STANDARD BANK NAMIBIA LIMITED

Annual financial statements 2018

Standard Bank Moving Forward™

Also trading as Stanbic Bank

Annual financial statements

About Standard Bank Namibia

Standard Bank opened its first commercial branch in August 1915 in Lüderitz, making it one of Namibia's oldest companies today.

Over the years, our customers and clients have come to rely on us to understand their needs, employ people with strong knowledge of local business conditions and connect borrowers with lenders. We are proud to be part of Standard Bank company, a large financial services organisation rooted in Africa and with operations in 22 countries.

From humble beginnings of three branches, today, Standard Bank operates a distribution network of 60 branches and 325 ATMs across Namibia. Our workforce has grown to over 1 700 employees and our roots have extended deep into the fabric of Namibian society.

Standard Bank is committed to making banking available to all Namibians.

To this end, we have evolved and adapted together with our customers and clients, developing a rich heritage while nurturing and protecting our reputation. We uphold high standards of corporate governance, are committed to advancing the principles and practices of sustainable development and are inspired to advance national development objectives.

Our success and growth over the long term is built on making a difference in the communities in which we operate. We are commercially and morally bound to serve Namibia and her people, in return for the long-term profitable growth we envisage as a leading financial services company on the continent.

NAMIBIA IS OUR HOME
– we drive her growth

Directors' responsibility and approval

The directors are responsible for the preparation, integrity and fair presentation of the financial statements of Standard Bank Namibia Limited. The financial statements presented on pages 7 to 120 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 financial statements. The directors have a reasonable expectation that the company 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 company.

The 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 7 to 120, which have been prepared on the going concern basis, were approved by the board of directors on 26 February 2019 and were signed on its behalf by:

Mr H Maier
Chairman

Mr VJ Mungunda
Chief executive

Independent auditor's report

To the Member of Standard Bank Namibia Limited

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 2018, and its financial performance and 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 Limited's financial statements set out on pages 7 to 120 comprise:

- the directors' report for the year ended 31 December 2018;
- the statement of financial position as at 31 December 2018;
- the statement of profit or loss for the year then ended;
- the statement of other 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;
- accounting policy elections, IFRS 9 transition and restatement;
- key management assumptions;
- the notes to the annual financial statements;
- annexures A to E but excludes the sections marked as "unaudited" in Annexure C.

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) (Code of Conduct) and other independence requirements applicable to performing audits of financial statements in Namibia. We have fulfilled our other ethical responsibilities in accordance with the Code of Conduct and in accordance with other ethical requirements applicable to performing audits in Namibia.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 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.

Level	Key audit matter	How our audit addressed the matter
Company financial statements	**Expected credit losses ("ECLs") on financial assets** *Refer to the following sections in the annual financial statements for the relevant disclosures:* • *In the Accounting policy number 3 elections and IFRS 9 transition,* • *Expected credit loss (ECL) on financial assets – IFRS 9 drivers included within the ECL on financial assets – IFRS 9 drivers included within the Key management assumptions disclosures,* • *Notes 4, 5 and 29 to the annual financial statements relating to financial investments, loans and advances and credit impairment charges, and* • *the credit risk section of annexure C – risk and capital management in the annual financial statements.* This key audit matter relates to the following financial assets that were considered to be of most significance to the current year audit: • Loans and advances (Refer to note 5), • Financial investments measured at fair value through Other Comprehensive Income (Refer to note 4), and • Off-balance sheet exposures including letters of credit, bank acceptances and guarantees (Refer to Note 17.1). The ECLs recognised on these financial assets were considered to be of most significant to the audit due to the following: • The first time adoption of IFRS 9 – *Financial instruments* ("IFRS 9")by the Company, • The degree of judgement applied by management in determining the ECLs, and • The degree of judgement applied in the classification of exposures between Stage 1 and Stage 2. *First-time adoption of IFRS 9* The Company has adopted IFRS 9 for the first time in the 2018 reporting period (Previously IAS 39 – *Financial Instruments: Recognition and Measurement* was applied). As a result, the accounting policies impacted by the IFRS 9 transition have been amended accordingly.	Our audit addressed the key audit matter as follows: *First-time adoption of IFRS 9:* We have tested the appropriateness of the reclassification of financial instruments as at 1 January 2018 in accordance with IFRS 9 requirements, noting no material exceptions. We have tested the IFRS 9 transition adjustments at 1 January 2018 by independently recalculating the ECL on all the financial instruments by applying the same models used to determine ECL at 31 December 2018, noting no material differences. We assessed the accounting policies and financial statement disclosures relating to the ECLs on financial assets and found these to be in accordance with the requirements of IFRS 9. *ECLs on PBB loans and advances* Our audit addressed PBB loans and advances as follows: We utilized our internal actuarial expertise to review the IFRS 9 provisioning methodology. This included an assessment of: • the stage transitioning rules applied, • the behavioural lifetime modelling methodology applied, • the IFRS 9 Probability of Default ("PDs") applied, • the proposed Loss Given Default ("LGD") methodology applied, • the IFRS 9 Exposure At Default ("EAD") calculation applied, • the methodology applied in the IFRS 9 calculation engine used to convert PD, LGD and EAD term structures into an ECL, • independently re-performing the impairment methodology and comparing the results with those of the Company, and • the appropriateness of management's SICR definition. No model errors or material differences have been identified from this assessment. On a sample basis, we tested the inputs into the model by performing the following procedures: • For the outcome period (12 months or lifetime depending on stage), we tested the realisation of the securities against the loans and the different processes the Company • would have to go through in order to realise securities. • We recalculated the PD and Roll Rates based on historical data. We found the PD and Roll Rates to be supported by historical data. • We compared the LGD used in the model to historical trends. We found the LGD to be reasonable compared to the historical trends.

Level	Key audit matter	How our audit addressed the key audit matter
Company financial statements	*Expected credit losses (ECLs)* IFRS 9 requires the recognition of ECLs on all financial assets within the scope of its impairment model. This includes the financial assets listed above to which the key audit matter relates. ECLs on personal and business banking portfolios ("PBB") exposures are determined on the product categories or subsets of the product categories, with tailored ECL models per portfolio. ECLs on corporate and business banking ("CIB") exposures are determined separately based on rating models for each asset class. In determining the ECL to be recognised for loans and advances, the Company has considered the following: *(i) ECL measurement period* The measurement period is at a minimum equal to the 12 month ECL of the exposure . A loss allowance for the full lifetime of the exposure is required where there has been a SICR since initial recognition. *(ii) SICR* For PBB loans and advances, the SICR is assessed by comparing the credit risk grade at the reporting date to the origination credit risk grade. The SICR thresholds, which are behaviour score based, are derived for each portfolio vintage of exposures with similar credit risk and are calibrated over time to determine which exposures reflect deterioration relative to the originated population and consequently reflect an increase in credit risk. For CIB exposures, SICR is assessed by comparing the credit risk grade at the reporting date to the origination credit risk grade. *(iii) Forward looking expectations* For PBB, forward looking expectations applied in determining the ECLs include the macroeconomic outlooks of the country in which the bank operates. Adjustments are made using models that correlate these parameters with the macroeconomic variables. For CIB, the macroeconomics outlooks are incorporated in CIB's client rating and include specific forward-looking economic considerations for the individual client. *(iv) ECL measurement basis* The ECLs on loans and advances are measured using a 3 stage model which determines how the loss allowance for ECLs is measured and how the effective interest income on the financial asset is calculated. The detail is set out as follows: • Stage 1 relates to loans and advances that are neither credit impaired on origination nor for which there has been a SICR. • Stage 2 relates to a lifetime ECL allowance and is calculated for loans and advances that are assessed to display a SICR since origination. • Stage 3 relates to a lifetime ECL for loans and advances that are assessed to be credit impaired. For financial investments and off-balance sheet exposures, the impairment provision has been calculated per exposure for the shorter of 12 months or the remaining lifetime of the exposure.	We performed the following procedures to assess the reasonableness of the forward looking information used in determining the ECLs on PBB loans and advances: • We compared the portfolio provision expressed as a percentage of gross loans and advances to publicly available information about the industry in Namibia. Our work has not indicated that overall impairment requires adjustment in this regard. • We assessed trends and determined whether there were anomalies in the Roll Rates, PDs and forward looking information. We found these to be reasonable and consistent with what is happening in the Namibian Economy. We have performed the following procedures to test the 3 stage classification of PBB loans and advances: • we assessed whether the system is calculating the number of days in arrears correctly, as this is the key driver in identifying the stage of credit noting no exceptions. We selected a sample of advances for which instalments were due and unpaid for 90 days or more and verified that all of these advances were specifically impaired. On a sample basis, 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 watch lists 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. Our work has not indicated that overall impairment requires adjustment in this regard. We assessed the valuation of collateral by comparing values to external publicly available information such as market values for properties and other assets. Our work has not indicated that overall impairment requires adjustment in this regard. 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. *ECLs on CIB loans and advances, financial investments and off-balance sheet exposures* We performed the following procedures to assess the reasonableness of the ECL recognised on these financial assets as follows: • we utilised our internal valuation expertise to assess the appropriateness of the CIB model used by the Company, and • we have independently re-performed the ECL calculation as well as the weighted PD and modified duration calculation, noting no material exceptions. • Compared prior year ECL to current year and found it to be reasonable.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Standard Bank Namibia Limited Annual Financial Statements for the year ended 31 December 2018. 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 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, 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 the directors determine 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 have 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 judgement 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.

Pricewaterhouse Coopers.

PricewaterhouseCoopers
Registered Accountants and Auditors
Chartered Accountants (Namibia)
Per: R. Nangula Uaandja
Partner
Windhoek
Date: 28 March 2019

Directors' report

for the year ended 31 December 2018

Review of activities

Main business and operations

SBN Holdings is the holding company for Standard Bank Namibia Limited.

It conducts its operations through the following businesses:

- Banking services through Standard Bank Namibia Limited, a registered Namibian commercial bank.
- Insurance broking services through fellow subsidiary companies Stanfin (Namibia) (Pty) Limited and Standard Insurance Brokers (Namibia) (Pty) Limited.
- Safe custodianship through its 100%-owned subsidiary company Standard Bank Namibia Nominees (Pty) Limited.
- Asset management and unit trust services through a related company, Liberty Life Namibia Limited.
- Property investment and construction through subsidiary company Arleo Investments Sixteen (Pty) Ltd.

The company operates in all main areas within Namibia and its head office is located in Windhoek.

The company also offers an international banking service through its association with Standard Bank company 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.

These financial statements are the separate financial statements of Standard Bank Namibia. The Company is exempted from the preparation of consolidated financial statements as the Company is a wholly-owned subsidiary of SBN Holdings Limited, a Namibia-incorporated company which produces consolidated financial statements available for public use.

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$475 million (2017: N$467 million profit), after taxation of N$240 million (2017: N$230 million).

Events after the reporting period

There were no events after the reporting date to report.

Authorised and issued share capital

The company's authorised share capital consisted of 6 000 000 ordinary shares of 1 cent each of which 2 000 015 have been issued. The authorised and issued share capital remained unchanged for the year.

Borrowings

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

Property and equipment

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

Dividends

A dividend of N$240 million was declared and paid in the year under review (2017: N$240 million).

A final dividend of N$120 million in respect of the year ended 31 December 2017 was declared and paid in March 2018. An interim dividend of N$120 million in respect of the year ended 31 December 2018 was declared and paid in December 2018.

Ownership

At 31 December 2018, SBN Holdings Limited owned 99.9% of the issued share capital and the following directors each hold 100 shares:

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

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

Directors

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

STANDARD BANK NAMIBIA LIMITED

Name	Nationality
Mr H Maier	Namibian
Mr VJ Mungunda	Namibian
Adv N Bassingthwaighte	Namibian
Mrs B Rossouw	Namibian
Mr AG Gain	South African
Mr BJ Mandy	Namibian
Mr JL Muadinohamba	Namibian
Ms PM Nyandoro	Zimbabwean
Mr IH Tjombonde	Namibian
Mrs MS Dax (appointed January 2019)	Namibian
Mr P Schlebusch (appointed January 2019)	South African

Company secretary

Adv S Tjijorokisa

INTEREST IN SUBSIDIARIES

Name of subsidiary	Amount of issued share capital N$	Net income after tax (N$'000)
Standard Bank Namibia Nominees (Pty) Ltd	1	

Interest in subsidiaries

The company owns 100% of the share capital of Standard Bank Namibia Nominees (Pty) Ltd.

Statement of financial position

as at 31 December 2018

	Note	2018 N$'000	2017[1] N$'000
Assets			
Cash and balances with central banks	1	**1 546 355**	1 357 935
Derivative assets	2	**33 237**	64 198
Trading assets	3	**129 801**	430 186
Financial investments	4	**4 386 995**	3 335 106
Current tax asset		**58 180**	45 870
Loans and advances	5	**22 237 208**	22 136 794
Other assets	6	**305 709**	1 691 699
Interest in Group companies and joint ventures	7	**2 095 902**	865 545
Property and equipment	8	**568 340**	504 906
Goodwill and other intangible assets	9	**298 960**	323 038
Deferred tax asset	12	**17 468**	
Total assets		**31 678 155**	30 755 277
Equity and liabilities			
Equity		**2 883 370**	2 778 492
Ordinary share capital	10	**2 000**	2 000
Ordinary share premium	11	**591 230**	591 230
Reserves		**2 290 140**	2 185 262
Liabilities		**28 794 785**	27 976 785
Derivative liabilities	2	**25 714**	58 279
Trading liabilities		**980**	92
Deposit and current accounts	13	**25 191 374**	24 600 240
Debt securities issued	14	**1 690 299**	1 218 731
Other liabilities	15	**576 804**	521 450
Liabilities to Group companies	7	**1 309 614**	1 536 248
Deferred taxation liability	12		41 745
Total equity and liabilities		**31 678 155**	30 755 277

[1] The company has, as permitted by IFRS 9, elected not to restate their comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on IAS 39 basis.

Statement of profit or loss

for the year ended 31 December 2018

	Note	2018 N$'000	2017[1] N$'000
Net interest income		**1 218 303**	1 234 801
Interest income[1]	22	**2 592 046**	2 453 311
Interest expense[1]	23	**(1 373 743)**	(1 218 509)
Non-interest revenue		**1 024 325**	855 264
Net fee and commission revenue		**798 184**	723 469
Fee and commission revenue	24	**960 927**	900 979
Fee and commission expense	25	**(162 743)**	(177 510)
Trading revenue	26	**121 904**	122 517
Other revenue	27	**6 916**	9 277
Other gains and losses on financial instruments[1]		**97 321**	
Total income		**2 242 628**	2 090 065
Credit impairment charges[1]	28	**(95 617)**	(97 047)
Income after credit impairment charges		**2 147 011**	1 993 018
Operating expenses	29	**(1 435 568)**	(1 296 802)
Net income		**711 443**	696 216
Share of profit from equity accounted investments	7	**3 410**	1 370
Net income before indirect taxation		**714 853**	697 585
Indirect taxation	30	**(33 002)**	(31 431)
Profit before direct taxation		**681 851**	666 155
Direct taxation	30	**(206 815)**	(198 882)
Profit for the year		**475 036**	467 273

1 The company has, as permitted by IFRS 9, elected not to restate their comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis. Refer to the accounting policies for more detail on the change in presentation as a result of the amendment to IAS 1 requiring interest income calculated using effective interest rate to be separately presented in the income statement.

Statement of other comprehensive income

for the year ended 31 December 2018

	2018 N$'000	2017 N$'000
Profit for the year	**475 036**	467 273
Other comprehensive profit – net of taxation[1]		
Items that may be subsequently reclassified to profit or loss		
Fair value of available-for-sale financial assets – IAS 39		5 942
Fair value adjustments on FVOCI debt financial assets – IFRS 9	**(235)**	
Fair value movement on post-retirement benefit	**8 587**	4 784
Other comprehensive income for the year net of taxation[1]	**8 352**	10 726
Total comprehensive income	**483 388**	477 999

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

Statement of changes in equity

for the year ended 31 December 2018

	Total share capital[1] N$'000	Available-for-sale revaluation reserve – IAS 39 N$'000	Share-based payment reserve[2] N$'000	Fair value adjustments on FVOCI debt financial assets – IFRS 9 N$'000	Statutory credit risk reserve[3] N$'000	Post-employment benefit reserve[4] N$'000	Retained earnings N$'000	Total N$'000
Balance as at 1 January 2017	**593 230**	**(6 320)**	**26 465**		**147 878**	**6 272**	**1 770 747**	**2 538 272**
Profit for the year							467 273	467 273
Other comprehensive income		5 942				4 784		10 726
Total comprehensive income for the year		**5 942**				**4 784**	**467 273**	**477 999**
Equity-settled share-based payment transactions			2 217					2 217
Transfer between reserves					11 100		(11 100)	
Dividends							(240 000)	(240 000)
Total contributions by and distributions to owners of company recognised directly in equity			**2 217**		**11 100**		**(251 100)**	**(237 783)**
Balance as at 31 December 2017	**593 230**	**(378)**	**28 682**		**158 978**	**11 056**	**1 986 920**	**2 778 488**
Balance at 1 January 2018 – (IAS 39)	**593 230**	**(378)**	**28 682**		**158 978**	**11 056**	**1 986 920**	**2 778 488**
IFRS 9 transitional adjustment5		**378**		**(378)**			**(147 110)**	**(147 110)**
Transfer between reserves					**(158 978)**		**158 978**	
Balance at 1 January 2018 – (IFRS 9) (Restated)	**593 230**		**28 682**	**(378)**		**11 056**	**1 998 788**	**2 631 378**
Profit for the year							**475 036**	**475 036**
Other comprehensive income				**(235)**		**8 587**		**8 352**
Total comprehensive income for the year				**(235)**		**8 587**	**475 036**	**483 388**
Equity-settled share-based payment transactions			**8 604**					**8 604**
Dividends							**(240 000)**	**(240 000)**
Total contributions by and distributions to owners of company recognised directly in equity			**8 604**				**(240 000)**	**(231 396)**
Balance as at 31 December 2018	**593 230**		**37 286**	**(613)**		**19 643**	**2 233 824**	**2 883 370**

1 Please refer to notes 10 and 11 for further information.
2 Share-based payment reserve: refer to accounting policy: Equity-linked transactions.
3 The statutory credit risk reserve relates to the Bank of Namibia reserve requirements.
4 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).
5 Refer to the accounting policy elections, IFRS 9 transition and restatement on page 16 for more detail on the IFRS 9 transition

Statement of cash flows

for the year ended 31 December 2018

	Note	2018 N$'000	2017 N$'000
Net cash flow from operations		**88 246**	407 500
Cash flow from operations		**(935 322)**	(701 376)
Net income before indirect taxation		**714 853**	697 585
Adjusted for:		**(1 160 168)**	(1 073 982)
Credit impairment charges	28	**95 617**	137 682
Depreciation and amortisation	29	**92 086**	88 546
Equity-settled share-based payments	34	**25 450**	3 693
Fair value adjustments financial instruments	27		(342)
Fair value adjustments trading assets	26	**(22 676)**	(28 055)
Indirect taxation	30	**(33 002)**	(31 431)
Interest expense	23	**1 373 743**	1 218 509
Interest received	22	**(2 592 046)**	(2 453 311)
Other gains and losses on financial instruments		**(97 321)**	
Net movement in post-employment benefits	32	**11 112**	581
Profit on sale of property and equipment	29	**(4 116)**	(1 688)
Dividends received	27	**(5 605)**	(6 796)
Income from equity accounted investments	7	**(3 410)**	(1 370)
Increase in income earning assets	31.1	**(757 401)**	(3 672 101)
Increase in deposits and other liabilities	31.2	**267 394**	3 347 122
Interest received		**2 549 284**	2 455 527
Dividends received	27	**5 605**	6 796
Interest paid		**(1 308 054)**	(1 178 280)
Tax paid	31.3	**(223 267)**	(175 167)
Net cash flows from investing activities		**(127 326)**	(173 238)
Purchase of property and equipment	8	**(166 735)**	(209 240)
Sale of property and equipment	31.4	**39 409**	36 002
Net cash flows from financing activities		**227 500**	(236 200)
Senior debt redeemed		**(302 500)**	(222 200)
Senior debt issued		**770 000**	226 000
Dividends paid	31.5	**(240 000)**	(240 000)
Total cash and balances with central banks movement for the year		**188 420**	(1 938)
Cash and balances with central banks at beginning of the year	1	**1 357 935**	1 359 873
Total cash and balances with central banks at end of the year	1	**1 546 355**	1 357 935

Accounting policy elections and IFRS9 transition

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

These financial statements are the separate financial statements of Standard Bank Namibia. The Company is exempted from the preparation of consolidated financial statements as the Company is a wholly-owned subsidiary of SBN Holdings Limited, a Namibia-incorporated company which produces consolidated financial statements available for public use.

