'19

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL RESULTS FOR THE INTERIM PERIOD

ended 31 December 2019

CONTENTS

OVERVIEW OF PERFORMANCE

First National Bank of Namibia Limited plays a significant role as an employer, a taxpayer, a lender and, most critically, a keeper of the country's deposits.

We are pleased to report that our concerted efforts to manage our operating expenses, as well as our ongoing investment in the quality of our lending book over the past three years have started to pay off as we generated returns above our cost of equity, resulting in positive net income after capital charge (NIACC) despite the higher levels of capital.

This performance is the result of careful and consistent execution of several very specific growth strategies, with the objective to create shared value of prosperity for staff, customers and shareholders. We firmly believe that this group's ability to generate superior NIACC, which is our key performance metric, is testament to a successful operating business model, a portfolio of unique customer franchises with clear competitive strengths, our highly-engaged talent and our discipline in allocating financial resources.

In Retail and Commercial, we used not only our physical footprint, but specifically innovation and technology to facilitate inclusion and make it easier for our clients to bank seamlessly with us, through their channel of choice. Our mobile App gives clients an interactive and comprehensive view of their accounts, while continuing to drive double digit user growth.

Across the group, we are continuously engaging with clients to understand needs and innovating to enhance both our value propositions and speed to market. The FNB Private Wealth Credit Card was launched to market during the period, which offers clients access to 850 airport lounges worldwide, and industry-leading cash back rewards as well as travel insurance.

FNB revenue of N$ 1 970 million increased by 6%. The group has maintained a good balance between Net interest income (NII) and Non-interest revenue (NIR). NII is 53.3% of revenue and NIR contributes 46.7%. End of period advances increased 8.2% to N$ 31.5 billion versus the prior period, while franchise deposits increased 7.1% to N$ 25.1 billion and institutional deposits increased 1.8% to N$ 10.8 billion.

Group NIR increased 6.3%, a resilient performance given the real economy challenges. The main drivers were fee and commission income growth of 7.8%, supported by strong volumes across FNB's digital and electronic channels and ongoing customer growth in the premium and commercial segments. Volumes growth on our self-service platforms increased by 17% and the traditional in branch volumes are down 19%.

FNB net interest income of N$1 050 million, increased by 5.2 % from the prior period. Driven by both advances' growth in Retail and Commercial at 5.8% and Corporate and Investment banking at 31.4%. The deposits franchises also increased well at 7% from prior period. Further noting that the MPC decreased the Repo rate in August 2019 by 25 bps, and thus the endowment impact slowing the growth in NII for the period.

As one of the Big 4 banks in Namibia, the group is a significant provider of credit to the economy. End of period advances increased 8.2% to N$ 31.5 billion versus the prior period. Through providing credit to individuals, FNB has enabled home ownership across all social spectrums. RMB has funded corporates contributing economic growth and job creation.

The group's credit loss ratio of 37 bps remains below the group's through-the-cycle (TTC) range. The group remains prudently provided, with portfolio impairments as a percentage of the performing book at 120 bps.

The mix of FNB's advances growth reflects its targeted, segment-specific origination strategies. The focus has been to lend to main-banked clients, creating a strong reinforcement to the transactional relationship of our existing customer base. Mortgages (+5%) grew marginally, deliberately below mortgages PSCE. Two thirds of the growth in FNB Mortgages was primarily in the segment of N$ 0.5 million to N$ 1.5million. BON reviewed the Loan to value (LTVs) for new home loans during the period to 10% for secondary home loan and 20% for additional property bonds from the previous sliding scale that ranged from 20% to 50%. The reduction in mandatory deposit and the accommodative lower interest rates should continue to support the growth in this lending category. The latest FNB house price index, September 2019 recorded a decline in the average Namibian house price of 4.2% over a 3-year period. Properties in possession at the end of the period increased to N$ 42.9 million from N$ 37.6 million, standing at 0.14% of the advances book. The growth recorded was primarily as a result of a single repossession only.

Growth in both the premium and consumer segments was driven by unsecured lending and cross selling into the base. WesBank has exceeded expectation by maintaining its advances book at N$ 3.5 billion, when compared to new vehicles sales which are down 12.6%, the lowest since 2006.

The Investment Banking Division (IBD) in RMB was able lift the business by continuing to deliver landmark and innovatively structured deals, which translated into solid growth in advances and lending income.

During the period, the group contributed N$ 10.7 million to the FirstRand Namibia Foundation, its primary corporate responsibility vehicle. Educational and medical grants by the FNB Staff Assistance Trust amounted to N$ 0.8 million for the six-month ended December 2019.

Capital management

The group has maintained its strong capital position. Capital planning is undertaken on a three-year forward-looking basis, and the level and composition of capital is determined considering businesses' organic growth plans, corporate transactions and stress-testing scenario outcomes. In addition, the group considers external issues that could impact capital levels, which include regulatory, accounting and tax changes, macroeconomic conditions and outlook.

The group continues to actively manage its capital composition and, to this end, a special dividend of N$669 million was distributed during the period.

The group continues to target real growth in earnings (defined as real GDP plus CPI) and expects its ROE to remain within its range of 21% to 24%.

Dividend strategy

Given the group's high return profile and strong capital generation, the board has maintained the dividend cover at Interim at 2.3x which remains within its stated long-term cover range of 1.8x to 3.0x. The board will revisit the cover range:

- Should capital demand increase to support sustainable balance sheet growth; and/or
- Macro risks worsen against the group's current core view.

Events subsequent to the reporting date

The directors are not aware of any material events, as defined in IAS 10, occurring between 31 December 2019 and the date of authorisation of the results announcement.

Group Prospects

Given the structural nature of Namibia's challenges, the group believes that domestic economic activity will remain under pressure for the foreseeable future.

Weak domestic demand and low-income growth will continue to weigh on real GDP growth and core inflation, and the real economy remains constrained by high government indebtedness, and low private sector investment.

FNB remains optimistic that, despite this difficult backdrop, it is executing on appropriate strategies to deliver ongoing growth in earnings and sustainable superior returns to shareholders. FNB's momentum is expected to continue, on the back of customer and volume growth. Cross-sell and up-sell strategies will deliver higher insurance revenues and good deposit and advances growth. RMB's client franchises are expected to remain resilient. WesBank's performance is expected to remain subdued given underlying macro constraints, such as low vehicle sales.

