FNB
First National Bank

how can we help you?

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL RESULTS

for the interim reporting period ended
31 December 2017

CONTENTS

OUR OPERATING ENVIRONMENT

Growth in the second half of 2017 followed a similar trend to the first half, with growth in key economic sectors contracting, rising unemployment, year-on-year reduction in the growth of private sector credit extended (PSCE), rising debt levels and negative investor confidence.

This slowdown was mainly on account of deeper than previously expected contractions in sectors such as construction, wholesale and retail trade, as well as slower growth rates for manufacturing, electricity and water and the public sector per the Bank of Namibia December 2017 Economic outlook update.

Growth in 2018 is expected to improve, supported by recoveries expected in uranium mining, wholesale and retail trade, manufacturing, and transport and communication sectors with risks posed by slow growth in some of Namibia's key trading partners.

As the conduit between the various stakeholders in the economy, the banking sector has not been spared the impacts of a tough macroeconomic environment.

OUR PERFORMANCE

Across the portfolio, the six months to December 2017 were characterised by a slowdown in topline growth, combined with a strong investment cycle. The operating franchises, however, continued to produce resilient operating performances despite the macroeconomic slowdown.

Advances grew at 5.9% (compared to industry PSCE growth reported for December of 5.1%) and the deposit raising franchises achieved growth of 12%.

Profit before tax decreased by 12.7% to N$738.4 million (2016: N$845.5 million). Profit before tax was mainly impacted by the increase in impairments, an increase in the cost of funding and the integration of Ebank which was acquired in the last quarter of the previous financial year.

Normalised for Ebank, profit before tax decreased by 10.2% to N$759.1 million.

Return on average equity reduced to 22.9% (2016: 28.3%), return on average assets was 2.7% (2016: 3.3%) and the cost to income ratio increased to 51.2% (2016: 46.1%).

STATEMENT OF COMPREHENSIVE INCOME

Interest income

Net interest income grew to N$904.5 million (2016: N$883.9 million). Margins remained under pressure with a 25bps reduction in the repo and prime rate during the period under review. Net interest margin declined as a result of interest expense increasing by 24%; mainly due to an increase in our deposit base as well as a mix tilted towards relatively more expensive deposit products including the increasing of issuances to the market in response to earlier liquidity constraints. Interest income grew by 12%, impacted by slower volume growth as PSCE continued to fall as the year progressed.

Impairment losses

The total impairment charge for the period under review was an acceptable N$76.1 million given the current economic climate, which equates to 0.26% of gross advances and coming from a very low base of 0.05% in 2016.

Portfolio impairments increased year-on-year by N$13.3 million which is in line with our strategy of maintaining an appropriate level of provisioning on the performing book through the credit cycles.

Non-performing loans have increased by 25% since June 2017, compared to a decrease of 3.9% experienced in the comparative period from June 2016 to December 2016.

Non-interest revenue

Non-interest revenue (NIR) increased by 8% to N$801.3 million (2016: N$741.6 million).

NIR growth of 8% reflects a mixed picture in that the consumer segments showed good growth, however, the business and corporate consumer segment NIR was flat.

Overall fee and commission income benefited from strong volume growth of 8% with ongoing momentum across electronic channels, again demonstrating the success of the group's electronic migration strategy.

There was some negative impact from a reduction in cash-related NIR and the cost of the newly introduced rewards linked to the e-migration and cross- sell strategy. Manual branches volumes continue to decline, which sets us up to reduce legacy infrastructure costs.

Active accounts are up 6.3% resulting in the transactional volumes growth of 8%.

Operating expenses

Total cost growth in existing operations excluding Ebank was 14%. Total costs increased with 16.5% on the back of the investment in the risk and compliance office and the consolidation of Ebank.

Staff related costs are up by 14%, influenced by expansion of our risk and compliance team, an average non-managerial staff salary increase of 7.3% and continued conversion of staff from basic pay to Cost-to-Company. Managerial staff salary increases were in line with inflation. Including Ebank, which is not part of the prior year, overall staff costs are up by 15.7%.

IT costs increased by 20% with the investment in upgrades in bandwidth to ensure efficient service delivery, new data lines to support our expanding footprint of self-service channels and other regulatory projects.