1. Basis of preparation

The company's 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:

- Financial assets classified at fair value through OCI (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 and 7)
- intercompany transactions between the company's continuing and discontinued operation are not eliminated but presented as part of the company's respective continuing and discontinued operations' results (accounting policy 9)
- the portfolio exception to measure the fair value of certain companys of financial assets and financial liabilities on a net basis (accounting policy 4)
- investment in associates and joint ventures are initially measured at cost and subsequently accounted for using the equity method in the separate financial statements (accounting policy 2).

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

2. Functional and presentation currency

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

IFRS 15 Revenue from Contracts with Customers (IFRS 15) with effect from 1 January 2018, replaces the existing revenue standards and the 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 company adopted IFRS 15 on 1 January 2018 and, as permitted by IFRS 15, did not restate its comparative financial results. The standard does not apply to revenue associated with financial instruments, and therefore does not impact the majority of the company and company's revenue.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (IFRIC 22) provides guidance on how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

The above mentioned standards and interpretation to the IFRS standards, adopted on 1 January 2018, did not effect the company and company's previously reported financial results, disclosures or accounting policies and did not impact the company and company's results upon transition.

IFRS 9 with effect from 1 January 2018, replaced IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 introduced new requirements which included an expected credit loss (ECL) impairment model and new requirements for the classification and measurement of financial assets. IFRS 9, adopted on 1 January 2018, impacted the company and company's results upon transition. The impact to the company and company's reserves on transition to IFRS 9 materially relates to IFRS 9's ECL impairment requirements. IFRS 9's classification and measurement requirements resulted in an immaterial impact to the company and company on transition. Refer to the IFRS 9 transition disclosure for more detail.

IFRS 9 – transition

Background

With effect from 1 January 2018, IFRS 9 replaced IAS 39. IFRS 9 introduced new requirements which included an ECL impairment model and new requirements for the classification and measurement of financial assets as follows:

ECL impairment requirements	IFRS 9's ECL impairment model's requirements represented the most material IFRS 9 transition impact for the company. The ECL model applies to financial assets measured at either amortised cost or at fair value through other comprehensive income (FVOCI), loan commitments when there is a present commitment to extend credit (unless these are measured at fair value through profit or loss (FVTPL)) and guarantees. ECL is, at a minimum, required to be measured through a loss allowance at an amount equal to the 12-month ECL. However, where the lifetime is less than 12 months, lifetime ECL will be measured for the financial asset. A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.
Classification and measurement	IFRS 9 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 the IAS 39 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 FVTPL due to changes in own credit risk are required to be recognised within OCI.

Adoption of IFRS 9

The company retrospectively adopted IFRS 9 on 1 January 2018 with an adjustment to the company's opening 1 January 2018 reserves and, as permitted by IFRS 9, did not restate its comparative financial results. Accordingly, the company's previously reported financial results up to 31 December 2017 are presented in accordance with the requirements of IAS 39 and for 2018, and future reporting periods, are presented in terms of IFRS 9. However, the company has elected to continue to apply the hedge accounting requirements of IAS 39.

IFRS 9's ECL requirements

The most material IFRS 9 transition impact for the company is that of IFRS 9's new ECL requirements which results in the earlier recognition of credit impairment provisions primarily as a result of the drivers outlined in the table below. This impact was solely as a result of the adoption of IFRS 9 and is not as a result of changes in the credit quality of the company's loan exposures.

12-month ECL for performing loans (stage 1)	IFRS 9 contains a minimum 12-month ECL for exposures for which there has not been a significant increase in credit risk (SICR), whereas IAS 39 required credit impairments to be recognised only following the identification of objective evidence of impairment.
Significant increase in credit risk (SICR) (stage 2)	A lifetime ECL is recognised for all exposures for which there has been a SICR, being a material change in the probability of default, since origination.
Off-balance sheet exposures	IFRS 9's scope includes off-balance sheet exposures, such as unutilised loan commitments (except those loan commitments at fair value through profit and loss), bankers acceptances, guarantees, and letters of credit.
Lifetime model work out requirement	In terms of determining ECL for stage 1 and 2 exposures where there is a probability of default, the potential loss from a lifetime perspective is considered, which would include the probability of recovery post default and subsequent re-default. For stage 3 exposures, being exposures that are either in default or where default is imminent, this would include consideration of cures and subsequent re-default.
Forward looking economic expectations	IFRS 9 requires an adjustment for forward looking economic expectations in the determination of SICR and in the measurement of the ECL.

IFRS 9 key financial impacts

TABLE 1: IMPACT ON STANDARD BANK NAMIBIA EXTRACTED STATEMENT OF FINANCIAL POSITION ON 1 JANUARY 2018

	IAS 39 at 31 December 2017 N$'000	IFRS 9 transition adjustment at 1 January 2018			
		IFRS 9 ECL N$'000	IFRS 9 classification and measurements N$'000	Total N$'000	IFRS 9 at 1 January 2018 N$'000
Assets					
Financial investments[1]	3 335 106	(10 191)	(508)	(10 699)	3 324 407
Loans and advances[2]	22 146 338	(205 641)		(205 641)	21 940 697
Other financial and non-financial assets[3]	5 273 835	69 230		69 230	5 343 065
Total assets	30 755 279	(146 602)	(508)	(147 110)	30 608 169
Equity and liabilities					
Equity	2 778 487	(146 602)	(508)	(147 110)	2 631 377
Equity attributable to the ordinary shareholder	2 778 487	(146 602)	(508)	(147 110)	2 631 377
Liabilities	27 976 792				27 976 792
Total equity and liabilities	30 755 279	(146 602)	(508)	(147 110)	30 608 169

1 Materially relates to Debt financial investments measured at fair value through OCI – IFRS 9.
2 Materially relates to loans and advances measured at amortised cost.
3 Materially relates to the recognition of additional deferred tax assets following the recognition of the IFRS 9 ECL transition adjustment.

TABLE 2: IMPACT ON THE STANDARD BANK NAMIBIA'S EXTRACTED STATEMENT OF CHANGES IN EQUITY ON 1 JANUARY 2018

	IAS 39 at 31 December 2017 N$'000	IFRS 9 transition adjustment at 1 January 2018 N$'000	IFRS 9 at 1 January 2018 N$'000
Ordinary share capital and share premium	593 230		593 230
Retained earnings[1]	1 986 579	11 868	1 998 447
Statutory credit risk reserve	158 978	(158 978)	
Other	39 700		39 700
Total ordinary shareholder's equity	2 778 487	(147 110)	2 631 377

1 The change in the retained earnings relates to IFRS 9's classification and measurement and ECL changes.

TABLE 3: IMPACT ON FINANCIAL INSTRUMENT CLASSIFICATION

		IFRS 9 transition adjustment at 1 January 2018						
	IAS 39 at 31 December 2017 N$'000	Held-for-trading N$'000	Designated at fair value N$'000	Fair value through profit or loss – default N$'000	Amortised cost N$'000	Fair value through OCI N$'000	IFRS 9 at 1 January 2018 N$'000	Transitional adjustment N$'000
Financial assets								
Held-for-trading	494 382	**494 382**					**494 382**	
Designated at fair value[1]	1 653 128			**1 653 128**			**1 653 128**	**(10 699)**
Held to maturity								
Loans and receivables[2]	26 043 881			**3 907 087**	**22 136 794**		**26 043 881**	**(205 640)**
Available-for-sale	1 681 978					**1 681 978**	**1 681 978**	**69 229**
Total financial assets	29 873 369	**494 382**		**5 560 215**	**22 136 794**	**1 681 978**	**29 873 369**	**(147 110)**
Financial liabilities								
Held-for-trading	58 372	**58 372**					**58 372**	
Other amortised cost	27 876 675				**27 876 675**		**27 876 675**	
Total financial liabilities	27 935 047	**58 372**			**27 876 675**		**27 935 047**	

1 The financial instruments no longer designated at fair value through profit or loss is as a result of the IFRS 9 designation criteria not being met.
2 Cash and balances with central banks was in terms of IAS 39 classified as loans and receivables. Coins and bank notes and the reserving requirements held with the central bank have been classified as at fair value through profit or loss – default as the contractual terms do not give rise on specified dates to cash flows that represent solely payments of principal and interest on the principal amount outstanding.

The company applied IFRS 9's classification and measurement requirements based on the facts and circumstances at 1 January 2018 in determining the transition adjustment. As at 1 January 2018 the company determined the classification of financial assets on the basis of the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. An assessment of the instrument's contractual terms was performed to determine whether the terms give rise on specified dates to cash flows that are solely payments of principal and interest of the principal amount outstanding (referred to as SPPI) and whether there is an accounting mismatch.

For debt financial assets that meet IFRS 9's business model (held to collect and/or held to collect and sell) and the SPPI tests and are to be classified as amortised cost or at fair value through OCI, the company assessed whether there is an accounting mismatch based on the facts and circumstances as at 1 January 2018.

The company re-assessed the classification of financial assets that were designated as at fair value through profit and loss in terms of IAS 39 to eliminate or significantly reduce an accounting mismatch based on the facts and circumstances at 1 January 2018.

Equity financial assets are assessed to be designated as at fair value through OCI based on the facts and circumstances as at 1 January 2018.

From a classification perspective, with the exception of what is noted below, both IAS 39 and IFRS 9 have the same requirements for the classification of financial liabilities. From a recognition of gains and losses perspective, the amount of the change in fair value that is attributable to changes in the credit risk of financial liabilities that have been designated at fair value through profit and loss shall, in terms of IFRS 9, be recognised in OCI with the remaining amount of the change in the fair value of the financial liability being presented in profit or loss. The gains and losses presented in OCI are not subsequently recognised in profit or loss. Where, however, presenting the changes in the fair value of the liability due to changes in credit risk in OCI would create or enlarge an accounting mismatch in profit or loss, IFRS 9 permits the gains and losses due to changes in the credit risk of that liability to be recognised in profit or loss.

TABLE 4: THE TRANSITION FROM IAS 39 TO IFRS 9'S IMPAIRMENT REQUIREMENTS BY SEGMENT AND ASSET CLASS

	IAS 39 – 31 December 2017				
	Performing portfolio provision N$'000	Specific debt provision N$'000	Total IAS 39 provision (excluding IIS) N$'000	IIS N$'000	Total IAS 39 provision (including IIS) N$'000
Personal & Business Banking (PBB)	(29 910)	(105 535)	(135 445)	(54 779)	(190 224)
Loans and advances measured at amortised cost	(29 910)	(105 535)	(135 445)	(54 779)	(190 224)
Mortgage loans	(9 078)	(21 272)	(30 350)	(44 737)	(75 087)
Vehicle and asset finance	(5 404)	(48 245)	(53 649)		(53 649)
Card debtors	(2 321)	(5 399)	(7 720)		(7 720)
Other loans and advances	(13 107)	(30 619)	(43 726)	(10 042)	(53 768)
Off-balance sheet exposures					
Letters of credit and bankers acceptances					
Undrawn Facilities					
Guarantees					
Corporate & Investment Banking (CIB)	(15 897)		(15 897)		(15 897)
Loans and advances measured at amortised cost	(15 897)		(15 897)		(15 897)
Corporate	(15 897)		(15 897)		(15 897)
Sovereign					
Bank					
Debt financial investments measured at fair value through OCI					
Sovereign					
Debt financial investments measured at amortised cost					
Corporate					
Sovereign					
Bank					
Off-balance sheet exposures					
Letters of credit and bankers acceptances					
Undrawn Facilities					
Guarantees					
Total	(45 807)	(105 535)	(151 342)	(54 779)	(206 121)

IFRS 9 – 1 January 2018				IFRS 9 – transition adjustment – 1 January 2018		
Stage 1 N$'000	Stage 2 N$'000	Stage 3 N$'000	Total IFRS 9 provision (including IIS) N$'000	Gross N$'000	Tax N$'000	Net N$'000
(52 400)	(175 912)	(105 535)	(333 847)	(198 402)	63 490	(134 912)
(51 669)	(175 912)	(105 535)	(333 116)	(197 671)	63 256	(134 415)
(9 751)	(36 957)	(21 272)	(67 980)	(37 630)	12 042	(25 588)
(8 880)	(47 443)	(48 244)	(104 567)	(50 918)	16 294	(34 624)
(3 667)	(14 975)	(5 399)	(24 041)	(16 321)	5 223	(11 098)
(29 371)	(76 537)	(30 620)	(136 528)	(92 802)	29 697	(63 105)
(731)			(731)	(731)	234	(497)
(731)			(731)	(731)	234	(497)
(30 783)	(3 052)		(33 835)	(17 938)	5 740	(12 198)
(16 114)	(2 965)		(19 079)	(3 182)	1 018	(2 164)
(14 064)	(2 451)		(16 515)	(618)	198	(420)
(2 050)	(514)		(2 564)	(2 564)	820	(1 744)
(508)			(508)	(508)	163	(345)
(508)			(508)	(508)	163	(345)
(10 191)			(10 191)	(10 191)	3 261	(6 930)
(9 003)			(9 003)	(9 003)	2 881	(6 122)
(1 188)			(1 188)	(1 188)	380	(808)
(3 970)	(87)		(4 057)	(4 057)	1 298	(2 759)
(919)	(87)		(1 006)	(1 006)	322	(684)
(3 051)			(3 051)	(3 051)	976	(2 075)
(83 183)	(178 964)	(105 535)	(367 682)	(216 340)	69 230	(147 110)

Key management assumptions

In preparing the financial statements, estimates and assumptions are made that could materially 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 future events. Post the implementation of IFRS 9 on 1 January 2018, unless otherwise stated, no material changes to assumptions have occurred during the year. The following represents the most material key management assumptions applied in preparing these financial statements.

Expected credit loss (ECL) on financial assets – IFRS 9 drivers

For the purpose of determining the ECL:

- The PBB portfolios are based on the product categories or subsets of the product categories, with tailored ECL models per portfolio. To ensure consistency with market practice in South Africa, the IFRS 9 impairment provision calculation has been amended to exclude post write off recoveries (PWOR) from the loss given default (LGD) in calculating the expected credit loss impairments. This change in the modelling assumption and estimates have been applied prospectively.
- CIB exposures are calculated separately based on rating models for each of the asset classes.

ECL measurement period

- The ECL measurement period for stage 1 exposures is 12-months (or the remaining tenor of the financial asset for CIB exposures if the remaining lifetime is less than 12-months).
- A loss allowance over the full lifetime of the financial asset is required if the credit risk of that financial instrument has increased significantly since initial recognition (stage 2).
- A lifetime measurement period is applied to all credit impaired (stage 3) exposures.
- Lifetimes include consideration for multiple default events, i.e. where defaulted exposures cure and then subsequently re-default. This consideration increases the lifetime periods and the potential ECL.
- The measurement periods for unutilised loan commitments utilise the same approach as on-balance-sheet exposures.

Significant increase in credit risk (SICR) and low credit risk

PBB

In accordance with IFRS 9, all exposures are assessed to determine whether there has been SICR at the reporting date, in which case an impairment provision equivalent to the lifetime expected loss is recognised. SICR thresholds, which are behaviour score based, are derived for each portfolio vintage of exposures with similar credit risk and are calibrated over time to determine which exposures reflect deterioration relative to the originated population and consequently reflect an increase in credit risk.

The group also determines an appropriate transfer rate of exposures from stage 1 to stage 2 by taking into account the expected levels of arrears status for similar exposures. The SICR thresholds are reviewed regularly to ensure that they are appropriately calibrated to identify SICR throughout the life of the exposure and consequently facilitate appropriate impairment coverage.

Where behaviour scores are not available, historical levels of delinquency are applied in determining whether there has been SICR. For all exposures, IFRS 9's non-rebuttable presumption of 30 days past due as well as exposures classified as either debt review or as 'watch-list' are used to classify exposures within stage 2.

CIB (including certain PBB business banking exposures)

The group uses a 25-point master rating scale to quantify the credit risk for each exposure. On origination, each client is assigned a credit risk grade within the company's 25-point master rating scale. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data for the applicable portfolio. These credit ratings are evaluated at least annually or more frequently as appropriate.

CIB exposures are evaluated for SICR by comparing the credit risk grade at the reporting date to the origination credit risk grade. Where the relative change in the credit risk grade exceeds certain pre-defined ratings' migration thresholds or, when a contractual payment becomes more than 30 days overdue (IFRS 9's rebuttable presumption), the exposure is classified within stage 2. These pre-defined ratings' migration thresholds have been determined based on historic default experience which indicate that higher rated risk exposures are more sensitive to SICR than lower risk exposures. Based on an analysis of historic default experience, exposures that are classified by the company's master rating scale as investment grade (within credit risk grade 1 – 12 of the company's 25-point master rating scale) are assessed for SICR at each reporting date but are considered to be of a low credit risk for IFRS 9 purposes. To determine whether a client's credit risk has increased significantly since origination, the company would need to determine the extent of the change in credit risk using the table below.

Company master rating scale band	SICR trigger (from origination)
SB 1 – 12	Low credit risk
SB 13 – 20	3 rating or more
SB 21 – 25	1 rating or more

Incorporation of forward looking information in ECL measurement

The group determines the macroeconomic outlook, over a planning horizon of at least three years, for each country based on the company's global outlook and its global view of commodities.

For PBB these forward looking economic expectations are included in the ECL where adjustments are made based on the company's macro-economic outlook, using models that correlate these parameters with macro-economic variables.

Where modelled correlations are not viable or predictive, adjustments are based on expert judgement to predict the outcomes based on the company's macro-economic outlook expectations. In addition to forward-looking macroeconomic information, other types of FLI, such as specific event risk, have been taken into account in ECL estimates when required, through the application of out-of-model adjustment.

The company's macroeconomic outlooks are incorporated in CIB's client rating and include specific forward-looking economic considerations for the individual client. The client rating thus reflects the expected client risk for the company's expectation of future economic and business conditions. Further adjustments, based on point-in-time market data, are made to the PDs assigned to each risk grade to produce PDs and ECL representative of existing market conditions.

Default

The definition of default, which triggers the credit impaired classification (stage 3), is based on the company's internal credit risk management approach and definitions. Whilst the specific determination of default varies according to the nature of the product, it is compliant to the Basel definition of default, and generally determined as occurring at the earlier of:

- where, in the company's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

The group has not rebutted IFRS 9's 90 days past due rebuttable presumption.

Write off policy

An impaired loan is written off once all reasonable attempts at collection have been made and there is no material economic benefit expected from attempting to recover the balance outstanding. The following criteria must be met before a financial asset can be written off:

- the financial asset has been in default for the period defined for the specific product (i.e. VAF, homes loans, etc.) which is deemed sufficient to determine whether the entity is able to receive any further economic benefit from the impaired loan; and
- at the point of write-off, the financial asset is fully impaired (i.e. 100% allowance) with no reasonable expectations of recovery of the asset, or a portion thereof.

As an exception to the above requirements, where the exposure is secured (or for collateralised structures), the impaired loan can only be written off once the collateral has been realised. Post realisation of the collateral, the shortfall amount can be written off if it meets the second requirement listed above. The shortfall amount does not need to meet the first requirement to be written off.

Curing

Continuous assessment is required to determine whether the conditions that led to a financial asset being considered to be credit impaired (i.e. stage 3) still exist. Distressed restructured financial assets that no longer qualify as credit impaired remain within stage 3 for a minimum period of six months (i.e. six full consecutive monthly payments per the terms and conditions). In the case of financial assets with quarterly or longer dated repayment terms, the classification of a financial asset out of stage 3 may be made subsequent to an evaluation by the company's CIB or PBB Credit Governance Committee (as appropriate), such evaluation will take into account qualitative factors in addition to compliance with payment terms and conditions of the agreement. Qualitative factors include compliance with covenants and compliance with existing financial asset.

