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UNAUDITED CONSOLIDATED FINANCIAL RESULTS FOR THE INTERIM REPORTING PERIOD

ended 31 December 2018

CONTENTS

OVERVIEW OF PERFORMANCE

OUR PERFORMANCE

First National Bank of Namibia Limited's results for the period ended 31 December 2018 demonstrates strong performance in spite of the difficult economic climate experienced by all. Profit before tax increased by 7.7% to N$795.1 million (2017: N$738.4 million) for the period under review. The group's revenue performance demonstrates that the investment in digitization and customer-centric service is bearing fruit. Effective management of operating costs and the impact of prior period amortization of intangibles has resulted in an improvement in the cost to income ratio as it decreased to 49.9% (2017: 51.2%).

Return on average equity remained at 22.9% (2017: 22.9%), return on average assets was 2.7% (2017: 2.7%).

OUR OPERATING ENVIRONMENT

The impact of the challenging economic climate was certainly felt in the financial services sector. The Namibian economy had to endure the main elements that detract from economic growth, namely, high unemployment, harsh environmental conditions, increasing inflation, low commodity prices and lower investor confidence. Towards the end of the calendar year, there was a slight improvement in the economy as the country avoided a further downgrade from ratings agencies and interest rates remained stable. Credit demand showed improvement although it was still relatively low in comparison to the past few years. The improvement in credit demand was mainly influenced by improved business sentiment.

STATEMENT OF COMPREHENSIVE INCOME

Interest income

Net interest income grew by 10.4% to N$998.7 million (2017: N$904.5 million) on the back of steady deposits and advances growth. The pressure on margins remained constant when compared to the same period a year ago, demonstrating the greater need for conscious effort to take risk into consideration when pricing the group's portfolios. Interest expense increased by 2.8% while interest income grew by 6.6% driven by the subdued growth in advances and the continued focus on growing retail deposits as opposed to the more expensive wholesale funding. Return on investments showed positive growth, increasing by 12.9% in comparison to the prior period.

Impairment losses

Group credit loss rates increased as expected, impacted by a more challenging macroeconomic environment and the implementation of IFRS 9. The total impairment charge increased year-on-year to N$117.2 million (2017: N$76.1 million). The impairment charge is 0.39% (2017: 0.26%) of gross advances. The portfolio impairment charge grew from N$13.3 million to N$31.3 million due to adherence to IFRS9 and as such, it was the main contributor to the impairment charge increase for the period. Performance is acceptable and within risk appetite. Credit origination strategies have been aligned to the group's macroeconomic outlook.

The ratio of non-performing loans (NPLs) to gross advances ended the period at 2.31% up from 1.69% in 2017 and in dollar terms increased from N$489 million to N$687 million. This is below the industry average of 3.4%, further highlighting relatively acceptable portfolio performance.

The group impairment levels remain well within acceptable levels through the cycle, and coverage ratios remained in line with industry.

Non-interest revenue

Group NIR increased by 8% primarily supported by a net fee and commission income increase of 8.6%, demonstrating a positive performance in this challenging economic environment as the group benefited from healthy transaction volumes. Fee and commission income represents 89% (2017: 88.7%) of group operational NIR and this positive performance justifies the move to digitisation and optimisation off-setting the reduction in transaction volumes in the more expensive traditional channels.

FNB Rewards has paid out N$7.4 million (2017: N$2.6 million) so far during the period under review.

The growth in major components of NIR was offset by a decrease in fair value income by 14.4%, reflecting the depressed economic environment.

Operating expenses

Group operating costs have increased by 6.6% to N$930.6 million (2017: N$872.7 million). This is reflected in our cost to income ratio of 49.9% (2017: 51.2%). This level of cost growth is in-line with inflation and demonstrates the measures taken by the group to manage discretionary spending, while managing structural cost programmes to realise efficiency gains that can be invested in growth initiatives. Once normalised for the impact of the Ebank closure costs in the prior year, investments in information technology and our digital platforms and higher share based payments in the prior year, operating costs increased by 7.4%.

Staff costs increased by 3.9%. Staff cost growth is influenced by the above inflationary wage increase settlement with the union for non-managerial staff and the continued conversion of staff from basic pay to Cost-to-Company. It is also worth noting that, this trend may continue in the short-term due to the need for specialist and skilled resources needed to assist with the large-scale information technology and digital transformation programmes as well as helping with the evolving compliance and regulatory requirements of the industry at large.

IT costs increased by 7.9% as a result of continued upgrades of bandwidth lines for new ADT's and ATMs, as well as an addition made to data line capacity. Investment in cyber security, new product development and regulatory projects has also contributed to the increase.

Advertising and marketing costs have increased by 13.4% as a result of sponsorship of national sporting events, business sponsorship and the FNB Rewards campaign.

STATEMENT OF FINANCIAL POSITION

Advances

Total assets increased by 8.2% to N$41.9 billion (2017: N$38.7 billion). Net advances making up 70% of the balance sheet, reflected a year on year increase of 2% to N$29.2 billion. Growth in private sector credit extension for the period has been on an upward trend and was 6.7% at the end of the period. The gap between our advances growth and that of PSCE is influenced by the significantly slower growth of individual credit demand.

Mortgage loans increased year on year by 2.7% to N$13.4 billion and constitute 44.8% (2017: 45.0%) of our advances book. Our exposure to home loans is reflective of the Namibian banking industry where home loans tend to average 40% of credit extended in the local market. As a result, the benign growth rate of mortgage loans dragged the overall growth of the advances portfolio.

The granting of instalment credit reduced by 4.9%, reflecting decent performance in an industry that has struggled over the past few years.

Commercial and Corporate lending showed improvement year-on-year with an increase of 3.8%. However, we continue to focus on ROE preservation given the prevailing competitive pressures.

Deposits and funding

Deposit growth was ahead of advances, growing by 7% to N$34.7 billion. The retail portfolio was a significant contributor to the deposits growth as a 13.3% increase was experienced aided by the increased demand for savings and investment products as individuals tighten their purse-strings. Fixed deposits decreased by 0.24% year on year whilst NCDs increased year on year by 7.5%. Current and call accounts increased by 3.1% and 15.5% respectively, while savings accounts also showed positive movement with growth of 26.5%.

