Bank Windhoek Holdings Limited

Annual Report

for the year ended 30 June 2013

Bank Windhoek Holdings Limited

A member of Capricorn Investment Holdings

Index

Group profile

Bank Windhoek Holdings Limited (Bank Windhoek Holdings) was incorporated in Namibia on 5 September 1996 as an investment holding company. The company was established by a merger agreement concluded in terms of the Building Societies Amendment Act. As a consequence of the merger, the business of Namib Building Society and all its related assets and liabilities were transferred to Bank Windhoek. Bank Windhoek Holdings also acquired all the shares in Capricorn Life Assurance Company Limited and Capricorn Insurance Company Limited from Namib Building Society. In return, the former Namib Building Society shareholders received a 3% shareholding in the newly registered Bank Windhoek Holdings.

Bank Windhoek Holdings simultaneously acquired the entire issued share capital of Bank Windhoek, funded by the issue of shares to Amalgamated Banks of South Africa Limited ('Absa') (36.3%), Boland Bank PKS Limited (7.2%) and Bank Windhoek Beherend Limited (53.3%). Bank Windhoek Beherend Limited's name was subsequently changed to Capricorn Investment Holdings Limited ('CIH'). The Boland Bank PKS Limited shareholding was later sold to Nam-mic Financial Services Holdings (Pty) Limited (Nam-mic) in terms of an empowerment transaction. Following its takeover by Barclays PLC, Absa disposed of its minority interest in Bank Windhoek Holdings in 2006 with CIH acquiring the majority of the shares, increasing its shareholding in Bank Windhoek Holdings to 71.6%. CIH concluded a capital reduction exercise in 2013 in terms of which all CIH shareholders were given the opportunity to sell up to 25,000 of their CIH shares back to CIH in exchange for Bank Windhoek Holdings shares. This resulted in CIH's shareholding in Bank Windhoek Holdings decreasing from 71.6% to 62.8% with the minority shareholding in Bank Windhoek Holdings increasing. This holding decreased to 57.6% after the public offer of Bank Windhoek Holdings shares.

In 1999 Bank Windhoek Holdings sold its interest in short-term insurer, Capricorn Insurance Company Limited to Santam Namibia Limited and in the process acquired a strategic interest of 28.0% in Santam Namibia. The group also played a leading role in a partial consolidation of the long-term insurance industry in Namibia with the merger of the interests of Sanlam Namibia Limited, Regent Life Namibia Limited and Capricorn Life Assurance Company Limited, retaining a strategic stake of 29.5% in the holding company of the merged entity, Sanlam Namibia Holdings (Pty) Limited.

Overview of subsidiaries and associates of Bank Windhoek Holdings

As a result of these corporate activities, the Bank Windhoek Holdings group today comprises of a number of subsidiary companies and associates in the financial sector industry of Namibia.

Bank Windhoek Holdings' group structure is diagrammatically depicted on page 3 and a brief overview of Bank Windhoek Holdings subsidiaries and associates are presented below.

Bank Windhoek

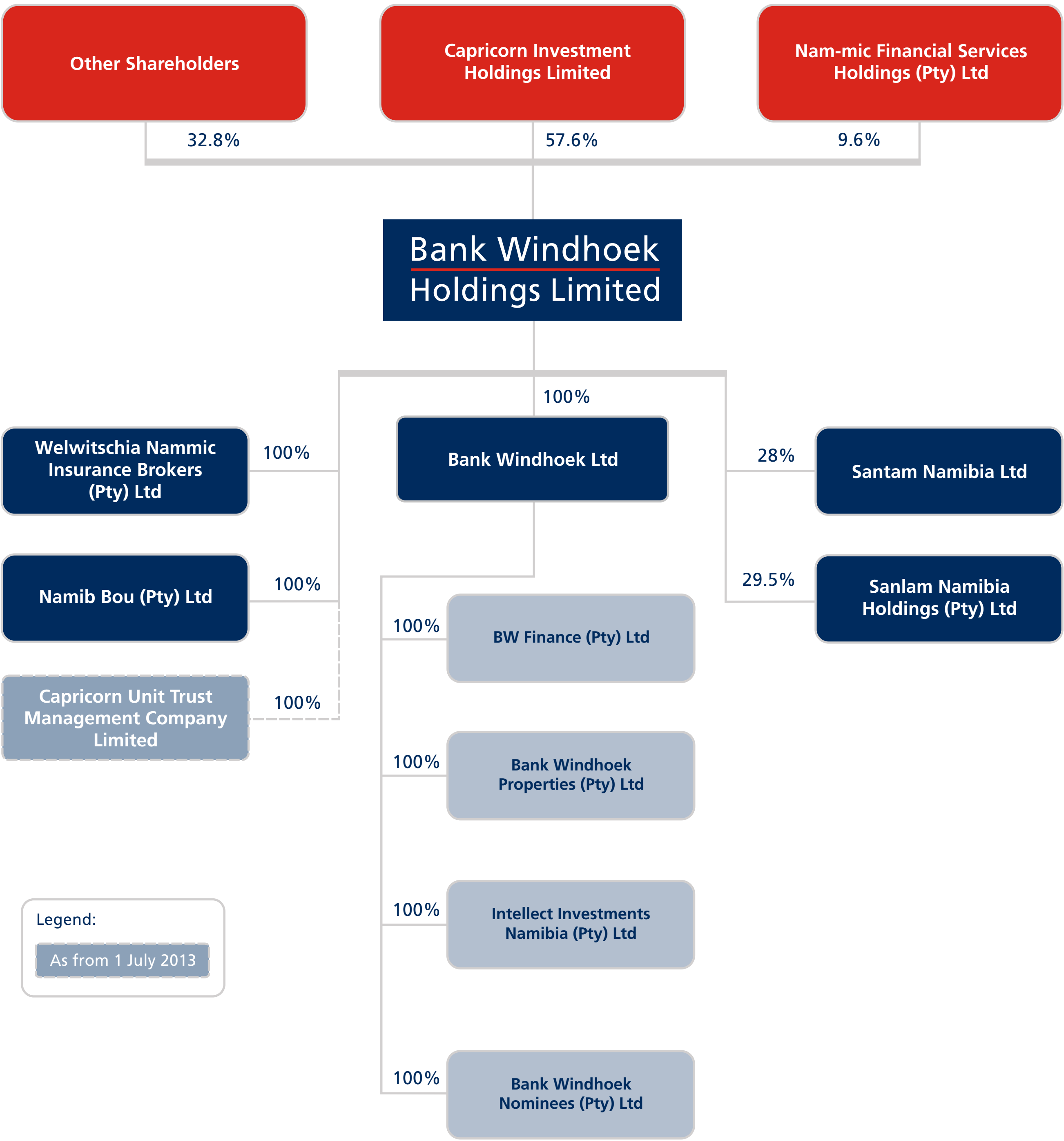
The flagship brand of the Bank Windhoek Holdings group is Bank Windhoek, which is a wholly owned subsidiary of Bank Windhoek Holdings.

History and background of Bank Windhoek

Bank Windhoek was established in 1982, when a group of local businessmen, with a thorough knowledge of the local market and faith and trust in the future of Namibia, acted on a vision to create a Namibian bank by acquiring the operations of Volkskas Bank in Namibia. The objective was to establish a bank controlled and managed in Namibia with a uniquely Namibian ethos and local insight. Bank Windhoek was built on the foundation of integrity, entrepreneurship, commitment, hard work, perseverance and dedication.

Bank Windhoek started with capital and reserves of N$2.6 million, a total asset base of N$58 million, a staff complement of approximately 60 employees and 8 small

Group structure
as at 30 June 2013



branches that made up the Volkskas Bank operations. Bank Windhoek has, since its establishment, continued to show sound and sustained year-on-year growth in a very competitive and regulated environment. Today, Bank Windhoek has established itself as one of the leaders in the financial services industry in Namibia.

Bank Windhoek has a wide distribution network of 53 retail and specialist finance branches and agencies countrywide. The bank also has a Corporate and Executive Banking Division with offices in Windhoek, Oshakati and Walvis Bay and offers foreign exchange services throughout its own branches and through a joint venture with American Express, which has various outlets in Namibia. Bank Windhoek has 90 ATMs and in addition, a total of 236 Bank Windhoek Cash Express ATMs installed at merchants across Namibia in partnership with ATM Solutions Namibia.

Bank Windhoek subsidiaries

- BW Finance is the vehicle through which the Bank Windhoek Holdings group does its micro lending business in partnership with Nam-mic. This smart partnership was established in 2002. Regulation dictates that this business be done through a separate legal entity.
- Bank Windhoek Properties owns the Bank Windhoek main building situated at 262 Independence Avenue, Windhoek.
- Bank Windhoek Nominees is a nominee company, acting as agent for third party principals to facilitate banking and investment transactions.
- Intellect Investments Namibia is the owner of the Bank Windhoek trademarks.

Welwitchia Nammic Insurance Brokers (WNIB)

WNIB is a short-term insurance broker with a national footprint and a wholly owned subsidiary of Bank Windhoek Holdings.

WNIB was established in 1984. During 1997 Bank Windhoek Holdings decided to diversify its operations to include insurance broking and subsequently acquired 100% of the shares in Welwitschia Nammic Insurance Brokers.

WNIB offers short-term insurance broking services for all types of corporate, commercial, SME, marine, aviation and personal lines insurance. WNIB is a truly Namibian company with reputable experts in short-term insurance. It has branches in Windhoek (Head Office and Aviation), Mariental, Aranos, Keetmanshoop, Gobabis, Otjiwarongo, Tsumeb, Oshakati, Walvis Bay and Swakopmund.

Namib Bou

Namib Bou is a property development company focusing on affordable housing development. It was established on 21 November 1990 as a subsidiary of Namib Building Society. With the merger of Bank Windhoek and the Namib Building Society in 1996, Namib Bou became part of Bank Windhoek Holdings.

Namib Bou acts as facilitator between the local authorities and financial institutions (commercial banks) to ensure that sufficient housing stock is created over the long-term to assist with meeting the housing backlog in Namibia.

Bank Windhoek Holdings associates

Bank Windhoek Holdings holds a 28.0% shareholding in Santam Namibia and a 29.5% shareholding in Sanlam Namibia Holdings; both leaders in their fields of business.

Santam Namibia

Santam Namibia was established in 1956 and is a 60% owned subsidiary of Santam Limited, a leading short-term insurer in South Africa. The remaining 40% is held by Bank Windhoek Holdings (28.0%) and Nam-mic (12.0%).

Santam Namibia is the largest short-term insurer in Namibia with net assets totalling more than N$200 million, a countrywide contact centre infrastructure, a strong intermediary network and a market share exceeding 30%. Santam Namibia focuses on corporate, commercial and personal markets and provides specialist underwriting through its underwriting managers in various insurance classes including liability, construction, engineering and marine.

Sanlam Namibia Holdings

Sanlam Namibia Holdings is a well-diversified financial services group with key operations in life assurance in the affluent and entry level market, group life assurance, credit life assurance, unit trust management and the distribution of unit linked platform businesses.

Sanlam Namibia Holdings has key strategic shareholders in Sanlam Limited (54.1%), a South African financial services group as technical partner, Bank Windhoek Holdings (29.5%) as banking partner and Nam-mic (16.4%) as empowerment partner.

Summary of key performance indicators

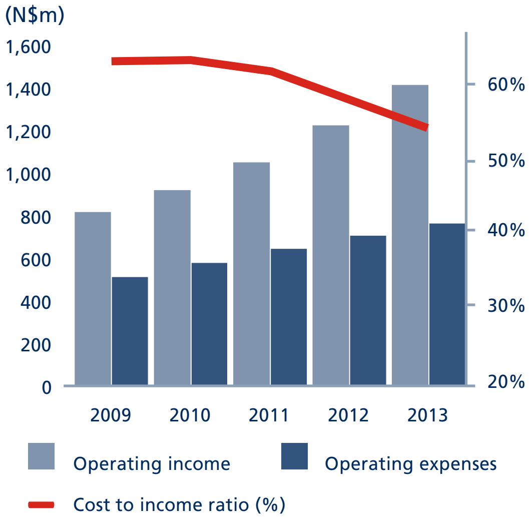
Operating profit	Total comprehensive income	Net asset value[1]
N$648m	**N$516m**	**N$2.6bn**
25.9% Annual growth	**23.8%** Annual growth	**20.7%** Annual growth

Return on equity[1]	Capital adequacy	Earnings per share
23.7%	**16.6%**	**108 cents**

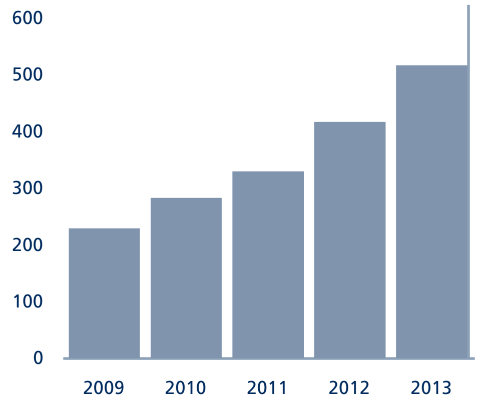
	2009	2010	2011	2012	2013	4 year CAGR[2]
Statement of comprehensive income (N$'000)						
Total income	835,717	941,409	1,074,230	1,246,390	1,437,645	14.5%
Operating profit	303,437	340,628	403,826	514,636	648,083	20.9%
Profit after tax	229,013	281,447	328,510	402,611	493,271	21.1%
Total comprehensive income	229,013	282,472	329,362	416,646	515,630	22.5%
Earnings per share (cents)	51	63	73	89	108	20.8%
Dividends per share (cents)	12	13	23	25	33	29.2%
Statement of financial position (N$'000)						
Total assets	12,575,059	14,451,146	15,984,823	18,921,050	20,938,608	13.6%
Total loans and advances to customers	9,711,337	11,320,292	13,004,405	15,484,932	17,651,962	16.1%
Total deposits due to customers	8,578,965	8,419,847	9,852,677	12,126,619	13,022,976	11.0%
Net asset value	1,190,988	1,334,901	1,565,030	1,887,059	2,624,058	21.8%
Performance indicators (%)						
Normalised return on average equity[1]	20.8%	22.2%	22.5%	23.3%	23.7%	
Return on average assets	2.0%	2.1%	2.2%	2.3%	2.5%	
Net interest margin on average assets	4.3%	4.2%	4.4%	4.5%	4.6%	
Charges for impairments to average gross loans and advances	0.22%	0.21%	0.22%	0.18%	0.16%	
Non-interest income as % of operating income	41.4%	40.7%	38.5%	37.9%	37.1%	
Cost to income ratio	62.8%	62.9%	61.4%	57.9%	54.1%	
Operating expenses as % of profit before tax	157.3%	152.1%	139.1%	124.0%	107.5%	
Closing share price (cents) at 30 June 2013	-	-	-	-	1,015	
Price to book ratio at 1,015 cents per share	-	-	-	-	1.9	
Price earnings ratio at 1,015 cents per share	-	-	-	-	9.4	
Capital adequacy (%)						
Total risk-based capital ratio[3]	-	-	-	13.4%	16.6%	

[1] Adjusted for the capital raised as part of the Bank Windhoek Holdings listing
[2] Compounded annual growth rate
[3] Consolidated supervision came into effect for the first time during the 2012 year

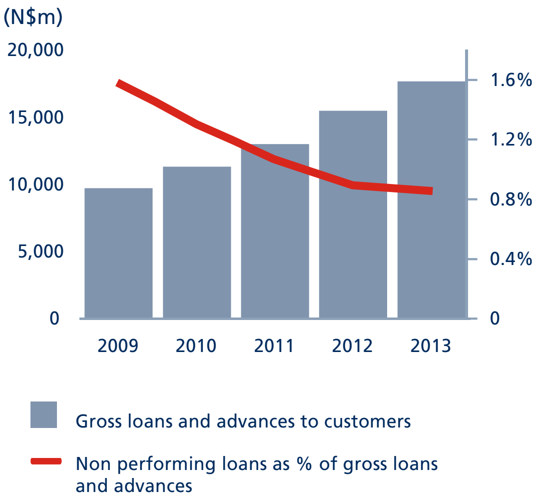
Operating performance



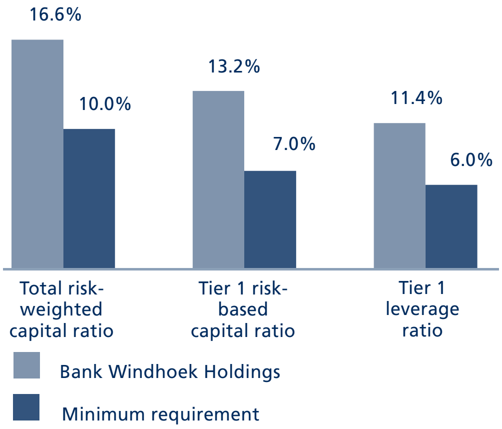
Total comprehensive income (N$m)



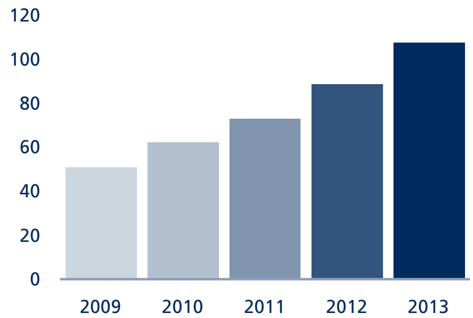
Loans and advances to customers



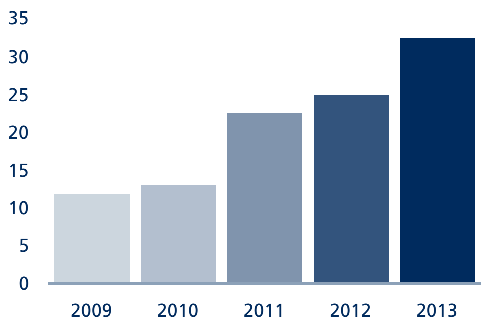
Capital adequacy ratios (%)



Earnings per share (cent)



Normal dividend per share (cent)



Board of directors

Standing, from left to right:

Christo de Vries (61)
Baccalaureus Commercii (Cum Laude)

Brian Black (58)
Executive Management Diploma (Stellenbosch)

Koos Brandt (70)
BA LLB

Thinus Prinsloo (42)
BCompt (Hons), C.A. (S.A.)

Company Secretary:
Hellmut von Ludwiger (45)
BCom (Hons), C.A. (Nam), FCIS

Matheus Shikongo (62)
Diploma in Personnel Management and Marketing

Johan Swanepoel (53)
BCom (Hons) (Accounting), C.A. (S.A.), C.A. (Nam)

John Shaetonhodi (63)
BAdmin, MA, MBA (Maastricht)

Seated, from left to right:

Frans du Toit (68)
BCom (Hons), C.A. (S.A.)

Esi Schimming-Chase (43)
LLB (Hons)

Gida Nakazibwe-Sekandi (60)
LLB, PRISA

Eric Knouwds (68)
BCom (Accounting), C.A. (S.A.) (Nam)

Chairman's statement

Koos Brandt
Chairman

I am proud to present the Annual Report of Bank Windhoek Holdings Limited (Bank Windhoek Holdings) for the period ending 30 June 2013 and to reflect on the listing of Bank Windhoek Holdings on the Namibian Stock Exchange (NSX) on 20 June 2013, a milestone in the history of the group.

It is with gratitude that we can report on a solid performance by the group and a successful year in all respects as the group continued to build on its strong historical performance.

The macro environment and economic overview

Namibia is generally considered to be a developing economy, which is often seen by investors as a greater risk than more developed markets. These risks include potential economic instability as well as legal, political and social risks. The high unemployment rate in Namibia remains one of the biggest challenges to economic growth. A pertinent role of government is to create an enabling environment for businesses to grow and develop. The government of Namibia is well aware of prevailing challenges and its increased focus on job creation and economic development through the adoption of the Targeted Intervention Programme for Employment and Economic Growth (TIPEEG) and the National Development Plan (NDP4), is therefore encouraging. The Bank Windhoek Holdings group has always supported and will continue to support the vision and goals of the various development plans laid out by government and remains equally committed to contribute to the growth and development of the Namibian economy.

The financial services industry generally prospers in conditions of economic growth, stable geopolitical conditions, capital markets that are transparent, liquid and buoyant positive investor sentiment. Bank Windhoek Holdings, like the other banking groups in Namibia, is also exposed to global markets and changes to the global regulatory environment for banks, which may result in reduced liquidity and an increase in the cost of funding for banks.

In recent years there has been a significant volatility in the financial markets around the world. Volatility in global financial markets since 2008 and its after-effects on the global economy have led to more difficult earning conditions for the financial sector and resulted in the failure of a number of financial institutions around the globe. This resulted in unprecedented action by governmental authorities, regulators and central banks internationally with more stringent regulatory requirements being introduced. The Bank Windhoek Holdings group has always had and continues to promote a very strong corporate governance culture and an uncompromising stance to ensure compliance with regulatory requirements.

Weak demand from the United Kingdom and the Eurozone, two of Namibia's largest trading partners, is expected to continue to negatively impact Namibia's growth prospects over the next year. Furthermore, towards the end of the period under review, concerns over lower global commodity prices have come to the fore. This is to a large extent driven by the imminent structural slowdown of the Chinese economy, which represents a substantial part of world demand for a large variety of commodities, including Namibian mineral exports such as uranium and copper.

The domestic demand side of the Namibian economy has remained resilient throughout the financial year, which has partially shielded the economy from the cold, low growth headwinds from the developed world. This demand has been underpinned by growth in real disposable income and an increase in the uptake of credit by both households and businesses. Private sector credit growth in Namibia has averaged above 15% over the past financial year, supported by historically low interest rates as well as an expansionary fiscal stance adopted by government. Moreover, the recent announcement of personal income tax cuts as well as company tax breaks are expected to inject more money directly into the economy which will further support domestic economic activity.

The past year saw a high degree of volatility in global financial markets in response to changing risk perceptions, particularly related to the Eurozone crisis and extraordinarily supportive monetary policy actions by the central banks of the world's largest economies. This impacted on the rand, and consequently the Namibia dollar exchange rate, in line with other emerging market economies. The recent deterioration of the Namibian dollar has had a significant inflationary impact with inflation averaging over the 6% mark which represents the upper limit of the inflation targeting band adopted by neighboring central banks.

Namibia registered GDP growth of 5% in 2012, which exceeded most expectations, however remained below the Sub-Saharan African average of 5.5%. The higher than expected GDP reading was largely attributed to strong performances in the mining sector. Looking forward we expect the impetus for growth to stem mainly from new large investment inflows, growing infrastructure development and continued robust domestic demand.

As stated in the Financial Sector Strategy, which was launched in August 2012 by the Ministry of Finance, the Namibian financial system is well developed and sound, well-functioning with good financial infrastructure and this should be exploited by our government when leveraging on opportunities presented by global economic recovery. Clear objectives have been set in the strategy to address the structural weaknesses in the financial system which includes the deepening of the financial markets.

The listing of Bank Windhoek Holdings

Outcome 1 of the Financial Sector Strategy aims for an active capital market characterised by higher turnover and liquidity, with envisaged regulation prescribing mandatory listing. The board of directors was able to respond to this call and on 6 December 2012, approved the listing of all the issued ordinary shares of Bank Windhoek Holdings on the NSX. This approval set in motion a project that required a significant investment of time and effort from a number of internal and external parties. The public offer commenced on 16 May 2013 and was successfully concluded with the listing of Bank Windhoek Holdings on the NSX on 20 June 2013.

The decision of the board of directors to list Bank Windhoek Holdings was informed by many factors. The overriding consideration was the fundamental belief that the Bank Windhoek Holdings group has a future role to play as a destination for local capital and a catalyst for wealth creation for individuals, groups, businesses, institutions and communities. The Financial Sector Strategy stresses financial inclusion, the deepening of the Namibian financial sector, the localisation of the financial sector and the development of the Namibian capital market. Bank Windhoek Holdings supports these initiatives and as a consequence has therefore decided to be proactive in pursuing a public offer of its shares.

Bank Windhoek Holdings is proud to have been the first institution to heed the call by government in this regard.

We can now reflect with gratitude on the outcome of the public offer as the listing of Bank Windhoek Holdings on the NSX was the largest and most successful listing of a Namibian company since the establishment of the NSX.

The intention was to raise N$361.2 million through the issue of new shares in terms of the public offer. We however received applications for more than N$1.34 billion worth of shares, translating into an over-subscription of 3.5 times. Due to the oversubscription, we could only allocate 28.9% of the shares applied for. A total of 44,331,048 ordinary shares were allocated to applicants for a total consideration of N$387.9 million.

Our new shareholders are welcomed on board and we look forward to share in the future of our group as we embark on this new and exciting chapter of Bank Windhoek Holdings.

What we as a group stand for

As a group we have always embraced the philosophy of entrepreneurship and building sustainable wealth. These are characteristics that have been challenged in recent times by a world that has become increasingly impatient with the tried and tested models of organic growth and prudency in business.

Maintaining the benefits of entrepreneurial agility does not imply a less rigorous governance focus. As part of the listing process, the board has reviewed the governance framework and reconfirmed its commitment to deliver on the objectives of the framework which is aligned to the relevant standards such as King II. The governance framework is available on the Bank Windhoek Holdings website.

As an institution we value not only the rights and the privileges we enjoy, but also the duty we have to serve all our stakeholders, including the government, regulators, clients, employees and shareholders.

We are proud of the legacy of our group and look forward to start the new chapter in this success story – a story that started with such humble beginnings.

Outlook

In the year ahead, there will be continued uncertainty in the global economic environment and with increased regulation on capital and liquidity requirements, it will remain a challenging environment in which to responsibly navigate and grow our business. The Bank Windhoek Holdings group will however remain focused on delivering sustainable long-term value to its shareholders, notwithstanding the challenges in the operating environment and changing landscape in the banking sector. In order to achieve this objective, the group will be resilient in responding to changes in the external environment, which may have an impact on its operations. We will continue to leverage on opportunities for growth and execute our strategic priorities.

Acknowledgements

It is impossible to do justice, in this Chairman's statement, to the challenges and successes encountered on a journey that we have travelled as stakeholders of the Bank Windhoek Holdings group since inception and culminating in the listing of Bank Windhoek Holdings.

We will always remember and cherish the unwavering support of the founding promoters and other partners, business friends and clients that have walked along with us and supported us in so many different ways.

Together, we have come a long way over the past 31 years. Not a single step of that journey would have been possible without the relationships that we have developed along the way. We sincerely value all our relationships since we believe that almost all broken relationships in life can be traced back to broken agreements, something we do not subscribe to. We are truly blessed with dedicated and committed staff, loyal clients and partners.

In a memorable year like the group has had, there are countless individuals and parties that deserve recognition. It is the commitment of our staff and the loyal support of our customers over the years that have enabled the Bank Windhoek Holdings group to create sustainable value and to list its shares on the NSX.

Therefore, I would like to thank the loyal and dedicated staff and management of the Bank Windhoek Holdings group who continues to work hard to satisfy the needs of their clients and ultimately contribute to the success of the group. The clients of the Bank Windhoek Holdings group also deserve special thanks for their continued loyalty and support. During the period under review we welcomed thousands of new shareholders to our group and would like to thank them for their faith and trust bestowed in our group.

A sincere thank you is extended to all our business associates for the excellent working relationship which assisted us to steer the group through the past year. We are also grateful for the continued good relationships that we have with the Bank of Namibia and other regulators and government institutions which enabled us to operate in a conducive environment.

To conclude, a special word of thanks to the board of directors of Bank Windhoek Holdings for their invaluable support and wise counsel in guiding the group through the past year. During the reporting period we welcomed four new directors to the board of Bank Windhoek Holdings, namely Frans du Toit, Eric Knouwds, Esi Schimming-Chase and Thinus Prinsloo and look forward to their contribution to the board. As a board, we accept our role and responsibility to provide leadership and vision to the Bank Windhoek Holdings group in a way that will enhance shareholder value and ensure long-term sustainable development and growth of the group. Thinus Prinsloo has taken up an executive director role with effect from 1 July 2013.

With our strong vision and focused strategy, experienced leadership team, loyal and supportive clients and shareholders and our successful track record, the board of Bank Windhoek Holdings remains confident for the year ahead.

We will focus on delivering on our obligation to our shareholders of creating sustainable shareholder value. This we will do by leveraging on our intimate knowledge of the local market and by fulfilling our role as a partner in the development, economic growth and prosperity of Namibia.

I am proud to have been part of building a strong foundation for Bank Windhoek and Bank Windhoek Holdings, which enabled the group to list on the NSX. The listing of the group signifies the start of a new chapter in the history of our group, and it is extremely gratifying to know that the group is on a sound footing.

J C Brandt
Chairman

Managing Director's report

Christo de Vries
Managing Director

The year will be remembered as a milestone year in the history of the group with the successful listing of Bank Windhoek Holdings Limited (Bank Windhoek Holdings) on the Namibian Stock Exchange on 20 June 2013. With the listing of Bank Windhoek Holdings, the group created an investment opportunity for Namibians and in the process further broadened Namibian ownership in Bank Windhoek Holdings and aided the development of the Namibian capital market. Preference was given to clients and to BEE applications in the allocation of Bank Windhoek Holdings shares in terms of the public offer. This facilitated the increase in BEE shareholding in line with the objectives of the Financial Sector Charter and the Namibian Financial Sector Strategy. Following the listing, BEE shareholding in Bank Windhoek Holdings equates to approximately 17% of shares.

Of the N$361.2 million capital raised through the listing, Bank Windhoek Holdings invested N$200 million in Bank Windhoek to further increase the bank's Tier 1 capital in anticipation of the implementation of Basel III. This capital will also fund further investment in information technology and innovative payment systems and channels to market in order to enable the bank to better service its existing client base and to better penetrate the unbanked and under-banked market in Namibia.

The remaining funds from the public offer will be retained to enable Bank Windhoek Holdings to consider further investment opportunities as and when they arise.

Financial performance of Bank Windhoek Holdings

The Bank Windhoek Holdings group can report on another year of continued solid performance, delivering a 17th consecutive year of income and profit growth. This is underpinned by controlled asset growth, prudent risk and capital management and continued focus on efficiencies.

Bank Windhoek Holdings has achieved the half billion mark in total comprehensive income for the first time and delivered satisfactory results for the year ended 30 June 2013:

- Group total comprehensive income for the year amounted to N$516 million, which represents a 24% increase over the prior year;
- Sound balance sheet growth was achieved with asset growth of 10.7% amounting to N$20.9 billion;
- Well capitalised with a total risk-weighted capital adequacy ratio of 16.6%, well above the minimum statutory requirement; and
- Normalised return on average equity of 23.7% was realised.

Interest income

Net interest income increased by 16.8% to N$914.5 million (2012: 783.1 million). The net interest margin of 4.6% remained flat compared to 2012. Prime and home loan rates decreased on 29 August 2012 and 14 September 2012 respectively as a direct result of a decrease in the Bank of Namibia's repo rate. The decrease in the repo rate negatively impacted the interest rate margin due to the timing difference in the re-pricing of the assets and liabilities. This negative impact was offset by good volume growth coupled with positive margin movement in wholesale funding.

Impairment charges

Credit management remains a key focus of the banking operations, coupled with prudent risk pricing and good recoveries of delinquent debt, which is evident in the exceptional low levels of bad debt. During the year under review the loan loss rate decreased from 0.18% to 0.16% and non-performing loans as a percentage of gross advances decreased from 0.90% to 0.86%.

Non-interest income

Non-interest income mainly comprises fee and commission income, trading income and other operating income. The total non-interest income increased by 12.9% to N$523.2 million (2012: N$463.3 million). Fee income from banking operations is the primary contributor to the favourable variance, which, despite pricing pressures, is 16.9% higher than in the previous year. The increase in fee income is mainly due to growth in the number of client accounts and transaction volumes as well as an inflationary adjustment.

Operating expenses

Operating expenses increased by 8% to N$762.8 million (2012: N$706.5 million). The growth in operating expenses slowed down compared to the previous year, mainly due to increased efficiencies, focused effort to contain costs and a deferral of certain IT-related projects. The reduction in the operating expense growth, coupled with good income growth, resulted in an improved cost to income ratio of 54.1% (2012: 57.9%).

