FNB Namibia Holdings Limited
(Incorporated in the Republic of Namibia)
Registration No. 88/024, ISIN Code: NA0003475176, NSX Share Code: FNB
("FNB Namibia Holdings" or "the Company")

FNB
Namibia Holdings

Unaudited interim group results and cash dividend declaration

for the six months ended 31 December 2015

Headlines earnings growth
21.3%

Return on average equity
35.4%

Interim dividend
91 cents per share

Dividend declaration

Notice is hereby given that an interim dividend (number 45) for the 6 months ended 31 December 2015 of 91 cents per ordinary share was declared on 29 January 2016.

The last day to trade shares on a cum dividend basis will be on 19 February 2016 and the first day to trade ex dividend will be 22 February 2016. The record date will be 26 February 2016 and the payment date 16 March 2016.

By order of the board

Nelago Ashipala, Company Secretary, Windhoek, 11 February 2016

Overview of performance

Despite a deteriorating Namibian and Global economic climate, FNB Namibia Holdings performed well for the six months ended 31 December 2015. The first-half results were achieved by consistently executing our strategies and focussing on delivering sustainable value to all stakeholders.

Profit for the period increased by 20.5% to N$597.4million (2014: N$495.6 million). Earnings per share increased by 21% to 226.5 cents (2014: 187.2 cents).

Key ratios tracked the results. Return on average equity improved to 35.4% (2014: 35.0%), return on average assets increased to 3.9% (2014: 3.7%). Cost to income ratio was a very efficient 42.4%.

Statement of comprehensive income

Interest

Net interest income increased by 15.6% to N$815.5 million (2014: N$705.5 million). Although in an increasing interest rate cycle, the group is benefiting from the positive endowment effect. Due to an increase in the average cost of deposits, banks have been experiencing a margin squeeze. Interest expense increased by 22% compared to interest income growth of 18%.

Impairment losses

For the first six months of the financial year, the total impairment charge was N$31.7 million (2014: N$30.1 million), amounting to a 0.27% (2014: 0.20%) charge of average advances. The portfolio provision charge of N$3.3 million (2014: N$18.9 million) is in line with the group's strategy of maintaining an appropriate level of provisioning on the performing book.

Non-interest income

Non-interest income increased by 15.6% to N$744.2 million (2014: N$643.9 million). Net fee and commission income increased by 11.9%. Consumers benefited from a waiver of cash deposit fees on individual and sme transactions which came into effect in April 2015.

We remain focussed on increasing our client base. Year on year our customer numbers increased by 15% to 661 000. Electronic transactions have increased at 18%, while traditional branch volumes decreased by 2% in line with our strategy to migrate clients to electronic channels. Although this erodes revenue to an extent, we are pleased to pass on the benefits of our strategy to encourage use of innovative electronic banking.

Fair value income contributed N$108.3 million (2014: N$80.5 million) or 14.6% to non-interest income, buoyed by the increased Kwanza trade in the first part of the period.

Net insurance premium income and net claims and benefits paid

to 70%, which is considered good. WesBank achieved asset growth of 6.7% - reflecting a slow-down in vehicle sales and aggressive competition. FNB remains the market leader in vehicle and home loan financing.

The ratio of non-performing loans to gross advances increased to 0.92% (2014: 0.75%). Non-performing loans increased to N$231.9 million (2014: N$163 million), inflated mainly by one large commercial property transaction which is likely to be recovered. Impairments held have increased by a lesser degree from N$168.9 million to N$184.2 million indicating that the non-performing book is well secured.

Investment in our new head office building is reflected in the growth of the property and equipment line. Over the past 12 months an increase of 22% to N$906 million was recorded.

Deposits increased by 11.7% to N$25.7 billion, trailing the growth in advances. The slower growth in general customer deposits, particularly influenced by large corporate clients, was supported by the issuance of additional NCD's in the professional market.

Diversification of both source and term funding remain focus areas to reduce liquidity and concentration risk.

Capital management

FNB remains well capitalised with a total capital adequacy of 15.8% - the same level as December 2014. This is well above the regulatory requirement of 10% and internal board approved target of 14.2%. Economic risk is still backed by a strong Tier 1 capital level of 13.1% (2014: 12.4%).

The group seeks to hold limited excess capital, unless required to support business growth and future regulatory changes.

OUTsurance's solvency margin, a measure of an insurance company's ability to pay claims, was 32.4% (2014: 33.8%) against a statutory minimum requirement of 15%.

All subsidiaries remain well capitalised.

Dividend strategy

After a review of the annual Internal Capital Adequacy Assessment Process (ICAAP), the dividend cover was revised by the board to align it more closely to the ultimate shareholder dividend cover range towards the close of the 2015 financial year. The new dividend cover range for FNB Namibia is 1.8x to 3.0x. Cover for 2015 was reduced to 2.0x (2014: 2.4x). The board considered this to be both appropriate and prudent as all the group's buffers will remain intact.

