

**CAPRICORN INVESTMENT HOLDINGS LIMITED**  
**and its subsidiaries**  
**Registration no. 82/031**

**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 June 2011**

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Registration no. 82/031

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**CONTENTS**

	<i>Page</i>
Statement of Responsibility by the Board of Directors	1
Corporate Governance Statement and Risk Report	2 - 5
Independent Auditor's Report	6
Directors' Report	7 - 10
Consolidated and separate statements of comprehensive income	11
Consolidated and separate statements of financial position	12
Consolidated and separate statements of changes in equity	13
Consolidated and separate statements of cash flows	14
Notes to the annual consolidated financial statements	15 - 63

**STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS**

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

To enable the directors to meet these responsibilities:

- the Board and management set standards and management 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 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 operating subsidiaries, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

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


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


The financial statements, presented on pages 7 to 63, have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the provisions of the Namibian Companies Act.

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

The financial statements have been audited by the independent auditing firm, PricewaterhouseCoopers, who was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit were valid and appropriate. PricewaterhouseCoopers' audit report is presented on page 6.

The financial statements, set out on pages 2 to 63, were authorised and approved for issue by the Board of Directors on 27 September 2011 and are signed on their behalf:

  
**JC Brandt**  
Chairman

  
**JJ Swanepoel**  
Managing Director

**CAPRICORN INVESTMENT HOLDINGS LIMITED**  
**and its subsidiaries**  
Registration no. 82/031

**CORPORATE GOVERNANCE STATEMENT**  
**for the year ended 30 June 2011**

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

**1. Board of directors**

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

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

***Role of the Board***

An important role of the Board is to define the purpose of the Group, which is its strategic intent and objectives as a business enterprise, and its values, which is its organisational behaviour and norms to achieve its purpose. Both the purpose and the values should be clear, concise and achievable. It 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 company's systems of internal control, governance and risk management. A schedule of matters reserved for the Board's decision details key aspects of the company's affairs that the Board does not delegate (including, among other things, approval of business plans and budgets, material expenditure and alterations to share capital).

***Board leadership and composition***

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

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

The company has a unitary board, consisting of executive, non-executive and independent directors. There are no agreements regulating board appointments. Representation of independent directors on the Board is required and adhered to.

In terms of the company's articles of association ("articles") the Board shall consist of not less than five members and in recent years the Board has averaged five members, including three executive directors and two independent non-executive directors.

***Board meetings***

The meeting programme is approved by the Board annually and should not be less than four meetings per year. During the year, all members of the Board attended all meetings held with the exception of one board member, who was excused from attending one of the meetings.

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

***Appointments***

Procedures for appointments to the Board are formal and transparent. Members of the Board are recommended by the Group Board, Nomination and Remuneration Committee which receives its mandate from the Board of Directors of the company.

**CAPRICORN INVESTMENT HOLDINGS LIMITED**  
**and its subsidiaries**  
Registration no. 82/031

**CORPORATE GOVERNANCE STATEMENT**  
**for the year ended 30 June 2011**

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*Appointments(continued)*

New board members will only hold office until the next annual general meeting at which they will retire and become available for election. Executive directors will be engaged on employment contracts, subject to short-term notice periods, unless otherwise approved by the Board. There were no new appointments during the year.

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

*Access to independent advice*

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

**2. Board Audit, Risk and Compliance committee**

A Board Audit, Risk and Compliance committee, whose chairman is an independent non-executive director, was established to oversee sound risk management, accounting, internal audit, internal control, compliance, forensics and ethics structures, and liaise with the external auditors. Both the internal and external auditors have unrestricted access to this audit committee, which ensures that their independence is in no way impaired.

**3. Group Human Resources committee**

The purpose of the Group Board Human Resources committee is to ensure that the Group is appropriately staffed in terms of skills levels and ethnic diversity and to meet the challenges of the future. Programmes related to this are ratified by the committee. In addition, the committee ensures that management and staff is remunerated appropriately and that the remuneration scales, including incentive and share schemes, and conditions of employment of Group companies, are market related.

**4. Group Board Nominations and Remuneration committee**

The Group Board Nominations and Remuneration committee is responsible for the evaluation of new board appointees in the Group and ensures that board members remain competent to fulfil their duties. The committee furthermore considers and recommends to the boards of Group companies appropriate remuneration for non-executive and executive directors as well as executive management.

**5. Board Credit and Board Lending committees**

The Board Credit and Board Lending committees of Bank Windhoek Ltd and Bank Gaborone Ltd play a very important role in the monitoring, granting and management of credit, especially with regard to large exposures. Refer to note 3.1 of the financial statements for further details.

**6. Risk management**

*Risk management governance*

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**  
**and its subsidiaries**  
Registration no. 82/031

**CORPORATE GOVERNANCE STATEMENT**  
**for the year ended 30 June 2011**

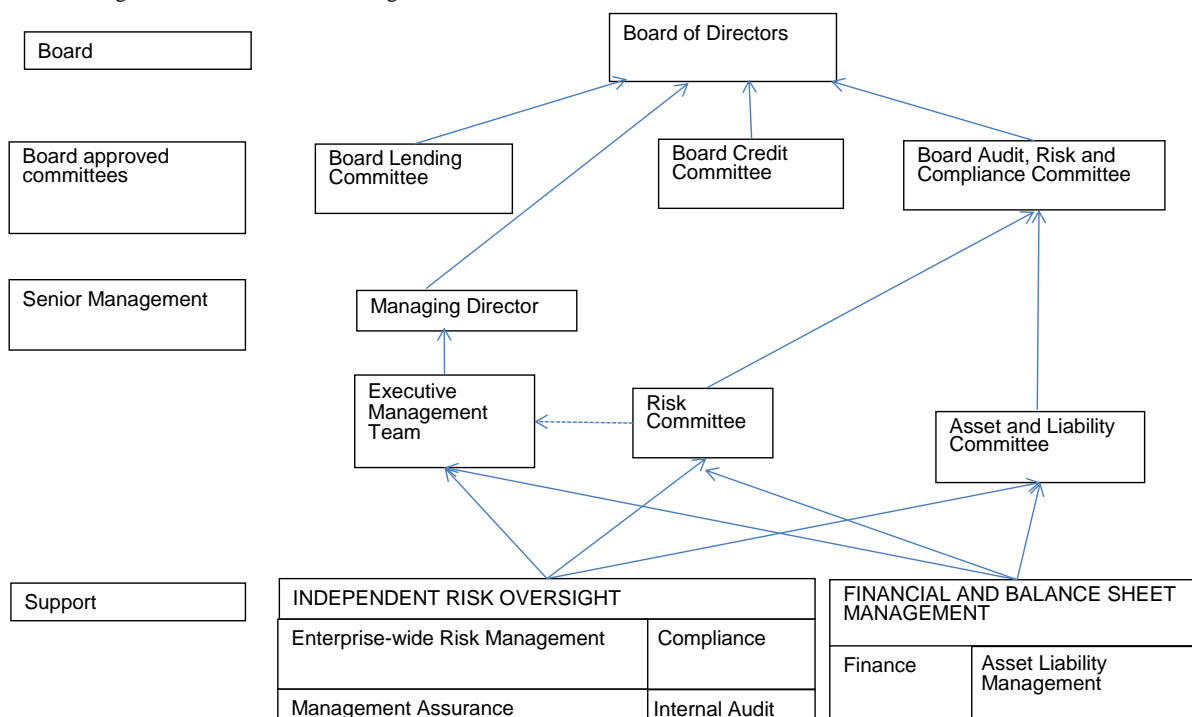
***Risk management governance (continued)***

***Risk management governance for banking subsidiaries***

During recent years and with the implementation of BASEL II at the Banking level, risk management within the banking subsidiaries has become a focal point. To assist the BARC of the banks in the Group in monitoring exposures to risks in the day-to-day operations, risk committees comprising of members of the executive management team and senior management, were established in the previous year. The primary responsibility of these teams are to evaluate the risk management model employed by the banks and to provide recommendations to manage identified, unidentified and potential risks.

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

The risk management structure of the banking subsidiaries are as follows:



***Risk management framework***

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

The risk management approach of the Group is to ensure that all risks that may have a significant negative impact or potential negative impact on the Group are identified and managed. The enterprise-wide risk management policies, approved by the BARC, defines the major risks that Group is exposed to, as well as how the identified risks should be assessed, monitored, controlled/mitigated and reported. This framework also establishes and quantifies the risk appetites for each category of principal risk the Group is exposed to.

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**  
**and its subsidiaries**  
Registration no. 82/031

**CORPORATE GOVERNANCE STATEMENT**  
**for the year ended 30 June 2011**

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***Risk management framework (continued)***

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

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

**7 Internal control**

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

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

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

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

**8 External auditors**

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

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

**9 Code of conduct**

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**  
**and its subsidiaries**  
Registration no. 82/031

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE MEMBERS OF CAPRICORN INVESTMENT HOLDINGS LIMITED**

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We have audited the consolidated annual financial statements and annual financial statements of Capricorn Investment Holdings Limited, which comprise the consolidated and separate statements of financial position as at 30 June 2011, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the directors' report, as set out on pages 7 to 63.

*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 the directors, 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 Capricorn Investment Holdings Limited as at 30 June 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and requirements of the Companies Act of Namibia.



**PricewaterhouseCoopers**

*Registered Accountants and Auditors*

*Chartered Accountants (Namibia)*

WINDHOEK

27 September 2011

**CAPRICORN INVESTMENT HOLDINGS LIMITED**  
**and its subsidiaries**  
Registration no. 82/031

**DIRECTORS' REPORT**  
**for the year ended 30 June 2011**

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**1. General review**

The company acts as an investment holding company and provides consulting and management services to the other group companies. Its investments are as follows:

**Subsidiaries:**

**Subsidiaries of Capricorn Investment Holdings Limited:**

Bank Windhoek Holdings Limited	- Investment holding
Capricorn Investment Holdings (Botswana) (Pty) Ltd	- Investment holding
Capricorn Asset Management (Pty) Ltd	- Asset management
Cyan Enterprise Solutions (Pty) Ltd	- Dormant
Capricorn Capital (Pty) Ltd	- Financial consultancy
CIH Group Employee Share Trust	- Special purpose entity
CIH Group Employee Share Benefit Trust	- Special purpose entity

**Subsidiaries of Bank Windhoek Holdings Limited:**

Bank Windhoek Ltd	- Banking
Welwitschia Nammic Insurance Brokers (Pty) Ltd	- Insurance broking
Namib Bou (Pty) Ltd	- Property development
Capricorn Management Services (Pty) Ltd	- Dormant

**Subsidiaries of Bank Windhoek Ltd:**

Bank Windhoek Nominees (Pty) Ltd	- Custodian of third party investments (dormant)
Intellect Investments Namibia (Pty) Ltd	- Marketing and branding
BW Finance (Pty) Ltd	- Micro lending
Bank Windhoek Properties (Pty) Ltd	- Property investment holding

**Subsidiary of Namib Bou (Pty) Ltd:**

Namib Bou Hochland Estate Development (Pty) Ltd	- Property development
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**Subsidiaries of Capricorn Investment Holdings (Botswana) (Pty) Ltd:**

Penrich Employee Benefits (Pty) Ltd	- Micro finance
Bank Gaborone Ltd	- Banking
Ellwood Insurance Brokers (Pty) Ltd (trading as Penrich Insurance Brokers (Pty) Ltd)	- Insurance broking

**Subsidiaries of Penrich Employee Benefits (Pty) Ltd:**

Peo Micro (Pty) Ltd	- Micro finance
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**Associates of the group:**

SmartSwitch Botswana (Pty) Ltd	- Switching services
Santam Namibia Ltd	- Short-term insurance
Cavmont Capital Holdings Zambia Plc	- Investment holding
Sanlam Namibia Holdings (Pty) Ltd	- Long-term insurance
Nam-mic Financial Services Holdings (Pty) Ltd	- Investment holding
VTB Capital Namibia (Pty) Ltd	- Financial consulting

**CAPRICORN INVESTMENT HOLDINGS LIMITED**  
**and its subsidiaries**  
Registration no. 82/031

**DIRECTORS' REPORT (continued)**  
**for the year ended 30 June 2011**

**Joint Ventures of Bank Windhoek Ltd**

**Jointly controlled entity - Bank Windhoek Ltd**

Namclear (Proprietary) Limited

- Payment clearing house

**Jointly controlled operations - Bank Windhoek Ltd**

The Tourvest Namibia (Pty) Ltd/ Bank Windhoek Ltd Joint Venture

- Sales and purchases of foreign exchange

**2. Financial results and dividends**

Profit after tax was N\$ 359,789,000 (2010: N\$ 271,827,000 ). Full details of the financial results of the Company and the Group are set out on pages 11 to 63.

During the current year under review dividends of 840 cents per share (2010: 700 cents per share) amounting to a total of N\$37,514,400 (2010: N\$31,262,000) were declared by the Company.

**3. Share capital**

There was no movement in the authorised share capital for the year under review.

No further shares were issued to the Capricorn Investment Holdings Employee Share Trust during the current year under review.

<b>Details of the Company's Interest</b>			
<b>Issued ordinary share capital and premium and proportion held</b>		<b>Shares at cost</b>	
<b>N\$'000</b>	<b>%</b>	<b>2011 N\$'000</b>	<b>2010 N\$'000</b>

**4. Subsidiaries**

*Registered in Namibia*

Bank Windhoek Holdings Limited	86,946	73	227,177	227,177
Capricorn Investment Holdings (Botswana) (Pty) Ltd	151,588	96	171,966	159,022
Capricorn Asset Management (Pty) Ltd	1,001	75	4,265	4,265
Capricorn Capital (Pty) Ltd	100	95	95	95
CIH Group Employee Share Trust	n/a	100		
CIH Group Employee Share Benefit Trust	n/a	100		
Cyan Enterprise Solutions (Pty) Ltd	-	100	-	-

**5. Indirect holdings in subsidiaries**

*Registered in Namibia*

Bank Windhoek Ltd	163,506	100		
Welwitschia Nammic Insurance Brokers (Pty) Ltd	1,300	78		
Capricorn Management Services (Pty) Ltd	-	80		

**CAPRICORN INVESTMENT HOLDINGS LIMITED**  
**and its subsidiaries**  
Registration no. 82/031

**DIRECTORS' REPORT (continued)**  
**for the year ended 30 June 2011**

**5. Indirect holdings in subsidiaries (continued)**

	<b>Issued ordinary share capital and premium and proportion held</b>	
	<b>N\$'000</b>	<b>%</b>
<i>Registered in Namibia(continued)</i>		
Namib Bou (Pty) Ltd	23,000	100
Namib Bou Hochland Estate Development (Pty) Ltd	4	100
Bank Windhoek Nominees (Pty) Ltd	-	100
BW Finance (Pty) Ltd	-	100
Intellect Investments Namibia (Pty) Ltd	3	100
Bank Windhoek Properties (Pty) Ltd	1	100
	<b>BWP'000</b>	<b>%</b>
<i>Registered in Botswana</i>		
Bank Gaborone Ltd	118,405	100
Penrich Employment Benefits (Pty) Ltd	30	100
Ellwood Insurance Brokers (Pty) Ltd (trading as Penrich Insurance Brokers (Pty) Ltd)	1	100
Peo Micro (Pty) Ltd	-	100

**6. Direct and indirect holdings in associated companies**

	<b>N\$'000</b>	<b>%</b>
Santam Namibia Ltd	8,307	30
Nam-mic Financial Services Holdings (Pty) Ltd	8,000	31.7
Sanlam Namibia Holdings (Pty) Ltd	160,665	29.5
VTB Capital Namibia (Pty) Ltd	3,600	49
Cavmont Capital Holdings Zambia Plc (includes non-voting equity share)	30,997	44
SmartSwitch Botswana (Pty) Ltd	19,526	50

The Company's interest in aggregate profit after tax earned by subsidiaries and associates amounted to N\$355.8 million (2010: N\$302.0 million) for the year, and the Company's interest in dividends declared was N\$86.6 million (2010: N\$108.4 million).