The focus on digitalisation, not only for reasons of financial inclusion, but also for convenience, better customer banking behaviour and reduced costs, continued to deliver increased customer satisfaction with alternative channels, and wider value proposition engagement and take-up. Efficiencies delivered through branch transformation included reduced floorspace while retaining and growing a countrywide footprint, either in more focused instances or through the increased utilisation of ATMs and ADT (Automatic Deposit Taking machines) and retailer points of sale.

The business continues to follow its commitment to building a shared future of prosperity through enriching the lives of its customers, employees and the societies it serves. This is the foundation to a sustainable future and will preserve the group's enduring promise to create a long-term value and superior returns for its shareholders.

Condensed consolidated statement of comprehensive income

N$'000	Notes	Unaudited Six months ended 31 December 2019	Unaudited Six months ended 31 December 2018	Audited Year ended 30 June 2019
Net interest income before impairment of advances *	2	1 050 300	998 674	2 009 428
Impairment and fair value of credit advances	7	(117 973)	(117 190)	(214 808)
Net interest income after impairment of advances		932 327	881 484	1 794 620
Non-interest revenue	3	919 935	865 098	1 661 671
Income from operations		1 852 262	1 746 582	3 456 291
Operating expenses	4	(974 887)	(930 635)	(1 880 702)
Net income from operations		877 375	815 947	1 575 589
Share of profit from associates after tax		1 854	1 366	3 730
Income before indirect tax		879 229	817 313	1 579 319
Indirect tax		(19 496)	(22 182)	(45 515)
Profit before income tax		859 733	795 131	1 533 804
Income tax expense		(259 331)	(250 613)	(473 766)
Profit for the period		600 402	544 518	1 060 038
Other comprehensive income for the period				
Items that will not be reclassified to profit or loss				
Remeasurements on net defined benefit post-employment plan				(146)
Deferred income tax				47
Total Items that will not be reclassified to profit or loss				(99)
Total comprehensive income for the period		600 402	544 518	1 059 939
Profit for the period attributable to:				
Ordinary shareholders		600 402	544 518	1 060 038
Total comprehensive income for the period attributable to:				
Ordinary shareholders		600 402	544 518	1 059 939

* The group has, as permitted by IFRS 16, elected not to restate its comparative financial statements. Therefore comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 17 basis (see impact of adopting a revised standard note 13).

Condensed consolidated statement of financial position

N$'000	Notes	Unaudited as at 31 December 2019	Unaudited as at 31 December 2018	Audited as at 30 June 2019
Assets				
Cash and cash equivalents		1 291 117	2 194 252	1 380 801
Due from banks and other financial institutions		1 861 522	2 025 498	2 803 841
Derivative financial instruments		350 934	686 067	459 072
Investment securities	5	7 214 212	6 521 565	7 577 680
Advances	6	31 577 192	29 192 565	30 412 740
Accounts receivable		250 454	299 839	272 399
Investments in associate		14 193	9 974	12 339
Property, equipment and right of use assets *		910 722	875 585	859 081
Intangible assets		87 072	98 521	92 799
Total assets		43 557 418	41 903 866	43 870 752
Equity and liabilities				
Liabilities				
Short trading positions		61 772		
Derivative financial instruments		369 123	701 889	480 490
Creditors, accruals and provisions		386 911	319 318	371 483
Current tax liability		66 383	90 853	181 539
Deposits		36 614 993	34 713 521	36 401 396
- Deposits from customers	8.1	27 146 111	25 055 626	26 174 449
- Debt securities	8.2	8 857 362	7 695 899	9 796 914
- Due to banks and other financial institutions	8.3	611 520	1 961 996	430 033
Employee liabilities		158 238	178 404	237 587
Other liabilities *		292 940	220 785	220 486
Tier 2 liabilities		402 856	402 871	402 804
Deferred income tax liability		393 209	320 334	393 209
Total liabilities		38 746 425	36 947 975	38 688 994
Capital and reserves attributable to ordinary equity holders of parent		4 810 993	4 955 891	5 181 758
Total equity		4 810 993	4 955 891	5 181 758
Total equity and liabilities		43 557 418	41 903 866	43 870 752

* The group has, as permitted by IFRS 16, elected not to restate its comparative financial statements. Therefore comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 17 basis (see impact of adopting a revised standard note 13).

Condensed consolidated statement of changes in equity

		Attributable to equity holders of the parent		
		Unaudited six months ended 31 December		Audited year ended 30 June
N$'000	Note	2019	2018	2019
Balance at beginning of the period		**5 181 758**	4 691 491	4 692 097
Total comprehensive income for the period		**600 402**	544 518	1 059 939
Transfer of vested equity options		**280**	1 796	1 120
Dividends		**(971 447)**	(281 914)	(571 398)
- Ordinary dividends		**(302 464)**	(281 914)	(525 424)
- Special dividends		**(668 983)**		
- Distribution in specie				(45 974)
Balance at end of the period		**4 810 993**	4 955 891	5 181 758

Condensed consolidated statement of cash flows

N$'000	Unaudited Six months ended 31 December 2019	Unaudited Six months ended 31 December 2018	Audited Year ended 30 June 2019
Net cash generated from operations	**1 324 813**	1 532 675	1 055 701
Tax paid	**(393 983)**	(360 345)	(398 153)
Net cash flow from operating activities	**930 830**	1 172 330	657 548
Acquisition of property and equipment	**(35 375)**	(25 875)	(58 011)
Cash outflow from disposal of subsidiary			(23 385)
Proceeds from the disposal of property and equipment	**2 057**	1841	3 998
Net cash flow from investing activities	**(33 318)**	(24 034)	(77 398)
Staff share option transactions	**280**	1 795	
Dividends paid	**(971 447)**	(281 914)	(525 424)
Payment of lease liabilities	**(16 029)**		
Net cash flow from financing activities	**(987 196)**	(280 119)	(525 424)
Net increase in cash and cash equivalents	**(89 684)**	868 177	54 726
Cash and cash equivalents at beginning of the period [1]	**1 380 801**	1 326 075	1 326 075
Cash and cash equivalents at end of the period	**1 291 117**	2 194 252	1 380 801

[1] Includes mandatory reserve deposits with central bank

Condensed notes to the consolidated financial results

for the reporting period ended 31 December

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*;
- Framework concepts and the recognition and measurement requirements of International Financial Reporting Standards (IFRS);
- Interpretations issued by the IFRS Interpretation Committee (IFRS-IC);
- Financial Reporting Pronouncements as issued by Financial Reporting Standards Council; and
- The Namibian Companies Act.