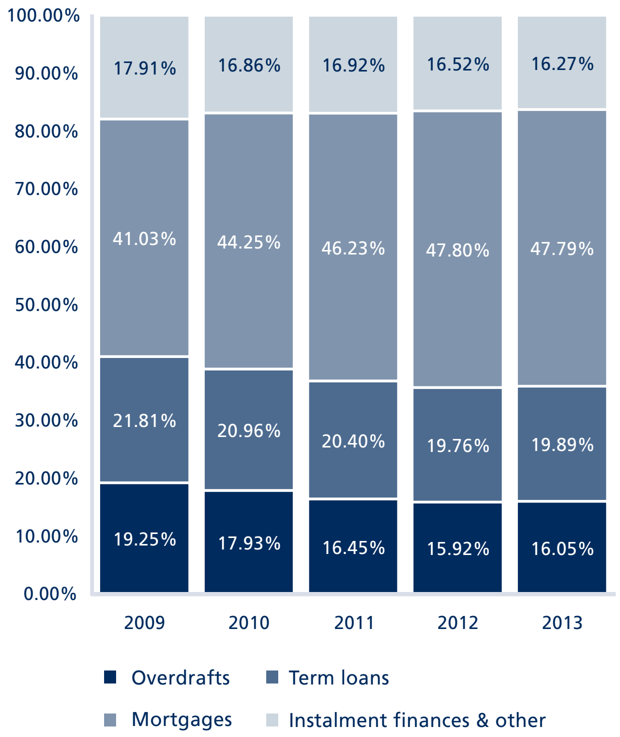
Income from associates and joint ventures

Income from associates and joint ventures amounted to N$61.6 million (2012: N$55.3 million) an 11.37% increase on the previous year. The contribution by associates and joint ventures to group profit before tax decreased from 9.7% to 8.7% compared to the previous year.

Statement of financial position

The group continued to be disciplined in its focus to sustain a strong statement of financial position with controlled growth. Loans and advances to customers grew by 14.0% to N$17.7 billion (2012: N$15.5 billion), which is mainly due to growth in the overdraft and mortgages loan books. The cumulative annual growth rate of loans and advances over the last four years is 16.1% while the loan loss rate decreased from 0.22% to 0.16% over the same period, emphasising the improvement in advances quality while delivering substantial asset growth.

The composition of loans and advances remained stable as indicated by the graph below, with mortgage lending contributing the largest percentage at 48%. Mortgage lending comprises residential home loans (27%), commercial property loans (17%) and development finance (4%).



The group remains well capitalised and continues to generate strong levels of equity. The total risk-weighted capital ratio improved from 13.4% to 16.6% following the issue of new ordinary shares as part of the listing on the Namibian Stock Exchange in June 2013. All capital ratios remain well above the minimum statutory requirements.

Shareholders' return

Dividends of N$149.5 million were declared and paid during the year representing a dividend of 32.75 cents per share. Compared to the previous year, the dividend per share has increased by 31%. The increase in earnings per share during the year was 22.4%, which is in line with the cumulative annual growth rate in earnings per share over the last four years of 20.8%, emphasising the group's consistent and sustainable growth in earnings.

The overall positive performance of the group can be attributed to the dedication, knowledge and skills of the group's employees and the ongoing loyalty and support of our clients and shareholders.

Operating environment of Bank Windhoek Holdings

Although Namibian banks have largely been shielded from direct exposure to the global and economic financial crisis, the uncertainty of Namibian and global growth prospects, together with potential changes to the global regulatory environment for banks, contributed to a challenging operating environment for Bank Windhoek Holdings.

During the period under review, the currency markets again proved volatile with the local currency weakening and fluctuating between N$8.00 and N$10.36 to the US dollar and N$9.85 to N$13.75 against the euro. Bank Windhoek Holdings has a relatively small foreign currency exposure whilst it also has the necessary systems and controls to mitigate currency risk.

As global economic conditions remain weak with no clear sign of a significant recovery on the horizon, Namibia's growth has been impacted and remains below expectation. Inflation was contained within tolerable levels during the period, but the renewed volatility in the currency markets at the end of the period creates concern and the potential for interest rate increases during next financial year.

The macro and regulatory environment

With the listing of Bank Windhoek Holdings in June 2013, the group, amongst others, proactively satisfied the regulatory call for banking groups to list and offer investment opportunities to the Namibian public in their pursuit of financial inclusion and localisation of ownership of financial institutions. The group, through Bank Windhoek, remains committed to address the key areas outlined in the ten-year Financial Sector Charter which was launched in August 2012 by the Minister of Finance. These areas include financial inclusion; financial literacy and protection; access to financial services and products; skills development in the financial sector; and localisation of the Namibian financial sector.

As a signatory to the Namibia Financial Sector Charter, Bank Windhoek is also committed to the areas addressed by the charter, which includes access to and affordability of financial products and services; human resource development; procurement and enterprise development; ownership and control; empowerment financing; corporate governance and social investment; and consumer protection and education.

The regulation and supervision of the global financial system have been and continue to be priorities for governments and international organisations. There have been continuous regulatory changes, both in the Namibian regulatory environment and the international regulatory environment with specific focus on anti-money laundering; data security standards as laid down by the card associations; and capital requirements as laid down by the Basel Committee on Banking Supervision (BCBS). Whilst operating in a highly regulated environment, Bank Windhoek Holdings maintains an uncompromising stance to ensure compliance with regulatory requirements.

Overview of Bank Windhoek

The main subsidiary and the flagship brand of Bank Windhoek Holdings is Bank Windhoek, which is a wholly owned subsidiary of Bank Windhoek Holdings.

Bank Windhoek is a bank with a uniquely Namibian ethos and local insight. As at 30 June 2013 Bank Windhoek contributed 89% to the group's net profit after tax and 88% to the net asset value of the group. Since its establishment in 1982, Bank Windhoek has continued to show sound and sustained year-on-year growth in a very competitive environment. Bank Windhoek has always stayed true to its vision of providing banking services for all Namibians and its business philosophy of building long-lasting relationships with its stakeholders. The bank's existence has been characterised by a strong commitment to understanding the individual banking needs of all Namibians and by fulfilling its role as a partner in the development, economic growth and prosperity of Namibia.

Today, Bank Windhoek has established itself as one of the leaders in the financial services industry in Namibia with a total asset base of N$20.6 billion as at 30 June 2013.

Bank Windhoek has maintained consistent earnings growth, good efficiency ratios and an above average market share.

The bank's net profit after tax amounted to N$438 million, which represents a 28% growth over the previous year. This positive financial performance of the bank can be attributed to controlled asset growth, effective management of credit and a continued focus on efficiencies.

Operational highlights of Bank Windhoek

Risk management

Risk management and compliance has remained a key focus area for the year under review. The group continued to strengthen its risk management framework through improvements in its operational-, credit- and market risk management practices to meet regulatory requirements and to adhere to best practices under Basel II. Risk governance and oversight was improved through better alignment of committee structures, improved management of policies, formal issue identification and remediation.

Treasury

Through its international treasury solutions, Bank Windhoek offers a wide range of solutions to corporate and business clients. Investment products, buying and selling of foreign currency and hedging strategies to limit exchange rate risk are some of the services offered. Foreign exchange services are offered through the retail branch network and the joint venture between Bank Windhoek and American Express.

Corporate and executive banking

Bank Windhoek's Corporate and Executive Banking division continued to provide customer-centred services and solutions to government, parastatals, international organisations, multinationals, Namibian corporates and qualifying high net worth individuals. The division has shown satisfactory growth and sound financial results and continues to play an important role in the growth of Bank Windhoek.

Retail banking

Bank Windhoek maintains a footprint of 53 retail branches, sub-branches and agencies countrywide, offering our clients a wide range of financial services and products. Bank Windhoek has 90 ATMs as well as 236 Bank Windhoek Cash Express ATMs installed at merchants across Namibia in partnership with ATM Solutions Namibia.

The enhanced cell phone banking offering introduced during the period under review proved to be very popular with our clients and the client base making use of this service grew by more than 30%.

As part of our commitment to make banking accessible to all Namibians, the bank will continue to assess opportunities for establishing new branches or agencies. Furthermore, the bank has also embarked on a project to replace 40 of its older ATMs with new generation ATMs.

The implementation of the Financial Intelligence Act continued to receive priority to ensure that the bank meets the requirements of the Act.

Specialist finance division

Bank Windhoek remains committed to the support of the SME sector and our vision is to see an increasing number of SMEs grow into sustainable businesses. Mentorship programmes to SMEs remain an important component of the assistance provided by Bank Windhoek.

Despite aggressive competition in the property and asset finance market, the bank maintained its market share in these business segments through the activities of our specialised property finance and vehicle and asset finance branches, supported by the retail branch network countrywide.

BW Finance is the vehicle through which the group does its micro lending business in partnership with Nam-mic Financial Solutions. The micro lending business consists of the advancement of microloans through an approved employer deduction programme. These loans represent 1.8% of the total loans and advances.

Information technology

Good progress has been made in improving IT service delivery and providing solutions to Bank Windhoek's business operations. The optimal management of available IT skills in the market however remains a core focus. A number of highlights in the IT environment during the period under review include the following:

- The introduction of sms notifications to internet banking customers as an additional layer of security.
- The bank's internet banking system has been upgraded and simplified by migrating the system to the Electronic Payment and Collections solution with additional functional benefits being made available to the general internet banking user.
- The final stages of the Bank Windhoek Payment Card Industry Data Security Standards project received priority and is nearing completion with certification expected in quarter one of the 2014 financial year. This will aid significantly in the trust that customers will be able to place in the protection of their card information.
- EMV acquiring certification will also be completed in the same period which will assure all card customers (including non-Bank Windhoek customers) that information disclosed to Bank Windhoek is kept under strict governance and according to international security standards.

Credit

From a credit perspective, Bank Windhoek follows a strategy of controlled growth. The aim is to focus on quality assets and applying pricing commensurate with the risk. This is in line with the strategy followed over recent years where the bank managed to sustain market related growth in its advances book, with impairments and non-performing loan ratios remaining well within norms.

Human resources

Human capital management, a dynamic discipline within Bank Windhoek, is one of the strategic pillars of our success and focuses on skills development, leadership development, talent management and embedding a high performance culture.

Bank Windhoek prides itself in its stable and committed 1,300 employees and even more so, as 98.3% are Namibian citizens. The bank's accomplishments are largely attributed to the professional and customer centric approach of its employees.

During the period under review, the bank continued to focus on executing its talent and succession management strategy. Affirmative action (AA) remained a high priority. Bank Windhoek runs a successful accelerated training programme with the main focus of developing talented employees in key critical areas where skills shortages exist.

Through its bursary scheme, Bank Windhoek assists Namibian students studying at institutions of higher learning as well as students gaining experiential learning from vocational and academic institutions.

The wellness programme of Bank Windhoek for staff is well established and various initiatives and wellness campaigns ensure that employees realise the importance of a healthy and balanced lifestyle.

Customer service

The Bank Windhoek brand is one of the most credible and reputable brands in Namibia. The bank recognises the value of offering excellent customer service as a competitive differentiator and, therefore, service is one of the key drivers of the bank's reputation.

To ensure that the bank remains in touch with changing customer needs and expectations, continuous client satisfaction surveys and service quality assessments are performed in order to gauge and improve the bank's service delivery.

In an effort to further strengthen the service culture in the bank and to adhere to the Bank of Namibia's Guidelines on Consumer Protection, the bank has enhanced and re-launched its service charter during the period under review. The service charter sets out the rights of its clients in terms of service delivery and the principles governing the provision of service to our clients.

Bank Windhoek played an instrumental role in the launch of the Code of Banking Practice of the Bankers

Association of Namibia in February 2013. The Code of Banking Practice is a voluntary code which sets standards of good banking practice for financial institutions to follow when dealing with customers. The code will henceforth guide the interactions of banks with their clients and it will help clients to better understand their rights and responsibilities as well as the bank's responsibilities in serving its clients.

Corporate social investment

It is the vision of the Bank Windhoek Social Investment Fund, which was established in 2001, to make a meaningful contribution to the sustainable development and prosperity of the communities in which the bank operates. The three focus areas of the Social Investment Fund are education, entrepreneurship / job creation and health. Bank Windhoek strives for a balanced social investment portfolio and therefore its sponsorship and donation portfolio covers a broad range of sectors including sport, welfare, agriculture, arts, culture and financial literacy.

Bank Windhoek believes that improved financial literacy empowers consumers to make informed decisions about their personal finances. Bank Windhoek therefore remains committed to its consumer education initiatives and fully supports and endorses the Financial Literacy Initiative launched by the Minister of Finance in March 2012 and its objectives to increase awareness on consumers' rights and increased knowledge of financial products, services and institutions.

A comprehensive Bank Windhoek Corporate Social Investment (CSI) Report for the period ending 30 June 2013 can be downloaded from the bank's website at www.bankwindhoek.com.na.

In delivering increased shareholder value, Bank Windhoek has identified the following strategic drivers for the ensuing years:

- controlled growth in assets;·
- capital management;
- investment in technology and innovation;
- diversification of income streams; and
- focused cost efficiency programmes.

The bank will continue to invest in capacity to support future growth and expansion of business activities.

Overview of other subsidiaries and associates

Welwitschia Nammic Insurance Brokers (WNIB)

WNIB is a short-term insurance broker and a wholly owned subsidiary of Bank Windhoek Holdings and contributed 1% of the profit after tax of Bank Windhoek Holdings during the financial year ending 30 June 2013.

Despite difficult market conditions, WNIB managed to grow its profit after tax by 13.4% to N$4.6 million. Whilst non-brokerage income remained under pressure, WNIB reported a 13.3% year on year growth in its core brokerage income.

WNIB is well established in the local insurance market and one of the biggest short-term insurance brokers in Namibia, working with all the major underwriters locally as well as offshore insurers, in order to negotiate competitive cover for clients. WNIB has a sound reputation for offering good client service and has the biggest national footprint with a branch network of 11 branches across Namibia.

During the year under review, WNIB adopted some innovations to enhance its business operations and to stay abreast of the changes in the technological environment. A new brokerage system has recently been implemented and will have a positive impact on client service delivery.

Namib Bou

Namib Bou, a subsidiary of Bank Windhoek Holdings, is a property development company focusing on affordable housing development.

Namib Bou incurred a loss of N$1.3 million (2012: profit of N$4.7 million) for the year under review. This was primarily driven by the startup cost of a major housing development project.

During the year under review, Namib Bou continued to act as facilitator between the local authorities and financial institutions (commercial banks) with the objective to contribute to sufficient housing stock over a long-term to assist with meeting the housing backlog in Namibia. This function entails the full spectrum from urban development and design and the installation of services, through to the final delivery of a home to a client.

Santam Namibia

Bank Windhoek Holdings holds a 28.0% shareholding in Santam Namibia, a leader in the short-term insurance industry in Namibia with net assets totalling more than N$200 million. Santam Namibia boasts a country-wide infrastructure, a strong intermediary network and a market share exceeding 30%.

Santam Namibia expects to grow its written premiums during the 2013 financial year through a combined effect of inflationary premium increases, growth in market share and additional growth in the currently uninsured entry level market. Modest profit growth will be driven by minimising claims incurred through controlled underwriting actions and an optimised reinsurance programme.

Sanlam Namibia Holdings

Bank Windhoek Holdings holds a 29.5% shareholding in Sanlam Namibia Holdings, a leader in the life insurance industry in Namibia. Sanlam Namibia Holdings is a well-diversified financial services group. All operations performed well during the year under review with exceptional performances in the entry level and credit life businesses. Sanlam Namibia Holdings far exceeded its value of new business targets.

The key focus for Sanlam Namibia Holdings in 2013 / 2014 is to continue the strong new business growth through growing market share and its sales footprint and to maintain current high market share in the investment businesses.

Outlook for Bank Windhoek Holdings for the 2013 / 2014 year

To streamline the operational structure of the Bank Windhoek Holdings group, a program has commenced to revisit the operating model to ensure quality of support through a shared services model.

Investor relations, as a means to facilitate effective communication and relationships with our shareholders, will remain a high priority.

We look forward to an exciting future for the Bank Windhoek Holdings group as we continue our quest to create lasting value for our shareholders whilst fulfilling our role as a responsible citizen and partner in the development and growth of Namibia. With our committed staff, our loyal clients, the support of our shareholders and other stakeholders, we remain confident that the year ahead will be characterised by continuous growth and prosperity for the group and all its stakeholders.

We remain mindful of the foundation on which the group was built, namely integrity, entrepreneurship, commitment, hard work, perseverance and dedication. The entrenchment of our service values will remain a strong focus, as we believe that in the competitive environment in which we operate, it is often the level of service excellence that differentiates us from the rest.

Christo de Vries
Managing Director

Risk and compliance report

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1. Risk governance and reporting

1.1 Overview

Following the global events of recent years, risk management is a discipline at the core of the group and encompasses all the activities that affect the group's risk profile. Risk management as commonly perceived does not mean minimising risk; the goal of risk management is rather to optimise the risk reward trade-off for the Bank Windhoek Holdings Limited group ('the group'). The group therefore continues to strengthen its commitment to manage risks.

Risk management and compliance is a strategic objective of the group. Linked to this strategic objective is the group risk, internal control and assurance framework (GRICAF), which provides an integrated risk management framework for proactive risk management.

The main objectives of the GRICAF are to:

1. effectively utilise risk management resources in the group and its subsidiaries;
2. assist with the achievement of strategic objectives;
3. establish accountability for risk management;
4. manage expected risk exposure within acceptable risk appetite through the risk capacity, appetite and tolerance (RCAT) statement and thresholds;
5. establish standard risk management principles and processes;
6. ensure that risks are understood and managed; and
7. reduce the cost of risk management.

The responsibility for risk management resides at all levels of the group; from the board and committees of the board to each employee.

1.2 Governance structure

The main purpose of the principal risk profile reporting by principal risk owners is to review and challenge the adequacy and performance of individual principal risk profiles and internal control frameworks (as defined by their framework policies). The following diagram illustrates the GRICAF governance structure:

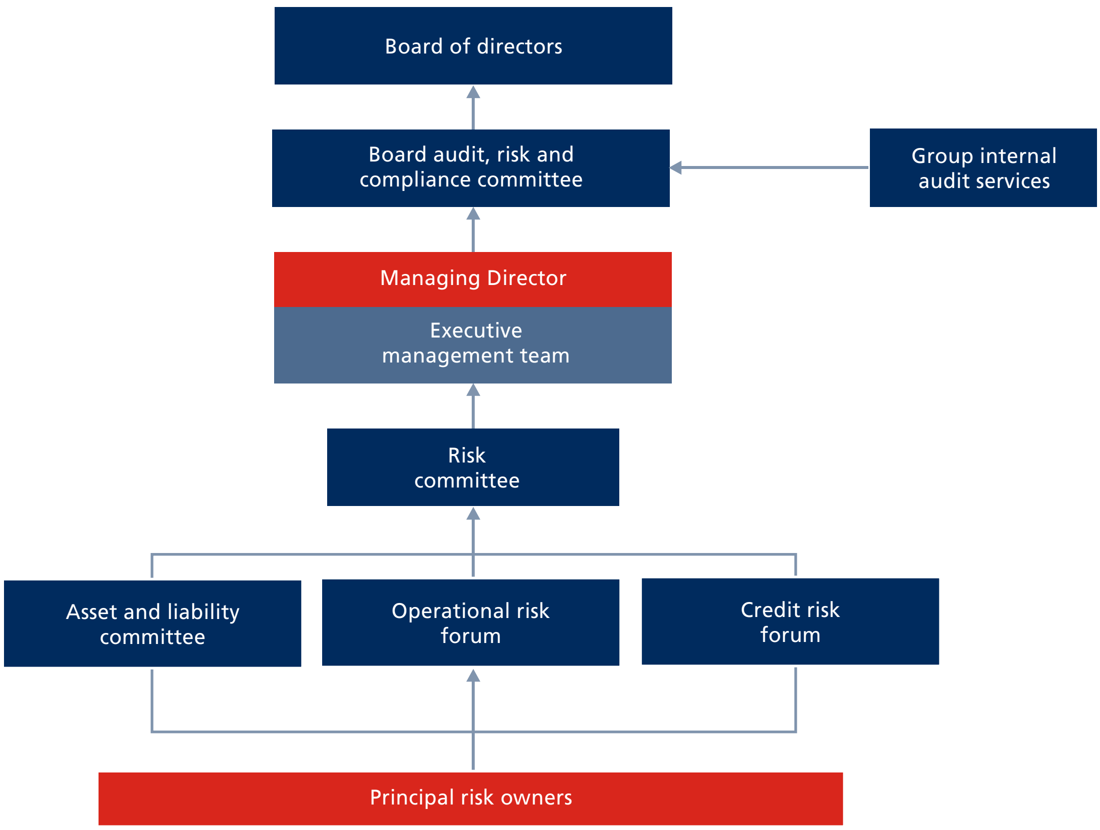

Figure 1: Governance structure reporting lines

Board of directors
Governed by the board charter, the board is ultimately accountable for the risk management process. For this reason, the GRICAF is a board-approved framework that aims to assist the board in discharging its duties in terms of risk management and compliance.

Board audit risk and compliance committee (BARC)
Due to its wide range of oversight responsibilities, the board delegates its duties and responsibilities in terms of risk management, assurance and compliance to the BARC.

Executive management team (EMT)
The EMT is responsible for operational oversight and makes the day-to-day decisions that enable the company to function. This includes overseeing the development, implementation, monitoring and reporting on the risk management process approved by the BARC.

Risk committee
The Risk committee is chaired by the Executive officer: Risk and compliance and oversees the development, implementation, monitoring and reporting of the GRICAF. It monitors the performance of the principal risk management framework and operational risk management framework in order to identify weaknesses and the remediation necessary to rectify them.

The risk committee reviews and challenges the risk capacity, appetite and tolerance (RCAT) statement of the company before recommending it to the EMT.

Credit risk forum (CRF), Operational risk forum (ORF) and Asset and liability committee (ALCO)
The CRF and ORF do not possess decision-making powers. Their primary role is to review and challenge principal risk profile reports before recommending the reports to the Risk committee.

The ALCO serves a dual purpose: it reviews and challenges the principal risk profiles for market, liquidity and capital risks; and oversees the asset and liability management strategy of the company.

Principal risk owners (PROs)
PROs have the responsibility of the effective implementation of the principle risk management frameworks.

1.3 Group risk, internal control and assurance framework (GRICAF) process
The GRICAF establishes the structures, policies, guidelines, processes, procedures, systems and tools which collectively form the group's risk management process. The GRICAF is divided into two primary components, namely the:
1. principal risk management framework; and
2. operational risk management framework.

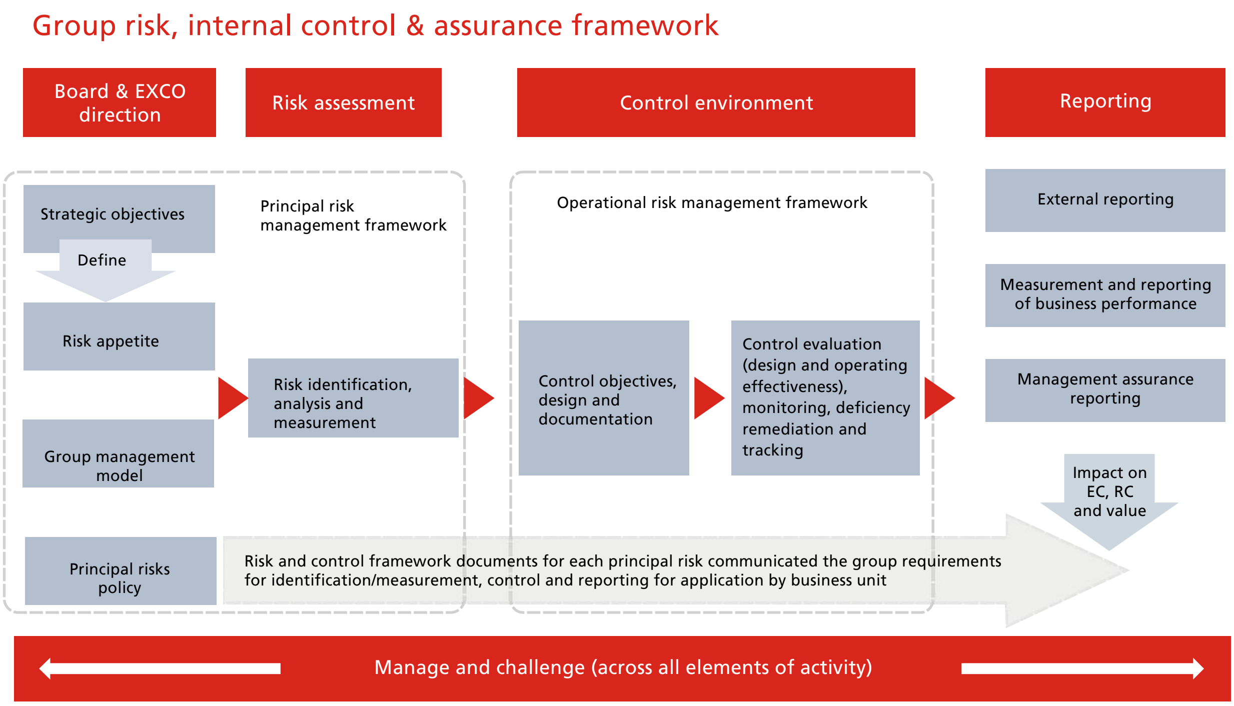

Diagram 1: High-level organisation and flow of the GRICAF

The following 13 principal risks are managed by the group through the GRICAF:

1. Strategic risk
2. Capital risk
3. Liquidity risk
4. Credit risk
5. Market risk
6. Compliance risk
7. Operations risk
8. Technology risk
9. People risk
10. Finance and tax risk
11. Legal risk
12. Financial crime risk
13. Reputation risk

All principle risks, as defined below, are addressed at relevant governance forms.

1.3.1 Credit risk

The credit risk profile is addressed in detail at the Credit risk forum. For a definition of credit risk and an overview of the credit risk management approach, refer to section 3.

1.3.2 Market risk, liquidity risk and capital risk

The market risk, liquidity risk and capital risk profiles are addressed in detail at the Asset and liability committee. For the definitions and overview of the management approaches of market risk and liquidity risk, refer to sections 4 (Market risk) and 5 (Liquidity risk).

Capital risk is the risk that the group's total capital base is not properly managed in a prudent manner, or the risk of failure to comply with regulators' mandate requirements. Refer to note 3.6 of the consolidated annual financial statements.

1.3.3 Remaining principal risks

The remaining principal risk profiles are addressed in detail at the Operational risk forum and are managed in terms of the operational risk management framework.

- **Strategic risk** is the risk that the achievement of the group's business objectives will be adversely affected by defective strategic planning.

- **Compliance risk** is the risk of failure to comply with applicable financial services rules and regulations exposing the group to penalties and reputational damage.

- **Operations risk** is the risk of failure to deliver the intended outcome with respect to customers, products and services, facilities, data, processes, business continuity and physical security.

- **Technology risk** is the risk that the strategic technology investment is not aligned to the bank's vision or business strategy, or catastrophic failure of technology to deliver secure IT services which provide critical business services.

- **People risk** is the risk of failure to achieve the group's business objectives through problems which may arise through people issues.

- **Finance and tax risk** is the risk of failure to monitor and report on statutory financial requirements in line with the group's requirements.

- **Legal risk** is the risk of exposure of the group to legal risk arising from business not conducted in accordance with applicable laws or contractual obligations.

- **Financial crime risk** is the risk of fraud or dishonesty, misconduct in or the misuse of information relating to a financial market, handling the proceeds of crime or the financing of terrorism. Financial crimes may involve fraud; theft; scams or confidence tricks; tax evasion; bribery; embezzlement; identity theft; forgery and counterfeiting; computer crime; burglary; and armed robbery.

- **Reputation risk** is the risk of failure to understand, identify or subsequently manage occurrences that could negatively impact the group's reputation.

2. Operational risk

2.1 Overview

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human error or from external events. Operational risk is integrated into the day-to-day operations of the group and it is therefore impossible to completely eliminate the group's exposure to operational risk.

Operational risk is managed in terms of the operational risk management framework. Within the operational risk management framework, qualitative and quantitative tools are applied to identify and assess operational risks and to manage the mitigation of identified control weaknesses.

2.2 Operational risk framework objectives

The operational risk management strategy supports the GRICAF through global best practices which are aligned with the standardised approach to operational risk management under BASEL II. During this financial year the focus has been on the enhancement of existing practices for risk identification, risk appetite setting and monitoring through key risk indicators and risk event reporting.

2.3 Approach to operational risk

The operational risk management framework establishes the operational infrastructure that enables principal risk owners to collect, interpret and conclude on risk data, thereby discharging their responsibilities in terms of the principal risk management framework. The following is a high-level illustration of the components of the operational risk management framework:

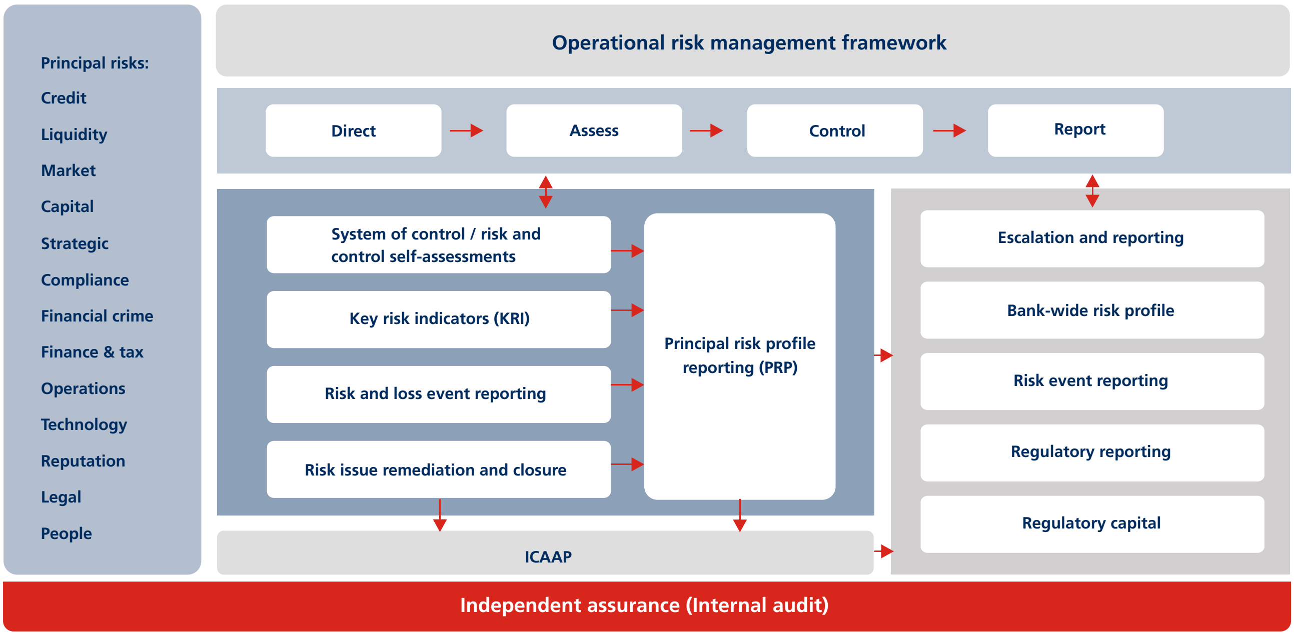

Diagram 2: High-level flow of the operational risk management framework

2.3.1 Risk and control self-assessments (RCSAs)

As part of the systems of control developed for every principal risk, a number of internal controls are identified and documented. The aim of the RCSA process is for management to assess the design and operation of these controls in order to determine if they are functioning effectively or not and to perform the semi-annual risk attestation process.

For an internal control to be effective, evidence must exist that supports this conclusion.

2.3.2 Key risk indictors (KRIs)

KRIs are quantitative measurements specifically used for:

1. measuring risk exposure (via the RCAT statement and thresholds); and
2. assessing the effectiveness of internal controls.

A KRI is rated in terms of tolerance levels approved as part of the risk framework policies. RCSAs and KRIs complement each other and are not assessed in isolation.