**CAPRICORN INVESTMENT HOLDINGS LIMITED**  
**and its subsidiaries**  
Registration no. 82/031

**DIRECTORS' REPORT (continued)**  
**for the year ended 30 June 2011**

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**7. Indirect holdings in jointly controlled entity**

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

	<b>Issued ordinary share capital and premium and proportion held</b>	
	<b>N\$'000</b>	<b>%</b>
Namclear (Pty) Ltd	4,616	25
The following information relates to the Company's financial interest in its jointly controlled operations:		
The Tourvest Namibia (Pty) Ltd/ Bank Windhoek Ltd Joint Venture	n/a	50

**8. Directors and Company Secretary**

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

***Non-executive***

JJ Mannheimer  
MK Shikongo

***Executive***

JC Brandt (Chairman)  
JJ Swanepoel (Group Managing Director)  
G Nakazibwe-Sekandi

Mr HG von Ludwiger was secretary of the Company 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

**9. Post balance sheet events**

The Company welcomed a new executive director, Mr Thinus Prinsloo on 1 July 2011. He was subjected to induction training.

**CAPRICORN INVESTMENT HOLDINGS LIMITED**  
**and its subsidiaries**  
Registration no. 82/031

**CONSOLIDATED AND SEPARATE STATEMENTS OF COMPREHENSIVE INCOME**  
**for the year ended 30 June 2011**

	Notes	Group		Company	
		2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
Interest and similar income		1,556,346	1,470,017	-	-
Interest and similar expense		<u>(787,293)</u>	<u>(824,613)</u>	<u>-</u>	<u>-</u>
<b>Net interest income</b>	<b>5</b>	<b>769,053</b>	645,404	-	-
Impairment charges on loans and advances	<b>6</b>	<u>(39,827)</u>	<u>(29,300)</u>	<u>-</u>	<u>-</u>
<b>Net interest income after loan impairment charges</b>		<b>729,226</b>	616,104	-	-
Fee and commission income	<b>7</b>	<b>332,630</b>	284,323	-	-
Net trading income	<b>8</b>	<b>48,571</b>	53,800	-	-
Other operating income	<b>9</b>	<b>114,182</b>	129,742	<b>104,685</b>	111,482
Operating expenses	<b>11</b>	<u>(799,328)</u>	<u>(754,373)</u>	<u>(33,169)</u>	<u>(46,606)</u>
<b>Operating profit</b>		<b>425,281</b>	329,596	<b>71,516</b>	64,876
Share of profit in joint ventures	<b>23</b>	<b>3,915</b>	5,128	-	-
Share of associates' profits	<b>12</b>	<u>76,336</u>	38,615	<u>-</u>	<u>-</u>
<b>Profit before income tax</b>		<b>505,532</b>	373,339	<b>71,516</b>	64,876
Income tax expense	<b>13</b>	<u>(145,743)</u>	<u>(107,599)</u>	<b>94</b>	(128)
<b>Profit for the year</b>		<b>359,789</b>	265,740	<b>71,610</b>	64,748
<i>Other comprehensive income</i>					
Foreign currency translation reserve movement		<b>(8,506)</b>	(7,931)	-	-
Net gains on available-for-sale financial assets	<b>36</b>	<u>774</u>	7,313	<u>885</u>	2,903
<b>Total comprehensive income for the year</b>		<u><b>352,057</b></u>	<u>265,122</u>	<u><b>72,495</b></u>	<u>67,651</u>
<b>Profit is attributable to:</b>					
Equity holders of the Group and Company		<b>267,701</b>	186,578	<b>72,495</b>	67,651
Non-controlling interests		<u>92,088</u>	79,162	<u>-</u>	<u>-</u>
		<u><b>359,789</b></u>	<u>265,740</u>	<u><b>72,495</b></u>	<u>67,651</u>
<b>Total comprehensive income is attributable to:</b>					
Equity holders of the Group and Company		<b>260,057</b>	186,037	<b>72,495</b>	67,651
Non-controlling interests		<u>92,000</u>	79,085	<u>-</u>	<u>-</u>
		<u><b>352,057</b></u>	<u>265,122</u>	<u><b>72,495</b></u>	<u>67,651</u>

**CAPRICORN INVESTMENT HOLDINGS LIMITED**  
**and its subsidiaries**  
Registration no. 82/031

**CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION**  
**as at 30 June 2011**

	Notes	Group			Company	
		2011 N\$'000	2010 N\$'000 As restated	2009 N\$'000 As restated	2011 N\$'000	2010 N\$'000
<b>ASSETS</b>						
Cash and balances with the Central Bank	14	736,219	887,860	457,416	19,116	42
Derivative financial instruments	15	488	653	626	-	-
Financial assets at fair value through profit or loss	16	1,674,420	1,480,096	1,351,992	-	-
Investment securities	17	322,308	303,351	284,110	11,006	10,121
Due from other banks	18	401,993	453,238	503,749	-	-
Loans and advances to customers	19	14,592,027	12,344,838	10,525,921	-	-
Other assets	20	243,181	311,835	290,811	18,947	28,815
Investment in subsidiaries	21	-	-	-	404,619	382,272
Investment in associates	22	232,328	205,392	204,925	87,300	78,770
Interest in joint ventures	23	7,093	4,178	7,049	-	-
Intangible assets	24	69,078	57,823	69,045	-	-
Property, plant and equipment	25	156,337	157,764	162,185	-	-
Current tax asset		3,383	4,880	25,080	-	945
Deferred tax asset	32	26,733	20,968	15,197	-	-
<b>Total assets</b>		<b>18,465,588</b>	<b>16,232,876</b>	<b>13,898,106</b>	<b>540,988</b>	<b>500,965</b>
<b>LIABILITIES</b>						
Derivative financial instruments	26	14,313	24,505	6,408	12,418	10,624
Due to other banks	27	299,055	387	-	-	-
Other deposits	28	3,188,906	3,970,799	2,084,583	-	-
Debt securities in issue	29	960,217	547,342	493,080	140,772	140,858
Deposits from customers	30	11,829,241	9,818,013	9,620,989	-	-
Other liabilities	31	260,438	252,329	283,608	10,342	7,056
Current tax liability		2,226	919	5,516	48	-
Deferred tax liability	32	159,680	151,619	142,837	-	-
Post-employment benefits	33	5,288	4,323	-	-	-
<b>Total liabilities</b>		<b>16,719,364</b>	<b>14,770,236</b>	<b>12,637,021</b>	<b>163,580</b>	<b>158,538</b>
<b>EQUITY</b>						
Share capital and premium	34	21,667	24,399	26,142	26,401	26,401
Non-distributable reserves	35	84,441	70,091	59,060	15,942	15,942
Distributable reserves	36	1,220,686	1,012,501	868,849	335,065	300,084
		<b>1,326,794</b>	<b>1,106,991</b>	<b>954,051</b>	<b>377,408</b>	<b>342,427</b>
Non-controlling interests		<b>419,430</b>	<b>355,650</b>	<b>307,034</b>	<b>-</b>	<b>-</b>
<b>Total shareholder's equity</b>		<b>1,746,224</b>	<b>1,462,641</b>	<b>1,261,085</b>	<b>377,408</b>	<b>342,427</b>
<b>Total equity and liabilities</b>		<b>18,465,588</b>	<b>16,232,876</b>	<b>13,898,106</b>	<b>540,988</b>	<b>500,965</b>

**CAPRICORN INVESTMENT HOLDINGS LIMITED**  
and its subsidiaries  
Registration no. 82/031

**CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY**  
for the year ended 30 June 2011

	Notes	Share capital and premium	Non distributable reserves			Distributable reserves			Non-controlling interests	Total equity
			Insurance fund reserve	Credit risk reserve	Share capitalization reserve	Fair value reserve	Foreign Currency Translation reserve	Retained earnings		
		N\$'000	N\$'000	N\$'000	N\$'000	N\$'000	N\$'000	N\$'000	N\$'000	
<b>GROUP</b>										
Balance at 1 July 2009, as previously stated		26,142	-	42,256	-	25,477	(8,877)	852,249	300,789	1,238,036
Restatement	46	-	-	-	-	(14,165)	-	37,214	-	23,049
Transfer between reserves			16,804	-	-	-	-	(23,049)	6,245	-
Balance at 1 July 2009, as restated		26,142	16,804	42,256	-	11,312	(8,877)	866,414	307,034	1,261,085
Shares held by the CIH Employee Share Trust		(2,002)	-	-	-	-	-	-	2,876	874
Shares held by the CIH Employee Share Trust - previous year		259	-	-	-	-	-	-	-	259
Total comprehensive income for the year		-	-	-	-	7,035	(7,576)	186,578	79,085	265,122
Transfer between reserves	35	-	-	11,031	-	-	-	(11,031)	-	-
Change in ownership interest in subsidiary without loss of control		-	-	-	-	-	-	199	8,290	8,489
Dividends for 2010		-	-	-	-	-	-	(31,553)	(41,635)	(73,188)
<b>Balance at 30 June 2010</b>		<b>24,399</b>	<b>16,804</b>	<b>53,287</b>	<b>-</b>	<b>18,347</b>	<b>(16,453)</b>	<b>1,010,607</b>	<b>355,650</b>	<b>1,462,641</b>
Balance at 1 July 2010, as restated		24,399	16,804	53,287	-	18,347	(16,453)	1,010,607	355,650	1,462,641
Restatement	46	-	-	-	-	(6,056)	-	6,056	-	-
Balance at 1 July 2010, as restated		24,399	16,804	53,287	-	12,291	(16,453)	1,016,663	355,650	1,462,641
Shares held by the CIH Employee Share Trust		(4,734)	-	-	-	-	-	-	107	(4,627)
Shares held by the CIH Employee Share Trust - previous year		2,002	-	-	-	-	-	-	-	2,002
Total comprehensive income for the year		-	-	-	-	542	(8,185)	267,700	92,000	352,057
Transfer between reserves	35	-	4,015	10,335	-	-	-	(14,350)	-	-
Change in ownership interest in subsidiary without loss of control		-	-	-	-	-	-	260	2,788	3,048
Dividends for 2011		-	-	-	-	-	-	(37,782)	(31,115)	(68,897)
<b>Balance at 30 June 2011</b>		<b>21,667</b>	<b>20,819</b>	<b>63,622</b>	<b>-</b>	<b>12,833</b>	<b>(24,638)</b>	<b>1,232,491</b>	<b>419,430</b>	<b>1,746,224</b>
<b>COMPANY</b>										
Balance at 1 July 2009, as previously stated		26,401	-	-	15,942	-	-	263,695	-	306,038
Total comprehensive income for the year		-	-	-	-	2,903	-	64,748	-	67,651
Dividends for 2010	38	-	-	-	-	-	-	(31,262)	-	(31,262)
<b>Balance at 30 June 2010</b>		<b>26,401</b>	<b>-</b>	<b>-</b>	<b>15,942</b>	<b>2,903</b>	<b>-</b>	<b>297,181</b>	<b>-</b>	<b>342,427</b>
Balance at 1 July 2010, as restated		26,401	-	-	15,942	2,903	-	297,181	-	342,427
Total comprehensive income for the year		-	-	-	-	885	-	71,610	-	72,495
Dividends for 2011	38	-	-	-	-	-	-	(37,514)	-	(37,514)
<b>Balance at 30 June 2011</b>		<b>26,401</b>	<b>-</b>	<b>-</b>	<b>15,942</b>	<b>3,788</b>	<b>-</b>	<b>331,277</b>	<b>-</b>	<b>377,408</b>

**CAPRICORN INVESTMENT HOLDINGS LIMITED**  
and its subsidiaries  
Registration no. 82/031

**CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS**  
for the year ended 30 June 2011

	Notes	Group		Company	
		2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
<b>Cash flows from operating activities</b>					
Interest receipts		1,542,481	1,450,775	-	-
Interest payments		(738,618)	(788,849)	-	8,253
Commission and fee receipts		332,630	284,323	-	-
Other income received		150,690	196,237	10,888	8,138
Cash payments to employees and suppliers		(758,595)	(696,710)	(23,016)	(32,347)
Cash generated by / (utilised in) operations	39	528,588	445,776	(12,128)	(15,956)
Dividends received		58,058	27,572	89,491	113,041
Income taxes (paid) / received	40	(139,459)	(88,985)	1,087	(190)
<i>Cash flows from operating profits before changes in operating assets and liabilities</i>		447,187	384,363	78,450	96,895
<b>Changes in operating assets and liabilities</b>					
Net increase in financial assets at fair value		(116,574)	(716,254)	-	(44)
Net decrease in derivative financial instruments		(13,228)	(27)	-	-
Net increase in loans and advances to customers and due from other banks		(2,356,476)	(1,902,062)	-	-
Net decrease / (increase) in other assets		61,501	(25,169)	9,790	(19,953)
Net (decrease) / increase in other deposits		(781,893)	1,886,216	-	-
Net increase in deposits from customers		2,011,228	197,024	-	-
Net increase / (decrease) in other liabilities		10,108	(22,111)	5,283	306
<i>Net cash flow (utilised in) / generated from operating activities</i>		(738,147)	(198,020)	93,523	77,204
<b>Cash flows from investing activities</b>					
Additions to property, plant and equipment		(36,423)	(42,413)	-	-
Proceeds from sale of property, plant and equipment		197	11,567	-	-
Proceeds from the reduction of share capital in an associate		-	21,093	-	-
Distribution from joint venture		-	5,000	-	-
Proceeds from the reduction of share capital in a joint venture		-	3,000	-	-
Additions to intangible assets	24	(14,000)	(10,082)	-	-
Proceeds from intangible assets		-	11,060	-	-
Acquisition of shares in associates	22	(8,035)	(9,943)	(8,035)	(1,471)
Reduction in investment in associate		8,472	-	-	-
Additions to investment in subsidiaries		-	-	(12,942)	(51,561)
(Increase) / Decrease in indebtedness from subsidiary		-	-	(3,800)	6,302
Additions to other investments	17	(657)	-	-	-
<i>Net cash utilised in investing activities</i>		(50,446)	(10,718)	(24,777)	(46,730)
<b>Cash flows from financing activities</b>					
Transfer of ordinary shares into share trust		-	(1,743)	-	-
Proceeds from the issue of debt securities in issue	29	500,801	194,351	-	140,000
Repayment of debt securities in issue		(136,601)	(175,853)	(10,161)	(144,168)
Dividends paid	41	(68,897)	(73,188)	(37,514)	(31,262)
<i>Net cash generated from / (utilised in) financing activities</i>		295,303	(56,433)	(47,675)	(35,430)
<b>Net (decrease) / increase in cash and cash equivalents</b>		(493,290)	(265,171)	21,071	(4,956)
Cash and cash equivalents at beginning of year		1,370,051	1,635,222	(1,955)	3,001
<b>Cash and cash equivalents at end of year</b>	42	876,761	1,370,051	19,116	(1,955)

# CAPRICORN INVESTMENT HOLDINGS LIMITED

and its subsidiaries

Registration no. 82/031

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2011

### 1 Basis of presentation

Capricorn Investment Holdings Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued by the IASB effective at the time of preparing these statements. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of 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 its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

#### 1.1 Going concern

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

#### 1.2 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Namibia Dollar, which is the Group and the Company's functional and presentation currency.

