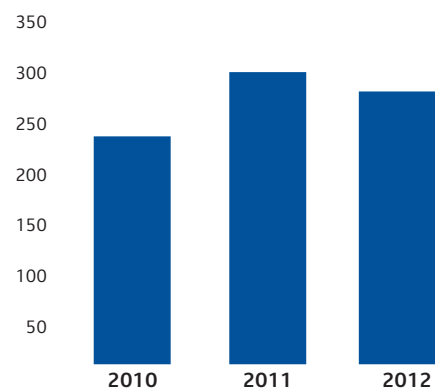
152

ATMs in Namibia
(2011: 139)

51

points of representation in Namibia
(2011: 47)

Headline earnings (N\$m)



Awards

64.1%

cost-to-income ratio
(2011: 57%)

10.78%

tier I capital adequacy ratio
(2011: 11.05%)

N\$18,1 billion

total assets
(2011: N\$16.1 billion)

0.30%

credit loss ratio
(2011: 0.28%)

N\$4,0 million

corporate social investment expenditure
(2011: N\$3,5 million)

1 433

employees
(2011: 1 226)

**The Banker
Deal of the Year**

Namibia's debut USD500 million.
10 year, 5.5% Eurobond

EMEA Finance

Best Local Investment Bank
in Namibia

How we make money

	Business activity	Income statement impact	Risks arising from this activity
Income after credit impairments	We lend money to our customers and clients within acceptable levels of risk. This creates assets, which generate future income.	Interest income and credit impairment charges	Credit risk Interest rate risk Operational risk, including compliance, environmental and social risk
	We source funding in compliance with regulations, to enable lending. This creates liabilities, which generate future expenses.	Interest expense	Liquidity risk Interest rate risk Operational risk, including compliance risk
	We provide transactional banking facilities and knowledge-based services to our customers and clients.	Net fee and commission revenue	Operational risk, including compliance risk
	We offer market access and risk mitigation products to our clients to support their business requirements.	Trading revenue	Market risk Credit risk Operational risk
	We earn revenue from a variety of other sources that are linked to our core business activities.	Other revenue	Market risk Credit risk Insurance risk Operational risk
Expenses	We invest in our people as our most important competitive advantage.	Staff costs	Operational risk, including compliance and social risk
	We invest in our operations.	Other operating costs	Operational risk, including compliance and social risk

All our activities introduce business and reputational risk.

Income (or revenue) after credit impairments – **expenses** (or costs) including taxation
= **net profit**

Net profit – **dividends** to shareholders ± other reserve movements
= **retained equity** (which is reinvested to sustain and grow the business)

We lend to individual customers in the form of mortgage loans, instalment sale and finance leases on vehicles and other assets, and credit card facilities; and to corporate clients in the form of corporate lending facilities, structured finance, project finance and trade finance. Interest is charged on these loans using an interest rate determined by taking into account the cost of the money we lend, benchmark lending rates and the risk that the customer or client will not repay the loan. Deterioration in this risk, otherwise known as credit risk, is reflected in credit impairment charges in the group and company's income statements. By virtue of who we lend money to, we are also exposed to social and environmental risk.

We require funding for lending and investment activities. Funding is obtained from deposits placed by customers and other funders. The interest paid on these deposits depends on the term and size of the deposits and macroeconomic variables. The interest rates on the money we lend to customers and on the money deposited with us are not necessarily repriced at the same time and consist of both fixed rate and floating rate instruments. This results in interest rate risk. Demand deposits placed can be withdrawn at any time, which results in liquidity risk that could materialise if a significant portion of total deposits is withdrawn without the cash being available to settle these withdrawals, or if deposits being redeemed cannot be replaced with new deposits.

We earn net fee and commission revenue by providing transactional banking facilities to our individual customers, small and medium enterprises (SMEs) and corporate clients. These facilities include branches, ATMs, telephone banking, internet-based transactions such as online banking, and point-of-sale devices. We earn fees on knowledge-based services, which include corporate advisory and loan structuring activities as well as financial planning and insurance marketing and broking services.

Trading products include foreign exchange, commodity, credit, interest rate and equity instruments. Trading is predominantly related to client flows, rather than being proprietary, and is managed within the group's risk tolerance levels. It exposes us to market risk as market prices on these asset classes may increase or decrease due to external factors. This risk can be reduced through offsetting trades with counterparties and other clients. We earn revenue through the margins earned on accepting trading positions for clients and managing the net market risk trading exposure within our trading operations. To earn trading revenue, the group takes on and manages market risk, counterparty credit risk and operational risk arising from large and complex trading operations.

Other revenue includes underwriting profit and investment revenue from our short-term insurance operations, profit-sharing arrangements relating to our long-term insurance operations, as well as gains on property, private equity and strategic investment activities.

We invest in developing and retaining our staff in order to execute our strategy and deliver to our customers and clients.

We invest in information technology (IT) systems and infrastructure to deliver excellent service to our customers and clients, while managing our costs.

Business structure

Personal & Business Banking

provides banking and other financial services to individual customers and small- to medium-sized enterprises

Headline earnings

N\$138 million
(2011: N\$178 million)

What we offer

- mortgage lending
- instalment sale and finance leases
- card products
- transactional products
- lending products
- bancassurance.

Corporate & Investment Banking

provides corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and international counterparties

Headline earnings

N\$138 million
(2011: N\$123 million)

What we offer

- global markets
- transactional products and services
- investment banking
- real estate.

Other services

include the results of centralised support functions (back office), including those functions that were previously embedded in the business segments. The direct costs of support functions are recharged to the business segments

A sustainable strategy

We aim to build the leading African financial services organisation using all our competitive advantages to the full.

In formulating our strategy and determining our strategic priorities, we consider the full range of issues that influence the sustainability of our business and that of the social, economic and physical environments in which we operate and which, in turn, have a direct impact on our future viability.

Our material issues

are what we need to identify and manage to remain commercially viable and socially relevant in the long term

- Sustainable long-term financial performance
- Governance, regulation and stakeholder engagement
- Sustainable and responsible financial services
- Socioeconomic development
- A positive and consistent employee experience
- The environment

Our six strategic priorities

are what we need to do to execute our strategy in the medium term

01 Embed customer and client centricity

02 Inspire and motivate our people

03 Achieve operational excellence

04 Capitalise on our strategic partnership with ICBC¹

05 Deliver as a relevant corporate citizen

06 Reshape our business to take account of trends in global legislation and regulation

Our social compact underpins our long-term sustainability

Standard Bank will contribute to the socioeconomic development of the countries in which we operate in a way which is consistent with the nature and size of our operations. We will provide financial services and products responsibly, bearing in mind the needs of society, our customers, our staff, our shareholders, the environment and future generations.

¹ Industrial and Commercial Bank of China Limited.

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The reports and statements set out below comprise the annual financial statements.

Directors' responsibility for financial reporting

The directors are responsible for the preparation, integrity and fair presentation of the financial statements of Standard Bank Namibia Limited. The financial statements presented on pages 10 to 75 have been prepared in accordance with International Financial Reporting Standards, and include amounts based on judgements and estimates made by management.

The going concern basis has been adopted in preparing the financial statements. The directors have a reasonable expectation that the bank will have adequate resources to continue in operational existence and as a going concern for the foreseeable future. These financial statements support the viability of the bank.

The financial statements have been audited by the independent auditors, PricewaterhouseCoopers, who were 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 are valid and appropriate.

The audit report of the independent auditor is presented on page 12.

The financial statements set out on pages 10 to 75, which have been prepared on the going concern basis, were approved by the board on 27 March 2013 and were signed on its behalf by:



Mr H Maier
Chairman



Mr MM Pupuma
Chief executive

Independent auditors' report

To the shareholder of Standard Bank Namibia Limited

We have audited the annual report of Standard Bank Namibia Limited, as set out on pages 10 to 75, which comprise the statement of financial position as at 31 December 2012, and the statement of financial performance, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the annual report

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the annual report, 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 annual report 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 annual report.

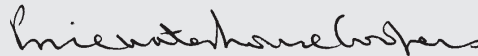
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual report present fairly, in all material respects, the financial position of Standard Bank Namibia Limited as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of Namibia.

Other reports required by the Companies Act

As part of our audit of the annual report for the year ended 31 December 2012, we have read the Directors' Report for the purpose of identifying whether there are material inconsistencies between these reports and the audited annual report. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited annual report. However, we have not audited these reports and accordingly do not express an opinion on these reports.



PricewaterhouseCoopers
Chartered Accountants (Namibia)

Registered Auditors and Accountants

Per: Nangula Uaandja

Partner

27 March 2013

Windhoek

Directors' report

for the year ended 31 December 2012

The directors submit their report for the year ended 31 December 2012.

Review of activities

Main business and operations

Standard Bank Namibia Limited is a Namibian registered commercial bank and its operations are confined to Namibia, where it has offices in all the main centres with the head office in Windhoek. As a registered bank, a full range of banking services are offered, including ancillary services provided as follows:

- Insurance broking services through fellow subsidiaries companies Stanfin Namibia (Proprietary) Limited and Standard Insurance Brokers (Namibia) (Proprietary) Limited.
- Safe custodianship through its 100% owned subsidiary company Standard Bank Namibia Nominees (Proprietary) Limited.
- Asset management and unit trust services through a related company, Liberty Life Namibia Limited.

The bank also offers an international banking service through its association with Standard Bank Group Limited, a company registered in the Republic of South Africa and dual listed on the Johannesburg Stock Exchange and Namibian Stock Exchange, with representation throughout Africa.

Registered address

3rd Floor, Standard Bank Centre
Corner of Werner List Street and Post Street Mall
PO Box 3327
Windhoek
Namibia

Registration number

78/01799

Country of incorporation

Republic of Namibia

Results for the period

Net profit of the company was N\$276 million (2011: N\$301 million profit), after taxation of N\$98 million (2011: N\$116 million).

Events after the reporting period

There were no events after the reporting date to report.

Authorised and issued share capital

The bank's authorised share capital consisted of 6 000 000 ordinary shares of N\$1 each of which 2 000 000 have been issued. The authorised and issued share capital remained unchanged for the year.

Borrowings

The bank's borrowings consist mainly of deposits and current accounts originated through banking operations and long-term financing.

Property, plant and equipment

The bank's property and equipment (which consists of property and equipment) are disclosed in the notes to the annual financial statements.

Dividends

A dividend totaling N\$200 million was declared and paid in the year under review (2011: N\$200 million).

Ownership

At 31 December 2012, SBN Holdings Limited owned 99,9% of the issued share capital and the following directors each held one hundred shares:

Mr H Maier
Mrs BR Hans
Mr JL Muadinohamba
Dr N Hamunime
Mrs M Namundjebo-Tilahun
Adv N Bassingthwaighe

The directors have no beneficial interest in the ordinary shares which are held on behalf of SBN Holdings Limited.

Directors

The directors of the company during the year and to the date of this report are as follows:

Name	Nationality
Mr H Maier	Namibian
Mr MM Pupuma	South African
Dr N Hamunime	Namibian
Mr JL Muadinohamba	Namibian
Mrs M Namundjebo-Tilahun	Namibian
Mrs BR Hans	Namibian
Ms PM Nyandoro	Zimbabwean
Adv N Bassingthwaighe	Namibian
Mrs B Eimbeck	Namibian
	(Appointed 1 March 2012)

Company secretary

Adv S Tjijorokisa

Interest in subsidiaries

The bank owns 100% of the share capital of Standard Bank Namibia Nominees (Proprietary) Limited, a registered safe custodian. The bank performs all administrative and management functions on behalf of the subsidiary and as such the subsidiary's balances and results are included in the bank's numbers. Therefore, the consolidated financial position and results equate to those of the bank.

The bank has elected not to prepare consolidated statements in terms of Section 297 of the Companies Act of Namibia and as permitted under IAS 27. These financial statements present information about the bank as an individual undertaking and not about its group. The immediate holding company is SBN Holdings Limited, a company registered in Namibia.

Statement of financial position

at 31 December 2012

	Note	2012 N\$'000	2011 N\$'000
Assets			
Cash and balances with central banks	2	1 095 026	1 337 871
Derivative assets	3	30 038	51 079
Trading assets	4	168 585	56 822
Financial investments	5	2 470 512	2 378 445
Loans and advances	6	12 250 859	10 137 897
Current tax receivable	8	9 259	
Deferred taxation asset	8	11 735	57 780
Other assets	9	307 174	140 418
Assets in group companies and associates	10	1 527 048	1 637 664
Intangible assets	11	9 246	144 060
Property, plant and equipment	12	241 575	194 845
Total assets		18 121 057	16 136 881
Equity and liabilities			
Equity			
		1 561 978	1 479 168
Share capital ordinary	13	2 000	2 000
Share premium on issue of shares	14	441 230	441 230
Retained earnings		1 118 748	1 035 938
Liabilities		16 559 079	14 657 713
Derivative liabilities	3	31 144	89 444
Deposit and current accounts	15	14 820 728	13 863 865
Current taxation liability	8		5 402
Other liabilities	16	284 247	333 831
Loans from group companies	10	1 422 960	365 171
Total equity and liabilities		18 121 057	16 136 881

Income statement

for the year ended 31 December 2012

	Note	2012 N\$'000	2011 N\$'000
Net interest income	23	603 252	516 910
Interest income		1 227 102	1 065 919
Interest expense		(623 850)	(549 009)
Non interest revenue		489 325	458 486
Net fee and commission revenue		412 885	389 872
Fee and commission revenue		451 418	419 250
Fee and commission expense		(38 533)	(29 378)
Trading revenue		76 440	68 614
Other income		86 013	78 459
Total income		1 178 590	1 053 855
Credit impairment charges		(32 632)	(28 862)
Income after credit impairment charges		1 145 958	1 024 993
Operating expenses		755 592	602 921
Employee costs		(412 454)	(326 057)
Other operating expenses		(343 138)	(276 864)
Net income		390 366	422 072
Income from equity accounted investments	10	726	454
Net income before indirect taxation		391 092	422 526
Indirect taxation	8	(17 055)	(5 137)
Profit before direct taxation		374 037	417 389
Direct taxation	8	(98 028)	(115 944)
Profit for the year		276 009	301 445

Statement of other comprehensive income

for the year ended 31 December 2012

	2012 N\$'000	2011 N\$'000
Profit for the year	276 009	301 445
Other comprehensive income:		
Net change in fair value of available for sale financial assets	4 855	(3 827)
Total comprehensive income	280 864	297 618

Statement of changes in equity

for the year ended 31 December 2012

	Total share capital N\$'000	Available for sale revaluation reserve ¹ N\$'000	Share based payment reserve ² N\$'000	Statutory credit risk reserve ³ N\$'000	Retained earnings N\$'000	Total equity N\$'000
Balance at 1 January 2011	443 230	3 002	3 549	59 578	870 137	1 379 496
Total comprehensive income for the year		(3 827)			301 445	297 618
Profit for the year					301 445	301 445
Other comprehensive income		(3 827)				(3 827)
Total contributions by and distributions to owners of company recognised directly in equity			2 054	35 000	(235 000)	(197 946)
Employees share option scheme: Proceeds of shares issued			2 054			2 054
Transfer between reserves				35 000	(35 000)	
Dividends					(200 000)	(200 000)
Balance at 1 January 2012	443 230	(825)	5 603	94 578	936 582	1 479 168
Total comprehensive income for the year		4 855			276 009	280 864
Profit for the year					276 009	276 009
Other comprehensive income		4 855				4 855
Total contributions by and distributions to owner of company recognised directly in equity			1 946	3 000	(203 000)	(198 054)
Employees share option scheme: Proceeds of shares issued			1 946			1 946
Transfer between reserves				3 000	(3 000)	
Dividends					(200 000)	(200 000)
Balance at 31 December 2012	443 230	4 030	7 549	97 578	1 009 591	1 561 978

Please refer to note 13 for further information.

¹ Available for sale reserve: refer to the available for sale financial assets section in accounting policy: Financial instruments.

² Share based payment reserve: refer to accounting policy: Equity linked transactions.

³ The statutory credit risk reserve related to the Bank of Namibia reserve requirements.

Statement of cash flows

for the year ended 31 December 2012

	Note	2012 N\$'000	2011 N\$'000
Net cash flows from operating activities		(610 144)	1 086 718
Cash flow used in operations		(76 732)	1 480 659
Income before share of profit from associates and joint ventures		390 366	422 072
Adjustments for:		(642 898)	(542 652)
Impairment loss	23	32 632	28 862
Depreciation and amortisation	12	31 052	22 097
Equity settled share based payments	23	1 944	2 057
Fair value adjustments financial instruments	23	(84 573)	(76 191)
Fair value adjustments trading assets	23	(11 615)	(1 174)
Indirect taxation	8.7	(17 055)	(5 137)
Interest expense	23	623 850	549 009
Interest income	23	(1 227 102)	(1 065 919)
Net movement in post-employment benefits	21	8 076	4 186
Profit on sale of property and equipment		(107)	(442)
Increase in income earning assets	25	(2 266 594)	(645 560)
Increase in deposits and other liabilities	25	1 908 982	1 852 858
Interest income	23	1 227 102	1 065 919
Dividends received			1 000
Interest expense	23	(623 850)	(549 009)
Tax paid	25	(69 840)	(123 969)
Cash flows from investing activities		33 887	(152 178)
Purchase of property, plant and equipment	12	(93 393)	(101 493)
Sale of property, plant and equipment	12	507	7 239
Purchase of other intangible assets	11	(1 839)	(57 924)
Sale of other intangible assets	11	128 612	
Cash flows from financing activities		(200 000)	(351 368)
Dividends paid	22	(200 000)	(200 000)
Net decrease in subordinated debt			(151 368)
Total cash movement for the year		(242 845)	977 113
Cash at the beginning of the year		1 337 871	360 758
Total cash at end of the year	2	1 095 026	1 337 871

Notes to the annual financial statements

for the year ended 31 December 2012

1. Accounting policies

The principal accounting policies applied in the presentation of the annual financial statements are set out below.

