Unaudited condensed consolidated interim results

for the six months ended 30 June 2016

2016

SBN HOLDINGS LIMITED

Standard Bank Moving Forward™

Contents

The SBN Holdings Limited's (group) condensed consolidated interim results, including the statement of financial position, income statement, statement of changes in equity and statement of cash flows, for the six months ended 30 June 2016 (results) are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, the Institute of Chartered Accountants of Namibia (ICAN) Financial Reporting Guides as issued by the Accounting Practices Committee, financial pronouncements as issued by the Financial Reporting Standards Council, the presentation requirements of IAS 34 Interim Financial Reporting and the requirements of the Companies Act of Namibia.

The accounting policies applied in the preparation of these condensed consolidated financial statements from which the results have been derived are in terms of IFRS and are consistent with the accounting policies applied in the preparation of the group's previous audited consolidated annual financial statements.

These interim results have not been audited or independently reviewed by the group's external auditors. The group's 2015 annual financial information has been correctly extracted from the underlying audited consolidated annual financial statements.

1H16 refers to the first half year results for 2016. 1H15 refers to the first half year results for 2015. FY15 refers to the full year results for 2015. Change % reflects 1H16 growth on 1H15.

The results were made publicly available on 24 August 2016.

GROUP HIGHLIGHTS

N$255 million ↑ 8.2%

1H15: N$235 million

Profit after tax

20.3% Return on equity (10.6%) **1H15: 22.7%**

59.3% Cost to income ratio 2.4% **1H15: 57.9%**

0.6% Credit loss ratio (14.3%) **1H15: 0.7%**

N$17.5 billion Loans advances to customers 6.0% **1H15: N$16.5 billion**

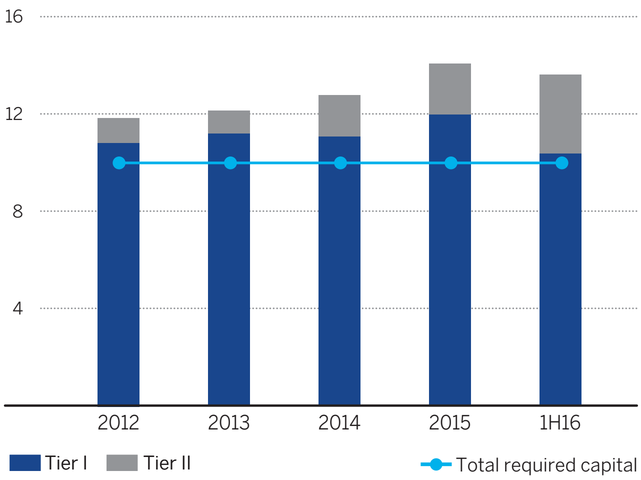
5.0% Net interest margin 2.0% **1H15: 4.9%**

N$17.6 billion Deposits from customers 3.2% **1H15: N$18.2 billion**

FINANCIAL HIGHLIGHTS

		2016	2015	
as at 30 June 2016	Change %	**1H16 Unaudited N$000**	1H15 Unaudited N$000	FY15 Audited N$000
Total income	10	**1 038 079**	945 349	2 004 930
Credit impairments	(3)	**(57 518)**	(59 008)	(85 309)
Operating expenses	12	**(615 325)**	(547 177)	(1 169 725)
Profit after tax	8	**254 530**	235 295	524 531
Loans and advances to customers	6	**17 483 979**	16 497 694	17 019 334
Total assets	5	**24 384 918**	23 168 422	23 992 115
Deposits from customers	(3)	**17 591 358**	18 178 389	18 045 363
Debt securities issued	73	**1 265 116**	732 404	749 700

CAPITAL ADEQUACY – STANDARD BANK NAMIBIA



Overview of financial results

Group results

Despite the significant headwinds experienced, SBN Holdings managed to build on its exceptional performance in 2015, growing profit after tax by 8.2% and loans and advances to customers by 6.0%. Total income grew by 9.8%, with a healthy growth in interest income of 17.2% offset by a higher growth of 27.5% in interest expenses on account of a higher interest-rate environment given the heightened uncertainties in the local and global markets. Expenses grew by 12.5%, largely attributable to the investments we have made in our staff. We see continual progress in the quality of our loan book as evidenced by the decline in the credit loss ratio to 0.6% from 0.7%. Our return on equity saw a decline from 22.7% to 20.3% largely attributable to higher retained capital during the period due to a deferred dividend payment.