Where it has been determined that a financial asset no longer meets the criteria for significant increase in credit risk, the financial asset will be moved from stage 2 (lifetime expected credit loss model) back to stage 1 (12-month expected credit loss model) prospectively.

Amendments to the estimation technique

Refinements to some of the PBB ECL models have been made during the course of 2018. The amendments include improved SICR classification and enhancements to certain assumptions within the modelling techniques for ECL calculations.

The Company's forward-looking economic expectations were applied in the determination of the ECL at the reporting date:

A range of base, bullish and bearish forward looking economic expectations were determined, as at 31 December 2018, for inclusion in the company's forward-looking process and ECL calculation.

Namibia

- The base case for Namibia is that business and consumer confidence strengthens, and the policy framework marginally improves, This, along with strong terms of trade and a supportive global backdrop, should underpin a stronger currency and economic growth trajectory. The sovereign credit rating downgrade is maintained. South African macroeconomic factors materially impact the outlook for Namibia.
- A bearish outlook at the beginning of 2018 has a similar probability to the more optimistic base case expectation. This is based on the broader society, difficult policy trade-offs, which may complicate and delay substantive policy reforms, and economic growth which may remain too low to reduce unemployment and the fiscal risks. This underpins significant downside risk.
- A low probability bullish case outlook is based on better than expected traction with policy reform compelling a stronger recovery in consumer investment, supported by significant pent-up demand and strong confidence.

A recovery in growth is expected across the continent assisted by elevated commodity prices and appropriate adjustments in currencies. Initial inflation pressures have ebbed, providing central banks with the opportunity to ease monetary policy.

Main Macroeconomic Factors

The following table shows the main macroeconomic factors used to estimate the allowances for credit losses on loans. For each scenario, namely, the base case, bullish and bearish scenario, the average values of the factors over the next 12 months and over the remaining forecast period are presented below.

	Base scenario		Bearish scenario		Bullish scenario	
Macroeconomic factors	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Namibia						
Inflation %	**5.30**	**5.3**	**6.2**	**6.0**	**4.45**	**5.1**
Real GDP %	**1.14**	**1.12**	**(0.09)**	**1.84**	**1.54**	**2.84**
Exchange rate (USD/NAD)	**13.40**	**13.10**	**14.85**	**14.26**	**12.05**	**12.04**
Prime %	**10.50**	**10.75**	**10.75**	**11.00**	**10.25**	**10.50**

Sensitivity analysis of CIB forward looking impact on IFRS 9 provision

Management assessed and considered the sensitivity of the IFRS 9 provision against the forward looking economic conditions at a client level. The reviews and ratings of each client are performed at least annually. This process entails credit analysts completing a credit scorecard and incorporating forward looking information. The weighting is reflected in both the determination of significant increase in credit risk as well as the measurement of the resulting IFRS 9 provision for the individual client. Therefore the impact of forward looking economic conditions is embedded into the total IFRS 9 provision for each CIB client and cannot be stressed or separated out of the overall CIB IFRS 9 provision.

Sensitivity Analysis of PBB allowances for credit losses on non-impaired loans

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired exposures under IFRS 9 as at 31 December 2018 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

	Allowances for credit losses (N$'000)	% change of total PBB IFRS 9 provision
Forward looking impact on IFRS 9 provision	**37 791**	
Scenarios		
Base	**31 939**	**(15)%**
Bear	**123 180**	**226%**
Bull	**5 134**	**(86)%**

Credit impairment losses on loans and advances – IAS39

Portfolio loan impairments

The company assesses its loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recognised in profit or loss, the company 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 patterns, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These include early arrears, notices of accounts under debt review, renegotiated loans, post write-off recoveries, watch list exposures and changes in macro-economic conditions and legislation affecting credit recovery. The impairments are monitored on a monthly basis, with back-testing performed between actual write off experience and that estimated by the company's models. The models are updated on a regular basis to incorporate actual write-off experience. The sensitivity to changing conditions is evaluated and specific sensitivity testing is done if and when required.

A key input into the determination of the company's portfolio impairment provisions is the emergence period. The loss ratios applied to loan balances in the portfolio are based on the estimated loss emergence period. In 2017, the company applied an average loss emergence period of a minimum of three for PBB and 12 months for CIB loans and advances. Where required, these emergence periods are assessed by determining the sensitivity of the impairment by applying both longer and shorter emergence periods and comparing the sensitivity results with the incurred loss experience.

Specific loan impairments

Non-performing loans include those loans for which the company 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 methodology used in determining the specific loan impairment includes modelling with various inputs such as segmentation, levels of loss expectation, recoverability of collateral, potential cash flows and probability of default. Management's estimates of future cash flows on individually 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 cash and collateral and recoveries of individual specifically impaired loans as a percentage of the outstanding balances are estimated as follows:

	Expected time to recovery	Expected recoveries as a percentage of impaired loans
	2018 Months	2018 %
PBB	8 – 15	58
Mortgage lending	15	74
Vehicle and asset finance	9	59
Card debtors	8	25
Other lending	13	32
CIB	21	32

Fair value

Financial instruments

In terms of IFRS, the company are 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 company (and company) and, in particular, provides assurance that the risk and return measures that the company has taken are accurate and complete.

The company'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 company 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 company make 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 adjustments to reflect the terms of the actual instrument being valued and current market conditions. Unobservable inputs are subject to management judgement and although the company believes that its estimates of fair values are appropriate, changing one or more of these assumptions to reasonably possible alternative values 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. Adjustments include, but are not limited to: credit spreads on illiquid issuers, implied volatilities on thinly traded instruments, correlation between risk factors, prepayment rates, and other illiquid risk drivers. In making appropriate valuation adjustments, the company apply methodologies that consider factors such as bid-offer spreads, liquidity, counterparty and own credit risk. 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;
- Raising day one profit provisions in accordance with IFRS;
- Quantifying and reporting the sensitivity to each risk driver; and
- Limiting exposure to such risk drivers and analysing this exposure on a regular basis.

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 company'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 company. Further, all inputs into the valuation models are subject to independent price validation procedures carried out by the company'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 company. Sensitivities arising from exposures to such drivers are similarly scrutinised, together with movements in level 3 fair values. They are also disclosed on a monthly basis at the market risk and asset and liability committees.

AFS | Refer to note 19 for fair value disclosures.

Computer software intangible assets

The company review assets under construction and assets brought into use for impairment at each reporting date and tests the carrying value for impairment whenever events or changes in circumstances indicate that the carrying amount (or components of the carrying amount) may not be recoverable. These circumstances include, but are not limited to, new technological developments, obsolescence, changes in the manner in which the software is used or is expected to be used, changes in discount rates or changes in estimates of related future cash benefits. The impairment tests are performed by comparing an asset's recoverable amount to its carrying amounts. The review and testing of assets for impairment inherently requires significant management judgement as it requires management to derive the estimates of the identified assets' future cash flows in order to derive the asset's recoverable amount.

The recoverable amount is determined as the higher of an assets' fair value less costs to sell and its value in use. The value in use is calculated by estimating future cash benefits that will result from each asset and discounting those cash benefits at an appropriate discount rate. These impairments are excluded from the company's headline earnings.

AFS | Refer to note 9 for intangible asset disclosure as well as Annexure E for more detail on the accounting policy relating to computer software, the capitalisation thereof as well as amortisation and impairment policies.

Current and deferred tax

The company are subject to direct and indirect taxation requirements which are determined with reference to transactions and calculations for which the ultimate tax determination has an element of uncertainty in the ordinary course of business. The company recognise provisions for tax based on objective estimates of the amount of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions, disclosed in note 30 and note 12, respectively, in the period in which such determination is made.

Uncertain tax positions, which do not meet the probability criteria defined within IFRS, are not provided for but are rather disclosed as contingent liabilities or assets as appropriate. 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. The most significant management assumption is the forecasts that are used to support the probability assessment that sufficient taxable profits will be generated by the entities in the company in order to utilise the deferred tax assets.

Provisions

The principal assumptions taken into account in determining the value at which provisions are recorded at include determining whether there is an obligation as well as assumptions about the probability of the outflow of resources and the estimate of the amount and timing for the settlement of the obligation. For legal provisions management assesses the probability of the outflow of resources by taking into account historical data and the status of the claim in consultation with the company's legal counsel. In determining the amount and timing of the obligation once it has been assessed to exist, management exercises its judgement by taking into account all available information, including that arising after the reporting date up to the date of the approval of the financial statements.

Post-employment benefits

The company's post-employment benefits consists of healthcare benefits. The company's obligations to fund these benefits are derived from actuarial valuations performed by the appointed actuaries taking into account various assumptions. The funds are subject to a statutory financial review by the company's independent actuaries at intervals of not more than three years.

The principle assumptions used in the determination of the company's obligation are set out in note 32.

Notes to the annual financial statements

1. Cash and balances with central banks

	2018 N$'000	2017 N$'000
Coins and bank notes	**486 389**	434 692
Balances with the Bank of Namibia	**1 059 966**	923 242
Reserve requirement balance[1]	**288 576**	271 644
Temporary excess balance[2]	**771 390**	651 599
	1 546 355	1 357 934

1 Deposits are placed with the Bank of Namibia for the purpose of reserve requirements and are therefore not available for use.
2 Temporary excess balance held with the Bank of Namibia is classified as fair value through profit and loss while coins and bank notes and the reserve balance with Bank of Namibia are classified at amortised cost.

2. Derivative instruments

All derivatives are classified either as held-for-trading or held-for-hedging.

2.1 Use and measurement of derivative instruments

In the normal course of business, the Company enters into a variety of derivative transactions for trading purposes. Derivative instruments used by the company include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates and interest 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 company transacts derivative contracts to address client demand, both as a market maker in the wholesale markets and in structuring tailored derivatives for clients. The company 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 2018				
Foreign exchange derivatives				
– with third parties	**(13 985)**	**4 147**	**(18 132)**	**180 374**
– intergroup	**16 944**	**20 569**	**(3 625)**	**177 370**
Interest rate derivatives				
– with third parties	**3 957**	**3 957**		
– intergroup	**607**	**4 564**	**(3 957)**	**106 865**
Total derivative assets/(liabilities)	**7 523**	**33 237**	**(25 714)**	**464 609**
31 December 2017				
Foreign exchange derivatives				
– with third parties	6 800	32 129	(25 329)	1 161
– intergroup	(6 207)	26 744	(32 951)	1 161
Interest rate derivatives				
– intergroup	5 325	5 325		36 751
Total derivative assets/(liabilities)	5 918	64 198	(58 280)	39 073

The notional amount is the sum of the absolute value of all bought and sold contracts for both derivative assets and liabilities. The amount cannot be used to assess the market risk associated with the position held and should be used only as a means of assessing the company's participation in derivative contracts.

3. Trading assets

	2018 N$'000	2017 N$'000
Government, municipality and utility bonds	**788**	1 135
Treasury bills	**129 013**	429 051
	129 801	430 186

4. Financial investments

	2018 N$'000	2017 N$'000
Sovereign	**2 811 457**	1 844 760
Mutual funds and unit-linked investments	**1 575 538**	1 490 346
Total financial investments	**4 386 995**	3 335 106
Classified as:		
Net financial investments measured at amortised cost	**50 577**	50 213
Gross financial investments measured at amortised cost	**50 577**	50 213
Less: Expected credit loss for financial investments measured at amortised cost		
Financial investments measured at fair value through profit or loss	**1 575 538**	1 490 346
Debt financial investments measured at fair value through OCI – IFRS 9	**2 760 880**	
Available-for-sale financial investments- IAS39		1 794 547

Standard Bank has, as permitted by IFRS 9, elected not to restate its comparative financial statements. Standard Bank has aligned its categories for financial investments disclosed in 2017 to those disclosed for 2018. This did not result in a restatement to the statement of financial position as at 31 December 2017.

Financial investments with a value of N$170 million (2017: N$120 million) are pledged to the 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 the Bank of Namibia.

4.1. Reconciliation of expected credit losses for debt financial investments measured at amortised cost

			Income statement movements							
	Opening ECL 1 January 2018 N$'000	Total transfers between stages N$'000	ECL on new exposure raised N$'000	Change in ECL due to modifications N$'000	Subsequent changes in ECL N$'000	Change in ECL due to derecognition N$'000	Net impairments raised/ (released) N$'000	Impaired accounts written-off N$'000	Exchange and other movements N$'000	Closing ECL 31 Dec 2018 N$'000
Sovereign	(8 572)		(767)			10 192	9 425		(853)	
Stage 1	(8 572)		(767)			10 192	9 425		(853)	
Stage 2										
Stage 3										
Total	(8 572)		(767)			10 192	9 425		(853)	

4. Financial investments continued

4.2. Reconciliation of expected credit losses for debt financial investments measured at fair value through OCI

	Opening ECL 1 January 2018 N$'000	Total transfers between stages N$'000	Income statement movements: ECL on new exposure raised N$'000	Income statement movements: Change in ECL due to modifications N$'000	Income statement movements: Subsequent changes in ECL N$'000	Income statement movements: Change in ECL due to derecognition N$'000	Net impairments raised/ (re-leased) N$'000	Impaired accounts written-off N$'000	Exchange and other movements N$'000	Closing ECL 31 Dec 2018 N$'000
Sovereign	**(508)**					**508**	**508**			
Stage 1	**(508)**					**508**	**508**			
Stage 2										
Stage 3										
Total	**(508)**					**508**	**508**			

4.3. Reconciliation of fair value through OCI reserve for debt financial investments measured at fair value through OCI

	Balance at beginning of the year N$'000	Reclassifications N$'000	Net change in fair value N$'000	Realised fair value adjustments and reversal to profit or loss N$'000	Net expected credit loss raised/ (released) during the period N$'000	Exchange and other movements N$'000	Balance at end of the year N$'000
Corporate							
Sovereign	**(130)**		**235**		**508**		**613**
Banking							
Mutual funds and unit-linked investments							
Other instruments							
Total	**(130)**		**235**		**508**		**613**

5. Loans and advances

5.1 Loans and advances net of impairments

	2018 N$'000	2017 N$'000
Loans and advances to banks	**389 173**	2 086 361
Loans and advances to customers	**21 848 035**	20 050 434
Gross loans and advances measured at amortised cost	**22 314 769**	20 201 777
Mortgage loans	**10 158 012**	8 744 805
Vehicle and asset finance (note 5.2)	**3 273 117**	3 438 402
Card debtors	**219 398**	218 288
Overdraft and other demand loans	**2 452 748**	2 091 265
Term Lending	**6 211 494**	5 709 016
	(466 734)	(151 343)
Credit impairments for loans and advances (IAS 39) (note 5.3)		(151 343)
Expected credit loss for loans and advances measured at amortised cost (IFRS 9) (note 5.3)	**(466 734)**	
Net loans and advances	**22 237 208**	22 136 795

5. Loans and advances continued

5.2 Instalment sale and finance leases

	2018 N$'000	2017 N$'000
Gross investment in instalment sale and finance leases	**3 836 223**	4 060 639
Receivable within one year	**312 727**	205 593
Receivable after one year but within five years	**3 523 496**	3 855 046
Unearned finance charges	**(563 106)**	(622 237)
Net investment in instalment sale and finance leases	**3 273 117**	3 438 402
Receivable within one year	**257 844**	199 622
Receivable after one year but within five years	**3 015 273**	3 238 780

The instalment sale and finance leases are entered into on market-related terms. Movable assets are leased or sold to customers under finance leases and instalment sale agreements for periods varying between 12 and 60 months.

5.3 Reconciliation of expected credit losses for loans and advances measured at amortised cost

	Stage 1 N$'000	Stage 2 N$'000	Stage 3 N$'000	Total N$'000
Opening ECL 1 January 2018	**51 669**	**175 912**	**105 536**	**333 117**
Transfers between stages	**21 822**	**(18 427)**	**(3 395)**	
Transfers (to)/from stage 1		**(19 820)**	**(2 002)**	**(21 822)**
Transfers from/(to) stage 2	**19 820**		**(1 393)**	**18 427**
Transfers from/(to) stage 3	**2 002**	**1 393**		**3 395**
Net ECL (released)/raised	**38 999**	**(36 220)**	**141 193**	**143 972**
ECL on new exposures raised	**21 625**			**21 625**
Subsequent changes in ECL	**17 374**	**(36 220)**	**141 193**	**122 347**
Change in ECL due to derecognition				
Impaired accounts written-off			**(121 071)**	**(121 071)**
Exchange and other movements	**19 488**	**(410)**	**91 638**	**110 716**
Closing ECL 31 December 2018	**131 978**	**120 855**	**213 901**	**466 734**

The below is an explanation of significant changes in the gross carrying amount on financial instruments used to determine the above changes in ECL:

The ECL on new exposures raised of N$ 21.6 million primarily relates to the growth in gross carrying amount of:

- Mortgage loans of N$ 2.3 billion
- Vehicle and asset finance of N$ 1.05 billion
- Other loans of N$ 2 billion.

The decrease in ECL due to impaired accounts written-off of N$121 million resulted in an equal decrease to the gross carrying amount of loans and advances as exposures are fully provided for before being written off.

The company policy is to transfer between stages using opening ECL balances based on the exposures' ECL stage at the end of the reporting period.

Therefore the related gross carrying amount of the significant transfers are as follows:

- Mortgage loans of N$360 million that was in stage 1 was transferred to stage 2

5. Loans and advances continued

5.3 Reconciliation of expected credit losses for loans and advances measured at amortised cost continued

A reconciliation of the expected credit loss for loans and advances, by class:

	Opening ECL 1 January 2018 N$'000	Total transfers between stages[1] N$'000	Net impairments (raised)/ released2 N$'000	Impaired accounts written-off[3] N$'000	Exchange and other movements N$'000	Closing ECL 31 Dec 2018 N$'000
Mortgage loans	67 980		52 229	(7 059)	66 050	179 200
Stage 1	9 751	(12 338)	19 063			16 476
Stage 2	36 957	10 812	3 941			51 710
Stage 3	21 272	1 526	29 225	(7 059)	66 050	111 014
Instalment sale and finance leases	104 567		32 287	(39 913)		96 941
Stage 1	8 880	(3 926)	5 883			10 837
Stage 2	47 443	2 535	(12 623)			37 355
Stage 3	48 244	1 391	39 027	(39 913)		48 749
Card debtors	24 042		(2 140)	(8 929)		12 973
Stage 1	3 667	(2 182)	250			1 735
Stage 2	14 975	1 704	(9 246)			7 433
Stage 3	5 400	478	6 856	(8 929)		3 805
Other Loans and Advances	136 528		61 596	(65 170)	44 666	177 620
Stage 1	29 371	(3 376)	13 803		19 488	59 286
Stage 2	76 537	3 376	(18 292)		(410)	61 211
Stage 3	30 620		66 085	(65 170)	25 588	57 123
Total	333 117		143 972	(121 071)	110 716	466 734

1 The company's policy is to transfer opening balances based on the ECL stage at the end of the reporting period. Therefore exposures can be transferred directly from stage 3 to stage 1 as the curing requirements would have been satisfied during the reporting period. Furthermore, the ECL recognised on new exposures originated during the reporting period (which are not included in opening balances) are included within the column "ECL on new exposures raised" based on the exposures' ECL stage as at the end of the reporting period.

2 Net ECL raised/(released) less recoveries of amounts written off in previous years as well as previously unrecognised interest cured equals income statement impairment charge (refer credit impairment charges note).

3 The loans and advances that were written off during the reporting period are still subject to enforcement activities.

5. Loans and advances continued

5.3 Reconciliation of expected credit losses for loans and advances measured at amortised cost continued

Net provisions (raised)/released less recoveries of amounts written off in previous years equals income statement impairment charges (note 29).