Capital management

First National Bank of Namibia Limited remains well capitalized with a total capital adequacy ratio of 17.6%, reflecting an increase on the prior year's 17.3%. This remains securely above both the regulatory requirement of 10.5% and the internal board approved target of 14.2%. Furthermore, it remains our philosophy to back economic risk with core equity. Our Tier 1 capital level increased to 14.3% (from 13.8%).

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

Effective 1 July 2018, the group's capital position was not impacted materially by the change relating to impairment allowances, due to the day 1 impact of IFRS 9. A decrease in the group's general risk reserve and a corresponding increase in the group's retained earnings has been recognised.

Dividend strategy

The group delivered positive earnings growth during the period. This growth combined with a strong capital position and low growth in risk weighted assets (RWA) for the six months to December 2018 informed board's decision to maintain the dividend cover. The long term dividend cover policy remains unchanged at 1.8x to 3x. The long-term cover range is assessed on an annual basis as part of the year end results process.

Events subsequent to the reporting date

The directors are not aware of any material events, as defined in IAS 10, occurring between 31 December 2018 and the date of authorisation of the results announcement.

Board changes

During the period under review, Mr. RJC Hamer resigned from the Board of First National Bank of Namibia Limited on 3 December 2018. Mr IN Nashandi has been appointed as non-executive Director effective 31 January 2019.

Group Prospects

As we look towards the future, our outlook is influenced by conservative economic growth expectations. The group is in a unique position to not only contribute but capitalize on the opportunities that may emerge in the current economic environment.

First National Bank of Namibia Limited's continued investment in digitalization and innovation provides the group with a solid platform to weather many an economic storm and continue to provide customer-centric service that ultimately translates to improved bottom-line performance and sustainable balance sheet growth.

Condensed consolidated statement of comprehensive income

		Unaudited Six months ended 31 December		Audited Year ended 30 June
N$'000	Notes	2018	2017	2018
Net interest income before impairment of advances	2	**998 674**	904 519	1 818 262
Impairment and fair value of credit of advances*		**(117 190)**	(76 126)	(128 261)
Net interest income after impairment of advances		**881 484**	828 393	1 690 001
Non-interest revenue	3	**865 098**	801 261	1 646 284
Income from operations		**1 746 582**	1 629 654	3 336 285
Operating expenses	4	**(930 635)**	(872 692)	(1 809 666)
Net income from operations		**815 947**	756 962	1 526 619
Share of profit from associates after tax		**1 366**	562	1 039
Income before tax		**817 313**	757 524	1 527 658
Indirect tax		**(22 182)**	(19 092)	(45 113)
Profit before tax		**795 131**	738 432	1 482 545
Income tax expense		**(250 613)**	(239 358)	(460 308)
Profit for the period		**544 518**	499 074	1 022 237
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurements on net defined benefit post-employment plan				865
Gains/ losses arising during the period				1 272
Deferred income tax				(407)
Items that may be reclassified subsequently to profit or loss				
Available-for-sale financial assets*			9 183	(2 533)
Gains/ losses arising during the period			13 417	(3 725)
Deferred income tax			(4 234)	1 192
Other comprehensive income for the period			9 183	(1 668)
Total comprehensive income for the period		**544 518**	508 257	1 020 569
Profit for the period attributable to:				
Ordinary shareholders		**544 518**	499 074	1 022 237
Total comprehensive income for the period attributable to:				
Ordinary shareholders		**544 518**	508 257	1 020 569

* Comparability will not be achieved as the comparative financial statements were prepared based on IAS 39. The group has elected not to restate the comparative balances as this is permitted by IFRS 9.

Condensed consolidated statement of financial position

N$'000	Notes	Unaudited Six months ended 31 December 2018	Unaudited Six months ended 31 December 2017	Audited Year ended 30 June 2018
Assets				
Cash and cash equivalents		**2 194 252**	2 284 964	1 326 075
Derivative financial instruments		**686 067**	111 219	93 520
Investment securities		**6 521 565**	4 855 941	5 080 115
Advances	5	**29 192 565**	28 645 851	28 644 017
Accounts receivable		**299 839**	252 873	239 535
Due by banks and other financial institutions		**2 025 498**	1 454 575	2 782 221
Investment in associate		**9 974**	8 131	8 608
Property and equipment		**875 585**	968 618	901 250
Intangible assets		**98 521**	150 923	104 244
Total assets		**41 903 866**	38 733 095	39 179 585
Equity and liabilities				
Liabilities				
Short trading positions			16 238	
Derivative financial instruments		**701 889**	117 394	109 754
Creditors, accruals and provisions		**319 318**	287 096	351 688
Current tax liability		**90 853**	293 321	178 403
Deposits		**34 713 521**	32 416 137	32 559 128
- Deposits from customers	6.1	**25 055 626**	23 908 385	24 305 263
- Debt securities	6.2	**7 695 899**	7 249 508	7 356 457
- Due to banks and other financial institutions	6.3	**1 961 996**	1 258 244	897 408
Employee liabilities		**178 404**	189 310	237 376
Other liabilities		**220 785**	219 000	220 447
Tier 2 liabilities		**402 871**	402 944	402 783
Deferred income tax liability		**320 334**	263 270	320 732
Total liabilities		**36 947 975**	34 204 710	34 380 311
Capital and reserves attributable to ordinary equity holders of parent		**4 955 891**	4 528 385	4 799 274
Total equity		**4 955 891**	4 528 385	4 799 274
Total equity and liabilities		**41 903 866**	38 733 095	39 179 585

Condensed consolidated statement of changes in equity

N$'000	Notes	Unaudited Six months ended 31 December 2018	Unaudited Six months ended 31 December 2017	Audited Year ended 30 June 2018
Balance at beginning of the period		**4 799 274**	4 303 048	4 303 048
Initial adoption of IFRS 9	11	**(107 783)**		
Restated balance at the beginning of the period		**4 691 491**		
Total comprehensive income for the period		**544 518**	508 257	1 020 569
Transfer of vested equity options		**1 796**	1 794	3 882
Dividends paid		**(281 914)**	(284 714)	(528 224)
Balance at end of the period		**4 955 891**	4 528 385	4 799 274