Operating environment

The world bank revised its global growth forecast for 2016 to 2.4%, down from the initially projected 2.9%. The downward revision is largely due to a sluggish growth in advanced economies and continuing low commodity prices.

This year, the global economy was also hit by "Brexit". The impact of this event is unprecedented and it remains to be seen what consequences it will have on the global economy. Currently, it is creating a movement towards safe haven assets with the US dollar strengthening compared to most currencies. Financial markets and currencies are left in a volatile position. Investors expect that following the "Brexit", the EU and US are likely to keep interest rates low, possibly driving investors back into emerging markets, which may well lead to strengthening of local currencies.

In 2016, South Africa was able to avoid a sovereign downgrade to junk status by credit rating agencies. However, it appears that South Africa is not yet in the clear and a downgrade may still occur. With Namibia being so closely linked to South Africa the impact of such a decision will also be felt here.

Sub-Saharan Africa has been impacted by a persistent and severe drought. This, combined with the declining commodity prices and stricter financing conditions, has worsened the growth outlook for 2016 to 2.9%. Namibia too is experiencing a slowdown in its economy, albeit less than its neighbours, with the economy forecast to grow at 3.3%.

Revenue

Total income grew by 9.8% in 1H16, with net interest income (NII) increasing by 9.4% primarily due to an increase of 6% in loans and advances to customers. The margin improved slightly by 10 basis points to 5% evidencing a satisfactory management of liquidity and pricing, despite the recent increases in funding costs. Interest rates have already increased by 50 basis points during the first six months of this year, increasing the need to manage the delicate balance between funding and lending.

Non-interest revenue (NIR) grew by 10.4%, outperforming our growth in the prior period of 7.1%. Growth was seen across various types of fees. Trading revenue decreased by 11.5% mainly due to currency trading volumes and margins declining. Other revenue increased by 4.7%.

Credit impairments

Credit impairments were 2.5% lower than the prior period, with the credit loss ratio declining to 0.6% from 0.7%. The bank has implemented new recovery strategies that are proving to be effective.

Operating expenses

Operating expenses increased by 12.5% over the prior period and the group's cost to income ratio increased to 59.3% from 57.9%. Staff expenses increased by 15.8% and other operating expenses increased by 8.9%. Significant investments have been made into staff to ensure that the necessary talent is attracted and retained to meet our strategic goals. Other operating expenses were affected by our increasing investments into innovation. At the same time, they were also negatively affected by the worsening exchange rate, leading to substantial increases on imported goods and services.

Loans and advances

Loans and advances to customers grew by 6% compared to 30 June 2015. A 10% growth was achieved in vehicle and asset finance and an 8% growth was recorded in mortgage loans. At the same time, the card debtors contracted by 8%. Overdrafts, demand loans and term lending recorded a lower growth rate. The impairment provision decreased by 9% due to better management of the loan book.

Capital, funding and liquidity

SBN Holdings remains appropriately capitalised with tier 1 and total capital levels at 11.58% (FY15: 13.42%) and 14.9% (FY15: 15.6%) respectively. SBN Holdings is in a good position to meet the progressively higher requirements arising from the Bank of Namibia's intent to implement Basel III capital standards in the near future.

Deposits and current accounts from customers decreased by 3.2% with a substantial decline in call deposits contributing to this position at 30 June 2016. This arose as a result of large tax payments being made by some of the larger clients over the 30 June reporting date. This decline was offset by a significant (27.4%) growth in our cash management product offering to corporate clients.

In May, Standard Bank Namibia issued N$700 million worth of bonds and NCDs to ensure that it would meet its long-term funding needs.

Standard Bank Namibia maintained its strong liquidity position within approved risk appetite and tolerance limits. Total liquidity in excess of specific prudential requirements amounted to N$2.0 billion as at 1H16 (1H15: N$2.2 billion) and remains adequate to meet all internal stress testing, prudential and regulatory requirements.

The internal Basel III liquidity coverage ratio (LCR) implemented in early 2015 was maintained above the minimum phase-in requirement of 70%. The bank is well-positioned to meet the increasing requirements in the coming years.

Prospects

In 2016, we have been faced with some turbulent economic events, including the threat of a sovereign downgrade for South Africa and “Brexit”. This has left the global economy in a volatile position with the impact not yet being certain. Global growth prospects have decreased to 2.4% for 2016 with emerging markets expected to continue to face strong headwinds.

The domestic economy is expected to grow by 4.4% in 2016, down from the 5.7% growth in 2015. Whilst the Namibian economy has remained strong during the turbulent global economic situation, an adverse impact of the ongoing drought has been seen.