As expected, depreciation increased by 30%, reflecting the impact of the continued investment in automated deposit terminals (ADTs) across the country and speed points. These machines are more expensive than ordinary ATM's because of their advanced technology but their integration supports our migration of clients to self-service channels.

Management has successfully implemented effective cost-saving measures for discretionary expenses, which have recorded declines.

We continue to invest in modernising our systems and delivery channels, with the long term view on sustainable growth.

STATEMENT OF FINANCIAL POSITION

Advances

Advances have grown to N$28.6 billion, constituting 74% of total assets. Growth in private sector credit extension has been on a downward trend for the entire period, falling to as low as 5.1% in December 2017. Given that credit extension growth has been hard hit by the economy and regulatory changes, we are pleased to have grown advances by 5.9%. This shows our continued support of the economy.

Homeloans increased year on year by 6% to N$13 billion and constitute 45% (2016: 45%) of First National Bank of Namibia's advances book. Our exposure to Homeloans is reflective of the Namibian banking industry where Homeloans tend to average 40% of credit extended in the local market. In line with our risk appetite, we have selectively grown the Homeloans book in segments where we believe the risk is lower.

The increase in overdrafts and term loans at 12% and 10% reflects solid growth while applying sound lending principles.

Vehicle sales figures in 2017 reported the worst industry performance since 2012 and as a result the granting of installment credit reduced by 5.2%. The industry continues to see competitive interest rates and we remain committed to our philosophy of supporting sustainable growth.

Growth in the RMB and FNB Business advances was 8.4%, compared to corporate PSCE of 2.7% for December 2017 which speaks to our commitment to the corporate and business clients through tough conditions.

Non-performing loans increased to N$489 million from N$272 million as an increasing number of consumers experienced the effects of the downturn in the economy. The ratio of non-performing loans to gross advances ended the period at 1.7% up from a very low 1% in 2016. Although there has been a significant increase in the NPL ratio, it remains below the industry average ratio of 2.2%, and within our risk appetite.

STATEMENT OF FINANCIAL POSITION
CONTINUED

Deposits and Funding

First National Bank of Namibia remains the market leader as far as funding is concerned and the group will continue diversifying both source and term of funding in order to mitigate liquidity and concentration risks.

Funding the group's balance sheet has through deposits and institutional placements increased by 12% to N$31.2 billion (2016: N$27.7 billion) compared to industry growth of 10%. In line with this stated strategy to diversify funding sources the bank raised N$667 million through the issuance of senior notes and to further improve the liquidity profile there was an active drive to increase longer term deposits. Current and call accounts also increased by 3.8% and 19% respectively which is in direct proportion to the increase in the number of active accounts.

We raised N$219 million from an international bilateral development finance institution for Sustainable Use of Natural Resources and Energy Financing.

CAPITAL MANAGEMENT

First National Bank of Namibia remains well capitalised with a total capital adequacy level of 17.3%, in line with prior year results. This remains securely above both the regulatory requirement of 10% and the internal board approved target of 14.2%. Furthermore, it remains our philosophy to back economic risk with core equity. Our Tier 1 capital level increased to13.8% (from13.4%).

The group's capital strategy is anchored in the following principles, to back economic risk with core equity, to maintain limited excess and to consider capital requirements on a forward looking basis taking into account growth, expansion, regulatory changes and stress. This outlook informs the dividend strategy.

DIVIDEND STRATEGY

Despite the difficult macroeconomic environment the group continued to deliver returns ahead of cost of capital and good operational performances from the franchises. This combined with a strong capital position and low growth in risk weighted assets (RWA) for the six months to December 2017 informed board's decision to maintain the dividend cover. The long term dividend cover policy remains unchanged at 1.8x to 3x. The long-term cover range is assessed on an annual basis as part of the year end results process.

EVENTS SUBSEQUENT TO THE REPORTING DATE

The directors are not aware of any material events, as defined in IAS 10, occurring between 31 December 2017 and the date of authorisation of the results announcement.