Condensed consolidated statement of cash flows

N$'000	Notes	Unaudited Six months ended 31 December 2018	Unaudited Six months ended 31 December 2017	Audited Year ended 30 June 2018
Net cash generated from operations		**1 532 675**	1 021 471	545 971
Tax paid		**(360 345)**	(19 059)	(323 057)
Net cash flow from operating activities		**1 172 330**	1 002 412	222 914
Net cash flow from investing activities		**(24 034)**	(67 824)	(1 911)
Net cash flow from financing activities		**(280 119)**	(63 920)	(309 224)
Net increase in cash and cash equivalents		**868 177**	870 668	(88 221)
Cash and cash equivalents at beginning of the period [1]		**1 326 075**	1 414 296	1 414 296
Cash and cash equivalents at end of the period		**2 194 252**	2 284 964	1 326 075

[1] Includes mandatory reserve deposits with central bank

Notes to the condensed consolidated financial results

for the reporting period ended 31 December

1. Basis of preparation

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

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

The condensed consolidated interim results for the six months ended 31 December 2018 have not been audited or independently reviewed by the group's external auditors.

Accounting Policies

The accounting policies applied in the preparation of the condensed consolidated interim financial statements are in terms of IFRS and are consistent with those applied for the year ended 30 June 2018, except for the adoption of new and amended IFRS that became effective from 1 July 2018. The following new standards had the most significant impact on the group:

IFRS 9 Financial Instruments ,which replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduced a principle-based approach for classifying financial assets based on the entity's business model and introduced an expected credit loss model for impairment; and

IFRS 15 Revenue from Contracts with Customers which contains a single model that is applied when accounting for contracts with customers. It replaces substantially all of the current revenue recognition guidance, including IAS 18 Revenue and IFRS 13 Customer Loyalty Programmes. The adoption of IFRS 15 did not impact the group's results.

The adoption of IFRS 9 impacted the group's results on the date of initial adoption and had a significant impact on the group's accounting policies.

The accounting policies applied in the preparation of the condensed consolidated interim financial statements are in terms of IFRS and are consistent with those applied for the year ended 30 June 2018, with the exception of the adoption IFRS 9. The condensed consolidated interim financial statements are prepared in accordance with the going concern principle under the historical cost basis as modified by the fair value accounting of certain assets and liabilities where required or permitted by IFRS.

The group has elected not to restate its comparative financial statements as permitted by IFRS 9. Comparability will not be achieved by the fact that comparative financial information has been prepared on an IAS 39 basis. The impact of adopting IFRS 9 has been applied retrospectively with an adjustment to the group's opening reserves.

1. Basis of preparation continued

Classification and Measurement	
Initial measurement	All financial instruments are initially measured at fair value including transaction costs, except for those classified as FVTP, where the transaction costs are expenses on the transaction date. Immediately after initial recognition, an ECL allowance is recognised for newly originated financial assets measured at amortised cost, and debt instruments measured at fair value through other comprehensive income.
Subsequent measurement of financial assets	Management determines the classification of its financial assets at initial recognition based on: - the group's business model for managing the financial assets; and - the contractual cash flow characteristics of the financial asset.
Business model	The group distinguishes three main business models for managing financial assets: - holding financial assets to collect contractual cash flows; - managing financial assets and liabilities on a fair value basis or selling financial assets; and - a mixed business model of collecting contractual cash flows and selling financial assets. The business model assessment is not performed on an instrument by instrument basis, but at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment is done for each legal reporting entity at least at a business level, although businesses could perform the assessment on a portfolio or sub-portfolio level depending on the manner in which groups of financial assets are managed. The main consideration in determining the different business models is whether the objectives of the business model are met primarily through holding the financial assets to collect contractual cash flows, through the sale of these financial assets, by managing assets and liabilities on a fair value basis, or through a combination of these activities. One of the factors considered, when determining whether the business objective is achieved primarily through collecting contractual cash flows, is the frequency and significance of sales of financial assets out of these portfolios for purposes other than managing credit risk. For the purposes of performing the business model assessment, the group only considers a transaction a sale if the asset is derecognised for accounting purposes. If sales of financial assets are not infrequent, the significant of these sales is determined by comparing the amounts of assets sold during the period and cumulatively to the total carrying amount of assets held in the business model. If sales are either infrequent or insignificant, these will not impact the conclusion that the business model is to collect contractual cash flows. A change in one or more business models of the group only occurs on the rare occasion when the group genuinely changes the way in which it manages a financial asset. Any changes in business model would result in a reclassification of the relevant financial assets from the beginning of the next reporting period. A change in one or more business models of the group only occurs on the rare occasion when the group genuinely changes the way in which it manages a financial asset. Any changes in business model would result in a reclassification of the relevant financial assets from the beginning of the next reporting period.

Notes to the condensed consolidated financial results

for the reporting period ended 31 December continued

1. Basis of preparation continued

Classification and Measurement continued	
Cash flow characteristics	In order for a debt instrument to be measured at amortised cost or FVOCI , the cash flows on the asset have to be SPPI, consistent with those of a basic lending agreement. The SPPI test is applied on a portfolio basis for retail advances, as the cash flow characteristics of these assets are standardised. This includes the consideration of any pre-payment penalties that are limited by consumer credit regulation and can therefore be considered reasonable compensation which would not cause these assets to fail the SPPI test. For wholesale advances, the SPPI test is applied to individual advances at initial recognition, based on the cash flow characteristics of the asset. Wholesale advances that do not pass the SPPI test and that have to be measured at FVPL include advances with equity participation features, convertible bonds and payments linked to commodity or other prices. If the contract contains prepayment penalties, the amount of the prepayment penalty is compared to the present value of the margin that would be earned if the loan is not prepaid. If the amount of the prepayment penalty is lower than or equal to the margin lost due to prepayment, this is considered reasonable compensation and the loan passes the SPPI test.