1.1 Basis of preparation

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), its interpretations adopted by the International Accounting Standards Board (IASB), the AC 500 standards as issued by the Accounting Practices Board or its successor, and the Namibian Companies Act. The annual financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment property, liabilities for cash settled share based payment arrangements, interests in mutual funds, policyholder investment contract liabilities and third-party financial liabilities arising on the consolidation of mutual funds that are measured at fair value;
- policyholder insurance contract liabilities and related reinsurance assets that are measured in terms of the Financial Soundness Valuation (FSV) basis as set out in accounting policy 16 – *Policyholder insurance and investment contracts*; and
- Post-employment benefit obligations that are measured in terms of the projected unit credit method.

The bank has made the following accounting policy elections in terms of IFRS, with reference to the detailed accounting policies shown in brackets:

- regular way purchases and sales of financial assets are recognised and derecognised using trade date accounting (accounting policy 4);
- cumulative gains and losses recognised in other comprehensive income (OCI) in terms of a cash flow hedge relationship are transferred from OCI and included in the initial measurement of the non-financial asset or liability (accounting policy 4);
- investment property is accounted for using the fair value model (accounting policy 5);
- jointly controlled entities are accounted for using the equity method (accounting policy 6);
- mutual fund investments held by investment linked insurance funds, that do not meet the definition of a subsidiary, are designated on initial recognition as at fair value through profit or loss (accounting policy 6);
- property and equipment are accounted for using the cost model (accounting policy 8); and
- unrecognised actuarial gains or losses on post-employment benefits are recognised in profit or loss over a period not exceeding the expected average remaining working life of active employees (accounting policy 13).

Changes in accounting policies

The accounting policies are consistent with those adopted in the previous year, except for the following:

Adoption of new standards and interpretations effective for the current financial year

The group adopted the following IFRS prospectively as of 1 January 2012:

- IFRS 1 First time Adoption of International Financial Reporting Standards (revised 2010); and
- IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets (revised 2010).

Early adoption of amended standards and interpretations

The group has early adopted the following amended IFRS as of 1 January 2012:

- IAS 1 *Presentation of Financial Statements* (2011 Improvements to IFRS);
- IAS 16 *Property, Plant and Equipment* (2011 Improvements to IFRS);
- IAS 32 *Financial Instruments: Presentation* (2011 Improvements to IFRS);
- IAS 34 *Interim Financial Reporting* (2011 Improvements to IFRS); and
- IFRS 1 *First time Adoption of International Financial Reporting Standards* (2011 Improvements to IFRS).

The revised IFRS did not have any effect on the group's reported earnings or financial statement position but have affected the group's disclosures with no material impact on the group's accounting policies.

Please refer to Annexure A for detailed accounting policies.

1. Accounting policies continued

1.2 Functional and presentational currency

The annual financial statements are presented in Namibia dollar, which is the functional and presentation currency of Standard Bank Namibia. All amounts are stated in thousands of Namibia dollar (N\$'000s), unless indicated otherwise.

1.3 Intangible assets

Computer software

Direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the bank and have a probable future economic benefit beyond one year, are capitalised and disclosed as computer software intangible assets. Computer software intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

The assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The determination of the recoverable amount of each asset requires judgement. The recoverable amount is based on the value in use and calculated by estimating future cash benefits that will result from each asset and discounting these cash benefits at an appropriate pre-tax discount rate.

1.4 Impairment of available-for-sale equity investments

The bank determines that available-for-sale equity investments are impaired and recognised as such in profit or loss 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 bank evaluates, among other factors, the normal volatility in the share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

1.5 Tax

Income tax

The bank is subject to direct and indirect taxation in a number of jurisdictions. There are many transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The bank recognises liabilities based on objective estimates of the quantum of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax expense in the period in which such determination is made.

1.6 Key management assumptions

In preparing the financial statements, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain future events that are believed to be reasonable under the circumstances. No material changes to assumptions have occurred during the year.

1.7 Credit impairment charge

Portfolio loan impairments

The bank assesses its loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in profit or loss, the bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. The impairment for performing and non-performing but not specifically impaired loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Specific loan impairments

Non performing loans include those loans for which the bank has identified objective evidence of default, such as a breach of a material loan covenant or condition, as well as those loans for which instalments are due and unpaid for 90 days or more. Management's estimates of future cash flows on individual impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Notes to the annual financial statements continued

for the year ended 31 December 2012

1. Accounting policies continued

1.8 Fair value of financial instruments

The fair value of financial instruments, such as unlisted equity investments and equity derivatives that are not quoted in active markets is determined by using valuation techniques. Wherever possible, models use only observable market data. Where required, these models incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of financial instruments.

The additional disclosures with regards to fair value measurements of financial instruments are set out in note 22.

1.9 Securitisations and special purpose entities

The bank sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying or selling credit protection. The bank does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the bank controls an SPE, it makes judgements about its exposure to the risks and rewards, as well as its ability to make operational decisions for the SPE in question. In arriving at judgements, these factors are considered both jointly and separately.

1.10 Held-to-maturity investments

The bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires judgement of the bank's ability to hold such investments to maturity. If the bank fails to keep these investments to maturity other than for specific defined circumstances, it will be required to classify the entire category as available-for-sale. The investment would be measured at fair value and not amortised cost.

	2012 N\$'000	2011 N\$'000
2. Cash and cash equivalents		
Coins and bank notes	307 573	186 177
Balances with the Bank of Namibia	787 453	1 151 694
Reserve requirement balance ¹	164 072	141 755
Temporary excess balance	623 381	1 009 939
	1 095 026	1 337 871

¹ Deposits are placed with the Bank of Namibia for the purpose of reserve requirements and are therefore not available for use. Refer to notes 19 and 20 for further analysis.

3. Derivative instruments

All derivatives are classified as either derivatives held-for-trading or other.

3.1 Fair values

The fair value of a derivative financial instrument represents, for quoted instruments, the quoted market price, and for unquoted instruments, the present value of the positive or negative cash flows, which would have occurred if the rights and obligations arising from that instrument were closed out in an orderly market place transaction at year end.

3.2 Notional amount

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The notional amounts have been translated at the closing rate at the reporting date where cash flows are receivable in foreign currency. The amount cannot be used to assess the market risk associated with the positions held and should be used only as a means of assessing the group's participation in derivative contracts.

3. Derivative instruments continued

3.3 Derivative assets and liabilities

	Net fair value N\$'000	Fair value of assets N\$'000	Fair value of liabilities N\$'000	Contract/ notional amount N\$'000
2012				
Derivatives				
Foreign exchange derivatives				
Forwards: Third parties	(4 465)	10 655	(15 120)	140 091
Forwards: Inter-group	4 465	15 120	(10 655)	74 788
Swaps: Inter-group	(1 104)		(1 104)	
	(1 104)	25 775	(26 879)	
Interest rate derivatives				
Swaps: Third parties	4 263	4 263		
Swaps: Inter-group	(4 265)		(4 265)	
	(2)	4 263	(4 265)	
Total derivative assets/(liabilities)	(1 106)	30 038	(31 144)	
Consisting of:				
– Held for trading		25,775	(26,879)	
– Other		4,263	(4,265)	
		30,038	(31,144)	
2011				
Derivatives				
Foreign exchange derivatives				
Forwards: Third parties	40 422	43 790	(3 368)	172 293
Forwards: Inter-group	(40 422)	3 368	(43 790)	172 293
Swaps: Inter-group	(38 365)		(38 365)	232 303
	(38 365)	47 158	(85 523)	
Interest rate derivatives				
Swaps: Third parties	3 921	3 921		116 800
Swaps: Inter-group	(3 921)		(3 921)	116 800
		3 921	(3 921)	
Total derivative assets/(liabilities)	(38 365)	51 079	(89 444)	
Consisting of:				
– Held for trading		47 158	(85 523)	
– Other		3 921	(3 921)	
		51 079	(89 444)	

Refer to notes 19 and 20 for further analysis.

Notes to the annual financial statements continued

for the year ended 31 December 2012

3. Derivative instruments continued

3.4 Use and measurement of derivative instruments

In the normal course of business, the bank enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange and interest rate exposures. Derivative instruments used by the group in both trading and hedging activities include swaps, forwards and other similar types of instruments based on foreign exchange rates and interest rates.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

The fair value of all derivatives is recognised on the statement of financial position and is only netted to the extent that there is both a legal right of set off and an intention to settle on a net basis.

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period.

The major types of swap transactions undertaken by the group are as follows:

- interest rate swap contracts generally entail the contractual exchange of fixed and floating rate interest payments in a single currency, based on a notional amount and an interest reference rate;
Forwards are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price.

Forward contracts are tailor-made agreements that are transacted between counterparties in the over-the-counter market.

3.5 Derivatives held-for-trading

The Bank trades derivative instruments on behalf of customers and for its own positions. The Bank transacts derivative contracts to address customer demand, both as a market maker in the wholesale markets and in structuring tailored derivatives for customers. The Bank also takes proprietary positions for its own account. Trading derivative products include the following derivative instruments:

Foreign exchange derivatives

Foreign exchange derivatives are used to hedge foreign currency risks on behalf of customers and for the Bank's own positions. Foreign exchange derivatives primarily consist of forward exchange contracts, foreign exchange futures and foreign exchange options.

Interest rate derivatives

Interest rate derivatives are used to modify the volatility and interest rate characteristics of interest earning assets and interest bearing liabilities on behalf of customers and for the Bank's own positions. Interest rate derivatives primarily consist of bond options, caps and floors, future options, forward rate agreements, swaps and swaptions.

3.6 Other

The Bank enters into derivative transactions, which are designated and qualify as either fair value for recognised assets or liabilities. Derivatives designated as hedging instruments consist of:

Derivatives designated as fair value hedges

The Bank's fair value hedges principally consist of interest rate swaps that are used to mitigate the risk of changes in market interest rates.

	2012 N\$'000	2011 N\$'000
4. Trading assets		
Listed	168 585	56 822
	168 585	56 822
Comprising:		
Government, municipality and utility bonds	27 950	20 987
Treasury bills	140 635	35 835
	168 585	56 822
Investment registers		
Registers of the investment securities are available for inspection by members or their authorised agents at the registered office of the Bank. Refer to notes 19 and 20 for further analysis.		
5. Financial investments		
Short-term negotiable securities		
Unlisted	1 042 711	906 444
Other financial investments		
Listed	185 226	259 478
Unlisted	1 242 575	1 212 523
	2 470 512	2 378 445
Comprising:		
Government, municipality and utility bonds	185 226	259 478
Treasury bills	1 042 711	906 444
Mutual funds	1 242 575	1 195 776
Other interest linked investments		16 747
	2 470 512	2 378 445

Directors' valuation

The directors' valuation of unlisted investments is equal to the carrying value which approximates fair value. All unlisted investments were valued as at 31 December 2012.

Financial investments pledged

Financial investments with a value of N\$150 million (2011: N\$120 million) are pledged to Bank of Namibia as security.

Refer to notes 19 and 20 for further analysis.

Notes to the annual financial statements continued

for the year ended 31 December 2012

	2012 N\$'000	2011 N\$'000
6. Loans and advances		
6.1 Loans and advances net of impairments		
Loans and advances to banks		
Overdrafts and other loans	29 231	2 563
Loans and advances to customers	12 221 628	10 135 334
Mortgage loans	5 452 071	4 863 240
Instalment sale and finance leases	2 116 273	1 963 916
Card debtors	199 734	174 330
Overdrafts and other demand loans	2 467 768	1 611 955
Term lending	2 089 201	1 608 695
Gross loans and advances to customers	12 325 047	10 222 136
Credit impairments for loans and advances (note 8)	(103 419)	(86 802)
Specific credit impairments	(62 794)	(59 413)
Portfolio credit impairments	(40 625)	(27 389)
Net loans and advances	12 250 859	10 137 897
Comprising:		
Gross loans and advances	12 354 278	10 224 699
Less: credit impairments for loans and advances (note 8)	(103 419)	(86 802)
Net loans and advances	12 250 859	10 137 897
Segmental analysis – industry		
Agriculture	563 042	478 829
Construction	196 484	249 311
Electricity	258 482	209 878
Finance, real estate and other business services	1 843 861	1 557 935
Individuals	7 473 482	6 824 059
Manufacturing	362 686	170 995
Mining	822 867	175 945
Other services	558 297	339 026
Transport	161 732	93 734
Wholesale	113 345	124 987
Gross loans and advances	12 354 278	10 224 699
Segmental analysis – geographic area		
The following table sets out the distribution of the loans and advances by geographic area where the loans are recorded.		
Namibia	12 354 278	10 224 699
Gross loans and advances	12 354 278	10 224 699

	2012 N\$'000	2011 N\$'000
6. Loans and advances continued		
6.2 Instalment sale and finance leases		
Receivable within 1 year	109 836	807 844
Receivable after 1 year but within 5 years	2 328 318	1 473 542
Receivable after 5 years		
Gross investment in instalment sale and finance leases	2 438 154	2 281 386
Unearned finance charges	(321 881)	(317 470)
Receivable within 1 year	106 740	672 936
Receivable after 1 year but within 5 years	2 009 533	1 290 980
Receivable after 5 years		
Net investment in instalment sale and finance leases	2 116 273	1 963 916

Non-current assets

Refer to notes 19 and 20 for further analysis

6.3 Exposure to credit risk

Loans and advances are analysed and categorised based on credit quality using the following definitions.

Performing loans

Neither past due nor specifically impaired loans are loans that are current and fully compliant with all contractual terms and conditions.

Early arrears but not specifically impaired loans include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is not expected but could occur if the adverse conditions persist.

Non-performing loans

Non-performing loans are those loans for which:

- the group has identified objective evidence of default, such as a breach of a material loan covenant or condition, or
- instalments are due and unpaid for 90 days or more.

Non-performing but not specifically impaired loans are not specifically impaired due to the expected recoverability of the full carrying value when considering the recoverability of discontinued future cash flows, including collateral.

Non-performing specifically impaired loans are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows. Specifically impaired loans are further analysed into the following categories:

- Substandard items that show underlying well-defined weaknesses and are considered to be specifically impaired.
- Doubtful items that are not yet considered final losses due to some pending factors that may strengthen the quality of the items.

Loss items that are considered to be uncollectible in whole or in part. The Bank provides fully for its anticipated loss, after taking collateral into account.