We continue to focus our efforts into transforming Standard Bank Namibia into an innovative and forward-thinking bank that is able to achieve sustainable results.

Mr H Maier
Chairman

Mr VJ Mungunda
Chief Executive

21 July 2016

Consolidated statement of financial position

as at 30 June 2016

	Change %	2016 1H16 Unaudited N$'000	2015 1H15 Unaudited N$'000	2015 FY15 Audited N$'000
Assets				
Cash and balances with central banks	23.3	**1 024 958**	831 213	923 516
Derivative assets	64.1	**64 345**	39 203	168 413
Trading assets	85.4	**386 767**	208 662	313 679
Financial investments	(9.0)	**2 928 532**	3 217 609	3 380 847
Loans and advances	6.6	**17 621 828**	16 533 594	17 392 431
Loans and advances to banks	284.0	**137 849**	35 900	373 097
Loans and advances to customers	6.0	**17 483 979**	16 497 694	17 019 334
Other assets	(25.6)	**411 307**	552 803	563 441
Assets in group companies and joint ventures	(19.3)	**1 156 965**	1 433 867	812 074
Property and equipment	28.2	**384 240**	299 778	390 058
Intangible assets	100.0	**374 002**		
Current tax receivable	1 856.7	**27 022**	1 381	575
Deferred taxation asset	(90.2)	**4 952**	50 312	47 081
Total assets	5.3	**24 384 918**	23 168 422	23 992 115
Equity and liabilities				
Equity				
Share capital – ordinary		**1 000**	1 000	1 000
Share premium on issue of shares		**442 234**	442 234	442 234
Reserves	16.8	**2 060 438**	1 763 691	2 055 418
Total equity	13.4	**2 503 682**	2 206 925	2 498 652
Liabilities				
Derivative liabilities	24.8	**60 152**	48 200	231 473
Trading liabilities	100.0	**169 763**		
Deposits and current accounts	0.2	**18 584 093**	18 550 463	18 185 518
Deposits from banks	166.8	**992 735**	372 074	140 155
Deposits from customers	(3.2)	**17 591 358**	18 178 389	18 045 363
Debt securities issued	72.7	**1 265 116**	732 404	749 700
Provisions and other liabilities	9.5	**583 561**	532 957	684 246
Loans from group companies	11.0	**1 218 561**	1 097 473	1 642 526
Total liabilities	4.4	**21 881 246**	20 961 497	21 493 463
Total equity and liabilities	5.3	**24 384 918**	23 168 422	23 992 115

Consolidated income statement

for the six months ended 30 June 2016

	Change %	2016 1H16 Unaudited N$'000	2015 1H15 Unaudited N$'000	2015 FY15 Audited N$'000
Net interest income	7.4	**594 978**	544 012	1 147 549
Interest income	17.2	**1 128 126**	962 162	2 025 992
Interest expense	27.5	**(533 148)**	(418 150)	(878 443)
Non-interest revenue	10.4	**443 101**	401 337	857 381
Net fee and commission revenue	15.1	**350 197**	304 281	638 849
Fee and commission revenue	16.4	**419 869**	360 745	763 524
Fee and commission expense	23.4	**(69 672)**	(56 464)	(124 675)
Trading revenue	(11.5)	**47 817**	54 003	137 046
Other revenue	4.7	**45 087**	43 053	81 486
Total income	9.8	**1 038 079**	945 349	2 004 930
Credit impairment charges	(2.5)	**(57 518)**	(59 008)	(85 309)
Income after credit impairment charges	10.6	**980 561**	886 341	1 919 621
Operating expenses	12.5	**(615 325)**	(547 177)	(1 169 725)
Employee costs	15.8	**(325 759)**	(281 274)	(579 735)
Other operating expenses	8.9	**(289 566)**	(265 903)	(589 990)
Net income	7.7	**365 236**	339 164	749 896
Share of profit/(losses) from equity accounted investments	100.0	**1 224**		1 311
Net income before indirect taxation	8.0	**366 460**	339 164	751 207
Indirect taxation	44.9	**(11 405)**	(7 870)	(17 866)
Profit before direct taxation	7.2	**355 055**	331 294	733 341
Direct taxation	4.7	**(100 525)**	(95 999)	(208 810)
Profit for the period	8.2	**254 530**	235 295	524 531

