Standard Bank Namibia Limited

Annual financial statements 2016

Standard Bank Moving Forward™

Annual financial statements

The reports and statements set out below comprise the annual financial statements presented to the shareholder

Directors' responsibilities and approval

The directors are responsible for the preparation, integrity and fair presentation of the consolidated and separate financial statements of SBN Holdings Limited. The financial statements presented on pages 1 to 107 have been prepared in accordance with International Financial Reporting Standards, and include amounts based on judgements and estimates made by management.

The going concern basis has been adopted in preparing the consolidated and separate financial statements. The directors have a reasonable expectation that the group will have adequate resources to continue in operational existence and as a going concern for the foreseeable future. These financial statements support the viability of the group.

The consolidated and separate financial statements have been audited by the independent auditors, PricewaterhouseCoopers who were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

The audit report of the independent auditor is presented on page 3.

The annual financial statements set out on pages 1 to 107, which have been prepared on the going concern basis, were approved by the board on 23 March 2017 and were signed on its behalf by:

Mr H Maier
Chairman

Mr VJ Mungunda
Chief executive

Independent auditor's report

To the shareholders of Standard Bank Namibia Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Standard Bank Namibia Limited (The Company) as at 31 December 2016, and financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Namibia.

What we have audited

Standard Bank Namibia's financial statements, set out on pages 7 to 107 comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies; and
- the directors' report for the year the ended.
- Certain required disclosures have been presented elsewhere in the Annual financial statements, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) and other independence requirements applicable to performing audits of financial statements in Namibia. We have fulfilled our other ethical responsibilities in accordance with this code and in accordance with other ethical requirements applicable to performing audits in Namibia.

Our audit approach

Overview

Overall company materiality	N$35 300 000, which represents 5% of profit before tax.
Key Audit Matter	Impairment of loans and advances

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	N$35 300 000
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Impairment of loans and advances (Refer to note 5 of the annual financial statements)	
As at 31 December 2016, specific impairment allowances of N$92 291 thousand and portfolio impairment allowances of N$40 920 thousand were recorded against gross loans and advances to customers of N$19 020 843 thousand. The calculation of the credit impairment for loans and advances was considered a matter of most significance during the audit as the estimate for credit impairment for loans and advances is complex, subjective and requires significant judgement by management.	Our audit included considering the appropriateness of accounting policies and assessing the loan impairment methodology in order to compare these with the requirements of IAS 39 Financial Instruments: Recognition and Measurement (IAS 39).
Specific impairments Management calculates specific impairment for all non-performing loans at each reporting date on an individual loan basis. Non-performing loans include those loans for which management has identified objective evidence of default, such as a breach of a material loan covenant or condition, as well as those loans for which instalments are due and unpaid for 90 days or more. Specific impairments are calculated on an individual loan basis as the capital outstanding less proceeds from collateral held by the bank if applicable. Significant judgements and assumptions relating to specific impairments include: • valuation of collateral; • recoverability of collateral.	**Specific impairments** Where impairment was individually calculated, for a sample of loans and advances; • We tested to ascertain whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner by reviewing watchlists as well as credit committee meeting minutes; • We assessed the adequacy and recoverability of collateral by examining signed documents on security held by the entity. We found the adequacy and recoverability of the security to be reasonable. • We assessed the valuation of collateral by comparing values to external publicly available information such as market values for properties and other assets. The valuations tested were deemed to be reasonable. • We tested the mathematical accuracy of the impairment allowance calculations for a sample of loans by agreeing information to source documents and re-performing the calculation. • We selected a sample of advances that whose instalments were due and unpaid for 90 days or more and identified that all of these advances were specifically impaired.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Portfolio impairments Management calculates portfolio impairments for all performing loans at each reporting date on a portfolio basis. Portfolio impairment estimates impairment for loans and advances where a loss event has occurred, but is not yet identified. Management estimates portfolio impairments based on historical loss ratios, adjusted for current national and industry specific economic conditions present at the reporting date. This ratio is applied to outstanding performing loans as at the reporting date and scaled to the estimated loss emergence period. Portfolio impairments are calculated using a statistical model. Significant judgements and assumptions relating to inputs in the statistical model include: • The Emergence Period - The period of time that it takes for the identification of a loss event. Management base their assumption on their knowledge of the banking business in Namibia and the nature of the retail book. • The Probability of Default - The probability of an account moving from current state to a defaulted state during the outcome period. • The Outcome Period – The period of time required for an account that experienced a credit event to either cure or default. • Roll rates - The probability of an account which does not currently show evidence of impairment moving into arrears over the emergence period; and • Loss Given Default - The percentage of the balance in default that is not expected to be recovered.	**Portfolio impairments** We assessed the appropriateness of the model used by the Bank with the assistance of our valuation experts at a Standard Bank Group audit team level by performing amongst others the following procedures: • We compared the emergence period to industry norms and historical data. We found the emergence period used to be reasonable. • For the outcome period, we tested the realisation of the securities against the loans and the different processes the bank would have to go through in order to realise securities. • We recalculated the Probability of Default and Roll Rates based on historical data. We found the Probability of Default and Roll Rates to be reasonable in relation to the historical data. • We compared the Loss Given Default used in the model to historical trends. We found the Loss Given Default to be reasonable compared to the historical trends. • We tested mathematical accuracy of the model by re-performing an independent calculation of the model. • We compared the portfolio provision expressed as a percentage of gross loans and advances to public available information about the industry in Namibia. We found the portfolio provision expressed as a percentage of loans and advances to be reasonable based on the available information about the banking industry in Namibia.

Other information

The directors are responsible for the other information. The other information comprises the directors' responsibilities and approval and the information in annexure C that is marked unaudited, which we obtained prior to the date of this auditor's report. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Namibia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Nangula Uaandja.

Pricewaterhouse Coopers.

PricewaterhouseCoopers.
Chartered Accountants (Namibia)
Registered Accountants and Auditors

Per: Nangula Uaandja
Partner
Windhoek, 23 March 2017

Directors' report

for the year ended 31 December 2016

The directors submit their report for the year ended 31 December 2016.

Review of activities

Main business and operations

Standard bank Namibia Limited is a Namibian registered commercial bank and its operations are confined to Namibia, where it has offices in all the main centres with the head office in Windhoek. As a registered bank, a full range of banking services is offered, including ancillary services provided as follows:

- Insurance broking services through fellow subsidiary companies, Stanfin Namibia (Proprietary) Limited and Standard Insurance Brokers (Namibia) (Proprietary) Limited.
- Safe custodianship through its 100%-owned subsidiary company, Standard Bank Namibia Nominees (Proprietary) Limited.
- Asset management and unit trust services through a related company, Liberty Life Namibia Limited.

The bank also offers an international banking service through its association with Standard Bank Group Limited, a company registered in the Republic of South Africa and dual listed on the Johannesburg Stock Exchange and Namibian Stock Exchange, with representation throughout Africa.

Registered and business address

5th Floor, Standard Bank Centre, Corner of Werner List Street and Post Street Mall, PO Box 3327, Windhoek, Namibia

Registration number

78/01799

Country of incorporation

Republic of Namibia

Results for the period

Net profit of the company was N$478 million (2015: N$470 million profit), after taxation of N$204 million (2015: N$200 million).

Events after the reporting period

There were no events after the reporting date to report.

Authorised and issued share capital

The bank authorised share capital consisted of 600 000 000 ordinary shares of 1 cent each of which 200 001 500 have been issued.

Borrowings

The group's borrowings consist mainly of deposit and current accounts originated through banking operations and long-term financing.

Property and equipment

The group's property and equipment are disclosed in note 8 to the annual financial statements.

Dividends

A dividend of N$235 million was declared and paid in the year under review (2015: N$150 million).

Ownership

At 31 December 2016, Standard Bank Group Limited owned 89.9% of the issued share capital and the following directors each hold 100 shares:

Mr H Maier	Mr BT Mandy
Mr VJ Mungunda	Mr JL Muadinohamba
Adv N Bassingthwaighte	Ms PM Nyandoro
Mrs B Rossouw	Mr IH Tjombonde
Mr A Gain	

The directors have no beneficial interest in the ordinary shares which are held on behalf of Standard Bank Group Limited.

Directors

The directors of the company during the year and to the date of this report are as follows:

STANDARD BANK NAMIBIA LIMITED	
Mr H Maier	Namibian
Mr VJ Mungunda	Namibian
Adv N Bassingthwaighte	Namibian
Mrs B Rossouw	Namibian
Mr A Gain	South African
Mr BT Mandy (appointed 8 December 2016)	Namibian
Mr JL Muadinohamba	Namibian
Mrs M Namundjebo-Tilahun (Retired June 2016)	Namibian
Ms PM Nyandoro	Zimbabwean
Mr IH Tjombonde	Namibian

Company secretary

Adv S Tjijorokisa

Interest in subsidiaries

The bank owns 100% of the share capital of Standard Bank Namibia Nominees (Proprietary) Limited, a registered safe custodian. The bank performs all administrative and management functions on behalf of the subsidiary and as such the subsidiary's balances and results are included in the bank's numbers. Therefore, the consolidated financial position and results equate to those of the bank.

Statements of financial position

as at 31 December 2016

	Note	2016 N$'000	2015 N$'000
Assets			
Cash and balances with central banks	1	**1 359 873**	923 516
Derivative assets	2	**55 497**	168 413
Trading assets	3	**291 426**	313 679
Financial investments	4	**3 055 613**	3 329 204
Current tax receivable		**41 185**	
Loans and advances	5	**19 398 747**	17 392 119
Other assets	6	**603 073**	565 528
Assets in group companies and joint ventures	7	**1 658 892**	862 606
Property and equipment	8	**394 448**	389 596
Intangible assets	9	**347 115**	
Deferred taxation asset	13		46 738
Total assets		**27 205 869**	23 991 399
Equity and liabilities			
Equity		**2 538 272**	2 281 535
Share capital – ordinary	10	**2 000**	2 000
Share premium on issue of shares	11	**591 230**	591 230
Reserves		**1 945 042**	1 688 305
Liabilities		**24 667 597**	21 709 864
Derivative liabilities	2	**50 412**	231 473
Trading liabilities	12	**151 127**	
Deposit and current accounts	14	**21 291 026**	18 197 806
Debt securities issued	15	**1 215 249**	749 700
Provisions and other liabilities	16	**482 572**	672 209
Loans from group companies	7	**1 468 914**	1 858 618
Current tax payable			58
Deferred taxation liability	13	**8 297**	
Total equity and liabilities		**27 205 869**	23 991 399

Statements of profit or loss

for the year ended 31 December 2016

	Note	2016 N$'000	2015 N$'000
Net interest income		**1 204 741**	1 146 205
Interest income	23	**2 268 137**	2 025 845
Interest expense	24	**(1 063 396)**	(879 640)
Non-interest revenue		**845 777**	781 874
Net fee and commission revenue		**713 769**	633 967
Fee and commission revenue	25	**858 510**	745 594
Fee and commission expense	26	**(144 741)**	(111 627)
Trading revenue	27	**121 056**	137 046
Other revenue	28	**10 952**	10 861
Total income		**2 050 518**	1 928 079
Credit impairment charges	29	**(90 933)**	(85 309)
Income after credit impairment charges		**1 959 585**	1 842 770
Operating expenses	30	**(1 255 990)**	(1 156 856)
Net income		**703 595**	685 914
Share of profit from equity accounted investments	7	**2 295**	1 311
Net income before indirect taxation		**705 890**	687 225
Indirect taxation	31	**(24 717)**	(17 866)
Profit before direct taxation		**681 173**	669 359
Direct taxation	31	**(203 561)**	(199 717)
Profit for the year		**477 612**	469 642

Consolidated statement of other comprehensive income

for the year ended 31 December 2016

	2016 N$'000	2015 N$'000
Profit for the year	**477 612**	469 642
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Net change in fair value of available-for-sale financial assets	**11 502**	(16 906)
Other comprehensive income for the year net of taxation[1]	**11 502**	(16 906)
Total comprehensive income	**489 114**	452 736

[1] The income tax relating to components of OCI is disclosed in note 30.3.

Statements of changes in equity

for the year ended 31 December 2016

	Total share capital[1] N$'000	Available-for-sale revaluation reserve[2] N$'000	Share-based payment reserve[3] N$'000	Statutory credit risk reserve[4] N$'000	Post-employment benefit reserve[5] N$'000	Retained earnings N$'000	Total N$'000
Balance as at 1 January 2015	443 230	(916)	9 573	122 578	6 272	1 233 793	1 814 530
Profit for the year						469 642	469 642
Other comprehensive income		(16 906)					(16 906)
Total comprehensive income for the year		(16 906)				469 642	452 736
Equity-settled share-based payment transactions			14 269				14 269
Issue of shares	150 000						150 000
Transfer between reserves				15 000		(15 000)	
Dividends						(150 000)	(150 000)
Total contributions by and distributions to owners of company recognised directly in equity	150 000		14 281	15 000		(165 000)	14 281
Balance as at 31 December 2015	593 230	(17 822)	23 842	137 578	6 272	1 538 435	2 281 535
Profit for the year						**477 612**	**477 612**
Other comprehensive income		**11 502**					**11 502**
Total comprehensive income for the year		**11 502**				**477 612**	**489 114**
Equity-settled share-based payment transactions			**2 623**				**2 623**
Transfer between reserves				**10 300**		**(10 300)**	
Dividends						**(235 000)**	**(235 000)**
Total contributions by and distributions to owners of company recognised directly in equity			**2 623**	**10 300**		**(245 300)**	**(232 377)**
Balance as at 31 December 2016	**593 230**	**(6 320)**	**26 465**	**147 878**	**6 272**	**1 770 747**	**2 538 272**

1 Please refer to notes 10 and 11 for further information.
2 Available-for-sale reserve: refer to the available-for-sale financial assets section in accounting policy: Financial instruments.
3 Share-based payment reserve: refer to accounting policy: Equity-linked transactions.
4 The statutory credit risk reserve relates to the Bank of Namibia reserve requirements.
5 The post-employment benefit reserve relates to medical scheme benefits to certain qualifying employees, retired employees and their registered dependants (refer to note 32 for detailed disclosure).

Statements of cash flows

for the year ended 31 December 2016

	Note	BANK 2016 N$'000	2015 N$'000
Net cash flow from operations		**636 516**	(655 799)
Cash flow from operations		**(393 905)**	(1 598 608)
Net income before indirect taxation		**705 890**	687 225
Adjusted for:		**(1 068 751)**	(1 028 359)
Credit impairment charges	29	**90 933**	85 309
Depreciation and amortisation	30	**83 545**	73 747
Equity-settled share-based payments	35	**8 162**	15 964
Fair value adjustments financial instruments	28	**87**	(349)
Fair value adjustments trading assets	27	**(27 604)**	(17 825)
Indirect taxation	31	**(24 717)**	(17 866)
Interest expense	24	**1 063 396**	879 640
Interest received	23	**(2 268 137)**	(2 025 845)
Net movement in post-employment benefits		**3 826**	(10 450)
Profit on sale of property and equipment	30	**(4 355)**	(1 211)
Dividends received	28	**8 408**	(8 162)
Income from equity accounted investments	7	**(2 295)**	(1 311)
Increase in income earning assets	32.1	**(2 467 740)**	(2 952 868)
Increase in deposits and other liabilities	32.2	**2 436 696**	1 695 394
Interest received		**2 259 974**	1 989 356
Dividends received	28	**(8 408)**	8 162
Interest paid		**(1 025 964)**	(865 517)
Tax paid	32.3	**(195 181)**	(189 192)
Net cash flows from investing activities		**(431 159)**	(137 013)
Purchase of property and equipment	8	**(107 051)**	(175 732)
Purchase of intangible assets	9	**(361 160)**	
Sale of property and equipment	32.4	**37 053**	38 719
Net cash flows from financing activities		**231 000**	15 000
Shares issued			150 000
Senior debt redeemed		**(133 800)**	(292 000)
Senior debt issued		**599 800**	307 000
Dividends paid	32.5	**(235 000)**	(150 000)
Total cash and balances with central banks movement for the year		**436 357**	(777 812)
Cash and balances with central banks at beginning of the year	1	**923 516**	1 701 328
Total cash and balances with central banks at end of the year	1	**1 359 873**	923 516

Accounting policy elections

The principal accounting policies applied in the presentation of the group and company's annual financial statements are set out below.

1. Basis of preparation

The group's consolidated and company's separate annual financial statements (annual financial statements) are prepared in accordance with IFRS as issued by the IASB, its interpretations adopted by the IASB and the Namibian Companies Act. The annual financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- available-for-sale financial assets, financial assets and liabilities classified at fair value through profit or loss and liabilities for cash-settled share-based payment arrangements
- post-employment benefit obligations that are measured in terms of the projected unit credit method.

The following principal accounting policy elections in terms of IFRS have been made, with reference to the detailed accounting policies shown in brackets:

- purchases and sales of financial assets under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned are recognised and derecognised using trade date accounting (accounting policy 3)
- intangible assets and property and equipment are accounted for at cost less accumulated amortisation and impairment (accounting policies 6)
- intercompany transactions between the group's continuing and discontinued operation are not eliminated but presented as part of the group's respective continuing and discontinued operation's results (accounting policy 9)
- the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis (accounting policy 4).

2. Functional and presentation currency

The annual financial statements are presented in Namibian dollar, which is the functional and presentation currency of the group and the company. All amounts are stated in thousands of dollar (N$'000), unless indicated otherwise.

3. Changes in accounting policies

The accounting policies are consistent with those reported in the previous year except as required in terms of the adoption of the following:

Adoption of new and amended standards effective for the current financial period

The accounting policies are consistent with those reported in the previous year except as required in terms of the adoption of the following amendments effective for the current period:

- Amendment to IFRS 11 Joint Arrangements (IFRS 11)
- IAS 27 Separate Financial Statements (IAS 27): amendment which allows entities preparing separate financial statements to utilise the equity method to account for investments in subsidiaries, joint ventures and associates.

Early adoption of revised standards

- Amendment to IAS 7 Statement of Cash Flows (IAS 7)
- Amendment to IAS 12 Income Taxes (IAS 12).

The abovementioned amendments to the IFRS standards and circular, adopted on 1 January 2016, did not have any effect on the group's previously reported financial results or disclosures and had no material impact on the group's accounting policies.

Key management assumptions

In preparing the financial statements, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain future events that are believed to be reasonable under the circumstances. No material changes to assumptions have occurred during the year.

1. Impairment of available-for-sale equity investments

The bank determines that available-for-sale equity investments are impaired and recognised as such in profit or loss when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the bank evaluates, among other factors, the normal volatility in the share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Had the declines of financial instruments' fair values below cost been considered significant or prolonged, the company would have suffered an additional loss of N$6 320 thousand (2015: N$17 822 thousand) in its financial statements, being the transfer of negative revaluations within available-for-sale reserves to profit or loss.

2. Income taxation

The bank is subject to direct and indirect taxation in Namibia. There are many transactions and calculations for which the ultimate taxation determination has an element of uncertainty during the ordinary course of business. The bank recognises liabilities based on objective estimates of the quantum of taxes that may be due. Where the final taxation determination is different from the amounts that were initially recorded, such differences will impact the income taxation and deferred taxation expense in the period in which such determination is made.

3. Credit impairment charge

Portfolio loan impairments

The bank assesses its loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in profit or loss, the bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. The impairment for performing and non-performing but not specifically impaired loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period. The average loss emergence period applied to all customers is three months (2015: three months).

Specific loan impairments

Non-performing loans include those loans for which the bank has identified objective evidence of default, such as a breach of a material loan covenant or condition, as well as those loans for which instalments are due and unpaid for 90 days or more. Management's estimates of future cash flows on individual impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Expected time to recover security and recoveries of individual loans as a percentage of the outstanding balance is estimated to be between three and six months for all customers.

4. Fair value of financial instruments

The fair value of financial instruments, such as unlisted equity investments and equity derivatives that are not quoted in active markets is determined by using valuation techniques. Wherever possible, models use only observable market data. Where required, these models incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of financial instruments.

The total amount of the change in fair value estimated using a valuation technique not based on observable market data that was recognised in profit or loss for the year ended 31 December 2016 was a profit of nil million (2015: nil million profit).

The additional disclosures with regards to fair value measurements of financial instruments are set out in note 16.

5. Financial risk management

The company's risk management policies and procedures are disclosed in the risk and capital management section (Annexure C) of the annual report.

6. Share-based payments

The company has both cash and equity-settled share incentive schemes which are issued to qualifying employees based on the rules of the scheme. The company uses the Black-Scholes option pricing model to determine the fair value of awards at grant date for its equity-settled share incentive schemes. The valuation of the company's obligations with respect to cash-settled share incentive scheme obligations is determined with reference to the group's parent company's share price, which is an observable market input. In determining the expense to be recognised for both cash- and equity-settled share schemes the group estimates the expected future vesting of the awards by considering staff attrition levels. The group also makes estimates of the future vesting of awards that are subject to non-market vesting conditions by taking into account the probability of such conditions being met.

7. Other

The nature of other assumptions or other estimation uncertainty for pensions and other post-employment benefits are disclosed in note 32.

Notes to the annual financial statements

1. Cash and balances with central banks

	GROUP	
	2016 N$'000	2015 N$'000
Coins and bank notes	**444 343**	461 601
Balances with the Bank of Namibia	**915 530**	461 915
Reserve requirement balance[1]	**243 571**	229 381
Temporary excess balance	**671 959**	232 534
	1 359 873	923 516

[1] Deposits are placed with the Bank of Namibia for the purpose of reserve requirements and are therefore not available for use.

2. Derivative instruments

2.1 Use and measurement of derivative instruments

In the normal course of business, the bank enters into a variety of derivative transactions for trading purposes. Derivative instruments used by the bank include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

2.2 Derivatives held-for-trading

The bank transacts derivative contracts to address client demand, both as a market maker in the wholesale markets and in structuring tailored derivatives for clients. The bank also takes proprietary positions for its own account. Trading derivative products include the following:

	Net fair value N$'000	Fair value of assets N$'000	Fair value of liabilities N$'000	Contract/ notional amount N$'000
31 December 2016				
Foreign exchange derivatives				
– with third parties	**(21 341)**	**14 526**	**(35 867)**	**1 161 394**
– inter-group	**22 156**	**36 701**	**(14 545)**	**1 161 394**
Interest rate derivatives				
– inter-group	**4 270**	**4 270**		**36 751**
Total derivative assets/(liabilities)	**5 085**	**55 497**	**(50 412)**	
31 December 2015				
Foreign exchange derivatives				
– with third parties	42 181	105 109	(62 928)	1 359 575
– inter-group	(105 241)	63 304	(168 545)	1 626 247
Total derivative assets/(liabilities)	(63 060)	168 413	(231 473)	

3. Trading assets

	2016 N$'000	2015 N$'000
Government, municipality and utility bonds	**163 403**	14 990
Treasury bills	**128 023**	298 689
	291 426	313 679

4. Financial investments

Short-term negotiable securities	**1 740 701**	1 960 277
Other financial investments	**1 314 912**	1 368 927
	3 055 613	3 329 204
Comprising:		
Government, municipality and utility bonds	**154 134**	310 586
Treasury bills	**1 740 701**	1 960 277
Mutual funds	**1 160 778**	1 058 341
	3 055 613	3 329 204

Financial investments with a value of N$160 million (2015: N$150 million) are pledged to Bank of Namibia as security. The pledged assets are used as collateral should Standard Bank not have sufficient funds available for the settlement balance on Bank of Namibia.

