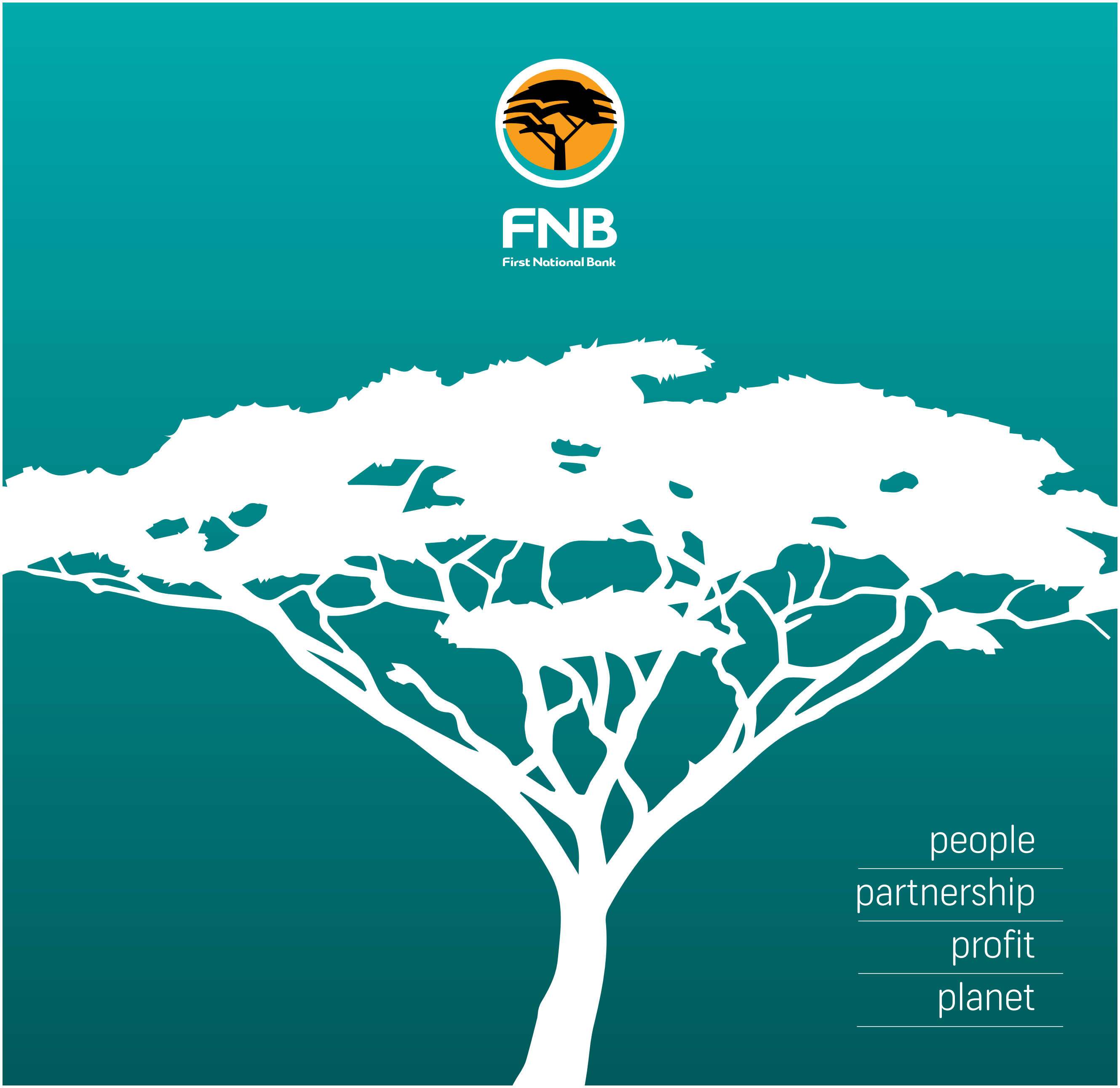
ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2018



VISION

A great Namibian financial services group, creating a better world!

MISSION

Be the best employer to the best people, who are passionate about stakeholder relationships and innovative, client-centric value propositions, delivered through efficient channels and processes in a sorted out and sustainable manner.

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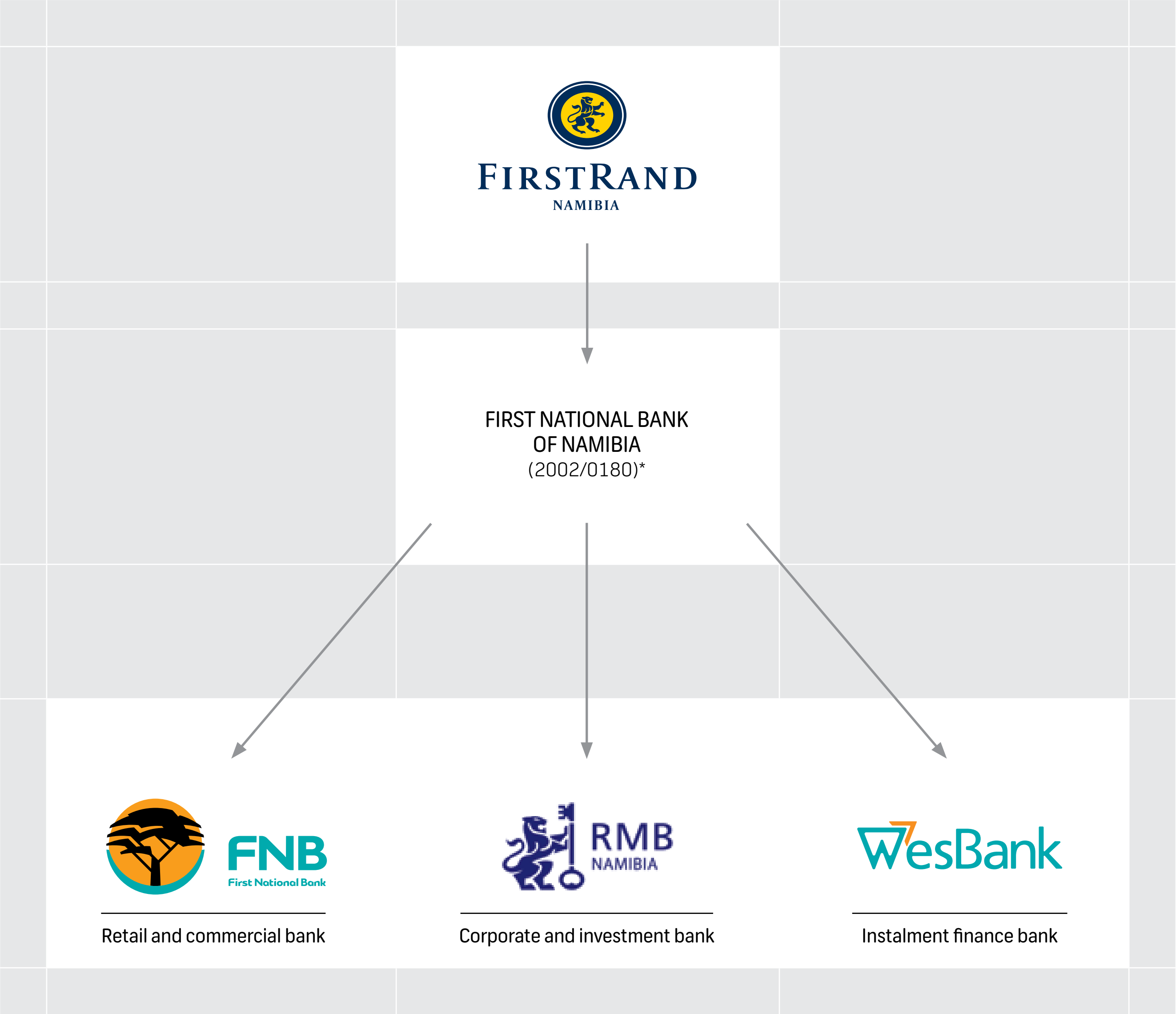
First National Bank of Namibia Limited
Incorporated in the Republic of Namibia
Registration number: 2002/0180

1. GROUP STRUCTURE



* Subsidiaries are listed in note 14 of the annual financial statements

2. DIRECTORS' RESPONSIBILITY STATEMENT

To the shareholders of First National Bank of Namibia Limited

The directors of First National Bank of Namibia Limited ('group') are responsible for the preparation of the consolidated and separate annual financial statements. In discharging this responsibility, the directors rely on management to prepare the consolidated and separate annual financial statements in accordance with International Financial Reporting Standards (IFRS) and the Companies Act of Namibia. Management is also responsible for keeping adequate accounting records in accordance with the group's system of internal control. As such the annual financial statements include amounts based on judgments and estimates of management.

In preparing the annual financial statements, suitable accounting policies have been applied and reasonable estimates have been made by management. The directors approve the changes to accounting policies. There were, however, no changes to accounting policies during the financial year. The annual financial statements incorporate full and responsible disclosure in line with the group philosophy on corporate governance and as required by the Namibian Stock Exchange and Johannesburg Stock Exchange.

The group has complied in all material respects with the requirements set out in BID2 with regards to asset classification, suspension of interest and provisioning. The group's policies with this regard are stated in the notes on accounting policies, disclosed on pages 56 to 84.

The directors are responsible for the group's system of internal control. To enable the directors to meet these responsibilities, the directors set the standards for internal control to reduce the risk of error or loss in a cost effective manner. The standards include the appropriate delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. The board members and employees are required to maintain the highest ethical standards and group's business practices are required to be conducted in a manner that is above reproach. The board has adopted and is committed to the principles in the NamCode report on Corporate Governance.

Based on the information and explanations given by management and the internal auditors, nothing has come to the attention of the directors to indicate that the internal controls are inadequate and that the financial records may not be relied on in preparing the consolidated and separate annual financial statements in accordance with IFRS and the Companies Act of Namibia and maintaining accountability for the group's assets and liabilities. Nothing has come to the attention of the directors to indicate any breakdown in the functioning of internal controls, resulting in a material loss to the group, during the year and up to the date of this report. Based on the effective internal controls implemented by management, the directors are satisfied that the consolidated and separate annual financial statements fairly present the state of affairs of the group and company at the end of financial year and the net income and cash flows for the year.

The directors have reviewed the group and company's budgets and flow of funds forecasts and considered the group and company's ability to continue as a going concern in the light of current and anticipated economic conditions. The directors have reviewed the assumptions underlying these budgets and forecasts based on currently available information. On the basis of this review, and in light of the current financial position and profitable trading history, the directors are satisfied that the group has adequate resources to continue in business for the foreseeable future. The going concern basis, therefore, continues to apply and has been adopted in the preparation of the annual financial statements.

The group's external auditors, Deloitte & Touche, have audited the financial statements and their report appears on pages 4 to 7.

The consolidated annual financial statements of the group and company, which appear on pages 8 to 200 were approved by the board of directors on 07 August 2018 and signed on its behalf by:

I I Zaamwani – Kamwi	S J Van Zyl
Chairperson	Chief Executive Officer

Windhoek
07 August 2018

3. INDEPENDENT AUDITOR'S REPORT
to the Members of First National Bank of Namibia Limited

Opinion

We have audited the consolidated and separate financial statements of First National Bank of Namibia Limited set out on pages 8 to 9 and 52 to 200, which comprise the statements of financial position as at 30 June 2018 and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies, capital management report and the directors' report.

In our opinion, these consolidated and separate financial statements present fairly, in all material respects, the financial position of the group and company as at 30 June 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Namibia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the company and group in accordance with the independence requirements applicable to performing audits of financial statements in Namibia which is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Part A and B) (IESBA Code).

We have fulfilled our other ethical responsibilities in accordance with the ethical requirements applicable to performing audits in Namibia. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter - group and company	How the matter was addressed in the audit
Impairment of advances Advances represents 73.1% of total assets and the estimation of impairment against advances is considered to be a key audit matter due to significant directors' judgment involved. Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. If there is objective evidence of an adverse impact on the estimated future cash flows of a financial asset as a result of one or more events that occurred after the initial recognition of the asset, the group reduces the carrying amount of the financial asset through the use of an allowance account (Impairment of Advances).	We assessed the design and implementation and operating effectiveness of controls over the approval, recording and monitoring of advances and the loan impairment practices across the banking group to compare them with the requirements of IFRS and tested the design and implementation of key controls over the processes used to calculate impairments, including those controls relating to data and models. Areas of significant judgement were identified and assessed for reasonableness for individually significant advances. We assessed, against actual experience and industry practice, the appropriateness of assumptions made in determining the level of impairment, including the probability of default and valuation of collateral.

Key audit matter	How the matter was addressed in the audit
Impairment of advances continued The assessment of objective evidence of impairment is firstly applied individually on financial assets which are individually significant and then on a portfolio basis for assets that are not individually significant. Impairment of advances is significant to the financial statements as significant judgment is applied with respect to the impairment assumptions. The calculation of impairments which are individually significant is inherently judgmental in nature. The impact of macro-economic events, including negative domestic economic sentiment, global pressure on commodity prices and foreign exchange volatility result in a challenging operating environment impacting the credit risk of underlying counterparties. As a result, directors apply significant judgement in identifying and assessing indications of impairment and related collateral values held when calculating impairment. The calculation of impairments on the low value, high volume advances portfolios requires significant judgement and complex actuarial models to determine: • Whether impairment events have occurred which result in the need for an impairment; • Expected recoveries in the event of default, including the impact of security and potential curing of those in default; and • The impact of market factors, including macro-economic trends. Related disclosures included in the financial statements are: > Accounting policies section 8.4; > Note 10 – advances; and > Note 11 - impairment of advances.	Where impairments were individually calculated for advances not individually significant, we performed tests to ascertain whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner. Where impairments had been identified, we examined the forecasts of future cash flows and assumptions applied to external evidence where applicable. Where impairments were calculated on a model basis we tested and challenged the basis and operation of those models, the data and assumptions used with the assistance of internal specialists. Our work included • Comparing significant assumptions with actual experience and industry practice; and • Testing the operation of actuarial models, including, where required, rebuilding those models or building our own independent models and comparing our results to those of directors. In addition, we considered the potential for impairment to be affected by events which were not captured by models (such as changes in economic conditions) and valuated how the group had responded to these by making further adjustments where appropriate. We consider all the credit impairments to be within an acceptable range in the context of an incurred loss model and found that the consolidated financial statements incorporated appropriate disclosures relating to impairment of advances.

3. INDEPENDENT AUDITOR'S REPORT
to the Members of First National Bank of Namibia Limited continued

Other Information

The directors are responsible for the other information. The other information comprises of the Group Structure, Directors' Responsibility Statement, Risk Report and Corporate Governance Report which were obtained prior to the date of this auditor's report. The Other Information does not include the consolidated and separate financial statements, directors' report and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte & Touche

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

Per J Cronjé
Partner

PO Box 47, Windhoek, Namibia
26 September 2018

Partners:
E Tjipuka (Managing Partner), RH Mc Donald, H de Bruin, J Cronjé, A Akayombokwa, AT Matenda, J Nghikevali, G Brand*, M Harrison*
*Director

Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

4. DIRECTORS' REPORT

The directors present their annual report, which forms part of the annual financial statements of the group and of the company for the year ended 30 June 2018.

Nature of business

The company is a registered bank offering a full range of banking services to retail, commercial, corporate and public sector customers through its portfolio of market-leading franchises; First National Bank (FNB), the retail and commercial bank, RMB, the corporate and investment bank and WesBank in Namibia.

Share capital

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

The company's authorised share capital at the end of reporting period consists of 4 000 (2017: 4 000) ordinary shares of N$ 1.

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

Dividends

During the current year dividends of N$ 528 million (2017: N$ 681 million), were declared and paid by the company.

Interest of directors

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

Group results

The financial statements on pages 8 to 200 set out fully the financial position, results of operations and cash flows of the company and the group.

Directorate

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

II Zaamwani-Kamwi (Chairperson)
SH Moir** (Deputy Chairperson)
SJ van Zyl (Chief Executive Officer)
OLP Capelao (Chief Financial Officer)
JG Daun
CLR Haikali
JH Hausiku
Adv. GS Hinda
RJC Hamer*
JR Khethe*
GCP Kruger*

* South African
** South African with Namibian Permanent Residence

Board changes

During the period under review Mr. LJ Haynes, PT Nevonga and ES Motala resigned from the board. Two non-executive directors were added to the board in the period under review. RJC Hamer was appointed effective 20 March 2018 and GCP Kruger was appointed effective 29 June 2018.

Management by third parties

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

Insurance

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

Property and equipment

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

Holding company

The holding company of First National Bank of Namibia Limited is FirstRand Namibia Limited a Namibia Stock Exchange (NSX) listed company and its ultimate holding company is FirstRand EMA Holdings (Pty) Ltd and its ultimate holding company is FirstRand Limited, both of which are incorporated in the Republic of South Africa.

Subsidiary and associate

Interests in subsidiaries and associates are set out in notes 13 and 14 respectively to the annual financial statements.

Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

Company secretary and registered offices

Company secretary
N Ashipala

Registered office
130 Independence Avenue
Windhoek

Postal address
P O Box 195
Windhoek
Namibia

5. RISK REPORT

INTRODUCTION

The group defines risk widely – as any factor that, if not adequately assessed, monitored and managed, may prevent it from achieving its business objectives or result in adverse outcomes, including reputational damage.

Effective risk management is key to the successful execution of strategy and is based on: • Risk-focused culture with multiple points of control applied consistently throughout the group; • Combined assurance process to integrate, coordinate and align the risk management and assurance processes within the group to optimise the level of risk, governance and control oversight; and • Strong risk governance through the application of financial and risk management disciplines through frameworks set at the centre. Risk taking is an essential part of the group's business and the group explicitly recognises core competencies as necessary and important differentiators in the competitive environment in which it operates.	These core risk competencies are integrated in all management functions, business areas and at risk-type level across the group to support business by providing the checks and balances to ensure sustainability, performance, achievement of desired objectives, and avoidance of adverse outcomes and reputational damage. A business profits from taking risks, but will only generate an acceptable profit commensurate with the risk from its activities if the risks are properly managed and controlled. The group's aim is not to eliminate risk, but to achieve an appropriate balance between risk and reward. This balance is achieved by controlling risk at the level of individual exposures, at portfolio level and in aggregate across all risk types and businesses through the application of its risk appetite framework. The group's risk appetite framework enables organisational decision making and is aligned with the group's strategic objectives.

Risk taking is an essential part of the group's business. It is a key component of the delivery of sustainable returns to its shareholders and is therefore embedded in the group's tactical and strategic decision making.

As an integrated financial services provider, the group wants to be appropriately represented in all significant earnings pools across all chosen market and risk taking activities. This entails building revenue streams that are diverse and creating long term value via sustainable earnings' pools with acceptable earnings volatility.

These deliverables are underpinned by the application of critical financial discipline through frameworks set at the centre. These frameworks include:

Risk Management framework	Performance Management Framework	Balance Sheet Framework
• assesses the impact of the cycle on the group's portfolio; • understands and price appropriately for risk; and • originates within cycle-appropriate risk appetite and volatility parameters.	• allocates capital appropriately; • ensures an efficient capital structure with appropriate/conservative gearing; and • requires earnings to exceed cost of capital, i.e. positive net income after cost of capital (NIACC).	• executes sustainable funding and liquidity strategies; • protects credit ratings; and • preserves a healthy balance sheet that can sustain shocks through the cycle.

CORE RISK COMPETENCIES

The group's core risk competencies are integrated in all management functions across the group to support business by providing the checks and balances to ensure sustainability, performance, the achievement of desired objectives and avoidance of adverse outcomes and reputational damage.

The group is exposed to a number of risks inherent in its operations. The group's core competencies are applied by individual business areas to ensure these risks are appropriately managed. The risk appetite per key risk is monitored to ensure balance between risk and reward. Risk limits established across risk types are an integral part of managing the risks and are instrumental in constraining risk appetite within acceptable levels. The risks, definitions and the roles and responsibilities of each stakeholder in business, support and control functions in the management of these risks are described in the group's business performance and risk management framework (BPRMF).

Overview of top and emerging risks for 2018

Namibia and Southern Africa Environment
• Significant downward pressure on revenue growth given challenging macroeconomic conditions; • Effect of the sovereign rating downgrades on the macroeconomic environment and funding costs as well as risk of a further sovereign downgrade; • Increasing cost and scarcity of financial resources; • Ongoing introduction of new regulations and legislation (particularly in banking activities), which could impact profitability over the medium to long term; and • Intensifying competition in banking profit pools from non-traditional competitors.
Expected top risk to impact the Financial service sector in 2019
• Cybercrime and IT related disruptions; • Regulatory risk; • Data protection; • Theft, Fraud and violent crime; • Risk relating to market conduct; and • War for scarce talent.
Group Responses
These challenges and associated risks are continuously identified, potential impacts determined, reported to and debated by appropriate risk committees and management. Developments in Namibia are monitored with appropriate responses, strategic adjustments and proactive financial resource management actions implemented where required. Credit origination and funding strategies are assessed and adjusted in light of macroeconomic conditions and market liquidity. Actions are in place to ensure a resilient funding model. Significant investment in people, systems, processes and data projects are made to: • manage the risks emanating from the large number of regulatory requirements; • address possible control weaknesses and improve system security; • improve operational business resilience capability; and • improve risk data management aggregation and reporting.

Risk appetite

Risk appetite is the aggregate level and type of risks the group is willing and able to accept within its overall risk capacity, and is captured by a number of qualitative principles and quantitative measures.

The group's risk appetite enables organisational decision making and is integrated with the strategic objectives. Business and strategic decisions are aligned to the risk appetite measures to ensure these are met during a normal cyclical downturn. At a business unit level, therefore, strategy and execution are managed through the availability and price of financial resources, earnings volatility limits and required hurdle rates.

The group's strategic objectives and financial targets frame its risk appetite in the context of risk and reward and contextualise the level of reward the group expects to deliver to its stakeholders under normal and stressed conditions for the direct and consequential risk it assumes in the normal course of business.

The aim is to ensure that the group maintains an appropriate balance between risk and reward. Risk appetite limits and targets are set to ensure the group achieves its overall strategic objectives, namely to: • deliver long-term shareholder value; • deliver superior and sustainable economic returns to shareholders within acceptable levels of volatility; and • maintain balance sheet strength.	Risk appetite articulates what proportion of group's financial resources should be utilised in the execution of its strategy and is determined through consideration of a number of filters, including: • overall strategic objectives; • growth, volatility and return targets; and • meeting the group's commitments to all stakeholders including regulators, depositors, debt holders and shareholders.

The board adopted the following guiding statements to frame appetite:

Qualitative principles
• Always act with a fiduciary mindset; • Comply with prudential regulatory requirements; • Comply with the spirit and intention of accounting and regulatory requirements; • Build and maintain a strong balance sheet which reflects conservatism and prudence across all disciplines; • Do not take risk without a deep understanding thereof; • Comply with internal targets in various defined states to the required confidence interval; • Do not implement business models with excessive gearing through either non-or off – balance sheet leverage; • Limit concentrations in risky asset classes or sectors; • Avoid reputational damage; • Manage the business on a through – the –cycle basis to ensure sustainability; • Identify, measure, understand and manage the impact of downturn and stress conditions; • Strive for operational excellence and responsible business conduct; and • Ensure the group's sources of income remain appropriately diversified across business lines, products, markets and regions.

Risk capacity represents the absolute maximum level of risk the group can technically assume given its current available financial resources, i.e. earnings, capital, debt and deposits. The group views earnings as the primary defence against adverse outcomes. Risk capacity provides a reference for risk appetite and is not intended to be reached under any circumstances.

Risk appetite is captured through both quantitative measures and qualitative principles, which include set objectives for the level of earnings volatility and minimum levels of capital and liquidity to be maintained during defined time horizons in normal and stressed environments within a defined level of confidence.

Application of the risk/reward framework
Risk appetite, targets and limits are used to monitor group's risk/reward profile on an ongoing basis. The risk/reward profile should be measured point-in-time and forward looking. Risk appetite should influence the business plans of each of the businesses and inform the risk taking activities and strategies set in each business.

Management of risk is the responsibility of everybody across all levels of the organisation, supported through the three lines of control framework of risk management.

The risk/reward framework provides for a structured approach to define risk appetite, targets and limits that apply to each key resource as well as the level of risk that can be assumed in this context. The framework provides guidance on how financial resources, including risk-taking capacity, should be allocated.

Although different commitments are made to various stakeholders, these are monitored collectively. Quantitative targets and limits are augmented by a number of qualitative principles that serve to provide guidelines on boundaries for risk taking activities.

Stress testing and scenario planning are used to assess whether the desired profile can be delivered and whether the business stays within the constraints it has set for itself. The scenarios are based on changing macroeconomic variables, plausible event risks and regulatory and competitive changes. The group employs a comprehensive, consistent and integrated approach to stress testing and scenario planning. The impact of risk scenarios on the business is evaluated and the need for adjustment to origination is considered and appropriate actions are taken. More severe scenarios are run less frequently but are critical to inform buffers, capital and liquidity planning, validate existing quantitative risk models and to understand required management action.

Risk governance structure

The group believes that effective risk management is supported by effective governance structures, robust policy frameworks and a risk-focused culture. Strong governance structures and policy frameworks foster the embedding of risk considerations in business processes and ensure that consistent standards exist across the group.

In line with the group's corporate governance framework, the board retains ultimate responsibility for providing strategic direction.

The risk management structure is set out in the group's business performance and risk management framework (BPRMF). As a policy of both the board and EXCO, it delineates the roles and responsibilities of key stakeholders in business, support and control functions across the various business units and the group.

Responsibilities of the board risk committees

Management committees
Strategic Executive Committee
Strategic Risk, Business Risk and Conduct Risk

FIRST NATIONAL BANK OF NAMIBIA LTD

Board Risk Committees
Audit Committee
Senior Credit Risk Committee
Assets Liabilities and Capital Committee
Risk, Capital Management and Compliance Committee

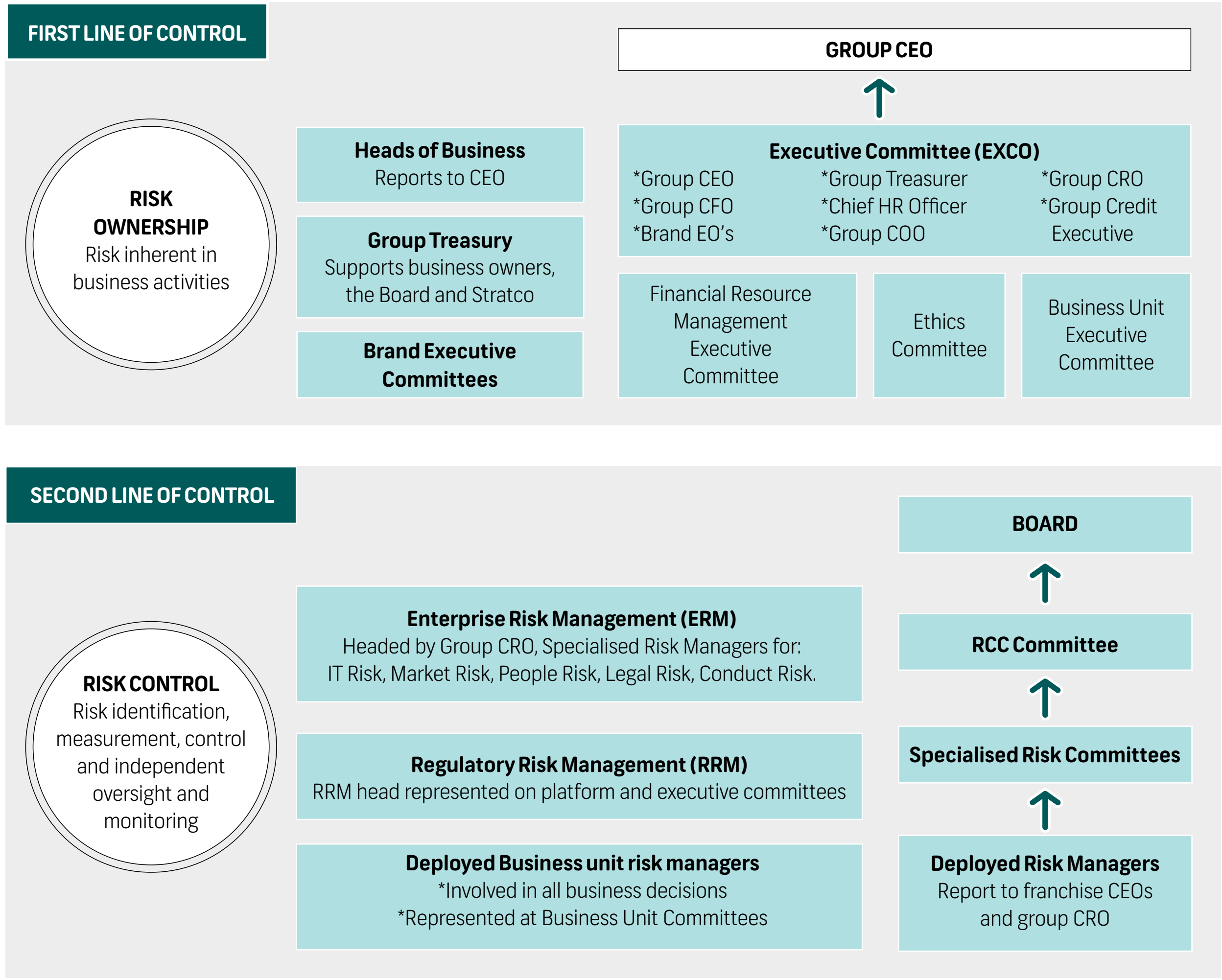
Risk Coverage	
Credit Risk	Tax Risk
Market Risk	Operational Risk
IT Risk	Financial Crime Risk
Regulatory Risk	New Product Risk
Liquidity Risk Capital Management	Reputation Risk

Three lines of control

The group obtains assurance that the principles and standards in the risk frameworks are being adhered to by the three lines of control model. In this model, business units own the risk profile as the first line of control.

In the second line of control, ERM is responsible for consolidated risk reporting, policy ownership and facilitation and coordination of risk management and governance processes.

GIA as the third line of control, provides independent assurance of the adequacy and effectiveness of risk management processes and practices.



THIRD LINE OF CONTROL

INDEPENDENT ASSURANCE
Adequacy and effectiveness of internal control, governance and risk management

Group Internal Audit (GIA)
Headed by chief audit executive with direct, unrestricted access to audit committee chairman, group CEO, business units, records, property and personnel

External advisors

Audit Committee

Combined Assurance Forum

Risk profile management

The group believes a strong balance sheet and resilient earnings are key to growth, particularly when entering periods of uncertainty. The group's focus areas to manage its risk profile and optimise its portfolio are:

- Strong earnings resilience through diversification, growth in client franchise, appropriate risk appetite and positive operating margins;
- Quality of returns with a focus on ROA (not gearing) and discipline in deployment of capital;
- Maintain balance sheet strength through:
  - managing non-performing loans and coverage ratios;
  - growing the deposit franchise and improving liquidity profile; and
- Maintaining a strong capital position.

The group is exposed to a number of risks that are inherent in its operations. Managing these risks appropriately is the core competency of the individual business areas.

Risk Universe

The group recognised that the following major risk categories and build risk frameworks to monitor and report on the impact of these risks within the group.

RISK UNIVERSE			
Capital Risk	Liquidity Risk	Market Risk	Information Technology Risk
Operational risk	Compliance Risk	People Risk	Reputation Risk
Credit Risk	New Business Risk	Strategic Risk	Accounting and Taxation Risk

The group is exposed to a number of risks that are inherent in its operations. Identifying, assessing, quantifying, pricing and managing these risks appropriately are core competencies of the individual business areas. Individual risk types are commonly grouped into three broad categories: strategic and business risks, financial risks and operational risks.

Risk category reference	Risk components	Definition
STRATEGIC AND BUSINESS RISKS	Includes strategic risk, business risk, volume and margin risk, reputational risk, and environmental, social and governance (ESG) risks.	Strategic risk is the risk to current or prospective earnings arising from inappropriate business decisions or the improper implementation of such decisions
		Business risk is the risk to earnings and capital from potential changes in the business environment, client behaviour and technological progress. Business risk is often associated with volume and margin risk and relates to the group's ability to generate sufficient levels of revenue to offset its costs.
		Volume and margin risk is the risk that the earnings and capital base is negatively impacted by a downturn in revenue due to market factors (e.g. margin compression) combined with the risk that the cost base is inflexible.
		Reputational risk is the risk of reputational damage due to compliance failures, pending litigations or underperformance or negative media coverage.
		ESG risks focus on the environmental, social and governance issues which impact the group's ability to successfully and sustainably implement business strategy.
FINANCIAL RISKS	Capital management	The group manages capital by allocating resources effectively in terms of its risk appetite and in a manner that maximizes value for shareholders.
	Credit risk	Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default risk, pre-settlement risk, country risk, concentration risk and securitization risk.
	Counterparty credit risk	Counterparty credit risk is the risk of a counterparty to a contract, transaction or agreement defaulting prior to the final settlement of the transaction's cash flows.
	Foreign exchange and translation risk in the banking book	Foreign exchange risk is the risk of losses occurring or a foreign investment's value changing from movements in foreign exchange rates. A bank is exposed to currency risk in its net open foreign currency positions and foreign investments. Translation risk is the risk associated with banks that transact in foreign currencies or hold foreign assets. The greater the proportion of asset, liability and equity classes denominated in a foreign currency, the greater the translation risk.
	Funding and liquidity risk	Funding liquidity risk is the risk that a bank will not be able to meet current and future cash flow and collateral requirements (expected and unexpected) without negatively affecting its reputation, daily operations and/or financial position. Market liquidity risk is the risk that market disruptions or lack of market liquidity will cause the bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly.
	Interest rate risk in the banking book	IRRBB is the sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest rates.

Risk category reference	Risk components	Definition
OPERATIONAL RISKS	Operational risk	Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems or from external events and human error. It includes fraud and criminal activity (internal and external), project risk, legal risk, business continuity, information and IT risk, process and human resources risk. Strategic, business and reputational risks are excluded from the definition.
	Legal Risk	Legal risk is defined as the risk of loss due to defective contractual arrangements, legal liability, both criminal and civil, incurred during operations by the inability of the organisation to enforce its rights.
	Information risk	Information risk is defined as the risk of accidental or intentional unauthorised use, modification, disclosure or destruction of the group's information resources, which compromises its confidentiality, integrity or availability
	Anti fraud and security risk	The group recognises that fraud and security risk can emanate from internal and external sources. Fraud risk is a function of the predisposition of the individuals towards committing crime and the opportunities provided or created by each organisation.
	Reputation Risk	Reputational risk is the risk caused by damage to an organisation's reputation, name or brand, which may impair its ability to retain and generate business.
	Regulatory risk	Regulatory risk is the risk of statutory or regulatory sanction and material financial loss or reputational damage as a result of a failure to comply with any applicable laws, regulations or supervisory requirements.

Ethics Committee

The group ethics committee exercise oversight over the governance and functioning of the group-wide ethics programme. The group code of ethics is the cornerstone of ethics management framework.

The ethics committee strategically directs the ethics framework which has attained increased maturity and impact during the year under review. Several culture- and people- risk assessments were conducted, some of which resulted in strategic and operational changes in certain areas and the proactive identification and management of several risk types. The focus on promotion of responsible business conduct was maintained and included intensified training on whistle blowing, conflict of interest, anti-bribery and corruption. Another focus area is the promotion of responsible market conduct and ensuring that the group remains compliant with market conduct regulations and related industry best practice.

Risk culture

The Ethics committee endorses a risk philosophy which takes cognisance of the importance of ethical conduct. Organisational culture is an important component of ensuring the robustness of the group's internal control environment.

Culture, the net result of how the organisation lives its values, is a strong driver of behaviour. Understanding and managing cultural attitudes towards risk and cultural attitudes that create risk, receive significant attention in the group.

Leadership	Flow of information	Customers
Active promotion of the FirstRand philosophy	Legitimising candour especially across hierarchies	Increased customer centricity embedded in strategy
Leadership development/ impact through others	Safe and effective reporting mechanisms	Strong customer centric goal setting in management
Stronger distinctions between strategic and operational layers	Better platform and inbuilt controls	Client service and conduct measurements and rewards

Combined assurance

Formal enterprise-wide governance structures for enhancing the practice of combined assurance at group are overseen by the audit committee. The primary objective of the group and assurance forums is for the assurance providers to work together with management to deliver appropriate assurance cost effectively. The assurance providers in this model include GIA, senior management, ERM, RRM and external auditors. The combined outcome of independent oversight, validation and audit tasks performed by the assurance providers ensure a high standard across methodological, operational and process components of the group's risk and capital management.

Combined assurance results in a more efficient assurance process through the elimination of duplication, more focused risk-based assurance against key control areas and heightened awareness of emerging issues resulting in the implementation of appropriate preventative and corrective action plans.

As part of the reporting, challenge, debate and control process, ERM drives the implementation of more sophisticated risk assessment methodologies through the design of appropriate policies and processes, including the deployment of skilled risk management personnel in each of the franchises.

ERM, together with GIA, ensures that all pertinent risk information is accurately captured, evaluated and escalated appropriately and timeously. This enables the board and its designated committees to retain effective control over the group's risk position at all times.