Consolidated statement of other comprehensive income

for the six months ended 30 June 2016

	2016 1H16 Unaudited N$'000	2015 1H15 Unaudited N$'000	2015 FY15 Audited N$'000
Profit for the period	**254 530**	235 295	524 531
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Net change in fair value of available-for-sale financial assets	**11 692**	(5 447)	(16 906)
Other comprehensive income for the period net of taxation	**11 692**	(5 447)	(16 906)
Total comprehensive income	**266 222**	229 848	507 625

Consolidated statement of changes in equity

for the six months ended 30 June 2016

	Total share capital N$'000	Available-for-sale revaluation reserve N$'000	Share-based payment reserve N$'000	Statutory credit risk reserve N$'000	Post-employment benefit reserve N$'000	Retained earnings N$'000	Total equity N$'000
Balance at 1 January 2015 (audited)	443 234	(916)	9 718	122 578	6 420	1 395 712	1 976 746
Profit for the period						235 295	235 295
Other comprehensive income		(5 447)					(5 447)
Total comprehensive income for the period		(5 447)				235 295	229 848
Equity-settled share-based payment transactions			332				332
Transfer between reserves				8 000		(8 000)	
Total contributions by and distributions to owners of company recognised directly in equity			332	8 000		(8 000)	332
Balance at 30 June 2015 (unaudited)	443 234	(6 363)	10 049	130 578	6 420	1 623 007	2 206 925
Balance at 1 January 2015 (audited)	443 234	(916)	9 718	122 578	6 420	1 395 712	1 976 746
Profit for the period						524 531	524 531
Other comprehensive income		(16 906)					(16 906)
Total comprehensive income for the period		(16 906)				524 531	507 625
Equity-settled share-based payment transactions			14 281				14 281
Transfer between reserves				15 000		(15 000)	
Total contributions by and distributions to owners of company recognised directly in equity			14 281	15 000		(15 000)	14 281
Balance at 31 December 2015 (audited)	443 234	(17 822)	23 999	137 578	6 420	1 905 243	2 498 652
Balance at 1 January 2016 (audited)	**443 234**	**(17 822)**	**23 999**	**137 578**	**6 420**	**1 905 243**	**2 498 652**
Profit for the period						**254 530**	**254 530**
Other comprehensive income		**11 692**					**11 692**
Total comprehensive income for the period		**11 692**				**254 530**	**266 222**
Equity-settled share-based payment transactions			**1 298**				**1 298**
Dividends						**(262 500)**	**(262 500)**
Total contributions by and distributions to owners of company recognised directly in equity			**1 298**			**(262 500)**	**(261 202)**
Balance at 30 June 2016 (unaudited)	**443 234**	**(6 130)**	**25 297**	**137 578**	**6 420**	**1 897 273**	**2 503 672**

Condensed consolidated statement of cash flows

for the six months ended 30 June 2016

	2016	2015	
	1H16 Unaudited N$'000	1H15 Unaudited N$'000	FY15 Audited N$'000
Net cash flows from operating activities	**259 347**	(859 906)	(655 515)
Cash flow generated from operations	**(302 779)**	(1 290 082)	(1 622 134)
Interest received	**1 142 100**	953 053	1 989 503
Dividends received	**24 422**	23 230	40 147
Interest paid	**(516 178)**	(450 012)	(864 320)
Tax paid	**(88 218)**	(96 095)	(198 711)
Net cash flows from investing activities	**(407 535)**	(10 209)	(137 297)
Purchase of intangible assets	**(376 091)**		
Purchase of property and equipment	**(40 203)**	(10 304)	(176 016)
Sale of property and equipment	**8 759**	95	38 719
Net cash flows from financing activities	**249 630**		15 000
Senior debt redeemed	**(87 870)**		(292 000)
Senior debt issued	**600 000**		307 000
Dividends paid	**(262 500)**		
Total cash and balances with central banks movement for the period	**101 442**	(870 115)	(777 812)
Cash and balances with central banks at beginning of the period	**923 516**	1 701 328	1 701 328
Total cash and balances with central banks at end of the period	**1 024 958**	831 213	923 516