5. Loans and advances

	2016 N$'000	2015 N$'000
5.1 Loans and advances net of impairments		
Loans and advances to banks	**511 114**	373 097
Loans and advances to customers	**18 887 633**	17 019 022
Gross loans and advances to customers	**19 020 843**	17 216 332
Mortgage loans	**7 705 766**	7 063 798
Instalment sale and finance leases	**3 579 044**	3 216 421
Card debtors	**217 025**	229 422
Overdrafts and other demand loans	**2 167 433**	2 201 255
Term lending	**5 351 575**	4 505 436
Credit impairments for loans and advances (note 5.3)	**(133 210)**	(197 310)
Specific credit impairments	**(92 291)**	(161 250)
Portfolio credit impairments	**(40 920)**	(36 060)
Net loans and advances	**19 398 746**	17 392 119

5. Loans and advances continued

5.2 Instalment sale and finance leases

	2016 N$'000	2015 N$'000
Gross investment in instalment sale and finance leases	**4 298 107**	3 831 754
Receivable within one year	**168 409**	127 521
Receivable after one year but within five years	**4 129 698**	3 704 233
Unearned finance charges	**(719 063)**	(615 333)
Net investment in instalment sale and finance leases	**3 579 044**	3 216 421
Receivable within one year	**161 250**	122 511
Receivable after one year but within five years	**3 417 794**	3 093 910

The instalment sale and finance leases are entered into on market-related terms.

5.3 Credit impairments for loans and advances

A reconciliation of the allowance for impairment losses for loans and advances to customers, by class:

	Mortgage lending N$'000	Instalment sale and finance leases N$'000	Card debtors N$'000	Other loans and advances N$'000	Corporate lending N$'000	Total
31 December 2016						
Specific impairments						
Balance at beginning of the year	**(10 272)**	**(45 349)**	**(8 418)**	**(97 211)**		**(161 250)**
Impaired accounts written off	**1 895**	**32 793**	**4 669**	**115 282**		**194 193**
Net impairments raised and released	**(4 430)**	**(24 704)**	**(2 698)**	**(53 848)**		**(125 234)**
Balance at end of the year	**(12 807)**	**(37 260)**	**(6 447)**	**(35 777)**		**(92 291)**
Portfolio impairments						
Balance at beginning of the year	**(8 053)**	**(4 474)**	**(2 494)**	**(21 039)**		**(36 060)**
Net impairments raised and released	**682**	**(1 788)**	**432**	**(4 578)**		**(5 252)**
Exchange differences		**8**		**384**		**392**
Balance at end of the year	**(7 371)**	**(6 254)**	**(2 062)**	**(25 233)**		**(40 920)**
	(20 178)	**(43 514)**	**(8 509)**	**(61 010)**		**(133 211)**
31 December 2015						
Specific impairments						
Balance at beginning of the year	(8 269)	(35 013)	(9 226)	(78 883)	(1)	(131 392)
Impaired accounts written off	1 824	7 878	4 667	43 170	1	57 540
Net impairments raised and released	(3 827)	(18 214)	(3 859)	(61 498)		(87 398)
Balance at end of the year	(10 272)	(45 349)	(8 418)	(97 211)		(161 250)
Portfolio impairments						
Balance at beginning of the year	(11 302)	(4 156)	(2 269)	(19 767)		(37 494)
Net impairments raised and released	3 249	(317)	(225)	(618)		2 089
Exchange differences		(1)		(654)		(655)
Balance at end of the year	(8 053)	(4 474)	(2 494)	(21 039)		(36 060)
	(18 325)	(49 823)	(10 912)	(118 250)		(197 310)

6. Other assets

	2016 N$'000	2015 N$'000
Trading settlement assets	**494 409**	432 234
Other debtors	**107 359**	117 621
Items in the course of collection	**1 305**	15 673
	603 073	565 528

7. Group companies and joint ventures

	2016 N$'000	2015 N$'000
Assets in group companies (note 7.1)	**1 652 167**	858 175
Liabilities to group companies (note 7.2)	**(1 468 914)**	(1 858 618)
Interest in joint ventures (note 7.3)	**6 725**	4 431
	189 978	(996 012)

7.1 Assets in group companies

	2016 N$'000	2015 N$'000
Comprising:		
Trading assets	**150 522**	277 022
Other assets	**59 450**	59 207
Loans and advances	**1 442 195**	521 946
Subtotal as above	**1 652 167**	858 175
Other inter-group assets included under other balances		
Derivative assets (note 2)	**40 971**	168 413
Total inter-company asset balances	**1 693 138**	1 026 588

7.2 Liabilities to group companies

	2016 N$'000	2015 N$'000
Comprising:		
Subordinated debt	**(101 844)**	(101 694)
Deposit and current accounts	**(1 053 267)**	(1 428 074)
Other liabilities	**(313 803)**	(328 850)
Subtotal as above	**(1 468 914)**	(1 858 618)
Other inter-group liabilities included under other balances		
Derivative liabilities (note 2)	**(14 545)**	(231 473)
Total inter-company liability balances	**(1 483 459)**	(2 090 091)

7.3 Interest in joint ventures

	2016 N$'000	2015 N$'000
Carrying value at beginning of the year	**4 431**	3 120
Share of profits	**2 295**	1 311
Carrying value at end of the year	**6 726**	4 431
Reconciliation of interest in joint ventures		
Cost of investment	**1 154**	1 154
Share of reserves	**5 572**	3 277
Carrying value at end of the year	**6 726**	4 431

See Annexure B for further disclosure on the joint venture.

8. Property and equipment

	2016			2015		
	Cost N$'000	Accumulated depreciation N$'000	Carrying value N$'000	Cost N$'000	Accumulated depreciation N$'000	Carrying value N$'000
Freehold land and buildings	89 945	(3 999)	85 946	87 619	(3 283)	84 336
Leasehold property	98 271	(46 234)	52 037	98 946	(38 137)	60 809
Furniture and fixtures	177 626	(92 776)	84 851	176 129	(78 907)	97 222
Motor vehicles	28 567	(17 038)	11 529	23 803	(14 368)	9 435
Office equipment	41 170	(20 645)	20 526	30 742	(17 513)	13 229
IT equipment	386 386	(246 825)	139 560	331 960	(207 395)	124 565
	821 965	(427 517)	394 448	749 199	(359 603)	389 596

Reconciliation of property and equipment

	Opening balance N$'000	Additions N$'000	Disposals N$'000	Transfers N$'000	Depreciation N$'000	Closing balance N$'000
2016						
Freehold land and buildings	84 336	3 239	(589)		(717)	86 269
Leasehold property	60 809	31 475	(32 104)	(367)	(8 099)	51 714
Furniture and fixtures	97 222	9 687	(5)	367	(14 314)	92 957
Motor vehicles	9 435	5 641			(3 547)	11 528
Office equipment	13 229	2 500			(3 309)	12 420
IT equipment	124 565	54 510			(39 515)	139 560
	389 596	107 051	(32 698)	0	(69 502)	394 448
2015						
Freehold land and buildings	82 375	3 800	(3 286)	2 182	(735)	84 336
Leasehold property	37 678	45 913	(12 980)	(2 182)	(7 620)	60 809
Furniture and fixtures	82 762	42 545	(13 564)	(382)	(14 140)	97 221
Motor vehicles	7 139	5 665	(93)		(3 276)	9 435
Office equipment	10 815	4 904	(8)	382	(2 863)	13 230
IT equipment	104 350	72 905	(7 577)		(45 113)	124 565
	325 119	175 732	(37 508)		(73 747)	389 596

8. Property and equipment continued

	2016 N$'000	2015 N$'000
Revaluations The fair value of freehold property, based on valuations undertaken during 2014 by registered valuers was estimated as follows:		
Fair value of freehold land and buildings	**248 547**	248 547

A register of freehold land and buildings is available for inspection at the registered office of the bank.

There are no significant properties or equipment to which title is restricted or which are pledged as security for liabilities.

9. Intangible assets

	31 December 2016			31 December 2015		
	Cost	**Accumulated amortisation**	**Carrying value**	Cost	Accumulated amortisation	Carrying value
Computer software	**361 160**	**(14 045)**	**347 115**			
Total	**361 160**	**(14 045)**	**347 115**			

Reconciliation of intangible assets

	Opening balance	Additions	Disposals	Transfers	Amortisation	Closing balance
2016						
Computer software		**361 160**			**(14 045)**	**347 115**
Total		**361 160**			**(14 045)**	**347 115**

10. Ordinary share capital

	2016 N$'000	2015 N$'000
10.1 Authorised 6 000 000 (2015: 6 000 000) ordinary shares of 1 cent each	**6 000**	6 000
10.2 Issued 2 000 150 (2015: 2 000 150) ordinary shares of 1 cent each	**2 000**	2 000

11. Ordinary share premium

Share premium on issue of shares	**591 230**	591 230

12. Trading liabilities

	2016 N$'000	2015 N$'000
Repurchase and other collateralised agreements	**151 127**	
	151 127	

13. Deferred taxation assets

13.1 Deferred tax analysis

	2016 N$'000	2015 N$'000
Property, equipment and intangible assets	**(92 695)**	(55 351)
Assets on lease	**(9 701)**	(9 594)
Fair value adjustments included in available-for-sale reserves under equity	**2 974**	8 387
Impairment charges on loans and advances	**31 970**	47 354
Post-employment benefits	**35 739**	34 514
Provisions and other differences	**23 415**	21 428
Net deferred tax closing balance	**(8 297)**	46 738
Deferred tax asset	**91 380**	102 208
Deferred tax liabilities	**(99 677)**	(55 470)

13.2 Deferred tax reconciliation

	2016 N$'000	2015 N$'000
Net deferred tax balance at beginning of the year	**46 738**	46 307
Various categories of originating/(reversing) temporary differences for the year	**(55 035)**	431
Property, equipment and intangible assets	**(37 344)**	(8 293)
Assets on lease	**(107)**	1 351
Fair value adjustments included in available-for-sale reserves under equity	**(5 413)**	7 955
Impairment charges on loans and advances	**(15 384)**	6 822
Post-employment benefits	**1 225**	3 343
Provisions and other differences	**1 987**	(10 747)
Net deferred tax balance at end of the year	**(8 297)**	46 738
Temporary differences for the year comprise:		
Recognised in profit or loss	**(49 623)**	(7 524)
Recognised in other comprehensive income	**(5 413)**	7 955
Deferred tax gain/(loss)	**(55 035)**	431

14. Deposit and current accounts

	2016 N$'000	2015 N$'000
Deposits from banks	**244 117**	140 155
Deposits from customers	**21 046 909**	18 057 651
Current accounts	**3 812 644**	3 510 234
Cash management deposits	**5 993 807**	3 422 009
Card creditors	**31 104**	31 310
Call deposits	**4 686 373**	4 594 668
Savings accounts	**563 027**	939 765
Term deposits	**1 761 682**	1 316 776
Negotiable certificates of deposit	**4 198 272**	4 242 889
	21 291 026	18 197 806

15. Debt securities issued

	Maturity date	Carrying value 2016 N$'000	Notional value 2016 N$'000	Carrying value Interim 2016 N$'000	Notional value Interim 2016 N$'000
SBKN16	2016/07/07			104 590	99 500
SBKN17	2017/10/23	**198 099**	**194 900**	202 879	200 000
SBKN18	2018/07/11	**310 270**	**303 780**	340 505	333 000
SBNA22	2021/05/24	**504 555**	**499 800**		
SBNA23	2019/05/24	**100 599**	**100 000**		
SBKN24	2024/10/23	**101 726**	**100 000**	101 726	100 000
		1 215 249	**1 198 480**	749 700	732 500

The difference between the carrying amount and notional value represents transaction costs in the initial carrying amount and accrued interest.

16. Provisions and other liabilities

	2016 N$'000	2015 N$'000
Staff-related accruals	**90 034**	74 336
Obligation toward post-employment benefits	**111 683**	107 857
Other liabilities, accruals	**280 855**	490 016
	482 572	672 209

17. Classification of assets and liabilities

Accounting classifications and fair values of assets and liabilities

The table below sets out the bank's classification of financial assets and liabilities, and their fair values.

	Note	Held-for-trading N$'000	Designated at fair value N$'000
2016			
Assets			
Cash and balances with central banks	1		
Derivative assets	2	**55 497**	
Trading assets	3	**291 426**	
Financial investments	4		**1 314 912**
Loans and advances to banks	5		
Loans and advances to customers	5		
Assets in group companies and joint ventures	7		
Property, plant and equipment	8		
Other non-financial assets			
Other financial assets			
		346 923	**1 314 912**
Liabilities			
Derivative liabilities		**50 412**	
Trading liabilities		**151 127**	
Deposit and current accounts from banks			
Deposit and current accounts from customers			
Debt securities issued			
Loans from group companies			
Other non-financial liabilities			
Other financial liabilities			
		201 539	
2015			
Assets			
Cash and balances with central banks			
Derivative assets		168 413	
Trading assets		313 679	
Financial investments			1 058 341
Loans and advances to banks			
Loans and advances to customers			
Assets in group companies and joint ventures			
Other non-financial assets			
Other financial assets			
		482 092	1 058 341
Liabilities			
Derivative liabilities		231 473	
Deposit and current accounts from banks			
Deposit and current accounts from customers			
Debt securities issued			
Loans from group companies			
Other non-financial liabilities			
Other financial liabilities			
		231 473	

Loans and receivables N$'000	Available-for-sale N$'000	Other amortised cost N$'000	Other non-financial assets/liabilities N$'000	Total carrying amount N$'000	Fair value N$'000
1 359 873				**1 359 873**	**1 359 873**
				55 497	**55 497**
				291 426	**291 426**
	1 740 701			**3 055 613**	**3 055 613**
511 114				**511 114**	**511 114**
18 887 632				**18 887 632**	**18 949 891**
1 652 167			**6 725**	**1 658 892**	**1 658 892**
			394 448	**394 448**	**394 448**
			782 748	**782 748**	**945 350**
603 073				**603 073**	**603 073**
23 013 859	**1 740 701**		**1 183 922**	**27 600 317**	**27 825 177**
				50 412	**50 412**
				151 127	**151 127**
		244 117		**244 117**	**244 117**
		21 046 909		**21 046 909**	**21 046 909**
		1 215 249		**1 215 249**	**1 256 457**
		1 468 914		**1 468 914**	**1 468 914**
			8 297	**8 297**	**8 297**
		482 572		**482 572**	**482 572**
		24 457 761	**8 297**	**24 667 597**	**24 708 805**
923 516				923 516	923 516
				168 413	168 413
				313 679	313 679
	2 270 863			3 329 204	3 329 204
373 097				373 097	373 097
17 019 022				17 019 022	16 911 614
858 175			4 431	862 606	862 606
			436 334	436 334	602 506
565 528				565 528	565 528
19 739 338	2 270 863		440 765	23 991 399	24 050 163
				231 473	231 473
		140 155		140 155	140 155
		18 057 651		18 057 651	18 057 651
		749 700		749 700	760 992
		1 858 618		1 858 618	1 858 618
			58	58	58
		672 209		672 209	672 209
		21 478 333	58	21 709 864	21 721 156

18. Financial assets and liabilities at fair value

18.1 Financial assets and liabilities measured at fair value

The table below sets out the financial assets and liabilities measured at fair value for the bank.

	Note	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000
Group					
2016					
Assets					
Derivative assets	2		**55 497**		**55 497**
Trading assets	3	**291 426**			**291 426**
Financial investments	4	**154 134**	**2 901 479**		**3 055 613**
		445 560	**2 956 976**		**3 402 536**
Liabilities					
Derivative liabilities	2		**50 412**		**50 412**
Trading liabilities	12	**151 127**			**151 127**
		151 127	**50 412**		**201 539**
2015					
Assets					
Derivative assets	2		168 413		168 413
Trading assets	3	313 679			313 679
Financial investments	4	310 586	3 018 618		3 329 204
		624 265	3 187 031		3 811 296
Liabilities					
Derivative liabilities	2		231 473		231 473
			231 473		231 473

	VALUATION TECHNIQUE	INPUTS		VALUATION	LEVEL
		DERIVATIVES			
Options	The Black-Scholes model and discounted cash flow model or a combination of both	Market discount rate and curves	Spot prices of the underlying and	Standard derivative contracts	Level 2
Swaps	Discounted cash flow model	discount rate	the underlying	Forward curve is used	Level 2
Forward agreements	Discounted cash flow model	discount rate	the underlying	Forward curve is used	Level 2
		FINANCIAL INVESTMENTS AND TRADING SECURITIES			
Treasury bills	Discounted cash flow model	discount rate	curve	cash flows	Level 2
Money market funds	Discounted cash flow model	discount rate	Spread	cash flows	Level 2
		LIABILITIES			
NCDs	Discounted cash flow model	discount rate	Spread	cash flow	Level 2
Promissory notes	Discounted cash flow model	discount rate	Spread	cash flow	Level 2

18. Financial assets and liabilities at fair value continued

18.2 Assets and liabilities not measured at fair value for which the fair value is disclosed

Fair value hierarchy of items for which fair value is disclosed

	Note	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000
2016					
Assets					
Cash and balances with central banks	1	1 359 873			1 359 873
Loans and advances to banks	5		511 114		511 114
Loans and advances to customers	5		18 949 891		18 949 891
Assets in group companies	7		1 658 892		1 658 892
Property, plant and equipment	8		248 547	145 901	394 448
Intangible assets	9			347 115	
Other non-financial assets				945 350	945 350
Other financial assets				603 073	603 073
		1 359 873	19 131 931	2 041 439	22 186 128
Liabilities					
Deposits from banks	14	244 117			244 117
Deposits from customers	14		21 046 909		21 046 909
Debt securities issued	15	1 256 457			1 256 457
Loans from group companies	7		1 468 914		1 468 914
Other non-financial liabilities				8 297	8 297
Other financial liabilities				482 572	482 572
		1 500 574	22 515 823	490 869	24 507 266
2015					
Assets					
Cash and balances with central banks	1	923 516			923 516
Loans and advances to banks	5		373 097		373 097
Loans and advances to customers	5		16 911 614		16 911 614
Assets in group companies	7		858 175		858 175
Property, plant and equipment	8		248 547	316 981	565 528
		923 516	18 391 433	316 981	19 631 930
Liabilities					
Deposits from banks	14	140 155			140 155
Deposits from customers	14		18 057 651		18 057 651
Debt securities issued	15	760 992			760 992
Loans from group companies	7		1 858 618		1 858 618
		901 147	19 916 269		20 817 416

The hierarchy of levels is explained below:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the company can access at measurement date.

Level 2 Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

18. Financial assets and liabilities at fair value continued

18.2 Assets and liabilities not measured at fair value for which the fair value is disclosed continued

INSTRUMENT	VALUATION TECHNIQUE	OBSERVABLE INPUTS		DESCRIPTION OF VALUATION AND MAIN ASSUMPTION	LEVEL
		DERIVATIVES			
Options	The Black-Scholes model and discounted cash flow model or a combination of both	Market discount rate and curves	Spot prices of the underlying and correlation factors	Standard derivative contracts are valued using market-accepted models and quoted parameter inputs	Level 1
Swaps	Discounted cash flow model	Market discount rate and curves	Spot prices of the underlying	A forward curve is used to calculate future cash flows and then discounted using a discount curve over the contractual period	Level 1
Forward agreements	Discounted cash flow model	Market discount rate and curves	Spot prices of the underlying	A forward curve is used to calculate future cash flows and then discounted using a discount curve over the contractual period	Level 1
		FINANCIAL INVESTMENTS AND TRADING SECURITIES			
Bonds	Discounted cash flow model	Market discount rate and curves	Interest rate curve	Future cash flows are discounted using a market-related interest rate	Level 1
Treasury bills	Discounted cash flow model	Market discount rate and curves	Interest rate curve	Future cash flows are discounted using a market-related interest rate	Level 2
Money market funds	Discounted cash flow model	Market discount rate and curves	JIBAR rate + spread	Future cash flows are discounted using a market-related interest rate	Level 2
		LIABILITIES			
NCDs'	Discounted cash flow model	Market discount rate and curves	JIBAR rate + spread	Future cash flows are discounted using a market-related interest rate	Level 2
Bonds	Discounted cash flow model	Market discount rate and curves	JIBAR rate + spread	Future cash flows are discounted using a market-related interest rate	Level 1
Promissory notes	Discounted cash flow model	Market discount rate and curves	JIBAR rate + spread	Future cash flows are discounted using a market-related interest rate	Level 2
Short bonds	Discounted cash flow model	Market discount rate and curves	Interest rate curve	Future cash flows are discounted using a market-related interest rate	Level 1

19. Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements

IFRS requires a financial asset and a financial liability to be offset and the net amount presented in the statement of financial position when, and only when, the bank and company has a current legally enforceable right to set off recognised amounts, as well as the intention to settle on a net basis or to realise the asset and settle the liability simultaneously. There are no instances in 2015 where the bank and company have a current legally enforceable right to offset without the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The following table sets out the impact of offset, as well as the required disclosures where financial assets and financial liabilities that are subject to enforceable master netting arrangements or similar agreements, irrespective of whether they have been offset in accordance with IFRS.

It should be noted that the information below is not intended to represent the bank and company's actual credit exposure, nor will it agree to that presented in the statement of financial position.

	Gross amount of recognised financial assets[1] N$'000	Gross amount of recognised financial liabilities set off in the statement of financial position[2] N$'000	Net amount of financial assets subject to offset N$'000	Financial collateral and cash collateral received[3] N$'000	Net amount N$'000
Assets[4]					
2016					
Derivative assets	**55 497**		**55 497**	**(55 497)**	
Loans and advances	**20 521 456**	**(1 123 009)**	**19 398 747**	**(16 306 462)**	**3 092 285**
2015					
Derivative assets	168 413		168 413	(168 413)	
Loans and advances	18 079 716	(687 597)	17 392 119	(15 301 559)	2 090 560
Liabilities[4]					
2016					
Deposit and current accounts	**(22 414 035)**	**1 123 009**	**(21 291 026)**		**(21 291 026)**
Derivative liabilities	**(50 412)**		**(50 412)**	**50 412**	
2015					
Deposit and current accounts	(18 885 403)	687 597	(18 197 806)		(18 197 806)
Derivative liabilities	(231 473)		(231 473)	231 473	

1 Gross amounts are disclosed for recognised financial assets and financial liabilities that are either offset in the statement of financial position or subject to a master netting arrangement or a similar agreement, irrespective of whether the IFRS offsetting criteria is met.
2 The amounts that qualify for offset in accordance with the criteria per IFRS.
3 Related amounts not offset in the statement of financial position, that are subject to a master netting arrangement or similar agreement, including financial collateral (whether recognised or unrecognised) and cash collateral. In most cases, the bank and company is allowed to sell or repledge collateral received.
4 The most material amounts offset in the statement of financial position pertain to cash management accounts. The cash management accounts allow holding companies (or central treasury functions) to manage the cash flows of its bank by linking the current accounts of multiple legal entities within a bank. This allows for cash balances of the different legal entities to be offset against each other to arrive at a net balance for those banks. The cash management accounts are offset in the statement of financial position in terms of IFRS.
5 Related amounts not offset in the statement of financial position that are subject to a master netting arrangement or similar agreement, including financial (whether recognised or unrecognised) and cash collateral. In most instances, the counterparty may not sell or repledge collateral pledged by the bank and company.
* All items in the tables' respective line items have been measured on a consistent basis.

19. Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements continued

The table below sets out the nature of the agreements and the types of rights relating to items which do not qualify for offset but that are subject to a master netting agreement or similar agreement.

	NATURE OF AGREEMENT	RELATED RIGHTS
Derivative assets and liabilities	ISDAs	The agreement allows for offset in the event of default
Loans and advances to banks	Customer agreement and Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to the Banks Act requirements being met
Deposit and current accounts	Customer agreement and Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to the Banks Act requirements being met

20. Maturity analysis of assets

The table below sets out the maturity analysis of financial assets.

