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

Unaudited condensed consolidated financial results for the interim reporting period ended 31 December 2016

Contents

FIRST NATIONAL BANK OF NAMIBIA LIMITED
(Incorporated in the Republic of Namibia)
(Registration number: 2002/0180)
("First National Bank of Namibia" or "the Company")

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

PROFIT FOR THE PERIOD N$572.9 MILLION   RETURN ON AVERAGE EQUITY 29.4%

OVERVIEW OF PERFORMANCE

The performance of the Namibian economy has been widely reported on during the past six months. Following the last few years of flourishing growth, stimulated by pro-cyclical fiscal spending and foreign investment in new mines and infrastructure, several headwinds have brought a chill to the economy. The economic growth forecast for 2016 has been revised downwards by government and most research houses.

For the period under review, the economy is challenged by lower commodity prices, severe drought conditions, weaker global and regional growth and a sudden slump in the construction and manufacturing sector.

First National Bank of Namibia performance for the six months ended 31 December 2016 reflects the impact of the macroeconomic environment.
Profit for the period is N$572.9million (2015: N$575.5 million).
Core operations have performed well:

- Active accounts are up 9%
- Electronic channels: eWallets growth of 44% and point of sale transactions grew 12%
- Advances growth of 8.2%

However performance is dragged by the increased cost of funding in the current tighter liquidity environment and investment in risk management.
Normalised earnings for the period increased by 7% compared to the prior period, after adjusting for Kwanza trading in the base, @Parkside building depreciation and fair value income volatility.
Other key ratios reflect a similar trend. Return on average equity was 29.4% (2015: 34.3%), return on average assets at 3.4% (2015: 3.5%) and cost to income ratio at 46.1% (2015: 41.4%).

STATEMENT OF COMPREHENSIVE INCOME

INTEREST

The repo rate in Namibia was unchanged at 7% during the period. Net interest income increased by 8.5% to N$883.9 million (2015: N$814.6million). Margins have not expanded to the degree previously experienced when interest rates increased. This is mostly due to an increase in the average cost of deposits, resulting in margin squeeze. Interest expense increased by 26.6% compared to interest income growth of 15.9%.

IMPAIRMENT LOSSES

The quality of the advances book remains healthy. The total impairment charge was N$13.4 million (2015: N$32.4 million), amounting to a 0.05% (2015: 0.13%) charge of average advances for the first six months of the financial year.

All non-performing loans have been fully provided for after consideration of the value of security held.

NON-INTEREST REVENUE

Non-interest revenue increased by 5.3% to N$741.6 million (2015: N$704.0 million). Net fee and commission income have increased by 11.5%.

Our continuous focus remains on growing our customer base to grow transactional revenue. The year on year customer numbers have increased by 5%. The success of our strategy of migrating customers to electronic channels is evidenced by the electronic transactions that have increased at 21%, while traditional branch volumes decreased by 8%. Although this erodes our revenue to a certain extent, it is aligned to provide efficient, sustainable and affordable banking.

Cheque value limits were reduced in February 2016 to N$100 000 resulting in a reduction of cheques processed in the company network by 39%, impacting non-interest revenue.

Fair value income decreased to N$74.5 million (2015: N$108.3 million), because of the discontinued foreign exchange trade in Kwanza with Angola in the first half of the prior period. Positive contribution was gained by instruments carried at fair value. The increase in the fair value adjustment was mainly due to changes in the interest rate curve which supports these instruments.

OPERATING EXPENSES

In recent months, the headline inflation rate kept close to 7% year on year and we expect price pressures to remain elevated in 2017.

Total operating expenses growth of 19.2% to N$749.3 million (2015: N$628.8 million) is reflective of continued local investment, including systems, infrastructure and regulatory support requirements.

The main cost contributors were:

• Staff associated costs making up more than 50% of total costs grew 23.4% to N$414.2 million (2015: N$335.7 million) comprising:

• Growth in staff numbers at 9.2%, mainly driven by our focus on capacity-building in the risk and compliance team.

• The minimum non-managerial annual salary increase that was agreed with the union resulted in an average salary increase of 8.6%.

• The KYC project head count number growth including temporary staff.

• Regulatory and compliance projects such as KYC contributed to the cost growth with its related premises, IT and professional fees.

• IT costs increased by 14.2% to N$110.1 million showing our ongoing investment in systems and delivery channels.