Notes to the unaudited condensed consolidated interim results

for the six months ended 30 June 2016

Condensed segment report

	Change %	2016 1H16 Unaudited N$'000	2015 1H15 Unaudited N$'000	2015 FY15 Audited N$'000
Total income				
Personal & Business Banking	6.2	**742 410**	698 937	1 489 084
Corporate & Investment Banking	13.9	**286 844**	251 921	522 374
Banking activities	8.2	**1 029 255**	950 858	2 011 458
Other	(260.2)	**8 824**	(5 509)	(6 528)
	9.8	**1 038 079**	945 349	2 004 930
Profit after tax				
Personal & Business Banking	(1.2)	**152 613**	154 397	356 025
Corporate & Investment Banking	11.8	**94 518**	84 560	170 725
Banking activities	3.4	**247 131**	238 957	526 750
Other	(302.1)	**7 399**	(3 662)	(2 219)
	8.2	**254 530**	235 295	524 531
Total assets				
Personal & Business Banking	12.0	**15 696 794**	14 013 706	14 663 515
Corporate & Investment Banking	(3.6)	**8 826 376**	9 151 596	9 324 169
Banking activities	5.9	**24 523 170**	23 165 302	23 987 684
Other	(4 531.2)	**(138 252)**	3 120	4 431
	5.3	**24 384 918**	23 168 422	23 992 115
Total liabilities				
Personal & Business Banking	9.7	**7 106 006**	6 476 298	6 868 093
Corporate & Investment Banking	1.6	**14 610 218**	14 380 671	14 529 635
Banking activities	4.1	**21 716 224**	20 856 969	21 397 728
Other	57.9	**165 022**	104 528	95 735
	4.4	**21 881 246**	20 961 497	21 493 463

Contingent liabilities and commitments

	2016	2015	
	1H16 Unaudited N$'000	1H15 Unaudited N$'000	FY15 Audited N$'000
Contingent liabilities			
Letters of credit	**24 610**	37 764	43 498
Guarantees	**2 668 444**	1 012 634	2 165 971
Unutilised borrowing facilities[1]	**3 087 372**	3 319 115	3 189 833
	5 780 426	4 369 513	5 399 302
Capital commitments			
Contracted capital expenditure	**1 274**	265	2 973
Operating lease commitments			
Properties:			
Within one year	**42 195**	36 546	37 723
After one year but within five years	**48 845**	67 059	62 577
	91 041	103 605	100 300
Equipment			
Within one year	**1 019**	1 612	444
After one year but within five years	**1 208**		695
	2 227	1 612	1 139

[1] Undrawn facilities are conditionally cancellable.

The expenditure will be funded from internal resources.

The future minimum lease payments under non-cancellable operating leases are as shown under Operating lease commitments above.

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

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.

Whilst 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.

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 group 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 group 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 group and company's actual credit exposure, nor will it agree to that presented in the statement of financial position.

30 June 2016	**Gross amount of recognised financial assets[1]**	**Gross amount of recognised financial liabilities set off in the statement of financial position[2]**	**Net amount of financial assets subject to offset**	**Financial collateral and cash collateral recieved[3]**	**Net amount**
Assets[4]					
Derivative assets	**64 345**		**64 345**	**(64 345)**	
Loans and advances	**18 512 934**	**(891 106)**	**17 621 828**	**(15 598 098)**	**2 023 730**

30 June 2016	**Gross amount of recognised financial liabilities[1]**	**Gross amount of recognised financial assets set off in the statement of financial position[2]**	**Net amount of financial liabilities subject to offset**	**Financial collateral and cash collateral pledged[5]**	**Net amount**
Liabilities[4]					
Deposits and current accounts	**(19 475 199)**	**891 106**	**(18 584 093)**		**(18 584 093)**
Derivative liabilities	**(60 152)**		**(60 152)**	**60 152**	

31 December 2015 (audited)	Gross amount of recognised financial assets[1]	Gross amount of recognised financial liabilities set off in the statement of financial position[2]	Net amount of financial assets subject to offset	Financial collateral and cash collateral recieved[3]	Net amount
Assets[4]					
Derivative assets	168 413		168 413	(168 413)	
Loans and advances	18 080 028	(687 597)	17 392 431	(15 301 871)	2 090 560

31 December 2015 (audited)	Gross amount of recognised financial liabilities[1]	Gross amount of recognised financial assets set off in the statement of financial position[2]	Net amount of financial liabilities subject to offset	Financial collateral and cash collateral pledged[5]	Net amount
Liabilities[4]					
Deposits and current accounts	(18 873 115)	687 597	(18 185 518)		(18 185 518)
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 group 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 group by linking the current accounts of multiple legal entities within a group. This allows for cash balances of the different legal entities to be offset against each other to arrive at a net balance for those groups. 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 group and company.
* All items in the tables' respective line items have been measured on a consistent basis.

The group is subject to an enforceable master netting arrangement in the form of an ISDA agreement with a derivative counterparty. Under the terms of this agreement, offsetting of derivative contracts is permitted only in the event of bankruptcy or default of either party in the agreement.