2.3.3 Risk and loss event reporting

Losses are included in risk reports on a monthly basis through the collection of information from business units.

Although loss events are the result of historical events, an analysis of repeating losses and trends allows for the identification of potential expected or unexpected future losses.

2.3.4 Risk issue remediation and closure process

The process records, tracks and reports on the group's performance in terms of resolving risk issues raised by risk service providers such as internal and external audit, management assurance services, the Bank of Namibia and other regulators.

The results of the issue closure process are incorporated in principal risk profile reports on a semi-annual basis. This allows principal risk owners to take risk issue remediation performance into account when the effectiveness of the internal control framework is assessed.

2.4 Operational risk reporting

The prime responsibility for the management of operational risk rests with the business units where the risk arises. These governance structures are described in section 1.2.

2.5 Risk capacity, appetite and tolerance (RCAT)

The RCAT statement reflects the group's capacity, appetite and tolerance for risk. The RCAT is approved annually by the board and regularly reviewed and reported to the Risk committee, EMT and the BARC.

The RCAT statement is a collection of quantitative variables represented as KRIs with assigned levels of tolerance.

2.6 Basel II standardised approach

As required by the Bank of Namibia, the standardised approach under Basel II to calculate operational risk capital is applied.

3. Credit risk

3.1 Overview

Credit risk is expressed as the risk that a borrower or counterparty will fail to meet an obligation when it falls due, and is inherent to Bank Windhoek's business activities. The realisation of credit risk can cause a considerable loss in revenue as well as a decline in the total asset value when assets are categorised as non-performing.

The aim of credit risk management is to maximise the bank's risk adjusted rate of return by maintaining credit risk exposures within acceptable parameters. Bank Windhoek recognises that the effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to its long-term success.

3.1.1 Bank of Namibia requirements for credit risk

The Bank of Namibia requires commercial banks in Namibia to comply with the standardised approach for credit risk management under Basel II. The regulatory capital is based on the net counterparty exposures after recognising a limited set of qualifying collateral. The prescribed risk weightings are used, as set out by the Bank of Namibia, according to the perceived credit rating of the counterparty.

3.2 Credit risk management

Credit risk management and all credit activities are governed and guided by the credit risk framework policy, which is founded on the Bank of Namibia requirements as well as industry best practices.

Various risk mitigation techniques are used by Bank Windhoek. These include collateral, external credit enhancements, policies, letters of credit and corporate guarantees. The bank has a decentralised approach to loan approvals, allocating mandates throughout the organisation for approving loans.

Through the Credit risk forum (CRF), the governance structures and the attestation process, the credit risk framework is evaluated and the credit risk profile is quantified and evaluated.

3.2.1 Collateral policy

A collateral policy exists as part of the policies for each specific loan type. The collateral is specific to the loan given and will be individually determined in each case. The collateral as well as the valuation of collateral is governed as set out in the collateral policy and as regulated by the Bank of Namibia.

3.2.2 Country risk

Country limits are set to restrict Bank Windhoek's exposure to any one country for its cross-border transactions. The country risk is governed by the country ratings as determined by Fitch and the limit is set according to these ratings.

Facilities of banks, brokers and other institutions are intended to limit the bank's exposure in dealings with one institution. Such facilities reflect the degree of risk assigned to individual instruments traded or the particular product or service offered.

3.2.3 Provisions and impairments

The definitions for impairments and past-due accounts, as well as the calculations for provision for bad debts are set out in the Bank of Namibia determination BID 2, 'Determination on asset classification, suspension of interest and provisioning'.

Loan accounts of customers are classified into one of the following classes: 'Pass', 'watch / special mention', 'substandard', 'doubtful' or 'loss' according to the number of days in arrears. The provision for doubtful debts is determined according to the class in which the account falls. General provisions are provided on the accounts that are classified 'substandard' and 'doubtful', as specified by the BID 2 regulations and set out in the credit risk policies. The purpose of the general provision is to build up reserves. A certain percentage of the bank's total financing assets are created as a general provision (the minimum percentage is prescribed by the Bank of Namibia). Specific provisions are created against accounts already classified as 'substandard', 'doubtful' or 'loss'. The specific provisions are made on the outstanding amount less the realisable value of security.

The bank follows a conservative approach and proactively identifies active accounts which have problem indicators to manage the accounts through special mention reports and raise applicable provisions beforehand.

3.2.4 Concentration

The measurement and management of concentration risk is enabled through portfolio analysis of the product, region and sectoral dimensions of the credit book.

3.2.4.1 Product breakdown

The loans and advances of Bank Windhoek Holdings are classified into different classes as follows:

- **Article finance:** This includes instalment sales agreements, suspensive sales agreements, leases, standard rentals, floor plan and small and medium enterprise (SME) loans.
- **Mortgage loans:** This includes housing loans, Selekt bonds, housing schemes, farm bonds, staff housing loans, commercial bonds, individual building loans, commercial building loans, micro housing loans, staff bonds, low income housing loans and industrial bonds.
- **Instalment loans:** This includes term loans, study loans and SME loans.
- **Commercial loans:** This includes commercial loans, SME loans and structured finance loans.
- **Cheque overdrafts:** All the cheque overdrafts.
- **Microloans:** This includes microloans and government microloans.

The advances book is analysed in terms of these products in order to determine concentrations risks in the various products of the bank.

4. Market risk

4.1 Overview

Market risk is the exposure to adverse changes in the price or value of an instrument traded or held as an investment. Where market risk is a factor the practice of marking to market on a regular basis is an important discipline.

The main types of market risks that Bank Windhoek is exposed to are as follows:

- **Interest rate risk:** The risk of loss resulting in fluctuations in interest rates and the yield curve.
- **Foreign exchange risk:** The risk that arises from fluctuations in the currency market.
- **Equity risk:** The risk of losses resulting from changes in the levels of equity indices and values of individual stock.

4.2 Policy and governance

The market risk framework policy sets out the governance, controls, policies, guidance and procedures for market risk management within the bank. The policy provides a high-level overview of how market risk will be managed.

The effective management of market risk is primarily the responsibility of ALCO. ALCO is responsible for the control, direction and setting of strategies for Bank Windhoek's day-to-day management of assets and liabilities in order to maximise the net interest margin and net interest income.

4.3 Interest rate risk

To protect Bank Windhoek from fluctuations in market interest rates, the bank matches the interest sensitivities of its assets and liabilities. Bank Windhoek's statement of financial position is divided into two broad types of interest rate sensitive assets and liabilities (fixed and floating rates) and interest rate profiles are aligned to match each statement of financial position item to the appropriate benchmark.

4.4 Foreign exchange risk

Bank Windhoek is a participant in the foreign currency market and its activities are governed by relevant policies. These policies specify the limits in terms of transaction exposures, dealer exposures and overall currency and total exposure positions. These impose allowable limits on open positions (and stop losses) that dealers should proactively adhere to.

5. Liquidity risk

5.1 Overview

Liquidity must at all times be sufficient to meet current obligations, both on- and off-balance sheet, as they become due, while at the same time attempting to minimise the cost of obtaining funding.

Liquidity risk is the potential risk that Bank Windhoek will be unable to meet its obligations as they become due because of an inability to:

- liquidate assets quickly enough or without incurring excessive costs;
- obtain adequate funding without incurring excessive additional costs; or
- unwind or offset specific exposures without significantly lowering market prices as a result of inadequate market depth or market disruptions.

Liquidity risk is inherent in Bank Windhoek's business endeavours and represents the ability of the bank to fund increases in assets and meet its financial obligations in a timely manner as they become due without incurring excessive costs, while complying with all statutory and regulatory requirements. Failure to meet depositor withdrawal requirements, general creditor expenses, or if the bank is forced to significantly limit new lending may hamper investor / public / shareholder confidence.

Guided by its liquidity risk framework policy, Bank Windhoek is required to manage current and future liquidity positions in a prudent manner. The objectives of the policy are listed in 5.2 – 5.5:

5.2 Liquidity risk appetite

The liquidity risk appetite is established according to the RCAT statement, which is approved by the BARC.

Breaches of risk appetites and tolerance levels are reported to ALCO, the Risk committee, EMT and BARC.

5.3 Approach to liquidity risk management

The liquidity risk management process is guided by the liquidity risk framework policy. The establishment, review and implementation of the policy fall under the responsibility of the board and management. Bank Windhoek must strive to:

- hold an adequate liquid asset surplus; and
- have additional credit lines

to adequately cater for unexpected outflows, while simultaneously limiting the effect this surplus has on interest margins.

Methods are used to enhance liquidity risk management by assessing current and future liquidity risk, analysing trends to forecast and provide proactive solutions and determine the impact such situation may have on capital and profitability of the bank include:

- scenario analyses;
- stress testing;
- concentration risk; and
- trend analyses.

The liquidity risk framework is managed by the following identified variables:

- level of understanding of demand and supply;
- level of adequacy of ability to access funding (established lines of funding) and relationships with depositors;
- size of mismatch between demand and supply;
- effectiveness of asset and liability management (ALM);
- level of availability and reliability of information; and
- level of skills and resources.

5.4 Liquidity risk control

All forms of significant liquidity risks and liquidity triggers have been identified that can have an impact on the liquidity position of Bank Windhoek.

Certain events and circumstances may indicate an increase / decrease in liquidity risk. Bank Windhoek must proactively evaluate and consider an array of triggers and identify new ones that may provide more accurate feedback.

5.5 Funding strategy

The bank at all times aims to hold an adequate liquid surplus, which includes a buffer portion additional to credit lines and an adequate surplus to cater for unexpected outflows, while simultaneously limiting the effect this surplus has on interest margins. The bank's funding strategy is divided into the following substrategies:

- Short-term liquidity strategy
- Preventative funding strategy
- Medium to long-term funding strategy
- Contingency funding plan (CFP).

6. Compliance

6.1 Overview

As a leading financial services institution, the group faces complex challenges in ensuring its activities comply with not only local laws, regulations and supervisory requirements but also with the relevant international requirements applicable to the group. In this regard, the board requires that the compliance risks associated with the group's business activities are clearly directed, assessed, challenged, managed, controlled and reported on, as required by the regulators and international standards.

Compliance risk is inherent in the group's business endeavours and represents the risk that non-adherence to regulatory requirements and expectations of key stakeholders can expose the group to fines, civil claims, loss of authorisation to operate and an inability to enforce contracts, as well as reputational damage.

6.2 Approach to compliance

The responsibility to facilitate compliance risk management throughout the group has been assigned to the Chief compliance officer who manages the compliance function. The compliance function identifies, assesses, advises, monitors and reports on the regulatory risk of the group and also legal risk in terms of the potential impact of changes in laws and regulations. The management of regulatory risk forms part of the overall risk management framework of the group.

The compliance function consists of general compliance and money laundering compliance and the methodology followed by the compliance function has been developed and benchmarked against industry and international best practice.

6.3 Key activities of general compliance

The key activities undertaken by general compliance to support the directors, executive officers, management and employees in discharging the relevant compliance responsibilities include the following:

- Compliance system of control: The compliance risk management framework sets out the minimum requirements for the management and control of compliance risk within the bank and is applicable across business units / branches.
- Compliance risk identification, assessment and prioritisation: The compliance risks, once assessed, are consolidated into a regulatory risk profile. The regulatory risk profile is reviewed and updated at least annually as and when new regulatory requirements are introduced to ensure any possible risk of non-compliance with applicable laws, regulations and supervisory requirements are addressed.
- Compliance risk management: Compliance risk management plans serve as a management tool, outlining the compliance risks that the business units or support functions are exposed to and controls implemented to manage and mitigate those risks.
- Compliance risk monitoring: Compliance risks are monitored and tracked by various parties, including regulators, internal audit and management. No financial penalties, regulatory censure or public reprimands were imposed on the group during the 2013 financial year.
- Compliance risk reporting: Compliance reports are submitted to governance committees attended by directors, executive officers and management.
- Awareness and training: Steps are taken to advise employees and to train them on aspects of relevant regulatory requirements.

6.4 Key activities undertaken by money laundering compliance

The key activities undertaken by money laundering compliance to support the directors, executive officers, management and employees in discharging their responsibilities in respect of the risk of money laundering and terrorist financing include the following:

- Governance and oversight: Money laundering compliance set policies and provided guidance and training relating to anti-money laundering and anti-terrorist financing regulatory requirements.
- Customer and payment screening: The customer monitoring systems ensured that the risk of entering into a relationship with a sanctioned person is low.
- Reporting: Money laundering compliance reports are submitted to the various governance forums, and if required, to the regulators.

Group annual financial statements

for the year ended 30 June 2013

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STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

for the year ended 30 June 2013

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

To enable the directors to meet these responsibilities:

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

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

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

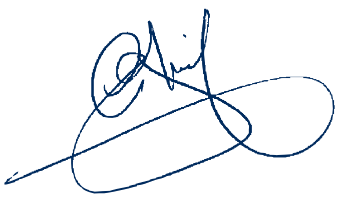
The financial statements presented on pages 37 to 131 have been prepared in accordance with the provisions of the Namibian Companies Act and comply with International Financial Reporting Standards (IFRS).

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

The financial statements have been audited by the independent auditing firm, PricewaterhouseCoopers, who was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditor during the audit were valid and appropriate. The independent auditor's report is presented on page 36.

The financial statements, set out on pages 37 to 131, were authorised and approved for issue by the board of directors on 11 September 2013 and are signed on their behalf:

J C Brandt
Chairman



C P de Vries
Managing Director

CORPORATE GOVERNANCE STATEMENT

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

The board and its subcommittees are responsible for ensuring the appropriate application of governance practices and principles contained in the King Report on Corporate Governance (King II). The board believes that, to the best of its knowledge, the group complies with the principles contained in King II. The board manages corporate governance through the Board, audit, risk and compliance committee, which monitors the group's compliance with relevant corporate governance principles and reports any findings directly to the board.

1. Board of directors

The board plays a pivotal role in the group's corporate governance system. An overriding principle with regard to the board's deliberations and approach to corporate governance is that of intellectual honesty.

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

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

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

Board leadership and composition
The board should provide leadership and vision to the group in a way that will enhance share owner value and ensure long-term sustainable development and growth.

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

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

The size of the board is dictated by the company's articles of association which requires a minimum of five directors. Currently, eleven members constitute the board at group level, with one executive director and five independent non-executive directors.

Board committees and attendance at meetings
The meeting programme is approved by the board annually and there should be no less than four meetings per year. The board as a whole remains responsible for the operations of the group, but in order to assist in discharging its responsibilities, it delegates certain functions to subcommittees established by the board. All committees act within agreed, written terms of reference and are chaired by a non-executive director. The attendance at meetings during the financial year was as follows:

CORPORATE GOVERNANCE STATEMENT (continued)

Board committees and attendance at meetings (continued)

Director	Category	Appointed during the year	Board of directors	Board audit committee
			Seven meetings held during the year	One meeting held during the year
J C Brandt	Non-executive		5 Chair	
J J Swanepoel	Non-executive		7	1 Chair
C P de Vries	Executive		7	
K B Black	Independent non-executive		6	1
J M Shaetonhodi	Non-executive		6	1
G Nakazibwe-Sekandi	Non-executive		6	1
M K Shikongo	Independent non-executive		7	1
M J Prinsloo	Non-executive	4 March 2013	1	
E M Schimming-Chase	Independent non-executive	4 March 2013	2	
E Knouwds	Independent non-executive	28 March 2013	2	
F J du Toit	Independent non-executive	28 March 2013	2	

Board members are required to observe the requirements of Section 242 of the Companies Act dealing with disclosures of interests and, where appropriate, board members should recuse themselves from discussions or decisions on matters of potential conflict, unless resolved otherwise by the chairman or by the remaining members of the board. No conflicts of interests were observed during the reporting period.

Appointments

Procedures for appointments to the board are formal and transparent. Members of the board are recommended by the CIH Group Board Nominations and Remuneration Committee (Remco) which receives its mandate from the board of Bank Windhoek Holdings Ltd. Remco is chaired by Mr F J du Toit, an independent non-executive director, and the majority of members are non-executive.

New board members will only hold office until the next annual general meeting at which time they will retire and become available for re-election. Executive directors will be engaged on employment contracts, subject to short-term notice periods, unless longer periods are approved by the board.

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

Access to independent advice

The company secretary is available to provide assistance and information on governance and corporate administration to the directors as appropriate. The directors may also seek advice on such matters, or on other business-related matters, directly from independent professional advisors should they so wish. This is in addition to the advice provided by independent advisors to the committees of the board. No requests for external professional advice were received during the year.

2. Internal control

The group maintains systems of internal control over financial reporting and over the safeguarding of assets against unauthorised acquisition, use or disposition. These are designed to provide reasonable assurance to the group and each subsidiary's management and board of directors regarding the preparation of reliable published financial statements and the safeguarding of the group's assets. An approved business continuity plan (BCP) is in place which is tested annually. The directors representing Bank Windhoek Holdings Ltd on the boards of entities over which Bank Windhoek Holdings Ltd does not have control, and which are not included in the BCP, will seek assurance that significant risks pertaining to these entities are managed and any system of internal control is operating effectively.

CORPORATE GOVERNANCE STATEMENT (continued)

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

The independent internal audit function is an independent and objective review and consulting function created to add value and improve systems of internal control. It helps the group to accomplish its objectives by systematically reviewing current processes, using a disciplined approach to establish the appropriateness of controls, the risk management process, the management control process and the governance process.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable, and not absolute, assurance with respect to financial statement preparation and the safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances.

The group assesses its internal control systems on a continuous basis in relation to effective internal control over financial reporting. Based on its assessment, the group believes that, as at 30 June 2013 its systems of internal control over financial reporting and over safeguarding of assets against unauthorised acquisitions, use or disposition, were adequate.

3. External auditor

The external audit policy, as approved by the BARC, governs the work performed by the external auditor, both from an audit and non-audit perspective. The BARC approved the external auditor's terms of engagement, scope of work, as well as the 2013 annual audit and agreed on the applicable levels of materiality. Based on written reports submitted, the committee reviewed, with the external auditor, the findings of their work and confirmed that all significant matters had been satisfactorily resolved.

The committee has also assessed the external auditor's independence and has concluded that the external auditor's independence was not impaired during the reporting period and up to the date of signing of the consolidated financial statements.

Non-audit services received and fees paid during the financial year are as follows:

	Type of non-audit service	Fees paid (excl. VAT) N$'000
PricewaterhouseCoopers	Bank Windhoek Holdings Ltd listing fee	1,240
	Total	1,240

It is the external auditor's responsibility to report on whether the financial statements are fairly presented in all material respects in accordance with the applicable frameworks and their audit opinion is included on page 36.

4. Code of ethics

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

INDEPENDENT AUDITOR'S REPORT

to the members of Bank Windhoek Holdings Limited

We have audited the group annual financial statements and annual financial statements of Bank Windhoek Holdings Ltd, which comprise the consolidated and separate statements of financial position as at 30 June 2013, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the directors' report, as set out on pages 37 to 131.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Bank Windhoek Holdings Ltd as at 30 June 2013, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and requirements of the Companies Act of Namibia.

PricewaterhouseCoopers
Registered Accountants and Auditors
Chartered Accountants (Namibia)
Per: Louis van der Riet
Partner

Windhoek
11 September 2013

DIRECTORS' REPORT

for the year ended 30 June 2013

The directors herewith submit their report with the annual financial statements of the company (Bank Windhoek Holdings Ltd) and the group for the year ended 30 June 2013.

1. General review

Bank Windhoek Holdings Ltd is a Namibian registered investment holding company and has been listed on the Namibian Stock Exchange (NSX) since 20 June 2013. Its investments comprise 100% shareholdings in Bank Windhoek Ltd, Namib Bou (Pty) Ltd and Welwitschia Nammic Insurance Brokers (Pty) Ltd, all unlisted entities. The company has 29.5% shareholding in Sanlam Namibia Holdings (Pty) Ltd and 28% in Santam Namibia Ltd.

2. Business activities

The following business activities are conducted through the company's subsidiaries and associates:

Subsidiaries:

- Bank Windhoek Ltd
  – *Banking*
- Welwitschia Nammic Insurance Brokers (Pty) Ltd
  – *Insurance broking*
- Namib Bou (Pty) Ltd
  – *Property development*
- BWH Group Employee Share Ownership Trust
  – *Special purpose entity for share incentive scheme*
- BWH Group Employee Share Benefit Trust
  – *Special purpose entity for share incentive scheme*

Subsidiaries of Bank Windhoek Ltd:

- Bank Windhoek Nominees (Pty) Ltd
  – *Custodian of third party investments*
- Intellect Investments Namibia (Pty) Ltd
  – *Proprietor of Bank Windhoek trademark*
- BW Finance (Pty) Ltd
  – *Micro lending*
- Bank Windhoek Properties (Pty) Ltd
  – *Property investment*

Associates:

- Sanlam Namibia Holdings (Pty) Ltd
  – *Long-term insurance*
- Santam Namibia Ltd
  – *Short-term Insurance*

Registered address of Bank Windhoek Holdings Ltd:

5th floor
CIH House
Kasino Street
Windhoek
Namibia

Company registration number: 96/300

Country of incorporation:

Republic of Namibia

3. Financial results and dividends

The directors report that the group's net profit after taxation from the above business activities for the year ended 30 June 2013 amounted to:

	2013 N$'000	2012 N$'000
Profit for the year	493,271	402,611

Normal dividends of N$149.5 million (2012: N$113.3 million) were declared and paid during the year under review. Refer to note 37 for details on dividends per share.

Full details of the financial results of the company and the group are set out on pages 43 to131.

4. Share capital

4.1 Ordinary shares

The company was incorporated with an authorised ordinary share capital of 150,000,000 ordinary shares with a par value of 10 cents per share. The ordinary shares were authorised in 2008. On 2 April 2013 the company split every authorised ordinary share of 10 cents each into four ordinary shares of 2.5 cents each. As part of the listing Bank Windhoek Holdings Ltd issued 41,280,000 new ordinary shares.

For full details on the changes to issued ordinary share capital refer to note 32.

4.2 Preference shares

The company had 1,000,000 preference shares of 1 cent each that were authorised in 2008.

DIRECTORS' REPORT (continued)

for the year ended 30 June 2013

4.2 Preference shares (continued)

For full details on the issued preference share capital and the change to issued preference share capital refer to note 26.

4.3 Share analysis – ordinary shares

The following shareholders have a beneficial interest of five percent or more of the issued ordinary shares of the company at year-end:

	2013	2012
Capricorn Investment Holdings Ltd	57.6%	72.1%
Nam-mic Financial Services Holdings (Pty) Ltd	9.6%	10.5%
Namibia Strategic Investments (Pty) Ltd	7.4%	7.6%

4.4 Share analysis – preference shares

Bank Windhoek Corporate Fund	46.7%	50.0%
Bank Windhoek Selekt Fund	36.7%	50.0%
Santam Namibia Ltd	16.6%	-

4.5 Share trusts

With effect from 12 June 2013, the BWH Group Employee Share Ownership Trust and the BWH Group Employee Share Benefit Trust are under the control of Bank Windhoek Holdings Ltd. Before the effective date, the share trusts were controlled by Capricorn Investment Holdings Ltd, Bank Windhoek Holdings Ltd's ultimate holding company.

The BWH Group Employee Share Benefit Trust is intended as an incentive to employees on lower job levels to promote the continued growth of the group by giving them an opportunity to share in dividends distributed by the company.

The BWH Group Employee Share Ownership Trust has the following attributes:

- Employees are granted a limited right to purchase Bank Windhoek Holdings shares once a year in September.
- The job level of the employee determines the maximum number of shares that the employee may purchase.
- The purchase price is the lower of the ruling listed price and the volume weighted average price of a share as reported on the NSX over the preceding twelve months.
- Participants are granted an interest-free loan repayable over 9 years to finance the acquisition.
- Participants can only freely trade shares acquired from the trust after settlement of the interest free loan and after a minimum holding period.
- Where employment is terminated within such minimum holding period, the trust has an option to re-acquire the shares at original price.
- The shares can be sold, (should the portion of the loan be repaid for shares purchased on interest-free loan), as per the following conditions:
  - one-third of the shares can be sold after a minimum period of three years from grant date;
  - the second third of the shares can be sold after a period of four years from grant date; and
  - the last third of the shares can be sold after a period of five years from grant date.

Details of share-based payment charges relating to shares issued by the trusts to group employees in terms of IFRS 2: Share-based payments are reflected in note 34 to the annual financial statements.

DIRECTORS' REPORT (continued)

for the year ended 30 June 2013

4.6 Directors' interest in Bank Windhoek Holdings Ltd

For details of the directors' holdings in the issued ordinary shares of Bank Windhoek Holdings Ltd refer to note 41.10 to the annual financial statements.

5. Subsidiaries

	Issued ordinary share capital and premium and proportion held		Number of shares held	Details of the company's interests: Shares at cost		Indebtedness to / (from) subsidiaries	
	N$ '000	%	'000	2013 N$ '000	2012 N$ '000	2013 N$ '000	2012 N$ '000
The following information relates to the company's financial interests in its unlisted subsidiaries:							
Subsidiaries of Bank Windhoek Holdings Ltd							
Bank Windhoek Ltd	485,000	100	4,920	520,439	198,944	-	(240)
Welwitschia Nammic Insurance Brokers (Pty) Ltd	1,300	100	0.31	8,847	8,847	-	-
Namib Bou (Pty) Ltd	23,000	100	600	23,000	23,000	-	-
				552,286	230,791	-	(240)
Subsidiaries of Bank Windhoek Ltd							
Bank Windhoek Nominees (Pty) Ltd	0.1	100	0.1				
Intellect Investments Namibia (Pty) Ltd	3,000	100	1				
BW Finance (Pty) Ltd	0.1	100	0.1				
Bank Windhoek Properties (Pty) Ltd	1	100	1				

All subsidiaries are registered in Namibia and have 30 June financial year-ends. Aggregate profits of subsidiaries are set out in note 20 to the annual financial statements.

DIRECTORS' REPORT (continued)

for the year ended 30 June 2013

6. Associates

	Issued ordinary share capital and premium and proportion held		Number of shares held	Shares at cost		Indebtedness to / (from) subsidiaries	
	N$ '000	%	'000	2013 N$ '000	2012 N$ '000	2013 N$ '000	2012 N$ '000
Santam Namibia Ltd	8,307	28	1,230	62,905	62,905	-	-
Sanlam Namibia Holdings (Pty) Ltd	160,665	29.5	30	47,290	47,290	-	-
				110,195	110,195	-	-

All associates have 31 December financial year-ends. Management accounts as at 30 June 2013 have been used for equity accounting the share of results of associates for their half year ended 30 June 2013.

7. Joint ventures

Indirect holdings in jointly controlled entity and jointly controlled operations

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

	N$ '000	%	'000	2013 N$ '000	2012 N$ '000	2013 N$ '000	2012 N$ '000
Namclear (Pty) Ltd	4,616	25	4	1,154	1,154	-	-

Namclear (Pty) Ltd has a 31 December year-end.

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

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

8. Holding company and ultimate holding company

The company is a subsidiary of Capricorn Investment Holdings Ltd (CIH), a company registered in Namibia. This is also the company's ultimate holding company.

DIRECTORS' REPORT (continued)

for the year ended 30 June 2013

9. Insurance

Comprehensive insurance cover is in place as required by the Bank of Namibia BID 14 – 'Determinations on minimum insurance for banking institutions'.

10. Management by third party

No business of the company or any part thereof or of a subsidiary has been managed by a third person or a company in which a director has an interest.

11. Directors and company secretary

The Bank Windhoek Holdings Ltd board composition during the year was as follows:

Non-executive		**Nationality**	**Date appointed**
J C Brandt	Chairman	Namibian	5 September 1996
J J Swanepoel	Vice-chairman	Namibian	1 July 1999
K B Black		Namibian	13 June 2007
G Nakazibwe-Sekandi		Ugandan	30 November 2004
J M Shaetonhodi		Namibian	1 November 2006
M K Shikongo		Namibian	27 November 2001
M J Prinsloo		South African	4 March 2013
E M Schimming-Chase		Namibian	4 March 2013
E Knouwds		Namibian	28 March 2013
F J du Toit		South African	28 March 2013
Executive			
C P de Vries	Managing Director	South African	1 June 2011

At the annual general meeting held on 6 December 2012, J C Brandt and K B Black were unanimously re-elected as directors. All directors appointed since last year's annual general meeting have to be confirmed at the next annual general meeting.

The authorised but unissued number of ordinary and preference shares of the company, exclusive of the number of ordinary shares reserved for purposes of the share incentive scheme as at that date and subject to the provisions of sections 229 and 230 of the Namibian Companies Act and approval of the Namibian Stock Exchange, are under the control of the directors of Bank Windhoek Holdings Ltd. This authority expires at the forthcoming annual general meeting on 29 October 2013, when this authority can be renewed.

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

CIH House	P O Box 15
Kasino Street	Windhoek
Windhoek	Namibia
Namibia	

12. Directors' interests

The directors' interests are reflected in the Corporate governance statement.

DIRECTORS' REPORT (continued)

for the year ended 30 June 2013

13. Auditors

PricewaterhouseCoopers will continue in office as auditor, until the next annual general meeting, in accordance with the Companies Act of Namibia.

14. Special resolutions

The following special resolutions have been adopted at the general meeting held on 8 March 2013:

1. Revised articles of association
2. Approval of 4:1 share-split of all ordinary shares.

The authorised share capital of the company of N$15,010,000 (fifteen million and ten thousand Namibian dollar) divided into 150,000,000 (one hundred and fifty million) ordinary par value shares of N$0.10 (ten cents) each and 1,000,000 (one million) cumulative redeemable preference par value shares of N$0.01 (one cent) each, was changed to N$15,010,000 (fifteen million and ten thousand Namibian dollar) divided into 600,000,000 (six hundred million) ordinary par value shares of N$0.025 (two and a half cents) each and 1,000,000 (one million) cumulative redeemable preference par value shares of N$0.01 (one cent) each.

The Memorandum of association has been amended by the substitution of clause 8(a)(i) with '600,000,000 (six hundred million) ordinary par value shares of N$0.025 (two and a half cents) each.'

The split of each issued ordinary share with a par value of N$0.10 (ten cents) into four ordinary shares with a par value of N$0.025 (two and a half cents) each and to approve the replacement of all existing share certificates for ordinary shares with a par value of N$0.10 with new share certificates with the new par value of N$0.025.

15. Events subsequent to year-end

The company acquired Capricorn Unit Trust Management Company (CUTM) effective 1 July 2013 for a purchase consideration of N$64.75 million. Refer to note 47 for further details on the CUTM transaction. No other matter which is material to the financial affairs of the company and group has occurred between year-end and the date of approval of the financial statements.

