Condensed consolidated, unaudited group results and dividend declaration

for the six months ended 31 December 2013

Advances growth of **20.4%**

Dividends per ordinary share of **55 cents**

Profit up **20%**

Group overview

We are pleased to report that focus, commitment and innovation have paid off again for FNB Namibia Holdings. Profit for the six months to December 2013 increased by 20% to N$383 million (2012: N$320 million) with both retail and corporate sectors contributing. An interim dividend of 55 cents per ordinary share has been declared, compared to 46 cents for this period last year.

The excellent results vindicate our strategy of building a profitable asset base and committing ourselves to core values. They also speak to the value of innovation. FNB's electronic channels have driven above-average growth in retail and our investment in tailoring solutions for all businesses – from SME's to multinationals – have produced positive results.

Earnings per share increased to 145.7 cents (2012: 121.3 cents). Annualised return on average equity improved to 32.9% (2012: 30.7%). The cost to income ratio has improved to 47.3% from an already commendable 48.2% in the prior year.

Statement of comprehensive income

Interest income

Net interest income increased by 12.5% to N$557 million (2012: N$495 million). Fair value income of N$30 million (2012: N$26 million) is included in non-interest income rather than interest income. In addition, the prior year included a significant release of interest previously suspended in line with bad debt recoveries compared to a moderate charge in the current period. Prolonged low interest rates continued to impact negatively on the endowment effect on capital and certain deposits.

Impairment losses

The net impairment reversal of N$1 million reported in the prior year has swung around into a N$9 million charge, mainly because a N$7.4 million portfolio impairment charge was triggered by the growth in advances. The basis for the provision remains consistent with the prior year.

The specific impairment charge reflects a net release of N$1.6 million, thanks to our continuing effort to recover amounts previously written off and our determination to pursue quality business. Impairments are expected to move towards the long-term average loss ratio cycle by year end. Defaults should remain relatively low.

Non-interest revenue

Net fee and commission income increased by 23% to N$531 million as a result of elevated volumes and an increase in the average value of transactions. About 70% was contributed by retail. Our expanding network has also helped. In the past year FNB has added 25 ATMs to its network and opened two new branches.

Fair value income contributed N$73 million (2012: N$56 million) to non-interest revenue. Foreign exchange trading accounted for almost half - N$37 million, a year on year increase of 15%.

Net insurance premium income, net claims and benefits paid

OUTsurance's net premium income increased by an encouraging 25%. The main driver was the personal lines product, which grew by 27%. Higher upfront sales expenses reduced profitability. Premium income on the homeowners' book was in line with inflation and a favourable loss ratio resulted in good operating profits.

Operating expenses

Non-interest expenditure increased by 14% to N$524 million. Operating expenses rose above inflation because the group invested in new technology and expanded its footprint. Increased transaction volumes brought correspondingly higher processing costs.

We continue to monitor costs closely and remain acutely aware of the need for an efficient and effective business model. We lead the industry with a cost to income ratio of 47.3% (2012: 48.2%).

Statement of financial position

The group's total assets grew by almost 23%, or N$4.5 billion, to N$24.8 billion. The N$692 million increase in cash and cash equivalents, and balances due from banks, relate to short-term investments and reflect a spike in surplus liquidity.

Overall, the market for private credit expanded by 14.4% on an annual basis but FNB's advances grew by more than 20% to N$18.8 billion - a clear indication of the success of the group's strategy to target corporate business. Our investment banking team has generated almost N$1 billion worth of assets over the past 12 months.

Retail loans and advances have grown by a slower 11% year on year, reflecting a slow-down in demand after mid-year tax refunds. However, demand for asset financing remains good, resulting in WesBank's loan book increasing by 14% and home loans by 16%. FNB remains the market leader for home loans and vehicles.

Notwithstanding the impressive growth in advances, the ratio of non-performing loans to average gross advances continued to improve, reducing to 0.96% (2012: 1.04%). Overall credit quality remains sound.

We continue to match demand for credit with favourably priced deposits while protecting our liquidity profile. Deposits increased year on year by 18.7% to N$20.4 billion, with retail deposits up 20.3%. The retail contribution to the group's funding requirements has improved to more than 36% which ultimately benefits margins.

Capital management

FNB remains well capitalised with a total capital adequacy of 15.7% (2012:16.1%) – well above the regulatory requirement of 10% and internal target of 14%. Economic risk is still backed by a strong Tier 1 capital level of 11.7% (2012: 11.0%).

