FNB
First National Bank

Annual financial statements
for the year ended 30 June 2015

First National Bank of Namibia Limited

Contents

Directors' responsibility statement

To the shareholder of First National Bank of Namibia Limited

These consolidated annual financial statements are the responsibility of the company's directors. We also acknowledge responsibility for establishing accounting procedures that provide for the maintenance of documentation sufficient to support the consolidated annual financial statements. These consolidated annual financial statements present fairly the financial position, results of operations and cash flows of the banking group and company in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies Act of Namibia and have been prepared on basis consistent with those of the prior year, except where specifically disclosed in the consolidated annual financial statements. The consolidated annual financial statements incorporate full and responsible disclosure in line with the group's philosophy on corporate governance.

The directors have reviewed the appropriateness of the accounting policies, and concluded that estimates and judgements are prudent. The group has complied in all material respects with the requirements set out in BID2 with regards to asset classification, suspension of interest and provisioning. The group's policies with this regard are stated in the notes on accounting policies, disclosed on pages 7 to 38.

The directors report that the group's internal controls are designed to provide reasonable assurance as to the integrity and reliability of the financial statements, to adequately safeguard, verify and maintain accountability of assets and to prevent and detect fraudulent financial reporting. Such controls are based on established written policies and procedures. They are implemented by trained, skilled personnel with an appropriate segregation of duties and are monitored throughout the group.

The board members and employees are required to maintain the highest ethical standards and the group's business practices are required to be conducted in a manner that is above reproach. The board has adopted and is committed to the principles in the Namcode report on Corporate Governance. The board is responsible for internal controls. The controls throughout the group are directed towards risk areas. These areas are identified by operational management, confirmed by group management and tested by the internal auditors. All controls relating to these critical risk areas are closely monitored and subject to audit.

Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these internal financial controls occurred during the year.

The directors have reviewed the group's budget for the year to 30 June 2016. On the basis of this review and in the light of the current financial position, the directors have no reason to believe that First National Bank of Namibia Limited and its subsidiaries will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The group's external auditors, Deloitte & Touche, have audited the financial statements and their report appears on page 3 and 4. The consolidated annual financial statements of the group and company, which appear on pages 5 to 147 have been approved by the board of directors and are signed on its behalf by:

C J Hinrichsen	S J Van Zyl
Chairman	Chief Executive Officer

Windhoek
7 August 2015

Independent Auditor's Report

To the Shareholder of First National Bank of Namibia Limited

We have audited the consolidated annual financial statements and the annual financial statements of First National Bank of Namibia Limited, which comprise the consolidated and separate statements of financial position as at 30 June 2015 and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes and the directors' report, as set out on pages 5 to 142 and the capital management report on page 143 to 147.

Directors' responsibility for the financial statements

The directors of the company are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of Namibia and for such internal controls as the directors determine as necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report continued

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of First National Bank of Namibia Limited as at 30 June 2015, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of Namibia.

Deloitte & Touche

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

Per RH Mc Donald
Partner

PO Box 47, Windhoek, Namibia
28 September 2015

Regional executives:
LL Bam (Chief Executive), A Swiegers (Chief Operating Officer), GM Pinnock

Resident partners:
E Tjipuka (Managing Partner), RH Mc Donald, H de Bruin, J Cronje, A Akayombokwa, AT Matenda

Director: G Brand

Directors' report

The directors present their annual report, which forms part of the annual financial statements of the group and of the company for the year ended 30 June 2015.

Nature of business

The company is a registered bank offering a full range of banking services in Namibia.

Share capital

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

The company's authorised share capital at the end of reporting period consists of 4 000 (2014: 4 000) ordinary shares of N$ 1.

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

Dividends

During the current year dividends of N$ 347 million (2014: N$267 million), were declared and paid by the company.

Interest of directors

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

Group results

The financial statements on pages 39 to 147 set out fully the financial position, results of operations and cash flows of the company and the group.

Directorate

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

C J Hinrichsen # (Chairman)
J J Comalie
C R Formby * (Appointed January 2015)
C L R Haikali
L J Haynes*
S H Moir *
I I Zaamwani-Kamwi (Ms)
S J Van Zyl (Chief Executive Officer)
(Appointed December 2014)
P T Nevonga
M N Ndilula
J R Khethe *
 # German   ** South African*

Board changes

Mr IJM Leyenaar, the Chief Executive Officer, retired from the board in November 2014. Mr CJL Giddy a director resigned from the board in August 2014.

All directors appointed since the last annual general meeting have to be confirmed at the next annual general meeting.

Management by third parties

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

Directors' report continued

Insurance

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

Property and equipment

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

Holding company

The holding company of First National Bank of Namibia Limited is FNB Namibia Holdings Limited a NSX listed company and its ultimate holding company is FirstRand Limited dual listed on the NSX and JSE, which is incorporated in the Republic of South Africa.

Subsidiary and associate

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

Company secretary and registered offices

Company secretary
N Ashipala (appointed May 2015)

Registered office
209 Independence Avenue
Windhoek

Postal address
P O Box 195
Windhoek
Namibia

Events subsequent to reporting date

There are no material events subsequent to the reporting date to report.

Accounting policies

Accounting policies

1. Principal accounting policies

Introduction

First National Bank of Namibia Limited group (the group) is a financial services group.

The group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies are consistent in all material aspects with those adopted in the previous year, unless otherwise stated.

1.1 Basis of presentation

The group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the Namibian Companies Act, No 28 of 2004. The principal accounting policies are consistent in all material aspects with those adopted in the previous year, except for the adoption of the following new and revised IFRS:

- The amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in other Entities and IAS 27 Separate Financial Statements provide an exemption to the consolidation requirement for entities that meet the definition of an investment entity in terms of IFRS 10. If the exemption is applied, the amendments allow investment entities to account for investments in subsidiaries at fair value through profit or loss. These amendments have no impact to the group, since neither the group itself nor any of the entities in the group meets the definition of an investment entity in terms of IFRS 10.

- IAS 19 Employee Benefits was amended to clarify the requirements relating to how contributions from employees or third parties that are linked to service should be attributed to periods of service. The amendment permits contributions that are independent of the number of years of service to be recognised as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to periods of service. Other contributions by employees or third parties that are not linked to service should be attributed to periods of service using the plan's contribution formula or on a straightline basis. The amendments did not have an impact on the group.

- The amendments to IAS 32 Financial Instruments: Presentation clarify the existing requirements relating to the offsetting of financial assets and financial liabilities. It specifically clarifies that the right of setoff must not be contingent on a future event and must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The group's interpretation of the offsetting requirements has always been in line with this and the clarification and adoption of the amended standard did not have an impact on the group financial statements.

- Amendments to IAS 36 Impairment of Assets remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36. The amendments reduce the circumstances in which the recoverable amount of assets or cashgenerating units (CGU) is required to be disclosed. The amendments clarify the disclosures required and introduce an explicit requirement to disclose the discount rate used in determining impairment or impairment reversals when the recoverable amount is determined using a present value technique. The amendments do not impact the amounts reported in the group's consolidated financial statements, but additional disclosures will be provided when applicable in terms of the new disclosure requirements.

- Under IAS 39 Financial instruments: Recognition and Measurement the novation of derivatives to central counterparties would result in the discontinuance of hedge accounting. The amendments to this standard provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the group as the group has not novated any derivatives used as hedging instruments during the current or prior periods.

- IFRIC 21 Levies is a new interpretation that provides guidance on when to recognise a liability for a levy imposed by a government. The interpretation clarifies that that an entity should recognise a liability for a levy when the activity that triggers the payment, as identified by the relevant legislation occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognised until the specified minimum threshold is recognised. This interpretation has no impact on the group's consolidated financial statements as it has applied the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets which are consistent with the requirements of IFRIC 21 in prior years.

- As part of its Annual Improvements Project, the IASB made amendments to a number of accounting standards. The annual improvements for the 2010-2012 and 2011-2013 cycles issued in December 2013 were adopted in the current financial year. These amendments did not have a significant impact on the group's results nor have they resulted in the restatement of prior year numbers.

The group prepares its audited consolidated financial statements in accordance with the going concern principle using the historical cost basis, except for the following assets and liabilities.

- financial assets and liabilities held for trading;
- financial assets classified as availableforsale;
- derivative financial instruments;
- financial instruments elected to be carried at fair value through profit and loss; and
- employee benefits liabilities, valued using the projected unit credit methods.

The preparation of audited consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are outlined in these accounting policies.

All monetary information and figures presented in these financial statements are stated in thousand of Namibia Dollar (N$ '000), unless otherwise indicated.

1.2 Consolidation

Subsidiaries

The consolidated annual financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries.

Subsidiaries are all companies and structured entities over which the group has control. The group has control over an investee when the group is exposed, or has the rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Accounting policies continued

Subsidiaries continued

When assessing whether control exists the group considers all existing substantive rights that result in the current ability to direct relevant activities. Subsidiaries are consolidated from the date on which the group acquires effective control. Consolidation is discontinued from the date that control over the subsidiary is lost.

The group will consolidate a structured entity when the substance of the relationship between the group and the structured entity indicates that the group controls the structured entity.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated on consoldiation. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Business combinations

The group uses the acquisition method of accounting to account for business combinations. A business is defined as an integrated set of activities and assets that are capable of being conducted and managed for the purposes of providing a return. It is presumed that a business exists if goodwill is present in the acquired set of assets and activities. Evidence to the contrary would be needed to overcome this presumption.

The consideration transferred for the acquisition is measured at the fair value of the assets transferred, equity instruments issued and the liabilities incurred or assumed at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the acquisition date fair value of any existing equity interest held in the subsidiary. The contingent consideration is initially measured at fair value on the acquisition date. An obligation to pay contingent consideration is classified as either a financial liability or equity based on the respective definitions set out in IAS 32. The group classifies any rights to the return of consideration previously transferred as a financial asset. Any asset or liability arising from a contingent consideration arrangement is subsequently measured at fair value through profit and loss.

Any changes resulting from additional and new information about events and circumstances that existed at the acquisition date and, if known, would have affected the measurement of the amounts recognised at that date, are considered to be measurement period adjustments. The group retrospectively adjusts the amounts recognised for measurement period adjustments. The measurement period ends when the acquirer receives all the information it was seeking about facts and circumstances that existed at the acquisition date or learns that information is not obtainable. The measurement period shall, however, not exceed one year from the acquisition date. To the extent that changes in the fair value relate to postacquisition events, these changes are recognised in accordance with the IFRS applicable to the specific asset or liability. Contingent consideration that is classified as equity is not remeasured after the acquisition date.

Transaction costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date.

Any difference between the sum of consideration transferred, the amount of any noncontrolling interest in the subsidiary (also refer to the accounting policy on Noncontrolling interest) and the acquisition date fair value of any previous equity interest in the subsidiary and the fair value of the group's share of the identifiable net assets acquired, is recorded as goodwill. If this amount is negative as in the case of a bargain purchase, the difference is recognised immediately in profit or loss.

When control is achieved in stages, each transaction is accounted for separately and the identifiable assets, liabilities and contingent liabilities are measured at fair value at acquisition date.

Non-controlling interest

Non-controlling interests in the net assets of subsidiaries are separately identified and presented from the group's equity. Non-controlling interests may initially be measured either at fair value or at the non-controlling interests' proportionate share of the subsidiary's identifiable net assets at the acquisition date. This is not an accounting policy election and the group will apply the choice of measurement basis on an acquisition by acquisition basis. Subsequently the non-controlling interests are measured at the amount attributed to such interest at initial recognition and the non-controlling interests' share of changes in equity of the subsidiary since the acquisition date.

Non-controlling interests are treated as equity participants of the subsidiary company. The group treats all acquisitions and disposals of its non-controlling interests in subsidiary companies, which do not result in a loss of control, as transactions with equity holders. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the group.

Associates and joint ventures

Associates are entities over which the group has significant influence but does not control or jointly control. The group is presumed to have significant influence when it has power over between 20% and 50% of the voting rights.

The group includes the results of associates in its consolidated financial statements using the equity accounting method from the date of acquisition. Refer to accounting policy on equity accounting for details on the application of the equity accounting method.

Equity accounting is discontinued from the date that the group ceases to have significant influence over the associate or from the date that the investment is classified as a noncurrent asset held for sale in accordance with IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations.

Investments in associates acquired and held exclusively with the view to dispose of in the near future (within 12 months) are not accounted for using the equity accounting method, but are measured at fair value less cost to sell in terms of IFRS 5.

Equity accounting

When equity accounting is applied to an investment in an associate or joint venture the investment is initially recognised at cost. The carrying amount is subsequently increased or decreased to recognise the group's share of the profit or loss from the investee after the date of acquisition. Goodwill on the acquisition of associates and joint ventures is included in the equityaccounted carrying amount.

Earnings attributable to ordinary shareholders include the group's share of earnings of associates and joint ventures. Other comprehensive income includes the group's share of other comprehensive income of associates and joint ventures. The cumulative postacquisition movements are adjusted against the carrying amount of the investment in the associate or joint venture. Changes in the group's share of the net asset value that are not recorded in the in the investee's other comprehensive income are recorded directly in equity. These amounts are recycled to profit or loss when the investment ceases to be equity accounted.

Accounting policies continued

Equity accounting continued

The most recent audited annual financial statements of associates and joint ventures are used by the group in applying the equity method of accounting. These are not always drawn up to the same date as the financial statements of the group. Where the reporting date of the investee is different from that of the group, the group uses the most recently available financial statements of the investee as well as reviews the investees management accounts for material transactions during the inbetween period. In instances where significant events occurred between the last reporting date of an investees and the reporting date of the group, the effect of such events are adjusted for.

Certain loans and other longterm interests in associates and joint ventures are considered to be in substance part of the net investment in the entity when settlement is neither planned nor likely to occur in the foreseeable future. Such items may include preference shares and longterm receivables or loans but do not include trade receivables or any longterm loans for which adequate collateral exists. These loans and other longterm interests in associates and joint ventures are included in advances on the face of the statement of financial position. The value of such loans are however included in the carrying amount of the investee for purposes of determining the share of losses of the investee attributable to the group and for impairment testing purposes.

At each reporting period the group assesses whether there is any objective evidence of impairment as described in IAS 39 in relation to an investment in an associate or joint venture. If such evidence exists, the entire carrying amount of the investment, including the goodwill and other longterm interests, is tested for impairment in terms of IAS 36. Any resulting impairment losses are recognised as part of the share of profits or losses from associates or joint ventures.

When equity accounting is discontinued the group measures any investment it has retained in the entity at fair value and recognises the resulting gain or loss in gains less losses from investing activities within non-interest revenue. The gain or loss is measured as the difference between the fair value of the retained investment and the carrying amount of the original investment at the date on which equity accounting is discontinued. After discontinuing equity accounting, the group accounts for any retained investment in the entity in accordance with the relevant IFRS as appropriate.

The group does not account for any further losses of the associate or joint venture when the carrying amount of the investment reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the investee.

Unrealised gains on transactions between the group and its associates or joint ventures are eliminated to the extent of the group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of the investees have been changed where necessary to ensure consistency with the policies adopted by the group.

1.3 Interest income and expense

The group recognises interest income and expense in profit and loss for all instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability by allocating the interest income or interest expense over the average expected life of the financial instruments or portfolios of financial instruments.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income or expenses on instruments designated at fair value through profit or loss is included in fair value income within non-interest revenue except to the extent that the interest relates to:

- the groups funding operations; and
- items to which hedge accounting is applied.

From an operational perspective, the group suspends the accrual of contractual interest on nonrecoverable advances. However, in terms of IAS 39, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the discounted recoverable amount of the advance. This difference between the discounted and undiscounted recoverable amount is released to interest income over the expected collection period of the advance.

Instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or longterm liabilities as appropriate. Where these instruments are measured at amortised cost, dividends received or paid on these instruments are included in the cash flows used to determine the effective interest rate of the instrument.

1.4 Fair value income

The group includes profits or losses, fair value adjustments, interest on trading financial instruments (including derivative instruments that do not qualify for hedge accounting in terms of IAS 39), as well as trading related financial instruments designated at fair value through profit or loss, as fair value gains or losses in noninterest revenue. Trading related financial instruments designated at fair value through profit or loss exclude instruments relating to the group's insurance operations and the group's funding requirements.

Net fee and commission income

1.5 Fee and commission income

The group generally recognises fee and commission income within non-interest revenue on an accrual basis when the service is rendered.

Certain fees and transaction costs that form an integral part of the effective interest rate of availableforsale and amortised cost financial instruments are capitalised and recognised as part of the effective interest rate of the financial instrument over the expected life of the financial instruments and not as non-interest revenue.

Fees and transaction costs that do not form an integral part of the effective interest rate are recognised as income when the outcome of the transaction involving the rendering of services can be reliably estimated as follows:

- fees for services rendered are recognised as fee and commission income on an accrual basis when the service is rendered, for example, banking fee and commission income, and asset management and related fees;
- fees earned on the execution of a significant act, for example knowledgebased fee and commission income and non banking fee and commission income, when the significant act has been completed; and
- commission income on bills and promissory notes endorsed is credited to profit or loss over the lives of the relevant instruments on a time apportionment basis,

Accounting policies continued

1.6 Fee and commission expenses

Fee and commission expenses are expenses that are incremental or directly attributable to the generation of fee and commission income within non-interest revenue. Fee and commission expenses include transaction and service fees, which are expensed as the services are received. Fee and commission expenses that form an integral part of the effective interest rate of a financial instrument are recognised as part of net interest income.

1.7 Dividend income

The group recognises dividend income when the group's right to receive payment is established. This is on the last day to trade for listed shares and on the date of declaration for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares, except to the extent that the scrip dividend is viewed as a bonus issue with no cash alternative and the transaction lacks economic significance.

1.8 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated annual financial statements are presented in Namibia Dollar ("N$"), which is the functional and presentation currency of the holding company of the group.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year end exchange rates are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

Translation differences on both monetary and non-monetary items that are recognised at fair value through profit or loss are reported as part of the fair value gains or losses in non-interest revenue.

Changes in the fair value of monetary debt securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost and other changes in the fair value of the security. Translation differences relating to changes in the amortised cost are recognised in profit or loss and other changes in the fair value are recognised in other comprehensive income.

Foreign exchange gains or losses on monetary items measured at amortised cost are recognised in profit or loss as part of foreign exchange differences, within non-interest revenue.

1.9 Borrowing costs

The group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset up to the date on which construction or installation of the assets is substantially completed. Other borrowing costs are expensed when incurred.

1.10 Direct and indirect taxes

The tax expense represents the sum of the tax currently payable and deferred tax. Direct taxes comprise Namibian corporate tax.

Indirect taxes include various other taxes paid to central and local governments, including value added tax and stamp duties. Indirect taxes are disclosed separately from direct tax in the statement of comprehensive income.

The charge for current tax is based on the results for the year as adjusted for items which are nontaxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affect neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The group recognises deferred tax assets if the directors of the group consider it probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other postretirement benefits and tax losses carried forward.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to fair value remeasurement of availableforsale investments and cash flow hedges, which are charged or credited directly in other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in profit and loss together with the deferred gain or loss.

1.11 Recognition of assets

Assets

The group recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the group.

Contingent assets

The group discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or nonoccurrence of one or more uncertain future events which are not wholly within the control of the group.

1.12 Liabilities, provisions and contingent liabilities

Liabilities and provisions

The group recognises liabilities, including provisions, when:

- it has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Accounting policies continued

Liabilities and provisions continued

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of the obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pretax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Contingent liabilities

The group discloses a contingent liability when:

- it has a possible obligation arising from past events, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group; or

- it has a present obligation that arises from past events but is not recognised because:

    - it is not probable that an outflow of resources will be required to settle the obligation; or
    - the amount of the obligation cannot be measured with sufficient reliability.

1.13 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents comprise:

- coins and bank notes:
- money at call and short notice;
- balances with central banks; and
- balances with other banks.

All balances included in cash and cash equivalents have a maturity date of less than three months from the date of acquisition.

1.14 Financial instruments

General

Financial instruments carried on the statement of financial position include all assets and liabilities, including derivatives, but exclude investments in associates and joint ventures, commodities, property and equipment, assets and liabilities of insurance operations, deferred tax, tax payable, intangible assets, post-employment liabilities, provisions and certain non-current assets held for sale. The group recognises a financial asset or a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

The group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- available-for-sale financial assets; and
- held-to-maturity investments.

Financial liabilities are classified in the following categories:

- financial liabilities at fair value through profit or loss; and
- financial liabilities at amortised cost.

Management determines the classification of its financial instruments at initial recognition.

Financial instruments are initially recognised at fair value plus transaction costs for all financial instruments not carried at fair value through profit or loss.

Availableforsale financial assets and financial instruments at fair value through profit or loss are subsequently measured at fair value. Loans and receivables and heldtomaturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

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

Financial instruments at fair value through profit or loss

This category has two subcategories: financial instruments held for trading and those designated at fair value through profit or loss on initial recognition.

A financial instrument is classified as a trading instrument if acquired principally for the purpose of selling in the short term or if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking. Derivatives are also categorised as held for trading unless they are designated hedging instruments in an effective hedging relationship.

Financial assets and liabilities are designated on initial recognition as at fair value through profit and loss to the extent that it produces more relevant information because it either:

- results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or

- is a group of financial assets and/or financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or

- is a financial asset or liability containing significant embedded derivatives that clearly require bifurcation.

The main financial assets and financial liabilities designated at fair value through profit and loss under criteria (i) are various advances to customers, structured notes and other investments held by the investment banking division. These financial instruments have been designated at fair value through profit or loss to eliminate the accounting mismatch between these assets and the underlying derivatives used to manage the risk arising from these assets. If the assets were not designated at fair value through profit or loss, a mismatch would arise as a result of the assets being recognised at amortised cost and the related derivatives being recognised at fair value.