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

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

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

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

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

##### *Amendments to IAS 32 – Classification of rights issues*

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

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

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

#### 1.3.2 Standards and interpretations issued but not yet effective

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

#### Effective date

##### *Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income*

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

Annual periods commencing on or after 1 July 2012

##### *Amendment to IAS 19, 'Employee benefits'*

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

Annual periods commencing on or after 1 January 2013

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

**and its subsidiaries**

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**for the year ended 30 June 2011**

**1.3.2 Standards and interpretations issued but not yet effective (continued)**

	<b>Effective date</b>
<p><i>Amendment to IAS 24 - Related party disclosures</i></p> <p>This amendment provides partial relief from the requirement for government related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party.</p>	Annual periods commencing on or after 1 January 2011
<p><i>IAS 27 (revised 2011) – Separate financial statements</i></p> <p>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.</p>	Annual periods commencing on or after 1 January 2013
<p><i>IAS 28 (revised 2011) – Associates and joint ventures</i></p> <p>This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.</p>	Annual periods commencing on or after 1 January 2013
<p><i>Amendments to IFRS 1, 'First time adoption' on hyperinflation and fixed dates</i></p> <p>The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.</p>	Annual periods commencing on or after 1 July 2011
<p><i>Amendment to IFRS 7 Disclosures – Transfer of financial assets</i></p> <p>The amendments are intended to address concerns raised during the financial crisis by the G20, among others, that financial statements did not allow users to understand the ongoing risks the entity faced due to derecognised receivables and other financial assets.</p>	Annual periods commencing on or after 1 July 2011
<p><i>Amendment to IAS 12, 'Income taxes' on deferred tax</i></p> <p>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.</p>	Annual periods commencing on or after 1 January 2012
<p><i>IFRS 9 – Financial Instruments (2009)</i></p> <p>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.</p>	Annual periods commencing on or after 1 January 2013
<p><i>IFRS 9 – Financial Instruments (2010)</i></p> <p>The IASB has updated IFRS 9, 'Financial instruments' to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss.</p>	Annual periods commencing on or after 1 January 2013
<p><i>IFRS 10 – Consolidated financial statements</i></p> <p>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.</p>	Annual periods commencing on or after 1 January 2013

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**for the year ended 30 June 2011**

**1.3.2 Standards and interpretations issued but not yet effective (continued)**

	<b>Effective date</b>
<p><i>IFRS 11 – Joint arrangements</i></p> <p>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.</p>	Annual periods commencing on or after 1 January 2013
<p><i>IFRS 12 – Disclosures of interests in other entities</i></p> <p>This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.</p>	Annual periods commencing on or after 1 January 2013
<p><i>IFRS 13 – Fair value measurement</i></p> <p>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.</p>	Annual periods commencing on or after 1 January 2013
<p><i>IFRIC 14 (AC 447) - Pre-payments of a Minimum Funding Requirement (amendments)</i></p> <p>This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 (AC 447) related to voluntary pension prepayments when there is a minimum funding requirement.</p>	Annual periods commencing on or after 1 January 2011

**2. Summary of significant accounting policies**

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

**2.1 Consolidation**

**2.1.1 Subsidiaries**

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

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

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

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

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

**and its subsidiaries**

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**for the year ended 30 June 2011**

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**2.1.2 Transactions and non-controlling interests**

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

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

**2.1.3 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 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 of consolidated financial statements, equal accounting policies 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 using the equity method, see Note 22.

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

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

**and its subsidiaries**

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**for the year ended 30 June 2011**

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**2.1.4 Joint ventures (continued)**

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 the profit or loss under trading income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

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

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in the statement of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the statement of other comprehensive income.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

**2.3 Financial instruments**

**2.3.1 Financial assets**

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

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

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

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

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

Treasury Bills, Government Stock and Derivatives are designated in this category. Derivatives are designated as held for trading, unless they are designated and effective as hedging instruments.

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

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

**and its subsidiaries**

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**for the year ended 30 June 2011**

---

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

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

***(ii) Loans and receivables***

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

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

Loans and advances are classified in this category.

***(iii) Held-to-maturity***

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

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

***(iv) Available-for-sale***

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

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

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

**2.3.2 Financial liabilities**

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

***i) At amortised cost***

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

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

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

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

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

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

**and its subsidiaries**

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**for the year ended 30 June 2011**

---

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

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

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

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

**2.3.3 Determination of fair value**

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

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

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

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

**2.3.4 Derecognition**

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

**2.3.5 Offsetting financial instruments**

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

**2.3.6 Derivative financial instruments and hedge accounting**

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

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

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

**and its subsidiaries**

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**for the year ended 30 June 2011**

---

**2.3.6 Derivative financial instruments and hedge accounting (continued)**

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

(1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or,

(2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Group only applies hedge accounting when these criteria are met. Where these criteria are not met, derivatives are fair valued through profit or loss and these adjustments are disclosed separately.

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

**(a) Fair value hedge**

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

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

**(b) Cash flow hedge**

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

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

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

**(c) Derivatives that do not qualify for hedge accounting**

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

No hedge accounting existed at year-end.

**2.4 Sale and repurchase agreements**

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

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

**2.5 Impairment of financial assets**

**2.5.1 Assets carried at amortised cost**

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

(i) significant financial difficulty of the issuer or obligator;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

**and its subsidiaries**

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**for the year ended 30 June 2011**

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**2.5.1 Assets carried at amortised cost (continued)**

(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

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

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

– adverse changes in the payment status of borrowers in the group; or

– national or local economic conditions that correlate with defaults on the assets in the group.

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

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

***Impairment of loans and advances***

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

***i) Individually assessed loans and advances***

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

***ii) Collectively assessed loans and advances***

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

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

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

**2.5.2 Assets carried at fair value**

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

**and its subsidiaries**

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**for the year ended 30 June 2011**

---

**2.5.3 Renegotiated loans**

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

**2.6 Intangible assets**

**2.6.1 Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on 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.

**2.6.2 Computer software and development costs**

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

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

Computer software development costs recognised as assets are amortised over their estimated useful lives, which ranges between 3 to seven years depending on the project life cycle.

**2.6.3 Trademarks**

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

**2.7 Property, plant and equipment**

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the consolidated financial position.

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

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

**and its subsidiaries**

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**for the year ended 30 June 2011**

---

**2.8 Repossessed property**

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed property is included 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 the Group are primarily operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

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

**2.10.2 A group company is the lessor**

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

**2.11 Cash and cash equivalents**

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

For the purposes of the statement of 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 and money market investments, as well as short-term borrowings from other banks.

**2.12 Provisions**

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

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

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

No provisions were raised during the current year.

**2.13 Financial guarantee contracts**

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

**and its subsidiaries**

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**for the year ended 30 June 2011**

---

**2.13 Financial guarantee contracts (continued)**

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 the profit or loss under operating expenses.

**2.14 Post-employment benefits**

**2.14.1 Pension obligations**

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

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

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

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

**2.14.2 Severance pay provision**

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

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

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

**2.14.3 Leave pay**

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

**2.14.4 Profit-sharing and bonus plans**

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

**2.15 Deferred and current income tax**

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

**2.15.1 Deferred income tax**

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

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

**and its subsidiaries**

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**for the year ended 30 June 2011**

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**2.15.1 Deferred income tax (continued)**

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 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.

**b) Current income tax**

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

**2.16 Revenue recognition**

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

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

**2.16.1 Net trading income**

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

**2.16.2 Interest income and expense**

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

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

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

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

**2.16.3 Fee and commission income**

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

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

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 programs. Income is brought to account on the effective commencement or renewal dates of the related insurance program. Commission- and administration fee income is deferred over the policy term.

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

**and its subsidiaries**

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**for the year ended 30 June 2011**

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**2.16.4 Other income**

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

**2.17 Share capital**

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

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

**2.18 Dividend distribution**

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

Dividends for the year that are declared after the reporting date are dealt with in the subsequent events note.

**2.19 Fiduciary activities**

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

**3. Financial risk management**

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

The Board of Directors is ultimately responsible to ensure that the Group is not exposed to risks which may have a negative impact on its financial performance, and which may ultimately have an adverse effect on the continued operations of the Group. However, it is the responsibility of management to identify risks, whether real or anticipated, within their business units, and take appropriate actions.

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

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

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

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

***Asset and Liability Committee (ALCO)***

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

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

**and its subsidiaries**

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**for the year ended 30 June 2011**

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**3. Financial risk management (continued)**

***Board Credit Committee (BCC) and Board Lending Committee***

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

***Risk Committee***

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

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

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

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

**3.1 Credit risk**

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

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

**3.1.1 Risk limit control and mitigation policies**

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

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

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

Some other specific control and mitigation measures are outlined below:

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

**and its subsidiaries**

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**for the year ended 30 June 2011**

---

**3.1.1 Risk limit control and mitigation policies (continued)**

*i) Collateral*

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

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

*i) Collateral (continued)*

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

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

*ii) Derivatives*

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

*iii) Master netting arrangements*

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

*iv) Credit-related commitments*

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because long-term commitments generally have a greater degree of credit risk than short-term commitments.

**3.1.2 Impairment and provisions**

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

Loans and advances are individually assessed for impairment when they have been flagged as being past due more than 60 days. Other financial assets are impaired according to the general impairment policy as per note 2.5.1.

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

*i) Loans and advances neither past due or impaired*

Loans and advances to banks have not been impaired as these placements are made to banks that have high credit standing and, by policy, limits the amounts of credit exposure to any one financial institution. Loans and advances to customers in this category primarily comprise structured finance to large corporate clients, which have no evidence of a deterioration of credit quality.

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 30 June 2011

**3.1.2 Impairment and provisions (continued)**

*ii) Loans and advances subject to general impairment*

The total loans and advances to customers portfolio is subject to collective assessment as described in note 2.5.1.

*iii) Loans and advances individually impaired*

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is N\$224.9 million (2010: N\$ 158.5 million). The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, is as follows:

	<b>Overdrafts</b>	<b>Term loans</b>	<b>Mortgages</b>	<b>Instalment finance</b>	<b>TOTAL</b>
	<b>N\$'000</b>	<b>N\$'000</b>	<b>N\$'000</b>	<b>N\$'000</b>	<b>N\$'000</b>
<b>Group</b>					
<b>As at 30 June 2011</b>					
Individually impaired loans	71,498	44,142	74,730	34,576	224,945
Fair value of collateral	(20,177)	(21,055)	(55,216)	(8,697)	(105,144)
<b>Total</b>	<b>51,321</b>	<b>23,087</b>	<b>19,514</b>	<b>25,879</b>	<b>119,801</b>
<b>As at 30 June 2010</b>					
Individually impaired loans	39,937	33,395	62,392	22,763	158,487
Fair value of collateral	(19,253)	(15,829)	(51,594)	(7,095)	(93,771)
<b>Total</b>	<b>20,684</b>	<b>17,566</b>	<b>10,798</b>	<b>15,668</b>	<b>64,716</b>

No disclosures are made from a Company perspective, as the disclosures do not significantly vary from a Group perspective.

Loans and advances are summarised as follows:

	<b>Group</b>			
	<b>2011</b>		<b>2010</b>	
	<b>Loans and advances to customers N\$'000</b>	<b>Due from other banks N\$'000</b>	<b>Loans and advances to customers N\$'000</b>	<b>Due from other banks N\$'000</b>
Neither past due nor impaired	1,661,715	401,993	1,052,288	453,238
Loans and advances not past due but subject to general impairment	12,847,510	-	11,242,956	-
Individually impaired	224,945	-	177,231	-
<b>Gross</b>	<b>14,734,171</b>	<b>401,993</b>	<b>12,472,475</b>	<b>453,238</b>
Less: allowance for impairment	(142,143)	-	(127,637)	-
<b>Net</b>	<b>14,592,027</b>	<b>401,993</b>	<b>12,344,838</b>	<b>453,238</b>

No disclosures are made from a Company perspective, as the disclosures do not significantly vary from a Group perspective.

Further information of the impairment allowance for loans and advances to customers is provided in note 19.

**3.1.3 Repossessed collateral**

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

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

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 30 June 2011

**3.1.4 Credit risk weighted amounts**

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

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

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

**3.1.5 Credit risk concentration by industry**

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

	Cash and balances with the Central Bank	Derivative financial instruments and investment securities	Financial assets 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
<b>As at 30 June 2011</b>							
Agriculture and forestry	-	-	-	-	949,961	-	<b>949,961</b>
Fishing	-	-	-	-	277,017	-	<b>277,017</b>
Mining	-	-	6,833	-	139,811	-	<b>146,644</b>
Manufacturing	-	-	-	-	527,560	-	<b>527,560</b>
Building and construction	-	-	-	-	938,017	-	<b>938,017</b>
Electricity, gas and water	-	-	-	-	37,381	-	<b>37,381</b>
Trade and accommodation	-	-	-	-	5,013,397	-	<b>5,013,397</b>
Transport and communication	-	-	-	-	274,866	-	<b>274,866</b>
Finance and insurance	287,471	304,946	29,198	401,993	611,022	43,360	<b>1,677,990</b>
Real estate and Business services	-	-	-	-	3,347,382	-	<b>3,347,382</b>
Government	448,748	-	1,638,389	-	18,650	-	<b>2,105,787</b>
Individuals	-	-	-	-	2,513,390	-	<b>2,513,390</b>
Other	-	17,850	-	-	85,716	160,464	<b>264,030</b>
	<b>736,219</b>	<b>322,796</b>	<b>1,674,420</b>	<b>401,993</b>	<b>14,734,170</b>	<b>203,824</b>	<b>18,073,422</b>

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 30 June 2011

**3.1.5 Credit risk concentration by industry (continued)**

	Cash and balances with the Central Bank	Derivative financial instruments and investment securities	Financial assets 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
<b>As at 30 June 2010</b>							
Agriculture and forestry	-	-	-	-	521,025	-	521,025
Fishing	-	-	-	-	187,807	-	187,807
Mining	-	-	2,068	-	171,061	-	173,129
Manufacturing	-	-	-	-	266,865	-	266,865
Building and construction	-	-	-	-	199,262	-	199,262
Electricity, gas and water	-	-	-	-	32,851	-	32,851
Trade and accommodation	-	-	-	-	493,337	-	493,337
Transport and communication	-	-	-	-	159,629	-	159,629
Finance and insurance	315,920	287,663	113,085	453,239	1,795,700	-	2,965,607
Real estate and Business services	-	-	-	-	3,742,023	-	3,742,023
Government	567,321	-	1,364,943	-	180,804	-	2,113,068
Individuals	-	-	-	-	4,587,554	-	4,587,554
Other	-	16,341	-	-	110,273	226,957	353,571
	<u>883,241</u>	<u>304,004</u>	<u>1,480,096</u>	<u>453,239</u>	<u>12,448,191</u>	<u>226,957</u>	<u>15,795,728</u>

No disclosures are made from a Company perspective, as the disclosures do not significantly vary from a Group perspective.