Reputational risk

As a financial services provider, the group's business is one inherently built on trusting relationships with its clients. Reputational risk can arise from environmental, social and governance issues or as a consequence of financial or operational risk events. The group seeks to avoid large risk concentrations by establishing a risk profile that is balanced within and across risk types. In this respect, potential reputational risks are also taken into account as part of stress-testing exercises. The group aims to establish a risk and earnings profile within the constraints of its risk appetite and seeks to limit potential stress losses from credit, market, liquidity or operational risks that may otherwise introduce an undesirable degree of volatility in its financial results and adversely affect its reputation.

Credit risk

Credit risk is the group's most material risk and as such, receives sufficient attention from all levels of management. This is evident in the credit risk information provided to the credit committees and the health of the provisions created.

The senior credit risk committee is responsible for managing credit risk. This committee operates under the group board's approved discretionary limits, policies and procedures, and at least two group board members in addition to the CEO participate in these meetings.

The goal of credit risk management is to maximise the group's measure of economic profit, NIACC, within acceptable levels of earnings volatility by maintaining credit risk exposure within acceptable parameters.

5. RISK REPORT continued

Credit risk continued

Credit risk management objectives are two-fold:

- Risk control: Appropriate limits are placed on the assumption of credit risk and steps taken to ensure the accuracy of credit risk assessments and reports. Deployed and central credit risk management teams fulfil this task; and
- Management: Credit risk is taken within the constraints of the risk appetite framework. The credit portfolio is managed at an aggregate level to optimise the exposure to this risk. Business units and deployed risk functions fulfil this role.

Based on the group's credit risk appetite, as measured on a ROE, NIACC and volatility-of-earnings basis, credit risk management principles include holding the appropriate level of capital and pricing for risk on an individual and portfolio basis. The scope of credit risk identification and management practices across the group, therefore, spans the credit value chain, including risk appetite, credit origination strategy, risk quantification and measurement as well as collection and recovery of delinquent accounts.

Credit Risk Profile

	GROUP		COMPANY	
N$ million	2018	2017	2018	2017
Gross advances	28 946	28 545	28 578	28 106
Credit loss ratio (%)	0.45%	0.22%	0.45%	0.20%
NPLs as % of advances	1.67%	1.19%	1.68%	1.21%
Specific coverage ratio (%)	0.60%	0.33%	0.60%	0.32%
Total impairments coverage ratio (%)	1.04%	0.77%	1.05%	0.77%
Performing book coverage ratio (%)	0.45%	0.45%	0.45%	0.45%

Assessment and Management

Credit risk is managed through the implementation of comprehensive policies, processes and controls to ensure a sound credit risk management environment with appropriate credit granting, administration, measurement, monitoring and reporting of credit risk exposure. Credit risk management across the group is split into three distinct portfolios: retail, commercial and corporate, and are aligned to customer profiles.

The assessment of credit risk across the group relies on internally developed quantitative models for addressing regulatory and business needs. The models are used for the internal assessment of the three primary credit risk components:

- Probability of default (PD);
- Exposure at default (EAD); and
- Loss given default (LGD).

Management of the credit portfolio is reliant on these three credit risk measures. PD, EAD and LGD are inputs into the portfolio and group level credit risk assessment where the measures are combined with estimates of correlations between individual counterparties, industries and portfolios to reflect diversification benefits across the portfolio.

The group employs a granular, 100-point master rating scale, which has been mapped to the continuum of default probabilities, as illustrated in the following table. FirstRand (FR)1 is the lowest PD and FR100 the highest. External ratings have also been mapped to the master rating scale for reporting purposes. These mappings are reviewed and updated on a regular basis.

Mapping of FR grades to rating agency scales

FirstRand rating	Midpoint PD	International scale mapping
1 - 14	0.06%	AAA, AA, A
15 - 25	0.29%	BBB
26 - 32	0.77%	BB+, BB
33 - 39	1.44%	BB-
40 - 53	2.52%	B+
54 -83	6.18%	B
84 - 90	13.68%	B-
91 - 99	59.11%	Below B-
100	100%	D (Defaulted)

* *Indicative mapping to the international rating scales of S&P Global Ratings (S&P) The group currently only uses mapping to S&P's rating scales.*

Credit risk classification and impairment policy

It is policy to make provision for specific impairments and to ensure that calculations for portfolio impairment are promptly made on a consistent basis. The external auditors review these impairments during the annual audit. Two types of impairments are in place: specific and portfolio.

Specific impairments

The specific impairment represents the quantification of actual and inherent losses from individually identified exposures.In determining specific impairments, the following factors are considered:

- Our exposure to the customer;
- Capability of the client to generate sufficient cash flow to service debt obligations;
- Viability of the client's business;
- Amount and timing of expected cash flows;
- Realisable value of security held taking the time value of money into account; and
- Deduction of any recovery related costs.

Portfolio impairments

The portfolio impairment supplements the specific impairment as outlined above and provides additional cover, based on prevailing market conditions and current default statistics.

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International Financial Reporting Standards 9 (IFRS 9) Update

The group is well positioned to implement IFRS 9 for the financial year ending 30 June 2019. The group established a steering committee in 2015, which is supported by a number of working groups that have made good progress in setting accounting policies, determining the classification of instruments under IFRS 9, developing pilot models for estimating expected credit losses and designing reporting templates.

International Financial Reporting Standards 9 (IFRS 9) Update continued

The group has developed and/or amended applicable credit and accounting policies to incorporate the new requirements of IFRS 9. In addition, group wide definitions, such as the definition of default and significant increase in credit risk, have been finalised to ensure consistent application of key terms in model development across the group. This will ensure that movement of customer accounts through impairment stages is applied consistently.

The group will be adopting the PD/LGD approach for the calculation of expected credit losses (ECL) for material advances. The ECL will be based on a probability-weighted average of multiple macroeconomic scenarios. Appropriate ECL models have been developed, including underlying PD, LGD and EAD models. All required models are being developed within the group, and are validated independently both internally (ERM) and externally by the group's external auditors. Model development has been guided by appropriate frameworks, which articulate minimum required standards and reference industry best practice.

Where possible, existing methodology used in the regulatory models has been leveraged for the development of IFRS 9 models, e.g. through the cycle PDs have been adjusted to IFRS 9 PDs using PD term structures and forward looking macroeconomic information.

Existing governance frameworks have bene utilised for the governance of IFRS 9 related processes. Overall, no significant changes are anticipated in the governance processes related to impairments. Where necessary, these have been amended to incorporate elements not presently catered for in existing frameworks. One such amendment is the governance process to ensure the independence of the production of forward looking macroeconomic information which is incorporated into the ECL models.

Impact assessments have been performed on a six monthly basis since the formal inception of the IFRS 9 project in 2015 and the group continues to refine the calculations. The models are in the process of independent validation. Please refer to page 197 to 200 in the annual report for further detail on the impact of IFRS 9 on the group.

Market risk

The group operates within a risk management framework where principles of managing risks associated with trading positions are set. Trading and dealing limits are approved by the board, with the day-to-day operations and utilisation thereof resting with the head of RMB. In terms of the market risk framework, responsibility for determining market risk appetite vests with the board, which also retains independent oversight of market risk related activities through the Risk Capital and Compliance committee (RCC).

Stress testing provides an indication of potential losses that could occur under extreme market conditions. Stress and scenario analyses are regularly reported to and considered by the relevant governance bodies.

Interest rate risk

The interest rate risk stemming from the endowment effect is managed dynamically by aligning the house view on rates with the structure of the balance sheet and devising actions to protect and enhance margin earnings.

Interest rate risk is an inevitable risk associated with grouping and can be an important source of profitability and shareholder value. Interest rate risk continues to be managed from an earnings approach, with the aim to protect and enhance earnings and economic value within approved risk limit and appetite levels.

Ultimate responsibility for determining risk limits and risk appetite for the group vests with the board. Independent oversight for monitoring is done through the RCC committee, who, in turn, has delegated the responsibility to ALCCO.

ALCCO remains responsible on behalf of the board for the allocation of sub-limits and remedial action to be taken in the event of any limit breaches.

Liquidity

Our approach to liquidity risk management (LRM) distinguishes between structural, daily and contingency liquidity risk and various approaches are employed in the assessment and management of these on a daily, weekly and monthly basis as illustrated in the following chart.

Structural LRM	Daily LRM	Contingency LRM
The risk that structural, long-term on- and off-balance sheet exposures cannot be funded timeously or at a reasonable cost	Ensuring that intraday and day-to-day anticipated and unforeseen payment obligations can be met by maintaining a sustainable balance between liquidity inflows and outflows.	Maintaining a number of contingency funding sources to draw upon in times of economic stress.
• Liquidity risk tolerance; • Liquidity strategy; • ensuring substantial diversification across different funding sources; • assessing the impact of future funding and liquidity needs taking into account expected liquidity shortfalls or excesses; • setting the approach to managing liquidity in different currencies and from one country to another; • ensuring adequate liquidity ratios; • ensuring adequate structural liquidity gap; and • maintaining a funds transfer pricing methodology and processes.	• managing intraday liquidity positions; • managing daily payment queue; • monitoring net funding requirements; • forecasting cash flows; • perform short-term cash flow analysis for all currencies individually and in aggregate; • management of intragroup liquidity; • managing central bank clearing; • managing net daily cash posiàtions; • managing and maintaining market access; and • managing and maintaining collateral.	• managing early warning and key risk indicators; • performing stress testing including sensitivity analysis and scenario testing; • maintaining product behavior and optionality assumptions; • ensuring that an adequate and diversified portfolio of liquid assets and buffers are in place; and • maintaining the contingency funding plan.

The group acknowledges liquidity risk as a consequential risk that may be caused by other risks as demonstrated by the reduction in liquidity in many international markets as a consequence of the recent credit crisis. The group is, therefore, focused on continuously monitoring and analysing the potential impact of other risks and events on the funding and liquidity position of the organisation to ensure business activities preserve and improve funding stability. This ensures the group is able to operate through a period of stress when access to funding is constrained.

Regulatory risk

INTRODUCTION AND OBJECTIVES

The group expects ethical behaviour that contributes to the overall objective of prudent regulatory compliance and risk management by striving to comply fully with the spirit and the letter of the law. Management's ownership and accountability contributes to this through, within the confines of the law, the provision of appropriate and customer-centric financial products and services, and treating customers fairly. The compliance culture also embraces broader standards of integrity and ethical conduct which affects all employees. RRM's objective is to ensure business practice, policies, frameworks and approaches across the Group are consistent with applicable laws and that regulatory risks are identified and proactively managed.

Compliance with laws and regulations applicable to its operations is critical to the group as non-compliance may have potentially serious consequences and lead to both civil and criminal liability, including penalties, claims for loss and damages, or restrictions imposed by regulatory authorities.

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
Key emerging legislation for the financial services sector: • Exchange Control & Foreign Financial Transactions Bill; • Banking Institutions Bill,2017; • Banking Institutions Regulations on Unfair Terms and Conditions; • Electronic Transactions and Cybercrime Bill; • Basel III Framework for Liquidity risk measurement; • Financial Intelligence Act Circular 02 of 2018 – Circular on New Reporting Business Rules; • Financial Institutions and Markets Bill; • Financial Services Adjudicators Bill; and • Micro lending Bill.	• Continue to cooperate and build relationships with regulatory authorities and other stakeholders. • Continue to make significant investments in people, systems and processes to manage risks emanating from the large number of new local and international regulatory requirements. • Ongoing investment in systems, processes and resources to ensure compliance with anti-money laundering and combating the financing of terrorism (AML/CFT) legislation as well as new requirements under the payment space. • Strengthen focus on anti-bribery and corruption strategy and programs to ensure compliance with both local and international regulatory instruments with extraterritorial reach. • Continue to focus on managing regulatory and conduct risk posed by clients and other external stakeholders. • Continue to focus on managing organizational culture risk detection, prevention and remediation, which supports regulatory risk management. • Ongoing focus on remediation actions required in respect of identified regulatory risk management matters, including matters identified by the Bank of Namibia, the Namibia Financial Institutions Supervisory Authority, and the South African Reserve Bank where applicable. • Continue to manage risks associated with illicit cross-border flows.

ASSESSMENT AND MANAGEMENT

RRM's board mandate is to ensure full compliance with statutes and regulations. To achieve this, RRM has implemented appropriate structures, policies, processes and procedures to identify all regulatory and supervisory risks. RRM monitors the management of these risks and reports on the level of compliance to the board, BON, as well as SARB where required. These include:

- risk identification through documenting which laws, regulations and supervisory requirements are applicable to the group;
- risk measurement through the development of risk management plans;
- risk monitoring and review of remedial actions;
- risk reporting; and
- providing advice on regulatory compliance-related matters.

Although independent of other risk management and governance functions, the RRM function works closely with the group's business units, GIA, ERM, RCCC, external auditors, internal and external legal advisors, and the company secretary's office to ensure the effective functioning of compliance processes.

Financial crime risk

INTRODUCTION AND OBJECTIVES

The prevalence of economically motivated crime in many societies remains a substantial threat to the development and stability of economies. Financial crimes range from money laundering, terrorist financing, breaches of economic and trade sanctions, illicit financing of weapons proliferation, including weapons of mass destruction (WMD), bribery, corruption and tax evasion.

Financial crime risk is defined as the risk of economic loss, reputational risk and regulatory sanction arising from any undetected type of financial crime facilitated through the abuse of financial services offered by the group or from failure to implement the minimum required control measures as prescribed by the Financial Intelligence Act, 2012, its regulations, circulars, directives and guidance notes resulting in financial crime risk introduced into the Namibian and international financial system. The group will not knowingly allow its platforms to be abused for purposes of financial crime and has a zero tolerance level for any willful and deliberate non-compliance.

The group is committed to compliance with the provisions of the 2012 Financial Action Task Force (FATF) Recommendations, the Financial Intelligence Act, 2012 (FIA), its regulations, circulars, directives and guidance notes, as well as implementing effective financial crime risk management systems and measures.

As a Financial Services group, the main objectives of Financial Crime Risk Management activities are to:

- Understand the nature and level of the financial crime risks across the group;
- Develop and apply Financial Crime Risk Management frameworks and policies, internal controls, and programmes to adequately mitigate those risks;
- Apply appropriate Customer Due Diligence (KYC) measures to identify and verify the identity of our customers (including the beneficial owners) and conduct ongoing monitoring of customer transactional behaviour in order to adequately detect and report suspicious transactions; and
- Comply with other AML/CFT requirements within the FIA, such as threshold reporting obligations, orders and directives form the regulator, training of employees, etc.

Financial Crime Risk Management Department (FCRM)

The group established a dedicated Financial Crime Risk Management department with a mandate from the board to ensure that the group's financial crime risk and compliance management program is implemented. FCRM is responsible for the following key financial crime risk operational activities:

- Coordinating risk monitoring activities with other risk management functions and Group Internal Audit;
- Conducting enhanced due diligence on customers assessed as high risk;
- Establishing and managing processes and systems to monitor customer transactions for the purpose of identifying potential suspicious transactions. Investigating of all potential suspicious transactions and reporting where grounds for suspicion has been established on behalf of the entire group;
- Assessing high risk products, services and delivery channels and ensuring that appropriate risk responses are developed and implemented;
- Ensuring that adequate client screening and payment screening systems are implemented and maintained throughout the group with certain transactions and/or relationships blocked or rejected where such transactions would violate the international financial sanctions regime and local legal requirements; and
- Establishing and managing processes and systems to report all transactions which reportable in terms of threshold reporting requirements on behalf of the entire group.

Financial crime risk continued

YEAR UNDER REVIEW AND FOCUS AREAS

During the year under review the group reviewed the Financial Crime Risk Management Framework (FCRMF) and overall financial crime risk and compliance program consisting of a Financial Crime Risk management Policy, Standards, Directives and Internal Rules as depicted in the table below.

FCRMF
Group FCRM Policy
Various Group Directives and Guidance Notes
Various Group Standards and Internal Rules: CDD; EDD; PEP's; Sanctions; Corresponding Banking; Golden Rules; Notices; and Other Internal Proceedures

In addition to the above, the following highlights of the year under review are most notable:

- Group wide Annual Anti Money Laundering / Combating the Financing of Terrorism & Proliferation (AML/CFT) awareness training programs rolled out;
- Board and Senior Management Training provided;
- Board approval of FCRM strategy;
- Completion of a group wide financial crime risk assessment and client risk assessment model which forms the basis for the group's adopted risk based approach to AML/CFT;
- Implementation of remedial actions to address weaknesses identified by both group internal audit and the Financial Intelligence Center (FIC);
- On-going enhancements on automated transaction monitoring rules have resulted in notable improved reporting rates;
- Established a dedicated team within FCRM to perform enhanced due diligence (EDD) reviews on all identified high risk clients. Approximately 6,500 EDD reviews have been completed with approximately 500 client relationships terminated due to unacceptable levels of financial crime and reputational risk; and
- The group continued to invest in enhancing the capacity of the staff members within FCRM and is providing support to recently created local chapter of the ACCPA.

Focus areas for 2019

The FCRM continuously strives to enhance the overall effectiveness of the financial crime control environment across the group. During the next financial year the following will key focus areas will receive attention:

- On-going improvement in automated transaction monitoring and screening systems;
- Enhance efficiencies within the operational process within FCRM; and
- Refine the adopted risk based approach towards financial crime risk management

Operational risk

INTRODUCTION AND OBJECTIVES

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems or from external events and human error. It includes fraud and criminal activity (internal and external), project risk, legal risk, business continuity, information and IT risk, process and human resources risk. Strategic, business and reputational risks are excluded from the definition.

Operational risk arises out of the normal course of business and is thus not a by-product of financial reward. It is thus imperative that the board and management continue to focus on operational risk to ensure its integration in business processes and, not manage it on an activity basis only.

Operational Risk Management Framework

This Operational Risk Framework is a sub-framework of the Business Performance and Risk Management Framework ("BPRMF") and a management tool to ensure business success. The effective management of operational risk through a continual cyclic process of risk identification, assessment, measurement, monitoring and reporting, aims to ensure detailed risk profiles are in place for each business area which are used to make informed decisions.

The aim is not to eliminate all operational risk exposure, but to set a framework for effectively managing and mitigating operational risk within the group and the approved group operational risk appetite levels.

The group manages operational risk using the Standardised Approach ("TSA")

The Operational Risk Framework is applied as follows:

Risk Management Principle	Tools / Methodology / Key considerations
Risk Identification	• Process based risk and control identification and assessment ("PRCIA"); • Audit findings; • Analysis of internal Events and Losses; and • Data Quality Assessment
Risk exposure quantification and measurement	• Assess operational risks from two perspectives: likelihood and impact, and use a combination of qualitative and quantitative methods to do so.
Risk monitoring	• Use of Key Risk Indicators against pre-determined thresholds (risk appetite).
Risk reporting	• Risk Profile Reporting to support decision making.
Capital Calculation	• Risk Scenario Analysis; • Assessment of internal loss data; • Consideration of external loss data; and • Evaluation of control environment within the group.

Risk Appetite & Tolerance Thresholds

The Operational Risk Appetite Policy governs the group's approach to Risk Appetite. FirstRand Namibia Ltd aims to maintain a mix of businesses, business activities, income streams and risk exposures which will ensure that the group will limit earnings volatility within acceptable levels under all economic and market conditions to avoid loss of confidence or adverse reputational impacts.

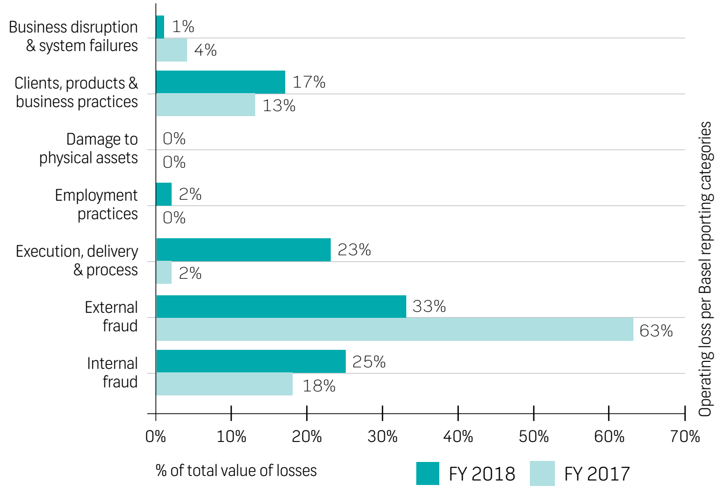
Establishing a risk appetite and finding an adequate balance between risk and reward is a dynamic process that is built on a blend of qualitative and quantitative principles, processes and guidelines which aim to set acceptable thresholds for risk appetite.

All exceptions and breaches of thresholds are reported per the escalation process, to the ERM Committee, EXCO and the RCCC, as appropriate.

Operational Risk Events & Losses for the year under review

The graph below shows the distribution of risk events across the Basel risk event categories for the period 1 July 2017 to 30 June 2018.

Operational risk events by risk category – % of total value of risk events



Summarised commentary on operational risk events

- The overall expected losses incurred were within the group's risk appetite;
- The majority of risk events occurred "Execution, Delivery & Process" category;
- There were 2 major events that comprised of 40% of the total losses incurred; and
- Events in the external fraud category were predominantly due to application and credit card fraud.

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW

- Maintain governance, processes and systems; supporting Operational Risk Management;
- Develop electronic monitoring processes;
- Prioritise Cyber-security risk managemen;t
- Manage Outsourcing / Insourcing risk;
- Drive Information Governance awareness;
- Implement improvements to Physical Security;
- Improve Business Continuity Management;
- Improve the new product risk assessments process; and
- Enhance the Fraud risk assessment process to anticipate future events.

YEAR UNDER REVIEW AND FOCUS AREAS

RISK MANAGEMENT FOCUS AREAS

- Embed a continuous process to review and keep governance frameworks and policies fit-for-purpose and up to date;
- Enhance risk culture and risk maturity through training & on-going risk awareness;
- Improve process flow documentation, and effectiveness of process risk assessments;
- Adopt an electronic system for control monitoring, which will enable effective monitoring of process efficiencies;
- Maintain a dynamic and risk based cyber-security strategy;
- Complete an Information Security Forum (ISF) self-assessment (UK version);
- Upgrade IT Infrastructure to ensure optimal processing speed, technology resilience and enable growth (part of a 3 year plan);
- Enhance minimum standards for risk management of key insource & outsource arrangements;
- Formalise actions with defined timelines for compliance with the Basel principles for risk data aggregation and reporting;
- Upgrade infrastructure, e.g. control rooms, alarms, etc;
- Increase the headcount of team members managing physical security risk; and
- Evaluate and refine recovery strategies to ensure they are effective and appropriate.

ASSESSMENT AND MANAGEMENT

The group obtains assurance that the principles and standards in the operational risk management framework are being adhered to by the three lines of control model which is integrated in operational risk management. In this model, business units own the operational risk profile as the first line of control. In the second line of control, ERM is responsible for consolidated operational risk reporting, policy ownership and facilitation, and coordination of operational risk management and governance processes. Group Internal Audit (GIA), as the third line of control, provides independent assurance on the adequacy and effectiveness of operational risk management processes and practices. In line with international best practice, a variety of tools are employed and embedded in the assessment and management of operational risk.

The Top Operational Risks that the group is currently facing are:

- Information Security Risk – Global & Industry-Wide risk given growing sophistication of cyber-attacks.
- Regulatory Risk – the amount on resources required to comply existing legislation / prepare for emerging legislation has been and is expected to continuously grow.
- Dependency Risk regarding new IT projects – an inherent risk given the broader FirstRand Group Structure, where the Namibian operations are dependent on specialised resources based in South Africa to develop new systems and/or deliver on system enhancements.
- Execution, delivery and process management risk – the risk of weaknesses and control deficiencies developing as the business continues to grow and evolve (organisational change).

IT RISK

IT risk deserves individual focus and attention as a result of the bank's continued drive to remain innovative and provide advanced banking systems and solutions to its clients. Consequently, infrastructure and support capability as well as security remain key priorities for management. The datacentre capability was upgraded from tier 2 to tier 4 with full redundancy implemented. Monitoring tools have been deployed to allow greater insights into high risk areas within the IT environment, which is supported by the implementation of security initiatives aimed at ensuring security, availability and confidentiality of data. These include mobile security, data leakage protection, integrated access governance and security awareness.

BUSINESS CONTINUITY MANAGEMENT

Business continuity management seeks to put in place plans, processes and procedures to ensure its' continued, or timely recovery of, operations in the event of a crisis. It remains a priority for the bank as enhancements to systems, processes and procedures remain a key priority. Business continuity plans have been adopted for all business areas, and preliminary desktop exercises performed. Training and awareness programmes are in place and ongoing.

Legal risk

The group has in the past two years embarked on upscaling its legal division to ensure a fully-fledged legal division to cater for comprehensive legal risk management throughout the group. The division is headed by Group Legal Advisor who is an admitted legal practitioner, who reports directly to the CRO. The overall objective of Group Legal Services is to establish a functional, world-class legal risk specialist management environment where all legal risks are identified, analyzed, monitored, adequately reported, quantified where possible and managed on a consistent basis.

In addition to the Group Legal Advisor, the legal division currently consists of two other admitted legal practitioners and an ESRA specialist. The mandate and functions of the Group Legal Office is contained in the Legal Framework Policy which sets out the core responsibility of the office. The primary function of Group legal Services comprises of:

- General day to day corporate legal advisory functions;
- Legal drafting and review;
- Contract management;
- Management and oversight of litigation and litigious matters;
- Intellectual property; and
- Identifying, monitoring and reporting on emerging legislations likely to impact the group.

In line with the group's "owner manager" culture, Group Legal Service serves as a support function to the various business unit management throughout the group. Ultimately, the respective business units remain accountable and responsible for all legal risk management activities within their respective departments.
During the period ending 30 June 2018 Group Legal Services has made good traction, and achieved all its set milestones. No significant legal risks materialised.

YEAR UNDER REVIEW

The group initiated a project to centralise guarantees and allocated responsibility to the legal department. The objective is to manage the legal, collateral and local guarantee risk.

Increased Risks in the field of finance have inspired greater responsibility on the part of Banks and the aim is to make sure the risks are as low as possible for the parties involved.

The department ensure that collateral and guarantees are legally enforceable and realisable to mitigate risks, both identified and inherent. Collateral and Guarantee Management is a large and complex discipline which includes the following:

- Constant maintenance and verification of Collateral and Guarantees;
- Drafting of standard Collateral agreements such as Loan Agreements, Facility Letters and suretyships;
- Issuance of Local Guarantees;
- Managing Collateral and Guarantee Movements; and
- Custody and Record-keeping.

The Bank embarked on a centralization project for all Guarantees. The potential risk exposure identified for the group at the commencement of the project amounted to approximately N$255 000 000. This value has since been reduced significantly to approximately N$12 000 000 at year end.

Due to the success of the Guarantees centralization, the centralisation of Collateral was started. The value of Collateral under the custodianship of department has increased to more than N$8 bil and will continue to increase as the remaining clusters are centralized.

Its benefits realised from the projects saw improve of the quality, completeness and accuracy of:

- the collateral that is held by the bank in support of its lendings; and
- the contingent liabilities relating to local guarantees issued on behalf of customers.

We have recently implemented eCalendar, a web based diary system to control and maintain expired items.Future endeavours include an electronic collateral management system, Collate with its expected roll out anticipated for 2019.

Fraud risk

INTRODUCTION AND OBJECTIVES

The objectives, remain, to proactively manage the risk of loss arising from fraudulent activities whether this emanates from an external or internal source and enable the proactive recovery of funds involved in fraud.

The First National Bank of Namibia group is a law abiding corporate citizen and requires all business entities and employees to, at all time act honestly, with integrity, and within the confines of the law. It furthermore remains the responsibility of the First National Bank of Namibia group to ensure that adequate control and preventative measures are in place to combat all criminal activities, and to adhere to such controls.

The group views any criminal activity as an extremely serious matter and is committed to the enforcement of an anti-crime culture throughout the organisation including fraud training, awareness and communication for all staff and customers of the First National Bank Holdings.

Our main focus remain to improve our ability to proactively identify all criminal activity, and in particular syndicated / organised criminal activity targeting the FirstRand Namibia Ltd, by establishing detection and prevention strategies that enable this.

A Fraud Risk Management framework/policy that governs key risk management principles and guidelines and by which the critical fraud risks areas, are identified, trends monitored and preventative actions documented, is in place.

Trends

With the Digital/Online banking world evolving so is the fraudsters and we had seen a slight migration from ordinary fraud (identity theft, ATM card swap etc) to Digital Fraud e.g. CNP/Online Fraud, Phishing/Hacking & e-wallet product being used as access mechanism to defraud customers.

"Understanding that the Forensics Team does not have eyes and ears everywhere, whistleblowing is strongly encouraged in the group. The group believes in rewarding those who speak up and run a whistleblower rewards program known as the Leading Light Rewards. The number of entrants has risen by 50% since the last financial year. As at the end of April N$ 93 000 in prize money has been paid out. Every valid entry receives a guaranteed prize of N$ 1 000. Draws are done quarterly and annually.

The protection of whistleblowers is imperative to the success of whistleblowing and is therefore governed by a whistleblowing policy which is in line with the whistleblower protection bill."

Focus areas

During 2019, the team will focus on embedding more electronic surveillance and monitoring tolls to improve the proactive detection and deterrence of fraud.

Other risk monitoring tools will be integrated into the banking system to aid in the finding and stopping of potential gaps that could be exploited.

6. CORPORATE GOVERNANCE

The directors and management of First National Bank of Namibia Ltd subscribe to the generally accepted principles of good corporate governance as one of the foundations of a sustainable business. First National Bank of Namibia Ltd is committed to and accepts responsibility for applying these principles to ensure that the group is managed ethically within prudent risk parameters.

First National Bank of Namibia Ltd is subject to and endorses the on-going disclosure, corporate governance and other requirements required by the Namibian Stock Exchange (NSX). The group also supported and applied the principles of the (NamCode) the Corporate Governance Code for Namibia throughout the financial year 2017/2018.

In response to the NSX Gazette #139 published on the 13 February 2018 the group replaced all references made to King II in the NSX Listing requirements with the NamCode.

Compliance Statement

FirstRand Namibia Ltd is the controlling company of First National Bank of Namibia Limited.

The directors of First National Bank of Namibia Ltd ensure compliance with all relevant regulations including the Banking Institutions Act as amended, the Stock Exchanges Control Act of 1985, NamCode on Corporate Governance and the listing requirements of the exchange the Companies Act, Basel Committee and other best practice regulations flowing from both local and international authorities.

The board is satisfied that the group materially complied with all these laws and regulations for the past year and none of the regulatory authorities, through their ongoing supervision mechanisms, expressed any material dissatisfaction with the manner in which the group conducts its business.

Director's Responsibility Statement

The directors of First National Bank of Namibia Ltd collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the integrated annual report contains all information required by law.

6. CORPORATE GOVERNANCE continued

Board Changes

The following changes to the board of directors have taken place:

Appointments		Effective date
RJC Hamer	Non-Executive	20 March 2018
GCP Kruger	Non-Executive	29 June 2018

Resignations		Reason for resignation	Effective date
LJ Haynes	Non-Executive	Expiry of term of appointment	27 October 2017
PT Nevonga	Independent Non-Executive	Expiry of term of appointment	26 October 2017
ES Motala	Non-Executive	Resigned	29 June 2018

Employment Status Change		Nature of change
RJC Hamer	Non-Executive	Resignation from employment within FirstRand Group

Board Nomination and Appointment

There is a formal transparent board nomination and appointment process. The appointment process has been delegated to the Directors Affairs and Governance Committee (DAGC), who identify suitable members to the board, taking cognisance of its needs for appropriate demographics and diversity (which applies to, inter alia, academic qualifications, technical expertise, relevant industry knowledge, nationality, age, race and gender diversity at board level, together with the balance between non-executive and independent non-executive directors. In addition the appointment process includes interviewing the nominees for the role and performance of reference and background checks of candidates prior to nomination.

Limitation to appointment period

Non-executive directors are appointed, subject to re-election and the Companies Act provisions relating to removal, and retire by rotation every three years. Re-appointment of non-executive directors is not automatic.

Tenure

Three directors have served more than 9 years on the board of First National Bank of Namibia Ltd. The Directors Affairs and Governance Committee reviewed the performance of these directors, taking into consideration factors which may impair their independence and found that they were suitable to act as independent non-executive directors.

Retirement of directors at age 70 years

Notwithstanding any contrary provision contained in the Articles, the office of a director may be vacated at the close of the Annual General Meeting of the Company relating to the financial year of the company in which the director reaches the age of 70 (seventy) years, but is subject to the discretion and review by the board.

S Moir, current Deputy-Chairperson reached age 70 years. The DAGC was tasked with considering his potential re-election, deliberated same and recommended to the board to retain S Moir post age 70 years on the basis that his competency and contribution to the board and the company are keenly valued. S Moir has gained a deep and invaluable understanding of the company and its business and operations, and continues to be of great value as a board member. S Moir has indicated that he is eligible and available for re-election, the board of directors unanimously approved this decision and this appointment will be put to shareholders at the 24 October 2018 Annual General Meeting. This decision will be reviewed on an annual basis.

The Chairperson and Deputy-Chairperson of the Board

First National Bank of Namibia Ltd board Chairperson and Deputy-Chairperson are both independent non-executive directors, whose roles are separate from that of the Chief Executive Officer. The Chairperson and Deputy-Chairperson held office till the first board meeting in 2018, where they were duly re-elected after consideration of their independence. The Chairperson, duly assisted by the Deputy-Chairperson continue to provide the First National Bank of Namibia Ltd board the direction necessary for an effective board.

Composition of Board, Independence of Directors and Demographics

The company has a unitary board structure comprising 2 (two) executive directors and (9) non-executive directors (6 (six) of whom are independent non-executives as defined by the NamCode. The non-executive directors are drawn from diverse backgrounds and bring a wide range of experience, insight and professional skills to the board to ensure effective leadership of the company. Generally, non-executive directors have no fixed term of appointment. Under the company's Memorandum and Articles of Incorporation, however, a third of directors retire by rotation each year and are eligible for re-election by shareholders at the annual general meeting of the company.

	Independence Status	Employed by Group	Resident in Namibia	Gender	Previously Disadvantaged
II Zaamwani-Kamwi	Independent non-executive	No	Yes	Female	Yes
SH Moir	Independent non-executive	No	Yes	Male	No
JG Daun	Independent non-executive	No	Yes	Female	No
OLP Capelao	Executive	Yes	Yes	Male	Yes
CLR Haikali	Independent non-executive	No	Yes	Male	Yes
RJC Hamer	Non-executive	No	No	Male	No
JR Khethe	Non-executive	No	No	Male	Yes
Adv. GS Hinda	Independent non-executive	No	Yes	Male	Yes
GCP Kruger	Non-executive	Yes	No	Male	No
JH Hausiku	Independent non-executive	No	Yes	Male	Yes
SJ van Zyl	Executive	Yes	Yes	Male	No

The above classification of directors, as independent or otherwise, has been done on the basis of the evaluation of their independence by the Chairperson, duly assisted by the Directors Affairs & Governance Committee (DAGC).

The Chairperson and DAGC conducted a rigorous review of individual directors having regard to various considerations, including tenure, membership to various boards and committees within the group, external directorships, character, judgment and any factors that may impair independence.

6. CORPORATE GOVERNANCE continued

Board Committee Composition

	Audit Committee	Risk, Capital & Compliance Committee	Directors Affairs & Governance Committee	Remuneration Committee
II Zaamwani-Kamwi			√	
SH Moir	√	√	√	√
RJC Hamer	√	√	√	
CLR Haikali	√		√	√
JG Daun	√			
JH Hausiku		√		
JR Khethe			√	√
ES Motala				√

Group Company Secretary

The Group Company Secretary plays an essential role and is suitably qualified and experienced. The Group Company Secretary is, inter alia, responsible for the duties stipulated in the Companies Act 28 of 2004, The Banking Institutions Act 2 of 1998 (as amended) and the NSX listing requirements.

Ms Nelago Ashipala was appointed as First National Bank of Namibia Ltd's Group Company Secretary in 2015 and is also the company secretary to the board committees. An assessment of the company secretary is undertaken annually as part of the board Evaluation process, which confirmed that she has discharged her responsibilities effectively for the year under review.

Board & Committee Evaluation

The evaluation of the board, its committees and the individual directors was performed in-house for the period ended 30 June 2018. The board carefully considered whether the directors evaluations should be done in-house or conducted by independent service providers. Quotations were received and the board elected to conduct the evaluations in-house. The responses received remain strictly confidential throughout the assessment process and the results are reported to the DAGC on an anonymous basis. The directors were encouraged to provide sincere responses with an aim to identify future training needs and further to receive factors that affect the proposed re-election of directors. The evaluations identified no material concerns in respect of the areas assessed.