Financial instruments designated under criteria (ii), include certain private equity and other investment securities and financial assets held to meet liabilities under insurance contracts.

Gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in profit or loss as fair value gains or losses in non-interest income in the period in which they arise.

Accounting policies continued

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the group upon initial recognition designates as at fair value through profit or loss;
- those that the group upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale.

This category also includes purchased loans and receivables, where the group has not designated such loans and receivables in any of the other financial asset categories.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. If the group sells more than an insignificant amount of held-to-maturity investments, the entire category is considered to be tainted in terms of IAS 39 and would have to be reclassified as available-for-sale.

The group measures heldtomaturity investments at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non derivative financial assets that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The group recognises gains and losses arising from changes in the fair value of available-for-sale financial assets in other comprehensive income. It recognises interest income on these assets as part of interest income, based on the instrument's original effective interest rate using the effective interest rate method. Dividends on available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established and are included in gains less losses from investing activities within non-interest revenue.

When the available-for-sale financial assets are disposed of or impaired, the related accumulated fair value adjustments are reclassified from other comprehensive income and included in profit or loss as gains less losses from investing activities within non-interest revenue.

Treasury bills, debt securities and equity shares intended to be held on a continuing basis, other than those designated at fair value through profit and loss are classified as available-for-sale.

Classification of financial liabilities, equity instruments and compound financial instruments

The group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. If a financial instrument includes a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities on potentially unfavourable terms, such as redeemable preference shares, the financial instrument is classified as a financial liability. An instrument is classified as equity if it evidences a residual interest in the assets of the group after the deduction of liabilities.

Compound instruments are those financial instruments that have components of both financial liabilities and equity. At initial recognition the compound financial instruments are split into its separate components and accounted for as financial liabilities or equity as appropriate. The group separately measures and recognises the fair value of the debt component of an issued convertible bond as a financial liability, with the residual value allocated to equity.

The initial fair value of the liability component is recognised at the fair value of a similar nonconvertible instrument. The equity component is initially recognised as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their carrying values.

Measurement of financial liabilities

Financial liabilities are measured at amortised cost, except for certain liabilities that are designated as at fair value through profit or loss. Interest expense is recognised in profit or loss over the period of the borrowing using the effective interest method. Refer to accounting policies 1.3 and 1.4 for the accounting treatment applied to interest expense and fair value gains or losses respectively.

The group calculates interest on the liability component of compound financial instruments based on the market rate for a similar non-convertible instrument at the inception thereof.

Offsetting of financial instruments

The group offsets financial assets and liabilities and reports the net balance in the statement of financial position where:

- there is a current enforceable legal right to offset the amounts; and
- there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The right of set-off is considered to be currently enforceable if the following conditions are met

- the right is not contingent on a future event; and
- it is legally enforceable in all of the following circumstances:
  - the normal course of business;
  - the event of default; and
  - in the event of insolvency or bankruptcy of the entity and all of the counterparties

Embedded derivatives

The group treats derivatives embedded in other financial or non financial instruments, such as the conversion option in a convertible bond, as separate derivatives when:

- their risks and characteristics are not closely related to those of the host contract;
- they meet the definition of a derivative; and
- the the host contract is not carried at fair value through profit or loss.

Where embedded derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules.

Accounting policies continued

Derecognition

The group derecognises a financial asset when:

- the contractual rights to the asset expire; or
- where there is a transfer of the contractual rights to receive the cash flows of the financial asset and substantially all of the risks and rewards related to the ownership of the financial asset are transferred; or
- the group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and rewards associated with the asset.

Where the group retains substantially all the risks and rewards of ownership of the financial asset, the group continues to recognise the financial asset in its entirety and recognises a financial liability for the consideration received. These financial assets and the related financial liabilities may not be offset.

Where the group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the group determines whether it has retained control of the financial asset. In this case:

- if the group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer; or
- if the group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired. A substantial modification of the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability.

Where the group purchases its own debt, the debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in fair value income within non-interest revenue.

Sale and repurchase agreements

The consolidated financial statements reflect securities sold subject to a linked repurchase agreement (repos) as trading or investment securities. The counterparty liability is included in deposits held under repurchase agreements. These financial liabilities are either measured at fair value or amortised cost in line with IAS 39. Securities purchased under agreements to resell (reverse repos) are not recorded but the related advances relating to the repurchase transactions are recognised as advances under agreements to resell. These financial assets are either measured at fair value or amortised cost in line with IAS 39. The difference between the purchase and resale price is in substance interest and recognised in accordance with the group's policy for net interest income.

Securities lent to counterparties under securities lending arrangements are retained as trading and investment securities. Any deposits arising from collateral provided by the counterparties are recognised as deposits under securities lending arrangements and are measured at either fair value or amortised cost in accordance with IAS 39.

The group does not recognise securities borrowed in the consolidated financial statements, unless unsold to third parties, in which case the obligation to return these securities is recognised as a financial liability at fair value with any gains or losses included in fair value income within non-interest revenue.

1.15 Impairment of financial assets

General

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

Assets carried at amortised cost

The group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the group about the following events:

- significant financial difficulty of the issuer or counterparty;
- a breach of contract, such as a default or delinquency in payments of principal or interest;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties or adverse changes in the market, economic or legal environment in which the entity operates; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be allocated to the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Accounting policies continued

Assets carried at amortised cost continued

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether the group elects to foreclose or not.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the group's grading process that considers asset type, industry, geographical location, collateral type, pastdue status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such financial assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the financial assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

Past due advances

Advances are considered past due in the following circumstances:

- loans with a specific expiry date (e.g. term loans etc.) and consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans) are treated as overdue where one full instalment is in arrears for one day or more and remains unpaid as at the reporting date; or.
- loans payable on demand (e.g. overdrafts) are treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction. In these instances, the full outstanding amount is considered overdue even if part of it is not yet due.

The past due analysis is only performed for advances with specific expiry dates or instalment repayment dates or demand loans that have been demanded. The analysis is not applicable to overdraft products or products where no specific due date are be determined. The level of risk on these types of products is assessed with reference to the counterparty ratings of the exposures and reported as such.

Renegotiated advances

Financial assets that would otherwise be past due that have been renegotiated are separately classified as neither past due nor impaired assets. Renegotiated advances are advances where, due to deterioration in the counterparty's financial condition, the group granted a concession where the original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance. Advances are only classified as renegotiated if the terms of the renegotiated contract have not yet expired and remain classified as such until the terms of the renegotiated contract expire. Where the advances are reclassified as neither past due nor impaired the adherence to the new terms and conditions is closely monitored.

Renegotiated advances exclude advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original. Nonperforming advances cannot be reclassified as renegotiated unless the arrears balance has been repaid. Renegotiated but current financial assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost or net realisable value. The group recognises repossessed assets as part of accounts receivable in the statement of financial position.

Available-for-sale financial assets

The group assesses at each reporting date whether there is objective evidence that an available-for-sale financial asset or a group of available-for-sale financial assets is impaired.

In the case of equity investments classified as available-for-sale, objective evidence of impairment includes information about significant changes with an adverse effect on the environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be recovered and a significant or prolonged decline in the fair value of the security below its cost. If any such objective evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any previously recognised impairment loss on that financial asset, is reclassified from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not subsequently reversed.

Impairment losses recognised in profit or loss on equity instruments are not subsequently reversed through profit or loss.

In the case of a debt instrument classified as availableforsale, the same objective evidence of impairment as for financial assets measured at amortised cost is considered in determining if impairment exists. The difference between the acquisition cost and the current fair value less any previous impairment losses recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as availableforsale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

1.16 Derivative financial instruments and hedging

The group initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments,

Accounting policies continued

1.16 Derivative financial instruments and hedging continued

in the statement of financial position at fair value. Derivatives are subsequently measured at their fair value with all movements in fair value recognised in profit or loss, unless it is a designated and effective hedging instrument. The method of recognising the resulting fair value gains or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either a:

- hedge of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or
- hedge of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

The hedge of a foreign currency firm commitment can either be accounted for as a fair value or a cash flow hedge.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions at the inception of the transaction. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as hedging instruments in fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The interest accrued or paid relating to interest rate swaps and hedged items are reflected in interest income or interest expense. Effective changes in fair value of currency futures are reflected in non-interest revenue. Other gains or losses, including the ineffective portion of all fair value hedges, are recorded as fair value gains or losses in non-interest revenue.

If the hedge of an instrument carried at amortised cost no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of the hedged item is amortised to profit or loss based on a recalculated effective interest rate over the residual period to maturity, unless the hedge item has been derecognised, in which case it is released to profit or loss immediately. However, if the hedge of an equity instrument carried at fair value no longer meets the criteria for hedge accounting, the cumulative adjustment of the carrying amount of a hedged equity instrument remains in retained earnings until disposal.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated as hedging instruments in effective cash flow hedges is recognised in the cash flow hedge reserve in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately as part of fair value gains or lossess in non-interest revenue in profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in the cash flow hedge reserve at that time remains in other comprehensive income and is recognised when the forecast transaction is recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately reclassified to profit or loss.

Amounts accumulated in other comprehensive income are reclassified to profit or loss in the periods in which the hedged item affects profit or loss. Where the forecast transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or liability, the gains or losses previously deferred in other comprehensive income are reclassified from other comprehensive income and included in the initial measurement of the cost of the non-financial asset or liability.

For financial assets and liabilities, if the risk being hedged is interest rate risk the amounts are included in interest income or interest expense when reclassified to profit or loss. The amount recognised in profit or loss for other risks relating to financial assets and liabilities is recognised in non-interest revenue as fair value gains and losses.

1.17 Property and equipment

The group carries property and equipment at historical cost less accumulated depreciation and impairment losses, except for land which is carried at cost less impairment losses. Historical cost includes expenses that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any replacement part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Leasehold improvements are all improvements made to property which the group leases under an operating lease in order to prepare the property for its intended use and from which the group is expected to benefit for more than one year. Leasehold improvements are capitalised as property and equipment.

Property and equipment is depreciated on a straightline basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives. Freehold properties and properties held under finance leases are broken down into significant components and depreciation calculated based on the expected useful lives of these components .

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in profit or loss on disposal.

1.18 Investment property

The group classifies investment properties as properties held to earn rental income and/or for capital appreciation that are not occupied by the companies in the group.

Investment properties comprise freehold land and buildings and are measured at fair value. Investment properties that are being redeveloped for continuing use as investment property, or for which that market has become less active, continue to be measured at fair value.

Property located on land that is held under an operating lease is classified as investment property as long as it is held for longterm rental yields and is not occupied by the group. The initial cost of the property is the lower of the fair value of the property and the present value of the minimum lease payments. Subsequent to initial recognition the property is carried at fair value.

Accounting policies continued

1.18 Investment property continued

When investment properties become owner occupied, the group reclassifies them to property and equipment, using the fair value at the date of reclassification as the cost.

Fair value adjustments on investment properties are included in profit or loss as gains less losses from investing activities in non-interest revenue. These fair value gains or losses are adjusted for any double counting arising from the recognition of lease income on the straight line basis compared to the accrual basis normally assumed in the fair value determination.

The group carries investment properties under development at cost, less adjustments to reduce the cost to open market value, if appropriate.

1.19 Leases

A group company is the lessee

Finance leases

The group classifies leases of property and equipment where it assumes substantially all the risks and rewards of ownership as finance leases.Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The group allocates each lease payment between the liability and finance charges to achieve a constant rate of interest on the balance outstanding. The interest component of the finance charge is recognised in profit or loss over the lease period in interest expense. The property and equipment acquired are depreciated over the useful life of the assets, unless it is not probable that the group will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

Operating leases

The group classifies leases as operating leases if the lessor effectively retains the risks and rewards of ownership of the leased asset. The group recognises operating lease payments as an operating expense in profit or loss on a straight line basis over the period of the lease. Contingent rentals are expensed in the period incurred. Minimum rentals due after year end are disclosed as commitments.

The group recognises as an expense any penalty payment to the lessor for early termination of an operating lease, in the period in which termination takes place.

A group company is the lessor

Finance leases

The group recognises as advances assets sold under a finance lease at the present value of the lease payments receivables. The difference between the gross receivable and the present value of the receivable represents unearned finance income. Unearned finance income is recognised as interest income over the term of the lease using the effective interest rate method, which reflects a constant periodic rate of return.

Operating leases

The group includes assets held under operating leases as a separate category of property and equipment. The group depreciates these assets over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised as other non-interest revenue on a straight line basis over the lease term.

Instalment credit agreement

The group regards instalment credit agreements as financing transactions and includes the total rentals and instalments receivable , less unearned finance charges, in advances.

The group calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to interest income in proportion to capital balances outstanding.

1.20 Intangible assets

Goodwill

Goodwill represents the excess of the consideration transferred, the fair value of the previous equity interests held and the noncontrolling interest of an acquisition over the group's share of the fair value of the identifiable net assets of the acquired business, subsidiary, associate or joint venture at the date of acquisition. Goodwill on the acquisition of businesses and subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in the carrying amount of the investment. The group carries goodwill at cost less accumulated impairment losses.

Computer software development costs

The group generally expenses computer software development costs in the financial period incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for the group exceeding the costs incurred for more than one financial period, the group capitalises such costs and recognises it as an intangible asset.The group carries capitalised software assets at cost less accumulated amortisation and any impairment losses. It amortises these assets on a straight line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years.

Internally generated software and development costs are only capitalised and recognised as intangible assets if the requirements of IAS 38 Intangible Assets relating to the recognition of internally generated assets have been met. Refer below for the policy on other internally generated assets.

Other intangible assets

The group expenses the costs incurred on internally generated intangible assets such as trademarks, patents and similar rights and assets, in profit or loss in the period in which the costs are incurred. The costs incurred on the development of separately identifiable internally generated intangible assets, are capitalised by the group if:

- the group is able to demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- it is the group's intention to complete the intangible asset and use or sell it;
- the group will be able to use or sell the intangible asset;
- it is probable that the intangible asset will generate future economic benefits;
- adequate technical, financial and other resources are available to complete the development and to use; and
- the expenditure attributable to the intangible asset can be reliably measured.

The group capitalises material acquired trademarks, patents and similar rights where it will receive a benefit from these intangible assets for more than one financial period.

The group carries capitalised trademarks, patents and similar assets at cost less accumulated amortisation and any impairment losses. It amortises these assets at a rate applicable to the expected useful life of the asset.

Accounting policies continued

Impairment of intangible assets

Management reviews the carrying value of intangible assets wherever objective evidence of impairment exists. An impairment loss is recognised immediately in profit or loss as part of operating expenses when the carrying value is greater than the recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use.

Goodwill is tested annually for impairment or more frequently if an impairment indicator exists at the reporting date. Impairment losses on goodwill are not subsequently reversed.

For impairment testing purposes goodwill is allocated to the smallest component of the business that is expected to benefit from synergies of the combination and at which management monitors goodwill (cash generating unit). Each cash generating unit represents a grouping of assets no higher than an operating segment. The recoverable amount of a cash generating unit is the higher of fair value less costs to sell and value in use.

1.21 Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

1.22 Employee benefits

Post-employment benefits

The group operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee administered funds. These funds are registered in terms of the Pension Funds Act, 1956, and membership of the pension fund is compulsory for all group employees.A defined contribution plan is one under which the group pays a fixed contribution and has no legal or constructive obligation to pay further contributions. All postemployment plans that do not meet the definition of a defined contribution plan are defined benefit plans.

For defined contribution plans the group recognises the contributions as an expense, included in staff costs, when the employees have rendered the service entitling them to the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The defined benefit plans are funded by contributions from employees and the relevant group companies, taking into account the recommendations of independent qualified actuaries.

The amount recognised in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. Where the value is a net asset, the amount recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The present value of the defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments required to settle the obligation resulting from employee service in current and prior periods. The discount rate used is the rate of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating to the terms of the related pension liability. In the absence of a deep and liquid bond market the rates on government bonds are used.

The following items are included in profit or loss for the period as part of staff costs:

- current service costs calculated on the projected unit credit method;
- past service costs relating to plan amendments made in the current period;
- gains or losses on curtailments that took place in the current period; and
- net interest income calculated by applying the discount rate at the beginning of the period to the net asset or liability.

All other remeasurements in respect of the obligation and plan assets, including actuarial gains or losses, are recognised in other comprehensive income. The remeasurements recognised in other comprehensive income will not be reclassified to profit or loss.

Termination benefits

The group recognises termination benefits as a liability in the statement of financial position and as an expense in profit or loss when it has a present obligation relating to termination. The group has a present obligation at the earlier of when the group can no longer withdraw the offer of the termination benefit and when the group recognises any related restructuring costs.

Severance pay

The group recognises severance pay as a liability in the statement of financial position and as an expense in profit and loss. The group is required to pay employees a severance benefit in terms of the Labour Act of 2007, when:

- the employee is dismissed under certain circum-stances; or
- dies while employed.

The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plan. Qualified actuaries perform annual valuations.

Leave pay accruals

The group recognises a liability for the employees' rights to annual leave in respect of past service.

Bonuses

The group recognises a liability and an expense for management and staff bonuses when it is probable that the economic benefits will be paid and the amount can be reliably measured. The expense is included in staff costs.

1.23 Borrowings

The group initially recognises borrowings, including debentures, at the fair value of the consideration received. Borrowings are subsequently measured at amortised cost except for financial liabilities designated at fair value. Discounts or premiums on debentures issued are amortised on a basis that reflects the effective interest rate on the debentures over their life span. Interest paid is recognised in profit and loss on an effective interest rate basis.The group separately measures and recognises the fair value of the debt component of an issued convertible bond in liabilities, with the residual value separately allocated to equity.It calculates interest on the debt portion of the instrument based on the market rate for a nonconvertible instrument at the inception thereof.

Instruments with characteristics of debt, such as redeemable preference shares, are included in liabilities. Dividends paid on such instruments are included in interest expense.

Where the group purchases its own debt, the debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in fair value income.

Accounting policies continued

1.24 Share capital

Share issue costs

Instruments issued by the group are classified as equity when there is no obligation to transfer cash or assets. Incremental costs directly related to the issue of new shares or options are shown as a deduction from equity, net of any related tax benefit.

Dividends paid

Dividends on ordinary shares and noncumulative nonredeemable (NCNR) preference shares are recognised against equity and a corresponding liability recognised when they have been appropriately approved by the company's shareholders and are no longer at the discretion of the entity. Dividends declared after the reporting date are not recognised but disclosed as a post reporting date event.

Share trust

Certain of the group's remuneration schemes are operated through various share trusts. These share trusts are considered to be structured entities. In instances where the group has control over the share trust in terms of IFRS 10 they are consolidated. Where the employee share trusts which form part of the consolidated group purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity until they are sold. Where such shares are subsequently sold, any consideration received, net of any directly attributable incremental costs, and is included in shareholders' equity.

1.25 Segment reporting

An operating segment is a component of the group that engages in business activities from which the group may earn revenue and incur expenses. An operating segment is also a component of the group whose operating results are regularly reviewed by the chief operating decision maker in allocating resources, assessing its performance and for which discrete financial information is available. The CEO of the group has been identified as the group's chief operating decision maker. The group's identification and measurement of operating segments is consistent with the internal reporting provided to the chief executive officer. The operating segments have been identified and classified in a manner that reflects the risks and rewards related to the segments' specific products and services offered in their specific markets.

Operating segments whose total revenue, absolute profit or loss for the period or total assets are 10% or more of total revenue, profit or loss or total assets, are reported separately.

Assets, liabilities, revenue or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The group accounts for the intersegment revenues and transfers as if the transactions were with third parties at current market prices.

Funding is provided to business units and segments based on internally derived transfer pricing rates taking into account the funding structures of the group.

1.26 Shared based payment transactions

The group operates equity settled and cash settled share based compensation plans for employees and historically disadvantaged individuals and organisations.

Equity settled share based compensation plans

The group expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to a share based payment reserve in the statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair value of the options is determined excluding non market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, the group revises its estimate of the number of options expected to vest. The group recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to the share based payment reserve.

If options granted do not vest, because of failure to satisfy a vesting condition, amounts recognised for services received are reversed through profit or loss. If options are forfeited after the vesting date, an amount equal to the value of the options forfeited is debited against the sharebased payment reserve and credited against retained earnings in the statement of changes in equity.

The proceeds received, net of any attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised. The share based payment reserve is reclassified to retained earnings upon vesting.

Cash-settled share based payment compensation plans

The group measures the services received and liability incurred in respect of cash settled share-based payment plans at the current fair value of the liability. The group remeasures the fair value of the liability at each reporting date until settlement. The liability is recognised over the vesting period and any changes in the fair value of the liability are recognised in profit or loss.

1.27 Non-current assets disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This classification is only used if the sale is highly probable and the assets or disposal groups are available for immediate sale.

In light of the group's primary business being the provision of banking, insurance and investment products, noncurrent assets held as investments are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

Immediately before classification as held for sale, the carrying amount of the non-current assets or the assets and liabilities included in the disposal group are measured in accordance with the appropriate IFRS. On initial recognition as held for sale, the non-current assets and liabilities that are in the measurement scope of IFRS 5 are recognised at the lower of carrying amount and fair value less costs to sell.

The following assets are excluded from the measurement scope of IFRS 5:

- Deferred tax assets;
- Assets arising from employee benefits;
- Financial assets;
- Investment properties measured at fair value;
- Biological assets measured at fair value less costs to sell; and
- Contractual rights under insurance contracts.

When these assets are classified as non-current assets held for sale or form part of a disposal group held for sale they continue to be measured in accordance with the appropriate IFRS. The IFRS 5 presentation and disclosure requirements are applied to these assets.

Accounting policies continued

1.27 Non-current assets disposal groups held for sale continued

Any impairment losses on initial classification as held for sale are recognised in profit or loss. If a disposal group contains assets that are outside of the measurement scope of IFRS 5 any impairment loss is allocated to those noncurrent assets within the disposal group that are within the measurement scope of IFRS 5.