CONSOLIDATED AND SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 30 June 2013

	Notes	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
Interest and similar income		1,708,096	1,525,912	-	-
Interest and similar expenses		(793,642)	(742,854)	-	-
Net interest income	5	914,454	783,058	-	-
Impairment charges on loans and advances	6	(26,803)	(25,243)	-	-
Net interest income after loan impairment charges		887,651	757,815	-	-
Non-interest income	7	523,191	463,332	207,151	163,706
Operating income		1,410,842	1,221,147	207,151	163,706
Operating expenses	9	(762,759)	(706,511)	(12,308)	(13,810)
Operating profit		648,083	514,636	194,843	149,896
Share of joint ventures' results after tax	22	1,191	2,002	-	-
Share of associates' results after tax	10	60,445	53,343	-	-
Profit before income tax		709,719	569,981	194,843	149,896
Income tax expense	11	(216,448)	(167,370)	(222)	(74)
Profit for the year		493,271	402,611	194,621	149,822
Other comprehensive income					
Items of other comprehensive income to be recycled					
Net gains on available-for-sale financial assets	16	22,359	14,035	-	-
Total comprehensive income for the year		515,630	416,646	194,621	149,822
Profit is attributable to:					
Equity holders of the group and company		493,271	399,803	194,621	149,822
Non-controlling interests		-	2,808	-	-
		493,271	402,611	194,621	149,822
Total comprehensive income is attributable to:					
Equity holders of the group and company		515,630	413,838	194,621	149,822
Non-controlling interests		-	2,808	-	-
		515,630	416,646	194,621	149,822
Earnings per ordinary share (cents)	12	108	89		
Fully diluted earnings per ordinary share (cents)		108	89		

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

as at 30 June 2013

	Notes	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
ASSETS					
Cash and balances with the central bank	13	852,636	881,059	169,625	19,506
Derivative financial instruments	14	12,188	-	-	-
Financial assets designated at fair value through profit or loss	15	1,493,165	1,523,800	54,012	114,225
Investment securities	16	120,446	351,698	-	-
Due from other banks	17	251,355	211,032	-	-
Loans and advances to customers	18	17,651,962	15,484,932	-	-
Other assets	19	189,704	140,237	8,177	2,110
Current tax asset		7,953	3,635	106	300
Investment in subsidiaries	20	-	-	552,286	230,791
Investment in associates	21	191,999	175,997	110,195	111,983
Interest in joint ventures	22	4,286	5,095	-	-
Intangible assets	23	28,987	10,651	-	-
Property, plant and equipment	24	129,486	127,450	-	-
Deferred tax asset	30	4,441	5,464	-	-
Total assets		20,938,608	18,921,050	894,401	478,915
LIABILITIES					
Derivative financial instruments	14	7,792	699	-	-
Due to other banks	25	166,959	237,611	-	-
Debt securities in issue	26	1,323,976	917,322	150,801	153,970
Deposits from customers	27	13,022,976	12,126,619	-	-
Other deposits	28	3,511,815	3,398,657	-	-
Other liabilities	29	229,079	206,252	2,295	1,726
Current tax liability		-	584	-	-
Deferred tax liability	30	45,247	140,708	-	-
Post-employment benefits	31	6,706	5,539	-	-
Total liabilities		18,314,550	17,033,991	153,096	155,696
EQUITY					
Share capital and premium	32	466,745	102,114	475,116	102,114
Non-distributable reserves	35	149,877	135,075	-	-
Distributable reserves	36	2,007,436	1,649,870	266,189	221,105
Total shareholders' equity		2,624,058	1,887,059	741,305	323,219
Total equity and liabilities		20,938,608	18,921,050	894,401	478,915

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2013

	Notes	Share capital and premium	Non-distributable reserves		Distributable reserves				Non-controlling interests	Total equity
			Insurance fund reserve	Credit risk reserve	SBCR*	Fair value reserve	General banking reserve	Retained earnings		
		N$'000	N$'000	N$'000	N$'000	N$'000	N$'000	N$'000	N$'000	N$'000
GROUP										
Balance at 1 July 2011		86,945	28,617	87,449	-	17,193	1,132,299	212,527	7,823	1,572,853
Issue of shares	32	15,169	-	-	-	-	-	-	-	15,169
Total comprehensive income for the year		-	-	-	-	14,035	-	399,803	2,808	416,646
Profit for the year		-	-	-	-	-	-	399,803	2,808	402,611
Other comprehensive income		-	-	-	-	14,035	-	-	-	14,035
Share based payment charges	36	-	-	-	7,276	-	-	-	-	7,276
Transfer between reserves		-	-	19,009	-	-	198,915	(217,924)	-	-
Dividends for 2012	37	-	-	-	-	-	-	(113,119)	(224)	(113,343)
Business combination		-	-	-	-	-	-	(1,135)	(10,407)	(11,542)
Balance at 30 June 2012		102,114	28,617	106,458	7,276	31,228	1,331,214	280,152	-	1,887,059
Balance at 1 July 2012		102,114	28,617	106,458	7,276	31,228	1,331,214	280,152	-	1,887,059
Issue of shares	32	373,002	-	-	-	-	-	-	-	373,002
Shares held by the BWH Group Employee Share Ownership Trust	32	(8,371)	-	-	-	-	-	-	-	(8,371)
Acquisition of control over share trusts	46	-	-	-	-	-	-	4,631	-	4,631
Total comprehensive income for the year		-	-	-	-	22,359	-	493,271	-	515,630
Profit for the year		-	-	-	-	-	-	493,271	-	493,271
Other comprehensive income		-	-	-	-	22,359	-	-	-	22,359
Share based payment charges	36	-	-	-	1,644	-	-	-	-	1,644
Transfer between reserves		-	-	14,802	-	-	257,620	(272,422)	-	-
Dividends for 2013	37	-	-	-	-	-	-	(149,537)	-	(149,537)
Balance at 30 June 2013		466,745	28,617	121,260	8,920	53,587	1,588,834	356,095	-	2,624,058
COMPANY										
Balance at 1 July 2011		86,945	-	-	-	-	-	184,402	-	271,347
Issue of shares	32	15,169	-	-	-	-	-	-	-	15,169
Total comprehensive income for the year		-	-	-	-	-	-	149,822	-	149,822
Dividends for 2012	37	-	-	-	-	-	-	(113,119)	-	(113,119)
Balance at 30 June 2012		102,114	-	-	-	-	-	221,105	-	323,219
Balance at 1 July 2012		102,114	-	-	-	-	-	221,105	-	323,219
Issue of shares	32	373,002	-	-	-	-	-	-	-	373,002
Total comprehensive income for the year		-	-	-	-	-	-	194,621	-	194,621
Dividends for 2013	37	-	-	-	-	-	-	(149,537)	-	(149,537)
Balance at 30 June 2013		475,116	-	-	-	-	-	266,189	-	741,305

***Share-based compensation reserve (SBCR)**

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

for the year ended 30 June 2013

	Notes	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
Cash flows from operating activities					
Cash receipts from customers	38.1	2,203,723	1,964,167	696	9,117
Cash paid to customers, suppliers and employees	38.2	(1,449,413)	(1,347,841)	(2,636)	(4,150)
Cash generated from operations	38.3	754,310	616,326	(1,940)	4,967
Net decrease / (increase) in financial assets designated at fair value		314,589	(114,565)	-	-
Net increase in loans and advances to customers and banks		(2,212,675)	(2,531,063)	-	-
Net (increase) / decrease in other assets		(46,639)	63,055	(6,067)	(6)
Net increase in other deposits		113,158	209,751	-	-
Net increase in deposits from customers		896,357	2,273,942	-	-
Net increase / (decrease) in other liabilities		22,826	(9,575)	569	(82)
Net cash generated from operations		(158,074)	507,871	(7,438)	4,879
Dividends received		46,288	43,325	206,455	154,589
Income taxes paid	38.4	(315,788)	(165,914)	(28)	(79)
Net cash (utilised in) / generated from operating activities		(427,574)	385,282	198,989	159,389
Cash flows from investing activities					
Additions to property, plant and equipment	24	(30,888)	(27,060)	-	-
Proceeds on disposal of property, plant and equipment		490	478	-	-
Additions to intangible assets	23	(21,518)	-	-	-
Proceeds on disposal of subsidiary		-	14,034	-	-
Proceeds on disposal of associate	43	1,500	-	1,500	-
Additions to investment in subsidiaries		-	(5,389)	(321,495)	(5,389)
Additions in investment in associates		-	(12,133)	-	(12,133)
Proceeds on maturity of endowment policy	16	271,113	-	-	-
Distribution of profits from jointly controlled operations	22	2,000	4,000	-	-
Net cash generated from / (utilised in) investing activities		222,697	(26,070)	(319,995)	(17,522)
Cash flows from financing activities					
Proceeds from the issue of ordinary shares	32	373,002	15,169	373,002	15,169
Repayment of debt securities in issue	26	(363,720)	(155,140)	(162,553)	(9,622)
Proceeds from the issue of debt securities	26	698,295	243,912	150,000	-
Dividends paid	37	(149,537)	(113,343)	(149,537)	(113,119)
Net cash generated from / (utilised in) financing activities		558,040	(9,402)	210,912	(107,572)
Net increase in cash and cash equivalents		353,163	349,810	89,906	34,295
Cash and cash equivalents at the beginning of the year		1,205,158	855,348	133,731	99,436
Cash and cash equivalents at the end of the year	40	1,558,321	1,205,158	223,637	133,731

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2013

1. Basis of presentation

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

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

1.1 Going concern

The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its current financing. The group continues to adopt the going concern basis in preparing its consolidated financial statements.

1.2 Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Namibian dollar, which is the functional and presentation currency of both the group and the company.

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

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

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

Amendments to IAS 1, 'Presentation of financial statements', on presentation of items of OCI

The IASB has issued an amendment to IAS 1, 'Presentation of financial statements'. The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

1.3.2 Standards and interpretations issued but not yet effective	**Effective date**
These amendments are not expected to have a significant impact on the financial statements.	
Amendment to IFRS 1, 'First time adoption' on government loans This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008.	Annual periods commencing on or after 1 January 2013
Amendment to IFRS 7, 'Financial instruments: Disclosures – asset and liability offsetting' The IASB has published an amendment to IFRS 7, 'Financial instruments: Disclosures', reflecting the joint requirements with the FASB to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.	Annual periods commencing on or after 1 January 2013
IAS 19, 'Employee benefits' The IASB has issued an amendment to IAS 19, 'Employee benefits', which makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.	Annual periods commencing on or after 1 January 2013
IFRS 9 – 'Financial instruments (2009)' This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: Amortised cost and fair value.	Annual periods commencing on or after 1 January 2015
IFRS 9 – 'Financial instruments (2010)' The IASB has updated IFRS 9, 'Financial instruments' to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments have been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss.	Annual periods commencing on or after 1 January 2015
Amendments to IFRS 9 – 'Financial instruments (2011)' The IASB has published an amendment to IFRS 9, 'Financial instruments', that delays the effective date to annual periods beginning on or after 1 January 2015. The original effective date was for annual periods beginning on or after 1 January 2013. This amendment is a result of the board extending its timeline for completing the remaining phases of its project to replace IAS 39 (for example, impairment and hedge accounting) beyond June 2011, as well as the delay in the insurance project. The amendment confirms the importance of allowing entities to apply the requirements of all the phases of the project to replace IAS 39 at the same time. The requirement to restate comparatives and the disclosures required on transition have also been modified.	Annual periods commencing on or after 1 January 2015
IFRS 10 – 'Consolidated financial statements' This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries.	Annual periods commencing on or after 1 January 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

1.3.2 Standards and interpretations issued but not yet effective (continued)	**Effective date**
IFRS 11 – 'Joint arrangements' This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.	Annual periods commencing on or after 1 January 2013
IFRS 12 – 'Disclosures of interests in other entities' This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-statement-of-financial-position vehicles.	Annual periods commencing on or after 1 January 2013
IFRS 13 – 'Fair value measurement' This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.	Annual periods commencing on or after 1 January 2013
IAS 27 (Revised 2011) – 'Separate financial statements' This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.	Annual periods commencing on or after 1 January 2013
IAS 28 (Revised 2011) – 'Associates and joint ventures' This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.	Annual periods commencing on or after 1 January 2013
Amendments to IAS 32 – 'Financial instruments: Presentation' The IASB has issued amendments to the application guidance in IAS 32, 'Financial instruments: Presentation', that clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. However, the clarified offsetting requirements for amounts presented in the statement of financial position continue to be different from US GAAP.	Annual periods commencing on or after 1 January 2014
Amendment to the transition requirements in IFRS 10, 'Consolidated financial statements', IFRS 11, 'Joint arrangements', and IFRS 12, 'Disclosure of interests in other entities' The amendment clarifies that the date of initial application is the first day of the annual period in which IFRS 10 is adopted, for example, 1 January 2013 for a calendar-year entity that adopts IFRS 10 in 2013. Entities adopting IFRS 10 should assess control at the date of initial application; the treatment of comparative figures depends on this assessment. The amendment also requires certain comparative disclosures under IFRS 12 upon transition.	Annual periods commencing on or after 1 January 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

1.3.2 Standards and interpretations issued but not yet effective (continued)	**Effective date**
Amendments to IFRS 10, 'Consolidated financial statements', IFRS 12 and IAS 27 for investment entities The amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made in IFRS 12 to introduce disclosures that an investment entity needs to make.	Annual periods commencing on or after 1 January 2014
IFRIC 20 – Stripping costs in the production phase of a surface mine In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'. The interpretation clarifies there can be two benefits accruing to an entity from stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. The interpretation considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.	Annual periods commencing on or after 1 January 2013

2. Summary of significant accounting policies

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

2.1 Consolidation

2.1.1 Subsidiaries

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

2.1.2 Common control transactions

A common control transaction is defined as a business combination in which all of the combining entities are ultimately controlled by the same party, both before and after the business combination, and control is not transitory. Common control transactions fall outside the scope of IFRS 3 – Business combinations, and therefore the group has elected to apply predecessor accounting in the accounting of these transactions.

The cost of an acquisition of a subsidiary under common control is measured at fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Any costs directly attributable to the acquisition are written off against reserves. On acquisition the carrying values of assets and liabilities are not restated to fair value. The acquirer incorporates assets and liabilities at their pre-combination carrying amounts.

Any excess or deficit of the purchase price over the pre-combination recorded ultimate holding company's net asset value of the subsidiary is adjusted directly to equity. Any differences to values of the subsidiary's underlying assets and liabilities compared to those presented by the ultimate holding company and adjustments to achieve harmonisation of accounting policies will be adjusted on consolidation.

In common control transactions, the group has elected to incorporate the acquired entity's results from the date of the business combination. As a consequence, comparative information is not restated. The principles of when control arises are the same as those for interests in subsidiaries where purchase price accounting is applied.

During the year under review, the company obtained control over the BWH Group Employee Share Ownership Trust and the BWH Group Employee Share Benefit Trust, to which this accounting policy has been applied. Refer to note 46 to the consolidated annual financial statements and the directors' report note 4.5.

2.1.3 Transactions and non-controlling interests

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

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated equity as non-controlling interest. Profits or losses attributable to non-controlling interests are reported in the consolidated comprehensive income as profit or loss attributable to non-controlling interests.

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

2.1.4 Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

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

Intragroup gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Intragroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. For preparation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

2.1.4 Associates (continued)

of consolidated financial statements, equal accounting polices for similar transactions and other events in similar circumstances are used.

Dilution gains and losses in associates are recognised in other comprehensive income.

For summarised financial information on the group's associates accounted for on the equity method, see note 21.

2.1.5 Joint ventures

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

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

In respect of interests in jointly controlled operations and jointly controlled assets, the group recognises in its financial statements:

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

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

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

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

Adjustments are made to bring the accounting policies of jointly controlled entities in line with those of the company, where appropriate.

Investments in subsidiaries, associates and jointly controlled entities are measured at cost in the company's financial statements.

2.2 Foreign currency translation

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

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

2.3 Financial instruments

2.3.1 Financial assets

The group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

2.3.1 Financial assets (continued)

- held-to-maturity investments; and
- available-for-sale financial assets.

Management determines the classification of its investments at initial recognition.

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

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

I) Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading; and those designated at fair value through profit or loss at inception. The designation cannot be subsequently changed.

A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are designated as held for trading, unless they are designated and effective as hedging instruments.

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

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and debt securities in issue.
- financial assets are designated at fair value through profit or loss when they are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.
- financial instruments, such as debt securities held, containing one or more embedded derivative that significantly modify the cash flows, are designated at fair value through profit or loss.

Treasury bills, government stock and money market investments are designated in this category.

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

ii) Loans and receivables

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

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

Loans and advances to customers, due from other banks, cash and balances with the central bank and other assets are classified in this category.

iii) Held-to-maturity

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

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

iv) Available-for-sale

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

Iv) Available-for-sale (continued)

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

Interest on available-for-sale securities is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale, as well as impairment losses, are recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit and loss in 'other operating income' when the group's right to receive payment is established.

Investment securities are classified in this category.

2.3.2 Financial liabilities

The group recognises a financial liability when it becomes a party to the contractual terms of the financial instrument. The group classifies its financial liabilities in the following categories:

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

Financial liabilities are initially recognised at fair value, being its issue proceeds (fair value of consideration received) net of transaction costs incurred, for all financial liabilities not carried at fair value through profit or loss.

i) At amortised cost

The liability is subsequently stated at amortised cost, any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the liability using the effective interest rate method.

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

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

Classified in this category are due to other banks, debt securities in issue, deposits from customers, other deposits and other liabilities.

ii) Financial liabilities at fair value through profit or loss

This category comprises two subcategories, namely:

- financial liabilities classified as held for trading; and
- financial liabilities designated by the group as at fair value through profit or loss upon initial recognition.

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

2.3.3 Determination of fair value

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

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

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

2.3.3 Determination of fair value (continued)

data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the consolidated statement of financial position.

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

2.3.4 Derecognition

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

2.3.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.3.6 Derivative financial instruments

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

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

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

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

2.4 Impairment of financial assets

A financial asset is considered as impaired when there is objective evidence of impairment.

2.4.1 Financial assets carried at amortised cost

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

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

(i) significant financial difficulty of the issuer or obligator;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

2.4.1 Financial assets carried at amortised cost (continued)

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

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

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

Impairment of loans and advances

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

The group employs scientific techniques to determine the specific and general impairment of its loans and advances.

i) Individually assessed loans and advances

All loans and advances are assessed on a case-by-case basis at each reporting date as to whether there is any objective evidence that a loan is impaired. Loans and advances are individually assessed for impairment when they have been flagged as being past due more than 90 days. Furthermore, the criteria used to determine that there is such objective evidence, include the loss events described above. For those loans where objective evidence of impairment exists, impairment losses are determined considering the aggregate exposure to the client and the realisable value of security (or other credit mitigants) and the likelihood of successful repossession.

Due from other banks have not been impaired as these placements are made to banks that have high credit standing and, by policy, limits the amounts of credit exposure to any one financial institution. Refer to note 3.2.5 below. For more detailed procedures followed by the group on individual assessed loans and advances, refer to the Risk and compliance report.

ii) Collectively assessed loans and advances

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

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

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

ii) Collectively assessed loans and advances (continued)

determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss.

For more detailed procedures followed by the group on collectively assessed loans and advances, refer to the Risk and compliance report.

2.4.2 Assets carried at fair value

The group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

2.4.3 Renegotiated loans

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

2.5 Sale and repurchase agreements

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

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

2.6 Intangible assets

2.6.1 Goodwill

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

2.6.2 Computer software and development costs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

2.6.2 Computer software and development costs (continued)

The cost of a separately acquired intangible asset comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and any directly attributable cost of preparing the asset for its intended use. Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management.

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

Assets under construction recognised as intangible assets are not amortised until completed. Computer software development costs recognised as assets are amortised over their estimated useful lives, which range between three to seven years depending on the project lifecycle.

2.6.3 Trademarks

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

2.7 Property, plant and equipment

Land and buildings mainly comprise of branches and offices. All property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

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

Motor vehicles	5 years
Furniture and fittings	8.3 years
Office equipment	6.67 years
Computer equipment	3 – 5 years
Buildings	24 – 30 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in profit or loss.

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

2.8 Repossessed property

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

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversals of the impairment at each reporting date.

2.10 Leases

2.10.1 A group company is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

2.10.1 A group company is the lessee (continued)

the group are primarily operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.10.2 A group company is the lessor

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

2.11 Cash and cash equivalents

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

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the reporting date, including cash and non-restricted balances with the central bank, treasury bills and other eligible bills, placements with other banks, short-term government securities, money market investments and short-term borrowings from other banks.

2.12 Provisions

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

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

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

2.13 Financial guarantee contracts

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

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

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

2.14 Employee benefits

2.14.1 Pension obligations

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

2.14.1 Pension obligations (continued)

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

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

2.14.2 Severance pay provision

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

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

The group therefore has an obligation, more specifically a defined benefit, in terms of IAS 19 'Employee benefits'. The benefit is unfunded and is valued using the projected unit credit method as prescribed by IAS 19 'Employee benefits'.

2.14.3 Leave pay

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

2.14.4 Performance bonuses

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

2.15 Share-based payments

The group operates three equity-settled share-based compensation plans (share appreciation rights plan, conditional share plan and share purchase schemes) under which the entities within the group receive services from employees as consideration for equity instruments (shares) of Bank Windhoek Holdings Ltd. Equity-settled share purchase schemes are valued at grant date. The fair value of the employee services received in exchange for the grant of the shares and share options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares and share options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between the service commencement period and the grant date.

At the end of each reporting period, the group revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

During the year under review, the company has introduced two new share plans, namely the

- conditional share plan (CSP); and
- share appreciation rights (SAR) plan.

Conditional share plan

The purpose of the CSP is to provide selected employees of the group companies with the opportunity to receive shares in the company. It has the following attributes:

- The provision of shares will be used as an incentive to participants to deliver the group's business strategy over the long-term, as a retention mechanism and as a tool to attract prospective employees.
- Awards of conditional shares will be made on an annual basis.
- The number of conditional shares subject to an award made to an employee, and the extent to which the award of conditional shares will be subject to performance conditions, will primarily be based on the employee's annual salary, grade, performance, retention and attraction requirements and market benchmarks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

Conditional share plan (continued)

- A participant will not be entitled to any shareholder rights prior to the settlement of an award of conditional shares.
- Vesting of the awards of conditional shares will be subject to the vesting condition for the duration of the vesting period as stipulated in the award letter to the employee.
- Where employment is terminated within the vesting period, any awards of conditional shares made to the employee will be forfeited in its entirety and will lapse immediately on the date of termination of employment.

Share appreciation rights plan

The purpose of the SAR plan is to provide selected employees of the group companies with the opportunity of receiving shares in the company based on the increase in the value of shares, through the grant of share appreciation rights. The SAR plan has the following attributes:

- It will be used as an incentive to participants to deliver the group's business strategy over the long-term, as a retention mechanism and as a tool to attract prospective employees. This will provide participants with the opportunity to share in the success of the company and provide alignment between these participants and shareholders.
- Grants of SARs will be made on an annual basis.
- The number of SARs that will be granted to an employee, and the extent to which a grant of SARs will be subject to performance conditions, will primarily be based on the employee's annual salary, grade, performance, retention and attraction requirements and market benchmarks.
- A SAR is a conditional right to acquire shares in the company, the number being determined by the appreciation in value of a specified number of shares over a fixed period; or by the appreciation in value of a specified number of ordinary shares of an employer company over a fixed period.
- Vesting of the SARs will be subject to the vesting condition for the duration of the vesting period as stipulated in the letter of grant to the employee and, to the extent applicable, the satisfaction of the performance conditions as measured over the performance period.
- A participant will not be entitled to any shareholder rights prior to the settlement of any SARs.
- While any portion of a participant's SARs remain unexercised and such participant ceases to be an employee of any group company, all unexercised (vested and unvested) SARs shall lapse on the date of termination of employment.

2.16 Deferred and current income tax

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

2.16.1 Deferred income tax

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

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts and tax losses carried forward and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

2.16.1 Deferred income tax (continued)

authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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

2.16.2 Current income tax

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

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2.17 Revenue recognition

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

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

2.17.1 Net trading income

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

2.17.2 Interest income and expenses

Interest income and expenses are recognised in profit or loss for all instruments measured at amortised cost using the effective interest rate method.

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

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

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

2.17.3 Fee and commission income

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

Portfolio and other management advisory and service fees are recognised based on the applicable service

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

2.17.3 Fee and commission income (continued)

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

Insurance broking commission, consultancy and administration fee income comprise commission income and negotiated fees earned in respect of the placement of insurance and servicing of clients under insurance programmes. Income is brought to account on the effective commencement or renewal dates of the related insurance programme. Commission and administration fee income is deferred over the policy term.

2.17.4 Other income

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

2.18 Share capital

Share issue

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

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

Shares held at year-end by the BWH Group Employee Share Ownership Trust and BWH Group Employee Share Benefit Trust

Shares held by the employee share trusts, which form part of the consolidated group, are deducted from total shareholders' equity until the shares are sold.

2.19 Construction contracts

A construction contract is a contract specially negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function, or their ultimate purpose or use.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Cost incurred in the year in connection with future activity on a contract are excluded and shown as contract work in progress. The aggregate of the cost incurred and the profit / loss recognised on each contract is compared against the progress billings up to the year-end. When costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from the customers and construction contracts, under receivables and prepayments. Where progress billings exceed cost incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on contractions contracts, under trade and other payables.

2.20 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are declared by the board of directors.

Dividends for the year that are declared after the reporting date are dealt with in the events subsequent to year-end note under the directors' report.

2.21 Fiduciary activities

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

2.22 Operating segments

The group considers its banking operations as one operating segment; the group has no significant components other than banking. Other components include property development and insurance, however these components contribute less than 5% to the group revenue, assets and net profit after tax, therefore the group has no significant components other than banking. This is in a manner consistent with the internal

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

2.22 Operating segments (continued)

reporting provided to the chief operating decision-maker, identified as the managing director of the group. The chief operating decision-maker is the person that allocates resources to and assesses the performance of the operating segment(s) of an entity.

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

3. Financial risk management

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

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

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

The key principles forming the foundation of the bank's risk management process include:

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

The following subcommittees have been formed to assist the board of directors to manage risks:

Board credit committee (BCC) and Board lending committee (BLC)

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

Asset and liability committee (ALCO)

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

The ALCO also carries the primary responsibility of monitoring the group's liquidity position, as well as formulating the funding strategy. The interest rate subcommittee reviews the economic environment and recommends to ALCO interest rate views. ALCO activities are reported to the Board, audit, risk and compliance committee (BARC).

Risk committee

In addition to the above committees, a risk committee, comprising of members of the executive management team and reporting to the BARC, was established. Its primary responsibilities are to:

- evaluate the risk management model employed by the group in terms of effectiveness and efficient deployment of resources (i.e. cost versus benefit);
- discuss and identify gaps and weaknesses in the management information system (MIS) to enable management to make the correct decisions;
- discuss the findings and recommendations of the group's risk functions and evaluate whether appropriate action has been taken when necessary;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

Risk committee (continued)

- enhance general risk awareness within the group;
- monitor the management of risks to ensure that the group complies with the Bank of Namibia's guidelines for effective risk management; and
- discuss in detail any identified, unidentified and potential risks that are material to the group.

Credit risk forum (CRF)

The purpose of the CRF is to have an oversight of credit risk management in accordance with the board approved credit risk management policy, credit policies and credit risk and control framework, in order to achieve and maintain an acceptable credit risk profile and an adequate risk and control framework.

On portfolio level, the scope of the CRF includes:

- portfolio analysis and performance;
- key risk indicators and trends;
- risk adjusted pricing performance on portfolio level;
- review credit portfolio risk and recommend to the business units risk enhancement;
- product and pricing strategies;
- review of annual risk appetites and stress testing of the credit portfolio before submission to the Risk committee; and
- review collateral and recommend necessary improvements.

The CRF facilitates compliance with:

- Basel II and other best practices for credit risk management;
- applicable legislative acts;
- Bank of Namibia determinations; and
- Bank Windhoek credit policies.

Significant risks to which the group is exposed are discussed on the following pages.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.1 Analysis of assets and liabilities

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies on pages 50 to 64 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the financial assets and liabilities in the statement of financial position per category of financial instrument to which they are assigned and therefore measured. The table includes non-financial assets and liabilities to reconcile to the statement of financial position:

	2013						
	Held for trading	Designated at fair value through profit / loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non-financial assets / liabilities	Total
Group	**N$'000**	**N$'000**	**N$'000**	**N$'000**	**N$'000**	**N$'000**	**N$'000**
ASSETS							
Cash and balances with the central bank	-	-	852,636	-	-	-	852,636
Derivative financial instruments	12,188	-	-	-	-	-	12,188
Financial assets designated at fair value through profit or loss	-	1,493,165	-	-	-	-	1,493,165
Investment securities	-	-	-	120,446	-	-	120,446
Due from other banks	-	-	251,355	-	-	-	251,355
Loans and advances to customers	-	-	17,651,962	-	-	-	17,651,962
Other assets	-	-	156,013	-	-	33,691	189,704
Current tax asset	-	-	-	-	-	7,953	7,953
Investment in associates	-	-	-	-	-	191,999	191,999
Interest in joint ventures	-	-	-	-	-	4,286	4,286
Intangible assets	-	-	-	-	-	28,987	28,987
Property, plant and equipment	-	-	-	-	-	129,486	129,486
Deferred tax asset	-	-	-	-	-	4,441	4,441
Total assets	12,188	1,493,165	18,911,966	120,446	-	400,843	20,938,608
LIABILITIES							
Derivative financial instruments	7,792	-	-	-	-	-	7,792
Due to other banks	-	-	-	-	166,959	-	166,959
Debt securities in issue	-	-	-	-	1,323,976	-	1,323,976
Deposits from customers	-	-	-	-	13,022,976	-	13,022,976
Other deposits	-	-	-	-	3,511,815	-	3,511,815
Other liabilities	-	-	-	-	214,974	14,105	229,079
Deferred tax liability	-	-	-	-	-	45,247	45,247
Post-employment benefits	-	-	-	-	-	6,706	6,706
Total liabilities	7,792	-	-	-	18,240,700	66,058	18,314,550

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.1 Analysis of assets and liabilities (continued)

Group	Held for trading	Designated at fair value through profit / loss	Loans And receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non-financial assets / liabilities	Total
	2012						
	N$'000	N$'000	N$'000	N$'000	N$'000	N$'000	N$'000
ASSETS							
Cash and balances with the central bank	-	-	881,059	-	-	-	881,059
Financial assets designated at fair value through profit or loss	-	1,523,800	-	-	-	-	1,523,800
Investment securities	-	-	-	351,698	-	-	351,698
Due from other banks	-	-	211,032	-	-	-	211,032
Loans and advances to customers	-	-	15,484,932	-	-	-	15,484,932
Other assets	-	-	130,294	-	-	9,943	140,237
Current tax asset	-	-	-	-	-	3,635	3,635
Investment in associates	-	-	-	-	-	175,997	175,997
Interest in joint ventures	-	-	-	-	-	5,095	5,095
Intangible assets	-	-	-	-	-	10,651	10,651
Property, plant and equipment	-	-	-	-	-	127,450	127,450
Deferred tax asset	-	-	-	-	-	5,464	5,464
Total assets	-	1,523,800	16,707,317	351,698	-	338,235	18,921,050
LIABILITIES							
Derivative financial instruments	699	-	-	-	-	-	699
Due to other banks	-	-	-	-	237,611	-	237,611
Debt securities in issue	-	-	-	-	917,322	-	917,322
Deposits from customers	-	-	-	-	12,126,619	-	12,126,619
Other deposits	-	-	-	-	3,398,657	-	3,398,657
Other liabilities	-	-	-	-	197,798	8,454	206,252
Current tax liability	-	-	-	-	-	584	584
Deferred tax liability	-	-	-	-	-	140,708	140,708
Post-employment benefits	-	-	-	-	-	5,539	5,539
Total liabilities	699	-	-	-	16,878,007	155,285	17,033,991

3.2 Credit risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.2.1 Credit risk measurement

(a) Loans and advances (incl. loan commitments and guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The group has developed statistical models to support the quantification of credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loans and advances at a counterparty level, the group considers three components, namely:

(i) the 'probability of default' (PD) by the client or counterparty on its contractual obligations;

(ii) current exposures to the counterparty and its likely future development, from which the group derives the 'exposure at default' (EAD); and

(iii) the likely recovery ratio on the defaulted obligations (the 'loss given default') (LGD).

These credit risk measurements, which reflect expected loss (the 'expected loss model'), are required by the Basel committee on banking regulations and the supervisory practices (the Basel committee) and are embedded in the group's daily operational management. The operational credit risk measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the date of the consolidated statement of financial position (the 'incurred loss model') rather than expected losses (note 3.2.4).

(I) Probability of default (PD)

The probability of default is an indication of the probability that a given loan will default. Under Basel II the elements that make up a loss are defined as economic loss and will include direct and indirect costs associated with collecting on the exposure such as allocations of internal overheads and other non-cash costs. The PD in Basel is calculated using a historical one-year average to annualise the figures over one year.