Board & Committee Evaluation continued

Compliance with Board Charter & Board Meetings	The board of directors ensured that the charter appropriately reflected its responsibilities and duly complied with its duties and responsibilities as contained in the Charter. Sufficient meetings of appropriate length are held during the year to enable proper consideration of issues. Meetings are conducted in a manner that encourages open discussion and healthy debate whilst allowing each member to contribute to both discussions and decisions. board members express their views frankly and constructively. The board receives full support from executive management.
Board Composition	The board's composition is effective and designed to ensure efficient operation. The board is suitably qualified to carry out its responsibilities and facilitate effective oversight. The board composition comprises the balance of skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities. board members understand their oversight and governance role and are able to exercise sound, objective judgement about the affairs of the company.
Board & Committee Succession	The board and the board committee succession plan to ensure board/committee continuity requires improvement. Further improvement is required in terms of executive director (Chief Financial Officer and Chief Executive Officer) succession planning.
Strategic foresight	Improvement is required in the form of provision of more information. The board can be given sufficient information to enable it to evaluate the strategic plan. The board's involvement in the strategic plan can be improved upon.
Company performance	The annual budget approval process presents opportunities to challenge the assumptions and the results. The board is provided with sufficient information to enable an informed decision when approval is sought. In its review of the company performance, the board is duly provided with sufficient information to enable it to assess business performance (e.g. competitor information, market share etc.).
Risk management	The risk management framework in operation is appropriate for the board to identify, understand and manage the risk universe associated with the group.
Governance principles	The board duly set the tone and lead ethically and effectively, serving as the focal point and custodian of corporate governance in the company. The board led the value creation process by appreciating that strategy, risk and opportunity, performance and sustainable development are inseparable elements. The board ensured that the company is a responsible corporate citizen. The governance of the company is adequately transparent to its shareholders, depositors and other relevant stakeholders.
Board Chairperson Assessment	The Chairperson was found to demonstrate a thorough understanding of the company's business and the matters before the meeting. The Chairperson lead by example in demonstrating the group values and commitments to ethical behaviour as espoused in the group Code of Ethics. The Chairperson's other time commitments do not detract from fulfilling her role as expected. The Chairperson takes the lead in ensuring that the meeting achieves its objectives, keeping it effective. In addition the chairperson displayed good facilitation skills in ensuring a good balance of contributions from members.

6. CORPORATE GOVERNANCE continued

Fitness and probity of the Board of Directors, Principle Officers and Executive Officers

In line with the Determinations on the Appointment, Duties and Responsibilities of Directors and Principal Officers of Banking Institutions (and controlling companies), the Board of Directors, Principal Officers and Executive Officers comprises technically competent persons of integrity with a strong sense of professionalism, fostering and practicing the highest standards of banking and finance to ensure the interest of the banking institution (and controlling company) are adequately safeguarded through prudent, efficient and professional management.

Board and committee meetings attendance

The board met four times and one General Meetings of Shareholders was held during the year under review. The board's paramount responsibility is the positive performance of the company in creating value by setting direction through strategic objectives and key policies. In doing so, the board appropriately considers the legitimate interests and expectations of all its stakeholders.

The board members are required to attend at least 75% of the board meetings to ensure that they will discharge their duties and responsibilities effectively. During the period under review all directors duly attended at least 75% of the board meetings.

Director	*Category*	First National Bank of Namibia Ltd	Audit Committee	Risk, Capital and Compliance Committee	Directors Affairs and Governance Committee	Remuneration Committee
Meetings held		4	4	4	3	2
II Zaamwani-Kamwi	Chairperson	3	-	-	3	2
SH Moir	Deputy – Chairperson	4	4	4	3	2
CLR Haikali	Independent non-executive	4	4	-	3	2
JR Khethe	Non-executive	4	-	-	3	2
SJ Van Zyl	(CEO) Executive Director	4	-	-	-	-
OLP Capelao	(CFO) Executive Director	4	-	-	-	
ES Motala	Non-Executive Director	3	-	-	-	2
GS Hinda	Independent non-executive	3	-	-	-	-
JH Daun	Independent non-executive	4	4	-	-	-
JH Hausiku	Independent non-executive	3		4	-	-
RJC Hamer	Non-Executive	1/1	1/1	1/1	1/1	-
G Kruger	Non-Executive	-	-	-	-	-
LJ Haynes	Non-Executive	2/2	2/2	2/2	-	-
PT Nevonga	Independent non-Executive	2/2	-	-	-	-

Note(s):

- RJC Hamer appointed 20 March 2018 to the group, and only one meeting was held since his appointment.
- PT Nevonga and LJ Haynes resigned as directors on 26 October 2017 and 27 October 2017 respectively.
- E Motala resigned as director on 29 June 2018.
- G Kruger appointed as director on 29 June 2018.

Director Training

The board as part of its formal on-going director development programme attended the following training during the year:

- AML and Regulatory Risk;
- Ethics and Market Conduct;
- Recovery and Resolution Planning;
- Operational Risk Management; and
- Basel Risk Data Aggregation and Risk Reporting Principles (BCBS 239).

The success of the First National Bank of Namibia Ltd is intimately connected to the effectiveness of its board. The group recognises that the board is made up of directors that have extensive knowledge and experience within their specific disciplines. In order for the board to discharge its duties in managing the First National Bank of Namibia Ltd group in an effective and efficient manner, directors are encouraged to stay up-to-date with any new developments as well as engage in continuous professional development.

FirstRand Namibia Ltd Corporate Governance Framework

FirstRand Namibia Ltd operates within a clearly defined board-approved governance framework, which provides guidance on Corporate Governance related matters for the board of FirstRand Namibia Ltd, First National Bank of Namibia Ltd and its sub-committees. It ensures the implementation of robust governance practices and provides clear direction for decision making across all disciplines. The board of directors is satisfied that the Corporate Governance Framework contributes to role clarity and the effective exercise of board authority and independence thereof.

Governance Structure and Board Committees

While the board ultimately retains responsibility for the proper fulfilment of all functions, it delegates authority to the group Chief Executive Officer, Executive Directors and Senior Management for the implementation of the strategy and the ongoing management of the business on a day-today basis.

The board is supported by its committees which provide in-depth focus on specific areas and make recommendations on matters delegated to them, encompassing, inter alia, risk, internal control, financial reporting, strategy and, appointments and remuneration issues. Through the deliberations and reporting of the various committees, the board ensures that the company and its subsidiaries are being managed in line with its objectives.

Considering the evolving and challenging environment in which the group operates, the board recognises that governance must be dynamic to meet current and future business requirement. Each committee has its own charter, approved by the board and reviewed as deemed necessary. The charter sets out the committees' role, responsibility, composition, powers, structure, resources and any other relevant matters

The following board committees exist:

- Audit Committee;
- Risk, Capital & Compliance Committee;
- Remuneration Committee;
- Directors' Affairs and Governance Committee;
- The Ethics and Conduct Committee; and
- Executive Committee.

The board assures stakeholders that all the board committees met their respective obligations in all material respects.

Audit Committee

The audit committee continues to fulfill a vital role in corporate governance and ensuring the integrity of integrated reporting and internal financial controls. The audit committee further assists the board to comply with its duties in terms of section 42 of the Banking Institutions Act 2 of 1998, read together with chapter 3 on the NamCode on corporate governance.

The independence of the audit committee is paramount. The audit committee is composed of four directors, three of whom are independent.

The Chairperson of the audit committee is an independent non-executive director who continued to lead constructive dialogue with management, internal and external auditors. The Chairperson of the audit committee will be in attendance at the Annual General Meeting (AGM) to answer queries, through the Chairperson of the board, on matters within the scope of the audit committee.

RJC Hamer is a non-executive director in terms of the NamCode definition due to his employment within the FirstRand group structure, the majority shareholder for the preceding three years, deemed not to independent. The board is of the opinion that his specialist skills, experience, knowledge of the group and the value that these bring to the audit committee deliberations continue to warrant his membership.

The board assures stakeholders that the committee's collective skills are appropriate to oversee integrated reporting taking into consideration the industry, the groups size and circumstances.

The period for which the audit committee members have served is as follows:

SH Moir	Appointed 2006
CLR Haikali	Appointed 2016
JG Daun	Appointed 2017
RJC Hamer	Appointed 2018
LJ Haynes	Resigned 2018

The committee discharged its duties by inter alia complying with its legal and regulatory responsibilities, as well as:

- Considering and recommending the internal audit charter for approval by the board;
- Reviewing and approving the integrated report and recommending same to the board for approval;
- Ensuring the expertise, resources and experience of the financial management function;
- Ensuring integrity, reliability and accuracy of the financial statements, the accounting practices and the internal financial management function;

The committee assures stakeholders that continued:

- Evaluating the adequacy and effectiveness of internal audit assurance functions;
- Maintaining transparent and appropriate relationships with the external auditors;
- Reviewing the scope, quality and cost of the statutory audit and the independence and objectivity of the auditors. Ensuring that the appointment of the external auditors complies with the Companies Act, Banking Institutions Act and other relevant legislation;
- Ensuring that there is adequate reliance placed on effective internal, external and management assurance providers;
- Ensuring that the internal audit function is independent and has the necessary resources, budget, standing and authority within the company to enable it to discharge its functions;
- Ensuring that the integrated sustainability reporting obligations are met;
- Satisfying itself that the external auditor was independent of the company and determining the nature and extent of non-audit services;
- Understanding how the board and the external auditor evaluate materiality for integrated reporting purposes; and
- Collectively having an understanding of International Financial Reporting Standards and other regulatory requirements and it assures stakeholders that the accounting policies and practices within the group are in compliance with IFRS and regulatory requirements.
- The committee has reviewed a documented assessment including key assumptions, prepared by management of the going concern status of the company had has accordingly confirmed to the board that the company will be a going concern for the foreseeable future;
- The financial statements of the group accurately reflect the financial position and records of the group;
- Effective accounting practices and policies have been maintained;
- The skills and resources of the finance functions are adequate and all requirements have been met; and
- Internal controls of the group have been effective in all material respects during the year under review.

Assurance to stakeholders

Going concern
The committee has reviewed a documented assessment including key assumptions, prepared by management of the going concern status of the company and accordingly confirmed to the board that the company is expected to be a going concern for the foreseeable future.

Expertise and adequacy of finance function
The committee is satisfied that Mr. OLP Capelao (BCom Hons (Accounting), CA (Nam), CA (SA)), the Group Chief Financial Officer and Executive Director, possesses the appropriate expertise and experience to meet his responsibilities in that position.

The committee is satisfied with:

- The expertise and adequacy of resources within the finance function, and
- The experience, expertise and continuous professional development of the management members of the finance function.

Financial statements and accounting practices
The committee reviewed the accounting policies and financial statements of the company and is satisfied that they are appropriate and comply with IFRS and the financial statements of the group accurately reflect the financial position and records of the group.

Internal Audit and Internal control

- The committee is satisfied that internal audit function has adequate skills and resources;
- The Head of Internal Audit has unrestricted access to the Audit Committee Chairperson; and
- Internal controls of the group have been effective in all material respects during the year under review.

SH Moir
Chairperson, Audit Committee

Risk, Capital & Compliance Committee (RCCC)

The prime objective and mandate of the RCCC is to assist the board in discharging its responsibilities in terms of the management of risk, compliance and capital across the group (inclusive of the banking group and all its subsidiaries).

The RCCC discharged its duties by:

- Approving risk management policies and frameworks for submission to the FirstRand Namibia Limited board, and ensuring that the group's risk management processes and methodologies are implemented to increase the probability of anticipating unpredictable risks;
- Recommending risk exposure limits and tolerance levels for approval by the FirstRand Namibia Limited board;
- Monitoring of the effectiveness of risk management processes on behalf of the FirstRand Namibia Limited board. Reviewing the risk maturity of the group, the effectiveness of risk management activities, the key risks facing the company, and the responses to address these risks;
- Monitoring of the effectiveness of capital management processes on behalf of the FirstRand Namibia Limited board.;
- Reviewing environmental and social risks and potential environmental and social impacts, acknowledging FirstRand Namibia Limited's environmental and social responsibility; and
- Ensuring that the Internal Capital Adequacy Assessment Process (ICAAP) is reported to the board and senior management to ensure that the ICAAP forms an integral part of the management process and decision-making culture of the group.

Ensuring that there is an effective process in place for the management of liquidity risk delegating the management of liquidity risk to the Asset, Liability & Capital Committee (ALCCO), a specialist risk sub-committee.

SH Moir
Chairperson, Risk, Capital & Compliance Committee

Remuneration Committee (REMCO)

REMCO is charged with ensuring that an appropriate remuneration governance framework is in place to attract, retain and incentivise talent in order to sustain the group through superior performance. The committee is overall accountable for providing governance oversight over all forms of remuneration and reward for non-executive directors, executive directors, senior management and all employees.

COMPOSITION

REMCO is chaired by an independent Non-Executive Director and is constituted by Non-Executive Directors, majority of whom are independent. The Chief Executive Officer, the Chief Financial Officer and the Chief Human Resources Officer attend all committee meetings in an ex officio capacity and are recused when matters that affect them are discussed.

REMUNERATION GOVERNANCE FRAMEWORK

At the core of the group's remuneration framework is recognition and reward for superior performance and sustainable value creation. The group makes use of a Performance Management System (PMS) to manage performance at individual, team, business unit and group levels relative to targets set at each of these levels.

The group performance management process commences with an annual performance planning process whereby an annual operating business plan is developed informed by the group's long-term strategic blueprint. The Board of Directors sets strategic priority areas for the particular financial year derived from the goup's long-term strategy. Based on such priority areas, an overall group scorecard is agreed upon between the board and the management team setting out group performance targets for the year. group targets are set within the group's overall risk appetite.

The performance management framework requires that management produce positive net income after cost of capital (NIACC). Another way of looking at NIACC is the amount of earnings left after shareholders and other capital providers are paid for their investment at the prescribed level. Management only starts to share thereafter.

The group's reward philosophy is underpinned by the performance management framework and is fully aligned to the group's strategic objectives, namely:

- deliver long-term franchise value;
- deliver superior and sustainable economic returns to shareholders within acceptable levels of volatility; and
- maintain balance sheet strength.

REMCO is pleased to report that the group's reward philosophy as encapsulated in the following remuneration components is fully aligned to the group's core purpose:

Remuneration Committee (REMCO) continued

GUARANTEED PAY

Guaranteed pay is designed to attract and retain human resources in line with the skills requirements of the role and is benchmarked relative to skills, experience, performance and complexity of the role.

An individual's guaranteed pay is determined by:

- the appropriate salary range matched to the role using market benchmarks (pay for the role); and
- the value he/she adds to FirstRand Namibia Ltd (pay for the person) in relation to the expected outcomes for a specific position/role.

Remuneration, benchmarking forms the cornerstone of determining employees' guaranteed pay and is conducted against the financial services industry and other companies in the market with similar market capitalization, using independent industry salary surveys on a regular basis. The PwC Remchannel® salary survey is used to benchmark against the market. This approach ensures that guaranteed pay packages are competitive allowing FirstRand Namibia Ltd to attract and retain the right caliber of employees.

Annual salary increases are determined using a combination of the bottom-up and top-down approaches. The top-down approach is informed by retention considerations and individual employee performance all of which are anchored against remuneration competitiveness relative to market.

The group has recognised the Namibia Bank Workers Union (NBWU) as the exclusive bargaining agent for non-managerial employees. As part of the bottom-up approach, the group negotiates salary increases with the NBWU on an annual basis as provided for in the Recognition Agreement. Salary negotiations and resulting settlement are generally informed by prevailing macro-economic factors as well as individual employees' performance.

All remuneration increases are reviewed and approved by REMCO in the context of individual and business unit performance, inflation and specific industry practices and trends as well as current economic environment.

Short-Term Incentive (STI) Scheme

A short-term incentive scheme is in place to reward and incentivise achievement of annually agreed individual, business unit and group performance objectives and strategic priorities.

Individual performance is formally assessed twice a year, measured against specific quantitative financial and qualitative non-financial performance criteria. Specific quantitative performance measures include, amongst others the following:

- ROE;
- earnings growth and NIACC;
- performance within overall group risk appetite;
- quality of earnings;
- audit findings; and
- operational losses.

Examples of qualitative non-financial measures include teamwork, client-focus, innovation, progress implementing key control projects and delivery on socioeconomic development objectives.

Short-term incentive awards are funded from the group's Short-term Term Incentive pool which is decided upon annually by REMCO based on the group's profitability, performance metrics, business unit profitability, risk taken within risk appetite compared to realized returns and sustainable future profitability. The size of the STI pool and its allocation within the group takes current and potential future risks into account. These include:

- the cost and quantum of capital required to support risks taken;
- liquidity risk assumed in the conducting of business; and
- consideration of the timing and certainty of the realisation of accrued, but as yet unrealised, accounting profits included in current earnings.

Short-term incentive awards recognise individual performance and overall contribution to business-unit performance. As such employees who fail to attain set minimum performance targets do not participate in the STI scheme.

Short-Term Incentive (STI) Scheme continued

The awards are discretionary and paid in cash with the primary objective of rewarding superior performance. Worth noting is the fact that short-term incentive awards reduces or disappears in the event of poor group, franchise, business unit or individual performance in line with the claw-back principle.

Individual employee performance awards are determined by a combination of company and individual performance and are paid in accordance with the applicable STI scheme rules. Individual short-term incentive awards in excess of N$ 650,000 are paid out in three tranches. Interest, as determined by the group, accrues on the second and third tranches and is included in these payments. Should an employee resign or leave the employ of the group for any reason before the date on which any tranche is payable, any outstanding tranches will no longer be payable and are forfeited.

Long-Term Incentive Scheme

The group operate long-term award incentive schemes to retain key executives and critical skills who are expected to generate long-term value for the group as well as to reinforce and align their interests with those of shareholders and other stakeholders. The FirstRand Limited Conditional Incentive Plan (CIP) is utilised to achieve this objective. The CIP has a zero strike, meaning it has value from day one and the participant still get value even if the share price falls.

Remco has the discretion to determine the total amount of long-term incentive awards made to any employee, which are deferred and payments are not finalised over short periods as risks can manifest over longer periods. Thus, there are no multi-year guaranteed incentive awards or substantial severance arrangements for employees.

In order to link compensation to the time horizon of risk assumed by the group, the vesting of the CIP awards is subject to satisfying performance conditions including corporate performance targets (CPTs) set and measured over a three-year performance period. If performance conditions are not satisfied, outstanding payments are forfeited. In terms of the scheme rules, participants do not receive dividends on their long-term incentive allocations during the performance period nor do these accrue to them during the performance period.

All long-term incentive awards are deferred by a conditional award in terms of the group's conditional incentive plan for three years. Should an employee resign or be dismissed, unpaid bonus tranches are forfeited subject to the discretion of the committee. Also, in terms of the group's current policy any unpaid portion of deferred compensation is forfeited in the event that the applicable business unit suffers a loss during the year in question.

Remco is of the view that the long-term incentive scheme encourages behaviour that is consistent with effective risk management and claw-back arrangements, therefore, do not exist post vesting. The group's current long-term incentives use share-linked instruments and, therefore, do not require the allocation of shares. The committee has the discretion to determine the total amount of long-term incentive awards made to any employee.

DIRECTORS REMUNERATION

Executive Directors

Executive Directors are employed on fairly standard employment contracts as all other employees. Remuneration paid is based on the group's remuneration policy as set out above. The actual remuneration paid to the executive directors is disclosed in the notes of the annual financial statements.

The committee took note of the recommendations of NamCode that companies disclose the remuneration of its three highest paid employees who are not directors. After due consideration of this provision the committee with concurrence of the board resolved that the disclosure of the remuneration of the executives sufficiently illustrates the alignment between reward and shareholder return.

The committee ensures an optimal balance between operational stability, superior value creation and sustaining appropriate alignment of employee performance with the medium-to long-term interests of the group's stakeholders. The following principles are at the core of the group's remuneration practices:

Remuneration Committee (REMCO) continued

DIRECTORS REMUNERATION continued

Executive Directors continued

- ensuring guaranteed pay is commensurate with the volume of work, level of responsibility and individual performance in the role;
- protecting stakeholder value through compensation based on performance measured after adjusting for the level of risk assumed and the cost of capital incurred in the course of business; and
- overseeing the implementation of long-term incentive awards subject to performance criteria that appropriately reflect sustainable value creation over the medium to long term.

Non-Executive Directors

Non-executive directors receive fees for services as directors and for services provided as members of board committees. These fees are paid on a retainer as well as attendance basis. The fees vary depending on the role of the committee, are based on market comparisons, and are reviewed on an annual basis in order to meet the remuneration philosophy of the group that advocates for fair and responsible remuneration. The fees are reviewed by the Remuneration Committee and are approved in advance by shareholders at the annual general meeting.

Non-executive directors do not receive share options or other incentive awards.

Non-executive directors are only remunerated if they are not already employed by the FirstRand Group. Actual remuneration paid to non-executive directors is detailed in the notes to the annual financial statements.

REMCO TERMS OF REFERENCE

The committee exercise stewardship over FirstRand Namibia Ltd's remuneration practices and ensure that compensation works in harmony with the implemented risk postures. The committee's specific responsibilities, includes, amongst others the following:

- Remuneration Policies and Practices – The committee ensure alignment of the remuneration strategy and policy with the FirstRand Namibia group's business strategy and the desired culture and approves the general principles applied to remuneration, bonus and share incentive schemes' policies and practices ensuring a balance between guaranteed and performance-based remuneration, taking into consideration at all times the risk associated with the behaviour being incentivised.

- Performance management – The committee ensures that appropriate performance measurement processes are implemented for the award of salary increases, bonuses and share incentives whilst ensuring that remuneration is pitched at levels relative to other comparable companies taking relative performance into account.

- Salary increases – The committee approves the general principles applied to the award of salary increases and approves remuneration packages needed to attract, retain and motivate high performing executive directors and executive management, but avoid paying more than is necessary for this purpose.

- Incentive Bonuses – The committee approves the quantum of the annual bonus pool, the methodology utilised for the allocation of the pool to the Business Units and the quantum of the allocations to the Business Units.

- Share incentives – The committee approves the general principles applied for the award of share incentives to employees. The awards are approved on an individual basis in respect of executive directors and senior management.

REMCO TERMS OF REFERENCE continued

- Employees over which it exercises discretion – The committee determines remuneration policy generally (i.e. positioning relative to the market etcetera.), bonus and share incentive award policy for the employees over which it exercises discretion. The committee receives proposals on the criteria used to measure the performance for reward purposes of the employees over which it exercises discretion. The committee approves salary increases, bonus and share incentive awards on a name-by-name basis annually, or as deemed necessary by the boards, for the employees over which it exercises discretion. The committee approves remuneration packages and service agreements for the employees over which it exercises discretion. The committee must ensure that the employees involved in financial and risk control positions must be compensated in a manner that is independent of the business areas that they oversee to ensure their independence.

- Service Agreements – The committee reviews, as it deems necessary, or as it is requested to do so by the boards or CEO, the service agreements of those employees over which it exercises discretion in order to ensure the adequacy of benefit schemes for executive directors and executive management whilst taking account of consequences and associated costs to the company of such benefits.

- Succession planning – The group has an approved succession policy setting out principles of talent management and development of its key resource, its human capital and the CEO provides periodic reports to the remuneration committee. A formal succession plan is in place for key positions within the group and is updated on a regular basis. The board is confident that it should be possible to identify suitable short-term and long-term replacements from within the group should the need arise.

- Employment equity – The group is committed to creating an-all-inclusive working environment where the unique talents of all employees are recognised equally. As such, the group has an employment equity policy in place and is committed to the achievement of equity within its workforce in compliance with internal and regulatory obligations. The policy is aimed at achieving employment equity in the workplace and to enhance business competitiveness. Developing all employees is critical to the success of the programme and emphasis is placed on training, monitoring and promotion of existing staff. The group has received its Affirmative Action Compliance Certificate from the Employment Equity Commission annually since inception and has met its set targets.

REMCO PROCEEDINGS

The committee meets twice a year. Attendance at the meetings held during the year is as follows:

Members	April 2017	July 2017	April 2018	July 2018
CLR Haikali	√	√	√	√
SH Moir	√	√	√	√
JR Khethe	√	√	√	√
ES Motala	A	√	√	√

A – Denotes apologies tendered and accepted

The Chairperson attends the annual general meeting

The group's remuneration policies for the upcoming financial year remain unchanged from the current financial year and will be put to a shareholder's vote at the annual general meeting to ratify the current Remuneration Policy, as provided in the notice of the annual general meeting.

CLR Haikali
Chairperson, Remuneration Committee

Board of Directors

INGE ZAAMWANI-KAMWI
Namibian (59)
Chairperson
Independent non-executive director
Appointed April 2003
LLB (Hons) - London; LLM - Dundee

SAREL VAN ZYL
Namibian (56)
Chief Executive Officer
Executive director
Appointed December 2014
BBA Certificate in Applied Management, BBA, MBA

JABULANI KHETHE
South African (55)
Non-executive director (*no longer employed by FirstRand Group)*
Appointed August 2006
BCom (Banking), MBA

STUART MOIR
South African with Namibian Permanent Residence (70)
Deputy Chairperson
Independent non-executive director
Appointed November 2005
PMD (Harvard), CAIB (SA), B.Com, CIS

CHRISTIAAN RANGA HAIKALI
Namibian (49)
Independent non-executive director
Appointed February 2006
BBA (Entrepreneurship)

EBRAHIM MOTALA
South African (46)
Non-Executive Director
Appointed May 2016 (Resigned June 2018)
BCom Hons (Accounting), CA (SA)

OSCAR CAPELAO
Namibian (39)
Chief Financial Officer
Executive Director
Appointed March 2016
BCom Hons (Accounting), CA(Nam)(SA)

JANTJE DAUN
Namibian (51)
Independent non-executive director
Appointed March 2017
CA (SA), B.Com (Hon)

GERSON HINDA
Namibian (56)
Independent non-executive director
Appointed February 2017
B.Iuris, LLB, LLM

JUSTUS HAUSIKU
Namibian (39)
Independent non-executive director
Appointed April 2017
Post Graduate Diploma (Accounting) and CTA Honours Degree, Bachelor of Accounting

ROBERT HAMER
South African (50)
Non-executive director (*no longer employed by FirstRand Group)*
Appointed March 2018
MCom, CA (SA) ACA (UK) and BCom (Honours), Higher Diploma in Tax

LEONARD HAYNES
South African (55)
Non-executive director
Appointed April 2013 (Resigned October 2017)
B Com (Hons), MBA

PETRUS NEVONGA
Namibian (49)
Independent non-executive director
Appointed May 2003 (Resigned October 2017)
PG Diploma in Bus Admin, BTech, Dip: HR Management, MBA (Entrepreneurship)

GERT KRUGER
South African (45)
Non-executive director
Appointed June 2018
BCom (Acc) (Honours), CA (SA), MSc Financial Economics

Board of Directors continued

Directorships, Trusteeships and Committee Membership

INGE ZAAMWANI-KAMWI Namibian (Chairperson)

FirstRand Namibia group directorships and trusteeships: FirstRand Namibia Limited, First National Bank of Namibia Limited, FNB Share Incentive Trust
FirstRand Namibia group committee membership: Directors' Affairs and Governance Committee
External directorships & trusteeships: Swakop Uranium (Pty) Ltd, Tungeni Africa Investments (Pty) Ltd, Zan Tag Investment (Pty) Ltd, Farm Rimini, Feist Investments CC

STUART MOIR South African with Namibian Permanent Residence (Deputy Chairperson)

FirstRand Namibia group directorships and trusteeships: FirstRand Namibia Limited, First National Bank of Namibia Ltd, Ashburton Unit Trusts Management Compant Ltd, FNB BEE Trust, Ashburton Investments Namibia Holdings (Pty) Ltd, Ashburton Fund Managers Namibia (Pty) Ltd, Ashburton Management Company Namibia (Pty) Ltd
FirstRand Namibia group committee membership: Audit Committee, Risk, Capital and Compliance, Remuneration Committee, Directors' Affairs and Governance Committee, FNB Employee Share Incentive Trust
External directorships & trusteeships: Stimulus Investments Ltd, The Namibia Procurement Fund I, The Namibia Procurement Fund II

SAREL VAN ZYL Namibian (Chief Executive Officer)

FirstRand Namibia group directorships and trusteeships: FirstRand Namibia Limited, First National Bank of Namibia Limited, FNB Fiduciary Namibia (Pty) Ltd, Swabou Investments (Pty) Ltd, Talas Properties (Windhoek) (Pty) Ltd, FNB Nominees Namibia (Pty) Ltd, FNB Staff Assistance Trust, FirstRand Namibia Foundation Trust, Ashburton Investments Namibia Holdings (Pty) Ltd, Ashburton Fund Managers Namibia (Pty) Ltd, Ashburton Management Company Namibia (Pty) Ltd

OSCAR CAPELAO Namibian (Chief Financial Officer)

FirstRand Namibia group directorships and trusteeship: FirstRand Namibia Limited, First National Bank of Namibia Limited, OUTsurance Insurance Company of Namibia Ltd, Ashburton Unit Trusts Management Company Limited, Swabou Investments (Pty) Ltd, Talas Properties (Windhoek) (Pty) Ltd, RMB Investments (Pty) Ltd, FNB Nominees Namibia (Pty) Ltd, FNB Staff Assistance Trust, Ashburton Investments Namibia Holdings (Pty) Ltd, Ashburton Fund Managers Namibia (Pty) Ltd, Ashburton Management Company Namibia (Pty) Ltd, FNB Consumer Ltd
External directorships & trusteeships: National Housing Enterprise, Namibian Stock Exchange

JABULANI KHETHE South African

FirstRand Namibia group directorships: FirstRand Namibia Limited, First National Bank of Namibia Ltd
FirstRand Namibia group committee membership: Directors' Affairs and Governance Committee, Remuneration Committee
FirstRand group directorships: First National Bank of Botswana Ltd, FNB Moçambique S.A.

CHRISTIAAN RANGA HAIKALI Namibian

FirstRand Namibia group directorships: FirstRand Namibia Limited, First National Bank of Namibia Limited, FNB Insurance Brokers Namibia (Pty) Ltd, RMB Advisory Board
FirstRand Namibia group committee membership: Audit, Remuneration, Directors' Affairs and Governance Committee, Senior, Credit, Risk Committee
External directorships & trusteeships: Inexma Electrical Namibia (Pty) Ltd, Africa Personnel Services, Namibia Stevedoring Services, Hanu Investments, Tulongeni Family Trust, Gecko Holdings and Mining, Namibia Drum and Cladding, Okahandja Sink & Staal (Pty) Ltd, Chappa Ai Investments, Petronam Investments, Namibia Liquid Fuel, New Frontiers Investments / Safland Property Services, Mertens Mining and Trading, Ndalonga Investments CC, Morgan Cargo-Namibia, Tulonga Investments (Pty) Ltd, Oryx Investments (Pty) Ltd, Frontier Property Trust, PC Centre through Duiker Investments 175 (Pty) Ltd, Tulongeni Strateic Investments (Pty) Ltd, Tulongeni Mining (Pty) LTd, Tualonga Investments (Pty) Ltd

EBRAHIM MOTALA South African

FirstRand Namibia group directorships: FirstRand Namibia Limited, First National Bank of Namibia Limited
FirstRand Namibia group committee membership: Remuneration Committee
FirstRand group directorships: First National Bank Ghana, FNB Zambia Ltd, RMB Nigeria

JANTJE DAUN Namibian

FirstRand Namibia group directorships and trusteeship: FirstRand Namibia Limited, First National Bank of Namibia Limited, FNB Insurance Brokers (Namibia) (Pty) Limited, Ashburton Fund Managers Namibia (Pty) Ltd, Ashburton Management Company Namibia (Pty) Ltd, Ashburton Investments Namibia Holdings (Proprietary) Limited, FNB Consumer Ltd
FirstRand Namibia group committee membership: Audit Committee, Asset, Liabilities and Capital Committee
External directorships & trusteeships: Cornerstone (Pty) Ltd

GERSON HINDA Namibian

FirstRand Namibia group directorships and trusteeship: FirstRand Namibia Limited, First National Bank of Namibia Limited, OUTsurance Insurance Company of Namibia Ltd, FNB Fiduciary Ltd, FNB Consumer Ltd
External directorships & trusteeships: Sabmiller Breweries ABInbev, P E Minerals (Pty) Ltd, Rosh Pinah Zinc Corporation Limited, Sada Investments (Pty) Ltd, Namport, Daureb Investments CC, Roeder Property Ten CC, Erf One Eight Six Langstrand Extension One, Tristan Enterprises CC, FGK Investments Sixty Seven (Pty) Ltd

JUSTUS HAUSIKU Namibian

FirstRand Namibia group directorships and trusteeship: FirstRand Namibia Limited, First National Bank of Namibia Limited, Ashburton Fund Managers Namibia (Pty) Ltd, Ashburton Management Company Namibia (Pty) Ltd, Ashburton Investments Namibia Holdings (Proprietary) Limited
FirstRand Namibia group committee membership: Risk, Capital and Compliance Committee
External directorships & trusteeships: Quanta Holdings, Arch Group of Companies, MMI Short Term Insurance, Roads Contractor Company LTD

ROBERT HAMER South African

FirstRand Namibia group directorships: FirstRand Namibia Limited, First National Bank of Namibia Limited, Ashburton Investments Namibia Holdings (Proprietary) Limited, Ashburton Management Company Namibia (Proprietary) Limited, Ashburton Fund Managers Namibia (Proprietary) Limited
FNB group committee membership: Audit, Risk, Capital & Compliance Committee, Directors Affairs and Governance Committee

GERT KRUGER South African

FirstRand Namibia group directorships: FirstRand Namibia Limited, First National Bank of Namibia Limited
FirstRand group directorships: RMB Australia Holdings, RMB Morgan Stanley, RMB Nigeria

LEONARD HAYNES South African

FirstRand Namibia group directorships: FirstRand Namibia Limited, First National Bank of Namibia Ltd
FirstRand Namibia group committee membership: Audit Committee & Risk, Capital and Compliance Committee
FirstRand group directorships: First National Bank of Lesotho Ltd (Chairman), FNB Zambia Ltd (Chief Executive Officer)

PETRUS NEVONGA Namibian

FirstRand Namibia group directorships: FirstRand Namibia Limited, First National Bank of Namibia Ltd
External directorships & trusteeships: Namibia Grape Company (Pty) Ltd, Effort Investment Holdings (Pty) Ltd, Endombo Enterprises (Pty) Ltd, Esindano, Pharmaceutical (Pty) Ltd, Tulongeni Fishing (Pty) Ltd, Punctual Investments (Pty) Ltd, Sovereign Capital (Pty) Ltd, NAPWU Investment Trust, Namibia Grape Company Social Trust

7. CAPITAL MANAGEMENT

The overall objective of our capital management strategies is to maintain sound capital ratios, ensuring confidence is provided to investors in the group's solvency and quality of capital during calm and turbulent periods of the economy and financial markets. The group, therefore, maintains capitalisation ratios aligned to its risk appetite and appropriate to safeguard operations and stakeholder interests.

Governance and oversight

Capital is managed in accordance with the board-approved capital management framework which focuses on three elements:

- setting the capital levels appropriately to cater for business strategy and possible stressed economic conditions;
- ensuring capital is invested such to avoid double gearing; and finally; and
- ensuring capital is allocated to business segments and the required return on shareholder funds is attained.

Well defined roles and responsibilities are set out for successful capital planning and management. The board reviews and challenges the recommendation of the risk, capital and compliance committee (RCCC) - a board risk committee. The RCCC - as a board designated committee - takes responsibility for the group's internal capital adequacy assessment process (ICAAP).

Capital overview

The group engages in a dynamic capital management process, both from a demand and supply point of view.

The supply of capital is comprised as follows:

- Tier 1 capital which is the highest quality form of capital, comprising shareholders' equity and related non-controlling interests (subject to limits). Various capital deductions and regulatory adjustments are made to these items which are treated differently for the purposes of capital adequacy. These include deductions for goodwill and intangible assets. The regulatory minimum to be held is 7 percent which First National Bank of Namibia Ltd comfortably exceeded during the year under review.
- Tier 2 capital mainly comprises revaluation reserves, general loan loss reserves, qualifying capital instruments and any unaudited profits approved by the board of directors. In total Tier 2 should not exceed the total of Tier 1 capital which FirstRand Namibia fully comply to.
- The total qualifying capital exceeds the minumum regulatory requirement with N$ 2.4 billion.

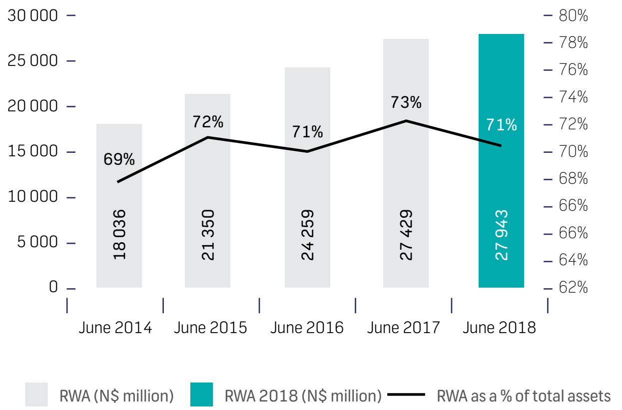
For the year under review, Tier 1 capital was primarily generated through earnings, net of dividend payments.

7. CAPITAL MANAGEMENT continued

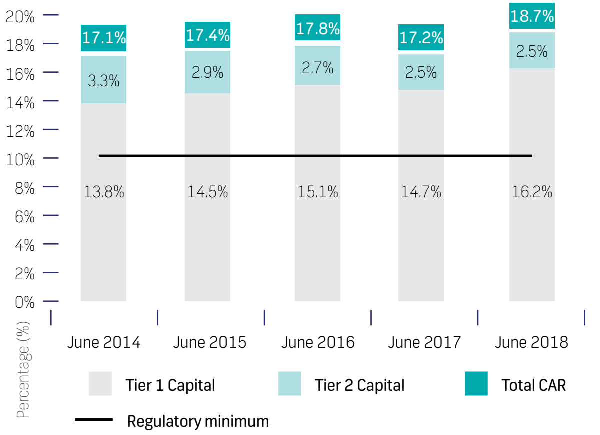
Capital overview

The demand for capital is managed from a forward looking point of view, taking into account possible risk and stress scenarios (following the ICAAP conclusion). In addition, the demand for capital also takes cognisance of economic risks not captured through the regulatory calculation and the group capitalises accordingly.