The level of payout is re-evaluated annually, taking into account actual performance, demand for capital, macroeconomic conditions and regulatory changes.

The interim dividend growth is higher as a result of the change in dividend cover adopted during the year ended June 2015. The group expects growth in dividend for the full year to track normalised earnings more closely.

OUTsurance's net premium income for the six months increased by 24.3%. The high growth in new business has increased claims and benefits by more than premium income. Increased new business also lead to higher initial expenses which reduced profit after tax by 23% against the corresponding period in 2014. The profitability is expected to return to normal as new business matures.

Operating expenses

Total operating expenses increased by 12.5% to N$677.5 million (2014: N$602.4 million). Staff related costs, amounted to more than 50% of operating expenses, and are up 11.0%. Staff numbers grew by 7.4%, largely due to the strengthening of our risk and compliance team. A minimum annual salary increase of 7.75% was agreed with the union, which resulted in an average salary increase of 8.6%.

IT costs increased by 10.4% to N$96.8 million reflecting our ongoing investment in systems and delivery channels to ensure our banking platforms continued to differentiate us from the market.

The group continues to incur investment costs in increasing our footprint. An additional outlet was opened in Rundu in December 2015 to alleviate congestion in the main branch. Thirty-one new ATMs/mini ATMs were installed with associated data line and rental costs.

Statement of financial position

The group's total assets grew by 15.6% to N$32.5 billion. Advances, making up 76.7% of the balance sheet, reflected a year on year increase of 15.1% to N$24.9 billion. Growth was ahead of private credit extension, which grew annually by 13.6% in December 2015.

Term loans increased by 26.0% to N$6.3 billion, reflecting good progress in facilitating business transactions. Overdrafts are up by 21.8% to N$2.7 billion reflecting increased exposures across the market. FNB's home loan book has surpassed the N$11 billion mark, representing 45.9% (2014: 47.1%) of FNB's advances book. This is not considered a concentration risk due to a stable and active Namibian property market. On average the loan to value ratio is close

Events subsequent to the reporting date

The directors are not aware of any material events, as defined in IAS 10, occurring between 31 December 2015 and the date of authorisation of the results announcement.

Board changes

Mr Claus Hinrichsen retired as Director and Chairman of the FNB Namibia Holdings Board effective 31 December 2015. Ms Jennifer Comalie, an independent non-executive director, resigned from the board on 29 October 2015.

Group prospects

The group forecasts economic growth to slow in 2016. Falling commodity prices and looming water shortages pose downside risks. Water intensive sectors such as construction, agriculture, manufacturing, and hydro power generation will be negatively affected.

Rising inflation, slower employment growth and higher interest rates will weigh on real disposable income growth and constrain credit growth. The economy is unlikely to see a meaningful increase in household consumption growth in the face of higher food prices. In the light of muted export growth, rising imports and rising inflation, it is likely the weak local currency will accelerate inflation.

We expect operating conditions to become more challenging - on both the economic and regulatory fronts. However, we believe our strong balance sheet, diversified earnings base and innovative initiatives at providing cost-effective and efficient banking for all will ensure a sustainable performance.

For and on behalf of the board

S H Moir, Acting Chairman
SJ van Zyl, Chief executive

Windhoek, 29 January 2016

Condensed consolidated statement of comprehensive income

		Unaudited Six months ended 31 December		Audited Year ended 30 June
N$'000	Notes	2015	2014	2015
Interest and similar income	2	1 377 743	1 166 653	2 413 043
Interest expense and similar charges	2	(562 275)	(461 154)	(960 176)
Net interest income before impairment of advances		815 468	705 499	1 452 867
Impairment of advances		(31 739)	(30 062)	(49 882)
Net interest income after impairment of advances		783 729	675 437	1 402 985
Non-interest revenue	3	744 167	643 885	1 260 061
Net insurance premium income		91 709	73 785	153 944
Net claims and benefits paid		(51 821)	(35 888)	(82 310)
Income from operations		1 567 784	1 357 219	2 734 680
Operating expenses	4	(677 595)	(602 441)	(1 221 986)
Net income from operations		890 189	754 778	1 512 694
Share of profit from associate after tax		524	409	558
Income before tax		890 713	755 187	1 513 252
Indirect tax		(15 948)	(12 472)	(26 611)
Profit before tax		874 765	742 715	1 486 641
Direct tax		(277 403)	(247 076)	(487 979)
Profit for the period		597 362	495 639	998 662
Other comprehensive income for the period				
Items that will not be reclassified to profit and loss				(1 924)
Remeasurements on net defined benefit liability/asset				(2 871)
Income tax relating to items that will not be reclassified				947
Items that may be reclassified subsequently to profit and loss		(31 873)	1 351	(13 382)
Available-for-sale financial assets adjustments		(55 150)	2 016	(20 075)
Income tax relating to items that will be reclassified		23 277	(665)	6 693
Total comprehensive income for the period		565 489	496 990	983 356
Profit for the period attributable to:				
Equity holders of the parent		590 143	486 483	981 905
Non-controlling interests		7 219	9 156	16 757
Profit for the period		597 362	495 639	998 662
Total comprehensive income for the period attributable to:				
Equity holders of the parent		558 270	487 834	966 599
Non-controlling interests		7 219	9 156	16 757
Total comprehensive income for the period		565 489	496 990	983 356
Earnings per share (cents)				
Basic and diluted earnings per share (cents)		226.5	187.2	377.5
		226.5	187.2	377.5