(ii) Exposure at default (EAD)

The exposure at default under Basel II will take into account an expectation of future draw-downs until the default event has occurred by utilising a credit conversion factor. For example, for a loan this is the face value. For a commitment, the group includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

(iii) Loss given default (LGD)

Loss given default or loss severity represents the group's expectation of the extent of loss on a claim should default occur (1 – recovery rate). It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. The measurement of exposure at default and loss given default is based on the risk parameters standard under Basel II. The Basel committee on banking supervision document on international convergence of capital measurement and capital standards states that the expected loss should be a one-year estimate. For this reason, and to relate the LGD to the PD one-year average, the LGD is also computed over a one year history. The LGD should be as a percentage of the EAD as required by Basel II.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.2.2 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-statement of financial position assets are as follows:

	Maximum exposure 2013 N$'000	Maximum exposure 2012 N$'000
Group		
Cash and balances with the central bank	852,636	881,059
Derivative financial instruments	12,188	-
Financial assets designated at fair value through profit or loss	1,493,165	1,523,800
– Treasury bills	1,228,664	1,322,315
– Government stock	9,125	65,941
– Equity securities	-	4,216
– Money market investments	255,376	131,328
Investment securities	120,446	351,698
Due from other banks	251,355	211,032
Gross loans and advances to customers		
– Overdrafts	2,854,865	2,484,964
– Term loans	3,537,973	3,084,177
– Mortgages	8,499,995	7,458,701
– Instalment finance	2,597,434	2,382,126
– Preference shares	296,661	194,652
Other assets*	156,013	130,294
	20,672,731	18,702,503

*Other assets exposed to credit risk include insurance fund assets, accounts receivable and clearing and settlement accounts.

Credit risk exposure relating to off-statement-of-financial-position items are as follows:

	2013 N$'000	2012 N$'000
– Liabilities under guarantees	948,243	1,176,771
– Letters of credit	31,515	218,064
– Loan commitments and other credit-related liabilities	1,199,093	1,605,525
At 30 June	2,178,851	3,000,360

The above table represents a worst case scenario of credit risk exposure to the group at 30 June 2013 and 2012, without taking account of any collateral held or other credit enhancements attached. For all assets listed on the statement of financial position, the exposures set out above are based on net carrying amounts as reported.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.2.2 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

The most significant exposures are derived from loans and advances to banks and customers.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the group resulting from both its loans and advances portfolio and other securities based on the following:

- The group employs a range of policies and practices to mitigate credit risk. Refer to note 3.2.3.
- Mortgage loans, which represents the biggest group in the loans and advances to customers portfolio, are backed by collateral.
- All financial assets, other than loans and advances, are neither past due nor impaired.

3.2.3 Risk limit control and mitigation policies

The group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks, including exposures to industry segments, are monitored on a monthly basis and are subject to regular review. Limits on the level of credit risk by country are approved by the board of directors. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-statement-of-financial-position exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts.

Exposure to credit risk is managed upfront when an application for credit is received. The credit risk management model is utilised by the group and assesses the three components of safety, desirability and profitability. Throughout the lifespan of the credit facility, regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations is assessed and lending limits are changed where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. The amount the group is willing to lend unsecured is capped and approved by the board.

Placements with banks, including loans and advances to banks, are subject to the normal credit process. The credit limit to these banks takes into consideration ratings performed by external rating agencies.

Other specific control and mitigation measures are outlined below:

(a) Collateral

The group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. Within the credit risk area, mandates are predetermined in order to ensure that the applicable level of authority provides guidance and approval for advances. Risk exposure to advances is reduced by obtaining approved security as defined by the Board credit committee and listed in the advance instruction manual.

The group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation and the principal collateral types for loans and advances are:

- cash deposited with and ceded to the group;
- deposit with any registered financial institution and ceded to the group;
- life assurance policies with a confirmed surrender value; and
- any other form of tangible collateral security subject to approval by the credit department.

Collateral per class of loans and advances:

Mortgages:

- First, second and third covering bond
- Cession of fire policy

Instalment finance:

- The instalment finance contract binds the article as security

The following security can be given for any loan class depending on the circumstances and purpose of the loan:

- Suretyships
- Registered cession of life insurance policy
- Cession of fixed deposits, notice deposits, bills, bonds, shares, investments or debtors

Valuation methodologies (which includes applying a haircut to the fair value of collateral depending on a number of factors) and the period of validity on collateral are outlined in established policies, which are approved by the board.

Property valuation

In the case where a property is offered as security in the form of covering a mortgage bond, the valuation of the property is valid for two years in the banking book

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

Property valuation (continued)

(excluding residential properties offered for home loans). A revaluation of the property needs to be done when there is an indication that the value of the property has declined. An approved revaluation of the property is required when a further advance or additional mortgage is applied for, when repayment comes in arrears, when an application for the release of collateral or any additional security is received or for properties in possession. Home owner's comprehensive insurance is compulsory for all the mortgage loans. All articles financed by Bank Windhoek must be comprehensively insured.

Life insurance valuation

Life insurance that is used as security for loans taken out at the bank is ceded to the bank and the cession is registered by the insurance company. The values of the life insurance policies ceded to the bank must be updated at least annually to determine the security value and to establish whether premiums are up to date.

Credit life insurance

In the case of microloans, the customer signs a formal loan agreement and sufficient Capricorn credit life insurance is ceded to the bank. A formal payroll agreement between the applicant's employer and the bank is also signed. Non-government applicants must sign an acknowledgement of debt and cede their surplus benefits (e.g. unpaid leave) payable on termination of service to Bank Windhoek.

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

(b) Derivatives

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

(c) Master netting arrangements

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

(d) Credit-related commitments

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

3.2.4 Impairment and provisioning policies

The credit measurement process as described in note 3.2.1 focuses on expected credit losses, taking into account the risk of future events giving rise to losses. In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the date of the consolidated statement of financial position based on objective evidence of impairment (see note 2.4.1). Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.2.5 Credit quality of loans and advances and other financial instruments

i) Credit quality and management of loans and advances

Initial applications

Bank Windhoek applies a standardised approach when assessing applications for credit. All applications are completed according to the Bank Windhoek risk model, which covers all information required to make an informed decision when granting advances. The risk model has the main components of safety, desirability and profitability which is further broken down as:

- background;
- needs;
- financial position;
- security;
- desirability;
- profitability; and
- recommendation – positive / negative aspects.

No internal scoring models are used except for the microloans book, where the Delphi score forms part of the assessment. Assessments on all other loan classes are performed on a judgemental basis.

Subsequent credit assessments

Management information system reports were developed over time in order to effectively monitor and manage the quality of the loan portfolio and pro-actively identify negative problem accounts and trends. The following reports are generated:

- Excesses are reported on a daily basis and reviewed annually.
- The branches submit a monthly report on specific issues in order to take remedial actions on dormant accounts, suspended accounts, irregular accounts (outstanding 45 days and longer), outstanding security, special mention accounts, guarantees, letters of credit and foreign exchange contracts, floor plans, savings accounts in overdraft and bad debts written off within branch mandates.
- The credit department submits a monthly report to the executive management team at Bank Windhoek Ltd level and a more detailed report to the board of directors on a quarterly basis regarding the status of the credit portfolio of the bank.
- Monthly statistics per product are used to monitor the quality and management of the loan portfolio per branch.
- Exposures approved above branch level mandate are transferred to the legal collections branch.
- All transfers to the legal collections branch with a provision higher than N$10,000 are scrutinised by the credit department and categorised under:
  - o poor assessment;
  - o poor management;
  - o poor collateral management;
  - o economic reasons; and
  - o other.
- Bank Windhoek has a process to proactively manage potential problem accounts to prevent possible losses. These advances are identified with assistance of the branches and are part of monthly credit reporting processes. Provisions on these active accounts are raised in accordance with BID 2 – 'Determination on asset classification, suspension of interest and provisioning' requirements under the special mention category.

The table on the following page shows the loans and advances age analysis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.2.5 Credit quality of loans and advances and other financial instruments (continued)

Group 30 June 2013	Neither past due nor impaired	Special mention			Non-performing	Total
		0 – 30 days	31 – 60 days	61 – 90 days	More than 90 days	
	N$'000	N$'000	N$'000	N$'000	N$'000	N$'000
Overdrafts	2,804,865	14,118	2,788	8,475	24,619	2,854,865
Term loans	3,455,144	30,683	6,059	14,826	31,261	3,537,973
Mortgages	8,384,386	27,232	5,378	19,254	63,745	8,499,995
Instalment finance	2,539,198	13,407	2,648	9,409	32,772	2,597,434
Preference shares	296,661	-	-	-	-	296,661
Total gross loans and advances	17,480,254	85,440	16,873	51,964	152,397	17,786,928
Specific provision raised against unsecured amount*	-	(16,178)	(2,505)	(1,339)	(59,842)	(79,864)
Total loans and advances after specific provisions	17,480,254	69,262	14,368	50,625	92,555	17,707,064
Security held against impaired loans		(54,456)	(10,754)	(40,215)	(92,555)	(197,980)
	17,480,254	14,806	3,614	10,410	-	17,509,084

*The specific provision raised against the 0 – 30 days, 31 – 60 days and 61 – 90 days categories relates to a number of clients with future possible loss indicators.

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

ii) Non-performing loans and advances

Loans and advances are managed with reference to the days in arrears. Loans and advances outstanding for longer than 90 days are considered non-performing. As determined by the requirements of BID 2 – 'Determination on asset classification, suspension of interest and provisioning', any asset which is overdue 60 days or more but less than 90 days shall be classified as special mention, at a minimum and are subject to impairment provisions. Bank Windhoek follows a more conservative approach than the regulator and already classifies loans in 0 – 30 days and 31 – 60 days as special mention, where, on a case-by-case basis, indicators of a possible future loss event exist. At Bank Windhoek, loans categorised as 31 – 90 days (special mention accounts) are performing but subject to at least the minimum provisioning as per the BID 2 determination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.2.5 Credit quality of loans and advances and other financial instruments (continued)

Ii) Non-performing loans and advances (continued)

Non-performing loans and advances to customers before taking into consideration the cash flows from collateral held is N$152.4 million (2012: N$140.4 million). The breakdown of the gross amounts of non-performing loans and advances by class, along with the value of related tangible collateral held by the group as security, is as follows:

	Overdrafts N$'000	Term loans N$'000	Mortgages N$'000	Instalment finance N$'000	Total N$'000
Group					
As at 30 June 2013					
Non-performing loans	24,619	31,261	63,745	32,772	152,397
Value of tangible collateral	8,331	17,367	56,566	10,291	92,555
Provision raised against unsecured amount	16,288	13,894	7,179	22,481	59,842
Net exposure	-	-	-	-	-
As at 30 June 2012					
Non-performing loans*	24,501	39,136	56,502	20,305	140,444
Value of tangible collateral	11,065	22,599	47,420	5,792	86,876
Provision raised against unsecured amount	13,436	16,537	9,082	14,513	53,568
Net exposure	-	-	-	-	-

The value of tangible collateral disclosed above is limited to the net outstanding balance after taking into account the provision raised.

*The prior year note disclosure has been restated to include only non-performing loans to be comparable with the June 2013 disclosure.

iii) Non-performing loans and advances by geographical area

All non-performing loans are within the geographical area of Namibia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.2.5 Credit quality of loans and advances and other financial instruments (continued)

iv) Credit quality – financial assets other than loans and advances

As at 30 June the following financial instruments are neither past due nor impaired:

	2013 N$'000	2012 N$'000
Cash and balances with the central bank	852,636	881,059
Derivative financial instruments	12,188	-
Financial assets designated at fair value through profit or loss	1,493,165	1,523,800
Investment securities	120,446	351,698
Due from other banks	251,355	211,032
Other assets	156,013	130,294

No provision for impairment has been raised against these assets.

v) Credit ratings of financial assets other than loans and advances

The bank applies credit ratings in line with BID 17 'Country risk management' to reflect the credit risk of financial instruments. External credit ratings from reputable international ratings agencies are utilised for cross border exposures, which is augmented with thorough internal credit and financial analyses in the determination and setting of exposure limits. Distinction between two broad credit quality classes are made, i.e. investment grade (AAA to BBB) and speculative / high-yield (BB and lower). Fitch ratings will be utilised as far as possible. If Fitch ratings are not available, Moody's and Standard & Poor's ratings will be used for classification. If no ratings are available, i.e. certain African countries for example, these exposures will be classified as unrated.

The following section summarises the credit quality of financial assets, derivatives, and exposures to corresponding and counterparty banks for 30 June.

As at 30 June 2013	Carrying value N$'000	Investment grade (AAA to BBB) N$'000	Unrated N$'000	Total N$'000
Group				
Cash and balances with the central bank	-	669,941	182,695	852,636
Derivative financial instruments	-	3,898	8,290	12,188
Financial assets designated at fair value through profit or loss	-	1,237,789	255,376	1,493,165
Investment securities	-	117,357	3,089	120,446
Due from other banks	-	210,317	41,038	251,355
Other assets	-	-	156,013	156,013
Non-financial assets	400,843	-	-	400,843
Total assets (excluding loans and advances)	400,843	2,239,302	646,501	3,286,646

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.2.5 Credit quality of loans and advances and other financial instruments (continued)

As at 30 June 2012	Carrying value N$'000	Investment grade (AAA to BBB) N$'000	Unrated N$'000	Total N$'000
Group				
Cash and balances with the central bank	-	701,047	180,012	881,059
Financial assets designated at fair value through profit or loss	-	1,518,560	5,240	1,523,800
Investment securities	-	351,698	-	351,698
Due from other banks	-	204,451	6,581	211,032
Other assets	-	-	130,294	130,294
Non-financial assets	338,235	-	-	338,235
Total assets (excluding loans and advances)	338,235	2,775,756	322,127	3,436,118

The following risk weightings are applied for due from other banks when calculating the risk-based capital ratios:

(a) Long-term	
Exposures to banks assigned a credit risk assessment rating of AAA to AA-	20%
Exposures to banks assigned a credit assessment rating of A+ to BBB- or unrated	50%
Exposures to banks assigned a credit assessment rating of BB+ to B-	100%
Exposures to banks assigned a credit assessment rating of below B-	150%
(b) Short-term claims	
Claims denominated and funded in domestic currency with an original maturity of three months or less, assigned a credit assessment rating of AAA to BBB- or unrated	20%
Exposures to banks assigned a credit risk assessment rating of AAA to AA-	20%
Exposures to banks assigned a credit assessment rating of A+ to BBB- or unrated	20%
Claims to banks assigned a credit assessment rating of BB+ to B- or unrated	50%
Claims to banks assigned a credit assessment rating of below B-	150%

3.2.6 Repossessed collateral

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

	Carrying amount 2013 N$'000	Carrying amount 2012 N$'000
Nature of assets		
Residential property	-	848

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.2.7 Credit risk weighted amounts

The following risk-weighted amounts, including related impairments and write-off, have been assigned to the components of credit risk for the banking group, as defined in BID 5 – 'Determination on capital adequacy':

As at 30 June 2013	Exposure N$'000	Impairment N$'000	Risk-weighted amounts N$'000	Written-off N$'000
Counterparties				
Sovereign and central bank	1,726,703	-	-	-
Public sector entities	459,253	-	188,467	-
Banks	255,751	-	71,151	-
Corporate	4,264,627	6,900	4,257,096	-
Retail	4,563,052	43,615	3,411,595	11,420
Residential mortgage properties	4,876,821	3,899	2,460,723	1,270
Commercial real estate	3,623,174	13	3,627,170	-
Other assets	1,257,169	-	759,424	-
Included in other assets:				
– Listed shares	57,804	-	57,804	-
	21,026,550	54,427	14,775,626	12,690
Commitments	2,178,851	-	964,375	-

As at 30 June 2012	Exposure N$'000	Impairment N$'000	Risk-weighted amounts N$'000	Written-off N$'000
Counterparties				
Sovereign and central bank	1,927,641	-	-	-
Public sector entities	223,086	-	91,197	-
Banks	211,032	-	42,709	-
Corporate	3,353,182	13,676	3,338,662	-
Retail	4,575,478	49,592	3,420,268	16,685
Residential mortgage properties	4,252,834	6,548	2,140,636	313
Commercial real estate	3,200,041	1,416	3,201,864	-
Other assets	1,188,196	-	676,530	-
Included in other assets:				
– Listed shares	35,445	-	35,445	-
	18,931,490	71,232	12,911,866	16,998
Commitments	3,000,360	-	1,244,210	-

Only claims on banks are risk-weighted based on external credit assessment for capital adequacy calculations. The group utilises available external rating agencies' ratings on both short-term and long-term exposures. No amounts are deducted from the bank's capital. The Bank of Namibia does not have its own credit rating.

The sovereign and central bank credit risk weighting has been 0% for local currency issued and controlled by the central bank for the last three financial years. The long-term country credit rating by an external credit rating agency for Namibia was as follows:

	2013	2012
Namibia long-term local currency issuer default rating	BBB	BBB
Namibia long-term issuer default rating	BBB-	BBB-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.2.8 Credit risk concentration by industry

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

	Cash and balances with the central bank	Derivative financial instruments and investment securities	Financial assets designated at fair value through profit or loss	Due from other banks	Loans and advances to customers	Other assets	Total
	N$'000	N$'000	N$'000	N$'000	N$'000	N$'000	N$'000
Group							
As at 30 June 2013							
Agriculture and forestry	-	-	-	-	930,700	-	930,700
Fishing	-	-	-	-	294,303	-	294,303
Mining	-	3,089	-	-	109,914	-	113,003
Manufacturing	-	-	-	-	557,099	-	557,099
Building and construction	-	-	-	-	1,178,068	-	1,178,068
Electricity, gas and water	-	-	-	-	73,253	-	73,253
Trade and accommodation (note 1)	-	-	-	-	9,305,140	-	9,305,140
Transport and communication	-	-	-	-	338,872	-	338,872
Finance and insurance	182,695	74,830	255,376	251,355	649,866	-	1,414,122
Real estate and business services	-	-	-	-	1,686,376	-	1,686,376
Government	669,941	-	1,237,789	-	9,152	-	1,916,882
Individuals	-	-	-	-	2,595,706	-	2,595,706
Other	-	54,715	-	-	58,479	156,013	269,207
Impairment	-	-	-	-	(134,966)	-	(134,966)
	852,636	132,634	1,493,165	251,355	17,651,962	156,013	20,537,765
Group							
As at 30 June 2012							
Agriculture and forestry	-	-	-	-	899,500	-	899,500
Fishing	-	-	-	-	309,902	-	309,902
Mining	-	-	4,216	-	105,456	-	109,672
Manufacturing	-	-	-	-	441,109	-	441,109
Building and construction	-	-	-	-	771,045	-	771,045
Electricity, gas and water	-	-	-	-	54,781	-	54,781
Trade and accommodation (note 1)	-	-	-	-	8,046,849	-	8,046,849
Transport and communication	-	-	-	-	378,040	-	378,040
Finance and insurance	180,012	320,469	131,328	211,032	406,287	-	1,249,128
Real estate and business services	-	-	-	-	1,567,788	-	1,567,788
Government	701,047	-	1,388,256	-	11,619	-	2,100,922
Individuals	-	-	-	-	2,547,374	-	2,547,374
Other	-	31,229	-	-	64,870	130,294	226,393
Impairment	-	-	-	-	(119,688)	-	(119,688)
	881,059	351,698	1,523,800	211,032	15,484,932	130,294	18,582,815

Note 1: Trade and accommodation includes all loans and advances granted to individuals that acquire property for residential purposes, e.g. residential mortgage loans and advances granted to hotels, lodges, restaurants and the related.

No disclosures are made from a company perspective, as these disclosures are applicable to the banking institution only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.2.9 Credit risk concentration by geographical area

	Cash and balances with the central bank N$'000	Derivative financial instruments and investment securities N$'000	Financial assets designated at fair value through profit or loss N$'000	Due from other banks N$'000	Loans and advances to customers N$'000	Other assets N$'000	Total exposure on the statement of financial position N$'000
Group							
As at 30 June 2013							
Namibia	852,636	62,642	1,493,165	3	17,651,962	156,013	20,216,421
South Africa	-	12,188	-	46,682	-	-	58,870
United Kingdom	-	3,089	-	13,734	-	-	16,823
United States of America	-	54,715	-	131,178	-	-	185,893
Zambia	-	-	-	41,036	-	-	41,036
Other countries	-	-	-	18,722	-	-	18,722
	852,636	132,634	1,493,165	251,355	17,651,962	156,013	20,537,765
As at 30 June 2012							
Botswana	-	-	-	-	23,629	-	23,629
Namibia	881,059	320,469	1,519,584	-	15,461,303	130,294	18,312,709
South Africa	-	-	-	40,658	-	-	40,658
United Kingdom	-	-	4,216	21,415	-	-	25,631
United States of America	-	31,229	-	136,225	-	-	167,454
Zambia	-	-	-	6,577	-	-	6,577
Other countries	-	-	-	6,157	-	-	6,157
	881,059	351,698	1,523,800	211,032	15,484,932	130,294	18,582,815

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

3.2.10 Maturity breakdown of credit portfolio – discounted cash flows

In terms of BID 18 'Public disclosures for banking institutions' the maturity breakdown of a banking institution's whole credit portfolio should be disclosed, where the maturity breakdown shall be based on the residual contractual maturity of the said exposures. This disclosure, for the Bank Windhoek Holdings group, is detailed on the next page.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.2.10 Maturity breakdown of credit portfolio – discounted cash flows (continued)

As at 30 June 2013	Carrying value N$'000	Call to 1 month N$'000	1 – 3 months N$'000	3 – 12 months N$'000	1 – 5 years N$'000	Over 5 years N$'000	Total N$'000
Cash and balances with the central bank	-	852,636	-	-	-	-	852,636
Derivative financial instruments	-	-	-	1,846	10,342	-	12,188
Financial assets designated at fair value through profit or loss	-	296,449	505,867	681,724	9,125	-	1,493,165
Investment securities	-	57,804	-	62,642	-	-	120,446
Due from other banks	-	251,355	-	-	-	-	251,355
Gross loans and advances to customers	-	3,006,514	249,119	276,869	3,654,613	10,599,813	17,786,928
Other assets	-	156,013	-	-	-	-	156,013
Non-financial instruments	400,843	-	-	-	-	-	400,843
Impairment provisions	(134,966)	-	-	-	-	-	(134,966)
Total assets	265,877	4,620,771	754,986	1,023,081	3,674,080	10,599,813	20,938,608

As at 30 June 2012	Carrying value N$'000	Call to 1 month N$'000	1 – 3 months N$'000	3 – 12 months N$'000	1 – 5 years N$'000	Over 5 years N$'000	Total N$'000
Cash and balances with the central bank	-	881,059	-	-	-	-	881,059
Financial assets designated at fair value through profit or loss	-	218,129	298,509	1,007,162	-	-	1,523,800
Investment securities	-	31,229	-	260,774	59,695	-	351,698
Due from other banks	-	211,032	-	-	-	-	211,032
Gross loans and advances to customers	-	2,652,121	361,581	335,978	3,327,645	8,927,295	15,604,620
Other assets	-	130,294	-	-	-	-	130,294
Non-financial instruments	338,235	-	-	-	-	-	338,235
Impairment provisions	(119,688)	-	-	-	-	-	(119,688)
Total assets	218,547	4,123,864	660,090	1,603,914	3,387,340	8,927,295	18,921,050

3.3 Market risk

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

3.3.1 Market risk measurement techniques

The group employs several measurement techniques to assess potential exposures to market change. Sensitivity analysis is applied to measure the impact of changes in interest rates. This measure is of importance in assessing

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.3.1 Market risk measurement techniques (continued)

the exposure of the group's trading portfolio and the effect of such changes on the interest margin.

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

3.3.2 Foreign currency risk

The group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the group's exposure to foreign currency exchange rate risk at year-end. Included in the table are the group's financial instruments at the carrying amounts, categorised by currency:

Concentration of foreign denominated currency financial instruments

	ZMW N$'000	NAD N$'000	US$ N$'000	€ N$'000	£ N$'000	Other N$'000	Total N$'000
Group							
As at 30 June 2013							
ASSETS							
Cash and balances with the central bank	-	826,104	23,501	2,829	19	183	852,636
Derivative financial instruments	-	-	-	-	-	12,188	12,188
Financial assets designated at fair value through profit or loss	-	1,493,165	-	-	-	-	1,493,165
Investment securities	-	62,642	54,715	-	3,089	-	120,446
Due from other banks	32,800	3	148,324	30,050	265	39,913	251,355
Loans and advances to customers	-	17,645,771	3,903	2,048	240	-	17,651,962
Other assets	-	156,013	-	-	-	-	156,013
Total financial assets	32,800	20,183,698	230,443	34,927	3,613	52,284	20,537,765
Non-financial assets	-	400,843	-	-	-	-	400,843
Total assets	32,800	20,584,541	230,443	34,927	3,613	52,284	20,938,608
LIABILITIES							
Derivative financial instruments	-	-	-	-	-	7,792	7,792
Due to other banks	31,966	100,000	-	-	-	34,993	166,959
Debt securities in issue	-	1,323,976	-	-	-	-	1,323,976
Deposits from customers	-	12,805,061	184,927	31,627	1,361	-	13,022,976
Other deposits	-	3,511,815	-	-	-	-	3,511,815
Other liabilities	-	214,974	-	-	-	-	214,974
Total financial liabilities	31,966	17,955,826	184,927	31,627	1,361	42,785	18,248,492
Non-financial liabilities	-	66,058	-	-	-	-	66,058
Total liabilities	31,966	18,021,884	184,927	31,627	1,361	42,785	18,314,550
Total equity	-	2,624,058	-	-	-	-	2,624,058
Total equity and liabilities	31,966	20,645,942	184,927	31,627	1,361	42,785	20,938,608
Net financial position of financial instruments	834	2,227,872	45,516	3,300	2,252	9,499	2,289,273
Credit commitments	-	339	24,506	347	-	11,662	36,854
As at 30 June 2012							
Total financial assets	-	18,306,433	204,767	30,136	4,551	36,928	18,582,815
Total non-financial assets	-	338,235	-	-	-	-	338,235
Total assets	-	18,644,668	204,767	30,136	4,551	36,928	18,921,050

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.3.2 Foreign currency risk (continued)

Concentration of foreign denominated currency financial instruments (continued)

	ZMW N$'000	NAD N$'000	US$ N$'000	€ N$'000	£ N$'000	Other N$'000	Total N$'000
Group							
As at 30 June 2012							
Total financial liabilities	216	16,626,754	174,503	29,986	2,642	44,605	16,878,706
Non-financial liabilities	-	155,285	-	-	-	-	155,285
Total liabilities	216	16,782,039	174,503	29,986	2,642	44,605	17,033,991
Total equity	-	1,887,059	-	-	-	-	1,887,059
Total equity and liabilities	216	18,669,098	174,503	29,986	2,642	44,605	18,921,050
Net financial position of financial instruments	(216)	1,679,679	30,264	150	1,909	(7,677)	1,704,109
Credit commitments	-	161,021	26,176	4,821	-	26,535	218,553

'Other' foreign currency exposures included in the table above relate mainly to exposures to the South African rand.

The following exchange rates (number of units of Namibian dollar per unit of foreign currency) were used on conversion of foreign currency monetary items at the reporting date:

	2013	2012	
USD	9.88	8.13	
GBP	14.99	12.77	
EUR	12.84	10.32	
ZAR	1.00	1.00	
ZMW (2012: ZMK)	0.55	625.61	(note 1)

Note 1: The significant movement in the Zambian KWACHA from June 2012 to June 2013 is due to a KWACHA rebasing that occurred during the current year. The currency has been rebased from ZMK 1,000 to ZMW 1 by removing the last three digits.

	Effect on net profit 2013 N$'000	2012 N$'000
The following is a sensitivity analysis, monitored on the following major currencies of non-equity instruments, where a 3.5% change arisen on the various currencies:		
US dollar / Namibian dollar	15,732	8,615
Euro / Namibian dollar	1,483	54
British pound / Namibian dollar	1,182	853
The following effect of 3.5% change would arise on equity instruments:		
Effect of British pound denominated equity instrument on equity	108	148
Effect of US dollar denominated equity instrument on equity	1,915	1,093

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.3.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored monthly.

Assets and liabilities are classified as interest-sensitive if the interest rate is floating (classified in the 'up to 1 month' bucket) or if the interest rate applied to the outstanding principal balance fluctuates contractually during its lifespan (classified at the earliest of reprise or maturity). The key assumption made is that when an asset or liability matures within a certain bucket, the principal amount will be reprised. If an asset matures the proceeds are reinvested and, when any liability matures the liability is replaced with new funding.

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

I) Interest rate risk analysis

	Up to 1 month N$'000	1 – 3 months N$'000	3 – 12 months N$'000	More than 1 year N$'000	Non-interest sensitive N$'000	Total N$'000
Group						
As at 30 June 2013						
ASSETS						
Cash and balances with the central bank	488,914	-	-	-	363,722	852,636
Derivative financial instruments	12,188	-	-	-	-	12,188
Financial assets designated at fair value through profit or loss	296,449	505,867	681,724	9,125	-	1,493,165
Investment securities	62,642	-	-	-	57,804	120,446
Due from other banks	251,355	-	-	-	-	251,355
Loans and advances to customers	17,445,439	93	1,946	171,031	33,453	17,651,962
Other assets	47,943	-	-	-	108,070	156,013
Total financial assets	18,604,930	505,960	683,670	180,156	563,049	20,537,765
Non-financial assets	-	-	-	-	400,843	400,843
Total assets	18,604,930	505,960	683,670	180,156	963,892	20,938,608
LIABILITIES						
Derivative financial instruments	7,792	-	-	-	-	7,792
Due to other banks	166,959	-	-	-	-	166,959
Debt securities in issue	25,800	500,105	380,861	417,210	-	1,323,976
Deposits from customers	11,236,825	697,549	1,083,673	4,929	-	13,022,976
Other deposits	57,337	2,430,466	935,012	89,000	-	3,511,815
Other liabilities	-	-	-	-	214,974	214,974
Total liabilities	11,494,713	3,628,120	2,399,546	511,139	214,974	18,248,492
Total non-financial liabilities	-	-	-	-	66,058	66,058
Total liabilities	11,494,713	3,628,120	2,399,546	511,139	281,032	18,314,550
Total equity	-	-	-	-	2,624,058	2,624,058
Total equity and liabilities	11,494,713	3,628,120	2,399,546	511,139	2,905,090	20,938,608

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.3.3 Interest rate risk (continued)

i) Interest rate risk analysis (continued)

	Up to 1 month N$'000	1 – 3 months N$'000	3 – 12 months N$'000	More than 1 year N$'000	Non-interest sensitive N$'000	Total N$'000
Group						
As at 30 June 2013						
Interest sensitivity gap (financial instruments)	7,110,217	(3,122,160)	(1,715,876)	(330,983)	348,075	2,289,273
Cumulative interest sensitivity gap (financial instruments)	7,110,217	3,988,057	2,272,181	1,941,198	2,289,273	-
As at 30 June 2012						
Interest sensitivity gap (financial instruments)	5,685,141	(2,827,496)	(1,179,241)	(274,628)	300,334	1,704,110
Cumulative interest sensitivity gap (financial instruments)	5,685,141	2,857,645	1,678,404	1,403,776	1,704,110	-

The interest rate sensitivity gap is determined based on methodology applied when reviewing interest rate risk. The June 2012 interest sensitivity gap has been restated to reflect the same methodology applied for June 2013.

ii) Interest rate sensitivity analysis

An interest sensitivity analysis shows how net interest income will perform under a variety of scenarios. The sensitivities below measure the effect of overall changes in interest rates on profit or loss (net interest income) as defined by the bank's interest rate modelling tool. The extent of the shock (50, 100 or 200 basis points) is applied to all interest rates in the system and the effects of these shocks are detailed below.

	2013 N$'000	2012 N$'000
The following interest-rate sensitivity is based on the effect of changes to the interest rate over a six-month period on net interest income:		
100 basis points increase	23,785	28,935
– Increase in interest income	106,567	91,773
– Increase in interest expense	(82,782)	(62,838)
100 basis points decrease	(30,004)	(29,638)
– Decrease in interest income	(105,455)	(90,773)
– Decrease in interest expense	75,451	61,135
The following interest-rate sensitivity is based on the effect of changes to the interest rate over a twelve-month period on net interest income:		
50 basis points increase	19,168	20,417
– Increase in interest income	111,415	88,572
– Increase in interest expense	(92,247)	(68,155)
50 basis points decrease	(20,926)	(20,208)
– Decrease in interest income	(110,307)	(87,520)
– Decrease in interest expense	89,381	67,312
100 basis points increase	38,549	40,961
– Increase in interest income	222,826	177,182
– Increase in interest expense	(184,277)	(136,221)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.3.3 Interest rate risk (continued)

ii) Interest rate sensitivity analysis (continued)

	2013 N$'000	2012 N$'000
The following interest-rate sensitivity is based on the effect of changes to the interest rate over a twelve-month period on net interest income (continued)		
100 basis points decrease	(51,278)	(42,117)
– Decrease in interest income	(220,568)	(175,005)
– Decrease in interest expense	169,290	132,888
200 basis points increase	77,949	82,426
– Increase in interest income	445,635	354,513
– Increase in interest expense	(367,686)	(272,087)
200 basis points decrease	(120,484)	(104,453)
– Decrease in interest income	(441,097)	(349,978)
– Decrease in interest expense	320,613	245,525
The following interest-rate sensitivity is based on the effect of changes to the interest rate on financial assets classified as available-for-sale on net interest income:		
100 basis points increase	3,271	3,124
100 basis points decrease	(3,271)	(3,124)

In non-banking group companies, the effect of 100 basis point increase or decrease on the net profit and equity would have been N$0.10 million (2012: N$0.14 million).