• The considerable rental costs attributable to ATMs are in line with the continuous drive to expand our self-service footprint. We have installed 32 additional ADT devices, the new generation deposit-taking ATMs, since December 2015. Associated data line and guarding costs were also incurred. The company also rents the Windhoek branch, which was an owner-occupied building in the prior period.

• Depreciation has increased 18.1% to N$33.7 million (2015: N$28.6 million) owing to the new @Parkside building and related furnishing which the company occupied for only 3 months in the prior period vs. 6 months in the current period.

STATEMENT OF FINANCIAL POSITION

ADVANCES

Encouraging growth trends in advances continued into the 2017 financial year. Gross advances for the period grew 8.2% to N$27.2 billion. The growth trend is in line with private credit extension, which in November grew by 9.4%.

Term loans have increased by 16.5% to N$7.4 billion, reflecting excellent growth in facilitating business transactions. Overdrafts increased by 5.6% to N$2.8 billion reflecting moderate exposure across the market.

FNB's home loan book has surpassed the N$12 billion mark, growing at 6.3%. Home loans credit extension for individuals accelerated to 11% in November. This represents 45.2% (2015: 46.0%) of FNB's advances book. This is not regarded as a concentration risk because of the established and active Namibian property market. On average the loan to value ratio is close to 70%, which is reflective of the good quality of the book.

WesBank achieved asset growth of 5.7%,evidencing the slow-down in vehicle sales and aggressive competition; and growth in vehicle asset financing was also impacted by the amendment of the credit agreement act which came into effect in August 2016. WesBank does however remain the market leader in vehicle financing.

The percentage of non-performing loans to gross advances increased to 1.01% (2015: 0.92%). Non-performing loans increased to N$272.4 million (2015: N$231.9 million). Balance sheet provision of advances has increased by a lesser degree from N$184.2 million to N$190.4 million, signifying that the non-performing book is appropriately secured.

DEPOSITS AND FUNDING

Reduced liquidity in the industry is reflected in the growth of our deposits, with deposits only increasing by 8.0% to N$27.8 billion and the loan-to-deposit ratio moving to 93.7%. The slower growth in customer deposits, particularly influenced by large corporate clients, was augmented by the issuance of additional NCD's in the professional market. Diversification of both source and term funding remain focus areas in order to reduce liquidity pressure and concentration risk.

CAPITAL MANAGEMENT

FNB remains well-capitalised with a total capital adequacy of 17.2% - comparable to the December 2015 figure. This is well above the regulatory requirement of 10% and internal board approved target of 14.2%. Economic risk is still backed by a strong Tier 1 capital level of 13.4% (2015: 13.1%). The company seeks to hold limited excess capital, unless required to support business growth plans and future regulatory changes.

DIVIDEND STRATEGY

Following the review of the annual Internal Capital Adequacy Assessment Process (ICAAP), the dividend cover remains unchanged by board. The dividend cover range for the Company is between 1.8x to 3.0x and the cover for 2016 was 2.0x (2015: 2.0x). The board considered this to be both appropriate and prudent as all of the company's buffers will remain intact.

The appropriateness of the level of dividend payout is re-evaluated on an annual basis, considering actual performance, demand for capital, macroeconomic conditions and regulatory changes. The interim dividend is in line with earnings. The company, expects growth in dividend for the full year to track normalised earnings more closely.

EVENTS SUBSEQUENT TO THE REPORTING DATE

The directors are not aware of any material events, as defined in IAS 10, occurring between 31 December 2016 and the date of authorisation of the results announcement.

BOARD CHANGES

During the period under review Mr. MN Ndilula, resigned from the Board of First National Bank of Namibia Ltd on 27 October 2016 to pursue personal interests.

COMPANY PROSPECTS

We anticipate operating conditions to become more demanding - in both the economic and regulatory environment. However, we believe our strong balance sheet, diversified earnings base and innovative proposals in presenting cost effective and efficient banking to consumer, business and corporate clients, will ensure a sustainable performance.

For and on behalf of the board

II Zaamwani-Kamwi, Chairperson   SJ van Zyl, Chief Executive

31 January 2017

Directors: I I Zaamwani-Kamwi (Chairperson), S H Moir[2] (Deputy chairperson), O L P Capelao, C L R Haikali, L J Haynes[1], Adv G S Hinda, J R Khethe[1], E S Motala[1], P T Nevonga, S J van Zyl (Chief executive).