After initial recognition as held for sale the noncurrent assets are measured at fair value less costs to sell. Where the fair value less costs to sell is less than the carrying value, any additional impairment losses are recognised in profit or loss. Any increases in fair value less costs to sell are only recognised when they are realised.

The noncurrent assets and disposal groups held for sale will be reclassified immediately when there is a change in intention to sell. Subsequent measurement of the asset or disposal group at that date, will be the lower of:

- its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale and;
- its recoverable amount at the date of the subsequent decision not to sell.

1.28 Discontinued operations

The group classifies a component of the business as a discontinued operation when that component has been disposed of, or is classified as held for sale, and:

- it represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

A component of a group comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes from the rest of the group.

2. Critical accounting estimates and judgements in applying accounting policies

In preparing the financial statements, the group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior year.

Credit impairment losses on loans and advances

The group continuously assesses its credit portfolios for impairment. In determining whether an impairment loss should be recognised in the income statement, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

(a) Performing loans
The impairment provision on the performing portfolio is split into two parts:

- The first part consists of the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified. An incurred but not reported (IBNR) provision is calculated on this sub segment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non performing status and similar risk indicators over an estimated loss emergence period.
- Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate, external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 to 12 months.
- The second part consists of the portfolio specific impairment (PSI) to reflect the decrease in estimated future cash flows for the sub segment of the performing portfolio where there is objective evidence of impairment. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable sub segments of the portfolio.

(b) Non-performing loans
Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay his obligations in full. Commercial and Wholesale loans are analysed on a case by case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for FNB Commercial and Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 10 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

Impairment of available-for-sale equity instruments

The group determines that available-for-sale equity instruments are impaired and the impairment recognised in profit or loss, when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the group evaluates factors such as, inter alia, the normal volatility in share prices, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Income taxes

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

Refer to note 5 and 22 for more information regarding the income tax expense and deferred income tax charges, assets and liabilities.

Accounting policies continued

Impairment of goodwill

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash generating units (CGU) has been determined based on valueinuse calculations or fair value less cost to sell. The value in use is calculated as the net present value of the discounted cash flows of the CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in note 16.

Employee benefit liabilities

The cost of the benefits and the present value of the defined benefit pension funds and postretirement medical obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to profit or loss arising from these obligations include the expected long term rate of return on the relevant plan assets, the discount rate and the expected salary and pension increase rates. Any changes in these assumptions will impact the charge to profit or loss and may affect planned funding of the pension plans.

The assumptions related to the expected return on plan assets are determined on a uniform basis, considering long term historical returns, asset allocation and future estimations of long term investment returns. The group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the expected cash outflows required to settle the pension and postretirement medical obligations. In determining the appropriate discount rate, the group considers the interest rate on high quality corporate bonds and government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales and country specific conditions. The inflation rate used is a rate within the government's monetary policy target for inflation and is calculated as the difference between the yields on portfolios of fixed interest government bonds and a portfolio of index linked bonds of a similar term.

Additional information is provided in the note 20.

Share-based payments

Share-based payment transactions of the group are classified as either cash settled or equity settled. The amounts recognised in respect of these share based payment transactions are determined by applying valuation techniques that are based on various assumptions and estimates that require judgment in their application. These assumptions and estimates include expected volatility, expected dividend yield, the discount rate and the expected forfeit or lapse rate.

The expected volatility assumption is determined based on a ruling historical volatility over the expected life of the options and comparable financial information. The expected dividend yield is determined based on historical dividend yields and management's estimates. The discount rate is based on zero coupon government bonds and have terms to maturity consistent with the assumed life of the share option. The expected forfeit rate has been based on historical experience and management estimates.

Refer to note 25 for the detailed information regarding the share-based payment expense and the assumptions used in determining the expense, liability and reserve.

Subsidiaries and controlled structured entities

When assessing whether or not control exists the group considers all of the existing rights that it has as well as the existing rights that other investors have that result in the ability to direct the relevant activities of the investee. Only one party can have control over an investee, therefore if another investor has substantive rights that give them the current ability to direct the relevant activities of the investee then the group cannot have control over the investee. When the group assesses its rights specific consideration is given to the group's holding of voting rights relative to the dispersion of holdings of other investors that hold voting rights. In instances where it is not immediately clear who has power over the investee the group considers whether there is any evidence that it has the practical ability to direct the relevant activities of the investee unilaterally.

It is common business practice in many funding arrangements for the lender to have rights that allow it to restrict the borrower from undertaking activities that could significantly change it's credit risk to the detriment of the lender. These rights are known as protective rights and are designed to protect the lender's interests and not to give the lender power over the relevant activities of the borrower. Where the group has lending arrangements that contain protective rights these protective rights are not considered to give the group the current ability to direct the relevant activities of the borrower.

The Memorandum and Articles of association or share-holders agreements for many companies include provisions that are designed to protect the rights of the noncontrolling shareholders. These rights may require a certain percentage of votes to be received before certain decision can be taken or they may require the noncontrolling interests to approve certain decisions. The purpose of these rights is to protect the interests of the noncontrolling shareholders and to ensure that the controlling shareholders don't act in a manner that prejudices the noncontrolling shareholders. These rights are protective in nature and do not give the noncontrolling shareholders power over the relevant activities of the entity. Where the group is a noncontrolling shareholder and has such rights these rights alone are not considered sufficient to give the group power over the relevant activities of the investee.

When voting rights do not have a significant effect on the investee's returns the investee is considered to be a structured entity. When assessing whether the group has control over a structured entity specific consideration is given to the purpose and design of the structured entity and whether the group has power over decisions that relate to activities that the entity was designed to conduct.

When assessing whether the group has exposure or rights to variable returns and how variable those returns are the group considers the substance of the agreement regardless of the legal form of the returns. For example depending on the terms of the agreement preference shares that the group holds may give the group rights to fixed dividends similar to an interest return or they may give the group the right to participate in the residual profits of the investee.

The group only considers substantive rights that it or other investors have in relation to an investee when assessing control. Substantive rights are those rights that the group or other investor have the practical ability to exercise. Rights that are held by the group in an agency capacity are not considered to be substantive rights. The group considers the relationship between itself and the other investors when assessing whether it is acting as an agent, including the rights that another investor may have to remove the group from the relationship, i.e. the ability that the other investors may have to replace the group as an agent.

Associates

The group is presumed to have significant influence over an investee if it owns more than 20% of the voting rights and does not have control or joint control.

Significant influence may also arise from rights other than voting rights. These rights include, but are not limited to, the ability to appoint key management personnel and the ability to participate in the decision making processes of the investee.

The group considers both the rights that it has as well as currently exercisable rights that other investors have when assessing whether it has the practical ability to significantly influence the relevant activities of the investee.

Accounting policies continued

3. Statements issued but not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 01 July 2015 or later periods:

IFRS 9 Financial Instruments

This new standard is the result of a three phase project to replace IAS 39 Financial Instruments: Recognition and Measurement. To date, the standard includes chapters for classification, measurement and derecognition of financial assets and liabilities as well as new hedging requirements. The following are main changes from IAS 39:

- Financial assets will be categorised as those subsequently measured at fair value or at amortised cost.
- Financial assets at amortised cost are those financial assets where the business model for managing the assets is to hold the assets to collect contractual cash flows (where the contractual cash flows represent payments of principal and interest only). All investment securities are to be subsequently measured at fair value.
- For hybrid contracts, where the host contract is an asset within the scope of IFRS 9, then the whole instrument is classified in accordance with IFRS 9, without separation of the embedded derivative. In other circumstances, the provisions of IAS 39 still apply.
- Voluntary reclassification of financial assets is prohibited. Financial assets shall be reclassified if the company changes its business model for the management of financial assets. In such circumstances, reclassification takes place prospectively from the beginning of the first reporting period after the date of change of the business model.
- Investments in equity instruments may be measured at fair value through other comprehensive income. When such an election is made, it may not subsequently be revoked, and gains or losses accumulated in equity are not recycled to profit or loss on derecognition of the investment. The election may be made per individual investment.
- IFRS 9 does not allow for investments in equity instruments to be measured at cost.
- The classification categories for financial liabilities remains unchanged. However, where a financial liability is designated as at fair value through profit or loss, the change in fair value attributable to changes in the liabilities credit risk shall be presented in other comprehensive income. This excludes situations where such presentation will create or enlarge an accounting mismatch, in which case, the full fair value adjustment shall be recognised in profit or loss.
- The new hedging provisions align hedge accounting more closely with the actual risk management approach.
- Certain nonderivative financial instruments are now allowed as hedging instruments.
- Additional exposures are allowed as hedged items. These exposures include risk components of nonfinancial items, net positions and layer components of items, aggregated exposures combining derivative and nonderivative exposures and equity instruments at fair value through other comprehensive income.
- The hedge effectiveness criteria have been amended, including the removal of the 80%125% "bright line test" to qualify for hedge accounting.
- The concept of rebalancing has been introduced when the hedging relationship is ineffective because the hedge ratio is no longer appropriate. When rebalancing is required, and provided the risk management objective remains the same, the hedge ratio is adjusted rather than discontinuing the hedging relationship.
- Additional disclosure requirements have been introduced for hedging.

The effective date has not yet been established as the project is currently incomplete. The IASB has communicated that the effective date will not be before years beginning on or after 01 January 2018. IFRS 9 may be early adopted. If IFRS 9 is early adopted, the new hedging requirements may be excluded until the effective date.

The company expects to adopt the standard for the first time in the first annual financial period after the effective date.

The impact of this standard is currently being assessed.

IFRS 14 Regulatory Deferral Accounts

The new standard is an interim standard applicable to entities subject to rate regulation. The standard is only applicable to entities adopting IFRS for the first time. It permits entities to recognise regulatory deferral account balances in the statement of financial position. When the account has a debit balance, it is recognised after total assets. Similarly, when it has a credit balance, it is recognised after total liabilities. Movements in these accounts, either in profit or loss or other comprehensive income are allowed only as single line items.

The effective date of the standard is for years beginning on or after 01 January 2016.

The company expects to adopt the standard for the first time in the 2017 consolidated annual financial statements.

It is unlikely that the standard will have a material impact on the company's consolidated annual financial statements.

Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations

The amendments apply to the acquisitions of interest in joint operations. When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, it shall apply, to the extent of its share, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in this IFRS and disclose the information that is required in those IFRSs in relation to business combinations. This applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes a business.

The effective date of the amendments is for years beginning on or after 01 January 2016.

The company expects to adopt the amendments for the first time in the 2017 consolidated annual financial statements.

It is unlikely that the amendments will have a material impact on the company's consolidated annual financial statements.

Accounting policies continued

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendment clarifies that a depreciation or amortisation method that is based on revenue that is generated by an activity that includes the use of the asset is not an appropriate method. This requirement can be rebutted for intangible assets in very specific circumstances as set out in the amendments to IAS 38.

The effective date of the amendment is for years beginning on or after 01 January 2016.

The company expects to adopt the amendment for the first time in the 2017 consolidated annual financial statements.

The impact of this amendment is currently being assessed.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after 01 January 2018.

The company expects to adopt the standard for the first time in the 2018 consolidated annual financial statements.

It is unlikely that the standard will have a material impact on the company's consolidated annual financial statements.

Statements of comprehensive income
for the year ended 30 June

		Group		Company	
N$'000	Notes	2015	2014	2015	2014
Interest and similar income	2.1	2 411 806	1 909 025	2 363 106	1 862 507
Interest expense and similar charges	2.2	(961 887)	(772 116)	(961 887)	(772 116)
Net interest income before impairment of advances		1 449 919	1 136 909	1 401 219	1 090 391
Impairment losses of advances	10	(49 882)	(18 433)	(49 249)	(18 291)
Net interest income after impairment of advances		1 400 037	1 118 476	1 351 970	1 072 100
Non-interest revenue	3	1 177 928	1 002 808	1 176 116	1 001 100
Income from operations		2 577 962	2 121 284	2 528 086	2 073 200
Operating expenses	4	(1 148 870)	(1 005 278)	(1 158 031)	(1 012 055)
Net income from operations		1 429 092	1 116 006	1 370 055	1 061 145
Share of profit from associate after tax	13	558	557		
Income before indirect tax		1 429 653	1 116 563	1 370 055	1 061 145
Indirect tax	5.1	(26 450)	(21 394)	(26 238)	(21 134)
Profit before direct tax		1 403 203	1 095 169	1 343 817	1 040 011
Direct tax	5.2	(462 266)	(364 588)	(442 832)	(346 298)
Profit for the year		940 937	730 581	900 985	693 713

Statements of comprehensive income
for the year ended 30 June continued

N$'000	Notes	Group 2015	Group 2014	Company 2015	Company 2014
Other comprehensive income					
Items that may not subsequently be reclassified to profit and loss					
Actuarial gains and losses on post-employment benefit liabilities		(2 871)	(1 885)	(2 871)	(1 885)
Deferred income tax		947	622	947	622
		(1 924)	(1 263)	(1 924)	(1 263)
Items that may subsequently be reclassified to profit and loss					
Available-for-sale financial assets					
(Loss) / gain on available-for-sale financial assets		(20 282)	(1 254)	(20 282)	(1 254)
Deferred income tax		6 693	414	6 693	414
		(13 589)	(840)	(13 589)	(840)
Other comprehensive income for the year		(15 513)	(2 103)	(15 513)	(2 103)
Total comprehensive income for the year		925 424	728 477	885 472	691 610
Profit for the year attributable to:					
Ordinary shareholders		940 937	730 581	900 985	693 713
Total comprehensive income for the year attributable to:					
Ordinary shareholders		925 424	728 477	885 472	691 610

Statements of financial position
at 30 June

N$'000	Notes	Group 2015	Group 2014	Company 2015	Company 2014
Assets					
Cash and cash equivalents	7.1	769 832	830 189	769 832	830 189
Due by banks and other financial institutions	7.2	1 585 029	1 766 327	1 585 029	1 766 327
Derivative financial instruments	8	158 642	92 031	158 642	92 031
Advances	9	22 918 838	20 067 543	22 379 987	19 471 861
Investment securities	11	3 201 649	2 687 376	3 201 649	2 687 376
Accounts receivable	12	150 819	103 263	187 084	88 544
Investment in associate company	13	3 726	3 168	1 154	1 154
Investment in subsidiary company	14			160 906	308 691
Property and equipment	15	819 985	522 412	778 114	480 241
Intangible assets	16	141 011	156 624	141 011	156 624
Total assets		29 749 531	26 228 933	29 363 408	25 883 038
Liabilities and equity					
Liabilities					
Deposits	17.1	24 059 315	21 603 391	24 058 014	21 602 073
Due to banks and other financial institutions	17.2	1 020 016	813 409	1 020 016	813 409
Short trading position	19	26 693		26 693	
Derivative financial instruments	8	172 188	109 281	172 188	109 281
Creditors and accruals	18	380 997	241 768	376 948	237 709
Employee liabilities	20	163 549	146 055	163 549	146 055
Tax liability		48 146	55 488	45 496	52 872
Other liabilities	21	2 060	6 030	2 060	6 030
Deferred tax liability	22	130 234	93 635	133 905	97 575
Tier two liabilities	23	392 635	392 622	392 635	392 622
Total liabilities		26 395 833	23 461 679	26 391 504	23 457 626
Equity					
Ordinary shares	24	1	1	1	1
Share premium	24	1 142 791	1 142 791	1 142 791	1 142 791
Reserves		2 210 906	1 624 462	1 829 112	1 282 620
Total equity		3 353 698	2 767 254	2 971 904	2 425 412
Total liabilities and equity		29 749 531	26 228 933	29 363 408	25 883 038

Statements of changes in equity

for the year ended 30 June

N$ '000	Share capital	Share premium	General risk reserve	Defined benefit post-employment reserve	Share-based payment reserve	Available-for-sale reserve	Retained earnings	Total equity
Group								
Balance at 1 July 2013	1	1 142 791	75 369	3 926	17 665	7 796	1 051 770	2 299 318
Total comprehensive income for the year				(1 263)		(840)	730 581	728 478
Profit for the year							730 581	730 581
Other comprehensive income for the year				(1 263)		(840)		(2 103)
Transfer to / (from) reserves			22 416				(22 416)	
Share-based payments					6 262			6 262
Transfer of vested equity options					(4 477)		4 477	
Dividends paid							(266 804)	(266 804)
Balance at 30 June 2014	1	1 142 791	97 785	2 663	19 450	6 956	1 497 608	2 767 254
Total comprehensive income for the year				(1 924)		(13 589)	940 937	925 424
Profit for the year							940 937	940 937
Other comprehensive income for the year				(1 924)		(13 589)		(15 513)
Transfer to / (from) reserves			11 806				(11 806)	
Share-based payments					8 246			8 246
Transfer of vested equity options					(10 423)		10 423	
Dividends paid							(347 226)	(347 226)
Balance at 30 June 2015	1	1 142 791	109 591	739	17 273	(6 633)	2 089 936	3 353 698

Statements of changes in equity
for the year ended 30 June

N$ '000	Share capital	Share premium	General risk reserve	Defined benefit post-employment reserve	Share-based payment reserve	Available-for-sale reserve	Retained earnings	Total equity
Company								
Balance at 1 July 2013	1	1 142 791	75 369	3 926	17 665	7 796	746 796	1 994 344
Total comprehensive income for the year				(1 263)		(840)	693 713	691 610
Profit for the year							693 713	693 713
Other comprehensive income for the year				(1 263)		(840)		(2 103)
Transfer to / (from) reserves			22 416				(22 416)	
Share-based payments					6 262			6 262
Transfer of vested equity options					(4 477)		4 477	
Dividends paid							(266 804)	(266 804)
Balance at 30 June 2014	1	1 142 791	97 785	2 663	19 450	6 956	1 155 766	2 425 412
Total comprehensive income for the year				(1 924)		(13 589)	900 985	885 472
Profit for the year							900 985	900 985
Other comprehensive income for the year				(1 924)		(13 589)		(15 513)
Transfer to / (from) reserves			11 806				(11 806)	
Share-based payments					8 246			8 246
Transfer of vested equity options					(10 423)		10 423	
Dividends paid							(347 226)	(347 226)
Balance at 30 June 2015	1	1 142 791	109 591	739	17 273	(6 633)	1 708 142	2 971 904

Statements of cash flow
for the year ended 30 June

N$'000	Notes	Group 2015	Group 2014	Company 2015	Company 2014
Cash flows from operating activities					
Cash receipts from customers	26.2	3 545 724	2 872 309	3 496 194	2 825 424
Cash paid to customers, suppliers and employees	26.3	(1 988 236)	(1 662 370)	(1 997 819)	(1 670 471)
Cash flows from operating activities	26.1	1 557 488	1 209 939	1 498 375	1 154 953
Increase in income earning assets	26.4	(3 246 918)	(3 389 107)	(3 355 085)	(3 431 193)
Increase in deposits and other liabilities	26.5	2 781 784	3 270 787	2 781 812	3 268 699
Tax paid	26.6	(451 822)	(433 365)	(432 478)	(419 509)
Net cash flows from operating activities		640 532	658 254	492 624	572 950
Cash flows from investing activities		(349 465)	(221 123)	(201 557)	(135 819)
Capital expenses	26.7	(350 376)	(221 393)	(350 252)	(221 243)
Reduction in loan to subsidiary				147 784	85 154
Proceeds from sale of property and equipment		911	270	911	270
Cash flows from financing activities		(351 424)	(271 002)	(351 424)	(271 002)
Payment of finance lease liabilities		(4 198)	(4 198)	(4 198)	(4 198)
Dividends paid	26.8	(347 226)	(266 804)	(347 226)	(266 804)
Net increase in cash and cash equivalents		(60 357)	166 129	(60 357)	166 129
Cash and cash equivalents at beginning of the year*		830 189	664 060	830 189	664 060
Cash and cash equivalents at end of the year*	7.1	769 832	830 189	769 832	830 189

*Includes mandatory reserve deposits with central bank.

Notes to the annual financial statements

Notes to the annual financial statements
for the year ended 30 June

1. Accounting policies

The accounting policies of the group are set out on pages 7 to 38.