Notes to the annual financial statements continued

for the year ended 31 December 2012

6. Loans and advances continued

6.3 Exposure to credit risk continued

Maximum exposure to credit risk by credit quality

	Gross advances Total N\$'000s	Neither past due nor specifically impaired		Sub standard N\$'000s	Doubtful N\$'000s
		Normal monitoring N\$'000s	Close monitoring N\$'000s		
2012					
Mortgage loans	5 448 815	4 713 795	606 436	13 441	40 075
Instalment sale and finance leases	2 116 273	1 855 638	228 891	7 589	6 731
Card debtors	199 734	187 559	3 740	8 435	
Other loans and advances	4 589 456	4 468 337	71 835	3 524	24 867
Gross loans and advances	12 354 278	11 225 329	910 902	32 989	71 673
<i>Less: Impairments for loans and advances</i>	103 419				
Net loans and advances	12 250 859				
<i>Add the following other banking activities exposures:</i>					
Cash and balances with central banks	1 095 026				
Derivatives	30 038				
Financial investments	2 470 512				
Trading assets	168 585				
Assets in group companies and associates	1 527 048				
Other financial assets	307 174				
Total on-balance sheet exposure	17 849 242				
<i>Unrecognised financial assets</i>					
Letters of credit and bankers' acceptances	304 753				
Financial guarantees	656 932				
Irrevocable unutilised facilities	129 116				
Total exposure to credit risk	18 940 043				
2011					
Mortgage loans	4 863 239	4 324 524	428 336	21 893	37 833
Instalment sale and finance leases	1 963 916	1 841 278	106 486	4 581	4 962
Card debtors	174 330	161 732	5 882	6 716	
Other loans and advances	3 223 213	3 127 198	53 599	8 636	14 299
Gross loans and advances	10 224 698	9 454 732	594 303	41 826	57 094
<i>Less: Impairments for loans and advances</i>	86 802				
Net loans and advances	10 137 896				
<i>Add the following other banking activities exposures:</i>					
Cash and balances with central banks	1 337 871				
Derivatives	51 079				
Financial investments	2 378 445				
Trading assets	56 823				
Assets in group companies and associates	1 637 664				
Other financial assets	140 418				
Total on-balance sheet exposure	15 740 196				
<i>Unrecognised financial assets</i>					
Letters of credit and bankers' acceptances	154 621				
Financial guarantees	577 920				
Irrevocable unutilised facilities	136 073				
Total exposure to credit risk	16 608 810				

Performing loans							
Specifically impaired loans						Total non-performing loans N\$'000s	Non performing loans %
Loss N\$'000s	Total N\$'000s	Securities and expected recoveries on specifically impaired loans N\$'000s	Net after securities and expected recoveries on specifically impaired loans N\$'000s	Balance sheet impairments for non- performing specifically impaired loans N\$'000s	Gross specific impairment coverage %		
75 068	128 584	123 376	5 208	3 719	2.89	128 584	2.36
6 180	20 500	6 664	13 836	15 519	75.70	20 500	0.97
	8 435		8 435	8 435	100.00	8 435	4.22
22 319	50 710	7 833	42 877	35 121	69.26	50 710	1.10
103 567	208 229	137 873	70 356	62 794	30.16	208 229	1.69

50 653	110 379	96 987	13 392	13 392	12.13	110 379	2.27
6 609	16 152	7 619	8 533	8 533	52.83	16 152	0.82
	6 716		6 716	6 716	100.00	6 716	3.85
19 481	42 416	8 655	33 761	30 772	72.55	42 416	1.32
76 743	175 663	113 261	62 402	59 413	33.82	175 663	1.72

Notes to the annual financial statements continued

for the year ended 31 December 2012

6. Loans and advances continued

6.3 Exposure to credit risk continued

Ageing of loans and advances past due but not impaired

	Less than 31 days N\$m	31 – 60 days Rm	61 – 90 days Rm	91 – 180 days Rm	Total Rm
2012					
Mortgage loans	110 471	392 076	103 889		606 436
Instalment sale and finance leases	152 952	44 978	30 961		228 891
Card debtors	2 831	909			3 740
Other loans and advances	27 549	30 529	13 757		71 835
Total	293 803	468 492	148 607		910 902
2011					
Mortgage loans	366 737	42 087	12 635	6 877	428 336
Instalment sale and finance leases	64 292	22 899	12 421	6 874	106 486
Card debtors	3,503.00	2 379	0	0	5 882
Other loans and advances	41 206	9 918	1 690	785	53 599
Total	475 738	77 283	26 746	14 536	594 303

Renegotiated loans and advances

Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified following weaknesses in the counterparty's financial position, and where it has been judged that normal repayment will likely continue after the restructure.

Collateral

The table that follows shows the financial effect that collateral has on the Bank's maximum exposure to credit risk. The table includes collateral that may not be eligible for recognition under Basel II but that management takes into consideration in the management of the Bank's exposures to credit risk. All on- and off-balance sheet exposures which are exposed to credit risk, including non-performing assets, have been included.

Collateral includes:

- financial securities that have a tradable market, such as shares and other securities
- physical items, such as property, plant and equipment
- financial guarantees, suretyships and intangible assets.

Netting agreements, which do not qualify for offset under IFRS but which are nevertheless enforceable, are included as part of the group's collateral. All exposures are presented before the effect of any impairment provisions.

Of the group's total exposure, 17% (2011: 15%) is unsecured and mainly reflects exposures to well-rated corporate counterparties and sovereign entities.

6. Loans and advances continued

6.3 Exposure to credit risk continued

Collateral

	Total exposure N\$'000s	Unsecured N\$'000s	Secured exposure N\$'000s	Collateral coverage 51 – 100% N\$'000s
2012				
Mortgage loans	5 448 815		5 448 815	5 448 815
Instalment sale and finance leases	2 116 273		2 116 273	2 116 273
Card debtors	199 734	199 734		
Other loans and advances	4 589 456	2 065 255	2 524 201	2 524 201
Derivative assets	30 038		30 038	30 038
Unrecognised financial assets	1 090 801		1 090 801	1 090 801
Letters of credit and bankers' acceptances	18 410		18 410	18 410
Financial guarantees	656 932		656 932	656 932
Irrevocable unutilised facilities	415 459		415 459	415 459
Total	13 475 117	2 264 989	11 210 128	11 210 128
Add: Financial assets not exposed to credit risk	4 041 297			
Add: Interest in financial instruments of group companies	1 527 048			
Less: Impairments for loans and advances	(103 419)			
Less: Unrecognised off balance sheet items	(1090 801)			
Total exposure	17 849 242			
Reconciliation to balance sheet:				
Cash and balances with central banks	1 095 026			
Derivative assets	30 038			
Financial investments	2 470 512			
Trading assets	168 585			
Loans and advances	12 250 859			
Assets in group companies and associates	1 527 048			
Other financial assets	307 174			
Total exposure	17 849 242			
2011				
Mortgage loans	4 863 239		4,863,239	4,863,239
Instalment sale and finance leases	1 963 916		1,963,916	1,963,916
Card debtors	330	330		
Other loans and advances	3 223 213	1 450 446	1 772 767	1 772 767
Derivative assets	51 079		51 079	51 079
Unrecognised financial assets	868 614		868 614	868 614
Letters of credit and bankers' acceptances	154 621		154 621	154 621
Financial guarantees	577 920		577 920	577 920
Irrevocable unutilised facilities	136 073		136 073	136 073
Total	11 144 391	1 624 776	9 519 615	9 519 615
Add: Financial assets not exposed to credit risk	3 913 557			
Add: Interest in financial instruments of group companies	1 637 664			
Less: Impairments for loans and advances	(86 802)			
Less: Unrecognised off balance sheet items	(868 614)			
Total exposure	15 740 196			
Reconciliation to balance sheet:				
Cash and balances with central banks	1 337 871			
Derivative assets	51 079			
Financial investments	2 378 445			
Trading assets	56 823			
Loans and advances	10 137 896			
Assets in group companies and associates	1 637 664			
Other financial assets	140 418			
Total exposure	15 740 196			

Notes to the annual financial statements continued

for the year ended 31 December 2012

7. Credit impairments for loans and advances

A reconciliation of the allowance for impairment losses for loans and advances, by class:

	Mortgage lending N\$'000	Instalment sale and finance leases N\$'000	Card debtors N\$'000	Other loans and advances N\$'000	Corporate lending N\$'000	Total N\$'000
31 December 2012						
Specific impairments						
Balance at beginning of the year	(13 392)	(8 532)	(6 716)	(30 773)		(59 413)
Impaired accounts written off	13 544	5 771	5 200	13 645		38 160
Net impairments raised and released	(3 871)	(12 722)	(6 919)	(17 984)	(45)	(41 541)
Balance at end of the year	(3 719)	(15 483)	(8 435)	(35 112)	(45)	(62 794)
Portfolio impairments						
Balance at beginning of the year	(3 173)	(6 283)	(4 366)	(10 689)	(2 878)	(27 389)
Net impairments raised and released	1 593	(3 101)	2 781	(14 265)	(244)	(13 236)
Balance at end of the year	(1 580)	(9 384)	(1 585)	(24 954)	(3 122)	(40 625)
Total	(5 299)	(24 867)	(10 020)	(60 066)	(3 167)	(103 419)
31 December 2011						
Specific impairments						
Balance at beginning of the year	(10 932)	(12 448)	(2 342)	(24 851)		(50 573)
Impaired accounts written off	5 572	10 754	13 253	21 665		51 244
Net impairments raised and released	(8 075)	(6 782)	(17 627)	(27 600)		(60 084)
Other movements	43	(56)		13		
Balance at end of the year	(13 392)	(8 532)	(6 716)	(30 773)		(59 413)
Portfolio impairments						
Balance at beginning of the year	(3 746)	(6 587)	(3 674)	(10 102)	(6 022)	(30 131)
Net impairments raised and released	573	304	(692)	(587)	3 144	2 742
Balance at end of the year	(3 173)	(6 283)	(4 366)	(10 689)	(2 878)	(27 389)
Total	(16 565)	(14 815)	(11 082)	(41 462)	(2 878)	(86 802)

Net provisions released/(raised) less recoveries of amounts written off in previous years equals income statement impairment charges (note 23).

Segmental analysis of specific impairments industry

	2012 N\$'000	2011 N\$'000
Agriculture		(3)
Construction	(293)	(410)
Electricity	(727)	(743)
Finance, real estate and other business services	(123)	(1 348)
Individuals	(55 292)	(49 682)
Manufacturing	(434)	(904)
Mining	(53)	(384)
Other services	(5 692)	(5 100)
Transport	(10)	(110)
Wholesale	(170)	(729)
Balance of end of year	(62 794)	(59 413)

	2012 N\$'000	2011 N\$'000
8. Taxation		
8.1 Current and deferred tax assets		
Current tax assets	9 259	
Deferred tax assets	11 735	57 780
	20 994	57 780
8.2 Current and deferred tax liabilities		
Current tax liabilities		5 402
8.3 Deferred tax analysis		
Property and equipment	(41 009)	(30 133)
Assets on lease	(23 208)	(25 745)
Derivatives	(6 056)	(845)
Fair value adjustments of financial instruments	1 801	2 056
Fair value adjustments included in available-for-sale reserves under equity	(3 225)	(788)
Impairment charges on loans and advances	26 372	20 589
Post employment benefits	28 612	24 494
Provisions and other differences	28 448	28 326
2011 prior period adjustment		39 826
Net deferred tax closing balance	11 735	57 780
Deferred tax asset	85 233	115 291
Deferred taxation liabilities	(73 498)	(57 511)
8.4 Deferred tax reconciliation		
Net deferred tax balance at beginning of the year	57 780	32 217
Various categories of originating/(reversing) temporary differences for the year:	(46 045)	25 563
Property and equipment	(10 876)	(10 706)
Assets on lease	2 537	2 648
Derivatives	(5 211)	22 266
Fair value adjustments of financial instruments	(255)	(48)
Fair value adjustments included in available-for-sale reserves under equity	(2 437)	757
Impairment charges on loans and advances	5 783	1 622
Post employment benefits	4 118	1 799
Provisions and other differences	122	7 225
2011 prior period adjustment	(39 826)	
Net deferred tax balance at end of the year	11 735	57 780
Temporary differences for the year comprise:		
Recognised in other comprehensive income	(3 196)	757
Recognised in profit or loss	(42 849)	24 806
Deferred tax gain/(expense)	(46 045)	25 563
8.5 Direct taxation expense		
Normal taxation (note 8.7)	55 179	140 750
Deferred taxation (note 8.4)	42 849	(24 806)
	98 028	115 944
8.6 Indirect taxation		
Value added tax	11 854	133
Duties and other	5 201	5 004
	17 055	5 137

Notes to the annual financial statements continued

for the year ended 31 December 2012

	2012 N\$'000	2011 N\$'000
8. Deferred taxation asset continued		
8.7 Normal taxation		
Namibian normal tax	55 179	140 750
8.8 Namibian tax rate reconciliation		
The total tax charge for the year as a percentage of net income before indirect tax	29.4	28.7
Indirect taxation	(4.4)	(1.2)
Direct taxation charge for the year as a percentage of profit before indirect taxation	25.0	27.5
The charge for the year has been reduced as a consequence of:		
Dividends received	0.8	0.7
Other non-taxable income	7.4	6.7
Non-deductible penalties and interest	(0.5)	(0.2)
Non-deductible legal and professional fees	(0.2)	(0.5)
Non-deductible donations	(0.1)	(0.3)
Other permanent differences	(9.0)	0.1
Prior year restatement	6.0	
2011 prior period adjustment	4.6	
Standard rate of Namibian tax	34.0	34.0
9. Other assets		
Trading settlement assets	68 202	55 893
Items in the course of collection	158 622	45 550
Other debtors	80 350	38 975
	307 174	140 418
10. Assets in group companies and associates		
Assets in group companies (note 10.1)	1 523 677	1 635 019
Interest in associates (note 10.2)	3 371	2 645
Liabilities to group companies (note 10.3)	(1 422 960)	(365 171)
	104 088	1 272 493
10.1 Assets in group companies		
Comprising:		
Financial investments		268 966
Loans and advances	1 011 763	1 363 587
Other assets	511 914	2 466
Sub-total as above	1 523 677	1 635 019
Other inter-group assets included under other balances		
Derivative assets (note 4)	15 120	3 368
Total inter-company asset balances	1 538 797	1 638 387
10.2 Interest in associates		
Carrying value at beginning of the year	2 645	3 192
Share of profits	726	453
Distribution of profit		(1 000)
Carrying value at end of the year	3 371	2 645
Comprising:		
Cost of investments	1 154	1 154
Share of reserves	2 217	1 491
Carrying value at end of the year	3 371	2 645

	2012 N\$'000	2011 N\$'000
10. Assets in group companies and associates continued		
10.2 Interest in associates continued		
Directors' valuation		
The directors' valuation of the interest in associates is equal to the balances as per above. There are no significant restrictions on the ability of associates to transfer funds to the Bank in the form of cash dividends or repayments of loans or advances.		
Key financial information of associates		
Statement of financial position		
Non-current assets	26 227	2 870
Current assets	13 923	18 782
Non-current liabilities	21 737	
Current liabilities	5 159	11 070
Income statement		
Total income	19 648	18 677
Total expense	15 717	14 809
Total profit or loss	3 931	3 868
10.3 Liabilities to group companies		
Comprising:		
Deposit and current accounts	1 343 141	294 821
Other liabilities	79 819	70 350
Sub-total as above	1 422 960	365 171
Other inter-group assets included under other balances		
Derivative assets (note 4)	14 918	47 711
Total inter-company asset balances	1 437 878	412 882

11. Intangible assets

	2012			2011		
	Cost/ valuation N\$'000	Accumulated amortisation N\$'000	Carrying value N\$'000	Cost/ valuation N\$'000	Accumulated amortisation N\$'000	Carrying value N\$'000
Computer software	9 246		9 246	144 060		144 060
Total	9 246		9 246	144 060		144 060

Reconciliation of intangible assets 2012	Opening balance N\$'000	Additions N\$'000	Disposals N\$'000	Transfers N\$'000	Net book value* N\$'000
Computer software	144 060	1 839	(128 612)	(8 041)	9 246

Reconciliation of intangible assets 2011	Opening balance N\$'000	Additions N\$'000	Net book value N\$'000 ¹
Computer software	86 136	57 924	144 060

¹ This intangible asset balance relates to work in progress for which amortisation has not yet commenced. There are no significant intangible assets to which titles are restricted or which are pledged as security for liabilities.

Notes to the annual financial statements continued

for the year ended 31 December 2012

12. Property, plant and equipment

	2012			2011		
	Cost/ valuation N\$'000	Accumulated depreciation N\$'000	Carrying value N\$'000	Cost/ valuation N\$'000	Accumulated depreciation N\$'000	Carrying value N\$'000
Freehold property	69 632	(1 107)	68 525	53 139	(766)	52 373
Leasehold property	43 011	(20 376)	22 635	29 727	(18 660)	11 067
Furniture and fixtures	109 864	(50 167)	59 697	89 648	(43 366)	46 282
Motor vehicles	20 083	(8 897)	11 186	16 294	(8 943)	7 351
Office equipment	23 239	(10 869)	12 370	21 625	(8 573)	13 052
IT equipment	190 766	(123 604)	67 162	165 626	(100 906)	64 720
Total	456 595	(215 020)	241 575	376 059	(181 214)	194 845

Reconciliation of property, plant and equipment 2012	Opening balance N\$'000	Additions N\$'000	Disposals N\$'000	Other changes, movements N\$'000	Depreciation N\$'000	Total N\$'000
	Freehold property	52 373	12 196		4 297	(341)
Leasehold property	11 067	17 030		(3 746)	(1 716)	22 635
Furniture and fixtures	46 282	22 045	(20)	(1 513)	(7 097)	59 697
Motor vehicles	7 351	6 595	(380)		(2 380)	11 186
Office equipment	13 052	1 614			(2 296)	12 370
IT equipment	64 720	33 913		(15 575)	(15 896)	67 162
Total	194 845	93 393	(400)	(16 537)	(29 726)	241 575

Reconciliation of property, plant and equipment 2011	Opening balance N\$'000	Additions N\$'000	Disposals N\$'000	Other changes, movements N\$'000	Depreciation N\$'000	Total N\$'000
Land	47 712	4 950	(133)		(156)	52 373
Leasehold property	5 040	10 902			(4 875)	11 067
Furniture and fixtures	35 695	17 774	(960)		(6 227)	46 282
Motor vehicles	4 664	4 919	(163)		(2 069)	7 351
Office equipment	9 432	5 493			(1 873)	13 052
IT equipment	19 710	57 455	(5 541)	(7)	(6 897)	64 720
Total	122 253	101 493	(6 797)	(7)	(22 097)	194 845

	2012 N\$'000	2011 N\$'000
Revaluations		
The fair value of freehold property, based on valuations undertaken during 2012 by registered valuers, was estimated as follows:		
Fair value of freehold land and building	153 470	153 470

A register of freehold land and building is available for inspection at the registered office of the bank.