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.

The condensed consolidated interim results for the six months ended 31 December 2019 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 2019, except for the adoption of new and amended IFRS that became effective from 1 July 2019. The following new standard had the most significant impact on the group.

The group adopted IFRS 16 effective 1 July 2019, which replaces IAS 17 and various related interpretations. IFRS 16 introduced a single lease accounting model for lessees, which had an impact on the group's financial results as at 1 July 2019. For more details on the impact of adopting IFRS 16, please refer to note 13.

IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents leasing transactions. Under IFRS 16, the accounting treatment of leases by the lessee has changed fundamentally as it eliminates the dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases."

The IFRS 16 policies only includes the accounting policies where the group is the lessee, as IFRS 16 did not have an impact on the accounting policies for transactions where the group is the lessor.

Summary of accounting policies

IFRS 16 - Contracts were the group is the lessee

The group leases a variety of properties, equipment and vehicles. Rental agreements typically include fixed periods over which the item is leased, which are individually negotiated and contain a wide range of different terms and conditions. The group assesses whether a contract is or contains a lease at inception of a contract.

Qualifying leases are recognised as a right of use asset (ROA) and a corresponding liability at the date at which the leased asset is made available for use by the group.

1. Basis of preparation continued

Leases where the group is the lessee	
At inception	The group recognises a ROA and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. The group considers printers and other leased equipment as low value assets. This is assessment is based on the fact that: - the group can benefit from the use of the underlying asset on its own or together with other resources that are readily available to the group; - the underlying asset is not highly dependent on, or highly interrelated with other assets; and - these assets have individual values that are not significant when compared to our other leased assets. The lease liability is initially measured at the present value of the lease payments outstanding at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the individual group lessee uses its own incremental borrowing rate. The ROA's are measured at cost comprising of the amount of the initial measurement of the lease liability plus any initial direct costs and restoration costs. Where applicable, any lease payments made at or before the commencement date less any lease incentives received is deducted from the cost. Post initial recognition, ROA's are treated in line with other property and equipment.
Over the life of the lease	Each lease payment is allocated between the lease liability and interest expense. The interest expense is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The ROA is subsequently measured at cost less accumulated depreciation and impairment losses. The asset is depreciated over the lease term on a straight-line basis, where ownership is not transferred at the end of the lease term. If ownership is transferred at the end of the lease term, the asset is depreciated over the shorter of the lease term or useful life. For short-term and low value leases, the group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease. The group applies IAS 36 to determine whether a ROA is impaired and accounts for any identified impairment loss. Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the ROA. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line operating expenses in the condensed consolidated income statement.
Presentation	The lease liability is presented in other liabilities in the consolidated statement of financial position. The ROA's are not presented as a separate line in the consolidated statement of financial position, but rather disclosed as ROA in the property, plant and equipment note.

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.

No additional IFRS standards became effective for the six months ended 31 December 2019 that impacted the group's reported earnings, financial position or reserves, or the accounting policies.

Condensed notes to the consolidated financial results
for the reporting period ended 31 December continued

2. Analysis of interest income and interest expense

	Six month ended December		Year ended June
N$'000	2019	2018	2019
Analysis of interest and similar income			
Instruments at amortised cost	2 038 326	1 907 629	3 861 956
Interest and similar income	2 038 326	1 907 629	3 861 956
Advances	1 690 967	1 584 504	3 199 550
Investment securities	280 123	234 196	494 783
Other	67 236	88 929	167 623
Interest and similar income	2 038 326	1 907 629	3 861 956
Analysis of interest expense and similar charges			
Instruments at amortised cost	988 026	908 954	1 852 528
Interest expense and similar charges	988 026	908 954	1 852 528
Deposits			
Deposits from customers	567 340	533 060	1 076 287
Debt securities	388 332	336 068	694 643
Deposits from banks and other financial institutions	1 021	11 325	24 561
Other liabilities	11 948	8 975	17 963
Tier 2 liabilities	19 385	19 526	39 074
Interest expense and similar charges	988 026	908 954	1 852 528
Net interest Income	1 050 300	998 675	2 009 428

Condensed notes to the consolidated financial results

for the reporting period ended 31 December continued

3. Non-interest revenue

	Six month ended December		Year ended June
N$'000	2019	2018	2019
Analysis of non-interest revenue			
Fee and commission income	925 034	843 059	1 630 850
Fee and commission expenses	(92 404)	(70 554)	(159 477)
Bank fees and commission income	832 630	772 506	1 471 373
Fair value income	68 538	62 618	143 214
Gross gains less losses from investing activities	15 806	12 225	25 146
Less: Share of profit from associate after tax (disclosed separately on face of the statement of comprehensive income)	(1 854)	(1 366)	(2 758)
Gains less losses from investing activities	82 490	73 477	165 602
Other non-interest revenue	4 815	19 115	24 696
Total non-interest revenue	919 935	865 098	1 661 671

Condensed notes to the consolidated financial results
for the reporting period ended 31 December continued

4. Operating expenses

N$'000	Six month ended December 2019	Six month ended December 2018	Year ended June 2019
Auditors' remuneration			
- Audit fees	3 589	5 384	9 972
- Fees for other services	131	56	289
Auditors' remuneration	3 720	5 440	10 261
Operating lease charges *			
- Property		22 574	43 305
- Equipment		9 699	18 048
- Short term	878		
- Low value	8 860		
Operating lease charges	9 738	32 273	61 353
Staff costs	535 816	498 081	1 028 685
Amortisation of intangible assets	5 726	5 723	11 446
Depreciation *	65 278	49 698	96 844
Directors fees	4 098	6 009	12 085
Other operating costs	350 511	333 411	660 028
Total staff costs	974 887	930 635	1 880 702

* The group has, as permitted by IFRS 16, elected not to restate its comparative financial statements. Therefore comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 17 basis (see impact of adopting a revised standard note 12).