BOARD CHANGES

During the period under review, Mr. PT Nevonga and Mr. LJ Haynes and resigned from the Board of First National Bank of Namibia Ltd on 26 October 2017 and 27 October 2017 respectively.

GROUP PROSPECTS

First National Bank of Namibia continues to apply a methodical approach when allocating capital by maintaining the optimum balance between investing in growth (through expansion, technology and enhancing employee skillset), ensuring full compliance with capital adequacy, investing in quality risk management and maximizing shareholder return.

Despite the economic conditions experienced by all, the group has managed to weather the storm with renewed stability in performance and steady balance sheet growth. First National Bank of Namibia remains the market leader in innovation and expansion and that has undoubtedly contributed to the satisfactory performance of the group throughout this period of unprecedented decline in the business climate.

The strengthening of the Namibian dollar, increases in commodity prices, better rainfall and increases in liquidity due to the loan from the African Development Bank, as well as foreign direct investment; provide a positive outlook for our economy going in to 2018. First National Bank of Namibia enters 2018 with renewed optimism and we have strategically positioned ourselves to be significant contributors to the success of the Namibian economy.

> Condensed consolidated statement of comprehensive income

N$'000	Notes	Unaudited six months ended 31 December 2017	Unaudited six months ended 31 December 2016	Audited year ended 30 June 2017
Interest and similar income	2	1 788 929	1 597 171	3 282 543
Interest expense and similar charges	2	(884 410)	(713 242)	(1 523 024)
Net interest income before impairment of advances		904 519	883 929	1 759 519
Impairment of advances		(76 126)	(13 394)	(59 251)
Net interest income after impairment of advances		828 393	870 535	1 700 268
Non-interest revenue	3	801 261	741 593	1 444 948
Income from operations		1 629 654	1 612 129	3 145 216
Operating expenses	4	(872 692)	(749 341)	(1 553 988)
Net income from operations		756 962	862 788	1 591 228
Share of profit from associates after tax		562	1 380	2 515
Income before tax		757 524	864 168	1 593 744
Indirect tax		(19 092)	(18 651)	(40 016)
Profit before tax		738 432	845 518	1 553 728
Direct tax		(239 358)	(272 650)	(494 100)
Profit for the period		499 074	572 868	1 059 627
Other comprehensive income				
Items that will not be reclassified to profit and loss		9 183	(31 860)	(6 268)
Available-for-sale financial assets		13 417	(40 615)	(9 218)
Deferred income tax		(4 234)	8 755	2 950
Items that may not subsequently be reclassified to profit or loss				5 289
Remeasurements on defined benefit post-employment plans				7 778
Deferred income tax				(2 489)
Other comprehensive income for the period		9 183	(31 860)	(979)
Total comprehensive income for the period		508 257	541 007	1 058 648
Profit for the period attributable to:				
Ordinary shareholders		499 074	572 868	1 059 627
Total comprehensive income for the period attributable to:				
Ordinary shareholders		508 257	541 007	1 058 648

> Condensed consolidated statement of financial position

N$'000	Notes	Unaudited as at 31 December 2017	Unaudited as at 31 December 2016	Audited as at 30 June 2017
Assets				
Cash and cash equivalents		2 284 964	1 924 968	1 414 296
Due from banks and other financial institutions		1 454 575	645 027	2 667 981
Derivative financial instruments		111 219	144 647	95 221
Investment securities		4 855 941	3 672 273	3 717 577
Advances	5	28 645 851	27 045 217	28 325 994
Accounts receivable		252 873	139 162	165 635
Investments in associate		8 131	6 433	7 569
Property and equipment		968 618	946 282	946 968
Intangible assets		150 923	121 413	161 286
Total assets		38 733 095	34 645 420	37 502 527
Equity and liabilities				
Liabilities				
Short trading positions		16 238	43 906	39 330
Derivative financial instruments		117 394	160 463	115 562
Creditors, accruals and provisions		287 096	233 334	380 204
Current tax liability		293 321	326 585	53 930
Deposits	6.1	31 157 893	27 834 305	30 551 207
Due to banks and other financial institutions	6.2	1 258 244	1 117 884	1 192 537
Employee liabilities		189 310	159 969	204 811
Other liabilities		219 000		
Tier 2 liabilities		402 944	392 723	402 830
Deferred income tax liability		263 270	205 328	259 070
Total liabilities		34 204 710	30 474 498	33 199 479
Capital and reserves attributable to ordinary equity holders of parent		4 528 385	4 170 923	4 303 048
Total equity		4 528 385	4 170 923	4 303 048
Total equity and liabilities		38 733 095	34 645 420	37 502 527