Risk weighted asset (RWA) history



Capital adequacy compliance



Regulatory developments and proposals

In October 2017, BoN issued a circular with revised implementation timelines for Basel III capital framework in Namibia. The implementation and gazetting date were shifted to the second half of 2018.

The proposed determination would in the interim keep the calculation of risk weighted assets unchanged.

The draft proposals in BID5A would introduce major adjustments to capital components, measures, limits and new buffers. The total regulatory capital proposed will consist of the sum of the following elements:

- Tier 1 Capital (going-concern capital), which comprises:
  - Common Equity Tier 1 Capital
  - Additional Tier 1 Capital
- Tier 2 Capital (gone-concern capital)

For each of the categories above the draft determination has a set of criteria that instruments are required to meet before inclusion in the relevant capital type.

In addition, the capital measures and limits proposed are described as:

- Common equity Tier 1 (CET1) ratio that must be at least 6.0% of risk-weighted assets at all times.
- Tier 1 capital adequacy ratio that must be at least 7.5% of risk-weighted assets at all times.
- Tier 2 capital adequacy ratio that must amount to 2.5% of risk-weighted assets but must not exceed 25% of Total Capital (a third (1/3) of Tier 1 Capital) at all times.
- Total capital adequacy ratio (CAR) (Tier 1 Capital plus Tier 2 Capital) that must be at least 10.5% of risk-weighted assets on implementation. It is further proposed that the minimum CAR would gradually increase with 0.5 percentage point with aim to reach a minimum of 12.5% by 2022.

Regulatory developments and proposals continued

In summary, the proposed draft requirements under Basel III, the minimum CET1 requirement is 6.0% of RWA. In addition, a phase-in CET1 capital conservation buffer that will gradually increase to 2.5% in 2022 will be required and is intended to absorb losses in periods of financial and economic stress. Banking institutions that do not maintain this buffer will be limited in their ability to pay dividends.

CET1 capital would be subject to certain regulatory deductions and other adjustments to common equity, including the deduction of deferred tax assets for tax-loss carry-forwards, goodwill and other intangible assets and investments in banking and finance entities.

In addition to the CET1 requirements, there is also an allowance for 1.5% of additional tier 1 capital and 2.5% of tier 2 capital. These requirements may also be met with CET1 capital. To qualify as additional tier 1 under Basel III, capital instruments must provide for principal loss absorption through a conversion into common equity or a write-down of principal feature.

Capital instruments that do not meet the strict criteria for inclusion in CET1 are excluded. Capital instruments that would no longer qualify as tier 1 or tier 2 capital will be phased out.

Leverage ratio is currently at 6.0% and expected to remain flat until implementation date.

Outlook

The group will continue to monitor and prepare for regulatory developments in a manner that seeks to ensure compliance with new requirements while mitigating any adverse business or economic impacts. Such impacts could result from new or amended determination or regulatory environment in general. Significant developments include continuing changes to global and domestic standards for capital and liquidity, over-the-counter (OTC) derivatives, as well as initiatives to enhance requirements for institutions deemed systemically important to the financial sector.

Capital adequacy

	Year ended 30 June	Year ended 30 June
N$ 000	**2018**	2017
Risk weighted assets		
Credit risk	23 695 641	23 429 606
Market risk	18 977	87 200
Operational risk	4 228 852	3 912 647
Total risk weighted assets	27 943 470	27 429 452
Regulatory capital		
Share capital and share premium	1 142 792	1 142 792
Retained profits	3 506 042	3 010 780
Capital impairment: intangible assets	(104 244)	(130 350)
Total tier 1	4 544 590	4 023 222
Eligible subordinated debt	400 000	400 000
General risk reserve, including portfolio impairment	291 663	286 043
Total tier 2	691 663	686 043
Total tier 1 and tier 2 capital	5 236 253	4 709 265
Capital adequacy ratios		
Tier 1	16.2%	14.7%
Tier 2	2.5%	2.5%
Total	18.7%	17.2%
Tier 1 leverage ratio	11.7%	10.7%

8. ACCOUNTING POLICIES

1. INTRODUCTION AND BASIS OF PREPARATION

1.1 Introduction

The First National Bank of Namibia Ltd group (the group) consolidated financial statements have been prepared in accordance with IFRS and the Companies Act of Namibia.

The group adopts the following significant accounting policies in preparing its financial statements:

Summary of significant accounting policies

2	Subsidiaries, associates and joint arrangements	Consolidation and equity accounting (section 2.1)	Related party transactions (section 2.2)	
3	Income, expenses and taxation	Income and expenses (section 3.1)	Taxation (section 3.2)	
4	Financial instruments	Classification (section 4.1)	Measurement (section 4.2)	Impairment (section 4.3)
		Transfers and de-recognition (section 4.4)	Offset and collateral (section 4.5)	Derivatives and hedge accounting (section 4.6)
5	Other assets and liabilities	Property and equipment (section 5.1)	Intangible assets (section 5.1)	Leases (section 5.3)
		Provisions (section 5.1)	Non-current assets held for sale (section 5.2)	
6	Capital and reserves	Share capital and treasury shares	Dividends	Other reserves
7	Transactions with employees	Employee liabilities (section 7.1)	Share-based payment transactions (section 7.2)	

These policies have been consistently applied to all years presented, unless otherwise stated.

There were no revised or new standards adopted in the current year that had an effect on the group's reported earnings, financial position, and reserves or a material impact on the accounting policies.

1. INTRODUCTION AND BASIS OF PREPARATION continued

1.2 Basis of preparation

The group prepares consolidated financial statements which include the assets, liabilities and results of the operations of First National Bank of Namibia group and its subsidiaries and its' share of earnings of associates. To compile the consolidated financial statements the following information is used:

- Audited information about the financial position and results of operations at 30 June each year for all significant subsidiaries in the group; and
- The most recent audited annual financial statements of associates. These are not always drawn up to the same date as the financial statements of the group. Where the reporting date is different from that of the group, the group uses the most recently available financial statements of the investee and reviews the investee's management accounts for material transactions during the intervening period. In instances where significant events occurred between the last reporting date of an investee and the reporting date of the group, the effect of such events is adjusted for.

Accounting policies of subsidiaries and associates have been changed where necessary to ensure consistency with the accounting policies adopted by the group.

The segmental analysis included in the segment report is based on the information reported to the chief operating decision maker for the respective segments under the current franchise management structures. The information is prepared in terms of IFRS with the exception of normalisation adjustments and certain adjustments made to the segment results in order to eliminate the effect of non-taxable income and other segment specific items that impact certain key ratios reviewed by the chief operating decision maker when assessing the operating segments' performance.

Use of judgements and estimates
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 financial statements are outlined in policy 8.

Presentation of financial statements, functional and foreign 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).

Presentation	The group presents its statement of financial position in order of liquidity. Where permitted or required under IFRS, the group offsets assets and liabilities or income and expenses and presents the net amount in the statement of financial position or in the statement of comprehensive income.
Materiality	IFRS is only applicable to material items. Management applies judgement and considers both qualitative and quantitative factors in determining materiality applied in preparing these financial statements.
Functional and presentation currency of the group	Namibian Dollars (N$)
Level of rounding	All amounts are presented in thousands of Namibian Dollars. The group has a policy of rounding up in increments of N$ 1 000. Amounts less than N$ 1 000 will therefore round down to N$ nil and are presented as a dash.
Foreign currency transactions of the group	Translated into the functional currency using the exchange rates prevailing at the date of the transactions.

1.2 Basis of preparation continued

Translation and treatment of foreign denominated balances	Translated at the relevant exchange rates, depending on whether they are monetary items (in which case the year-end exchange rate is applied) or non-monetary items. For non-monetary items measured at amortised cost the rate applied is the transaction date rate. For non-monetary items measured at fair value the rate at the date the fair value is determined (reporting date) is applied. Foreign exchange gains or losses are recognised in profit or loss in fair value gains or losses. To the extent that foreign exchange gains or losses relate to available-for-sale financial assets the following applies: • Equity instruments are recognised in other comprehensive income as part of the fair value movement; and • Debt instruments are allocated between profit or loss (those that relate to changes in amortised cost) and other comprehensive income (those that relate to changes in the fair value).

2. SUBSIDIARIES, ASSOCIATES AND JOINT ARRANGEMENTS

2.1 Basis of consolidation and equity accounting

	Subsidiaries and other structured entities	Associates	Joint ventures
Typical shareholding in the assessment of entities that are not structured entities	Greater than 50%	Between 20% and 50%	Between 20% and 50%
When an entity is a structured entity and control of an entity is not evidenced through shareholding, the group considers the substance of the arrangement and the group's involvement with the entity to determine whether the group has control, joint control or significant influence over the significant decisions that impact the relevant activities of the entity.			
Nature of the relationship between the group and the investee	Entities over which the group has control as defined in IFRS 10 are consolidated. These include investment funds managed by the group, securitisation structures or other entities used for the purpose of buying or selling credit protection.	Entities over which the group has significant influence as defined in IAS 28. These include investment funds which are not consolidated but the group has significant influence over the fund.	A joint arrangement in terms of which the group and the other contracting parties have joint control as defined in IFRS 11. Joint ventures are those joint arrangements where the group has rights to the net assets of the arrangement.
Separate financial statements			
The group measures investments in these entities at cost less impairment (in terms of IAS 36), with the exception of investments acquired and held exclusively with the view to dispose of in the near future (within 12 months) that are measured at fair value less cost to sell in terms of IFRS 5.			

8. ACCOUNTING POLICIES continued

2. SUBSIDIARIES, ASSOCIATES AND JOINT ARRANGEMENTS continued

2.1 Basis of consolidation and equity accounting

	Consolidated financial statements	
	Consolidation	Equity accounting
Initial recognition in the consolidated financial statements	Subsidiaries acquired are accounted for by applying the acquisition method of accounting for business combinations. The excess (shortage) of the sum of the consideration transferred, the value of non-controlling interest, the fair value of any existing interest, and the fair value of identifiable net assets, is recognised as goodwill or a gain on bargain purchase, as is set out further below. Transaction costs are included in operating expenses within profit or loss when incurred.	Associates are initially recognised at cost (including goodwill) and subsequently equity accounted. The carrying amount is increased or decreased to recognise the group's share of profit or loss from the investee after the date of acquisition. Items that impact the investee's net asset value that don't impact other comprehensive income are recognised directly in gains less losses from investing activities within non-interest revenue.
Intercompany transactions and balances	Intercompany transactions are all eliminated on consolidation, including unrealised gains. Unrealised losses on transactions between group entities are also eliminated unless the transaction provides evidence of impairment of the transferred asset; in which case the transferred asset will be tested for impairment in accordance with the group's impairment policies.	Unrealised gains on transactions are eliminated to the extent of the group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

2.1 Basis of consolidation and equity accounting continued

	Consolidated financial statements	
	Consolidation	Equity accounting
Impairment	In the consolidated financial statements either the cash generating unit (CGU) is tested i.e. a grouping of assets no higher than an operating segment of the group; or if the entity is not part of a CGU, the individual assets of the subsidiary and goodwill are tested for impairment in terms of IAS 36.	The group applies the indicators of impairment in IAS 39 to determine whether an impairment test is required. The amount of the impairment is determined by comparing the investment's recoverable amount with its carrying amount as determined in accordance with IAS 36. The entire carrying amount of the investment, including other long-term interests, is tested for impairment. Certain loans and other long-term interests in associates and joint ventures are considered to be, in substance, part of the net investment in the entity when settlement is neither planned nor likely to occur in the foreseeable future. Such items may include preference shares and long-term receivables or loans but do not include trade receivables or any long-term loans for which adequate collateral exists. These loans and other long-term interests in associates and joint ventures are included in advances on the face of the statement of financial position. The value of such loans is, however, included in the carrying amount of the investee for purposes of determining the share of losses of the investee attributable to the group and for impairment testing purposes. Any resulting impairment losses are recognised as part of the share of profits or losses from associates or joint ventures.
Outside shareholders	Non-controlling interests in the net assets of subsidiaries are separately identified and presented from the group's equity. All transactions with non-controlling interests, which do not result in a loss of control, are treated as transactions with equity holders. Partial disposals and increases in effective shareholding between 50% and 100% are treated as transactions with equity holders. Non-controlling interest is initially measured either at the proportional share of net assets or at fair value. The measurement distinction is made by the group on a case by case basis.	Transactions with outside shareholders are not equity transactions and the effects thereof are recognised in profit or loss as part of gains less losses from investing activities in non-interest revenue.

2. SUBSIDIARIES, ASSOCIATES AND JOINT ARRANGEMENTS continued

2.1 Basis of consolidation and equity accounting continued

Interests in unconsolidated structured entities
Interests in unconsolidated structured entities may expose the group to variability in returns from the structured entity. However because of a lack of power over the structured entity it is not consolidated. Normal customer/supplier relationships where the group transacts with the structured entity on the same terms as other third parties are not considered to be interests in the entity. From time to time the group also sponsors the formation of structured entities primarily for the purpose of allowing clients to hold investments. Where the interest or sponsorship does not result in control, disclosures of these interests or sponsorships are made in the notes in terms of IFRS 12.

2.2 Related party transactions

Related parties of the group as defined, include:

Subsidiaries	Entities that have significant influence over the group, and subsidiaries of these entities
Associates	Key management personnel
Joint ventures	Close family members of key management personnel
Post-employment benefit funds (pension funds)	Entities controlled, jointly controlled or significantly influenced by key management personnel or their close family members

The principal shareholder of First National Bank of Namibia is FirstRand Namibia Ltd, whose principal shareholder is FirstRand EMA Holdings (Pty) Ltd, with its ultimate holding company FirstRand Limited, incorporated in South Africa.

Key management personnel of the group are the FirstRand Namibia Limited board of directors and the FirstRand Namibia Limited executive committee, including any entities which provide key management personnel services to the group. Their close family members include spouse/domestic partner and children, domestic partner's children and any other dependants of the individual or their domestic partner.

3. INCOME, EXPENSES AND TAXATION

3.1 Income and expenses

Net interest revenue recognised in profit or loss	
Net interest income includes: • Interest on financial instruments measured at amortised cost and available-for-sale debt instruments determined using the effective interest method; • Interest on compound instruments. Where instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or long-term liabilities and are measured at amortised cost, dividends received or paid on these instruments are included in the cash flows used to determine the effective interest rate of the instrument; • Interest on debt instruments designated at fair value through profit or loss that are held by and managed as part of the group's insurance or funding operations; • An amount related to the unwinding of the discounted present value of non-performing loans measured at amortised cost on which specific impairments have been raised and where the recovery period is significant. When these advances are impaired, they are recognised at recoverable amount i.e. the present value of the expected future cash flows, and an element of time value of money is included in the specific impairment raised. As the advance moves closer to recovery, the portion of the discount included in the specific impairment unwinds; and • The difference between the purchase and resale price in repurchase agreements, because the amount is in substance interest.	
Non-interest revenue recognised in profit or loss	
Net fee and commission income	
Fee and commission income	Fees and transaction costs that do not form an integral part of the effective interest rate are recognised as income when the outcome of the transaction involving the rendering of services can be reliably estimated as follows: • Fees for services rendered are recognised on an accrual basis when the service is rendered, e.g. banking fee and commission income, and asset management and related fees; • Fees earned on the execution of a significant act, e.g. knowledge-based fee and commission income, and non-banking fee and commission income, when the significant act has been completed; and • Commission income on bills and promissory notes endorsed is credited to profit or loss over the life of the relevant instrument on a time apportionment basis. Commissions earned on the sale of insurance products to customers of the group on behalf of an insurer and profit share agreements, are recognised as fee and commission income and not as part of insurance income. Other non-banking fee and commission income relates to fees and commissions earned for rendering services to clients other than those related to the banking and insurance and asset management operations.
Fee and commission expenses	Fee and commission expenses are expenses that are incremental and directly attributable to the generation of fee and commission income, and are recognised as part of fee and commission income. These include transaction and service fees, which are expensed as the services are received.
Customer loyalty programmes	The group operates a customer loyalty programme, Rewards, in terms of which it undertakes to provide reward credits to customers when they transact. The reward credits are accounted for as a fee and commission expense.

3. INCOME, EXPENSES AND TAXATION continued

3.1 Income and expenses continued

Non-interest revenue recognised in profit or loss	
Fair value gains or losses	
Fair value gains or losses of the group recognised in non-interest revenue includes the following: • Fair value adjustments and interest on trading financial instruments including derivative instruments that do not qualify for hedge accounting in terms of IAS 39; • A component of interest expense that relates to interest paid on liabilities which fund the group's fair value operations. Interest expense is reduced by the amount that is included in fair value income • Fair value adjustments on trading related financial instruments designated at fair value through profit or loss in order to eliminate an accounting mismatch, except for such instruments relating to the group's insurance and funding operations for which the interest component is recognised in interest income; and • Any difference between the carrying amount of the liability and the consideration paid, when the group repurchases debt instruments that it has issued.	
Gains less losses from investing activities	
The following items are included in gains less losses from investing activities: • Any gains or losses on disposals of investments in subsidiaries, associates and joint ventures; • Any amounts recycled from other comprehensive income in respect of available-for-sale financial assets; and • Dividend income on any equity instruments that are considered long term investments of the group. In the separate financial statements this includes dividends from subsidiaries, associates and joint ventures.	
Dividend income	
The group recognises dividend income when the group's right to receive payment is established. This is the last day to trade for listed shares and on the date of declaration for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares, except to the extent that the scrip dividend is viewed as a bonus issue with no cash alternative and the transaction lacks economic significance.	
Expenses	
Expenses of the group, apart from certain fee and commission expenses included in net fee and commission income, are recognised and measured in terms of the accrual principle and presented as operating expenses in profit or loss.	
Indirect tax expense	Indirect tax includes other taxes paid to the Receiver of Revenue including value added tax and stamp duties. Indirect tax is disclosed separately from income tax and operating expenses in the statement of comprehensive income.

3.2 Income tax expenses

Current income tax	
The current income tax expense is calculated by adjusting the net profit for the year for items that are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the reporting date.	
Deferred income tax	
Recognition	On temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.
Typical temporary differences in the group that deferred tax is provided for	• Depreciation of property and equipment; • Revaluation of certain financial assets and liabilities, including derivative contracts; • Provisions for pensions and other post-retirement benefits; • Tax losses carried forward; and • Investments in subsidiaries, associates and joint ventures, 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.
Measurement	Using the liability method under IAS 12 and applying tax rates and laws that have been enacted or substantively enacted at 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.
Presentation	In profit or loss unless it relates to items recognised directly in equity or other comprehensive income. Items recognised directly in equity or other comprehensive income relates to the issue or buy back of share capital, fair value re-measurement of available-for-sale investments, re-measurements of defined benefit post-employment plans and derivatives designated as hedging instruments in effective cash flow hedges. Tax in respect of share transactions is recognised directly in equity. Tax in respect of the other items is recognised directly in other comprehensive income and subsequently reclassified to profit or loss (where applicable) at the same time as the related gain or loss.
Deferred tax assets	The group recognises deferred income tax assets only if it is probable that future taxable income will be available against which the unused tax losses can be utilised. The group reviews the carrying amount of deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

4. FINANCIAL INSTRUMENTS

4.1 Classification

Management determines the classification of its financial instruments at initial recognition. The following table sets out the different classes of financial instruments of the group:

Derivatives
Derivatives are either designated as hedging instruments in effective hedging relationships or are classified as held for trading.
Cash and cash equivalents and accounts receivable
Cash and cash equivalents comprise coins and bank notes, money at call and short notice and balances with central banks. All balances included in cash and cash equivalents have a maturity date of less than three months from the date of acquisition. Money at short notice constitutes amounts withdrawable in 32 days or less. Cash and cash equivalents and accounts receivable are measured at amortised cost in accordance with IAS 39.
Advances
Advances are measured at amortised cost in accordance with IAS 39. Various advances to customers, structured notes and other investments held by the investment banking division of the group, which would otherwise be measured at amortised cost have been designated at fair value to eliminate the accounting mismatch between the assets and the underlying derivatives used to manage the risk arising from the assets and /or are managed on a fair value basis.
Investment securities
The majority of investment securities of the group are either designated at fair value because they are managed on a fair value basis or are classified as available-for-sale. There is a portfolio of debt investment securities measured at amortised cost. Investment securities that represent an interest in the residual value of the investee are classified as equities within investment securities.
Financial liabilities and compound financial instruments
The group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Tier 2 instruments which have write down or conversion features are classified based on the nature of the instrument and the definitions of debt and equity. Compound instruments are those financial instruments that have components of both financial liabilities and equity such as issued convertible bonds. At initial recognition the instrument and the related transaction costs are split into their separate components in terms of the definitions and criteria of IAS 32 and are subsequently accounted for as a financial liability or equity.
Deposits, Tier 2 liabilities and other funding liabilities
Liabilities are generally measured at amortised cost but may be measured at fair value through profit or loss if they are managed on a fair value basis or the fair value designation reduces or eliminates an accounting mismatch. Tier 2 and other funding liabilities are presented in separate lines on the statement of financial position of the group.

4.2 Measurement

Initial measurement	All financial instruments are initially measured at fair value including transaction costs, except for those classified as fair value through profit or loss in which case the transaction costs are expensed upfront in profit or loss, usually as part of operating expenses. Any upfront income earned on financial instruments is recognised as is detailed under policy 3.1, depending on the underlying nature of the income.
Subsequent measurement	Amortised cost items are measured using the effective interest method, less any impairment losses. This includes available-for-sale debt instruments. Fair value items are measured at fair value at reporting date as determined under IFRS 13. The fair value gains or loss are either recognised in profit or loss (held for trading or designated at fair value through profit or loss) or in other comprehensive income (available-for-sale financial assets) until the items are disposed of or impaired.

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

4.3 Impairment of financial assets

General

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment and its carrying amount is greater than its estimated recoverable amount.

Scope	This policy applies to: • Advances measured at amortised cost; • Investment securities at amortised cost; • Advances and debt instruments designated as available-for-sale; and • Accounts receivable.
Objective evidence of impairment	The group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. The following factors are considered when determining whether there is objective evidence that the asset has been impaired: • Breaches of loan covenants and conditions; • Time period of overdue contractual payments; • Actuarial credit models; • Loss of employment or death of the borrower; and • Probability of liquidation of the customer. Where objective evidence of impairment exists, impairment testing is performed based on LGD, PD and EAD.

4. FINANCIAL INSTRUMENTS continued

4.3 Impairment of financial assets continued

Objective evidence of impairment continued	For available-for-sale equity instruments objective evidence of impairment includes information about significant changes with an adverse effect on the environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be recovered and a significant or prolonged decline in the fair value of the security below its cost.
Assessment of objective evidence of impairment	An assessment of impairment is first performed individually for financial assets that are individually significant and then individually or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Financial 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 of impairment, an impairment loss is recognised. The amount of the loss is measured as the difference between the financial 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. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.
Collective assessment	For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics; i.e. on the basis of the group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such financial assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the financial assets being evaluated.
Recognition of impairment loss	Impairment losses are recognised as part of operating expenses in profit or loss. The amount of the loss is measured as the difference between the financial 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. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For available-for-sale financial assets which are impaired the cumulative loss is reclassified from other comprehensive income to profit or loss.
Reversal of impairment loss	If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating): • The previously recognised impairment loss is reversed by adjusting the allowance account (where applicable) and the amount of the reversal is recognised as part of operating expenses in profit or loss; and • Impairment losses recognised on available-for-sale equity instruments are not subsequently reversed through profit or loss, but are recognised directly in other comprehensive income.

Impairment of advances

The adequacy of impairments of advances is assessed through the ongoing review of the quality of credit exposures. For amortised cost advances, impairments are recognised through the use of the allowance account method and an impairment charge in the statement of comprehensive income. For fair value advances, the credit valuation adjustment is charged to the profit and loss through fair value gains or losses and recognised as a change to the carrying value of the asset.

The following table sets out the group policy on the ageing of advances (i.e. when an advance is considered past due or non-performing) and the accounting treatment of past due, impaired and written off advances:

	Type of advance	Group policy on past due/impaired
Past due advances	The past due analysis is only performed for advances with specific expiry or instalment repayment dates or demand loans for which payment has been demanded. The analysis is not applicable to overdraft products or products where no specific due date is determined. The level of risk on these types of products is assessed with reference to the counterparty ratings of the exposures and reported as such.	
	Loans with a specific expiry date (e.g. term loans etc.) and consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans)	Treated as overdue where one full instalment is in arrears for one day or more and remains unpaid as at the reporting date. Advances on which partial payments have been made are included in neither past due nor impaired until such time as the sum of the unpaid amounts equals a full instalment, at which point it is reflected as past due.
	Loans payable on demand (e.g. overdrafts)	Treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made.
	The full outstanding amount is reported as past due even if part of the balance is not yet due.	
Non-performing loans	Retail loans	Individually impaired if three or more instalments are due or unpaid or if there is evidence before this that the customer is unlikely to repay the obligations in full.
	Commercial and wholesale loans	Analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.
Renegotiated advances	Advances that would otherwise be past due that have been renegotiated i.e. advances where, due to deterioration in the counterparty's financial condition, the group granted a concession where the original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance. Excludes advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original.	Separately classified as neither past due nor impaired assets and remain classified as such until the terms of the renegotiated contract expire. Non-performing advances cannot be reclassified as renegotiated but current unless the arrears balance has been repaid. Renegotiated advances are considered as part of the collective evaluation of impairment where advances are grouped on the basis of similar credit risk characteristics. The adherence to the new terms and conditions is closely monitored.

4. FINANCIAL INSTRUMENTS continued

4.3 Impairment of financial assets continued

<table>
<tr><th colspan="2">Impairments</th></tr>
<tr><td>Specific</td><td>Created for non-performing loans where there is objective evidence that an incurred loss event will have an adverse impact on the estimated future cash flows from the advance.

Potential recoveries from guarantees and collateral are incorporated into the calculation of impairment figures.</td></tr>
<tr><td>Portfolio</td><td>Created with reference to these performing advances. The impairment provision on the performing portfolio is split into two parts:

• An incurred but not reported (IBNR) provision i.e. the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified; and
• The portfolio specific impairment (PSI) which reflects the decrease in estimated future cash flows for the sub segment of the performing portfolio where there is objective evidence of impairment.</td></tr>
<tr><th colspan="2">Write offs</th></tr>
<tr><td colspan="2">When an advance is uncollectible, it is written off against the related allowance account. Such advances 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 impairment of advances in profit or loss.</td></tr>
</table>

4.4 Transfers and derecognition

Financial instruments are derecognised when the contractual rights or obligations expire/extinguish, are discharged or cancelled for example an outright sale or settlement.

For financial assets this includes assets transferred that meet the derecognition criteria. Financial assets are transferred when the group has either transferred the contractual right to receive cash flows from the asset or it has assumed an obligation to pay over all the cash flows from the asset to another entity (i.e. pass through arrangement under IAS 39).

For financial liabilities this includes when there is a substantial modification to the terms and conditions of an existing financial liability. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability.

The following transactions are entered into by the group in the normal course of business in terms of which it transfers financial assets directly to third parties or structured entities, and either achieves derecognition or continues to recognise the asset:

4.4 Transfers and derecognition continued

<table>
<tr><th>Transaction type</th><th>Description</th><th>Accounting treatment</th></tr>
<tr><th colspan="3">Transfers without derecognition</th></tr>
<tr><td>Traditional securitisations and conduit programmes i.e. non-recourse transactions</td><td>Specific advances or investment securities are transferred to a structured entity, which then issues liabilities to third party investors, for example variable rate notes or investment grade commercial paper.

The group's obligations toward the third party note holders is limited to the cash flows received on the underlying securitised advances or non-recourse investment securities i.e. the note holders only have a claim to the ring fenced assets in the structured entity, and not to other assets of the group.

The group consolidates these securitisation and conduit vehicles as structured entities, in terms of IFRS 10.</td><td rowspan="3">The transferred assets continue to be recognised by the group in full. The advances and investment securities which have been transferred are separately reported.

The group recognises an associated liability for the obligation toward third party note holders as a separate category of deposits. These deposits are usually measured at fair value through profit or loss.

The underlying securities purchased under agreements to resell (reverse repos) are not recognised on the statement of financial position. The group does not recognise securities borrowed in the financial statements, unless these have been on sold to third parties, in which case the obligation to return these securities is recognised as a financial liability at fair value with any gains or losses included in fair value gains or losses within non-interest revenue.</td></tr>
<tr><td>Repurchase agreements</td><td>Investment securities and advances are sold to an external counterparty in exchange for cash and the group agrees to repurchase the assets at a specified price at a specified future date.

The counterparty's only recourse is to the transferred investment securities and advances that are subject to the repurchase agreement. The group remains exposed to all the underlying risks on the assets including counterparty, interest rate, currency, prepayment and other price risks.</td></tr>
<tr><td>Securities lending</td><td>Investment securities are lent to external counterparties in exchange for cash collateral as security for the return of the securities.

The group's only recourse in respect of the return of the securities it has lent is to the cash collateral held and as such, the group generally requires cash collateral in excess of the fair value of the securities lent.</td></tr>
<tr><th colspan="3">Transfers with derecognition</th></tr>
<tr><td>Where the group purchases its own debt</td><td colspan="2">The debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in fair value gains or losses within non-interest revenue.</td></tr>
</table>

4. FINANCIAL INSTRUMENTS continued

4.5 Offset and collateral

Where the requirements of IFRS are met, the group offsets financial assets and financial liabilities and presents the net amount. Financial assets and financial liabilities subject to master netting arrangements (MNA) or similar agreements are not offset, if the right of set-off under these agreements is only enforceable in the event of default, insolvency and bankruptcy. Details of the offsetting and collateral arrangements of the group are set out in the following table:

Derivative financial instruments	The group's derivative transactions that are not transacted on an exchange are entered into under International Derivatives Swaps and Dealers Association (ISDA) MNA. Generally, under such agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. Due to the fact that ISDA agreements under which derivatives are traded are not legally enforceable within Namibia, in the normal course of the business or on bankruptcy, the IAS 32 set-off requirements of legal enforceability is not met thus no financial assets and financial liabilities have been presented on the net amount in the statement of financial position.

It is the group's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a transaction, either through physical inspection or indexation methods, as appropriate. For wholesale and commercial portfolios, the value of collateral is reviewed as part of the annual facility review. For mortgage portfolios, collateral valuations are updated on an ongoing basis through statistical indexation models. However, in the event of default, more detailed reviews and valuations of collateral are performed, which yields a more accurate financial effect.

4.6 Derivative financial instruments and hedge accounting

Derivative instruments are classified as held either for trading or formally designated as hedging instruments as required by IAS 39, which impacts the method of recognising the resulting fair value gains or losses. For derivatives used in fair value hedges changes in the fair value of the derivatives are recorded in profit or loss as part of fair value gains or losses within non-interest revenue, together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

For derivatives used in cash flow hedges, the effective portion of changes in the fair value of derivatives is recognised in the cash flow hedge reserve in other comprehensive income and reclassified to profit or loss in the periods in which the hedged item affects profit or loss; and ineffective portion is recognised immediately in profit or loss as part of fair value gains or losses within non-interest revenue.

The group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions at the inception of the transaction. 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.

The group treats derivatives embedded in other financial or non-financial instruments, such as the conversion option in a convertible bond, as separate derivatives when they meet the requirements for bifurcation of IAS 39. Where embedded derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules.

5. OTHER ASSETS AND LIABILITIES

5.1 Classification and measurement

Classification	Measurement
Information regarding land and buildings is kept at the group's registered office and is open for inspection in terms of Section 120 of the Companies Act, 2004.	
Property and equipment	
Property and equipment of the group includes: • Assets utilised by the group in the normal course of operations to provide services including freehold property and leasehold premises and leasehold improvements (owner occupied properties); • Assets which are owned by the group and leased to third parties under operating leases as part of the group's revenue generating operations; • Capitalised leased assets; and • Other assets utilised by the group in the normal course of operations including computer and office equipment, motor vehicles and furniture and fittings.	Historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated. Depreciation is over the useful life of the asset, except for assets capitalised under finance leases where the group is the lessee, in which case depreciation is over the life of the lease (refer to policy 5.2).
Intangible assets	
Intangible assets of the group includes: • Internally generated intangible assets (including computer software and other assets such as trademarks or patents) are capitalised when the requirements of IAS 38 relating to the recognition of internally generated assets have been met; • External computer software development costs are capitalised when they can be clearly associated with a strategic and unique system which will result in a benefit for the group exceeding the costs incurred for more than one financial period; and • Material acquired trademarks, patents and similar rights are capitalised where the group will receive a benefit from these intangible assets for more than one financial period. All other costs related to intangible assets are expensed in the financial period incurred.	Cost less accumulated amortisation and any impairment losses. Amortisation is on a straight line basis over the useful life of the asset.
Goodwill arising from business combinations is recognised as an intangible asset.	Refer to policy 2.1.
Provisions	
The group will only recognise a provision measured in terms of IAS 37 when there is uncertainty around the amount or timing of payment. Where there is no uncertainty the group will recognise the amount as an accrual. The group usually recognises provisions related to litigation and claims.	

Other assets that are subject to depreciation and intangible assets, other than goodwill (refer to policy 2.1), are reviewed for impairment whenever objective evidence of impairment exists. Impairment losses are recognised in profit or loss as part of operating expenses. Other assets are derecognised when they are disposed of or, in the case of intangible assets, when no future economic benefits are expected from its use. Gains or losses arising on derecognition are determined as the difference between the carrying amount of the asset and the net proceeds received, and are recorded in profit or loss as part of non-interest revenue.

5. OTHER ASSETS AND LIABILITIES continued

5.2 Non-current assets and disposal groups held for sale

Assets and liabilities are classified and separately presented as held for sale by the group when the specific conditions for classification as held for sale under IFRS 5 are met.

Any impairment losses on classification or that arise before sale and after the re-measurement of assets and liabilities outside the measurement scope of IFRS 5 in terms of their relevant IFRSs, are recognised in profit or loss in operating expenses, or as part of equity accounted earnings in the case of associates. If a disposal group contains assets that are outside of the measurement scope of IFRS 5 any impairment loss is allocated to those non-current assets in the disposal group that are within the measurement scope of IFRS 5. Any increases in fair value less costs to sell are recognised in non-interest revenue when realised.

When there is a change in intention to sell, any non-current assets and disposal groups held for sale are immediately reclassified back to their original line items, and remeasured in terms of the relevant IFRS, with any adjustment being take to profit or loss depending on the underlying asset to which it relates; for example operating expenses for property and equipment or intangible assets and equity accounted earnings for associates.

5.3 Leases

The group classifies leases of property and equipment where it assumes substantially all the risks and rewards of ownership as finance leases. The group classifies leases as operating leases if the lessor effectively retains the risks and rewards of ownership of the leased asset. The group regards instalment sale agreements as financing transactions.

	Group company is the lessee	Group company is the lessor
	Finance leases	
Inception	Capitalised as assets and a corresponding lease liability for future lease payments is recognised.	Recognise assets sold under a finance lease as advances and impair the advances, as required, in line with policy 4.2.
Over life of lease	The asset is depreciated – refer to policy 5.	Unearned finance income is recognised as interest income over the term of the lease using the effective interest method.
Operating leases	Recognised as an operating expense in profit or loss on a straight line basis over the period of the lease. Any difference between the actual lease amount payable and the straight-lined amount calculated is recognised as a liability of the group in creditors and accruals.	Assets held under operating leases are recognised as a separate category of property and equipment (assets held under leasing arrangements) and depreciated - refer to policy 5. Rental income is recognised as other non-interest revenue on a straight line basis over the lease term.
Instalment credit agreements where the group is the lessee	The group regards instalment credit sale agreements as financing transactions and includes the total rentals and instalments receivable, less unearned finance charges, in advances. The group calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to interest revenue in proportion to capital balances outstanding.	

6. CAPITAL AND RESERVES

Transaction	Liability	Equity
Shares issued and issue costs	Ordinary shares and any preference shares which meet the definition of equity issued by the group less any incremental costs directly related to the issue of new shares or options, net of any related tax benefit.	
Dividends paid/ declared	Recognised as interest expense on the underlying liability.	Dividends on ordinary shares are recognised against equity. A corresponding liability is recognised when the dividends have been approved by the company's board of directors and distribution is no longer at the discretion of the entity.
Other reserves		Other reserves recognised by the group include general risk reserves, share base payment reserve, defined benefit post-employment reserve and available-for-sale reserves.

7. TRANSACTIONS WITH EMPLOYEES

7.1 Employee benefits

The group operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee administered funds. These funds are registered in terms of the Pension Funds Act, 1956, and membership of the pension fund is compulsory for all group employees. The defined benefit plans are funded by contributions from employees and the relevant group companies, taking into account the recommendations of independent qualified actuaries.

Post-employment benefits	
Defined contribution plans	
Contributions are recognised as an expense, included in staff costs, when the employees have rendered the service entitling them to the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.	
Defined benefit obligation liability	Recognition: The liabilities and assets of these funds are reflected as a net asset or liability in the statement of financial position i.e. the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. Where the value is a net asset, the amount recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.
	Measurement: The present value of the defined benefit obligation is calculated annually by independent actuaries using the projected credit unit method. The discount rate used is the rate of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the terms of the related pension liability.