	Mortgage lending N$'000	Instalment sale and finance leases N$'000	Card debtors N$'000	Other loans and advances N$'000	Total
31 December 2017					
Specific impairments					
Balance at beginning of the year	(12 807)	(37 260)	(6 447)	(35 777)	(92 291)
Impaired accounts written off	1 447	34 192	(1 174)	43 552	78 017
Net impairments raised and released	(9 912)	(45 177)	2 222	(38 395)	(91 262)
Balance at end of the year	(21 272)	(48 245)	(5 399)	(30 620)	(105 536)
Portfolio impairments					
Balance at beginning of the year	(7 371)	(6 254)	(2 062)	(25 233)	(40 920)
Net impairments raised and released	(1 717)	(1 520)	(260)	(2 290)	(5 787)
Exchange differences		138		760	898
Balance at end of the year	(9 088)	(7 636)	(2 322)	(26 763)	(45 809)
	(30 360)	(55 881)	(7 721)	(57 383)	(151 345)

6. Other assets

	2018 N$'000	2017 N$'000
Trading settlement assets	**27 411**	232 399
Other debtors	**106 559**	661 527
Items in the course of collection	**171 739**	797 773
	305 709	1 691 699

7. Interest in Group companies and joint ventures

	2018 N$'000	2017 N$'000
Interest in SBG group companies (note 7.1)[1]	**2 084 396**	857 449
Interest in associates and joint ventures (note 7.2)	**11 506**	8 096
Interest in Group companies, associates and joint ventures	**2 095 902**	865 545
Liabilities to SBG companies (note 7.3)1	**(1 309 614)**	(1 536 248)

1 For information relating to the various SBG counterparties, refer to note 33.

7. Interest in Group companies and joint ventures continued

7.1 Interest in Group companies

	2018 N$'000	2017 N$'000
Ultimate holding company		
– Indebtedness to the company	**728 308**	
Immediate holding company		
– Indebtedness to the company	**336 585**	67 356
Fellow subsidiary companies		
– Indebtedness to the company	**1 019 503**	798 189
Total	**2 084 396**	865 545
Comprising:		
Derivative assets	**5 010**	
Loans and advances	**1 714 658**	762 933
Other	**364 728**	102 612
Total	**2 084 396**	865 545

7.2 Interest in joint venture

	2018 N$'000	2017 N$'000
Carrying value at the beginning of the year	**8 096**	6 725
Share of profit	**3 410**	1 371
Carrying value at the end of the year	**11 506**	8 096
Comprising:		
Cost of investment	**1 154**	1 154
Share of reserves	**10 352**	6 942
Carrying value at the end of the year	**11 506**	8 096
Share of profit	**3 410**	1 371
Share of profit from joint venture	**3 410**	1 371

There are no significant restrictions on the ability of joint ventures to transfer funds to the company p in the form of cash or dividends or repayments of loans and advances.

Associates and joint ventures are listed in annexure B.

7.3 Liabilities to SBG companies

	2018 N$'000	2017 N$'000
Indebtedness by the company to:		
Ultimate holding company	**492 843**	1 001 465
Immediate holding company	**550 418**	182 199
Subsidiaries	**266 353**	352 584
Total	**1 309 614**	1 536 248
Comprising:		
Deposits and current accounts	**492 869**	1 081 843
Subordinated debt security	**100 000**	101 821
Other	**716 745**	352 584
Total	**1 309 614**	1 536 248

8. Property and equipment

	2018			2017		
	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	**107 439**	**(5 321)**	**102 118**	90 530	(4 718)	85 812
Leasehold property	**141 939**	**(59 660)**	**82 279**	119 629	(53 732)	65 897
Furniture and fixtures	**220 404**	**(120 457)**	**99 947**	215 954	(105 098)	110 856
Motor vehicles	**25 775**	**(18 930)**	**6 845**	27 293	(17 925)	9 368
Office equipment	**37 757**	**(23 928)**	**13 829**	33 375	(20 649)	12 726
IT equipment	**578 158**	**(314 836)**	**263 322**	499 850	(279 603)	220 247
	1 111 472	**(543 132)**	**568 340**	986 631	(481 725)	504 906

Reconciliation of property and equipment

	Opening balance N$'000	Additions N$'000	Disposals N$'000	Depreciation N$'000	Closing Balance N$'000
2018					
Freehold land and buildings	**85 812**	**17 229**		**(923)**	**102 118**
Leasehold property	**65 897**	**50 827**	**(28 516)**	**(5 929)**	**82 279**
Furniture and fixtures	**110 856**	**4 585**		**(15 494)**	**99 947**
Motor vehicles	**9 368**	**5 894**	**(5 378)**	**(3 039)**	**6 845**
Office equipment	**12 726**	**5 748**	**(1 399)**	**(3 246)**	**13 829**
IT equipment	**220 247**	**82 453**		**(39 378)**	**263 322**
	504 906	**166 736**	**(35 293)**	**(68 009)**	**568 340**
2017					
Freehold land and buildings	85 946	585		(719)	85 812
Leasehold property	52 037	47 206	(25 251)	(8 095)	65 897
Furniture and fixtures	84 851	40 805		(14 800)	110 856
Motor vehicles	11 529	2 914	(1 274)	(3 801)	9 368
Office equipment	20 525	3 592	(7 795)	(3 596)	12 726
IT equipment	139 567	114 138		(33 458)	220 247
	394 455	209 240	(34 320)	(64 469)	504 906

	2018 N$'000	2017 N$'000
Revaluations		
The fair value of freehold property, based on valuations undertaken during 2014 by registered valuers was estimated as follows:	**248 547**	248 547
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 2018			31 December 2017		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	361 160	(62 200)	298 960	361 160	(38 122)	323 038
Total	361 160	(62 200)	298 960	361 160	(38 122)	323 038

Reconciliation of intangible assets

	Opening balance	Additions	Disposals	Transfers	Amortisation	Closing balance
2018						
Computer software	323 038				(24 078)	298 960
Total	323 038				(24 078)	298 960
2017						
Computer software	347 115				(24 077)	323 038
Total	347 115				(24 077)	323 038

10. Ordinary share capital

	2018 N$'000	2017 N$'000
10.1 Authorised		
6 000 000 (2017: 6 000 000) ordinary shares of N$1 each	6 000	6 000
10.2 Issued		
2 000 250 (2017: 2 000 250) ordinary shares of N$1 each	2 000	2 000

	Number ordinary shares
Reconciliation of shares issued	
Shares in issue at 1 January 2017	2 000 250
Shares issued during 2017	
Shares in issue at 31 December 2017	2 000 250
Shares issued during 2018	
Shares in issue at 31 December 2018	2 000 250

11. Ordinary share premium

	2018 N$'000	2017 N$'000
Share premium on issue of shares	591 230	591 230

12. Deferred tax

	2018 N$'000	2017 N$'000
12.1 Deferred tax analysis		
Property, equipment and intangible assets	**(164 449)**	(134 539)
Assets on lease	**(7 407)**	(7 610)
Fair value adjustments included in available-for-sale reserves under equity	**649**	178
Impairment charges on loans and advances	**59 051**	36 322
Post-employment benefits	**36 040**	32 724
Provisions and other differences	**93 584**	31 180
Net deferred tax closing balance	**17 468**	(41 745)
Deferred tax asset	**196 395**	102 795
Deferred tax liabilities	**(178 927)**	(144 540)
12.2 Deferred tax reconciliation		
Net deferred tax balance at beginning of the year	**(41 745)**	(8 297)
Various categories of originating/(reversing) temporary differences for the year	**59 213**	(33 448)
Property, equipment and intangible assets	**(29 910)**	(41 844)
Assets on lease	**203**	2 091
Fair value adjustments included in available-for-sale reserves under equity	**471**	(2 796)
Impairment charges on loans and advances	**22 729**	4 351
Post-employment benefits	**3 316**	(3 015)
Provisions and other differences	**62 404**	7 765
Net deferred tax balance at end of the year	**17 468**	(41 745)
Temporary differences for the year comprise:		
Recognised in profit or loss	**4 142**	(28 400)
Recognised in other comprehensive income	**(3 930)**	(5 048)
Recognised in retained earnings	**59 001**	
Deferred tax gain/(loss)	**59 213**	(33 448)

13. Deposit and current accounts

	2018 N$'000	2017 N$'000
Deposits from banks	**280 243**	221 612
Deposits from customers	**24 911 132**	24 378 628
Current accounts	**4 382 643**	4 333 232
Cash management deposits	**4 481 647**	5 150 903
Card creditors	**29 840**	30 936
Call deposits	**7 127 703**	6 743 534
Savings accounts	**649 111**	611 395
Term deposits	**2 361 599**	1 827 927
Negotiable certificates of deposit	**5 878 589**	5 680 701
	25 191 375	24 600 240

14. Debt securities issued

	Maturity date	Carrying value 2018 N$'000	Notional value 2018 N$'000	Carrying value 2017 N$'000	Notional value 2017 N$'000
SBK18	7/11/2018	**203 267**	**—**	26 974	26 000
SBKN20	10/25/2020		**200 000**	203 179	200 000
SBKN21	7/31/2021	**541 766**	**536 000**		
SBNA21	7/13/2021	**238 313**	**234 000**	—	—
SBKN18	7/11/2018			281 632	276 500
SBNA22	5/24/2021	**504 339**	**499 800**	504 334	499 800
SBNA23	5/24/2019	**100 888**	**100 000**	100 886	100 000
SBKN24	10/23/2024	**101 726**	**100 000**	101 726	100 000
		1 690 299	**1 669 800**	1 218 731	1 202 300

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

15. Other liabilities

	2018 N$'000	2017 N$'000
Staff-related accruals	**80 442**	126 931
Obligation toward post-employment benefits	**112 624**	109 292
Other liabilities and accruals	**383 737**	285 227
	576 803	521 450

16. 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	Fair value through OCI N$'000	Fair value through profit or loss – default N$'000
2018					
Assets					
Cash and balances with central banks	1				**1 546 355**
Derivative assets	2	**33 237**			
Trading assets	3	**129 801**			
Financial investments	4			**2 760 880**	**1 575 538**
Loans and advances to banks	5				
Loans and advances to customers	5				
Assets in group companies and joint ventures	7	**5 010**			
Property, plant and equipment	8				
Other non-financial assets					
Other financial assets					
		168 048		**2 760 880**	**3 121 893**
Liabilities					
Derivative liabilities	2	**25 714**			
Trading liabilities	12	**980**			
Deposit and current accounts from banks	14				
Deposit and current accounts from customers	14				
Debt securities issued	15				
Loans from group companies	7				
Other non-financial liabilities					
Other financial liabilities					
		26 694			
2017					
Assets					
Cash and balances with central banks	1				
Derivative assets	2	64 198			
Trading assets	3	430 184			
Financial investments	4		1 653 128		
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					
		494 382	1 653 128		
Liabilities					
Derivative liabilities	2	58 280			
Trading liabilities	12	92			
Deposit and current accounts from banks	13				
Deposit and current accounts from customers	13				
Debt securities issued	14				
Loans from group companies	7				
Other non-financial liabilities					
Other financial liabilities					
		58 372			

Loans and receivables N$'000	Available for sale N$'000	Equity instruments N$'000	Amortised cost N$'000	Other non-financial assets/ liabilities N$'000	Total carrying amount N$'000	Fair value N$'000
					1 546 355	**1 546 355**
					33 237	**33 237**
					129 801	**129 801**
			50 577		**4 386 995**	**4 386 382**
			389 173		**389 173**	**389 173**
			21 848 035		**21 848 035**	**21 886 567**
			1 714 658	**364 728**	**2 084 396**	**2 084 396**
				568 340	**568 340**	**568 340**
				680 315	**680 315**	**680 315**
			24 002 443	**1 613 383**	**31 666 647**	**31 704 566**
					25 714	**25 714**
					980	**980**
			280 243		**280 243**	**280 243**
			24 911 131		**24 911 131**	**21 599 669**
			1 690 299		**1 690 299**	**1 279 300**
			1 309 614		**1 309 614**	**1 309 614**
			576 804		**576 804**	**576 804**
			28 768 091		**28 794 785**	**25 072 324**
1 357 937					1 357 937	1 357 937
					64 198	64 198
					430 184	430 184
	1 681 978				3 335 106	3 335 106
2 086 361					2 086 361	2 086 361
20 273 604					20 273 604	20 287 854
634 277				8 096	642 373	642 373
				504 906	504 906	504 906
				368 908	368 908	531 643
1 691 704					1 691 704	1 691 704
26 043 883	1 681 978			881 910	30 755 281	30 932 266
					58 280	58 280
					92	92
		221 612			221 612	221 612
		24 345 680			24 345 680	24 345 680
		1 218 731			1 218 731	1 256 457
		1 285 685			1 285 685	1 285 685
				41 236	41 236	41 236
		505 701			505 701	505 701
		27 577 409		41 236	27 677 017	27 714 743

17. Classification of assets and liabilities

17.1 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
2018					
Assets					
Derivative assets	2		**33 237**		**33 237**
Trading assets	3	**129 801**			**129 801**
Financial investments	4		**4 386 995**		**4 386 995**
		129 801	**4 420 232**		**4 550 033**
Liabilities					
Derivative liabilities			**25 714**		**25 714**
Trading liabilities		**980**			**980**
		980	**25 714**		**26 694**
2017					
Assets					
Derivative assets	2		64 198		64 198
Trading assets	3	1 135	429 049		430 184
Financial investments	4	162 782	3 172 324		3 335 106
		163 917	3 665 571		3 829 488
Liabilities					
Derivative liabilities	2		58 280		58 280
Trading liabilities	12		92		92
			58 372		58 372

17. Financial assets and liabilities at fair value continued

17.1 Financial assets and liabilities measured at fair value continued

		Valuation technique	Observable input		Valuation and 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 2
	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 2
	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 2
Financial investments and trading securities	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
	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

17. Financial assets and liabilities at fair value continued

17.2 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
2018					
Assets					
Cash and balances with central banks	1	**1 546 355**			**1 546 355**
Loans and advances to banks	5			**389 173**	**389 173**
Loans and advances to customers	5			**21 848 035**	**21 848 035**
Assets in group companies	7			**2 095 902**	**2 095 902**
		1 546 355		**24 333 110**	**25 879 465**
Liabilities					
Deposits from banks	13	**280 243**			**280 243**
Deposits from customers	13			**24 911 131**	**24 911 131**
Debt securities issued	14	**1 690 299**			**1 690 299**
Loans from group companies	7			**1 309 614**	**1 309 614**
		1 970 542		**26 220 745**	**28 191 287**
2017					
Assets					
Cash and balances with central banks	1	1 357 935			1 357 935
Loans and advances to banks	5			2 086 361	2 086 361
Loans and advances to customers	5			20 050 434	20 050 434
Assets in group companies	7			642 373	642 373
		1 357 935		22 779 168	24 137 103
Liabilities					
Deposits from banks	13	221 612			221 612
Deposits from customers	13			24 378 628	24 378 628
Debt securities issued	14	1 256 457			1 256 457
Loans from group companies	7			1 536 248	1 536 248
		1 478 069		25 914 876	27 392 945

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.

Significant unobservable inputs

The fair value of level 3 assets and liabilities is determined using valuation techniques that 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. These inputs include 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;
- raising day one profit provisions in accordance with IFRS;
- quantifying and reporting the sensitivity to each risk driver;
- limiting exposure to such risk drivers; and
- analysing this exposure on a regular basis.

18. 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 other instances apart from the cash management accounts, where the group and company have a current legally enforceable right to offset as well as 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 for financial assets and financial liabilities that are subject to an 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.

	Gross amount of recognised financial assets[1,2] N$'000	Collateral pledged[4] N$'000	Net amount N$'000
Assets[3]			
2018			
Derivative assets	**33 237**	**(33 237)**	
Loans and advances	**22 703 942**	**(22 489 196)**	**214 746**
2017			
Derivative assets	64 198	(64 198)	
Loans and advances	22 359 965	(19 396 045)	2 963 920

1 Gross amounts are disclosed for recognised financial assets and financial liabilities that are either offset in the statement of financial position or are subject to a master netting arrangement or a similar agreement, irrespective of whether the offsetting criteria is met.
2 Gross amounts of recognised financial assets or financial liabilities that qualify for offset in accordance with the criteria per IFRS.
3 In most cases, the company is allowed to sell or repledge collateral received.
4 In most instances, the counter party may not sell or repledge collateral pledge by the company.

	Gross amount of recognised financial assets[1,2] N$'000	Collateral pledged[4] N$'000	Net amount N$'000
Liabilities[3]			
2018			
Deposits and current accounts	**(25 191 374)**		**(25 191 374)**
Derivative liabilities	**(25 714)**	**25 714**	
2017			
Deposits and current accounts	(24 600 240)		(24 600 240)
Derivative liabilities	(58 280)	58 280	

1 Gross amounts are disclosed for recognised financial assets and financial liabilities that are either offset in the statement of financial position or are subject to a master netting arrangement or a similar agreement, irrespective of whether the offsetting criteria is met.
2 Gross amounts of recognised financial assets or financial liabilities that qualify for offset in accordance with the criteria per IFRS.
3 In most cases, the company is allowed to sell or repledge collateral received.
4 In most instances, the counter party may not sell or repledge collateral pledge by the company.

18. 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

19. Maturity analysis of assets

The following table discloses the maturity analysis for the company's financial assets and liabilities on a contractual discounted basis:

	Note	Overnight balances N$'000	Maturing within 1 year N$'000	Maturing after 1 year N$'000	Maturing after 5 years N$'000	Total N$'000
2018						
Cash and balances with central banks	1	**1 546 355**				**1 546 355**
Derivative assets	2		**33 237**			**33 237**
Trading assets	3		**129 703**	**98**		**129 801**
Financial investments	4	**1 573 053**	**2 601 889**	**209 568**	**2 485**	**4 386 995**
Loans and advances to banks	5	**389 173**				**389 173**
Loans and advances to customers	5		**2 790 864**	**17 589 932**	**1 467 237**	**21 848 033**
Assets in group companies and joint ventures	7	**2 084 396**		**11 506**		**2 095 902**
Current tax asset					**58 180**	**58 180**
Other assets	6				**305 709**	**305 709**
Property and equipment	8				**568 340**	**568 340**
Goodwill and other intangible assets	9				**298 960**	**298 960**
Deferred tax asset	12				**17 468**	**17 468**
		5 592 977	**5 555 693**	**17 811 104**	**2 718 379**	**31 678 153**
2017						
Cash and balances with central banks	1	1 357 935				1 357 935
Derivative assets	2		64 198			64 198
Trading assets	3	429 049	1 135			430 184
Financial investments	4	1 681 978	162 782		1 490 346	3 335 106
Loans and advances to banks	5	2 086 361				2 086 361
Loans and advances to customers	5	448 351	4 937 283	14 027 013	860 957	20 273 604
Assets in group companies and joint ventures	7	634 277		8 096		642 373
Other non-financial assets			45 870	827 944		873 814
Other financial assets		1 691 704				1 691 704
		8 329 655	5 211 268	14 863 053	2 351 303	30 755 279

20. 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
2018						
Liabilities						
Derivative liabilities		**17 164**		**4 593**	**3 957**	**25 714**
Trading liabilities	**980**					**980**
Deposits and current accounts	**14 255 054**	**476 922**	**4 435 997**	**1 928 002**	**4 095 398**	**25 191 373**
Loans from group companies	**1 309 614**					**1 309 614**
Debt issued securities			**100 888**		**1 589 411**	**1 690 299**
Provisions and other liabilities	**576 803**					**576 803**
	16 142 451	**494 086**	**4 536 885**	**1 932 595**	**5 688 766**	**28 794 783**
Unrecognised financial instruments						
Letter of credit and bankers' acceptances	**218**		**2 438**		**1 585**	**4 241**
Guarantees	**494 663**		**8 130**		**1 665 218**	**2 168 011**
Unutilised borrowing facilities	**3 962 613**					**3 962 613**
	4 457 494		**10 568**		**1 666 803**	**6 134 865**
2017						
Liabilities						
Derivative liabilities		17 677	39 298	1 303		58 278
Trading liabilities			92			92
Deposits and current accounts	15 481 115	573 357	5 156 527	2 262 933	1 126 308	24 600 240
Loans from group companies	1 536 248					1 536 248
Debt issued securities				230 153	988 578	1 218 731
Others liabilities	563 196					563 196
	17 538 819	591 034	5 195 917	2 494 389	2 114 886	27 976 785
Unrecognised financial instruments						
Letter of credit and bankers' acceptances	2 350					2 350
Guarantees	2 401 008					2 401 008
Unutilised borrowing facilities	4 262 314					4 262 314
	6 665 672					6 665 672

21. Contingent liabilities and commitments

	2018 N$'000	2017 N$'000
21.1 Contingent liabilities		
Letters of credit	**4 241**	2 350
Guarantees	**2 168 011**	2 401 008
Unutilised borrowing facilities	**3 962 613**	4 262 314
	6 134 865	6 665 672
21.2 Capital commitments		
Contracted capital expenditure	**63 046**	1 036
The expenditure will be funded from internal resources.		
21.3 Operating lease commitments		
Leases are:		
Properties:		
Within one year	**50 690**	49 685
After one year but within five years	**72 221**	87 672
	122 911	137 357
Equipment		
Within one year	**263**	721
After one year but within five years		12
	263	733

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

21.4 Legal proceedings

In the ordinary course of business, the company is involved as a defendant in litigation, lawsuits and other proceedings. Management recognises the inherent difficulty of predicting the outcome of defended legal proceedings. Nevertheless, based on management's knowledge from investigation, analysis and after consulting with legal counsel, management believes that there are no individual legal proceedings that are currently assessed as being 'likely to succeed and material' or 'unlikely to succeed but material should they succeed'. Management is accordingly satisfied that the legal proceedings currently pending against the company should not have a material adverse effect on the company's consolidated financial position and the directors are satisfied that the company has adequate insurance programmes and, where required in terms of IFRS for claims that are probable.