Condensed consolidated statement of financial position

		Unaudited as at 31 December		Audited as at 30 June
N$'000	Notes	2015	2014	2015
Assets				
Cash and cash equivalents		1 081 503	1 058 699	795 225
Due from banks and other financial institutions		1 964 969	1 168 016	1 585 029
Derivative financial instruments		322 047	152 231	158 644
Advances	6	24 912 020	21 634 217	22 833 693
Investment securities		3 003 391	3 172 569	3 365 927
Accounts receivable		278 817	158 777	185 614
Investments in associate		4 250	3 577	3 726
Property and equipment		906 295	741 966	849 171
Intangible assets		451	4 617	2 534
Deferred income tax asset		4 277	3 371	3 897
Reinsurance assets		1 066	930	191
Tax asset		664	2 846	664
Total assets		32 479 750	28 101 816	29 784 315
Equity and liabilities				
Liabilities				
Deposits	7.1	25 664 392	22 970 271	23 951 813
Due to banks and other financial institutions	7.2	1 748 608	894 264	1 020 016
Derivative financial instruments		308 682	173 187	172 188
Short trading positions		32 386		26 693
Creditors and accruals		295 714	218 557	431 781
Tax liability		105 975	99 342	49 774
Employee liabilities		136 769	129 139	167 830
Deferred income tax liability		85 901	72 986	110 904
Policyholders liabilities under insurance contracts		67 214	57 402	69 770
Finance lease obligation			4 070	2 060
Tier two liabilities		392 706	392 695	392 635
Total liabilities		28 838 347	25 011 913	26 395 464
Capital and reserves attributable to ordinary equity holders of parent		3 602 826	3 057 326	3 348 673
Non-controlling interests		38 577	32 577	40 178
Total equity		3 641 403	3 089 903	3 388 851
Total equity and liabilities		32 479 750	28 101 816	29 784 315

Condensed consolidated statement of changes in equity

	Attributable to equity holders of the parent[1]			Non-controlling interests		
	Unaudited Six months ended 31 December		Audited Year ended 30 June	Unaudited Six months ended 31 December		Audited Year ended 30 June
N$'000	2015	2014	2015	2015	2014	2015
Balance at beginning of the period	3 348 673	2 745 911	2 745 911	40 178	31 261	31 261
Total comprehensive income for the period	558 270	487 834	966 599	7 219	9 156	16 757
Share option costs	4 278	3 444	8 246			
Transfer between reserves			337			
Dividends paid	(291 769)	(174 237)	(358 942)	(8 820)	(7 840)	(7 840)
Consolidation of share trusts	(16 626)	(5 626)	(13 478)			
Balance at end of the period	3 602 826	3 057 326	3 348 673	38 577	32 577	40 178

[1] *includes general risk reserve*

Condensed consolidated statement of cash flow

	Unaudited Six months ended 31 December		Audited Year ended 30 June
N$'000	2015	2014	2015
Net cash generated from operations	925 120	786 172	1 134 851
Tax paid	(237 814)	(220 546)	(472 593)
Net cash flow from operating activities	687 306	565 626	662 258
Net cash flow from investing activities	(86 031)	(188 287)	(350 154)
Net cash flow from financing activities	(314 997)	(186 219)	(384 458)
Net increase in cash and cash equivalents	286 278	191 120	(72 354)
Cash and cash equivalents at beginning of the period[1]	795 225	867 579	867 579
Cash and cash equivalents at end of the period	1 081 503	1 058 699	795 225

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

Condensed notes to the consolidated financial results

for the reporting period ended 31 December 2015

1. Basis of preparation

The group prepares its condensed consolidated interim financial results in accordance with the:

- recognition and measurement requirements of International Financial Reporting Standards (IFRS)
- presentation and disclosure requirements of IAS 34 Interim Financial Reporting; and
- Namibian Companies Act.

The accounting policies applied in the preparation of the condensed interim consolidated financial statements are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements. There were no new standards and interpretations which became effective for the first time in the current financial period.

The estimates and judgements made in applying the accounting policies are consistent with those applied and disclosed in the annual financial statements for the year ended 30 June 2015.

The condensed consolidated interim results for the six months ended 31 December 2015 have not been audited or independently reviewed by the group's external auditors.