There are no significant properties or equipments to which title is restricted or which are pledged as security for liabilities.

	2012 N\$'000	2011 N\$'000
13. Share capital		
13.1 Authorised		
6 000 000 (2011: 6 000 000) ordinary shares of N\$1 each	6 000	6 000
	6 000	6 000
13.2 Issued		
2 000 000 (2011: 2 000 000) ordinary shares of N\$1 each	2 000	2 000
	2 000	2 000
13.3 Unissued shares		
4 000 000 (2011: 4 000 000) ordinary shares of N\$1 each are under the general authority of the directors, whose authority expires at the annual general meeting.	4 000	4 000
	4 000	4 000
14. Ordinary share premium		
Share premium on issue of shares	441 230	441 230
15. Deposit and current accounts		
Deposits from banks		
Deposits from banks and central banks	136 405	124 378
Deposits from customers		
Current accounts	2 095 735	1 975 664
Cash management deposits	3 069 049	3 563 422
Card creditors	31 127	25 296
Call deposits	2 449 848	1 476 566
Savings accounts	714 846	710 912
Term deposits	2 698 499	1 873 881
Negotiable certificates of deposit	3 448 758	3 839 494
Other funding	176 461	274 252
	14 684 323	13 739 487
Deposits and current accounts	14 820 728	13 863 865
16. Other liabilities		
Items in the course of transmission	703	166 907
Provision for post-employment benefits (note 23.2)	84 153	68 840
Severance Pay Provision (note 23.3)		3 203
Staff related accruals	28 384	27 642
Other liabilities and accruals	171 007	67 239
	284 247	333 831
17. Trust and safe custody activities		
17.1 Safe custody		
The market value of assets kept under safe custody on behalf of customers amounts to N\$86 291 million (2011: N\$67 707 million).		
17.2 Trust and estate activities		
The market value of trust and estate assets held or placed on behalf of customers in a fiduciary capacity amounts to N\$363 million (2011: N\$355 million).		

Notes to the annual financial statements continued

for the year ended 31 December 2012

	2012 N\$'000	2011 N\$'000
18. Contingent liabilities and commitments		
18.1 Contingent liabilities		
Letters of credit	60 935	69 439
Guarantees	656 932	577 920
Unutilised borrowing facilities ¹	4 232 684	3 117 672
	4 950 551	3 765 031
¹ Undrawn facilities are conditionally cancellable.		
18.2 Capital commitments		
Contracted capital expenditure	7 098	497
	7 098	497
The expenditure will be funded from internal resources.		
18.3 Operating lease commitments		
The future minimum lease payments under non-cancellable operating leases are:		
Properties		
Within 1 year	25 097	23 955
After 1 year but within 5 years	93 771	66 551
After 5 years		33 458
	118 868	123 964
Equipment		
Within 1 year	3 150	882
After 1 year but within 5 years		109
	3 150	991
These commitments comprise a number of separate operating leases in relation to property and equipment, none of which is individually significant to the Bank.		
18.4 Legal proceedings		
In the conduct of its ordinary course of business, the Bank is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non-compliance with laws and regulations. The directors are satisfied, based on present information and the assessed probability of claims eventuating, that the Bank has adequate insurance programmes and provisions in place to meet such claims.		

19. Financial instruments additional disclosures

Maturity analysis of financial liabilities by contractual maturity

	Redeemable on demand N\$'000s	Maturing within 1 month N\$'000s	Maturing between 1 – 6 months N\$'000s	Maturing between 6 – 12 months N\$'000s	Maturing after 12 months N\$'000s	Total N\$'000s
2012						
Financial liabilities						
Derivative financial instruments			31 144			31 144
Trading liabilities						
Deposits from customers and banks	8 520 629	551 256	2 753 817	2 937 897	57 129	14 820 728
Liabilities to group companies	1 422 960					1 422 960
Other	703					703
Total	9 944 292	551 256	2 784 961	2 937 897	57 129	16 275 535
Unrecognised financial instruments						
Letters of credit and bankers' acceptances	243 818	4 565	56 370			304 753
Financial guarantees	264 935	15 487	376 510			656 932
Irrevocable unutilised facilities	129 116					129 116
Total	637 869	20 052	432 880			1 090 801
2011						
Financial liabilities						
Derivative financial instruments		272	86 431	311		89 444
Trading liabilities						
Deposits from customers and banks	8 028 664	1 087 160	2 189 707	1 856 451	71 882	13 863 865
Liabilities to group companies	365 171					365 171
Other	166 96					166 96
Total	8 560 741	1 089 862	2 276 138	1 856 762	71 882	14 485 386
Unrecognised financial instruments						
Letters of credit and bankers' acceptances	85 182	7 493	17 262	44 684		154 621
Financial guarantees	577 920					577 920
Irrevocable unutilised facilities	136 73					136 73
Total	799 175	7 493	17 262	44 684		868 614

Notes to the annual financial statements continued

for the year ended 31 December 2012

19. Financial instruments additional disclosures continued

Maturity analysis of financial assets

The table below sets out the maturity analysis of financial assets:

	Overnight balance N\$'000	Maturing in 1 month N\$'000	Maturing after 1 month but within 3 months N\$'000
2012			
Assets			
Cash and balances with central banks	930 954		
Derivative assets			7 398
Trading assets		168 585	
Financial investments	1 242 575	116 835	654 795
Loans and advances to banks	29 231		
Loans and advances to customers	2 673 256	29 381	701 374
Assets in group companies and associates	1 523 677		
Other financial assets	236 083		
Other non-financial assets			
	6 635 776	314 801	1 363 567
2011			
Assets			
Cash and balances with central banks	1 196 116		
Derivative assets		2 702	5 810
Trading assets		7 966	27 113
Financial investments	1 195 776	74 547	579 322
Loans and advances to banks	2 563		
Loans and advances to customers	1 903 549	630 764	535 281
Assets in group companies and associates	1 363 587	2 466	
Other financial assets	101 443		
Other non-financial assets			
	5 763 034	718 445	1 147 526

Maturing after 3 months but within 6 months N\$'000	Maturing after 6 months but within 12 months N\$'000	Maturing after 12 months but within 5 years N\$'000	Maturing after 5 years N\$'000	Net impairments raised N\$'000	Other non-financial assets N\$'000	Total carrying amount N\$'000
			164 072			1 095 026
22 640						30 038
30 399	415 247	10 661				168 585
						2 470 512
260 435	130 448	3 199 956	5 330 197	(103 419)		29 231
						12 221 628
					3 371	1 527 048
					80 350	316 433
					262 556	262 556
313 474	545 695	3 210 617	5 494 269	(103 419)	346 277	18 121 057
			141 755			1 337 871
42 256	311					51 079
21 743						56 822
362 341	166 459					2 378 445
						2 563
452 460	616 699	2 246 305	3 837 078	(86 802)		10 135 334
268 966					2 645	1 637 664
					38 975	140 418
					396 685	396 685
1 147 766	783 469	2 246 305	3 978 833	(86 802)	438 305	16 136 881

Notes to the annual financial statements continued

for the year ended 31 December 2012

20. Financial instruments measured at fair value

The tables below analyse financial instruments carried at fair value at the end of the reporting period, by level of fair value hierarchy as required by IFRS 7. The different levels are based on the extent that quoted prices are used in the calculation of the fair value of the financial instruments and the levels have been defined as follows:

Level 1 – fair values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2 – fair values are calculated using valuation techniques based on observable inputs, either directly (i.e. as quoted prices) or indirectly (i.e. derived from quoted prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – fair values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

	Note	Level 1 N\$'000	Level 2 N\$'000	Level 3 N\$'000	Total N\$'000
31 December 2012					
Assets					
Derivative assets	3		30 038		30 038
Trading assets	4	168 585			168 585
Financial investments	5	1 227 937	1 242 575		2 470 512
		1 396 522	1 272 613		2 669 135
Comprising:					
Held for trading					194 360
Designated at fair value					1 246 838
Available for sale					1 227 937
					2 669 135
Liabilities					
Derivative liabilities	3		31 144		31 144
Comprising:					
Held for trading					26 879
Designated at fair value					4 265
					31 144

	Note	Level 1 N\$'000	Level 2 N\$'000	Level 3 N\$'000	Total N\$'000
31 December 2011					
Assets					
Derivative assets	3		51 079		51 079
Trading assets	4	56 822			56 822
Financial investments	5	1 165 922	1 195 776		2 361 698
		1 222 744	1 246 855		2 469 599
Comprising:					
Held for trading					103 980
Designated at fair value					1 199 697
Available for sale					1 165 922
					2 469 599
Liabilities					
Derivative liabilities	3		89 444		89 444
Comprising:					
Held for trading					85 523
Designated at fair value					3 921
					89 444

Notes to the annual financial statements continued

for the year ended 31 December 2012

	2012 N\$'000	2011 N\$'000
21. Post-employment benefits		
Amounts recognised as liabilities in the statement of financial position		
Post-employment healthcare benefits – medical aid	84 153	68 840
Severance pay provision		3 203
	84 153	72 043
Amounts recognised as expenses in profit and loss for the year		
Retirement fund	28 783	20 492
Post-employment healthcare benefits – medical aid	8 903	5 279
Severance pay provision		1 108
	37 686	26 879
21.1 Retirement fund		
All eligible full time employees are members of the Standard Bank Namibia Pension Fund, which has been registered in Namibia in accordance with the requirements of the Pension Funds Act. The fund is a defined contribution fund and is governed by the Pension Funds Act of 1956, and is actuarially valued every three years. An actuarial valuation was conducted as at 31 December 2011 and the actuary certified the fund as being financially sound as at that date. Members of the fund comprise 99% of the full time staff. The contribution to the pension fund is based on a percentage of pensionable earnings and charged to income as incurred.		
Employer's contribution for the year	28 783	20 492
21.2 Post-employment healthcare benefits		
Post-employment medical scheme		
The liability represents a post-employment healthcare benefit scheme that covers all employees who joined before 1 March 2009. The liability is unfunded and is valued every year using the projected unit credit method. The latest full statutory actuarial valuation was performed on 31 December 2012. The next actuarial valuation is to be performed on 31 December 2013.		
Movement in the present value of defined medical scheme benefit obligation		
Balance at beginning of the year	68 840	64 671
Current service cost	5 438	5 663
Past service cost	499	
Interest cost	7 895	5 010
Actuarial (gains)/losses	2 807	(5 394)
Premiums paid	(1 326)	(1 110)
Balance at end of the year	84 153	68 840
Consisting of:		
Present value of unfunded obligations	84 153	68 840
Unrecognised actuarial gains/losses		
Provision recognised in the statement of financial position	84 153	68 840

	2012 N\$'000	2011 N\$'000
21. Post-employment benefits continued		
21.2 Post-employment healthcare benefits continued		
The amounts recognised in profit or loss are determined as follows:		
Current service cost	5 438	5 663
Interest cost	7 895	5 010
Net actuarial losses/(gains) recognised in the year	2 807	(5 394)
Included in staff costs	16 140	5 279
The principal actuarial assumptions used for accounting purposes were:		
Discount rate	8.38%	10.50%
Medical inflation	7.38%	9.25%
Remaining service life of employees (years)	24	27.3
Retirement age	60 years	60 years
Mortality rates used:		
During employment: SA85-90 (Light) ultimate table		
Post-employment: PA (90) ultimate table rated down 2 years plus 1% improvement per annum (from a base year of 2006)		
Current active employee members		
Particulars in respect of the current employee members belonging to the medical scheme for which there is a post-retirement medical aid liability as at the investigation date is as follows:		
Number of employees	606	996
Average age (years)	37.0	32.7
Current pensioner members		
Details of the current pension members belonging to the medical aid fund are as follows:		
Number of employees	74	75
Average age (years)	65.0	65.6

Sensitivity analysis

Assumption	Change in assumption	% change in obligation	
		2012	2011
Health care cost inflation:	1% increase	25.7	24.1
	1% decrease	(19.3)	(18.2)
Discount rate:	1% increase	18.7	(18.0)
	1% decrease	25.3	24.2
Expected retirement age:	One year younger	4.8	5.7
	One year older	(4.5)	(5.3)
Mortality rate:	20% increase	(7.2)	
	20% decrease	9.1	

Historical information

	2008 N\$'000	2009 N\$'000	2010 N\$'000	2011 N\$'000	2012 N\$'000
Present value of defined benefit obligations	40 933	50 380	64 654	68 840	84 153
Experience adjustments arising on plan liabilities	(5 056)	3 513	6 228	(5 394)	2 807

Notes to the annual financial statements continued

for the year ended 31 December 2012

	2012 N\$'000	2011 N\$'000
21. Post-employment benefits continued		
21.2 Post-employment healthcare benefits continued		
Estimated future contributions		
Premiums	1 326	1 536
21.3 Severance pay provision		
This liability represents the estimated present value of statutory severance pay obligations required as per the Labour Act of 2007. Severance pay obligation has been determined on the probability of death and the severance pay obligation which will be paid. The severance pay obligation has been determined for all full time employees employed. This provision was insured for during 2012.		
Movement in the present value of severance pay provision		
Balance at beginning of the year	3 203	2 095
Current service cost		483
Past service cost		399
Interest cost		501
Actuarial (gains)/losses	(3 203)	(275)
Balance at end of the year		3 203
Consisting of:		
Present value of unfunded obligations		3 203
Unrecognised actuarial gains/losses		
Provision recognised in the statement of financial position		3 203
The amounts recognised in profit or loss are determined as follows:		
Current service cost		483
Past service cost		399
Interest cost		501
Net actuarial (gains)/losses recognised in the year	(3 203)	(275)
Included in staff costs	(3 203)	1 108
The principal actuarial assumptions used for accounting purposes were:		
Discount rate		10.00%
Salary increase rate		7.25%
Remaining service life of employees (years)		26.7
Mortality rate table: SA85 90 (Light) ultimate table		
Withdrawal rate assumptions applied:		
	2012 and 2011	
Age group	Annual rate of withdrawal	
20 to 24	24%	
25 to 29	18%	
30 to 34	15%	
35 to 39	10%	
40 to 44	6%	
45 to 49	4%	
50 to 54	2%	
55 to 60		

	2012 N\$'000	2011 N\$'000
22. Dividends paid		
Ordinary dividends	200 000	200 000
A dividend of 100 cents per share was declared and paid in 2012 (2011: 100 cents)		
23. Supplementary income statement information		
23.1 Interest income		
Interest on loans and advances and investments	1 218 247	1 057 266
Dividends on unlisted financial investments	8 855	8 653
Total interest income	1 227 102	1 065 919
Comprising:		
Interest income on financial assets carried at fair value through profit and loss	117 025	87 157
Interest income on financial assets not carried at fair value through profit and loss	1 101 222	970 199
Total interest income	1 218 247	1 057 226
23.2 Interest expense		
Current accounts	4 198	28 401
Savings and deposit accounts	102 975	29 425
Subordinated debt		13 023
Other interest-bearing liabilities	516 677	478 160
	623 850	549 009
23.3 Fee and commission revenue		
Account transaction fees	223 707	230 832
Card based commission	58 609	60 922
Electronic banking fees	41 623	29 736
Foreign currency service fees	12 216	12 979
Documentation and administration fees	31 973	13 066
Other	83 290	71 715
	451 418	419 250
All fee and commission revenue reported above relates to financial assets or liabilities not carried at fair value through profit or loss for the Bank.		
23.4 Fee and commission expenses		
Account transaction fees	11 683	3 958
Card based commission	21 382	21 046
Electronic banking fees	5 468	4 374
	38 533	29 378
All fee and commission expenses reported above relate to financial assets or liabilities not carried at fair value through profit or loss for the Bank.		