5. Investment securities

N$'000	Six month ended December 2019	Six month ended December 2018	Year ended June 2019
Treasury bills	4 602 713	4 426 311	5 052 083
Other government and government guaranteed stock	2 345 517	1 784 940	2 214 176
Other undated securities	267 203	311 515	312 730
Total gross carrying amount of investment securities	7 215 433	6 522 767	7 578 989
Loss allowance on investment securities	(1 221)	(1 203)	(1 309)
Total investment securities	7 214 212	6 521 565	7 577 680

The loss allowance on investment securities measured at amortised cost is N$1.2 mil (2018: N$1.2mil).

The loss allowance on investment securities designated at fair value through other comprehensive income is nil.

N$'000	December 2019	December 2018	June 2019
Amount as at 30 June 2018 (IAS 39)			
IFRS 9 adjustments		888	
Opening balance	1 309	888	888
Impairment charge/(release) for the period			
- Stage 1	(88)	315	421
Amount as at 31 December 2019	1 221	1 203	1 309
The impairment charge in the income statement can be broken down as follows:			
Provision created/(release)in the current period	(88)	315	421
- New business and changes in exposure	(88)	315	421

Condensed notes to the consolidated financial results

for the reporting period ended 31 December continued

6. Advances

	Six month ended December		Year ended June
N$'000	2019	2018	2019
Notional value of advances	32 389 905	29 812 445	31 117 819
Gross carrying amount of advances	32 389 905	29 812 445	31 117 819
Category analysis			
Overdrafts and cash management accounts	4 189 893	3 779 064	3 514 597
Card loans	475 691	429 037	474 923
Instalment sales and hire purchase agreements	3 159 363	3 062 043	3 108 445
Lease payments receivable	154 417	251 924	192 078
Property finance	13 963 136	13 350 704	13 549 050
Term loans	8 522 873	7 997 897	8 432 824
Investment bank term loans	337 525	392 206	368 932
Preference share agreements	962 032		949 020
Assets under agreement to resell	61 075		
Other	563 900	549 570	527 950
Gross carrying amount of advances	32 389 905	29 812 445	31 117 819
Impairment and fair value of credit of advances	(812 713)	(619 880)	(705 079)
Net advances	31 577 192	29 192 565	30 412 740
Portfolio Analysis			
Designated at fair value through profit or loss	337 525	392 206	368 932
Loans and receivable	31 239 667	28 800 359	30 043 808
	31 577 192	29 192 565	30 412 740

6. Advances continued

Analysis of advances per class

December 2019

N$'000	Amortised cost	Fair value through profit or loss	Loss allowance	Total
Residential mortgages	13 987 014		(202 117)	13 784 897
Vehicle asset finance	3 538 355		(83 713)	3 454 642
Total retail secured	17 525 369		(285 830)	17 239 539
Credit card	440 490		(48 407)	392 083
Personal loans	2 469 930		(122 466)	2 347 464
Other retail	675 430		(30 351)	645 079
Total retail unsecured	3 585 850		(201 224)	3 384 626
FNB Commercial	6 886 174		(286 213)	6 599 961
RMB Corporate banking	4 054 987	337 525	(39 446)	4 353 066
Total corporate and commercial	10 941 161	337 525	(325 659)	10 953 027
Total advances	32 052 380	337 525	(812 713)	31 577 192

6. Advances continued

Analysis of advances per class continued

December 2018

N$'000	Amortised cost	Fair value through profit or loss	Loss allowance	Total
Residential mortgages	13 296 206		(138 642)	13 157 564
Vehicle asset finance	3 545 117		(69 505)	3 475 612
Total retail secured	16 841 323		(208 147)	16 633 176
Credit card	393 463		(27 209)	366 254
Personal loans	2 406 481		(91 223)	2 315 258
Other retail	496 334		(27 622)	468 712
Total retail unsecured	3 296 278		(146 054)	3 150 224
FNB Commercial	6 333 016		(220 882)	6 112 134
RMB Corporate banking	2 949 622	392 206	(44 797)	3 297 031
Total corporate and commercial	9 282 638	392 206	(265 679)	9 409 165
Total advances	29 420 239	392 206	(619 880)	29 192 565

6. Advances continued

Analysis of advances per class continued

June 2019

N$'000	Amortised cost	Fair value through profit or loss	Loss allowance	Total
Category analysis				
Residential mortgages	13 554 950		(166 322)	13 388 628
Vehicle asset finance	3 521 602		(83 140)	3 438 462
Total retail secured	17 076 552		(249 462)	16 827 090
Credit card	432 948		(42 004)	390 944
Personal loans	2 377 678		(94 667)	2 283 011
Other retail	548 597		(28 111)	520 486
Total retail unsecured	3 359 223		(164 782)	3 194 441
FNB Commercial	6 760 954		(250 504)	6 510 450
RMB Corporate banking	3 552 158	368 932	(40 331)	3 880 759
Total corporate and commercial	10 313 112	368 932	(290 835)	10 391 209
Total	30 748 887	368 932	(705 079)	30 412 740

Condensed notes to the consolidated financial results
for the reporting period ended 31 December continued

7. Impairment of advances

	December		June
N$'000	2019	2018	2019
Provision created/(released) for the current reporting period	121 143	117 190	222 252
Recoveries of bad debts	(3 170)		(7 444)
Impairment of advances recognised during the period	117 973	117 190	214 808
Specfic / stage 3 impairments	99 629	85 926	129 225
Portfolio / stage 1 and stage 2 impairments	18 344	31 264	85 584
	117 973	117 190	214 809

Reconciliation of the gross carrying amount of advances per impairment stage.

31 December 2019

N$'000	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 1 July 2019	28 948 598	1 324 617	844 604	31 117 819
Transfer between stages *	(594 083)	318 665	275 418	
Transfers to stage 1	689 531	(688 543)	(988)	
Transfers to stage 2	(1 115 831)	1 146 111	(30 280)	
Transfers to stage 3	(167 783)	(138 903)	306 686	
Bad debts written off **			(32 587)	(32 587)
New business and changes in exposure	1 175 980	148 773	(20 080)	1 304 673
Closing balance	29 530 495	1 792 055	1 067 355	32 389 905

7. Impairment of advances continued

Reconciliation of the loss allowance on total advances.