	Note	Overnight balances N$'000	Maturing within 1 year N$'000	Maturing after 1 year N$'000	Undated N$'000	Total N$'000
2016						
Cash and balances with central banks	1	**1 359 873**				**1 359 873**
Derivative assets	2		**55 497**			**55 497**
Trading assets	3	**132 475**	**158 951**			**291 426**
Financial investments	4	**1 779 349**	**115 486**		**1 160 778**	**3 055 613**
Loans and advances to banks	5	**511 114**				**511 114**
Loans and advances to customers	5	**2 851 328**	**4 582 611**	**10 547 808**	**905 886**	**18 887 633**
Assets in group companies and joint ventures	7	**1 652 167**		**6 725**		**1 658 892**
Other non-financial assets			**41 185**	**741 563**		**782 748**
Other financial assets		**603 073**				**603 073**
		8 889 379	**4 953 730**	**11 296 096**	**2 066 664**	**27 205 869**
2015						
Cash and balances with central banks	1	694 135		229 381		923 516
Derivative assets	2		168 413			168 413
Trading assets	3	25	298 566	15 088		313 679
Financial investments	4		1 966 868	303 994	1 058 342	3 329 204
Loans and advances to banks	5	373 097				373 097
Loans and advances to customers	5	2 210 745	3 666 629	11 338 958	(197 310)	17 019 022
Assets in group companies and joint ventures	7	858 175		4 431		862 606
Other non-financial assets				436 334		436 334
Other financial assets		565 528				565 528
		4 701 705	6 100 476	12 328 186	861 032	23 991 399

21. Maturity analysis of liabilities

	Redeemable on demand N$'000	Maturing within 1 month N$'000	Maturing between 1 – 6 months N$'000	Maturing between 6 – 12 months N$'000	Maturing after 12 months N$'000	Total N$'000
2016						
Liabilities						
Derivative liabilities		**17 541**	**25 322**	**7 549**		**50 412**
Trading liabilities					**151 127**	**151 127**
Deposit and current accounts	**14 000 657**	**755 925**	**3 899 021**	**1 450 692**	**1 184 730**	**21 291 026**
Loans from group companies	**1 468 914**					**1 468 914**
Debt issued securities				**198 099**	**1 017 150**	**1 215 249**
Others liabilities	**482 572**					**482 572**
	15 952 143	**773 467**	**3 924 343**	**1 656 340**	**2 353 007**	**24 659 300**
Unrecognised financial instruments						
Letters of credit and bankers' acceptances		**322**	**1 578**			**1 900**
Financial guarantees	**28 462**	**13 308**	**48 136**	**90 361**	**1 956 218**	**2 136 486**
Unutilised borrowing facilities	**3 528 852**					**3 528 852**
	3 557 314	**13 630**	**49 714**	**90 361**	**1 956 218**	**5 667 237**
2015						
Liabilities						
Derivative liabilities		42 316	179 370	9 787		231 473
Deposit and current accounts	12 635 233	364 224	2 394 006	1 612 209	1 179 847	18 185 518
Loans from group companies	1 642 526					1 642 526
Debt issued securities				104 590	645 110	749 700
Others liabilities	684 246					684 246
	14 962 005	406 540	2 573 375	1 726 586	1 824 957	21 493 463
Unrecognised financial instruments						
Letters of credit and bankers' acceptances		6 684	36 813			43 498
Financial guarantees	673 949	41 739	142 643	438 586	869 054	2 165 971
Unutilised borrowing facilities	3 189 833					3 189 833
	3 863 782	48 423	179 457	438 586	869 054	5 399 302

22. Contingent liabilities and commitments

	2016 N$'000	2015 N$'000
22.1 Contingent liabilities		
Letters of credit	**1 900**	43 498
Guarantees	**2 136 486**	2 165 971
Unutilised borrowing facilities[1]	**3 528 852**	3 189 833
	5 667 237	5 399 302

[1] Undrawn facilities are conditionally cancellable.

	2016 N$'000	2015 N$'000
22.2 Capital commitments		
Contracted capital expenditure	**11 802**	2 973

The expenditure will be funded from internal resources.

	2016 N$'000	2015 N$'000
22.3 Operating lease commitments		
Operating leases are:		
Properties		
Within one year	**44 844**	37 723
After one year but within five years	**60 190**	62 577
	105 035	100 300
Equipment		
Within one year	**998**	444
After one year but within five years	**709**	695
	1 707	1 139

These commitments comprise a number of separate operating leases in relation to property and equipment, none of which is individually significant to the group.

22.4 Legal proceedings

In the conduct of its ordinary course of business, the group is involved in litigation, lawsuits and other proceedings relating to alleged errors and omissions, or receives claims arising from the conduct of its business which can require the group to engage in legal proceedings in order to enforce and/or defend its rights.

While recognising the inherent difficulty of predicting the outcome of defended legal proceedings, management believes, based upon current knowledge and after consulting with legal counsel, that the legal proceedings currently pending against it should not have a material adverse effect on the consolidated financial position. The directors are satisfied, based on present information and the assessed probability of claims eventuating, that the group has adequate insurance programmes and provisions in place to meet such claims.

23. Interest income

	2016 N$'000	2015 N$'000
Interest on loans and advances and investments	**2 268 137**	2 025 845
	2 268 137	2 025 845
Comprising:		
Interest income on financial assets not carried at fair value through profit and loss	**2 268 137**	2 025 845
	2 268 137	2 025 845

24. Interest expense

	2016 N$'000	2015 N$'000
Current accounts	**2 873**	2 973
Savings and deposit accounts	**61 434**	75 989
Other interest-bearing liabilities	**999 089**	800 678
	1 063 396	879 640
Comprising:		
Interest expense on financial liabilities valued at fair value through profit and loss	**137 343**	117 309
Interest expense on financial liabilities not valued at fair value through profit and loss	**926 053**	762 331
Total interest expense	**1 063 396**	879 640

25. Fee and commission revenue

	2016 N$'000	2015 N$'000
Account transaction fees	**378 973**	468 811
Card-based commission	**129 240**	104 081
Electronic banking fees	**193 038**	30 913
Foreign currency service fees	**10 569**	15 361
Documentation and administration fees	**72 511**	66 131
Other	**74 179**	60 297
	858 510	745 594

All fee and commission revenue reported above relates to financial assets or liabilities not carried at fair value through profit or loss for the bank.

26. Fee and commission expenses

	2016 N$'000	2015 N$'000
Account transaction fees	**70 355**	51 251
Card-based commission	**69 160**	54 690
Electronic banking fees	**5 226**	5 686
	144 741	111 627

All fee and commission expenses reported above relate to financial assets or liabilities not carried at fair value through profit or loss for the bank.

27. Trading revenue

	2016 N$'000	2015 N$'000
Foreign exchange	**93 452**	119 221
Net fair value adjustments on held-for-trading financial assets	**27 604**	17 825
	121 056	137 046

28. Other revenue

	2016 N$'000	2015 N$'000
Fair value adjustments on designated at fair value financial assets	**(87)**	349
Property-related revenue	**411**	239
Other non-banking-related revenue	**2 220**	2 111
Dividends on unlisted financial investments	**8 408**	8 162
	10 952	10 861

29. Credit impairment charges

	2016 N$'000	2015 N$'000
Net credit impairments raised for loans and advances	**130 487**	117 311
Recoveries on loans and advances previously written off	**(39 554)**	(32 002)
	90 933	85 309
Comprising:		
Net specific credit impairment charges	**85 680**	87 398
Specific credit impairment charges	**125 234**	119 400
Recoveries on loans and advances previously written off	**(39 554)**	(32 002)
Portfolio credit impairment (reversals)/charges (note 5)	**5 252**	(2 089)
	90 933	85 309

30. Operating expenses

	2016 N$'000	2015 N$'000
Auditor's remuneration	**3 757**	3 831
Audit fees	**3 096**	3 293
Other services	**661**	538
Amortisation	**14 045**	
Communication expenses	**21 825**	20 976
Depreciation	**69 500**	73 747
IT expenses	**104 486**	160 726
Lease rentals on operating lease	**46 962**	49 823
Professional fees	**104 931**	89 474
Profit on sale of property and equipment	**(4 355)**	(1 211)
Premises costs	**40 165**	35 097
Staff costs	**651 560**	570 076
Salaries and allowances	**590 774**	508 807
Equity-settled share-based payments	**2 673**	6 469
Post-employment benefits – pension – defined contribution plan	**51 510**	42 053
Post-employment benefits – medical expenses	**6 603**	12 747
Other expenses	**203 114**	154 317
	1 255 990	1 156 856

31. Taxation

31.1 Indirect taxation

	2016 N$'000	2015 N$'000
Value added tax	**19 487**	16 624
Duties and other	**5 230**	1 242
	24 717	17 866

31.2 Direct taxation

	2016 N$'000	2015 N$'000
Normal taxation	**153 938**	192 193
Current year charge	**153 938**	194 810
Prior year charge		(2 617)
Deferred taxation	**49 623**	7 524
	203 561	199 717

31. Taxation continued

31.3 Tax attributable to components of other comprehensive income

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	Before tax N$'000	Tax (charge)/ credit N$'000	After tax N$'000
2016			
Change in fair value of available-for-sale financial assets	**16 915**	**(5 413)**	**11 502**
	16 915	**(5 413)**	**11 502**
2015			
Change in fair value of available-for-sale financial assets	(24 860)	7 954	(16 906)
	(24 860)	7 954	(16 906)

31.4 Namibian tax rate reconciliation

	2016 %	2015 %
The total tax charge for the year as a percentage of net income before indirect tax	**32.3**	31.7
Indirect taxation	**(3.5)**	(2.6)
Direct taxation charge for the year as a percentage of profit before indirect taxation	**28.8**	29.1
The charge for the year has been reduced as a consequence of:		
Dividends received	**0.4**	0.4
Other non-taxable income	**2.1**	1.4
Other permanent differences	**0.7**	0.6
Prior year adjustment		0.4
Standard rate of Namibian tax	**32.0**	32.0

32. Statement of cash flow notes

32.1 Decrease/(increase) in income-earning assets

	2016 N$'000	2015 N$'000
Financial investments	**293 000**	(1 255 415)
Trading assets	**41 708**	(255 873)
Loans and advances	**(2 085 268)**	(1 795 843)
Derivative assets	**112 916**	(123 486)
Interest in group companies	**(792 551)**	733 389
Other assets	**(37 545)**	(255 640)
	(2 467 740)	(2 952 868)

32.2 Increase/(decrease) in deposits and other liabilities

	2016 N$'000	2015 N$'000
Deposit and current accounts	**3 057 244**	685 580
Trading liabilities	**146 268**	
Derivative liabilities	**(181 061)**	187 729
Liabilities to group companies	**(386 752)**	450 511
Other liability – non-current portion	**(199 003)**	371 574
	2 436 696	1 695 394

32.3 Direct taxation paid

	2016 N$'000	2015 N$'000
Current tax at beginning of the year	**(58)**	2 943
Recognised in profit or loss and other comprehensive income	**(153 938)**	(192 193)
Current tax at end of the year	**(41 185)**	58
	(195 181)	(189 192)

32.4 Proceeds from the sale of property and equipment

	2016 N$'000	2015 N$'000
Net book value of disposals	**32 698**	37 508
Profit on disposal	**4 355**	1 211
Proceeds from disposals	**37 053**	38 719

32.5 Dividends paid

	2016 N$'000	2015 N$'000
Dividend declared during the year	**(235 000)**	(150 000)
	(235 000)	(150 000)

A dividend of 118 cents per share was declared and paid in 2016 (2015: 75 cents per share).

33. Post-employment benefits

	2016 N$'000	2015 N$'000
Amounts recognised as liabilities in the statement of financial position		
Post-employment healthcare benefits – medical aid	**111 683**	107 857
Amounts recognised as expenses in profit and loss for the year		
Retirement fund	**11 208**	42 053
Post-employment healthcare benefits – medical aid	**6 603**	12 626
	17 811	54 679

33.1 Retirement fund

All eligible full-time employees are members of the Standard Bank Namibia Pension Fund, which has been registered in Namibia in accordance with the requirements of the Pension Funds Act. The fund is a defined contribution fund and is governed by the Pension Funds Act of 1956, and is actuarially valued every three years. An actuarial valuation was conducted as at 31 December 2016 and the actuary certified the fund as being financially sound as at that date. Members of the fund comprise 99% of the full-time staff. The contribution to the pension fund is based on a percentage of pensionable earnings and charged to income as incurred.

	2016 N$'000	2015 N$'000
Employer's contribution for the year	**11 208**	42 053

33.2 Post-employment healthcare benefits

Post-employment medical scheme

The liability represents a post-employment healthcare benefit scheme that covers all employees who joined before 1 March 2009. The liability is unfunded and is valued every year using the projected unit credit method. The latest full statutory actuarial valuation was performed on 31 December 2016. The next actuarial valuation is to be performed on 31 December 2018.

Movement in the present value of defined medical scheme benefit obligation

	2016 N$'000	2015 N$'000
Balance at beginning of the year	**107 857**	97 407
Current service cost	**4 093**	3 789
Interest cost	**9 795**	8 837
Remeasurement of post-employment benefit obligations relating to change in financial and demographic assumptions	**(7 285)**	
Premiums paid	**(2 777)**	(2 176)
Balance at end of the year	**111 683**	107 857

33. Post-employment benefits continued

33.2 Post-employment healthcare benefits continued

	2016 N$'000	2015 N$'000
Consisting of:		
Present value of unfunded obligations	**111 683**	107 857
Unrecognised actuarial gains/losses		
Obligation recognised in the statement of financial position	**111 683**	107 857
The amounts recognised in profit or loss are determined as follows:		
Current service cost	**4 093**	3 789
Interest cost	**9 795**	8 837
Remeasurement of post-employment benefit obligations relating to change in financial and demographic assumptions	**(7 285)**	
Included in staff costs	**6 603**	12 626
The principal actuarial assumptions used for accounting purposes were:		
Discount rate	**11.10%**	9.18%
Medical inflation	**10.27%**	8.82%
Remaining service life of employees	**19.5 years**	20.9 years
Retirement age	**60 years**	60 years
Mortality rates used:		
During employment: SA85-90 (Light) ultimate table		
Post-employment: PA (90) ultimate table rated down two years plus 1% improvement per annum (from a base year of 2006).		
Current active employee members:		
Particulars in respect of the current employee members belonging to the medical scheme for which there is a post-retirement medical aid liability as at the investigation date are as follows:		
Number of employees	**364**	454
Average age	**40.5 years**	39 years
Current pensioner members		
Details of the current pensioner members belonging to the medical aid fund are as follows:		
Number of employees	**71**	71
Average age	**67.8 years**	67.8 years

33. Post-employment benefits continued

33.2 Post-employment healthcare benefits continued

Sensitivity analysis

		% change in obligation	
Assumption	Change in assumption	**2016**	2015
Healthcare cost inflation:	1% increase	**22.0**	22.0
	1% decrease	**(17.1)**	(17.1)
Mortality rate	PA (90)-1	**3.5**	3.7

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting year) has been applied as when calculating the pension liability recognised within the statement of financial position.

Through its defined post-employment medical plan, the group is exposed to a number of risks, the most significant of which are detailed below:

Changes in bond yields	A decrease in corporate bond yields will increase plan liabilities.
Inflation risk	The group post-employment medical obligation is linked to inflation, and higher inflation will lead to higher liabilities.
Life expectancy	The group post-employment medical obligation is to provide benefits for the life of the member, so an increase in life expectancy will result in an increase in the plan's liabilities.

34. Related party transactions

34.1 Parent

Standard Bank Namibia Limited is a wholly-owned subsidiary of SBN Holdings Limited which is a subsidiary of Standard Bank Group Limited.

34.2 Joint ventures

Refer to note 7.3 for the investment in joint venture balance.

34.3 Key management personnel

Key management personnel has been defined as directors of the group companies and executive management of Standard Bank Namibia Limited. Non-executive directors are included in the definition of key management personnel as required by IFRS. The definition of key management includes the close members of family of key management personnel and any entity over which key management exercises control or joint control. Close members of family are those family members who may be expected to influence, or be influenced by, that person in their dealings with Standard Bank Namibia Limited. They may include the individual's domestic partner and children, the children of the person's domestic partner, and dependants of the individual or the individual's domestic partner.

34. Related party transactions continued

34.3 Key management personnel continued

	2016 N$'000	2015 N$'000
Key management compensation		
Salaries and other short-term benefits	**27 594**	27 373
Post-employment benefits	**2 169**	1 962
IFRS 2 value of share options and rights expensed		213
	29 763	29 548
The transactions below are entered into in the normal course of business.		
Loans and advances		
Loans outstanding at beginning of the year	**20 885**	47 490
Change in key management structures	**(5 284)**	
Net loans granted during the year	**9 630**	(26 605)
Loans outstanding at end of the year	**25 231**	20 885
Interest income		
Loans include mortgage loans, vehicle and asset finance and credit cards. No specific impairments have been recognised in respect of loans granted to key management in the current or prior year.		
The mortgage loans and vehicle and asset finance are secured by the underlying assets.		
Deposit and current accounts		
Deposits outstanding at beginning of the year	**3 876**	3 279
Change in key management structures	**(1 339)**	
Net deposits received during the year	**553**	597
Deposits outstanding at end of the year	**3 090**	3 876
Interest paid		
Deposits include cheque, current and savings accounts.		

34.4 Investments

	2016 N$'000	2015 N$'000
Mutual funds	**653 784**	542 248

The Mutual funds are administered by Stanlib, a fellow subsidiary of the Standard Bank Group.

34. Related party transactions continued

34.5 Purchase of services

	Relationship	Type	2016 N$'000	2015 N$'000
Stanbic Africa Holdings	Fellow subsidiary	Royalty fees	**62 607**	60 402
Stanbic Africa Holdings	Fellow subsidiary	Information technology	**17 549**	27 160
Stanbic Africa Holdings	Fellow subsidiary	Licence fees	**20 014**	65 954
Stanbic Africa Holdings	Fellow subsidiary	Other services	**(427)**	405
Standard Bank of South Africa Ltd	Fellow subsidiary	Training	**10**	16
Namclear (Pty) Ltd	Joint venture	Interbank clearing costs	**13 673**	11 041
			113 426	164 978
34.6 Commissions and dividends received/(paid)				
Standard Bank of South Africa Ltd	Fellow subsidiary	Commission paid	**(14 988)**	(15 576)
Standard Bank of South Africa Ltd	Fellow subsidiary	Commission received	**18 858**	13 932
			3 870	(1 644)
34.7 Interest income/(expense)				
Standard Bank of South Africa Ltd	Fellow subsidiary	Interest income	**(56 591)**	(59 675)
Standard Bank of South Africa Ltd	Fellow subsidiary	Interest expense	**58 654**	68 273
			2 063	8 598
Contributions to funds				
Standard Bank Namibia Pension Fund	Defined contribution plan	Contributions	**11 208**	42 053
Liberty Life Namibia	Defined benefit plan	Contributions	**34 117**	37 654
			45 325	79 707
34.8 Related party year end balances				
Receivables from related parties				
Standard Bank of South Africa Ltd	Fellow subsidiary	Trading assets	**150 522**	277 022
Standard Bank of South Africa Ltd	Fellow subsidiary	Loans and advances	**1 441 833**	520 996
Stanbic Bank Botswana Ltd	Fellow subsidiary	Loans and advances	**243**	442
Stanbic Bank Zambia Ltd	Fellow subsidiary	Loans and advances	**45**	362
CfC Stanbic Bank Limited (Kenya)	Fellow subsidiary	Loans and advances	**74**	146
Standard Bank of South Africa Ltd	Fellow subsidiary	Derivatives	**40 971**	63 304
Standard Bank of South Africa Ltd	Fellow subsidiary	Other assets	**7 519**	9 511
Stanlib (Pty) Ltd	Fellow subsidiary	Other liabilities	**(831)**	(831)
Stanlib (Namibia) (Pty) Ltd	Fellow subsidiary	Other liabilities	**(33)**	(5)
			1 640 343	870 947

The loans issued to subsidiaries and fellow subsidiaries are repayable on demand. Interest is charged based on the prevailing market rate. The loans are unsecured and the loans are fully performing.

Derivatives are carried at fair value.

Sundry receivables with subsidiaries and fellow subsidiaries are repayable on demand and attracts no interest.

34. Related party transactions continued

34.8 Related party year end balances continued

	Relationship	Type	2016 N$'000	2015 N$'000
Payables to related parties				
Standard Bank of South Africa Ltd	Fellow subsidiary	Deposit and current accounts	**1 053 203**	1 428 082
Stanbic Bank Botswana Ltd	Fellow subsidiary	Deposit and current accounts	**39**	(8)
Stanbic Bank Zambia Ltd	Fellow subsidiary	Deposit and current accounts	**25**	
Standard Bank of South Africa Ltd	Fellow subsidiary	Derivatives	**14 545**	168 545
Standard Bank of South Africa Ltd	Fellow subsidiary	Other Liabilities	**72 969**	112 758
Standard Bank of South Africa Ltd	Fellow subsidiary	Subordinated debt	**101 844**	101 694
			1 242 625	1 811 071

Deposit and current accounts held with subsidiaries and fellow subsidiaries are repayable on demand. Interest is charged based on the prevailing market rate.

35. Equity-linked transactions

35.1 Share-based payments

The group's share incentive schemes enable key management personnel and senior employees to benefit from the performance of Standard Bank Group Limited and Liberty Holdings Limited shares.

	2016 N$'000	2015 N$'000
Summary of the group and company's share incentive schemes and expenses recognised in staff costs:		
Equity-settled share-based payments (GSIS and Purros)	**2 673**	6 463
Cash-settled share-based payments (EGS)		6
Deferred bonus scheme 2012 (DBS 2012)	**5 540**	1 695
Total expense recognised in staff costs	**8 213**	8 164
Summary of the group and company's share incentive schemes and expenses recognised in other expenses:		
Equity-settled share-based payments (GSIS and Purros)		7 800
Total expense recognised in other expenses		7 800
Summary of the liability recognised in other liabilities:		
Deferred bonus scheme 2012 (DBS 2012)	**7 697**	3 183
Total liability recognised in other liabilities	**7 697**	3 183

35. Equity-linked transactions continued

35.2 Equity compensation plans

The bank has three equity compensation plans, namely the Group Share Incentive Scheme (GSIS), the Equity Growth Scheme (EGS) and the Purros Share Scheme. The Group Share Incentive Scheme, which is equity-settled, confers rights to employees to acquire ordinary shares at the value of the SBG share price at the date the option is granted. The Equity Growth Scheme, which is cash-settled, was implemented in 2005 and represents appreciation rights allocated to employees. The eventual value of the right is effectively settled by the issue of shares equivalent in value to the value of the rights. The Purros Share Scheme, which is equity-settled, confers rights to employees to acquire ordinary shares in SBN Holdings at the date the option is granted.

The three schemes have five different sub-types of vesting categories as illustrated by the table below:

VESTING CATEGORIES	YEAR	% VESTING	EXPIRY
Type A	3, 4, 5	50, 75, 100	10 Years
Type B	5, 6, 7	50, 75, 100	10 Years
Type C	2, 3, 4	50, 75, 100	10 Years
Type D	2, 3, 4	33, 67, 100	10 Years
Type E	3, 4, 5	33, 67, 100	10 Years
Purros	1.5, 2.5, 3.5	33, 67, 100	

35.2.1 Equity-settled share-based payments

Group Share Incentive Scheme

A reconciliation of the movement of share options is detailed below:

	Option price range (N$)	Number of options	
	2016	2016	2015
Options outstanding at beginning of the year		126 488	191 538
Exercised	62,39 – 111,94	(4 500)	(62 625)
Lapsed	62,39 – 111,94	(16 563)	(12 425)
Transferred in/(out)	62,39 – 92	(66 275)	10 000
Options outstanding at end of the year		**39 150**	126 488

Share options were exercised regularly throughout the year. The weighted average share price for the year was N$151,63 (2015: N$147,808).