[1]South African

[2]South African with Namibian Permanent Residence

Registered office: @Parkside, 130 Independence Avenue, P O Box 195, Windhoek, Namibia, Registration No. 2002/0180

Auditor: Deloitte & Touche Registered Accountants and Auditors, Chartered Accountants (Namibia), P O Box 47, Windhoek, Namibia, ICAN practice No. 9407

Sponsor: IJG Securities (Pty) Ltd, First Floor Heritage Square, 100 Robert Mugabe Avenue, P O Box 186, Windhoek, Namibia, Registration No. 95/505

www.fnbnamibia.com.na

> Condensed consolidated statement of comprehensive income

N$'000	Notes	Unaudited Six months ended 31 December 2016	Unaudited Six months ended 31 December 2015	Audited Year ended 30 June 2016
Interest and similar income	2	1 597 171	1 378 197	2 870 227
Interest expense and similar charges	2	(713 242)	(563 600)	(1 218 962)
Net interest income before impairment of advances		**883 929**	**814 598**	**1 651 265**
Impairment of advances		(13 394)	(32 431)	(47 850)
Net interest income after impairment of advances		**870 535**	**782 167**	**1 603 415**
Non-interest revenue	3	741 593	704 055	1 349 135
Income from operations		**1 612 129**	**1 486 221**	**2 952 550**
Operating expenses	4	(749 341)	(628 785)	(1 310 950)
Net income from operations		**862 788**	**857 437**	**1 641 600**
Share of profit from associates after tax		1 380	524	1 328
Income before tax		**864 168**	**857 961**	**1 642 928**
Indirect tax		(18 651)	(15 975)	(31 232)
Profit before tax		**845 517**	**841 985**	**1 611 696**
Direct tax		(272 650)	(266 515)	(513 385)
Profit for the period		**572 867**	**575 471**	**1 098 311**
Other comprehensive income for the period				
Items that will not be reclassified to profit and loss				**(3 260)**
Remeasurements on net defined benefit liability / asset				(4 835)
Income tax relating to items that will not be reclassified				1 575
Items that may subsequently** be **reclassified to profit and loss		**(31 860)**	**(31 873)**	**(8 628)**
Available-for-sale financial assets		(40 615)	(55 150)	(12 688)
Income tax relating to items that will be reclassified		8 755	23 277	4 060
Total comprehensive income for the period		**541 007**	**543 598**	**1 086 423**
Profit for the period attributable to:				
Ordinary shareholders		572 867	575 471	1 098 311
Total comprehensive income for the period attributable to:				
Ordinary shareholders		541 007	543 598	1 086 423

> Condensed consolidated statement of financial position

N$'000	Notes	Unaudited as at 31 December 2016	Unaudited as at 31 December 2015	Audited as at 30 June 2016
Assets				
Cash and cash equivalents		1 924 968	1 062 999	2 093 611
Due from banks and other financial institutions		645 027	1 967 833	1 772 268
Derivative financial instruments		144 647	322 047	209 495
Investment securities		3 672 273	2 852 133	3 062 515
Advances	5	27 045 218	25 005 762	25 876 231
Accounts receivable		139 161	248 049	104 072
Investments in associate		6 433	4 249	5 054
Property and equipment		946 282	877 445	919 682
Intangible assets		121 413	133 205	127 134
Total assets		**34 645 420**	**32 473 722**	**34 170 062**
Equity and liabilities				
Liabilities				
Short trading positions		43 906	32 386	36 927
Derivative financial instruments		160 463	308 682	219 454
Creditors and accruals		233 335	261 030	341 485
Tax liability		326 585	104 106	53 614
Deposits	6.1	27 834 304	25 770 804	28 004 707
Due to banks and other financial institutions	6.2	1 117 884	1 748 608	800 972
Employee liabilities		159 969	133 348	186 924
Deferred income tax liability		205 328	103 342	212 550
Tier two liabilities		392 723	392 706	392 654
Total liabilities		**30 474 498**	**28 855 011**	**30 249 287**
Capital and reserves attributable to ordinary equity holders of parent		4 170 923	3 618 710	3 920 775
Total equity		4 170 923	3 618 710	3 920 775
Total equity and liabilities		**34 645 420**	**32 473 722**	**34 170 062**