Notes to the annual financial statements continued

for the year ended 31 December 2012

	2012 N\$'000	2011 N\$'000
23. Supplementary income statement information continued		
23.5 Trading revenue		
Foreign exchange	64 825	67 440
Net fair value adjustments	11 615	1 174
	76 440	68 614
23.6 Other revenue		
Fair value adjustments – financial investments	84 573	76 191
Fair value adjustments – interest rate swap		101
Property-related revenue	395	325
Other non-banking – related revenue	1 045	1 842
	86 013	78 459
23.7 Credit impairment charges		
Net credit impairments raised for loans and advances	54 777	57 341
Recoveries on loans and advances previously written off	(22 145)	(28 479)
	32 632	28 862
Comprising:		
Net specific credit impairment charges	19 396	31 605
Specific credit impairment charges	41 541	60 084
Recoveries on loans and advances previously written off	(22 145)	(28 479)
Portfolio credit impairment (reversals)/charges (note 8)	13 236	(2 743)
	32 632	28 862
23.8 Staff costs – banking activities		
Salaries and allowances	381 727	303 508
Equity settled share based payments	1 944	2 057
Post-employment benefits – Pension – Defined contribution plan	28 783	20 492
	412 454	326 057
23.9 Other operating expenses		
Depreciation, amortisation and impairments	31 052	22 097
Auditors remuneration	1 691	2 494
Audit fees – current year	1 691	1 681
Audit fees – prior year		794
Fees for other services:		
Tax		19
Professional fees	57 168	45 397
Communication expense	18 330	19 345
Profit on sale of property and equipment	(107)	(442)
IT expenses	48 219	39 674
Lease rentals on operating lease	34 379	30 001
Other expenses	127 204	94 593
Premises	25 202	23 705
	343 138	276 864

	2012 N\$'000	2011 N\$'000
24. Directors' emoluments		
Executive directors	5 841	5 950
Non-executive directors	1 357	1 134
	7 198	7 084
25. Statement of cash flows notes		
25.1 Decrease/(increase) in income earning assets		
Financial investments	(7 494)	757 121
Trading assets	(111 763)	3 150
Loans and advances	(2 112 962)	(1 397 971)
Derivative assets	21 041	118 653
Interest in group companies	111 341	(375 594)
Other assets (cost)	(166 757)	249 081
	(2 266 594)	(645 560)
25.2 Increase/(decrease) in deposits and other liabilities		
Deposit and current accounts	956 863	1 728 141
Trading liabilities	11 615	1 174
Derivative liabilities	(58 300)	(12 314)
Liabilities to group companies	1 057 789	137 605
Other liability – non-current portion	(58 985)	(1 748)
	1 908 982	1 852 858
25.3 Direct taxation paid		
Current tax at beginning of the year	(5 402)	11 379
Recognised in profit or loss	(55 179)	(140 750)
Current tax at end of the year	(9 259)	5 402
	(69 840)	(123 969)
25.4 Proceeds from the sale of property and equipment		
Net book value of disposals	400	6 797
Profit/(loss) on disposal	107	442
Proceeds from disposals	507	7 239
25.5 Dividends paid		
Amount unpaid at beginning of the year		
Dividend declared during the year	200 000	200 000
Amount unpaid at end of the year		
	200 000	200 000

26. Related party transactions

26.1 Parent

The Standard Bank of Namibia Limited is a wholly owned subsidiary of SBN Holdings Limited, a wholly owned subsidiary of Standard Bank Group Limited.

26.2 Associates and joint ventures

Refer to note 10 for investment in associate balance.

Notes to the annual financial statements continued

for the year ended 31 December 2012

26. Related party transactions continued

26.3 Key management personnel

Key management personnel for the bank have been defined as: directors of the group companies and executive management of Standard Bank Namibia Limited. Non-executive directors are included in the definition of key management personnel as required by IAS 24 Related Party Disclosures. The definition of key management includes the close members of family of key management personnel and any entity over which key management exercises control or joint control. Close members of family are those family members who may be expected to influence, or be influenced by, that individual in their dealings with Standard Bank Namibia Limited. They may include the individual's domestic partner and children, the children of the individual's domestic partner, and dependants of the individual or the individual's domestic partner.

	Company	
	2012 N\$'000	2011 N\$'000
Key management compensation		
Salaries and other short-term benefits	17 970	15 050
Post-employment benefits	1 214	753
	19 184	15 803

26.4 Loans to related parties

The transactions below are entered into in the normal course of business.

	Directors and key management personnel		Related parties	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
Loans and advances				
Loans outstanding at the beginning of the year	13 066	4 272	1 363 570	1 263 661
Net movement during the year	(8 646)	8 794	(351 807)	99 909
Loans outstanding at the end of the period	4 420	13 066	1 011 763	1 363 570

26.5 Deposits from related parties

Deposits include cheque, current and savings accounts. The above transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with customers.

Deposit and current accounts

Deposits outstanding at beginning of the year	877	314	308 829	119 082
Net deposits received/(withdrawn) during the year	(562)	563	1 034 312	189 747
Deposits outstanding at end of the year	315	877	1 343 141	308 829

Deposits include cheque, current and savings accounts.

	2012 N\$'000	2011 N\$'000
26.6 Investments		
Investment products		
Cashplus fund	1 241 857	1 195 776

The Cashplus Fund is administered by Stanlib Namibia, a fellow subsidiary of the Standard Bank Group.

	Relationship	Type	2012 N\$'000	2011 N\$'000
26. Related party transactions <i>continued</i>				
26.7 Purchase of services				
Stanbic Africa Holdings	Fellow subsidiary	Royalty fees	35 346	31 688
Stanbic Africa Holdings	Fellow subsidiary	Information technology	9 068	15 871
Stanbic Africa Holdings	Fellow subsidiary	Marketing expenses		215
Stanbic Africa Holdings	Fellow subsidiary	Licence fees	21 185	
Namclear (Proprietary) Limited	Associate	Interbank clearing costs	4 708	5 644
			70 307	53 418
26.8 Commissions and dividends received/(paid)				
Stanlib (Namibia) (Pty) Ltd	Fellow subsidiary	Commission (paid)	(400)	(571)
Standard Bank Fleet Management (Pty) Ltd	Fellow subsidiary	Commission received	8 761	6 245
			8 361	5 674
26.9 Interest income/(expense)				
Standard Bank of South Africa Ltd	Fellow subsidiary	Interest income	57 457	37 428
Standard Bank London PLC	Fellow subsidiary	Interest income	1 170	1 687
Standard Bank of South Africa Ltd	Fellow subsidiary	Interest expense	(6 499)	(7 173)
Standard Bank London PLC	Fellow subsidiary	Interest expense	(104)	(19)
			52 024	31 923
26.10 Related party year end balances				
Receivables from related parties				
Standard Bank of South Africa Ltd	Fellow subsidiary	Loans and advances	615 342	1 252 961
Standard Bank London PLC	Fellow subsidiary	Loans and advances	107 904	110 442
Stanbic Bank Botswana Ltd	Fellow subsidiary	Loans and advances	7	67
Stanbic Bank Zambia Ltd	Fellow subsidiary	Loans and advances	38	21
Standard Bank (Mauritius) Ltd	Fellow subsidiary	Loans and advances		3
CfC Stanbic Bank Limited (Kenya)	Fellow subsidiary	Loans and advances	49	76
Standard Bank London PLC	Fellow subsidiary	Financial investments		273 482
		Loans granted under resale agreement		8 135
Standard Bank of South Africa Ltd	Fellow subsidiary	Derivatives	15 120	3 368
Standard Bank Fleet Management (Pty) Ltd	Fellow subsidiary	Sundry receivables	6 215	1 006
Standard Insurance Brokers (Namibia) (Pty) Ltd	Fellow subsidiary	Sundry receivables		321
			744 675	1 649 882

Notes to the annual financial statements continued

for the year ended 31 December 2012

	Relationship	Type	2012 N\$'000	2011 N\$'000
26. Related party transactions <i>continued</i>				
26.10 Related party year end balances <i>continued</i>				
Payables to related parties				
Standard Bank of South Africa Ltd	Fellow subsidiary	Deposit and current accounts	1 037 604	42 295
Standard Bank London PLC	Fellow subsidiary	Deposit and current accounts	571	87 783
Stanbic Africa Holdings	Fellow subsidiary	Deposit and current accounts	304 933	167 056
Stanfin (Namibia) (Pty) Ltd	Fellow subsidiary	Deposit and current accounts		1 371
Stanlib (Namibia) (Pty) Ltd	Fellow subsidiary	Deposit and current accounts		2 579
Standard Insurance Brokers (Namibia) (Pty) Ltd	Fellow subsidiary	Deposit and current accounts		7 745
CfC Stanbic Bank Limited (Kenya)	Fellow subsidiary	Deposit and current account	3	
Standard Bank of South Africa Ltd	Fellow subsidiary	Derivatives	14 918	47 711
Standard Bank s.a.r.l. Mozambique	Fellow subsidiary	Sundry Payables		248
SBN Holdings Ltd	Fellow subsidiary	Sundry Payables	58 171	28 526
Standard Bank of South Africa Ltd	Fellow subsidiary	Sundry Payables		12 071
Standard Bank Fleet Management (Pty) Ltd	Fellow subsidiary	Sundry Payables	31 402	29 009
Standard Insurance Brokers (Namibia) (Pty) Ltd	Fellow subsidiary	Sundry Payables	223	103
Stanlib (Namibia) (Pty) Ltd	Fellow subsidiary	Sundry Payables		1 095
Stanlib (Proprietary) Ltd	Fellow subsidiary	Sundry Payables		831
			1 447 825	428 423

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The principal accounting policies applied in the presentation of the annual financial statements are set out below. All references to group hereafter include the bank's annual financial statements, where applicable.

1. Basis of consolidation Subsidiaries

The annual financial statements of subsidiaries are consolidated from the date on which the group acquires control, up to the date that control ceases. For this purpose, subsidiaries are entities over which the group, directly or indirectly, has the power to govern the financial and operating policies to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Intragroup transactions, balances and unrealised gains and losses are eliminated on consolidation. Unrealised losses are eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment.

The accounting policies of subsidiaries that are consolidated by the group conform to these policies.

Investments in subsidiaries are accounted for at cost less impairment losses in the separate financial statements. The carrying amounts of these investments are reviewed annually and impaired when necessary.

The proportion of comprehensive income and changes in equity allocated to the group and non-controlling interests are determined on the basis of present ownership interest in the subsidiary.

Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of financial assets. These entities may take different legal forms. A special purpose entity, including a securitisation vehicle, is consolidated when the substance of the relationship between the group and the special purpose entity indicates that the group controls the entity.

Mutual funds

Mutual funds that are controlled by the group, including those in which the group has more than a 50% economic interest (resulting in control), are consolidated.

Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the group. The consideration transferred is measured as the sum of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Transaction costs for business combinations prior to 1 January 2010 were capitalised as part of the consideration transferred. Transaction costs on or after 1 January 2010 are recognised within profit or loss as and when they are incurred.

Annexure A – detailed accounting policies continued

The group elects on each acquisition to initially measure non-controlling interests on the acquisition date at either fair value or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of the sum of the consideration transferred, the value of non-controlling interest recognised and the acquisition date fair value of any previously held equity interest in the subsidiary over the fair value of identifiable net assets acquired is recorded as goodwill and accounted for in terms of accounting policy 7 – *Intangible assets*.

If the sum of the consideration transferred, the value of non-controlling interest recognised and the acquisition date fair value of any previously held equity interest in the subsidiary is less than the fair value of the identifiable net assets acquired, the difference, referred to as a gain from a bargain purchase, is recognised directly in profit or loss.

When a business combination occurs in stages, the previously held equity interest is remeasured to fair value at the acquisition date and any resulting gain or loss is recognised in profit or loss.

Unincorporated property partnerships

The group consolidates its interests in those property partnerships where the group holds a majority stake in the property and controls the management of the property, including the power over all significant decisions around use and maintenance of the property. Non-controlling interests in the unincorporated property partnerships are measured at their proportionate share of the fair value in the various properties and any non-distributed net accumulated profit or loss.

Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in the gain or loss of control are accounted for as transactions with equity holders of the group. For purchases of additional interests from non-controlling interests, the difference between the purchase consideration and the group's proportionate share of the subsidiary's additional net asset value acquired is accounted for directly in equity. Gains or losses on the partial disposal (where a change in ownership occurs and control is not lost) of the group's interest in a subsidiary to non-controlling interests are also accounted for directly in equity.

Common control transactions

Common control transactions, in which the company is the ultimate parent entity both before and after the transaction, are accounted for at book value in the company's annual financial statements with no gain or loss recognised in profit or loss.

2. Foreign currency translations

Functional and presentation currency

Items included in the annual financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency).

These annual financial statements are presented in Namibia dollar, which is the functional and presentation currency of Standard Bank Namibia.

Group companies

The results and financial position of all foreign operations that have a functional currency different from the group's presentation currency are translated into the group's presentation currency as follows:

- assets and liabilities (including goodwill, intangible assets and fair value adjustments arising on acquisition) are translated at the closing rate on the reporting date;
- income and expenses are translated at average exchange rates for the month, to the extent that such average rates approximate actual rates; and
- all resulting foreign exchange differences are accounted for directly in a separate component of other comprehensive income (OCI), being the foreign currency translation reserve.

On the partial disposal of a subsidiary that includes a foreign operation, a proportionate share of the balance of the foreign currency translation reserve is transferred to the non-controlling interests. For all other partial disposals of a foreign operation, the proportionate share of the balance of the foreign currency translation reserve is reclassified to profit or loss.

On disposal (where a change in ownership occurs and control is lost) of a subsidiary that includes a foreign operation, the relevant amount in the foreign currency translation reserve is reclassified to profit or loss at the time at which the profit or loss on disposal of the foreign operation is recognised.

Transactions and balances

Foreign currency transactions are translated into the respective functional currencies of group entities at exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in profit or loss (except when recognised in OCI as qualifying cash flow hedges and qualifying net investment hedges).

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate

differences on non-monetary items are accounted for based on the classification of the underlying items.

Foreign exchange gains and losses on equities (debt) classified as available-for-sale financial assets are recognised in the available-for-sale reserve in OCI (profit or loss) whereas the exchange differences on equities and debt that are classified as held at fair value through profit or loss are reported as part of the fair value gain or loss in profit or loss.

Foreign currency gains and losses on intra-group loans are recognised in profit or loss except where the settlement of the loan is neither planned nor likely to occur in the foreseeable future. In these cases the foreign currency gains and losses are recognised in the group's foreign currency translation reserve. These gains and losses are recognised in profit or loss either on disposal (loss of control of a subsidiary, loss of significant influence over an associate or the loss of joint control over a jointly controlled entity that includes a foreign operation) or partial disposal (a reduction in ownership interest in a foreign operation other than a disposal) of an associate or jointly controlled entity that includes a foreign operation. In the case of a partial disposal of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences recognised in OCI are reclassified to the non-controlling interests in that foreign operation.

3. Cash and cash equivalents

Cash and balances with central banks comprise coins and bank notes, and balances with central banks. Cash and cash equivalents presented in the statement of cash flows consist of cash and balances with central banks but exclude balances held by group entities with central banks which are denominated in a foreign currency.

4. Financial instruments

Initial recognition and measurement

Financial instruments include all financial assets and liabilities. These instruments are typically held for liquidity, investment, trading or hedging purposes. All financial instruments are initially recognised at fair value plus directly attributable transaction costs, except those carried at fair value through profit or loss where transaction costs are recognised immediately in profit or loss. Financial instruments are recognised (derecognised) on the date the group commits to purchase (sell) the instruments (trade date accounting).

Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classifications as follows:

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that

management has both the positive intent and ability to hold to maturity. Were the group to sell more than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale assets with the difference between amortised cost and fair value being accounted for in OCI.

Held-to-maturity investments are carried at amortised cost, using the effective interest method, less any impairment losses.

Held-for-trading assets and liabilities

Held-for-trading assets and liabilities include those financial assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term, those forming 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, and commodities that are acquired principally by the group for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. Derivatives are always categorised as held-for-trading.

Subsequent to initial recognition, the financial instruments' fair values are remeasured at each reporting date. All gains and losses, including interest and dividends arising from changes in fair value are recognised in profit or loss as trading revenue within non-interest revenue with the exception of derivatives that are designated and effective as hedging instruments in cash flow or net investment hedge relationships (refer to "Derivative financial instruments and hedge accounting").

Financial assets and liabilities designated at fair value through profit or loss

The group designates certain financial assets and liabilities, other than those classified as held-for-trading, as at fair value through profit or loss when:

- this designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. Under this criterion, the main classes of financial instruments designated by the group are loans and advances to banks and customers and financial instruments. The designation significantly reduces measurement inconsistencies that would have otherwise arisen. For example where the related derivatives were treated as held-for-trading and the underlying financial instruments were carried at amortised cost. This category also includes financial assets used to match investment contracts or insurance contract liabilities;
- groups of financial assets, financial liabilities or both are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and reported to the group's key management personnel on a fair-value basis. Under this criterion, certain private equity, short-term insurance and other investment portfolios have been designated at fair value through profit or loss; or

Annexure A – detailed accounting policies continued

- financial instruments contain one or more embedded derivatives that significantly modify the instruments' cash flows.

The fair value designation is made on initial recognition and is irrevocable. Subsequent to initial recognition, the fair values are remeasured at each reporting date. Gains and losses arising from changes in fair value are recognised in interest income (expense) for all debt financial assets (financial liabilities) and in other revenue within non-interest revenue for all equity instruments.

Private equity and property equity investments designated at fair value through profit or loss in terms of the scope exemption in IAS 28 *Investments in Associates* (IAS 28), are accounted for in the designated at fair value through profit or loss category. Mutual funds held by investment-linked insurance funds in which the group holds between 20% and 50% economic interest (resulting in significant influence) are deemed to be interests in associates and are also designated at fair value through profit or loss, based on the scope exemption in IAS 28 relating to investment-linked insurance funds.

Available-for-sale

Financial assets classified by the group as available-for-sale are generally strategic capital investments 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 non-derivative financial assets that are not classified within another category of financial assets.

Available-for-sale financial assets are subsequently measured at fair value. Unrealised gains or losses are recognised directly in the available-for-sale reserve until the financial asset is derecognised or impaired. When debt (equity) available-for-sale financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified to interest income (other revenue).