7. TRANSACTIONS WITH EMPLOYEES continued

7.1 Employee benefits continued

Post-employment benefits	
Defined contribution plans	
Profit or loss – as part of staff costs	• Current and past service costs calculated on the projected unit credit method; • Gains or losses on curtailments and settlements that took place in the current period; • Net interest income calculated by applying the discount rate at the beginning of the period to the net asset or liability; and • Actuarial gains or losses on long term employee benefits.
Other comprehensive income	All other re-measurements in respect of the obligation and plan assets are included in other comprehensive income and never reclassified to profit or loss.
Termination benefits	
The group recognises termination benefits as a liability in the statement of financial position and as an expense, included in staff costs, in profit or loss when it has a present obligation relating to termination. The group has a present obligation at the earlier of when the group can no longer withdraw the offer of the termination benefit and when the group recognises any related restructuring costs.	
Liability for other employee benefits	
Other	The group recognises severance pay as a liability in the statement of financial position and as an expense in profit and loss. The group is required to pay employees a severance benefit in terms of the new Labour Act of 2007, when: • The employee is dismissed under certain circumstances; or • The employee dies while employed. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plan. Qualified actuaries perform annual valuations.
Leave pay	The group recognises a liability for the employees' rights to annual leave in respect of past service. The amount recognised by the group is based on current salary of employees and the contractual terms between the employee and the group. The expense is included in staff costs.
Bonuses	The group recognises a liability and an expense for management and staff bonuses when it is probable that the economic benefits will be paid and the amount can be reliably measured. The expense is included in staff costs.

7.2 Share-based payment transactions

The group operates equity settled and cash settled share-based compensation plans for employees.

Options and share awards granted under equity settled plans are allocated to a share-based payment reserve in equity until such time that the options are revised, vest, are forfeited or exercised, at which point the reserve is transferred to equity (either share capital or retained earnings). Options granted under cash settled plans result in a liability being recognised and measured at fair value until settlement. An expense is recognised in profit or loss for employee services received over the vesting period of the plans.

Certain of the group's remuneration schemes were operated through various share trusts. These share trusts are structured entities and were consolidated in terms of IFRS 10 – refer to policy 2. The share trusts purchased FirstRand Namibia shares in the market to economically hedge the group against price risk of the FirstRand Namibia shares and to limit the dilutive effect on current shareholders. The shares purchased by the share trusts were considered to be treasury shares – refer to policy 6.

8. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

8.1 Introduction

In preparing the financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior year. Included below are all the critical accounting estimates, assumptions and judgements made by the group, except those related to fair value measurement which are included in note 30.

8.2 Subsidiaries, associates and joint arrangements

Subsidiaries
Only one party can have control over an investee. In determining whether the group has control over an entity, consideration is given to any rights the group has that result in the ability to direct the relevant activities of the investee, and the group's exposure to variable returns. In operating entities shareholding is most often the clearest indication of control. However in structured entities and investment management funds judgement is often needed to determine which investors have control of the entity or fund. Some of the major factors considered by the group in making this determination include the following:

8. ACCOUNTING POLICIES continued

8. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS continued

8.2 Subsidiaries, associates and joint arrangements continued

Subsidiaries continued	
Decision making power	• The purpose and design of the entity; • What the relevant activities of the entity are; • Who controls the relevant activities and whether control is based on voting rights or contractual agreements. This includes considering: – what percentage of voting rights are held by the group, the dispersion and behaviour of other investors is; – potential voting rights and whether these increase/decrease the group's voting powers; – who makes the operating and capital decisions; – who appoints and determines the remuneration of the key management personnel of the entity; – whether any investor has any veto rights on decisions; – whether there are any management contracts in place that confer decision making rights; – whether the group provides significant funding or guarantees to the entity; and – whether the group's exposure is disproportionate to its voting rights. • Whether the group is exposed to any downside risk or upside potential that the entity was designed to create; • To what extent the group is involved in the setup of the entity; and • To what extent the group is responsible to ensure that the entity operates as intended.
Exposure to variable returns	• The group's rights in respect of profit or residual distributions; • The group's rights in respect of repayments and return of debt funding; • Whether the group receives any remuneration form servicing assets or liabilities of the entity; • Whether the group provides any credit or liquidity support to the entity; • Whether the group receives any management fees and whether these are market related; and • Whether the group can obtain any synergies through the shareholding, not available to other shareholders. Benefits could be non-financial in nature as well, such as employee services etc.
Ability to use power to affect returns	• Whether the group is acting as agent or principal; • If the group has any de facto decision making rights; • Whether the decision making rights the group has are protective or substantive; and • Whether the group has the practical ability to direct the relevant activities.

Associates	Joint arrangements
Determining whether the group has significant influence over an entity: • Significant influence may arise from rights other than voting rights for example management agreements; and • The group considers both the rights that it has as well as currently exercisable rights that other investors have when assessing whether it has the practical ability to significantly influence the relevant activities of the investee.	Determining whether the group has joint control over an entity: • The group considers all contractual arrangements to determine whether unanimous consent is required in all circumstances; and • Joint arrangements are classified as joint ventures when they are a separate legal entity and the shareholders share in the net assets of the separate legal entity. In order to determine whether the shareholders share in the net assets of the entity the group considers the practical decision making ability and management control of the activities of the joint arrangement.

Structured entities
Structured entities are those where voting rights generally relate to administrative tasks only and the relevant activities are determined only by means of a contractual arrangement. When assessing whether the group has control over a structured entity specific consideration is given to the purpose and design of the structured entity and whether the group has power over decisions that relate to activities that the entity was designed to conduct.

Investment funds
The group acts as fund administrator to a number of investment funds. In terms of a mandate the group is required to take active investment management decisions in respect of the fund. Determining whether the group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the group in the fund (comprising any direct interests in the fund and expected management fees) and the investor's right to remove the group as fund manager. If the other investors are able to remove the group as fund manager easily or the group's aggregate interest is not deemed to be significant, the group does not consolidate the funds as it is merely acting as an agent for the other investors. Other investors are considered to be able to remove the fund manager easily if it is possible for a small number of investors acting together to appoint a new fund manager in the absence of misconduct. Where the group has a significant investment and an irrevocable fund management agreement the fund is consolidated. Where such funds are consolidated, judgement is applied in determining if the non-controlling interests in the funds are classified as equity or financial liabilities. Where the external investors have the right to put their investments back to the fund, these non-controlling interests do not meet the definition of equity and are classified as financial liabilities. Where such funds are not consolidated, the group is considered to have significant influence over the fund where it has an insignificant direct interest in the fund and there is an irrevocable fund management agreement.

8. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS continued

8.2 Subsidiaries, associates and joint arrangements continued

Investment funds continued
Where investments in funds managed by the group are not considered to be material, these are not consolidated or equity accounted by the group and recognised as investment securities. As decisions related to the relevant activities are based on a contractual agreement (mandate) as opposed to voting or similar rights, investment funds that are managed by the group are considered to be structured entities as defined in IFRS 12 except where other investors can easily remove the group as fund manager without cause as this represents rights similar to voting rights. The group receives management fees from the funds for management services rendered. These fees are typical of supplier customer relationships in the investment management industry. Where the group provides seed funding or has any other interests in investment funds that it manages, and does not consolidate or equity account the fund, the investment is considered to represent a typical customer supplier relationship. The group does not sponsor investment funds that it manages, as it does not provide financial support to these funds; or where it provides financial support this is on normal commercial terms in a typical supplier customer relationship.

8.3 Taxation

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

8.4 Financial instruments

Impairment of financial assets	
In determining whether an impairment loss should be recognised, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.	
General	**Available-for-sale equity instruments**
Collective impairment assessments of groups of financial assets Future cash flows in a group of financial assets are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows for groups of financial assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are regularly reviewed by the group to reduce any differences between loss estimates and actual loss experience.	The group determines that available-for-sale equity instruments are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the group evaluates factors such as, inter alia, the normal volatility in share prices, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.
Impairment assessment of collateralised financial assets The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether the group elects to foreclose or not.	

8. ACCOUNTING POLICIES continued

8. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS continued

8.4 Financial instruments continued

<table>
<tr><th colspan="2">Advances</th></tr>
<tr><td colspan="2">The group continuously assesses its credit portfolios for impairment. Significant advances are monitored by the credit committee and impaired according to the group's impairment policy when an indication of impairment is observed.

The objective of the measurement of an impairment loss is to produce a quantitative measure of the group's credit risk exposure.
In determining the amount of the impairment the group considers the following:

• The Probability of Default (PD) which is a measure of the expectation of how likely the customer is to default;
• The Exposure at Default (EAD) the expected amount outstanding at the point of default; and
• The Loss Given Default (LGD) which is the expected loss that will be realised at default after taking into account recoveries through collateral and guarantees.</td></tr>
<tr><th>Performing loans</th><th>Non-performing loans</th></tr>
<tr><td>The assessment of whether objective evidence of impairment exists requires judgement and depends on the class of the financial asset. In the retail portfolios the account status, namely arrears versus non-arrears status, is taken as a primary indicator of an impairment event. In the commercial portfolios, other indicators such as the existence of high-risk accounts, based on internally assigned risk ratings and management judgements are used, while the wholesale portfolio assessment (which includes RMB investment banking and RMB corporate banking) includes a judgemental review of individual industries for objective signs of distress.

Where impairment is required to be determined for the performing book, the following estimates are required:

• The incurred but not reported (IBNR) provision is calculated on this sub segment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non-performing status and similar risk indicators over an estimated loss emergence period. Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate, external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 to 12 months; and
• The portfolio specific impairment (PSI) is the decrease in future cash flows primarily estimated based on analysis of historical loss and recovery rates for comparable sub segments of the portfolio.</td><td>Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for commercial and wholesale loans) for assets with similar credit risk characteristics.

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

8.5 Other assets and liabilities

<table>
<tr><th colspan="4">Other assets and liabilities</th></tr>
<tr><th colspan="2">Property and equipment</th><th colspan="2">Intangible assets</th></tr>
<tr><td colspan="4">The useful life of each asset is assessed individually. The benchmarks used when assessing the useful life of the individual assets are set out below.</td></tr>
<tr><td>Leasehold premises</td><td>Shorter of estimated life or period of lease</td><td>Software development costs</td><td>3 years</td></tr>
<tr><td></td><td></td><td>Trademarks</td><td>10 - 20 years</td></tr>
<tr><td>Freehold property and property held under finance lease:</td><td></td><td>Other</td><td>3 - 10 years</td></tr>
<tr><td>- Buildings and structures</td><td>50 years</td><td></td><td></td></tr>
<tr><td>- Mechanical and electrical</td><td>20 years</td><td></td><td></td></tr>
<tr><td>- Components</td><td>20 years</td><td></td><td></td></tr>
<tr><td>- Sundries</td><td>3 - 5 years</td><td></td><td></td></tr>
<tr><td>Computer equipment</td><td>3 - 5 years</td><td></td><td></td></tr>
<tr><td>Other equipment</td><td>Various between 3 - 10 years</td><td></td><td></td></tr>
<tr><th colspan="4">Provisions</th></tr>
<tr><td colspan="4">The group has a policy and process in place to determine when to recognise provisions for potential litigation and claims. The recognition of such provisions is linked to the ranking of legal risk of potential litigation on the group's litigation database.</td></tr>
</table>

8.6 Transactions with employees

<table>
<tr><th colspan="2">Employee benefits - defined contribution plans</th></tr>
<tr><td>Determination of purchased pension on retirement from defined contribution plan</td><td>On retirement of current defined contribution active members, the fund provides a pension that can be purchased with the member's share. The pension so purchased is determined based on the purchasing member's demographic details (age, sex, age of spouse), the pension structure (guarantee period, spouse's reversion and pension increase target) and the economic assumptions at time of purchase (inflation linked bond yields available).

A benefit on withdrawal and retrenchment are determined in terms of the prevailing legislation and is equivalent to the value of the actuarial reserve held in the fund.

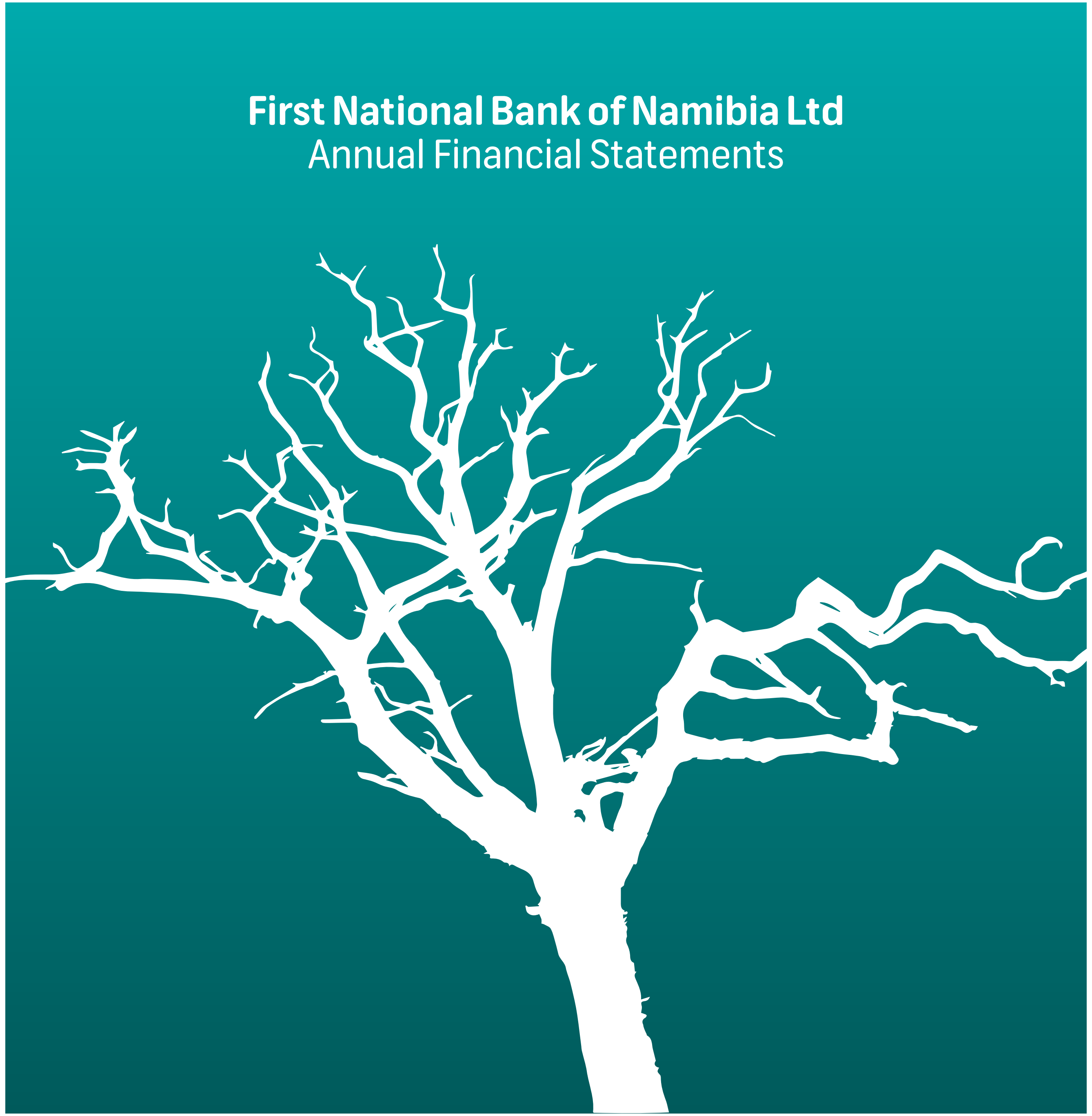
If the member chooses to buy into the fund on the date the fair value of plan assets and the value of plan liabilities on the defined benefit plan are increased by the amount of the initial contribution.</td></tr>
</table>

8. ACCOUNTING POLICIES continued

8. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS continued

8.6 Transactions with employees continued

Employee benefits - defined benefit plans	
Determination of present value of defined benefit plan obligations	The cost of the benefits and the present value of the defined benefit pension funds and post-employment medical obligations depend on a number of factors that are determined annually on an actuarial basis, by independent actuaries, using the projected unit credit method which incorporates a number of assumptions. The key assumptions used in determining the charge to profit or loss arising from these obligations include the expected long-term rate of return on the relevant plan assets, discount rate and expected salary and pension increase rates. Any changes in these assumptions will impact the charge to profit or loss and may affect planned funding of the pension plans.
Cash settled share-based payment plans	
Determination of fair value	The liability is determined using a Black-Scholes option pricing model with a zero strike price. The following estimates are included in the model to determine the value: • Management's estimate of future dividends; • Historical volatility is used as a proxy for future volatility; • The risk free interest rate is used; and • Staff turnover and historical forfeiture rates are used as indicators of future conditions.



9. STATEMENTS OF COMPREHENSIVE INCOME
for the period ended 30 June

		GROUP		COMPANY	
N$'000	Notes	2018	2017	2018	2017
Interest and similar income	2.1	3 580 460	3 282 543	3 524 615	3 233 022
Interest expense and similar charges	2.2	(1 762 198)	(1 523 024)	(1 734 131)	(1 523 024)
Net interest income before impairment of advances		1 818 262	1 759 519	1 790 484	1 709 998
Impairment and fair value of credit of advances	11	(128 261)	(59 251)	(127 179)	(53 137)
Net interest income after impairment of advances		1 690 001	1 700 268	1 663 305	1 656 861
Non-interest revenue	3	1 646 284	1 444 948	1 588 567	1 881 992
Income from operations		3 336 285	3 145 216	3 251 872	3 538 853
Operating expenses	4	(1 809 666)	(1 553 988)	(1 803 674)	(1 559 188)
Net income from operations		1 526 619	1 591 228	1 448 198	1 979 665
Share of profit of associate after tax	13	1 039	2 515		
Income before indirect tax		1 527 658	1 593 743	1 448 198	1 979 665
Indirect tax	5.1	(45 113)	(40 016)	(46 988)	(38 542)
Profit before direct tax		1 482 545	1 553 727	1 401 210	1 941 123
Income tax expense	5.2	(460 308)	(494 100)	(446 965)	(479 744)
Profit for the year		1 022 237	1 059 627	954 245	1 461 379

		GROUP		COMPANY	
N$'000	Notes	2018	2017	2018	2017
Other comprehensive income					
Items that may subsequently be reclassified to profit and loss					
Available-for-sale financial assets adjustments		(3 725)	(9 218)	(3 725)	(9 218)
Deferred income tax		1 192	2 950	1 192	2 950
		(2 533)	(6 268)	(2 533)	(6 268)
Items that may not subsequently be reclassified to profit and loss					
Remeasurements on defined benefit post-employment plan		1 272	7 778	1 272	7 778
Deferred income tax		(407)	(2 489)	(407)	(2 489)
		865	5 289	865	5 289
Other comprehensive income for the year		(1 668)	(979)	(1 668)	(979)
Total comprehensive income for the year		1 020 569	1 058 648	952 577	1 460 400
Profit for the year attributable to:					
Ordinary equityholders		1 022 237	1 059 627	954 245	1 461 379
Total comprehensive income for the year attributable to:					
Ordinary equityholders		1 020 569	1 058 648	952 577	1 460 400

10. STATEMENTS OF FINANCIAL POSITION
as at 30 June

N$'000	Notes	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
ASSETS					
Cash and cash equivalents	7	1 326 075	1 414 296	1 326 075	1 381 367
Derivative financial instruments	8	93 520	95 221	93 520	95 221
Investment securities	9	5 080 115	3 717 577	5 080 115	3 704 238
Advances	10	28 644 017	28 325 993	28 278 842	27 888 795
Accounts receivable	12	239 535	165 636	270 498	213 778
Due by banks and other financial institutions		2 782 221	2 667 981	2 782 221	2 639 879
Investment in associate	13	8 608	7 569	1 154	1 154
Investments in subsidiaries	14			300 277	492 999
Property and equipment	15	901 250	946 968	881 124	899 289
Intangible assets	16	104 244	161 286	104 244	130 349
Total assets		39 179 585	37 502 527	39 118 070	37 447 069

N$'000	Notes	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
EQUITY AND LIABILITIES					
Liabilities					
Short trading positions	19		39 330		39 330
Derivative financial instruments	8	109 754	115 562	109 754	115 562
Creditors, accruals and provisions	20	351 688	380 203	368 434	405 100
Current tax liability		178 403	53 930	167 784	52 125
Deposits	21	32 559 128	31 743 745	32 580 435	31 687 243
-Deposits from customers		24 305 263	22 336 350	24 326 570	22 263 098
-Debt securities		7 356 457	8 214 858	7 356 457	8 214 858
-Due to banks and other financial institutions		897 408	1 192 537	897 408	1 209 286
Employee liabilities	17	237 376	204 810	237 376	204 810
Other liabilities	22	220 447		220 447	
Tier 2 liabilities	23	402 783	402 830	402 783	402 830
Deferred income tax liability	18	320 732	259 070	326 209	263 455
Total liabilities		34 380 311	33 199 479	34 413 222	33 170 456
Equity					
Ordinary shares	24	1	1	1	1
Share premium	24	1 142 791	1 142 791	1 142 791	1 142 791
Reserves		3 656 482	3 160 256	3 562 056	3 133 821
Total equity		4 799 274	4 303 048	4 704 848	4 276 613
Total liabilities and equity		39 179 585	37 502 527	39 118 070	37 447 069

11. STATEMENTS OF CHANGES IN EQUITY
for the year ended 30 June

N$ '000	Share capital	Share premium	General risk reserve	Defined benefit post-employment reserve	Share-based payment reserve	Available-for-sale reserve	Retained earnings	Total equity
GROUP								
Balance at 1 July 2016	1	1 142 791	135 412	(2 521)	16 987	(15 261)	2 643 366	3 920 775
Total comprehensive income for the year				5 289		(6 268)	1 059 627	1 058 648
Profit for the year							1 059 627	1 059 627
Other comprehensive income for the year				5 289		(6 268)		(979)
Transfer to / (from) reserves			24 642				(24 642)	
Share-based payments					4 781			4 781
Transfer of vested equity options					(5 655)		5 655	
Dividends paid							(681 155)	(681 155)
Balance at 30 June 2017	1	1 142 791	160 054	2 768	16 113	(21 529)	3 002 851	4 303 048
Total comprehensive income for the year				865		(2 533)	1 022 237	1 020 569
Profit for the year							1 022 237	1 022 237
Other comprehensive income for the year				865		(2 533)		(1 668)
Transfer to / (from) reserves			3 086				(3 086)	
Transfer of vested equity options					3 882			3 882
Share-based payments					(12 268)		12 268	
Dividends paid							(528 224)	(528 224)
Balance at 30 June 2018	1	1 142 791	163 140	3 632	7 727	(24 062)	3 506 046	4 799 274

N$ '000	Share capital	Share premium	General risk reserve	Defined benefit post-employment reserve	Share-based payment reserve	Available-for-sale reserve	Retained earnings	Total equity
COMPANY								
Balance at 1 July 2016	1	1 142 791	135 412	(2 521)	16 987	(15 261)	2 215 179	3 492 587
Total comprehensive income for the year				5 289		(6 268)	1 461 379	1 460 400
Profit for the year							1 461 379	1 461 379
Other comprehensive income for the year				5 289		(6 268)		(979)
Transfer to / (from) reserves			24 642				(24 642)	
Share-based payments					4 781			4 781
Transfer of vested equity options					(5 655)		5 655	
Dividends paid							(681 155)	(681 155)
Balance at 30 June 2017	1	1 142 791	160 054	2 768	16 113	(21 529)	2 976 415	4 276 613
Total comprehensive income for the year				865		(2 533)	954 245	952 577
Profit for the year							954 245	954 245
Other comprehensive income for the year				865		(2 533)		(1 668)
Transfer to / (from) reserves			3 086				(3 086)	
Transfer of vested equity options					3 882			3 882
Share-based payments					(12 268)		12 268	
Dividends paid							(528 224)	(528 224)
Balance at 30 June 2018	1	1 142 791	163 140	3 632	7 727	(24 062)	3 411 618	4 704 848

12. STATEMENTS OF CASH FLOWS

for the year ended 30 June

N$'000	Notes	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Cash flows from operating activities					
Interest and similar income		3 555 113	3 245 298	3 500 214	3 203 896
Fees and commission income		1 407 624	1 271 443	1 406 760	1 270 484
Other non-interest income		185 302	176 777	180 951	174 405
Interest expense and similar charges		(1 762 198)	(1 523 024)	(1 734 131)	(1 523 024)
Total other operating expenditure		(1 552 465)	(1 374 502)	(1 542 449)	(1 380 391)
Cash flows from operating activities	26	1 833 376	1 795 993	1 811 345	1 745 370
Investment securities		(1 362 538)	(618 238)	(1 375 877)	(641 723)
Due by banks and other financial insitutions		(114 240)	(895 713)	(142 342)	(867 611)
Accounts receivable and similar accounts		(71 697)	(64 460)	(54 517)	(78 283)
Advances		(420 942)	(2 388 033)	(492 829)	(2 529 427)
Deposits		1 110 512	2 387 649	1 205 071	2 474 095
Due to banks and other financial institutions		(295 129)	391 565	(311 878)	391 565
Accounts payable and similar accounts		(133 371)	(25 416)	(162 496)	13 828
Tax paid		(323 057)	(460 029)	(298 335)	(450 608)
Net cash flows from operating activities		222 914	123 318	178 142	57 206

N$'000	Notes	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Cash flows from investing activities		(1 911)	(188 092)	75 790	(98 295)
Capital expenses		(89 582)	(131 315)	(101 667)	(129 096)
Reduction in loan to subsidiary				169 409	87 578
Investment in subsidary			(68 315)		(68 315)
Proceeds from sale of property and equipment		87 671	11 537	8 048	11 537
Cash flows from financing activities		(309 224)	(671 155)	(309 224)	(671 155)
Issue of other liabilities		219 000		219 000	
Net proceeds from issue of tier 2 liabilities			10 000		10 000
Dividends paid		(528 224)	(681 155)	(528 224)	(681 155)
Net decrease in cash and cash equivalents		(88 221)	(735 929)	(55 292)	(712 244)
Cash and cash equivalents at beginning of the year *		1 414 296	2 093 611	1 381 367	2 093 611
Cash and cash equivalents acquired through the acquisition of subsidary			56 615		
Cash and cash equivalents at end of the year *	7	1 326 075	1 414 296	1 326 075	1 381 367

*Includes mandatory reserve deposits with central bank.

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

1. Accounting policies

The accounting policies are set out on pages 56 to 84.

2. Analysis of interest income and interest expense

N$'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
2.1 Analysis of interest and similar income				
Instruments at fair value	401 187	281 755	401 187	281 755
Instruments at amortised cost	3 179 273	3 000 788	3 123 428	2 951 267
Interest and similar income	3 580 460	3 282 543	3 524 615	3 233 022
Advances	3 064 638	2 903 092	3 008 761	2 862 283
Cash and cash equivalents	111 637	80 454	111 637	80 454
Investment securities	401 187	281 755	401 187	281 755
Unwinding of discounted present value on non-performing loans (note 10)	13 766	18 436	13 017	11 341
Unwinding of discounted present value on off-market advances	2 203	2 897	2 203	2 897
On impaired advances	(26 751)	(20 003)	(25 773)	(20 597)
Net release of deferred fees and expenses	13 780	15 912	13 583	14 889
Interest and similar income	3 580 460	3 282 543	3 524 615	3 233 022

N$'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
2.2 Interest expense and similar charges can be analysed as follows:				
Instruments at amortised cost	1 762 198	1 523 024	1 734 131	1 523 024
Interest expense and similar charges	1 762 198	1 523 024	1 734 131	1 523 024
Current accounts*	123 328	118 120	113 580	118 120
Savings deposits*	7 042	6 892	7 042	6 892
Call deposits	295 024	251 219	295 024	251 219
Term deposits	558 910	419 634	558 910	419 634
Negotiable certificates of deposits	573 902	563 400	573 902	563 400
Fixed and floating bonds	120 151	59 964	123 384	59 964
Deposits from banks and financial institutions	34 799	69 831	13 247	69 831
Other liabilties	9 967		9 967	
Tier 2 liabilities	39 075	33 964	39 075	33 964
Interest expense and similar charges	1 762 198	1 523 024	1 734 131	1 523 024

* Some prior year numbers within savings deposits and current accounts have been reclassified in order to better reflect the nature. This reclassification is a realloaction between items within interest expense and similar charges and therefore had no impact on the overall balance.

3. Non-interest revenue

N$'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
3.1 Fees and commissions				
- Card commissions	157 922	146 146	157 922	146 146
- Cash deposit fees	112 590	109 545	112 590	109 545
- Commissions: bills, drafts and cheques*	155 073	147 767	155 470	148 397
- Bank charges*	1 118 372	980 450	1 117 124	978 882
	1 543 957	1 383 908	1 543 106	1 382 970
Fee and commission expense:				
- Transaction processing fees	(90 130)	(85 276)	(90 142)	(85 296)
- Cash sorting handling and transportation charges	(23 547)	(15 674)	(23 547)	(15 674)
- ATM commissions paid	(5 724)	(7 470)	(5 724)	(7 470)
- Customer loyalty programmes	(8 869)		(8 869)	
- Other	(8 064)	(4 046)	(8 064)	(4 046)
Fee and commission expense	(136 334)	(112 466)	(136 346)	(112 486)
Net fees and commission income	1 407 623	1 271 442	1 406 760	1 270 484

* Some prior year numbers within bank charges and commissions have been reclassified in order to better reflect the nature. This reclassification is a realloaction between items within fees and commission income and therefore had no impact on the overall balance.

N$'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
3.2 Fair value gains or losses				
Foreign exchange	89 981	79 324	89 981	79 324
Designated at fair value through profit or loss	47 011	53 914	47 011	53 914
Treasury trading operations	6 159	7 882	6 159	7 882
- Debt instruments trading	8 081	14 944	8 081	14 944
- Derivatives revaluation	(1 922)	(10 108)	(1 922)	(10 108)
- Other		3 046		3 046
Total fair value gains	143 151	141 120	143 151	141 120

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, and translated foreign currency assets and liabilities. Interest rate instruments include gains and losses from government securities, corporate debt securities, money market instruments, interest rate and currency swaps, options and other derivatives.

N$'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
3.3 Gains less losses from investing activities				
Gains on investment securities designated at fair value through profit or loss *	16 557	6 254	16 557	6 254
Dividends received (unlisted investments)	5 664	5 290	5 664	5 290
Gains less losses from investing activities	22 221	11 544	22 221	11 544

* Gains on investment securities designated at fair value through profit or loss have been reclassified in order to better reflect the nature. This reclassification is a reallocation between items within Gains less losses from investing activities and therefore had no impact on the overall balance.

3. Non-interest revenue continued

N$'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
3.4 Other non-interest revenue				
- Gain/(loss) on disposal of property and equipment	49 252	7 111	(3 252)	7 111
- Rental income	8 942	9 663	4 744	5 510
- Dividends received from subsidary				440 000
- Other income	15 095	4 068	14 943	6 224
Other non-interest revenue	73 289	20 842	16 435	458 844
Total non-interest revenue	1 646 284	1 444 948	1 588 567	1 881 992
No-interest revenue, analysis by category.				
3.5 Non interest revenue	1 646 284	1 444 948	1 588 567	1 881 992
Fee and commission income: Instruments at amortised cost	1 407 623	1 271 443	1 406 760	1 270 484
Fair value income: Held for trading	96 140	87 206	961	87 206
Fair value income: Designated at fair value through profit or loss	69 232	65 458	69 232	65 458
Other non interest income: Non-financial assets and liabilities	73 289	20 841	16 435	458 844

4. Operating expenses

N$'000	Notes	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Auditors' remuneration					
- Audit fees		6 021	5 592	5 558	5 184
- Fees for other services		282	949	282	949
Auditors' remuneration		6 303	6 541	5 840	6 133
Operating lease charges					
- Properties		44 980	42 276	50 406	49 447
- Equipment		19 572	19 934	19 508	19 907
Operating lease charges		64 552	62 210	69 914	69 354
Direct staff costs					
- Salaries, wages and allowances		749 646	648 961	749 626	645 385
- Off-market staff loans amortisation		2 203	2 897	2 203	2 897
- Contributions to employee funds		168 861	151 511	168 861	151 511
> Defined contribution schemes: pension		78 032	68 414	78 032	68 414
> Defined contribution schemes: medical		90 829	83 097	90 829	83 097
- Severance pay provision: death in service	17	904	932	904	932
- Post-retirement medical expenses	17	3 239	4 270	3 239	4 270
- Social security levies		2 086	2 104	2 086	2 104
- Training levies		9 218	8 054	9 218	8 054
- Share-based payments	25	33 303	20 259	33 303	20 259
Direct staff costs		969 460	838 988	969 440	835 412
- Other		8 100	5 935	8 100	5 935
Total staff costs		977 560	844 923	977 540	841 346

4. Operating expenses continued

		GROUP		COMPANY	
N$'000	Notes	2018	2017	2018	2017
Other operating costs					
- Amortisation of intangible assets	16	17 797	11 446	14 657	11 446
- Depreciation	15	96 881	73 025	96 425	71 584
- Impairment of intangible asset	16	39 244		23 551	
- Impairment of investment in subsidiary	14			23 312	
- Insurance		8 644	8 326	8 482	8 016
- Computer		306 574	250 754	306 518	248 080
- Advertising and marketing		58 604	54 758	58 604	54 756
- Legal fees		11 632	10 560	11 625	10 565
- Postage		4 224	3 855	4 224	3 855
- Printing and stationery		11 841	12 965	11 839	12 955
- Professional fees		6 241	7 572	6 241	10 659
- Property and maintenance related expenses		80 320	75 331	78 582	72 263
- Telecommunications		18 530	18 034	18 528	17 806
- Travel and accommodation		16 889	16 909	16 870	16 772
- Total directors' emoluments	4.1	11 253	9 614	11 219	9 614
- Other operating expenditure		72 577	87 165	59 704	93 987
Other operating costs		761 251	640 314	750 380	642 356
Total operating expenses		1 809 666	1 553 988	1 803 674	1 559 188

Significant impairments incurred during 2018

Intangible assets - Ebank trademark

First National Bank of Namibia Ltd, impaired the Ebank trademark after management reviewed the value of the trademark and found that it would no longer meet future needs of the group. This trademark has been impaired to a carrying amount of N$ nil based on its anticipated value in use to the business and an impairment loss of N$13.7 million recognised.

Intangible assets - software and development costs

Ebank Ltd, a subsidiary of First National Bank of Namibia Ltd, impaired software after management reviewed their information technology platform and found that the software would no longer meet future needs as Ebank customers were migrated to the FNB Core banking system. This software has been impaired to a carrying amount of N$ nil based on its anticipated value in use to the business and an impairment loss of N$ 25.6 million recognised.