**3.1.6 Credit risk concentration by country**

	Due from other banks N\$'000	Loans and advances to customers N\$'000	Total exposure on the statement of financial position N\$'000
<b>As at 30 June 2011</b>			
Botswana	-	39,553	39,553
South Africa	273,089	-	273,089
United Kingdom	1,177	-	1,177
United States of America	84,926	-	84,926
Other countries	3,047	-	3,047
	<u>362,239</u>	<u>39,553</u>	<u>401,792</u>
<b>As at 30 June 2010</b>			
Botswana	194	19,957	20,151
South Africa	225,262	-	225,262
United Kingdom	2,125	-	2,125
United States of America	3,298	-	3,298
Other countries	2,513	-	2,513
	<u>233,392</u>	<u>19,957</u>	<u>253,349</u>

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

**3.2 Market risk**

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 30 June 2011

**3.2.1 Market risk measurement techniques**

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

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

**3.2.2 Foreign exchange risk**

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 30 June. Included in the table are the Group's financial instruments at the carrying amounts, categorised by currency.

*Concentration of foreign denominated currency financial instruments*

	US\$ N\$'000	€ N\$'000	£ N\$'000	Other N\$'000	Total N\$'000
<b>Group and company</b>					
<b>As at 30 June 2011</b>					
<b>ASSETS</b>					
Cash and balances with the Central Bank	9,513	1,759	31	47	11,350
Derivative financial instruments	-	-	-	488	488
Financial assets fair value through profit or loss	-	-	6,833	-	6,833
Investment securities	17,193	-	-	-	17,193
Due from other banks	186,118	41,749	3,100	43,466	274,433
Loans and advances to customers	2,882	1,851	47	-	4,780
<b>Total financial assets</b>	<b>215,706</b>	<b>45,359</b>	<b>10,011</b>	<b>44,001</b>	<b>315,077</b>
<b>LIABILITIES</b>					
Deposits from customers	171,800	41,796	2,776	9,091	225,462
<b>Total financial liabilities</b>	<b>171,800</b>	<b>41,796</b>	<b>2,776</b>	<b>9,091</b>	<b>225,462</b>
<b>Net financial position</b>	<b>43,906</b>	<b>3,563</b>	<b>7,235</b>	<b>34,910</b>	<b>89,614</b>
<b>Credit commitments</b>	<b>17,164</b>	<b>4,727</b>	<b>118</b>	<b>398</b>	<b>22,407</b>
<b>As at 30 June 2010</b>					
<b>Total financial assets</b>	195,999	23,271	4,839	30,529	254,638
<b>Total financial liabilities</b>	207,823	22,846	2,137	2,693	235,499
<b>Net financial position</b>	<b>(11,824)</b>	<b>425</b>	<b>2,702</b>	<b>27,836</b>	<b>19,139</b>
<b>Credit commitments</b>	11,783	12,434	584	793	25,594

The following is a sensitivity analysis, monitored on the following major currencies of non-equity instruments, had a 3.5% change arisen on the various currencies:

	<b>Effect on net profit</b>	
	<b>2011</b>	<b>2010</b>
Currency		
US Dollar/ Namibia Dollar	4,417	(1,900)
British Pounds/ Namibia Dollar	3,177	(290)
Euro/ Namibia Dollar	(723)	1,087
US Dollar/Botswana Pula	150	(151)
Euro/ Botswana Pula	85	42
Other/ Botswana Pula	(37)	266

The following effect of 3.5% change would arise on equity instruments:

Effect of British Pound denominated equity instrument on net profit before tax	239	72
Effect of US Dollar denominated equity instrument on equity	601	572

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 30 June 2011

**3.2.3 Interest rate risk**

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

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

**Interest rate risk analysis - Group**

	N\$ '000	N\$ '000	N\$ '000	N\$ '000	N\$ '000	N\$ '000
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Non-interest sensitive	Total
<b>As at 30 June 2011</b>						
<b>ASSETS</b>						
Cash and balances with the Central Bank	340,043	-	-	-	138,335	478,378
Derivative financial instruments	488	-	-	-	-	488
Financial assets fair value through profit or loss	267,158	597,291	765,336	37,802	6,833	1,674,420
Investment securities	304,458	-	-	-	17,850	322,308
Due from other banks	312,843	-	-	-	89,150	401,993
Loans and advances to customers	13,100,815	6,093	24,782	703,932	756,405	14,592,027
Other assets	43,360	-	-	-	199,821	243,181
<b>Total assets</b>	<u>14,369,165</u>	<u>603,384</u>	<u>790,118</u>	<u>741,734</u>	<u>1,208,394</u>	<u>17,712,795</u>
<b>LIABILITIES</b>						
Derivative financial instruments	(1,895)	-	-	(12,418)	-	(14,313)
Due to other banks	(270,081)	-	-	-	(28,974)	(299,055)
Other deposits	(319,166)	(227,800)	(2,595,250)	-	(46,690)	(3,188,906)
Debt securities in issue	(153,932)	-	-	(140,772)	(665,513)	(960,217)
Deposits from customers	(10,645,054)	(347,362)	(542,663)	(113,951)	(188,861)	(11,837,891)
Other liabilities	-	-	-	-	(260,438)	(260,438)
<b>Total liabilities</b>	<u>(11,390,128)</u>	<u>(575,162)</u>	<u>(3,137,913)</u>	<u>(267,141)</u>	<u>(1,190,476)</u>	<u>(16,560,820)</u>
<b>Interest sensitivity gap</b>	<u>2,979,037</u>	<u>28,222</u>	<u>(2,347,795)</u>	<u>474,593</u>	<u>17,918</u>	<u>1,151,975</u>
<b>Cumulative interest sensitivity gap</b>	<u>2,979,037</u>	<u>3,007,259</u>	<u>659,465</u>	<u>1,134,058</u>	<u>1,151,975</u>	<u>-</u>
<b>As at 30 June 2010</b>						
<b>Interest sensitivity gap</b>	<u>4,489,679</u>	<u>(1,678,258)</u>	<u>(3,442,085)</u>	<u>1,176,319</u>	<u>711,168</u>	<u>1,256,823</u>
<b>Cumulative interest sensitivity gap</b>	<u>4,489,679</u>	<u>2,811,421</u>	<u>(630,664)</u>	<u>545,655</u>	<u>1,256,823</u>	<u>-</u>

No disclosures are made from a Company perspective, as the disclosures do not significantly vary from a Group perspective.

	2011 N\$'000	2010 N\$'000
Effect on Namibian operations' net interest income		
100 basis points increase	22,130	27,127
100 basis points decrease	<u>(22,817)</u>	<u>(25,492)</u>

The following interest-rate sensitivity is based on the effect of changes to the interest rate on financial assets classified as available-for-sale on net interest income:

100 basis points increase	2,957	2,529
100 basis points decrease	<u>(2,957)</u>	<u>(2,529)</u>

	P'000	P'000
Effect on Botswana operations' net interest income		
100 basis points increase	5,425	1,276
100 basis points decrease	<u>(5,425)</u>	<u>(1,276)</u>

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries  
Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 30 June 2011

**3.2.4 Price risk**

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

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

	2011 N\$'000	2010 N\$'000
The following sensitivity analysis indicates the impact of a 10% change in the securities valuation:		
Effect on equity	1,719	1,634
Effect on net profit before taxation	<u>683</u>	<u>207</u>

**3.2.5 Market risk capital charge**

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

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

**3.3 Liquidity risk**

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

Asset liquidity risk represents the availability of sufficient assets in liquid form to meet pressing obligations. In situations where liquid assets on hand could be utilized 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, includes:

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

**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 flow, hence it does not reconcile to the values reflected on the statement of financial position:

Group	N\$ '000	N\$ '000	N\$ '000	N\$ '000	N\$ '000	N\$ '000
As at 30 June 2011	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
<b>FINANCIAL LIABILITIES</b>						
Derivative financial instruments	-	1,895	-	-	12,418	14,313
Due to other banks	299,055	-	-	-	-	299,055
Other deposits	501,650	550,886	1,368,568	957,669	-	3,378,773
Debt securities in issue	122,386	1,033	30,154	985,547	-	1,139,120
Deposits from customers	8,647,563	1,835,307	1,264,320	154,255	-	11,901,445
Other liabilities	258,603	-	942	893	-	260,438
<b>Total liabilities (contractual maturity dates)</b>	<u>9,829,257</u>	<u>2,389,121</u>	<u>2,663,984</u>	<u>2,098,364</u>	<u>12,418</u>	<u>16,993,144</u>
<b>Commitments</b>	<u>2,739,544</u>	-	-	-	-	2,739,544

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 30 June 2011

**3.3 Liquidity risk (continued)**

Group	N\$ '000 Up to 1 month	N\$ '000 1 - 3 months	N\$ '000 3 - 12 months	N\$ '000 1 - 5 years	N\$ '000 Over 5 years	N\$ '000 Total
<b>As at 30 June 2010</b>						
<b>FINANCIAL LIABILITIES</b>						
Derivative financial instruments	13,868	(301)	261	-	53	13,881
Due to other banks	387	-	-	-	-	387
Other deposits	571,650	868,237	2,673,304	11,861	-	4,125,052
Debt securities in issue	149,101	-	5,080	130,480	-	284,661
Deposits from customers	6,872,751	1,862,142	1,030,082	68,264	-	9,833,239
Other liabilities	219,491	16	-	2,131	-	221,638
<b>Total liabilities (contractual maturity dates)</b>	<b>7,827,248</b>	<b>2,730,094</b>	<b>3,708,727</b>	<b>212,736</b>	<b>53</b>	<b>14,478,858</b>
<b>Credit commitments</b>	<b>2,025,643</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,025,643</b>

No disclosures are made from a Company perspective, as the disclosures do not significantly vary from a Group perspective.

**3.4 Fair values of financial assets and liabilities**

**a) Fair value estimation**

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

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

*i) Cash and balances with the Central Bank*

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

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

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

*iii) Investment securities*

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

*iv) Due to and from other banks*

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

*v) Loans and advances to customers*

The nominal value less impairment provision approximates the fair value.

*vi) Deposits and borrowings*

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

*vii) Debt securities in issue*

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

*viii) Other deposits*

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 30 June 2011

**(a) Fair value estimation (continued)**

*ix) Trade receivables and payables*

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

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

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

**(b) Fair value hierarchy**

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

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

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

**Assets and liabilities measured at fair value**

	Level 1	Level 2	Total
<b>As at 30 June 2011</b>			
<i>Financial assets at fair value through profit or loss</i>			
Debt securities	-	1,667,587	1,667,587
Equity securities	6,833	-	6,833
Derivative financial instruments	-	488	488
<i>Available-for-sale financial assets</i>			
Debt securities	-	304,458	304,458
Equity securities	17,850	-	17,850
	<u>24,683</u>	<u>1,972,533</u>	<u>1,997,216</u>
<i>Financial liabilities at fair value through profit or loss</i>			
Derivative financial instruments	-	14,313	14,313
	<u>-</u>	<u>14,313</u>	<u>14,313</u>
<b>As at 30 June 2010</b>			
<i>Financial assets at fair value through profit or loss</i>			
Debt securities	-	1,375,813	1,375,813
Equity securities	2,830	101,453	104,283
Derivative financial instruments	-	653	653
<i>Available-for-sale financial assets</i>			
Debt securities	-	287,011	287,011
Equity securities	16,341	-	16,341
	<u>19,171</u>	<u>1,764,930</u>	<u>1,784,101</u>
<i>Financial liabilities at fair value through profit or loss</i>			
Derivative financial instruments	-	13,881	13,881
	<u>-</u>	<u>13,881</u>	<u>13,881</u>

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 30 June 2011

**3.5 Classification of financial instruments**

Financial assets and liabilities are classified as follows:

**Group**

	<b>Available-for-sale</b>	<b>Fair value though profit or loss</b>	<b>Loans and receivables</b>	<b>Total</b>
<b>As at 30 June 2011</b>				
<b>FINANCIAL ASSETS</b>				
Cash and balances with the Central Bank	-		736,219	736,219
Derivative financial instruments		488	-	488
Financial assets at fair value through profit or loss		1,674,420	-	1,674,420
Investment securities	322,308	-	-	322,308
Due from other banks	-		401,993	401,993
Loans and advances to customers	-		14,592,027	14,592,027
Other assets	-	-	242,055	242,055
	<b><u>322,308</u></b>	<b><u>1,674,908</u></b>	<b><u>15,972,294</u></b>	<b><u>17,969,510</u></b>

	<b>Fair value though profit or loss</b>	<b>Other financial liabilities</b>	<b>Total</b>
<b>FINANCIAL LIABILITIES</b>			
Derivative financial instruments	14,313	-	14,313
Due to other banks	-	299,055	299,055
Other deposits	-	3,188,906	3,188,906
Debt securities in issue	-	960,217	960,217
Deposits from customers	-	11,829,241	11,829,241
Other liabilities	-	260,438	260,438
	<b><u>14,313</u></b>	<b><u>16,537,857</u></b>	<b><u>16,552,170</u></b>

**3.6 Capital management**

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

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

**Capital management for the Namibia banking group**

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

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

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

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

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

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 30 June 2011

**3.6 Capital management (continued)**

	Group	
	2011	2010
	N\$'000	N\$'000
Share capital and premium	163,506	163,506
General banking reserves	1,132,299	973,377
Retained earnings	4,917	445
<b>Total qualifying Tier 1 capital</b>	<b>1,300,722</b>	<b>1,137,328</b>
Subordinated debt	312,215	197,572
Portfolio impairment	130,715	114,146
<b>Total qualifying Tier 2 capital</b>	<b>442,930</b>	<b>311,718</b>
<b>Tier 3 capital</b>	<b>-</b>	<b>-</b>
<b>Total regulatory capital</b>	<b>1,743,652</b>	<b>1,449,046</b>
<b>Risk-weighted assets:</b>		
Operational risk	1,187,798	1,039,075
Credit risk	11,864,020	10,454,211
Market risk	147,117	30,646
<b>Total risk-weighted assets</b>	<b>13,198,935</b>	<b>11,523,932</b>
<b>Capital adequacy ratios:</b>		
Leverage capital ratio	8.3%	8.0%
Tier 1 risk-based capital ratio	9.9%	9.9%
Total risk-based capital ratio	13.2%	12.6%

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

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

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

**Capital management for the Botswana banking group**

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

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

Capital adequacy and the use of regulatory capital are monitored regularly by the bank's management, employing techniques for supervisory purposes to ensure that the ratio does not fall below the required minimum. The required information is submitted to Bank of Botswana on a monthly basis.