2. Analysis of interest income and interest expense

N$'000	Six month ended December 2015	Six month ended December 2014	Year ended June 2015
Interest and similar income			
- Advances	1 213 364	989 581	2 071 584
- Cash and cash equivalents	37 688	64 658	103 234
- Investment securities	103 272	96 953	199 501
- Unwinding of discounted present value on non performing loans	13 637	4 618	13 314
- Unwinding of discounted present value on off-market advances	920	2 713	5 978
- On impaired advances	(4 944)	(2 747)	(3 699)
- Net release of deferred fee and expenses	12 421	9 866	21 279
- Other	1 385	1 011	1 852
	1 377 743	1 166 653	2 413 043
Interest expense and similar charges			
- Deposits from banks and financial institutions	(21 473)	(17 495)	(34 664)
- Current accounts	(52 494)	(59 002)	(112 562)
- Savings deposits	(5 869)	(4 897)	(10 205)
- Call deposits	(108 648)	(118 662)	(237 827)
- Term deposits	(122 740)	(89 583)	(194 231)
- Negotiable certificates of deposit	(234 430)	(155 243)	(338 142)
- Tier two liabilities	(16 009)	(15 657)	(31 325)
- Other	(612)	(615)	(1 220)
	(562 275)	(461 154)	(960 176)

3. Non-interest revenue

N$'000	Six month ended December 2015	Six month ended December 2014	Year ended June 2015
Fee and commission income:			
- Card commissions	65 399	56 436	105 327
- Cash deposit fees	59 808	87 159	153 439
- Commissions: bills, drafts and cheques	15 028	17 972	36 866
- Service fees	301 066	229 183	469 754
- Fiduciary service fees	3 472	4 280	9 340
- Other commissions	190 992	169 984	326 152
- Banking fee and commission income	635 765	565 014	1 100 878
- Brokerage income	23 994	27 028	52 379
- Unit trust and related fees	6 196	8 528	17 327
- Reinsurance commission received by insurance companies	2 281	2 612	5 056
- Non banking fee and commission income	32 471	38 168	74 762
Fee and commission income	668 236	603 182	1 175 640
Fee and commission expenses:			
- Transaction processing fees	(32 222)	(33 619)	(68 155)
- Cash sorting handling and transportation charges	(10 191)	(8 613)	(18 750)
- Card and cheque book related	(1 064)	(2 656)	(4 909)
- Insurance operations	(2 669)	(2 823)	(5 616)
- ATM commissions paid	(2 426)	(1 277)	(2 650)
- Other	(1 392)	(1 775)	(2 875)
Fee and commission expenses	(49 964)	(50 763)	(102 955)
Net fee and commission income	618 272	552 419	1072 685
Non banking fee and commission income earned relates to fees and commissions earned for rendering services to clients other than those related to the banking operations. This includes commission earned on the sale of insurance products.			
Fair value gains or losses:			
- Foreign exchange trading	71 044	48 528	91 173
- Treasury trading operations	28 394	(4 511)	4 873
- Designated at fair value through profit or loss	8 859	36 524	59 709
Fair value gains or losses	108 297	80 541	155 755
Gains less losses from investing activities			
- Gains on investment securities designated at fair value through profit or loss	4 024	3 147	6 696
- Gains on realisation of available-for-sale financial assets			(198)
- Dividends received (unlisted investments)	10 214	5 404	14 596
- Share of profit from associate after tax	524	409	558
Gross gains less losses from investing activities	14 762	8 960	21 652
Less: Share of profit from associate after tax (disclosed separately on face of the statement of comprehensive income)	(524)	(409)	(558)
Gains less losses from investing activities	14 238	8 551	21 094
Other non-interest income			
- Gains and losses on sale of property and equipment	(154)	24	(62)
- Rental income	867	695	1 414
- Other income	2 647	1 655	9 175
Other non-interest income	3 360	2 374	10 527
Total non-interest income	744 167	643 885	1 260 061