Impairment of financial assets

This policy applies to:

- financial assets, measured at amortised cost including financial accounts receivable and cash;
- debt instruments measured at FVOCI;
- loan commitments;
- financial guarantees; and
- finance lease debtors where the group is the lessor

IFRS 9 establishes a three-stage approach for the impairment of financial assets:

Stage 1	At initial recognition, the financial asset is classified as stage 1 and 12-month ECL is recognised. This is a credit loss related to default events expected to occur within the next 12 months.
Stage 2	If the asset has experienced a SICR since initial recognition but the asset is not credit impaired, it is classified as stage 2, and LECL is recognised.
Stage 3	If the asset has become credit impaired since initial recognition, it is classified as stage 3, with ECL measured and recognised on a lifetime basis.

1. Basis of preparation continued

ECL are calculated by multiplying the EAD of a financial asset by the PD and the LGD of the asset and by discounting this figure to the reporting date using the original effective interest rate. Impairment losses are recognised in profit or loss. The loss allowance on debt instruments measured at FVOCI is recognised in other comprehensive income.

In the section below, the term financial asset also refers to loan commitments, finance lease debtors where the group is the lessor and financial guarantees, unless stated otherwise.

Definitions	
SICR since initial recognition	In order to determine whether an advance has experienced a SICR, the PD of the asset calculated at the origination date is compared to that calculated at the reporting date. The origination date is defined to be the most recent date at which the group had an opportunity to price or re-price the advance based on the outcome of either the original or up-to-date risk assessment. SICR test thresholds have been determined at a portfolio level and are reassessed and, if necessary, updated, on at least an annual basis. Any facility that is more than 30 days past due, or in the case of instalment-based products one instalment past due, is automatically considered to have experienced a SICR. In addition to the quantitative assessment based on PDs, qualitative considerations are applied when determining whether individual exposures have experienced a SICR. One such qualitative consideration is the appearance of wholesale and commercial SME facilities on a credit watch list. Any up-to-date facility that has undergone a distressed restructure (such as a modification of contractual cash flows to prevent a client from going into arrears) will be considered to have experienced a SICR. The credit risk on an exposure is no longer considered to be significantly higher than at origination if no qualitative indicators of a significant increase in credit risk are triggered, and if comparison of the reporting date PD to the origination date PD no longer indicates that a significant increase in credit risk has occurred. When it no longer meets SICR requirements it cures back from stage 2 to stage 1, with the exception of distressed restructured exposures, which are required to remain in stage 2 for a minimum before re-entering stage 1.
Low credit risk	Financial assets with low credit risk are assumed not to have experienced a SICR since initial recognition. The group does not use the low credit risk assumption for advances.
Credit-impaired financial assets	Advances are considered credit impaired if they meet the definition of default. The definition of default applied by the group for calculating provisions under IFRS 9 has been aligned to the definition applied for regulatory capital calculations across all portfolios, to operational management of credit and for internal risk management purposes. Exposures are considered to be in default when they are more than 90 days past due or, in the case of amortising products, have more than three unpaid instalments. In addition, an exposure is considered to have defaulted when there are qualitative indicators that the borrower is unlikely to pay their credit obligations in full without any recourse by the group to actions such as the realisation of security. Indicators of the unlikelihood to pay are determined based on the requirements of BID 2 of the Banks Act. Examples include application for bankruptcy or obligor insolvency. Any distressed restructures of accounts that have experienced a SICR since initial recognition are defined as default events. Accounts are considered to no longer be in default if they meet the stringent cure definition which has been determined at a portfolio level based on an analysis of redefault rates.

Notes to the condensed consolidated financial results

for the reporting period ended 31 December continued

1. Basis of preparation continued

Definitions	
Write-offs	Write-off must occur when it is not economical to pursue further recoveries i.e. there is no reasonable expectation of recovering the carrying amount of the asset (gross amount less specific impairments raised): - By implication, in both retail and wholesale, for secured as well as unsecured exposures, write-offs cannot occur if there is evidence of recent payment behaviour. Each credit portfolio has articulated a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account; - Within retail portfolios, write-off definitions have been determined with reference to analysis of the materiality of post-write recoveries. Within wholesale exposures, a judgemental approach to write off is followed based on a case-by-case basis by a credit committee. Partial write-offs are not performed within credit portfolios. Where required, additional provisions against irrecoverable assets will be raised until such a time as final write-off can occur.
Modifications and derecognition	Financial instruments are derecognised when: - the contractual rights and obligations expire or are extinguished, discharged or cancelled, for example an outright sale or settlement; - they are transferred and the derecognition criteria of IFRS 9 are met; or - the contractual terms of the instrument are substantially modified and the derecognition criteria of IFRS 9 are met. Financial assets are derecognised when the group has either transferred the contractual right to receive cash flows from the asset or it has assumed an obligation to pay over all the cash flows from the asset to another entity (such as the pass through arrangement under IFRS 9). If the contractual cash flows of a financial asset measured at amortised cost are modified (changed or restructured, including distressed restructures), the group determines whether this is a substantial modification, which results in the derecognition of the existing asset, and the recognition of a new asset, or whether the change is simply a non-substantial modification of the existing terms which does not result in derecognition. A modification of a financial asset is substantial, and thus results in derecognition of the original financial asset, where the modified contractual terms are priced to reflect current conditions on the date of modification, and are not merely an attempt to recover outstanding amounts. Where the modification does not result in an accounting derecognition the original asset continues to be recognised.

The condensed consolidated interim financial statements are prepared in accordance with the going concern principle under the historical cost basis as modified by the fair value accounting of certain assets and liabilities where required or permitted by IFRS.

No other new or amended IFRS standards became effective for the six months ended 31 December 2018 that impacted the group's reported earnings, financial position or reserves, or the accounting policies.