Bank of Botswana requires each bank or banking group to hold the minimum level of the regulatory capital of P5 million, as well as to maintain the following capital adequacy ratios:

- Tier 1 and Tier 2 capital to risk weighted assets at a minimum of 15%, referred to as capital adequacy ratio.
- Tier 2 capital to Tier 1 capital limited at a ratio of 50% in the determination of capital adequacy.

The bank's regulatory capital is divided into two tiers:

- Tier 1 capital: stated capital and distributable reserves;
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 30 June 2011

**3.6 Capital management (continued)**

*Capital management for the Botswana Banking Group*

The table below summarises the composition of regulatory capital and the ratios of the bank for the years ended 30 June 2011 and 2010. During those two years the bank complied with all of the externally imposed capital requirements to which it is subject to.

<i>Botswana Banking Group</i>	<b>Group and company</b>	
	<b>2011</b>	<b>2010</b>
	<b>P'000</b>	<b>P'000</b>
<b>Tier 1 capital</b>		
Stated Capital	<b>118,405</b>	103,406
Retained earnings	<b>19,653</b>	10,868
<b>Total qualifying Tier 1 capital</b>	<b>138,058</b>	114,274
<b>Tier 2 capital</b>		
Debt security in issue (note 29)	<b>50,000</b>	50,000
Collective impairment allowance	<b>14,543</b>	12,037
<b>Total qualifying Tier 2 capital</b>	<b>64,543</b>	62,037
<b>Total regulatory capital</b>	<b>202,601</b>	176,311
<b>Risk-weighted assets:</b>		
On-balance sheet	<b>1,112,524</b>	923,382
Off-balance sheet	<b>50,908</b>	39,577
<b>Total risk-weighted assets</b>	<b>1,163,432</b>	962,959
<b>Return on Assets ratio</b>	<b>0.40%</b>	0.39%
<b>Return on Equity ratio</b>	<b>6.36%</b>	5.04%
<b>Capital adequacy ratio</b>	<b>17.4%</b>	18.3%

**4. Critical accounting estimates, and judgements in applying accounting policies**

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

*(a) Impairment losses*

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

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

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

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

*(c) Fair value of financial instruments*

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

*(d) Post-employment benefits*

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 30 June 2011

	Group		Company	
	2011	2010	2011	2010
	N\$'000	N\$'000	N\$'000	N\$'000
<b>5. Net interest income</b>				
<i>Interest and similar income</i>				
Loans and advances	1,405,744	1,288,073		
Cash and short-term funds	74,276	38,247		
Financial assets designated at fair value through profit or loss	55,194	114,375		
Available-for-sale financial assets	17,448	18,218		
Other	3,684	9,987		
Intergroup	-	1,117		
	<u>1,556,346</u>	<u>1,470,017</u>		
<i>Interest and similar expenses</i>				
Banks and customers	758,746	804,106		
Other borrowed funds	28,547	20,498		
Intergroup	-	9		
	<u>787,293</u>	<u>824,613</u>		
<b>6. Impairment charges on loans and advances</b>				
Increase in specific impairment	30,995	24,042		
Increase in portfolio impairment	9,262	4,826		
Amounts written off	-	1,095		
Amounts recovered during the year	(430)	(663)		
	<u>39,827</u>	<u>29,300</u>		
<b>7. Fee and commission income</b>				
Transaction and related fees	299,740	264,494		
Commissions	28,636	16,096		
Trust and other fiduciary fees	4,254	3,733		
	<u>332,630</u>	<u>284,323</u>		
<b>8. Net trading income</b>				
Net foreign exchange gains and losses from trading assets	41,280	52,482		
Net gain from financial instruments at fair value through profit or loss	7,291	1,318		
	<u>48,571</u>	<u>53,800</u>		
<b>9. Other operating income</b>				
<i>Other operating income includes:</i>				
Asset management and administration fees	30,268	29,305	-	-
Brokerage commission	42,704	41,700	-	-
Dividend income	1,743	2,661	89,491	114,560
Consultancy fees received	8,434	24,027	7,930	6,274
Directors fees received	127	182	485	392
Reversal of impairment on sale of subsidiaries	663	-	6,267	-
Reversal of impairment on associate	5,834	-	496	-
Interest received	10,007	11,080	1,810	1,472
Management fees received	1,892	5,264	-	-
Net income from financial instruments at fair value through profit or loss	568	(3,491)	(1,794)	(4,216)
Unrealised loss on fair value of derivative financial liability	(1,794)	-	-	-
(Loss) / profit on sale of property, plant and equipment	(618)	1,198	-	-
Profit / (loss) on sale of subsidiary	-	2,158	-	(7,000)
Reversal of provision	-	1,400	-	-
Support services rendered	3,030	4,966	-	-
Proceeds from sale of shares	9,100	6,263	-	-
Other	2,224	3,029	-	-
	<u>114,182</u>	<u>129,742</u>	<u>104,685</u>	<u>111,482</u>

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 30 June 2011

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
<b>10. Staff costs</b>				
Wages and salaries	393,835	355,601	15,697	13,261
Staff training and transfer cost	5,056	5,548	115	300
Pension costs - defined contribution plan	25,481	22,208	45	54
Severance pay liability	973	4,323	-	-
	<u>425,345</u>	<u>387,680</u>	<u>15,857</u>	<u>13,615</u>
<b>11. Operating expenses</b>				
<i>Expenses by nature</i>				
Advertising and marketing	22,926	21,702	131	182
Amortization and impairment of intangibles	1,869	8,839	-	-
Association transaction fees	25,761	23,831	-	-
Auditors remuneration				
- Audit fees	3,636	3,694	185	127
- Fees for other services	337	464	17	75
Directors' emoluments				
- Non-executive directors	-	-	257	216
Depreciation and impairment of property, plant and equipment	36,124	35,130	-	-
Foreign exchange loss	78	2,029	78	138
Impairment of receivables	-	10	-	-
Impairment of investment in subsidiaries	-	-	-	8,288
Impairment of investment in associate	-	7,332	-	5,833
Finance cost	20,316	23,682	10,262	11,814
Intragroup consultancy and management fees	22,843	11,937	1,413	929
Operating lease rentals - immovable property	49,694	47,059	1,402	1,229
Professional services	10,721	9,806	952	1,007
Repairs and maintenance	17,635	17,872	-	-
Royalties paid on trade mark	722	729	-	-
Staff costs (Note 10)	425,345	387,680	15,857	13,615
Sub-agents commission	1,182	857	-	-
Technology costs	31,514	31,853	147	309
Other expenses	128,625	119,867	2,468	2,844
	<u>799,328</u>	<u>754,373</u>	<u>33,169</u>	<u>46,606</u>
<b>12. Share of associates' results</b>				
Profit before taxation	89,607	51,437		
Taxation	(13,271)	(12,822)		
	<u>76,336</u>	<u>38,615</u>		
<b>13. Income tax expense</b>				
Current tax	142,263	104,588	(94)	128
- Current year	141,613	117,816	(8)	128
- Prior year	650	(13,228)	(86)	-
Deferred tax	3,480	3,011	-	-
- Current year	3,480	2,690	-	-
- Prior year	-	321	-	-
	<u>145,743</u>	<u>107,599</u>	<u>(94)</u>	<u>128</u>

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 30 June 2011

	Group		Company	
	2011	2010	2011	2010
	N\$'000	N\$'000	N\$'000	N\$'000
<b>13. Income tax expense (continued)</b>				
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 results from associates	429,196	334,724	71,516	64,876
Tax calculated at a tax rate of 34% (2010: 34%)	144,851	113,246	24,315	22,058
Income not subject to tax	(12,899)	(23,387)	(39,561)	(39,561)
Expenses not deductible for tax purposes	8,445	24,085	16,372	16,372
Tax losses not utilised	7,472	(501)	1,131	1,131
Unutilised tax losses previously not recognised	-	2,101	-	-
Utilised tax loss previously not recognised	(442)	-	-	-
Prior year adjustment	261	(9,014)	-	-
Deferred tax rate change	-	-	-	-
Cross-border withholding tax	381	1,069	128	128
Special allowance	(2,326)	-	-	-
Income tax expense	<u>145,743</u>	<u>107,599</u>	<u>2,385</u>	<u>128</u>
Effective interest rate	<u>34%</u>	<u>32%</u>	<u>3%</u>	<u>0%</u>

**14. Cash and balances with the Central Bank**

Cash and bank balances	287,471	326,306	19,116	42
Balances with the Central Bank other than mandatory reserve deposits	190,907	369,590	-	-
Included in cash and cash equivalents	478,378	695,896	19,116	42
Mandatory reserve deposits with the Central Bank	257,841	191,964	-	-
	<u>736,219</u>	<u>887,860</u>	<u>19,116</u>	<u>42</u>

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.

**15. Derivative financial instruments**

Currency swap	488	-	-	-
Interest rate swaps	-	653	-	-
	<u>488</u>	<u>653</u>	<u>-</u>	<u>-</u>

A currency swap is a contract to exchange cash flows denominated in foreign currency. The notional amounts at the initiation of the contract was N\$19 million.

**16. Financial assets at fair value through profit or loss**

Treasury bills	1,120,928	930,248	-	-
Government stocks	517,461	434,695	-	-
Equity securities	6,833	2,830	-	-
Money market investments	29,198	101,453	-	-
Other debt securities	-	10,870	-	-
	<u>1,674,420</u>	<u>1,480,096</u>	<u>-</u>	<u>-</u>

The above debt securities are managed and their performance evaluated on a fair value basis in accordance with a documented risk management strategy.

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 30 June 2011

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

Treasury bills with a nominal value of N\$305,000,000 (2010: N\$670,000,000) are available at Bank of Namibia for collateral should the need arise. At year-end, there were no treasury bills utilised for security purposes (2010: NIL) at Bank of Namibia, although N\$108.9 million of Treasury Bills have been collateralised under a sale-and-buyback agreement, which matured on 05 July 2011.

Bank of Botswana Certificates are securities issued by Bank of Botswana for a term of two weeks and three months. These securities are carried at fair value. Bank of Botswana Certificates with a nominal value of P80,000,000 (2010: P67,000,000) are pledged as securities with the Bank of Botswana.

The effective interest rate is 6.89% p.a (2010: 7.1% p.a) on Bank of Botswana Certificates.

	Group		Company	
	2011	2010	2011	2010
	N\$'000	N\$'000	N\$'000	N\$'000
<b>17. Investment securities</b>				
Securities available-for-sale - Listed	17,850	16,341	657	763
Securities available-for-sale - Unlisted	<u>304,458</u>	<u>287,010</u>	<u>10,349</u>	<u>9,358</u>
	<u><b>322,308</b></u>	<u><b>303,351</b></u>	<u><b>11,006</b></u>	<u><b>10,121</b></u>
Gains and losses arising from these investments are as follows:				
Foreign exchange losses	<u>-</u>	<u>(1,800)</u>	<u>-</u>	<u>-</u>
The movement during the year is summarised as follows:				
Opening balance	303,351	284,109	10,121	7,174
Additions	657	-	-	-
Redemption	-	-	-	-
Disposals	-	-	-	-
Interest capitalised	17,448	18,217	-	-
Gains in changes in fair value	852	1,025	885	2,947
Foreign exchange gains	-	-	-	-
	<u><b>322,308</b></u>	<u><b>303,351</b></u>	<u><b>11,006</b></u>	<u><b>10,121</b></u>
<b>18. Due from other banks</b>				
Placement with other banks	<u><b>401,993</b></u>	<u><b>453,238</b></u>		
Placement with other banks are included in cash and cash equivalents for the purposes of the cash flow statement.				
<b>19. Loans and advances to customers</b>				
Overdrafts	2,257,105	2,198,843		
Term loans	3,027,567	2,606,854		
Mortgages	6,517,996	5,389,601		
Installment finance	2,351,334	2,002,402		
Other	<u>580,168</u>	<u>274,775</u>		
<i>Gross loans and advances</i>	<u><b>14,734,170</b></u>	<u><b>12,472,475</b></u>		
<i>Less impairment</i>				
Specific impairment	(72,270)	(71,433)		
Portfolio impairment	<u>(69,873)</u>	<u>(56,204)</u>		
	<u><b>14,592,027</b></u>	<u><b>12,344,838</b></u>		

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 30 June 2011

	Group		Company	
	2011	2010	2011	2010
	N\$'000	N\$'000	N\$'000	N\$'000
<b>19. Loans and advances to customers (continued)</b>				
Movement in impairment for the Group is as follows:				
Balance at the beginning of the year	127,637	132,401		
Provision for loan impairment	39,993	29,757		
Amounts written off during the year as uncollectible	(24,832)	(34,521)		
Exchange rate differences	(990)	-		
Balance at the end of the year	<u>141,808</u>	<u>127,637</u>		

	2011		2010	
	N\$	%	N\$	%
Maturity analysis of loans and advances to customers for the Group were as follows:				
Repayable within 1 month	2,454,191	16.7%	2,296,728	18.4%
Repayable after 1 month but within 3 months	241,995	1.6%	43,380	0.3%
Repayable after 3 months but within 6 months	369,485	2.5%	121,932	1.0%
Repayable after 6 months	11,668,499	79.2%	10,010,435	80.3%
	<u>14,734,170</u>	<u>100.0%</u>	<u>12,472,475</u>	<u>100.0%</u>

	Group		Company	
	2011	2010	2011	2010
	N\$'000	N\$'000	N\$'000	N\$'000
The loans and advances to customers include installment finance receivables which may be analysed as follows:				
Repayable within 1 year	262,721	160,609		
Repayable after 1 year but within 5 years	2,751,657	2,092,970		
Repayable after 5 years	11,774	42,378		
Gross investment in installment finances	<u>3,026,152</u>	<u>2,295,957</u>		
Unearned future finance income on installment finances	(706,212)	(374,954)		
Net investment in installment finances	<u>2,319,940</u>	<u>1,921,003</u>		

<b>20. Other assets</b>	2011		2010		2009	
	N\$'000		N\$'000		N\$'000	
			As restated	As restated		
<b>Group</b>						
Insurance fund asset (refer to note 46)	43,360		34,923		34,923	
Accounts receivable and prepayments	40,349		56,347		62,567	
Clearing, settlement and internal accounts	118,409		191,147		164,170	
Other taxes	158		246		147	
Repossessed property	1,126		2,220		3,689	
Deposits	-		-		2	
Dividends receivable	1,441		1,519		-	
Other receivables	107		111		25,313	
Work-in-progress	38,231		25,322		-	
	<u>243,181</u>		<u>311,835</u>		<u>290,811</u>	
<b>Company</b>						
Accounts receivable and prepayments	11,791		27,259		7,312	
Other taxes	-		37		31	
Dividends receivable	1,441		1,519		-	
Other receivables	5,715		-		-	
	<u>18,947</u>		<u>28,815</u>		<u>7,343</u>	

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 30 June 2011

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
<b>21. Investment in subsidiaries</b>				
Balance as at 1 July			382,272	346,137
Disposal of subsidiary - cost			-	(10,000)
Proceeds from sale of investment in Cyan ES (Pty) Ltd			-	(6,000)
Impairment on proceeds from sale of investment			-	3,000
Since acquisition reserves			-	(9,158)
Profit on sale of subsidiary			-	2,158
Issue of new shares by subsidiary			12,942	54,423
Reversal of impairment of investment in subsidiary			8,288	-
Impairment of investment in subsidiary			(2,683)	(8,288)
Balance as at 30 June			<u>400,819</u>	<u>382,272</u>
Indebtedness by subsidiaries			<u>3,800</u>	<u>-</u>
Total investment in subsidiaries			<u>404,619</u>	<u>382,272</u>
Directors' valuation of investment in shares			<u>2,205,932</u>	<u>1,675,386</u>

**22. Investment in associates**

**Santam Namibia Ltd**

The group holds an effective 30%, non-controlling interest in Santam Namibia Ltd, a namibian company providing short-term insurance.