4. Operating expenses

N$'000	Six month ended December 2015	Six month ended December 2014	Year ended June 2015
Auditors' remuneration			
- Audit fees	3 373	2 855	5 961
- Fees for other services			598
Auditors' remuneration	3 373	2 855	6 559
Operating lease charges			
- Property	14 027	13 427	28 569
- Equipment	6 615	4 835	10 391
Operating lease charges	20 642	18 262	38 960
Staff costs			
- Salaries, wages and allowances	284 717	251 795	501 763
- Off-market staff loans amortisation	920	2 713	5 978
- Contributions to employee benefit funds	60 924	52 663	108 647
- Defined contribution schemes: pension	27 588	24 193	48 083
- Defined contribution schemes: medical	33 336	28 470	60 564
- Post retirement medical expense	2 355	2 138	2 713
- Severance pay: death in service	354	311	758
- Social security levies	967	887	1 797
- Training levies	3 575	3 087	6 221
- Share-based payments	4 278	9 112	16 550
Total staff costs	358 090	322 706	644 427
Other operating costs			
- Amortisation of intangible assets	2 083	2 083	4 167
- Depreciation	28 907	22 470	46 415
- Insurance	3 720	3 804	8 233
- Advertising and marketing	28 319	27 371	57 960
- Property and maintenance related expenses	35 708	29 197	60 379
- Legal and other related expenses	4 145	3 516	8 102
- Postage	2 144	2 173	4 648
- Stationery and printing	6 792	7 270	15 354
- Telecommunications	11 210	9 333	19 213
- Travel and accommodation	7 114	6 740	13 407
- Computer and processing related costs	96 841	87 682	168 576
- Other operating expenditure	61 021	42 228	95 093
- Total directors' remuneration	2 353	8 898	13 008
- Professional fees	5 133	5 853	17 485
Other operating costs	295 490	258 618	532 040
Total operating expenses	677 595	602 441	1 221 986

5. Earnings per share

5.1 Headline earnings per share

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

	Six month ended December 2015	Six month ended December 2014	Year ended June 2015
Headline earnings (N$'000)	590 248	486 483	982 100
Weighted average number of ordinary shares in issue	260 529 954	259 896 146	260 059 161
Headline earnings per share (cents)	226.6	187.2	377.6
Earnings attributable to equity holders of the parent	590 143	486 483	981 905
Gains and losses on sale of property and equipment *	105		62
Gains on realisation of available-for-sale financial assets*			133
Headline earnings	590 248	486 483	982 100

** Net of tax and non controlling interests*

5.2 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders of the group, obtained from profit and loss, by the weighted average number of ordinary shares in issue during the period.

	Six month ended December 2015	Six month ended December 2014	Year ended June 2015
Earnings attributable to ordinary shareholders (N$'000)	590 143	486 483	981 905
Weighted average number of ordinary shares in issue	260 529 954	259 896 146	260 059 161
Basic earnings per share (cents)	226.5	187.2	377.5

Basic earning per share equals diluted earning per share as there are no potential dilutive ordinary shares in issue.

6. Advances

N$'000	Six month ended December 2015	Six month ended December 2014	Year ended June 2015
Notional value of advances	25 123 012	21 826 694	23 029 394
Contractual interest suspended	(26 832)	(23 581)	(23 323)
Gross advances	25 096 180	21 803 113	23 006 071
Category analysis			
Overdrafts and cash management accounts	2 722 291	2 235 456	2 675 092
Card loans	195 122	160 365	186 602
Instalment sales and hire purchase agreements	3 215 203	2 985 368	3 040 962
Lease payments receivable	295 378	306 131	316 573
Home loans	11 506 648	10 276 087	10 694 799
Term loans	6 324 813	5 019 971	5 306 448
Investment bank term loans	489 031	537 045	552 035
Preference share advance	24 000	27 323	25 500
Assets under agreement to resell	32 933		27 087
Other	290 761	255 366	180 973
Gross advances	25 096 180	21 803 113	23 006 071
Impairment of advances	(184 160)	(168 896)	(172 378)
Net advances	24 912 020	21 634 217	22 833 693

7. Deposits

7.1 Deposits and current accounts

N$'000	Six month ended December 2015	Six month ended December 2014	Year ended June 2015
Category analysis			
- Current accounts	9 624 738	9 027 550	9 450 923
- Call deposits	4 766 092	5 469 635	4 560 154
- Savings accounts	603 106	606 062	611 934
- Fixed and notice deposits	4 217 886	3 618 919	3 557 225
- Negotiable certificates of deposit	6 452 570	4 248 105	5 771 577
Total deposits and current accounts	25 664 392	22 970 271	23 951 813

7.2 Due to banks and other financial institutions

To banks and financial institutions			
- In the normal course of business	1 748 608	894 264	1 020 016

8. Related parties

The group defines related parties as :
(i) The parent company;
(ii) Subsidiaries and fellow subsidiaries;
(iii) Associate companies;
(iv) Associates and joint ventures of the parent company and fellow subsidiaries;
(v) Entities that have significant influence over the group. If an investor has significant influence over the group that investor and its subsidiaries are related parties of the group. The group is FNB Namibia Holdings Limited and its subsidiaries;
(vi) Post-retirement benefit funds (pension fund);
(vii) Key management personnel being the FNB Namibia Holdings Limited board of directors and the group executive committee; and
(viii) Close family members of key management personnel (individual's spouse/domestic partner and children; domestic partner's children and dependants of individual or domestic partner); and
(ix) Entities controlled, jointly controlled or significantly influenced by any individual referred to in (vii) and (viii).

FNB Namibia Holdings Limited is listed on the Namibian Stock Exchange and is 58.4% (2014: 58.4%) owned by FirstRand Bank Holdings Limited, with its ultimate holding company FirstRand Limited, which is incorporated in South Africa, listed on the JSE Limited and on the NSX.