N$'000	Stage 1	Stage 2	Stage 3	Total
Opening balance - July 2019	189 174	166 650	349 255	705 079
Transfer between stages *	18 398	(31 017)	12 619	
Transfer to Stage 1	38 221	(37 349)	(872)	
Transfer to Stage 2	(17 881)	22 514	(4 633)	
Transfer to Stage 3	(1 942)	(16 182)	18 124	
Bad debts written off **			(32 587)	(32 587)
Provision created/(released) for the current reporting period***	(17 388)	48 354	90 177	121 143
Interest on stage 3 advances +			19 082	19 082
Closing balance	190 184	183 987	438 546	812 713
Residential mortgages	25 382	53 009	123 726	202 117
Vehicle asset finance	15 732	7 727	60 254	83 713
Total Retail secured	41 114	60 736	183 980	285 830
Credit card	19 666	7 665	21 076	48 407
Personal loans	25 518	21 957	74 991	122 466
Other retail	8 038	9 568	12 745	30 351
Total Retail unsecured	53 222	39 190	108 812	201 224
FNB Commercial	74 784	65 678	145 751	286 213
RMB Corporate and investment banking	21 062	18 384		39 446
Total Corporate and Commercial	95 846	84 062	145 751	325 659
Closing balance	190 182	183 988	438 543	812 713

* Transfers between stages reflect opening balances based on the ECL stage at the end of the financial year. The ECL recognised on new exposures originated during the financial year (which are not included in the opening balance) are included in current period provision created/(released) based on the stage at the end of the financial year for all businesses.

** Decrease in the advance as a result of write-off is equal to the decrease in ECL as exposures are 100% provided for before being written off.

*** Net changes in exposure reflects the net of the following;

- The increase or decrease of the opening balance ECL due to transfers between the stages, for example the release of ECL on transfer from stage 2 to stage 1 or the increase in ECL on transfer from stage 1 to stage 2.

\+ Interest on stage 3 advances are recognised based on the net carrying amount. The amount is reflective on the interest not recognised on stage 3 assets.

7. Impairment of advances continued

Reconciliation of the gross carrying amount of advances per impairment stage continued

30 June 2019

N$'000	Stage 1	Stage 2	Stage 3	Total
Amount as at 30 June 2018 (IAS 39)	28 007 251	456 789	481 537	**28 945 577**
IFRS 9 adjustments			67 155	**67 155**
Amount as at 1 July 2018 (IFRS 9)	28 007 251	456 789	548 692	**29 012 732**
Transfer between stages *	(1 170 509)	734 534	435 975	
Transfers to stage 1	785 622	(785 131)	(491)	
Transfers to stage 2	(1 701 212)	1 703 228	(2 016)	
Transfers to stage 3	(254 919)	(183 563)	438 482	
Bad debts written off**			(54 658)	**(54 658)**
New business and changes in exposure	2 198 051	133 294	(101 604)	**2 229 741**
Closing balance	29 034 793	1 324 617	828 405	**31 117 819**

7. Impairment of advances continued

Reconciliation of loss allowance on total advances

N$'000	Stage 1	Stage 2	Stage 3	Total
Amount as at 30 June 2018 (IAS 39)	51 900	76 622	173 038	**301 560**
IFRS 9 adjustments	103 267	38 451	67 155	**208 873**
	155 167	115 073	240 193	**510 433**
Transfer between stages *	22 332	(43 942)	21 610	
Transfer to Stage 1	38 121	(37 933)	(188)	
Transfer to Stage 2	(8 294)	9 064	(770)	
Transfer to Stage 3	(7 495)	(15 073)	22 568	
Bad debts written off **			(54 658)	**(54 658)**
Provision created/(released) for the current reporting period***	11 675	95 519	115 060	**222 254**
Interest on stage 3 advances +			27 050	**27 050**
Closing balance	189 174	166 650	349 255	705 079
Residential mortgages	16 416	43 253	106 653	**166 322**
Vehicle asset finance	15 304	14 232	53 604	**83 140**
Total Retail secured	31 720	57 485	160 257	**249 462**
Credit card	16 218	9 002	16 784	**42 004**
Personal loans	29 918	13 906	50 844	**94 668**
Other retail	10 968	8 520	8 624	**28 112**
Total Retail unsecured	57 104	31 428	76 252	**164 784**
FNB Commercial	74 022	63 738	112 743	**250 503**
RMB Corporate and investment banking	26 330	14 000		**40 330**
Total Corporate and Commercial	100 352	77 738	112 743	**290 833**
Closing balance	189 176	166 651	349 252	**705 079**

* Transfers between stages reflect opening balances based on the ECL stage at the end of the financial year. The ECL recognised on new exposures originated during the financial year (which are not included in the opening balance) are included in current period provision created/(released) based on the stage at the end of the financial year for all businesses.

** Decrease in the advance as a result of write-off is equal to the decrease in ECL as exposures are 100% provided for before being written off.

*** Net changes in exposure reflects the net of the following;

- The increase or decrease of the opening balance ECL due to transfers between the stages, for example the release of ECL on transfer from stage 2 to stage 1 or the increase in ECL on transfer from stage 1 to stage 2.

\+ Interest on stage 3 advances are recognised based on the net carrying amount. The amount is reflective on the interest not recognised on stage 3 assets.

Condensed notes to the consolidated financial results

for the reporting period ended 31 December continued

8. Deposits

N$'000	Six month ended December 2019	Six month ended December 2018	Year ended June 2019
8.1 Deposits from customers			
- Current accounts	**10 927 698**	9 218 875	10 021 028
- Call deposits	**6 392 536**	8 027 248	5 737 067
- Savings accounts	**344 412**	285 563	292 742
- Fixed and notice deposits	**9 481 465**	7 523 940	10 123 612
	27 146 111	25 055 626	26 174 449
8.2 Dept securities			
- Negotiable certificates of deposit	**7 969 147**	6 425 714	8 526 854
- Fixed and floating rate notes	**888 215**	1 270 185	1 270 060
	8 857 362	7 695 899	9 796 914
8.3 Due to banks and other financial institutions			
To banks and financial institutions			
- In the normal course of business	**611 520**	1 961 996	430 033
	611 520	1 961 996	430 033
Total deposits	**36 614 993**	34 713 521	36 401 396

9. Related parties

First National Bank of Namibia Limited is 100% (2018: 100%) owned by FirstRand Namibia Limited.

FirstRand Namibia Limited is listed on the Namibian Stock Exchange and is 58.4% (2018: 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.