**Carrying value of investment in associate**

Cost/ Investment	8,980	8,980
Share of current year's retained income	5,944	6,503
- Profit before tax	35,411	26,793
- Current and deferred tax	(11,467)	(9,490)
- Dividends	(18,000)	(10,800)
Post acquisition retained income at the beginning of the year	<u>47,170</u>	<u>40,667</u>
	<u>62,094</u>	<u>56,150</u>

**Summarised financial information (unaudited)**

Non-current assets	202,103	196,354
Technical assets	84,136	93,208
Current assets	247,884	200,326
Non-current liabilities	(19,857)	(13,923)
Technical liabilities	(225,764)	(202,793)
Current liabilities	(81,518)	(86,001)
Capital and reserves	<u>206,984</u>	<u>187,171</u>

**Sanlam Namibia Holdings Limited**

Bank Windhoek Holdings Ltd holds an effective 30%, non-controlling interest in Sanlam Namibia Holdings Ltd, a namibian company providing a variety of financial services.

**Carrying value of investment in associate**

Cost/ Investment	47,290	47,290
Share of current year's retained income	1,126	8,709
- Profit before tax	38,057	24,753
- Current and deferred tax	(3,053)	(4,260)
- Dividends paid	(33,878)	(11,784)
Post acquisition retained income at the beginning of the year	<u>32,828</u>	<u>24,119</u>
	<u>81,244</u>	<u>80,118</u>

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 30 June 2011

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>N\$'000</b>	<b>N\$'000</b>	<b>N\$'000</b>	<b>N\$'000</b>
<b>22. Investment in associates (continued)</b>				
<b>Sanlam Namibia Holdings Limited</b>				
<b>Summarised financial information (unaudited)</b>				
Non-current assets	1,816,860	1,586,832		
Current assets	96,958	111,603		
Non-current liabilities	(1,566,338)	(1,362,555)		
Current liabilities	(134,862)	(127,083)		
Capital and reserves	<u>212,618</u>	<u>208,797</u>		
<b>VTB Capital Namibia (Pty) Ltd</b>				
Bank Windhoek Holdings Ltd holds 49.67% non-controlling interest in VTB Capital Namibia (Pty) Ltd, a financial consulting company.				
<b>Carrying value of investment in associate</b>				
Cost/ Investment	1,788	22,881		
Reduction in share capital	-	(21,093)		
Share of current year's accumulated losses	(143)	(3,004)		
- Loss before tax	(143)	(604)		
- Dividends paid	-	(2,400)		
Post acquisition retained income at the beginning of the year	(12)	2,992		
	<u>1,633</u>	<u>1,776</u>		
<b>Summarised financial information</b>				
Non-current assets	63	144		
Current assets	3,262	3,488		
Current liabilities	(6)	(25)		
Capital and reserves	<u>3,319</u>	<u>3,607</u>		
	<b>2011</b>	<b>Group</b>	<b>2009</b>	
	<b>N\$'000</b>	<b>2010</b>	<b>N\$'000</b>	
		<b>N\$'000</b>	<b>N\$'000</b>	
		<b>As restated</b>	<b>As restated</b>	
<b>Nam-mic Financial Services Holdings (Pty) Ltd</b>				
The company holds an effective 31.66% , non-controlling interest in Nam-mic Financial Services Holdings Ltd, a namibian company providing brokerage services.				
<b>Carrying value of investment in associate</b>				
Cost/ Investment	6,386	6,386	4,915	
Acquisition of shares	3,885	-	-	
Share of current year's retained income	16,028	10,778	15,968	
- Profit before tax	19,486	12,447	17,091	
- Current and deferred tax	(21)	(223)	(269)	
- Dividends paid	(3,437)	(1,446)	(854)	
Post acquisition fair value reserves	58	31	-	
Post acquisition retained income at the beginning of the year	38,783	28,005	12,037	
	<u>65,140</u>	<u>45,200</u>	<u>32,920</u>	
<b>Summarised financial information</b>				
Non-current assets	220,753	194,112	169,941	
Current assets	34,705	19,155	6,158	
Non-current liabilities	(46,003)	(52,485)	(38,585)	
Current liabilities	(11,038)	(10,153)	(27,723)	
Capital and reserves	<u>198,417</u>	<u>150,629</u>	<u>109,791</u>	

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 30 June 2011

**22. Investment in associates (continued)**

	Company	
	2011 N\$'000	2010 N\$'000
<b>Nam-mic Financial Services Holdings (Pty) Ltd</b>		
<b>Carrying value of investment in associate</b>		
Cost/ Investment	58,690	58,690
Acquisition of shares	<u>3,885</u>	<u>-</u>
	<u><b>62,575</b></u>	<u><b>58,690</b></u>

The company has acquired 547 shares in Nam-mic Financial Services Holdings (Pty) Ltd for N\$ 3,884,657 during the year.

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
<b>Cavmont Capital Holdings Zambia Plc</b>				
The company holds an effective 41.21% , non-controlling interest in Cavmont Capital Holdings Zambia Plc, a zambian company providing banking services.				
<b>Carrying value of investment in associate</b>				
Cost/ Investment	25,912	25,912	20,080	25,913
Impairment of investment in associate	-	(5,833)	495	(5,833)
Share of current year's accumulated losses	(2,146)	(4,745)		
- Loss before tax	(3,490)	(5,896)		
- Current and deferred tax	<u>1,344</u>	<u>1,151</u>		
Share of foreign currency translation reserve	(4,829)	(4,066)		
Post acquisition retained income at the beginning of the year	(838)	3,907		
	<u><b>18,099</b></u>	<u>15,175</u>	<u><b>20,575</b></u>	<u>20,080</u>

**Summarised financial information (unaudited)**

Total assets	351,317	312,469
Total liabilities	<u>(321,759)</u>	<u>(276,330)</u>
Capital and reserves	<u><b>29,558</b></u>	<u>36,139</u>

**Smartswitch Botswana**

Capricorn Investment Holdings Ltd holds an effective 50% non-controlling interest in SmartSwitch Botswana (Pty) Ltd, a company operating an UPEPS smart card based switching system in Botswana.

**Carrying value of investment in associate**

Cost	-	10,157	-	-
Acquisition of shares	4,150	-	4,150	-
Share of current year's retained income	212	-	-	-
- Profit before tax	<u>286</u>	<u>-</u>	<u>-</u>	<u>-</u>
- Current and deferred tax	(74)	-	-	-
Share of foreign currency translation reserve	(244)	-		
Post acquisition accumulated loss at the beginning of the year	-	(10,157)	-	-
Investment in associate	-	8,472	-	-
Impairment of investment in associate	-	(1,499)	-	-
	<u><b>4,118</b></u>	<u>6,973</u>	<u><b>4,150</b></u>	<u>-</u>

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 30 June 2011

	Group		Company	
	2011	2010	2011	2010
	N\$'000	N\$'000	N\$'000	N\$'000
<b>22. Investment in associates (continued)</b>				
<b>Smartswitch Botswana</b>				
<b>Summarised financial information (unaudited)</b>				
Non-current assets	5,507	13,286		
Current assets	3,697	2,082		
Current liabilities	<u>(825)</u>	<u>(10,190)</u>		
Capital and reserves	<u>8,379</u>	<u>5,178</u>		
Total investment in associates	<u>232,328</u>	<u>205,392</u>	<u>87,300</u>	<u>78,770</u>
Directors' valuation	<u>466,804</u>	<u>205,392</u>	<u>87,300</u>	<u>78,770</u>
The company has acquired 2,000 shares in Smartswitch Botswana (Pty) Ltd for N\$ 4,149,961 during the year. Previously, Smartswitch Botswana (Pty) Ltd was held by Capricorn Investment Holdings Botswana (Pty) Ltd.				
<b>23. Interest in joint ventures</b>				
The value of the Group's share in assets, liabilities, income and expenditure is not significant to the Group as a whole. These components are therefore not disclosed.				
<i>23.1 Jointly controlled operations</i>				
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.				
Opening balance	1,577	1,682		
The Group's share of the profit in the joint venture	3,287	4,895		
Profit distribution	-	(5,000)		
Closing balance	<u>4,864</u>	<u>1,577</u>		
<i>23.2 Jointly controlled entity</i>				
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.				
Opening balance	2,601	5,368		
Reduction in share capital	-	(3,000)		
The Group's share of the profit in the joint venture	628	233		
Dividends	<u>(1,000)</u>	<u>-</u>		
Closing balance	<u>2,229</u>	<u>2,601</u>		
Total investments	<u>7,093</u>	<u>4,178</u>		
Directors' valuation of investment in shares	<u>7,093</u>	<u>4,178</u>	<u>-</u>	<u>-</u>
Non-current	<u>7,093</u>	<u>4,178</u>		

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 30 June 2011

**24. Intangible assets**

	Trademarks N\$'000	Goodwill N\$'000	Software and related development costs N\$'000	Other intangibles	Total N\$'000
<b>Group</b>					
<b>Year end - 30 June 2011</b>					
Cost at 1 July 2010	7,203	62,440	49,815	7,005	126,463
Additions	-	-	14,000	-	14,000
Exchange rate adjustment	-	817	-	-	817
Cost at 30 June 2011	<u>7,203</u>	<u>63,257</u>	<u>63,815</u>	<u>7,005</u>	<u>141,280</u>
Amortisation and impairment at 1 July 2010	(4,326)	(7,602)	(49,815)	(6,897)	(68,640)
Charge for the year	(959)	-	(1,845)	(54)	(2,858)
Impairment	-	-	(704)	-	(704)
Amortisation and impairment at 30 June 2011	<u>(5,285)</u>	<u>(7,602)</u>	<u>(52,364)</u>	<u>(6,951)</u>	<u>(72,202)</u>
<i>Net book value at 30 June 2011</i>	<u>1,918</u>	<u>55,655</u>	<u>11,451</u>	<u>54</u>	<u>69,078</u>
<b>Year end - 30 June 2010</b>					
Cost at 1 July 2009	7,203	63,845	50,955	6,843	128,846
Disposal of subsidiary	-	-	(65)	-	(65)
Disposals	-	-	(10,995)	-	(10,995)
Additions	-	-	9,920	162	10,082
Exchange rate adjustment	-	(1,405)	-	-	(1,405)
Cost at 30 June 2010	<u>7,203</u>	<u>62,440</u>	<u>49,815</u>	<u>7,005</u>	<u>126,463</u>
Amortisation and impairment at 1 July 2009	(3,367)	-	(49,712)	(6,722)	(59,801)
Charge for the year	(959)	-	(103)	(54)	(1,116)
Impairment	-	(7,602)	-	(121)	(7,723)
Amortisation and impairment at 30 June 2010	<u>(4,326)</u>	<u>(7,602)</u>	<u>(49,815)</u>	<u>(6,897)</u>	<u>(68,640)</u>
<i>Net book value at 30 June 2010</i>	<u>2,877</u>	<u>54,838</u>	<u>-</u>	<u>108</u>	<u>57,823</u>

All intangible assets are held by the Group, none are held by the Company.

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

CIH Botswana tests annually whether goodwill has suffered any impairment, in accordance with its accounting policy on goodwill. The recoverable amounts of cash-generating units have been determined by the directors based on the forecasted post-tax free cash flows of each cash-generating unit. These calculations require the use of estimates, the most significant of which are:

- Loan book growth rate of 5% p.a.
- Cost/Income ratio of 35%
- Beta of 1.75
- Discount rate of 17.9% p.a.

At the financial year-end, CIH Botswana assessed the recoverable amount of goodwill, based on discounted cash flows of estimated future earnings and determined that goodwill was not impaired. Goodwill was allocated for impairment testing to Bank Gaborone Finance.

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 30 June 2011

**25. Property, plant and equipment**

	<b>Freehold land and buildings N\$'000</b>	<b>Computer and other equipment N\$'000</b>	<b>Vehicles N\$'000</b>	<b>Furniture and fittings N\$'000</b>	<b>Total N\$'000</b>
<b>Group</b>					
<b>Year end - 30 June 2011</b>					
Cost at 1 July 2009	54,720	155,299	11,284	131,506	352,809
Additions	154	19,899	2,442	13,928	36,423
Transfers	(4,590)	1,394	-	3,196	-
Disposals	(577)	(489)	(349)	(2,062)	(3,477)
Exchange rate adjustment	(4)	(445)	(3)	(455)	(907)
Cost at 30 June 2011	<u>49,703</u>	<u>175,658</u>	<u>13,374</u>	<u>146,113</u>	<u>384,848</u>
<i>Depreciation and impairment</i>					
Accumulated depreciation at 1 July 2009	(8,568)	(109,010)	(8,182)	(69,285)	(195,045)
Charge for the year	(1,797)	(17,089)	(1,392)	(14,445)	(34,723)
Transfers	-	(950)	-	950	-
Depreciation on disposals	433	388	325	1,516	2,662
Impairment	-	(1,405)	-	-	(1,405)
Accumulated depreciation at 30 June 2011	<u>(9,932)</u>	<u>(128,066)</u>	<u>(9,249)</u>	<u>(81,264)</u>	<u>(228,511)</u>
<i>Net book value at 30 June 2011</i>	<u>39,771</u>	<u>47,592</u>	<u>4,125</u>	<u>64,849</u>	<u>156,337</u>
<b>Year end - 30 June 2010</b>					
Cost at 1 July 2009	57,480	141,684	10,882	113,763	323,809
Additions	6,638	19,839	599	15,337	42,413
Transfers	(7,173)	2,790	-	4,383	-
Disposals	(2,220)	(8,281)	(190)	(1,387)	(12,078)
Exchange rate adjustment	(5)	(733)	(7)	(590)	(1,335)
Cost at 30 June 2010	<u>54,720</u>	<u>155,299</u>	<u>11,284</u>	<u>131,506</u>	<u>352,809</u>
<i>Depreciation and impairment</i>					
Accumulated depreciation at 1 July 2009	(6,631)	(90,800)	(6,839)	(57,354)	(161,624)
Charge for the year	(1,832)	(18,465)	(1,385)	(13,448)	(35,130)
Transfers	(217)	(713)	-	930	-
Depreciation on disposals	112	968	42	587	1,709
Accumulated depreciation at 30 June 2011	<u>(8,568)</u>	<u>(109,010)</u>	<u>(8,182)</u>	<u>(69,285)</u>	<u>(195,045)</u>
<i>Net book value at 30 June 2010</i>	<u>46,152</u>	<u>46,289</u>	<u>3,102</u>	<u>62,221</u>	<u>157,764</u>

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.