2. Analysis of interest income and interest expense

N$'000	Unaudited Six months ended 31 December 2018	Unaudited Six months ended 31 December 2017	Audited Year ended 30 June 2018
Interest and similar income			
- Advances*	1 584 504	1 527 738	3 064 638
- Cash and cash equivalents	82 894	46 183	111 637
- Investment securities	234 196	207 372	401 187
- Unwinding of discounted present value on off-market advances	385	1 317	2 203
- Net release of deferred fee and expenses	5 650	6 001	13 780
	1 907 629	1 788 929	3 580 460
Interest expense and similar charges			
- Current accounts	62 565	64 612	123 328
- Savings deposits	4 303	6 160	7 042
- Call deposits	170 384	142 405	295 024
- Term deposits	295 809	273 830	558 910
- Negotiable certificates of deposit	277 953	297 380	573 902
- Fixed and floating bonds	58 115	62 335	120 151
- Deposits from banks and financial institutions	11 325	17 858	34 799
- Other liabilities	8 975		9 967
- Tier 2 liabilities	19 526	19 830	39 075
	908 954	884 411	1 762 198
Net interest income	998 674	904 519	1 818 262

* Some prior year numbers within advances have been reclassified in order to better reflect the nature. This reclassification is a realloaction between items within interest income and similar charges and therefore had no impact on the overall balance.

Notes to the condensed consolidated financial results

for the reporting period ended 31 December continued

3. Non-interest income

N$'000	Unaudited Six months ended 31 December 2018	Unaudited Six months ended 31 December 2017	Audited Year ended 30 June 2018
Analysis of non-interest revenue			
Fee and commission income:			
- Card commissions	89 966	80 676	157 922
- Cash deposit fees	57 911	58 758	112 590
- Commissions: bills, drafts and cheques	68 843	33 011	155 073
- Bank charges	626 339	608 334	1 118 372
Fee and commission income	843 059	780 779	1 543 957
Fee and commission expenses:			
- Transaction processing fees	(45 045)	(49 333)	(90 130)
- Cash sorting handling and transportation charges	(12 974)	(12 004)	(23 547)
- ATM commissions paid	(2 695)	(3 385)	(5 724)
- Customer loyalty programmes	(7 397)	(2 646)	(8 869)
- Other	(2 443)	(2 117)	(8 064)
Fee and commission expenses	(70 554)	(69 485)	(136 334)
Net fee and commission income	772 506	711 294	1 407 623

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

3. Non-interest income continued

N$'000	Unaudited Six months ended 31 December 2018	Unaudited Six months ended 31 December 2017	Audited Year ended 30 June 2018
Fair value gains or losses			
- Foreign exchange	45 420	44 721	89 981
- Designated at fair value through profit or loss	18 048	26 050	47 011
- Other	(850)	2 357	6 159
Total fair value gains	62 618	73 128	143 151
Gains less losses from investing activities			
- Gains on investment securities designated at fair value through profit or loss	8 763	7 353	16 557
- Dividends received (unlisted investments)	2 096	2 238	5 664
Gains less losses from investing activities	10 859	9 591	22 221
Other non-interest revenue			
- Gain/(loss) on disposal of property and equipment	1 481	(3 380)	49 252
- Rental income	2 510	5 090	8 942
- Other income	15 124	5 538	15 095
Other non-interest revenue	19 115	7 249	73 289
Total non-interest revenue	865 098	801 262	1 646 284
Non-interest revenue analysis by category			
Total non-interest revenue	865 098	801 262	1 646 284
- Fee and commission income: Instruments at amortised cost	772 506	711 294	1 407 623
- Fair value income: Held for trading	44 570	47 078	96 140
- Fair value income: Designated at fair value through profit or loss	28 907	35 641	69 232
- Other non-interest income: Non-financial assets and liabilities	19 115	7 249	73 289

Notes to the condensed consolidated financial results

for the reporting period ended 31 December continued

4. Operating expenses

N$'000	Unaudited Six months ended 31 December 2018	Unaudited Six months ended 31 December 2017	Audited Year ended 30 June 2018
Auditors' remuneration			
- Audit fees	5 384	3 440	6 021
- Fees for other services	56	221	282
Auditors' remuneration	5 440	3 661	6 303
Operating lease charges			
- Property	22 574	22 299	44 980
- Equipment	9 699	10 128	19 572
Operating lease charges	32 273	32 427	64 552
Staff costs			
- Salaries, wages and allowances	393 976	362 123	757 746
- Off-market staff loans amortisation	386	1 317	2 203
- Contributions to employee funds	84 412	82 768	168 861
- Defined contribution schemes: pension	41 410	38 917	78 032
- Defined contribution schemes: medical	43 002	43 851	90 829
- Severance pay provision: death in service	261	104	904
- Post-retirement medical expenses	1 535	1 347	3 239
- Social security levies	1 029	1 035	2 086
- Training levies	4 548	4 923	9 218
- Share-based payments	11 934	25 559	33 303
Total staff costs	498 081	479 176	977 560

4. Operating expenses continued

N$'000	Unaudited Six months ended 31 December 2018	Unaudited Six months ended 31 December 2017	Audited Year ended 30 June 2018
Other operating costs			
- Amortisation of intangible assets	5 723	9 163	17 797
- Depreciation	49 698	47 374	96 881
- Impairment of intangible assets*			39 244
- Insurance	4 476	4 295	8 644
- Computer	162 976	151 073	306 574
- Advertising and marketing	30 619	27 000	58 604
- Legal fees	6 728	6 502	11 632
- Postage	2 178	2 044	4 224
- Printing and stationery	4 032	5 739	11 841
- Professional fees	2 812	3 578	6 241
- Property and maintenance related expenses	38 536	38 331	80 320
- Telecommunications	9 142	9 657	18 530
- Travel and accommodation	7 798	8 759	16 889
- Total directors' emoluments	6 009	4 275	11 253
- Other operating expenditure	64 114	39 638	72 577
Other operating costs	394 841	357 428	761 251
Total operating expenses	930 635	872 692	1 809 666

*** Significant impairments incurred during 2018**

Intangible assets - Ebank trademark (June 2018)

First National Bank of Namibia Ltd, impaired the Ebank trademark after management reviewed the value of the trademark and found that it would no longer meet future needs of the group. This trademark has been impaired to a carrying amount of N$ nil based on its anticipated value in use to the business and an impairment loss of N$13.7 million recognised.