> Condensed consolidated statement of changes in equity

N$'000	Attributable to equity holders of the parent		
	Unaudited		Audited
	Six months ended 31 December		Year ended 30 June
	2017	**2016**	**2017**
Balance at beginning of the period	4 303 048	3 920 775	3 920 775
Total comprehensive income for the period	508 2587	541 007	1 058 648
Share based payments	1 794	3 031	4 781
Consolidation of share trusts		11 754	
Dividends paid	(284 714)	(305 645)	(681 155)
Balance at end of the period	4 528 385	4 170 922	4 303 048

[1] *Includes general risk reserve*

> Condensed consolidated statement of cash flows

N$'000	Unaudited		Audited
	Six months ended 31 December		Year ended 30 June
	2017	**2016**	**2017**
Net cash generated from operations	1 021 471	212 632	583 347
Tax paid	(19 059)	(18 329)	(460 029)
Net cash flow from operating activities	1 002 412	194 303	123 318
Net cash flow from investing activities	(67 824)	(60 332)	(188 093)
Net cash flow from financing activities	(63 920)	(302 614)	(671 155)
Net increase in cash and cash equivalents	870 668	(168 643)	(735 930)
Cash and cash equivalents at beginning of the period [1]	1 414 296	2 093 611	2 150 226
Cash and cash equivalents at end of the period	2 284 964	1 924 968	1 414 296

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

Condensed notes to the consolidated financial results
for the reporting period ended

1. Basis of preparation

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

- International Financial Reporting Standard, IAS 34 Interim Financial Reporting and;
- The Namibian Companies Act.

The condensed consolidated interim results for the six months ended 31 December 2017 have not been audited or independently reviewed by the group's external auditors.

Accounting Policies

The accounting policies applied in the preparation of the condensed consolidated interim financial statements are in terms of IFRS and are consistent with those applied for the year ended 30 June 2017. The condensed consolidated interim financial statements are prepared in accordance with the going concern principle under the historical cost basis as modified by the fair value accounting of certain assets and liabilities where required or permitted by IFRS.

Amendments to IAS 7 and IAS 12 became effective in the current year. These amendments have not had an impact on the group's reported earnings, financial position or reserves, or a material impact on the accounting policies.

The amendments to IAS 7 introduces additional disclosures in the statement of cash flows that will enable the users of the financial statements to evaluate changes in liabilities arising from financing activities. This amendment has been applied retrospectively and comparative information has been presented in line with the amended disclosure requirements. The amendment to IAS 12 relates to the recognition of deferred tax asset for unrealised losses on debt instruments that are measured at fair value for accounting purposes but considered at cost for tax purposes. The group is accounting for deferred tax of these assets in line with the amendments and the adoption of these amendments had no impact on the group.

No other new or amended IFRS standards became effective for the six months ended 31 December 2017 that impacted the group's reported earnings, financial position or reserves, or the accounting policies.

2. Analysis of interest income and interest expense

N$'000	Six month ended December 2017	Six month ended December 2016	Year ended June 2017
Interest and similar income			
- Advances	1 522 247	1 412 466	2 893 804
- Cash and cash equivalents	46 183	36 321	80 454
- Investment securities	207 372	131 952	282 016
- Unwinding of discounted present value on non performing loans	9 620	9 413	18 436
- Unwinding of discounted present value on off-market advances	1 317	1 479	2 897
- On impaired advances	(9 302)	(8 122)	(20 003)
- Net release of deferred fee and expenses	6 001	10 345	15 912
- Other	5 491	3 318	9 028
	1 788 929	1 597 171	3 282 543
Interest expense and similar charges			
- Deposits from banks and financial institutions	(17 858)	(26 056)	(69 831)
- Current accounts	(64 612)	(51 980)	(111 658)
- Savings deposits	(6 160)	(6 886)	(13 354)
- Call deposits	(142 405)	(123 410)	(251 219)
- Term deposits	(273 830)	(191 798)	(419 634)
- Negotiable certificates of deposit	(297 380)	(286 677)	(563 400)
- Tier 2 liabilities	(19 830)	(17 582)	(33 964)
- Fixed and floating rate notes	(62 335)	(8853)	(59 964)
	(884 410)	(713 242)	(1 523 024)