22. Interest income

	2018 N$'000	2017 N$'000
Effective interest rate interest income on:		
Loans and advances	**2 400 414**	2 194 904
Financial investments	**191 632**	258 407
	2 592 046	2 453 311
Comprising:		
Interest income on items measured at amortised cost	**2 400 414**	2 194 904
Interest income on items measured at fair value through OCI	**191 632**	
Interest income on items measured at FVTPL – IAS 39		258 407
	2 592 046	2 453 311

23. Interest expense

	2018 N$'000	2017 N$'000
Current accounts	**9 273**	6 673
Savings and deposit accounts	**156 212**	99 062
Other interest-bearing liabilities	**1 208 258**	1 112 774
	1 373 743	1 218 509
Comprising:		
Interest expense on items measured on an amortised cost basis	**1 373 743**	1 218 509
Total interest expense	**1 373 743**	1 218 509

24. Fee and commission revenue

	2018 N$'000	2017 N$'000
Account transaction fees	**356 595**	358 245
Card-based commission	**173 926**	153 368
Electronic banking fees	**232 724**	192 747
Foreign currency service fees	**15 883**	9 761
Documentation and administration fees	**100 814**	89 464
Other	**80 985**	97 394
	960 927	900 979

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.

25. Fee and commission expenses

	2018 N$'000	2017 N$'000
Account transaction fees	**13 768**	14 223
Card-based commission	**55 776**	71 190
Documentation and administration fees	**74 572**	73 947
Electronic banking fees	**18 627**	18 150
	162 743	177 510

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.

26. Trading revenue

	2018 N$'000	2017 N$'000
Foreign exchange	**99 228**	94 462
Net fair value adjustments on held-for-trading financial assets	**22 676**	28 055
	121 904	122 517

27. Other revenue

	2018 N$'000	2017 N$'000
Fair value gains and losses on financial instruments designated fair value through profit or loss		342
Property-related revenue	**739**	1 175
Other non-banking-related revenue	**572**	964
Dividends on unlisted financial investments	**5 605**	6 796
	6 916	9 277

28. Credit impairment charges

	2018 N$'000	2017 N$'000
Net credit impairments raised and released for loans and advances (note 6) – IAS 39		137 682
Net expected credit losses raised and released – IFRS 9:	**135 405**	
Financial investments (note 4)	**(9 933)**	
Loans and advances (note 5.3)	**143 972**	
Letters of credit, bank acceptances and guarantees (note 16)	**1 366**	
Recoveries on loans and advances previously written off	**(39 788)**	(40 635)
Total	**95 617**	97 047

The company has, as permitted by IFRS 9, elected not to restate its comparative financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis. Refer to the accounting policy elections, IFRS 9 transition and restatement for more detail.

29. Operating expenses

	2018 N$'000	2017 N$'000
Auditors' remuneration	**3 851**	3 126
Audit fees	**3 715**	2 630
Other services	**136**	496
Amortisation (note 9)	**24 077**	24 077
Communication expenses	**21 184**	27 289
Depreciation (note 8)	**68 009**	64 469
IT expenses	**151 995**	128 688
Lease rentals on operating lease	**54 469**	50 733
Professional fees	**123 579**	113 600
Profit on sale of property and equipment	**(4 116)**	(1 688)
Premises costs	**47 963**	44 093
Staff costs	**779 610**	711 682
Salaries and allowances	**692 489**	651 001
Equity-settled share-based payments	**14 510**	3 693
Post-employment benefits – pension – defined contribution plan	**61 499**	56 407
Post-employment benefits – medical expenses	**11 112**	581
Other expenses	**164 947**	130 733
	1 435 568	1 296 802

30. Taxation

	2018 N$'000	2017 N$'000
30.1 Indirect taxation		
Value added tax	**24 584**	24 472
Duties and other	**8 418**	6 959
	33 002	31 431
30.2 Direct taxation		
Normal taxation	**210 957**	170 482
Current year charge	**210 957**	170 482
Deferred taxation	**(4 142)**	28 400
	206 815	198 882

30.3 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
2018			
Change in fair value of post-employment benefit obligations	**12 628**	**(4 041)**	**8 587**
Change in fair value of FVOCI debt financial assets – IFRS 9	**(346)**	**111**	**(235)**
	12 282	**(3 930)**	**8 352**
2017			
Change in fair value of post-employment benefit obligations	7 035	(2 251)	4 784
Change in fair value of available-for-sale financial assets	8 738	(2 796)	5 942
	15 773	(5 047)	10 726

	2018 %	2017 %
30.4 Namibian tax rate reconciliation		
The total tax charge for the year as a percentage of net income before indirect tax	**33.5**	33.0
Indirect taxation	**(4.6)**	(4.5)
Direct taxation charge for the year as a percentage of profit before indirect taxation	**28.9**	28.5
The charge for the year has been reduced as a consequence of:		
Dividends received	**0.3**	0.3
Other non-taxable income	**2.4**	2.2
Other non-deductible expenses	**(0.3)**	
Other permanent differences	**0.7**	1.1
Adjustment on fixed assets		(0.1)
Standard rate of Namibian tax	**32.0**	32.0

31. Statement of cash flow notes

	2018 N$'000	2017 N$'000
31.1 Decrease/(increase) in income-earning assets		
Financial investments	**(904 989)**	(259 782)
Trading assets	**298 948**	(132 494)
Loans and advances	**(357 499)**	(3 117 946)
Derivative assets	**30 962**	(8 701)
Interest in group companies	**(1 224 973)**	1 018 313
Other assets	**1 400 150**	(1 171 491)
	(757 401)	(3 672 101)
31.2 Increase/(decrease) in deposits and other liabilities		
Deposit and current accounts	**520 437**	3 290 300
Trading liabilities	**867**	(146 181)
Derivative liabilities	**(32 565)**	7 867
Liabilities to group companies	**(225 673)**	68 413
Other liabilities	**4 328**	126 723
	267 394	3 347 122
31.3 Direct taxation paid		
Current tax at beginning of the year	**45 870**	41 185
Recognised in profit or loss and other comprehensive income	**(210 957)**	(170 482)
Current tax at end of the year	**(58 180)**	(45 870)
	(223 267)	(129 343)

	2018 N$'000	2017 N$'000
31.4 Proceeds from the sale of property and equipment		
Net book value of disposals	**35 293**	34 314
Profit on disposal	**4 116**	1 688
Proceeds from disposals	**39 409**	36 002
31.5 Dividends paid		
Dividend declared during the year	**(240 000)**	(240 000)
	(240 000)	(240 000)

A dividend of 240 cents per share was declared and paid in 2018 (2017: 240 cents per share).

32. Post-employment benefits

	2018 N$'000	2017 N$'000
Amounts recognised as liabilities in the statement of financial position		
Post-employment healthcare benefit medical aid	**113 738**	109 298
Amounts recognised as expenses in profit and loss for the year		
Retirement fund	**61 499**	56 407
Post-employment healthcare benefit medical aid	**11 112**	581
	72 611	56 988
32.1 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 2017 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.		
Employer's contribution for the year	**61 499**	56 407

32. Post-employment benefits continued

	2018 N$'000	2017 N$'000
32.2 Post-employment healthcare benefits		
Post-employment medical scheme		
The liability represents a post-employment healthcare benefit scheme that covers all employees who joined on or 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 2018.		
Movement in the present value of defined medical scheme benefit obligation		
Balance at beginning of the year	**109 298**	111 683
Current service cost	**3 432**	3 718
Interest cost	**12 244**	12 225
Remeasurement of post-employment benefit obligations relating to change in financial and demographic assumptions	**(7 957)**	(15 362)
Premiums paid	**(3 279)**	(2 966)
Balance at end of the year	**113 738**	109 298
Consisting of:		
Present value of unfunded obligations	**113 738**	109 298
Unrecognised actuarial gains/losses		
Obligation recognised in the statement of financial position	**113 738**	109 298
The amounts recognised in profit or loss are determined as follows:		
Current service cost	**3 432**	3 718
Interest cost	**12 244**	12 225
Remeasurement of post-employment benefit obligations relating to change in financial and demographic assumptions	**(4 564)**	(15 362)
Included in staff costs	**11 112**	581
The principal actuarial assumptions used for accounting purposes were:		
Discount rate	**11.34%**	11.32%
Medical inflation	**9.24%**	9.90%
Remaining service life of employees	**18.4 years**	19 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 reporting date are as follows:		
Number of employees	**312**	333
Average age	**42.6 years**	41.5 years
Current pensioner members		
Details of the current pensioner members belonging to the medical aid fund are as follows:		
Number of employees	**91**	71
Average age	**66.8 years**	67.8 years

32. Post-employment benefits continued

32.2 Post-employment healthcare benefits continued

Sensitivity analysis

		% change in obligation	
Assumption	Change in assumption	**2018**	2017
Healthcare cost inflation:	1% increase	**10.24**	20.2
	1% decrease	**(8.24)**	(15.9)
Mortality rate	PA (90)-1	**3.20**	3.4

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 company 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 company post-employment medical obligation is linked to inflation, and higher inflation will lead to higher liabilities.
Life expectancy	The company 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.

33. Related party transactions

33.1 Parent

Standard Bank Namibia Limited is a subsidiary of SBN Holdings Limited.

33.2 Joint ventures

Refer to note 7.3 for the investment in joint venture balance and annexure B for further disclosure.

33.3 Key management personnel

Key management personnel has been defined as directors of the 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.

33. Related party transactions continued

33.3 Key management personnel continued

	2018 N$'000	2017 N$'000
Key management compensation		
Salaries and other short-term benefits	**41 955**	27 194
Post-employment benefits	**3 137**	1 946
IFRS 2 value of share options and rights expensed	**5 804**	284
	50 896	29 424
The transactions below are entered into in the normal course of business.		
Loans and advances		
Loans outstanding at beginning of the year	**31 483**	25 231
Change in key management structures	**1 655**	6 048
Net loans granted during the year	**395**	204
Loans outstanding at end of the year	**33 533**	31 483
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.		
All other loans are unsecured.		
Deposit and current accounts		
Deposits outstanding at beginning of the year	**3 370**	3 090
Change in key management structures	**220**	41
Net deposits received during the year	**(1 425)**	239
Deposits outstanding at end of the year	**2 165**	3 370
Interest paid on deposit and current accounts is in the ordinary course of business.		
Deposits include cheque, current and savings accounts.		

33.4 Investments

	2018 N$'000	2017 N$'000
Mutual funds		653 742

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

33.5 Purchase of services

	Relationship	Type	2018 N$'000	2017 N$'000
Stanbic Africa Holdings	Fellow subsidiary	Royalty fees	**70 642**	63 369
Stanbic Africa Holdings	Fellow subsidiary	Information Technology	**14 156**	23 200
Stanbic Africa Holdings	Fellow subsidiary	Licence fees	**9 494**	22 561
Stanbic Africa Holdings	Fellow subsidiary	Other services	**1 025**	1 184
Standard Bank of South Africa Ltd	Fellow subsidiary	Training	**10**	3
Namclear (Pty) Ltd	Joint venture	Interbank clearing costs	**17 205**	15 055
			112 532	125 372

33. Related party transactions continued

			2018 N$'000	2017 N$'000
33.6 Commissions and dividends received/(paid)				
Standard Bank of South Africa Ltd	Fellow subsidiary	Commission paid	**12 281**	(13 352)
Standard Bank of South Africa Ltd	Fellow subsidiary	Commission received	**(8 422)**	17 715
Standard Bank Group	Parent company	Dividends paid	**(216 000)**	(216 000)
Purros Investments	Sister company	Dividends paid	**(24 000)**	(24 000)
			(236 141)	(235 637)
33.7 Interest income/(expense)				
Standard Bank of South Africa Ltd	Fellow subsidiary	Interest income	**57 826**	66 685
Standard Bank of South Africa Ltd	Fellow subsidiary	Interest expense	**(25 746)**	(33 863)
			32 080	32 822
Contributions to funds				
Standard Bank Namibia Pension Fund	Defined contribution plan	Contributions	**61 499**	56 407
			61 499	56 407
33.8 Related party year end balances				
Receivables from related parties				
Standard Bank of South Africa Ltd	Fellow subsidiary	Loans and advances	**715 142**	65 610
Stanbic Bank Botswana Ltd	Fellow subsidiary	Loans and advances	**683**	131
Stanbic Bank Zambia Ltd	Fellow subsidiary	Loans and advances	**13**	217
CfC Stanbic Bank Limited (Kenya)	Fellow subsidiary	Loans and advances	**34**	63
Standard Bank of South Africa Ltd	Fellow subsidiary	Derivatives	**21 011**	31 909
Stanbic Africa Holdings	Fellow subsidiary	Other assets	**33 674**	19 528
Stanlib (Namibia) (Pty) Ltd	Fellow subsidiary	Other assets	**1 033**	864
Standard Insurance Brokers (Namibia) Pty Ltd	Fellow subsidiary	Other assets		302
Arleo Investments Sixteen (Pty) Ltd	Fellow subsidiary	Loans and advances	**474 594**	223 172
Arleo Investments Sixteen (Pty) Ltd	Fellow subsidiary	Other assets	**6 464**	6 464
Standard Bank Namibia Holdings (Pty) Ltd	Parent	Other assets	**320 887**	67 356
Standard Bank of South Africa Ltd (IOM)	Fellow subsidiary	Loans and advances	**510 861**	441 833
			2 084 396	857 449

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 attract no interest.

			2018 N$'000	2017 N$'000
Payables to related parties				
Standard Bank of South Africa Ltd	Fellow subsidiary	Deposit and current accounts	**492 843**	1 081 843
Stanbic Bank Botswana Ltd	Fellow subsidiary	Deposit and current accounts	**26**	5
Standard Bank of South Africa Ltd	Fellow subsidiary	Derivatives	**3 373**	32 952
Standard Bank of South Africa Ltd	Fellow subsidiary	Other liabilities	**166 327**	161 381
Standard Bank of South Africa Ltd	Fellow subsidiary	Subordinated debt	**100 000**	101 821
Standard Insurance Brokers (Namibia) Pty Ltd	Fellow subsidiary	Other liabilities		1 004
Purros Investment Trust	Fellow subsidiary	Other liabilities		8 000
Standard Bank Namibia Holdings (Pty) Ltd	Parent	Other liabilities	**550 418**	182 199
			1 312 987	1 569 205

Deposit and current accounts held with subsidiaries and fellow subsidiaries are repayable on demand. Interest is charged based on the prevailing market rate. Sundry payables with subsidiaries and fellow subsidiaries are repayable on demand and attract no interest.

34. Equity-linked transactions

34.1 Share-based payments

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

	2018 N$'000	2017 N$'000
Summary of the comapany's share incentive schemes and expenses recognised in staff costs:		
Equity-settled share-based payments (GSIS and Purros)	**14 510**	3 553
Cash-settled share-based payments (EGS)	**8**	140
Deferred Bonus Scheme 2012 (DBS 2012)	**10 940**	13 183
Total expense recognised in staff costs	**25 458**	16 876
Summary of the liability recognised in other liabilities:		
Deferred Bonus Scheme 2012 (DBS 2012)	**13 991**	16 828
Total liability recognised in other liabilities	**13 991**	16 828

34.2 Equity compensation plans

The company has three equity compensation plans, namely the company Share Incentive Scheme (GSIS), the Equity Growth Scheme (EGS) and the Purros Share Scheme. The company 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 right 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	

34.2.1 Equity-settled share-based payments

Company Share Incentive Scheme

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

	Option price range (N$)		Number of options	
	2018	2017	**2018**	2017
Options outstanding at beginning of the year			**41 300**	39 150
Exercised	**62.39 – 98.80**	62.39 - 111.94	**(9 100)**	(36 375)
Lapsed				
Transferred in/(out)				38 525
Options outstanding at end of the year			**32 200**	41 300

Share options were exercised regularly throughout the year. The weighted average share price for the year was N$192.35 (2017: N$157.29).

34. Equity-linked transactions continued

34.2 Equity compensation plans continued

34.2.1 Equity-settled share-based payments continued

The following options granted to employees, including executive directors, had not been exercised at 31 December 2018:

Number of ordinary shares	Option price range N$	Weighted average price N$	Option expiry year
3 200	**62.39**	**62.39**	**31/12/2019**
6 500	**111.94**	**111.94**	**31/12/2020**
22 500	**93.74-98.80**	**96.55**	**31/12/2021**
32 200			

The following options granted to employees, including executive directors, had not been exercised at 31 December 2017:

Number of ordinary shares	Option price range N$	Weighted average price N$	Option expiry year
11 425	62	62	Year to 31 December 2019
6 500	112	112	Year to 31 December 2020
23 375	99	99	Year to 31 December 2021
41 300			

Purros Trust Share Scheme

Restricted shares granted to all qualifying employees. The beneficial ownership of the shares resides with the participants, including the voting and dividend rights. No dealing in the shares before 31 December 2019. Forfeiture applicable if employee is dismissed.

	Option price range (N$)		Number of shares	
	2018	2017	**2018**	2017
Shares outstanding at beginning of the year			**4 433 221**	2 801 122
Vested during the year	**29.84**	29.84	**763 813**	1 953 225
Forfeited			**(104 254)**	(321 126)
Transferred in/(out)				
Shares outstanding at end of the year			**5 092 780**	4 433 221

The following shares granted to employees, including executive directors, had not vested at 31 December 2018:

Number of ordinary shares	Option price range N$	Weighted average price N$	Vesting year
306 618	**29.84**	**29.84**	**31/12/2019**

34. Equity-linked transactions continued

34.2 Equity compensation plans continued

34.2.2 Cash-settled share-based payments

All employees granted an annual performance award over a threshold and who is in employment in a company entity domicile outside of South Africa have part of their award deferred. In addition the company makes special awards to qualifying employees in employment of a company entity. The awards are classified as cash-settled awards.

The award units are denominated in employee's host countries' local currency, the value of which moves parallel to the changes in the price of the SBG shares listed on the JSE and accrue notional dividends over the vesting period which are payable on vesting.

Awards vest in three equal tranches at 18 months, 30 months and 42 months from the date of award. Final payout is determined with reference to SBG share price on vesting date.

Currency	Weighted average fair value at grant date	Expected life at grant date (years)	2018 Units Opening balance	Granted	Exercised	Forfeited	Outstanding
NAD	N$220.97	2.51	**33 317**	**20 267**	**(11 103)**		**42 481**
ZAR	R220.97	2.51	**1 924**	**1 132**	**(641)**		**2 415**

			2017 Units Opening balance	Granted	Exercised	Forfeited	Outstanding
NAD	N$220.97	2.51		33 317			33,317
ZAR	R220.97	2.51		1 924			1,924

34.3 Deferred bonus scheme (DBS)

It is essential for the company 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 company, its subsidiaries and employees, as well as to attract and retain skilled, competent people.

The company 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 company'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 company's share price on vesting date.