OUTsurance's solvency margin, a measure of an insurance company's ability to pay claims, was 22% (2012: 38%), against a statutory minimum requirement of 15%.

Shareholder return

The group aligns growth in dividend with growth in sustainable earnings and continues to review appropriate levels of capital.

Events subsequent to the reporting date

The directors are not aware of any material events, as defined in IAS 10 Events After the Reporting Period, occurring between 31 December 2013 and the date of authorisation of the results announcement.

Group prospects

There is a discernible nascent recovery in the global economy led by the momentum in the US economy which augurs well for export-oriented economies such as Namibia. However, it is early days and there are still significant medium-term risks in the global growth environment. Key among them is the deceleration in Chinese real growth which could depress commodity prices and the US recovery. This, in turn, could impact capital flows to emerging markets, leading to further currency weakness and inflationary pressure. Continued depreciation of the Namibia dollar has both negative and positive implications.

Domestic growth is expected to accelerate during the second half of our financial year, but continued drought will hamper growth. Positively, however, inflationary pressure has partly abated which, combined with recent tax relief that came into effect in mid 2013, will continue to create a positive wealth effect for households.

Interest rates have remained flat for the period under review, supporting both consumption and investment demand. Our growth forecast for 2014 is around 4.5%, based on ongoing investment in the mining and manufacturing sectors and the strong pipeline of public sector investment, notably in the deepening of the Walvis Bay port and in generating more electricity.

The group is well positioned to continue building on its solid foundations. Our objective remains to create optimal banking solutions for our broad client base. Our strategic plans include enhancing the use of safe and viable electronic and digital channels for the retail sector and creating new business and corporate opportunities.

We are confident that our enthusiastic and diversified team will continue to increase our business and advances at a rate exceeding private sector credit extension.

Given the economic outlook and our own strategy, we expect to be able to maintain our trajectory in the next six months

For and on behalf of the board
CJ Hinrichsen
Chairman
Windhoek, 13 February 2014

Dividend declaration

Notice is hereby given that an interim dividend (number 41) for the half year ended 31 December 2013 of 55 cents per ordinary share was declared on 31 January 2014.

The last day to trade shares on a cum dividend basis will be on 28 February 2014 and the first day to trade ex dividend will be 3 March 2014. The record date will be 7 March 2014 and the payment date 27 March 2014.

By order of the board

Yamillah Katjirua,
Company Secretary
Windhoek, 13 February 2014

Basis of presentation

The group prepares its condensed consolidated interim financial statements in accordance with International Financial Reporting Standards (IFRS) and the Namibian Companies Act and these are presented in accordance with measurement and recognition prescribed by IAS 34: Interim Financial Reporting. The principal accounting policies are consistent in all material aspects with those applied as at 30 June 2013, with the exception of the changes mentioned below. The estimates and judgments made in applying the accounting policies are consistent with those applied and disclosed in the annual financial statements for the year ended 30 June 2013.

The following new and amended standards have been adopted with effect from 1 July 2013:

IFRS 10: Consolidated Financial Statements
IFRS 10 established a new control model for determining which entities should be consolidated. The standard also provides guidance on how to apply the principle of control to specific situations in order to identify whether an investor controls an investee. IFRS 10 supersedes a portion of IAS 27 Separate and Consolidated Financial Statements and SIC 12 Consolidation – Special Purpose Entities. The adoption of IFRS 10 did not have a material impact on the group's financial report.

IFRS 13: Fair value measurement
IFRS 13 was issued in order to eliminate inconsistencies in the guidance on how to measure fair value and disclosure requirements that existed under the various standards that required or permit fair value measurement. It provides a fair value hierarchy, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The adoption of IFRS 13 did not have any impact on the group's financial report.

IAS 19: Employee benefits
The main change includes the removal of the corridor approach, which allowed entities the option to defer the recognition of actuarial gains and losses on defined benefit plans. The revised standard requires that all re-measurements arising from defined benefit plans be presented in other comprehensive income. It also includes enhanced disclosure requirements for defined benefits plans. The adoption of IAS 19 Revised resulted in the group restating its previously reported financial results. The impact of this restatement has been set out in the restatement note.