Condensed notes to the consolidated financial results
for the reporting period ended (continued)

3. Non-interest revenue

N$'000	Six month ended December 2017	Six month ended December 2016	Year ended June 2017
Analysis of non-interest revenue			
Fee and commission income:			
- Card commissions	80 676	78 675	146 146
- Cash deposit fees	58 758	58 130	109 545
- Commissions: bills, drafts and cheques	33 011	16 685	40 026
- Bank charges	608 334	558 795	1 088 190
Fee and commission income	780 779	712 286	1 383 907
Fee and commission expenses:			
- Transaction processing fees	(47 339)	(42 530)	(85 276)
- Cash sorting handling and transportation charges	(12 004)	(7 184)	(15 674)
- Card and cheque book related	(1 994)	(1 912)	
- ATM commissions paid	(3 385)	(4 130)	(7 470)
- Other	(4 763)	(2 100)	(4 046)
Fee and commission expenses	(69 485)	(57 856)	(112 466)
Net fee and commission income	711 294	654 429	1 271 443

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.

3. Non-interest revenue continued

N$'000	Six month ended December 2017	Six month ended December 2016	Year ended June 2017
Fair value gains or losses			
- Designated at fair value through profit or loss	26 050	27 789	53 914
- Foreign exchange gains	44 721	45 325	79 324
- Other fair value income	2 357	1 384	7 882
Fair value gains or losses	73 128	74 499	141 120
Gains less losses from investing activities			
- Gains on investment securities designated at fair value through profit or loss	9 591	5 947	11 544
- Share of profit from associates after tax	562	1 380	2 515
Gross gains less losses from investing activities	10 153	7 327	14 059
Less: Share of profit from associates after tax (disclosed separately on face of the statement of comprehensive income)	(562)	(1 380)	(2 515)
Gains less losses from investing activities	9 591	5 947	11 544
Other non-interest income			
- Gains and losses on sale of property and equipment	(3 380)	(32)	7 110
- Rental income	5 090	4 813	9 663
- Other income	5 538	1 937	4 068
Other non-interest revenue	7 248	6 718	20 841
Total non-interest revenue	801 261	741 593	1 444 948

Condensed notes to the consolidated financial results
for the reporting period ended (continued)

4. Operating expenses

N$'000	Six month ended December 2017	Six month ended December 2016	Year ended June 2017
Auditors' remuneration			
- Audit fees	3 661	3 187	5 592
- Fees for other services			949
Auditors' remuneration	3 661	3 187	6 541
Operating lease charges			
- Property	22 299	21 064	42 276
- Equipment	10 128	10 455	19 934
Operating lease charges	32 427	31 519	62 210
Staff costs			
- Salaries, wages and allowances	362 123	319 457	654 896
- Off-market staff loans amortisation	1 317	1 479	2 897
- Defined contribution schemes: pension	38 917	33 826	68 414
- Defined contribution schemes: medical	43 851	39 798	83 097
- Post retirement medical expense	1 347	1 857	4 270
- Severance pay: death in service	104	110	932
- Social security levies	1 035	1 072	2 104
- Skills development levies	4 923	4 323	8 054
- Share-based payments	25 559	12 245	20 259
Total staff costs	479 176	414 167	844 923
Other operating costs			
- Amortisation of intangible assets	9 163	5 723	11 446
- Depreciation	47 374	33 731	73 025
- Insurance	4 295	3 754	8 326
- Advertising and marketing	27 000	28 308	54 758
- Property and maintenance related expenses	38 331	35 124	75 331
- Legal and other related expenses	6 502	5 186	10 560
- Postage	2 044	1 691	3 855
- Stationery and printing	5 739	7 828	12 965
- Telecommunications	9 657	9 498	18 034
- Travel and accommodation	8 759	10 358	16 909
- Computer and processing related costs	151 073	110 139	250 754
- Other operating expenditure	39 638	43 005	87 165
- Total directors' remuneration	4 275	3 508	9 614
- Professional fees	3 578	2 615	7 572
Other operating costs	357 428	300 468	640 314
Total operating expenses	872 692	749 341	1 553 988