Balances and transactions with parent company and fellow subsidiaries

	Six month ended December 2015	Six month ended December 2014	Year ended June 2015
Balances			
Money at call and short notice	652 003	581 431	563 569
Other deposits and loans	(901 945)	(793 865)	757 998
Derivative assets	46 861	34 942	34 520
Derivative liabilities	(283 614)	(127 209)	(3 557)
Transactions			
Interest received	25 375	44 382	(73 707)
Interest paid	(18 965)	(17 286)	(34 348)
Dividends paid	175 027	99 467	215 659
Operating expenses	(85 554)	(108 341)	(154 026)
Balances and transactions with associates			
Balances			
Loans and advances	21 586	24 487	23 505
Other deposits and loans	(10 162)	(3 140)	(4 312)
Transactions			
Interest received	786	833	2 157
Interest paid	(46)	(231)	(248)
Operating expenses	(5 321)	(3 715)	(8 149)

9. Fair value measurements

9.1 Valuation methodology

In terms of IFRS, the group is required to or elects to measure 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. Technical teams 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 technical teams, valuation committees, relevant risk committees and external auditors 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 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.

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 9.3 below, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

9.2 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:

- 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.

Level 1
Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities where this is readily available and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. This category may include listed bonds and equity.

Level 2
Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly such as quoted prices for similar items in an active market or for an identical item in an inactive market, or valuation models using observable inputs or inputs derived from observable market data. This category may include loans and advances to customers, equities listed in an inactive market, certain debt instruments, private equity investments, non-recourse investments and deposits, over the counter derivatives, deposits, other liabilities, Tier 2 liabilities, commodities which are not exchange-traded and investment properties.

Level 3
Fair value is determined using a valuation technique and significant inputs that are not based on observable market data (i.e. unobservable inputs) such as an entity's own assumptions about what market participants would assume in pricing assets and liabilities. The assumptions applied by the group are set out in the table below. This category includes certain loans and advances to customers, private equity investments.

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 and Level 3 in the fair value hierarchy:

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Derivative financial instruments					
- Option contracts	Level 2 and Level 3	Option pricing model	The Black Scholes model is used.	Strike price of the option; market related discount rate; forward rate and cap and floor volatility.	Volatilities
- Swaps	Level 2	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 curves	Not applicable
- Forward rate agreements	Level 2	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 and curves	Not applicable
- Forward contracts	Level 2	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.	Market interest rates and curves	Not applicable
Loans and advances to customers					
- Investment banking book*	Level 3	Discounted cash flows	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.	Market interest rates and curves	Credit inputs
- Other loans and advances	Level 2 and Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period.	Market interest rates and curves	Credit inputs
Investment securities and other investments					
- Equities/ bonds listed in an inactive market	Level 2	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, these are classified as Level 2 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.	Market interest rates and curves	Not applicable
- Unlisted bonds	Level 2 and Level 3	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.	Market interest rates and curves	Credit inputs
Investment securities and other investments					
- Unlisted equities	Level 2 and Level 3	Price earnings ("P/E") model	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.	Market transactions	Growth rates and P/E ratios
- Negotiable certificates of deposit	Level 2	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	Not applicable
- Treasury Bills	Level 2	BESA bond pricing model	The BESA bond pricing model uses the BESA mark to market bond yield.	Market interest rates and curves	Not applicable
Deposits					
- Call and non-term deposits	Level 2	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	Not applicable
- Deposits that represent collateral on credit linked notes	Level 3	Discounted cash flows	These deposits represent the collateral leg of credit linked notes. 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	Credit inputs on related advance
- Other deposits	Level 2 and Level 3	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	Credit inputs
Other liabilities and Tier 2 liabilities	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Level 2 and Level 3	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	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 measurements are determined on a case by case basis as they occur within each reporting period. 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 or a reasonable approximation of the fair value. This will be assessed per transaction and details will be provided in the relevant notes. There were no such transactions for the current period.

During the current reporting period there were no changes in the valuation techniques used by the group.

9.3 Fair value hierarchy and measurements

The following table presents the fair value measurements and fair value hierarchy of assets and liabilities of the group which are recognised at fair value:

December 2015 N$'000	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Available-for-sale financial assets		2 609 913	11 530	2 621 443
Investment securities				
Financial assets designated at fair value through profit or loss				
Advances			489 031	489 031
Investment securities		328 196		328 196
Financial assets held for trading				
Derivative financial instruments		322 047		322 047
Investment securities		53 753		53 753
Total financial assets		3 313 909	500 561	3 814 470
Liabilities				
Financial liabilities held for trading				
Derivative financial instruments		308 682		308 682
Short trading position	32 386			32 386
Total financial liabilities	32 386	308 682		341 068