Fair value disclosures

Financial assets and liabilities measured at fair value

Fair value hierarchy of instruments measured at fair value

In terms of IFRS, the group is either required to or elects to measure a number of its financial assets and financial liabilities at fair value, being the price that would, respectively, 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.

Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities.

Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions. When determining fair value it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. Information obtained from the valuation of financial instruments is used to assess the performance of the group and, in particular, provides assurance that the risk and return measures that the group has taken are accurate and complete.

Valuation process

The group's valuation control framework governs internal control standards, methodologies, and procedures over its valuation processes, which include:

Prices quoted in an active market: The existence of quoted prices in an active market represents the best evidence of fair value. Where such prices exist, they are used in determining the fair value of financial assets and financial liabilities.

Valuation techniques: Where quoted market prices are unavailable, the group establishes fair value using valuation techniques that incorporate observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices, for such assets and liabilities. Parameter inputs are obtained directly from the market, consensus pricing services or recent transactions in active markets, whenever possible.

Where such inputs are not available, the group makes use of theoretical inputs in establishing fair value (unobservable inputs). Such inputs are based on other relevant input sources of information and incorporate assumptions that include prices for similar transactions, historic data, economic fundamentals, and research information, with appropriate adjustment to reflect the terms of the actual instrument being valued and current market conditions. Changes in these assumptions would affect the reported fair values of these financial instruments.

Valuation techniques used for financial instruments include the use of financial models that are populated using market parameters that are corroborated by reference to independent market data, where possible, or alternative sources such as, third party quotes, recent transaction prices or suitable proxies. The fair value of certain financial instruments is determined using industry standard models such as, discounted cash flow analysis and standard option pricing models. These models are generally used to estimate future cash flows and discount these back to the valuation date. For complex or unique instruments, more sophisticated modelling techniques may be required, which require assumptions or more complex parameters such as correlations, prepayment spreads, default rates and loss severity.

Valuation adjustments: Valuation adjustments are an integral part of the valuation process. In making appropriate valuation adjustments, the group applies methodologies that consider factors such as bid-offer spreads, liquidity, counterparty and own credit risk.

Validation and control: All financial instruments carried at fair value, regardless of classification, and for which there are no quoted market prices for that instrument, are fair valued using models that conform to international best practice and established financial theory. These models are validated independently by the group's model validation unit and formally reviewed and approved by the market risk methodologies committee. This control applies to both off-the-shelf models as well as those developed internally by the group. Further, all inputs into the valuation models are subject to independent price validation procedures carried out by the group's market risk unit. Such price validation is performed on at least a monthly basis, but daily where possible given the availability of the underlying price inputs. Independent valuation comparisons are also performed and any significant variances noted are appropriately investigated. Less liquid risk drivers, which are typically used to mark level 3 assets and liabilities to model, are carefully validated and tabled at the monthly price validation forum to ensure that these are reasonable and used consistently across all entities in the group. Sensitivities arising from exposures to such drivers are similarly scrutinised, together with movements in level 3 fair values, and are also disclosed on a monthly basis at the market risk and asset and liability committees.

Portfolio exception: The group has, on meeting certain qualifying criteria, elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis.

Fair value hierarchy

The table that follows analyses the group's financial instruments carried at fair value, by level of fair value hierarchy. The different levels are based on the extent that available market data is used in the calculation of the fair value of the financial instruments. The levels have been defined as follows:

Level 1 – fair value is based on quoted market prices (unadjusted) in active markets for an identical financial asset or liability. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – fair value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instrument being valued and the similar instrument.

Significant unobservable inputs

The fair value of level 3 assets and liabilities is determined using valuation techniques which include reference to recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants. However, such techniques typically have unobservable inputs that are subject to management judgement.

Although the group believes that its estimates of fair values are appropriate, changing one or more of these assumptions to reasonably possible alternative values could impact the fair value of the financial instruments. These inputs include, but are not limited to, credit spreads on illiquid issuers, implied volatilities on thinly traded stocks, correlation between risk factors, prepayment rates, and other illiquid risk drivers.

Exposure to such illiquid risk drivers is typically managed by:

- using bid-offer spreads that are reflective of the relatively low liquidity of the underlying risk driver
- quantifying and reporting the sensitivity to each risk driver
- raising day one profit or loss provisions in accordance with IFRS and
- limiting exposure to such risk drivers and analysing this exposure on a regular basis.