> Condensed consolidated statement of changes in equity

N$'000	Attributable to equity holders of the parent Unaudited Six months ended 31 December 2016	 2015	 Audited Year ended 30 June 2016
Balance at beginning of the period	**3 920 775**	**3 353 698**	**3 353 698**
Total comprehensive income for the period	541 007	543 598	1 086 423
Share option costs	3 031	4 278	6 985
Consolidation of share trusts	11 754	(348)	(305)
Dividends paid	(305 645)	(282 516)	(526 026)
Balance at end of the period	**4 170 922**	**3 618 710**	**3 920 775**

[1] includes general risk reserve

> Condensed consolidated statement of cash flows

N$'000	Unaudited Six months ended 31 December 2016	 2015	Audited Year ended 30 June 2016
Net cash generated from operations	212 632	983 265	2 443 850
Tax paid	(18 329)	(226 527)	(431 139)
Net cash flow from operating activities	194 303	756 738	2 012 711
Net cash flow from investing activities	(60 332)	(185 333)	(160 846)
Net cash flow from financing activities	(302 614)	(278 238)	(528 086)
Net increase in cash and cash equivalents	**(168 643)**	**293 167**	**1 323 779**
Cash and cash equivalents at beginning of the period [1]	2 093 611	769 832	769 832
Cash and cash equivalents at end of the period	**1 924 968**	**1 062 999**	**2 093 611**

[1] includes mandatory reserve deposits with central bank

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

1. Basis of preparation

The group prepares its condensed consolidated interim financial statements in accordance with International Financial Reporting Standards (IFRS) and the Namibian Companies Act and these are presented in accordance with measurement and recognition prescribed by IAS 34: Interim Financial Reporting. The accounting policies applied in the preparation of the condensed interim consolidated financial statements are in term of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statement, except for the adoption of the following new and revised IFRS requirements effective for the current financial period:

The IASB issued the Annual Improvements 2012-2014 Cycle. The annual improvements project includes amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34. The annual improvement project's aim is to clarify and improve accounting standards.

The amendments have been assessed and are not expected to have a significant impact on the group

The adoption of the abovementioned standards and interpretations did not have any significant impact on the group.

The estimates and judgements made in applying the accounting accounting policies are consistent with those applied and disclosed in the annual financial statements for the year ended 30 June 2016.

The condensed consolidated interim results for the six months ended 31 December 2016 have not been audited nor independently reviewed by the group's external auditors.

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

2. Analysis of interest income and interest expense

N$'000	Six month ended December 2016	Six month ended December 2015	Year ended June 2016
Interest and similar income			
- Advances	1 412 466	1 213 364	2 537 801
- Cash and cash equivalents	36 321	35 729	91 279
- Investment securities	131 952	103 272	210 853
- Unwinding of discounted present value on non performing loans	9 413	13 637	6 782
- Unwinding of discounted present value on off-market advances	1 479	920	1 910
- On impaired advances	(8 122)	(4 944)	(12 326)
- Net release of deferred fee and expenses	10 345	12 421	25 789
- Other	3 318	3 799	8 139
	1 597 171	**1 378 197**	**2 870 227**
Interest expense and similar charges			
- Deposits from banks and financial institutions	(26 056)	(21 473)	(48 076)
- Current accounts	(51 980)	(54 430)	(111 157)
- Savings deposits	(6 886)	(5 869)	(12 131)
- Call deposits	(123 410)	(108 648)	(230 899)
- Term deposits	(191 799)	(122 740)	(272 440)
- Negotiable certificates of deposit	(286 677)	(234 430)	(511 346)
- Tier two liabilities	(17 582)	(16 009)	(32 913)
- Fixed and floating rate notes	(8 853)		
	(713 242)	**(563 600)**	**(1 218 962)**

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

3 Non-interest revenue N$'000	Six month ended December 2016	Six month ended December 2015	Year ended June 2016
Fee and commission income:			
- Card commissions	78 675	65 399	131 262
- Cash deposit fees	58 130	59 808	110 408
- Commissions: bills, drafts and cheques	16 685	15 028	27 783
- Bank charges	558 795	493 596	976 817
- Fiduciary service fees	0	647	647
Fee and commission income	**712 286**	**634 478**	**1 246 916**
Fee and commission expenses:			
- Transaction processing fees	(42 530)	(32 222)	(69 877)
- Cash sorting handling and transportation charges	(7 184)	(10 191)	(18 971)
- Card and cheque book related	(1 912)	(1 064)	
- ATM commissions paid	(4 130)	(2 426)	(5 888)
- Other	(2 100)	(1 354)	(2 916)
Fee and commission expenses	**(57 857)**	**(47 257)**	**(97 652)**
Net fee and commission income	**654 429**	**587 221**	**1 149 264**

Non banking fee and commission income earned relates to fees and commissions earned for rendering services to clients other than those related to the banking operations. This includes commission earned on the sale of insurance products.