December 2014 N$'000	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Available-for-sale financial assets				
Investment securities		2 933 636	11 530	2 945 166
Financial assets designated at fair value through profit or loss				
Advances			537 045	537 045
Investment securities		208 211		208 211
Financial assets held for trading				
Derivative financial instruments		152 231		152 231
Investment securities		19 192		19 192
Total financial assets		3 313 270	548 575	3 861 845
Liabilities				
Financial liabilities held for trading				
Derivative financial instruments		173 187		173 187

Total financial liabilities		173 187		173 187

June 2015

N$'000	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Available-for-sale financial assets				
Investment securities		3 002 332	11 530	3 013 862
Financial assets designated at fair value through profit or loss				
Advances			519 585	519 585
Investment securities		317 563		317 563
Financial assets held for trading				
Derivative financial instruments		158 644		158 644
Investment securities		34 501		34 501
Total financial assets		3 513 040	531 115	4 044 155
Liabilities				
Financial liabilities held for trading				
Derivative financial instruments		172 188		172 188
Short trading position	26 693			26 693
Total financial liabilities	26 693	172 188		198 881

During the reporting period ending 31 December 2015 (31 December 2014), 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.

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. However, changing these inputs to reasonably possible alternatives would change the fair value using more positive reasonable assumptions to N$550,617 (2014:N$603,432) and using more negative reasonable possible assumptions to N$450,505 (2014:N$493,717). These amounts are based on the assumptions without first tier margins and additional first tier margins respectively.

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 the derivative note above.

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

	Fair value on June 2015	Gains or losses recognised in profit and loss	Gains or losses recognised in other comprehensive income	Purchases/ (sales)/ issues/ (settlements)	Fair value on December 2015
Assets					
Advances	519 585	8 859		(39 413)	489 031
Investment securities	11 530				11 530
Total financial assets at fair value	531 115	8 859		(39 413)	500 561

	Fair value on June 2014	Gains or losses recognised in profit and loss	Gains or losses recognised in other comprehensive income	Purchases/ (sales)/ issues/ (settlements)	Fair value on December 2014
Assets					
Advances	538 583	42 848		(44 386)	537 045
Investment securities	11 530				11 530
Total financial assets at fair value	550 113	42 848		(44 386)	548 575

	Fair value on June 2014	Gains or losses recognised in profit and loss	Gains or losses recognised in other comprehensive income	Purchases/ (sales)/ issues/ (settlements)	Fair value on June 2015
Assets					
Advances	538 583	59 709		(78 707)	519 585
Investment securities	11 530				11 530
Total financial assets at fair value	550 113	59 709		(78 707)	531 115

The table below presents the total gains (losses) relating to financial instrument classified in Level 3 that are still held on:

Assets	December 2015 Advances	December 2014 Advances	June 2015 Advances
Gains or losses recognised in profit and loss	8 859	42 848	59 709
Gains or losses recognised in other comprehensive income			
Total	8 859	42 848	59 709

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.

	December 2015		December 2014		June 2015	
N$'000	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Assets						
Cash and cash equivalents	1 081 503	1 081 503	1 058 699	1 058 699	795 225	795 225
Due from banks and other financial institutions	1 964 969	1 964 969	1 168 016	1 168 016	1 585 029	1 585 029
Advances	24 912 020	24 191 601	21 097 172	21 576 282	22 314 108	22 050 802
Investment securities						
Accounts receivable	128 939	128 939	73 073	73 073	58 381	58 381
Total	28 087 431	27 367 012	23 396 960	23 876 070	24 752 743	24 489 437
Liabilities						
Deposits	25 664 392	25 662 534	22 970 271	22 980 974	23 911 551	23 909 983
Due to banks and other financial institutions	1 748 608	1 748 608	894 264	894 264	1 020 016	1 020 016
Creditors and accruals	58 548	58 548	73 288	73 288	120 327	120 327
Other liabilities			4 070	4 070	2 060	2 060
Tier two liabilities	392 706	391 062	392 695	394 105	392 635	392 905
Total	27 864 254	27 860 752	24 334 588	24 346 701	25 446 589	25 445 291

Day one profit or loss

Day 1 profit or loss arises on the initial recognition of a financial instrument when the fair value of an instrument is determined using a valuation technique that makes use of inputs that are not observable in an active market. In terms of IAS 39 if the fair value determined in accordance with such a valuation technique differs from the transaction price the initial recognition should take place at the transaction price as the transaction price is considered the best evidence of fair value at initial recognition. The day 1 profits or losses arising as a result of the difference between the two values should only be recognised over the life of the instrument as a result of changes that would also be considered by market participants. The balance is related 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 period with a reconciliation of changes in the balance during the period:

	Six months ended 31 December		Year ended 30 June
	2015	2014	2015
Unrecognised profit at the beginning of the period	4 873	8 587	8 587
Recognised in profit or loss during the period	(1 856)	(1 886)	(3 714)
Unrecognised profit at the end of the period	3 017	6 701	4 873