Interest income, calculated using the effective interest rate method, is recognised in profit or loss. Dividends received on available-for-sale instruments are recognised in profit or loss when the group's right to receive payment has been established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the group as at fair value through profit or loss or available-for-sale.

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Origination transaction costs and origination fees received that

are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. The majority of the group's loans and advances are included in the loans and receivables category.

Financial liabilities at amortised cost

Financial liabilities that are neither held for trading nor designated at fair value are measured at amortised cost.

Reclassification of financial assets

The group may choose to reclassify non-derivative trading assets out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets that would not otherwise have met the definition of loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances. In addition, the group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the group, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Derivatives or any financial instrument designated at fair value through profit or loss shall not be reclassified out of their respective categories.

Reclassifications are made at fair value as of the reclassification date. Effective interest rates for financial assets reclassified to loans and receivables, held-to-maturity and available-for-sale categories are determined at the reclassification date. Subsequent increases in estimates of cash flows adjust the financial asset's effective interest rates prospectively.

On reclassification of a trading asset, all embedded derivatives are reassessed and, if necessary, accounted for separately.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, that is, the fair value of the consideration paid or received, unless the fair value is evidenced either by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on valuation techniques such as discounted cash flow models and option pricing models whose variables include only data from observable markets.

When such valuation models, with only observable market data as inputs, or the comparison with other observable current market transactions in the same instrument indicate that the fair

value differs from the transaction price, this initial difference, commonly referred to as day one profit or loss, is recognised in profit or loss immediately. If non-observable market data is used as part of the input to the valuation models or where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument the resulting difference between the transaction price and the model value is deferred. The timing of the recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement, depending on the nature of the instrument and availability of market observable inputs.

Subsequent to initial recognition, the fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. If the market for a financial asset is not active or the instrument is unlisted, the fair value is determined using other applicable valuation techniques. These include the use of recent arm's-length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market related discount rate at the reporting date for a financial asset or liability with similar terms and conditions.

Where the fair value of investments in unquoted equity instruments and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are unable to be reliably determined, those instruments are measured at cost less impairment losses. Impairment losses on these financial assets are not reversed.

Impairment of financial assets

Assets carried at amortised cost

The group assesses at each reporting date whether there is objective evidence that a loan or group of loans is impaired. A loan or group of loans is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the loan or group of loans that can be estimated reliably.

Criteria that are used by the group in determining whether there is objective evidence of impairment include:

- known cash flow difficulties experienced by the borrower;
- a breach of contract, such as default or delinquency in interest and/or principal payments;
- breaches of loan covenants or conditions;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and

- where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider.

The group first assesses whether there is objective evidence of impairment individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Non-performing loans include those loans for which the group has identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more. The impairment of non-performing financial loans takes into account past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses.

When a loan carried at amortised cost has been identified as specifically impaired, the carrying amount of the loan is reduced to an amount equal to the present value of its estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the loan is reduced through the use of a specific credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

The calculation of the present value of the estimated future cash flows of collateralised financial assets recognised on an amortised cost basis includes cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

If the group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of financial loans with similar credit risk characteristics and collectively assesses for impairment. Loans that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment for impairment.

Impairment of groups of loans that are assessed collectively is recognised where there is objective evidence that a loss event has occurred after the initial recognition of the group of loans but before the reporting date. In order to provide for latent losses in a group of loans that have not yet been identified as specifically impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods (time period between the loss trigger events and the date on which the group identifies the losses). Groups of loans are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows.

The carrying amount of groups of loans is reduced through the use of a portfolio credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

Annexure A – detailed accounting policies continued

Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired (including loans that have been written off), are reflected within credit impairment charges in profit or loss. Previously impaired loans are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts. Any subsequent reductions in amounts previously impaired are reversed by adjusting the allowance account with the amount of the reversal recognised as a reduction in impairment for credit losses in profit or loss.

Subsequent to impairment, the effects of discounting unwind over time as interest income.

Renegotiated loans

Loans that would otherwise be past due or impaired and whose terms have been renegotiated and exhibit the characteristics of a performing loan are reset to performing loan status. Loans whose terms have been renegotiated are subject to ongoing review to determine whether they are considered to be impaired or past due.

The effective interest rate of renegotiated loans that have not been derecognised (described under the heading “Derecognition of financial instruments”), is redetermined based on the loan’s renegotiated terms.

Available-for-sale financial assets

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have a negative impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is considered to be impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. In that instance, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is reclassified from OCI to profit or loss.

If, in a subsequent period, the amount relating to impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for available-for-sale debt instruments. Any reversal of an impairment loss in respect of an available-for-sale equity instrument is recognised directly in OCI.

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 set-off the recognised amounts

and there is an intention to settle the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

Derivative financial instruments and hedge accounting

A derivative is a financial instrument whose value changes in response to an underlying variable, requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date. Derivatives are initially recognised at fair value on the date on which the derivatives are entered into and subsequently remeasured at fair value as described under the fair value policy above.

All derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative, subject to offsetting principles as described under the heading “Offsetting financial instruments”.

Embedded derivatives included in hybrid instruments are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The financial host contracts are accounted for and measured applying the rules of the relevant financial instrument category.

The method of recognising fair value gains and losses depends on whether the derivatives are designated as hedging instruments, and if so, the nature of the hedge relationship, or if they are classified as held-for-trading.

Derivatives that qualify for hedge accounting

When derivatives are designated in a hedge relationship, the group designates them as either:

- hedges of the fair value of recognised financial assets or liabilities or firm commitments (fair value hedges);
- hedges of highly probable future cash flows attributable to a recognised asset or liability, a forecast transaction, or a highly probable forecast intragroup transaction in the consolidated annual financial statements (cash flow hedges); or
- hedges of net investments in a foreign operation (net investment hedges).

Hedge accounting is applied to derivatives designated in this way provided certain criteria are met. The group documents,

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

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the remeasurement of both the derivative and the hedged item are recognised in profit or loss. Fair value adjustments relating to the hedging instrument are allocated to the same line item in profit or loss as the related hedged item. Any hedge ineffectiveness is recognised in profit or loss as trading revenue.

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The adjustment to the carrying amount of a hedged item measured at amortised cost, for which the effective interest method is used, is amortised to profit or loss as part of the hedged item's recalculated effective interest rate over the period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedging reserve. The ineffective part of any changes in fair value is recognised immediately in profit or loss as trading revenue.

Amounts recognised in OCI are transferred to profit or loss in the periods in which the hedged forecast cash flows affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses recognised previously in OCI are transferred and included in the initial measurement of the cost of the asset or liability.

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The cumulative gains or losses recognised in OCI remain in OCI until the forecast transaction is recognised in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects profit or loss in the case of a financial asset or a financial liability. If the forecast transaction is no longer expected to occur, the cumulative gains and losses recognised in OCI are immediately reclassified to profit or loss and classified as trading revenue.

Net investment hedges

Where considered appropriate, the group hedges net investments in foreign operations using derivative instruments. These hedges are accounted for in the consolidated annual financial statements. For such hedges, the designated component of the hedging instrument that relates to the effective portion of the hedge is recognised directly in the foreign currency hedge of net investment reserve. Any ineffective portion is immediately recognised in profit or loss as trading revenue. On the partial disposal of a foreign operation, a proportionate share of the gains and losses recognised in OCI is reclassified to profit or loss. On disposal of a foreign operation, all remaining gains and losses recognised in OCI are reclassified to profit or loss.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in profit or loss as trading revenue.

Borrowings

Borrowings are recognised initially at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings are subsequently measured at amortised cost and interest is recognised using the effective interest method.

Preference shares, which carry a mandatory coupon and redemption, or are redeemable on a specific date, at the occurrence of a contingent future event, or at the option of the shareholder are classified as financial liabilities or compound financial instruments (instruments with debt and equity components). All other preference shares are classified as equity instruments. Dividends on preference shares classified as financial liabilities are accounted for as interest on an amortised cost basis using the effective interest method. Dividends on preference shares classified as equity instruments are recognised within equity as a dividend payment when dividends are declared.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium.

Annexure A – detailed accounting policies continued

Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

The group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate.

In transfers where control over the asset is retained, the group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability, with the difference in the respective carrying amounts being recognised in profit or loss.

In all other instances, the renegotiated asset or liability's effective interest rate is redetermined taking into account the renegotiated terms.

Sale and repurchase agreements and lending of securities (including commodities)

Securities sold subject to linked repurchase agreements are reclassified in the statement of financial position as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The liability to the counterparty

is included under deposit and current accounts or trading liabilities, as appropriate.

Securities purchased under agreements to resell, at either a fixed price or the purchase price plus a lender's rate of return, are recorded as loans granted under resale agreements and included under trading assets or loans and advances, as appropriate. The difference between the purchase and sales price is treated as interest and amortised over the life of the reverse repurchase agreement using the effective interest method.

Securities lent to counterparties are retained in the annual financial statements and are classified and measured in accordance with the measurement policy above. Securities borrowed are not recognised in the annual financial statements unless sold to third parties. In these cases, the obligation to return the securities borrowed is recorded at fair value as a trading liability.

Income and expenses arising from the securities borrowing and lending business are recognised over the period of the transactions.

Commodities

Commodities that are acquired principally by the group for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin are measured at fair value less cost to sell and are reported as trading assets. All changes in fair value less cost to sell are recognised in trading revenue in the period of the change.

Forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs and the commodities are held to settle another derivative contract, are recognised as derivative financial instruments and measured at fair value. All changes in fair value are recognised in trading revenue in the period of the change.

5. Investment property

Property held to earn rental income and/or for capital appreciation that is not owner-occupied is classified as investment property. Investment property includes property under construction or development for future use as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value with fair value changes recognised in profit or loss as investment gains or losses.

The fair value of investment property is based on valuation information at the reporting date. If the valuation information cannot be reliably determined, the group uses alternative valuation methods such as discounted cash flow projections or recent prices in active markets.

Fair value adjustments on investment property recognised in profit or loss are adjusted for any double-counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

6. Interest in associates and joint ventures

Associates and jointly controlled entities

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. Significant influence generally accompanies, but is not limited to, a shareholding of between 20% and 50% of the voting rights. Investments in mutual funds over whose financial and operating policies the group is able to exercise significant influence (including those in which the group has between a 20% and 50% economic interest) are also classified as associates.

A jointly controlled entity is one where a contractual arrangement establishes joint control over the economic activity of the entity.

Interests in associates and jointly controlled entities are accounted for using the equity method and are measured in the consolidated statement of financial position at an amount that reflects the group's share of the net assets of the associate or jointly controlled entity (including goodwill).

Equity accounting involves recognising the investment initially at fair value, including goodwill, and subsequently adjusting the carrying value for the group's share of the associates' and jointly controlled entities' income and expenses and OCI. Equity accounting of losses in associates and jointly controlled entities is restricted to the interests in these entities, including unsecured receivables or other commitments, unless the group has an obligation or has made payments on behalf of the associate or jointly controlled entity. Unrealised intra-group profits are eliminated in determining the group's share of equity accounted profits. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Equity accounting is applied from the date on which the entity becomes an associate or jointly controlled entity up to the date on which it ceases to be an associate or jointly controlled entity. The accounting policies of associates and jointly controlled entities have been changed where necessary to ensure consistency with the policies of the group.

Where a mutual fund investment is acquired and held for the purposes of investment-linked insurance activities within investment management and life insurance activities, it is not

accounted for under the equity method but is designated on initial recognition at fair value through profit or loss and is accounted for on the basis set out in accounting policy 4 – *Financial instruments*. Private equity and property equity investments, which are associates, are either designated on initial recognition at fair value through profit or loss, or equity accounted.

Investments in associates and jointly controlled entities are accounted for at cost less impairment losses in the company's annual financial statements.

Jointly controlled operations

Jointly controlled operations exist where two or more venturers combine their operations, resources or expertise to market or distribute jointly a particular product. Each venturer recognises the assets it controls, the liabilities and expenses that it incurs, and its share of the gains and losses in respect of its interest in the joint venture.

7. Intangible assets

Goodwill

Goodwill represents the excess of the consideration transferred and the acquisition date fair value of any previously held equity interest (including transaction costs for acquisitions prior to 1 January 2010) over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary, associate or jointly controlled entity at the date of the acquisition. The group's interest in acquired subsidiaries takes into account any non-controlling interest (refer to accounting policy 1 – *Basis of consolidation*).

Goodwill arising on the acquisition of subsidiaries is reported in the statement of financial position as part of 'Goodwill and other intangible assets'. Goodwill arising on the acquisition of associates or jointly controlled entities is included in 'Interest in associates and joint ventures' in the statement of financial position (refer to accounting policy 6 – *Interest in associates and joint ventures*). Goodwill is allocated to cash-generating units (not larger than operating segments of the group as defined) and is tested annually for impairment. A gain from a bargain purchase is recognised as income in profit or loss in the period in which it arises. Gains or losses on the disposal of an entity are determined after taking into account the carrying amount of goodwill (if any) relating to the entity sold.

Computer software

Costs associated with developing or maintaining computer software programmes and the acquisition of software licences are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the group and have a probable future economic benefit beyond one year, are recognised as intangible assets. Capitalisation is further limited to development costs where

Annexure A – detailed accounting policies continued

the group is able to demonstrate its intention and ability to complete and use the software, the technical feasibility of the development, the availability of resources to complete the development, how the development will generate probable future economic benefits and the ability to reliably measure costs relating to the development. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Expenditure subsequently incurred on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets (2 to 10 years) from the date that the assets are available for use, and are carried at cost less accumulated amortisation and accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when impaired.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if necessary. There have been no changes in the estimated useful lives from those applied in the previous financial year.

Other intangible assets

The group recognises the costs incurred on internally generated intangible assets such as brands, customer lists, customer contracts and similar rights and assets, in profit or loss as incurred.

The group capitalises brands, customer lists, customer contracts, distribution forces and similar rights acquired in business combinations.

Capitalised intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, not exceeding 20 years, from the date that they are available for use.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary. There have been no changes in the estimated useful lives from those applied in the previous financial year.

Present value of acquired in-force policyholder contracts and investment contracts with discretionary participation features

Where a portfolio of policyholder contracts is acquired either directly from another insurer or through the acquisition of

a subsidiary, the present value of acquired in-force (PVIF) business on the portfolio, being the net present value of estimated future cash flows of the existing contracts, is recognised as an intangible asset and amortised on a basis consistent with the settlement of the relevant liability in respect of the purchased contracts (four to 12 years).

The estimated life is re-evaluated annually. The PVIF is carried in the statement of financial position at cost less accumulated amortisation and accumulated impairment losses.

8. Property and equipment

Equipment and owner-occupied properties

Equipment, furniture, vehicles and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the group and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised in profit or loss as incurred. Depreciation, impairment losses and gains and losses on disposal of assets are included in profit or loss.

Owner-occupied properties are held for use in the supply of services or for administrative purposes.

Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to their residual values. Land is not depreciated. Leasehold buildings are depreciated over the period of the lease or over a lesser period, as is considered appropriate.

The assets' residual values, useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year end.

The estimated useful lives of tangible assets are typically as follows:

Buildings	40 years
Computer equipment	3 to 5 years
Motor vehicles	4 to 5 years
Office equipment	5 to 10 years
Furniture and fittings	5 to 13 years
Capitalised leased assets	over the shorter of the lease term or its useful life

There has been no change to the estimated useful lives and depreciation methods from those applied in the previous financial year.

9. Capitalisation of borrowing costs

Borrowing costs that relate to qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value, are capitalised. All other borrowing costs are recognised in profit or loss.

10. Impairment of non-financial assets

Intangible assets that have an indefinite useful life and goodwill are tested annually for impairment and additionally when an indicator of impairment exists. Intangible assets that are subject to amortisation and other non-financial assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss 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 costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (cash-generating units). Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

11. Leases

Bank as lessee

Leases, where the group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance

leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is recognised in profit or loss over the lease period, and the capital repayment, which reduces the liability to the lessor.

Leases of assets are classified as operating leases if the lessor retains a significant portion of the risks and rewards of ownership. Payments made under operating leases, net of any incentives received from the lessor, are recognised in profit or loss on a straight-line basis over the term of the lease. Contingent rentals are expensed as they are incurred. 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.

Bank as lessor

Lease and instalment sale contracts are primarily financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances in the statement of financial position.

Finance charges earned are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. Initial direct costs and fees are capitalised to the value of the lease receivable and accounted for over the lease term as an adjustment to the effective rate of return. The tax benefits arising from investment allowances on assets leased to clients are accounted for in the direct taxation line.

Leases of assets under which the group retains a significant portion of the risks and rewards of ownership are classified as operating leases. Operating lease income from properties held as investment properties, net of any incentives given to lessees, is recognised on the straight-line basis or a more representative basis where applicable over the lease term. When an operating lease is terminated before the lease period has expired, any payment required by the lessee by way of a penalty is recognised as income in the period in which termination takes place.

12. Provisions, contingent assets and contingent liabilities

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Annexure A – detailed accounting policies continued

A provision for restructuring is recognised when the group has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the group recognises any impairment loss on the assets associated with that contract.

Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the group, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the group's control.

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit. Contingent liabilities are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are remote.

13. Employee benefits

Post-employment benefits

Defined contribution plans

The group operates a number of defined contribution plans, based on a percentage of pensionable earnings funded by both employer companies and employees, the assets of which are generally held in separate trustee-administered funds.

Contributions to these plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

Defined benefit plans

The group also operates a number of defined benefit plans, with membership generally limited to employees who were in the employment of the various companies at specified dates. Employer companies contribute to the cost of benefits taking account of the recommendations of the actuaries. Statutory actuarial valuations are required every three years using the projected unit credit method. Interim valuations are also performed annually at the financial year end.

The liabilities recognised in the statement of financial position in respect of defined benefit pension plans are measured at the present value of the estimated future cash outflows, using interest rates of government bonds with maturity dates that approximate the expected maturity of the obligations, less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses and past service costs.

The group's current service costs are recognised as expenses in the current year. Past service costs, experience adjustments and the effect of changes in actuarial assumptions are recognised in profit or loss in the current year to the extent that they relate to vested benefits of retired employees or past service. For active employees, these items are recognised in profit or loss systematically over a period not exceeding the expected remaining service period of employees.

The group operates a number of funded and unfunded post-employment medical aid schemes, with membership limited to employees who were retired or in the employment of the various companies at specified dates and complying with specific criteria. For past service, the group recognises and provides for the actuarially determined present value of post-employment medical aid employer contributions using the projected unit credit method. Independent qualified actuaries carry out annual valuations of these obligations. Unrecognised actuarial gains or losses are accounted for over a period not exceeding the remaining working life of active employees. Actuarial gains or losses in respect of vested benefits of retired employees are recognised immediately in profit or loss.

Termination benefits

Termination benefits are recognised as an expense when the group is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

14. Tax

Normal tax

Direct taxation includes current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination (relating to

a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI.

Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses; and
- investments in subsidiaries and jointly controlled entities (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Dividends tax

Tax on dividends declared by the group is recognised as part of the dividends paid within equity.

Dividends tax withheld by the group on dividends paid to its shareholders and payable at the reporting date to the Namibia Revenue Service (where applicable) is included in trade and other payables in the statement of financial position.

Indirect tax

Indirect taxes, including non-recoverable value added tax (VAT), skills development levies and other duties for banking activities are recognised in profit or loss and disclosed separately in the income statement.

15. Non-current assets held for sale, disposal groups and discontinued operations

Non-current assets, or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than continuing use, are classified as held for sale.

Non-current assets held as investments for the benefit of policyholders as part of the group's investment management and life insurance activities are not classified as held for sale as ongoing investment management implies regular purchases and sales in the ordinary course of business.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the group's accounting policies and tested for impairment (refer accounting policy 10 – *Impairment of non-financial assets*). Thereafter, the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

Property and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

Discontinued operations are presented as a separate section within the income statement.

16. Policyholder insurance and investment contracts

Policyholder contracts are classified into four categories, depending on the duration of or type of investment benefit or insurance risks, namely, short-term insurance, long-term, investment with discretionary participation feature (DPF) and investment without DPF.

Insurance and investment contract classification

The group issues contracts that transfer insurance risk or financial risk or, in some cases, both.

An insurance contract is a contract under which the group (insurer) accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder or, in the case of life annuities, the lifespan of the policyholder is greater than that assumed. Such contracts may also transfer financial risk. The group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur.

Annexure A – detailed accounting policies continued

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Discretionary participation features

A number of insurance and investment contracts contain a discretionary participation feature. This feature entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses at the discretion of the group.

The terms and conditions or practice relating to these contracts are in accordance with the group's published Principles and Practices of Financial Management, as approved by the Financial Services Board. The terms 'reversionary bonus' and 'smoothed bonus' refer to the specific forms of DPF contracts underwritten by the group. All components in respect of DPFs are included in the policyholder liabilities.

Short-term insurance

Short-term insurance provides benefits under short-term policies, which include engineering, fire, personal liability, marine and aviation, motor, personal accident, medical expenses, theft and Workmen's Compensation Act, or a contract comprising a combination of any of those policies.

Gross written premiums

Gross premiums exclude value added tax. Premiums are accounted for as income when the risk related to the insurance policy commences and are amortised over the contractual period of risk cover by using an unearned premium provision. All premiums are shown before deduction of commission payable to intermediaries.

Provision for unearned premiums

The provision for unearned premiums represents the portion of the current year's premiums that relate to risk periods extending into the following year. The unearned premiums are calculated using a straight-line basis, except for those insurance contracts where allowance is made for uneven exposure.

Liability adequacy

Provision is made for underwriting losses that may arise from unexpired risks when it is anticipated that unearned premiums will be insufficient to cover future claims, as well as claims-handling fees and related administrative costs.

Provision for reported claims and claims incurred but not reported

Provision is made on a prudent basis for the estimated final cost of all claims that had not been settled on the accounting date, less amounts already paid. Claims and loss adjustment expenses are charged to income as incurred based on the estimated

liability for compensation owed to contract holders or third parties damaged by the contract holders. The group's own assessors or contracted external assessors individually assess claims. The claims provision includes an estimated portion of the direct expenses of the claims and assessment charges.

Provision is also made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the group at that date (IBNR claims). This provision is calculated using run-off triangle techniques. The provision for claims is not discounted for the time value of money due to the expected short duration to settlement.

Deferred acquisition costs (DAC) in respect of short-term contracts

Commissions that vary and are related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned, and recognised as a current asset. All other costs are recognised as expenses when incurred.

Deferred revenue liability in respect of short-term contracts

A deferred revenue liability (DRL) is raised for any income receivable on the placement of reinsurance for risks arising from short-term insurance contracts. The DRL is released to income systematically over the coverage period of the respective reinsurance contract.

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, intermediaries and insurance contract holders and are included under prepayments, insurance and other receivables and insurance and other payables.

Long-term insurance contracts and investment contracts with DPF

Measurement

These contracts are valued in terms of the FSV basis as described in SAP 104 *Life offices – valuation of long-term insurers* (SAP 104), using a discounted cash flow methodology. The liability is reflected as policyholders' liabilities in the statement of financial position.

The discounted cash flow methodology allows for premiums and benefits payable in terms of the contract, future administration expenses and commission, investment return and tax and any expected losses in respect of options. The liability is based on assumptions of the best estimate of future experience, plus compulsory margins as required in terms of SAP 104, plus additional discretionary margins.

Derivatives embedded in the group's insurance contracts are not separated and measured at fair value if the embedded derivative itself meets the definition of an insurance contract.

The liabilities in respect of the investment guarantees' underlying maturity and death benefits, and guaranteed annuity options are measured in accordance with APN 110 *Reserving for minimum investment return guarantees on a market-consistent basis*.

Discretionary margins are held to ensure that the profit and risk margins in the premiums are not capitalised before it is probable that future economic benefits will flow to the entity. These profits emerge over the lifetime of the contract in line with the risk borne by the group.

Liabilities for individual market-related policies, where benefits are in part dependent on the performance of underlying investment portfolios, are taken as the aggregate value of the policies' investment in the investment portfolio at the valuation date (the unit reserve element), reduced by the excess of the present value of the expected future risk and expense charges over the present value of the expected future risk benefits and expenses on a policy-by-policy cash flow basis (the rand reserve element).

Reversionary bonus classes of policies, and policies with fixed and guaranteed benefits are valued by discounting the expected future cash flows at market-related rates of interest reduced by an allowance for investment expenses and the relevant compulsory margins (the guaranteed element). Future bonuses have been allowed for at the latest declared rates where appropriate.

The rand reserve element of market-related policies and the guaranteed element in respect of other policies are collectively known as the rand reserve.

In respect of corporate life and lump sum disability business, no discounting of future cash flows is performed. However, a provision will be held if the expected guaranteed premiums under the current basis and investment returns in the short term are not sufficient to meet expected future claims and expenses. For corporate investment contracts with DPF, in addition to the value of the policies' investment in the investment portfolios held, an additional provision will be held if the expected fee recoveries in the short term are not sufficient to meet expected expenses.

Within the group all investment contracts invested in smoothed bonus portfolios are classified as investment contracts with DPF. In respect of insurance and investment contracts with DPF where bonuses are smoothed, bonus stabilisation provisions are held arising from the difference between the after taxation investment performance of the assets net of the relevant management fees and the value of the bonuses declared. In accordance with SAP 104, where the bonus stabilisation provision is negative, this provision is restricted to an amount that can reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years.

All bonus stabilisation provisions are included in policyholders' liabilities.

The liability estimates are reviewed biannually. The effect of any change in estimates is recognised in profit or loss.

Incurred but not reported claims

Provision is made in policyholders' liabilities for the estimated cost at the end of the year of claims incurred but not reported at that date.

Liability adequacy test

At each reporting date the adequacy of the insurance liabilities is assessed. If that assessment shows that the carrying amount of insurance liabilities net of any related intangible PVIF business assets is inadequate in the light of the estimated future cash flows, then the deficiency is recognised in profit or loss.

Long-term investment contracts without DPF

The group issues investment contracts without fixed benefits (unit linked and structured products) and investment contracts with fixed and guaranteed benefits (term certain annuity). These investment contracts are accounted for as financial liabilities and are designated at fair value through profit or loss. Refer to accounting policy 4 – *Financial instruments*.

Investment contracts with a DPF switching option

On certain investment contracts, policyholders have an option to switch some or all of their investment from a DPF fund to a non-DPF fund (and vice versa). The value of the liability held with respect to these contracts is taken at the aggregate value of the policyholders' investment in the investment portfolio at the valuation date.

Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and policyholders. Outstanding claims and benefit payments are stated gross of reinsurance.

Reinsurance contracts held

The group cedes some insurance risk in the normal course of business. Reinsurance contracts are contracts entered into by the group with reinsurers under which the group is compensated for the entire, or a portion of, losses arising on one or more of the insurance contracts issued by the group.

The expected benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets and included in 'Other assets' in the statement of financial position. Reinsurance assets are assessed for impairment at each reporting date. Any impairment loss is recognised in profit or loss.

Annexure A – detailed accounting policies continued

17. Equity

Reacquired equity instruments

Where subsidiaries purchase the holding entity's equity instruments, the consideration paid is deducted from equity attributable to ordinary shareholders as treasury shares on consolidation. Fair value changes recognised by subsidiaries on these instruments are reversed on consolidation and dividends received are eliminated against dividends paid. Where such shares are subsequently sold or reissued outside the group, any consideration received is included in equity attributable to ordinary shareholders.

Share issue costs

Incremental external costs directly attributable to a transaction that increases or decreases equity are deducted from equity, net of related tax. All other share issue costs are expensed.

Distributions on ordinary shares

Distributions are recognised in equity in the period in which they are declared. Distributions declared after the reporting date is disclosed in the distributions note.

18. Equity-linked transactions

Equity compensation plans

The group operates both equity-settled and cash-settled share-based compensation plans. All share options issued after 7 November 2002 that had not vested by 31 December 2004 are accounted for as share-based payment transactions.

The fair value of equity-settled share options is determined on the grant date and accounted for as staff costs over the vesting period of the share options, with a corresponding increase in the share-based payment reserve. Non-market vesting conditions, such as the resignation of employees and retrenchment of staff, are not considered in the valuation but are included in the estimate of the number of options expected to vest. At each reporting date, the estimate of the number of options expected to vest is reassessed and adjusted against profit or loss and equity over the remaining vesting period.

On vesting of share options, amounts previously credited to the share-based payment reserve are transferred to retained earnings through an equity transfer. On exercise of equity-settled share options, proceeds received are credited to share capital and premium.

Share-based payments settled in cash are accounted for as liabilities at fair value until settled. The liability is recognised over the vesting period and is revalued at every reporting date and on settlement. Any changes in the liability are recognised in profit or loss.

19. Revenue and expenditure

Banking activities

Revenue is derived substantially from the business of banking and related activities and comprises interest income, fee and commission revenue, trading revenue and other non-interest revenue.

Net interest income

Interest income and expense (with the exception of those borrowing costs that are capitalised – refer to accounting policy 9 – *Capitalisation of borrowing costs*) are recognised in profit or loss on an accrual basis using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

Where the estimates of payments or receipts on financial assets (except those that have been reclassified – refer to accounting policy 4 – *Financial instruments*) or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the estimated cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income.

Where financial assets have been impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate.

Fair value gains and losses on realised debt financial instruments, including amounts removed from OCI in respect of available-for-sale debt financial assets, and excluding those classified as held-for-trading, are included in net interest income.

Dividends received on preference share investments form part of the group's lending activities and are included in interest income.

Non-interest revenue

Net fee and commission revenue

Fee and commission revenue, including transactional fees, account servicing fees, investment management fees, sales commissions and placement fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the group does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised as interest income.

The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract.

Fee and commission expense included in net fee and commission revenue are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is recognised as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue.

Trading revenue

Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends.

Other revenue

Other revenue includes gains and losses on equity instruments designated at fair value through profit or loss, dividends relating to those financial instruments and underwriting profit from the group's short-term insurance operations and related insurance activities.

Gains and losses on equity available-for-sale financial assets are reclassified from OCI to profit or loss on derecognition or impairment of the investments. Dividends on these instruments are recognised in profit or loss.

Dividend income

Dividends are recognised in profit or loss when the right to receipt is established. Scrip dividends are recognised as dividends received where the dividend declaration allows for a cash alternative.

Short-term insurance income

Short-term insurance income includes premium income, commission and policy fees earned as well as net incurred

claim losses and broker commission paid. Annual business income is accounted for on the accrual basis and comprises the cash value of commission and fees earned when premiums or fees are payable directly to the group. Direct commission income is accounted for as and when cash is received and comprises the cash value of commission earned when premiums are payable directly to the underwriters.

Customer loyalty programmes

The group operates a customer loyalty programme in terms of which it undertakes to provide goods and services to certain customers. The reward credits are accounted for as a separately identifiable component of the fee and commission income transactions of which they form a part. The consideration allocated to the reward credits is measured at the fair value of the reward credit and recognised over the period in which the customer utilises the reward credits.

Expenses relating to the provision of the reward credits are recognised as an expense as and when they are incurred.

Investment management and life insurance activities

Revenue comprises premium income, investment income and management and service fee income.

Insurance contracts and investment contracts with DPF

Premium income

Premiums and annuity considerations on insurance contracts, other than in respect of universally costed policies (policies where insurance risk charges are dependent on the excess of the sum assured over the value of units underlying the contract) and recurring premium pure risk policies (collectively the Lifestyle series) and corporate schemes, are recognised when due in terms of the contract. Premiums receivable in respect of corporate schemes are recognised when there is a reasonable assurance of collection in terms of the policy contract. Premiums in respect of the Lifestyle series of policies are recognised when premiums are received, as failure to pay a premium will result in a reduction of attributable fund value, if available, or else in the lapse of the policy. Premium income on insurance contracts is recognised gross of reinsurance. Premiums are shown before deduction of commission.

Reinsurance premiums

Reinsurance premiums are recognised when due for payment, in accordance with the terms of each reinsurance contract.

Claims

Claims on insurance contracts, which include death, disability, maturity, surrender and annuity payments, are recognised in

Annexure A – detailed accounting policies continued

profit or loss when the group is notified of a claim, based on the estimated liability for compensation owed to policyholders.

Reinsurance recoveries are accounted for in the same period as the related claims.

Acquisition costs

Acquisition costs for insurance contracts represent commission and other costs that relate to the securing of new contracts and the renewing of existing contracts. These costs are expensed as incurred.

Investment contracts without DPF

Amounts received and claims incurred on investment contracts

Amounts received under investment contracts, such as premiums, are recorded as deposits to investment contract liabilities, whereas claims incurred are recorded as deductions from investment contract liabilities.

Service fees on investment management contracts and DRL on investment management contracts

Service fee income on investment management contracts is recognised on an accrual basis as and when the services are rendered.

A DRL is recognised in respect of upfront fees, which are directly attributable to a contract, that are charged for investment management services. The DRL is then released to revenue when the services are provided, over the expected duration of the contract on a straight-line basis.

Regular charges billed in advance are recognised on a straight-line basis over the billing period, which is the period over which the service is rendered. Outstanding fees are accrued as a receivable in terms of the investment management contract.

DAC in respect of investment contracts

Commissions paid and other incremental acquisition costs are incurred when new investment contracts are obtained or existing investment contracts are renewed. These costs are expensed as incurred, unless specifically attributable to an investment contract with an investment management service element. Such costs are deferred and amortised on a straight-line basis over the expected life of the contract (10 to 16 years for linked annuities and five years for other investment contracts), taking into account all decrements, as they represent the right to receive future management fees.

A DAC asset is recognised for all applicable policies with the amortisation being calculated on a portfolio basis.

Investment income

Investment income for investment management and life insurance activities comprises mainly rental income from properties, interest, hotel operations sales, scrip lending fees and dividends. Dividends are recognised when the right to receive payment is established and interest income is recognised using the effective interest method.