35. Equity-linked transactions continued

35.2 Equity compensation plans continued

35.2.1 Equity-settled share-based payments continued

The following options granted to employees, including executive directors, had not been exercised at 31 December 2016:

Number of ordinary shares	Option price range N$	Weighted average price N$	Option expiry year
2 000	**98,00**	**98,00**	**Year to 31 December 2017**
10 300	**92,00**	**92,00**	**Year to 31 December 2018**
15 600	**62,39**	**62,39**	**Year to 31 December 2019**
5 000	**111,94**	**111,94**	**Year to 31 December 2020**
6 250	**98,80**	**98,80**	**Year to 31 December 2021**
39 150			

The following options granted to employees, including executive directors, had not been exercised at 31 December 2015:

Number of ordinary shares	Option price range N$	Weighted average price N$	Option expiry year
8 500	98,00	98,00	Year to 31 December 2017
27 500	92,00	92,00	Year to 31 December 2018
23 125	62,39 – 81	64,70	Year to 31 December 2019
21 250	111,94	111,94	Year to 31 December 2020
44 813	93,74 – 98,8	96,54	Year to 31 December 2021
125 188			

Purros Share Scheme

No options have vested as at 31 December 2016.

35.2.2 Cash-settled share-based payments

Equity Growth Scheme

A reconciliation of the movement of appreciation rights is detailed below:

	Average price range (N$)	Number of rights	
	2016	**2016**	2015
Reconciliation			
Rights outstanding at beginning of the year			3 000
Exercised[1]			(3 000)
Transferred out			
Rights outstanding at end of the year[2]			

[1] During the year, 0 (2015: 0) SBG shares were issued to settle the appreciated rights value.

[2] At the end of the year, the group would need to issue 1 393 (2015: 1 393) SBG shares to settle the outstanding appreciated rights value.

35. Equity-linked transactions continued

35.2 Equity compensation plans continued

35.2.2 Cash-settled share-based payments continued

The Equity Growth Scheme rights are only awarded to individuals in employment of a group entity domiciled within Namibia at the time that the award is made. The group is required to ensure that employees' tax arising from benefits due in terms of the scheme is paid in accordance with the Income Tax Act of Namibia. Where employees have elected not to fund the tax from their own resources the tax due is treated as a diminution of the gross benefits due under the scheme.

As at 31 December 2015 and 2016, there were no outstanding options.

35.3 Deferred bonus scheme (DBS)

It is essential for the group to retain key skills over the longer term. This is done particularly through share-based incentive plans. The purpose of these plans is to align the interests of the group, its subsidiaries and employees, as well as to attract and retain skilled, competent people.

The group has implemented a scheme to defer a portion of incentive bonuses over a minimum threshold for key management and executives. This improves the alignment of shareholder and management interests by creating a closer linkage between risk and reward, and also facilitates retention of key employees.

The purpose of the Deferred Bonus Scheme 2012 is to encourage a longer-term outlook in business decision making and closer alignment of performance with long-term value creation.

All employees granted an annual performance award over a threshold have part of their award deferred. The award is indexed to the group's share price and accrues notional dividends during the vesting year, which are payable on vesting. The awards vest in three equal amounts at 18 months, 30 months and 42 months from the date of award. The final pay-out is determined with reference to the group's share price on vesting date.

The provision in respect of liabilities under the scheme amounts to N$7 697 thousand at 31 December 2016 (2015: N$3 183 thousand) and the amount charged for the year was N$5 540 thousand (2015: N$1 695 thousand). The change in liability is due to the change in the group share price.

	Units	
	2016	2015
Reconciliation		
Units outstanding at beginning of the year	**25 686**	20 624
Granted	**80 116**	18 289
Exercised	**(6 573)**	(9 693)
Lapsed	**(9 492)**	(3 534)
Transfers	**(57 940)**	
Units outstanding at end of the year	**31 797**	25 686
Weighted average fair value at grant date (N$)	**127,59**	156,96
Expected life (years)	**2.51**	2.51

36. Segment reporting

The principal business units for the group are as follows:

BUSINESS UNIT	SCOPE OF OPERATIONS
Personal & Business Banking	Banking and other financial services to individual customers and small to medium enterprises, as well as municipalities. Mortgage lending – residential accommodation loans mainly to personal market customers. Instalment sale and finance leases – instalment finance to personal market customers. Finance of vehicles and equipment in the business market. Credit cards – credit card facilities to individuals and businesses (credit card issuing) and merchant transaction acquiring services (card acquiring). Transactional and lending products – transactions in products associated with the various point of contact channels such as ATMs, internet, telephone banking and branches. This includes deposit-taking activities, electronic banking, cheque accounts and other lending products, coupled with debit card facilities to both personal and business market customers. Bancassurance – short-term and long-term insurance products and financial planning services.
Corporate & Investment Banking	Corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and international counterparties. Global markets – include foreign exchange, commodities, credit and interest rates, and equities trading. Transactional products and services – include transactional banking and investor services. Investment banking – advisory, project finance, structured finance, structured trade finance, corporate lending, primary markets, equity investment, acquisition and black economic empowerment finance and property finance.
Treasury Capital Management	The function of the Treasury Capital Management segment is to facilitate inter-segmental funding between Personal & Business Banking and Corporate & Investment Banking.

No geographical segment information is disclosed due to the fact that business activities predominantly relate to Namibia.

All corporate costs that relate to administrative activities are allocated to the segments based on activities of the segments.

36. Segment reporting continued

	Personal & Business Banking	
	2016 N$'000	2015 N$'000
Net interest income	**1 460 478**	1 338 379
Inter-segment revenue	**(605 290)**	(456 374)
Non-interest revenue	**585 089**	530 227
Total income	**1 440 278**	1 412 231
Credit impairments	**(84 569)**	(82 936)
Income after credit impairment charges	**1 355 709**	1 329 295
Operating expenses	**(984 222)**	(874 817)
Net income	**371 486**	454 478
Share of profits/(losses) from associates and joint ventures		
Net income before indirect taxation	**371 486**	454 478
Indirect taxation	**(15 745)**	(14 594)
Profit before direct taxation	**355 741**	439 884
Direct taxation	**(119 674)**	(138 747)
Profit for the year	**236 067**	301 137
Operating information		
Total assets	**15 675 375**	14 539 177
Total liabilities	**7 308 442**	7 003 846
Other information		
Investment in associate		
Depreciation	**34 168**	35 070
Amortisation	**1 567**	

Corporate & Investment Banking		Other services		Total	
2016 N$'000	2015 N$'000	**2016 N$'000**	2015 N$'000	**2016 N$'000**	2015 N$'000
(251 132)	(182 467)	**(4 605)**	(9 708)	**1 204 741**	1 146 205
603 600	453 194	**1 690**	3 180		
264 133	251 648	**(3 445)**	0	**845 777**	781 874
616 601	522 376	**(6 360)**	(6 528)	**2 050 518**	1 928 079
(6 371)	(2 373)	**8**	0	**(90 933)**	(85 309)
610 230	520 002	**(6 353)**	(6 528)	**1 959 585**	1 842 770
(295 181)	(282 040)	**23 412**	1	**(1 255 990)**	(1 156 857)
315 049	237 962	**17 059**	(6 528)	**703 595**	685 913
		2 295	1 311	**2 295**	1 311
315 049	237 962	**19 354**	(5 216)	**705 890**	687 224
(942)	(3 271)	**(8 030)**	0	**(24 717)**	(17 865)
314 107	234 691	**11 324**	(5 216)	**681 173**	669 359
(79 937)	(63 966)	**(3 949)**	2 997	**(203 561)**	(199 717)
234 170	170 725	**7 375**	(2 220)	**477 612**	469 642
10 245 518	9 292 453	**1 176 290**	66 598	**27 097 184**	23 898 235
16 930 044	14 507 902	**178 303**	95 613	**24 416 789**	21 607 596
		6 726	4 431	**6 726**	4 431
639	599	**34 693**	36 782	**69 500**	73 747
522		**11 956**	0	**14 045**	–

Annexure A – Subsidiaries

	Nature of operation	Issued share capital N$	Effective holding 2016 %	Effective holding 2015 %	Net indebtedness 2016 N$'000	Net indebtedness 2015 N$'000
Standard Bank Nominees (Pty) Limited	Safe custodian	**2**	**100**	100		

All subsidiaries are incorporated within Namibia. All subsidiary undertakings are included in the consolidation. The proportion of voting rights in the subsidiary undertakings held directly by the bank does not differ from the proportion of ordinary shares held. The consolidated figures are equal to the company's figures due to the immaterial nature of Standard Bank Nominees (Pty) Limited.

Annexure B – Joint ventures

	NAMCLEAR (PTY) LIMITED
Ownership structure	Joint venture
Nature of business	Clearing of interbank transactions
Principal place of business and country of incorporation	Namibia
Year end	December
Accounting treatment	Equity accounted
Date to which equity accounted	30 November 2016

	2016	2015
Effective holding (%)	**25**	25
	N$'000	N$'000
Income statement		
Total income	**44 825**	32 405
Total profit for the year	**9 179**	5 244
Total comprehensive income attributed to equity holders of the joint venture	**9 179**	5 244
Statement of financial position		
Cash and cash equivalents	**22 482**	12 003
Non-current assets	**38 013**	35 868
Current assets	**28 178**	3 925
Non-current liabilities	**(23 440)**	(25 276)
Current liabilities	**(15 852)**	(8 797)
Net asset value attributed to the equity holders of the associate	**26 899**	17 723
Proportion of net asset value based on effective holding	**6 725**	4 431
Goodwill		
Cumulative impairment		
Carrying value	**6 725**	4 431
Share of total comprehensive income from associates	**2 295**	1 311

Namclear has no quoted market price available for its shares.

There are no contingent liabilities relating to the bank's interest in the joint venture. There are also no significant restrictions on the ability of joint ventures to transfer funds to the bank in the form of cash dividends or repayments of loans or advances.

Annexure C
Risk and capital management

Overview

INTRODUCTION

Effective risk and capital management continues to be fundamental to the business activities of the group.

Risks are controlled at individual exposure level, as well as in aggregate within and across both business lines, legal entities and risk types.

Capital is managed using regulatory and economic capital metrics at both business line and legal entity level.

The group's two business lines are PBB and CIB.

BOARD RESPONSIBILITY

The board has ultimate responsibility for risk and capital management. Various committees within the governance structure enable the board to evaluate the risks faced by the group and the effectiveness of the group's management of these risks.

The board relies on quarterly reports from these committees, as well as periodic attestations by senior risk managers and internal audit, to satisfy itself that the group's risk management processes are fit-for-purpose and are operating effectively. During the year under review, the business activities of the group have been managed within the board-approved risk appetite.

The board is satisfied that the group's risk management processes operated effectively in the period under review.

REPORTING FRAMEWORK

All tables, diagrams, quantitative information and commentary in this risk and capital management report are unaudited unless stated as audited.

Sections forming part of the audited annual financial statements

Specific information on risk and capital management integral to the audited annual financial statements can be found under the following sections of this risk and capital management report:

- capital management, starting on page 58
- credit risk, starting on page 61
- liquidity risk, starting on page 73
- market risk, starting on page 79.

Basel II disclosures apply at a Standard Bank Namibia level only and not at a banking group level. The capital and risk management information disclosed in these sections fulfils IFRS requirements together with Basel II pillar 3 requirements, as stated in Determination on Public Disclosures for Banking Institutions (BID-18) issued under the Banking Institutions Act of 1998.

RISK TYPES

The risk types that the group is exposed to are defined below. The definitions are consistent with those used in the risk taxonomy, a key component of the risk framework.

CREDIT RISK

Credit risk is the risk of loss arising out of the failure of counterparties to meet their financial or contractual obligations when due.

Credit risk comprises counterparty risk, settlement risk and concentration risk. These risk types are defined as follows:

- **Counterparty risk:** The risk of credit loss to the group as a result of the failure by a counterparty to meet its financial and/or contractual obligations to the group. This risk type has three components:
  - **Primary credit risk:** The exposure at default (EAD) arising from lending and related banking product activities, including their underwriting.
  - **Pre-settlement credit risk:** The EAD arising from unsettled forward and derivative transactions where the group is acting in a principal capacity or as a clearer. This risk arises from the default of the counterparty to the transaction and is measured as the cost of replacing the transaction at current market rates.
  - **Issuer risk:** The EAD arising from traded credit and equity products, including underwriting the issue of these products in the primary market.
- **Settlement risk:** The risk of loss to the group from settling a transaction where value is exchanged, but where the group may not receive all or part of the countervalue.
- **Credit concentration risk:** The risk of loss to the group as a result of excessive build-up of exposure to a specific counterparty or counterparty group, an industry, market, product, financial instrument or type of security, a country or geography, or a maturity. This concentration typically exists where a number of counterparties are engaged in similar activities and have similar characteristics, which could result in their ability to meet contractual obligations being similarly affected by changes in economic or other conditions.

COUNTRY RISK

Country risk is the risk of loss arising when political or economic conditions or events in a particular country inhibit the ability of counterparties in that country to meet their financial obligations to the group. Country risk events may include sovereign defaults, banking or currency crises, social instability and governmental policy changes or interventions such as expropriation, nationalisation and asset confiscation. Transfer and convertibility risk is an important element of cross-border country risk. Examples of transfer and convertibility events are exchange controls and foreign debt moratoria.

LIQUIDITY RISK

Liquidity risk arises when the group is unable to maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so on materially disadvantageous terms.

This inability to maintain or generate sufficient cash resources occurs when counterparties who provide the group with funding withdraw or do not roll over that funding, or as a result of a general disruption in asset markets that renders normally liquid assets illiquid.

MARKET RISK

Market risk is the risk of a change in the market value, earnings (actual or effective) or future cash flows of a portfolio of financial instruments, including commodities, caused by movements in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Reputational risk and strategic risk are, in line with general market convention, excluded from the definition of operational risk. Reputational risk is defined separately below. Strategic risk is included in the definition of business risk below.

BUSINESS RISK

Business risk is the risk of loss due to operating revenues not covering operating costs and is usually caused by the following:

- inflexible cost structure
- market-driven pressures, such as decreased demand, increased competition or cost increases
- group-specific causes, such as a poor choice of strategy, reputational damage or the decision to absorb costs or losses to preserve reputation.

It includes strategic risk and post-retirement obligation risk.

STRATEGIC RISK

Strategic risk is the risk that the group's future business plans and strategies may be inadequate to prevent financial loss or protect the group's competitive position and shareholder returns.

POST-RETIREMENT OBLIGATION RISK

The risk arises because the estimated value of the pension or medical liabilities might increase, the market value of the fund's assets might decline or their investment returns might reduce.

REPUTATIONAL RISK

Reputational risk results from damage to the group's image which may impair its ability to retain and generate business. Such damage may result from a breakdown of trust, confidence or business relationships.

RISK MANAGEMENT FRAMEWORK

The group's risk management framework comprises the following components:

- Risk governance committees at a board and management level
- Management organisation structure to support the three lines of defence model as described on page 55
- Risk governance standards as described on page 56
- Policies to support the risk governance standards.

RISK GOVERNANCE PROCESS

The group's risk governance process relies on both individual responsibility and collective oversight, supported by comprehensive and independent reporting. This approach balances strong corporate oversight at group level with participation by the senior executives of the group in all significant risk matters.

The governance committees are a key component of the risk management framework. They have clearly defined mandates and delegated authorities, which are reviewed regularly. Board subcommittees responsible for effective risk management comprise the board audit committee (BAC), the board risk committee (BRC) and board credit committee (BCC).

Material issues are escalated to EXCO, as are decisions requiring EXCO approval. EXCO evaluates reports provided to it by its subcommittees and the head: risk, together with specific deep drill reports. EXCO, in turn, escalates material issues to the BAC and BRC, as are decisions requiring board approval. The BAC and BRC accounts to the board in the same manner. The primary communication up the hierarchy is undertaken by the relevant committee chairman. Wherever regulations require noting or approval by the board committee, the regulations overrule any internal processes.

A similar process is adopted in relation to the SBN Holdings audit committee (BAC) where the reporting process commences at the level of the head: internal audit.

Board committees

Board subcommittees responsible for effective risk management comprise the board audit committee (BAC), the board risk committee (BRC) and board credit committee (BCC). Key roles and responsibilities of these committees, as they relate to risk and capital management, are detailed in the sections that follow.

Board audit committee

The BAC reviews the group's financial position and makes recommendations to the board on all financial matters, risks, internal financial controls, fraud and IT risks relevant to financial reporting. In relation to risk and capital management, the BAC plays a crucial role in ensuring that the group's internal financial controls are adequate to effectively and efficiently mitigate risks.

Board risk management committee

The BRC provides independent and objective oversight of risk and capital management across the group by:

- reviewing and providing oversight in respect of the adequacy and effectiveness of the group's risk management framework
- approving risk and capital management governance standards and policies
- approving the group's risk appetite statements and monitoring the group's risk profile
- monitoring and evaluating significant IT investment and expenditure.

Management committees

EXCO

Executive management oversight for all risk types has been delegated by the board to EXCO which, in turn, assists the board to fulfil its mandate. EXCO considers and, to the extent required, recommends for approval by the relevant board committees:

- risk appetite statements
- approval of macroeconomic scenarios for stress testing, stress testing results and scenario analyses
- risk governance standards for each risk type
- actions on the risk profile and/or risk tendency
- risk strategy and key risk controls across the group ICAAP.

Three lines of defence model

The group adopts the three lines of defence model which reinforces segregation of duties between and independence of various control functions.

The three lines of defence are described below.

	1 FIRST LINE OF DEFENCE	2 SECOND LINE OF DEFENCE	3 THIRD LINE OF DEFENCE
CONSISTS OF	• management of business lines and legal entities.	• finance function • risk management function • legal function • governance and assurance function, excluding internal audit.	• internal audit function (administratively part of governance and assurance).
RESPONSIBILITIES	• measures, assesses and controls risks through the day-to-day activities of the business within the governance framework.	• supports the governance framework • provides independent oversight of the first line of defence • reports to management and board governance committees.	• supports the governance framework • provides independent assessment of first and second lines of defence • reports to BAC.

Second line of defence functions

The second line of defence functions comprise various specialist functions which are set out below.

	FINANCE FUNCTION	RISK MANAGEMENT FUNCTION	LEGAL FUNCTION	GOVERNANCE AND ASSURANCE FUNCTION

CONSISTS OF	• treasury and capital management (TCM) function:
	  • capital management
	  • liquidity risk
	  • banking book interest rate risk
	  • business risk
	  • portfolio management
	  • group tax function
	  • group financial control function.
		• credit risk
		• country risk
		• market risk
		• operational risk, including business continuity and resilience
		• information risk management
		• integrated risk.
			• prudential, by geographic region
			• transactional, by product type.
				• governance office
				• financial crime control
				• sustainability management
				• compliance
				• occupational health and safety
				• physical security.

Each of these four functions has resources at both the centre and embedded within the business lines in Namibia. The central resources provide a groupwide governance framework for the specific function. The resources dedicated to the business lines support business line management in ensuring that business line-specific risks are effectively managed as close to the source as possible. Centre and embedded resources jointly address risk management at a legal entity level.

Third line of defence

The internal audit function, under the stewardship of the SBG chief audit officer and the SBNH head of internal audit, reports to and operates under a mandate from the BAC. In terms of this mandate, internal audit's role is to provide independent and objective assurance, designed to add value and improve group operations. Internal audit has the authority to independently determine the scope and extent of work to be performed. All internal audit employees in the group report operationally to the chief audit officer and administratively to management in their country of residence.

Risk governance standards

The specialist second line of defence functions maintain risk governance standards for each major risk type to which the group is exposed. The risk governance standards set out minimum control requirements and ensure alignment and consistency in the manner in which the major risk types and capital management metrics across the group are dealt with.

All governance standards are applied consistently across the group and are approved by the BAC. Supporting policies and procedures are implemented by the management team and monitored by the embedded risk resources.

Compliance with risk governance standards is controlled through annual self-assessments by the second line of defence and reviews by internal audit.

THE GROUP'S APPROACH TO RISK APPETITE

The following terms have specific meanings within the group.

- **Risk appetite:** An expression of the amount or type of risk an entity is generally willing to take in pursuit of its financial and strategic objectives, reflecting its capacity to sustain losses and continue to meet its obligations as they fall due, under both normal and a range of stress conditions. Risk appetite could be exceeded either as a result of an adverse economic event more severe than that envisaged under the range of stress conditions (passive), or as a result of a decision to increase the risk profile to accommodate market, client or portfolio requirements (active).
- **Risk tolerance:** The maximum amount or type of risk the group is prepared to tolerate above risk appetite for short periods of time on the understanding that management action is taken to get back within risk appetite.
- **Risk capacity:** The maximum amount of risk the group is able to support within its available financial resources.
- Risk profile: The amount or type of risk the group holds at a specified point in time.
- **Risk tendency:** The forward-looking view of how the group's risk profile may change as a result of portfolio effects and/or changes in economic conditions. The changes in economic conditions may either be in the form of formally approved macroeconomic stress scenarios as part of the budgeting process or ad hoc stress scenarios.

The board establishes parameters for risk appetite by:

- providing strategic leadership and guidance
- reviewing and approving annual budgets and forecasts, under normal and stressed conditions, for the group, each business line and material legal entity
- regularly reviewing and monitoring performance in relation to risk through quarterly board reports
- analysing risk tendency against risk appetite.

The board delegates the determination of risk appetite to the BRC, which in turn ensures that risk appetite is in line with group strategy and the desired balance between risk and return.

Risk appetite at a group level is described by the following metrics which are supplemented by qualitative criteria:

- Changes in headline earnings
- Liquidity
- Regulatory capital
- Unacceptable risk.

These metrics are converted into:

- portfolio limits, for example, concentrations, credit loss ratios and value-at-risk (VaR)
- operational limits, for example, facilities by name
- desk-specific limits across the relevant risk types.

THE GROUP'S APPROACH TO STRESS TESTING

Stress testing is a key management tool within the group and facilitates a forward-looking perspective of the organisation's risk profile or risk tendency. Stress tests are conducted at group, business line and material legal entity level.

Stress testing supports a number of business processes, including:

- strategic planning and budgeting
- capital planning and management, and the setting of capital buffers
- liquidity planning and management
- informing the setting of risk tolerance
- providing a forward-looking assessment of the impact of stress conditions on the risk profile
- identifying and proactively mitigating risks through actions such as reviewing and changing risk limits, limiting exposures and hedging
- facilitating the development of risk mitigation or contingency plans across a range of stressed conditions
- communicating with internal and external stakeholders.

Stress testing results inform decision making at the appropriate management levels, including strategic business decisions of the board and senior management.

Groupwide macroeconomic stress testing is conducted regularly across all major risk types for a range of common scenarios. This allows the group to monitor its risk profile and risk tendency against its risk appetite. This groupwide stress testing is augmented by portfolio-specific stress testing and sensitivity analyses to identify the drivers of risk tendency and necessary actions to constrain risk.

The appropriateness of the macroeconomic stress scenarios and the severity of the relevant scenarios used for capital planning are approved by the BRC.

Capital management

OBJECTIVES

The group's capital management framework is designed to ensure that regulatory requirements are met at all times and that the group and Standard Bank Namibia are capitalised in line with the risk profile, economic capital standards and target ratios approved by the board.

The capital management functional pillar of TCM is structured into the following key functions:

- **Strategic capital management function:** Key responsibilities are capital raising, advising on the dividend policy, facilitating capital allocation, risk-adjusted performance measurement (RAPM) and capital planning.
- **Portfolio analysis and reporting function:** Key responsibilities are to own and manage the regulatory and economic capital results (and the systems used to produce the results), capital budgeting, reporting and analysis, and standardising data management processes across functions within TCM.
- **CIB and PBB capital management functions:** Key responsibilities are to provide support on capital management matters such as deal pricing, key return measures and management of capital consumption against budgets.