Condensed notes to the consolidated financial results
for the reporting period ended (continued)

5. Advances

N$'000	December 2017	December 2016	June 2017
Notional value of advances	28 974 111	27 273 924	28 594 946
Contractual interest suspended	(58 030)	(38 262)	(49 805)
Gross advances	28 916 081	27 235 662	28 545 141
Category analysis			
Overdrafts and cash management accounts	3 224 383	2 875 644	3 497 757
Card loans	354 413	266 319	322 776
Instalment sales and hire purchase agreements	3 184 947	3 358 320	3 212 558
Lease payments receivable	298 504	351 223	313 849
Home loans	13 004 595	12 232 989	12 578 766
Term loans	8 086 462	7 368 004	7 789 409
Investment bank term loans	447 309	478 732	490 236
Assets under agreement to resell	15 511	43 796	39 629
Other	299 957	260 635	300 162
Gross advances	28 916 081	27 235 662	28 545 142
Impairment of advances	(270 230)	(190 445)	(219 148)
Net advances	28 645 851	27 045 217	28 325 994

6. Deposits

6.1 Deposits and current accounts

N$'000	December 2017	December 2016	June 2017
Category analysis			
- Current accounts	8 940 026	8 615 996	9 520 004
- Call deposits	6 948 490	5 833 077	5 191 251
- Savings accounts	225 772	202 098	580 563
- Fixed and notice deposits	7 794 097	5 955 831	7 044 531
- Fixed and floating rate notes	1 273 283	548 853	1 270 106
- Negotiable certificates of deposit	5 976 225	6 678 450	6 944 752
Total deposits and current accounts	31 157 893	27 834 305	30 551 207

** Some transmission accounts within deposits have been restated in prior year to better reflect the nature.*

6.2 Due to banks and other financial institutions

To banks and financial institutions			
- In the normal course of business	1 258 244	1 117 884	1 192 537

7. Related parties

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

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

First National Bank of Namibia Limited is 100% (2016: 100%) owned by FNB Namibia Holdings Limited. FNB Namibia Holdings Limited is listed on the Namibian Stock Exchange and is 58.4% (2016: 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.

Detailed balances with relevant related parties appears below:

	December 2017	December 2016	June 2017
Deposits			
FirstRand group companies	821 262	(1 766 452)	680 452
Fellow subsidiaries	81 070	(134 712)	(84 415)
Associate	12 510	(18 699)	8 811
Advances			
FirstRand group companies	138 923	732 880	2 305 799
Fellow subsidiaries	34 049	50 424	30 776
Associate	15 367	20 472	17 665
Derivative assets			
FirstRand group companies	25 372	21 043	3 582
Derivative liabilities			
FirstRand group companies	91 047	(120 460)	(106 598)

7. Related parties continued

Related party transactions:

	December 2017	December 2016	June 2017
(Interest paid) to received from related parties:			
FirstRand group companies	13 010	(79)	(1 972)
Fellow subsidiaries	3 552	(2 140)	1 610
Associate	384	(669)	343
Non-interest revenue			
Fellow subsidiaries	2 869	6 487	6 225
Non-interest expenditure			
FirstRand group companies	135 315	109 569	250 199
Associate	6 669	6 554	12 879
Dividends paid			
Parent	284 714	305 645	681 155

8. Fair value measurements

8.1 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.

8. Fair value measurements continued

8.1 Valuation methodology continued

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.

Financial instruments not measured at fair value

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 JSE debt market, or in accordance with generally acceptable pricing models such as a discounted cash flow analysis. Except for the amounts included under point 8.3 below, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

8. Fair value measurements continued

8.2 Non-financial instruments

When determining the fair value of a nonfinancial 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.