The provision in respect of liabilities under the scheme amounts to N$ 13 991 thousand at 31 December 2018 (2017: N$16 828 thousand) and the amount charged for the year was N$ 10 940 thousand (2017: N$13 183 thousand). The change in liability is due to the change in the company share price.

	Units 2018	2017
Reconciliation		
Units outstanding at beginning of the year	**65 057**	31 797
Granted		
Exercised	**(30 107)**	(23 244)
Lapsed	**(1 092)**	(2 723)
Transfers		59 227
Units outstanding at end of the year	**33 858**	65 057

35. Segment reporting

The company is organised on the basis of products and services and the segments have been identified on this basis. The principal business units in the company are as follows:

Scope of operations

Business unit

Personal & Business Banking Banking and other financial services to individual customers and small- tomedium- sized enterprises. We enable customers to take control of all their financial aspects such as transacting, saving, borrowing or planning by making use of the following product sets either through face to face interaction or digitally according to their preference	**Transactional products** Comprehensive suite of transactional, saving, investment, trade, foreign exchange, payment and liquidity management solutions made accessible through a range of physical and digital channels. **Mortgage lending** Residential accommodation loans to mainly personal market customers. **Card products** • Credit card facilities to individuals and businesses (credit card issuing) • Merchant transaction acquiring services (merchant solutions) **Vehicle and asset finance** • Finance of vehicles for retail market customers • Finance of vehicles and equipment in the business and corporate assets market • Fleet solutions **Lending products** • Lending products offered to both personal and business markets • Business lending offerings constitute a comprehensive suite of lending product offerings, structured working capital finance solutions and commercial property finance solutions **Wealth** • Financial planning and modelling • Integrated fiduciary services, including fiduciary advice, will drafting and custody services, as well as trust and estates administration
Corporate & Investment Banking Corporate and investment banking services to clients including governments, parastatals, larger corporates, financial institutions and multinational corporates	**Client coverage** • Relationship management • Sector expertise **Global markets** • FIC • Commodities • Equities **Transactional products and services** • Transactional banking • Investor services • Trade finance **Investment banking** • Advisory • Debt products • Real estate finance • Structured finance • Structured trade finance and commodity finance • Debt capital markets • Equity capital markets Real estate and principal investment management

35. **Segment reporting** continued

Scope of operations continued

Business unit continued

Other services	Includes the results of support functions, which are either centralised or embedded in the business segments. The direct costs of support functions are recharged to the business segments. These functions include: • legal & compliance • human capital • finance • governance • assurance • IT • procurement • marketing • real estate • risk management • group shared services • corporate social investment

35. Segment reporting continued

Scope of operations continued

The segment report includes only those business unit activities conducted within the company. No geographical segment information is disclosed due to the fact that business activities relate to Namibia. The consolidated results of each business unit, containing all the activities of the business units across SBN Holdings, are reflected in the segment report in SBN Holdings annual financial statements.

	Personal & Business Banking		Corporate & Investment Banking	
	2018 N$'000	2017 N$'000	**2018 N$'000**	2017 N$'000
Net interest income	**1 658 307**	1 565 941	**(336 232)**	(322 987)
Inter-segment revenue	**(721 552)**	(663 951)	**751 554**	713 096
Non-interest revenue	**702 458**	621 987	**234 607**	237 991
Total income	**1 639 213**	1 523 977	**649 929**	628 100
Credit impairments	**(101 282)**	(94 735)	**5 665**	(2 312)
Income after credit impairment charges	**1 537 931**	1 429 242	**655 594**	625 788
Operating expenses	**(1 129 488)**	(1 042 622)	**(384 448)**	(353 623)
Net income	**408 443**	386 620	**271 146**	272 165
Share of profits/(losses) from associates and joint ventures				
Net income before indirect taxation	**408 443**	386 620	**271 146**	272 165
Indirect taxation	**(15 838)**	(15 365)	**(4 398)**	(4 962)
Profit before direct taxation	**392 605**	371 255	**266 748**	267 203
Direct taxation	**(119 456)**	(114 304)	**(76 792)**	(78 708)
Profit for the year	**273 149**	256 951	**189 956**	188 495
Operating information				
Total assets	**17 689 791**	16 766 066	**12 473 649**	12 863 821
Total liabilities	**16 344 696**	15 743 211	**11 475 775**	11 580 677
Other information				
Investment in associate				
Depreciation	**38 541**	31 434	**466**	588
Amortisation				

	Other		Total	
	2018 N$'000	2017 N$'000	**2018 N$'000**	2017 N$'000
	(325)	(869)	**1 321 750**	1 242 085
	(30 002)	(49 145)	**—**	—
	(16 187)	(11 998)	**920 878**	847 980
	(46 514)	(62 012)	**2 242 628**	2 090 065
			(95 617)	(97 047)
	(46 514)	(62 012)	**2 147 011**	1 993 018
	78 368	99 443	**(1 435 568)**	(1 296 802)
	31 854	37 431	**711 443**	696 216
	3 410	1 359	**3 410**	1 359
	35 264	37 431	**714 853**	696 216
	(12 766)	(11 092)	**(33 002)**	(31 419)
	22 498	26 339	**681 851**	664 797
	(10 567)	(5 870)	**(206 815)**	(198 882)
	11 931	20 469	**475 036**	465 915
	1 514 713	1 125 390	**31 678 153**	30 755 277
	974 312	652 897	**28 794 783**	27 976 785
	11 506	8 096	**11 506**	8 096
	29 002	32 477	**68 009**	64 469
	24 078	24 077	**24 078**	24 077

Annexure A – Subsidiaries

			Effective holding		Net indebtedness	
	Nature of operation	Issued share capital N$	2018 %	2017 %	2018 N$'000	2017 N$'000
Standard Bank Nominees (Pty) Limited	Safe custodian	2	100	100		

These financial statements are the separate financial statements of Standard Bank Namibia. The Company is exempted from the preparation of consolidated financial statements as the Company is a wholly-owned subsidiary of SBN Holdings Limited, a Namibia-incorporated company which produces consolidated financial statements available for public use.

All subsidiaries are incorporated within Namibia. The proportion of voting rights in the subsidiary undertakings held directly by the company does not differ from the proportion of ordinary shares held.

Annexure B – Joint venture

	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	31 December 2018

	2018	2017
Effective holding (%)	**25**	25

	N$'000	N$'000
Income statement		
Total income	**52 025**	42 656
Total profit for the year	**12 503**	5 481
Total comprehensive income	**13 639**	5 481
Statement of financial position		
Cash and cash equivalents	**28 686**	15 593
Non-current assets	**47 793**	47 783
Current assets	**38 820**	21 909
Non-current liabilities	**(29 928)**	(27 438)
Current liabilities	**(10 662)**	(9 871)
Net asset value	**46 023**	32 383
Proportion of net asset value based on effective holding	**11 506**	8 096
Carrying value	**11 506**	8 096
Share of total comprehensive income from joint venture	**3 410**	1 370

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

RISK AND CAPITAL MANAGEMENT

Introduction

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

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 company'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 company and the effectiveness of the company'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 company's risk management processes are fit-for-purpose and are operating effectively. During the year under review, the business activities of the company have been managed within the board-approved risk appetite.

The board is satisfied that the company'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 audited unless stated as unaudited.

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 68
- credit risk, starting on page 71
- liquidity risk, starting on page 82
- market risk, starting on page 87.

The capital and risk management information disclosed in these sections fulfils IFRS requirements together with the 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 company 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 company as a result of the failure by a counterparty to meet its financial and/or contractual obligations to the company. 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 company 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 company from settling a transaction where value is exchanged, but where the company may not receive all or part of the countervalue.
- **Credit concentration risk:** The risk of loss to the company as a result of excessive build-up of exposure to a specific counterparty or counterparty company, 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 company. 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 company 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 company 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
- company-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 company's future business plans and strategies may be inadequate to prevent financial loss or protect the company'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 company'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 company'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 66
- risk governance standards as described on page 67
- policies to support the risk governance standards.

Risk governance process

The company'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 company level with participation by the senior executives of the company in all significant risk matters.

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), the board IT subcommittee (Board IT) 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 company'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 company'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 company by:

- reviewing and providing oversight in respect of the adequacy and effectiveness of the company's risk management framework
- approving risk and capital management governance standards and policies

- approving the company's risk appetite statements and monitoring the company's risk profile
- monitoring and evaluating significant IT investment and expenditure.

Board risk committee
The BCC has the responsibility of reviewing and recommending the risk philosophy, strategy and policies for approval and adoption by the board of directors. The committee assists the board in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting.

Board IT subcommittee
The board IT subcommittee has the authority to review, monitor and provide guidance on matters related to Standard Bank Namibia's IT strategy, operations, policies and controls.

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 company ICAAP.

Three lines of defence model
The company 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.

First line of defence	second line of defence	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.

Finanance 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 – company tax function – company financial control function. – company tax function – company financial control function.	• credit risk • country risk • market risk • operational risk, including business continuity and resilience • information risk management • integrated risk • financial crime control.	• prudential, by geographic region • transactional, by product type.	• governance office • 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 companywide 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 company operations. Internal audit has the authority to independently determine the scope and extent of work to be performed. All internal audit employees in the company 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 company 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 company are dealt with.

All governance standards are applied consistently across the company 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 company's approach to risk appetite

The following terms have specific meanings within the company.

- **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 company 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 company is able to support within its available financial resources.
- **Risk profile:** The amount or type of risk the company holds at a specified point in time.
- **Risk tendency:** The forward-looking view of how the company'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 company, 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 company strategy and the desired balance between risk and return.

Risk appetite at a company 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 company's approach to stress testing

Stress testing is a key management tool within the company and facilitates a forward-looking perspective of the organisation's risk profile or risk tendency. Stress tests are conducted at company, 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 and limiting exposures
- 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.

companywide macroeconomic stress testing is conducted regularly across all major risk types for a range of common scenarios. This allows the company to monitor its risk profile and risk tendency against its risk appetite. This companywide 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 company's capital management framework is designed to ensure that regulatory requirements are met at all times and that the company 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 company's risk appetite and economic capital requirements
  - the company'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 company strategic objectives, including optimising returns on economic and regulatory capital
- maintain the company'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 company 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 to 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 company'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 company'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 2018 and the comparative year ended 31 December 2017, the company 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 III guidelines issued by the Bank for International Settlements effective from September 2018. Standard Bank Namibia Limited, was issued with an administrative penalty of N$21.7m in 2018 by the Bank of Namibia (BON) for failing to comply with the requirements of the Determination on localization of core banking systems (BID 19). An extensive customer migration project commenced in 2017 to address these requirements will be completed during the first half of 2019. The board and management take compliance with regulatory regulations seriously and are mindful of the need to achieve regulatory compliance as soon as practically possible.

The company's tier I capital was N$2 503 million at 31 December 2018 (2017: N$2 356 million) and total capital, including unappropriated profit was N$2 705 million at 31 December 2018 (2017: N$2 580 million). The change in the company's capital was primarily due to the introduction of Basel III in September 2018 offset by an increase in retained earnings. The company maintained a well-capitalised position based on tier I capital, total capital adequacy and leverage ratios as set out below.

BASEL III REGULATORY CAPITAL (UNAUDITED)

	2018 N$'000 BID5A (Basel III)	2017 N$'000 BID5 (Basel II)
Tier I		
Ordinary share capital and premium	**593 230**	593 230
Ordinary shareholders' reserves	**2 031 406**	1 762 824
	2 624 636	2 356 054
Less: regulatory adjustments	**(121 596)**	
Intangible assets	**(59 792)**	
Deferred tax asset	**(39 279)**	
Defined benefit pension fund assets and liabilities	**(22 525)**	
Common equity tier 1 capital	**2 503 040**	2 356 054
Tier II		
Subordinated debt	**100 000**	200 000
Current unappropriated profits	**202 419**	224 099
General allowance for credit impairments	**252 199**	204 785
	554 618	628 884
Total eligible capital (including unappropriated profits)	**3 057 658**	2 984 938

CAPITAL ADEQUACY RATIOS (UNAUDITED)

			Including unappropriated profits		Excluding unappropriated profits	
	Minimum regulatory requirement %	Target ratio %	2018 % BID5A (Basel III)	2017 % BID5 (Basel II)	2018 % BID5A (Basel III)	2017 % BID5 (Basel II)
Bank						
Total capital adequacy ratio	10	11 - 12	**13.05**	13.83	**13.05**	13.83
Tier I capital adequacy ratio	7	7.7 - 8.2	**11.55**	11.95	**10.68**	10.92
Tier I leverage ratio	6	6.6 - 7.2	**8.11**	8.21	**7.50**	7.49

BASEL III RISK-WEIGHTED ASSETS (UNAUDITED)

	2018 N$'000 BID5A (Basel III)	2017 N$'000 BID5 (Basel II)
Credit risk	**20 212 533**	18 497 988
Market risk	**364 572**	370 275
Operational risk	**2 852 041**	2 716 321
Total risk-weighted assets	**23 429 146**	21 584 584

Economic capital

Economic capital is the basis for measuring and reporting all quantifiable risks faced by the company on a consistent risk-adjusted basis. Standard Bank company 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 company is or may become exposed to, in order to meet current and future needs, as well as to assess the company's resilience under stressed conditions.

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

CREDIT RISK

Definition

Credit risk is the risk of loss arising out of the failure of obligors to meet their financial or contractual obligations when due. It is composed of obligor risk (including borrowers and trading counterparties), concentration risk and country risk.

Approach to managing and measuring credit risk

The company's credit risk is a function of its business model and arises from wholesale and retail loans and advances, underwriting and guarantee commitments, as well as from the counterparty credit risk arising from derivative and securities financing contracts entered into with our customers and trading counterparties. To the extent equity risk is held on the banking book, it is also managed under the credit risk governance framework, except in so far as approval authority rests with board risk committee (BRC). The management of credit risk is aligned to the company's three lines of defence framework. The business function owns the credit risk assumed by the company and as the first line of defence is primarily responsible for its management, control and optimisation in the course of business generation.

The credit function acts as the second line of defence and is responsible for providing independent and objective approval and oversight for the credit risk-taking activities of business, to ensure the process of procuring revenue, while assuming optimal risk, is undertaken with integrity. Further second-line oversight is provided by the company risk function through independent credit risk assurance.

The third line of defence is provided by internal audit (IA), under its mandate from the board audit committee (BAC). The fourth line of defence is provided by external audit.

Credit risk is managed through:

- maintaining a culture of responsible lending and a robust risk policy and control framework
- identifying, assessing and measuring credit risk across the company, from an individual facility level through to an aggregate portfolio level
- defining, implementing and continually re-evaluating risk appetite under actual and stressed conditions
- monitoring the company's credit risk exposure relative to approved limits
- ensuring that there is expert scrutiny and approval of credit risk and its mitigation independently of the business functions.

A credit portfolio limit framework has been defined to monitor and control the credit risk profile within the company's approved risk appetite. All primary lending credit limits are set and exposures measured on the basis of risk weighting in order to best estimate exposure at default (EAD). Pre-settlement counterparty credit risk (CCR) inherent in trading book exposures is measured on a potential future exposure (PFE) basis, modelled at a defined level of confidence, using approved methodologies and models, and controlled within explicit approved limits for the counterparties concerned.

Credit risk mitigation

Wherever warranted, the company will attempt to mitigate credit risk, including CCR to any counterparty, transaction, sector, or geographic region, so as to achieve the optimal balance between risk, cost, capital utilisation and reward. Risk mitigation may include the use of collateral, the imposition of financial or behavioural covenants, the acceptance of guarantees from parents or third parties, the recognition of parental support, and the distribution of risk.

Collateral, parental guarantees, credit derivatives and on- and off-balance sheet netting are widely used to mitigate credit risk. Credit risk mitigation policies and procedures ensure that 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.

In the case of collateral where the company has an unassailable legal title, the company's policy is such that collateral is required to meet certain criteria for recognition in loss given default (LGD) modelling, including:

- is readily marketable and liquid
- is legally perfected and enforceable
- has a low valuation volatility
- is readily realisable at minimum expense
- has no material correlation to the obligor credit quality
- has an active secondary market for resale.

The main types of collateral obtained by the company for its banking book exposures include:

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

Reverse repurchase agreements and commodity leases to customers are collateralised by the underlying assets.

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

For trading and derivatives transactions where collateral support is considered necessary, the company typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure (CSA).

Netting agreements, such as collateral under the CSA of an ISDA agreement, are only obtained where the company firstly, has a legally enforceable right to offset credit risk by way of such an agreement, and secondly, where the company has the intention of utilising such agreement to settle on a net basis.

Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if the mark-to-market credit exposure exceeds acceptable limits, and termination of the contract if certain credit events occur, for example, downgrade of the counterparty's public credit rating.

Wrong-way risk arises in transactions where the likelihood of default (i.e. the probability of default (PD) by a counterparty and the size of credit exposure (as measured by EAD) to that counterparty tend to increase at the same time. This risk is managed both at an individual counterparty level and at an aggregate portfolio level by limiting exposure to such transactions, taking adverse correlation into account in the measurement and mitigation of credit exposure and increasing oversight and approval levels. The company has no appetite for wrong-way risk arising where the correlation between EAD and PD is due to a legal, economic, strategic or similar relationship (i.e. specific wrong-way risk). General wrong-way risk, which arises when the correlation between EAD and PD for the counterparty, due mainly to macro factors, is closely managed within existing risk frameworks.

To manage actual or potential portfolio risk concentrations in areas of higher credit risk and credit portfolio growth, the company 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.

Credit portfolio characteristics and metrics in terms of IFRS 9

Maximum exposure to credit risk

Debt financial assets at amortised cost and FVOCI as well as off-balance sheet exposure subject to an ECL are analysed and categorised based on credit quality using the company's master rating scale. Exposures within Stage 1 and 2 are rated between 1 to 25 in terms of the company's master rating scale. Exposures that are not within 1 to 25 are considered to be in default.

Default

The company's definition of default has been aligned to its internal credit risk management definitions and approaches. Whilst the specific determination of default varies according to the nature of the product, it is generally

Determined (aligned to the BASEL definition) as occurring at the earlier of:

- where, in the company's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).
- The company will not rebut IFRS 9's 90 days past due rebuttable presumption.

A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or companys of financial assets:

- significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower)
- a breach of contract, such as default or delinquency in interest and/or principal payments
- disappearance of active market due to financial difficulties
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation
- where the company, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the company would not otherwise consider.

Exposures which are overdue for more than 90 days are also considered to be in default.

IAS 39

Performing loans

Performing loans are classified into two categories, namely:

- Neither past due nor specifically impaired loans: these loans are current and fully compliant with all contractual terms and conditions. Normal monitoring loans within this category are generally rated 1 to 21, and close monitoring loans are generally rated 22 to 25 using the company's master rating scale.
- Early arrears but not specifically impaired loans: 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 unlikely but could occur if the adverse conditions persist.

Non-performing loans

Non-performing loans are those loans for which the company 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.

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 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 company provides fully for its anticipated loss, after taking collateral into account.