10. Contingent liabilities and capital commitments

	Six months ended 31 December		Year ended 30 June
N$'000	2015	2014	2015
Contingent liabilities	7 152 137	5 782 916	5 992 740
Capital commitments	45 885	198 398	93 374

11. Condensed consolidated segment information

	Six months ended 31 December		Year ended 30 June
N$'000	2015	2014	2015
Income from operations:			
FNB [1]	1 486 916	1 277 677	2 577 963
OUTsurance	45 445	42 691	81 879
Other [2]	35 424	36 852	74 839
	1 567 785	1 357 220	2 734 681
Profit for the period:			
FNB [1]	575 475	471 227	942 529
OUTsurance	14 734	18 655	34 433
Other [2]	7 153	5 757	21 700
	597 362	495 639	998 662
Total assets:			
FNB [1]	32 476 835	28 257 898	29 749 532
OUTsurance	144 628	123 432	150 689
Other [2]	(141 713)	(279 514)	(115 906)
	32 479 750	28 101 816	29 784 315

[1] banking operations include FNB consumer, FNB business, RMB corporate and WesBank
[2] other segment includes FNB Insurance Brokers, FNB Trust services, FNB Unit Trusts, property and consolidation entries

Salient features of the group results

	Six months ended 31 December		Year ended 30 June
	2015	2014	2015
Financial statistics			
Headline and diluted headline earnings per share (cents)	226.6	187.2	377.5
Ordinary dividends per share (cents) – (declared for the period)	91.0	71.0	183.0
Number of shares in issue ('000) – ordinary*	260 785	260 140	260 259
Weighted number of shares in issue ('000) – ordinary*	260 530	259 896	260 056
* *after consolidation of share trusts*			
Net asset value per share (cents)	1 383	1 175	1 287
Closing share price (cents)	4 355	2 657	3 278
Market capitalisation (millions)	11 357	7 110	8 772
Price earnings ratio	9.6	7.1	8.7
Price to book ratio	3.1	2.3	2.5
Selected ratios			
Return on average shareholders' equity (%)	35.4	35.0	32.2
Return on average assets (%)	3.9	3.7	3.6
Cost to income ratio (%)	42.4	43.8	43.9

Capital adequacy

Banking Operations

	Six months ended 31 December		Year ended 30 June
N$'000	2015	2014	2015*
Risk weighted assets			
Credit risk	20 383 049	17 227 172	18 467 949
Market risk	39 093	326 126	59 429
Operational risk	3 121 013	2 561 318	2 822 621
Total risk weighted assets	23 543 155	20 114 616	21 349 999
Regulatory capital			
Share capital and share premium	1 142 791	1 142 792	1 142 792
Retained profits	2 069 261	1 499 961	2 089 924
Capital impairment: intangible assets	(133 205)	(148 817)	(141 011)
Total tier 1	3 078 847	2 493 936	3 091 705
Eligible subordinated debt	390 000	390 000	390 000
General risk reserve, including portfolio impairment	254 788	218 043	232 204
Current board approved profits	(8 138)	78 350	
Total tier 2	636 650	686 393	622 204
Total tier 1 and tier 2 capital	3 715 497	3 180 329	3 713 909
Banking group			
Capital adequacy ratios			
Tier 1	13.1%	12.4%	14.5%
Tier 2	2.7%	3.4%	2.9%
Total	15.8%	15.8%	17.4%
Tier 1 leverage ratio	9.5%	8.8%	10.4%

Regulated consolidated group

	Six months ended 31 December		Year ended 30 June
N$'000	2015	2014	2015*
Risk weighted assets			
Credit risk	20 468 624	17 322 780	18 558 611
Market risk	39 093	326 126	59 429
Operational risk	3 160 290	2 709 931	2 858 741
Total risk weighted assets	23 668 007	20 358 837	21 476 781
Regulatory capital			
Share capital and share premium	247 733	247 733	247 734
Retained profits	2 940 624	2 348 389	2 962 388
50% investment in deconsolidated entities	(2 738)	(2 738)	(2 737)
Capital impairment: intangible assets	(451)	(4 517)	(2 434)
Total tier 1	3 185 168	2 588 867	3 204 951
Eligible subordinated debt	390 000	390 000	390 000
50% investment in deconsolidated entities	(2 738)	(2 737)	(2 738)
General risk reserve, including portfolio impairment	254 788	218 043	232 204
Current board approved profits	(8 138)	78 350	
Total tier 2	633 912	683 656	619 466
Total tier 1 and tier 2 capital	3 819 080	3 272 523	3 824 417
Consolidated group			
Capital adequacy ratios			
Tier 1	13.5%	12.7%	14.9%
Tier 2	2.7%	3.4%	2.9%
Total	16.2%	16.1%	17.8%
Tier 1 leverage ratio	9.8%	9.1%	10.8%

* *Comparatives have been restated to be comparable with the presentation in the current period.*

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