Fair value income:			
- Foreign exchange trading	45 325	71 044	117 131
- Treasury trading operations	1 384	28 394	3 215
- Designated at fair value through profit or loss	27 789	8 859	52 887
Fair value income	**74 499**	**108 296**	**173 233**
Gains less losses from investing activities			
- Gains on investment securities designated at fair value through profit or loss	5 947	8 206	14 304
- Share of profit from associates after tax	1 380	524	1 328
Gross gains less losses from investing activities	7 327	8 730	15 632
Less : Share of profit from associates after tax (disclosed separately on face of the statement of comprehensive income)	(1 380)	(524)	(1 328)
Gains less losses from investing activities	**5 947**	**8 206**	**14 304**
Other non-interest income			
- Gains and losses on sale of property and equipment	(32)	(185)	(634)
- Rental income	4 813	67	5 911
- Other income	1 937	449	7 057
Other non-interest revenue	**6 718**	**331**	**12 334**
Total non-interest revenue	**741 593**	**704 055**	**1 349 135**

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

4 Operating expenses

N$'000	Six month ended December 2016	Six month ended December 2015	Year ended June 2016
Auditors' remuneration			
- Audit fees	3 187	2 332	5 183
- Fees for other services			555
Auditors' remuneration	**3 187**	**2 332**	**5 738**
Operating lease charges			
- Property	21 064	16 884	37 393
- Equipment	10 453	6 357	13 561
Operating lease charges	**31 517**	**23 241**	**50 954**
Staff costs			
- Salaries, wages and allowances	319 457	263 105	543 856
- Off-market staff loans amortisation	1 479	920	1 910
- Defined contribution schemes: pension	33 826	27 292	55 788
- Defined contribution schemes: medical	39 798	32 891	69 659
- Post retirement medical expense	1 857	2 355	3 170
- Severance pay: death in service	110	350	721
- Social security levies	1 072	956	1 965
- Skills development levies	4 323	3 535	6 651
- Share-based payments	12 245	4 278	13 324
Total staff costs	**414 166**	**335 682**	**697 045**
Other operating costs			
- Amortisation of intangible assets	5 723	7 806	13 876
- Depreciation	33 731	28 553	60 519
- Insurance	3 754	3 594	7 634
- Advertising and marketing	28 308	25 573	53 407
- Property and maintenance related expenses	35 124	33 839	68 137
- Legal and other related expenses	5 186	4 145	8 684
- Postage	1 691	2 087	3 938
- Stationery and printing	7 828	6 603	15 482
- Telecommunications	9 498	9 846	18 601
- Travel and accommodation	10 358	6 759	16 215
- Computer and processing related costs	110 139	96 419	196 394
- Other operating expenditure	43 005	37 665	80 772
- Total directors' remuneration	3 508	2 353	6 195
- Professional fees	2 615	2 288	7 364
Other operating costs	**300 470**	**267 530**	**557 214**
Total operating expenses	**749 341**	**628 785**	**1 310 950**

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

5 Advances N$'000	December 2016	December 2015	June 2016
Notional value of advances	27 273 924	25 216 754	26 101 504
Contractual interest suspended	(38 262)	(26 833)	(32 157)
Gross advances	**27 235 662**	**25 189 922**	**26 069 347**
Category analysis			
Overdrafts and cash management accounts	2 875 644	2 722 291	2 632 859
Card loans	266 319	195 122	233 240
Instalment sales and hire purchase agreements	3 358 320	3 215 203	3 289 151
Lease payments receivable	351 223	295 378	281 708
Home loans	12 232 989	11 506 648	11 815 280
Term loans	7 368 004	6 324 813	6 972 655
Investment bank term loans	478 732	489 031	517 934
Preference share advance		24 000	
Assets under agreement to resell	43 796	32 933	36 230
Other	260 635	384 502	290 290
Gross advances	27 235 662	25 189 922	26 069 347
Impairment of advances	(190 445)	(184 160)	(193 116)
Net advances	**27 045 218**	**25 005 762**	**25 876 231**