2. Analysis of interest income and interest expense

2.1 Interest and similar income

N$'000	2015 Group Fair value	Group Amortised cost	Group Total	Company Fair value	Company Amortised cost	Company Total
Interest on:						
- Advances		2 076 514	2 076 514		2 029 117	2 029 117
- Cash and short term funds		98 941	98 941		98 941	98 941
- Investment securities	198 945	555	199 500	198 945	555	199 500
- Unwinding of discounted present value on non performing loans (note 10)		13 314	13 314		13 026	13 026
- Unwinding of discounted present value on off-market advances		5 978	5 978		5 978	5 978
- Impaired advances		(3 720)	(3 720)		(4 037)	(4 037)
- Net release of deferred fees and expenses		21 279	21 279		20 581	20 581
Interest and similar income	198 945	2 212 861	2 411 806	198 945	2 164 161	2 363 106

N$'000	2014 Group Fair value	Group Amortised cost	Group Total	Company Fair value	Company Amortised cost	Company Total
Interest on:						
- Advances		1 667 173	1 667 173		1 622 532	1 622 532
- Cash and short term funds		72 064	72 064		72 064	72 064
- Investment securities	143 700	3 599	147 299	143 700	3 599	147 299
- Unwinding of discounted present value on non performing loans (note 10)		6 560	6 560		5 836	5 836
- Unwinding of discounted present value on off-market advances		1 649	1 649		1 649	1 649
- Impaired advances		(890)	(890)		(1 427)	(1 427)
- Net release of deferred fees and expenses		15 170	15 170		14 556	14 556
Interest and similar income	143 700	1 765 324	1 909 025	143 700	1 718 807	1 862 507

2. Analysis of interest income and interest expense continued

2.2 Interest expense and similar charges

N$'000	2015 Group and company Fair value	2015 Amortised cost	2015 Total	2014 Group and company Fair value	2014 Amortised cost	2014 Total
Interest on:						
- Deposits from banks and financial institutions		34 664	34 664		23 806	23 806
- Current accounts		115 445	115 445		88 633	88 633
- Savings deposits		10 205	10 205		7 723	7 723
- Call deposits		237 876	237 876		218 202	218 202
- Term deposits		194 230	194 230		111 906	111 906
- Negotiable certificates of deposits		338 142	338 142		292 587	292 587
- Tier two liabilities		31 325	31 325		29 259	29 259
Interest expense and similar charges		961 887	961 887		772 116	772 116

Notes to the annual financial statements
for the year ended 30 June

3. Non-interest revenue

N$'000	Group 2015	Group 2014	Company 2015	Company 2014
3.1 Fees and commissions				
- Card commissions	105 327	85 838	105 327	85 838
- Cash deposit fees	153 440	148 950	153 440	148 950
- Commissions: bills, drafts and cheques	36 866	30 840	36 866	30 840
- Service fees	469 708	373 215	469 645	373 145
- Fiduciary fees	986	1 086	986	1 086
- Other fee and commission related income	328 374	277 340	327 953	276 888
- Broking commission received	8 098	19 542	8 098	19 542
	1 102 799	936 811	1 102 315	936 290
Fee and commission expense:				
- Transaction processing fees	(68 154)	(54 452)	(68 110)	(54 451)
- Cash sorting handling and transportation charges	(18 751)	(6 882)	(18 751)	(6 882)
- Card and cheque book related	(4 908)	(4 569)	(4 908)	(4 569)
- ATM commissions paid	(2 650)	(2 511)	(2 650)	(2 511)
- Other	(2 639)	(4 323)	(2 639)	(4 323)
Fee and commission expense	(97 102)	(72 737)	(97 058)	(72 737)
Net fees and commission income	1 005 697	864 074	1 005 257	863 553

Certain of the above fees relates to the fact that the group provides custody and trustee services to third parties.

3.2 Fair value income

N$'000	Group 2015	Group 2014	Company 2015	Company 2014
Foreign exchange trading	91 173	76 868	91 173	76 868
Treasury trading operations				
- Debt instruments trading	5 208	2 463	5 208	2 463
- Derivatives revaluation	(5 149)	1 525	(5 149)	1 525
- Other	4 814	2 253	4 814	2 253
Designated at fair value through profit or loss	59 709	48 007	59 709	48 007
	155 755	131 116	155 755	131 116

3. Non-interest revenue continued

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

	Group 2015	Group 2014	Company 2015	Company 2014
3.3 Gains less losses from investing activities				
- Gains and losses on realisation of available-for-sale financial assets	(198)		(198)	
- Gains on investment securities designated at fair value through profit or loss	10 867	5 225	10 867	5 225
	10 669	5 225	10 669	5 225
3.4 Other - interest revenue				
- Rental income	1 414	1 240		
- Other income	4 455	1 384	4 497	1 437
- Gain and lossses on sale of property and equipment	(62)	(231)	(62)	(231)
	5 807	2 393	4 435	1 206
Total non-interest revenue	1 177 928	1 002 808	1 176 116	1 001 100

Non-interest revenue, analysis by category.

	Group 2015	Group 2014	Company 2015	Company 2014
3.5 Non-interest revenue	1 177 928	1 002 808	1 176 116	1 001 100
Fee and commission income: Instruments at amortised cost	1 005 697	864 074	1 005 257	863 553
Fair value income: Held for trading	96 046	83 109	96 046	83 109
Fair value income: Designated at fair value through profit or loss	70 576	53 232	70 576	53 232
Other non interest income: Non financial assets and liabilities	5 807	2 393	4 435	1 206

Notes to the annual financial statements
for the year ended 30 June

4. Operating expenses

N$'000	Group 2015	Group 2014	Company 2015	Company 2014
Auditors' remuneration				
- Current year	4 308	3 591	4 078	3 345
- Fees for other services	598	124	598	124
Auditors' remuneration	4 906	3 715	4 676	3 469
Operating lease charges				
- Properties	37 438	32 813	37 502	32 768
- Equipment	9 824	7 255	9 786	7 255
Operating lease charges	47 262	40 068	47 288	40 023
Direct staff costs				
- Salaries, wages and allowances	452 316	398 013	452 316	398 013
- Off-market staff loans amortisation	5 978	1 649	5 978	1 649
- Contributions to employee funds	107 230	93 379	107 230	93 379
Defined contribution schemes: pension	47 567	41 740	47 567	41 740
Defined contribution schemes: medical	59 663	51 639	59 663	51 639
- Severance pay provision: death in service (note 20)	760	264	760	264
- Post-retirement medical expenses (note 20)	2 713	2 368	2 713	2 368
- Social security levies	7 823	2 742	7 823	2 742
- Share-based payments (note 25.1)	16 550	11 236	16 550	11 236
Direct staff costs	593 370	509 651	593 370	509 651
- Other	6 997	4 654	6 997	4 654
Total staff costs	600 367	514 305	600 367	514 305

4. Operating expenses continued

N$'000	Group 2015	Group 2014	Company 2015	Company 2014
Other operating costs				
- Advertising and marketing	52 892	53 061	52 892	53 061
- Amortisation of intangible assets (note 16)	15 612	19 012	15 612	18 144
- Computer and processing related costs	167 725	151 453	167 598	151 344
- Depreciation (note 15)	45 708	41 541	45 282	41 087
- Insurance	7 826	8 425	7 673	8 278
- Legal fees	8 006	5 771	7 915	5 771
- Postage	4 206	4 097	4 191	4 097
- Printing and stationery	14 871	13 699	14 870	13 698
- Professional fees	12 299	3 651	12 297	3 651
- Property and maintenance related expenses	57 872	51 661	55 768	49 993
- Telecommunications	17 193	14 723	17 192	14 723
- Travel and accommodation	12 621	11 641	12 621	11 641
- Total directors' emoluments	13 008	5 453	13 008	5 453
- Other expenditure	66 496	63 002	78 781	73 317
Other operating costs	496 335	447 190	505 700	454 256
Total operating expenses	1 148 870	1 005 279	1 158 031	1 012 055

Notes to the annual financial statements
for the year ended 30 June

5. Tax

N$'000	Group 2015	Group 2014	Company 2015	Company 2014
5.1 Indirect tax				
Value-added tax (net)	19 145	16 120	18 934	15 860
Stamp duties	7 305	5 274	7 304	5 274
Total indirect tax	26 450	21 394	26 238	21 134
5.2 Direct tax				
Namibian normal tax				
- Current				
Current year	418 027	345 787	398 862	327 844
- Deferred				
Current year	44 239	18 801	43 970	18 454
Total direct tax	462 266	364 588	442 832	346 298
Tax rate reconciliation - Namibian normal tax	%	%	%	%
Effective rate of tax	32.94%	33.29%	32.95%	33.30%
Total tax has been affected by:				
- Non-taxable income	0.06%	0.04%	0.05%	0.04%
- Non deductable amounts		(0.33%)		(0.34%)
Standard rate of tax	33.0%	33.0%	33.0%	33.0%

6. Analysis of assets and liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies on page 7 to page 38 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

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

Group

N$'000	2015 Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non financial assets and liabilities	Total
Assets							
Cash and cash equivalents			769 832				769 832
Due by banks and other financial institutions			1 585 029				1 585 029
Derivative financial instruments	158 642						158 642
Advances		519 585	22 399 253				22 918 838
Investment securities	34 501	257 274		2 909 874			3 201 649
Accounts receivable			23 498			127 320	150 819
Investment in associate company						3 726	3 726
Property and equipment						819 985	819 985
Intangible assets						141 011	141 011
Total assets	193 143	776 859	24 777 612	2 909 874		1 092 042	29 749 531
Liabilities							
Deposits					24 059 315		24 059 315
Due to banks and other financial institutions					1 020 016		1 020 016
Short trading position	26 693						26 693
Derivative financial instruments	172 188						172 188
Creditors and accruals					76 862	304 135	380 997
Tax liability						48 146	48 146
Employee liabilities						163 549	163 549
Other liabilities					2 060		2 060
Deferred tax liability						130 234	130 234
Tier two liabilities					392 635		392 635
Total liabilities	198 881				25 550 888	646 064	26 395 833

Notes to the annual financial statements

for the year ended 30 June

6. Analysis of assets and liabilities continued

Group

N$'000	2014						
	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non financial assets and liabilities	Total
Assets							
Cash and cash equivalents			830 189				830 189
Due by banks and other financial institutions			1 766 327				1 766 327
Derivative financial instruments	92 031						92 031
Advances		538 583	19 528 960				20 067 543
Investment securities	31 663	96 407	75 567	2 483 739			2 687 376
Accounts receivable			26 489			76 774	103 263
Investment in associate company						3 168	3 168
Property and equipment						522 412	522 412
Intangible assets						156 624	156 624
Total assets	123 694	634 990	22 227 532	2 483 739		758 978	26 228 933
Liabilities							
Deposits					21 603 391		21 603 391
Due to banks and other financial institutions					813 409		813 409
Other liabilities					6 030		6 030
Derivative financial instruments	109 281						109 281
Creditors and accruals					15 152	226 616	241 768
Tax liability						55 488	55 488
Employee liabilities						146 055	146 055
Deferred tax liability						93 635	93 635
Tier two liabilities					392 622		392 622
Total liabilities	109 281				22 830 604	521 794	23 461 679

6. Analysis of assets and liabilities continued

Company

N$'000	2015						
	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non financial assets and liabilities	Total
Assets							
Cash and cash equivalents			769 832				769 832
Due by banks and other financial institutions			1 585 029				1 585 029
Derivative financial instruments	158 642						158 642
Advances		519 585	21 860 402				22 379 987
Investment securities	34 501	257 274		2 909 874			3 201 649
Accounts receivable			26 422			160 661	187 084
Investment in associate company						1 154	1 154
Investment in subsidiary company						160 906	160 906
Property and equipment						778 114	778 114
Intangible assets						141 011	141 011
Total assets	193 143	776 859	24 241 684	2 909 874		1 241 846	29 363 408
Liabilities							
Deposits					24 058 014		24 058 014
Due to banks and other financial institutions					1 020 016		1 020 016
Short trading position	26 693						26 693
Derivative financial instruments	172 188						172 188
Creditors and accruals					76 866	300 083	376 948
Employee liabilities						163 549	163 549
Tax Liability						45 495	45 495
Other liabilities					2 060		2 060
Deferred tax liability						133 905	133 905
Tier two liabilities					392 635		392 635
Total liabilities	198 881				25 549 591	643 032	26 391 503

Notes to the annual financial statements
for the year ended 30 June

6. Analysis of assets and liabilities continued

Company

N$'000	2014						
	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non financial assets and liabilities	Total
Assets							
Cash and cash equivalents			830 189				830 189
Due by banks and other financial institutions			1 766 327				1 766 327
Derivative financial instruments	92 031						92 031
Advances		538 583	18 933 279				19 471 861
Investment securities	31 663	96 407	75 567	2 483 739			2 687 377
Accounts receivable			26 422			62 122	88 544
Investment in associate company						1 154	1 154
Investment in subsidiary company						308 691	308 691
Property and equipment						480 241	480 241
Intangible assets						156 624	156 624
Total assets	123 694	634 990	21 631 784	2 483 739		1 008 832	25 883 038
Liabilities							
Deposits					21 602 073		21 602 073
Due to banks and other financial institutions					813 409		813 409
Derivative financial instruments	109 281						109 281
Creditors and accruals					15 134	222 575	237 709
Employee liabilities						146 055	146 055
Tax Liability						52 872	52 872
Other liabilities					6 030		6 030
Deferred tax liability						97 575	97 575
Tier two liabilities					392 622		392 622
Total liabilities	109 281				22 829 268	519 077	23 457 626

7. Cash and cash equivalents

7.1 Cash and cash equivalents

N$'000	Group		Company	
	2015	2014	2015	2014
Coins and bank notes	481 319	395 753	481 319	395 753
Balances with central bank	288 513	434 436	288 513	434 436
	769 832	830 189	769 832	830 189
Mandatory reserve balances included in above:	288 504	246 500	288 504	246 500

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

Fair value

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

7.2 Due from banks and other financial institutions

Due by banks and financial institutions				
– In the normal course of business	1 585 029	1 766 327	1 585 029	1 766 327

The carrying value approximates the fair value.

Geographical split:				
Namibia	1 585 029	1 766 327	1 585 029	1 766 327

Notes to the annual financial statements
for the year ended 30 June

8. Derivative financial instruments

Use of derivatives

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

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

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

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

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

The group uses the following financial instruments for hedging purposes:

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

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

Further information pertaining to the risk management of the group is set out in note 32.

8. Derivative financial instruments continued

	Group and company 2015			
	Assets		Liabilities	
N$'000	Notional	Fair value	Notional	Fair value
Currency derivatives				
- Forward rate agreements	256 608	3 780	187 816	3 853
- Options	1 832 153	138 492	1 832 153	138 492
Interest rate derivatives				
- Swaps	4 390 500	16 370	1 894 305	29 843
Total held for trading	6 479 261	158 642	3 914 274	172 188

	Group and company 2014			
	Assets		Liabilities	
N$'000	Notional	Fair value	Notional	Fair value
Currency derivatives				
- Forward rate agreements	497 172	13 258	705 970	12 469
- Options	554 595	75 976	554 595	75 976
Interest rate derivatives				
- Swaps	138 740	2 797	1 254 864	20 836
Total held for trading	1 190 507	92 031	2 515 429	109 281

Notes to the annual financial statements
for the year ended 30 June

9. Advances

N$'000	Group 2015	Group 2014	Company 2015	Company 2014
Notional value of advances	23 114 541	20 236 853	22 563 114	19 628 574
Contractual interest suspended	(23 323)	(22 452)	(21 064)	(19 803)
Gross value of advances	23 091 218	20 214 401	22 542 050	19 608 771
Sector analysis				
Agriculture	1 043 593	915 316	1 043 593	915 316
Financial institutions	377 728	259 465	377 728	259 465
Building and property development	2 820 987	2 354 333	2 820 987	2 354 333
Government and public authorities	1 227 664	1 229 070	1 227 664	1 229 070
Individuals	11 745 984	10 540 132	11 196 816	9 934 502
Manufacturing and commerce	3 831 190	3 234 403	3 831 190	3 234 403
Mining	506 737	341 911	506 737	341 911
Transport and communication	463 263	415 697	463 263	415 697
Other services	1 074 071	924 074	1 074 071	924 074
Gross value of advances	23 091 218	20 214 401	22 542 049	19 608 771
Impairment of advances (note 10)	(172 380)	(146 858)	(162 062)	(136 910)
Net advances	22 918 838	20 067 543	22 379 987	19 471 861

9. Advances continued

N$'000	Group 2015	Group 2014	Company 2015	Company 2014
Geographic analysis (based on credit risk)				
Namibia	22 918 838	20 067 543	22 379 987	19 471 861
Category analysis				
Card loans	186 604	155 306	186 604	155 306
Overdrafts and managed accounts	2 650 963	2 118 260	2 650 963	2 118 260
Instalment sales	3 065 090	2 822 953	3 065 090	2 822 953
Lease payments receivable	316 573	214 022	316 573	214 022
Home loans	10 681 774	9 667 352	10 132 605	9 061 721
Term loans	5 319 474	4 367 724	5 319 474	4 367 724
Preference share advance	25 500	28 818	25 500	28 818
Investment bank term loans	552 035	576 659	552 035	576 659
Assets under agreement to resell	27 087		27 087	
Other	266 118	263 308	266 118	263 308
Gross value of advances	23 091 218	20 214 401	22 542 049	19 608 771
Impairment of advances (note 10)	(172 380)	(146 858)	(162 062)	(136 910)
Net advances	22 918 838	20 067 543	22 379 987	19 471 861
Portfolio analysis				
Designated at fair value through profit and loss	519 585	538 583	519 585	538 583
Loans and receivables	22 399 253	19 528 960	21 860 402	18 933 278
	22 918 838	20 067 543	22 379 987	19 471 861

Fair value

The fair value of advances is set out in note 30

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

Notes to the annual financial statements
for the year ended 30 June

9. Advances continued

N$'000 Analysis of Instalment sales and lease payments receivable	Group and company 2015 Within 1 year	Between 1 and 5 years	Total
Lease payments receivable	214 255	144 915	359 170
Suspensive sale Instalments receivable	1 639 620	1 969 025	3 608 645
	1 853 875	2 113 940	3 967 815
Less : Unearned finance charges	(325 211)	(257 569)	(582 780)
Total	1 528 664	1 856 371	3 385 035

N$'000 Analysis of Instalment sales and lease payments receivable	Group and company 2014 Within 1 year	Between 1 and 5 years	Total
Lease payments receivable	150 368	94 366	244 734
Suspensive sale Instalments receivable	1 654 555	1 627 117	3 281 672
	1 804 923	1 721 483	3 526 406
Less : Unearned finance charges	(294 005)	(192 718)	(486 724)
Total	1 510 917	1 528 765	3 039 682

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

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

Credit risk mitigation

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

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

It is the group's policy that all items of collateral are valued at the inception of the transaction and at various points throughout the life of the transaction, through physical inspection, as appropriate. For more mortgage portfolios, collateral valuations are updated on an ongoing basis through physical valuation where necessary. However in the event of default, more detailed review and valuation of collateral are performed, this therefore yields a more accurate financial effect.

The valuation at inception is based on physical inspection.

9. Advances continued

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

N$'000	Group and company 2015 Performing	2015 Non performing	2014 Performing	2014 Non performing
Installment sales and lease payments receivable	813	8 747	2 504	6 461
Home loans	14 693	68 820	19 371	51 480
	15 504	77 567	21 875	57 941

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

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

10. Impairment of advances

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

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

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

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

Analysis of movement in impairment of advances per class of advance

Notes to the annual financial statements
for the year ended 30 June

10. Impairment of advances continued

	Group 2015									
N$'000	Card loans			Overdrafts and managed accounts	Instalment sales and lease receivables	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
Opening balance	1 241			45 363	39 690	19 628	40 936	146 858	43 208	103 650
Amounts written off	(823)			(9 729)	(3 662)	(846)	(2 570)	(17 630)	(17 630)	
Unwinding of discounted present value on non performing loans				(624)		(11 996)	(694)	(13 314)	(13 314)	
Net new impairments created / (released)	1 316			22 643	9 898	17 565	5 044	56 466	37 503	18 963
Closing balance	5 763			57 653	45 926	24 351	42 716	172 380	49 767	122 613
Increase / (decrease) in provision	1 316			22 643	9 898	17 565	5 044	56 466	37 503	18 963
(Recoveries) / write-offs of bad debts	(236)			(3 213)	(1 810)	(618)	(707)	(6 584)	(6 584)	
Impairment charge / (release) recognised in the statement of comprehensive income	1 080			19 430	8 088	16 947	4 337	49 882	30 919	18 963

	Group 2014									
N$'000	Card loans			Overdrafts and managed accounts	Instalment sales and lease receivables	Home loans	Term loans	Total impairment	Specific impairment	Portfolio impairment
Opening balance	1 278			46 510	44 509	17 938	37 314	147 549	51 374	96 175
Amounts written off	(1 633)			(8 056)	(5 626)	(653)	(4 240)	(20 208)	(20 208)	
Unwinding of discounted present value on non performing loans				(1 123)		(4 949)	(488)	(6 560)	(6 560)	
Net new impairments created / (released)	1 596			8 032	807	7 292	8 350	26 077	18 602	7 475
Closing balance	1 241			45 363	39 690	19 628	40 936	146 858	43 208	103 650
Increase / (decrease) in provision	1 596			8 032	807	7 292	8 350	26 077	18 602	7 475
(Recoveries) / write-offs of bad debts	(1 010)			(3 070)	(2 203)	(496)	(865)	(7 644)	(7 644)	
Impairment (release) / loss recognised in the statement of comprehensive income	586			4 962	(1 396)	6 796	7 485	18 433	10 958	7 475

Notes to the annual financial statements
for the year ended 30 June

10. Impairment of advances continued

N$'000	Company 2015									
	Card Loans			Overdrafts and managed accounts	Instalment sales and lease receivables	Home loans	Term loans	Total impairment	Specific Impairment	Portfolio Impairment
Opening balance	1 241			45 363	39 690	9 679	40 936	136 909	41 434	95 475
Amounts written off	(823)			(9 729)	(3 662)	(871)	(2 570)	(17 655)	(17 655)	
Unwinding of discounted present value on non performing loans				(624)		(11 708)	(694)	(13 026)	(13 026)	
Net new impairments created / (released)	1 316			22 643	9 898	16 933	5 044	55 834	36 871	18 963
Closing balance	5 763			57 653	45 926	14 033	42 716	162 062	47 624	114 438
Increase / (decrease) in provision	1 316			22 643	9 898	16 933	5 044	55 834	36 871	18 963
(Recoveries) / write-offs of bad debts	(236)			(3 213)	(1 810)	(618)	(707)	(6 585)	(6 585)	
Impairment charge / (release) recognised in the statement of comprehensive income	1 080			19 430	8 088	16 315	4 337	49 249	30 286	18 963

N$'000	Company 2014									
	Card Loans			Overdrafts and managed accounts	Instalment sales and lease receivables	Home loans	Term loans	Total impairment	Specific Impairment	Portfolio Impairment
Opening balance	1 278			46 510	44 509	7 604	37 314	137 215	49 215	88 000
Amounts written off	(1 632)			(8 055)	(5 626)	(852)	(4 242)	(20 406)	(20 406)	
Unwinding of discounted present value on non performing loans				(1 123)		(4 225)	(488)	(5 836)	(5 836)	
Net new impairments created / (released)	1 596			8 032	807	7 152	8 350	25 937	18 462	7 475
Closing balance	1 241			45 363	39 690	9 679	40 936	136 910	41 435	95 475
Increase / (decrease) in provision	1 596			8 032	807	7 152	8 350	25 937	18 462	7 475
Recoveries of bad debts previously written off	(1 010)			(3 070)	(2 203)	(496)	(865)	(7 646)	(7 646)	
Impairment (release) / loss recognised in the statement of comprehensive income	586			4 962	(1 396)	6 656	7 485	18 291	10 816	7 475