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.

8.3 Fair value hierarchy and measurements

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
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

8. Fair value measurements continued

8.3 Fair value hierarchy and measurements (continued)

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable 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
- 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	JSE Debt market bond pricing model	The JSE Debt market bond pricing model uses the JSE Debt market to market bond yield.	Market interest rates and curves	Not applicable

8. Fair value measurements continued

8.3 Fair value hierarchy and measurements (continued)

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs
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.	Not applicable
- 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
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

8. Fair value measurements continued

8.3 Fair value hierarchy and measurements (continued)

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs
Deposits					
- 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 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 assets or liabilities measured at fair value on a non-recurring basis in the current and prior period.

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

8. Fair value measurements continued

8.3 Fair value hierarchy and measurements (continued)

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:

N$'000

December 2017	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Recurring fair value measurements				
Investment securities		4 855 941		4 855 941
Advances			447 309	447 309
Derivative financial instruments		111 219		111 219
Total financial assets		4 967 160	447 309	5 414 469
Liabilities				
Recurring fair value measurements				
Derivative financial instruments		117 394		117 394
Short trading position	16 238			16 238
Total financial liabilities	16 238	117 394		133 632

N$'000

December 2016	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Recurring fair value measurements				
Investment securities		3 672 273		3 672 273
Advances			478 732	478 732
Derivative financial instruments		144 674		144 674
Total financial assets		3 816 920	478 732	4 295 652
Liabilities				
Recurring fair value measurements				
Derivative financial instruments		160 463		160 463
Short trading position	43 906			43 906
Total financial liabilities	43 906	160 463		204 369

8. Fair value measurements continued

8.3 Fair value hierarchy and measurements (continued)

N$'000

June 2017	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Recurring fair value measurements				
Investment securities		3 717 577		3 717 577
Advances			464 205	464 205
Derivative financial instruments		95 221		95 221
Total financial assets		3 812 798	464 205	4 277 003
Liabilities				
Recurring fair value measurements				
Derivative financial instruments		115 562		115 562
Short trading position	39 330			39 330
Total financial liabilities	39 330	115 562		154 892

During the reporting period ending 31 December 2017 (31 December 2016), 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$ 492 040 (2016: N$ 526,605) and using more negative reasonable possible assumptions to N$ 402 578 (2016: N$ 430,859). 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.

8. Fair value measurements continued

8.3 Fair value hierarchy and measurements (continued)

Changes in level 3 fair value instruments

	Fair value on June 2017	Gains or losses recognised in profit and loss	Gains or losses recognised in other comprehensive income	Purchases/ (sales)/ issues/ (settlements)	Fair value on December 2017
Assets					
Advances	464 205	26 050		(42 946)	447 309
Total financial assets at fair value	464 205	26 050		(42 946)	447 309

	Fair value on June 2016	Gains or losses recognised in profit and loss	Gains or losses recognised in other comprehensive income	Purchases/ (sales)/ issues/ (settlements)	Fair value on December 2016
Assets					
Advances	491 903	27 789		(40 960)	478 732
Total financial assets at fair value	491 903	27 789		(40 960)	478 732

	Fair value on June 2016	Gains or losses recognised in profit and loss	Gains or losses recognised in other comprehensive income	Purchases/ (sales)/ issues/ (settlements)	Fair value on June 2017
Assets					
Advances	491 903	53 914		(81 612)	464 205
Total financial assets at fair value	491 903	53 914		(81 612)	464 205

Condensed notes to the consolidated financial results
for the reporting period ended (continued)

8. Fair value measurements continued

8.3 Fair value hierarchy and measurements (continued)

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

	December 2017	December 2016	June 2017
	Advances	Advances	Advances
Assets			
Gains or losses recognised in profit or loss	26 050	27 789	53 914
Total	26 050	27 789	53 914