3.3.4 Price risk

The group is exposed to equity securities price risk because of investments held by the group and classified as available-for-sale. These securities are listed on the FTSE and NYSE.

The group generally does not undertake equity exposure.

The exposure arose due to specific circumstances and are managed individually.

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

	2013 N$'000	2012 N$'000
Effect on equity	5,780	3,123
Effect on net profit before taxation	-	422

3.3.5 Market risk capital charge

The following capital charges have been assigned to the components of market risk for the banking group, as defined in BID 5 – 'Determination on capital adequacy':

	Capital charges	
	2013 N$'000	2012 N$'000
Interest rate risk	5,249	6,084
Foreign exchange risk	8,584	9,325

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.4 Liquidity risk

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

Liquidity risk is inherent in the bank's business endeavours and represents the ability of the bank to fund increases in assets and meet its financial obligations in a timely manner as they come due without incurring excessive costs, while complying with all statutory and regulatory requirements. The Liquidity risk management policy sets out the minimum liquidity risk management requirements for the bank. Under the policy, the bank is required to manage current and future liquidity positions in a prudent manner. This policy formalises the liquidity risk management process of the bank, the goal of which is to:

- maintain liquidity risk at a manageable level through assessment and monitoring;
- assess and advise against any permanent or temporary adverse changes to the liquidity position of the bank;
- set and monitor limits for funding mix, investment products and client exposures;
- monitor all applicable financial and statutory ratios; and
- identify those liquidity triggers that may entail the activation of the Contingency funding plan.

The policy sets out rules to effectively control liquidity risk within the risk-return parameters dictated by the board of directors' risk appetite.

The policy aims to protect depositors, creditors, shareholders and other stakeholders of the bank by establishing rules and directions for identifying and managing the resolution of possible serious liquidity problems.

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

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

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

- daily monitoring of liquid assets;
- proactive identification of liquidity requirements and maturing assets;
- liquid asset minimum limit;
- proactive identification of short, medium and long-term liquidity requirements; and
- relationship management with other financial institutions.

In general the bank does not engage in complex activities or structures and therefore it is considered unnecessary to employ sophisticated and expensive models when determining liquidity needs under various scenarios. A basic but thorough forward looking analysis is conducted in the day-to-day, as well as monthly analysis of liquidity positions, needs and risks. Limits and rules stipulated in the Liquidity risk management policy and by ALCO form the basis for daily quotes on deposits to ensure that an optimal mix and concentrations are maintained.

The bank must at all times hold an adequate liquid asset surplus which:

- includes a buffer portion;
- is additional to credit lines;
- is adequate to cater for unexpected outflows; and
- is simultaneously limiting the effect this surplus has on interest margins.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.4 Liquidity risk (continued)

Liquidity risk analysis

The table below presents the cash flows payable by the group by remaining contractual maturities at the date of the consolidated statement of financial position.

The amounts disclosed in the table are the contractual undiscounted cash flows, hence it does not reconcile to the values reflected on the statement of financial position:

	Call to 1 month N$'000	1 – 3 months N$'000	3 – 12 months N$'000	1 – 5 years N$'000	Over 5 years N$'000	Total N$'000
FINANCIAL LIABILITIES						
As at 30 June 2013						
Derivative financial instruments	249	1,151	2,940	3,989	-	8,329
Due to other banks	166,959	-	-	-	-	166,959
Debt securities in issue	2,591	19,823	640,800	807,250	-	1,470,464
Deposits from customers	10,503,647	1,583,226	1,142,785	5,574	4,955	13,240,187
Other deposits	204,934	374,550	1,924,240	1,312,253	-	3,815,977
Other liabilities	214,974	-	-	-	-	214,974
Total liabilities (contractual maturity dates)	11,093,354	1,978,750	3,710,765	2,129,066	4,955	18,916,890
Commitments – (refer to note 3.2.7 for collateral held over commitments)	2,178,851	-	-	-	-	2,178,851
Loan commitments and other credit-related liabilities	1,199,093	-	-	-	-	1,199,093
Liabilities under guarantees	948,243	-	-	-	-	948,243
Letters of credit	31,515	-	-	-	-	31,515
As at 30 June 2012						
Derivative financial instruments	-	699	-	-	-	699
Due to other banks	237,611	-	-	-	-	237,611
Debt securities in issue	77,448	-	279,288	685,101	-	1,041,837
Deposits from customers	9,402,347	1,431,798	1,273,427	116,162	-	12,223,734
Other deposits	380,652	389,084	1,975,905	864,677	-	3,610,318
Other liabilities	197,798	-	-	-	-	197,798
Total liabilities (contractual maturity dates)	10,295,856	1,821,581	3,528,620	1,665,940	-	17,311,997
Commitments – (refer to note 3.2.7 for collateral held over commitments)	3,000,360	-	-	-	-	3,000,360
Loan commitments and other credit-related liabilities	1,605,525	-	-	-	-	1,605,525
Liabilities under guarantees	1,176,771	-	-	-	-	1,176,771
Letters of credit	218,064	-	-	-	-	218,064

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.5 Fair values of financial assets and liabilities

(a) Fair value estimation

The group is presumed to be a going concern and the fair value methodology is therefore appropriate. Fair value is the current price to purchase an asset or to transfer a liability. Such a transaction is characterised by an arm's length and orderly transaction in a free market (neither party is compelled to act), between hypothetical willing, able and well-informed market participants. In addition, the fair value methodology is utilised to accurately reflect the current market conditions and the appropriate market price of such a transaction on the reporting date.

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices at the reporting date. The active market should be characterised by sufficient supply and demand by market participants, supported by adequate frequency and volumes to accurately approximate the true market price of such a transaction on an ongoing basis. The quoted market price used for financial assets held by the group is the price within the current bid-ask-price, which is the most representative of fair value.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques to approximate the fair value. The bank uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. These valuation techniques include quoted market prices or dealer quotes for similar instruments in active and inactive markets, and discounted cash flow valuation techniques.

i) Cash and balances with the central bank

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

ii) Derivative financial instruments

Derivative financial instruments are classified as fair value through profit or loss using valuation techniques supported by observable market prices or rates (exchange traded). Over-the-counter transactions are also measured at fair value based on the following valuation techniques:

- Forward contracts are valued based on the daily mark-to-market value of the forward contract. The market rates are obtained from the Thompson Reuters foreign currency rate platform. Spot foreign currency transactions not yet matured are marked-to-market based on end of trading day quoted Thompson Reuters market rates.
- Interest rate swaps are valued by discounting the expected future fixed and floating interest rate cash flow streams with the applicable South African money market yield curves. The future fixed rate cash flows are based on the terms of the contractual agreements, while the floating rate cash flows are approximated using the estimated forward rate yield curve in line with contractual agreements.
- Option contract values are determined using the Black-Scholes pricing model, utilising real-time market data on the required inputs.

iii) Financial assets designated at fair value through profit or loss

Treasury bills

Treasury bills are designated at fair value through profit or loss based on the discounted valuation technique using quoted market prices and rates.

Government stock

Government stock and other bonds guaranteed by either the Namibian or South African governments are designated at fair value based on the discounted valuation technique using quoted market prices. The Bond Exchange of South Africa bond pricing model is utilised to determine the fair value.

Money market investments

For money market investments, the carrying value is assumed to represent its fair value.

iv) Investment securities

Investment securities – listed

For listed investment securities, the fair value is derived by using stock market prices, adjusted for any restrictions on its tradability.

Investment securities – unlisted

For endowment policies, the carrying value approximates its fair value.

v) Due to and from other banks

Amounts due to and from other banks include interbank placements. The carrying amount of overnight deposits represents its fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.5 Fair values of financial assets and liabilities (continued)

(a) Fair value estimation (continued)

vi) Loans and advances to customers

The loans and advances to customers are recognised at amortised cost. The fair value is determined for disclosure purposes by discounting the future expected cash flows using observable market inputs, such as the prime rate, as appropriate. For short maturity loans and advances the carrying value is designated as fair value. Unobservable market inputs are developed using the best information available that market participants would use when pricing the loan. The credit risk will be approximated by the carrying values of defaulted and provisioned accounts. Refer to note 3.5 (b) below for the disclosure of the fair value of loans and advances.

vii) Other assets

The nominal values less impairment provision of trade receivables and payables are assumed to approximate their fair value, due to the short-term nature of these assets and liabilities. For insurance assets and the remaining other assets the carry value approximates its fair value.

viii) Deposits and borrowings

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

ix) Debt securities in issue

Financial instruments included in this category include senior debt, promissory notes, callable bonds and preference shares issued. The fair value of issued debt securities other than preference shares is estimated by discounting the future contractual cash flows at the available market interest rate. Quoted prices for similar instruments are utilised in the event that active prices are not available. The fair values of these instruments were N$1.3 billion (2012: N$0.9 billion). The fair value of the issued preference shares approximates the carrying value, due to the floating rate nature of the instruments. Refer to note 26.

x) Other deposits

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

xi) Financial instruments not recorded on the statement of financial position

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

(b) Fair value hierarchy

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.5 Fair values of financial assets and liabilities (continued)

Assets and liabilities measured at fair value

	Level 1 N$'000	Level 2 N$'000	Total N$'000
As at 30 June 2013			
Financial assets designated at fair value through profit or loss			
Debt securities	-	1,493,165	1,493,165
Financial assets at fair value through profit or loss			
Derivative financial instruments	-	12,188	12,188
Available-for-sale financial assets			
Debt securities	-	62,642	62,642
Equity securities	57,804	-	57,804
	57,804	1,567,995	1,625,799
Financial liabilities at fair value through profit or loss			
Derivative financial instruments	-	7,792	7,792
As at 30 June 2012			
Financial assets designated at fair value through profit or loss			
Debt securities	-	1,519,584	1,519,584
Equity securities	4,216	-	4,216
Available-for-sale financial assets			
Debt securities	-	320,469	320,469
Equity securities	31,229	-	31,229
	35,445	1,840,053	1,875,498
Financial liabilities at fair value through profit or loss			
Derivative financial instruments	-	699	699

No transfers between level 1 and level 2 fair value measurements occurred during the year under review.

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

	2013		2012	
	Carrying value N$'000	Fair value N$'000	Carrying value N$'000	Fair value N$'000
Financial assets				
Loans and advances to customers (note 18)	17,651,962	17,874,936	15,484,932	15,760,458

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.6 Capital management

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

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

Capital management for the banking group

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

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

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

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

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

During 2012, the Bank of Namibia introduced BID 24 – 'Consolidated supervision', which denotes consolidation rules only for the purposes of computing regulatory minimum capital requirements. These rules do not impact on accounting consolidation of banking groups, which is done in accordance with IFRS. Although regulatory consolidation may track the accounting consolidation, it is not identical because of a different approach that is prescribed or required for treatment of certain types of transactions and / or subsidiaries. According to the statutory framework, the group entities are treated as follows in the Bank Windhoek Holdings group:

Subsidiaries:	**Consolidated supervision approach**	**Accounting consolidation approach**
Bank Windhoek Ltd	Full consolidation	Full consolidation
Namib Bou (Pty) Ltd	Deduction approach	Full consolidation
Welwitschia Nammic Insurance Brokers (Pty) Ltd	Deduction approach	Full consolidation
Associates:	**Consolidated supervision approach**	**Accounting consolidation approach**
Sanlam Namibia Holdings (Pty) Ltd	Deduction approach	Equity accounted associate
Santam Namibia Ltd	Deduction approach	Equity accounted associate

Deduction approach means deductions of 50 per cent of the cost of investment in the affiliate is made from Tier 1 capital and 50 per cent from Tier 2 capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.6 Capital management (continued)

The table below summarises the composition of regulatory capital and the ratios of Bank Windhoek Ltd and the Bank Windhoek Holdings group for the years ended 30 June, at both bank solo and consolidated supervision level. During these two years, the individual entities within the group complied with all of the externally-imposed capital requirements to which they are subjected.

	Bank Windhoek Ltd		Bank Windhoek Holdings Group	
	2013 N$'000	2012 N$'000	2013 N$'000	2012 N$'000
Tier 1 capital				
Share capital and premium	485,000	163,506	475,116	102,114
General banking reserves	1,588,834	1,331,214	1,588,834	1,331,214
Retained earnings	30,524	18,497	355,833	204,160
Sub-total	2,104,358	1,513,217	2,419,783	1,637,488
Deduct: 50% investments in group entities				
Goodwill	-	-	48,507	46,747
50% investments in deconsolidated financial subsidiaries, significant minority and majority insurance entities and significant commercial entities	-	-	55,138	47,647
Net total Tier 1 capital	2,104,358	1,513,217	2,316,138	1,543,094
Tier 2 capital				
Subordinated debt	311,710	312,002	462,511	465,972
Five-year callable bonds	311,710	312,002	311,710	312,002
Preference shares	-	-	150,801	153,970
Portfolio impairment	196,321	155,478	196,321	155,478
Sub-total	508,031	467,480	658,832	621,450
Deduct: 50% investments in group entities				
50% investments in deconsolidated financial subsidiaries, significant minority and majority insurance entities and significant commercial entities	-	-	55,138	47,647
Net total Tier 2 capital	508,031	467,480	603,694	573,803
Total regulatory capital	2,612,389	1,980,697	2,919,832	2,116,897
Risk-weighted assets:				
Operational risk	1,686,357	1,411,115	1,710,837	1,443,969
Credit risk	15,731,715	14,153,667	15,739,999	14,156,077
Market risk	138,325	154,084	138,325	154,084
Total risk-weighted assets	17,556,397	15,718,866	17,589,161	15,754,130

The increase in risk-weighted assets during the year is mainly attributable to the increase in credit risk, which relates to the growth in loans and advances. Operational risk increased in line with growth in gross income.

Capital adequacy ratios:				
Leverage capital ratio	10.1%	8.1%	11.4%	8.6%
Tier 1 risk-based capital ratio	12.0%	9.6%	13.2%	9.8%
Total risk-based capital ratio	14.9%	12.6%	16.6%	13.4%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

3.6 Capital management (continued)

In addition to the above minimum capital requirements, the Bank of Namibia requires Bank Windhoek to perform an internal capital adequacy and assessment process (ICAAP) in terms of Pillar II of BASEL II, which has been documented and approved by the board. The process results in:

- the identification of all significant risk exposures to the banking group;
- the quantification of risk appetites for the major risks identified; and
- control measures to mitigate the major risks.

Based on the ICAAP assessment performed on 30 November 2012, which includes a capital projection for the next five years, it is envisaged that the group will be able to maintain its capital ratios and will not require additional capital above the minimum requirements.

4. Critical accounting estimates and judgements in applying accounting policies

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

(a) Impairment losses on loans and advances

Estimates in assessing the general impairment are dependent on the analysis of historical data relating to probability of default, emergence period and loss given default. Specific impairment is triggered for individual non-performing loans. Non-performing loans comprises loans due and unpaid for longer than 90 days.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 18 for a detailed analysis of the impairment of loans and advances.

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

The group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. There was no such evidence requiring impairment for the year ended 30 June 2013.

(c) Fair value of financial instruments

The fair value of financial instruments requires the use of estimates and judgements. Refer to 3.5 above for methodology and assumptions utilised.

(d) Post-employment benefits

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

(e) Equity-settled share-based payments

For share-based payment transactions among group entities, in its separate or individual financial statements, the entity receiving the goods or services shall measure the goods or services received as either an equity-settled or a cash-settled share-based payment transaction by assessing:

- the nature of the awards granted; and
- its own rights and obligations.

The amount recognised by the entity receiving the goods or services may differ from the amount recognised by the consolidated group or by another group entity settling the share-based payment transaction.

The entity receiving the goods or services shall measure the goods or services received as an equity-settled share-based payment transaction when:

- the awards granted are its own equity instruments; or
- the entity has no obligation to settle the share-based payment transaction.

In terms of the share purchase scheme arrangement, the awards granted are Bank Windhoek Holdings Ltd shares, thus the share purchase scheme is treated as equity-settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

4. Critical accounting estimates and judgements in applying accounting policies (continued)

IFRS 2 requires an entity to measure the fair value of the employee services received by reference to the fair value of the equity instruments granted. This fair value depends on a number of factors that are determined on an actuarial basis, at grant date, using a number of assumptions. Any changes in these assumptions will impact the expense and share-based compensation reserve created at grant date. The valuation technique used to determine the cost at grant date is the Black-Scholes valuation model and includes assumptions such as share price, volatility and a risk-free interest rate. Additional information is disclosed in note 34.

(f) Impairment of goodwill

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash generating units ('CGU') has been determined based on value-in-use calculations, being the net present value of the discounted cash flows of the CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in note 23.

(g) Assumptions used in directors' valuation for investments in subsidiaries, associates and joint ventures

Valuations of operating entities are normally done on a price: earnings or price: book basis, whichever is most appropriate. Life insurance companies are valued using appropriate price: embedded value ratios. Investment holding companies are valued on the sum-of-the-parts basis. Actual transaction values where shares were traded are also taken into account to support the valuations. Where information is not available to apply these valuation methods, subsidiaries, associates and joint ventures are valued at net asset value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

5. Net interest income

	Group 2013 N$'000	Group 2012 N$'000
Interest and similar income		
Amortised cost		
Loans and advances	1,591,340	1,399,915
Cash and short-term funds	34,942	41,648
Other	-	600
Fair value		
Financial assets designated at fair value through profit or loss	68,528	67,737
Treasury bills	67,474	66,059
Government stock and other investments	1,054	1,678
Available-for-sale financial assets	13,286	16,012
	1,708,096	1,525,912
Interest and similar expenses		
Amortised cost		
Term deposits (fixed, notice and negotiable certificates of deposits)	412,936	370,218
Current, demand and savings accounts	317,880	320,223
Debt securities in issue	62,695	51,579
Other	131	834
	793,642	742,854

6. Impairment charges on loans and advances

	Group 2013 N$'000	Group 2012 N$'000
Increase in specific impairment (note 18)	21,775	20,058
Increase in portfolio impairment (note 18)	6,193	5,644
Amounts recovered during the year	(1,165)	(459)
	26,803	25,243

7. Non-interest income

7.1. Fee and commission income

	Group 2013 N$'000	Group 2012 N$'000
Transaction and related fees	395,814	338,512
Commissions	14,845	11,036
Trust and other fiduciary fees	5,702	5,607
	416,361	355,155
Fee and commission income, by category		
– Financial instruments at amortised cost	385,597	328,651
– Financial instruments at fair value through profit or loss	-	315
– Non-financial assets and liabilities	20,547	16,328
– Income from guarantees and letters of credit	10,217	9,861
	416,361	355,155

7.2. Net trading income

	Group 2013 N$'000	Group 2012 N$'000
Net foreign exchange gains and losses from trading assets	41,233	36,767
Net gain from financial instruments designated at fair value through profit or loss	4,976	5,242
	46,209	42,009

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

7.2. Net trading income (continued)

	Group		Company	
	2013 N$'000	2012 N$'000	2013 N$'000	2012 N$'000

Net foreign exchange gains and losses from trading assets includes gains and losses from spot and forward contracts and translation of foreign currency assets and liabilities.

Net gain from financial instruments designated at fair value through profit or loss includes the gains and losses from treasury bills, government stock and derivatives.

7.3. Other operating income

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
Brokerage commission	45,397	43,566	-	-
Dividend received – ordinary shares	234	-	203,682	154,589
Dividend received – BW Corporate funds (deemed interest)	3,273	6,122	2,773	5,309
Interest received	2,149	2,600	666	236
Management fees received	810	963	-	-
Profit on sale of property, plant and equipment	393	79	-	-
Profit on sale of subsidiary	-	7,048	-	-
Construction contract profit	572	-	-	-
Support services rendered	7,132	3,078	-	-
Other	661	2,712	30	3,572
	60,621	66,168	207,151	163,706
Other operating income, by category				
– Financial instruments at amortised cost	5,422	8,591	3,439	5,545
– Financial instruments at fair value through other comprehensive income	234	131	-	-
– Non-financial assets and liabilities	54,965	57,446	203,712	158,161
	60,621	66,168	207,151	163,706
Total non-interest income	523,191	463,332	207,151	163,706

8. Staff costs

	Group 2013 N$'000	Group 2012 N$'000
Wages and salaries	377,497	370,268
Share-based payment expense	9,942	7,276
Granted to directors	710	-
Granted to employees as part of the share based purchase scheme	932	7,276
Granted to employees as part of a once-off share allocation	8,300	-
Staff training and transfer costs	4,479	4,737
Pension costs – defined contribution plan	26,644	22,858
Severance pay liability (note 31.1)	1,167	251
	419,729	405,390

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

9. Operating expenses

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
Expenses by nature				
Advertising and marketing	17,055	15,679	198	-
Amortisation of intangible assets (note 23)	3,182	3,020	-	-
Impairment of intangible assets (note 23)	-	673	-	-
Association transaction fees	44,852	33,265	-	-
Auditor's remuneration				
– Audit fees	2,089	2,534	142	117
– Fees for other services	242	415	-	-
Cash handling	5,142	4,887	-	-
Commission	4,778	4,571	-	-
Directors' emoluments				
Non-executive directors (note 41)	-	-	588	490
Depreciation of property, plant and equipment (note 24)	28,755	29,065	-	-
Finance costs	9,384	11,896	9,384	9,660
Intragroup consultancy and management fees	6,272	10,620	1,001	3,414
Loss on disposal of associate (note 43)	162	-	288	-
Operating lease rentals – immovable property	43,294	40,948	-	-
Professional services	31,347	21,569	-	-
Repairs and maintenance	15,833	16,008	-	-
Royalties paid on trademark	648	675	-	-
Technology costs	34,481	31,992	-	-
Travelling	4,573	5,095	-	-
Security expenses	7,291	6,355	-	-
Staff costs (note 8)	419,729	405,390	-	-
Stamp duty	11,880	6,531	-	-
Stationery and printing	10,130	9,213	-	-
Sub-agents commission	796	773	-	-
Subscription fees	5,492	4,580	-	-
Telephone, postage and courier costs	13,067	13,256	-	-
Valuation fees	1,404	503	-	-
Water and electricity	12,349	10,297	-	-
Other expenses	28,532	16,700	707	129
	762,759	706,511	12,308	13,810

Research and development costs of N$313,229 are included in operating expenses above.

10. Share of associates' results after tax

	Group 2013 N$'000	Group 2012 N$'000
Profit before taxation	74,527	66,948
Taxation	(14,082)	(13,605)
	60,445	53,343

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

11. Income tax expense

	Group		Company	
	2013 N$'000	2012 N$'000	2013 N$'000	2012 N$'000
11.1 Normal tax				
Current tax	310,886	164,358	222	74
– current year	310,682	164,358	222	74
– prior year	204	-	-	-
Deferred tax	(94,438)	3,012	-	-
– current year	(94,239)	3,012	-	-
– prior year	(199)	-	-	-
Total normal tax	216,448	167,370	222	74
11.2 Tax rate reconciliation				
The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:				
Profit before tax and share of associates' results after tax	649,274	516,638	194,843	149,896
Tax at the applicable tax rate of 34% (2012: 34%)	220,753	175,657	66,247	50,965
Prior year adjustment	5	-	-	-
Non-taxable income	(6,765)	(10,663)	(70,210)	(54,419)
Non-deductible expenses	5,245	6,820	4,185	3,528
Tax losses not utilised	-	394	-	-
Utilised tax loss previously not recognised	629	-	-	-
Deferred tax rate change	(1,244)	-	-	-
Special allowance	(2,326)	(4,838)	-	-
Other	151	-	-	-
Income tax expense	216,448	167,370	222	74
Effective tax rate	33.34%	32.40%	0.11%	0.05%

As per the Government Gazette of 31 May 2013, the tax rate has been decreased from 34% to 33%, for all years of assessments starting on or after 1 January 2013. Therefore the lower tax rate will only be effective for the entity in the 2014 financial year. Deferred tax has been recognised at the expected future rate of 33%.

12. Earnings and headline earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to equity holders of the group, obtained from profit or loss, by the weighted average number of ordinary shares in issue during the year.

Headline earnings per share is calculated by dividing the group's attributable earnings to equity holders after excluding identifiable remeasurements, net of tax and non-controlling interest, by the weighted average number of ordinary shares in issue during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

12. Earnings and headline earnings per share (continued)

	2013			
	Gross N$'000	Taxation N$'000	Non-controlling interest N$'000	Net N$'000
Earnings				
Net profit attributable to the equity holders of the group				493,271
Headline adjustments	1,465	130	-	1,595
Loss on disposal of the associate	162	-	-	162
Remeasurement included in equity accounted earnings	1,696	-	-	1,696
Disposal gains on sale of property, plant and equipment	(393)	130	-	(263)
Headline earnings				494,866

	2012			
	Gross N$'000	Taxation N$'000	Non-controlling interest N$'000	Net N$'000
Earnings				
Net profit attributable to the equity holders of the group				399,803
Headline adjustments	(11,744)	(196)	6,986	(4,954)
Gains on the loss of control of a subsidiary	(14,034)	-	6,986	(7,048)
Impairment of intangible assets	673	(222)	-	451
Remeasurement included in equity accounted earnings	1,696	-	-	1,696
Disposal gains on sale of property, plant and equipment	(79)	26	-	(53)
Headline earnings				394,850

	Group	
	2013 N$'000	2012 N$'000
Number of ordinary shares in issue at year-end ('000) before the share split		113,119
Number of ordinary shares in issue at year-end after the share split ('000)	493,135	452,475
Adjusted for shares issued during the year ('000)	(37,983)	(1,087)
Weighted average number of ordinary shares in issue during the year ('000)	455,152	451,388
Diluted weighted average number of ordinary shares in issue during the year ('000)	455,152	451,388
Earnings per ordinary share (cents)		
Basic	108	89
Fully diluted	108	89
Headline earnings per ordinary share (cents)		
Basic	109	87
Fully diluted	109	87

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

13. Cash and balances with the central bank

	Group		Company	
	2013 N$'000	2012 N$'000	2013 N$'000	2012 N$'000
Cash balances	182,695	180,012	169,625	19,506
Balances with the central bank other than mandatory reserve deposits	488,914	539,387	-	-
Included in cash and cash equivalents	671,609	719,399	169,625	19,506
Mandatory reserve deposits with the central bank	181,027	161,660	-	-
	852,636	881,059	169,625	19,506

Mandatory reserve deposits are not available for use in the group's day-to-day operations. Cash and bank balances as well as balances with the central bank and mandatory reserve deposits are non-interest-bearing. For reclassifications, refer to note 48.

14. Derivative financial instruments

Assets

	Group 2013 N$'000	Group 2012 N$'000
Interest rate swaps	12,188	-
	12,188	-

Interest rate swaps are commitments to exchange one set of cash flows for another and result in an economic exchange of a fixed rate for a floating rate or vice versa. No exchange of principal takes place.

Liabilities

	Group 2013 N$'000	Group 2012 N$'000
Interest rate swaps	7,792	699

Interest rate swaps are commitments to exchange one set of cash flows for another and result in an economic exchange of a fixed rate for a floating rate or vice versa. No exchange of principal takes place.

The notional principal amount of the outstanding interest rate swap contracts at 30 June 2013 was N$1,121.5 million (2012: N$293.5 million).

	Group 2013 N$'000	Group 2012 N$'000
Current	1,097	699
Non-current	3,299	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

15. Financial assets designated at fair value through profit or loss

	Group		Company	
	2013 N$'000	2012 N$'000	2013 N$'000	2012 N$'000
Treasury bills	1,228,664	1,322,315	-	-
Government stock	9,125	65,941	-	-
Equity securities	-	4,216	-	-
Money market investments	255,376	131,328	54,012	114,225
	1,493,165	1,523,800	54,012	114,225
Current	1,484,040	1,519,584	54,012	114,225
Non-current	9,125	4,216	-	-
	1,493,165	1,523,800	54,012	114,225
The following represents the amortised costs of instruments where this differs from the fair value:				
Treasury bills	1,229,390	1,321,443		
Government stock	9,345	65,838		

Refer to note 3.5 for fair value methodology used.

Treasury bills and government stocks are securities issued by the Namibian treasury department for a term of three months, six months, a year or longer. Treasury bills and government stock with a maturity of less than 90 days from the reporting date, as well as money market investments are included in cash and cash equivalents for the purposes of the cash flow statement. Refer to note 40.

The above mentioned debt securities are managed and their performance evaluated on a fair value basis in accordance with a documented risk management strategy. Treasury bills with a nominal value of N$360 million (2012: N$315 million) are available at the Bank of Namibia for collateral should the need arise. At year-end, there were no treasury bills utilised for security purposes (2012: NIL) at the Bank of Namibia, although N$150 million (2012: N$235 million) of treasury bills have been collateralised under a sale-and-buyback agreement.

For reclassifications, refer to note 48.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

16. Investment securities

	Group 2013 N$'000	Group 2012 N$'000
Available-for-sale		
Investment securities – Listed [1]	57,804	31,229
Investment securities – Unlisted [2]	62,642	320,469
	120,446	351,698
The movement during the year is summarised as follows:		
Opening balance	351,698	321,651
Matured [2]	(271,113)	-
Interest capitalised	13,286	16,012
Fair value gains	22,359	14,035
Additions	4,216	-
	120,446	351,698

Refer to note 3.5 for fair value methodology used.

[1] Listed shares are held as follows: 6,583,247 shares in Weatherley International Plc, 13,035 shares in Dundee Precious Metals Inc, 28,308 shares in China Africa Resources Plc and 30,304 shares in Visa Inc.

[2] Sanlam joint life single premium endowment policy

	Group 2013 N$'000	Group 2012 N$'000
Current	120,446	292,003
Non-current	-	59,695
	120,446	351,698

17. Due from other banks

	Group 2013 N$'000	Group 2012 N$'000
Placement with other banks	251,355	211,032

Placements with other banks are callable on demand and are therefore current assets.