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

6 Deposits

6.1 Deposits and current accounts

N$'000	December 2016	December 2015	June 2016
Category analysis			
- Current accounts	9 441 882	9 682 998	10 053 437
- Call deposits	4 602 655	4 814 243	5 140 823
- Savings accounts	606 634	603 106	607 449
- Fixed and notice deposits	5 955 831	4 217 887	5 000 144
- Fixed and floating rate notes	548 853		
- Negotiable certificates of deposit	6 678 450	6 452 570	7 202 854
Total deposits and current accounts	**27 834 304**	**25 770 804**	**28 004 707**

6.2 Due to banks and other financial institutions

N$'000			
To banks and financial institutions			
- In the normal course of business	**1 117 884**	**1 748 608**	**800 972**

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

7. Related parties

Related parties of the group as defined, include:

Subsidiaries	Associates	Joint ventures	Post-employment benefit funds (pension funds)
Entities that have significant influence over the group, and subsidiaries of these entities	Key management personnel	Close family members of key management personnel	Entities controlled, jointly controlled or significantly influenced by key management personnel or their close family members

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

First National Bank of Namibia Limited is 100% (2015: 100%) owned by FNB Namibia Holdings Limited. FNB Namibia Holdings Limited is listed on the Namibian Stock Exchange and is 58.4% (2014: 58.4%) owned by FirstRand EMA Holdings Proprietary Limited, with its ultimate holding company FirstRand Limited, which is incorporated in South Africa, listed on the JSE Limited and on the NSX.

Detailed balances with relevant related parties appears below:

	December 2016	December 2015	June 2016
Deposits			
FirstRand group companies	(1 766 452)	(652 003)	(795 915)
Fellow subsidiaries	(134 712)	(110 067)	(180 022)
Associate	(18 699)	(10 162)	(12 856)
Advances			
FirstRand group companies	732 880	901 945	917 612
Fellow subsidiaries	50 424	96 904	22 682
Associate	20 472	21 586	19 578
Derivative assets			
FirstRand group companies	21 043	46 861	26 580
Derivative liabilities			
FirstRand group companies	(120 460)	(283 614)	(194 727)

Related party transactions:

	December 2016	December 2015	June 2016
(Interest paid) to received from related parties:			
FirstRand group companies	(79)	(6 410)	(17 084)
Fellow subsidiaries	(2 140)	(2 534)	(5 040)
Associate	(669)	(740)	1 903
Non-interest revenue			
FirstRand group companies	1 971	46	2 748
Fellow subsidiaries	6 487	4 534	1 889
Non-interest expenditure			
FirstRand group companies	109 569	85 554	176 517
Associate	6,554	5321	11 908
Dividends paid			
Parent	305,645	282,516	526,026

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

8 Fair value measurements

8.1 Valuation

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

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

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

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

Financial instruments
When determining the fair value of a financial instrument, where the financial instrument has a bid or ask price (for example in a dealer market), the group uses the price within the bid-ask spread that is most representative of fair value in the circumstances. Although not a requirement, the group uses the bid price for financial assets or the ask/offer price for financial liabilities where this best represents fair value.
When determining the fair value of a financial liability or the group's own equity instruments the quoted price for the transfer of an identical or similar liability or own equity instrument is used. Where this is not available, and an identical item is held by another party as an asset, the fair value of the liability or own equity instrument is measured using the quoted price in an active market of the identical item, if that price is available, or using observable inputs (such as the quoted price in an inactive market for the identical item) or using another valuation technique.
Where the group has any financial liability with a demand feature, such as demand deposits, the fair value is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid where the time value of money is significant.

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

Financial instruments not measured at fair value
Other fair value measurements include assets and liabilities not measured at fair value but for which fair value disclosures are required under another IFRS e.g. financial instruments at amortised cost. The fair value for these items is determined by using observable quoted market prices where these are available, such as market prices quoted on JSE debt market, or in accordance with generally acceptable pricing models such as a discounted cash flow analysis. Except for the amounts included under point 8.3 below, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

8 Fair value measurements (continued)

8.2 Non-financial instruments

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

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

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

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

8 Fair value measurements (continued)

8.2 Fair value hierarchy and measurements (continued)

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
			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	Level 2	Discounted cash flows	For listed equities and bonds, the listed price is used where the market is active (i.e. Level 1). However if the market is not active and the listed price is not representative of fair value, these are classified as Level 2 and a valuation technique is used, for example the discounted cash flow is used for listed bonds. This will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
- Unlisted bonds	Level 2 and Level 3	Discounted cash flows	Unlisted bonds are valued similarly to advances measured at fair value. The future cash flows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period.	Market interest rates and curves	Credit inputs
- Unlisted equities	Level 2 and Level 3	Price earnings ("P/E") model	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place.	Market transactions	Growth rates and P/E ratios
- Negotiable certificates of deposit	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate. Inputs to these models include information that is consistent with similar market quoted instruments, where available.	Market interest rates and curves	Not applicable
- Treasury Bills	Level 2	JSE debt market pricing model	The JSE debt market pricing model uses the JSE debt market mark to market bond yield.	Market interest rates and curves	Not applicable