These functions work collectively to achieve the objectives of capital management, which are to:

- Maintain sufficient capital resources to support:
  - the group's risk appetite and economic capital requirements
  - the group's internal target capital adequacy ratios
  - the BON's minimum ratios set in accordance with Basel II.
- Allocate capital to businesses using risk-based capital allocation to support the group's strategic objectives, including optimising returns on economic and regulatory capital.
- Maintain the group's dividend policy and dividend declarations while taking into consideration shareholder and regulatory expectations.
- Develop, review and approve short- to medium-term capital planning and stress testing.

REGULATORY CAPITAL

The group manages its capital base to achieve a prudent balance between maintaining capital levels to support business growth, maintaining depositor and creditor confidence, and providing competitive returns shareholders.

Regulatory capital adequacy is measured through three risk-based ratios, namely:

- Tier I capital
- total capital adequacy
- Tier I leverage ratio.

Tier I capital represents ordinary share capital, share premium and appropriated retained earnings. Total capital includes other items such as subordinated debt and the general allowance for credit impairments and unappropriated retained earnings. Tier I leverage ratio is defined as the ratio of total assets to Tier I capital.

These ratios represent a measure of the capital supply relative to the total risk-weighted assets and are measured against internal targets and regulatory minimum requirements.

Risk-weighted assets are determined on a granular basis by using risk weights calculated from internally derived risk parameters. A portion of the group's risk-weighted assets are calculated using the standardised regulatory approach.

Risk-weighted assets take the following into consideration:

- Both on- and off-balance sheet exposures are included in the group's overall credit risk-weighted assets.
- Risk-weighted assets for equity risk are modelled on the market-based and probability of default (PD)/loss given default (LGD) approaches.
- Capital requirements for market risk and operational risk are converted into risk-weighted assets for the purpose of determining total risk-weighted assets.
- Other assets are risk weighted in accordance with prescribed regulatory requirements.

During the year ended 31 December 2016 and the comparative year ended 31 December 2015, the group complied with all externally imposed capital requirements.

The main requirements are those specified in the determinations issued under the Banking Institutions Act of 1998 and related regulations which are broadly consistent with the Basel II guidelines issued by the Bank for International Settlements.

The group's Tier I capital was N$2 262 million at 31 December 2016 (2015: N$2 132 million) and total capital, including unappropriated profit was N$2 651 million at 31 December 2016 (2015: N$200 million). The change in the group's capital was primarily due to an increase in retained earnings. The group maintained a well-capitalised position based on Tier I capital, total capital adequacy and leverage ratios as set out below.

BASEL II REGULATORY CAPITAL

	2016 N$'000	2015 N$'000
Tier I		
Ordinary share capital and premium	**593 230**	593 230
Ordinary shareholders' reserves	**1 668 780**	1 538 439
	2 262 010	2 131 669
Tier II		
Subordinated debt	**200 000**	200 000
Current unappropriated profits		
General allowance for credit impairments	**188 797**	173 637
	388 797	373 637
Total eligible capital (including unappropriated profits)	**2 650 807**	2 505 306

CAPITAL ADEQUACY RATIOS

	Minimum regulatory requirement %	Target ratio %	Including unappropriated profits 2016 %	Including unappropriated profits 2015 %	Excluding unappropriated profits 2016 %	Excluding unappropriated profits 2015 %
Total capital adequacy ratio	10	11 – 12	**14.00**	14.04	**14.00**	14.04
Tier I capital adequacy ratio	7	7.7 – 8.2	**11.51**	11.94	**11.51**	11.94
Tier I leverage ratio	6	6.6 – 7.2	**8.18**	8.79	**8.18**	8.79

BASEL II RISK-WEIGHTED ASSETS

	2016 N$'000	2015 N$'000
Credit risk	**16 953 058**	14 901 899
Market risk	**156 797**	460 368
Operational risk	**2 383 879**	2 124 020
Total risk-weighted assets	**19 493 734**	17 486 287

ECONOMIC CAPITAL

Economic capital is the basis for measuring and reporting all quantifiable risks faced by the group on a consistent risk-adjusted basis. Standard Bank group assesses its economic capital requirements by measuring its risk profile using both internally and externally developed models which are independently validated by the central validation function. Economic capital is used for risk management, capital management, capital planning, capital allocation, and evaluation of new business and performance measurement.

The quantitative internal assessments of the organisation's business models are used to assess capital requirements to be held against all risks the group is or may become exposed to, in order to meet current and future needs, as well as to assess the group's resilience under stressed conditions.

The group is in the process of developing its economic capital measurement practices. It considers its current capital level more than adequate.

Credit risk

INTRODUCTION

The group's credit risk comprises mainly wholesale and retail loans and advances together with the counterparty credit risk arising from derivative contracts entered into with our clients and market counterparties.

Other sources of credit risk arise from settlement balances with market counterparties, available-for-sale assets and reverse repurchase lending arrangements.

Credit risk management objectives are to:

- maintain a strong culture of responsible lending and a robust risk policy and control framework
- identify, assess and measure credit risk clearly and accurately across the group, from the level of individual facilities up to the total portfolio
- define, implement and continually re-evaluate our risk appetite under actual and scenario conditions
- monitor credit risk and adherence to agreed controls
- ensure that there is independent, expert scrutiny of credit risks, and their mitigation.

Primary responsibility for credit risk management resides within the group's business lines, supported by an independent group credit risk function operationally embedded in business units. The BRC is the principal board committee responsible for the oversight of credit risk, with the BAC having oversight responsibility for reviewing credit impairment adequacy.

The principal management committee responsible for the oversight of credit risk is CRMC. This committee is responsible for credit risk and credit concentration risk decision making , and delegation thereof to credit officers and forums within defined parameters. Key aspects of rating systems and credit risk models are approved by the BRC, which are mandated by the board as a designated committee. Regular model validation and reporting to these SBNH committees is undertaken by the independent central validation function.

The group dedicates considerable resources to gaining a clear and accurate understanding of credit risk across the business and ensuring that its balance sheet correctly reflects the value of the assets in accordance with International Financial Reporting Standards (IFRS).

BASEL II AND IFRS

Approaches adopted

There are three approaches under Basel II for credit risk, namely the standardised approach, the FIRB approach and the AIRB approach. The FIRB and AIRB approaches are collectively referred to as the internal ratings-based (IRB) approaches. The version of Basel II adopted by the Bank of Namibia requires commercial banks to use the standardised approach.

Standardised approach

The calculation of regulatory capital for the standardised approach is based on net counterparty exposures after recognising a limited set of qualifying collateral. A prescribed percentage, being the risk weighting which is based on the perceived credit rating of the counterparty, is then applied to the net exposure. For corporate exposures that are rated by approved credit assessment institutions a Bank of Namibia prescribed risk weighting would be used. For counterparties for which there are no credit ratings available exposures are classified as unrated for determining regulatory capital requirements. Currently, all (corporate) exposures are unrated, the company does not use external credit assessment institutions and no exposures are deducted from capital funds.

Equity exposures

The group has no equity exposures.

Basel II exposures and accounting principles

The risk management report addresses the disclosure requirements of Basel II pillar 3 and IFRS. These two reporting frameworks have many differences, which are important to understand in order to correctly interpret the disclosures in this report. The company's financial statements are prepared in accordance with and comply with IFRS. This framework is different from Basel II but shares the overall objective of increasing transparency by allowing users of market information, including regulators, to be more informed in their decision making. Pillar 3 disclosures, which aim to enable the market to assess an institution's capital adequacy, are intended to complement the minimum capital requirements and supervisory review process of Basel II. While the accounting and regulatory disclosure requirements differ in scope and objectives, they are not considered to be conflicting or inconsistent. This is because the source of all risk and financial disclosures emanates from a centralised set of reconciled data. A difference between IFRS and pillar 3 is that the analysis of credit risk exposures under IFRS is presented by class of financial instrument while pillar 3 requires classification by Basel II counterparty type. Classes are determined for IFRS purposes by taking into account the nature of the information to be disclosed, as well as the characteristics of the underlying financial instruments. Basel II counterparty types are assumed to have homogeneous risk characteristics which supports the standardised risk weightings assigned to the different counterparty types. The Basel II exposure classes are therefore the basis for the preparation of regulatory reporting with the exception of the credit risk return which is still based on product types. The principles in IFRS complement the principles for recognising, measuring and presenting financial assets and financial liabilities in terms of IAS 32 and IAS 39.

Fair value instruments

IAS 39 permits any financial asset or financial liability, on meeting specific criteria, to be designated at fair value with all changes in fair value being recognised in profit or loss. For liabilities that are designated to be measured at fair value, any deterioration in the credit risk of the issuer will result in a decrease in its fair value and a resultant profit being recognised in profit or loss which would ultimately be recognised within other comprehensive income. IFRS requires the amount of change in fair value attributable to changes in credit risk on such liabilities, both for the period and cumulatively to date, to be disclosed in the financial statements. From a pillar 3 perspective, recognising gains as a result of deterioration in creditworthiness would undermine the quality of capital measures and performance ratios. Those fair value gains and losses attributable to credit risk, if it would occur, are excluded when calculating regulatory capital.

Available-for-sale instruments

IAS 39 permits certain financial assets, such as non-trading debt and equity instruments, to be classified as available-for-sale. All financial assets classified in this manner are required to be measured at fair value with all unrealised gains and losses, with the exception of impairment losses, dividends and interest income, recognised in other comprehensive income.

Banking supervisors agree that the resulting unrealised profits and losses cannot be included in regulatory capital as there is no inflow of capital and it is not permanently available. Such fair value gains are eliminated in determining the company's regulatory capital.

Impairments

In accordance with IAS 39, it is necessary to determine whether there is objective evidence that a financial asset or group of financial assets are impaired. A financial asset or group of financial assets is impaired and impairment losses are recognised only if there is objective evidence of impairment, resulting from one or more events that have occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably measured (incurred loss approach). An impairment loss is determined as the difference between the financial assets' carrying value and the present value of its estimated future cash flows, including

A any recoverable collateral, discounted at the original effective interest rate. To provide for latent losses in a portfolio of loans where the loans have not yet been individually identified as impaired, impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods. While IFRS clearly states that it is based on an incurred loss approach, Basel II focuses on expected and unexpected losses. Basel II seeks to ensure that expected losses are addressed through the level of impairments held against the underlying exposure, while unexpected losses are addressed through holding regulatory capital in relation to the size and nature of the exposure held, known as capital adequacy.

BASEL II: CREDIT RISK MITIGATION

Collateral, guarantees, derivatives and on- and off-balance sheet netting are widely used to mitigate credit risk. Credit risk mitigation policies and procedures ensure that credit risk mitigation techniques are acceptable, used consistently, valued appropriately and regularly, and meet the risk requirements of operational management for legal, practical and timely enforcement. Detailed processes and procedures are in place to guide each type of mitigation used.

The main types of collateral taken are:

- mortgage bonds over residential, commercial and industrial properties
- cession of book debts
- bonds over plant and equipment
- the underlying moveable assets financed under leases and instalment sales.

Reverse repurchase agreements are underpinned by the assets being financed, which are mostly liquid and tradable financial instruments.

Guarantees and related legal contracts are often required, particularly in support of credit extension to groups of companies and weaker counterparties. Guarantor counterparties include banks, parent companies, shareholders and associated counterparties. Creditworthiness is established for the guarantor as for other counterparty credit approvals.

For derivative transactions, the group typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure, where collateral support is considered necessary. Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if mark-to-market credit exposure exceeds acceptable limits, and/or termination of the contract if certain credit events occur, for example, the downgrade of the counterparty's public credit rating.

Wrong-way risk arises where there is a positive correlation between counterparty default and transaction exposure, and a negative correlation between transaction exposure and the value of collateral at the point of counterparty default. This risk is addressed by taking into consideration the high correlation between the default event and exposure to the counterparty when calculating the potential exposure and security margin requirements on these transactions.

To manage actual or potential portfolio risk concentrations in areas of higher credit risk and credit portfolio growth, the group implements hedging and other strategies from time to time. This is done at individual counterparty, sub-portfolio and portfolio levels through the use of syndication, distribution and sale of assets, asset and portfolio limit management, credit derivatives and credit protection.

BASEL II: MANAGEMENT OF CONCENTRATION RISK

Credit concentration risk is the risk of loss to the group arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity. This concentration typically exists when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The group maintains a portfolio of credit risk that is adequately diversified and avoids unnecessarily excessive concentration risks. Diversification is achieved through setting maximum exposure guidelines to individual counterparties. The group constantly reviews its concentration levels and sets maximum exposure guidelines to these. Excesses are reported to GROC and the GRCMC.

The tables below set out the exposure to industry and geographic concentration.

SEGMENTAL ANALYSIS OF GROSS LOANS AND ADVANCES

	2016 N$'000	2015 N$'000
Agriculture	**626 904**	552 753
Construction	**457 612**	371 068
Electricity	**552 329**	641 987
Finance, real estate and other business services	**1 963 720**	1 727 906
Individuals	**13 506 764**	11 631 320
Manufacturing	**569 809**	619 107
Mining	**438 951**	646 165
Other services	**1 113 894**	1 139 965
Transport	**121 708**	97 691
Wholesale	**180 266**	161 467
	19 531 957	17 589 429

All loans are recorded in Namibia.

SEGMENTAL ANALYSIS OF SPECIFIC IMPAIRMENTS

	2016 N$'000	2015 N$'000
Agriculture	**(4 986)**	(6 075)
Construction	**(1 217)**	(1 270)
Electricity	**(2 263)**	(3 783)
Finance, real estate and other business services	**(4 810)**	(10 982)
Individuals	**(73 105)**	(129 498)
Manufacturing	**(742)**	(3 228)
Mining	**(101)**	(114)
Other services	**(1 949)**	(3 610)
Transport	**(711)**	(938)
Wholesale	**(2 407)**	(1 752)
	(92 291)	(161 250)

All impairments relate to loans that are recorded in Namibia.

BASEL II: COUNTERPARTY CREDIT RISK

Counterparty credit risk is managed according to the group credit risk governance standard, which also covers any other type of credit risk. All such credit risk limits are subject to annual review. Counterparty exposures are monitored against limits by the risk functions on a daily basis, and included in the calculation of economic capital demand.

The group's exposure to counterparty risk is affected by the nature of the trades, the creditworthiness of the counterparty, and netting and collateral arrangements. Counterparty credit risk is measured in potential future exposure terms and recognised in risk systems on a net basis where netting agreements are in place and are legally recognised, or on a gross basis otherwise. Exposures are generally marked to market daily. Cash or near cash collateral is posted where contractually provided for.

Counterparty credit risk is subjected to explicit credit limits which are formulated and approved for each counterparty and economic group, with specific reference to its credit rating and other credit exposures.

IFRS: ANALYSIS OF LOANS AND ADVANCES

The tables on the pages that follow analyse the credit quality of loans and advances measured in terms of IFRS.

IFRS: MAXIMUM EXPOSURE TO CREDIT RISK

Loans and advances are analysed and categorised based on credit quality using the following definitions.

Performing loans

Neither past due nor specifically impaired loans are loans that are current and fully compliant with all contractual terms and conditions.

Early arrears but not specifically impaired loans include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is not expected but could occur if the adverse conditions persist.

Non-performing loans

Non-performing loans are those loans for which:

- the group has identified objective evidence of default, such as a breach of a material loan covenant or condition, or
- instalments are due and unpaid for 90 days or more.

A Non-performing but not specifically impaired loans are not specifically impaired due to the expected recoverability of the full carrying value when considering the recoverability of discontinued future cash flows, including collateral.

Non-performing specifically impaired loans are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows. Specifically impaired loans are further analysed into the following categories:

Substandard items that show underlying well-defined weaknesses and are considered to be specifically impaired.

Doubtful items that are not yet considered final losses due to some pending factors that may strengthen the quality of the items.

Loss items that are considered to be uncollectible in whole or in part. The group provides fully for its anticipated loss, after taking collateral into account

LOANS

Performing loans

Neither past due nor specifically impaired loans (N$'000)	2016	2015
	19 096 532	17 109 488

	2016	2015
Normal monitoring (N$'000)	18 499 656	16 068 468
Close monitoring (N$'000)	596 876	1 041 020

Non-performing loans

Specifically impaired loans (N$'000)	2016	2015
	435 425	479 941

	2016	2015
Substandard (N$'000)	70 966	79 774
Doubtful (N$'000)	84 076	101 693
Loss (N$'000)	280 383	298 474

■ Portfolio credit impairments
□ Specific credit impairments

A MAXIMUM EXPOSURE TO CREDIT RISK BY CREDIT QUALITY

		Performing loans			
		Neither past due nor specifically impaired			
	N$'000	Normal monitoring N$'000	Early arrears N$'000	Substandard N$'000	Doubtful N$'000
2016					
Mortgage loans	7 705 766	7 025 343	400 062	43 110	49 553
Instalment sale and finance leases	3 579 044	3 396 242	122 352	7 724	7 610
Card debtors	217 025	194 214	16 363	2 928	2 250
Other loans and advances	8 030 122	7 883 857	58 099	17 204	24 663
Gross loans and advances	**19 531 957**	**18 499 656**	**596 876**	**70 966**	**84 076**
Less: Impairments for loans and advances	(133 210)				
Net loans and advances	**19 398 747**				
Add the following other banking activities exposures:					
Cash and balances with central banks	1 359 873	1 359 873			
Derivatives	55 497	55 497			
Financial investments	3 055 613	3 055 613			
Trading assets	291 426	291 426			
Assets in group companies and joint ventures	1 658 892	1 658 892			
Other financial assets	603 073	603 073			
Total on-balance sheet exposure	**26 423 121**				
Unrecognised financial assets					
Letters of credit and bankers' acceptances	0				
Financial guarantees	0				
Unutilised borrowing facilities	0				
Total exposure to credit risk	**26 423 121**				

Total non-performing loans							
Specifically impaired loans							
Loss N$'000	Total N$'000	Securities and expected recoveries on specifically impaired loans N$'000	Net after securities and expected recoveries on specifically impaired loans N$'000	Balance sheet impairment for non-performing specifically impaired loans N$'000	Gross specific impairment coverage %	Non-performing loans N$'000	Non-performing loans %
187 698	280 361	267 554	12 807	12 807	4.57	280 361	3.64
45 116	60 450	23 190	37 260	37 260	61.64	60 450	1.69
1 270	6 448	1	6 447	6 447	99.98	6 448	2.97
46 299	88 166	52 389	35 777	35 777	40.58	88 166	1.10
280 383	435 425	343 134	92 291	92 291	21.20	435 425	2.23

MAXIMUM EXPOSURE TO CREDIT RISK BY CREDIT QUALITY

		Performing loans			
		Neither past due nor specifically impaired			
	N$'000	Normal monitoring N$'000	Early arrears N$'000	Substandard N$'000	Doubtful N$'000
2015					
Mortgage loans	7 063 798	6 044 477	762 141	46 623	59 063
Instalment sale and finance leases	3 216 421	3 004 361	138 563	10 659	15 172
Card debtors	229 422	200 813	20 191	3 738	3 935
Other loans and advances	7 079 788	6 818 817	120 125	18 754	23 523
Gross loans and advances	17 589 429	16 068 468	1 041 020	79 774	101 693
Less: Impairments for loans and advances	-197 310				
Net loans and advances	17 392 119				
Add the following other banking activities exposures:					
Cash and balances with central banks	923 516	923 516			
Derivatives	168 413	168 413			
Financial investments	3 329 204	3 329 204			
Trading assets	313 679	313 679			
Assets in group companies and joint ventures	862 606	862 606			
Other financial assets	565 528	565 528			
Total on-balance sheet exposure	23 555 065				
Unrecognised financial assets					
Letters of credit and bankers' acceptances	43 498				
Financial guarantees	2 165 971				
Unutilised borrowing facilities	3 189 833				
Total exposure to credit risk	28 954 367				

Total non-performing loans							
Specifically impaired loans							
Loss N$'000	Total N$'000	Securities and expected recoveries on specifically impaired loans N$'000	Net after securities and expected recoveries on specifically impaired loans N$'000	Balance sheet impairment for non-performing specifically impaired loans N$'000	Gross specific impairment coverage %	Non-performing loans N$'000	Non-performing loans %
151 494	257 180	246 907	10 273	10 273	3.99	257 180	3.64
47 666	73 497	28 148	45 349	45 349	61.70	73 497	2.29
745	8 418		8 418	8 418	100.00	8 418	3.67
98 569	140 846	43 636	97 210	97 210	69.02	140 846	1.99
298 474	479 941	318 691	161 250	161 250	33.60	479 941	2.73

Ⓐ AGEING OF LOANS AND ADVANCES PAST DUE BUT NOT IMPAIRED

	Less than 31 days N$'000	31 – 60 days N$'000	61 – 90 days N$'000	Total N$'000
2016				
Mortgage loans	**172 261**	**186 737**	**41 064**	**400 062**
Instalment sale and finance leases	**98 688**	**17 312**	**6 352**	**122 352**
Card debtors	**7 726**	**5 095**	**3 542**	**16 363**
Other loans and advances	**21 898**	**23 091**	**13 110**	**58 099**
Total	**300 573**	**232 235**	**64 068**	**596 876**
2015				
Mortgage loans	354 407	337 988	69 746	762 141
Instalment sale and finance leases	128 200	9 818	545	138 563
Card debtors	9 266	6 219	4 706	20 191
Other loans and advances	56 226	42 250	21 649	120 125
Total	548 099	396 275	96 646	1 041 020

IFRS: RENEGOTIATED LOANS AND ADVANCES

Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified following weaknesses in the counterparty's financial position, and where it has been judged that normal repayment will likely continue after the restructure.

	2016	2015
Loans renegotiated (million)	**320.4**	71.3
Mortgage lending (percentage)	**42**	47

Loans renegotiated in 2015 that would otherwise be past due or impaired comprised N$71.3 million (2014: N$891 thousand). Renegotiated loans that have arisen from secured lending predominantly comprise mortgage loans amounting to 47% (2014: 73%) of this amount.

Ⓐ IFRS: COLLATERAL

The table that follows shows the financial effect that collateral has on the group's maximum exposure to credit risk. The table is presented according to Basel II asset categories and includes collateral that may not be eligible for recognition under Basel II but that management takes into consideration in the management of the group's exposures to credit risk. All on- and off-balance sheet exposures which are exposed to credit risk, including non-performing assets, have been included.

Collateral includes:

- financial securities that have a tradable market, such as shares and other securities
- physical items, such as property, plant and equipment
- financial guarantees, suretyships and intangible assets.

Netting agreements, which do not qualify for offset under IFRS but which are nevertheless enforceable, are included as part of the group's collateral. All exposures are presented before the effect of any impairment provisions.

Of the group's total exposure, 2016: 12% (2015: 10%) is unsecured and mainly reflects short-term exposures to individuals.