Hotel operation's sales comprise the fair value of the sale of accommodation, food and beverage, other guest facilities and rentals received. Revenue is shown net of value added tax, returns, rebates and discounts.

Management fees on assets under management

Fee income includes management fees on assets under management and administration fees. Management fees on assets under management are recognised over the period for which the services are rendered, in accordance with the substance of the relevant agreements.

Administration fees received for the administration of medical schemes are recognised when the services are rendered.

20. Segment reporting

An operating segment is a component of the group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance.

The group's identification of segments and the measurement of segment results is based on the group's internal reporting to management.

Transactions between segments are priced at market-related rates.

21. Fiduciary activities

The group commonly engages in trust or other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising directly thereon are excluded from these annual financial statements as they are not assets of the group. However, fee income earned and fee expenses incurred by the group relating to the group's responsibilities from fiduciary activities are recognised in profit or loss.

22. Comparative figures

Where necessary, comparative figures within notes have been restated to conform to changes in presentation in the current year.

23. New standards and interpretations not yet adopted

The following new or revised standards and amendments which have a potential impact on the group or company, are not yet effective for the year ended 31 December 2012 and have not been applied in preparing these annual financial statements.

Pronouncement	Title	Effective date
IFRS 7 (amendments)	<p><i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i></p> <p>The amendment to IFRS 7 requires additional disclosure for those financial instruments that are offset in the statement of financial position and for those financial instruments that are not offset in the statement of financial position but that are subject to either an enforceable master netting arrangement or similar agreement.</p>	Annual periods beginning on or after 1 January 2013
IFRS 9 (amended)	<p><i>Financial Instruments</i></p> <p>IFRS 9 will replace the existing standard on the recognition and measurement of financial instruments and requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.</p> <p>The accounting for financial assets differs in various other areas to existing requirements such as embedded derivatives and the recognition of fair value adjustments in other comprehensive income.</p> <p>All changes in the fair value of financial liabilities that are designated at fair value through profit or loss due to changes in own credit risk will be required to be recognised within other comprehensive income.</p> <p>IFRS 9 will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.</p>	Annual periods beginning on or after 1 January 2015
IFRS 10 (amended) ¹	<p><i>Consolidated Financial Statements</i></p> <p>IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It introduces a single control model to be applied in determining control.</p> <p>An investor controls an investee when it has:</p> <ul style="list-style-type: none"> ■ power over the investee; ■ exposure, or rights, to variable returns from its involvement with the investee; and ■ the ability to use its power over the investee to affect the amount of its returns. <p>When assessing whether an investor controls an investee, an investor with decision-making rights determines whether it acts as principal or as an agent.</p> <p>IFRS 10 will be applied retrospectively. The application of IFRS 10 will result in more entities, particularly mutual funds, being consolidated than under the existing consolidation standards. The consolidation of these additional entities will result in the additional assets and liabilities being consolidated, however it is unlikely to have a material impact on the group's other comprehensive income and profit or loss.</p> <p>The consolidation of these entities will also result in an increase in the number of treasury shares within the group's statement of changes in equity.</p> <p>The application of IFRS 10 may also result in certain structured entities no longer being consolidated by the group. The impact on the group's financial statements is currently being finalised.</p>	Annual periods beginning on or after 1 January 2013

¹ Amendments were made to the transitional guidance within IFRS 10, 11 and 12 to limit the requirement to provide comparative information to only the preceding comparative period.

Annexure A – detailed accounting policies continued

Pronouncement	Title	Effective date
IFRS 11 (amended) ¹	<p><i>Joint Arrangements</i></p> <p>IFRS 11 focuses on the rights and obligations of joint arrangements, rather than the legal form. The standard:</p> <ul style="list-style-type: none"> ■ distinguishes between joint operations and joint ventures depending on the rights and obligations of the parties to the arrangements; ■ requires joint operations to be accounted for by recognising own assets, separately incurred liabilities, own revenue and expenses as well as the share of assets, liabilities, revenue and expenses arising from the joint operation; and ■ requires joint ventures to be accounted for using the equity method. <p>IFRS 11 will be applied retrospectively and is not expected to have a material impact on the group's financial statements.</p>	Annual periods beginning on or after 1 January 2013
IFRS 12 (amended) ¹	<p><i>Disclosure of Interests in Other Entities</i></p> <p>IFRS 12 contains disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures seek to provide information to enable users to evaluate:</p> <ul style="list-style-type: none"> ■ the nature of, and risks associated with, an entity's interests in other entities; and ■ the effects of those interests on the entity's financial position, financial performance and cash flows. <p>IFRS 12 will be applied retrospectively and will result in additional disclosures regarding the nature of the relationship, risks and significant judgements an entity may make in determining the nature of its interest in another entity.</p>	Annual periods beginning on or after 1 January 2013
IFRS 13	<p><i>Fair Value Measurement</i></p> <p>IFRS 13 provides a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce any new requirements to measure additional assets or liabilities at fair value.</p> <p>IFRS 13 will be applied prospectively. The application of IFRS 13 may result in changes to the measurement of certain of the group's assets and liabilities although initial high level assessments indicate these are unlikely to be significant. IFRS 13 will also result in additional disclosure requirements for the group.</p>	Annual periods beginning on or after 1 January 2013

¹ Amendments were made to the transitional guidance within IFRS 10, 11 and 12 to limit the requirement to provide comparative information to only the preceding comparative period.

Pronouncement	Title	Effective date
IAS 19 (amendments)	<p><i>Employee Benefits</i></p> <p>The amendments to IAS 19 include the following requirements:</p> <ul style="list-style-type: none"> ■ actuarial gains and losses are to be recognised immediately in other comprehensive income. This change will remove the corridor method and eliminate the ability to recognise all changes in the defined benefit obligation and plan assets in profit or loss; and ■ the expected return on plan assets that is recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. <p>The amendment will be applied retrospectively. The group will recognise all unrecognised actuarial losses or gains in other comprehensive income. The group will recognise an interest charge on the net pension fund liability or asset, rather than the expected return on the schemes' assets and interest cost on the schemes' benefit obligation.</p>	Annual periods beginning on or after 1 January 2013
IAS 27 (amendments)	<p><i>Separate Financial Statements</i></p> <p>The amendments to IAS 27 include both existing and amended accounting and disclosure requirements for separate financial statements.</p> <p>The amendments will be applied retrospectively and are not expected to have a material impact on the company's financial statements.</p>	Annual periods beginning on or after 1 January 2013
IAS 28 (amendments)	<p><i>Investments in Associates and Joint Ventures</i></p> <p>The amendments to IAS 28 carry forward existing accounting requirements for separate financial statements, as well as the existing equity accounting requirements for associates and joint ventures for group financial statements, with minor clarifications.</p> <p>The amendments will be applied retrospectively and are not expected to have a material impact on the company or group's financial statements.</p>	Annual periods beginning on or after 1 January 2013
IAS 32 (amendments)	<p><i>Offsetting Financial Assets and Financial Liabilities</i></p> <p>The amendments to IAS 32 clarify the requirements for offsetting of financial assets and liabilities.</p> <p>The amendments will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.</p>	Annual periods beginning on or after 1 January 2014

Annexure B – segmental reporting

1. Notes on segmental reporting

The principal business units for the Bank are as follows:

Business unit	Scope of operations
Personal & Business Banking	<p>Banking and other financial services to individual customers and small-to medium-sized enterprises, as well as municipalities.</p> <p>Mortgage lending-residential accommodation loans mainly to personal market customers.</p> <p>Instalment sale and finance leases-instalment finance to personal market customers.</p> <p>Finance of vehicles and equipment in the business market.</p> <p>Credit cards-credit card facilities to individuals and businesses (credit card issuing) and merchant transaction acquiring services (card acquiring).</p> <p>Transactional and lending products-transactions in products associated with the various point of contact channels such as ATMs, internet, telephone banking and branches. This includes deposit-taking activities, electronic banking, cheque accounts and other lending products, coupled with debit card facilities to both personal and business market customers.</p> <p>Bancassurance-short-term and long-term insurance products and financial planning services.</p>
Corporate & Investment Banking	<p>Corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and international counterparties.</p> <p>Global markets-includes foreign exchange, commodities, credit and interest rates, and equities trading.</p> <p>Transactional products and services-includes transactional banking and investor services.</p> <p>Investment banking-advisory, project finance, structured finance, structured trade finance, corporate lending, primary markets, equity investment, acquisition and black economic empowerment finance and property finance.</p> <p>Principal investment management-investments in private equity and real estate.</p>

The segment report includes only those business unit activities conducted within the Bank. No secondary segment information is disclosed, due to the fact that all business activities relate to Namibia.

1.1 Segmental income statement

	Personal & Business Banking		Corporate & Investment Banking		Total	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
Net interest income	484 303	434 787	118 949	82 120	603 252	516 907
Non-interest revenue	342 836	325 739	232 502	211 205	575 338	536 944
Total income	827 139	760 526	351 451	293 325	1 178 590	1 053 851
Credit impairment charges	31 245	30 992	1 387	(2 130)	32 632	28 862
Income after credit impairment charges	795 894	729 534	350 064	295 455	1 145 958	1 024 989
Operating expenses	576 790	453 730	178 802	149 193	755 592	602 923
Net income	219 104	275 804	171 262	146 262	390 366	422 066
Share of profits/(losses) from associates and joint ventures	726	453	–	–	726	453
Net income before indirect taxation	219 830	276 257	171 262	146 262	391 092	422 519
Indirect taxation	11 665	2 569	5 390	2 568	17 055	5 137
Profit before direct taxation	208 165	273 688	165 872	143 694	374 037	417 382
Direct taxation	70 450	95 807	27 578	20 137	98 028	115 944
Profit for the year	137 715	177 881	138 294	123 557	276 009	301 438

1.2 Segmental statement of financial position disclosures

	Personal & Business Banking		Corporate & Investment Banking		Total	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
Total assets¹	9 939 520	8 718 639	8 181 537	7 418 241	18 121 057	16 136 880
Total liabilities²	9 939 520	7 767 633	8 181 537	8 369 247	18 121 057	16 136 880
¹ Includes:						
Investments in associates	3 371	2 645	–	–	3 371	2 645
Additions to non-current assets	80 537	90 926	12 856	39 589	93 393	130 515

² Measurement of segment liabilities is consistent with the Bank's treatment.

Annexure C – capital management

The Bank's capital management framework is designed to ensure the Bank is capitalized in line with the risk profile, regulatory requirements, economic capital standards and target ratios approved by the board. The Bank's capital management objectives are to:

- maintain sufficient capital resources to meet minimum regulatory capital requirements set by Bank of Namibia in accordance with Basel II requirements;
- maintain sufficient capital resources to support the Bank's risk appetite and economic capital requirements;
- ensure the Bank holds capital in excess of minimum requirements in order to achieve the target capital adequacy ratios set by management and to withstand the impact of potential stress events.

The capital management committee (CMC) ensures compliance with the Bank's capital management objectives. The committee reviews actual and forecast capital adequacy on a semi-annual basis. The processes in place for delivering the Bank's capital management objectives are:

- establishing internal targets for capital adequacy;
- allocating capital to support the Bank's strategic plans;
- applying stress tests to assess the Bank's capital adequacy under stress scenarios;
- developing, reviewing and approving the Bank's Internal Capital Adequacy Assessment Process;
- capital planning and forecasting to ensure that capital ratios exceed the targets set by the board; and
- capital raising on a timely basis.

Capital adequacy

The Bank manages its capital base to achieve a prudent balance between maintaining capital ratios to support business growth and depositor confidence, and providing competitive returns to shareholders.

The capital management process ensures that the Bank maintains sufficient capital levels for legal and regulatory compliance purposes. The Bank ensures that its actions do not compromise sound governance and appropriate business practices.

Regulatory capital

During the period under review, the Bank complied with all externally imposed capital requirements to which its banking activities are subject, mainly, but not limited to, the relevant requirements of the Banks Act and Determinations relating to Banks.

Regulatory capital adequacy is measured via two risk-based ratios, tier I and total capital adequacy. Both measures of capital are stated as a percentage of risk-weighted assets. Tier I capital represents the permanent forms of capital such as share capital, share premium and retained earnings while total capital, in addition, includes other items such as subordinated debt and impairments for performing loans. Risk-weighted assets are determined on a granular basis by using risk weights. Both on- and off-balance sheet exposures are included in the overall credit risk-weighted assets of the Bank.

The Banks maintained a well-capitalised position based upon total and tier I capital adequacy ratio and leverage ratio as set out on the tables that follow.

Basel II regulatory capital

	2012 N\$m	2011 N\$'000
Tier I		
Issued primary capital and unimpaired reserve funds	1 373 275	1 258 367
Ordinary share capital and premium	443 230	443 230
Ordinary shareholders' reserves	930 045	815 137
Less: regulatory deductions		(144 059)
Goodwill and other intangible assets		(144 059)
	1 373 275	1 114 308
Tier II		
Secondary capital and reserves	214 214	243 405
Current unappropriated profits	76 011	121 438
General allowance for credit impairments	138 203	121 967
	214 214	243 405
Tier III		
Subordinated debt		
Total eligible capital (excluding unappropriated profits)	1 587 489	1 357 713

Capital adequacy ratios

	Minimum regulatory requirement %	Target ratio %	Including unappropriated profits		Excluding unappropriated profits	
			2012 %	2011 %	2012 %	2011 %
Total capital adequacy ratio	10	11 – 12	11.81	12.14	11.81	12.14
Tier I capital adequacy ratio	7	7.7 – 8.2	10.78	11.05	10.21	10.14
Tier 1 leverage ratio	6	6.6 – 7.2	7.83	7.58	7.42	6.96

Basel II risk-weighted assets

	2012 Risk- weighted assets N\$'000s	2011 Risk- weighted assets N\$'000s
Credit risk	11 922 584	9 820 635
Market risk	135 064	46 914
Operational Risk	1 389 621	1 315 254
Total risk-weighted assets	13 447 268	11 182 802

Acronyms and abbreviations

A	
ALCO	Asset and liability committee
ATM	Automated teller machine
B	
Banks Act	Banking Institutions Act of Namibia, 1998 and Banking Institutions Amendment Act, 2010
BAN	Banking Association of Namibia
Basel	Basel Capital Accord
BBBEE	Broad-based black economic empowerment
BCBS	Basel Committee on Banking Supervision
BEE	Black economic empowerment
Board	The Standard Bank of Namibia Limited board of directors
BoN	Bank of Namibia
C	
CAGR	Compound annual growth
CIB	Corporate & Investment Banking
CoE	Cost of equity
Companies Act/ the Act	Companies Act of Namibia 71 of 2008
The company	Standard Bank Namibia Limited
CPI	Consumer price index
CR	Country risk grade
CSI	Corporate social investment
D	
DBS	Deferred bonus scheme
E	
EAD	Exposure at default
EGS	Equity growth scheme
F	
FSB	Financial Services Board
G	
The group	The Standard Bank of South Africa Limited and its subsidiaries
GSIS	Group share incentive scheme
I	
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	Internal capital adequacy assessment process
ICBC	Industrial and Commercial Bank of China Limited
IFRS	International Financial Reporting Standards
IRB	Internal ratings-based
ISDA	International Swaps and Derivatives Association
IT	Information technology

J	
JIBAR	Johannesburg interbank agreed rate
JSE	JSE Limited, the licensed securities exchange in Johannesburg
K	
KFI	Key financial indicator
King Code	The King Report on Corporate Governance for South Africa 2009
L	
LCm	Millions of local currency
LCR	Liquidity coverage ratio
LGD	Loss given default
LIBOR	London interbank offered rate
M	
MOI	Memorandum of Incorporation
N	
NSFR	Net stable funding ratio
N\$	Namibia Dollar
N\$bn	Billions of Namibia Dollar
N\$m	Millions of Namibia Dollar
NAD	Namibia dollar
O	
OCI	Other comprehensive income
OTC	Over-the-counter
P	
PBB	Personal & Business Banking
PD	Probability of default
R	
R	South African rand
RAPM	Risk-adjusted performance measurement
ROE	Return on equity
RY	Real yield
S	
SA	South Africa
SARB	South African Reserve Bank
SBG	Standard Bank Group Limited
SBGRF	Standard Bank Group Retirement Fund
SBPlc	Standard Bank Plc
SBSA	The Standard Bank of South Africa Limited
SCMB	Standard Corporate and Merchant Bank
SME	Small and medium enterprises
SPE	Special purpose entity
SBN	Standard Bank Namibia Limited
SBNH	SBN Holdings Limited

T	
TCF	Treating Customers Fairly
TCM	Treasury and capital management
Tier I	Primary capital
Tier II	Secondary capital
Tier III	Tertiary capital
U	
UK	United Kingdom
USD	United States dollar
V	
VaR	Value-at-risk
VAT	Value added tax
Z	
ZAR	South African rand

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Africa is a complex and diverse continent deserving nuanced insight. With differing prospects and performance across the continent, a 'one size fits all' approach is inappropriate. We are able to navigate unique environments by employing and developing local skills. Together with our other competitive advantages, our heritage and footprint, we are in a prime position to turn Africa's challenges into market opportunities.