Intangible assets - software and development costs (June 2018)

Ebank Ltd, a subsidiary of First National Bank of Namibia Ltd, impaired software after management reviewed their information technology platform and found that the software would no longer meet future needs as Ebank customers were migrated to the FNB core banking system. This software has been impaired to a carrying amount of N$ nil based on its anticipated value in use to the business and an impairment loss of N$25.6 million recognised.

5. Advances

N$'000	Unaudited Six months ended 31 December 2018	Unaudited Six months ended 31 December 2017	Audited Year ended 30 June 2018
Notional value of advances	**29 812 445**	28 974 111	29 012 732
IAS 39 Contractual interest suspended		(58 030)	(67 155)
Gross carrying amount of advances	**29 812 445**	28 916 081	28 945 577
Category analysis			
Overdrafts and cash management accounts	**3 779 064**	3 224 383	3 357 351
Term loans	**7 997 897**	8 086 462	7 697 143
Card loans	**429 037**	354 413	400 708
Instalment sales and hire purchase agreements	**3 062 043**	3 184 947	3 072 818
Lease payments receivable	**251 924**	298 504	305 648
Property finance	**13 350 704**	13 004 595	13 116 923
Assets under agreement to resell		15 511	
Investment bank term loans	**392 206**	447 309	419 769
Other	**549 570**	299 957	575 217
Gross carrying amount of advances	**29 812 445**	28 916 081	28 945 577
Impairment and fair value of credit of advances*	**(619 880)**	(270 230)	(301 560)
Net advances	**29 192 565**	28 645 851	28 644 017

* Comparability will not be achieved as the comparative financial results were prepared based on IAS 39. The group has elected not to restate the comparative balances as this is permitted by IFRS 9. Contractual interest suspended of N$90 million has been included in impairment of advances as per IFRS 9. (See impact of adopting revised standards note 11).

6. Deposits

N$'000	Unaudited Six months ended 31 December 2018	Unaudited Six months ended 31 December 2017	Audited Year ended 30 June 2018
6.1 Deposits from customers			
- Current accounts	9 218 875	8 940 026	10 036 127
- Savings accounts	285 563	225 772	230 756
- Call deposits	8 027 248	6 948 490	5 787 308
- Term deposits	7 523 940	7 794 097	8 251 072
	25 055 626	23 908 385	24 305 263
6.2 Debt securities			
- Negotiable certificates of deposit	6 425 714	5 976 225	6 086 548
- Fixed and floating rate notes	1 270 185	1 273 283	1 269 909
	7 695 899	7 249 508	7 356 457
6.3 Due to banks and other financial institutions			
Due to banks and financial institutions			
- In the normal course of business	1 961 996	1 258 244	897 408
	1 961 996	1 258 244	897 408
Total deposits	34 713 521	32 416 137	32 559 128

Notes to the condensed consolidated financial results

for the reporting period ended 31 December continued

7. Related parties continued

First National Bank of Namibia Limited is 100% (2017: 100%) owned by FirstRand Namibia Limited.

FirstRand Namibia Limited is listed on the Namibian Stock Exchange and is 58.4% (2017: 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:

	Unaudited Six months ended 31 December		Audited Year ended 30 June
N$'000	2018	2017	2018
Deposits			
FirstRand SA group companies	539 306	821 262	2 210 785
Fellow subsidiaries to banking group	62 177	81 070	51 417
Associate	26 230	12 510	17 422
Advances			
FirstRand SA group companies	1 833 815	138 923	2 195 395
Fellow subsidiaries to banking group	11 762	34 049	12 981
Associate	11 689	15 367	13 399
Derivative instruments: assets			
FirstRand SA group companies	373 602	25 372	15 390
Derivative instruments: liabilities			
FirstRand SA group companies	329 234	91 047	93 287
Related party transactions:			
Interest paid to (received from) related parties			
FirstRand SA group companies	(47 517)	(13 010)	(42 300)
Fellow subsidiaries to banking group	491	3 552	1 545
Associate	5	384	640
Non-interest revenue			
Fellow subsidiaries to banking group	2 421	2 869	5 649
Non-interest expenditure			
FirstRand SA group companies	170 014	135 315	277 393
Associate	8 770	6 669	14 292
Dividends paid			
Parent	281 914	284 714	528 224

8. Fair value measurements

8.1 Valuation methodology

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

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

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

Recurring fair value measurements

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

Financial instruments

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

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

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

8. Fair value measurements continued

8.1 Valuation methodology continued

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

8.2 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 formuns;
- 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. The group considers factors such as counterparty and own credit risk when making appropriate valuation adjustments.

8. Fair value measurements continued

8.2 Fair value hierarchy and measurements continued

Measurement of assets and liabilities at level 2

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

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
		Derivative financial instruments	
Forward rate agreements	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rates, interest rate curves and credit spreads.
Swaps	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date of each swaplet is determined in terms of legal documents pertaining to the swap.	Market interest rates and interest rate curves, credit and currency basis curves.
Options	Option pricing model	The Black Scholes model is used.	Strike price of the option; market related discount rate; forward rate .
Forwards	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Spot price of underlying instrument, interest rate curves and dividend yield.
Equity derivatives	Industry standard models	The models calculate fair value based on input parameters such as share prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.	Market interest rates, curves, volatilities, dividends and share prices.
		Loans and advances to customers	
Other loans and advances	Discounted cash flows	Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Although the fair value of credit is not significant year-on-year it may become significant in future. In the event that credit spreads are observable for a counter party, loans and advances to customers are classified as level 2 of the fair value hierarchy.	Market interest rates, curves and credit spreads
		Investment securities	
Equities listed in an inactive market	Discounted cash flows	For listed equities and bonds, the listed price is used where the market is active (i.e. level 1). However if the market is not active and the listed price is not representative of fair value and a valuation technique is used, for example the discounted cash flow is used for listed bonds. This will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. The future cash flows are discounted using a market related interest rate. Where the valuation technique incorporates observable inputs for credit risk, level 2 of the fair value hierarchy is deemed appropriate.	Market interest rates and curves