18. Loans and advances to customers

	Group 2013 N$'000	Group 2012 N$'000
Overdrafts	2,854,865	2,484,964
Term loans	3,537,973	3,084,177
Mortgages	8,499,995	7,458,701
– Residential mortgages	4,876,821	4,270,144
– Commercial mortgages	3,623,174	3,188,557
Instalment finance	2,597,434	2,382,126
Preference shares	296,661	194,652
Gross loans and advances	17,786,928	15,604,620
Less impairment		
Specific impairment	(79,864)	(70,779)
Portfolio impairment	(55,102)	(48,909)
	17,651,962	15,484,932
Notional value of loans and advances	17,816,666	15,629,938
Interest in suspense (contractual interest suspended on non-performing loans)	(29,738)	(25,318)
Gross loans and advances	17,786,928	15,604,620

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

18. Loans and advances to customers (continued)

	Overdrafts N$'000	Term loans N$'000	Mortgages N$'000	Instalment finance N$'000	Total N$'000
Movement in impairment on loans and advances to customers is as follows for the group:					
Year-end – 30 June 2013					
Balance at the beginning of the year	41,208	32,779	20,958	24,743	119,688
Specific provision	24,966	17,617	10,365	17,831	70,779
General provision	16,242	15,162	10,593	6,912	48,909
Provision for loan impairment – specific	(1,598)	12,448	(103)	11,028	21,775
Provision for loan impairment – portfolio	(4,511)	3,737	5,701	1,266	6,193
Amounts written off during the year as uncollectible	(1,608)	(7,376)	(1,270)	(2,436)	(12,690)
Balance at the end of the year	33,491	41,588	25,286	34,601	134,966
Specific provision	21,760	22,689	8,992	26,423	79,864
General provision	11,731	18,899	16,294	8,178	55,102
Year-end – 30 June 2012					
Balance at the beginning of the year	30,798	37,476	15,963	26,747	110,984
Specific provision	26,334	16,308	6,087	18,990	67,719
General provision	4,464	21,168	9,876	7,757	43,265
Provision for loan impairment – specific	2,845	10,419	4,591	2,203	20,058
Provision for loan impairment – portfolio	11,778	(6,006)	717	(845)	5,644
Amounts written off during the year as uncollectible	(4,213)	(9,110)	(313)	(3,362)	(16,998)
Balance at the end of the year	41,208	32,779	20,958	24,743	119,688
Specific provision	24,966	17,617	10,365	17,831	70,779
General provision	16,242	15,162	10,593	6,912	48,909

	Group 2013		Group 2012	
	N$'000	%	N$'000	%
Specific and general provision by geographical area				
Namibia	134,966		119,688	
Maturity analysis of loans and advances to customers for the group were as follows:				
Repayable within 1 month	3,006,514	17.0	2,652,121	17.0
Repayable after 1 month but within 3 months	249,119	1.4	361,581	2.3
Repayable after 3 months but within 6 months	111,914	0.6	156,282	1.0
Repayable after 6 months but within 12 months	164,955	0.9	179,696	1.2
Repayable after 12 months	14,254,426	80.1	12,254,940	78.5
	17,786,928	100.0	15,604,620	100.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

18. Loans and advances to customers (continued)

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
The loans and advances to customers include instalment finance receivables which are analysed as follows:				
Repayable within 1 year	101,299	95,784		
Repayable after 1 year but within 5 years	3,329,912	3,096,543		
Repayable after 5 years	121,201	76,568		
Gross investment in instalment finances	3,552,412	3,268,895		
Unearned future finance income on instalment finances	(998,651)	(919,705)		
Net investment in instalment finances	2,553,761	2,349,190		

The group has not sold or pledged any advances to third parties.

Under the terms of lease agreements, no contingent rentals are payable. These agreements relate to motor vehicles and equipment.

19. Other assets

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
Insurance fund asset	47,943	45,687	-	-
Accounts receivable	22,454	11,195	8,177	2,030
Clearing, settlement and internal accounts	85,616	63,547	-	-
Prepayments	10,822	9,865	-	-
Other taxes	2,185	1,974	-	80
Repossessed property	-	848	-	-
Construction contracts work in progress	20,684	7,120	-	-
	189,704	140,237	8,177	2,110
Current	141,761	94,550	8,177	2,110
Non-current	47,943	45,687	-	-
	189,704	140,237	8,177	2,110

Work in progress relates to the Namib Bou (Pty) Ltd phase 1 township development Portion 19 of Erf 882 situated in the town of Ondangwa. At the reporting date, the stage of completion of the phase 1 development was 8.32% of the 128 houses and 24.21% (31 of 128) of the erven.

Refer to note 3.2.5 for credit quality disclosure of financial instruments included in other assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

20. Investment in subsidiaries

	Company 2013 N$'000	Company 2012 N$'000
Shares at cost	552,286	230,791
Total investment in subsidiaries	552,286	230,791
Directors' valuation	4,067,101	2,743,316
Non-current	552,286	230,791

Financial details of subsidiaries

	Aggregate income of subsidiaries (before tax) 2013 N$'000	Aggregate income of subsidiaries (before tax) 2012 N$'000	Total investment 2013 N$'000	Total investment 2012 N$'000
Bank Windhoek Holdings subsidiaries				
Bank Windhoek Ltd (consolidated)	637,787	508,566	520,439	198,944
Welwitschia Nammic Insurance Brokers (Pty) Ltd	7,145	6,303	8,847	8,847
Namib Bou (Pty) Ltd	(1,107)	6,463	23,000	23,000
	643,825	521,332	552,286	230,791
Bank Windhoek Ltd subsidiaries				
Intellect Investments Namibia (Pty) Ltd	2,786	2,920	3,000	3,000
BW Finance (Pty) Ltd	6,455	6,374	0.1	0.1
Bank Windhoek Properties (Pty) Ltd	4,973	41,564	19,799	19,799
	14,214	50,858	22,799	22,799

Refer to note 41 for related party transactions and balances with subsidiaries.

21. Investment in associates

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
Santam Namibia Ltd				
The company holds a 28% interest in Santam Namibia Ltd, a short-term insurance company.				
Carrying value of investment in associate				
Investment at cost	62,905	62,905	62,905	62,905
Share of current year's retained income	19,723	20,491		
– Profit before tax	28,986	30,438		
– Current and deferred tax	(9,263)	(9,947)		
Dividends paid	(18,170)	(15,000)		
Post-acquisition retained income at the beginning of the year	23,877	18,386		
	88,335	86,782	62,905	62,905
Directors' valuation	163,880	128,498	163,880	128,498

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

21. Investment in associates (continued)

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
Summarised financial information (unaudited)				
Non-current assets	246,840	245,583		
Technical assets	97,078	69,159		
Current assets	188,542	215,474		
Non-current liabilities	(14,068)	(17,809)		
Technical liabilities	(216,441)	(205,315)		
Current liabilities	(69,518)	(70,803)		
Revenue	570,964	499,909		
Sanlam Namibia Holdings (Pty) Ltd				
Bank Windhoek Holdings Ltd holds an effective 29.5%, non-controlling interest in Sanlam Namibia Holdings (Pty) Ltd, a Namibian company providing a variety of financial services.				
Carrying value of investment in associate				
Investment at cost	47,290	47,290	47,290	47,290
Share of current year's retained income	40,724	32,820		
– Profit before tax	45,543	36,478		
– Current and deferred tax	(4,819)	(3,658)		
Dividends paid	(24,611)	(26,513)		
Post-acquisition retained income at the beginning of the year	40,261	33,954		
	103,664	87,551	47,290	47,290
Directors' valuation	247,804	197,006	247,804	197,006
Summarised financial information (unaudited)				
Non-current assets	2,426,288	2,588,345		
Current assets	122,059	136,102		
Non-current liabilities	(2,141,558)	(2,257,798)		
Current liabilities	(118,058)	(169,186)		
Revenue	819,699	602,866		
VTB Capital (Namibia) (Pty) Ltd				
The company held a 49.67% non-controlling interest in VTB Capital (Namibia) (Pty) Ltd, a financial consulting company.				
Carrying value of investment in associate				
Investment at cost	-	1,788	-	1,788
Share of current year's retained income	124	32		
– Profit before tax	124	32		
Post-acquisition accumulated loss at the beginning of the year	(124)	(156)		
	-	1,664	-	1,788
Directors' valuation	-	1,680	-	1,680
Total investment in associates (non-current)	191,999	175,997	110,195	111,983

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

21. Investment in associates (continued)

VTB Capital (Namibia) (Pty) Ltd was sold to Capricorn Investment Holdings Ltd during the year under review. Refer to note 43 for further details.

Refer to note 41 for related party transactions and balances with associates.

22. Interest in joint ventures

The value of the group's share in assets, liabilities, income and expenditure is not significant to the group as a whole. These components are therefore not disclosed.

22.1 Jointly controlled operations

The group has a 50% share in a joint venture with American Express Foreign Exchange. The joint venture was established to carry on the travel-related foreign exchange business of buying and selling of foreign notes and travellers cheques and travel-related drafts in Namibia.

	Group 2013 N$'000	Group 2012 N$'000
Opening balance	2,014	4,864
The group's share of the profit in the joint venture	1,593	1,150
Profit distribution	(2,000)	(4,000)
Closing balance	1,607	2,014

22.2 Jointly controlled entity

The group obtained a 25% interest in Namclear (Pty) Ltd during 2005. According to the joint venture agreement, a unanimous vote from all shareholders is required to effect a resolution.

	Group 2013 N$'000	Group 2012 N$'000
Opening balance	3,081	2,229
The group's share of the (loss) / profit in the joint venture	(402)	852
Closing balance	2,679	3,081
Group's total share of profit in joint ventures	1,191	2,002
Total investments	4,286	5,095
Directors' valuation of investment in shares	4,286	5,095
Non-current	4,286	5,095

Refer to note 4 (g) for assumptions made in directors' valuation of interest in joint ventures.

Refer to note 41 for related party transactions and balances with joint ventures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

23. Intangible assets

	Goodwill N$'000	Trademarks N$'000	Software and related development costs N$'000	Intangible assets in development N$'000	Total N$'000
Group					
Year-end – 30 June 2013					
Cost					
Cost at 1 July 2012	3,169	7,203	61,075	6,843	78,290
Additions	-	-	-	21,518	21,518
Cost at 30 June 2013	3,169	7,203	61,075	28,361	99,808
Amortisation and impairment					
Amortisation and impairment at 1 July 2012	-	(6,244)	(54,552)	(6,843)	(67,639)
Charge for the year	-	(959)	(2,223)	-	(3,182)
Amortisation and impairment at 30 June 2013	-	(7,203)	(56,775)	(6,843)	(70,821)
Net book value at 30 June 2013	3,169	-	4,300	21,518	28,987
Year-end – 30 June 2012					
Cost					
Cost at 1 July 2011	-	7,203	63,269	6,843	77,315
Transfers	-	-	(2,194)	-	(2,194)
Acquisition of additional interest in subsidiaries	3,169	-	-	-	3,169
Cost at 30 June 2012	3,169	7,203	61,075	6,843	78,290
Amortisation and impairment					
Amortisation at 1 July 2011	-	(5,285)	(51,818)	(6,843)	(63,946)
Charge for the year	-	(959)	(2,061)	-	(3,020)
Impairment for the year	-	-	(673)	-	(673)
Amortisation and impairment at 30 June 2012	-	(6,244)	(54,552)	(6,843)	(67,639)
Net book value at 30 June 2012	3,169	959	6,523	-	10,651

All intangible assets are held by the group, none by the company and are all classified as non-current assets. No assets were encumbered at 30 June 2013 nor at 30 June 2012.

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

At 30 June 2013 an impairment test was performed on the recoverable amount of goodwill raised in the group during the year under review. The goodwill comprises the excess consideration paid for the non-controlling interest acquired in its subsidiary, Welwitschia Nammic Insurance Brokers (Pty) Ltd of N$3.2 million. The impairment test was based on the value in use of the subsidiary, taking the discounted cash flows into consideration. This indicated that the value of the company is higher than the cost of shares acquired. Goodwill was therefore not impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

24. Property, plant and equipment

	Freehold land and buildings N$'000	Computer and other equipment N$'000	Vehicles N$'000	Furniture, fittings and other office equipment N$'000	Total N$'000
Group					
Year-end – 30 June 2013					
Cost					
Cost at 1 July 2012	50,244	167,387	14,119	133,421	365,171
Additions	18	18,081	2,881	9,908	30,888
Transfers	(682)	(8)	-	690	-
Disposals	-	(3,656)	(1,687)	(106)	(5,449)
Cost at 30 June 2013	49,580	181,804	15,313	143,913	390,610
Depreciation and impairment					
Accumulated depreciation at 1 July 2012	(11,391)	(129,673)	(10,388)	(86,269)	(237,721)
Charge for the year	(1,666)	(13,182)	(1,764)	(12,143)	(28,755)
Transfers	-	5	-	(5)	-
Depreciation on disposals	-	3,585	1,684	83	5,352
Accumulated depreciation at 30 June 2013	(13,057)	(139,265)	(10,468)	(98,334)	(261,124)
Net book value at 30 June 2013	36,523	42,539	4,845	45,579	129,486
Group					
Year-end – 30 June 2012					
Cost					
Cost at 1 July 2011	49,005	153,009	12,685	126,974	341,673
Additions	2,895	16,205	1,600	6,360	27,060
Transfers	(1,656)	(1,319)	-	190	(2,785)
Disposals	-	(508)	(166)	(103)	(777)
Cost at 30 June 2012	50,244	167,387	14,119	133,421	365,171
Depreciation and impairment					
Accumulated depreciation at 1 July 2011	(9,717)	(117,087)	(8,975)	(74,410)	(210,189)
Charge for the year	(1,674)	(13,888)	(1,556)	(11,947)	(29,065)
Transfers	-	1,155	-	-	1,155
Depreciation on disposals	-	147	143	88	378
Accumulated depreciation at 30 June 2012	(11,391)	(129,673)	(10,388)	(86,269)	(237,721)
Net book value at 30 June 2012	38,853	37,714	3,731	47,152	127,450

Details regarding the fixed properties are available to shareholders at the registered office of the group. The company does not own any property, plant and equipment.

No assets were encumbered at 30 June 2013 nor at 30 June 2012. All property, plant and equipment is classified as non-current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

25. Due to other banks

	Group		Company	
	2013 N$'000	2012 N$'000	2013 N$'000	2012 N$'000
Current accounts	32,788	17,089		
Borrowings from other banks – in the normal course of business	134,171	220,522		
	166,959	237,611		
Current	166,959	237,611		

26. Debt securities in issue

	Group		Company	
	2013 N$'000	2012 N$'000	2013 N$'000	2012 N$'000
Balance as at 1 July	917,322	767,311	153,970	153,932
Redemption	(303,275)	(100,000)	(150,000)	-
Additions	698,295	243,912	150,000	-
Effective interest rates adjustment	72,079	61,239	9,384	9,660
Coupon payment	(60,445)	(55,140)	(12,553)	(9,622)
Balance as at 30 June	1,323,976	917,322	150,801	153,970
Current	496,161	307,244	801	153,970
Non-current	827,815	610,078	150,000	-
	1,323,976	917,322	150,801	153,970

Debt instruments	Interest rate	Maturity date	Footnote	Group 2013 N$'000	Group 2012 N$'000
Five-year callable bonds					
BW19 fixed rate note	10.16%	4 Feb 2019	26.1	100,000	100,000
BW20 (tranche 1) fixed rate note	9.38%	16 Aug 2020	26.1	100,000	100,000
BW20 (tranche 2) fixed rate note	9.38%	16 Aug 2020	26.1	50,000	50,000
BW20 (tranche 3) fixed rate note	9.38%	16 Aug 2020	26.1	50,000	50,000
Accrued interest at year-end				11,088	11,088
Premium				622	914
				311,710	312,002
Senior debt – unsecured					
BWJh14 floating rate note	3m JIBAR+100bps	15 Aug 2014	26.2	100,000	100,000
BWJd14 floating rate note	3m JIBAR+102bps	14 Apr 2014	26.2	100,000	100,000
BWJb15 floating rate note	3m JIBAR+115bps	23 Feb 2015	26.2	100,000	100,000
BWFd16 fixed rate bond	6.69%	15 Apr 2016	26.2	100,000	-
BWJj16 floating rate note	3m JIBAR + 110bps	14 Oct 2016	26.2	70,000	-
BWRL17 fixed rate note	8.00%	15 Oct 2017	26.2	5,500	-
Accrued interest at year-end				5,104	2,894
				480,604	302,894

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

26. Debt securities in issue (continued)

Debt instruments	Interest rate	Maturity date	Footnote	Group 2013 N$'000	Group 2012 N$'000
Promissory notes					
Promissory note fixed rate note	6.55%	2 Aug 2012	26.3	-	53,275
Promissory note fixed rate note	6.50%	28 Mar 2013	26.3	-	100,000
Promissory note fixed rate note	5.95%	12 Dec 2013	26.3	106,390	-
Promissory note fixed rate note	5.86%	24 Jan 2014	26.3	50,000	-
Promissory note fixed rate note	5.98%	31 Mar 2014	26.3	79,530	-
Promissory note fixed rate note	5.98%	24 Mar 2014	26.3	79,440	-
Promissory note fixed rate note	5.85%	22 Apr 2014	26.3	80,000	-
Accrued interest at year-end				(14,499)	(4,819)
				380,861	148,456
Preference shares (floating rate note)					
75,000 Preference shares – Bank Windhoek Corporate Fund	65% of prime less 0.175% fees	14 Dec 2012	26.4	-	75,000
75,000 Preference shares – Bank Windhoek Selekt Fund	65% of prime less 0.175% fees	14 Dec 2012	26.4	-	75,000
7,000 Preference shares – Bank Windhoek Corporate Fund	3m JIBAR + 1.3%	1 Dec 2015	26.4	70,000	-
5,500 Preference shares – Bank Windhoek Selekt Fund	3m JIBAR + 1.3%	1 Dec 2015	26.4	55,000	-
2,500 Preference shares – Santam Namibia Ltd	64.5% of prime	1 Dec 2015	26.4	25,000	-
Accrued interest at year-end				801	3,970
				150,801	153,970
Total debt instruments in issue at the end of the year				1,323,976	917,322

26.1 Five-year callable bonds

The five-year callable bonds, BW 19, BW 20 (tranche 1), BW 20 (tranche 2) and BW 20 (tranche 3), have been issued on 4 February 2009, 16 August 2010, 29 October 2010 and 17 June 2011 respectively. The interest is paid semi-annually in February and August of each year. These bonds qualify as Tier II capital for the group. BW 19 is registered with the Namibian Stock Exchange. BW 20 was issued under Bank Windhoek's Domestic Medium Term Note Programme, a programme registered with the Namibian Stock Exchange.

26.2 Senior debt

The senior debt instruments, BWJh14, BWJd14, BWJb15, BWFd16, BWJj16 and BWRL17 have been issued on 15 February 2011, 14 April 2011, 23 November 2011, 15 April 2013, 15 April 2013 and 11 February 2013 respectively. The interest is paid quarterly in February, May, August and November of each year for the BWJh14 and BWJb15 and in January, April, July and October each year for the BWJd14 and BWJj16. Coupon payments for the BWFd16 and BWRL17 are paid semi-annually on 15 April and 15 October. All instruments were issued under Bank Windhoek's Domestic Medium Term Note Programme, a programme registered with the Namibian Stock Exchange.

26.3 Promissory notes

The promissory notes listed above have been issued on 15 November 2012, 25 January 2013, 28 March 2013, 28 March 2013 and 19 April 2013 (2012: 03 August 2011 and 29 March 2012) respectively. The interest is payable on maturity of the instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

26. Debt securities in issue (continued)

26.4 Preference shares

The 150,000 preference shares issued on 18 April 2008 were redeemed on 14 December 2012. 15,000 redeemable preference shares of a par value of N$0.01 were issued to Santam Namibia Ltd (2,500) bearing dividends at 64.5% of the prime rate (variable), Bank Windhoek Corporate Fund (7,000) and Bank Windhoek Selekt Fund (5,500) bearing dividends at 1.3% above the three month JIBAR rate respectively in December 2012 at a premium of N$9,999.99 per share with a scheduled redemption date of 1 December 2015.

Debt securities in issue comprises subordinated debt, senior debt, promissory notes and preference shares with a combined nominal value of N$1,298.3 million (2012: N$903.3 million).

	Group	
	2013 N$'000	2012 N$'000
27. Deposits from customers		
Current, demand and savings accounts	9,180,606	8,298,605
Term and notice deposits	3,624,465	3,623,682
Other deposits	217,905	204,332
	13,022,976	12,126,619

	2013		2012	
	N$'000	%	N$'000	%
Group				
Maturity analysis within the customer current, savings, deposit account portfolio for the group were as follows:				
Withdrawable on demand	9,377,386	72.0	8,519,954	70.3
Maturing within 1 month	951,573	7.3	847,207	7.0
Maturing after 1 month but within 6 months	2,316,429	17.8	1,901,968	15.6
Maturing after 6 months but within 12 months	367,696	2.8	748,981	6.2
Maturing after 12 months	9,892	0.1	108,509	0.9
	13,022,976	100.0	12,126,619	100.0

	Group		Company	
	2013 N$'000	2012 N$'000	2013 N$'000	2012 N$'000
28. Other deposits				
Negotiable certificates of deposits (NCDs)	3,511,815	3,398,657		
Current	2,367,975	2,590,657		
Non-current	1,143,840	808,000		
	3,511,815	3,398,657		
29. Other liabilities				
Accounts payable and other accruals	50,504	60,843	2,295	1,726
Employee liabilities	77,603	63,541	-	-
Deferred revenue	3,005	4,321	-	-
Other taxes	11,100	8,454	-	-
Clearing, settlement and internal accounts	86,867	69,093	-	-
	229,079	206,252	2,295	1,726
Employee liabilities consist mainly of accruals for leave pay and staff bonuses.				
Current	229,079	206,252	2,295	1,726

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

30. Deferred income tax

	Group 2013 N$'000	Group 2012 N$'000
Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 33% (2012: 34%).		
The movement on the deferred income tax account is as follows:		
Balance as at 1 July	135,244	132,503
Prior year adjustment	(199)	(1,521)
Profit or loss charge	(94,239)	3,012
Sale of subsidiary	-	1,250
Balance as at 30 June	40,806	135,244
Deferred income tax assets and liabilities are attributable to the following items:		
Deferred income tax liability		
Accelerated tax depreciation and amortisation	22,247	20,558
Loans and receivables	15,350	13,976
Government stock and other securities	38,588	132,250
Derivative financial instruments	1,451	-
Other temporary differences	3,528	3,324
	81,164	170,108
Deferred income tax asset		
Accruals	26,189	22,337
Loan loss provisions	10,455	8,325
Assessed loss	2,588	2,939
Derivative financial instruments	-	238
Other temporary differences	1,126	1,025
	40,358	34,864
Net deferred income tax liability	40,806	135,244
Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.		
The deferred tax assets relating to subsidiaries not allowed to be offset are as follows:		
Intellect Investments Namibia (Pty) Ltd	429	442
Bank Windhoek Properties (Pty) Ltd	-	160
Namib Bou (Pty) Ltd	2,140	2,552
Welwitschia Nammic Insurance Brokers (Pty) Ltd	1,872	2,310
Deferred tax asset (non-current)	4,441	5,464
Deferred tax liability (non-current)	45,247	140,708
Net deferred tax liability (non-current)	40,806	135,244

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

31. Post-employment benefits

	Group 2013 N$'000	Group 2012 N$'000
31.1 Severance pay liability		
A valuation was performed for 30 June 2013 by an independent actuary on the group's liability with respect to severance pay. The benefit is not funded.		
The amount recognised in the consolidated statement of financial position are determined as follows:		
Present value of unfunded obligation (non-current)	6,706	5,539
The movement in the severance pay obligation over the year is as follows:		
As at 1 July	5,539	5,288
Current service costs	690	251
Interest cost	477	-
As at 30 June	6,706	5,539
The amounts recognised in the consolidated statement of comprehensive income are as follows:		
Current service costs	690	251
Interest cost	477	-
	1,167	251
The principle actuarial assumptions used were as follows:	%	%
Discount rate	8.65	8.65
Inflation rate	5.40	5.40
Salary increases	7.00	7.00
The following sensitivity of the overall liability to changes in principle assumption is:		
Salary increase 1% lower per annum	5,240	5,240
Salary increase 1% higher per annum	5,868	5,868

31.2 Medical aid scheme

The group has no liability in respect of post-retirement medical aid contributions.

31.3 Pension schemes

All full-time permanent employees are members of the CIH Group Retirement Fund, a defined contribution plan, which has been registered in Namibia in accordance with the requirements of the Pension Funds Act. The fund is governed by the Pension Funds Act 1956, which requires a statutory actuarial valuation every three years. The latest statutory actuarial valuation was carried out on 31 March 2010 and in the actuary's opinion the fund was in a sound financial position at that date. The valuation confirmed that the value of the assets in the fund exceeded the value of the actuarially determined liabilities. The 2013 statutory actuarial valuation had not yet been finalised at the date of publishing the annual financial statements.

The group currently contributes 12% of basic salary to the fund whilst the members contribute 7.5%. Post-employment benefits are classified as non-current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

32. Share capital and premium

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
Authorised share capital				
150,000,000 ordinary shares of 10 cents each (before the share split)	15,000	15,000	15,000	15,000
600,000,000 ordinary shares of 2.5 cents each (after the share split)	15,000	15,000	15,000	15,000
1,000,000 redeemable preference shares at 1 cent each	10	10	10	10
Authorised ordinary share capital				
On 2 April 2013, the company split every authorised ordinary share of 10 cents each into four ordinary shares of 2.5 cents each. This was approved by a special resolution on 8 March 2013. Refer to the directors' report.				
Issued ordinary share capital				
Balance as at 1 July	11,312	11,203	11,312	11,203
Shares issued during the year	1,135	109	1,135	109
Balance as at 30 June	12,447	11,312	12,447	11,312
Share premium				
Balance as at 1 July	90,802	75,742	90,802	75,742
Shares issued during the year	371,867	15,060	371,867	15,060
Balance at 30 June	462,669	90,802	462,669	90,802
Less: Treasury shares held by share trusts	(8,371)	-	-	-
Total ordinary share capital and premium	466,745	102,114	475,116	102,114
Ordinary issued number of shares reconciliation ('000):				
Issued number of shares at the beginning of the year*	452,475	448,132	452,475	448,132
Shares issued during the year	45,405	4,343	45,405	4,343
Issued number of shares at the end of the year*	497,880	452,475	497,880	452,475
Less: Treasury shares held by share trusts	(4,745)	-	-	-
Total number of ordinary shares issued at year-end	493,135	452,475	497,880	452,475

*The number of shares issued for the financial year ended 30 June 2012 has been adjusted for the share split of four ordinary shares for every one ordinary share as described above and was calculated on the basis that the share split was already effective at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

32. Share capital and premium (continued)

Issued preference share capital

During the year under review, the company issued 15,000 cumulative, redeemable preference shares at 1c per share and a share premium of N$9,999.99 per share. Refer to note 26. All issued shares are fully paid up.

Unissued shares

All the unissued shares are under the control of the directors in terms of a general authority to allot and issue them on such terms and conditions and at such time as they deem fit. This authority expires at the forthcoming annual general meeting on 29 October 2013, when the authority can be renewed. Refer to the Directors' report.

The company's total number of issued ordinary shares at year-end was 497,880,000 (2012: 452,475,000). All issued shares are fully paid up.

Total expenses charged against the share premium account on shares issued with the Bank Windhoek Holdings primary listing during June 2013 amounted to N$ 5.9 million.

33. Net asset value per share

	2013	2012
Net asset value per ordinary share (cents)		
Net assets excluding non-controlling interest (N$'000)	2,624,058	1,887,059
Number of ordinary shares in issue at year-end ('000) before the share split	123,284	113,119
Number of ordinary shares in issue at year-end ('000) after the share split	493,135	452,475
Net asset value per share (cents) before the share split	2,128	1,668
Net asset value per share (cents) after the share split	532	417
Tangible net asset value per ordinary share (cents)		
Net assets excluding non-controlling interest (N$'000)	2,624,058	1,887,059
Adjustments:	28,987	10,651
Intangible assets	28,987	10,651
Tangible net assets	2,595,071	1,876,408
Number of ordinary shares in issue at year-end ('000) before the share split	123,284	113,119
Number of ordinary shares in issue at year-end ('000) after the share split	493,135	452,475
Tangible net asset value per share (cents) before the share split	2,105	1,659
Tangible net asset value per share (cents) after the share split	526	415

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

34. Share-based payments

Directors and selected employees from a specified grade level may participate in the group's share purchase schemes of the BWH Group Employee Share Ownership Trust, to purchase Bank Windhoek Holdings Ltd shares. The shares are offered through the issue of an interest-free loan, cash or bonuses paid for an amount equal to the net asset value (NAV) of the shares at grant date. Employees who take up shares through a loan are required to make minimum monthly or annual repayments on the loan. The loan has to be repaid over a period of nine years. Employees are entitled to the dividends on the shares from the grant date. The shares can be sold, (should the portion of the loan be repaid for shares purchased on interest-free loan), as per the following conditions:

– One-third of the shares can be sold after a minimum period of three years from grant date;
– the second third of the shares can be sold after a period of four years from grant date; and
– the last third of the shares can be sold after a period of five years from grant date.

Share purchase scheme

During the year under review Bank Windhoek Holdings Ltd underwent a share split of four ordinary shares for every one ordinary share held, which took place in April 2013. For comparability, the corresponding year numbers have been adjusted for the share split. Movements in the number of share purchases and their related weighted average exercise prices after taking this into account are as follows:

	Interest-free loan		Cash		Total
	Weighted average exercise price per purchase N$	Purchases '000	Weighted average exercise price per purchase N$	Purchases '000	Purchases '000
At 1 July 2012	2.17	10,556	1.67	2,429	12,985
Granted	4.17	3,079	4.17	642	3,721
Forfeited	2.39	(221)	2.33	-	(221)
Exercised	2.39	(1,432)	2.33	(698)	(2,130)
At 30 June 2013	2.65	11,982	2.16	2,373	14,355
At 1 July 2011	-	-	-	-	-
Granted	2.17	19,780	2.03	9,567	29,347
Forfeited	2.17	(3,745)	2.16	(495)	(4,240)
Exercised	2.17	(5,479)	2.16	(6,643)	(12,122)
At 30 June 2012	2.17	10,556	1.67	2,429	12,985

All corresponding numbers have been changed to take the share split effective 2 April 2013 into account.

Interest-free loan

Out of the total 22,759,712 (2012: 19,780,360) purchased shares, 13,271,480 (2012: 11,275,548) shares have vested. Shares vested up to 2013 resulted in 1,431,877 (2012: 5,479,048) shares being issued at a weighted average price of N$2.39 (2012: N$2.17) each. The related weighted average share price at the time of exercise was N$2.39 (2012: N$2.17) per share. No transaction costs resulted from these transactions (2012: NIL). Of the outstanding shares at year-end 3,694,083 (2012: 3,635,172) have vested.

Cash shares

Out of the 10,308,516 (2012: 9,566,236) purchased shares, 8,257,401 (2012: 7,993,396) shares have vested. Shares vested up to 2013 resulted in 698,076 (2012: 6,646,672) shares being issued at a weighted average price of N$2.33 (2012: N$2.16) each. The related weighted average share price at the time of exercise was N$2.33 (2012: N$2.16) per share. No transaction costs resulted from these transactions (2012: NIL). Of the outstanding shares at year-end 586,661 (2012: 1,212,828) have vested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

34. Share-based payment (continued)

Share purchases outstanding at the end of the year have the following expiry dates and exercise prices, after taking the share split into account:

Grant date	Expiry date	Purchase price per share N$	2013 Shares Interest-free loan	2013 Shares Cash
30 June 2005	2014	1.44	266,000	55,000
30 May 2006	2015	1.73	401,508	15,000
15 August 2006	2015	1.73	130,000	4,000
11 August 2006	2015	2.05	-	296,988
20 June 2007	2016	1.55	1,046,080	101,800
11 July 2007	2016	1.80	482,272	75,200
20 September 2008	2017	2.22	1,643,352	47,852
20 September 2009	2018	2.61	817,964	95,516
20 September 2010	2019	2.93	1,680,544	76,620
20 September 2011	2020	3.49	2,471,280	962,992
20 September 2012	2021	4.17	3,043,352	642,280
			11,982,352	2,373,248

Grant date	Expiry date	Purchase price per share N$	2012 Shares Interest-free loan	2012 Shares Cash
30 June 2005	2014	1.44	105,200	55,000
30 May 2006	2015	1.73	575,348	70,000
15 August 2006	2015	1.73	130,000	-
20 September 2006	2015	1.73	-	20,000
11 August 2006	2015	2.05	-	573,076
20 June 2007	2016	1.55	1,654,212	417,136
11 July 2007	2016	1.80	766,944	84,200
20 September 2008	2017	2.22	1,977,348	64,452
20 September 2009	2018	2.61	940,600	105,568
20 September 2010	2019	2.93	1,851,200	76,620
20 September 2011	2020	3.49	2,555,280	962,992
			10,556,132	2,429,044

Interest-free loans

The share-based payment charge was determined using the Black-Scholes valuation model. The significant inputs into the model were the weighted average share price of N$4.17 (2012: N$2.17) at the grant date, the exercise price shown above, a volatility of 10% (2012: 10%), a dividend yield of 0% (2012: 0%), an expected option life of six years (2012: six years) and an annual risk-free interest rate ranging between 6.6% and 10.1% (2012: 6.6% and 10.1%). The strike price is determined as the loan purchase price, which is equal to the NAV at the grant date, taking payments on the loan into consideration. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of annual share prices over the last four years for another bank operating in Namibia. Refer to note 8 for the total expense recognised in the statement of comprehensive income for shares purchased by directors and employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

34. Share-based payment (continued)

Cash shares

The IFRS 2 shared-based payment charge associated with shares purchased for cash is zero, as the grant date purchase price (NAV) approximates the grant date fair value of the shares.