9. Related parties continued

Detailed balances with relevant related parties appears below:

N$'000	Six month ended December 2019	Six month ended December 2018	Year ended June 2019
Deposits			
Entities that have significant influence over the group and its subsidiary	**617 186**	539 306	418 411
Fellow subsidiaries to banking group	**43 310**	62 177	53 207
Associate	**37 957**	26 230	36 178
Key management personnel	**12 013**	18 544	10 011
Advances			
Entities that have significant influence over the group and its subsidiary	**1 504 821**	1 833 815	2 354 744
Fellow subsidiaries to banking group	**146**	11 762	8 594
Associate	**8 318**	11 689	9 768
Key managment personnel	**17 499**	9 885	22 785
Derivative instruments: assets			
Entities that have significant influence over the group and its subsidiary	**243 435**	373 602	291 586
Derivative instruments: liabilities			
Entities that have significant influence over the group and its subsidiary	**119 824**	329 234	186 895
Related party transactions:			
Interest received from (paid to) related parties			
Entities that have significant influence over the group and its subsidiary	**37 994**	47 517	102 282
Fellow subsidiaries to banking group	**806**	491	1 707
Associate	**720**	5	1 030
Non-interest revenue			
Fellow subsidiaries to banking group	**3 993**	2 421	5 353
Non-interest expenditure			
Entities that have significant influence over the group and its subsidiary	**175 980**	170 014	320 558
Associate	**8 469**	8 770	18 085
Dividends paid			
Parent	971 447	281 914	571 398

10. Fair value measurements

10.1 Valuation methodology

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

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

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

Recurring fair value measurements

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

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

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

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

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 36.4 below, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.on a case by case basis as they occur within each reporting period.

10. Fair value measurements continued

10.2 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;
- 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 weakness of the models used and appropriate reflection in the valuation output;
- The model is subject to periodic review to determine the accuracy of its performance; and
- Valuation adjustments are only made when appropriate, for example, to cover the uncertainty of the model valuation. The group considers factors such as counterparty and own credit risk when making appropriate valuation adjustments.

10. Fair value measurements continued

10.2 Fair value hierarchy and measurements continued

Measurement of assets and liabilities at level 2

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

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Derivative financial instruments			
Forward rate agreements	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rates, interest rate curves and credit spreads.
Swaps	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date of each swaplet is determined in terms of legal documents pertaining to the swap.	Market interest rates and interest rate curves, credit and currency basis curves.
Options	Option pricing model	The Black Scholes model is used.	Strike price of the option; market related discount rate; forward rate .
Forwards	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Spot price of underlying instrument, interest rate curves and dividend yield.
Equity derivatives	Industry standard models	The models calculate fair value based on input parameters such as share prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.	Market interest rates, curves, volatilities, dividends and share prices.
Loans and advances to customers			
Other loans and advances	Discounted cash flows	Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Although the fair value of credit is not significant year-on-year it may become significant in future. In the event that credit spreads are observable for a counter party, loans and advances to customers are classified as level 2 of the fair value hierarchy.	Market interest rates, curves and credit spreads

10. Fair value measurements continued

10.2 Fair value hierarchy and measurements continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
		Investment securities	
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds are valued similarly to advances measured at fair value. The future cash flows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period. . In the event that credit spreads are observable for a counterparty, the bonds are classified as level 2 of the fair value hierarchy.	Market interest rates and curves
Negotiable certificates of deposit	Discounted cash flows	The future cash flows are discounted using a market related interest rate. Inputs to these models include information that is consistent with similar market quoted instruments, where available.	Market interest rates and curves
Treasury Bills	JSE Debt Market bond pricing model	The JSE Debt Market bond pricing model uses the JSE Debt Market mark to market bond yield.	Market interest rates and curves
Investments in funds and unit trusts	Third party valuations	For certain investments in funds such as hedge funds or unit trusts, where an internal valuation technique is not applied, the bank places reliance on valuations from third parties such as broker quotes or valuations from asset managers. Where considered necessary, the bank applies minority and marketability or liquidity discount adjustments to these third-party valuations. Third-party valuations are reviewed by the relevant subsidiary's investment committee on a regular basis. Where these underlying investments are listed, these third-party valuations can be corroborated with reference to listed share prices and other market data and are thus classified in level 2 of the fair value hierarchy.	Market transactions (listed)
		Deposits	
Call and non-term deposits	None - the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand i.e. the undiscounted amount of the deposit.	None - the undiscounted amount approximates fair value and no valuation is performed
Other deposits	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves

10. Fair value measurements continued

10.2 Fair value hierarchy and measurements continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Other liabilities	Discounted cash flows	Future cash flows are discounted using market-related interest rates. Where the value of a liability is linked to the performance of an underlying and the underlying is observable, these liabilities are classified at level 2.	Market interest rates and performance of underlying
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Discounted cash flows	The future cash flows are discounted using a market related interest rate and curves adjusted for credit inputs.	Market interest rates and curves

Measurement of assets and liabilities at level 3

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

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

10. Fair value measurements continued

10.2 Fair value hierarchy and measurements continued

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

10. Fair value measurements continued

10.2 Fair value hierarchy and measurements continued

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

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

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

10. Fair value measurements continued

10.2 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 2019**	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Investment securities		451 898		**451 898**
Advances			337 525	**337 525**
Derivative financial instruments		350 934		**350 934**
Total financial assets		802 832	337 525	**1 140 357**
Liabilities				
Recurring fair value measurements				
Derivative financial instruments		369 123		**369 123**
Short trading position	61 772			**61 722**
Total financial liabilities	61 772	369 123		**430 895**

N$'000 **December 2018**	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Recurring fair value measurements				
Investment securities		356 550		356 550
Advances			392 206	392 206
Derivative financial instruments		686 067		686 067
Total financial assets		1 042 617	392 206	1 434 823
Liabilities				
Recurring fair value measurements				
Derivative financial instruments		701 889		701 889
Short trading position				
Total financial liabilities		701 889		701 889

10. Fair value measurements continued

10.2 Fair value hierarchy and measurements continued

N$'000 June 2019	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Recurring fair value measurements				
Investment securities		433 137		**433 137**
Advances			368 932	**368 932**
Derivative financial instruments		459 072		**459 072**
Total financial assets		892 209	368 932	**1 261 141**
Liabilities				
Recurring fair value measurements				
Derivative financial instruments		480 490		**480 490**
Short trading position				
Total financial liabilities		480 490		**480 490**

During the reporting period ending 31 December 2019 (31 December 2018), there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Changes in the group's best estimate of the non-observable inputs (Level 3) could affect the reported fair values recognised on statement of financial position and the movement in fair values recognised in the statement of comprehensive Income. However, changing these inputs to reasonably possible alternatives would change the fair value using more positive reasonable assumptions to N$ 371 278 (2018: N$ 431 426) and using more negative reasonable possible assumptions to N$ 303 773 (2018: N$ 352 985). 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.