Maximum exposure to credit risk by credit quality		SB 1 – 12		SB 13 – 20	
		Stage 1 N$'000	Stage 2 N$'000	Stage 1 N$'000	Stage 2 N$'000
2018					
Loans and advances at amortised cost					
PBB	17 968 150				
Mortgage loans	11 941 035			9 431 759	
Vehicle and asset finance	3 055 859			2 693 057	
Card debtors	219 398			186 900	
Other loans and advances	2 751 858			2 483 391	
Personal unsecured lending	1 348 081			1 221 886	
Business lending and other	1 403 777			1 261 505	
CIB	4 735 793				
Corporate	3 102 499	1 374 180	130 285	1 596 086	
Sovereign	264	264			
Bank	1 633 030	1 632 064		712	254
Gross carrying amount	22 703 943				
Less: Total expected credit losses for loans and advances	466 734				
Net carrying amount of loans and advances measured at amortised cost	23 170 677				
Financial investments measured at amortised cost					
Corporate					
Sovereign	50 577	50 577			
Bank					
Mutual funds and unit-linked investments					
Other instruments					
Gross carrying amount	50 577				
Less: total expected credit loss for financial investments					
Net carrying amount of financial investments measured at amortised cost	50 577				
Financial investments at fair value through OCI					
Corporate					
Sovereign	2 761 493	2 761 493			
Bank					
Mutual funds and unit-linked investments					
Other instruments					
Gross carrying amount	2 761 493				
Add: Fair value reserve ralating to fair value adjustments (before the ECL balance)	(613)				
Total financial investment at fair value through OCI	2 760 880				
Off-balance sheet exposures					
Letters of credit and banker's acceptances	4 241				
Guarantees	2 168 011				
Irrevocable unutilised facilities	3 962 613				
Commodities and securities lending transactions					
Total exposure to off-balance sheet credit risk	6 134 865				
Expected credit losses for off-balance sheet exposures	(6 154)				
Net carrying amount of off-balance sheet exposures	6 128 711				
Total exposure to credit risk on financial assets subject to an expected credit loss	29 349 965				
Add the following other banking activities exposures:					
Other loans and advances at fair value through profit or loss					
Cash and balances with the central bank	1 546 355				
Derivative assets	33 237				
Other financial investments					
Trading assets	129 801				
Interest in company companies, associates and joint ventures	2 095 902				
Other financial assets					
Total exposure to credit risk	33 155 260				

	SB 21- 25		Default							
	Stage 1 N$'000	Stage 2 N$'000	Stage 3 N$'000	Purchased/ originated credit impaired N$'000	Total gross carrying amount of default exposures N$'000	Securities and expected recoveries on default exposures N$'000	Interest in suspense on default exposures N$'000	Balance sheet expected credit loss on default exposures N$'000	Gross default coverage %	Non-performing exposures %
		1 862 946	646 330		646 330	535 314	66 053	44 963	17	5
		300 497	62 305		62 305	14 732	—	47 573	76	2
		28 695	3 803		3 803	—	—	3 803	100	2
		154 622	113 845		113 845	56 717	25 585	31 543	50	4
		103 389	22 806		22 806	(96)	3 303	19 599	100	2
		51 233	91 039		91 039	56 813	22 282	11 944	38	6
			1 948		1 948	779		1 169	60	

		Performing loans			
		Neither past due nor specifically impaired			
Maximum exposure to credit risk by credit quality	N$'000	Normal monitoring N$'000	Early arrears N$'000	Substandard N$'000	Doubtful N$'000
2017					
Mortgage loans	8 744 805	7 727 549	622 602	52 273	71 815
Instalment sale and finance leases	3 438 402	3 201 679	170 266	21 570	14 219
Card debtors	218 288	192 930	19 959	1 853	2 587
Other loans and advances	10 109 813	9 936 863	86 817	20 775	11 551
Gross loans and advances	22 511 308	21 059 021	899 644	96 471	100 172
Less: Impairments for loans and advances	(151 343)				
Net loans and advances	22 359 965				
Add the following other banking activities exposures:					
Cash and balances with central banks	1 357 935	1 357 935			
Derivatives	64 198	64 198			
Financial investments	3 335 106	3 335 106			
Trading assets	430 184	430 184			
Assets in company companies and joint ventures	642 373	642 373			
Other financial assets	1 691 704	1 691 704			
Total on-balance sheet exposure	29 881 465				
Unrecognised financial assets					
Letters of credit and bankers' acceptances	2 350				
Financial guarantees	2 401 008				
Unutilised borrowing facilities	4 262 314				
Total exposure to credit risk	36 547 137				

This instrument is with counterparty of the bank for longer than six months and no defaults were note in the past.

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 %
270 566	394 654	373 382	21 272	21 272	5.39	394 654	4.51
30 668	66 457	18 213	48 244	48 244	72.59	66 457	1.93
959	5 399		5 399	5 399	100.00	5 399	2.47
53 807	86 133	55 513	30 620	30 620	35.55	86 133	0.85
356 000	552 643	447 108	105 535	105 535	19.10	552 643	2.45

Credit impairment losses on loans and advances

Loans and advances are assessed for possible impairment at each reporting date. Before impairments are allocated to individual loans, consideration is first given to whether there is evidence of a decrease in expected cash flows from a portfolio of loans and advances. This will include estimations of the emergence period between the date of the occurrence of the loss event and the identification of that loss. Portfolio impairments are calculated for both performing and non-performing but not specifically impaired loans. Factors such as national- and industry-specific economic conditions, the extent of early arrears and any legislation that could affect recovery, are all considered when calculating the portfolio impairment charge.

For those non-performing loans (NPL) where there is objective evidence of default, specific impairments are calculated using methodologies that include inputs such as segmentation, modelled expected loss (EL) and PD. Estimates of future cash flows on individually impaired loans are based on historical loss experience for similar loans.

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
2018				
Mortgage loans	**2 051 241**	**268 586**	**88 056**	**2 407 883**
Instalment sale and finance leases	**243 888**	**70 072**	**13 137**	**327 097**
Card debtors	**7 853**	**5 101**	**1 796**	**14 750**
Other loans and advances	**404 849**	**44 720**	**15 917**	**465 486**
Total	**2 707 831**	**388 479**	**118 906**	**3 215 216**
2017				
Mortgage loans	256 486	296 863	69 253	622 602
Instalment sale and finance leases	129 875	30 689	9 702	170 266
Card debtors	7 831	10 178	1 950	19 959
Other loans and advances	47 407	26 542	12 868	86 817
Total	441 599	364 272	93 773	899 644

Concentration risk

Concentration risk is the risk of loss arising from an excessive concentration of exposure to a single counterparty, an industry, a product, a geography, maturity, or collateral. The company's credit risk portfolio is well-diversified. The company's management approach relies on the reporting of concentration risk along key dimensions, the setting of portfolio limits and stress testing.

SEGMENTAL ANALYSIS OF GROSS LOANS AND ADVANCES

	2018 N$'000	2017 N$'000
Agriculture	**713 394**	578 987
Construction	**190 070**	419 352
Electricity	**858 536**	3 121 890
Finance, real estate and other business services	**3 280 941**	3 551 961
Individuals	**14 927 614**	12 731 979
Manufacturing	**420 257**	390 579
Mining	**916 960**	887 294
Other services	**1 154 347**	412 433
Transport	**103 159**	211 716
Wholesale	**138 664**	205 117
	22 703 942	22 511 308

All loans are recorded in Namibia.

SEGMENTAL ANALYSIS OF STAGE 3 IMPAIRMENTS1

	2018 N$'000	23/3/1955 N$'000
Agriculture	**(4 730)**	(1 241)
Construction	**(722)**	(956)
Electricity	**(532)**	(1 590)
Finance, real estate and other business services	**(6 208)**	(2 215)
Individuals	**(169 154)**	(91 921)
Manufacturing	**(463)**	(1 184)
Mining	**(7)**	(163)
Other services	**(30 708)**	(3 000)
Transport	**(3 480)**	(789)
Wholesale	**(4 687)**	(2 476)
Stage 3 impairments (IFRS 9)/Specific impairments (IAS 39) (note 5.3)[1]	**(220 691)**	(105 535)

[1] The company has, as permitted by IFRS 9, elected not to restate their comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on IAS 39 basis.

All impairments relate to loans that are recorded in Namibia.

Renogotiated 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.

	2018	2017
Loans renegotiated (million)	**303**	298
Mortgage lending (percentage)	**48**	53

Loans renegotiated in 2018 that would otherwise be past due or impaired comprised N$303 million (2017: N$298 million) and are included in Stage 1 under IFRS 9. Renegotiated loans that have arisen from secured lending predominantly comprise mortgage lending amounting to 48% (2017: mortgage loans 53%) of this amount. Renegotiated loans are deemed to have cured after 6 months.

Collateral

The table on the following page shows the financial effect that collateral has on the company's maximum exposure to credit risk. The table is presented according to Basel asset categories and includes collateral that may not be eligible for recognition under Basel but that management takes into consideration in the management of the company's exposures to credit risk. All on- and off-balance sheet exposures that are exposed to credit risk, including NPL, 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 company's collateral. All exposures are presented before the effect of any impairment provisions.

Of the company's total exposure, 2018: 10% (2017: 12%) is unsecured and mainly reflects short-term exposures to individuals.

	Total exposure N$'000	Unsecured N$'000	Secured exposure N$'000	Collateral coverage – Total collateral 1% – 50% N$'000	Collateral coverage – Total collateral 51% – 100% N$'000
2018					
Mortgage loans	10 158 012		10 158 012		9 284 423
Instalment sale and finance leases	3 273 117		3 273 117		1 875 496
Card debtors	219 398	219 398			
Other loans and advances	9 053 415	2 599 902	6 453 513	1 368 145	
Derivative assets	33 237		33 237		33 237
Unrecognised financial assets	6 134 865		6 134 865		6 134 865
Letters of credit and bankers' acceptances	4 241		4 241		4 241
Financial guarantees	2 168 011		2 168 011		2 168 011
Unutilised borrowing facilities	3 962 613		3 962 613		3 962 613
Total	28 872 044	2 819 300	26 052 744	1 368 145	17 328 021
Add: Financial assets not exposed to credit risk	6 368 860				
Add: Interest in financial instruments of group companies	2 095 902				
Less: Impairments for loans and advances	(466 734)				
Less: Unrecognised off-balance sheet items	(6 134 865)				
Total exposure	30 735 207				
Reconciliation to Statement of Financial Position					
Cash and balances with central banks	1 546 355				
Derivative assets	33 237				
Trading assets	129 801				
Financial investments	4 386 995				
Loans and advances	22 237 208				
Assets in group companies and joint ventures	2 095 902				
Other financial assets	305 709				
Total exposure	30 735 207				

	Total exposure N$'000	Unsecured N$'000	Secured exposure N$'000	Collateral coverage 51% – 100% N$'000
2017				
Mortgage loans	8 744 805		8 744 805	8 744 805
Instalment sale and finance leases	3 438 402		3 438 402	3 438 402
Card debtors	218 288	218 288		
Other loans and advances	10 109 813	2 896 975	7 212 838	7 212 838
Derivative assets	64 198		64 198	64 198
Unrecognised financial assets	6 665 672		6 665 672	6 665 672
Letters of credit and bankers' acceptances	2 350		2 350	2 350
Financial guarantees	2 401 008		2 401 008	2 401 008
Unutilised borrowing facilities	4 262 314		4 262 314	4 262 314
Total	29 241 178	3 115 263	26 125 915	26 125 915
Add: Financial assets not exposed to credit risk	6 814 929			
Add: Interest in financial instruments of group companies	642 373			
Less: Impairments for loans and advances	(151 343)			
Less: Unrecognised off-balance sheet items	(6 665 672)			
Total exposure	29 881 465			
Reconciliation to balance sheet				
Cash and balances with central banks	1 357 935			
Derivative assets	64 198			
Trading assets	430 186			
Financial investments	3 335 106			
Loans and advances	22 359 965			
Assets in group companies and joint ventures	642 373			
Other financial assets	1 691 704			
Total exposure	29 881 465			

LIQUIDITY RISK

Introduction

The nature of banking and trading gives rise to continuous exposure to liquidity risk. The company'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 company'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 company:

- Market liquidity risk: The risk that the company 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 company will not be able to effectively meet both expected and unexpected current and future cash flow and collateral requirements without negatively affecting the company'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 company's stated risk appetite. This ensures that a comprehensive and consistent governance framework for liquidity risk management is followed across the company. The company has an asset and liability committee (ALCO) responsible for ensuring compliance with liquidity risk policies.

Liquidity and funding management

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

As part of a comprehensive liquidity management process, the company 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 the 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 company'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 company'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

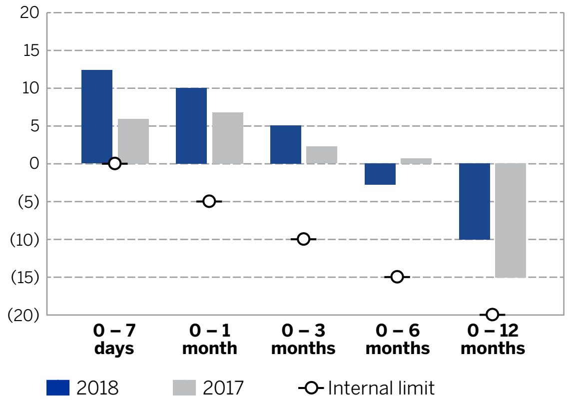
Structural requirements

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 company's defined liquidity risk thresholds.

The graph that follows shows the company'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 company'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 company 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
2018						
Liabilities						
Derivative liabilities			25 714			25 714
Trading liabilities	980					980
Deposits and current accounts	16 274 756	487 864	4 484 706	2 022 421	2 606 701	25 876 447
Loans from group companies	100 625	2 640	56 304	58 469	1 273 784	1 491 822
Debt issued securities				109 864	1 842 745	1 952 609
Deferred taxation liability						
Provisions and Others liabilities	576 803					576 803
	16 953 164	490 504	4 566 723	2 190 754	5 723 230	29 924 376
Unrecognised financial instruments						
Letters of credit and bankers' acceptances	218		2 438		1 585	4 241
Financial guarantees	494 663		8 130		1 665 218	2 168 011
Unutilised borrowing facilities	3 962 613					3 962 613
	4 457 494	0	10 568	0	1 666 803	6 134 865

	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
2017						
Liabilities						
Derivative liabilities		17 677	39 298	1 304		58 279
Trading liabilities			92			92
Deposits and current accounts	15 442 959	577 179	5 362 788	2 443 968	1 350 778	25 177 672
Loans from group companies	1 536 248					1 536 248
Debt issued securities				248 565	1 146 750	1 395 316
Deferred taxation liability	41 745					41 745
Provisions and Others liabilities	521 450					521 450
	17 542 402	594 856	5 402 178	2 693 837	2 497 529	28 730 802
Unrecognised financial instruments						
Letters of credit and bankers' acceptances		345	2 005			2 350
Financial guarantees	37 574	110 358	91 219	890 029	1 271 828	2 401 008
Unutilised borrowing facilities	3 426 489	71 114	207 027	205 377	352 308	4 262 314
	3 464 063	181 817	300 251	1 095 406	1 624 136	6 665 672

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 company funding strategies are executed depending on the market, competitive and regulatory environment. The company 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 company.

Concentration risk limits are used within the company 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 company remains committed to increasing its core deposits and accessing domestic and foreign capital markets when appropriate to meet its anticipated funding requirements.

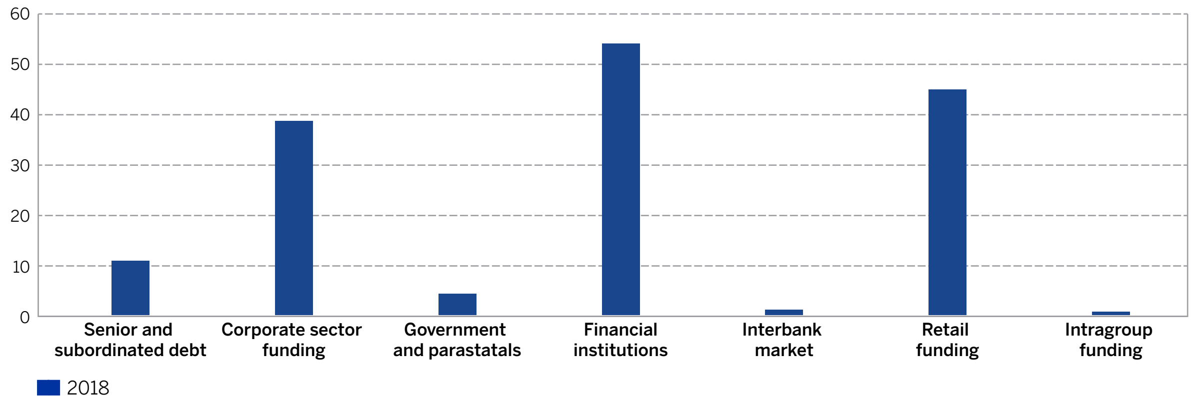
DEPOSITOR CONCENTRATIONS – NAMIBIA

	2018 %	2017 %
Top 10 depositors	**3.19**	16.68
Single depositor	**16.20**	4.07

FUNDING-RELATED LIABILITIES COMPOSITION

	2018 N$bn	2017 N$bn
Corporate and financial institutions' funding	**15.4**	12.3
Government and parastatals	**0.7**	1.4
Interbank funding	**0.3**	0.8
Retail deposits	**7.4**	7.7
Senior and subordinated debt	**1.8**	1.3
Total funding-related liabilities	**25.6**	23.5

Funding-related liabilities composition (%)

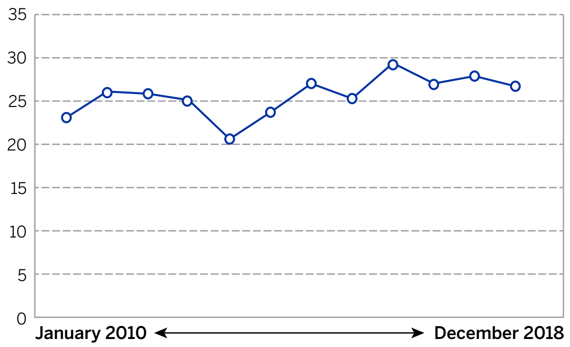


Structural mismatch limits and guidelines

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 company's long-term funding ratio for the period 1 January 2018 to 31 December 2018. The company's long-term funding ratio was 27.29% (2017: 23.40%).

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 company'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 company'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 company's liquid marketable securities and foreign currency placements as at 31 December 2017 compared to the 31 December 2016 closing position. These portfolios are highly liquid and can be readily sold to meet liquidity requirements.

TOTAL LIQUIDITY

	2018 N$bn	2017 N$bn
Total marketable assets	**8.06**	4.88
Prudential requirements	**3.03**	2.92
Total liquidity (in excess of prudential requirements)	**5.03**	1.96

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 company regulatory and prudential requirements.

MARKET RISK

Introduction

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

- Market risk in the trading book: These risks result from the trading activities of the company where the primary focus is client facilitation in chosen markets. All trading activities are carried out within the company'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 company's primary exposures to foreign currency risk arise as a result of fluctuations in the value of the base currency against the foreign currency in which the company has assets or obligations.

Organisational structure and governance

ALCO and the board review and set the market risk governance standard annually in accordance with the company'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 company 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.

VaR

The company 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 company 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.
- 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 company 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 company's profit. The daily losses experienced during the year ended 31 December 2017 were within the stress loss scenarios.

Backtesting

The company 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 company's approved models were assigned green status for the year ended 31 December 2017.

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 company's approach to managing interest rate risk is governed by applicable laws and regulations, and is guided by the competitive environment in which the company 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 company'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.

Interest rate risk

The summary provides additional detail on financial instrument assets and liabilities and their specific interest rate exposure.

Due to practical considerations, interest rate risk details contained in investments in non-subsidiary mutual funds and investment policies are not provided.

Accounts receivable and account payable, where settlement is expected within 90 days, are not included in the analysis. The effect of interest rate rise on these balances is not considered significant given the short-term duration of the underlying cash flow.

INTEREST RATE EXPOSURE

Net interest income sensitivity

Assuming no management intervention, a parallel 100 (2017: 100) basis point increase in all yield curves would increase the forecast net interest income for the next year by N$ 66.5 million (2017: N$ 71.2 million), while a parallel decrease in all yield curves would decrease the forecast income by N$ 67.1 million (2017: N$ 75.2 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 company before taxation is N$2 866 thousand (2017: N$1 114 thousand). Offsets to this sensitivity include changes in foreign currency rates as applied to the company's net assets in foreign countries.

FOREIGN CURRENCY RISK SENSITIVITY IN N$ EQUIVALENTS

		USD	Eur	GBP	Other	Total
2018						
Total net long/(short) position	N$'000	**14 411**	**5 359**	**4**	**2 508**	
Sensitivity	%	**5**	**5**	**5**	**5**	
Impact on profit or loss	N$'000	**721**	**268**		**125**	**1 114**
Total net long/(short) position	N$'000	**14 411**	**5 359**	**4**	**2 508**	
Sensitivity	%	**(5)**	**(5)**	**(5)**	**(5)**	
Impact on profit or loss	N$'000	**(721)**	**(268)**	**—**	**(125)**	**(1 114)**
2017						
Total net long/(short) position	N$'000	14 411	5 359	4	2 508	
Sensitivity	%	5	5	5	5	
Impact on profit or loss	N$'000	721	268		125	1 114
Total net long/(short) position	N$'000	14 411	5 359	4	2 508	
Sensitivity	%	(5)	(5)	(5)	(5)	
Impact on profit or loss	N$'000	(721)	(268)	—	(125)	(1 114)

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 company'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 company's risk tolerance, while maximising their operational performance and efficiency.