The fair value of shares held as collateral over the interest-free loans is N$121.6 million at 30 June 2013 (2012: N$37 million). The increase from 2012 to the current financial year-end is due to the listing of the Bank Windhoek Holdings' shares on the Namibian Stock Exchange on 20 June 2013, which resulted in a listed price of N$10.15 per share as at 30 June 2013.

Additionally, as part of Bank Windhoek Holdings Ltd listing on the Namibian Stock Exchange, 948,500 shares have been issued to group employees. An IFRS 2 charge of N$8,299,375 has been recognised in the statement of comprehensive income during the year under review.

No share-based payment expense and / or reserve has been recognised for the newly introduced conditional share plan and share appreciation rights plan during the year under review.

35. Non-distributable reserves

	Group 2013 N$'000	Group 2012 N$'000
35.1 Credit risk reserve		
Balance at 1 July	106,458	87,449
Transfer from retained earnings	14,802	19,009
Balance as at 30 June	121,260	106,458

The regulatory credit risk reserve was introduced in order to meet the regulatory requirements for the loan loss portfolio impairment of Bank Windhoek Ltd.

	Group 2013 N$'000	Group 2012 N$'000
35.2 Insurance fund reserve		
Balance as at 30 June	28,617	28,617

The insurance reserve was created to fund a portion, net of deferred tax, of the regulatory requirement to hold a certain level of insurance specific for banking risk.

	Group 2013 N$'000	Group 2012 N$'000
Total non-distributable reserves	149,877	135,075

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

36. Distributable reserves

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
36.1 Fair value reserve				
Balance as at 1 July	31,228	17,193		
Revaluation of available-for-sale equity instruments	22,359	14,035		
Balance as at 30 June	53,587	31,228		
36.2 General banking reserve				
Balance as at 1 July	1,331,214	1,132,299		
Transfer from retained earnings	257,620	198,915		
Balance as at 30 June	1,588,834	1,331,214		
The general banking reserve is maintained to fund future expansion.				
36.3 Retained earnings				
Balance as at 1 July	280,152	212,527	221,105	184,402
Net profit for the year	493,271	399,803	194,621	149,822
Transfers to reserves	(272,422)	(217,924)	-	-
Dividends paid	(149,537)	(113,119)	(149,537)	(113,119)
Business combination	4,631	(1,135)	-	-
Balance as at 30 June	356,095	280,152	266,189	221,105
36.4 Share-based compensation reserve				
Balance as at 1 July	7,276	-		
Share-based payment charges through equity	1,644	7,276		
Balance as at 30 June	8,920	7,276		
The share-based compensation reserve was created to fund future staff costs relating to share purchase schemes (note 34).				
Total distributable reserves	2,007,436	1,649,870	266,189	221,105

37. Dividends per share

Normal dividends amounting to N$149.5 million (2012: N$113.1 million) were declared and paid by the company during the year under review. The normal dividends declared represent interim and final dividends per share as follows:

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
Before share split of four ordinary shares per one ordinary share:				
Interim dividend per share (cents)			73.00	45.00
Final dividend per share (cents)			58.00	55.00
Total dividend per share (cents)			131.00	100.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

37. Dividends per share (continued)

	Group		Company	
	2013 N$'000	2012 N$'000	2013 N$'000	2012 N$'000
After share split of four ordinary shares per one ordinary share:				
Interim dividend per share (cents)			18.25	11.25
Final dividend per share (cents)			14.50	13.75
Total dividend per share (cents)			32.75	25.00
Dividends paid by subsidiaries to minorities amounted to NIL (2012: N$0.2 million).				
Dividends declared during the year	149,537	113,343	149,537	113,119
Dividends paid during the year	(149,537)	(113,343)	(149,537)	(113,119)
Dividends payable at year-end	-	-	-	-

38. Statement of cash flow disclosure information

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
38.1 Receipts from customers				
Interest receipts	1,692,030	1,509,541	-	-
Commission and fee receipts	416,361	355,155	-	-
Other income received	95,332	99,471	696	9,117
	2,203,723	1,964,167	696	9,117
38.2 Payments to customers, suppliers and employees				
Interest payments	(721,563)	(681,615)	-	-
Cash payments to employees and suppliers	(727,850)	(666,226)	(2,636)	(4,150)
	(1,449,413)	(1,347,841)	(2,636)	(4,150)
38.3 Cash generated from operations				
Profit before income tax	709,719	569,981	194,843	149,896
Dividends received	(3,507)	(812)	(206,455)	(154,589)
Adjusted for non-cash items:				
– Effective interest on debt securities in issue	72,079	61,239	9,384	9,660
– Interest receivable	(16,066)	(18,339)	-	-
– Adjustment to fair value of financial instruments	(3,287)	1,201	-	-
– Amortisation of intangible assets	3,182	3,020	-	-
– Impairment of intangible assets	-	673	-	-
– Depreciation of property, plant and equipment	28,755	29,065	-	-
– Share-based payment expense	1,644	7,276	-	-
– Construction contract profit	(572)	-	-	-
– Profit on disposal of property, plant and equipment	(393)	(79)	-	-
– Profit on sale of subsidiary	-	(7,048)	-	-
– Loss on sale of associate	162	-	288	-
– Acquisition of control over share trusts	(3,740)	-	-	-
– Provision for impairment losses on loans and advances	26,803	25,243	-	-
– Provision for post-employment benefits	1,167	251	-	-
– Share of associate profits	(60,445)	(53,343)	-	-
– Share of joint venture profits	(1,191)	(2,002)	-	-
	754,310	616,326	(1,940)	4,967

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

38. Statement of cash flow disclosure information (continued)

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
38.4 Income taxes (paid) / received				
Amounts receivable as at 1 July	3,051	1,495	300	295
Current tax charged to profit or loss	(310,886)	(164,358)	(222)	(74)
Amounts receivable as at 30 June	(7,953)	(3,051)	(106)	(300)
	(315,788)	(165,914)	(28)	(79)

39. Contingent assets, liabilities and commitments

39.1 Guarantee issued to Bank Windhoek Selekt Unit Trust Fund

The bank has entered into an agreement with Capricorn Unit Trust Management Company Ltd as follows: in the event of a credit default event suffered by the Bank Windhoek Selekt Fund, the bank will refund the Selekt Fund any short-fall on the realisation of any bill, bond, deposit or security issued by any counterparty as approved in the fund's mandate. A credit default event is defined as the bankruptcy of counterparties, approved by the Board credit committee, who issued the instrument. The guarantee is subject to certain set conditions and is limited to the realised shortfall between the last determined market value of the underlying investments and the realised value of the underlying investment.

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

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

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
39.2 Capital commitments				
Contracted for but not yet incurred	26,751	19,133		
Not contracted for	159,820	123,058		

Commitments in respect of capital expenditure for property, plant and equipment and intangible assets, approved by the board of directors.

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
39.3 Letters of credit	31,515	218,064		
39.4 Liabilities under guarantees	948,243	1,176,771		

Guarantees mainly consist of endorsements and performance guarantees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

39. Contingent assets, liabilities and commitments (continued)

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
39.5 Loan commitments	1,199,093	1,605,525		
39.6 Operating lease commitments				
Office premises				
– Not later than 1 year	41,313	35,459		
– Later than 1 year but not later than 5 years	61,058	68,881		
– Later than 5 years	14,198	24,433		
	116,569	128,773		

Notice periods on operating lease contracts vary between 1 to 3 months (2012: 1 to 3 months), operating lease contracts are not fixed and escalation clauses range between 7% and 12% (2012: 7% and 12%).

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

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

39.7 Pending litigations

There are a number of pending legal or potential claims against the group, the outcome of which cannot at present be foreseen. These claims are not regarded as material, either on an individual or group basis, a provision of N$3.5 million has been made for any potential legal claims.

40. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 90 days maturity:

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
Cash and balances with the central banks – excluding mandatory reserve (note 13)	671,609	719,399	169,625	19,506
Treasury bills and government stock with a maturity of less than 90 days	546,940	381,010	-	-
Money market investments (note 15)	255,376	131,328	54,012	114,225
Placement with other banks (note 17)	251,355	211,032	-	-
Borrowings from other banks (note 25)	(166,959)	(237,611)	-	-
	1,558,321	1,205,158	223,637	133,731

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

41. Related parties

In accordance with IAS 24, the group defines related parties as:

(i) the parent company;
(ii) subsidiaries;
(iii) associate companies;
(iv) entities that have significant influence over the group. If an investor has significant influence over the group that investor and its subsidiaries are related parties of the group. The group is Bank Windhoek Holdings Ltd and its subsidiaries;
(v) post-retirement benefit funds (pension fund);
(vi) key management personnel being the Bank Windhoek Holdings Ltd board of directors and the group's executive management team;
(vii) close family members of key management personnel (individual's spouse / domestic partner and children; domestic partner's children and dependants of individual or domestic partner); and
(viii) entities controlled, jointly controlled or significantly influenced by any individual referred to in (vi) and (vii).

Bank Windhoek Holdings Ltd is listed on the Namibian Stock Exchange and is 57.6% (2012: 72.1%) owned by Capricorn Investment Holdings Ltd, its non-listed ultimate holding company, which is incorporated in Namibia.

Details of subsidiaries and associate companies are disclosed in the directors' report.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. No provision for impairment has been recognised in respect of loans granted to key management personnel during the year under review (2012: NIL).

Entity	Relationship	Type of transactions
Capricorn Investment Holdings Ltd	Parent company	Consulting services Support services Banking relationship
Capricorn Investment Holdings Botswana Ltd	Fellow subsidiary	Banking relationship
Bank Gaborone Ltd	Fellow subsidiary	Support services Banking relationship
Capricorn Asset Management (Pty) Ltd	Fellow subsidiary	Support services Banking relationship
Capricorn Capital (Pty) Ltd	Fellow subsidiary	Support services Banking relationship
Cavmont Capital Holdings Zambia Plc	Fellow associate	Support services Banking relationship
Cavmont Bank Ltd	Fellow associate	Support services Banking relationship
Nam-mic Financial Services Holdings (Pty) Ltd	Fellow associate	Support services Banking relationship
Nam-mic Financial Solutions (Pty) Ltd	Fellow associate	Support services Banking relationship
Nam-mic Payment Solutions (Pty) Ltd	Fellow associate	Support services Banking relationship
Bank Windhoek Ltd	Subsidiary	Support services Banking relationship
Namib Bou (Pty) Ltd	Subsidiary	Support services Banking relationship
Welwitschia Nammic Insurance Brokers (Pty) Ltd	Subsidiary	Commission Support services Banking relationship
Santam Namibia Ltd	Associate	Dividends Banking relationship Insurance relationship

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

41. Related parties (continued)

Entity	Relationship	Type of transactions
Sanlam Namibia Holdings (Pty) Ltd	Associate	Dividends Banking relationship Insurance relationship
Bank Windhoek Properties (Pty) Ltd	Subsidiary	Rental
BW Finance (Pty) Ltd	Subsidiary	Support services Banking relationship
Intellect Investments Namibia (Pty) Ltd	Subsidiary	Royalties Banking relationship
Namclear (Pty) Ltd	Joint venture	Technology services
BWH Employee Share Ownership Trust	SPE	Banking relationship
BWH Group Employee Share Benefit Trust	SPE	Banking relationship

	Group		Company	
	2013 N$'000	2012 N$'000	2013 N$'000	2012 N$'000
The volumes of related party transactions and outstanding balances at year-end are as follows:				
41.1 Trade and other receivables from related parties				
Parent company	427	1,351	-	-
Fellow subsidiaries	1,885	-	-	-
Subsidiaries	-	-	7,514	240
Other indirect related parties	22,425	29,446	-	1,798
41.2 Loans and advances to related parties				
Other indirect related parties	148,542	95,403	-	-
Key management personnel	17,363	13,969	-	-
41.3 Trade and other payables to related parties				
Parent company	-	-	50	225
Fellow subsidiaries	-	5,682	-	-
Subsidiaries	-	-	1,202	128
Other indirect related parties	-	466	-	839
41.4 Deposits from related parties				
Parent company	7,767	14,373	-	-
Fellow subsidiaries	83,351	45,863	-	-
Other indirect related parties	190,654	171,216	-	-
Key management personnel	7,312	5,065	-	-
41.5 Expenses paid to related parties				
Parent company	16,874	8,094	714	3,415
Fellow subsidiaries	188	604	9,384	9,660

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

41. Related parties (continued)

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
41.6 Interest and similar expenses paid to related parties				
Parent company	163	4,022	-	-
Fellow subsidiaries	1,930	1,517	-	-
Other indirect related parties	8,100	8,355	-	-
Key management personnel	77	45	-	-
41.7 Income received from related party transactions				
Parent company	1,577	1,267	-	-
Fellow subsidiaries	1,778	172	-	-
Subsidiaries	-	-	-	3,415
Other indirect related parties	135	-	-	17
41.8 Interest and similar income received from related parties				
Parent company	3	64	-	-
Fellow subsidiaries	2	1	-	236
Subsidiaries	-	-	666	-
Other indirect related parties	1,406	1,235	-	-
Key management personnel	1,351	1,037	-	-
41.9 Compensation paid to key management				
41.9.1 Executive management team				
Salaries and bonuses	18,461	17,336	-	-
Contribution to defined contribution medical schemes	486	492	-	-
Contribution to defined contribution pension schemes	949	972	-	-
Share based payment charges	109	939	-	-
Other emoluments	3,253	2,274	-	-
	23,258	22,013	-	-

Compensation paid to key management comprises remuneration and other employee benefits to the executive management team, which excludes executive directors' emoluments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

41. Related parties (continued)

41.9.2 Non-executive and executive directors' emoluments

Directors' emoluments

30 June 2013	Directors' fees Paid by company N$'000	Directors' fees Paid by subsidiary N$'000	Total N$'000
Non-executive directors			
Brandt, J C (Chairman)*	110	782	892
Swanepoel, J J (Vice-chairman)*	74	557	631
Black, K B	67	128	195
Nakazibwe-Sekandi, G*	74	194	268
du Toit, F J	-	382	382
Shaetonhodi, J M	66	-	66
Shikongo, M K	74	164	238
Prinsloo, M J	22	-	22
Schimming-Chase, E M	22	-	22
Knouwds, E	32	434	466
Total	541	2,641	3,182

30 June 2012	Directors' fees Paid by company N$'000	Directors' fees Paid by subsidiary N$'000	Total N$'000
Brandt, J C (Chairman)*	96	653	749
Swanepoel, J J (Vice-chairman)*	64	468	532
Black, K B	67	120	187
Nakazibwe-Sekandi, G*	64	172	236
Shaetonhodi, J M	67	-	67
Shikongo, M K	67	152	219
Total	425	1,565	1,990

Directors' fees consist of a quarterly retainer and a fee for attendance of meetings. No fees relating to other services (e.g. commission) have been incurred during the 2012 and 2013 financial years.

*Remuneration is paid to Capricorn Investment Holdings Ltd and not to the directors.

Mr Prinsloo, Mr du Toit and Mr Knouwds as well as Mrs Schimming-Chase were appointed during the current year under review, thus no comparative numbers are shown.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

41. Related parties (continued)

41.9.2 Non-executive and executive directors' emoluments (continued)

	Salary N$'000	Bonuses and performance related fees N$'000	Pension and medical contributions N$'000	Other allowances N$'000	Total N$'000
30 June 2013					
Executive director					
de Vries, C P	2,220	1,000	73	479	3,772
30 June 2012					
de Vries, C P	2,220	50	67	80	2,417

The executive director does not receive director's fees for services or committee fees.

41.10 Directors' holdings in Bank Windhoek Holdings Ltd shares

	2013			2012	
	Number of ordinary shares acquired during the current year	Number of ordinary shares at year-end	% held	Number of ordinary shares at year-end	% held
Direct holding:					
Brandt, J C (Chairman)	2,200,700	2,203,420	0.44%	2,720	0.00%
Swanepoel, J J (Vice-chairman)	700	700	0.00%	-	0.00%
Black, K B	10,700	38,636	0.01%	27,936	0.01%
Nakazibwe-Sekandi, G	2,040,784	2,040,784	0.41%	-	0.00%
Shaetonhodi, J M	30,300	70,300	0.01%	40,000	0.01%
Shikongo, M K	2,000	82,000	0.02%	80,000	0.02%
Prinsloo, M J	250,000	250,000	0.05%	-	0.00%
Schimming-Chase, E M	1,200	1,200	0.00%	-	0.00%
Knouwds, E	3,000	43,000	0.01%	40,000	0.01%
du Toit, F J	13,500	13,500	0.00%	-	0.00%
de Vries, C P	700	700	0.00%	-	0.00%
Indirect holding:					
Brandt, J C (Chairman)			28.34%		32.16%
Swanepoel, J J (Vice-chairman)			7.34%		7.97%
Nakazibwe-Sekandi, G			0.00%		0.27%
Prinsloo, M J			0.22%		0.16%

All numbers of shares are disclosed after the share split as referred to in note 32.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

42. Assets under custody

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
As at year-end, the group has N$19.4 million (2012: N$4,147.4 million) of assets under custody.				

43. Disposal of investment in associate

Effective 31 December 2012, the company disposed of its 49.67% shareholding in its associate, VTB Capital (Namibia) (Pty) Ltd, to its holding company, Capricorn Investment Holdings Ltd at a consideration of N$1,500,000.

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
Proceeds from the sale of investment in associate	1,500		1,500	
Analysis of assets and equity:				
Associate accumulated losses	(126)		-	
Cash and cash equivalents	1,788		1,788	
Net assets disposed of	1,662		1,788	
Non-controlling interest	1,662		1,788	
Net loss from the sale of 49.67% investment in associate	(162)		(288)	

44. Disposal of investment in subsidiary

On 31 December 2012 the company disposed of its 100% interest in its subsidiary, Capricorn Management Services (Pty) Ltd at a consideration of N$100.

	Group 2013 N$'000	Group 2012 N$'000	Company 2013 N$'000	Company 2012 N$'000
Proceeds from the sale of 100% investment in subsidiary	0.1		0.1	
Analysis of assets over which control was lost:				
Cash and cash equivalents	0.1		0.1	
Net assets disposed of	0.1		0.1	
Non-controlling interest	0.1		0.1	
Net profit from the sale of 100% investment in subsidiary	-		-	

45. Segment information

The group considers its banking operations as one operating segment. Other components include property development and insurance, however these components contribute less than 5% to the group revenue, assets and net profit after tax, therefore the group has no significant components other than banking. This is in a manner consistent with the internal reporting provided to the chief operating decision-maker, identified as the managing director of the group. The chief operating decision-maker is the person that allocates resources to and assesses the performance of the operating segment(s) of an entity.

In assessing the performance of the banking operation, the managing director reviews the various aggregated revenue streams, the total

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

45. Segment information (continued)

costs and the assets and liabilities related to banking activity, which have been disclosed in the various notes to the consolidated financial statements.

45.1 Entity-wide disclosures

45.1.1 Products and services

Operating segment

Banking operations

Brand

Bank Windhoek

Description

Corporate and executive banking, retail banking services and specialist finance.

Product and services

Bank Windhoek Ltd conducts business as a registered bank and provides comprehensive banking services. Clients include both individuals and corporate clients.

45.1.2 Geographical segments

There are no segment operations outside Namibia as the group operates within the borders of Namibia.

45.1.3 Major customers

Segment reporting requires the disclosure of an entity's reliance on its major customers, if revenue from transactions with a single customer is ten percent or more of the entity's revenue. The group does not have customers that contribute ten percent or more to its revenue and is therefore not reliant on a single major customer.

46. Acquisition of control over BWH Group Employee Share Benefit Trust and BWH Group Employee Share Ownership Trust

Effective 12 June 2013, the company acquired control over the BWH Group Employee Share Benefit Trust and the BWH Group Employee Share Ownership Trust, previously controlled by its holding company, Capricorn Investment Holdings Ltd. Predecessor accounting has been applied, where the acquiree's net assets are recognised at carrying value in the acquiring company, Bank Windhoek Holdings Ltd. Profits from the share trusts have been included in the group from the date of acquisition of control.

	Group 2013 N$'000
Carrying value of net assets at date of acquisition of control:	
BWH Group Employee Share Benefit Trust	3,368
BWH Group Employee Share Ownership Trust	1,263
Acquisition of control over share trusts	4,631

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

47. Events after reporting date

Acquisition of Capricorn Unit Trust Management Company Ltd (CUTM)

The boards of Bank Windhoek Holdings Ltd and Sanlam Namibia Holdings (Pty) Ltd have approved the acquisition of CUTM by Bank Windhoek Holdings Ltd from Sanlam Namibia Holdings (Pty) Ltd with effect from 1 July 2013 for a consideration of N$64.75 million. The purchase price was settled by Bank Windhoek Holdings Ltd through the issue of 7,400,000 new ordinary shares on the effective date, at the Bank Windhoek Holdings Ltd listing price of 875 cents per share. The acquisition of 100% of the issued shares in CUTM will place the Bank Windhoek branded unit trust funds under the ownership and control of Bank Windhoek Holdings Ltd and will bolster group profits. The transaction has been approved by the Bank of Namibia, Namibia Competition Commission and Registrar of Unit Trusts.

The transaction details can be summarised as follows:
Seller: Sanlam Namibia Holdings (Pty) Ltd
Acquirer: Bank Windhoek Holdings Ltd
Subject matter of the sale: 100% of the issued share capital of CUTM
Purchase price: N$64,750,000
Acquisition cost settled by: Issuing 7,400,000 new Bank Windhoek Holdings Ltd shares at the listing price of 875 cents per share by the purchaser to the seller or its nominee.
Effective date: 1 July 2013

All the information required by IFRS 3 could not be disclosed since the initial accounting for the business combination was incomplete at the time the financial statements were authorised for issue, mainly due to the purchase price allocation not being finalised yet.

48. Reclassification

	Group		Company	
	2013 N$'000	2012 N$'000	2013 N$'000	2012 N$'000
During the current year money market investments were reclassified from cash and balances with the central bank to financial assets designated at fair value through profit or loss to better reflect the nature of these investments. The prior year amounts were restated to reflect the reclassification:				
Cash and balances with the central bank				
Balance as previously reported	-	1,011,363	-	133,731
Reclassification	-	(130,304)	-	(114,225)
Balance as reclassified	-	881,059	-	19,506
Financial assets designated at fair value through profit or loss				
Balance as previously reported	-	1,393,496	-	-
Reclassification	-	130,304	-	114,225
Balance as reclassified	-	1,523,800	-	114,225

As a result of the above reclassification, the statement of cash flows has been restated accordingly. The reclassification had no impact on total assets.

GLOSSARY OF TERMS

Basel II
The capital adequacy framework issued by the Bank for International Settlements aimed at aligning banks' capital requirements with relevant risk profiles and risk practices.

Capital adequacy requirement (CAR)
The minimum amount of capital required to be held, as determined by the Bank of Namibia.

Cost to income ratio (%)
Operating expenses divided by total operating income.

Earnings per share (cents)
Net profit attributable to the equity holders of the group divided by the weighted average number of ordinary shares in issue during the year.

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.

General banking reserve
The prescribed minimum provisions by the Bank of Namibia on performing loans and advances. Allocations to this reserve are made from after-tax retained earnings.

Headline earnings
Net profit attributable to equity holders of the group from trading operations, excluding goodwill gains or losses, capital profits and losses and recycled profits or losses on available-for-sale financial instruments. Headline earnings do not measure sustainable earnings.

Headline earnings per share (cents)
Headline earnings divided by the weighted average number of ordinary shares in issue during the year.

Net interest margin on average assets (%)
Net interest income (before deducting the impairment charges on loans and advances) divided by average total assets.

Net asset value growth - normalised
Growth in the net asset value year-on-year adjusted for treasury shares held and the issue of shares in June 2013 as a result of the listing of Bank Windhoek Holdings Ltd.

Net asset value per share (cents)
Net assets (excluding non-controlling interest) divided by the number of the group's ordinary shares in issue at year-end.

Price earnings ratio
Closing share price (cents) divided by earnings per share (cents).

Price to book ratio
Closing share price (cents) divided by the net asset value per share (cents).

Return on average assets (ROA) (%)
Profit attributable to equity holders of the group divided by average total assets.

Return on average shareholders' equity (ROE) (%)
Profit attributable to equity holders of the group divided by average total shareholders' equity.

Return on average shareholders' equity - normalised
Profit attributable to equity holders of the group divided by average total shareholders' equity adjusted for treasury shares held and the issue of shares in June 2013 as a result of the listing of Bank Windhoek Holdings Ltd.

The central bank
The Bank of Namibia.

Tier I capital ratio
Net total Tier I capital (after deduction of goodwill and 50% of cost of investments in affiliates) divided by total risk-weighted assets.

Tier II capital ratio
Net total Tier II capital (after deduction of 50% of cost of investments in affiliates) divided by total risk-weighted assets.

Tier III capital ratio
Total Tier III capital divided by total risk-weighted assets.

Total risk-based capital ratio
Total regulatory capital (Tier I, II and III capital) divided by total risk-weighted assets.

Notice of Annual General Meeting

Notice is hereby given that the seventeenth Annual General Meeting of the shareholders of Bank Windhoek Holdings Ltd (the company) will be held in the Moringa Room (top floor) of the Kalahari Sands Hotel, Independence Avenue, Windhoek, on Tuesday, 29 October 2013 at 16h00 for the following purposes:

Agenda:

1. To consider, and if approved, adopt the group and company annual financial statements for the year ended 30 June 2013.
2. To confirm the actions undertaken and discharged by the directors on behalf of the company during the year under review.
3. To approve the remuneration of the directors for the past financial year as disclosed in the annual financial statements.
4. To consider, and if accepted, approve the remuneration of the non-executive directors for the financial year ending 30 June 2014:

	N$ per annum
Bank Windhoek Holdings Ltd Board of Directors	90,000
Bank Windhoek Holdings Ltd Board Executive Committee	60,000
Bank Windhoek Holdings Ltd Group Board Audit, Risk and Compliance Committee	152,000
Bank Windhoek Holdings Ltd Group Board Nominations and Remuneration Committee	29,000
Bank Windhoek Holdings Ltd Group Board Human Resources Committee	45,000
BWH Group Employee Share Trusts	38,000

A 75% premium is paid to the chairman of each of the committees and boards.

5. To confirm the ordinary dividends of 73 cents per share (before the 4:1 share split) and 14.5 cents per share (after the 4:1 share split) (2012: 100 cents per share) amounting to N$149.5 million.
6. To appoint Messrs PricewaterhouseCoopers as auditors for the new financial year.
7. To authorise the directors to determine the remuneration of the auditors.
8. To elect a director in place of Mr M K Shikongo, who retires by rotation, but being eligible, offers himself for re-election.
9. To confirm the appointments of Mr M J Prinsloo as executive director and Adv. E M Schimming-Chase and Messrs F J du Toit and E Knouwds as independent non-executive directors.
10. To grant, in terms of the provisions of Section 229 of the Companies Act, the directors a general authority to allot and issue the authorised but unissued ordinary and preference shares of the company, upon such terms and conditions as they deem fit, subject to the provisions of the Banking Institutions Act and the listings requirements of the NSX.
11. To transact such other business as may be transacted at an annual general meeting.

Voting:

All holders of Bank Windhoek Holdings Ltd shares will be entitled to attend and vote at the annual general meeting. On a show of hands, every holder of Bank Windhoek Holdings Ltd shares who is present in person, or in the case of a company, the representative appointed in terms of section 196 of the Companies Act, shall have one vote. On a poll, the holders of ordinary shares present in person or by proxy will each be entitled to one vote for every ordinary share held.

Proxies:

A shareholder qualified to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and, on a poll, vote in his / her stead. A proxy need not also be a shareholder of the company.

In order to be effective, duly completed proxy forms must be delivered or posted to the company's transfer secretaries, Transfer Secretaries (Proprietary) Limited, 4 Robert Mugabe Avenue (entrance on Burg Street), Windhoek (P O Box 2401, Windhoek, Namibia) to reach this address not less than 48 hours prior to the meeting.

By order of the board
H von Ludwiger
Company Secretary
Windhoek, 27 September 2013

Proxy Form

I *(full names)* ______________________

of *(address)* ______________________

being a holder of *(quantity)* ________ shares in Bank Windhoek Holdings Limited (the company),

hereby appoint *(name)* ______________________

of *(address)* ______________________

or failing him/her *(name)* ______________________

of *(address)* ______________________

or failing him / her the chairman of the meeting, as my proxy to attend, speak and vote on a show of hands or on a poll for me and on my behalf at the annual general meeting of the company to be held on 29 October 2013 and at any adjournment thereof, in particular to vote as indicated below on the resolutions contained in the notice of the meeting:

Please indicate by inserting an 'X' in the appropriate block (either 'for', 'against' or 'abstain'). If no indication is given, the proxy may vote as he / she deems fit.

I / we desire as follows:

Item	Description	For	Against	Abstain
1	Adoption of the annual financial statements			
2	Confirm actions undertaken by the directors			
3	Approve the remuneration of the directors for the past financial year			
4	Approve the remuneration of the non-executive directors for the next financial year			
5	Confirmation of dividends			
6	Re-appoint PricewaterhouseCoopers as auditors			
7	Authorise directors to determine the auditors' remuneration			
8	Re-elect retiring director			
9	Confirm appointment of new directors			
10	General authority to the directors to allot and issue shares			

Signed at ____________________________ this _________________ day of _____________________________2013

Signature ____

(A shareholder entitled to attend and vote at a meeting shall be entitled to appoint a proxy or proxies to attend, speak and vote in his stead. A proxy need not be a shareholder of the company.)

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space/s provided, with or without deleting 'the chairman of the annual general meeting', but any such deletion must be initialled by the shareholder. The person whose name stands first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. Please insert an 'X' in the relevant spaces according to how you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of shares than you own in the company, insert the number of ordinary shares held in respect of which you wish to vote. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he / she deems fit in respect of the shareholder's votes exercisable thereat. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholder or by the proxy, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by the proxy.
3. Forms of proxy must be received at the company's transfer secretaries, Transfer Secretaries (Proprietary) Limited, 4 Robert Mugabe Avenue (entrance on Burg Street), P O Box 2401, Windhoek, Namibia not less than 48 hours prior to the meeting.
   Alternatively, forms of proxy may be sent to the company's transfer secretaries by way of telefax (+264 61 248 531), provided that such telefaxes are received by the transfer secretaries not less than 48 hours prior to the meeting.
4. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's transfer secretaries or waived by the chairman of the annual general meeting.
6. Any alteration or correction made to this form of proxy must be initialled by the signatory / ies.
7. A minor must be assisted by his / her parent or guardian unless the relevant documents establishing his / her legal capacity are produced or have been registered by the transfer secretaries of the company.
8. The chairman of the annual general meeting may reject or accept a form of proxy which is completed and / or received, other than in accordance with these notes, if the chairman is satisfied as to the manner in which the shareholder wishes to vote.
9. Where there are joint holders of ordinary shares:
   i. any one holder may sign the form of proxy;
   ii. the vote of the senior joint shareholder (for that purpose seniority will be determined by the order in which the names of the shareholders appear in Bank Windhoek Holdings Ltd's register of shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote / s of the other joint shareholder / s.

Holding Company of Bank Windhoek Holdings
Capricorn Investment Holdings Limited
5th Floor
CIH House
Kasino Street
Windhoek
Namibia

P O Box 15
Windhoek
Namibia

Telephone: +264 (61) 299 1301
Facsimile: +264 (61) 299 1309

Bank Windhoek Holdings
www.bwholdings.com.na
info@bwholdings.com.na

Produced by
Marketing & Corporate Communication Services
Bank Windhoek
Telephone: +264 (61) 299 1267
info@bankwindhoek.com.na
www.bankwindhoek.com.na

Layout and design
Chapter 3
info@chapter3.co.za
www.chapter3.co.za

Bank Windhoek Holdings Limited

A member of Capricorn Investment Holdings