Notes to the condensed consolidated financial results
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8. Fair value measurements continued

8.2 Fair value hierarchy and measurements continued

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

8. Fair value measurements continued

8.2 Fair value hierarchy and measurements continued

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

Measurement of assets and liabilities at level 3

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

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

Notes to the condensed consolidated financial results

for the reporting period ended 31 December continued

8. Fair value measurements continued

8.2 Fair value hierarchy and measurements continued

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

8. Fair value measurements continued

8.2 Fair value hierarchy and measurements continued

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

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

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

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

Notes to the condensed consolidated financial results
for the reporting period ended 31 December continued

8. Fair value measurements continued

8.2 Fair value hierarchy and measurements continued

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

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

N$'000 December 2017	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Recurring fair value measurements				
Investment securities*		4 855 941		4 855 941
Advances			447 309	447 309
Derivative financial instruments		111 219		111 219
Total financial assets		4 967 160	447 309	5 414 469
Liabilities				
Recurring fair value measurements				
Derivative financial instruments		117 394		117 394
Short trading position	16 238			16 238
Total financial liabilities	16 238	117 394		133 632

8. Fair value measurements continued

8.2 Fair value hierarchy and measurements continued

N$'000 **June 2018**	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Recurring fair value measurements				
Investment securities*		5 080 115		5 080 115
Advances			419 769	419 769
Derivative financial instruments		93 520		93 520
Total financial assets		5 173 635	419 769	5 593 404
Liabilities				
Recurring fair value measurements				
Derivative financial instruments		109 754		109 754
Short trading position				
Total financial liabilities		109 754		109 754

During the reporting period ending 31 December 2018 (31 December 2017), 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$431,426 (2017: N$492,040) and using more negative reasonable possible assumptions to N$352,985 (2017: N$402,578). These amounts are based on the assumptions without first tier margins and additional first tier margins respectively.

* Comparability will not be achieved as the comparative financial statements were prepared based on IAS 39. The group has elected not to restate the comparative balances as this is permitted by IFRS 9.

Notes to the condensed consolidated financial results
for the reporting period ended 31 December continued

8. Fair value measurements continued

8.2 Fair value hierarchy and measurements 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

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

N$'000	Fair value on June 2017	Gains or losses recognised in profit and loss	Gains or losses recognised in other comprehensive income	Purchases/ (sales)/ issues/ (settlements)	Fair value on December 2017
Assets					
Advances	464 205	26 050		(42 946)	447 309
Total financial assets at fair value	464 205	26 050		(42 946)	447 309

N$'000	Fair value on June 2017	Gains or losses recognised in profit and loss	Gains or losses recognised in other comprehensive income	Purchases/ (sales)/ issues/ (settlements)	Fair value on June 2018
Assets					
Advances	464 205	47 011		(91 447)	419 769
Total financial assets at fair value	464 205	47 011		(91 447)	419 769

8. Fair value measurements continued

8.2 Fair value hierarchy and measurements continued

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

	December 2018	December 2017	June 2018
Assets	Advances	Advances	Advances
Gains or losses recognised in profit and loss	18 048	26 050	47 011
Total	18 048	26 050	47 011

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position.

For all other instruments the carrying value is equal to or a reasonable approximation of the fair value.

	December 2018		December 2017		June 2018		
N$'000	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Fair value hierarchy
Assets							
Total advances at amortised cost	6 165 015	6 161 435	3 769 848	3 769 849	3 389 681	3 373 872	Level 2
Total advances at amortised cost	28 800 359	28 568 912	28 645 851	26 425 265	24 834 567	24 718 738	Level 3
Total	34 965 374	34 730 347	32 415 699	30 195 114	28 224 248	28 092 610	
Liabilities							
Total deposits	34 713 521	34 564 574	32 416 137	32 458 282	31 661 720	31 514 050	Level 2
Other liabilities	220 785	219 351	219 000	219 000	220 447	219 243	Level 2
Tier 2 liabilities	402 871	402 833	431 779	479 722	402 783	446 334	Level 2
Total	35 337 178	35 186 758	33 066 916	33 157 004	32 284 950	32 179 627	

Notes to the condensed consolidated financial results
for the reporting period ended 31 December continued

9. Contingencies and commitments

	Six months ended 31 December		Year ended 30 June
N$'000	2018	2017	2018
Contingent liabilities	7 119 825	6 942 360	7 007 458
Capital commitments	7 550	12 308	3 168

10. Segmentation

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

Interms of IFRS 8, a customer is regarded as a major customer, if the revenue from transactions with this customer exceeds 10% or more of the entity's revenue. The group has no major customer as defined and is therefore not reliant on the revenue from one or more major customers.

11. Impact of adopting revised accounting standards

	30 June 2018 Balances before restatement	Reclassification from IAS39 to IFRS9	To amortised cost	Recognistion increase or decrease of ECL	Interest in suspense (ISP)	Total impact	30 June 2018 Balances after restatement
Assets							
Advances	28 644 017			(141 718)		(141 718)	**28 502 299**
- Gross value of advances	28 945 577				67 154	67 154	**29 012 731**
- Impairment and fair value of credit of advances	(301 560)			(141 718)	(67 154)	(208 872)	**(510 432)**
Investment securities	5 080 115		35 385	(889)		34 496	**5 114 611**
- Amortised cost		4 755 470	35 385	(889)		4 789 966	**4 789 966**
- Available for sale	4 755 470	(4 755 470)				(4 755 470)	
- Held for trading	24 303						**24 303**
- Designated at fair value	300 342						**300 342**
Other assets	5 455 453						**5 455 453**
Total assets	39 179 585		35 385	(142 607)		(107 222)	**39 072 363**
Equity and liabilities							
Liabilities							
Deferred income tax liability	320 732		11 970	(11 409)		561	**321 293**
Other liabilities	34 059 579						**34 059 579**
Equity							
Reserves	3 656 482		23 415	(131 198)		(107 783)	**3 548 699**
Other components of equity	1 142 792						**1 142 792**
Total equity and liabilities	39 179 585		35 385	(142 607)		(107 222)	**39 072 363**