Recurring fair value measurements of assets or liabilities are those assets and liabilities that IFRS require or permit to be carried at fair value in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are those assets and liabilities that IFRS require or permit to be carried at fair value in the statement of financial position at the end of the reporting period in particular circumstances.

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.

Group	Held-for-trading N$'000	Designated at fair value N$'000	Loans and receivables N$'000
30 June 2016			
Assets			
Cash and balances with central banks			**1 024 958**
Derivative assets	**64 345**		
Trading assets	**386 767**		
Financial investments		**1 063 304**	
Loans and advances to banks			**137 849**
Loans and advances to customers			**17 483 979**
Assets in group companies and joint ventures			**1 151 311**
Other non-financial assets			
Other financial assets			**411 307**
	451 112	**1 063 304**	**20 209 404**
Liabilities			
Derivative liabilities	**60 152**		
Deposits and current accounts from banks			
Deposits and current accounts from customers			
Debt securities issued			
Loans from group companies			
Other financial liabilities			
	60 152		
31 December 2015 (audited)			
Assets			
Cash and balances with central banks			923 516
Derivative assets	168 413		
Trading assets	313 679		
Financial investments		1 109 984	
Loans and advances to banks			373 097
Loans and advances to customers			17 019 334
Assets in group companies and joint ventures			807 643
Other non-financial assets			
Other financial assets			563 441
	482 092	1 109 984	19 687 031
Liabilities			
Derivative liabilities	231 473		
Deposits and current accounts from banks			
Deposits and current accounts from customers			
Debt securities issued			
Loans from group companies			
Other financial liabilities			
	231 473		

[1] Carrying value has been used where it approximates fair value, excluding non-financial instruments.

Available-for-sale N$'000	Other amortised cost N$'000	Other non-financial assets/liabilities N$'000	Total carrying amount N$'000	Fair value[1] N$'000
			1 024 958	**1 024 958**
			64 345	**64 345**
			386 767	**386 767**
1 865 228			**2 928 532**	**2 928 532**
			137 849	**137 849**
			17 483 979	**17 386 202**
		5 654	**1 156 965**	**1 156 965**
		416 214	**416 214**	**580 822**
			411 307	**411 307**
1 865 228		**421 868**	**24 010 916**	**6 691 545**
			60 152	**60 152**
	992 735		**992 735**	**992 735**
	17 591 358		**17 591 358**	**17 591 358**
	1 265 116		**1 265 116**	**1 218 117**
	1 218 561		**1 218 561**	**1 218 561**
	583 561		**583 561**	**583 561**
	21 651 331		**21 711 483**	**20 446 367**
			923 516	923 516
			168 413	168 413
			313 679	313 679
2 270 863			3 380 847	3 380 847
			373 097	373 097
			17 019 334	16 911 926
		4 431	812 074	812 074
		437 714	437 714	601 925
			563 441	563 441
2 270 863		442 145	23 992 115	24 048 918
			231 473	231 473
	140 155		140 155	140 155
	18 045 363		18 045 363	18 045 363
	749 700		749 700	760 992
	1 642 526		1 642 526	1 642 526
	684 246		684 246	684 246
	21 261 990		21 493 463	21 504 755

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.

	30 June 2016			
	Level 1 N$'000	**Level 2 N$'000**	**Level 3 N$'000**	**Total N$'000**
Assets				
Derivative assets		**64 345**		**64 345**
Trading assets	**386 767**			**386 767**
Financial investments	**127 490**	**2 801 042**		**2 928 532**
	514 257	**2 865 387**		**3 379 644**
Liabilities				
Derivative liabilities		**60 152**		**60 152**
		60 152		**60 152**

	31 December 2015 (audited)			
	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000
Assets				
Derivative assets		168 413		168 413
Trading assets	313 679			313 679
Financial investments	310 585	3 070 262		3 380 847
	624 264	3 238 675		3 862 939
Liabilities				
Derivative liabilities		231 473		231 473
		231 473		231 473

Level 2 and 3 – valuation techniques and inputs

Derivative financial instruments

Derivative financial instruments comprise foreign exchange, interest rate, commodity, credit and equity derivatives that are either held-for-trading or designated as hedging instruments in hedge relationships. Standard derivative contracts are valued using market accepted models and quoted parameter inputs. More complex derivative contracts are modelled using sophisticated modelling techniques applicable to the instrument. Inputs used in the valuation process include spot prices of the underlying, dividend yields, risk-free rates, risk premiums, timing of settlement, storage/ services costs, credit risks, volatilities, prepayment risk/surrender risk and recovery rates/loss given default.