Ⓐ COLLATERAL

	Total exposure N$'000	Unsecured N$'000	Secured exposure N$'000	Collateral coverage 51 – 100% N$'000
2016				
Mortgage loans	7 705 766		7 705 766	7 705 766
Instalment sale and finance leases	3 579 044		3 579 044	3 579 044
Card debtors	217 025	217 025		
Other loans and advances	8 030 122	2 058 448	5 021 652	5 021 652
Derivative assets	55 497		55 497	55 497
Unrecognised financial assets	–		–	–
Letters of credit and bankers' acceptances	–		–	–
Financial guarantees	–		–	–
Unutilised borrowing facilities	–		–	–
Total	19 587 454	2 275 473	16 361 959	16 361 959
Add: Financial assets not exposed to credit risk	5 309 985			
Add: Interest in financial instruments of group companies	1 658 892			
Less: Impairments for loans and advances	(133 210)			
Less: Unrecognised off-balance sheet items	–			
Total exposure	26 423 121			
Reconciliation to balance sheet				
Cash and balances with central banks	1 359 873			
Derivative assets	55 497			
Trading assets	291 426			
Financial investments	3 055 613			
Loans and advances	19 398 747			
Assets in group companies and joint ventures	1 658 892			
Other financial assets	603 073			
Total exposure	26 423 121			

COLLATERAL

	Total exposure N$'000	Unsecured N$'000	Secured exposure N$'000	Collateral coverage 51 – 100% N$'000
2015				
Mortgage loans	7 063 798		7 063 798	7 063 798
Instalment sale and finance leases	3 216 421		3 216 421	3 216 421
Card debtors	229 422	229 422		
Other loans and advances	7 079 788	2 058 448	5 021 340	5 021 340
Derivative assets	168 413		168 413	168 413
Unrecognised financial assets	5 399 302		5 399 302	5 399 302
Letters of credit and bankers' acceptances	43 498		43 498	43 498
Financial guarantees	2 165 971		2 165 971	2 165 971
Unutilised borrowing facilities	3 189 833		3 189 833	3 189 833
Total	23 157 144	2 287 870	20 869 274	20 869 274
Add: Financial assets not exposed to credit risk	5 131 927			
Add: Interest in financial instruments of group companies	862 606			
Less: Impairments for loans and advances	(197 310)			
Less: Unrecognised off-balance sheet items	(5 399 302)			
Total exposure	23 555 065			
Reconciliation to balance sheet				
Cash and balances with central banks	923 516			
Derivative assets	168 413			
Trading assets	3 329 204			
Financial investments	313 679			
Loans and advances	17 392 119			
Assets in group companies and joint ventures	862 606			
Other financial assets	565 528			
Total exposure	23 555 065			

Liquidity risk

INTRODUCTION

The nature of banking and trading gives rise to continuous exposure to liquidity risk. The group's liquidity risk management framework is designed to measure and manage liquidity positions across both the corporate and retail sectors to ensure that payment obligations can be met by the group's legal entities, under both normal and stressed conditions.

Banking liquidity risk can be distinguished by two risk categories which are strictly managed by the group:

- **Market liquidity risk:** The risk that the group cannot easily offset or eliminate a position without significantly affecting market prices because of inadequate market depth or market disruption.
- **Funding liquidity risk:** The risk that the group will not be able to effectively meet both expected and unexpected current and future cash flow and collateral requirements without negatively affecting the group's daily operations or financial condition.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

EXCO and the board review and set the liquidity risk governance standard annually in accordance with regulatory requirements, international best practice and the group's stated risk appetite. This ensures that a comprehensive and consistent governance framework for liquidity risk management is followed across the group. The group has an asset and liability committee (ALCO) responsible for ensuring compliance with liquidity risk policies.

A

LIQUIDITY AND FUNDING MANAGEMENT

The group manages liquidity in accordance with applicable regulations within the group's risk appetite for liquidity risk.

As part of a comprehensive liquidity management process, the group distinguishes between tactical, structural and contingent liquidity risk. These three risk management categories are governed by a comprehensive internal governance framework to identify, measure and manage exposure to liquidity risk. Combining each of these risk management categories allows for effective liquidity risk monitoring.

LIQUIDITY MANAGEMENT CATEGORIES

TACTICAL (SHORTER-TERM) LIQUIDITY RISK MANAGEMENT	STRUCTURAL (LONG-TERM) LIQUIDITY RISK MANAGEMENT	CONTINGENCY LIQUIDITY RISK MANAGEMENT
• manage intra-day liquidity positions • monitor interbank and repurchase shortage levels • monitor daily cash flow requirements • manage short-term cash flows • manage daily foreign currency liquidity • set deposit rates in accordance with structural and contingent liquidity requirements as informed by ALCO.	• ensure a structurally sound balance sheet • identify and manage structural liquidity mismatches • determine and apply behavioural profiling • manage long-term cash flows • preserve a diversified funding base • inform term funding requirements • assess foreign currency liquidity exposures • establish liquidity risk appetite • ensure appropriate transfer pricing of liquidity costs.	• monitor and manage early warning liquidity indicators • establish and maintain contingency funding plans • undertake regular liquidity stress testing and scenario analysis • convene liquidity crisis management committees, if needed • set liquidity buffer levels in accordance with anticipated stress events • advise diversification of liquidity buffer portfolios.

TOOLS USED TO MANAGE LIQUIDITY ACROSS ALL RISK MANAGEMENT CATEGORIES:

- liquidity ratios
- market ratios.

The liquidity management process is independently reviewed on a regular basis. In periods of stable market conditions, the group's consolidated liquidity risk position is monitored on at least a quarterly basis by ALCO. In periods of increased volatility, the frequency of meetings is increased as required to facilitate appropriate and timely management action.

Tactical liquidity risk management

Active liquidity and funding management is an integrated effort across a number of functional areas. Short-term cash flow projections are used to plan for and meet the day-to-day requirements of the business, including adherence to prudential and internal requirements.

The group's wholesale funding strategy is assessed for each legal entity and is derived from projected net asset growth which includes consideration of PBB and CIB asset growth, capital requirements, the maturity profile of existing wholesale funding and anticipated changes in the retail deposit base. Funding requirements and initiatives are assessed in accordance with ALCO requirements for diversification, tenor and currency exposure, as well as the availability and pricing of alternative liquidity sources.

An active presence is maintained in professional markets, supported by relationship management efforts among corporate and institutional clients.

Structural liquidity risk management

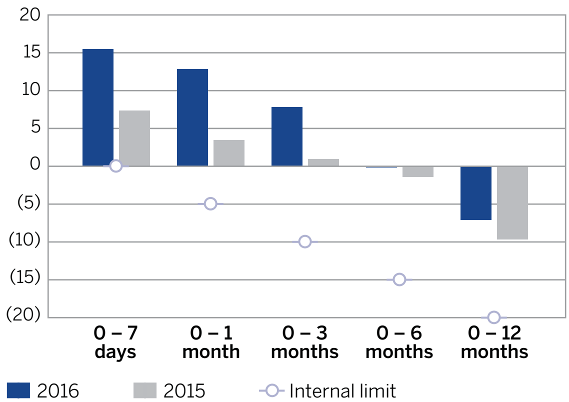
Structural requirements

With actual cash flows typically varying significantly from the contractual position, behavioural profiling is applied to assets, liabilities and off-balance sheet commitments with an indeterminable maturity or drawdown period, as well as to certain liquid assets. Behavioural profiling assigns probable maturities based on historical customer behaviour. This is used to identify significant additional sources of structural liquidity in the form of liquid assets and core deposits, such as current and savings accounts, which exhibit stable behaviour despite being repayable on demand or at short notice.

Structural liquidity mismatch analyses are performed regularly to anticipate the mismatch between payment profiles of balance sheet items, in order to highlight potential risks within the group's defined liquidity risk thresholds.

The graph that follows shows the group's cumulative maturity mismatch between assets and liabilities for the 0 to 12 months bucket, after applying behavioural profiling. Limits are set internally to restrict the cumulative liquidity mismatch between expected inflows and outflows of funds in different time buckets. These mismatches are monitored on a regular basis with active management intervention if potential limit breaches are evidenced. The behaviourally adjusted cumulative liquidity mismatch remains within the group's liquidity risk appetite. In order to ensure ongoing compliance with statutory and internal risk management guidelines, certain short-term assets are profiled as long dated.

Behaviourally adjusted cumulative liquidity mismatch (%)



Maturity analysis of financial liabilities by contractual maturity

The tables that follow analyse cash flows on a contractual, undiscounted basis based on the earliest date on which the group can be required to pay (except for trading liabilities and trading derivatives) and will, therefore, not agree directly to the balances disclosed in the consolidated statement of financial position.

Derivative liabilities are included in the maturity analysis on a contractual, undiscounted basis when contractual maturities are essential for an understanding of the derivatives' future cash flows. Management considers only contractual maturities to be essential for understanding the future cash flows of derivative liabilities that are designated as hedging instruments in effective hedge accounting relationships. All other derivative liabilities are treated as trading and are included at fair value in the redeemable on demand bucket since these positions are typically held for short periods of time.

The following tables also include contractual cash flows with respect to off-balance sheet items which have not yet been recorded on-balance sheet. Where cash flows are exchanged simultaneously, the net amounts have been reflected.

MATURITY ANALYSIS OF LIABILITIES

	Redeemable on demand N$'000	Maturing within 1 month N$'000	Maturing between 1 – 6 months N$'000	Maturing between 6 – 12 months N$'000	Maturing after 12 months N$'000	Total N$'000
2016						
Liabilities						
Derivative liabilities		17 541	25 322	7 549		50 412
Trading liabilities					194 871	194 871
Deposit and current accounts	14 000 657	757 300	3 925 110	1 542 096	1 800 167	22 025 331
Loans from group companies				84 869	1 594 400	1 679 269
Debt issued securities				406 976	2 326 194	2 733 170
Other liabilities	482 572					482 572
	14 483 229	774 842	3 950 432	2 041 490	5 915 633	27 165 625
Unrecognised financial instruments						
Letter of credit and bankers' acceptances		322	1 578			1 900
Financial guarantees	28 462	13 308	48 136	90 361	1 956 218	2 136 486
Unutilised borrowing facilities	3 528 852					3 528 852
	3 557 314	13 630	49 714	90 361	1 956 218	5 667 237

	Redeemable on demand N$'000	Maturing within 1 month N$'000	Maturing between 1 – 6 months N$'000	Maturing between 6 – 12 months N$'000	Maturing after 12 months N$'000	Total N$'000
2015						
Liabilities						
Derivative liabilities		42 316	179 370	9 787		231 473
Deposit and current accounts	12 635 233	364 224	2 394 006	1 612 209	1 179 847	18 185 518
Loans from group companies	1 642 526					1 642 526
Debt issued securities				104 590	645 110	749 700
Others liabilities	684 246					684 246
	14 962 005	406 540	2 573 375	1 726 586	1 824 957	21 493 463
Unrecognised financial instruments						
Letters of credit and bankers' acceptances		6 684	36 813			43 498
Financial guarantees	673 949	41 739	142 643	438 586	869 054	2 165 971
Unutilised borrowing facilities	3 189 833					3 189 833
	3 863 782	48 423	179 457	438 586	869 054	5 399 302

Foreign currency liquidity management

A number of indicators are observed to monitor changes in either market liquidity or exchange rates. Foreign currency loans and advances are restricted to the availability of foreign currency deposits.

Funding strategy

Funding markets are evaluated on an ongoing basis to ensure appropriate group funding strategies are executed depending on the market, competitive and regulatory environment. The group employs a diversified funding strategy, sourcing liquidity in both domestic and offshore markets, and incorporates a coordinated approach to accessing capital and loan markets across the group.

Concentration risk limits are used within the group to ensure that funding diversification is maintained across products, sectors, geographic regions and counterparties.

Primary funding sources are in the form of deposits across a spectrum of retail and wholesale clients, as well as long-term capital and loan markets. The group remains committed to increasing its core deposits and accessing domestic and foreign capital markets when appropriate to meet its anticipated funding requirements.

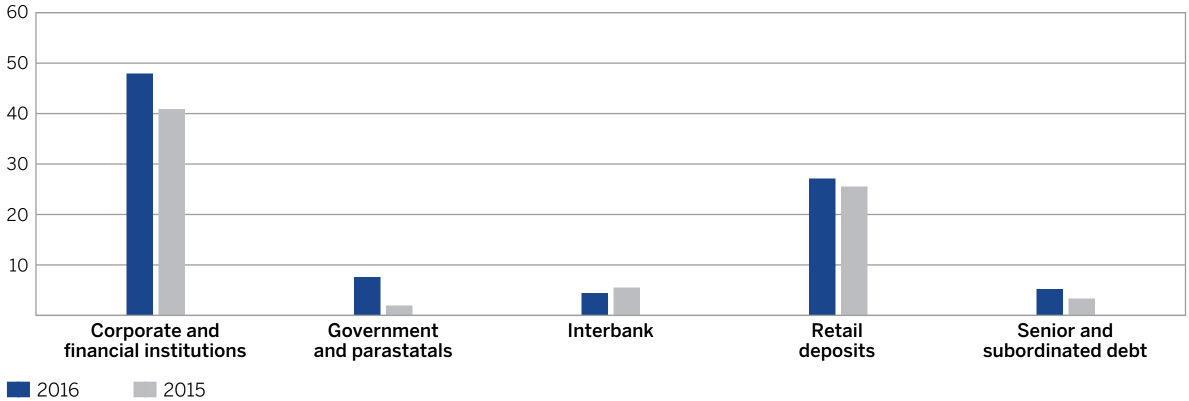
DEPOSITOR CONCENTRATIONS – NAMIBIA

	2016 %	2015 %
Top 10 depositors	**19.48**	15.95
Single depositor	**3.49**	3.64

FUNDING-RELATED LIABILITIES COMPOSITION

	2016 N$bn	2015 N$bn
Corporate and financial institutions' funding	**12.4**	10.3
Government and parastatals	**1.9**	0.5
Interbank funding	**1.1**	1.4
Retail deposits	**6.8**	6.4
Senior and subordinated debt	**1.3**	0.8
Total funding-related liabilities	**23.5**	19.4

Funding-related liabilities composition (%)

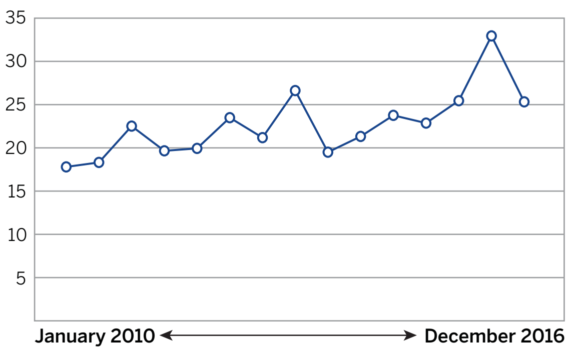


Structural mismatch limits and guidelines

The long-term funding ratio is defined as those funding-related liabilities with a remaining maturity of greater than six months as a percentage of total funding-related liabilities. This definition is derived from the SARB filings in the South African market, not to be confused with NSFR which is greater than one year.

The graph below illustrates the group's long-term funding ratio for the period 1 January 2010 to 31 December 2015. The group's long-term funding ratio was 23.34% (2015: 23.47%).

Long-term funding ratio (%)



Contingency liquidity risk management

Contingency funding plans

Contingency funding plans are designed to protect stakeholder interests and maintain market confidence to ensure a positive outcome in the event of a liquidity crisis. The plans incorporate an early warning indicator methodology supported by clear crisis response strategies. Early warning indicators cover bank-specific and systemic crises and are monitored according to assigned frequencies and tolerance levels.

Crisis response strategies are formulated for the relevant crisis management structures and address internal and external communications, liquidity generation management actions and operations, heightened and supplementary information requirements, as well as various management actions available to address the crisis event.

Liquidity stress testing and scenario analysis

Stress testing and scenario analysis are based on hypothetical, as well as historical events. These are conducted on the group's funding profiles and liquidity positions.

Anticipated on- and off-balance sheet cash flows are subjected to a variety of bank-specific and systemic stresses and scenarios to evaluate the impact of unlikely but plausible events on liquidity positions. Under each scenario, loan portfolios are assumed to roll over. However, the rollover of liabilities will be partially impaired resulting in a funding shortfall.

The results are assessed against the liquidity buffer and contingency funding plans to provide assurance as to the group's ability to maintain sufficient liquidity under adverse conditions. The results also inform target liquidity buffer positions. The bank's internal stress tests continue to be updated to reflect new reporting requirements and annual review amendments.

Liquidity buffer

Portfolios of highly marketable securities over and above prudential, regulatory and internal stress testing requirements are maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within ALCO-defined limits on the basis of diversification and liquidity.

The table below provides a breakdown of the group's liquid marketable securities and foreign currency placements as at 31 December 2016 compared to the 31 December 2015 closing position. These portfolios are highly liquid and can be readily sold to meet liquidity requirements.

TOTAL LIQUIDITY

	2016 N$bn	2015 N$bn
Total marketable assets	**6.08**	4.46
Prudential requirements	**2.53**	2.36
Total liquidity (in excess of prudential requirements)	**3.55**	2.10

In addition to minimum requirements, total contingent liquidity holdings are informed by the results from liquidity stress testing as per Basel principles. The total amount of liquidity held remains adequate to meet all internal stress tests, as well as various legal entity and group regulatory and prudential requirements.

Market risk

INTRODUCTION

The group's key market risks are categorised as follows:

- **Market risk in the trading book:** These risks result from the trading activities of the group where the primary focus is client facilitation in chosen markets. All trading activities are carried out within the group's CIB division. Trading activities comprise market making, arbitrage and proprietary trading, with the latter constituting a small proportion of trading revenues.
- **Interest rate risk in the banking book:** These risks result from the different repricing characteristics of banking book assets and liabilities. They include endowment risk associated with a downturn in the economic cycle, repricing risk, basis risk, optionality risk and yield curve risk.
- **Foreign currency risk:** The group's primary exposures to foreign currency risk arise as a result of the translation effect on the group's net assets in foreign operations and foreign-denominated cash exposures and accruals.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

ALCO and the board review and set the market risk governance standard annually in accordance with the group's stated risk appetite.

The market risk functions embedded in the business lines are independent of trading operations and accountable to ALCO. They are responsible for identifying, measuring, managing, controlling and reporting market risk as outlined in the market risk governance standard, with support from the central market risk function. The market risk functions also have the ability to set individual trader mandates. All VaR limits require prior approval from ALCO. The central market risk function is accountable to ALCO.

Exposures and excesses are monitored and reported daily to business line and group management, and quarterly to ALCO and the BRC. Where breaches in limits and triggers occur, actions are taken by market risk functions to move exposures back in line with approved market risk appetite, with such breaches being reported to management and ALCO.

TRADING BOOK MARKET RISK MANAGEMENT

Measurement

The techniques used to measure and control trading book market risk and trading volatility include:

- VaR
- stop-loss triggers
- stress tests
- backtesting

A

VaR

The group uses the historical VaR simulation approach to derive quantitative measures, specifically for market risk under normal conditions.

VaR is based on 251 days of unweighted historical data, a holding period of one day and a confidence level of 95%. The historical VaR results are calculated in four steps:

- Calculate 250 daily market price movements based on 251 days' historical data.
- Calculate hypothetical daily profit or loss for each day using these daily market price movements.
- Aggregate all hypothetical profits or losses for day one across all positions, giving daily hypothetical profit or loss. Repeat for all other days.
- VaR is the 95th percentile selected from the 250 days of daily hypothetical total profit or loss.

Daily losses exceeding the VaR are unlikely to occur.

VaR models have been approved by the regulators for all Namibian trading units except for the structured product desk and specific risk on interest rates. Where the group has received internal model approval, a VaR using a confidence level of 99% and a 10-day holding period for both recent market conditions and a stress period is used to determine market risk regulatory capital.

Limitations of historical VaR are acknowledged globally and include:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature.
- The use of a one-day holding period assumes that all positions can be liquidated or the risk offset in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully.
- The use of a 95% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.

A

- VaR is calculated on the basis of exposures outstanding at the close of business and, therefore, does not necessarily reflect intra-day exposures.
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market moves.

The Basel consultative paper on "Fundamental trading book review" proposes further changes to counteract these limitations in addition to regulatory stress VaR which was implemented at the beginning of 2013.

Stop-loss triggers

Stop-loss triggers are used to protect the profitability of the global markets' trading desks, and refer to cumulative or daily trading losses that prompt a review or close-out of positions in the trading book. These are monitored by market risk on a daily basis.

Stress tests

In recognition of the limitations of VaR, stress testing provides an indication of the potential losses that could occur under extreme market conditions and where longer holding periods may be required to exit positions. The stress tests carried out by the group include individual market risk factor testing, combinations of market factors per trading desk and combinations of trading desks. Stress tests include a combination of historical, hypothetical and Monte Carlo-type simulations and provide senior management with an assessment of the financial impact that such events would have on the group's profit. The daily losses experienced during the year ended 31 December 2015, were within the stress loss scenarios.

Backtesting

The group backtests its VaR models to verify the predictive ability of the VaR calculations and ensure the appropriateness of the models within the inherent limitations previously referred to. Backtesting compares the daily hypothetical profit and losses under the one-day buy and hold assumption to the prior day's VaR. In addition, VaR is tested by changing various parameters, such as confidence intervals and observation periods used in the model.

In this manner, characteristics of the VaR model are captured to ensure the accuracy of the VaR measurement and the effectiveness of hedges and risk-mitigation instruments, again within the limitations previously referred to. Regulators categorise a VaR model as green, amber or red and assign regulatory capital multipliers based on this categorisation.

A green model is consistent with a satisfactory VaR model and is achieved for models that have four or less backtesting exceptions in a 12-month period. All the group's approved models were assigned green status for the year ended 31 December 2016.

INTEREST RATE RISK IN THE BANKING BOOK

Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity.

The group's approach to managing interest rate risk is governed by applicable laws and regulations, and is guided by the competitive environment in which the group operates. Banking book interest rate risk is monitored centrally by SBG's TCM team with oversight by ALCO.

Interest rate risk measurement

The analytical techniques used to quantify banking book interest rate risk include both earnings – and valuation-based measures. Results are monitored on at least a monthly basis by ALCO. The analysis takes cognisance of embedded optionality such as loan prepayments and accounts where the account behaviour differs from the contractual position.

The results obtained from forward-looking dynamic scenario analyses, as well as Monte Carlo simulations, assist in developing optimal hedging strategies on a risk-adjusted return basis. Desired changes to a particular interest rate risk profile are achieved through the restructuring of on-balance sheet repricing and/or maturity profiles and, where appropriate, the use of derivative instruments.

Interest rate risk limits

Interest rate risk limits are set with respect to changes in forecast banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity. Economic value of equity sensitivity is calculated as the net present value of aggregate asset cash flows less the net present value of aggregate liability cash flows.

All assets, liabilities and derivative instruments are allocated to gap intervals based on either their repricing or maturity characteristics. Assets and liabilities for which no identifiable contractual repricing or maturity dates exist are allocated to gap intervals based on behavioural profiling (obtained through statistical analysis and, if required, expert judgement).

Analysis of banking book interest rate sensitivity

The paragraph below indicates the N$ equivalent sensitivity of the group's banking book earnings (net interest income and banking book mark-to-market profit or loss) and other comprehensive income (OCI) in response to a parallel yield curve shock, before tax. Hedging transactions are taken into account while other variables are kept constant.

Assuming no management intervention, a downward 200 basis point parallel interest rate shock across all foreign currency yield curves and a 200 basis point parallel interest rate shock across N$ yield curves, would decrease the forecast 12-month net interest income on 31 December 2016 by N$113.3 million (2015: N$117.6 million).

FOREIGN CURRENCY RISK

The foreign currency risk sensitivity analysis below reflects the expected financial impact, in N$ equivalent, resulting from a 5% shock to foreign currency risk exposures, with respect to other derivative financial instruments and foreign-denominated cash balances and accruals.

As indicated below, the impact of a 5% depreciation in foreign currency rates on the OCI and/or profit or loss of the group before taxation is N$9.7 million (2015: (N$887) thousand). Offsets to this sensitivity include changes in foreign currency rates as applied to the group's net assets in foreign countries.

FOREIGN CURRENCY RISK SENSITIVITY IN N$ EQUIVALENTS

		USD	Eur	GBP	Other	Total
2016						
Total net long/(short) position	N$'000	**111 175**	**64 379**	**516**	**19 264**	
Sensitivity	%	**5**	**5**	**5**	**5**	
Impact on profit or loss	N$'000	**5 559**	**3 219**	**26**	**963**	**9 767**
2015						
Total net long/(short) position	N$'000	16 963	124	54	607	
Sensitivity	%	5	5	5	5	
Impact on profit or loss	N$'000	(230)	(232)	(9)	157	887

Operational risk

INTRODUCTION

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Reputational risk and strategic risk are, in line with general market convention, excluded from the definition of operational risk.