10. Fair value measurements continued

10.2 Fair value hierarchy and measurements continued

Changes in level 3 fair value instruments

31 December 2019

N$'000	Fair value on June 2019	Gains or losses recognised in profit and loss	Purchases/ (sales)/ issues/ (settlements)	Fair value on December 2019
Assets				
Advances	368 932	18 378	(49 785)	337 525
Total financial assets at fair value	368 932	18 378	(49 785)	337 525

31 December 2018

N$'000	Fair value on June 2018	Gains or losses recognised in profit and loss	Purchases/ (sales)/ issues/ (settlements)	Fair value on December 2018
Assets				
Advances	419 769	18 048	(45 611)	392 206
Total financial assets at fair value	419 769	18 048	(45 611)	392 206

30 June 2019

N$'000	Fair value on June 2019	Gains or losses recognised in profit and loss	IFRS 9	Purchases/ (sales)/ issues/ (settlements)	Fair value on June 2019
Assets					
Advances	419 769	46 415	(1 547)	(95 705)	368 932
Total financial assets at fair value	419 769	46 415	(1 547)	(95 705)	368 932

Condensed notes to the consolidated financial results
for the reporting period ended 31 December continued

10. Fair value measurements continued

10.2 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 2019	December 2018
N$'000	Advances	Advances
Assets		
Gains or losses recognised in profit and loss	18 378	18 048
Total	18 378	18 048

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 2019		December 2018		June 2019	
N$'000	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Assets						
Cash and cash equivalents	1 291 117	1 291 117	2 194 252	2 194 252	1 380 801	1 380 801
Due from banks and other financial institutions	1 861 522	1 861 522	2 025 498	2 025 498	2 803 841	2 803 841
Investment securities	6 762 314	6 793 355	6 163 812	6 161 435	7 144 543	7 214 253
Advances	31 577 192	31 127 026	29 192 565	28 568 912	30 043 808	30 004 918
Accounts receivable	59 243	59 243	161 054	161 054	1 286 540	1 286 540
Total	41 551 388	41 132 263	39 737 181	39 111 151	42 659 533	42 690 353
Liabilities						
Deposits	36 003 473	35 768 268	34 713 521	34 564 574	35 971 363	35 875 785
Due to banks and other financial institutions	611 520	611 520	1 961 996	1 961 996	430 033	430 033
Creditors and accruals	29 246	29 246	5 979	5 979	35 292	35 292
Tier 2 liabilities	402 856	402 895	402 871	402 833	402 804	406 788
Other liabilities	220 477	219 393	220 785	219 351	220 486	219 530
Total	37 267 572	37 031 322	37 305 152	37 154 733	37 059 978	36 967 428

11. Contingent liabilities and capital commitments

N$'000	Six months ended 31 December 2019	Six months ended 31 December 2018	Year ended 30 June 2019
Contingent liabilities	**3 389 408**	4 917 200	7 007 458
Capital commitments	**194 960**	205 900	3 168

12. Condensed consolidated 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.

13. Impact of adopting revised accounting standards

The group adopted IFRS 16 during the current period, with the most significant impact on the accounting treatment of leases where the group is the lessee. The standard requires lessees to recognise a right-of use-asset (ROA) and corresponding lease liability in respect of all leases that were previously classified as operating leases under IAS 17. The standard does allow for certain exemptions from this treatment for short-term leases and leases where the underlying asset is considered to be of low-value.

As permitted by IFRS 16, the group did not restate comparative information and elected to apply the modified retrospective approach on the date of initial adoption (DIA) being 1 July 2019. On the DIA, a lease liability, measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at DIA was recognised. The group elected to measure the ROA at a value equal to the lease liability as calculated at the DIA, adjusted for any lease prepayments that were made as well as any operating lease smoothing liabilities that were raised under IAS 17.

The ROA recognised is accounted for as Property and equipment (PPE) within the group. The transition to IFRS 16 impact on capital requirement is immaterial.

The recognition of the lease liability and right-of use asset has impacted the amounts recognised in the group's income statement from the DIA. Under IAS 17 a straight-lined operating lease charge was recognised in operating expenses.

From DIA, the following amounts will be recognised in the income statement under IFRS 16:

- Interest expense on the lease liability;
- Depreciation charge on the right-of use assets and will be recognised over the lease term; and
- Rental charge will be recognised in operating expenses for assets classified as short-term or low-value in terms of the group's policy.

13. Impact of adopting revised accounting standards continued

The table below reconciles the operating lease commitments recognised under IAS 17 to the lease liabilities recognised on balance sheet as at 1 July 2019:

N$'000	Amount
Operating lease commitments disclosed as at 30 June 2019 under IAS 17	**82 721**
Less: short term leases	(5 010)
Total qualifying operating leases subject to IFRS 16	**77 711**
Less: Discounted using the group's incremental borrowing rate	(11 833)
Additional lease liability recognised as at 1 July 2019 (included in other liabilities)	**65 878**