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 2017		December 2016		June 2017	
N$'000	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Assets						
Cash and cash equivalents	2 284 964	2 284 964	1 924 968	1 924 968	1 414 296	1 414 296
Due from banks and other financial institutions	1 454 575	1 454 575	645 027	645 027	2 667 981	2 667 981
Advances	28 645 851	26 425 265	27 045 218	26 263 110	27 861 788	27 812 315
Accounts receivable	30 310	30 310	23 613	23 613	30 497	30 497
Total	32 415 700	30 195 114	29 638 826	28 856 718	31 974 562	31 925 089
Liabilities						
Deposits	31 157 893	31 200 038	27 834 304	27 832 289	30 551 208	30 496 959
Due to banks and other financial institutions	1 258 244	1 258 244	1 117 884	1 117 884	1 192 537	1 192 537
Creditors and accruals	28 835	28 835	21 183	21 183	59 366	59 366
Tier two liabilities	402 944	450 888	392 723	392 405	402 830	441 837
Total	32 847 916	32 938 005	29 366 094	29 363 761	32 205 941	32 190 699

8. Fair value measurements continued

8.3 Fair value hierarchy and measurements (continued)

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
N$'000	2017	2016	2017
Unrecognised profit at the beginning of the period		1 202	1 202
Recognised in profit or loss during the period		(1 856)	(1 202)
Unrecognised profit at the end of the period		(654)	

9. Contingent liabilities and capital commitments

	Six months ended 31 December		Year ended 30 June
N$'000	2017	2016	2017
Contingent liabilities	6 942 360	6 774 784	6 291 800
Capital commitments	12 308	14 373	7 396

10. Segment information

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

Interms 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.

> IFRS 9 Update

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

The group has developed and/or amended the 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 and a simplified approach for less material balances. The ECL will be based on a probability-weighted average of three macroeconomic scenarios incorporating a base scenario, upside scenario and downside scenario weighted by the probability of likelihood of occurrence. Appropriate ECL models have been developed, including accompanying PD, LGD and EAD models.

All required models are being developed within the group, and will be validated independently both internally (ERM) and externally by the group's external auditors. These are accompanied by the appropriate policy frameworks, which have incorporated minimum required standards and industry best practice.

Where possible, existing methodology used in the regulatory models has been adopted for the development of IFRS 9 models, e.g. portfolio segmentation and correlation. In addition, where similar models exist for the calculation of regulatory capital, these models have been leveraged for IFRS 9, e.g. through-the-cycle PDs have been adjusted to point-in-time PDs using forward-looking macroeconomic information.

Existing governance frameworks will be 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 forward-looking macroeconomic information which is incorporated into the ECL models.

Impact assessments have been performed and the group continues to refine the calculations. Some models are still in development whilst others are still subject to validation.

> Salient features of the group results

	Six months ended 31 December		Year ended 30 June
	2017	2016	2017
Selected ratios			
Return on average shareholders' equity (%)	22.9	28.3	25.7
Return on average assets (%)	2.7	3.3	3.0
Cost to income ratio (%)	51.2	46.1	48.5

> Capital adequacy
Banking Operations

N$'000	Six months ended 31 December 2017	Six months ended 31 December 2016	Year ended 30 June 2017
Risk weighted assets			
Credit risk	22 819 644	21 102 116	23 429 606
Market risk	51 408	99 638	87 200
Operational risk	4 080 791	3 679 131	3 912 647
Total risk weighted assets	26 951 843	24 880 885	27 429 453
Regulatory capital			
Share capital and share premium	1 142 791	1 142 791	1 142 792
Retained profits	2 731 978	2 326 197	3 010 780
Capital impairmen	(150 923)	(121 413)	(130 350)
Total tier 1	3 723 846	3 347 575	4 023 222
Eligible subordinated debt	400 000	390 000	400 000
General risk reserve, including portfolio impairment	285 246	263 776	286 043
Current board approved profits	243 787	282 506	
Total tier 2	929 033	936 282	686 043
Total tier 1 and tier 2 capital	4 652 879	4 283 857	4 709 265
Banking group			
Capital adequacy ratios			
Tier 1	13.8%	13.4%	14.7%
Tier 2	3.5%	3.8%	2.5%
Total	17.3%	17.2%	17.2%
Tier 1 leverage ratio	9.6%	9.6%	10.7%

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Incorporated in the Republic of Namibia
Registration number: 2002/0180

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