	<b>Group</b>		<b>Company</b>	
	<b>2011 N\$'000</b>	<b>2010 N\$'000</b>	<b>2011 N\$'000</b>	<b>2010 N\$'000</b>
Foreign exchange currency contracts	-	13,828	-	-
Currency swap	-	53	-	-
Interest rate swaps	1,895	-	-	-
Options	<u>12,418</u>	<u>10,624</u>	<u>12,418</u>	<u>10,624</u>
	<u>14,313</u>	<u>24,505</u>	<u>12,418</u>	<u>10,624</u>

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

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 30 June 2011

	Group		Company	
	2011	2010	2011	2010
	N\$'000	N\$'000	N\$'000	N\$'000
<b>26. Derivative financial instruments</b>				
The notional principal amount of the outstanding interest rate swap contracts at 30 June 2011 was N\$500 million (2010: N\$675 million).				
The company holds an option to purchase 652,916,433 ordinary shares in the issued capital of Cavmont Capital Holdings Zambia Plc.				
<b>27. Due to other banks</b>				
Current account	28,974	-		
Borrowings from other banks	270,081	387		
	<u>299,055</u>	<u>387</u>		
<b>28. Other deposits</b>				
Negotiable certificates of deposit (NCDs)	<u>3,188,906</u>	<u>3,970,799</u>		
<b>29. Debt securities in issue</b>				
Balance as at 1 July	547,342	493,080	140,858	136,773
Redemption	(90,000)	(141,229)	-	(141,229)
Additions	500,801	194,351	-	140,000
Effective interest rates adjustment	48,675	35,764	10,075	8,253
Coupon payment	(44,384)	(34,624)	(10,161)	(2,939)
Exchange rate	(2,217)	-	-	-
Balance as at 30 June	<u>960,217</u>	<u>547,342</u>	<u>140,772</u>	<u>140,858</u>
Debt securities in issue by the Group comprises of subordinated debts, senior debt and promissory notes with a combined nominal value of N\$600 million.				
During the year, N\$400 million of subordinated and senior debt was issued under the Group's Domestic Medium Term Note Programme, a programme registered with the Namibian Stock Exchange.				
150,000 cumulative, redeemable preference shares at 1c per share, issued by Bank Windhoek Holdings Ltd, are redeemable on 14 December 2012.				
Debentures with a face value of N\$ 140,000,000 have been issued on 2 December 2009 by the company, with an interest rate of 3 month JIBAR plus 1.25%. The maturity date of the debentures is 1 December 2012.				
<b>30. Deposits from customers</b>				
Current accounts	3,087,760	2,696,854		
Savings accounts	727,398	612,477		
Other deposits	8,014,083	6,508,682		
	<u>11,829,241</u>	<u>9,818,013</u>		

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 30 June 2011

**30. Deposits from customers (continued)**

	2011		2010	
	N\$'000	%	N\$'000	%
Maturity analysis within the customer current, savings, deposit account portfolio for the Group were as follows:				
Withdrawable on demand	7,807,565	66.0	6,611,203	67.3
Maturing within 1 month	831,062	7.0	391,105	4.0
Maturing after 1 month but within 6 months	2,862,223	24.2	1,925,439	19.6
Maturing after 6 months	328,391	2.8	890,266	9.1
	<u>11,829,241</u>	<u>100.0</u>	<u>9,818,013</u>	<u>100.0</u>

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
Accounts payable and other accruals	132,415	115,640	10,319	4,912
Borrowings	-	1,997	-	1,997
Deferred revenue	3,529	-	-	-
Other taxes	4,896	9,609	23	147
Clearing, settlement and internal accounts	119,598	125,083	-	-
	<u>260,438</u>	<u>252,329</u>	<u>10,342</u>	<u>7,056</u>

	2011 N\$'000	2010 N\$'000	2009 N\$'000
		As restated	As restated

**32. Deferred income tax**

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

The movement on the deferred income tax account is as follows:

Balance as at 1 July	130,651	115,766	115,986
Prior year adjustment	(1,184)	321	291
Income statement charge	3,480	2,690	(511)
Prior year restatement (refer to note 46)	-	11,874	11,874
Balance as at 30 June	<u>132,947</u>	<u>130,651</u>	<u>127,640</u>

Deferred income tax assets and liabilities are attributable to the following items:

*Deferred income tax liabilities*

Accelerated tax depreciation and amortisation	20,285	22,523	21,203
Loans and receivables	11,055	15,225	12,926
Government stock and other securities	125,801	113,799	106,120
Derivative financial instruments	-	52	213
Other temporary differences	2,539	20	2,375
	<u>159,680</u>	<u>151,619</u>	<u>142,837</u>

*Deferred income tax assets*

Accruals	17,788	15,626	8,293
Loan loss provisions	6,982	3,725	5,914
Assessed loss	704	1,096	6
Derivative financial instruments	478	-	-
Deferred revenue	781	521	984
	<u>26,733</u>	<u>20,968</u>	<u>15,197</u>

Net deferred income tax liability	<u>132,947</u>	<u>130,651</u>	<u>127,640</u>
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**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 30 June 2011

	Group		Company	
	2011	2010	2011	2010
	N\$'000	N\$'000	N\$'000	N\$'000
<b>33. Post-employment benefits</b>				
<i>33.1 Severance pay liability</i>				
A valuation was performed on 30 June 2010 by an independent actuary on the Group's liability with respect to severance pay. The benefit is not funded.				
The amount recognised in the consolidated statement of financial position are determined as follows:				
Present value of unfunded obligation	<u>5,288</u>	<u>4,323</u>	<u>-</u>	<u>-</u>
The movement in the severance pay obligation over the year is as follows:				
As at 1 July	4,323	-		
Recognition of severance pay obligation	-	3,735		
Current service costs	973	588		
Benefits paid	(8)			
As at 30 June	<u>5,288</u>	<u>4,323</u>	<u>-</u>	<u>-</u>
The amounts recognised in the consolidated statements of comprehensive income are as follows:				
Past service costs	-	3,735		
Current service costs	973	588		
	<u>973</u>	<u>4,323</u>	<u>-</u>	<u>-</u>
The principle actuarial assumptions used were as follows:				
Discount rate	9.05	9.05	9.05	9.05
Inflation rate	5.90	5.90	5.90	5.90
Salary increases	<u>7.40</u>	<u>7.40</u>	<u>7.40</u>	<u>7.40</u>
The following sensitivity of the overall liability to changes in principle assumption is:				
Salary increase 1% lower per annum	4,085	4,085	4,085	4,085
Salary increase 1% higher per annum	<u>4,587</u>	<u>4,587</u>	<u>4,587</u>	<u>4,587</u>

*33.2 Medical aid scheme*

The Group has no liability in respect of post-retirement medical aid contributions.

*33.3 Pension schemes*

All full-time permanent employees are members of the Capricorn Investment Holdings Retirement Fund, a defined contribution plan, which has been registered in Namibia in accordance with the requirements of the Pension Funds Act. The fund is governed by the Pension Funds Act 1956, which requires an actuarial valuation every three years. The latest actuarial valuation was carried out on 31 March 2010 and in the actuary's opinion the fund was in a sound financial position at that date. The valuation confirmed that the value of the assets in the fund exceeded the value of the actuarially determined liabilities.

The Namibian group companies currently contribute 12% of basic salary to the fund whilst the members contribute 7.5%.

All Botswana full-time permanent employees are members of the Alexander Forbes Retirement Fund, a defined contribution plan, which is governed and registered in Botswana in accordance with the requirements of the Pension and Provident Funds Act 1987.

The Botswana group currently contributes 10% of basic salary to the fund whilst the members contribute 7%. Bank Gaborone has no further obligation towards the pension plan other than the monthly contributions, should there be inadequate assets to settle its pension liabilities to its members.

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 30 June 2011

	Group		Company	
	2011	2010	2011	2010
	N\$'000	N\$'000	N\$'000	N\$'000
<b>34. Share capital and premium</b>				
<i>Authorised share capital</i>				
5,000,000 ordinary shares of N\$1 each	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
<i>Issued ordinary share capital</i>				
Balance as at 1 July:				
Group: 4,457,000 (2010: 4,465,000) ordinary shares of N\$1 each	4,457	4,465		
Company: 4,466,000 (2010: 4,466,000) ordinary shares of N\$1 each			4,466	4,466
Less 19,354 (2010: 9,537 ) shares held by the CIH Employee Share Trust	(19)	(9)		
Add 9,537 (2010: 1,419) shares held by the CIH Employee Share Trust in the previous year	<u>9</u>	<u>1</u>		
Group: 4,447,000 (2010: 4,457,000) ordinary shares of N\$1 each	<u>4,447</u>	<u>4,457</u>	<u>4,466</u>	<u>4,466</u>
<i>Share premium</i>				
Balance as at 1 July:	19,942	21,677	21,935	21,935
Less 19,354 (2010: 9,537 ) shares held by the CIH Employee Share Trust	(4,715)	(1,993)		
Add 9,537 (2010: 1,419) shares held by the CIH Employee Share Trust in the previous year	<u>1,993</u>	<u>258</u>		
Balance at 30 June:	<u>17,220</u>	<u>19,942</u>	<u>21,935</u>	<u>21,935</u>
<b>Total share capital and premium</b>	<u>21,667</u>	<u>24,399</u>	<u>26,401</u>	<u>26,401</u>
Weighted average number of ordinary shares in issue:	<u>4,466,000</u>	<u>4,466,000</u>	<u>4,466,000</u>	<u>4,466,000</u>
<b>Unissued shares</b>				
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, when the authority can be renewed.				
<b>35. Non-distributable reserves</b>				
<i>35.1 Credit risk reserve</i>				
Balance at 1 July	53,287	42,256	-	-
Transfer from retained earnings	<u>10,335</u>	<u>11,031</u>	-	-
Balance as at 30 June	<u>63,622</u>	<u>53,287</u>	-	-
<i>35.2 Share capitalization reserve</i>				
Balance as at beginning and end of year	<u>-</u>	<u>-</u>	<u>15,942</u>	<u>15,942</u>
<i>35.3 Insurance fund reserve</i>				
Balance as at 1 July, as restated (refer to note 46)	16,804	16,804	-	-
Transfer from retained earnings	<u>4,015</u>	<u>-</u>	-	-
Balance as at 30 June	<u>20,819</u>	<u>16,804</u>	-	-
Total non-distributable reserves	<u>84,441</u>	<u>70,091</u>	<u>15,942</u>	<u>15,942</u>

The regulatory credit risk reserve was introduced in order to meet the regulatory requirements for the loan loss portfolio impairment.

The Company reserve comprises of a share capitalization in a subsidiary.

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.

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 30 June 2011

	2011 N\$'000	2010 N\$'000 As restated	2009 N\$'000	
<b>36. Distributable reserves</b>				
<b>Group</b>				
<i>36.1 Fair value reserve</i>				
Balance as at 1 July, as previously stated	18,347	25,477	18,144	
Restatement (refer to note 46.2)	<u>(6,056)</u>	<u>(14,165)</u>	-	
Balance as at 1 July, as restated	12,291	11,312	18,144	
Net gains on available-for-sale instruments	774	7,313	7,333	
Non-controlling interest	<u>(232)</u>	<u>(278)</u>	-	
Closing balance	<u>12,833</u>	<u>18,347</u>	<u>25,477</u>	
	2011 N\$'000	2010 N\$'000	2009 N\$'000	
<b>Company</b>				
<i>36.1 Fair value reserve</i>				
Opening balance	2,903	-	-	
Net gains on available-for-sale instruments	<u>885</u>	<u>2,903</u>	-	
Closing balance	<u>3,788</u>	<u>2,903</u>	-	
	2011 N\$'000	2010 N\$'000	2009 N\$'000	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
<i>36.2 Foreign currency translation reserve</i>				
Opening balance	(16,453)	(8,877)	-	-
Revaluation for the year	(8,506)	(7,931)	-	-
Non-controlling interest	<u>321</u>	<u>355</u>	-	-
Closing balance	<u>(24,638)</u>	<u>(16,453)</u>	-	-
	2011 N\$'000	2010 N\$'000	2009 N\$'000	
<b>Group</b>				
<i>36.3 Retained earnings</i>				
Balance as at 1 July, as previously stated	1,010,607	852,249	727,956	
Restatement (refer to note 46.1)	-	23,049	-	
Transfers to reserves	-	(23,049)	-	
Restatement (refer to note 46.2)	<u>6,056</u>	<u>14,165</u>	-	
Balance as at 1 July, as restated	1,016,663	866,414	727,956	
Total comprehensive income for the year	267,701	186,578	143,621	
Transfer to non-distributable reserve	(14,350)	(11,031)	(9,174)	
Business combination	260	199	1,269	
Dividends declared	<u>(37,782)</u>	<u>(31,553)</u>	<u>(11,423)</u>	
Closing balance	<u>1,232,491</u>	<u>1,010,607</u>	<u>852,249</u>	
Total distributable reserves - Group	<u>1,220,686</u>	<u>1,012,501</u>	<u>868,849</u>	
	2011 N\$'000	2010 N\$'000	2009 N\$'000	
<b>Company</b>				
<i>36.3 Retained earnings</i>				
Balance as at 1 July	297,181	263,695	257,438	
Total comprehensive income for the year	71,610	64,748	17,422	
Dividends declared	<u>(37,514)</u>	<u>(31,262)</u>	<u>(11,165)</u>	
Closing balance	<u>331,277</u>	<u>297,181</u>	<u>263,695</u>	
Total distributable reserves - Company	<u>335,065</u>	<u>300,084</u>	<u>263,695</u>	

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**for the year ended 30 June 2011**

**37. Contingent liabilities, - assets and commitments**

*37.1 Unit trust repurchase agreement*

Bank Windhoek Limited has entered into an agreement with Capricorn Unit Trust Management Company Limited as follows: In the event of a credit default event the Bank will refund the Selekt Fund for any shortfall that may occur in the realisation of the capital of specified portfolio assets pertaining to investments held in the largest five South African Banks and Government Stock. A credit default event is defined as any event that destroys or significantly reduces the value of a security or jeopardizes the future return capabilities of the security or non-performance of the investment in terms of complying with the original investment agreement, specifically related to the investment's maturity date and applicable maturity value and interest payments. The guarantee is subject to certain set conditions 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 takes into account the total exposure, being the combined exposure of the Bank and the Fund, to any one counterparty. This combined exposure also complies with limits set by the Bank of Namibia and is appropriately monitored.