Notes to the annual financial statements
for the year ended 30 June

10. Impairment of advances continued

Group

N$'000	2015 Total value net of interest in suspense	2015 Security held	2015 Specific impairments
Non performing lendings by sector			
Agriculture	1 193		1 193
Financial institutions	647	647	
Building and property development	17 497	12 735	4 762
Individuals	107 232	76 052	31 180
Manufacturing and commerce	15 247	7 765	7 482
Transport and communication	2 590	137	2 453
Other	2 824	126	2 697
Total non performing lendings	147 230	97 462	49 767
Non performing lendings by category			
Card loans	1 257	4	1 253
Overdrafts and management accounts	12 433	4 790	7 643
Instalment sales	21 098	2 603	18 495
Lease payments receivable	533		533
Home loans	101 645	83 485	18 160
Term loans	10 264	6 580	3 683
Total non performing lendings	147 230	97 462	49 767
Geographical split:			
Namibia	147 230	97 462	49 767

10. Impairment of advances continued

Group

N$'000	2014 Total value net of interest in suspense	2014 Security held	2014 Specific impairments
Non performing lendings by sector			
Agriculture	993	672	321
Financial institutions	75		75
Building and property development	15 217	13 324	1 893
Individuals	100 283	68 413	31 870
Manufacturing and commerce	20 341	14 104	6 237
Transport and communication	1 694	529	1 165
Other	2 448	801	1 647
Total non performing lendings	141 051	97 843	43 207
Non performing lendings by category			
Card loans	1 043		1 043
Overdrafts and management accounts	9 593	2 216	7 377
Instalment sales	14 346	904	13 442
Lease payments receivable	1 394	359	1 035
Home loans	97 089	82 051	15 039
Term loans	17 586	12 313	5 272
Total non performing lendings	141 051	97 843	43 208
Geographical split:			
Namibia	141 051	97 843	43 208

Notes to the annual financial statements
for the year ended 30 June

10. Impairment of advances continued

Company

N$'000	2015 Total value net of interest in suspense	2015 Security held	2015 Specific impairments
Non performing lendings by sector			
Agriculture	1 193		1 193
Financial institutions	647	647	
Building and property development	17 497	12 735	4 762
Individuals	100 966	71 928	29 038
Manufacturing and commerce	15 247	7 765	7 482
Transport and communication	2 590	137	2 453
Other	2 824	128	2 696
Total non performing lendings	140 964	93 340	47 624
Non performing lendings by category			
Card loans	1 257	4	1 253
Overdrafts and management accounts	12 433	4 790	7 643
Instalment sales	21 098	2 603	18 495
Lease payments receivable	533		533
Home loans	95 379	79 361	16 018
Term loans	10 264	6 582	3 682
Total non performing lendings	140 964	93 340	47 624
Geographical split:			
Namibia	140 964	93 340	47 624

10. Impairment of advances continued

Company

N$'000	2014 Total value net of interest in suspense	2014 Security held	2014 Specific impairments
Non performing lendings by sector			
Agriculture	993	672	321
Financial institutions	75		75
Building and property development	15 217	13 324	1 893
Individuals	87 361	68 413	30 098
Manufacturing and commerce	20 341	14 104	6 237
Transport and communication	1 694	529	1 165
Other	2 448	801	1 647
Total non performing lendings	128 129	97 843	41 435
Non performing lendings by category			
Card loans	1 043		1 043
Overdrafts and management accounts	9 593	2 216	7 377
Instalment sales	14 346	904	13 442
Lease payments receivable	1 394	359	1 035
Home loans	84 167	82 051	13 267
Term loans	17 586	12 313	5 272
Total non performing lendings	128 129	97 843	41 436
Geographical split:			
Namibia	128 129	97 843	41 436

Notes to the annual financial statements
for the year ended 30 June

11. Investment securities

Group and company

N$'000	2015 Held for trading	Available-for-sale	Designated at fair value through profit and loss	Loans and receivables	Total
Total listed					
Other government and guaranteed stock	30 065	752 214			782 279
Total	30 065	752 214			782 279
Total unlisted					
Treasury bills	4 436	2 157 660			2 162 096
Other undated securities			257 274		257 274
Total	4 436	2 157 660	257 274		2 419 370
Total investment securities	34 501	2 909 874	257 274		3 201 649
Valuation of investments					
Market value of listed investments					782 279
Directors' valuation of unlisted investments					2 419 370
Total valuation					3 201 649

11. Investment securities continued

Group and company

N$'000	2014 Held for trading	Available-for-sale	Designated at fair value through profit and loss	Loans and receivables	Total
Total listed					
Other government and guaranteed stock	24 469	399 478			423 947
Total	24 469	399 478			423 947
Total unlisted					
Treasury bills	7 194	2 084 261			2 091 454
Other undated securities			96 407		96 407
Negotiable certificates of deposits				75 567	75 567
Total	7 194	2 084 261	96 407	75 567	2 263 429
Total investment securities	31 663	2 483 739	96 407	75 567	2 687 376
Valuation of investments					
Market value of listed investments					423 947
Directors' valuation of unlisted investments					2 262 732
Total valuation					2 686 679

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

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

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

No financial instruments held for trading form part of the group's liquid asset portfolio in terms of the Banking Institutions Act, (No 2 of 1998) and other foreign banking regulators requirements. The total liquid asset portfolio is N$2 910million (2014: N$2 187 million).

Notes to the annual financial statements
for the year ended 30 June

12. Accounts receivable

N$'000	Group 2015	Group 2014	Company 2015	Company 2014
Accounts receivable				
- Items in transit	82 818	31 755	119 614	17 792
- Deferred staff costs	40 856	43 684	40 856	43 684
- Other accounts receivable	27 145	27 824	26 614	27 068
Total	150 819	103 263	187 084	88 544

The carrying value of accounts receivable approximates the fair value.

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

13. Investment in associate company

Details of investments in unlisted associate company

Group and Company

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

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

Effective holdings and carrying amounts in unlisted associate company

N$'000	Group carrying amount 2015	Group carrying amount 2014	Investment at cost less impairments 2015	Investment at cost less impairments 2014
Unlisted investment				
Namclear (Pty) Ltd	3 726	3 168	1 154	1 154

13. Investment in associate company continued

Detail information of unlisted associate company

Group and Company

N$'000	Namclear (Pty) Ltd Unaudited June 2015	Namclear (Pty) Ltd Unaudited June 2014	Namclear (Pty) Ltd Unaudited June 2015	Namclear (Pty) Ltd Unaudited June 2014
Opening balance	3 168	2 611	1 154	1 154
Share of profits	558	557		
Closing balance	3 726	3 168	1 154	1 154
Valuation				
Unlisted investment at directors' valuation	3 726	3 168	1 154	1 154

Summarised financial information of associate company

N$'000	Group Namclear (Pty) Ltd Unaudited June 2015	Group Namclear (Pty) Ltd Unaudited June 2014
Statement of financial position		
Non-current assets	36 580	41 072
Current assets	9 421	3 441
Current liabilities	(27 818)	(30 703)
Non-current liabilities	(3 891)	(3 391)
Equity	14 292	10 419
Statement of comprehensive income		
Revenue	17 123	13 976
Profit for the period	4 698	2 229
Total comprehensive income for the period	4 698	2 229
Total share of profits from associate company	558	557

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

Notes to the annual financial statements
for the year ended 30 June

13. Investment in associate company continued

The most recent audited annual financial statements of associates are used by the group in applying the equity method of accounting for associates. These are not always drawn up to the same date as the financial statements of the group. In instances where significant events occurred between the last financial statement date of an associate and the financial statement date of the group, the effect of such events are adjusted for, where material. Where the last financial statement date of an associate was more than three months before the financial statement date of the group, the group uses the unaudited management accounts of the associate. The group has applied this principle consistently since adopting the equity accounting method for associates.

14. Investment in subsidiary company

Significant subsidiary	Nature of business	Date of acquisition	Country of incorporation	Listed/ unlisted	Effective holding % 2015	Effective holding % 2014
Swabou Investments (Pty) Ltd	Home loans	1 July 2003	Namibia	Unlisted	100	100
Number of shares issued: 2 of 0.5 cents each (2014: 2 of 0.5 cents each)						

N$'000	Aggregate income of subsidiary (before tax) 2015	Aggregate income of subsidiary (before tax) 2014	Total Indebtness 2015	Total Indebtness 2014	Total investment 2015	Total investment 2014
Swabou Investments (Pty) Ltd	86 385	44 449	160 906	308 691	160 906	308 691

Interest paid by Swabou Investments (Pty) Ltd to First National Bank of Namibia Ltd totalled N$ 12.7 million (2014: N$18 million).

15. Property and equipment

Group

N$ '000	Cost 2015	Accumulated depreciation and impairments 2015	Carrying amount 2015	Cost 2014	Accumulated depreciation and impairments 2014	Carrying amount 2014
Property						
Freehold land and buildings	616 813	(18 306)	598 507	380 588	(18 313)	362 275
Leasehold property	51 953	(37 854)	14 099	44 272	(33 098)	11 174
	668 766	(56 160)	612 606	424 860	(51 411)	373 449
Equipment						
Automatic teller machines	30 148	(10 330)	19 818	28 317	(6 856)	21 461
Capitalised lease equipment	12 289	(9 558)	2 731	12 289	(5 462)	6 827
Computer equipment	77 291	(62 798)	14 492	74 034	(53 960)	20 074
Furniture and fittings	196 051	(70 774)	125 277	127 482	(60 691)	66 791
Motor vehicles	7 862	(3 759)	4 103	7 402	(3 526)	3 876
Office equipment	98 266	(57 309)	40 957	76 802	(46 868)	29 934
	421 907	(214 528)	207 379	326 326	(177 363)	148 963
Total	1 090 673	(270 688)	819 985	751 186	(228 774)	522 412

Movement in property and equipment – carrying amount

N$ '000	Freehold land and buildings	Leasehold property	Equipment	Total
Carrying amount at 1 July 2013	202 025	9 784	135 532	347 341
Additions	189 999	241	31 153	221 393
Transfer between classes	(25 462)	5 969	19 493	
Depreciation charge for year		(4 817)	(36 724)	(41 541)
Transfers to repairs and maintenance	(4 277)			(4 277)
Disposals	(10)	(3)	(491)	(504)
Carrying amount at 30 June 2014	362 275	11 174	148 963	522 412
Additions	264 636	537	85 203	350 376
Transfer between classes	(21 955)	7 147	14 808	
Depreciation charge for year		(4 759)	(40 949)	(45 708)
Transfers to repairs and maintenance	(6 127)			(6 127)
Disposals	(322)		(646)	(968)
Carrying amount at 30 June 2015	598 507	14 099	207 379	819 985

Notes to the annual financial statements
for the year ended 30 June

15. Property and equipment continued

Company

N$ '000	Cost 2015	Accumulated depreciation and impairments 2015	Carrying amount 2015	Cost 2014	Accumulated depreciation and impairments 2014	Carrying amount 2014
Property						
Freehold land and buildings	559 491	(1 081)	558 410	323 265	(1 087)	322 178
Leasehold property	51 953	(37 854)	14 099	44 273	(33 098)	11 175
	611 444	(38 935)	572 509	367 538	(34 185)	333 353
Equipment						
Automatic teller machines	30 148	(10 330)	19 818	28 317	(6 856)	21 461
Capitalised lease equipment	12 289	(9 558)	2 731	12 289	(5 462)	6 827
Computer equipment	77 195	(62 706)	14 489	73 938	(53 871)	20 067
Furniture and fittings	194 356	(69 664)	124 692	125 847	(59 740)	66 107
Motor vehicles	7 862	(3 759)	4 103	7 402	(3 526)	3 877
Office equipment	95 811	(56 040)	39 772	74 411	(45 862)	28 549
	417 662	(212 056)	205 605	322 204	(175 316)	146 888
Total	1 029 105	(250 991)	778 114	689 742	(209 501)	480 241

Movement in property and equipment – carrying amount

N$ '000	Freehold land and buildings	Leasehold property	Equipment	Total
Carrying amount at 1 July 2013	161 980	9 784	133 100	304 864
Additions	189 947	241	31 055	221 243
Transfer between classes	(25 462)	5 969	19 493	
Depreciation charge for year		(4 817)	(36 270)	(41 087)
Transfers to repairs and maintenance	(4 277)			(4 277)
Disposals	(10)	(3)	(489)	(502)
Carrying amount at 30 June 2014	322 178	11 175	146 888	480 241
Additions	264 633	540	85 079	350 252
Transfer between classes	(21 952)	7 144	14 808	
Depreciation charge for year		(4 759)	(40 524)	(45 282)
Transfers to repairs and maintenance	(6 127)			(6 127)
Disposals	(322)		(646)	(968)
Carrying amount at 30 June 2015	558 410	14 099	205 605	778 1164

15. Property and equipment continued

The useful life of each asset is assessed individually. The list below provides information on the benchmark used when assessing the useful life of the individual assets:

Leasehold premises	Shorter of estimated life or period of lease
Freehold property	
- Buildings and structures	50 years
- Mechanical and electrical	20 years
- Components	20 years
- Sundries	20 years
Computer equipment (including atms)	3 - 5 years
Furniture and fittings	3 - 10 years
Motor vehicles	5 years
Office equipment	3 to 6 years

Information regarding land and buildings as required in terms of Schedule 4 of the Companies Act is kept at the Company's registered offices. This information will be open for inspection in terms of the provisions of Section 120 of the Companies Act, 2004.

Equipment leased serves as security for the finance lease liabilities. Refer to note 20 for liabilities that are related to the finance lease assets. No assets were encumbered at 30 June 2015.

Notes to the annual financial statements
for the year ended 30 June

16. Intangible assets

	Group		Company	
N$ '000	2015	2014	2015	2014
Trademarks				
Gross amount	380 713	380 713	354 099	354 099
Less: Accumulated amortisation	(290 102)	(278 657)	(263 488)	(252 044)
	90 611	102 056	90 611	102 056
Movement in trademarks - carrying amount				
Opening balance	102 056	116 560	102 056	115 694
Amortisation (note 4)	(11 445)	(14 504)	(11 445)	(13 638)
Closing balance	90 611	102 056	90 611	102 056
FNB Namibia Trademark	102 056	102 056	102 056	102 056
	102 056	102 056	102 056	102 056
Software				
Gross amount	46 516	46 516	46 516	46 516
Less: Accumulated amortisation	(44 082)	(39 915)	(44 082)	(39 915)
	2 434	6 601	2 434	6 601
Movement in software - carrying amount				
Opening balance	6 601	11 108	6 601	11 108
Additions				
Amortisation (note 4)	(4 167)	(4 507)	(4 167)	(4 507)
Closing balance	2 434	6 601	2 434	6 601
Goodwill - carrying amount	47 967	47 967	47 967	47 967
Total closing balance of intangible assets	141 011	156 624	141 011	156 624

16. Intangible assets continued

The useful life of each intangible asset is assessed individually. The table below provides information on the benchmarks used when assessing the useful lives of the individual intangible assets

Software	3 years
Trademarks	10 - 20 years
Other	3 - 10 years

The FNB Namibia Trademark is amortised over a period of 20 years, of which 9 years remain at the end of 2015.

The amortisation period of the remaining Swabou trademark is partly based on a diminishing amortisation profile and a fixed amortisation profile, both of which ensure the trademark to be fully amortised during the year.

Impairment of goodwill

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

The CGU's to which the goodwill balance as at 30 June 2015 relates to First National Bank of Namibia Ltd.

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

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

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

Notes to the annual financial statements
for the year ended 30 June

17. Deposits and current accounts

N$ '000	Group 2015	Group 2014	Company 2015	Company 2014
17.1 Deposits				
At amortised cost				
- Current accounts	9 514 151	8 410 848	9 512 854	8 409 529
- Call deposits	4 604 425	4 865 324	4 604 425	4 865 324
- Savings account	611 933	558 840	611 933	558 840
- Term deposits	3 557 225	2 790 205	3 557 225	2 790 205
- Negotiable certificates of deposit	5 771 577	4 978 174	5 771 577	4 978 175
	24 059 315	21 603 391	24 058 014	21 602 073
Geographic analysis (based on counterparty risk)				
Namibia	24 059 315	21 603 391	24 058 014	21 602 073

The fair values of deposits and current accounts is set out in note 30.

17.2 Due to banks and other financial institutions

N$ '000	Group 2015	Group 2014	Company 2015	Company 2014
At amortised cost				
Due to banks and financial institutions				
- In the normal course of business	1 020 016	813 409	1 020 016	813 409
	1 020 016	813 409	1 020 016	813 409
Geographic analysis (based on counterparty risk)				
Namibia	1 020 016	813 409	1 020 016	813 409

The fair values of deposits and current accounts is set out in note 30.

18. Creditors and accruals

N$ '000	Group 2015	Group 2014	Company 2015	Company 2014
Accounts payable and accrued liabilities	190 041	106 122	185 991	102 063
Items in transit	190 956	135 646	190 957	135 646
	380 997	241 768	376 948	237 709

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

19. Short trading positions

N$ '000	Group 2015	Group 2014	Company 2015	Company 2014
Government and government guaranteed stock	26 693		26 693	
Short trading securities	26 693		26 693	

Short trading positions are carried at fair value.

Notes to the annual financial statements
for the year ended 30 June

20. Employee liabilities

N$'000	Notes	Group and company 2015	Group and company 2014
Staff related accruals	20.1	119 518	106 573
Cash settled share-based payment liability*		5 969	5 956
Post-employment benefit liabilities	20.2	38 062	33 526
Closing balance		163 549	146 055

* Refer to note 24 for more detail on the cash settled share-based payment schemes.

20.1 Staff related accruals

The staff related accruals consists mainly of the accrual for leave pay and staff bonuses.

N$'000	Group and company 2015	Group and company 2014
Opening balance	106 573	83 658
- Charge to profit or loss	46 470	46 854
- Utilised	(33 525)	(23 939)
Closing balance	119 518	106 573

20.2 Post-employment benefit liabilities

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

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

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

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

20. Employee liabilities continued

The actuarial valuations are done on an annual basis.

N$ '000	Group and company 2015 Medical	2015 Severance Pay	2015 Total	2014 Medical	2014 Severance Pay	2014 Total
Present value of unfunded liabilities	33 660	4 402	38 062	29 655	3 871	33 526
Post-employment liabilities	33 660	4 402	38 062	29 655	3 871	33 526
The amounts recognised in the statement of comprehensive income are as follows:						
Profit and loss portion						
Current service cost	183	313	496	255	228	483
Interest cost	2 530	315	2 845	2 162	253	2 415
Total included in staff costs (note 4)	2 713	628	3 341	2 417	481	2 898
Recognised in other comprehesnsive income						
Actuarial gains and losses recognised	2 993	(122)	2 871	1 290	595	1 885
Total included in staff costs	2 993	(122)	2 871	1 290	595	1 885
Movement in post-employment liabilities						
Present value at the beginning of the year	29 655	3 871	33 526	27 542	3 233	30 775
Current service cost	183	313	496	255	228	483
Interest cost	2 530	315	2 845	2 162	253	2 415
Benefits paid	(1 701)	23	(1 678)	(1 594)	(438)	(2 032)
Transfer of liability between business units		2	2			
Re-measurements : Recognised in OCI						
- Actuarial (gains) losses from changes in demographic assumptions	2 993	(122)	2 871	1 290	595	1 885
Present value at the end of the year	33 660	4 402	38 062	29 655	3 871	33 526
The principal actuarial assumptions used for accounting purposes were:						
Discount rate (%)	8.58%	8.01%		8.73%	8.12%	
Medical aid inflation (%)	8.00%			7.81%		
Salary inflation (%)		7.52%			7.45%	
Male	42			43		
Female	67			68		
Employees covered	109	1 910		111	1 763	

Notes to the annual financial statements
for the year ended 30 June

20. Employee liabilities continued

N$'000	Group and company 2015	Group and company 2014
20.3 Defined contribution pension fund		
Employer contributions to pension fund	47 232	41 487
Employer contributions to pension fund - executive director	335	253
Total employer contributions to pension fund (note 4)	47 567	41 740
Employee contributions to pension fund	21 192	18 268
Total contributions	68 759	60 008
Number of employees covered	1 910	1 763

The group provides for retirement benefits by making payments to a pension fund, which is independent of the group and was registered in Namibia in 1995 in accordance with the requirements of the Pension Funds' Act. The fund is a defined contribution fund and is subject to the Pension Funds' Act (No 24 of 1956). The last valuation was performed for the year ended 30 June 2014 and indicated that the fund was in a sound financial position.

The pension fund is a related party to the group.

21. Other liabilities

N$ '000	Notes	Group and company 2015	Group and company 2014
Finance lease liability	20.1	2 060	6 030
Total other liabilities		2 060	6 030
21.1 Finance lease liabilities			
Finance lease liabilities			
Not later than 1 year		2 099	4 198
Later than 1 year and not later than 5 years			2 099
Total finance lease liabilities		2 099	6 297
Future finance charges on finance leases		(39)	(267)
Present value of finance lease liability		2 060	6 030
Not later than 1 year		2 060	4 122
Later than 1 year and not later than 5 years			1 908
Total finance lease liabilities		2 060	6 030

Refer to note 15 for assets that secure the finance lease liabilities.

21.2 Leasing arrangements

The group leased various information technology equipment under a finance lease. The lease term is 3 years with no escalation clauses. The group has the option to pay a reduced secondary term charge or to purchase the equipment at its market value. The lease terms do not contain restrictions on the group's activities concerning dividends or additional funding.