Operational risk exists in the natural course of business activity. It is not an objective to eliminate all exposure to operational risk as this would be neither commercially viable nor indeed possible. The group's approach to managing operational risk is to adopt fit-for-purpose operational risk practices that assist business line management in understanding their inherent risk and reducing their risk profile in line with the group's risk tolerance, while maximising their operational performance and efficiency.

FRAMEWORK

The group has set minimum requirements for managing operational risk through the group operational risk governance standard. These requirements have been fully implemented and embedded across the group.

The framework sets out a structured and consistent approach for managing operational risk across the group. The risk management approach involves identifying, assessing, measuring, managing, mitigating, and monitoring the risks associated with operations, enabling comprehensive analysis and reporting of the group's operational risk profile.

The framework is based on the following core components:

- **Risk identification and control methodology:** Facilitates the identification of risks and the management thereof across each business and operational function. It comprises two key elements:
  - **Risk and control self-assessments:** Each business unit and group enabling function is required to analyse its business activities and critical processes to identify the key operational risks to which it is exposed, and assess the adequacy and effectiveness of its controls. For any area where management concludes that the level of residual risk is beyond an acceptable level, it is required to define action plans to reduce the level of risk. The assessments are facilitated, monitored and challenged by the relevant operational risk function aligned to each business unit and group enabling function.
  - **Indicators:** Based on the key risks and controls identified above, relevant indicators are used to monitor key business environment and internal control factors that may influence the group's operational risk profile. Each indicator has trigger thresholds to provide an early-warning indicator of potential risk exposures and/or a potential breakdown of controls.
  - **Operational risk incidents:** All areas are required to report operational risk incidents to their relevant operational risk function. The definition of operational risk incidents includes not only events resulting in actual loss, but those resulting in non-financial impacts and near misses. This process is intended to enable the root cause of individual incidents, or trends of incidents, to be analysed and actions taken to reduce the exposure or to enhance controls.

All incidents relating to the group are consolidated within a central group database, which is also integrated with risk and control self-assessments and indicators.

- **Reporting:** Operational risk reports are produced on both a regular and an event-driven basis. The reports include a profile of the key risks to business units' achievement of their business objectives, relevant control issues and operational risk incidents. Specific reports are prepared on a regular basis for the relevant business unit committees and for the board risk committee.

MANAGING OPERATIONAL RISK

The primary responsibility for managing operational risk forms part of the day-to-day responsibilities of management and employees at all levels. Business line management is ultimately responsible for owning and managing risks resulting from their activities. The risks are managed where they arise.

The operational risk management function is independent from business line management and is part of the second line of defence. It is organised as follows:

- Individual teams are dedicated to each business unit and group enabling functions. These teams are based alongside their business areas and facilitate the business's adoption of the operational risk framework. As part of the second line of defence, they also monitor and challenge the business units' and group enabling functions' management of their operational risk profile.
- A central function, based at a group level, provides groupwide oversight and reporting. It is also responsible for developing and maintaining the operational risk management framework.
- The primary oversight body for operational risk is ORCC, which reports to EXCO, the BRC and ultimately the board. ORCC is chaired by the group head of risk and includes representation from group specialist functions and business units. ORCC is also responsible for approving groupwide operational risk policies and methodologies.
- In addition to the operational risk management function, there are individual focus areas on particular aspects of operational risk, including:
  - specialist functions that are responsible for oversight of specific components of operational risk, including compliance, legal, financial crime, information security and business continuity management
  - an internal financial controls framework has been established to ensure the robust control over balance sheet substantiation and other key financial controls
  - within the group's IT and operations functions, there are dedicated areas focused on the day to day management of operations control and IT risk.

MEASURING OPERATIONAL RISK

The group continues to calculate capital based on the standardised approach in accordance with BON requirements.

SPECIALIST OPERATIONAL RISK TYPES

The definition of operational risk is very broad. Operational risk contains specific sub-risks that are subject to management and oversight by dedicated specialist functions.

Model risk

The term model refers to a quantitative method, system or approach that applies statistical, economic, financial, or mathematical principles and processes to translate input data into quantitative estimates. The group uses models to measure risk across the various risk types. Examples include credit grading, pricing, valuation and risk appetite metrics.

Model risk is the potential for adverse consequences from measurement, pricing and management decisions based on incorrect or inappropriate use of models. Incorrect or inappropriate use of models may arise from incorrect assumptions, incomplete information, inaccurate implementation and limited model understanding leading to incorrect conclusions by the user.

The group's approach to managing model risk is based on the following principles:

- All new models, both internal and external, are subject to validation and independent review in which the various components of a model and its overall functioning are evaluated to determine whether the model is performing as intended.
- The three lines of defence governance model is adopted, being model development, independent model validation and internal audit oversight functions.
- Appropriateness and fit-for-purpose use of models in technical forums is challenged.
- Model validation summaries that highlight model limitations and recommend improvements.
- Implementation of approved models into production systems is controlled.
- Model performance, including requirements for an annual review process, is monitored on an ongoing basis.
- Data that is used as model inputs, which includes independent price testing of mark-to-market positions is reviewed and governed. Where this is not available, industry consensus services are used.

- Governance is achieved through committees with appropriate board and executive management members for material models, and through policies which deal with minimum standards, materiality, validation criteria, approval criteria, roles and responsibilities.
- Auditable, skilled and experienced pool of technically competent staff is maintained.

Taxation risk

In terms of the group tax policy, the group fulfils its responsibilities under tax law in each jurisdiction in which it operates, both in terms of domestic and international taxes with specific reference to transfer pricing principles across jurisdictions, whether in relation to compliance, planning or client service matters. Tax law includes all responsibilities which the group may have in relation to company taxes, personal taxes, indirect taxes and tax administration.

Compliance with this policy is aimed at ensuring that the group pays neither more nor less tax than tax law requires. The group continually reviews its existing and planned operations in this regard and ensures that, where clients participate in group products, these clients are either aware of the probable tax implications or are advised to consult with independent professionals to assess these implications, or both.

The framework to achieve compliance with the group tax policy comprises four elements:

- Identification and management of tax risk
- Human resources policies, including an optimal mix of staffing and outsourcing
- Skills development, including methods to maintain and improve managerial and technical competency
- Communication of information affecting tax within the group.

Good corporate governance in the tax context requires that each of these elements is in place, as the absence of any one would seriously undermine the others.

Legal risk

Legal risk is defined as exposure to the adverse consequences of non-compliance with legal or statutory responsibilities and/or inaccurately drafted contracts and their execution, as well as the absence of written agreements or inadequate agreements. This includes exposure to new laws, as well as changes in interpretations of existing law by appropriate authorities. This applies to the full scope of group activities and may also include others acting on behalf of the group.

Legal risk arises where:

- the group's businesses or functions may not be conducted in accordance with, or benefit from, applicable laws in the countries in which it operates
- regulatory requirements are incorrectly applied
- the group may be liable for damages to third parties
- contractual obligations may be enforced against the group in an adverse way, resulting from legal proceedings being instituted against it.

The following sub-categories of legal risk are recognised:

- Contract non-conclusion risk
- Contract unenforceability risk
- Security interest failure risk
- Netting and set-off disallowance risk
- Adverse tax and regulatory treatment risk
- Contract breach, damages and fines risk
- Copyright loss or contravention risk
- Litigation risk
- Anti-competitive behaviour risk.

The group has processes and controls in place to manage its legal risk. Failure to manage these risks effectively could result in legal proceedings impacting the group adversely, both financially and reputationally.

Compliance risk

Compliance risk is the risk of legal or regulatory sanctions, financial loss or damage to reputation that the group may suffer as a result of its failure to comply with laws, regulations, codes of conduct and standards of good practice that are applicable to its financial services activities.

Approach to compliance risk management

The group's approach to managing compliance risk is proactive and premised on internationally accepted principles of risk management, including those recommended by Basel. It is aligned with other group risk type methodologies. Group compliance supports business in complying with current and emerging regulatory developments, including money laundering and terrorist financing control, sanctions management, identifying and managing conflicts of interest and market abuse, TCF and mitigating reputational risk.

Framework and governance

Compliance risk management is a core risk management activity overseen by the BRC. The head of risk has unrestricted access to the chief executive and to the chairman of the BAC, thereby ensuring the function's independence.

The group's compliance framework is based on the principles of effective compliance risk management, as outlined in the Banking Institutions Act, and recommendations from international policy-making bodies. Our business compliance model includes dedicated compliance support and advisory services to business which is supplemented by training.

A robust risk management reporting and escalation procedure requires both business unit and functional area heads to report monthly and quarterly on the status of compliance risk management in the group.

Money laundering and terrorist financing control

Legislation across SBN pertaining to money laundering and terrorist financing control imposes significant requirements in terms of:

- customer identification
- record keeping
- staff training
- obligations to detect, prevent and report money laundering and terrorist financing.

SBG minimum standards are implemented throughout the group. The group also subscribes to the principles of the Financial Action Task Force, an inter-governmental body developing and promoting policies to combat money laundering and terrorist financing, of which Namibia is a member country.

Compliance training

Employees are made aware of their responsibilities in terms of current and emerging legislative and regulatory requirements through ongoing training and awareness initiatives. Employees, including senior management, are made aware of their legislative responsibilities either through e-learning, face-to-face interventions or through targeted awareness campaigns. Training is key to embedding a culture of compliance in the group.

Regulatory change

The group aims to embed regulatory best practice in our operations in a way that balances the interests of various stakeholders, while supporting the long-term stability and growth in the markets where we have a presence.

The group operates in a highly regulated industry across multiple jurisdictions, including the need to comply with legislation with extra-territorial reach. The group's regulator is the Bank of Namibia (BON). BON supervises both the group and SBN, the banking entity, on a consolidated basis.

Environmental and social risk

Environmental and social risk assessment and management deals with two aspects, being those over which:

- we do not have control but which have potential to impact on our operations and those of our clients
- we have direct control such as waste management and the use of energy and water.

The SBG sustainability management unit develops the strategy, policy and management frameworks which enable the identification, management, monitoring and reporting of both of these aspects.

The uncontrolled aspects include threats to the global environment result from changing global climate and its impact on weather patterns, fresh water, infrastructure, economic growth and social resilience. The group uses two approaches to screen and process projects, namely the Equator Principles for project finance loans and an internally developed appraisal system for other financial product types. These tools are designed to identify the risks associated with a transaction and the customer's ability to manage environmental and social issues, as well as the risks associated with the transaction itself such as the nature and value of the loan, and the industry sector involved.

All project finance deals will in future be screened for climate change risk and human rights impacts. This is in addition to the more traditional environmental and social risks which include those associated with occupational health and safety, relocation of communities and the impact on livelihoods of individuals.

In relation to the controllable aspects, energy use, water use, waste production and carbon emissions resulting from our operations are recorded within an environmental management system. This is used both for improving efficiency and reporting to key stakeholders. Environmental efficiency targets have been set at a SBN level.

From a governance perspective, the group's material issues are grouped into six broad categories which form the basis of engagement on sustainability issues with the group executive committee and the board. These are:

- sustainable long-term financial performance
- governance, regulation and stakeholder engagement
- sustainable and responsible financial services
- socioeconomic development
- a positive and consistent employee experience
- the environment.

Business continuity management and resilience

Business continuity management is defined as a holistic management process that identifies potential impacts that threaten the group and provides a basis for planning in mitigation to these operational impacts. It further provides a framework for building resilience and the capability for an effective response that safeguards the interests of key stakeholders, reputation, brand and value-creating activities.

The group has business resiliency and continuity plans in place to ensure its ability to operate on an ongoing basis and limit losses in the event of severe business disruptions.

Crisis management is based on a command and control process for managing the business through a crisis to full recovery. These processes may also be deployed to manage non-operational crises, including business crises, at the discretion of senior management.

Contingency and recovery plans for core services, key systems and priority business activities have been developed and are revisited as part of existing management processes to ensure that continuity strategies and plans remain relevant.

Information risk management

Information risk is defined as the risk of accidental or intentional unauthorised use, modification, disclosure or destruction of the group's information resources, which compromises confidentiality, integrity or availability. Information risk management deals with all aspects of information in its physical and electronic forms. It focuses on the creation, use, transmission, storage, disposal and destruction of information.

Information risk management is responsible for establishing an information security management system inclusive of an information risk management framework, and promotes information risk management policies and practices across the group.

The execution of these policies and standards is driven through a network of information security officers embedded within the business lines. This network is functionally overseen by the group chief information security officer.

Financial crime control

Financial crime includes fraud, money laundering, violent crime and misconduct by staff, customers, suppliers, business partners, stakeholders and third parties. The group will not condone any instance of financial crime and where these instances arise, the group takes timely and appropriate remedial action.

Financial crime control is defined as the prevention and detection of, and response to, all financial crime in order to mitigate economic loss, reputational risk and regulatory sanction.

The group's financial crime control unit is mandated by the BAC to provide capabilities which minimise the overall impact of financial crime on the group. This ensures the safety of our people and assets, and builds trust with our stakeholders.

The group's financial crime control function reports to the group head of governance and assurance. This function enables a holistic view of the status and landscape of financial crime prevention, detection and response, including emerging threats. The group head of financial crime control has unrestricted access to executives and the chairperson of the BAC, thereby supporting the function's independence.

Occupational health and safety

The health and safety of all employees remains a priority. Training of health and safety officers and employee awareness is an ongoing endeavour. Group policies are being rolled out to all operations and the number of incidents being reported is reducing.

Other risk

Business risk

Business risk is the risk of loss due to operating revenue not covering operating costs and is usually caused by the following:

- Inflexible cost structures
- Market-driven pressures, such as decreased demand, increased competition or cost increases
- Group-specific causes, such as a poor choice of strategy, reputational damage or the decision to absorb costs or losses to preserve reputation.

It includes strategic risk and post-retirement obligation risk.

Business risk is governed by EXCO which is ultimately responsible for managing the costs and revenues of the group.

The group mitigates business risk in a number of ways:

- Extensive due diligence during the investment appraisal process is performed, in particular for new acquisitions.
- New product processes per business line through which the risks and mitigating controls for new and amended products and services are tabled and discussed.
- Stakeholder management ensures favourable outcomes from external factors beyond the group's control.
- The profitability of product lines and customer segments is consistently monitored.
- Tight control is maintained over the group's cost base, including the management of its cost-to-income ratio. This allows for early intervention and management action to reduce costs where necessary.
- Being alert and responsive to changes in market forces.
- There is a strong focus in the budgeting process on achieving headline earnings growth while containing cost growth. In addition, contingency plans are built into the budget that allow for costs to be significantly reduced in the event that expected revenue generation does not materialise.
- The group continually aims to increase the ratio of variable costs to fixed costs, allowing for more flexibility to proactively reduce costs during economic downturn conditions.

Strategic risk

Strategic risk is the risk that the group's future business plans and strategies may be inadequate to prevent financial loss or protect the group's competitive position and shareholder returns.

The group's business plans and strategies are discussed and debated by members of management and non-executive board members.

Post-retirement obligation risk

Post-retirement obligation risk is the risk to the group's earnings that arises from the requirement to contribute as an employer to an underfunded defined benefit plan. The risk arises due to either an increase in the estimated value of medical liabilities or a decline in the market value of the fund's assets or reduction in their investment returns.

The group operates a defined contribution plan. The group maintains a number of defined benefit pension and medical aid provider schemes for past and certain current employees, collectively termed post-retirement obligations. Refer to note 30 starting on page 38.

Reputational risk

Reputational risk results from damage to the group's image which may impair its ability to retain and generate business. Such damage may result in a breakdown of trust, confidence or business relationships.

Safeguarding the group's reputation is of paramount importance. Each business line, legal entity or support function executive is responsible for identifying, assessing and determining all reputational risks that may arise within their respective areas of business. The impact of such risks is considered alongside financial or other impacts.

Matters identified as a reputational risk to the group will be reported to the group head of governance and assurance who, if required, will escalate these matters to EXCO.

Should a risk event occur, the group's crisis management processes are designed to minimise the reputational impact of the event. Crisis management teams are in place both at executive and business line level to ensure the effective management of any such events. This includes ensuring that the group's perspective is fairly represented in the media.

Annexure D
Emoluments of directors

	GROUP	
	2016 N$'000	2015 N$'000
Executive directors	**5 822**	7 336
Non-executive directors	**2 901**	2 560
	8 723	9 896

Annexure E
Detailed group accounting policies

Overview

The accounting policies of Standard Bank Namibia conform to the policies adopted by the Standard Bank Group ("group").

The principal accounting policies applied by the group[1] in the presentation of the annual financial statements are set out below.

[1] All references to group hereafter include the separate annual financial statements, where applicable.

1. Basis of consolidation

Subsidiaries

The group consolidates the annual financial statements of investees which it controls. The group controls an investee when:

- it has power over the investee
- has exposure or rights to variable returns from its involvement with the investee
- has the ability to use its power to affect the returns from its involvement with the investee.

The annual financial statements of the investee are consolidated from the date on which the group acquires control up to the date that control lost. Control is assessed on a continuous basis.

Intra-group transactions, balances and unrealised gains and losses are eliminated on consolidation. Unrealised losses are eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment.

The proportion of comprehensive income and changes in equity allocated to the group and non-controlling interests are determined on the basis of the group's present ownership interest in the subsidiary.

The accounting policies of subsidiaries that are consolidated by the group conform to these policies.

Investments in subsidiaries are accounted for at cost less accumulated impairment losses (where applicable) in the separate financial statements. The carrying amounts of these investments are reviewed annually for impairment indicators and, where an indicator of impairment exists, are impaired to the higher of the investment's fair value less costs to sell and value in use.

Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the group. The consideration transferred is measured as the sum of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date.

The consideration includes any asset, liability or equity resulting from a contingent consideration arrangement.

The obligation to pay contingent consideration is classified as either a liability or equity based on the terms of the arrangement. The right to a return of previously transferred consideration is classified as an asset. Transaction costs for business combinations prior to 1 January 2010 were capitalised as part of the consideration transferred. Transaction costs for business combinations on or after January 2010 are recognised within profit or loss as and when they are incurred.

Where the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the group reports provisional amounts. Where applicable, the group adjusts retrospectively the provisional amounts to reflect new information obtained about facts and circumstances that existed at the acquisition date and affected the measurement of the provisional amounts.

The group elects on each acquisition to initially measure non-controlling interests on the acquisition date at either fair value or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets.

Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the sum of the consideration transferred (including contingent consideration), the value of non-controlling interest recognised and the acquisition date fair value of any previously held equity interest in the subsidiary over the fair value of identifiable net assets acquired is recorded as goodwill and accounted for in terms of accounting policy 7 – Intangible assets.

If the sum of the consideration transferred, including contingent consideration, the value of non-controlling interest recognised and the acquisition date fair value of any previously held equity interest in the subsidiary is less than the fair value of the identifiable net assets acquired, the difference, referred to as a gain from a bargain purchase, is recognised directly in profit or loss.

When a business combination occurs in stages, the previously held equity interest is remeasured to fair value at the acquisition date and any resulting gain or loss is recognised in profit or loss.

Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in the gain or loss of control, are accounted for as transactions with equity holders of the group. For purchases of additional interests from non-controlling interests, the difference between the purchase consideration and the group's proportionate share of the subsidiary's additional net asset value acquired is accounted for directly in equity. Gains or losses on the partial disposal (where control is not lost) of the group's interest in a subsidiary to non-controlling interests are computed as the difference between the sales consideration and the group's proportionate share of the subsidiary's net asset value disposed of, is also accounted for directly in equity.

Common control transactions

Common control transactions, in which the company is the ultimate parent entity both before and after the transaction, are accounted for at book value.

2. Foreign currency translations

Functional and presentation currency

Items included in the annual financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency).

The annual financial statements are presented in Namibian dollar, which is the functional and presentation currency of the group.

Group companies

The results and financial position of all foreign operations that have a functional currency different from the group's presentation currency are translated into the group's presentation currency as follows:

- Assets and liabilities (including goodwill, intangible assets and fair value adjustments arising on acquisition) are translated at the closing rate at the reporting date
- Income and expenses are translated at average exchange rates for the month, to the extent that such average rates approximate actual rates for the transactions
- All resulting foreign exchange differences are accounted for directly in a separate component of OCI, being the foreign currency translation reserve.

On the partial disposal of a subsidiary that includes a foreign operation, a proportionate share of the balance of the foreign currency translation reserve is transferred to the non-controlling interests. For all other partial disposals of a foreign operation, the proportionate share of the balance of the foreign currency translation reserve is reclassified to profit or loss.

On disposal (where a change in ownership occurs and control is lost) of a subsidiary that includes a foreign operation, the relevant amount in the foreign currency translation reserve is reclassified to profit or loss at the time at which the profit or loss on disposal of the foreign operation is recognised.

Transactions and balances

Foreign currency transactions are translated into the respective functional currencies of group entities at exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates, are recognised in profit or loss (except when recognised in OCI as part of qualifying cash flow hedges and net investment hedges).

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items. Foreign exchange gains and losses on equities (debt) classified as available-for-sale financial assets are recognised in the available-for-sale reserve in OCI (profit or loss) whereas the exchange differences on equities and debt that are classified as held at fair value through profit or loss are reported as part of the fair value gain or loss in profit or loss.

Foreign currency gains and losses on intra-group loans are recognised in profit or loss except where the settlement of the loan is neither planned nor likely to occur in the foreseeable future. In these cases the foreign currency gains and losses are recognised in the group's foreign currency translation reserve. These gains and losses are accounted for similarly to the exchange gains and losses as described in this accounting policy for group companies.

3. Cash and cash equivalents

Cash and cash equivalents presented in the statement of cash flows consist of cash and balances with central banks. Cash and balances with central banks comprise coins and bank notes, and balances with central banks. Cash and cash equivalents include short-term highly liquid items.

4. Financial instruments

Initial recognition and measurement

Financial instruments include all financial assets and liabilities. These instruments are typically held for liquidity, investment, trading or hedging purposes. All financial instruments are initially recognised at fair value plus directly attributable transaction costs, except those carried at fair value through profit or loss where transaction costs are recognised immediately in profit or loss. Financial instruments are recognised (derecognised) on the date the group commits to purchase (sell) the instruments (trade date accounting). The legal enforceable right is not contingent of a future event and is enforceable in the normal course of business even in the event of default, bankruptcy and insolvency.

Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classifications as follows:

Held-for-trading assets and liabilities
Held-for-trading assets and liabilities include those financial assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term, those forming part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, and commodities that are acquired principally by the group for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. Derivatives are always categorised as held-for-trading.

Subsequent to initial recognition, the financial instruments' fair values are remeasured at each reporting date. All gains and losses, including interest and dividends arising from changes in fair value are recognised in profit or loss as trading revenue within non-interest revenue with the exception of derivatives that are designated and effective as hedging instruments (refer to Derivative financial instruments and hedge accounting).

Financial assets and liabilities designated at fair value through profit or loss
The group designates certain financial assets and liabilities, other than those classified as held-for-trading, as at fair value through profit or loss when:

- this designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. Under this criterion, the main classes of financial instruments designated by the group are loans and advances to banks and customers and financial investments. The designation significantly reduces measurement inconsistencies that would have otherwise arisen. For example, where the related derivatives were treated as held-for-trading and the underlying financial instruments were carried at amortised cost. This category also includes financial assets used to match investment contracts or insurance contract liabilities
- groups of financial assets, financial liabilities or both are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and reported to the group's key management personnel on a fair-value basis. Under this criterion, certain private equity, short-term insurance and other investment portfolios have been designated at fair value through profit or loss, or
- financial instruments containing one or more embedded derivatives that significantly modify the instruments' cash flows.