Condensed consolidated statement of comprehensive income

N$m	Six months ended 31 December 2013	2012[1]	Year ended 30 June 2013[1]
Interest and similar income	926	807	1 635
Interest expense and similar charges	(369)	(312)	(650)
Net interest income before impairment of advances	557	495	985
(Impairment losses) / reversal of impairments of advances	(9)	1	(23)
Net interest income after impairment of advances	548	496	962
Non-interest income	531	432	868
Net insurance premium income	60	48	100
Net claims and benefits paid	(33)	(25)	(51)
Income from operations	1 106	951	1 879
Operating expenses	(524)	(460)	(946)
Net income from operations	582	491	933
Share of profit from associates after tax	1	1	2
Income before tax	583	492	935
Indirect tax	(10)	(10)	(20)
Profit before tax	573	482	915
Direct tax	(190)	(162)	(309)
Profit for the period	383	320	606
Other comprehensive income for the period			
Items that will not be reclassified to profit and loss			4
Actuarial gains and losses on post-employment benefit liabilities			6
Deferred income tax			(2)
Items that may be reclassified subsequently to profit and loss	1	(1)	(7)
Gains and losses on remeasuring available-for-sale financial assets	1	(5)	(7)
Deferred income tax		4	
Total comprehensive income for the period	384	319	603
Profit for the period attributable to:			
Equity holders of the parent	378	314	595
Non-controlling interests	5	6	11
Profit for the period	383	320	606
Total comprehensive income for the period attributable to:			
Equity holders of the parent	379	313	592
Non-controlling interests	5	6	11
Total comprehensive income for the period	384	319	603
Earnings per share (cents)			
Basic and diluted earnings per share (cents)	145.7	121.3	229.6
	145.7	121.3	229.6

[1] *Comparatives have been restated to reflect adoption of IAS 19 R. These restatements are unaudited.*

Condensed consolidated statement of financial position

N$m	Six months ended 31 December 2013	2012	Year ended 30 June 2013
Assets			
Cash and cash equivalents	1 306	716	690
Due from banks and other financial institutions	1 013	911	1 889
Derivative financial instruments	94	26	94
Advances	18 841	15 655	16 965
Investment securities	2 880	2 342	2 273
Accounts receivable	154	278	188
Tax asset	1		
Investments in associates	4	4	4
Property and equipment	485	284	377
Intangible assets	12	7	16
Deferred income tax asset	3	3	3
Total assets	24 793	20 226	22 499
Equity and liabilities			
Liabilities			
Deposits	20 437	17 210	18 836
Due to banks and other financial institutions	859	72	319
Derivative financial instruments	115	71	129
Creditors and accruals	195	145	160
Tax liability	54	35	143
Employee liabilities	106	107	122
Deferred income tax liability	55	24	48
Policyholders liabilities under insurance contracts	49	42	50
Other liabilities	8		10
Tier two liabilities	393	393	393
Total liabilities	22 271	18 099	20 210
Capital and reserves attributable to ordinary equity holders of parent	2 497	2 104	2 261
Non-controlling interests	25	23	28
Total equity	2 522	2 127	2 289
Total equity and liabilities	24 793	20 226	22 499

Condensed consolidated statement of cash flows

N$m	Six months ended 31 December 2013	2012	Year ended 30 June 2013
Net cash generated from operations	1 187	594	841
Tax paid	(290)	(290)	(318)
Net cash flow from operating activities	897	304	523
Net cash outflow from investing activities	(128)	(14)	(129)
Net cash outflow from financing activities	(153)	(576)	(706)
Net increase in cash and cash equivalents	616	(286)	(312)
Cash and cash equivalents at beginning of the period [1]	690	1 002	1 002
Cash and cash equivalents at end of the period	1 306	716	690

[1] *includes mandatory reserve deposits with central bank*

Condensed consolidated statement of changes in equity

N$m	Six months ended 31 December 2013 Attributable to equity holders of the parent[1]	2012 Attributable to equity holders of the parent[1]	Year ended 30 June 2013 Attributable to equity holders of the parent[1]	Six months ended 31 December 2013 Non-controlling interests	2012 Non-controlling interests	Year ended 30 June 2013 Non-controlling interests
Balance at beginning of the period	2 261	2 362	2 362	28	22	22
Total comprehensive income for the period	379	313	592	5	6	11
Share option costs	4	2	7			
Dividends paid	(140)	(573)	(692)	(8)	(5)	(5)
Consolidation of share trusts	(7)		(8)			
Balance at end of the period	2 497	2 104	2 261	25	23	28

[1] *includes general risk reserve*

Contingent liabilities and capital commitments

N$m	Six months ended 31 December 2013	2012	Year ended 30 June 2013
Contingent liabilities	4 564	1 420	4 378
Capital commitments	301	2	391