Notes to the annual financial statements
for the year ended 30 June

22. Deferred tax liability

N$'000	Group 2015	Group 2014	Company 2015	Company 2014
The movement on the deferred tax account is as follows:				
Taxable temporary differences				
- Balance at the beginning of the year	165 250	145 281	164 885	144 376
- Originating temporary differences	32 265	19 969	43 544	20 509
Total credit balance	202 515	165 250	208 429	164 885
Deductible temporary differences				
- Balance at the beginning of the year	(71 615)	(69 411)	(67 310)	(64 218)
- Reversing temporary differences	(666)	(2 204)	(7 214)	(3 092)
Total debit balance	(72 281)	(71 615)	(74 524)	(67 310)
Net balance for the year for entities with deferred tax liabilities	130 234	93 635	133 905	97 575

Deferred tax assets and liabilities and the deferred taxation charge / (credit) in the statement of comprehensive income are attributable to the following items:

22. Deferred tax liability continued

N$'000 Group	2015 Opening balance	2015 Originating / (reversing) differences	2015 Closing balance	2014 Opening balance	2014 Originating / (reversing) differences	2014 Closing balance
Accruals	45 755	16 356	62 111	34 824	10 931	45 755
Deferred staff cost	14 416	(933)	13 483	13 146	1 270	14 416
Instalment credit agreements	68 970	24 908	93 878	65 029	3 941	68 970
Property and equipment	32 682	3 627	36 309	28 441	4 241	32 682
Revaluation of available-for-sale financial assets	3 427	(6 693)	(3 266)	3 841	(414)	3 427
Total taxable temporary diffferences	165 250	37 265	202 515	145 281	19 969	165 250
Derivatives	(8 936)		(8 936)	(9 075)	139	(8 936)
Provision for loan impairment	(40 070)	(3 760)	(43 830)	(36 951)	(3 119)	(40 070)
Provision for post-retirement benefits	(11 064)	(947)	(12 011)	(10 156)	(908)	(11 064)
Other	(11 545)	4 041	(7 504)	(13 229)	1 684	(11 545)
Total deductible temporary differences	(71 615)	(666)	(72 281)	(69 411)	(2 204)	(71 615)
Total deferred tax liability	93 635	36 599	130 234	75 870	17 765	93 635
Charge through profit and loss		44 239			18 801	
Deferred tax on other comprehensive income		(7 640)			(1 036)	
Total		36 599			17 765	

Notes to the annual financial statements
for the year ended 30 June

22. Deferred tax liability continued

N$'000 Company	2015 Opening balance	2015 Originating / (reversing) differences	2015 Closing balance	2014 Opening balance	2014 Originating / (reversing) differences	2014 Closing balance
Accruals	45 755	16 356	62 111	34 825	10 930	45 755
Deferred staff cost	14 416	(933)	13 483	13 146	1 270	14 416
Instalment credit agreements	68 970	24 908	93 878	65 029	3 941	68 970
Property and equipment	32 317	3 627	35 944	27 535	4 782	32 317
Revaluation of available-for-sale financial assets	3 427	(414)	3 013	3 841	(414)	3 427
Total taxable temporary diffferences	164 885	43 544	208 429	144 376	20 509	164 885
Derivatives	(8 936)		(8 936)	(9 075)	139	(8 936)
Provision for loan impairment	(38 046)	(3 760)	(41 806)	(34 927)	(3 119)	(38 046)
Provision for post-retirement benefits	(11 064)	(947)	(12 011)	(10 156)	(908)	(11 064)
Other	(9 264)	(2 507)	(11 771)	(10 060)	796	(9 264)
Total deductible temporary differences	(67 310)	(7 214)	(74 524)	(64 218)	(3 092)	(67 310)
Total deferred tax liability	97 575	36 330	133 905	80 158	17 417	97 575
Charge through profit and loss		43 970			18 454	
Deferred tax on other comprehensive income		(7 640)			(1 036)	
Total		36 330			17 417	

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

23. Tier two liabilities

N$ '000				Group and company 2015	Group and company 2014
Subordinated debt instruments	Interest rate	Final maturity date	Note		
FNB X22 fixed rate notes	8.88%	29 March 2022	ii	110 000	110 000
FNB J22 floating rate notes	Three-month JIBAR + 1.65%	29 March 2022	iii	280 000	280 000
Accrued interest				2 635	2 622
Total				392 635	392 622

(i) The 8,88% fixed rate notes may be redeemed in full at the option of the group on 29 March 2017. Interest is paid semi-annually in arrear on 29 March and 29 September of each year.

(ii) The three-month JIBAR plus 1,65% floating rate notes may be redeemed in full at the option of the group on 29 March 2017. Interest is paid quarterly on 29 March, 29 June, 29 September and 29 December of each year.

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

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

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

Notes to the annual financial statements
for the year ended 30 June

24. Share capital and share premium

	Group and company	
N$ '000	2015	2014
Authorised		
4 000 (2014: 4 000) ordinary shares with a par value of N$1 per share	4	4
Issued and fully paid up		
1 200 (2014: 1 200) ordinary shares with a par value of N$1 per share	1	1
Share premium	1 142 791	1 142 791

The unissued ordinary shares are under the control of the directors until the next annual general meeting. The issued share capital is fully paid up.

24.1 General risk reserves

N$'000	2015	2014
First National Bank of Namibia Limited - Credit risk reserve	109 591	97 785
	109 591	97 785

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

25. Remuneration schemes

	Group and company	
N$ '000	2015	2014
The charge to profit or loss for share-based payments is as follows:		
FNB Share Incentive Trust	8 246	6 262
Employees with FirstRand share options and share appreciation rights	8 304	4 974
Charge against staff costs (note 4)	16 550	11 236

Share option schemes

FNB Namibia Holdings Ltd options are equity settled, except for the FirstRand Limited share appreciation scheme which is cash settled. The following is a summary of the share incentive schemes:

FNB Namibia and FirstRand Share Incentive Schemes

The purpose of this scheme is to provide a facility to employees of the FNB Namibia Holdings Group to acquire shares in FNB Namibia Holdings Limited and FirstRand Limited. The primary purpose of this scheme is to appropriately attract, incentivise and retain employees within the FNB Namibia Holdings Group.

For options allocated, delivery may only be taken by the participant 3, 4 and 5 years after the option is exercised at a rate of 33.3% per annum.

The company does not have exposure to market movement on FNB Namibia Holdings Limited shares as all options are hedged through a share incentive trust that houses the shares until the options are exercised or expires.

BEE Share Incentive Scheme

The group is firmly committed to the process of achieving transformation in Namibia. The company specifically wishes to ensure that the long-term benefits of the BEE transaction reach the widest possible community of black Namibians.

FirstRand Bank Holdings Ltd made available 13 379 663 shares, representing 5% of its investment in FNB Namibia Holdings Limited in 2005, to a BEE transaction. Of this total number, 4% was allocated to BEE partners and 1% was allocated to black employees and black non-executive directors. The 1% allocation to staff includes 500 000 shares to put separately into a trust of which the dividend income is to support educational needs of such staff members and their family members. The rest of the 1% allocation is used, through a trust, to allocate options to staff members.

Vesting conditions as follows:

- Black staff and black non-executive directors:

50% after year 3 and 25% per year in years 4 and 5 respectively.

Notes to the annual financial statements
for the year ended 30 June

25. Remuneration schemes continued

Valuation methodology

Share incentive scheme

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

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

Market data consists of the following:

- Volatility is the expected volatility over the period of the option. In the absence of other available date, historical volatility can be used as a proxy for expected volatility.
- The interest rate is the Risk-free rate of return, recorded on the date of the option grant, on a South African government zero coupon bond of a term equal to the expected life of the option.

Dividend data of the following:

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

Employee statistic assumptions:

- Annual employee turnover is the average annual rate that employees participating in the option scheme are expected to leave before the options have vested.
- The number of iterations is the number to be used in the binomial model, which is limited to 500.
- The weighted average number of forfeitures is based on the major grants because these grants have a more reliable cancellation or forfeiture pattern.
- The significant weighted average assumptions used to estimate the fair value of options granted and the IFRS 2 share based payment expenses for the year under review are:

25. Remuneration schemes continued

	Group and company	
	FNB Share Incentive Trust	
N$'000	2015	2014
Weighted average exercise price (N$)	721- 2452	721- 1932
Expected volatility (%)	402 - 16	4 - 17
Expected option life	5	5
Expected risk free rate (%)	5.81 - 7.69	5.81 - 7.69
Share option schemes		
Number of options in force at the beginning of the year ('000)	8 832	9 045
Granted at prices (cents)	721- 1932	721- 1932
Number of options granted during the year ('000)	2 359	2 697
Granted at prices ranging between (cents)	2 452	1 932
Number of options exercised/released during the year ('000)	(1 305)	(2 152)
Market value range at the date of exercise/release (cents)	2351 - 3231	1912 - 2274
Number of options cancelled/lapse during the year ('000)	(590)	(758)
Granted at prices ranging between (cents)	1236 - 2452	517 - 1932
Number of options in force at the end of the year ('000)	9 296	8 832
Granted at prices ranging between (cents)	721- 2452	721- 1932
Options are execercisable over the following periods: ('000) (first date able to release)		
Financial year 2015		2 542
Financial year 2016	1 465	1 521
Financial year 2017	1 280	2 356
Financial year 2018	2 061	1 577
Financial year 2019	2 215	836
Financial year 2020	2 275	
	9 296	8 832

Notes to the annual financial statements
for the year ended 30 June

26. Cash flow information

N$ '000	Group 2015	Group 2014	Company 2015	Company 2014
26.1 Reconciliation of operating profit to cash flows from operating activities				
Profit before tax	1 403 203	1 095 169	1 343 817	1 040 011
Adjusted for:				
- Depreciation, amortisation and impairment costs	61 320	60 553	60 894	59 231
- Transfer to repairs and maintenance	(6 127)	(4 277)	(6 127)	(4 277)
- Impairment on advances	49 882	18 433	49 249	18 291
- Provision for post-employment benefit obligations	(1 667)	(996)	(1 666)	(996)
- Other employment accruals	46 470	46 858	46 470	46 858
- Creation and revaluation of derivative financial instruments	(3 705)	(16 375)	(3 705)	(16 375)
- Profit on sale of property and equipment	62	231	62	231
- Share-based payment costs	16 550	11 236	16 550	11 236
- Unwinding of discounted present value on non-performing loans (note 10)	(13 314)	(6 560)	(13 026)	(5 836)
- Unwinding of discounted present value on off-market advances (note 2.1)	(5 978)	(1 649)	(5 978)	(1 649)
- Net release of deferred fee and expenses	(21 279)	(15 170)	(20 581)	(14 555)
- Transfer from revaluation reserve: available-for-sale financial assets	198		198	
- Off-market staff loans amortisation (note 4)	5 978	1 649	5 978	1 649
- Share of profit from associate company	(558)	(557)		
- Indirect tax (note 5)	26 450	21 394	26 238	21 134
Cash flows from operating activities	1 557 488	1 209 939	1 498 375	1 154 953
26.2 Cash receipts from customers				
Interest and similar income	2 371 236	1 885 646	2 323 522	1 840 468
Fees and commission income	1 005 696	864 074	1 005 255	863 554
Other non-interest income	168 792	122 589	167 417	121 402
	3 545 724	2 872 309	3 496 194	2 825 424

26. Cash flow information

	Group 2015	Group 2014	Company 2015	Company 2014
26.3 Cash paid to customers, suppliers and employees				
Interest expense and similar charges	(961 887)	(772 116)	(961 887)	(772 006)
Total other operating expenditure	(1 026 349)	(890 254)	(1 035 932)	(898 465)
	(1 988 236)	(1 662 371)	(1 997 819)	(1 670 471)
26.4 Increase in income earning assets				
Investment securities	(514 074)	(524 758)	(514 074)	(524 758)
Due by banks and other financial institutions	181 298	122 641	181 298	122 641
Accounts receivable and similar accounts	(53 534)	42 237	(104 518)	63 578
Advances	(2 860 608)	(3 029 227)	(2 917 791)	(3 092 654)
	(3 246 918)	(3 389 107)	(3 355 085)	(3 431 193)
26.5 Increase in deposits and other liabilities				
Deposits	2 456 112	2 681 601	2 455 940	2 681 406
Due to banks and other financial institutions	206 607	494 325	206 607	494 325
Accounts payable and similar accounts	119 065	94 861	119 265	92 968
	2 781 784	3 270 787	2 781 812	3 268 699
26.6 Tax paid				
Amounts payable at beginning of the year	(69 542)	(135 726)	(56 607)	(127 138)
Indirect taxes	(26 450)	(21 394)	(26 238)	(21 134)
Current tax charge	(418 027)	(345 787)	(398 862)	(327 844)
Amounts payable at end of the year	62 197	69 542	49 229	56 607
Total tax paid	(451 822)	(433 365)	(432 478)	(419 509)
26.7 Capital expenses				
Purchase of property, equipment and software, settled in cash	350 376	221 393	350 252	221 243
26.8 Dividends paid	347 226	266 804	347 226	266 804

Notes to the annual financial statements
for the year ended 30 June

27. Contingencies and commitments

N$ '000	Group and company 2015	Group and company 2014
Contingencies		
Guarantees *	999 308	815 655
Letters of credit	66 713	179 041
Total contingencies	1 066 021	994 696
Irrevocable unutilised facilities	4 926 719	3 715 345
Total contingencies and commitments	5 992 740	4 710 041

* Guarantees consist predominantly of endorsements and performance guarantees

N$ '000	2015	2014
Commitments in respect of capital expenditure and long-term investments:		
Commitments in respect of capital expenditure and long-term investments approved by directors:		
- Contracted for	92 456	260 000
- Not contracted for	918	918
Comprising of:		
Capital commitments contracted for at the reporting date but not yet incurred are as follows:		
- Property and equipment	92 456	260 000
Capital commitments not yet contracted for at the reporting date but have been approved by the directors:		
- Property and equipment	918	918

Funds to meet these commitments will be provided from group resources.

Legal proceedings

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

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

27. Contingencies and commitments continued

Group and company leasing arrangements:

N$ '000	2015 Within 1 year	2015 Between 1 and 5 years	2015 After 5 years	2014 Within 1 year	2014 Between 1 and 5 years	2014 After 5 years
Office premises	24 223	38 000	3 525	21 236	35 860	4 669
	24 223	38 000	3 525	21 236	35 860	4 669

Notice periods on operating lease contracts are between 3-6 months, no operating lease contract is fixed and escalation clauses range between 7% and 10% (2014: 7% and 10%).

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

Notes to the annual financial statements
for the year ended 30 June

28. Collateral pledged and held

N$'000	2015	2014
28.1 Collateral taken possession of and recognised on the statement of financial position in accounts receivable, note 12:		
Property	7 136	5 568
Total	7 136	5 568
28.2 Collateral pledged		
The group has pledged assets as security for the following liabilities:		
Derivatives (note 8)		
Currency derivative	13 262	79 277
Interest rate derivative	88 454	19 290
	101 716	98 567
The group pledges assets under the following terms and conditions:		
Collateral in the form of cash and cash equivalents are pledged when the banking group utilises the RMB credit facility over the limit. These transactions are conducted under the terms and conditions that are usual and customary to standard credit facilities.		
Assets pledged to secure the above liabilities are carried at and included under the following:		
Due by banks and other financial institutions (note 7)	83 620	44597

29 Related parties

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

29.1 Subsidiary

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

29.2 Associate

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

29.3 Details of transactions with relevant related parties appear below:

N$'000	2015	2014
Related party balance		
Money at call and short notice		
Parent	563 569	906 567
Fellow subsidiaries	85 146	76 762
Associate	23 505	26 170
Derivative instruments: assets		
Parent	34 520	7 619

Notes to the annual financial statements
for the year ended 30 June

29. Related parties continued

29.3 Details of transactions with relevant related parties appear below:

N$'000	2015	2014
Other deposits and loans		
Parent	757 998	804 956
Fellow subsidiaries	(69 036)	(61 708)
Associate	4 312	307
Derivative instruments: liabilities		
Parent	3 577	99 673
Related party transactions		
Interest paid to (received from) related parties		
Parent	(73 707)	(53 554)
Fellow subsidiaries	2 339	1 710
Associate	(2 157)	(1 384)
Non interest revenue		
Parent	12 802	130
Fellow subsidiaries	1 920	2 753
Associate		13
Non interest expenditure		
Parent	154 026	142 166
Fellow subsidiaries	28 661	10 857
Associate	8 149	6 090
Dividends paid		
Parent	347 226	266 804

29. Related parties continued

29.4 Key management personnel

		Group and company	
N$'000	Loans and advances	2015	2014
	Advances		
	Balance 1 July	23 552	24 931
	Advanced during year	46 284	7 391
	Repayments during year	(45 617)	(10 658)
	Interest earned	1 980	1 888
	Balance 30 June	26 199	23 552

No impairment has been recognised for loans granted to key management (2014: nil). Mortgage loans are repayable monthly over 20 years.

N$'000	2015	2014
Current and credit card accounts		
Credit balance 1 July	(4 801)	(11 928)
Net deposits and withdrawals	1 676	7 163
Net service fees and bank charges	392	169
Interest income	24	42
Interest expense	(26)	(247)
Balance 30 June	(2 735)	(4 801)
Instalment finance		
Balance 1 July	6 665	6 344
Advanced during year	524	3 634
Repayments during year	(4 450)	(3 549)
Interest earned	315	236
Balance 30 June	3 054	6 665
Shares and share options held		
Share options held by members of key management	1 583	2 034
Key management compensation		
Salaries and other short-term benefits	29 584	28 774
Contribution to defined contribution schemes	2 689	2 797
Share-based payments	2 874	5 285
Total compensation	35 147	36 856

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

Notes to the annual financial statements
for the year ended 30 June

29 Related parties continued

29.5 Post-employment benefit plan

Refer note 20.2 on detail disclosure of the movements on the post-employment benefit liabilities. The Pension Fund is a related party to the group, refer note 20.3.

One member of key management is entitled to the post-employment medical benefit and contributions will only be made on retirement. The liability raised for post-retirement medical benefits includes this member.

30. Fair value measurements

30.1 Valuation methodology

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

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

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

Recurring fair value measurements

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

30. Fair value measurements continued

30.1 Valuation methodology

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

Non-recurring fair value measurements

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

Other fair value measurements

Other fair value measurements include assets and liabilities not measured at fair value but for which fair value disclosures are required under another IFRS e.g. financial instruments at amortised cost. The fair value for these items is determined by using observable quoted market prices where these are available, such as market prices quoted on BESA, or in accordance with generally acceptable pricing models such as a discounted cash flow analysis. Except for the amounts included under point 30.4 below, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

Notes to the annual financial statements
for the year ended 30 June

30 Fair value measurements continued

30.2 Fair value hierarchy and measurements

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

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

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

Level 1

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

Level 2

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

30 Fair value measurements continued

30.2 Fair value hierarchy and measurements continued

Level 3

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

The table below sets out the valuation techniques applied by the group for recurring fair value measurements of assets and liabilities categorised as Level 2 and Level 3 in the fair value hierarchy:

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Derivative financial instruments					
Option contracts	Level 2 and Level 3	Option pricing model	The Black Scholes model is used.	Strike price of the option; market related discount rate; forward rate and cap and floor volatility.	Volatilities
Swaps	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date of each swaplet is determined in terms of legal documents pertaining to the swap.	Market interest rates and curves	Not applicable
Forward rate agreements	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rates and curves	Not applicable
Forward contracts	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Market interest rates and curves	Not applicable

Notes to the annual financial statements
for the year ended 30 June

30. Fair value measurements continued

30.2 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 of Level 3 items
Loans and advances to customers					
Investment banking book*	Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate. To calculate the fair value of credit the group uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance. Similarly an increase in credit rating would result in a decrease in the spread below the base rate and an increase of the fair value of the advance.	Market interest rates and curves	Credit inputs
Other loans and advances	Level 2 and Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period.	Market interest rates and curves	Credit inputs
Investment securities and other investments					
Equities/ bonds listed in an inactive market	Level 2	Discounted cash flows	For listed equities and bonds, the listed price is used where the market is active (i.e. Level 1). However if the market is not active and the listed price is not representative of fair value, these are classified as Level 2 and a valuation technique is used, for example the discounted cash flow is used for listed bonds. This will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable

30. Fair value measurements continued

30.2 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 of Level 3 items
Investment securities and other investments continued					
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	BESA bond pricing model	The BESA bond pricing model uses the BESA mark to market bond yield.	Market interest rates and curves	Not applicable
Non-recourse investments	Level 2	Discounted cash flows	The future cash flows are discounted using a discount rate which is determined as a base rate plus a spread. The base rate is determined by the legal agreements as either a bond or swap curve. The spread approximates the level of risk attached to the cash flows. When there is a change in the base rate in the market, the valuation is adjusted accordingly. The valuation model is calibrated to reflect transaction price at initial recognition.	Market interest rates and curves	Not applicable

Notes to the annual financial statements
for the year ended 30 June

30. Fair value measurements continued

30.2 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 of Level 3 items
Deposits					
Call and non-term deposits	Level 2	None - the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand i.e. the undiscounted amount of the deposit.	None - the undiscounted amount approximates fair value and no valuation is performed	Not applicable
Deposits that represent collateral on credit linked notes	Level 3	Discounted cash flows	These deposits represent the collateral leg of credit linked notes. The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves	Credit inputs on related advance
Other deposits	Level 2 and Level 3	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves	Credit inputs
Other liabilities and Tier 2 liabilities	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Level 2 and Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate and curves adjusted for credit inputs.	Market interest rates and curves	Credit inputs

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

30. Fair value measurements continued

30.2 Fair value hierarchy and measurements continued

For non-recurring fair value measurements, the fair value measurements are determined on a case by case basis as they occur within each reporting period. The fair value hierarchy classification and valuation technique applied in determining fair value will depend on the underlying asset or liability being measured. Where the underlying assets or liabilities are those for which recurring fair value measurements are required as listed in the table above, the technique applied and the inputs into the models would be in line with those as set out in the table. Where the underlying assets or liabilities are not items for which recurring fair value measurements are required, for example property and equipment or intangible assets, the carrying value is considered to be equal to or a reasonable approximation of the fair value. This will be assessed per transaction and details will be provided in the relevant notes. There were no such transactions for the current year.