Adjustment	Description of amounts
Operating lease commitments under IAS 17	The group applied the practical expedient in IFRS 16 C3 and did not reassess the definition of a lease on its current lease contracts but applied the requirements of IFRS 16 to all leases recognised as operating leases previously under IAS 17.
Short term leases	IFRS 16 provides an exemption for leases that are short-term in nature. The exemption allows a lessee to not recognise a ROA or lease liability. The exemption is applied per class of leases (i.e. leases of property, leases of vehicles, etc.) The group applied this exemption to all classes of leases at DIA and for new leases entered into after the DIA that meets the definition. The group defines short term leases as any lease that has a lease term of 12 months or less and where the terms of the lease contain: - no extension periods that the group will reasonably exercise which would result in the lease term being longer than 12 months; and - no purchase option in the lease contract.
Variable rate leases	Under IAS 17, certain variable lease payments where included in the amount of operating lease commitments disclosed in the annual financial statements. Under IFRS 16 variable lease payments are not capitalised and are expensed when incurred.
Extension and termination options	The group's policy is to include extension and termination operations for certain property leases where there is a reasonably certain expectation asserted that the lease will be renewed and as such the value of these extension and termination options are taken into consideration in the determination of the lease liability. In assessing whether it is reasonably certain that the option will be exercised, past practices observed for similar types of leases and the economic reasons for electing those options are used to conclude whether it is reasonably certain that the option will be exercised or not.
Discounting using the group's incremental borrowing rate	IFRS 16 requires that the lease payments are discounted. The discounted amount is calculated using the incremental borrowing rate at DIA. The group used the practical expedient in IFRS 16 that allows the use of a single discount rate to a portfolio of leases with reasonably similar characteristics. The incremental borrowing rates used ranged between 7% - 10%. The range is indicative of: - Duration of the lease; - Credit risk of the business that is the lessee

13. Impact of adopting revised accounting standards continued

The impact on the group's financial results as at 1 July 2019 (DIA for IFRS 16) is set out below.

Condensed statement of financial position - IFRS

N$'000	As previously reported at 30 June 2019	Restatement for IFRS 16	Restated 1 July 2019
Property and equipment	859 081	61 022	920 103
Other assets			
Total assets	859 081	61 022	920 103
Liabilities			
Other Liability	220 486	65 877	286 363
Creditors, accruals and provisions (Straight-lining liability)*	371 483	(4 855)	366 628
Total liabilities	591 969	61 022	652 991
Equity			
Ordinary shares	1		1
Share premium	1 142 791		1 142 791
Reserves	4 038 966		4 038 966
Capital and reserves attributable to equity-holders of the group	5 181 758		5 181 758
Total equity	5 181 758		5 181 758
Total equity and liabilities	5 773 727	61 022	5 834 749

*Relates to the derecognition of lease liability anof the IAS 17 straight-lined liability.

13. Impact of adopting revised accounting standards continued

The following other new or revised standards became effective for the six months ended 31 December 2019 and had no impact on the group's reported earnings, financial position, reserves or accounting policies.

New/ revised IFRS	Description of change	Impact on the group
IFRS 9 amendments	Prepayment features with Negative Compensation The IASB issued a narrow-scope amendment to IFRS 9 to enable companies to measure at amortised cost some pre-payable financial assets with negative compensation. The assets affected include some advances and debt securities which would otherwise be measured at FVTPL.	The amendment will be considered when the group issues instruments with these characteristics.
IAS 28	Long-term Interests in Associates (Amendments to IAS 28) The amendment clarifies that an entity should apply IFRS 9, including impairment requirements, to long-term interests in associates and joint ventures that in substance form part of the net investment in the associate or joint venture.	The group assessed the impact of this amendment on the annual financial statements as part of the adoption of IFRS 9 and it currently complies with this amendment.
IFRIC 23	Uncertainty over Income Tax Treatments This interpretation is to be applied to the determination of taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.	The group complies with the guidance issued by the IFRIC.
Annual improvements 2015–2017 cycle	These annual improvements include amendments to: - IFRS 3 and IFRS 11: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. - IAS 12: The amendment clarifies that the tax consequences of dividends should be recognised in the income statement, other comprehensive income or equity according to where the past transactions or events were recognised that gave rise to the distributable reserves from which the dividends were declared. Therefore, if the dividends are declared from retained income arising from profits previously recognised in the income statement, the income tax consequences of the dividend distribution should be recognised in the income statement. - IAS 23: The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.	The amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 are not applicable to the group.

Salient features of the group results

	Six months ended 31 December		Year ended 30 June
	2019	2018	2019
Selected ratios			
Return on average shareholders' equity (%)	24.4	22.9	23.3
Return on average assets (%)	2.8	2.7	2.7
Cost to income ratio (%)	50.1	49.9	53.5

Condensed notes to the consolidated financial results

for the reporting period ended 31 December continued

Capital adequacy

Banking Operations

N$'000	Six months ended 31 December 2019	Six months ended 31 December 2018	Year ended 30 June 2019
Risk weighted assets			
Credit risk	25 244 050	25 533 193	25 368 468
Market risk	53 636	18 738	53 508
Operational risk	4 682 617	4 364 309	4 524 168
Total risk weighted assets	29 980 303	29 916 240	29 946 144
Regulatory capital			
Share capital and share premium	1 142 792	1 142 792	1 142 792
Retained profits	3 061 515	3 256 116	4 032 962
Other undisclosed reserves	6 280		6 000
Capital impairment*	(87 072)	(98 521)	(92 799)
Total Tier 1	4 123 515	4 300 387	5 088 955
Eligible subordinated debt	400 000	400 000	400 000
General risk reserve, including portfolio impairment	315 551	301 504	316 675
Current board approved profits	600 402	263 950	
Total tier 2	1 315 953	965 454	716 675
Total tier 1 and tier 2 capital	5 439 468	5 265 841	5 805 630
Banking group			
Capital adequacy ratios			
Tier 1	13.8%	14.3%	17.0%
Tier 2	4.3%	3.3%	2.4%
Total	18.1%	17.6%	19.4%
Tier 1 leverage ratio	9.1%	10.2%	11.2%

* Includes intangible assets, investment in deconsolidated entities and investment in significant minority and majority insurance entities.

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

Directors:
II Zaamwani-Kamwi (Chairperson), SH Moir** (Deputy-Chairperson), OLP Capelao, JG Daun, CLR Haikali, JH Hausiku, Adv. GS Hinda, JR Khethe*, GCP Kruger*, IN Nashandi, SJ van Zyl (Chief Executive) ** South African, ** South African with Namibian Permanent Residence.*

Registered office:
@ Parkside, 130 Independence Avenue, P O Box 195, Windhoek, Namibia, Registration No. 88/024, ISIN Code: NA0003475176, NSX Share Code: FNB.

Transfer secretary:
Transfer Secretaries (Pty) Ltd, 4 Robert Mugabe Avenue, P O Box 2401, Windhoek, Namibia, Registration No. 93/713.

Sponsor:
Cirrus Securities (Pty) Ltd , 2nd Floor, Maerua Office Tower, Jan Jonker Road, , P O Box 27, Windhoek, Namibia, Registration No. 98/461.

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