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

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>N\$'000</b>	<b>N\$'000</b>	<b>N\$'000</b>	<b>N\$'000</b>
<i>37.2 Capital commitments</i>				
- Authorised but not contracted for	<u>85,558</u>	<u>65,808</u>		
<i>37.3 Letters of credit and liabilities under guarantees</i>	<u>1,229,150</u>	<u>826,550</u>		
<i>37.4 Loan commitments</i>	<u>1,510,394</u>	<u>1,199,093</u>		
<i>37.5 Operating lease commitments</i>				
Office premises				
- Not later than 1 year	31,987	23,464		
- Later than 1 year but not later than 5 years	79,490	46,222		
- Later than 5 years	7,935	51,166		
	<u>119,412</u>	<u>120,852</u>		

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

**38. Dividends per share**

During the year under review normal dividends of 840 cents per share (2010: 700 cents per share) amounting to a total of N\$37,514,400 (2010: N\$31,262,000) were declared by the Company. The normal dividends declared represent an interim dividend of 420 cents (2010: 280 cents) per share and a final dividend of 420 cents (2010: 420 cents) per share. No special dividends were declared during the year (2010: N\$18.8 million representing 420 cents per share).

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 30 June 2011

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
<b>39. Cash generated by operations</b>				
Profit before income tax	505,532	373,339	71,516	64,876
Dividends received	(1,743)	(2,661)	(89,491)	(114,560)
Adjusted for non-cash items:				
- Accrued interest expense	48,675	35,764	10,075	8,253
- Accrued interest receivable	(17,448)	(19,242)	-	-
- Adjustment to fair value of investments	(568)	3,491	1,794	4,216
- Adjustment to fair value of derivate financial assets	1,639	53	-	-
- Amortisation and impairment of intangibles	3,562	8,839	-	-
- Depreciation, amortisation and impairment	36,124	35,130	-	-
- Impairment losses on receivables	-	10	-	-
- Impairment losses on loans and advances	39,827	29,300	-	-
- Impairment on investment in subsidiary	-	-	-	8,288
- Impairment on investment in associates	-	7,332	-	5,833
- Reversal of impairment on investment in subsidiary	-	-	(5,604)	-
- Reversal of impairment on investment in associates	(7,333)	-	(496)	-
- Unrealised foreign exchange (gain) / loss	(1,011)	18,597	78	138
- (Profit) / Loss on disposal of subsidiary	-	(2,158)	-	7,000
- Loss / (Profit) on disposal of property, plant and equipment	618	(1,198)	-	-
- Reversal of provision	-	(1,400)	-	-
- Provision for post-employment benefits	965	4,323	-	-
- Share of associate profits	(76,336)	(38,615)	-	-
- Share of joint venture profits	(3,915)	(5,128)	-	-
	<u>528,588</u>	<u>445,776</u>	<u>(12,128)</u>	<u>(15,956)</u>
<b>40. Income taxes paid (net)</b>				
Amounts payable as at 1 July	3,961	19,564	945	883
Current tax charged to profit or loss	(142,263)	(104,588)	94	(128)
Amounts payable as at 30 June	(1,157)	(3,961)	48	(945)
	<u>(139,459)</u>	<u>(88,985)</u>	<u>1,087</u>	<u>(190)</u>
<b>41. Dividends paid</b>				
Amounts unpaid as at 1 July	-	-	-	-
Amounts charged for the year	(68,897)	(73,188)	(37,514)	(31,262)
Amounts unpaid as at 30 June	-	-	-	-
	<u>(68,897)</u>	<u>(73,188)</u>	<u>(37,514)</u>	<u>(31,262)</u>
<b>42. Cash and cash equivalents</b>				
For the purpose of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 90 days maturity:				
Cash and balances with Central Banks (note 14)	478,378	695,896	19,116	42
Treasury bills and government stocks with a maturity of less than 90 days (note 16)	266,247	121,848	-	-
Money market investments (note 16)	29,198	101,453	-	-
Placement with other banks (note 18)	401,993	453,238	-	-
Borrowings from other banks (note 27)	(299,055)	(387)	-	-
Bank overdrafts (note 31)	-	(1,997)	-	(1,997)
	<u>876,761</u>	<u>1,370,051</u>	<u>19,116</u>	<u>(1,955)</u>

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 30 June 2011

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>N\$'000</b>	<b>N\$'000</b>	<b>N\$'000</b>	<b>N\$'000</b>
<b>43. Related party transactions</b>				
Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is controlled by Capricorn Investment Holdings Limited, a company incorporated in Namibia.				
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.				
During the year the Group and Company transacted with the following related parties:				
<b>Entity</b>	<b>Relationship</b>		<b>Type of transactions</b>	
Namibia Strategic Investments (Pty) Ltd (NSI)	The company is an associate of NSI		Consulting services	
Bank Windhoek Holdings	Subsidiary		Consulting services	
			Support services	
Bank Windhoek Ltd	Subsidiary		Banking relationship	
			Support services	
			Banking relationship	
Capricorn Investment Holdings (Botswana) (Pty) Ltd	Subsidiary		Consulting services	
			Guarantee	
Bank Gaborone Ltd	Subsidiary		Consulting services	
Capricorn Asset Management (Pty) Ltd	Subsidiary		Consulting services	
Capricorn Capital (Pty) Ltd	Subsidiary		Consulting services	
Cyan Enterprise Solutions (Pty) Ltd (dormant)	Subsidiary		Technology services	
CIH Group Employee Share Trust	SPE			
CIH Group Employee Share Benefit Trust	SPE			
Cavmont Capital Holdings Zambia Ltd	Associate		Consulting services	
Nam-mic Financial Services Holdings (Pty) Ltd	Associate		Consulting services	
Santam Namibia Ltd	Associate		Consulting services	
Sanlam Namibia Ltd	Associate		Consulting services	
Smartswitch Botswana (Pty) Ltd	Associate		Consulting services	
VTB Capital Namibia (Pty) Ltd	Associate		Support services	
Namib Bou (Pty) Ltd	Subsidiary		Support services	
Namib Bou Hochland Estate Development (Pty) Ltd	Subsidiary		Support services	
Welwitschia Nam-mic Insurance Brokers (Pty) Ltd	Subsidiary		Commission	
<i>43.1 Income received from related parties</i>				
		-		
Bank Windhoek Limited - support services	-	-	<b>1,564</b>	831
Bank Windhoek Holdings Ltd - support services	-	-	<b>3,794</b>	3,119
Bank Gaborone Ltd - support services	-	-	<b>698</b>	233
Capricorn Asset Management (Pty) Ltd - support services	-	-	<b>126</b>	93
Capricorn Capital (Pty) Ltd - support services	-	-	-	10
Cyan ES (Pty) Ltd - support services	-	-	-	699
Capricorn Investment Holdings (Botswana) (Pty) Ltd - support services	-	-	<b>44</b>	282
Cavmont Capital Holdings Zambia Plc - support services	-	-	<b>770</b>	95
Nam-mic Financial Services Holdings (Pty) Ltd - support services	-	-	<b>142</b>	135
Welwitschia Nam-mic Insurance Brokers (Pty) Ltd - support services	-	-	<b>63</b>	-
Sanlam Namibia Ltd - support services	-	-	<b>22</b>	-
Santam Namibia Ltd - support services	-	-	<b>76</b>	54
<i>43.2 Expenses paid to related parties</i>				
Bank Windhoek Ltd - support services	-	-	<b>977</b>	987
Cyan ES (Pty) Ltd - Consulting and management services	-	-	-	1,132
<i>43.3 Payable to related parties</i>				
Capricorn Investment Holdings (Botswana) (Pty) Ltd - subsidiary	-	-	<b>4,150</b>	1,423
Bank Windhoek Ltd - subsidiary	-	-	<b>1,649</b>	1,423

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 30 June 2011

	Group		Company	
	2011 N\$'000	2010 N\$'000	2011 N\$'000	2010 N\$'000
<b>43. Related party transactions (continued)</b>				
<i>43.4 Receivables from related parties</i>				
Bank Windhoek Limited	-	-	2,182	85
Bank Windhoek Holdings Limited	-	-	355	304
Bank Gaborone Ltd	-	-	96	105
Capricorn Asset Management (Pty) Ltd	-	-	7	14
Capricorn Investment Holdings Botswana	-	-	1,444	-
Cavmont Capital Holdings Zambia	-	-	5,175	57
Nam-mic Financial Services Holdings (Pty) Ltd	-	-	13	20
Sanlam Namibia Limited	-	-	5	-
Santam Namibia Limited	-	-	8	17
Welwitschia Nam-mic (Pty) Ltd Insurance Brokers (Pty) Ltd	-	-	35	-
	<u>43,920</u>	<u>54,445</u>	<u>8,154</u>	<u>9,651</u>
<i>43.5 Compensation paid to key management personnel</i>				
	<u>43,920</u>	<u>54,445</u>	<u>8,154</u>	<u>9,651</u>

Key management comprise of the Executive Management Team, which includes Executive Directors.

*43.6 Directors emoluments*

Refer to note 11.

**44. Assets under custody**

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

**45. Acquisition and disposal of associate**

*45.1 Acquisition of associate*

On 1 July 2010 the company acquired 50% non-controlling interest of Smartswitch Botswana (Proprietary) Limited for N\$ 4,149,961. Smart Switch Botswana is operating a UPEPS smart card-based switching system and is registered in Botswana.

At the effective date, 1 July 2010, the fair value of the net assets and liabilities in Smartswitch Botswana (Proprietary) Limited equalled to N\$ 4,149,961 and consequently there is no goodwill on the investment.

Details of net assets acquired are as follows:

*Purchase consideration:*

Non-current assets	3,937
Current assets	1,091
Non-current liabilities	(47)
Current liabilities	(831)
Fair value of net assets at acquisition	<u>4,150</u>
<b>Total purchase consideration</b>	<u>4,150</u>
Goodwill arising	<u>-</u>

*45.2 Disposal of 50% investment in associate*

Non-current assets	3,937
Current assets	1,091
Non-current liabilities	(47)
Current liabilities	(831)
Fair value of net assets at disposal	<u>4,150</u>
Proceeds from sale of 50% investment in associate	<u>(4,150)</u>
<b>Net profit / (loss) from sale of 50% investment in associate</b>	<u>-</u>

The proceeds from sale of 50% investment in Smartswitch Botswana by Capricorn Investment Holdings (Botswana) (Pty) Ltd was settled in cash by Capricorn Investment Holdings Ltd.

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

and its subsidiaries

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 30 June 2011

**46. Prior period restatement**

**46.1 Insurance fund reserve**

In terms of BID 14, the Group is required to maintain an insurance coverage specifically for banking risks which includes, inter alia, fraudulent activities and professional indemnity. A review of the cost structure of the required insurance resulted in the risks being spread between re-insurance and self-insurance. A fund, managed and administered by a third party insurer, was created in 2005 to cater for the risk exposures related to the Group's self insurance. The Group, however, incorrectly recorded the combined insurance premiums as operating expense in the year the premiums were paid. On review of the contract related to the self-insurance fund, it has been assessed that the fund meets the definition of a financial asset, although the usage of the fund is restricted due to regulatory requirements.

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

	Other assets	Deferred tax	Opening retained earnings	Insurance fund reserve	Non-controlling interest
<b>30 June 2009</b>					
As previously stated	255,888	115,766	852,249	-	300,789
Restatement					
- Gross	34,923	11,874	25,460		9,463
- Taxation			(8,656)		(3,218)
- Net			16,804		6,245
Transfer to non-distributable reserve			(16,804)	16,804	
<b>As restated</b>	<b>290,811</b>	<b>127,640</b>	<b>852,249</b>	<b>16,804</b>	<b>307,034</b>
<b>30 June 2010</b>					
As previously stated	276,912	118,777	996,442	-	349,405
Restatement					
- Gross	34,923	11,874	25,460		9,463
- Taxation			(8,656)		(3,218)
- Net			16,804		6,245
Transfer to non-distributable reserve			(16,804)	16,804	
<b>As restated</b>	<b>311,835</b>	<b>130,651</b>	<b>996,442</b>	<b>16,804</b>	<b>355,650</b>

**46.2 Investment in associate**

Previously the investments held by the company's associate, Nam-mic Financial Services Holdings, in Bank Windhoek Holdings Limited, Santam Namibia Limited, Sanlam Namibia Limited and Capricorn Asset Management (Pty) Limited were recognised as available-for-sale financial instruments. Due to the significant influence of Nam-mic Financial Services Holdings in these companies, the investments have been restated as investments in associates. Therefore the fair value reserve that resulted from the changes in previously recognised available-for-sale instruments has now been transferred to retained earnings. Similarly, the previously recognised available-for-sale financial assets have been recognised as part of investments in associates. These prior year adjustments have been made in the Capricorn Investment Holdings Limited group accordingly.

Only the notes that have been impacted by the prior period restatement, have been disclosed for the three financial years ended 30 June 2009, 2010 and 2011.

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

	Fair value reserve	Opening retained earnings
<b>Group</b>		
<b>30 June 2009</b>		
As previously stated	25,477	852,249
Restatement		
- Gross	(14,165)	14,165
- Taxation	-	-
- Net	(14,165)	14,165
<b>As restated</b>	<b>11,312</b>	<b>866,414</b>

**CAPRICORN INVESTMENT HOLDINGS LIMITED**

**and its subsidiaries**

Registration no. 82/031

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**for the year ended 30 June 2011**

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**46. Prior period restatement (continued)**

*46.2 Investment in associate*

	Fair value reserve	Opening retained earnings
<b>Group</b>		
<b>30 June 2010</b>		
As restated	18,347	1,010,607
Restatement		
- Gross	(6,056)	6,056
- Taxation	-	-
- Net	<u>(6,056)</u>	<u>6,056</u>
<b>As restated</b>	<u><u>12,291</u></u>	<u><u>1,016,663</u></u>

**CAPRICORN INVESTMENT HOLDINGS LIMITED**  
**and its subsidiaries**  
Registration no: 96/300

**GROUP VALUE ADDED STATEMENT - unaudited**  
**for the year ended 30 June 2011**

	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>N\$'000</b>	<b>%</b>	<b>N\$'000</b>	<b>%</b>
Interest earned and other operating income	2,051,729		1,935,853	
Interest paid and direct costs of services	<u>(1,168,541)</u>		<u>(1,200,049)</u>	
<b>Value added</b>	<b><u>883,188</u></b>		<b><u>735,804</u></b>	
Distributed as follows:				
<b>To employees</b>				
Remuneration, pension and other benefits	425,345	48%	387,680	53%
<b>To providers of capital</b>				
Dividends to shareholders	37,782	4%	31,553	4%
<b>To government</b>				
Taxes	174,295	20%	136,673	19%
- Direct	142,263		104,588	
- Indirect: Nambia VAT and levies	22,964		22,144	
Stamp duty	9,068		9,941	
<b>Reinvestment within the group</b>				
Depreciation and amortisation	245,766	28%	179,898	24%
Distributable reserves	37,581		36,246	
	208,185		143,652	
	<b><u>883,188</u></b>	<b><u>100%</u></b>	<b><u>735,804</u></b>	<b><u>100%</u></b>