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

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

	Group and company			
	2015			
N$'000	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Available-for-sale financial assets				
Investment securities (note 11)		2 909 874		2 909 874
Financial assets designated at fair value through profit or loss				
Advances (Note 9)			519 585	519 585
Investment securities (note 11)		257 274		
Financial assets held for trading				
Derivative financial instruments (note 8)		158 642		158 642
Investment securities (note 11)		34 501		34 501
Total financial assets measured at fair value		3 360 291	519 585	3 622 602
Liabilities				
Recurring fair value measurements				
Financial liabilities held for trading				
Derivative financial instruments (note 8)		172 188		172 188
Short Trading Position (Note 19)	26 693			26 693
Total financial liabilities measured at fair value	26 693	172 188		198 881

Notes to the annual financial statements
for the year ended 30 June

30. Fair value measurements continued

30.2 Fair value hierarchy and measurements continued

N$'000	Group and company 2014 Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Available-for-sale financial assets				
Investment securities (note 11)		2 483 739		2 483 739
Financial assets designated at fair value through profit or loss				
Advances (Note 9)			538 583	538 583
Investment securities (note 11)		96 407		96 407
Financial assets held for trading				
Derivative financial instruments (note 8)		92 031		92 031
Investment securities (note 11)		31 663		31 663
Total financial assets measured at fair value		2 703 840	538 583	3 242 422
Liabilities				
Recurring fair value measurements				
Financial liabilities held for trading				
Derivative financial instruments (note 8)		109 281		109 281
Total financial liabilities measured at fair value		109 281		109 281

During the reporting period ending 30 June 2015 (30 June 2014), there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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;

30. Fair value measurements continued

30.2 Fair value hierarchy and measurements continued

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

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

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

Changes in level 3 fair value instruments

N$'000	Fair value on June 2014	Purchases/ (sales)/issues/ (settlements)	Gains or losses recognised in profit and loss	Fair value on June 2015
Assets				
Advances	538 583	(78 707)	59 709	519 585

N$'000	Fair value on June 2013	Purchases/ (sales)/issues/ (settlements)	Gains or losses recognised in profit and loss	Fair value on June 2014
Assets				
Advances	564 111	(77 227)	51 699	538 583

Notes to the annual financial statements
for the year ended 30 June

30. Fair value measurements continued

30.2 Fair value hierarchy and measurements continued

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$571 544 (2014: N$ 605 124) and using more negative reasonable possible assumptions to N$467 627 (2014: N$495 102).

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

N$'000	2015 Gains or (losses) recognised in profit and loss	2015 Gains or (losses) recognised in other comprehensive income	2015 Total gains or loss
Assets			
Advances	59 709		59 709
Total financial assets classified at level 3	59 709		59 709

N$'000	2014 Gains or (losses) recognised in profit and loss	2014 Gains or (losses) recognised in other comprehensive income	2014 Total gains or loss
Assets			
Advances	48 007		48 007
Total financial assets classified at level 3	48 007		48 007

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.

30. Fair value measurements continued

30.2 Fair value hierarchy and measurements continued

N$'000	Group 2015 Carrying amount	Group 2015 Fair value	Company 2015 Carrying amount	Company 2015 Fair value	Fair value hierachy
Assets					
Total advances at amortised cost	22 399 254	22 134 943	21 860 402	21 572 804	Level 2
Liabilities					
Total deposits and current accounts	24 059 315	24 057 737	24 058 014	24 019 221	Level 2
Tier two liabilities	392 635	392 905	392 635	393 987	Level 2

N$'000	Group 2014 Carrying amount	Group 2014 Fair value	Company 2014 Carrying amount	Company 2014 Fair value	Fair value hierachy
Assets					
Total advances at amortised cost	19 528 960	21 345 154	18 933 278	20 694 073	Level 2
Investment securities	75 567	74 870	75 567	74 870	Level 2
Liabilities					
Total deposits and current accounts	21 603 391	21 575 676	21 602 073	21 574 360	Level 2
Tier two liabilities	392 622	393 874	392 622	393 874	Level 2

Day one profit or loss

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

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

Notes to the annual financial statements
for the year ended 30 June

30. Fair value measurements continued

30.2 Fair value hierarchy and measurements continued

N$'000	Group and company 2015	Group and company 2014
Unrecognised profit at the beginning of the year	8 587	12 280
Additional profit on new transactions		
Recognised in profit or loss during the year	(3 714)	(3 693)
Unrecognised profit at the end of the year	4 873	8 587

Loans and receivables designated as fair value through profit or loss

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

N$'000	Group and company 2015	Group and company 2014
	Carrying value	
Included in advances	519 585	538 583

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

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

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

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

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

32. Risk management

The unaudited risk report of the FNB Namibia group appears on pages 48 to 56 of the said annual report, which is appended as a separate document to this set of financial statements. The reported describes the various risks the group is exposed to, as well as the methodology and instruments to mitigate these risks. Risk control policies and exposures limits for the key risk areas of the group are approved by the Board, while operational policies and controls procedures are approved by the relevant risk committees. The main financial risks that the business is exposed to are detailed in this note.

32.1 Maximum exposure to credit risk

Total exposure

N$'000	Group 2015	Group 2014	Company 2015	Company 2014
Cash and cash equivalents	288 513	434 436	288 513	434 436
- Balances with central banks	288 513	434 436	288 513	434 436
Due by banks and other financial institutions	1 585 029	1 766 327	1 585 029	1 766 327
Advances	22 918 838	20 067 543	22 379 987	19 471 860
- Card loans	164 167	154 065	164 167	154 065
- Overdraft and managed accounts	2 614 013	2 072 897	2 614 012	2 072 896
- Instalment sales and lease receivables	3 335 736	2 997 285	3 335 736	2 997 285
- Home loans	10 657 423	9 647 723	10 118 573	9 052 042
- Term loans	5 276 758	4 326 788	5 276 758	4 326 788
- Investment bank term loans	552 035	576 659	552 035	576 659
- Advances under agreement to resell	27 087		27 087	
- Preference share advance	25 500	28 818	25 500	28 818
- Other	266 119	263 308	266 119	263 308
Derivative financial instruments	158 642	92 032	158 642	92 032
Debt investment securities	3 201 648	2 687 377	3 201 648	2 687 376
- Listed investment securities	782 278	423 947	782 278	423 947
- Unlisted investment securities	2 419 370	2 263 429	2 419 370	2 263 429
Accounts receivable	109 963	59 579	146 321	44 860
Amounts not recognised (in the statement of financial position)	5 992 740	4 710 041	5 992 740	4 710 041
Guarantees	999 308	815 655	999 308	815 655
Letters of credit	66 713	179 041	66 713	179 041
Irrevocable commitments	4 926 719	3 715 345	4 926 719	3 715 345

Notes to the annual financial statements
for the year ended 30 June

32. Risk management continued

32.2 FR rating mapping to international and national rating scales

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

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

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

FR Rating	Mid point PD	International scale mapping*
FR 28 - 91	3.73%	AAA to B-
Above FR 92		Below B-

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

32.3 Credit quality

The table below presents an analysis of the credit quality of neither past due nor impaired (i.e. performing) advances (refer to note 30.2 for the FR rating mapping to international and national rating scales):

Group

N$'000	Total neither past due nor impaired	Card loans	Overdraft and managed accounts	Instalment sales and lease receivables	Home loans	Term loans	Investment bank term loans	Preference share advance	Other
2015									
FR 28 - 91	22 294 110	184 987	2 638 715	3 314 026	10 053 110	5 232 531	552 035	25 500	293 206
Above FR 92	28 753	358	23 944	3 596	850	5			
Total	22 322 863	185 345	2 662 659	3 317 622	10 053 960	5 232 537	552 035	25 500	293 206
2014									
FR 28 - 91	19 578 848	140 334	2 097 985	2 973 199	9 249 346	4 249 199	576 659	28 818	263 308
Above FR 92	101 154	865	1 760	7 281	65 833	25 416			
Total	19 680 002	141 199	2 099 745	2 980 480	9 315 179	4 274 615	576 659	28 818	263 308

32. Risk management continued

32.3 Credit quality continued

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

Group

N$'000	Investment securities	Derivatives	Cash and short term funds	Due from banks and other financial institutions	Accounts receivable	Total
International scale mapping (National equivalent):						
2015						
AAA to BB- (A to BBB)	3 201 649	158 642	288 513	1 585 029	23 498	5 257 331
Total	3 201 649	158 642	288 513	1 585 029	23 498	5 257 331
2014						
AAA to BB- (A to BBB)	2 590 969	92 031	434 436	1 766 327	26 489	4 910 251
Unrated	96 407					96 407
Total	2 687 376	92 031	434 436	1 766 327	26 489	5 006 659

The table below presents an analysis of the credit quality of neither past due nor impaired (i.e. performing) advance (refer to note 32 for the FR rating mapping to international and national rating scales):

Company

N$'000	Total neither past due nor impaired	Card loans	Overdraft and managed accounts	Instalment sales and lease receivables	Home loans	Term loans	Investment bank term loans	Preference share advance	Other
2015									
FR 28 - 91	21 751 207	184 989	2 614 586	3 338 152	9 497 183	5 245 557	552 035	25 500	293 206
Above FR 92	28 753	358	23 944	3 596	850	5			
Total	21 779 960	185 347	2 638 530	3 341 748	9 498 033	5 245 562	552 035	25 500	293 206
2014									
FR 28 - 91	19 057 380	140 334	2 097 985	2 973 199	8 727 878	4 249 199	576 659	28 818	263 308
Above FR 92	101 154	865	1 760	7 281	65 833	25 416			
Total	19 158 534	141 199	2 099 745	2 980 480	8 793 711	4 274 615	576 659	28 818	263 308

Notes to the annual financial statements
for the year ended 30 June

32. Risk management continued

32.3 Credit quality continued

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

Company

N$'000	Investment securities	Derivatives	Cash and short term funds	Due from banks and other financial institutions	Accounts receivable	Total
International scale mapping (National equivalent):						
2015						
AAA to BB- (A to BBB)	3 201 649	158 642	288 513	1 585 029	26 422	5 260 255
Total	3 201 649	158 642	288 513	1 585 029	26 422	5 260 255
2014						
AAA to BB- (A to BBB)	2 590 969	92 030	434 436	1 766 327	26 422	4 910 184
Unrated	96 407					96 407
Total	2 687 376	92 030	434 436	1 766 327	26 422	5 006 591

32. Risk management continued

32.4 Credit risk management continued

Group

	Age analysis						
			Past due but not impaired				
N$'000	Neither past due nor impaired	Renegotiated but current	1 - 30 days	One instalment	Two instalments	Impaired	Total
2015							
Advances							
- Card loans	185 345					1 257	186 602
- Home loans	10 053 960			501 095	38 099	101 645	10 694 799
- Instalment sales and lease receivables	3 317 622			14 913	3 370	21 631	3 357 536
- Investment bank term loans	552 035						552 035
- Overdraft and managed accounts	2 662 659					12 433	2 675 092
- Preference share advance	25 500						25 500
- Term loans	5 232 537			55 640	8 008	10 264	5 306 449
- Other	293 206						293 206
Sub total	22 322 863			571 648	49 477	147 230	23 091 218
Accounts receivable							
- Items in transit	82 818						82 818
- Deferred Staff cost	40 856						40 856
- Other accounts receivable	27 145						27 145
Sub total	150 819						150 819
Total	22 473 682			571 648	49 477	147 230	23 242 037

Notes to the annual financial statements
for the year ended 30 June

32. Risk management continued

32.4 Credit risk management continued

Group

N$'000	Age analysis						
			Past due but not impaired				
	Neither past due nor impaired	Renegotiated but current	1 - 30 days	One instalment	Two instalments	Impaired	Total
2014							
Advances							
- Card loans	141 199					1 043	142 242
- Home loans	9 315 179			290 252	46 863	97 089	9 749 383
- Instalment sales and lease receivables	2 980 480					15 740	2 996 220
- Investment bank term loans	576 659						576 659
- Overdraft and managed accounts	2 099 745			10 876	2 963	9 593	2 123 177
- Preference share advance	28 818						28 818
- Term loans	4 274 615			38 397	3 998	17 586	4 334 595
- Other	263 308						263 308
Sub total	19 680 002			339 525	53 823	141 051	20 214 401
Accounts receivable							
- Items in transit	31 755						31 755
- Deferred staff cost	43 684						43 684
- Other accounts receivable	27 824						27 824
Sub total	103 263						103 263
Total	19 783 265			339 525	53 824	141 051	20 317 664

32 Risk management continued

32.4 Credit risk management continued

Company

N$'000	Age analysis						
			Past due but not impaired				
	Neither past due nor impaired	Renegotiated but current	1 - 30 days	One instalment	Two instalments	Impaired	Total
2015							
Advances							
- Card loans	185 347					1 257	186 604
- Home loans	9 498 033			501 095	38 099	95 379	10 132 606
- Instalment sales and lease receivables	3 341 748			14 913	3 370	21 631	3 381 662
- Investment bank term loans	552 035						552 035
- Overdraft and managed accounts	2 638 530					12 433	2 650 963
- Preference share advance	25 500						25 500
- Term loans	5 245 562			55 640	8 008	10 264	5 319 474
- Other	293 206						293 206
Sub total	21 779 960			571 648	49 477	140 964	22 542 050
Accounts receivable							
- Items in transit	119 614						119 614
- Deferred Staff cost	40 856						40 856
- Other accounts receivable	26 614						26 614
Sub total	187 084						187 084
Total	21 967 044			571 648	49 477	140 964	22 729 134

Notes to the annual financial statements
for the year ended 30 June

32 Risk management continued

32.4 Credit risk management continued

Company

N$'000	Age analysis						
	Neither past due nor impaired	Renegotiated but current	Past due but not impaired			Impaired	Total
			1 - 30 days	One instalment	Two instalments		
2014							
Advances							
- Card loans	141 199					1 043	142 242
- Home loans	8 793 711			226 987	38 887	84 167	9 143 752
- Instalment sales and lease receivables	2 980 480					15 740	2 996 220
- Investment bank term loans	576 659						576 659
- Overdraft and managed accounts	2 099 745			10 876	2 963	9 593	2 123 177
- Preference share advance	28 818						28 818
- Term loans	4 274 614			38 397	3 998	17 586	4 334 595
- Other	263 308						263 308
Sub total	19 158 534			276 260	45 847	128 129	19 608 770
Accounts receivable							
- Items in transit	17 792						17 792
- Deferred Staff cost	43 684						43 684
- Other accounts receivable	27 068						27 068
Sub total	88 544						88 544
Total	19 247 079			276 260	45 847	128 129	19 697 315

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

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

32. Risk management continued

32.5 Liquidity risk management

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

N$'000	Group 2015			
		Term to maturity		
	Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and cash equivalents	769 832	769 832		
Due by banks and other financial institutions	1 585 029	1 585 029		
Derivative financial instruments	158 642	158 642		
Advances	22 918 838	3 836 900	1 796 974	17 284 964
Investment securities	3 201 649	829 926	1 053 831	1 317 892
Accounts receivable	23 498	23 498		
Financial assets	28 657 489	7 203 829	2 850 805	18 602 856
Non financial assets	1 092 042			
Total assets	29 749 531			
Equity and liabilities				
Deposits	24 059 315	18 013 588	4 310 340	1 735 387
Due to banks and other financial institutions	1 020 016	307 048	86 588	626 380
Short trading position	26 693	26 693		
Derivative financial instruments	172 188	172 188		
Creditors and accruals	76 862	76 862		
Other liabilities	2 060	1 041	1 019	
Tier two liabilities	392 635	2 635		390 000
Financial liabilities	25 749 770	18 600 055	4 397 947	2 751 767
Non financial liabilities	646 063			
Total liabilities	26 395 833			
Total equity	3 353 698	3 353 698		
Total equity and liabilities	29 749 531	21 953 753		
Net liquidity gap		(11 396 226)	(1 547 142)	15 851 089
Cumulative liquidity gap		(11 396 226)	(12 943 368)	2 907 722

Notes to the annual financial statements
for the year ended 30 June

32. Risk management continued

32.5 Liquidity risk management continued

N$'000	Group 2014 Carrying amount	Term to maturity Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and cash equivalents	830 189	830 189		
Due by banks and other financial institutions	1 766 327	1 766 327		
Derivative financial instruments	92 031	92 031		
Advances	20 067 543	1 919 051	851 837	17 296 655
Investment securities	2 687 376	1 325 867	1 053 831	307 678
Accounts receivable	26 489	26 489		
Financial assets	25 469 955	5 959 954	1 905 668	17 604 333
Non financial assets	758 978			
Total assets	26 228 933			
Equity and liabilities				
Deposits	21 603 391	16 640 117	3 382 850	1 580 424
Due to banks and other financial institutions	813 409	86 908	74 322	652 179
Derivative financial instruments	109 281	109 281		
Creditors and accruals	15 152	15 152		
Other liabilities	6 030	1 025	3 097	1 908
Tier two liabilities	392 622	2 622		390 000
Financial liabilities	22 939 885	16 855 105	3 460 269	2 624 511
Non financial liabilities	521 794			
Total liabilities	23 461 679			
Total equity	2 767 254			
Total equity and liabilities	26 228 933			
Net liquidity gap		(10 895 150)	(1 554 601)	14 979 823
Cumulative liquidity gap		(10 895 150)	(12 449 749)	2 530 073

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

32. Risk management continued

32.5 Liquidity risk management continued

Liquidity mismatch analysis

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

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

N$'000	Group 2015 Carrying amount	Term to maturity Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits	25 443 852	18 924 903	4 503 525	2 015 424
Due to banks and other financial institutions	1 189 440	314 386	108 207	766 847
Short trading position	26 693	26 693		
Derivative financial instruments	172 188	172 188		
Creditors and accruals	76 862	76 862		
Other liabilities	2 099	1 049	1 050	
Tier two liabilities	608 083	10 338	21 247	576 498
Financial liabilities	27 519 217	19 526 419	4 634 029	3 358 769
Off statement of financial position				
Financial and other guarantees	1 066 022	505 026	560 996	
Facilities not drawn	4 926 719	4 926 719		

Notes to the annual financial statements
for the year ended 30 June

32. Risk management continued

32.5 Liquidity risk management continued

N$'000	Group 2014 Term to maturity: Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits	22 023 774	13 836 316	2 820 754	5 366 704
Due to banks and other financial institutions	996 520	88 204	104 964	803 352
Derivative financial instruments	109 281	109 281		
Creditors and accruals	15 152	15 152		
Other liabilities	6 298	1 050	4 198	1 050
Tier two liabilities	632 626	10 116	20 582	601 928
Financial liabilities	23 783 651	14 060 119	2 950 498	6 773 034
Off statement of financial position				
Financial and other guarantees	994 696	471 235	523 461	
Facilities not drawn	3 715 345	3 715 345		

32. Risk management continued

32.5 Liquidity risk management continued

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

N$'000	Company 2015 Term to maturity: Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and cash equivalents	769 832	769 832		
Due by banks and other financial institutions	1 585 029	1 585 029		
Derivative financial instruments	158 642	158 642		
Advances	22 379 987	3 298 049	1 796 974	17 284 964
Investment securities	3 201 649	829 926	1 053 831	1 317 892
Accounts receivable	26 422	26 422		
Financial assets	28 121 561	6 667 900	2 850 805	18 602 856
Non financial assets	1 241 847			
Total assets	29 363 408			
Equity and liabilities				
Deposits	24 058 015	18 012 288	4 310 340	1 735 387
Due to banks and other financial institutions	1 020 016	307 048	86 588	626 380
Short trading position	26 693	26 693		
Derivative financial instruments	172 188	172 188		
Creditors and accruals	76 866	76 866		
Other liabilities	2 060	1 041	1019	
Tier two liabilities	392 635	2 635		390 000
Financial liabilities	25 748 473	18 598 759	4 397 947	2 751 767
Non financial liabilities	643 032			
Total liabilities	26 391 505			
Total equity	2 971 905			
Total equity and liabilities	29 363 409	18 598 759	4 397 947	2 751 767
Net liquidity gap		(11 930 859)	(1 547 142)	15 851 089
Cumulative liquidity gap		(11 930 859)	(13 478 001)	2 373 088

Notes to the annual financial statements
for the year ended 30 June

32. Risk management continued

32.5 Liquidity risk management continued

N$'000	Company 2014 Term to maturity Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Assets				
Cash and cash equivalents	830 189	830 189		
Due by banks and other financial institutions	1 766 327	1 766 327		
Derivative financial instruments	92 031	92 031		
Advances	19 471 861	1 323 369	851 837	17 296 655
Investment securities	2 687 376	1 325 867	1 053 831	307 678
Accounts receivable	26 422	26 422		
Financial assets	24 874 206	5 364 205	1 905 668	17 604 333
Non financial assets	1 008 832			
Total assets	25 883 038			
Equity and liabilities				
Deposits	21 602 073	16 638 800	3 382 850	1 580 423
Due to banks and other financial institutions	813 409	86 908	74 322	652 179
Derivative financial instruments	109 281	109 281		
Creditors and accruals	15 134	15 134		
Other liabilities	6 030	1 025	3 097	1 908
Tier two liabilities	392 622	2 622		390 000
Financial liabilities	22 938 549	16 853 770	3 460 269	2 624 510
Non financial liabilities	519 077			
Total liabilities	23 457 626			
Total equity	2 425 412			
Total equity and liabilities	25 883 038	16 853 770	3 460 269	2 624 510
Net liquidity gap		(11 489 563)	(1 554 601)	14 979 823
Cumulative liquidity gap		(11 489 563)	(13 044 162)	1 935 662