8 Fair value measurements (continued)

8.2 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
Derivative financial instruments					
- Option contracts	Level 2 and Level 3	Option pricing model	The Black Scholes model is used.	Strike price of the option; market related discount rate; forward rate and cap and floor volatility.	Not applicable
- Swaps	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date of each swaplet is determined in terms of legal documents pertaining to the swap.	Market interest rates and curves	Not applicable
- Forward rate agreements	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rates and curves	Not applicable
- Forward contracts	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Market interest rates and curves	Not applicable
Deposits					
- Call and non-term deposits	Level 2	None - the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand i.e. the undiscounted amount of the deposit.	None - the undiscounted amount approximates fair value and no valuation is performed	Not applicable
- Deposits that represent collateral on credit linked notes	Level 3	Discounted cash	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

8 Fair value measurements (continued)

8.2 Fair value hierarchy and measurements (continued)

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

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

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

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

8 Fair value measurements (continued)

8.3 Fair value hierarchy and measurements (continued)

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

N$'000	December 2016	Level 1	Level 2	Level 3	Total carrying amount
	Assets				
	Recurring fair value measurements				
	Investment securities		3 672 273	-	3 672 273
	Advances			478 732	478 732
	Derivative financial instruments		144 647		144 647
	Total financial assets	**-**	**3 816 920**	**478 732**	**4 295 652**
	Liabilities				
	Recurring fair value measurements				
	Derivative financial instruments		160 463		160 463
	Short trading position	43 906			43 906
	Total financial liabilities	**43 906**	**160 463**	**-**	**204 369**

N$'000	December 2015	Level 1	Level 2	Level 3	Total carrying amount
	Assets				
	Recurring fair value measurements				
	Investment securities		2 852 133	-	2 852 133
	Advances			489 031	489 031
	Derivative financial instruments		322 047		322 047
					-
	Total financial assets	**-**	**3 174 180**	**489 031**	**3 663 211**
	Liabilities				
	Recurring fair value measurements				
	Derivative financial instruments		308 682		308 682
	Short trading position	32 386			32 386
	Total financial liabilities	**32 386**	**308 682**	**-**	**341 067**

N$'000	June 2016	Level 1	Level 2	Level 3	Total carrying amount
	Assets				
	Recurring fair value measurements				
	Investment securities		3 062 515		3 062 515
	Advances			491 903	491 903
	Derivative financial instruments		209 496		209 496
	Total financial assets		**3 272 010**	**491 903**	**3 763 913**
	Liabilities				
	Recurring fair value measurements				
	Derivative financial instruments		219 454		219 454
	Short trading position	36 927			36 927
	Total financial liabilities	**36 927**	**219 454**		**256 381**

During the reporting period ending 31 December 2016(31 December 2015), there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Changes in the group's best estimate of the non-observable inputs (Level 3) could affect the reported fair values recognised on statement of financial position and the movement in fair values recognised in the statement of comprehensive. However, changing these inputs to reasonably possible alternatives would change the fair value using more positive reasonable assumptions to N$526,605 (2015:N$550,617) and using more negative reasonable possible assumptions to N$430,859 (2015:N$450,505). These amounts are based on the assumptions without first tier margins and additional first tier margins respectively.

8.3 Fair value of financial instruments (continued)

Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives

Fair values of financial instruments recognised in the financial statements may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data. In these instances, the net fair value recorded in the financial statements is the sum of three components:

(i) the value given by application of a valuation model, based upon the group's best estimate of the most appropriate model inputs;

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

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

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

Changes in level 3 fair value instruments

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

	Fair value on June 2015	Gains or losses recognised in profit and loss	Gains or losses recognised in other comprehensive income	Purchases/ (sales)/ issues/ (settlements)	Fair value on December 2015
Assets					
Advances	519 585	8 859		(39 413)	489 031
Total financial assets at fair value	**519 585**	**8 859**	**-**	**(39 413)**	**489 031**