The fair value designation is made on initial recognition and is irrevocable. Subsequent to initial recognition, the fair values are remeasured at each reporting date. Gains and losses arising from changes in fair value are recognised in interest income (interest expense) for all debt financial assets (financial liabilities) and in other revenue within non-interest revenue for all equity instruments.

Available-for-sale
Financial assets classified by the group as available-for-sale are generally strategic capital investments held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or non-derivative financial assets that are not classified within another category of financial assets.

Available-for-sale financial assets are subsequently measured at fair value. Unrealised gains or losses are recognised directly in the available-for-sale reserve until the financial asset is derecognised or impaired. When debt (equity) available-for-sale financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified to interest income (other revenue).

Available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value of the financial asset below its cost. The cumulative fair value adjustments previously recognised in OCI on the impaired financial assets are reclassified to profit or loss. Reversal of impairments on equity available-for-sale financial assets are recognised in OCI.

Interest income, calculated using the effective interest method, is recognised in profit or loss. Dividends received on debt (equity) available-for-sale instruments are recognised in interest income (other revenue) within profit or loss when the group's right to receive payment has been established.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the group as at fair value through profit or loss or available-for-sale.

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Origination transaction costs and origination fees received that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. The majority of the group's loans and advances are included in the loans and receivables category.

Financial liabilities at amortised cost
Financial liabilities that are neither held for trading nor designated at fair value are measured at amortised cost.

Reclassification of financial assets

The group may choose to reclassify non-derivative trading assets out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets that would not otherwise have met the definition of loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances. In addition, the group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the group, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Derivatives or any financial instrument designated at fair value through profit or loss shall not be reclassified out of their respective categories.

Reclassifications are made at fair value as of the reclassification date. Effective interest rates for financial assets reclassified to loans and receivables, held-to-maturity and available-for-sale categories are determined at the reclassification date. Subsequent increases in estimates of cash flows adjust the financial asset's effective interest rates prospectively.

On reclassification of a trading asset, all embedded derivatives are reassessed and, if necessary, accounted for separately.

Impairment of financial assets

Assets carried at amortised cost
The group assesses at each reporting date whether there is objective evidence that a loan or group of loans is impaired. A loan or group of loans is impaired if objective evidence indicates that a loss event has occurred after initial recognition and that loss event has a negative effect on the estimated future cash flows of the loan or group of loans that can be estimated reliably.

Criteria that are used by the group in determining whether there is objective evidence of impairment include:

- known cash flow difficulties experienced by the borrower
- a breach of contract, such as default or delinquency in interest and/or principal payments
- breaches of loan covenants or conditions
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider.

The group first assesses whether there is objective evidence of impairment individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Non-performing loans include those loans for which the group has identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more. The impairment of non-performing loans takes into account past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses.

When a loan carried at amortised cost has been identified as specifically impaired, the carrying amount of the loan is reduced to an amount equal to the present value of its estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the loan is reduced through the use of a specific credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

The calculation of the present value of the estimated future cash flows of collateralised financial assets recognised on an amortised cost basis includes cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

If the group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of financial loans with similar credit risk characteristics and collectively assesses for impairment. Loans that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment for impairment.

Impairment of groups of loans that are assessed collectively is recognised where there is objective evidence that a loss event has occurred after the initial recognition of the group of loans but before the reporting date. In order to provide for latent losses in a group of loans that have not yet been identified as specifically impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods (time period between the loss trigger events and the date on which the group identifies the losses). Groups of loans are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows. The carrying amount of groups of loans is reduced through the use of a portfolio credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired (including loans that have been written off), are reflected within credit impairment charges in profit or loss. Previously impaired loans are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts. Any subsequent reductions in amounts previously impaired are reversed by adjusting the allowance account with the amount of the reversal recognised as a reduction in impairment for credit losses in profit or loss.

Subsequent to impairment, the effects of discounting unwind over time as interest income.

Renegotiated loans

Loans that would otherwise be past due or impaired and whose terms have been renegotiated and exhibit the characteristics of a performing loan are reset to performing loan status. Loans whose terms have been renegotiated are subject to ongoing review to determine whether they are considered to be impaired or past due.

The effective interest rate of renegotiated loans that have not been derecognised (described under the heading Derecognition of financial instruments), is redetermined based on the loan's renegotiated terms.

Available-for-sale financial assets

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have a negative impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is considered to be impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. In that instance, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is reclassified from OCI to profit or loss.

If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for available-for-sale debt instruments. Any reversal of an impairment loss in respect of an available-for-sale equity instrument is recognised directly in OCI.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

Derivative financial instruments and hedge accounting

A derivative is a financial instrument whose fair value changes in response to an underlying variable, requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date. Derivatives are initially recognised at fair value on the date on which the derivatives are entered into and subsequently remeasured at fair value as described under the fair value policy above.

All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative, subject to offsetting principles as described under the heading Offsetting financial instruments above.

Embedded derivatives included in hybrid instruments are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The financial host contracts are accounted for and measured applying the rules of the relevant financial instrument category.

The method of recognising fair value gains and losses depends on whether the derivatives are designated as hedging instruments, and if so, the nature of the hedge relationship, or if they are classified as held-for-trading.

Derivatives that qualify for hedge accounting
When derivatives are designated in a hedge relationship, the group designates them as:

- hedges of the fair value of recognised financial assets or liabilities or firm commitments (fair value hedges).

Hedge accounting is applied to derivatives designated in this way provided certain criteria are met. The group documents, at the inception of the hedge relationship, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedging relationships. The group also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges
Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the remeasurement of both the derivative and the hedged item are recognised in profit or loss. Fair value adjustments relating to the hedging instrument are allocated to the same line item in profit or loss as the related hedged item. Any hedge ineffectiveness is recognised in profit or loss as trading revenue.

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The adjustment to the carrying amount of a hedged item measured at amortised cost, for which the effective interest method is used, is amortised to profit or loss as part of the hedged item's recalculated effective interest rate over the period to maturity.

Derivatives that do not qualify for hedge accounting
All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in profit or loss as trading revenue.

Borrowings

Borrowings are recognised initially at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings are subsequently measured at amortised cost and interest is recognised using the effective interest method.

Preference shares, which carry a mandatory coupon and redemption, or are redeemable on a specific date, at the occurrence of a contingent future event, or at the option of the shareholder are classified as financial liabilities or compound financial instruments (instruments with debt and equity components). All other preference shares are classified as equity instruments. Dividends on preference shares classified as financial liabilities are accounted for as interest on an amortised cost basis using the effective interest method. Dividends on preference shares classified as equity instruments are recognised within equity as a dividend payment when dividends are declared.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium.

Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

The group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate.

In transfers where control over the asset is retained, the group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability, with the difference in the respective carrying amounts being recognised in profit or loss.

In all other instances, the renegotiated asset or liability's effective interest rate is redetermined taking into account the renegotiated terms.

5. Interest in joint ventures

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement which only exists when decisions about the relevant activities of the joint arrangement require unanimous consent of the parties sharing control.

Interests in joint ventures are accounted for using the equity method and are measured in the statement of financial position at an amount that reflects the group's share of the net assets of the joint venture (including goodwill).

Equity accounting involves recognising the investment initially at cost, including goodwill, and subsequently adjusting the carrying value for the group's share of the joint ventures' income and expenses and OCI. Equity accounting of losses in joint ventures is restricted to the interests in these entities, including unsecured receivables or other commitments, unless the group has an obligation or has made payments on behalf of the joint ventures. Unrealised profits from "upstream" and "downstream" transactions are eliminated in determining the group's share of equity accounted profits. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Equity accounting is applied from the date on which the entity becomes a joint venture up to the date on which it ceases to be a joint venture. The accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies of the group.

Investments in associates and joint ventures are accounted for at cost less impairment losses in the company's annual financial statements.

6. Property and equipment

Equipment and owner-occupied properties

Equipment, furniture, vehicles and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the group and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised in profit or loss as incurred. Depreciation, impairment losses and gains and losses on disposal of assets are included in profit or loss.

Owner-occupied properties are held for use in the supply of services or for administrative purposes.

Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to their residual values. Land is not depreciated. Leasehold buildings are depreciated over the period of the lease or over a lesser period, as is considered appropriate.

The assets' residual values, useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year end.

The estimated useful lives of tangible assets are typically as follows:

Buildings	40 years
Computer equipment	3 to 5 years
Motor vehicles	4 to 5 years
Office equipment	5 to 10 years
Furniture and fittings	5 to 13 years
Capitalised leased assets	over the shorter of the lease term or its useful life

7. Intangible assets

The intangible assets consist of the cost incurred on Finacle, one of the group's core banking sytems. Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses from the date that the assets are available for use.

Expenditure subsequently incurred on the software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Amortisation is recognised in operating expenses on a straight-line basis.

Finacle 15 years.

8. Property developments and properties in possession

Property developments are stated at the lower of cost or net realisable value. Cost is assigned by specific identification and includes the cost of acquisition and where applicable, development and borrowing costs during development. When development is completed borrowing costs and other charges are expensed as incurred.

Properties in possession are properties acquired by the group which were previously held as collateral for underlying lending arrangements that, subsequent to origination, have defaulted. The property is recognised at the time at which the risks and rewards of the properties are transferred to the group. The properties are initially recognised at cost and are subsequently measured at the lower of cost and its net realisable value. Any subsequent write-down in the value of the acquired properties is recognised as an operating expense. Any subsequent increases in the net realisable value, to the extent that it does not exceed its original cost, are also recognised within operating expenses.

9. Capitalisation of borrowing costs

Borrowing costs that relate to qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value, are capitalised. All other borrowing costs are recognised in profit or loss.

10. Impairment of non-financial assets

Intangible assets that have an indefinite useful life and goodwill are tested annually for impairment and additionally when an indicator of impairment exists. Intangible assets that are subject to amortisation and other non-financial assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (CGUs). Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

11. Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A lease of assets is either classified as a finance lease or operating lease.

Group as lessee

Leases, where the group assumes substantially all the risks and rewards incidental to ownership, are classified as finance leases. All other leases are classified as operating leases.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are calculated using the interest rate implicit in the lease, or the group's incremental borrowing rate to identify the finance cost, which is recognised in profit or loss over the lease period, and the capital repayment, which reduces the liability to the lessor.

Payments made under operating leases, net of any incentives received from the lessor, are recognised in profit or loss on a straight-line basis over the term of the lease. Contingent rentals are expensed as they are incurred. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Group as lessor

Leases, where the group transfers substantially all the risks and rewards incidental to ownership, are classified as finance leases. All other leases are classified as operating leases.

Lease and instalment sale contracts are primarily financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances in the statement of financial position.

Finance charges earned are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. Initial direct costs and fees are capitalised to the value of the lease receivable and accounted for over the lease term as an adjustment to the effective rate of return. The tax benefits arising from investment allowances on assets leased to clients are accounted for in the direct taxation line.

Operating lease income from properties held as investment properties, net of any incentives given to lessees, is recognised on the straight-line basis or a more representative basis where applicable over the lease term. When an operating lease is terminated before the lease period has expired, any payment required by the group by way of a penalty is recognised as income in the period in which termination takes place.

12. Provisions, contingent assets and contingent liabilities

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A provision for restructuring is recognised when the group has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the group recognises any impairment loss on the assets associated with that contract.

Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the group, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the group's control.

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit. Contingent liabilities are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are remote.

13. Employee benefits

Post-employment benefits

Defined contribution plans

The group operates a number of defined contribution plans, based on a percentage of pensionable earnings funded by both employer companies and employees, the assets of which are generally held in separate trustee-administered funds.

Contributions to these plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

Defined benefit plans

Defined benefit plans

The group also operates a number of defined benefit plans, with membership generally limited to employees who were in the employment of the various companies at specified dates. Employer companies contribute to the cost of benefits taking account of the recommendations of the actuaries. Statutory actuarial valuations are required every three years using the projected unit credit method. Interim valuations are also performed annually at the financial year end. Within the defined benefit plans, the group operates a number of funded and unfunded post-employment medical aid schemes, with membership limited to employees who were retired or in the employment of the various companies at specified dates and complying with specific criteria.

The assets or liabilities recognised in the statement of financial position in respect of defined benefit plans are measured at the present value of the estimated future cash outflows, using interest rates of government bonds denominated in the same currency as the defined benefit plan (corporate bonds are used for currencies for which there is a deep market of high quality corporate bonds), with maturity dates that approximate the expected maturity of the obligations, less the fair value of plan assets. A defined benefit asset is only recognised to the extent that economic benefits are available to the group from reductions in future contributions or future refunds from the plan.

Net interest income/(expense) is determined on the defined benefit asset/(liability) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset/(liability). The net interest income/(expense) is recognised in profit or loss. Other expenses related to the defined benefit plans are also recognised in profit or loss.

Remeasurements of the net defined benefit obligation, including actuarial gains and losses, the return on plan assets (excluding interest calculated) and the effect of any asset ceiling are recognised within OCI.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

For the significant judgements and estimates applied refer to note 30.

Termination benefits

Termination benefits are recognised as an expense when the group is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

14. Taxation

Direct taxation

Direct taxation includes current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI.

Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax is not recognised for the following temporary differences:

The initial recognition of goodwill

- The initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses and
- Investments in subsidiaries, associates and jointly controlled arrangements (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Indirect taxation

Indirect taxes, including non-recoverable value added tax (VAT) and other duties for banking activities, are recognised in profit or loss and disclosed separately in the income statement.

15. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date under current market conditions.

When a price for an identical asset or liability is not observable, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

In estimating the fair value of an asset or a liability, the group takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at measurement date.

Subsequent to initial recognition, fair value is measured based on quoted market prices or dealer price quotations for the assets and liabilities that are traded in active markets and where those quoted prices represent fair value at the measurement date. If the market for an asset or liability is not active or the instrument is unlisted, the fair value is determined using other applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market-related discount rate at the reporting date for an asset or liability with similar terms and conditions.

If an asset or a liability measured at fair value has both a bid and an ask price, the price within the bid-ask spread that is most representative of fair value is used to measure fair value.

The group has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits the group of financial assets and financial liabilities to be measured at fair value on a net basis. This election is applied where the group:

- manages the group of financial assets and financial liabilities on the basis of the group's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the group's documented risk management or investment strategy
- provides information on that basis about the group of financial assets and financial liabilities to the group's key management personnel
- is required to or has elected to measure those financial assets and financial liabilities at fair value at the end of each reporting period.

Where the fair value of investments in equity instruments or identical instruments do not have a quoted price in an active market, and derivatives that are linked to and must be settled by delivery of such equity instruments, are unable to be reliably determined, those instruments are measured at cost less impairment losses. Impairment losses on these financial assets are not reversed.

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

16. Equity

Share issue costs

Incremental external costs directly attributable to a transaction that increases or decreases equity are deducted from equity, net of related tax. All other share issue costs are expensed.

Distributions on ordinary shares

Distributions are recognised in equity in the period in which they are declared. Distributions declared after the reporting date are disclosed in the distributions note.

17. Equity-linked transactions

Equity compensation plans

The group operates both equity-settled and cash-settled share-based compensation plans. All share options issued after 7 November 2002 that had not vested by 31 December 2004 are accounted for as share-based payment transactions.

The fair value of equity-settled share options is determined on the grant date and accounted for as staff costs over the vesting period of the share options, with a corresponding increase in the share-based payment reserve. Non-market vesting conditions, such as the resignation of employees and retrenchment of staff, are not considered in the valuation but are included in the estimate of the number of options expected to vest. At each reporting date, the estimate of the number of options expected to vest is reassessed and adjusted against profit or loss and equity over the remaining vesting period.

On vesting of share options, amounts previously credited to the share-based payment reserve are transferred to retained earnings through an equity transfer. On exercise of equity-settled share options, proceeds received are credited to share capital and premium.

Share-based payments settled in cash are accounted for as liabilities at fair value until settled. The liability is recognised over the vesting period and is revalued at every reporting date and on settlement. Any changes in the liability are recognised in profit or loss.

18. Revenue and expenditure

Banking activities

Revenue is derived substantially from the business of banking and related activities and comprises interest income, fee and commission revenue, trading revenue and other non-interest revenue.

Net interest income

Interest income and expense (with the exception of those borrowing costs that are capitalised – refer to accounting policy 8 – Capitalisation of borrowing costs) are recognised in profit or loss on an accrual basis using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

Where the estimates of payments or receipts on financial assets (except those that have been reclassified – refer to accounting policy 4 – Financial instruments) or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the estimated cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income.

Where financial assets have been impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate.

Fair value gains and losses on realised debt financial instruments, including amounts reclassified from OCI in respect of available-for-sale debt financial assets, and excluding those classified as held-for-trading, are included in net interest income.

Dividends received on preference share investments classified as debt form part of the group's lending activities and are included in interest income.

Non-interest revenue

Fee and commission revenue, including transactional fees, account servicing fees, investment management fees, sales commissions and placement fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the group does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised as interest income.

Fee and commission expense included in net fee and commission revenue are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is recognised as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue.

Trading revenue

Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends.

Other revenue

Other revenue includes gains and losses on equity instruments designated at fair value through profit or loss, dividends relating to those financial instruments, underwriting profit from the group's short-term insurance operations and related insurance activities and remeasurement gains and losses from contingent consideration on disposals and purchases.

Gains and losses on equity available-for-sale financial assets are reclassified from OCI to profit or loss on derecognition or impairment of the investments. Dividends on these instruments are recognised in profit or loss.

Dividend income

Dividends are recognised in profit or loss when the right to receipt is established. Scrip dividends are recognised as dividends received where the dividend declaration allows for a cash alternative.

Short-term insurance income

Short-term insurance income includes premium income, commission and policy fees earned, as well as net incurred claim losses and broker commission paid. Annual business income is accounted for on the accrual basis and comprises the cash value of commission and fees earned when premiums or fees are payable directly to the group. Direct commission income is accounted for as and when cash is received and comprises the cash value of commission earned when premiums are payable directly to the underwriters.

Management fees on assets under management

Fee income includes management fees on assets under management and administration fees. Management fees on assets under management are recognised over the period for which the services are rendered, in accordance with the substance of the relevant agreements.

Administration fees received for the administration of medical schemes are recognised when the services are rendered.

19. Segment reporting

An operating segment is a component of the group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. The group's identification of segments and the measurement of segment results is based on the group's internal reporting to the chief operating decision maker.

Transactions between segments are priced at market-related rates.

20. Fiduciary activities

The group commonly engages in trust or other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising directly thereon are excluded from these annual financial statements as they are not assets of the group. However, fee income earned and fee expenses incurred by the group relating to the group's responsibilities from fiduciary activities are recognised in profit or loss.

21. Comparative figures

Where necessary, comparative figures within notes have been restated to conform to changes in presentation in the current year.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following new or revised standards, amendments and interpretations are not yet effective for the year ended 31 December 2016 and have not been applied in preparing these annual financial statements.

PRONOUNCEMENT	TITLE	EFFECTIVE DATE
IFRS 9	*Financial Instruments* This standard will replace the existing standard on the recognition and measurement of financial instruments and requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting for financial assets differs in various other areas to existing requirements such as embedded derivatives and the recognition of fair value adjustments in OCI. All changes in the fair value of financial liabilities that are designated at fair value through profit or loss due to changes in own credit risk will be required to be recognised within OCI. The standard has introduced a new expected-loss impairment model that will require more timely recognition of expected credit losses. This new model will apply to financial assets measured at either amortised cost or fair value through OCI, as well as loan commitments when there is present commitment to extend credit (unless these are measured at fair value through profit or loss). With the exception of purchased or originated credit impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to either 12-month expected credit losses or full lifetime expected credit losses. A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition, as well as for certain contract assets or trade receivables. For all other financial instruments, expected credit losses are measured at an amount equal to 12-month expected credit losses. The revised general hedge accounting requirements are better aligned with an entity's risk management activities, provide additional opportunities to apply hedge accounting and various simplifications in achieving hedge accounting. The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.	Annual periods beginning on or after 1 January 2018

PRONOUNCEMENT	TITLE	EFFECTIVE DATE
IFRS 10 and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be applied prospectively and are not expected to have a material impact on the group's financial statements.	Annual periods beginning on or after 1 January 2016
IFRS 11 (amendments)	*Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations* The amendments specify the appropriate accounting treatment for acquisitions of interests in joint operations in which the activities of the joint operation constitute a business. The amendments will be applied prospectively and are not expected to have a material impact on the group's financial statements.	Annual periods beginning on or after 1 January 2016
IFRS 15	*Revenue from Contracts with Customers* This standard will replace the existing revenue standards and their related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments). The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition. The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.	Annual periods beginning on or after 1 January 2018
IAS 27 (amendments)	*Equity Method in Separate Financial Statements* The amendments allow entities preparing separate financial statements to utilise the equity method to account for investments in subsidiaries, joint ventures and associates. The standard will be applied retrospectively. The impact on the company's annual financial statements has not yet been fully determined.	Annual periods beginning on or after 1 January 2016

PRONOUNCEMENT	TITLE	EFFECTIVE DATE
IFRS 16	*Leases* This standard will replace the existing standard IAS 17 Leases, as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier). The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet. The most significant change pertaining to the accounting treatment of operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a right of use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value. The lessor accounting requirements in IAS 17 has not changed substantially in terms of this standard; as a result a lessor continues to classify its leases as operating leases or finance leases and accounts for these as is currently done in terms of IAS 17. In addition, the standard requires the lessor to provide enhanced disclosures about its leasing activities and in particular about its exposure to residual value risk and how it is managed. The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.	Annual periods beginning on or after 1 January 2019

INTERNATIONAL FINANCIAL REPORTING STANDARDS

INTERNATIONAL FINANCIAL REPORTING STANDARDS AND AMENDMENTS EFFECTIVE FOR THE FIRST TIME FOR 31 DECEMBER 2016 YEAR END

PRONOUNCEMENT	EXECUTIVE SUMMARY	EFFECTIVE DATE
Amendments to IFRS 10, 'Consolidated financial statements and IAS 28 Investments in associates and joint ventures on applying the consolidation exemption	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.	1 January 2016
Amendments to IAS 1 Presentation of financial statements disclosure initiative	In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.	1 January 2016
Amendment to IAS 16 Property, plant and equipment and IAS 38 Intangible assets on depreciation and amortisation	In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.	1 January 2016
Amendments to IAS 27 Separate financial statements on equity accounting	In this amendment the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.	1 January 2016
Amendment to IAS 12 Income taxes Recognition of deferred tax assets for unrealised losses.	The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets. The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets.	Annual periods beginning on or after 1 January 2017 (published February 2016)

PRONOUNCEMENT	EXECUTIVE SUMMARY	EFFECTIVE DATE
Amendment to IAS 7 Cash flow statements Statement of cash flows on disclosure initiative	In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.	Annual periods beginning on or after 1 January 2017 (published February 2016)
Amendments to IFRS 2 Share-based payments Clarifying how to account for certain types of share-based payment transactions	This amendment clarifies the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.	Annual periods beginning on or after 1 January 2018 (published June 2016)

Contact details

Company secretary

Adv S Tjijorokisa
Tel: +264 61 294 2036

Chief financial officer

Bryan Mandy
Tel: +264 61 294 2237

Registered address

5th Floor, Standard Bank Centre
Corner of Werner List Street and Post Street Mall
PO Box 3327
Windhoek
Namibia

Head office switchboard

Tel: +26 461 294 2000

Website: www.standardbank.com.na

Please direct all annual report queries and comments to: **Annual.Report@standardbank.com.na**
Please direct all customer related queries and comments to: **information@standardbank.com.na**
Please direct all investor relations queries and comments to: **Investor.Relations@standardbank.com.na**

STUDIO 5

standardbank.com.na