32. Risk management continued

32.5 Liquidity risk management continued

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

N$'000	Company 2015 Term to maturity Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits	25 443 852	18 924 903	4 503 525	2 015 424
Due to banks and other financial institutions	1 189 440	314 386	108 207	766 847
Short trading position	26 693	26 693		
Derivative financial instruments	172 188	172 188		
Creditors and accruals	76 866	76 866		
Other liabilities	2 099	1 049	1 050	
Tier two liabilities	608 083	10 338	21 247	576 498
Financial liabilities	27 519 221	19 526 423	4 634 029	3 358 769
Off statement of financial position				
Financial and other guarantees	1 066 022	505 026	560 996	
Facilities not drawn	4 926 719	4 926 719		

N$'000	Company 2014 Term to maturity Carrying amount	Call - 3 months	4 - 12 months	Over 12 months
Liabilities				
Deposits	22 023 774	13 836 316	2 820 754	5 366 704
Due to banks and other financial institutions	996 520	88 204	104 964	803 352
Derivative financial instruments	109 281	109 281		
Creditors and accruals	15 134	15 134		
Other liabilities	6 298	1 050	4198	1 050
Tier two liabilities	632 626	10 116	20 582	601 928
Financial liabilities	23 783 633	14 060 101	2 950 498	6 773 034
Off statement of financial position				
Financial and other guarantees	994 696	471 235	523 461	
Facilities not drawn	3 715 345	3 715 345		

Notes to the annual financial statements
for the year ended 30 June

32. Risk management continued

32.6 Foreign currency

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

N$'000	Group 2015 Currency concentration Total amount	NAD	USD	EUR	Other
Assets					
Cash and cash equivalents	769 832	693 060	51 159	6 868	18 745
Due by banks and other financial institutions	1 585 029	570 534	931 719	73 903	8 873
Derivative financial instruments	158 642	90 311	51 092	11 475	5 764
Advances	22 918 838	22 177 062	741 776		
Investment securities	3 201 649	3 201 649			
Accounts receivable	23 498	23 498			
Financial assets	28 657 488	26 756 114	1 775 746	92 246	33 383
Non financial assets	1 092 043	1 092 043			
Total assets	29 749 531	27 848 157	1 775 746	92 246	33 383
Equity and liabilities					
Deposits	24 059 315	22 784 457	889 486	381 899	3 473
Due to banks and other financial institutions	1 020 016	278 393	741 623		
Short trading position	26 693	26 693			
Derivative financial instruments	172 188	104 789	50 624	11 082	5 693
Creditors and accruals	76 862	76 862			
Other liabilities	2 060	2 060			
Tier two liabilities	392 635	392 635			
Financial liabilities	25 749 770	23 665 889	1 681 733	392 981	9 166
Non financial liabilities	646 063	646 063			
Total liabilities	26 395 833	24 311 952	1 681 733	392 981	9 166
Total equity	3 353 698	3 353 698			
Total equity and liabilities	29 749 531	27 665 650	1 681 733	392 981	9 166

32. Risk management continued

32.6 Foreign currency continued

N$'000	Group 2014 Currency concentration Total amount	NAD	USD	EUR	Other
Assets					
Cash and cash equivalents	830 189	764 843	59 456	5 160	730
Due by banks and other financial institutions	1 766 327	984 456	727 836	51 128	2 907
Derivative financial instruments	92 031	4 912	51 005	8 372	27 742
Advances	20 067 543	19 316 122	751 421		
Investment securities	2 687 376	2 687 376			
Accounts receivable	26 489	26 489			
Financial assets	25 469 955	23 784 199	1 589 718	64 660	31 379
Non financial assets	758 978	758 978			
Total assets	26 228 933	24 543 177	1 589 718	64 660	31 379
Equity and liabilities					
Deposits	21 603 391	20 911 636	639 127	51 299	1 329
Due to banks and other financial institutions	813 409	62 481	750 928		
Derivative financial instruments	109 281	22 945	50 910	7 848	27 578
Other Liabilities	15 152	15 152			
Creditors and accruals	6 030	6 030			
Tier two liabilities	392 622	392 622			
Financial liabilities	22 939 886	21 410 866	1 440 965	59 147	28 907
Non financial liabilities	521 794	521 794			
Total liabilities	23 461 680	21 932 660	1 440 965	59 147	28 907
Total equity	2 767 256	2 767 258			
Total equity and liabilities	26 228 933	24 699 916	1 440 965	59 147	28 907

Notes to the annual financial statements
for the year ended 30 June

32. Risk management continued

32.6 Foreign currency continued

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

	Company				
	2015				
	Currency concentration				
N$'000	Total amount	NAD	USD	EUR	Other
Assets					
Cash and cash equivalents	769 832	693 060	51 159	6 868	18 745
Due by banks and other financial institutions	1 585 029	570 534	931 719	73 903	8 873
Derivative financial instruments	158 642	158 642			
Advances	22 379 987	21 638 211	741 776		
Investment securities	3 201 649	3 201 649			
Accounts receivable	26 422	26 422			
Financial assets	28 121 561	26 288 517	1 724 654	80 771	27 619
Non financial assets	1 241 848	1 241 848			
Total assets	29 363 408	27 530 364	1 724 654	80 771	27 619
Equity and liabilities					
Deposits	24 058 014	22 783 156	889 486	381 899	3 473
Due to banks and other financial institutions	1 020 016	278 393	741 623		
Short trading position	26 693	26 693			
Derivative financial instruments	172 188	104 789	50 624	11 082	5 693
Creditors and accruals	76 866	76 866			
Other liabilities	2 060	2 060			
Tier two liabilities	392 635	392 635			
Financial liabilities	25 748 472	23 791 988	1 681 733	392 981	9 166
Non financial liabilities	643 032	643 032			
Total liabilities	26 391 504	24 435 020	1 681 733	392 981	9 166
Total equity	2 971 904	2 971 904			
Total equity and liabilities	29 363 408	27 406 924	1 681 733	392 981	9 166

32. Risk management continued

32.6 Foreign currency continued

	Company				
	2014				
	Currency concentration				
N$'000	Total amount	NAD	USD	EUR	Other
Assets					
Cash and cash equivalents	830 189	764 843	59 456	5 160	730
Due by banks and other financial institutions	1 766 327	984 456	727 836	51 128	2 907
Derivative financial instruments	92 031	4 912	51 005	8 372	27 742
Advances	19 471 861	18 720 440	751 421		
Investment securities	2 687 376	2 687 376			
Accounts receivable	26 422	26 422			
Financial assets	24 874 206	23 188 449	1 589 718	64 660	31 379
Non financial assets	1 008 832	1 008 832			
Total assets	25 883 038	24 197 281	1 589 718	64 660	31 379
Equity and liabilities					
Deposits	21 602 073	20 910 318	639 127	51 299	1 329
Due to banks and other financial institutions	813 409	62 481	750 928		
Derivative financial instruments	109 281	22 945	50 910	7 848	27 578
Other Liabilities	6 030	6 030			
Creditors and accruals	15 134	15 134			
Tier two liabilities	392 622	392 622			
Financial liabilities	22 938 548	21 409 530	1 440 965	59 147	28 907
Non financial liabilities	519 077	519 077			
Total liabilities	23 457 626	21 928 607	1 440 965	59 147	28 907
Total equity	2 425 412	2 425 412			
Total equity and liabilities	25 883 038	24 354 019	1 440 965	59 147	28 907

Notes to the annual financial statements
for the year ended 30 June

32. Risk management continued

32.7 Repricing

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

	Group				
	2015				
	Repricing profile				
N$'000	Carrying amount	<3 months	>3 but ≤ 12 months	> 12 months	Non rate sensitive
Total assets	29 749 531	24 905 772	1 528 868	1 155 105	2 159 786
Total equity and liabilities	29 749 531	22 374 795	3 020 500	275 740	4 078 496
Net repricing gap		2 530 977	(1 491 632)	879 365	(1 918 710)
Cumulative repricing gap		2 530 977	1 039 345	1 918 710	

	Group				
	2014				
	Repricing profile				
N$'000	Carrying amount	<3 months	>3 but ≤ 12 months	> 12 months	Non rate sensitive
Total assets	26 228 933	23 221 379	1 115 557	472 914	1 419 083
Total equity and liabilities	26 228 933	20 158 859	2 492 037	267 807	3 310 230
Net repricing gap		3 062 520	(1 376 480)	205 107	(1 891 147)
Cumulative repricing gap		3 062 520	1 686 040	1 891 147	

32. Risk management continued

32.7 Repricing continued

	Company				
	2015				
	Repricing profile				
N$'000	Carrying amount	<3 months	>3 but ≤ 12 months	> 12 months	Non rate sensitive
Total assets	29 363 408	24 905 772	1 528 868	1 155 105	1 773 663
Total equity and liabilities	29 363 408	22 374 795	3 020 500	275 740	3 692 373
Net repricing gap		2 530 977	(1 491 632)	879 365	(1 918 710)
Cumulative repricing gap		2 530 977	1 039 345	1 918 710	

	Company				
	2014				
	Repricing profile				
N$'000	Carrying amount	<3 months	>3 but ≤ 12 months	> 12 months	Non rate sensitive
Total assets	25 883 038	22 625 696	1 115 557	472 914	1 668 871
Total equity and liabilities	25 883 038	20 157 542	2 492 037	267 807	2 965 652
Net repricing gap		2 468 154	(1 376 480)	205 107	(1 296 781)
Cumulative repricing gap		2 468 154	1 091 674	1 296 781	

Notes to the annual financial statements
for the year ended 30 June

32. Risk management continued

32.8 Average balances and effective interest rates

Group	2015			2014		
	Average balance	Average rate	Interest income/ expense	Average balance	Average rate	Interest income/ expense
N$'000	N$'000	%	N$'000	N$'000	%	N$'000
Assets						
Cash and cash equivalents, including balance with banks	3 525 763	2.8	98 941	2 874 133	2.5	72 064
Advances	21 485 104	9.8	2 113 365	18 470 004	9.1	1 689 661
Investment securities	3 046 554	6.5	199 500	2 555 689	5.8	147 299
Interest-earning assets	28 057 421	8.6	2 411 806	23 899 826	8.0	1 909 025
Non-interest-earning assets	980 936			816 720		
Total Assets	29 038 357	8.3	2 411 806	24 716 546	7.7	1 909 025
Liabilities						
Deposits and current accounts, balance due to banks	24 888 463	3.7	930 562	21 165 554	3.5	742 857
Tier two liabilities	393 968	8.0	31 325	393 868	7.4	29 259
Interest-earning liabilities	25 282 431	3.8	961 887	21 559 422	3.6	772 116
Non-interest-earning bearing liabilities	609 570			565 267		
Total liabilities	25 892 001	3.7	961 887	22 124 689	3.5	772 116
Total equity	3 047 401			2 591 858		
Total equity and liabilities	28 939 402	3.3	961 887	24 716 547	3.1	772 116

32. Risk management continued

32.8 Average balances and effective interest rates

Company	2015			2014		
	Average balance	Average rate	Interest income/ expense	Average balance	Average rate	Interest income/ expense
N$'000	N$'000	%	N$'000	N$'000	%	N$'000
Assets						
Cash and cash equivalents, including balance with banks	3 525 763	2.8	98 941	2 874 133	2.5	72 064
Advances	20 916 235	9.8	2 046 706	17 843 141	9.2	1 643 144
Investment securities	3 046 554	6.5	199 500	2 555 689	5.8	147 299
Interest-earning assets	27 488 551	8.5	2 345 147	23 272 963	8.0	1 862 507
Non-interest-earning assets	960 685			1 123 147		
Total Assets	28 449 236	8.2	2 345 147	24 396 110	7.6	1 862 507
Liabilities						
Deposits and current accounts, balance due to banks	24 887 301	3.7	930 562	21 164 303	3.5	742 857
Tier two liabilities	393 968	8.0	31 325	393 868	7.4	29 259
Interest-earning liabilities	25 281 268	3.8	961 887	21 558 171	3.6	772 116
Non-interest-earning bearing liabilities	476 810			565 224		
Total liabilities	25 758 078	3.7	961 887	22 123 395	3.5	772 116
Total equity	2 691 158			2 272 715		
Total equity and liabilities	28 449 236	3.4	961 887	24 396 110	3.2	772 116

Notes to the annual financial statements
for the year ended 30 June

32. Risk management continued

32.9 Sensitivity analysis

Net interest income sensitivity

Assuming no management intervention, a parallel 200 (2014: 200) basis point increase in all yield curves would increase the forecast net interest income for the next year by N$157.3 million (2014: N$181.75 million), while a parallel decrease in all yield curves would decrease the forecast income by N$164.9 million (2014: N$181.75 million).

Foreign currency risk sensitivity analysis

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

Capital management

Capital management

The group is committed to maintaining a sound capital base to support the risks associated with its diversified business. Strong capital levels contribute to safeguarding operations and interests of the group's stakeholders, foster investor confidence and support strong credit ratings. It also allows the group to take advantage of growth opportunities as they arise and embed sustainable shareholders' returns.

Governance and oversight

Capital is managed in accordance with the board-approved capital management framework that sets the optimal level and composition of capital, as well as the internal capital adequacy assessment process (ICAAP). These have common objectives, aimed at ensuring that the group's capital is adequate to meet current and future risks as well as positioning the group to achieve the board approved strategic objectives.

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

Planning, managing and monitoring capital

FNB's capital is managed and monitored based on the group's strategy, identified changes in the operating and regulatory environment or in risk profile. As part of FNB's comprehensive ICAAP, sources and uses of capital are periodically measured and monitored through performance measurement tools.

The group's assessment of capital adequacy is in the context of its current position, expected future risk profile and the group's position relative to its internal targets while considering the potential impact of various stress scenarios. Specific scenarios are selected based on the current economic conditions and business events facing the group. In addition, the group's forward looking capital adequacy assessment includes a consideration of the results of more severe scenarios within its stress testing. This testing is used to determine the extent to which severe, but plausible events, impact the group's capital.

The group sets internal regulatory targets to ensure the available capital is sufficient within the context of its risk appetite. In addition, the internal target includes an adequate buffer over the regulatory minimum ensuring sufficient flexibility in consideration of the ICAAP stress testing scenarios. The latest ICAAP indicates an internal capital target of 14.2%, marginally higher than the previous year's 14.0% and against the regulatory minimum of 10%. This internal target of 14.2% was approved by the board.

The year under review

Capital was primarily generated through earnings, net of dividend payments. No tier 2 notes were issued during the year given the strong level of capitalisation and internal targets being met.

All major initiatives to deploy capital are subject to rigorous analysis, validation for business case and evaluation of expected benefits. Higher growth in assets continues to increase the credit risk weighted assets in accordance with the strategic direction and risk appetite of the group.

Regulatory capital and ratios

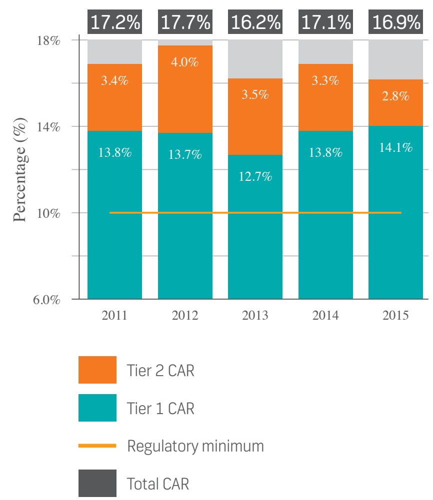
Capital adequacy standards for banks in Namibia are regulated by the Bank of Namibia. These standards are largely consistent with international standards set by the Basel Committee on Banking Supervision (BCBS).

The three primary regulatory risk based capital ratios in Namibia are tier 1 capital ratio, total capital ratio and leverage ratio. The capital ratios are determined by dividing capital components by risk weighted assets and the leverage is determined by dividing with gross assets. The current leverage calculation does not include off balance sheet items as required under Basel III

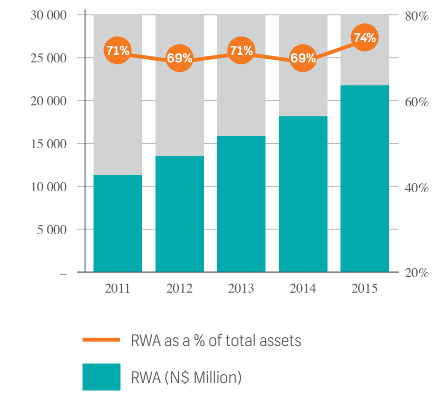
On a regulatory consolidated group level, the group maintained solid capital ratios throughout the year, comfortably exceeded the minimum required on a consolidated basis of 7 percent and 10% percent respectively. Refer to the table on the next page for the year end capital position of the banking operations as well as the regulatory consolidated group.

Our leverage ratio stood at 10.4%, reflecting a slight increase of from June 2014, mainly highlighting the quality of assets on balance sheet and the growth thereof.

Capital adequacy compliance



Risk weighted asset history



Regulatory developments

Following a consultative meeting between BoN and the industry in April 2015, BON announced its decision to adopt Basel III standards in Namibia for banking institutions that are considered Domestic Systemic Important Banks (DSIBs). BoN will be drafting the required Determination during the first half of 2016, in consultation with the industry and the Quantitative Impact Study (QIS) taking place during the second half of the same year. The final Determination is expected to be issued towards December 2016 with effective date of 1 July 2017. As with the Basel II preparations, BoN will be collaborating with the industry to assess the possible impacts and adopt the proposals set forth in the Basel Committee on Banking Supervision's document "Basel III: A global framework for more resilient banks and banking systems'.

FNB supports the imminent adoption of Basel III by BoN. As a subsidiary of a South African banking group, FNB adopted Basel III on 1 January 2013 and has been reporting on this basis to the South African Reserve Bank (SARB). FNB is expected to meet these new requirements in line with the stated timeline.

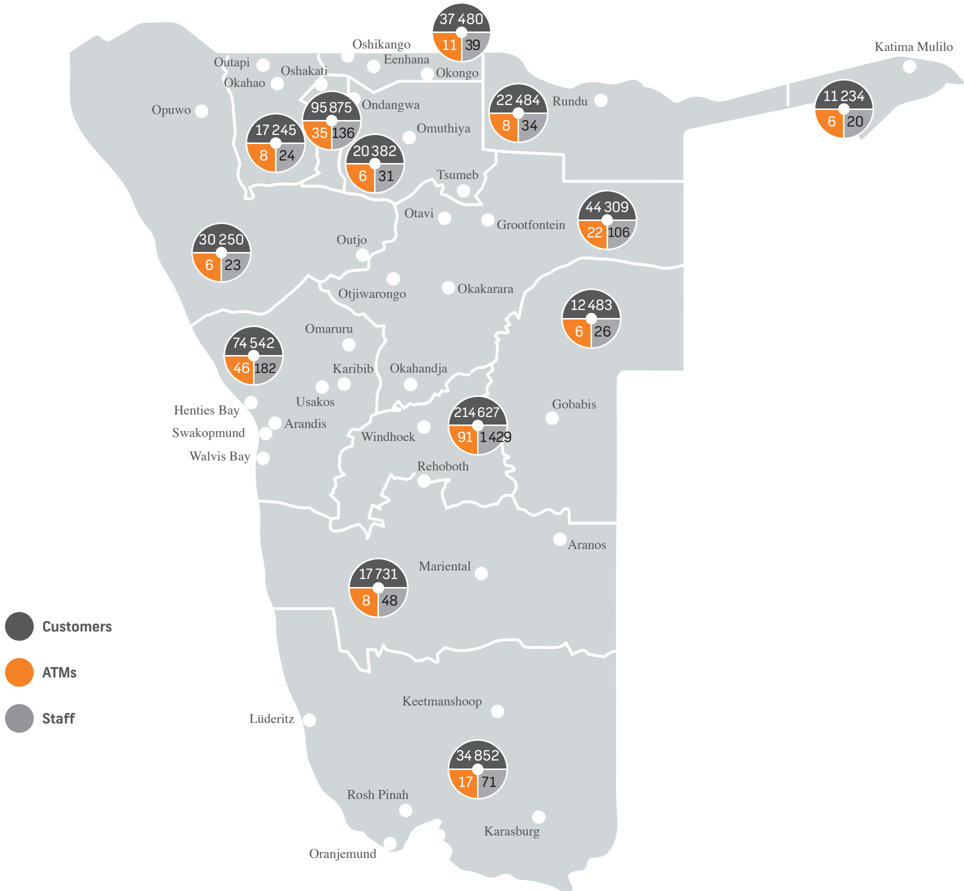
Outlook

In terms of the business plan and forecast, the group is confident of remaining well capitalised going forward. Capital will be prudently managed to support organic growth initiatives to enhance shareholder returns, while maintaining full compliance with evolving regulatory changes.

Capital adequacy of FNB

	Banking operations	
	Year ended 30 June	Year ended 30 June
N$ million	2015	2014
Risk weighted assets		
Credit risk	18 468	15 666
Market risk	605	35
Operational risk	2 823	2 335
Total risk weighted assets	21 896	18 036
Regulatory capital		
Share capital and share premium	1 143	1 143
Retained profits	2 090	1 498
50% investment in deconsolidated entities		
Capital impairment: intangible assets	(141)	(157)
Total tier 1	3 092	2 484
Eligible subordinated debt	390	390
50% investment in deconsolidated entities		
General risk reserve, including portfolio impairment	232	201
Total tier 2	622	591
Total tier 1 and tier 2 capital	3 714	3 075
Capital adequacy ratios		
Tier 1	14.1%	13.8%
Tier 2	2.8%	3.3%
Total	16.9%	17.1%
Tier 1 leverage ratio	10.4%	9.5%

How we serve Namibia



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