Condensed consolidated segment information

N$m	Six months ended 31 December 2013	2012	Year ended 30 June 2013
Income from operations:			
FNB	1 046	892	1 756
OUTsurance	30	26	56
Other [3]	30	33	67
	1 106	951	1 879
Profit for the period			
FNB	363	292	555
OUTsurance	10	12	22
Other [3]	10	16	29
	383	482	606
Total assets:			
FNB	24 836	20 265	22 517
OUTsurance	98	86	112
Other [3]	(141)	(125)	(130)
	24 793	20 226	22 499

[3] *other segment includes FNB Insurance Brokers, property and consolidation entries*

Headline earnings reconciliation

N$m	Six months ended 31 December 2013	2012	Year ended 30 June 2013
Earnings attributable to equity holders of the parent	378	314	595
Headline earnings adjustment			
Profit on sale of property and equipment			(2)
Headline earnings	378	314	593

IFRS 13 disclosure

Analysis of assets and liabilities at fair value and amortised cost

As at 31 December 2013

N$m	Total instruments at fair value	Total instruments at amortised cost	Non-financial assets and liabilities	Total
Assets				
Cash and cash equivalents		1 306		1 306
Due from banks and other financial institutions		1 013		1 013
Derivative financial instruments	94			94
Advances	553	18 288		18 841
Investment securities	2 804	76		2 880
Accounts receivable		85	69	154
Tax asset			1	1
Investments in associates			4	4
Property and equipment			485	485
Intangible assets			12	12
Deferred income tax asset			3	3
Total assets	3 451	20 768	574	24 793
Liabilities				
Deposits		20 437		20 437
Due to banks and other financial institutions		859		859
Derivative financial instruments	115			115
Creditors and accruals		37	158	195
Tax liability			54	54
Employee liabilities			106	106
Deferred income tax liability			55	55
Policyholders liabilities under insurance contracts			49	49
Other liabilities		8		8
Tier two liabilities		393		393
Total liabilities	115	21 734	422	22 271

Financial instruments carried at fair value

The table below analyses recurring fair value measurements for financial assets and liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on inputs to the valuation technique used. The different levels are identified as follows:

Level 1 – Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – Fair value is determined using a valuation technique and inputs that are not based on observable market data (i.e. unobservable inputs).

N$m	Level 1	Level 2	Level 3	Total instruments at fair value
Assets				
Derivative financial instruments		94		94
Advances			553	553
Investment securities		2 804		2 804
		2 898	553	3 451
Liabilities				
Derivative financial instruments		115		115
		115		115

There were no transfers of financial instruments between level 1, level 2 and level 3 during the period ended 31 December 2013.

The following table is a reconciliation of the opening balances to closing balances for fair value measurements in level 3 of the fair value hierarchy:

N$m	Total level 3 financial instruments	Fair value movements in profit and loss	Fair value movements trough other comprehensive income
Fair value on 1 July 2013	564		
Total gains or losses	20	20	
Purchases, issues and settlements	(31)		
Fair value on 31 December 2013	553	20	

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

As described above, the fair value of instruments that are classified in level 3 of the fair value hierarchy is determined using valuation techniques that make use of significant inputs that are not based on observable market data. Inputs into these valuation techniques are derived from all available information and management's judgement. While management believes that these fair values are appropriate they could be sensitive to changes in the assumptions used to derive the inputs. The table below illustrates the sensitivity of the significant inputs when they are changed to reasonably possible alternative inputs:

As at 31 December 2013

N$m

Assets	Significant unobservable inputs	Reasonably possible changes to significant unobservable inputs	Reasonably possible alternative fair value using more positive assumptions	Reasonably possible alternative fair value using More negative assumptions
Advances at fair value	Credit	Unobservable inputs are increased and decreased by 10%. Credit migration matrix	608	498

Day one profits or loss
The table below sets out the aggregate day one profits yet to recognised in profit or loss at the beginning and end of the period:

N$m	
Unrecognised profit at 1 July 2013	12
Recognised in profit or loss during the period	(2)
Unrecognised profit at 31 December 2013	10

The table below sets out the valuation techniques used for instruments for which there are no quoted prices in active markets or recent arm's length transactions:

Instrument	Valuation technique		Description
Investment securities			
Negotiable certificate of deposits	Discounted cash flows		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.
Treasury bills	BESA bond pricing model		Future cash flows are discounted using Namibian market-related yields.
Other dated securities	Discounted cash flows		Future cash flows are discounted using a market-related interest rate. The discount curve is derived from similar market quoted instruments.
Derivatives			
Option contracts	Option pricing model		Black Scholes model is used.
Forward rate agreements	Discounted cash flows		Discount rate is determined using a yield curve for similar market traded instruments. The reset date is determined in terms of the legal agreement.
Swaps	Discounted cash flows		Discount and forward rates are determined from similar market related traded instruments. The reset date of each swaplet is determined in terms of legal documents pertaining to the swap.
Deposits			
Current accounts	Undiscounted amounts		The undiscounted amount is considered to approximate fair value because of the short-term nature of the instruments.
Other	Discounted cash flow		The swap curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.
Loans and advances			
Investment banking book	Discounted cash flow		The group has elected to designate the investment banking book of advances as at fair value through profit or loss. Future cash flows are discounted using a market-related interest rate. The interest rate component of the valuation uses observable inputs from market interest rate curves. 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.
Other loans and advances	Discounted cash flow		The group determines the fair value of the amortised cost book for disclosure purposes. Future cash flows are discounted using a market related interest rate.
Other liabilities and Tier two liabilities			
Other liabilities and Tier two liabilities	Discounted cash flow		Future cash flows are discounted using a market-related interest rate.

Fair value of financial instruments at amortised cost

As at 31 December 2013

N$m	Carrying amount	Fair value
Assets		
Cash and cash equivalents	1 306	1 306
Due from banks and other financial institutions	1 013	1 013
Advances	18 288	18 731
Investment securities	76	76
Accounts receivable	85	85
Total assets	20 768	21 211
Liabilities		
Deposits	20 437	20 404
Due to banks and other financial institutions	859	859
Creditors and accruals	37	37
Other liabilities	8	8
Tier two liabilities	393	395
Total liabilities	21 734	21 703

Restatements

Condensed consolidated statement of comprehensive income

Year ended 30 June 2013

N$m	As previously reported	IAS 19	Restated
Operating expenses	(940)	(6)	(946)
Direct tax	(311)	2	(309)
Profit for the period	610	(4)	606
Other comprehensive income for the period			
Actuarial gains and losses on post-employment benefit liabilities		6	6
Deferred income tax		(2)	(2)
Total comprehensive income for the period	603		603

IAS 19 impact on December 2012 less than N$ 1m.
No amounts reported in the statement of financial position were affected by the above restatements.
Restatements are unaudited.

Features of the group results

Financial statistics	As at 31 December 2013 N$m	2012 N$m	As at 30 June 2013 N$m
Headline and diluted headline earnings per share (cents)	145.7	121.3	228.8
Ordinary dividends per share (cents) - (declared for the period)	55.0	46.0	100.0
Number of shares in issue (millions) - ordinary*	259.8	259.3	259.4
Weighted number of shares in issue (millions) - ordinary*	259.5	259.1	259.2
Net asset value per share (cents)	961	812	872
Closing share price (cents)	2 171	1 667	1 925
Market capitalisation (millions)	5 809	4 461	5 151
Price earnings ratio	7.5	6.9	8.3
Price to book ratio	2.3	2.1	2.2
Selected ratios			
Return on average shareholders' equity (%)	32.9	30.7	25.7
Return on average assets (%)	3.4	3.1	2.8
Cost to income ratio (%)	47.3	48.2	49.4

* *after consolidation of share trusts*

Capital adequacy of FNB

	2013	2012	2013
Risk weighted assets			
Credit risk	14 945	12 624	13 830
Market risk	60	26	38
Operational risk	2 180	1 939	2 041
Total risk weighted assets	17 185	14 589	15 909
Regulatory capital			
Share capital and share premium	1 143	1 143	1 143
Retained profits	1 033	636	1 056
Capital impairment: intangible assets	(166)	(173)	(176)
Total tier 1	2 010	1 606	2 023
Eligible subordinated debt	390	390	390
General risk reserve, including portfolio impairment	197	159	171
Current audited board approved profits	107	191	
Total tier 2	694	740	561
Total tier 1 and tier 2 capital	2 704	2 346	2 584
Capital adequacy ratios			
Tier 1	11.7%	11.0%	12.7%
Tier 2	4.0%	5.1%	3.5%
Total	15.7%	16.1%	16.2%
Tier 1 leverage ratio	8.1%	7.9%	9.0%

Directors:
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