4.1 Directors' emoluments

	GROUP		COMPANY	
N$'000	2018	2017	2018	2017
Executive directors	8 266	7 535	8 266	7 535
Non-executive directors	2 987	2 079	2 953	2 079
	11 253	9 614	11 219	9 614

5. Tax

N$'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
5.1 Indirect tax				
Value-added tax (net)	36 278	28 493	38 153	27 020
Stamp duties	8 835	11 523	8 835	11 522
Total indirect tax	45 113	40 016	46 988	38 542
5.2 Direct tax				
Namibian normal tax				
- Current				
> Current year	399 194	445 303	384 759	430 749
- Deferred				
> Current year	61 114	48 798	62 206	48 995
Total income tax expense	460 308	494 100	446 965	479 744
Tax rate reconciliation – Namibian normal tax	%	%	%	%
Effective rate of tax	31.05%	31.80%	31.90%	24.71%
Total tax has been affected by:				
> Non-taxable income	1.81%	0.41%	0.51%	7.50%
> Non-deductable expenses	(0.86%)	(0.21%)	(0.41%)	(0.21%)
Standard rate of tax	32.00%	32.00%	32.00%	32.00%

6. Analysis of assets and liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies on page 56 to page 84 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the financial assets and liabilities in the statement of financial position per category of financial instrument to which they are assigned and therefore by measurement basis:

GROUP

N$'000	2018 Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non-financial assets and liabilities	Total
Assets							
Cash and cash equivalents			1 326 075				1 326 075
Derivative financial instruments	93 520						93 520
Investment securities	24 303	300 342		4 755 470			5 080 115
Advances		419 769	28 224 248				28 644 017
Accounts receivable			6 146				6 146
Due by banks and other financial institutions			2 782 221				2 782 221
Non-financial assets						1 247 491	1 247 491
Total assets	117 823	720 111	32 338 690	4 755 470		1 247 491	39 179 585
Liabilities							
Derivative financial instruments	109 754						109 754
Creditors, accruals and provisions					83 369		83 369
Deposits from customers					24 305 263		24 305 263
Debt securities					7 356 457		7 356 457
Due to banks and other financial institutions					897 408		897 408
Other liabilities					220 447		220 447
Tier 2 liabilities					402 783		402 783
Non-financial liabilities						1 004 830	1 004 830
Total liabilities	109 754				33 265 727	1 004 830	34 380 311

6. Analysis of assets and liabilities continued

GROUP

N$'000	2017 Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non financial assets and liabilities	Total
Assets							
Cash and cash equivalents			1 414 296				1 414 296
Derivative financial instruments	95 221						95 221
Investment securities	155 257	216 461		3 345 859			3 717 577
Advances		464 205	27 861 788				28 325 993
Accounts receivable			18 924				18 924
Due by banks and other financial institutions			2 667 981				2 667 981
Non-financial assets						1 262 535	1 262 535
Total assets	250 478	680 666	31 962 989	3 345 859		1 262 535	37 502 527
Liabilities							
Short trading positions	39 330						39 330
Derivative financial instruments	115 562						115 562
Creditors, accruals and provisions					95 837		95 837
Deposits from customers					22 336 350		22 336 350
Debt securities					8 214 858		8 214 858
Due to banks and other financial institutions					1 192 537		1 192 537
Tier 2 liabilities					402 830		402 830
Non-financial liabilities						802 175	802 175
Total liabilities	154 892				32 242 411	802 175	33 199 479

COMPANY

N$'000	2018 Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non financial assets and liabilities	Total
Assets							
Cash and cash equivalents			1 326 075				1 326 075
Derivative financial instruments	93 520						93 520
Investment securities	24 303	300 342		4 755 470			5 080 115
Advances		419 769	27 859 073				28 278 842
Accounts receivable			6 146				6 146
Due by banks and other financial institutions			2 782 221				2 782 221
Non financial assets						1 551 151	1 551 151
Total assets	117 823	720 111	31 973 515	4 755 470		1 551 151	39 118 070
Liabilities							
Short trading position							
Derivative financial instruments	109 754						109 754
Creditors, accruals and provisions					83 369		83 369
Deposits from customers					24 326 570		24 326 570
Debt securities					7 356 457		7 356 457
Due to banks and other financial institutions					897 408		897 408
Other liabilities					220 447		220 447
Tier 2 liabilities					402 783		402 783
Non financial liabilities						1 016 434	1 016 434
Total liabilities	109 754				33 287 034	1 016 434	34 413 222

6. Analysis of assets and liabilities continued

COMPANY

N$'000	2017						
	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial assets and financial liabilities at amortised cost	Non financial assets and liabilities	Total
Assets							
Cash and cash equivalents			1 381 367				1 381 367
Derivative financial instruments			2 639 879				2 639 879
Investment securities	95 221						95 220
Advances		464 205	27 424 590				27 888 795
Accounts receivable	155 257	203 122		3 345 859			3 704 238
Due by banks and other financial institutions			18 924				18 924
Non financial assets						1 718 645	1 718 645
Total assets	250 478	667 326	31 464 761	3 345 859		1 718 645	37 447 069
Liabilities							
Short trading position	39 330						39 330
Derivative financial instruments	115 562						115 562
Creditors, accruals and provisions					95 837		95 837
Deposits from customers					22 263 098		22 263 098
Debt securities					8 214 858		8 214 858
Due to banks and other financial institutions					1 209 286		1 209 286
Tier 2 liabilities					402 830		402 830
Non financial liabilities						829 655	829 655
Total liabilities	154 892				32 185 909	829 655	33 170 456

7. Cash and cash equivalents

	GROUP		COMPANY	
N$'000	**2018**	2017	**2018**	2017
Coins and bank notes	**430 888**	623 104	**430 888**	619 723
Balances with central bank	**895 187**	779 738	**895 187**	761 644
Balances with other banks		11 454		
	1 326 075	1 414 296	**1 326 075**	1 381 367
Mandatory reserve balances included in above:	**344 765**	333 810	**344 765**	332 134

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank in terms of the Banking Institutions Act, 1998 (No 2 of 1998). These deposits bear little or no interest.

Fair value

The carrying value approximates the fair value of total cash and short term funds.

8. Derivative financial instruments

Use of derivatives

Derivative contracts are not entered into for speculative purposes by the group. For accounting purposes, derivative instruments are classified as held for trading or hedging. The held for trading classification includes two types of derivative instruments: those used in sales activities, and those that are economic hedges but do not meet the criteria to qualify for hedge accounting.

The group's derivative activities do not give rise to significant open positions in portfolios of derivatives. Positions are managed constantly to ensure that they remain within acceptable risk levels, with offsetting deals being utilised to achieve this where necessary.

Interest rate derivatives comprising mainly interest rate swaps and forward rate agreements are utilised for hedging purposes to eliminate uncertainty and reduce the risk that the group faces due to volatile interest rates.

As mentioned above, derivatives classified as held for trading include non qualifying hedging derivatives, ineffective hedging derivatives and the component of hedging derivatives that are excluded from assessing hedge effectiveness. Non qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting. These include derivatives managed in conjunction with financial instruments designated at fair value.

The notional amounts of the derivative instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not present the group's exposure to credit or pricing risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) based on changes in market interest rates. The aggregate notional amount of derivative financial instruments, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair value can fluctuate significantly, overtime.

The group uses the following financial instruments for hedging purposes:

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

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

Further information pertaining to derivative off-setting and similar arrangements is set out in note 31.

GROUP AND COMPANY	2018			
	Assets		Liabilities	
N$'000	Notional	Fair value	Notional	Fair value
Currency derivatives	795 994	90 246	831 124	92 486
Interest rate derivatives	746 738	3 274	1 836 396	17 268
Total held for trading	1 542 732	93 520	2 667 520	109 754

GROUP AND COMPANY	2017			
	Assets		Liabilities	
N$'000	Notional	Fair value	Notional	Fair value
Currency derivatives	1 153 938	93 842	1 236 247	94 746
Interest rate derivatives	530 000	1 380	1 489 553	20 816
Total held for trading	1 683 938	95 221	2 725 800	115 562

All derivatives are over-the-counter instruments.

9. Investment securities

	GROUP		COMPANY	
N$'000	**2018**	2017	**2018**	2017
At fair value through profit and loss – designated				
Money-market funds	300 342	216 461	300 342	203 122
At fair value through profit and loss – held for trading				
Other government and government guaranteed stock	22 879	45 548	22 879	45 548
Treasury bills	1 424	109 708	1 424	109 708
	24 303	155 257	24 303	155 257
Available-for-sale				
Other government and government guaranteed stock	1 080 733	1 042 449	1 080 733	1 042 449
Treasury bills	3 674 737	2 303 410	3 674 737	2 303 410
	4 755 470	3 345 859	4 755 470	3 345 859
Valuation of investments				
Market value of listed investments	1 103 612	1 087 997	1 103 612	1 087 997
Directors valuation of unlisted investments	3 976 503	2 629 580	3 976 503	2 616 240
Total valuation	5 080 115	3 717 577	5 080 115	3 704 238

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

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

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

No financial instruments held for trading form part of the group's liquid asset portfolio in terms of the Banking Institutions Act, (No 2 of 1998) and other foreign banking regulators requirements. The total liquid asset portfolio is N$4 755 million (2017: N$3 346 million).

10. Advances

	GROUP		COMPANY	
N$'000	**2018**	2017	**2018**	2017
Notional value of advances	29 012 732	28 594 945	28 642 214	28 153 807
Contractual interest suspended	(67 155)	(49 805)	(64 360)	(47 989)
Gross value of advances	28 945 577	28 545 140	28 577 854	28 105 818
Sector analysis				
Agriculture	995 144	847 175	995 144	847 175
Financial institutions	710 358	611 101	710 358	611 101
Building and property development	2 585 451	2 291 865	2 585 451	2 291 865
Government and public authorities	1 682 955	2 115 475	1 682 955	2 115 475
Individuals	18 490 282	17 589 585	18 122 559	17 150 264
Manufacturing and commerce	2 528 905	2 769 790	2 528 905	2 769 790
Mining	318 983	666 022	318 983	666 022
Transport and communication	437 832	377 754	437 832	377 754
Other services	1 195 667	1 276 372	1 195 667	1 276 372
Gross value of advances	28 945 577	28 545 140	28 577 854	28 105 818
Impairment and fair value of credit of advances (note 11)	(301 560)	(219 148)	(299 012)	(217 023)
Net advances	28 644 017	28 325 993	28 278 842	27 888 795

10. Advances continued

N$'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Geographic analysis (based on credit risk)				
Namibia	28 644 017	28 325 993	28 278 842	27 888 795
Category analysis				
Overdrafts and cash managed accounts	3 357 351	3 497 757	3 357 351	3 497 757
Term loans	7 697 143	7 815 440	7 697 143	7 815 118
Card loans	400 708	322 776	400 708	322 776
Instalment sales	3 072 818	3 212 558	3 072 835	3 212 563
Lease payments receivable	305 648	313 849	305 648	313 849
Property finance	13 116 923	12 578 764	12 749 184	12 139 760
Assets under agreement to resell		39 629		39 629
Investment bank term loans	419 769	464 205	419 769	464 205
Other	575 217	300 162	575 216	300 162
Gross value of advances	28 945 577	28 545 140	28 577 854	28 105 818
Impairment and fair value of credit of advances (note 11)	(301 560)	(219 148)	(299 012)	(217 023)
Net advances	28 644 017	28 325 993	28 278 842	27 888 795
Portfolio analysis				
Designated at fair value through profit and loss	419 769	464 205	419 769	464 205
Loans and receivables	28 224 248	27 861 788	27 859 073	27 424 590
	28 644 017	28 325 993	28 278 842	27 888 795

Fair value

The fair value of advances is set out in note 30

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

GROUP AND COMPANY

N$'000 **Analysis of Instalment sales and lease payments receivable**	2018 Within 1 year	2018 Between 1 and 5 years	2018 More than 5 years	2018 Total
Lease payments receivable	156 143	189 189		345 332
Suspensive sale Instalments receivable	1 428 979	2 186 286	1 286	3 616 551
	1 585 122	2 375 475	1 286	3 961 883
Less : Unearned finance charges	(292 604)	(290 728)	(84)	(583 416)
Total	1 292 518	2 084 747	1 202	3 378 467

GROUP AND COMPANY

N$'000	2017 Within 1 year	2017 Between 1 and 5 years	2017 More than 5 years	2017 Total
Lease payments receivable	254 059	105 816		359 875
Suspensive sale Instalments receivable	2 064 451	1 753 087		3 817 538
	2 318 510	1 858 903		4 177 413
Less : Unearned finance charges	(409 947)	(224 158)		(634 105)
Total	1 908 563	1 634 745		3 543 308

The group and company have not sold or pledged any advances to third parties.

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

10. Advances continued

Credit risk mitigation
Collateral is an important mitigant of credit risk. In accordance with the group credit risk management strategy the following principle types of collateral are held as security for monies lent by the group:

- Vehicle finance: Vehicles subject to the finance agreement normally serve as collateral. In general, vehicles which make up the collateral can be sold when the customer has defaulted under the agreement and has either signed a voluntary notice of surrender or the bank has obtained judgement against the customer.
- Property finance: Collateral consists of first and second mortgages over property, as well as personal guarantees.
- Personal loans and overdrafts exposures are generally secured via cession of call deposits, investment policies, debtors and personal guarantees.
- Credit card exposures are generally unsecured.
- Agricultural finance: Collateral consist of first and second covering bonds over the farms.

The collateral is valued at inception of the credit agreement and subsequently in specific circumstances for example, when the advance becomes a non performing loan or when the group is to sell the asset on auction. Collateral is valued frequently.

The valuation at inception is based on physical inspection.

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

	GROUP AND COMPANY			
	2018		2017	
N$'000	Performing	Non - performing	Performing	Non-performing
Installment sales and lease payments receivable	2 478	2 990	4 423	3 210
Property finance	14 914	13 568	32 885	10 678
	17 392	16 558	37 308	13 888

The financial effect of collateral and other credit enhancements has been calculated with reference to the unsecured loss given default ("LGD") per class for the performing book (IBNR and portfolio specific impairments) and the non-performing book separately. The amounts disclosed above represent the difference between the statement of financial position impairment using the actual LGD and the proxy unsecured LGD for all secured portfolios.

Where there is no collateral or where collateral is disregarded for provisioning purposes, no financial effect was calculated.

11. Impairment and fair value of credit of advances

Significant loans and advances are monitored by the credit division and are impaired according to the group's impairment policy when an indication of impairment is observed.

The following factors are considered when determining whether there is objective evidence that the asset has been impaired:

- Breaches of loan covenants and conditions;
- The time period of overdue contractual payments;
- Actuarial credit models;
- Loss of employment or death of the borrower; and
- The probability of liquidation of the customer.

Where objective evidence of impairment exists, impairment testing is performed based on the loss given default ("LGD"), probability of default ("PD") and exposure at default ("EAD").

Analysis of movement in impairment of advances per class of advance.

GROUP	2018							
N$'000	Card loans	Overdrafts and managed accounts	Instalment sales and lease receivables	Property finance	Term loans	Total impairment	Specific impairment	Portfolio impairment
Opening balance	3 709	60 337	46 006	40 519	68 578	219 149	93 160	125 989
Amounts written off	(8 569)	(10 075)	(4 032)	(199)	(15 541)	(38 416)	(38 416)	
Unwinding of discounted present value on non-performing loans		(1 390)		(8 436)	(3 943)	(13 769)	(13 769)	
Net new impairments created / (released)	8 271	19 628	19 377	13 909	73 411	134 596	132 063	2 533
Closing balance	3 411	68 500	61 351	45 793	122 505	301 560	173 038	128 522
Increase / (decrease) in provision	8 271	19 628	19 377	13 909	73 411	134 596	132 063	2 533
(Recoveries) / write-offs of bad debts	(85)	(4 143)	(982)	(269)	(856)	(6 335)	(6 335)	
Impairment charge / (release) recognised in the statement of comprehensive income	8 186	15 485	18 395	13 640	72 555	128 261	125 728	2 533

11. Impairment and fair value of credit of advances continued

GROUP

N$'000	Card loans	Overdrafts and managed accounts	Instalment sales and lease receivables	Property finance	Term loans	Total impairment	Specific impairment	Portfolio impairment
	2017							
Opening balance	1 485	58 551	43 968	35 637	53 475	193 116	67 210	125 906
Amounts written off	(10 028)	(2 119)	(3 422)	(23)	(1 876)	(17 468)	(17 468)	
Unwinding of discounted present value on non-performing loans	(612)			(15 565)	(2 259)	(18 436)	(18 436)	
Net new impairments created / (released)	12 864	3 905	5 460	20 470	19 238	61 937	61 855	83
Closing balance	3 709	60 337	46 006	40 519	68 578	219 149	93 161	125 989
Increase / (decrease) in provision	12 864	3 905	5 460	20 470	19 238	61 937	61 855	83
(Recoveries) / write-offs of bad debts	(957)	(106)	(700)	(236)	(686)	(2 685)	(2 685)	
Impairment charge / (release) recognised in the statement of comprehensive income	11 907	3 799	4 760	20 234	18 552	59 251	59 169	83

COMPANY

N$'000	Card Loans	Overdrafts and managed accounts	Instalment sales and lease receivables	Property finance	Term loans	Total impairment	Specific Impairment impairment	Portfolio Impairment impairment
	2018							
Opening balance	3 709	60 337	46 005	38 396	68 579	217 025	91 036	125 989
Amounts written off	(8 569)	(10 075)	(4 032)	(199)	(15 541)	(38 416)	(38 416)	
Unwinding of discounted present value on non-performing loans		(1 390)		(7 688)	(3 943)	(13 021)	(13 021)	
Net new impairments created / (released)	8 271	19 628	19 377	12 737	73 411	133 424	131 953	1 471
Closing balance	3 411	68 500	61 350	43 246	122 506	299 012	171 552	127 460
Increase / (decrease) in provision	8 271	19 628	19 377	12 737	73 411	133 424	131 953	1 471
(Recoveries) / write-offs of bad debts	(85)	(4 143)	(982)	(179)	(856)	(6 245)	(6 245)	
Impairment charge / (release) recognised in the statement of comprehensive income	8 186	15 485	18 395	12 558	72 555	127 179	125 708	1 471

11. Impairment and fair value of credit of advances continued

COMPANY

N$'000	2017 Card Loans	Overdrafts and managed accounts	Instalment sales and lease receivables	Property finance	Term loans	Total impairment	Specific Impairment impairment	Portfolio Impairment impairment
Opening balance	1 485	58 551	43 968	33 185	53 475	190 664	64 981	125 683
Amounts written off	(10 028)	(2 119)	(3 422)	(23)	(1 876)	(17 468)	(17 468)	
Unwinding of discounted present value on non performing loans	(612)			(8 471)	(2 259)	(11 342)	(11 342)	
Net new impairments created / (released)	12 864	3 905	5 460	13 705	19 238	55 171	54 865	306
Closing balance	3 709	60 337	46 005	38 396	68 579	217 026	91 036	125 989
Increase / (decrease) in provision	12 864	3 905	5 460	13 705	19 238	55 171	54 865	306
(Recoveries) / write-offs of bad debts	(957)	(106)	(700)	419	(686)	(2 031)	(2 031)	
Impairment (release) / loss recognised in the statement of comprehensive income	11 907	3 799	4 760	14 123	18 552	53 141	52 835	306

GROUP

N$'000	2018 Total value net of interest in suspense	Security held	Specific impairments
Non-performing lendings by sector			
Agriculture	21 732	17 298	4 434
Financial institutions	12 180	7 458	4 722
Building and property development	50 372	19 495	30 877
Individuals	334 217	235 814	98 403
Manufacturing and commerce	29 729	15 636	14 093
Mining	626	460	166
Transport and communication	19 461	7 655	11 806
Other	13 219	4 682	8 537
Total non-performing lendings	481 536	308 498	173 038
Non-performing lendings by category			
Card loans	4 106		4 106
Overdrafts and cash management accounts	36 821	13 904	22 917
Instalment sales	46 146	12 243	33 903
Lease payments receivable	744	428	316
Property finance	304 551	246 518	58 033
Term loans	89 168	35 405	53 763
Total non-performing lendings	481 536	308 498	173 038
Geographical split:			
Namibia	481 536	308 498	173 038

11. Impairment and fair value of credit of advances continued

GROUP

N$'000	2017 Total value net of interest in suspense	Security held	Specific impairments
Non-performing lendings by sector			
Agriculture	11 497	10 410	1 087
Financial institutions	674	277	397
Building and property development	46 969	41 442	5 527
Individuals	232 171	164 224	67 948
Manufacturing and commerce	17 602	8 384	9 218
Mining	714	714	
Transport and communication	9 334	5 600	3 734
Other	20 186	14 936	5 250
Total non-performing lendings	339 148	245 987	93 161
Non-performing lendings by category			
Card loans	2 844	2 570	275
Overdrafts and management accounts	24 309	11 648	12 660
Instalment sales	22 089	4 470	17 619
Lease payments receivable	3 111	2 198	913
Property finance	211 739	173 781	37 957
Term loans	75 056	51 319	23 737
Total non-performing lendings	339 148	245 987	93 161
Geographical split:			
Namibia	339 148	245 987	93 161

COMPANY

N$'000	2018 Total value net of interest in suspense	Security held	Specific impairments
Non-performing lendings by sector			
Agriculture	21 732	17 298	4 434
Financial institutions	12 180	7 458	4 722
Building and property development	50 372	19 495	30 877
Individuals	332 730	235 814	96 916
Manufacturing and commerce	29 729	15 636	14 093
Mining	626	460	166
Transport and communication	19 461	7 655	11 806
Other	13 220	4 682	8 538
Total non-performing lendings	480 050	308 498	171 552
Non-performing lendings by category			
Card loans	4 106		4 106
Overdrafts and management accounts	36 821	13 904	22 917
Instalment sales	46 146	12 243	33 903
Lease payments receivable	744	428	316
Property finance	303 066	246 518	56 547
Term loans	89 168	35 405	53 763
Total non-performing lendings	480 050	308 498	171 552
Geographical split:			
Namibia	480 050	308 498	171 552

11. Impairment and fair value of credit of advances continued

COMPANY	2017		
N$'000	Total value net of interest in suspense	Security held	Specific impairments
Non-performing lendings by sector			
Agriculture	11 497	10 410	1 087
Financial institutions	674	277	397
Building and property development	46 969	41 442	5 527
Individuals	232 171	166 348	65 823
Manufacturing and commerce	17 602	8 384	9 218
Mining	714	714	
Transport and communication	9 334	5 600	3 734
Other	20 186	14 936	5 250
Total non-performing lendings	339 148	248 111	91 036
Non-performing lendings by category			
Card loans	2 844	2 570	275
Overdrafts and management accounts	24 309	11 648	12 660
Instalment sales	22 089	4 470	17 619
Lease payments receivable	3 111	2 198	913
Property finance	211 739	175 906	35 833
Term loans	75 056	51 319	23 737
Total non-performing lendings	339 148	248 111	91 036
Geographical split:			
Namibia	339 148	248 111	91 036

12. Accounts receivable

	GROUP		COMPANY	
N$'000	2018	2017	2018	2017
Accounts receivable				
Items in transit	55 466	52 909	87 152	105 421
Deferred staff costs	104 749	83 644	104 749	83 644
Property in possession	32 316	2 822	32 316	2 722
Prepayments	39 579	18 062	39 579	17 564
Other accounts receivable*	7 425	8 200	6 702	4 427
Total	239 535	165 636	270 498	213 778

The carrying value of accounts receivable approximates the fair value.

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

* Other accounts receivable has been reclassified in order to better reflect the nature. This reclassification is a realloaction between items within total accounts receivable and therefore had no impact on the overall balance.

13. Investment in associate

Details of investments in unlisted associate company

GROUP AND COMPANY

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

The country of incorporation is the same as the principle place of business. The percentage voting rights is equal to the percentage ownership.

Effective holdings and carrying amounts in unlisted associate company	Group carrying amount		Investment at cost less impairments	
N$'000	2018	2017	2018	2017
Unlisted investment				
Namclear (Pty) Ltd	8 608	7 569	1 154	1 154

Detail information of unlisted associate company	Namclear (Pty) Ltd		Namclear (Pty) Ltd	
N$'000	Unaudited June 2018	Unaudited June 2017	Unaudited June 2018	Unaudited June 2017
Opening balance	7 569	5 054	1 154	1 154
Share of profits	1 039	2 515		
Closing balance	8 608	7 569	1 154	1 154
Valuation				
Unlisted investment at directors' valuation	8 608	7 569	1 154	1 154

Summarised financial information of associate company	GROUP	
	Namclear (Pty) Ltd	
N$'000	Unaudited June 2018	Unaudited June 2017
Statement of financial position		
Non-current assets	45 314	47 470
Current assets	29 817	17 961
Current liabilities	(9 282)	(8 357)
Non-current liabilities	(30 169)	(26 798)
Equity	35 680	30 276
Statement of comprehensive income		
Revenue	26 348	23 151
Profit for the period	5 588	4 624
Total comprehensive income for the period	5 588	4 624
Total share of profits from associate company	1 039	2 515

Refer to note 29 for details of related party balances and transactions.

14. Investments in subsidaries

Significant subsidary	Nature of Business	Date of acquisition	Country of incorporation	Effective holding Listed/ unlisted	% 2018	% 2017
Swabou Investments (Pty) Ltd	Property finance	1 July 2003	Namibia	Unlisted	100	100
Number of shares issued: 2 of 0.5 cents each (2017: 2 of 0.5 cents each)						
FNB Consumer Ltd (formerly known as Ebank Limited)	Financial services	30 March 2017	Namibia	Unlisted	100	100
Number of shares issued: 1 624 183 of N$1 each.						

N$'000	Aggregate income of subsidiary (before tax) 2018	2017	Total Indebtness 2018	2017	Total Investment 2018	2017
Swabou Investments (Pty) Ltd	23 731	40 427	255 275	424 684	255 275	424 684
FNB Consumer Ltd	4 330	(7 931)	45 002	16 104	45 002	68 315
	28 061	32 496	300 277	440 788	300 277	492 999

Interest paid by Swabou Investments (Pty) Ltd to First National Bank of Namibia Ltd totalled N$23.8 million (2017: N$14.1 million).
Dividends paid by Swabou Investments (Pty) Ltd to First National Bank of Namibia Ltd were N$ nil (2017: N$440 million).

Interest received by FNB Consumer Ltd from First National Bank of Namibia Ltd totalled N$ 3.2 million (2017: (N$0.05) million).
During the year, there was an impairment in the investment in subsidiary (Ebank) of N$23.3 million due to the impairment in software and development costs.

Aquistion of subsidaries (2017)

Ebank

On 30 March 2017 the group acquired 100% of the ordinary shares of Ebank Ltd.
Ebank was a commercial bank incorporated in the Republic of Namibia.
The group did not recognise a deferred taxation asset for the unutilised tax losses amounting to N$93 million of Ebank at acquisition.

The following table sumaries the consideration paid and the amounts of the assets acquired and the liabilities assumed recognised at the acquisition date:

Consideration	
Cash	68 315
Acquistion related costs	
Acquistion related costs including professional fees	857
Identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	56 615
Advances	83 732
Investment in securities	36 824
Accounts receivable	6 512
Defferred tax asset	4 480
Property, plant and equipment	4 321
Intangible Assets	44 660
Deposits	(158 852)
Creditors	(8 374)
Deferred tax liability	(1 602)
Consideration	68 315

The entire consideration of N$68.3 million was settled in cash. The net cash flow at acquisition was N$11.7 million after taking into consideraton cash and cash equivalents acquired of N$ 56.6 million.

At acquisition unutilised tax losses amounting to N$93 million was available to Ebank Limited. The purchase contract allows for an adjustment to the purchase price equal to 80% of any benefit derived from these unutilised losses. The directors currently do not believe that a significant portion of the applicable unutilised taxation loss will be recovered and have therefore not adjusted the purchase price recorded.

The gross advances were 84.5 million at acquisition. The carrying amount of advances equal their fair value and total advances are expected to be recoverd.

15. Property and equipment

GROUP

N$'000	Cost 2018	Accumulated depreciation and impairments 2018	Carrying amount 2018	Cost 2017	Accumulated depreciation and impairments 2017	Carrying amount 2017
Property						
Freehold land and buildings	645 255	(29 104)	616 150	666 852	(28 210)	638 642
Leasehold property	70 094	(50 999)	19 095	66 306	(47 027)	19 278
	715 349	(80 103)	635 245	733 157	(75 237)	657 920
Equipment						
Automatic teller machines	64 777	(31 711)	33 066	63 675	(21 987)	41 777
Capitalised lease equipment	12 289	(12 289)		12 289	(12 289)	
Computer equipment	172 904	(113 447)	59 457	159 789	(97 119)	62 670
Furniture and fittings	235 371	(105 831)	129 540	237 686	(99 734)	137 952
Motor vehicles	9 443	(4 757)	4 686	10 091	(4 839)	5 252
Office equipment	125 923	(86 667)	39 256	119 940	(78 544)	41 397
	620 707	(354 702)	266 005	603 559	(314 512)	289 048
Total	1 336 056	(434 805)	901 250	1 336 716	(389 749)	946 968

Movement in property and equipment – carrying amount

GROUP

N$'000	Freehold land and buildings	Leasehold property	Equipment	Total
Carrying amount at 1 July 2016	631 141	12 096	276 445	919 682
Additions	13 572	14 571	72 236	100 380
Acquired through business combination			4 321	4 321
Depreciation charge for year	(5 320)	(6 665)	(61 003)	(72 988)
Disposals	(755)		(3 672)	(4 427)
Carrying amount at 30 June 2017	638 638	20 002	288 325	946 968
Additions	11 335	11 536	66 712	89 582
Depreciation charge for year	(5 631)	(12 258)	(78 992)	(96 881)
Disposals	(28 192)	(184)	(10 043)	(38 419)
Carrying amount at 30 June 2018	616 150	19 095	266 005	901 250

15. Property and equipment continued

COMPANY

N$'000	Cost 2018	Accumulated depreciation and impairments 2018	Carrying amount 2018	Cost 2017	Accumulated depreciation and impairments 2017	Carrying amount 2017
Property						
Freehold land and buildings	613 647	(16 531)	597 116	607 790	(10 983)	596 807
Leasehold property	68 779	(50 999)	17 781	63 194	(45 230)	17 964
	682 426	(67 530)	614 897	670 984	(56 213)	614 771
Equipment						
Automatic teller machines	64 777	(31 711)	33 066	63 765	(21 987)	41 777
Capitalised lease equipment	12 289	(12 289)		12 289	(12 289)	
Computer equipment	172 808	(113 351)	59 457	156 116	(94 730)	61 386
Furniture and fittings	234 380	(104 976)	129 404	234 745	(97 808)	136 938
Motor vehicles	9 443	(4 757)	4 686	9 079	(4 270)	4 809
Office equipment	124 905	(85 290)	39 615	116 208	(76 600)	39 608
	618 602	(352 374)	266 228	592 203	(307 684)	284 519
Total	1 301 028	(419 904)	881 124	1 263 186	(363 897)	899 289

Movement in property and equipment – carrying amount

COMPANY

N$'000	Freehold land and buildings	Leasehold property	Equipment	Total
Carrying amount at 1 July 2016	589 568	12 096	275 067	876 733
Additions	13 572	14 571	70 017	98 161
Depreciation charge for year	(5 320)	(6 665)	(59 193)	(71 178)
Disposals	(755)		(3 672)	(4 427)
Carrying amount at 30 June 2017	597 065	20 001	282 219	899 289
Additions	11 076	10 221	68 262	89 560
Depreciation charge for year	(5 625)	(12 258)	(78 542)	(96 425)
Disposals	(5 401)	(184)	(5 714)	(11 299)
Carrying amount at 30 June 2018	597 115	17 780	266 225	881 124

16. Intangible assets

	GROUP		COMPANY	
N$'000	2018	2017	2018	2017
Trademarks				
Gross amount	395 373	395 373	368 760	368 760
Less: Accumulated amortisation	(325 416)	(312 993)	(298 803)	(286 380)
Less: Impairment	(13 683)		(13 683)	
	56 274	82 380	56 274	82 380
Movement in trademarks – carrying amount				
Opening balance	82 380	79 165	82 380	79 165
Acquired as part of business combination		14 660		14 660
Amortisation FNB trademark	(11 445)	(11 445)	(11 445)	(11 445)
Amortisation Ebank trademark	(977)		(977)	
Impairment	(13 683)		(13 683)	
Closing balance	56 274	82 380	56 274	82 380
Software				
Gross amount	78 213	78 213	58 619	46 516
Less: Accumulated amortisation	(52 649)	(47 274)	(48 748)	(46 513)
Less: Impairment	(25 561)		(9 868)	
	3	30 939	3	3

	GROUP		COMPANY	
N$'000	2018	2017	2018	2017
Movement in software – carrying amount				
Opening balance	30 939	4	3	3
Acquisition of T24 software		30 935	12 103	
Amortisation (note 4)	(5 375)		(2 235)	
Impairment	(25 561)		(9 868)	
Closing balance	3	30 939	3	3
Goodwill – carrying amount	47 967	47 967	47 967	47 967
Total closing balance of intangible assets	104 244	161 286	104 244	130 349

Impairment of goodwill:

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

When testing for impairment, the recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one year period. Cash flows beyond one year are extrapolated using the estimated growth rate for the CGU. The growth rate does not exceed the long-term average past growth rate for the business in which the CGU operates.

The discount rate used is the weighted average cost of capital for the specific segment, adjusted for specific risks relating to the segment. Some of the other assumptions include investment returns, expense inflation rates, tax rates and new business growth.

The group assessed the recoverable amount of goodwill, and determined that no write down of the carrying amount was necessary.

Discount rate		Growth rate	
2018	2017	2018	2017
14%	14%	6%	6%

17. Employee liabilities

	GROUP AND COMPANY	
N$'000	2018	2017
Liability for short-term employee benefits	152 198	145 814
Share-based payment liability*	47 010	21 703
Defined benefit post-employment benefit liabilities	38 168	37 293
Closing balance	237 376	204 811

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

Defined contribution post-employment benefit liabilities

1) The group has a liability to subsidise the post-retirement medical expenditure of certain of its employees which constitutes a defined benefit plan. All employees who became employed by the group on or after 1 December 1998 are not entitled to the post-retirement medical aid subsidy.

The actuarial method used to value the liabilities is the projected unit credit method prescribed by IAS 19 Employee Benefits. The liability is measured as the present value of the employers' share of continuation member contributions to the medical scheme. Continuing member contributions are projected into the future year using the assumption rate of health care cost inflation and are then discounted back using the discount rate. The group subsidises medical aid contributions for all eligible members at various rates.

2) A severance pay provision is carried in terms of the Labour Act of 2007 and relates to when employment services are terminated by dismissal under certain circumstances or if employees die while employed.

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

The actuarial valuations are done on an annual basis.

	GROUP AND COMPANY					
	2018			2017		
N$'000	Medical	Severance Pay	Total	Medical	Severance Pay	Total
Present value of unfunded liabilities	32 505	5 663	38 168	32 309	4 984	37 293
Post-employment liabilities	32 505	5 663	38 168	32 309	4 984	37 293
The amounts recognised in the statement of comprehensive income are as follows:						
Profit and loss portion						
Current service cost	192	407	599	215	422	637
Interest cost	3 047	497	3 544	4 055	503	4 558
Total included in staff costs (note 4)	3 239	904	4 143	4 270	925	5 195
Recognised in other comprehesnsive income						
Actuarial gains and losses recognised	17	(225)	(208)	(9 758)	(705)	(10 463)
Total included in staff costs	17	(225)	(208)	(9 758)	(705)	(10 463)
Movement in post-employment liabilities						
Present value at the beginning of the year	32 309	4 984	37 293	39 729	4 815	44 544
Current service cost	192	407	599	215	422	637
Interest cost	3 047	497	3 544	4 055	503	4 558
Benefits paid	(3 060)		(3 060)	(1 932)	(51)	(1 983)
Re-measurements : Recognised in OCI						
- Actuarial (gains) losses from changes in demographic assumptions	17	(225)	(208)	(9 758)	(705)	(10 463)
Present value at the end of the year	32 505	5 663	38 168	32 309	4 984	37 293

17. Employee liabilities continued

The actuarial valuations are done on an annual basis.

N$'000	GROUP AND COMPANY 2018 Medical	2018 Severance Pay	2018 Total	2017 Medical	2017 Severance Pay	2017 Total
The principal actuarial assumptions used for accounting purposes were:						
Discount rate (%)	9.54%	9.58%		9.70%	9.69%	
Medical aid inflation (%)	7.86%			8.30%		
Salary inflation (%)		7.88%			8.26%	
Male	38			38		
Female	62			62		
Employees covered	100	2 182		100	2 180	

N$'000	GROUP AND COMPANY 2018	2017
Pension fund		
Employer contributions to pension fund	77 401	67 841
Employer contributions to pension fund - executive directors	631	573
Total employer contributions to pension fund (note 4)	78 032	68 414
Employee contributions to pension fund	32 961	29 030
Total contributions	110 993	97 444
Number of employees covered	2 135	2 094

The group provides for retirement benefits by making payments to a pension fund, which is independent of the group and was registered in Namibia in 1995 in accordance with the requirements of the Pension Funds' Act. The fund is a defined contribution fund and is subject to the Pension Funds' Act (No 24 of 1956). The last valuation was performed for the year ended 30 June 2017 and indicated that the fund was in a sound financial position.

The pension fund is a related party to the group.

18. Deferred income tax liability

N$'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
The movement on the deferred tax account is as follows:				
Taxable temporary differences				
- Balance at the beginning of the year	344 451	289 120	343 975	288 733
- Originating temporary differences	75 400	53 729	79 822	55 242
- Acquired through business combinations		1 602		
- Impairment of NAV recognised in prior year business combination	3 640			
Total credit balance	423 491	344 451	423 797	343 975
Deductible temporary differences				
- Balance at the beginning of the year	(85 381)	(76 570)	(80 520)	(74 874)
- Reversing temporary differences	(17 378)	(4 331)	(17 068)	(5 646)
- Acquired through business combinations		(4 480)		
Total debit balance	(102 759)	(85 381)	(97 588)	(80 520)
Net balance for the year for entities with deferred tax liabilities	320 732	259 070	326 209	263 455
Charge through profit and loss	61 114	48 798	62 206	48 995
Deferred tax on other comprehensive income	785	461	785	461
Total	61 899	49 259	62 991	49 456

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

19. Short trading positions

N$'000	GROUP		COMPANY	
	2018	2017	2018	2017
Government and government guaranteed stock		39 330		39 330
Short trading securities		39 330		39 330

Short trading positions are carried at fair value.

20. Creditors, accruals and provisions

N$'000	GROUP		COMPANY	
	2018	2017	2018	2017
Items in transit	91 714	171 625	91 714	171 626
Audit fees accrued	3 754	2 645	3 442	2 498
Accrued expenses	28 460	21 435	24 012	21 435
Other accounts payable*	227 760	184 497	249 266	209 540
Total creditors, accruals and provisions	351 688	380 203	368 434	405 100

All amounts are expected to be settled within twelve months.
The carrying value of creditors and accruals approximates fair value.

*Other accounts payable has been reclassified in order to better reflect the nature. This reclassification is a realloaction between items within total creditors, accruals and provisions and therefore had no impact on the overall balance.

21. Deposits

N$'000	GROUP		COMPANY	
	2018	2017	2018	2017
Deposits from customers				
- Current accounts*	10 036 127	9 924 536	10 057 435	9 907 889
- Savings accounts*	230 756	176 031	230 755	176 031
- Call deposits	5 787 308	5 191 251	5 787 308	5 193 160
- Term deposits	8 251 072	7 044 531	8 251 072	6 986 018
	24 305 263	22 336 350	24 326 570	22 263 098
* Savings and current deposits in the prior year have been reclassified in order to better reflect their nature. This reclassification is a realloaction between items within total deposits from customers and therefore had no impact on the overall balance.				
Debt securities				
- Negotiable certificates of deposit	6 086 548	6 944 752	6 086 548	6 944 752
- Fixed and floating bonds	1 269 909	1 270 106	1 269 909	1 270 106
	7 356 457	8 214 858	7 356 457	8 214 858
Geographic analysis (based on counterparty risk)				
Namibia	31 661 720	30 551 208	31 683 027	30 477 957
Due to banks and other financial institutions				
Due to banks and financial institutions				
- I n the normal course of business	897 408	1 192 537	897 408	1 209 286
	897 408	1 192 537	897 408	1 209 286
Geographic analysis (based on counterparty risk)				
Namibia	897 408	1 192 537	897 408	1 209 286
Total deposits	32 559 128	31 743 745	32 580 435	31 687 243

22. Other liabilities

	GROUP AND COMPANY	
N$'000	**2018**	2017
Other funding liabilities	220 447	
Total other liabilities	220 447	

Funding of N$219 million was raised from an international bilateral development finance institution for sustainable use of natural resources and energy financing. The loan is repayable over 14 equal semi-annual isntallments, with the first installment due on 1 December 2020. Interest is paid quarterly in arrears at the 3-month JIBAR floating rate. Interest incurred for the year is shown in note 2.