Trading assets and liabilities, pledged assets and financial investments

Trading assets and liabilities comprise instruments which are part of the group's underlying trading activities. These instruments include sovereign and corporate debt, commodities, collateral, collateralised lending agreements and equity securities.

Pledged assets comprise instruments that may be sold or repledged by the group in the absence of default by the group. Pledged assets include sovereign and corporate debt, equity, commodities pledged in terms of repurchase agreements and commodities that have been leased to third parties.

Financial investments are non-trading financial assets and comprise of sovereign and corporate debt, listed and unlisted equity instruments, investments in debentures issued by the BON, investments in mutual fund investments and unit-linked investments. Where there are no recent transactions, fair value is derived from the last available market price adjusted for changes in risks and information since that date. Where a proxy instrument is quoted in an active market, the fair value for the financial investment is determined by adjusting the proxy fair value for differences between the proxy instrument and the financial investment. Where proxies are not available, the fair value is estimated using more complex modelling techniques. These techniques include discounted cash flow and Black-Scholes models using current market rates for credit, interest, liquidity, volatility and other risks. Combination techniques are used to value unlisted equity securities and include inputs such as earnings and dividend yields of the underlying entity.

Loans and advances

Loans and advances comprise:

- **Loans and advances to banks:** call loans, loans granted under resale agreements and balances held with other banks.
- **Loans and advances to customers:** mortgage loans (home loans and commercial mortgages), other asset-based loans, including collateralised debt obligations (instalment sale and finance leases), and other secured and unsecured loans (card debtors, overdrafts, other demand lending, term lending and loans granted under resale agreements).

For certain loans fair value may be determined from the market price of a recently occurring transaction adjusted for changes in risks and information between the transaction and valuation dates. Loans and advances are reviewed for observed and verified changes in credit risk and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value. Discounted cash flow models incorporate parameter inputs for interest rate risk, foreign exchange risk, liquidity and credit risk, as appropriate.

For credit risk, probability of default and loss given default parameters are determined using credit default swaps markets, where available and appropriate, as well as the relevant terms of the loan and loan counterparty such as the industry classification and subordination of the loan.

Deposits from banks and customers and other financial liabilities

Deposits from banks and customers comprise amounts owed to banks and customers, deposits under repurchase agreements, negotiable certificates of deposit, credit-linked deposits and other deposits.

For certain deposits, fair value may be determined from the market price on a recently occurring transaction adjusted for all changes in risks and information between the transaction and valuation dates.

In the absence of an observable market for these instruments discounted cash flow models are used to determine fair value based on the contractual cash flows related to the instrument. The fair value measurement incorporates all market risk factors, including a measure of the group's credit risk relevant for that financial liability. The market risk parameters are valued consistently to similar instruments held as assets stated in the section above. Where the financial liabilities designated at fair value through profit or loss under the fair value option are credit-linked deposits or are collateralised, such as securities loaned and securities pledged under repurchase agreements, the credit enhancement is incorporated into the fair valuation of the liability.

The fair values of third party financial liabilities arising on the consolidation of mutual funds are determined using the quoted put (exit) price provided by the fund manager and discounted for the applicable notice period.

The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

Level 2 financial assets and financial liabilities

The following table sets out the group's principal valuation techniques, which are consistent with that applied in the previous financial year, used in determining the fair value of its financial assets and financial liabilities that are classified within level 2 of the fair value hierarchy.

Instruments	Valuation technique	Significant observable inputs
Derivative assets (liabilities)	The fair value of the forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value The fair value of interest rate swaps is calculated as the present value of estimated future cash flow based on observable yield curves	Foreign exchange rate/observable yield curve
Financial investments	Fair value of underlying investments	Fair value of underlying investments

Accounting policies

Basis of preparation

The group's results are prepared in accordance with the going concern principle under the historical cost basis as modified by the fair value accounting of certain assets and liabilities where required or permitted by IFRS.

The accounting policies applied in the preparation of the condensed consolidated financial statements from which the results have been derived are in terms of IFRS and are consistent with the accounting policies applied in the preparation of the group's previous consolidated audited annual financial statements, except for changes as required by the mandatory and early adoption of new and revised IFRS, as set out below.

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

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

- IFRS 11 Joint Arrangements amendment
- IAS 27 Separate Financial Statements amendment

Early adoption of revised standards:

- IAS 7 Statement of Cash Flows amendment
- IAS 12 Income Taxes amendment

The abovementioned amendments to IFRS, 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.

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