Notes to the condensed consolidated financial results

for the reporting period ended 31 December continued

11. Impact of adopting revised accounting standards continued

The group has adopted IFRS 9 and IFRS 15 during the current period. The group, as permitted by these standards, elected not to restate any comparative information. The adoption of IFRS 15 had no impact on the group's reported results. Accordingly, the impact of adopting the revised requirements of IFRS 9 has been applied retrospectively with an adjustment to the group's 1 July 2018 opening reserves. Reported information in terms of the 30 June 2018 financial year end and all previous financial years were unaffected by the application of IFRS 9.

Item	Requiment	Impact on group
Classification and measurement	IFRS 9 introduced a principle-based approach for classifying financial instruments, which is based on the entity's business model (i.e. how an entity manages its financial assets in order to generate cash flows) and nature of its cash flows. Financial assets whose business model is achieved by collecting contractual cash flows are classified at amortised cost. Financial assets with a mixed business model (i.e. held to collect contractual cash flows which are solely payments of principal and interest (SPPI) and through sale) are classified at fair value through other comprehensive income. All other financial assets under a different business model are classified at fair value through profit or loss. The classification of financial liabilities remains relatively unchanged, with the exception of financial liabilities designated at fair value. Any changes in the fair value of the liability due to the entity's own credit risk will now be recognised in other comprehensive income.	The group's approach was to first reclassify the items, as indicated in the reclassification column, and then to remeasure the item included in the re-measurement column. Based on the business model assessments performed, the following were the significant reclassifications and re-measurements: - N$4 755 million investment securities held in the group's liquid asset portfolio were reclassified from available-for-sale to amortised cost because they are held to collect contractual cash flows that meet the SPPI test. This resulting in a N$23.4 million (after-tax) release of available-for-sale reserve.
ECL impairment	IFRS 9 introduced an expected credit loss model for the recognition of impairment on financial assets, which includes the incorporation of forward-looking information and no longer requires a credit event to occur before credit losses are recognised. This applies to financial assets classified at amortised cost and fair value through other comprehensive income, lease receivables, trade receivables, loan commitments and financial guarantee contracts. The level of expected credit losses to be raised is determined in relation to the credit risk of the asset at reporting date in relation to its credit risk at origination. Where the credit risk has not increased significantly since origination, impairment is calculated based on 12-month expected credit losses. If this is not the case, impairment is based on lifetime expected credit losses.	The revised impairment requirements increased impairments by N$142 million, excluding ISP, due to earlier recognition of ECL, incorporating FLI, the inclusion of off-balance sheet exposures and the extension of the measurement period. This resulted in a opening retained earnings adjustment of N$131 million (after-tax).
Hedge accounting	IFRS 9 more closely aligns hedge accounting with the entity's risk management and permits the use of internally produced risk management information as a basis for hedge accounting, thereby widening the scope for items that can be hedge accounted.	The revised hedge accounting requirements were applied by the group prospectively, as required by IFRS 9, to its existing hedge accounting relationships and as such did not have an impact on the amounts recognised on DIA. However, hedge documentation was updated to comply with the requirements of IFRS 9.

11. Impact of adopting revised accounting standards continued

Item	Requiment	Impact on group
ISP	In terms of IAS 39 ISP was not capitalised to advances and interest suspended was tracked and managed separately off-balance sheet. Under IFRS 9, interest revenue is calculated by applying the effective interest rate to the amortised cost of financial assets classified in stage 3. The difference between the contractual interest and the interest recognised in line with IFRS 9 is therefore suspended. This suspended interest is capitalised to the advance and immediately impaired.	ISP is recognised against the ECL allowance, reflecting the fact that it is unrecoverable and therefore impaired. To the extent that the impairment coverage ratio under IAS 39 is identical to that under IFRS 9, the impact of ISP on transition to IFRS 9 is a gross-up of the advance and loss allowance by the amount of the suspended interest, with no impact on retained earnings. Where the coverage ratios under the two standards differ, the difference is reflected in retained earnings. The amount of ISP under IAS 39 was N$67.2 million and remained the same under IFRS9. Advances are increased by N$67.2 million and impairments increased by N$67.2 million.

Salient features of the group results

	Six months ended 31 December		Year ended 30 June
	2018	2017	2018
Selected ratios			
Return on average shareholders' equity (%)	**22.9**	22.9	23.3
Return on average assets (%)	**2.7**	2.7	2.7
Cost to income ratio (%)	**49.9**	51.2	53.5

Capital adequacy

Banking Operations

N$'000	Unaudited Six months ended 31 December 2018	Unaudited Six months ended 31 December 2017	Audited Year ended 30 June 2018
Risk weighted assets			
Credit risk	25 533 193	22 819 644	23 695 641
Market risk	18 738	51 408	19 240
Operational risk	4 364 309	4 080 791	4 228 853
Total risk weighted assets	29 916 240	26 951 843	27 943 734
Regulatory capital			
Share capital and share premium	1 142 792	1 142 792	1 142 792
Retained profits	3 256 116	2 731 870	3 506 042
Capital impairment	(98 521)	(150 923)	(104 244)
	4 300 387	3 723 739	4 544 590
Eligible subordinated debt	400 000	400 000	400 000
General risk reserve, including portfolio impairment	301 504	285 246	291 663
Current board approved profits	263 950	243 787	
Total tier 2	965 454	929 033	691 663
Total tier 1 and tier 2 capital	5 265 841	4 652 772	5 236 253
Banking group			
Capital adequacy ratios			
Tier 1	14.3%	13.8%	16.2%
Tier 2	3.3%	3.5%	2.5%
Total	17.6%	17.3%	18.7%
Tier 1 leverage ratio	10.2%	9.6%	11.7%

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

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