23. Tier 2 liabilities

				GROUP AND COMPANY	
N$'000				**2018**	2017
Subordinated debt instruments	**Interest rate**	**Final maturity date**	Note		
FNB X27 fixed rate notes	10.36%	29 March 2027	i	100 000	100 000
FNB J27 floating rate notes	Three-month JIBAR + 2.50%	29 March 2027	ii	300 000	300 000
Accrued interest				2 783	2 830
Total				402 783	402 830

(i) The FNB X27 fixed notes may be redeemed in full at the option of the group on 29 March 2022. Interest is paid semi-annually in arrears on 29 March and 29 September of each year.

(ii) The FNB J27 floating notes may be redeemed in full at the option of the group on 29 March 2022. Interest is paid quaterly on 29 March, 29 June, 29 September and 29 December of each year.

These notes are listed on the Namibian Stock Exchange (NSX).

The notes listed above qualify as Tier 2 capital for First National Bank of Namibia Limited.

Refer to note 30, fair value of financial instruments for the methodologies used to determine the fair value of tier two liabilities.

24. Share capital and share premium

	GROUP AND COMPANY	
N$'000	**2018**	2017
Authorised		
4 000 (2017: 4 000) ordinary shares with a par value of N$1 per share	4	4
Issued and fully paid up		
1 200 (2017: 1 200) ordinary shares with a par value of N$1 per share	1	1
Share premium	1 142 791	1 142 791

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

24.1 General risk reserves

First National Bank of Namibia Limited - Credit risk reserve	163 140	160 055
	163 140	160 055

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

25. Remuneration schemes

	GROUP AND COMPANY	
N$'000	2018	2017
FirstRand Namibia share options	3 882	4 781
FirstRand conditional share plan	29 421	15 478
Charge against staff costs	33 303	20 259

Share option schemes

FirstRand Namibia Ltd options are equity settled, except for the FirstRand Limited share appreciation scheme which is cash settled.

The following is a summary of the share incentive schemes:

FirstRand conditional share plan

The conditional award comprises a number of full shares with no strike price. It is cash settled. These awards vest after three years. The number of shares that vest is determined by the extent to which the performance conditions are met. Conditional awards are made annually and vesting is subject to specified financial and non financial performance conditions, set annually by the group's remuneration committee.

Valuation methodology

The conditional share plan is valued using the Black Scholes option pricing model with a zero strike price. Grants made before 2012 are equity settled and are therefore not repriced at each reporting date. The scheme relating to the grants made during 2012 and after is cash settled and is therefore repriced at each reporting date.

Share incentive scheme

Fair values for the share incentive schemes, are calculated at the date of grant using a modification of the Cox Rubenstein binomial model. For valuation purposes, each call option granted has been valued as a Bermudan call option with a number of exercise dates.

The days on which the options can be exercised has been assumed to be the last day that the share trade cum-dividend.

Dividend data of the following:

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

Employee statistic assumptions:

- Annual employee turnover is the average annual rate that employees participating in the option scheme are expected to leave before the options have vested.
- The number of iterations is the number to be used in the binomial model, which is limited to 500.
- The weighted average number of forfeitures is based on the major grants because these grants have a more reliable cancellation or forfeiture pattern.

Corporate performance targets

The FirstRand Limited group remuneration committee sets the corporate performance targets (CPI's) based on the expected prevailing macroeconomic conditions anticipated during the performance period for the group's long-term incentive schemes, the conditional share plan and the conditional incentive plan. These criteria, which must be met or exceeded to enable vesting, vary from year to year, depending on the macro conditions expected to prevail over the vesting period.

In terms of the scheme rules, participants are not entitled to any dividends on their long term incentive (LTI) allocations during the performance period, nor do these accrue to them during the performance period.

The criteria for the currently open schemes are as follows:

Currently Open

2015 (vests in 2018) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 1% growth on a cumulative basis over a three year period, from base year ended 30 June 2015 to the financial year end immediately preceding the vesting date. In addition, ROE must be equal to or greater than cost of equity plus 5% over the three year performance period. Should nominal GDP plus 1% not be achieved, the remuneration committee may sanction a partial vesting of conditional shares, which is calculated pro rata to the performance which exceeds nominal GDP.

2016 (vests in 2019) – FirstRand Limited must achieve growth in normalised EPS which equals or exceeds the South African nominal GDP growth, on a cumulative basis, over the performance period from the base year-end immediately preceding the vesting period date. Nominal GDP is advised by the FirstRand group treasury, macro strategy unit; and the company delivers ROE of 18-22% over the performance period.

2017 (vests in 2020) – FirstRand Limited must achieve growth in normalised EPS, adjusted for CPI, which equals or exceeds the South African Gross Domestic Product ('GDP') growth, on a cumulative basis, over the performance period from the base year-end, being 30 June 2017, to the year end immediately preceding the vesting date. Real GDP is advised by the FirstRand Ltd Group Treasury macro strategy unit and the company delivers ROE of atleast 18% over the performance period.

25. Remuneration schemes continued

N$'000	GROUP AND COMPANY FirstRand Namibia share incentive scheme 2018	2017	FirstRand Ltd conditional share plan 2018	2017
Weighted average exercise price (N$)	721 - 2 452	721 - 2 452		
Expected volatility (%)	402 - 16	402 - 16	25	25
Expected option life	5	5	3	3
Expected risk free rate (%)	5.81 - 7.69	5.81 - 7.69	6.99 - 7.61	6.92 - 7.46
Share option schemes				
Number of options in force at the beginning of the year ('000)	5 183	6 908	1 111	683
Granted at prices (cents)	721 - 2 452	721 - 2 452		
Number of options granted during the year ('000)				
Granted at prices ranging between (cents)				597
Number of options exercised/released during the year ('000)	(2 442)	(1 519)	(75)	(100)
Market value range at the date of exercise/release (cents)	4 498 - 4 711	4 711 - 4 850	5 373 - 5 500	4 725 - 5 124
Number of options cancelled/lapse during the year ('000)	(644)	(206)	(31)	(69)
Granted at prices ranging between (cents)	823 - 2 452	823 - 2 452		
Number of options in force at the end of the year ('000)	2 697	5 183	1 005	1 111
Granted at prices ranging between (cents)	721 - 2 452	721 - 2 452		

Options are execercisable over the following periods: ('000)
(first date able to release)

25. Remuneration schemes continued

N$'000	FirstRand Namibia share incentive scheme 2018	2017
Financial year 2018		3 058
Financial year 2019	898	1 063
Financial year 2020	1 199	1 062
Total	2 097	5 183

26. Cash flow information

N$'000	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Reconciliation of operating profit to cash flows from operating activities				
Profit before tax	1 482 545	1 553 727	1 401 210	1 941 123
Adjusted for:				
- Depreciation, amortisation and impairment costs	153 922	84 471	157 945	83 404
- Impairment charge / (reversal) on advances	128 261	59 251	127 179	53 137
- Provision for post-employment benefit obligations	4 158	5 195	4 158	5 195
- Other employment accruals	68 021	66 668	68 021	66 668
- Creation and revaluation of derivative financial instruments	(4 107)	10 383	(4 107)	10 383
- (Profit)/loss on sale of property and equipment	(49 252)	(7 111)	3 252	(7 111)
- Share-based payment costs	33 303	20 259	33 303	20 259
- Unwinding of discounted present value on non-performing loans (note 11)	(13 769)	(18 436)	(13 021)	(11 341)
- Unwinding of discounted present value on off-market advances (note 2.1)	2 203	(2 897)	2 203	(2 897)
- Net release of deferred fee and expenses	(13 780)	(15 912)	(13 021)	(14 888)
- Off-market staff loans amortisation (note 4)	(2 203)	2 897	(2 203)	2 897
- Share of loss / (profit) from associate company	(1 039)	(2 515)		
- Indirect tax (note 5)	45 113	40 016	46 988	38 542
- Dividends received from subsidary				(440 000)
Cash flows from operating activities	1 833 376	1 795 993	1 811 345	1 745 370

27. Contingencies and commitments

N$'000	GROUP AND COMPANY 2018	2017
Contingencies		
Guarantees *	1 713 936	1 310 407
Letters of credit	123 171	34 927
Total contingencies	1 837 107	1 345 334
Irrevocable unutilised facilities	5 167 183	4 946 466
Committed capital expenditure	3 168	7 396
Total contingencies and commitments	7 007 458	6 291 800

* Guarantees consist predominantly of endorsements and performance guarantees

The fair value of guarantees approximates the face value as disclosed.

Legal proceedings

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

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

Group and company leasing arrangements:

	2018			2017		
N$'000	Within 1 year	Between 1 and 5 years	After 5 years	Within 1 year	Between 1 and 5 years	After 5 years
Office premises	39 490	44 115		38 985	60 970	1 267
	39 490	44 115		38 985	60 970	1 267

Notice periods on operating lease contracts are between 3-6 months, no operating lease contract is fixed and escalation clauses range between 7% and 10% (2017: 7% and 10%).

The group has various operating lease agreements, which may or may not contain renewal options. The lease terms do not contain restrictions on the group's activities concerning dividends, additional funding or further leasing.

28. Collateral pledged and held

N$'000	GROUP AND COMPANY 2018	2017
28.1 Collateral taken possession of and recognised on the statement of financial position in accounts receivable, note 12:		
Property	32 316	2 822
Total	32 316	2 822
28.2 Collateral pledged		
The group has pledged assets as security for the following liabilities:		
Short trading position		39 330
Due to banks and other financial insitutions		509 674
		549 004

The group pledges assets under the following terms and conditions:

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

Collateral in the form of treasury bills are pledged when the banking group utilises the Bank of Namibia credit facility. These transactions are conducted under the terms and conditions that are usual and customary to standard credit facilities.

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

	2018	2017
Due by banks and other financial institutions (note 6)		53 990
Investment securities (note 9)		520 070
		574 060

29. Related parties

First National Bank of Namibia Limited is 100% (2017: 100%) owned by FirstRand Namibia Limited.

FirstRand Namibia Limited is listed on the Namibian Stock Exchange and is 58.4% (2017: 58.4%) owned by FirstRand EMA Holdings Proprietary Limited, with its ultimate holding company FirstRand Limited, which is incorporated in South Africa, listed on the JSE Limited and on the NSX. Refer to section 2.2 of the accounting policies.

29.1 Subsidiaries

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

29.2 Associate

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

29.3 Details of transactions with relevant related parties appear below:

N$'000	2018	2017
Related party balance		
Advances		
FirstRand SA group companies	2 195 395	2 305 799
Fellow subsidiaries to Banking group	12 981	30 776
Associate	13 399	17 665
Derivative instruments: assets		
FirstRand SA group companies	15 390	3 582
Other deposits and loans		
FirstRand SA group companies	2 210 785	680 452
Fellow subsidiaries to Banking group	51 417	84 415
Associate	17 422	8 811

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

N$'000	2018	2017
Derivative instruments: liabilities		
FirstRand SA group companies	93 287	106 598
Related party transactions		
Interest paid to (received from) related parties		
FirstRand SA group companies	(42 300)	(1 972)
Fellow subsidiaries to Banking group	1 545	1 610
Associate	640	343
Non-interest revenue		
Fellow subsidiaries to Banking group	5 649	6 225
Non-interest expenditure		
FirstRand SA group companies	277 393	250 199
Associate	14 292	12 879
Dividends paid		
Parent	528 224	681 155

Related party transactions between the company and its own subsidiaries are detailed in note 14.

29. Related parties continued

29.4 Key management personnel

Loans and advances

N$'000	2018	2017
Advances	18 201	20 255
No impairment has been recognised for loans granted to key management (2017: nil). Mortgage loans are repayable monthly over 20 years.		
Current and credit card accounts	252	371
Instalment finance	3 490	3 513
Shares and share options held		
Share options held by members of key management	322	813
Key management compensation (EXCO)		
Cash package	25 568	19 447
Retirement contribution	3 728	3 033
Performance related benefits	14 761	11 829
Share-based payments	9 149	7 420
Total compensation	53 206	41 729

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

29.5 Post-employment benefit plan

Refer to note 17 for detailed disclosure of the movement in post-employment benefit liabilities. The Pension Fund is a related party to the group. Please refer to note 17.

30. Fair value measurements

30.1 Valuation methodology

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

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

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

Recurring fair value measurements

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

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

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

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

30. Fair value measurements continued

Non-financial assets

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

Non-recurring fair value measurements

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

Other fair value measurements

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

30.2 Fair value hierarchy and measurements

The group classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item. If this information is not available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. The valuation techniques employed by the group include, inter alia, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option-pricing models, and discounted cash flow techniques.

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

30.2 Fair value hierarchy and measurements continued

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

Measurement of assets and liabilities at level 2

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

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
		Derivative financial instruments	
Forward rate agreements	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rates, interest rate curves and credit spreads.
Swaps	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date of each swaplet is determined in terms of legal documents pertaining to the swap.	Market interest rates and interest rate curves, credit and currency basis curves.
Options	Option pricing model	The Black Scholes model is used.	Strike price of the option; market related discount rate; forward rate .
Forwards	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Spot price of underlying instrument, interest rate curves and dividend yield.
Equity derivatives	Industry standard models	The models calculate fair value based on input parameters such as share prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.	Market interest rates, curves, volatilities, dividends and share prices.

30. Fair value measurements continued

30.2 Fair value hierarchy and measurements continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Loans and advances to customers			
Other loans and advances	Discounted cash flows	Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Although the fair value of credit is not significant year-on-year it may become significant in future. In the event that credit spreads are observable for a counter party, loans and advances to customers are classified as level 2 of the fair value hierarchy.	Market interest rates, curves and credit spreads
Investment securities			
Equities listed in an inactive market	Discounted cash flows	For listed equities and bonds, the listed price is used where the market is active (i.e. level 1). However if the market is not active and the listed price is not representative of fair value and a valuation technique is used, for example the discounted cash flow is used for listed bonds. This will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. The future cash flows are discounted using a market related interest rate. Where the valuation technique incorporates observable inputs for credit risk, level 2 of the fair value hierarchy is deemed appropriate.	Market interest rates and curves
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds are valued similarly to advances measured at fair value. The future cash flows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period. In the event that credit spreads are observable for a counterparty, the bonds are classified as level 2 of the fair value hierarchy.	Market interest rates and curves
Unlisted equities	Price earnings (P/E) model and discounted cashflows	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place- in which case, level 2 classifications are used.	Market transactions
Negotiable certificates of deposit	Discounted cash flows	The future cash flows are discounted using a market related interest rate. Inputs to these models include information that is consistent with similar market quoted instruments, where available.	Market interest rates and curves

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Investment securities continued			
Treasury Bills	JSE Debt Market bond pricing model	The JSE Debt Market bond pricing model uses the JSE Debt Market mark to market bond yield.	Market interest rates and curves
investments in funds and unit trusts	Third party valuations	For certain investments in funds such as hedge funds or unit trusts, where an internal valuation technique is not applied, the bank places reliance on valuations from third parties such as broker quotes or valuations from asset managers. Where considered necessary, the bank applies minority and marketability or liquidity discount adjustments to these third-party valuations. Third-party valuations are reviewed by the relevant subsidiary's investment committee on a regular basis. Where these underlying investments are listed, these third-party valuations can be corroborated with reference to listed share prices and other market data and are thus classified in level 2 of the fair value hierarchy.	Market transactions (listed)
Deposits			
Call and non-term deposits	None - the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand i.e. the undiscounted amount of the deposit.	None - the undiscounted amount approximates fair value and no valuation is performed
Other deposits	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves
Non-recourse deposits	Discounted cash flows	Fair value for interest rate and foreign exchange risk with no valuation adjustment for own credit risk. Valuation adjustments are affected for changes in the applicable credit ratings of the assets.	Market interest rates and foreign exchange rates; credit inputs
Other liabilities	Discounted cash flows	Future cash flows are discounted using market-related interest rates. Where the value of a liability is linked to the performance of an underlying and the underlying is observable, these liabilities are classified at level 2.	Market interest rates and performance of underlying

30. Fair value measurements continued

30.2 Fair value hierarchy and measurements continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
		Deposits continued	
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Discounted cash flows	The future cash flows are discounted using a market related interest rate and curves adjusted for credit inputs.	Market interest rates and curves

Measurement of assets and liabilities at level 3

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

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
		Derivative financial instruments	
Option	Option pricing model	The Black Scholes model is used.	Volatilities
Equity derivatives	Industry standard models	The models calculate fair value based on input parameters such as stock prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.	Volatilities and unlisted share prices
		Loans and advances to customers	
Investment banking book	Discounted cash flows	The group has elected to designate the investment banking book of advances at fair value through profit or loss. Credit risk is not observable and could have a significant impact on the fair value measurement of these advances and as such, these advances are classified as level 3 on the fair value hierarchy. The future cash flows are discounted using a market related interest rate. To calculate the fair value of credit the group uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance. Similarly an increase in credit rating would result in a decrease in the spread below the base rate and an increase of the fair value of the advance.	Credit inputs

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
		Loans and advances to customers continued	
Other loans and advances	Discounted cash flows	The future cash flows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period. Although the fair value of credit is not significant year-on-year it may become significant in future. For this reason, together with the fact that the majority of South African counterparties do not have actively traded or observable credit spreads, the group has classified loans and advances to customers in level 3 of the fair value hierarchy.	Credit inputs
		Investment securities	
Equities listed in an inactive market	Discounted cash flows	For listed equities and bonds, the listed price is used where the market is active (i.e. level 1). However if the market is not active and the listed price is not representative of fair value and a valuation technique is used, for example the discounted cash flow is used for listed bonds. This will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. The future cash flows are discounted using a market related interest rate. Where the valuation technique incorporates observable inputs for credit risk, level 3 of the fair value hierarchy is deemed appropriate.	Credit inputs
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds or bonds listed in an inactive market are valued similarly to advances measured at fair value. The future cash flows are discounted using a market related interest rates adjusted for credit inputs, over the contractual period. Where the valuation technique incorporates unobservable inputs for credit risk, level 3 of the fair value hierarchy is deemed appropriate.	Credit inputs
Unlisted equities	P/E model and discounted cash flows	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place.	Growth rates and P/E ratios
Investments in funds and unit trusts	Third party valuations	For certain investments in funds (such as hedge funds) or unit trusts, where an internal valuation technique is not applied, the bank places reliance on valuations from third parties such as broker quotes or valuations from asset managers. Where considered necessary the bank applies minority and marketability or liquidity discount adjustments to these third party valuations. Third party valuations are reviewed by the relevant subsidiary's investment committee on a regular basis. Where these underlying investments are unlisted, the bank has classified these in level 3 of the fair value hierarchy, as there is no observable market data to which to compare the third party valuations.	None (unlisted) - third party valauations used, minority and marketability adjustments

30. Fair value measurements continued

30.2 Fair value hierarchy and measurements continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
		Deposits	
Deposits that represent collateral on credit linked notes	Discounted cash flows	These deposits represent the collateral leg of credit linked notes. The forward curve adjusted for liquidity premiums and business unit margins are used. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Credit inputs on related advances
Other deposits	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Credit inputs
Other liabilities	Discounted cash flows	For preference shares which require the bank to share a portion of profits of underlying contracts with a third party, the value of the liability is linked to the performance of the underlying. Where the underlying is not observable, these liabilities are therefore classified as level 3. Future cash flows are discounted using market related interest rates, adjusted for the performance of the underlying contracts.	Performance of the underlying contracts
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Discounted cash flows	Future cash flows are discounted using a market related interest rate and curves adjusted for credit inputs.	Credit inputs

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

For non-recurring fair value measurements the fair value hierarchy classification and valuation technique applied in determining fair value will depend on the underlying asset or liability being measured. Where the underlying assets or liabilities are those for which recurring fair value measurements are required as listed in the table above, the technique applied and the inputs into the models would be in line with those as set out in the table. Where the underlying assets or liabilities are not items for which recurring fair value measurements are required, for example property and equipment or intangible assets, the carrying value is considered to be equal to a reasonable approximation of the fair value. This will be assessed per transaction and details will be provided in the relevant notes of the annual financial statements when applicable. There were no assets or liabilities measured at fair value on a non-recurring basis in the current and prior years.

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

	GROUP AND COMPANY			
	2018			
N$'000	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Investment securities (note 9)		5 080 115		5 080 115
Advances (Note 10)			419 769	419 769
Derivative finanicial instruments (note 8)		93 520		93 520
Total financial assets measured at fair value		5 173 635	419 769	5 593 404
Liabilities				
Recurring fair value measurements				
Derivative financial instruments (note 8)		109 754		109 754
Total financial liabilities measured at fair value		109 754		109 754

30. Fair value measurements continued

30.2 Fair value hierarchy and measurements continued

	GROUP			
	2017			
N$'000	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Investment securities (note 9)		3 717 577		3 717 577
Advances (Note 10)			464 205	464 205
Derivative financial instruments (note 8)		95 221		95 221
Total financial assets measured at fair value		3 812 798	464 205	4 277 003
Liabilities				
Recurring fair value measurements				
Derivative financial instruments (note 8)		115 562		115 562
Short Trading position (note 19)	39 330			39 330
Total financial liabilities measured at fair value	39 330	115 562		154 892

During the reporting period ending 30 June 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

30. Fair value measurements continued

30.2 Fair value hierarchy and measurements continued

	COMPANY			
	2017			
N$'000	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Investment securities (note 9)		3 704 238		3 704 238
Advances (Note 10)			464 205	464 205
Derivative financial instruments (note 8)		95 221		95 221
Total financial assets measured at fair value		3 799 459	464 205	4 263 663
Liabilities				
Recurring fair value measurements				
Derivative financial instruments (note 8)		115 562		115 562
Short Trading position (note 19)	39 330			39 330
Total financial liabilities measured at fair value	39 330	115 562		154 892

During the reporting period ending 30 June 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

30. Fair value measurements continued

30.2 Fair value hierarchy and measurements continued

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

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

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

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

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

The group classifies financial instruments in Level 3 of the fair value hierarchy when significant inputs into the valuation model are not observable. In addition to the valuation model for Level 3, financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

Changes in level 3 fair value instruments

	GROUP AND COMPANY			
N$'000	Fair value on June 2017	Purchases/ (sales)/issues/ (settlements)	Gains or losses recognised in profit and loss	**Fair value on June 2018**
Assets				
Advances	464 205	(91 447)	47 011	419 769

	GROUP AND COMPANY			
N$'000	Fair value on June 2016	Purchases/ (sales)/issues/ (settlements)	Gains or losses recognised in profit and loss	Fair value on June 2017
Assets				
Advances	491 903	(81 612)	53 914	464 205

Changes in the group's best estimate of the non-observable inputs (Level 3) could affect the reported fair values recognised on statement of financial position and the movement in fair values recognised in the statement of comprehensive income. However, changing these inputs to reasonably possible alternatives would change the fair value using more positive reasonable assumptions to N$ 461 746 (2017: N$510 625) and using more negative reasonable possible assumptions to N$ 381 608 (2017: N$417 785).

The table below presents the total gains (losses) relating to financial instrument classified in Level 3 that are still held on 30 June. With the exception of interest on funding instruments all of these gains or losses are recognised in non interest income.

	GROUP AND COMPANY		
	2018		
N$'000	Gains or (losses) recognised in profit and loss	Gains or (losses) recognised in other comprehensive income	Total gains or loss
Assets			
Advances	47 011		47 011
Total financial assets classified at level 3	47 011		47 011

	GROUP AND COMPANY		
	2017		
N$'000	Gains or (losses) recognised in profit and loss	Gains or (losses) recognised in other comprehensive income	Total gains or loss
Assets			
Advances	53 914		53 914
Total financial assets classified at level 3	53 914		53 914

30. Fair value measurements continued

30.2 Fair value hierarchy and measurements continued

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

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

	GROUP		COMPANY		
	2018		2018		
N$'000	Carrying amount	Fair value	Carrying amount	Fair value	Fair value hierachy
Assets					
Total advances at amortised cost	3 389 681	3 373 872	3 345 824	3 330 219	Level 2
Total advances at amortised cost	24 834 567	24 718 738	24 513 249	24 398 919	Level 3
Liabilities					
Total deposits and current accounts	31 661 720	31 514 050	31 683 028	31 535 258	Level 2
Other liabilities	220 447	219 243	220 447	219 243	Level 2
Tier 2 liabilities	402 783	446 334	402 783	446 334	Level 2

	GROUP		COMPANY		
	2017		2017		
N$'000	Carrying amount	Fair value	Carrying amount	Fair value	Fair value hierachy
Assets					
Total advances at amortised cost	3 798 372	3 791 628	3 738 770	3 732 131	Level 2
Total advances at amortised cost	24 063 416	24 020 687	23 685 821	23 643 763	Level 3
Liabilities					
Total deposits and current accounts	30 551 208	30 496 959	30 477 957	30 423 838	Level 2
Tier 2 liabilities	402 830	441 837	402 830	441 837	Level 2

30. Fair value measurements continued

30.2 Fair value hierarchy and measurements continued

Day one profit or loss

In accordance with the group's accounting policies, if there are significant unobservable inputs used in a valuation technique of a financial instrument, the financial instrument is recognised at the transaction price and any day one profit is deferred. The balance relates to Advances designated at fair value through profit or loss.

The table below sets out the aggregate day one profits yet to be recognised in profit or loss at the beginning and end of the year with a reconciliation of changes in the balance during the year:

	GROUP AND COMPANY	
N$'000	2018	2017
Unrecognised profit at the beginning of the year		1 202
Additional profit on new transactions		
Recognised in profit or loss during the year		(1 202)
Unrecognised profit at the end of the year		

Loans and receivables designated as fair value through profit or loss

Certain instruments designated at fair value through profit or loss would meet the definition for classification as loans and receivables in terms of IAS 39 were it not for the fair value designation i.e. unquoted debt instruments. The table below contains details on the change in credit risk attributable to these instruments.

	GROUP AND COMPANY	
N$'000	2018	2017
	Carrying value	
Included in advances	419 769	464 205

There change in credit risk is the difference between fair value of the advances based on the original credit spreads and the fair value of the advances based on the most recent market observable credit spreads.

The was no change in credit risk due to the difference between fair value of the advances based on the original credit spreads and the fair value of the advances based on the most recent market observable credit spreads.

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

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

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

32. Risk management

The risk report appears on pages 10 to 31 of the this annual report. The reported describes the various risks the group is exposed to, as well as the methodology and instruments to mitigate these risks. Risk control policies and exposures limits for the key risk areas of the group are approved by the Board, while operational policies and controls procedures are approved by the relevant risk committees. The main financial risks that the business is exposed to are detailed in this note.

32. Risk management continued

32.1 Maximum exposure to credit risk

Total exposure

	GROUP		COMPANY	
N$'000	2018	2017	2018	2017
Cash and cash equivalents	895 187	779 738	895 187	761 644
- Balances with central banks	895 187	779 738	895 187	761 644
Due by banks and other financial institutions	2 782 221	2 664 980	2 782 221	2 664 980
Advances	28 644 017	28 325 993	28 278 842	27 888 795
- Card loans	397 297	319 067	397 297	319 067
- Overdraft and managed accounts	3 288 851	3 437 420	3 288 851	3 437 419
- Instalment sales and lease receivables	3 317 115	3 480 402	3 317 132	3 480 407
- Property finance	13 071 130	12 538 245	12 705 938	12 101 365
- Term loans	7 574 638	7 746 864	7 574 638	7 746 542
- Investment bank term loans	419 769	464 205	419 769	464 205
- Advances under agreement to resell		39 629		39 629
- Other	575 216	300 162	575 216	300 162
Derivative financial instruments	93 520	95 221	93 520	95 221
Debt investment securities	5 080 115	3 717 577	5 080 115	3 704 238
- Listed investment securities	1 103 612	1 087 997	1 103 612	1 087 997
- Unlisted investment securities	3 976 503	2 629 580	3 976 503	2 616 240
Accounts receivable	134 786	81 993	165 749	130 135
Amounts not recognised (in the statement of financial position)	7 004 289	6 291 800	7 004 289	6 291 800
Guarantees	1 713 936	1 310 407	1 713 936	1 310 407
Letters of credit	123 171	34 927	123 171	34 927
Irrevocable commitments	5 167 183	4 946 466	5 167 183	4 946 466

32. Risk management continued

32.2 FR rating mapping to international and national rating scales

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

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

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

FR Rating	Mid point PD	International scale mapping*
FR 27 - 91	3.73%	AAA to B-
Above FR 91		Below B-

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

32.3 Credit quality

The table below presents an analysis of the credit quality of neither past due nor impaired (i.e. performing) advances (refer to note 32.2 for the FR rating mapping to international and national rating scales):

GROUP

N$'000	Total neither past due nor impaired	Overdrafts and cash managed accounts	Term loans	Card loans	Instalment sales and lease receivables	Property finance	Investment bank term loans	Other
2018								
FR 27 - 91	27 368 638	3 280 730	7 343 049	391 813	3 263 177	12 096 069	419 769	574 031
Above FR 91	340 796	39 800	67 413	4 789	43 393	184 215		1 186
Total	27 709 434	3 320 530	7 410 462	396 602	3 306 570	12 280 284	419 769	575 216
2017								
FR 27 - 91	26 688 343	3 427 835	7 567 750	314 152	3 429 408	11 145 203	464 205	339 791
Above FR 91	451 116	45 613	116 583	5 780	26 535	256 605		
Total	27 139 459	3 473 448	7 684 333	319 932	3 455 943	11 401 808	464 205	339 791

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

32. Risk management continued

32.3 Credit quality continued

GROUP

N$'000	Investment securities	Derivatives	Cash and short term funds	Due from banks and other financial institutions	Accounts receivable	Total
International scale mapping (National equivalent):						
2018						
AAA to BB- (A to BBB)	5 080 115	93 520	895 187	2 782 220	6 146	8 857 188
Total	5 080 115	93 520	895 187	2 782 220	6 146	8 857 188
2017						
AAA to BB- (A to BBB)	3 704 238	95 221	791 193	2 664 980	18 924	7 274 555
Total	3 704 238	95 221	791 193	2 664 980	18 924	7 274 555

32.3 Credit quality continued

The table below presents an analysis of the credit quality of neither past due nor impaired (i.e. performing) advances (refer to note 32.2 for the FR rating mapping to international and national rating scales):

COMPANY

N$'000	Total neither past due nor impaired	Overdrafts and cash managed accounts	Term loans	Card loans	Instalment sales and lease receivables	Property finance	Investment bank term loans	Other
2018								
FR 27 - 91	27 002 401	3 280 730	7 343 049	391 813	3 263 194	11 729 816	419 769	574 030
Above FR 91	340 796	39 800	67 413	4 789	43 393	184 215		1 186
Total	27 343 197	3 320 530	7 410 462	396 602	3 306 587	11 914 031	419 769	575 216
2017								
FR 27 - 91	26 255 288	3 427 835	7 567 428	314 152	3 429 412	10 712 465	464 205	339 791
Above FR 91	451 116	45 613	116 583	5 780	26 535	256 605		
Total	26 706 404	3 473 448	7 684 011	319 932	3 455 947	10 969 070	464 205	339 791

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

32. Risk management continued

32.3 Credit quality continued

COMPANY

N$'000	Investment securities	Derivatives	Cash and short term funds	Due from banks and other financial institutions	Accounts receivable	Total
International scale mapping (National equivalent):						
2018						
AAA to BB- (A to BBB)	5 080 115	93 520	895 187	2 782 220	6 146	8 857 188
Total	5 080 115	93 520	895 187	2 782 220	6 146	8 857 188
2017						
AAA to BB- (A to BBB)	3 704 238	95 221	791 193	2 664 980	18 924	7 274 555
Total	3 704 238	95 221	791 193	2 664 980	18 924	7 274 555

32.4 Credit risk management

GROUP

	Age analysis				
		Past due but not impaired			
N$'000	Neither past due nor impaired	One instalment	Two instalments	Impaired	Total
2018					
Advances					
Overdrafts and cash managed accounts	3 320 530			36 821	3 357 351
Term loans	7 492 949	95 723	19 304	89 167	7 697 143
Card loans	396 602			4 106	400 708
Installment sales and lease payments receivable	3 306 571	20 310	4 695	46 890	3 378 466
Property finance	12 197 797	518 242	96 332	304 552	13 116 923
Investment bank term loans	419 769				419 769
Other	575 216				575 216
Sub total	27 709 434	634 275	120 331	481 536	28 945 576
Accounts receivable					
Items in transit	55 466				55 466
Deferred staff costs	104 749				104 749
Property in possession	32 316				32 316
Prepayments	39 579				39 579
Other accounts receivable	7 425				7 425
Sub total	239 535				239 535
Total	27 948 969	634 275	120 331	481 536	29 185 111

32. Risk management continued

32.4 Credit risk management continued

GROUP N$'000	Age analysis Neither past due nor impaired	Past due but not impaired One instalment	Two instalments	Impaired	Total
2017					
Advances					
Overdrafts and cash managed accounts	3 473 448			24 309	3 497 757
Term loans	7 684 333	47 648	8 403	75 056	7 815 440
Card loans	319 932			2 844	322 776
Installment sales and lease payments receivable	3 455 943	42 717	2 548	25 200	3 526 408
Property finance	11 401 808	903 137	62 081	211 739	12 578 765
Investment bank term loans	464 205				464 205
Other	339 791				339 791
Sub total	27 139 459	993 502	73 032	339 147	28 545 140
Accounts receivable					
Items in transit	52 909				52 909
Deferred staff costs	83 644				83 644
Property in possession	2 822				2 822
Prepayments	18 062				18 062
Other accounts receivable	8 200				8 200
Sub total	165 636				165 636
Total	27 305 094	993 502	73 032	339 147	28 710 777

32.4 Credit risk management continued

COMPANY N$'000	Age analysis Neither past due nor impaired	Past due but not impaired One instalment	Two instalments	Impaired	Total
2018					
Advances					
Overdrafts and cash managed accounts	3 320 530			36 821	3 357 351
Term loans	7 492 949	95 723	19 304	89 167	7 697 143
Card loans	396 602			4 106	400 708
Installment sales and lease payments receivable	3 306 587	20 310	4 695	46 890	3 378 482
Property finance	11 831 545	518 242	96 332	303 066	12 749 184
Investment bank term loans	419 769				419 769
Other	575 216				575 216
Sub total	27 343 197	634 275	120 331	480 050	28 577 854
Accounts receivable					
Items in transit	87 152				87 152
Deferred staff costs	104 749				104 749
Property in possession	32 316				32 316
Prepayments	39 579				39 579
Other accounts receivable	6 702				6 702
Sub total	270 498				270 498
Total	27 613 695	634 275	120 331	480 050	28 848 352

32. Risk management continued

32.4 Credit risk management continued

COMPANY

N$'000	Age analysis: Neither past due nor impaired	One instalment	Two instalments	Impaired	Total
2017					
Advances					
Overdrafts and cash managed accounts	3 473 448			24 309	3 497 757
Term loans	7 684 011	47 648	8 403	75 056	7 815 118
Card loans	319 932			2 844	322 776
Installment sales and lease payments receivable	3 455 947	42 717	2 548	25 200	3 526 413
Property finance	10 969 070	903 137	62 081	205 473	12 139 760
Investment bank term loans	464 205				464 205
Other	339 791				339 791
Sub total	26 706 404	993 502	73 032	332 881	28 105 818
Accounts receivable					
Items in transit	105 421				105 421
Deferred staff costs	83 644				83 644
Property in possession	2 722				2 722
Prepayments	17 564				17 564
Other accounts receivable	4 427				4 427
Sub total	213 778				213 778
Total	26 920 182	993 502	73 032	332 881	28 319 596

The above assets are managed with reference to the days in arrears and include assets where monthly payments are due as residential mortgages, installment sale products and personal loans.

The assets in the wholesale segment and commercial segment are generally not managed with reference to monthly payments in arrears as these assets are reviewed on an individual portfolio basis.