	Fair value on June 2015	Gains or losses recognised in profit and loss	Gains or losses recognised in other comprehensive income	Purchases/ (sales)/ issues/ (settlements)	Fair value on June 2016
Assets					
Advances	519 585	52 887		(80 569)	491 903
Total financial assets at fair value	**519 585**	**52 887**	**-**	**(80 569)**	**491 903**

8.3 Fair value of financial instruments (continued)

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

Assets	December 2016 Advances	December 2016 Advances	June 2016 Advances
Gains or losses recognised in profit and loss	**27 789**	**8 859**	**52 887**
Total	**27 789**	**8 859**	**52 887**

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.

N$'000	December 2016 Carrying value	December 2016 Fair value	December 2015 Carrying value	December 2015 Fair value	June 2016 Carrying value	June 2016 Fair value
Assets						
Cash and cash equivalents	1 924 968	1 924 968	1 062 999	1 062 999	2 093 611	2 093 611
Due from banks and other financial institutions	645 027	645 027	1 967 833	1 967 833	1 772 268	1 772 268
Advances	27 045 218	24 948 711	25 005 762	24 282 632	25 384 328	25 237 705
Accounts receivable	23 613	23 613	101 321	101 321	47 533	47 533
Total	**29 638 825**	**27 542 319**	28 137 915	27 414 785	29 297 740	29 151 117
Liabilities						
Deposits	27 834 304	27 871 953	25 770 804	25 768 938	28 004 707	28 022 173
Due to banks and other financial institutions	1 117 884	1 117 884	1 748 608	1 748 608	800 972	800 972
Creditors and accruals	21 183	21 183	31 416	31 416	79 409	79 409
Tier two liabilities	392 723	392 405	392 706	391 062	392 654	391 047
Total	**29 366 094**	**29 403 425**	27 943 534	27 940 025	29 277 742	29 293 601

Day one profit or loss

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

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

N$'000	December 2016	December 2016	June 2016
Unrecognised profit at the beginning of the period	**1 202**	4 873	**4 873**
Recognised in profit or loss during the period	**(1 856)**	(1 856)	**(3 671)**
Unrecognised profit at the end of the period	**(654)**	**3 017**	**1 202**

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

9. Contingent liabilities and capital commitments

N$'000	Six months ended 31 December 2016	2015	Year ended 30 June 2016
Contingent liabilities	6 774 784	7 152 137	6 182 324
Capital commitments	14 373	45 885	22 305

10. Segment information

The group considers its banking operations as one operating segment. Aligned with internal reporting provided to the chief operating decision-maker, identified as the CEO, and 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 all the segments' revenue, profit or loss or total assets, are reported separately. The group operates within the borders of Namibia. The group does not have customers that contribute ten percent or more to its revenue and is therefore not reliant on a single major customer.

Salient features of the group results

	Six months ended 31 December 2016	2015	Year ended 30 June 2016
Selected ratios			
Return on average shareholders' equity (%)	29.4	34.3	30.1
Return on average assets (%)	3.4	3.5	3.4
Cost to income ratio (%)	46.1	41.4	43.7

Capital adequacy
Banking Operations

N$'000	Six months ended 31 December 2016	Six months ended 31 December 2015	Year ended 30 June 2016
Risk weighted assets			
Credit risk	21 102 116	20 383 049	20 800 837
Market risk	99 638	39 093	57 036
Operational risk	3 679 131	3 121 013	3 400 827
Total risk weighted assets	**24 880 885**	**23 543 155**	**24 258 700**
Regulatory capital			
Share capital and share premium	1 142 791	1 142 791	1 142 792
Retained profits	2 326 197	2 069 261	2 643 363
Capital impairment: intangible assets	(121 413)	(133 205)	(127 135)
Total tier 1	3 347 576	3 078 847	3 659 020
Eligible subordinated debt	390 000	390 000	390 000
General risk reserve, including portfolio impairment	263 776	254 788	260 010
Current board approved profits	282 506	(8 138)	
Total tier 2	936 282	636 650	650 010
Total tier 1 and tier 2 capital	**4 283 858**	**3 715 497**	**4 309 030**
Banking group			
Capital adequacy ratios			
Tier 1	13.4%	13.1%	15.1%
Tier 2	3.8%	2.7%	2.7%
Total	**17.2%**	**15.8%**	**17.8%**
Tier 1 leverage ratio	9.6%	9.5%	10.7%