32.5 Liquidity risk management

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

GROUP

N$'000	2018 Term to maturity: Carrying amount	Call - 3 months	4 - 12 months	Over 12months
Assets				
Cash and cash equivalents	1 326 075	1 326 075		
Derivative financial instruments	93 520	93 520		
Investment securities	5 080 115	1 662 140	2 037 215	1 380 760
Advances	28 644 017	4 719 737	3 010 539	20 913 740
Accounts receivable	6 146	6 146		
Due by banks and other financial institutions	2 782 221	2 782 221		
Financial assets	37 932 094	10 589 839	5 047 754	22 294 501
Non-financial assets	1 247 491			
Total assets	39 179 585			
Equity and liabilities				
Derivative financial instruments	109 754	109 754		
Creditors, accruals and provisions	83 369	83 369		
Deposits	32 559 128	23 916 992	5 038 975	3 603 161
Other liabilities	220 447	1 447		219 000
Tier 2 liabilities	402 783	2 783		400 000
Financial liabilities	33 375 481	24 114 345	5 038 975	4 222 161
Non-financial liabilities	1 004 830			
Total liabilities	34 380 311	24 114 345	5 038 975	4 222 161
Total equity	4 799 274			
Total equity and liabilities	39 179 585			
Net liquidity gap		(13 524 506)	8 779	18 072 340
Cumulative liquidity gap		(13 524 506)	(13 515 727)	4 556 613

32. Risk management continued

32.5 Liquidity risk management continued

GROUP	2017			
	Term to maturity			
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12months
Assets				
Cash and cash equivalents	1 414 296	1 414 296		
Derivative financial instruments	95 221	95 221		
Investment securities	3 704 238	771 591	1 531 095	1 401 552
Advances	28 325 993	5 059 918	2 595 263	20 670 812
Due by banks and other financial institutions	2 667 981	2 667 981		
Accounts receivable	18 924	18 924		
Financial assets	36 226 653	10 027 933	4 126 358	22 072 363
Non-financial assets	1 275 874			
Total assets	37 502 527	10 027 933	4 126 358	22 072 363
Equity and liabilities				
Short trading position	39 330	39 330		
Derivative financial instruments	115 562	115 562		
Creditors, accruals and provisions	95 837	95 837		
Deposits	31 743 745	22 111 214	5 885 070	3 747 461
Other liabilities				
Tier 2 liabilities	402 830	2 830		400 000
Financial liabilities	32 397 304	22 364 772	5 885 070	4 147 461
Non-financial liabilities	802 175			
Total liabilities	33 199 479	22 364 772	5 885 070	4 147 461
Total equity	4 303 048			
Total equity and liabilities	37 502 527			
Net liquidity gap		(12 336 839)	(1 758 712)	17 924 902
Cumulative liquidity gap		(12 336 839)	(14 095 551)	3 829 351

32.5 Liquidity risk management continued

The prior table represents the contractual discounted cash flows of assets and liabilities. Relying solely on the contractual liquidity mismatch when looking at a bank's maturity analysis would overstate the risk, since this represents the absolute worst case maturity analysis. As an industry phenomenon in Namibia, banks are particularly negatively gapped (contractually) in the shorter term due to the country's structural liquidity position. This implies that more short term obligations are due than short term assets maturing, hence the group's calculation of an adjusted liquidity mismatch analysis, applying the methodology of business under normal circumstances and a framework to manage this mismatch.

Liquidity mismatch analysis

The purpose of liquidity mismatch is to anticipate the maturities in the statement of financial position when business is done under normal conditions, i.e. applying behaviorally adjusted assumptions. This analysis disregards the overstated liquidity risk reflected in the contractual mismatch, when business as usual applies. Through analysis of various products and segments on the statement of financial position the "business as usual" liquidity gap is derived. It describes the liquidity gap of the bank after taking into account product behavioral assumptions for rolling of maturities and days to realise assets. For example, a cheque account deposit which has an ambiguous maturity classified as having a maturity profile on demand. The behavior (under normal circumstances and on an going concern basis) of such an account is, however, of a long term nature when assuming reinvestment takes place. Similarly the wholesale call loan book has a contractual maturity on call, but a portion of the wholesale book may not be called upon, due to customer relationship repercussions or other incentives.

32. Risk management continued

32.5 Liquidity risk management continued

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

GROUP	2018			
	Term to maturity			
N$'000	Total amount	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Derivative financial instruments	109 754	109 754		
Creditors and accruals	389 280	389 280		
Deposits	35 515 851	24 944 420	5 493 773	5 077 658
Other liabilities	327 530	4 518	13 484	309 527
Tier 2 liabilities	748 716	7 381	32 504	708 831
Financial liabilities	37 091 131	25 455 354	5 539 761	6 096 017
Off statement of financial position				
Financial and other guarantees	1 837 107	1 837 107		
Facilities not drawn	5 167 183	5 167 183		

GROUP	2017			
	Term to maturity			
N$'000	Total amount	Call - 3 months	4 - 12 months	Over 12months
Liabilities				
Short trading position	39 330	39 330		
Derivative financial instruments	115 562	115 562		
Creditors and accruals	95 837	95 837		
Deposits	32 883 850	22 499 389	6 110 089	4 274 372
Tier 2 liabilities	788 606	7 386	32 504	748 716
Financial liabilities	33 923 185	22 757 504	6 142 593	5 023 088
Off statement of financial position				
Financial and other guarantees	1 345 334	1 325 939	19 395	
Facilities not drawn	4 946 466	4 946 466		

32.5 Liquidity risk management continued

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

COMPANY	2018			
	Term to maturity			
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12months
Assets				
Cash and cash equivalents	1 326 075	1 326 075		
Due by banks and other financial institutions	2 782 221	2 782 221		
Derivative financial instruments	93 520	93 520		
Advances	28 278 842	4 354 563	3 010 539	20 913 740
Investment securities	5 080 115	1 662 140	2 037 215	1 380 760
Accounts receivable	6 146	6 146		
Financial assets	37 566 920	10 224 665	5 047 754	22 294 501
Non-financial assets	1 551 150			
Total assets	39 118 070	10 224 665	5 047 754	22 294 501
Equity and liabilities				
Deposits	32 580 435	23 938 299	5 038 975	3 603 161
Derivative financial instruments	109 754	109 754		
Creditors and accruals	83 369	83 369		
Other liabilities	220 447	1 447		219 000
Tier 2 liabilities	402 783	2 783		400 000
Financial liabilities	33 396 788	24 135 682	5 038 975	4 222 161
Non-financial liabilities	1 016 434			
Total liabilities	34 413 222	24 135 682	5 038 975	4 222 161
Total equity	4 704 848			
Total equity and liabilities	39 118 070	24 135 682	5 038 975	4 222 161
Net liquidity gap		(13 911 017)	8 779	18 072 340
Cumulative liquidity gap		(13 911 017)	(13 902 238)	4 170 102

32. Risk management continued

32.5 Liquidity risk management continued

COMPANY

	2017			
	Term to maturity			
N$'000	Carrying amount	Call - 3 months	4 - 12 months	Over 12months
Assets				
Cash and cash equivalents	1 381 367	1 381 367		
Due by banks and other financial institutions	2 639 879	2 639 879		
Derivative financial instruments	95 221	95 221		
Advances	27 888 795	4 622 720	2 595 263	20 670 812
Investment securities	3 704 238	771 591	1 531 095	1 401 552
Accounts receivable	18 924	18 924		
Financial assets	35 728 425	9 529 704	4 126 358	22 072 363
Non-financial assets	1 718 644			
Total assets	37 447 069	9 529 704	4 126 358	22 072 363
Equity and liabilities				
Deposits	31 687 243	22 054 712	5 885 070	3 269 949
Short trading position	39 330	39 330		
Derivative financial instruments	115 562	115 562		
Creditors and accruals	95 837	95 837		
Tier 2 liabilities	402 830	2 830		400 000
Financial liabilities	32 340 801	22 308 270	5 885 070	4 147 461
Non-financial liabilities	829 655			
Total liabilities	33 170 456	22 308 270	5 885 070	4 147 461
Total equity	4 276 613			
Total equity and liabilities	37 447 069	22 308 270	5 885 070	4 147 461
Net liquidity gap		(12 788 566)	(1 758 712)	17 924 902
Cumulative liquidity gap		(12 778 566)	(14 537 278)	3 387 624

32.5 Liquidity risk management continued

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

COMPANY

	2018			
	Term to maturity			
N$'000	Total amount	Call - 3 months	4 - 12 months	Over 12months
Liabilities				
Derivative financial instruments	109 754	109 754		
Creditors and accruals	389 280	389 280		
Deposits	35 515 851	24 944 420	5 493 773	5 077 658
Other liabilities	327 530	4 518	13 484	309 527
Tier 2 liabilities	748 716	7 381	32 504	708 831
Financial liabilities	37 091 131	25 455 354	5 539 761	6 096 017
Off statement of financial position				
Financial and other guarantees	1 837 107	1 837 107		
Facilities not drawn	5 167 183	5 167 183		

COMPANY

	2017			
	Term to maturity			
N$'000	Total amount	Call - 3 months	4 - 12 months	Over 12months
Liabilities				
Deposits	32 883 850	22 499 389	6 110 089	4 274 372
Short trading position	39 330	39 330		
Derivative financial instruments	115 562	115 562		
Creditors and accruals	95 837	95 837		
Tier 2 liabilities	788 606	7 386	32 504	748 716
Financial liabilities	33 923 185	22 757 504	6 142 593	5 023 088
Off statement of financial position				
Financial and other guarantees	1 345 334	1 325 939	19 395	
Facilities not drawn	4 946 466	4 946 466		

32. Risk management continued

32.6 Foreign currency

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

GROUP	2018				
	Currency concentration				
N$'000	Total amount	NAD	USD	EUR	Other
Assets					
Cash and cash equivalents	1 326 075	1 326 026	18	29	2
Due by banks and other financial institutions	2 782 220	2 371 103	283 488	116 924	10 705
Derivative financial instruments	93 520	81 266	949	11 303	1
Advances	28 644 017	28 141 151	502 866		
Investment securities	5 080 115	5 080 115			
Accounts receivable	6 146	6 146			
Financial assets	37 932 093	37 005 807	787 321	128 256	10 708
Non-financial assets	1 247 492	1 247 492			
Total assets	39 179 585	38 253 299	787 321	128 256	10 708
Equity and liabilities					
Deposits	32 559 128	32 056 213	502 915		
Derivative financial instruments	109 754	94 031	7 231	8 374	118
Creditors, accruals and provisions	83 369	83 369			
Other liabilities	220 447	220 447			
Tier 2 liabilities	402 783	402 783			
Financial liabilities	33 375 481	32 856 843	510 146	8 374	118
Non-financial liabilities	1 004 830	1 004 830			
Total liabilities	34 380 311	33 861 673	510 146	8 374	118
Total equity	4 799 274	4 799 274			
Total equity and liabilities	39 179 585	38 660 947	510 146	8 374	118

32.6 Foreign currency continued

GROUP	2017				
	Currency concentration				
N$'000	Total amount	NAD	USD	EUR	Other
Assets					
Cash and cash equivalents	1 414 296	1 414 266	9	20	1
Due by banks and other financial institutions	2 667 981	2 391 320	228 727	34 097	13 837
Derivative financial instruments	95 221	90 264	4 844	85	28
Advances	28 325 993	27 776 941	549 052		
Investment securities	3 717 577	3 717 577			
Accounts receivable	18 924	18 924			
Financial assets	36 239 991	35 409 291	782 632	34 202	13 867
Non-financial assets	1 262 536	1 262 536			
Total assets	37 502 527	36 671 827	782 632	34 202	13 867
Equity and liabilities					
Deposits	30 551 208	30 551 208			
-Due to banks and other financial institutions	1 192 537	643 485	549 052		
Short trading position	39 330	39 330			
Derivative financial instruments	115 562	109 502	5 415	109	536
Creditors, accruals and provisions	95 837	95 837			
Tier 2 liabilities	402 830	402 830			
Financial liabilities	32 397 304	31 842 192	554 467	109	536
Non-financial liabilities	802 175	802 175			
Total liabilities	33 199 479	32 644 367	554 467	109	536
Total equity	4 303 048	4 303 048			
Total equity and liabilities	37 502 527	36 947 415	554 467	109	536

32. Risk management continued

32.6 Foreign currency continued

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

COMPANY	2018				
	Currency concentration				
N$'000	Total amount	NAD	USD	EUR	Other
Assets					
Cash and cash equivalents	1 326 075	1 326 026	18	29	2
- Due by banks and other financial institutions	2 782 221	2 371 104	283 488	116 924	10 705
Derivative financial instruments	93 520	81 266	949	11 303	1
Advances	28 278 842	27 775 976	502 866		
Investment securities	5 080 115	5 080 115			
Accounts receivable	6 146	6 146			
Financial assets	37 566 919	36 640 631	787 321	128 256	10 708
Non-financial assets	1 551 151	1 551 151			
Total assets	39 118 070	38 191 782	787 321	128 256	10 708
Equity and liabilities					
Deposits	32 580 435	32 077 520	502 915		
Derivative financial instruments	109 754	94 031	7 231	8 374	118
Creditors, accruals and provisions	83 369	83 369			
Other liabilities	220 447	220 447			
Tier 2 liabilities	402 783	402 783			
Financial liabilities	33 396 788	32 878 150	510 146	8 374	118
Non-financial liabilities	1 016 434	1 016 434			
Total liabilities	34 413 222	33 894 584	510 146	8 374	118
Total equity	4 704 848	4 704 848			
Total equity and liabilities	39 118 070	38 599 432	510 146	8 374	118

32.6 Foreign currency continued

COMPANY	2017				
	Currency concentration				
N$'000	Total amount	NAD	USD	EUR	Other
Assets					
Cash and cash equivalents	1 381 367	1 381 337	9	20	1
- Due by banks and other financial institutions	2 639 879	2 363 218	228 727	34 097	13 837
Derivative financial instruments	95 221	90 264	4 844	85	28
Advances	27 888 795	27 339 743	549 052		
Investment securities	3 704 238	3 704 238			
Accounts receivable	18 924	18 924			
Financial assets	35 728 423	34 897 722	782 632	34 202	13 867
Non-financial assets	1 718 646	1 718 646			
Total assets	37 447 069	36 616 368	782 632	34 202	13 867
Equity and liabilities					
Deposits	30 477 957	30 477 957			
- Due to banks and other financial institutions	1 209 286	660 234	549 052		
Short trading position	39 330	39 330			
Derivative financial instruments	115 562	109 502	5 415	109	536
Creditors, accruals and provisions	95 837	95 837			
Tier 2 liabilities	402 830	402 830			
Financial liabilities	32 340 801	31 785 689	554 467	109	536
Non-financial liabilities	829 655	829 655			
Total liabilities	33 170 456	32 615 344	554 467	109	536
Total equity	4 276 613	4 276 613			
Total equity and liabilities	37 447 069	36 891 957	554 467	109	536

32. Risk management continued

32.7 Repricing

The repricing profile of the group's books is depicted in the table below. Items are allocated to time periods with reference to the earlier of the next contractual interest rate repricing date and the maturity date

GROUP

	2018				
	Repricing profile				
N$'000	Carrying amount	<3 months	>3 but ≤ 12 months	> 12 months	Non rate sensitive
Total assets	39 179 585	35 406 088	1 115 291	403 348	2 254 858
Total equity and liabilities	39 179 585	28 797 426	3 928 561	639 325	5 814 272
Net repricing gap		6 608 662	(2 813 270)	(235 977)	(3 559 414)
Cumulative repricing gap		6 608 662	3 795 392	3 559 415	

GROUP

	2017				
	Repricing profile				
N$'000	Carrying amount	<3 months	>3 but ≤ 12 months	> 12 months	Non rate sensitive
Total assets	37 502 527	33 104 979	1 143 828	620 983	2 632 736
Total equity and liabilities	37 502 527	27 420 391	4 120 980	711 013	5 250 143
Net repricing gap		5 684 589	(2 977 152)	(90 030)	(2 617 407)
Cumulative repricing gap		5 684 589	2 707 437	2 617 407	

32.7 Repricing continued

COMPANY

	2018				
	Repricing profile				
N$'000	Carrying amount	<3 months	>3 but ≤ 12 months	> 12 months	Non rate sensitive
Total assets	39 118 070	35 040 914	1 115 291	403 348	2 558 516
Total equity and liabilities	39 118 070	28 818 734	3 928 561	639 325	5 731 450
Net repricing gap		6 222 180	(2 813 270)	(235 977)	(3 172 933)
Cumulative repricing gap		6 222 180	3 408 910	3 172 933	

COMPANY

	2017				
	Repricing profile				
N$'000	Carrying amount	<3 months	>3 but ≤ 12 months	> 12 months	Non rate sensitive
Total assets	37 447 069	32 611 818	1 143 828	620 983	3 070 439
Total equity and liabilities	37 447 069	27 363 888	4 120 980	711 013	5 251 188
Net repricing gap		5 247 930	(2 977 152)	(90 030)	(2 180 748)
Cumulative repricing gap		5 247 930	2 270 778	2 180 748	

32. Risk management continued

32.8 Average balances and effective interest rates

GROUP	2018			2017		
	Average balance	Average rate	Interest income/ expense	Average balance	Average rate	Interest income/ expense
N$'000	N$'000	%	N$'000	N$'000	%	N$'000
Assets						
Cash and cash equivalents, including balance with banks	4 108 296	2.7	111 637	3 151 221	2.6	80 454
Advances	28 631 036	10.7	3 067 636	26 875 844	10.9	2 920 334
Investment securities	5 080 115	7.9	401 187	3 489 146	8.1	281 755
Interest-earning assets	37 819 446	9.4	3 580 460	33 516 210	9.8	3 282 543
Non-interest-earning assets	1 340 606			1 086 024		
Total Assets	39 160 052	9.1	3 580 460	34 602 235	9.5	3 282 543
Liabilities						
Deposits and current accounts, balance due to banks	32 546 148	5.2	1 678 356	29 322 108	5.1	1 489 060
Other liabilities	220 447	4.5	9 967			
Tier 2 liabilities	402 783	9.7	39 075	396 950	8.6	33 964
Interest-earning liabilities	33 169 377	5.2	1 727 398	29 719 058	5.1	1 523 024
Non-interest-bearing liabilities	1 183 942			787 291		
Total liabilities	34 353 320	5.0	1 727 398	30 506 349	5.0	1 523 024
Total equity	4 806 733			4 095 886		
Total equity and liabilities	39 160 052	4.4	1 727 398	34 602 235	4.4	1 523 024

32.8 Average balances and effective interest rates continued

COMPANY	2018			2017		
	Average balance	Average rate	Interest income/ expense	Average balance	Average rate	Interest income/ expense
N$'000	N$'000	%	N$'000	N$'000	%	N$'000
Assets						
Cash and cash equivalents, including balance with banks	4 112 744	2.7	111 637	3 151 271	2.6	80 454
Advances	28 265 861	10.7	3 011 791	26 413 765	10.8	2 870 813
Investment securities	5 080 115	7.9	401 187	3 489 146	8.1	281 755
Interest-earning assets	37 458 720	9.4	3 524 616	33 054 182	9.7	3 233 022
Non-interest-earning assets	1 388 991			983 735		
Total Assets	38 847 711	9.1	3 524 616	34 037 917	9.4	3 233 022
Liabilities						
Deposits and current accounts, balance due to banks	32 312 181	5.2	1 671 841	29 121 421	5.1	1 489 060
Other liabilities	220 447	4.5	9 967			
Tier 2 liabilities	402 783	9.7	39 075	396 950	8.6	33 964
Interest-earning liabilities	32 935 410	5.2	1 720 883	29 518 371	5.2	1 523 024
Non-interest-bearing liabilities	1 199 993			681 027		
Total liabilities	34 135 403	5.0	1 720 883	30 199 398	5.0	1 523 024
Total equity	4 712 308			3 838 519		
Total equity and liabilities	38 847 711	4.4	1 720 883	34 037 917	4.5	1 523 024

32. Risk management continued

32.9 Sensitivity analysis

Net interest income sensitivity

Assuming no management intervention, a parallel 200 (2017: 200) basis point increase in all yield curves would increase the forecast net interest income for the next year by N$223.6 million (2017: N$245.4 million), while a parallel decrease in all yield curves would decrease the forecast income by N$230.9 million (2017: N$252.9 million).

Foreign currency risk sensitivity analysis

Including foreign denominated cash, the group and company does not ordinarily hold open exposures with respect to the banking book of any significance. All gains and losses on foreign exposures and derivates are reported in profit and loss.

33. Segmentation

There is only one reportable segment for the group which is the banking operation.

In terms of IFRS 8, a customer is regarded as a major customer if the revenue from transactions with this customer exceeds 10% or more of the entity's revenue. The group has no major customer as defined and is therefore not reliant on the revenue from one or more major customers.

34. Standards and interpretations issued but not yet effective

Standard	Impact assessment	Effective date
IFRS 2 (amended)	**Classification and Measurement of Share-Based Payment Transactions** As a result of work by the IFRS Interpretations Committee, several amendments have been made to IFRS 2 to clarify how to account for certain share-based payment transactions. The amendments to IFRS 2 are related to the following areas: - Accounting for the effects of vesting and non-vesting conditions on the measurement of the liability of cashsettled sharebased payment transactions; - The classification of sharebased payment transactions with net settlement features for withholding tax obligations; and - Accounting for a modification to the terms and conditions of a sharebased payment that changes the transaction from cashsettled to equitysettled. The FirstRand group currently only has cash-settled share-based payment schemes. The group is currently in line with the first two amendments as the group is accounting for these items in line with the clarifications. The third amendment will be considered when such transactions take place and will be applied prospectively to any modifications made on or after the adoption date.	Annual periods commencing on or after 1 January 2018
IFRS 4 (amended)	**Applying IFRS 9 with IFRS 4** The amendment addresses concerns around temporary volatility in reported results arising from implementing IFRS 9 before implementing the insurance contracts standard that is being developed and that will replace IFRS 4. The amendment introduces two approaches: - The overlay approach - An option for all issuers of insurance contracts to remove from profit or loss the effects of some mismatches that may occur before adoption of IFRS 4, and recognise those impacts temporarily. The adjustment only applies to financial assets that are designated as relating to contracts in scope of IFRS 4 and measured at FVTPL in accordance with IFRS 9, but would have been measured in their entirety as at FVTPL under IAS 39, and - Temporary exemption - Reporting entities whose activities are predominantly connected with insurance are temporarily exempt from applying IFRS 9 and will continue to apply IAS 39 until the new insurance contracts standard is issued. All entities in the FirstRand group, including those who issue insurance contracts, will apply IFRS 9 for annual periods commencing on or after 1 January 2018 and therefore the two approaches made available under this amendment will not be elected and the amendment will have no impact on the group.	Annual periods commencing on or after 1 January 2018

34. Standards and interpretations issued but not yet effective continued

Standard	Impact assessment	Effective date
IFRS 15	**Revenue from Contracts with customers** IFRS 15 replaces several existing revenue standards and interpretations and introduces a new five-step principle model that an entity must apply to determine the measurement and timing of revenue recognition. The core principle of the new standard is that an entity will recognise revenue to depict the transfer of control of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods and services. Under the new model, revenue is recognised based on when the entity satisfies its performance obligations. IFRS 15 will be effective for the group from 1 July 2018. The group's main source of revenue is out of scope of IFRS 15 and as a result, IFRS 15 is not expected to have a significant impact on the group. The group has identified and reviewed the contracts with customers that are within the scope of this standard. The outcome of the reviews has resulted in the identification of additional performance obligations for certain products and as a result thereof a deferral of revenue relating to those products. The group is in the process of assessing the impact on the annual financial statements but it is not expected to have a significant impact.	Annual periods commencing on or after 1 January 2018
IFRS 16	**Leases** IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 will be effective for the group from 1 July 2019. The biggest impact of the standard will be on lessee accounting because of the requirement for lessees to recognise an asset and corresponding liability in respect of operating leases. Under the current standard on leases, operating lease payments were expensed by the lessee when incurred, with no recognition on the statement of financial position. IFRS 16 requires that at the commencement date of the lease (regardless of whether it is finance or operating lease), a lessee shall recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payment. The exceptions available for lessees are leases of a short term (less than 12 months) or low-value assets. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17; however, there are also enhanced disclosure requirements for lessors. The group is in the process of assessing the impact on the annual financial statements but it is not expected to have a significant impact.	Annual periods commencing on or after 1 January 2019

Standard	Impact assessment	Effective date
IFRS 17	**Insurance Contracts** IFRS 17 is the new standard that prescribes the accounting for insurance contracts and will replace the current insurance contracts standard, IFRS 4. IFRS 17 aims to provide more transparency and comparability between insurance companies and other industries by providing a prescriptive approach to determining policyholder liabilities as well as the release of profits on these contracts to the income statement. IFRS 17 will be effective for the group from 1 July 2021. The recognition of insurance revenue will be consistent with that of IFRS 15. Insurance revenue is derived by the movement in the liability for the remaining insurance coverage period. The insurance contract liability is initially made up of: • the fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policyholders; and • the contractual service margin (CSM), which represents the unearned profit the entity will recognise as it provides services over the coverage period. Subsequently, the liability will comprise two components, namely, the liability for remaining coverage (fulfilment cash flows and the CSM) and the liability for incurred claims (fulfilment cash flows for claims and expenses incurred but not yet paid). To prepare for implementation, the group has constituted a steering committee which will be supported by several working groups. The working groups will be responsible for the implementation of the different elements of the new standard and work has commenced. The impact of IFRS 17 will only be reliably determinable once the implementation project has progressed further.	Annual periods commencing on or after 1 January 2021
IAS 28	**Long-term Interests in Associates (Amendments to IAS 28)** The amendments clarify that an entity should apply IFRS 9, including impairment requirements, to long-term interests in associates and joint ventures that in substance form part of the net investment in the associate or joint venture. The group is in the process of assessing the impact of this amendment on the annual financial statements as part of the overall adoption of IFRS 9.	Annual periods commencing on or after 1 January 2019
IAS 40	**Transfers of Investment Property (Amendments to IAS 40)** The amendments introduce clarification of the requirements on transfers to, or from investment properties when there has been a change in use of the property. The clarified requirements will be applied by the group to any transfer to or from investment property, when these transactions take place.	Annual periods commencing on or after 1 January 2018

34. Standards and interpretations issued but not yet effective continued

Standard	Impact assessment	Effective date
IFRIC 22	**Foreign Currency Transaction and Advance Consideration** This interpretation clarifies the accounting treatment for transactions that involves the advance receipt or payment of consideration in a foreign currency. The group is in the process of assessing the impact on the annual financial statements but it is not expected to have a significant impact.	Annual periods commencing on or after 1 January 2018
IFRS 23	**Uncertainty over Income Tax Treatments** This interpretation is to be applied to the determination of taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. When considering that the filing deadlines for tax returns and financial statement may be months apart, IFRIC 23 may require more rigour when finalising the judgements about the amounts to be included in the tax return before the financial statements are finalised. The group is in the process of assessing the impact on the annual financial statements but it is not expected to have a significant impact.	Annual periods commencing on or after 1 January 2019
Annual Improvements	**Improvements to IFRS** The IASB issued the *Annual Improvements to IFRS Standards 2014-2016 Cycle*. These annual improvements include amendments to IAS 12 and IAS 28. The annual improvement project's aim is to clarify and improve accounting standards. The amendments have been assessed and are not expected to have a significant impact on the group.	Annual periods commencing on or after 1 January 2018 (IAS 12 and IAS 28)

Adoption of new accounting standards

IFRS 9: *Financial Instruments* (IFRS 9) was issued by the International Accounting Standards Board (IASB) in July 2014 and replaced IAS 39: *Financial Instruments, Recognition and Measurement* (IAS 39). IFRS 9 became effective for the group from 1 July 2018 (date of initial adoption).

Key impacts of IFRS 9

Standard	Impact assessment	Effective date
ECL impairment	IFRS 9 introduced an expected credit loss model for the recognition of impairment on financial assets, which includes the incorporation of forward-looking information and no longer requires a credit event to occur before credit losses are recognised. This applies to financial assets classified at amortised cost and fair value through other comprehensive income, lease receivables, trade receivables, loan commitments and financial guarantee contracts. The level of expected credit losses to be raised is determined in relation to the credit risk of the asset at reporting date in relation to its credit risk at origination. Where the credit risk has not increased significantly since origination, impairment is calculated based on 12-month expected credit losses. If this is not the case, impairment is based on lifetime expected credit losses.	The revised impairment requirements will result in higher overall impairments due to the earlier recognition of expected credit losses incorporating forward-looking information and inclusion of off-balance sheet exposures. Refer to page 199 for more information.
Classification and measurement	IFRS 9 introduced a principle-based approach for classifying financial instruments, which is based on the entity's business model (i.e. how an entity manages its financial assets in order to generate cash flows) and nature of its cash flows. Financial assets whose business model is achieved by collecting contractual cash flows are classified at amortised cost. Financial assets with a mixed business model (i.e. held to collect contractual cash flows which are solely payments of principal and interest and through sale) are classified at fair value through other comprehensive income. All other financial assets under a different business model are classified at fair value through profit or loss. The classification of financial liabilities remains relatively unchanged, with the exception that for financial liabilities designated at fair value, any changes in the fair value of the liability due to the entity's own credit risk should be recognised in other comprehensive income.	Based on the business model assessments performed, the following financial assets were reclassified: • certain investment securities held in the group's liquid asset portfolio will be reclassified from available-for-sale to amortised cost because they are held to collect contractual cash flows and those contractual cash flows are solely for the repayment of principal and interest. • certain advances in the RMB Investment Banking Division will be reclassified from fair value through profit or loss (FVTPL) to amortised cost; and • the above-mentioned reclassifications from FVTPL to amortised cost will impact the revenue recognition of origination fees that are an integral part of generating an involvement with the resulting advance.
Hedge accounting	IFRS 9 more closely aligns hedge accounting with the entity's risk management and permits the use of internally produced risk management information as a basis for hedge accounting, thereby widening the scope for items that can be hedge accounted.	The revised hedge accounting requirements were applied by the group prospectively and as such did not have an impact on the amounts recognised in the annual financial statements as at 1 July 2018. However, hedge documentation was updated to comply with the requirements of IFRS 9.

34. Standards and interpretations issued but not yet effective continued

Unpacking the impact of IFRS 9

Total impairments by stage

- Growth in stage 1 impacted by the change from 3 – 6 month to 12 month emergence period and inclusion of off-balance sheet exposures;
- Growth in stage 2 impacted by significant increase in credit risk (SICR) definition; and
- Stage 3 growth is impacted by ISP, amended staging, curing and write off requirements.

Total impairments by franchise

- Limited impact on RMB Investment Banking Division due to current fair value methodology being closely aligned to ECL; and
- FNB and WesBank impacted by extended emergence period and inclusion of off-balance sheet facilities.

Total impairments drivers

- Biggest single driver is the change from 3 – 6 month to 12 month emergence period and inclusion of off-balance sheet exposures; and
- Other includes the impact of the revised accounting for modifications, where a modification loss is recognised based on the amended contractual terms.

Growth in NPL

- The largest driver of change in NPLs is the gross-up of ISP into advances; and
- Implementation of stringent curing definitions across portfolios has increased the size of the NPL book.

Advances:

Advances are impacted by two factors on transition to IFRS 9: reclassification and interest in suspense.

Reclassification

The business model assessments resulted in some advances being re-classified from designated at fair value through profit or loss into amortised cost. This also resulted in a remeasurement of the advance by capitalising any fees integral to the loan previously expensed to the advance.

Interest in suspense

Interest in suspense (ISP) was not capitalised to advances recognised under IAS 39 because, in line with IAS 18, interest income was only recognised to the extent that it was probable that economic benefits associated with the transaction would flow to the entity. Interest suspended was therefore managed off-balance sheet. IFRS 15 scopes out revenue recognised in line with IFRS 9. Under IFRS 9, interest revenue is calculated by applying the effective interest rate to the amortised cost of the financial asset, which equates to the inverse of the impairment coverage ratio. The difference between the contractual interest and the interest recognised in line with IFRS 9 is therefore suspended. This suspended interest is capitalised to the advance. However, as it cannot be recognised as interest revenue, it is also recognised against the expected credit loss allowance, reflecting the fact that it is unrecoverable and therefore impaired. To the extent that the impairment coverage ratio under IAS 39 is identical to that under IFRS 9, the impact of ISP on transition to IFRS 9 is a gross-up of the advance and the loss allowance by the amount of the suspended interest, with no impact on retained earnings. Where the coverage ratios under the two standards differ, the difference in the coverage ratios is reflected in retained earnings, with an increase in retained earnings reflecting lower coverage under IFRS 9, and a decrease reflecting higher coverage.

Expected Credit Loss (ECL) allowance:

The increase in the ECL allowance is due to two main factors, the impact of ISP as explained above and the increase in the impairment allowance due primarily to the increase in the emergence period, application of the significant increase in credit risk definition, incorporation of forward-looking macroeconomic information and the inclusion of off-balance sheet exposures in the ECL.

Not all of the ECL impact will affect retained earnings. As explained above, the impact of ISP does not impact retained earnings to the extent that coverage ratios are consistent between IFRS 9 and IAS 39. In addition, classification and measurement changes did not impact ECL but impacted gross advances and retained earnings. Other items that impacted retained earnings include equity accounted earnings from investments in associates due to the impact of IFRS 9 in the associates, ECL on investment securities and non-advances with credit risk such as accounts receivable and the impact of deferral of revenue due to the implementation of IFRS 15. The total impact on equity, net of tax, will be in the region of 2.9%.

Impact on reserves:

In addition to the above changes to retained earnings, the following has also impacted reserves:

Investment securities

Debt investment securities comprising government bonds were classified as available-for-sale under IAS 39. These securities are short dated and held under a business model to collect contractual cash flows until maturity. These contractual cash flows are solely payments of principal and interest and these debt investment securities have therefore been classified at amortised cost under IFRS 9 and accordingly, an ECL provision has been raised against these securities, referenced to the sovereign credit rating where these relate to government bonds. The estimated impairment will be in the region of 0.02% of equity on 1 July 2018. As a result of the reclassification, the available-for-sale reserve was released, resulting in an adjustment to the carrying amount of the investment securities and the non-distributable reserves.

ECL has been raised on non-advances with credit risk such as accounts receivable, which were not previously provided for under IFRS 9. In addition, the impact of IFRS 9 adoption by associates of the group resulted in an adjustment in the group's equity accounted earnings from associates.

Capital

The group actively manages its capital base commensurate with its strategy, risk appetite and risk profile. Capital planning is undertaken on a forward-looking basis, and the level and composition of capital is determined taking into account businesses' organic growth plans, corporate transactions and stress testing scenario outcomes. In addition, the group considers external issues that could impact capital levels, which include regulatory, accounting and tax changes, macroeconomic conditions and outlook. The group continues to actively manage its capital levels and composition.

Effective 1 July 2018, the group capital position is not impacted materially by the change relating to impairment allowances, due to the day 1 impact of IFRS 9. A debit to the group's GRR and a corresponding credit to the group's retained earnings has been recognised. The GRR has historically been maintained by means of an appropriation of retained earnings to a non-distributable reserve, being the GRR, by the group's banking operations as a result of country regulators requiring a higher credit impairment provision than that as determined in accordance with IAS 39. Given that IFRS 9 typically results in an impairment provision that is more closely aligned to the provision required by regulators, a transfer from GRR back to retained earnings is required on transition to IFRS 9. This transfer has no significant impact on the group's net asset value, total reserves or capital ratios.

34. Standards and interpretations issued but not yet effective continued

Tax impact

The group has elected to apply tax legislation to the impairment allowances and we believe this does not deviate from the current practice. However, the industry is still consulting with regulators. This application of tax legislation is shown below:

- Stage 1 - 25% (general provision);
- Stage 2 - 25% (general provision)); and
- Stage 3 - 100% (specific).

This will result in a reduced tax liability balance.

Macroeconomic approach

The FirstRand Macro Forum is responsible for the oversight of macroeconomic inputs that are used to inform the ECL provision, risk appetite, earnings volatility and internal capital adequacy assessment process (ICAAP) in the group. This forum is independent of the credit and modelling functions and operates under the direction of the Asset and Liability Committee (ALCO), with ultimate oversight by the FirstRand Namibia Risk, Capital and Compliance Committee (FRCC).

The macroeconomic scenarios are defined by the Macro Forum in Group Treasury and include the following potential outcomes relative to the core view assumptions:

1. Downside global macro environment
2. Downside domestic macro environment
3. Upside global macro environment
4. Upside domestic macro environment
5. Stress macro environment

Once the scenarios are defined, they are presented and debated. After taking all applicable inputs into account, the final scenarios are signed off by the FirstRand Macro Forum. A similar process as for the core view is then followed to construct forecasts for the various scenarios. These forecasts are then debated with key stakeholders and signed off by the Macro Forum before going through the same governance processes as the core view forecasts.

A probability assessment of the different scenarios is conducted. After the FRCC sign off on the different scenarios and associated forecasts, a number of economists within and outside of the FirstRand Group are requested to assign a probability to each of these scenarios. Based on this process the Macro Forum will attribute a probability to each scenario. Large discrepancies between the forum's assessment and that of the external economists are noted and explained.

To arrive at the macroeconomic forecast, a bottom-up and top-down forecast process is followed. The bottom up forecast process is conducted by teams of economists both locally and within the various subsidiaries in which FirstRand operates. These economists assess the micro and macroeconomic developments to formulate and adjust a macroeconomic forecast. The top-down forecast process is conducted in FirstRand Group Treasury and the macro team in country. This process uses a macro econometric model consisting of a number of macro econometric equations that define the macroeconomic relationships in the region and Namibia. The top-down and bottom-up forecasts are discussed and debated at the monthly Macro Forum and a final set of forecasts is agreed upon. Forecast differences between the top-down and bottom-up processes are discussed and reasons for the differences identified. The outcome of this process is then presented as the FirstRand house view.

The macroeconomic team within Group Treasury is responsible for the development and monthly updating of a database that contains the historical and forecast values of the macro variables that are included in the house view forecast process. These are updated on a quarterly basis.

Incorporation into ECL calculation

ECL results are calculated as probability-weighted average results across multiple macroeconomic scenarios. Creation of macroeconomic scenarios and determination of associated probabilities is a subjective process, with final ECL results dependent on assumptions applied during this process.

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