Framework

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

The framework sets out a structured and consistent approach for managing operational risk across the company. The risk management approach involves identifying, assessing, measuring, managing, mitigating, and monitoring the risks associated with operations, enabling comprehensive analysis and reporting of the company'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 company 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 company 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 company'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 company are consolidated within a central company 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 company 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 company enabling functions' management of their operational risk profile.
- A central function, based at a company level, provides companywide 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 company head of risk and includes representation from company specialist functions and business units. ORCC is also responsible for approving companywide 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 company'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 company 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 company 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 company'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 company tax policy, the company 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 company may have in relation to company taxes, personal taxes, indirect taxes and tax administration.

Compliance with this policy is aimed at ensuring that the company pays neither more nor less tax than tax law requires. The company continually reviews its existing and planned operations in this regard and ensures that, where clients participate in company 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 company 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 company.

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 company activities and may also include others acting on behalf of the company.

Legal risk arises where:

- the company'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 company may be liable for damages to third parties
- contractual obligations may be enforced against the company 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 company has processes and controls in place to manage its legal risk. Failure to manage these risks effectively could result in legal proceedings impacting the company 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 company 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 company'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 company risk type methodologies. company 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 compliance has unrestricted access to the chief executive and to the chairman of the BAC, thereby ensuring the function's independence.

The company'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 company.

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 company. The company 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 company.

Regulatory change

The company 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 company operates in a highly regulated industry across multiple jurisdictions, including the need to comply with legislation with extra-territorial reach. The company's regulator is the Bank of Namibia (BON). BON supervises both the company 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 company 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 company's material issues are companyed into six broad categories which form the basis of engagement on sustainability issues with the company 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 company 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 company 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 company'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 company.

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 company 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 company will not condone any instance of financial crime and where these instances arise, the company 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 company's financial crime control unit is mandated by the BAC to provide capabilities which minimise the overall impact of financial crime on the company. This ensures the safety of our people and assets, and builds trust with our stakeholders.

The company's financial crime control function reports to the head of risk. This function enables a holistic view of the status and landscape of financial crime prevention, detection and response, including emerging threats. The company 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. company 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
- company-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 company.

The company 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 company's control.
- The profitability of product lines and customer segments is consistently monitored.
- Tight control is maintained over the company'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 company 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 company's future business plans and strategies may be inadequate to prevent financial loss or protect the company's competitive position and shareholder returns.

The company'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 company's earnings that arises from the requirement to contribute as an employer to an under-funded 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 company operates a defined contribution plan. The company 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 32 starting on page 44.

Reputational risk

Reputational risk results from damage to the company'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 company'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 company will be reported to the company head of governance and assurance who, if required, will escalate these matters to exco.

Should a risk event occur, the company'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 company's perspective is fairly represented in the media.

Annexure D

Emoluments of directors

	2018 N$'000	2017 N$'000
Executive directors	**9 296**	8 889
Non-executive directors	**2 771**	2 709
	12 067	11 598

Annexure E – detailed accounting policies

The following accounting policies were applied in the preparation of the company financial statements, a copy of the full set of accounting policies is available at the company's registered office.

Basis of consolidation

These financial statements are the separate financial statements of Standard Bank Namibia. The Company is exempted from the preparation of consolidated financial statements as the Company is a wholly-owned subsidiary of SBN Holdings Limited, a Namibia-incorporated company which produces consolidated financial statements available for public use.

Subsidiaries

Separate financial statements

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 or value in use.

Foreign currency translations

Group companies

The results and financial position of foreign operations that have a functional currency that is different from the company's presentation currency are translated into the company'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
- all resulting foreign exchange differences are accounted for directly in a separate component of OCI, being the company's FCTR.

Transactions and balances

Foreign currency transactions are translated into the respective company entities' functional currencies at exchange rates prevailing at the date of the transactions (in certain instances a rate that approximates the actual rate at the date of the transaction is utilised, for example an average rate for a month). 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 Foreign currency translations.

Group companies

The results and financial position of foreign operations that have a functional currency that is different from the company's presentation currency are translated into the company'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
- all resulting foreign exchange differences are accounted for directly in a separate component of OCI, being the company's FCTR.

Transactions and balances

Foreign currency transactions are translated into the respective company entities' functional currencies at exchange rates prevailing at the date of the transactions (in certain instances a rate that approximates the actual rate at the date of the transaction is utilised, for example an average rate for a month). 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 fair value through OCI are recognised in the fair value through OCI reserve in OCI (trading revenue) whereas the exchange differences on equities (debt) that are classified as held at fair value through profit or loss are reported as part of the other revenue (trading revenue). [IFRS 9]

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 (interest income) whereas the exchange differences on equities (debt) that are classified as held at fair value through profit or loss are reported as part of the other revenue (interest income). [IAS 39]

Foreign currency gains and losses on intracompany 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 company's FCTR.

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 fair value through OCI are recognised in the fair value through OCI reserve in OCI (trading revenue) whereas the exchange differences on equities (debt) that are classified as held at fair value through profit or loss are reported as part of the other revenue (trading revenue). [IFRS 9]

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 (interest income) whereas the exchange differences on equities (debt) that are classified as held at fair value through profit or loss are reported as part of the other revenue (interest income). [IAS 39]

Foreign currency gains and losses on intracompany 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 company's FCTR.

Financial instruments

Initial measurement – financial instruments (IFRS 9 and IAS 39)

All financial instruments are measured initially at fair value plus directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss where such transaction costs and fees are immediately recognised in profit or loss. Financial instruments are recognised (derecognised) on the date the company commits to purchase (sell) the instruments (trade date accounting).

IFRS 9 – accounting policies for financial instruments

Financial assets

Nature

Amortised cost	**A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss):** • Held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows; and • The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss – default.
Fair value through OCI	**Includes:** • A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): • Held within a business model in which the debt instrument (financial asset) is managed to both collect contractual cash flows and sell financial assets; and The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss – default. Equity financial assets which are not held for trading and are irrevocably elected (on an instrument-by-instrument basis) to be presented at fair value through OCI.
Held for trading	Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets) and those that form 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. Included are commodities that are acquired principally for the purpose of selling in the near future or generating a profit from fluctuations in price or broker-trader margin.
Designated at fair value through profit or loss	Financial assets are designated to be measured at fair value to eliminate or significantly reduce an accounting mismatch that would otherwise arise.
Fair value through profit or loss – default	Financial assets that are not classified into one of the above mentioned financial asset categories.

Subsequent measurement

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortised cost or fair value as follows:

Amortised cost	Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.
Fair value through OCI	Debt instrument: Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When a debt financial asset is disposed of, the cumulative fair value adjustments, previously recognised in OCI, are reclassified to the other gains and losses on financial instruments within non-interest revenue. Interest income on a debt financial asset is recognised in interest income in terms of the effective interest rate method. Dividends received are recognised in interest income within profit or loss. Equity instrument: Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When equity financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified within reserves to retained income. Dividends received on equity instruments are recognised in other revenue within non-interest income.
Held for trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value gains and losses (including interest and dividends) on the financial asset are recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.
Fair value through profit or loss – default	Fair value gains and losses (including interest and dividends) on the financial asset are recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.

Impairment

ECL is recognised on debt financial assets classified as at either amortised cost or fair value through OCI, financial guarantee contracts that are not designated at fair value through profit or loss as well as loan commitments that are neither measured at fair value through profit or loss nor are used to provide a loan at a below market interest rate.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a SICR at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The measurement basis of the ECL, which is set out in the table that follows, is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR.
Stage 2	A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.
Stage 3 (credit impaired assets)	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: default significant financial difficulty of borrower and/or modification probability of bankruptcy or financial reorganisation disappearance of an active market due to financial difficulties.

The key components of the impairment methodology are described as follows:

Significant increase in credit risk	At each reporting date the company assesses whether the credit risk of its exposures has increased significantly since initial recognition by considering the change in the risk of default occurring over the expected life of the financial asset. Credit risk of exposures which are overdue for more than 30 days are also considered to have increased significantly.
Low credit risk	Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure's ability to fulfil its contractual obligations.
Default	The company's definition of default has been aligned to its internal credit risk management definitions and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or companys of financial assets: • significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower) • a breach of contract, such as default or delinquency in interest and/or principal payments • disappearance of active market due to financial difficulties • it becomes probable that the borrower will enter bankruptcy or other financial reorganisation • where the company, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the company would not otherwise consider. Exposures which are overdue for more than 90 days are also considered to be in default.
Forward-looking information	Forward-looking information is incorporated into the company's impairment methodology calculations and in the company's assessment of SICR. The company includes all forward looking information which is reasonable and available without undue cost or effort. The information will typically include expected macro-economic conditions and factors that are expected to impact portfolios or individual counterparty exposures.
Write-off	Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.

ECLs are recognised within the statement of financial position as follows:

Financial assets measured at amortised cost (including loan commitments)	Recognised as a deduction from the gross carrying amount of the asset (company of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (company of assets), the excess is recognised as a provision within other liabilities.
Off-balance sheet exposures (excluding loan commitments)	Recognised as a provision within other liabilities.
Financial assets measured at fair value through OCI	Recognised in the fair value reserve within equity. The carrying value of the financial asset is recognised in the statement of financial position at fair value.

Reclassification

Reclassifications of debt financial as sets are permitted when, and only when, the company changes it s business model f or managing financial assets, in which case all affected financial assets are reclassified. Reclassifications are accounted for prospectively from the date of reclassification as follows:

- Financial assets that are reclassified from amortised cost to fair value are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in other gains and losses on financial instruments
- The fair value of a financial asset that is reclassified from fair value to amortised cost becomes the financial asset's new carrying value
- Financial assets that are reclassified from amortised cost to fair value through OCI are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in OCI
- The fair value of a financial asset that is reclassified from fair value through OCI to amortised cost becomes the financial asset's new carrying value with the cumulative fair value adjustment recognised in OCI being recognised against the new carrying value
- The carrying value of financial assets that are reclassified from fair value through profit or loss to fair value through OCI remains at fair value
- The carrying value of financial assets that are reclassified from fair value through OCI to fair value through profit or loss remains at fair value, with the cumulative fair value adjustment in OCI being recognised in the income statement at the date of reclassification.

Financial liabilities

Nature

Held-for-trading	Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form 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.
Designated at **fair value through profit or loss**	Financial liabilities are designated to be measured at fair value in the following instances: • To eliminate or significantly reduce an accounting mismatch that would otherwise arise where the financial liabilities are managed and their performance evaluated and reported on a fair value basis • Where the financial liability contains one or more embedded derivatives that significantly modify the financial liabilty's cash flows.
Amortised cost	All other financial liabilities not included in the above categories.

Subsequent measurement

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-for-trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at **fair value through profit or loss**	Fair value, with gains and losses arising from changes in fair value (including interest and dividends but excluding fair value gains and losses attributable to own credit risk) are recognised in the other gains and losses on financial instruments as part of non-interest revenue. Fair value gains and losses attributable to changes in own credit risk are recognised within OCI, unless this would create or enlarge an accounting mismatch in which case the own credit risk changes are recognised within trading revenue.
Amortised cost	Amortised cost using the effective interest method recognised in interest expense.

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised in the following instances:

	Derecognition	Modification
Financial assets	Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the company 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 the transferred financial assets that is created or retained by the company is recognised as a separate asset or liability. The company 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 company 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 company 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.	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 at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes. If the terms are not substantially different for financial assets or financial liabilities, the company recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).
Financial liabilities	Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.	

Financial guarantee contracts

A financial guarantee contract is a contract that requires the company (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. Financial guarantee contracts (that are not designated at fair value through profit or loss) are subsequently measured at the higher of the:

- ECL calculated for the financial guarantee
- unamortised premium.

IAS 39 – Accounting Policies for financial instruments

Financial assets

Nature

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intent and ability to hold-to-maturity.

Loans and receivables

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

Held-for-trading

Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets), those that form 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.

Included are commodities that are acquired principally for the purpose of selling in the near future or generating a profit from fluctuations in price or broker-traders' margin.

Designated at fair value through profit or loss

Financial assets are designated to be measured at fair value in the following instances:

- to eliminate or significantly reduce an accounting mismatch that would otherwise arise
- where the financial assets are managed and their performance evaluated and reported on a fair value basis
- where the financial asset contains one or more embedded derivatives that significantly modify the financial asset's cash flows.

Available-for-sale

Financial assets that are not classified into one of the abovementioned financial asset categories.

Subsequent measurement

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-to-maturity and loans and receivables

Amortised cost using the effective interest method with interest recognised in interest income, less any impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.

Available-for-sale

Fair value, with gains and losses recognised directly in the available-for-sale reserve until the financial asset is derecognised or impaired.

Interest income on debt financial assets is recognised in interest income in terms of the effective interest rate method. Dividends received on debt (equity) available-for-sale financial assets are recognised in interest income (other revenue) within profit or loss.

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).

Held-for-trading

Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.

Designated at fair value through profit or loss

Fair value, with gains and losses recognised in interest income/(other revenue) for all debt/(equity) financial assets.

Impairment

A financial asset is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the financial asset that can be estimated reliably. The company assesses at each reporting date whether there is objective evidence that a financial asset which is either carried at amortised cost or classified as available-for-sale is impaired as follows:

Held-to-maturity and loans and receivables ('amortised cost')

The following criteria are used in determining whether there is objective evidence of impairment for loans or companys of loans:

- 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 becomes probable that the borrower will enter bankruptcy or other financial reorganisation
- where the company, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the company would not otherwise consider.

The company 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 there is identified objective evidence of impairment, 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.

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

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 company determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a company 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 companys 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 company of loans but before the reporting date. In order to provide for latent losses in a company 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 event and the date on which the company identifies the losses). companys of loans are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows. The carrying amount of companys 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.

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.

Available-for-sale

Available-for-sale debt instruments are impaired when there has been a significant or prolonged decline in the fair value of the instrument below its cost and for equity instruments where there is information about significant changes with an adverse effect on the environment in which the issuer operates that indicates that the cost of the investment in the equity instrument may not be recovered.

When an available-for-sale asset has been identified as impaired, 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, within interest income (other revenue) for debt (equity) instruments. 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, the impairment loss is reversed through interest income 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.

Reclassification of financial assets are permitted only in the following instances:

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 changes in estimates of cash flows (other than credit impairment changes) 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.

Held-to-maturity

Where the company is to sell more than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale assets with the difference between amortised cost and fair value being accounted for in OCI.

Available-for-sale

The company may choose to reclassify financial assets that would meet the definition of loans and receivables if the company, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Held-for-trading

The company may elect to reclassify non-derivative financial assets out of held-for-trading category in the following instances:

if the financial asset is no longer held for the purpose of selling it in the near term and the financial asset would not otherwise have met the definition of loans and receivables, it is permitted to be reclassified only in rare circumstances if the financial asset is no longer held for the purpose of selling it in the near team and the financial asset would have met the definition of loans and receivables, it is permitted to be reclassified if the company, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Financial liabilities

Nature

Held-for-trading

Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form 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.

Designated at fair value through profit or loss

Financial liabilities are designated to be measured at fair value in the following instances:

- to eliminate or significantly reduce an accounting mismatch that would otherwise arise
- where the financial liabilities are managed and their performance evaluated and reported on a fair value basis
- where the financial liability contains one or more embedded derivatives that significantly modify the financial asset's cash flows.

At amortised cost

All other financial liabilities not included in the above categories.

Subsequent measurement

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-for-trading

Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.

Designated at fair value through profit or loss

Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in interest expense.

Amortised cost

Amortised cost using the effective interest method with interest recognised in interest expense.

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised in the following instances:

	Derecognition	Modification
Financial assets	Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the company 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 the transferred financial assets that is created or retained by the company is recognised as a separate asset or liability. The company 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 company 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 company 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.	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 at date of modification taking into account the renegotiated terms.
Financial liabilities	Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.	

Financial guarantee contracts

A financial guarantee contract is a contract that requires the company (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. Financial guarantee contracts are subsequently measured at the higher of the:

- Present value of any expected payment, when a payment under the guarantee has become probable
- Unamortised premium.

Other (IFRS 9 and IAS 39)

Sale and repurchase agreements and lending of securities (including commodities)

Securities sold subject to linked repurchase agreements (repurchase agreements) are reclassified in the statement of financial position as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The liability to the counterparty is included under deposit and current accounts or trading liabilities, as appropriate.

Securities purchased under agreements to resell (reverse repurchase agreements), at either a fixed price or the purchase price plus a lender's rate of return, are recorded as loans and included under trading assets or loans and advances, as appropriate. For repurchase and reverse repurchase agreements measured at amortised cost, the difference between the purchase and sales price is treated as interest and amortised over the expected life using the effective interest method.

Securities lent to counterparties are retained in the annual financial statements. Securities borrowed are not recognised in the annual financial statements unless sold to third parties. In these cases, the obligation to return the securities borrowed is recorded at fair value as a trading liability. Income and expenses arising from the securities borrowing and lending business are recognised over the period of the transactions.

Offsetting (IFRS 9 and IAS 39)

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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the counterparties to the transaction.

Interest in associates and joint arrangements

Associates and joint ventures

Associates and joint ventures are initially measured at cost and subsequently accounted for using the equity method at an amount that reflects the company's share of the net assets of the associate or joint venture (including goodwill).

Equity accounting is applied from the date on which the entity becomes an associate or joint venture up to the date on which the company ceases to have significant influence or joint control.

Equity accounting of losses is restricted to the interests in these entities, including unsecured receivables or other commitments, unless the company has an obligation or has made payments on behalf of the associate or joint ventures.

Unrealised profits from transactions are eliminated in determining the company'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).

Where there is an indicator of impairment the carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying amount.

Impairment losses are recognised through non-trading and capital related items. 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, but only to the extent that the investment's carrying amount does not exceed the carrying amount that would have been determined, net of equity accounted losses, if no impairment loss had been recognised.

For a disposal of an associate or joint venture, being where the company loses significant influence over an associate or loses joint control over a joint venture, the difference between the sales proceeds and any retained interest and the carrying value of the equity accounted investment is recognised as a gain or loss in non-trading and capital related items. Any gains or losses in OCI reserves that relate to the associate or joint venture are reclassified to non-trading and capital related items at the time of the disposal.

The accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies of the company.

Private equity and venture capital investments

Private equity and venture capital investments, including mutual funds held by investment-linked insurance funds that are associates. These associates are either designated on initial recognition at fair value through profit or loss, or are equity accounted.

Joint operations

The following is recognised for joint operations:

- assets it controls, including its share of assets jointly controlled
- liabilities, including its share of liabilities incurred jointly
- revenue from the sale of its share of output and from the sale of the output by a joint operation
- expenses, including the share of expenses incurred jointly.

Individual assets are individually assessed for impairment and, where applicable, are impaired to the higher of the fair value less cost to sell and the asset's value in use.

Property developments and properties in possession

Property developments

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.

Properties in possession

Properties in possession are properties acquired by the company which were previously held as collateral for underlying lending arrangements that, subsequent to origination, have defaulted. 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.

Non-financial assets

Type and initial and subsequent measurement	Useful lives, depreciation/amortisation method or fair value basis	Impairment
Tangible assets (property, equipment and land) Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Land is measured at cost less accumulative impairment losses. 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 company and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised in operating expenses as incurred. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate major components of property and equipment.	Property and equipment are depreciated on the straight-line basis over estimated useful lives (see below) of the assets to their residual values. Land is not depreciated. Buildings 40 years Computer equipment 3 – 5 years Motor vehicles 4 – 5 years Office equipment 5 – 10 years Furniture 5 – 13 years **Leased assets** **Shorter of useful life or lease term** The residual values, useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year end.	These 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 non-trading and capital related items for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is determined as 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 companyed at the lowest CGUs. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. The carrying amount of these other assets may, however, not be reduced below the higher of the CGU's fair value less costs to sell and its value in use. 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 non-trading and capital related items 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.

Type and initial and subsequent measurement	Useful lives, depreciation/amortisation method or fair value basis	Impairment
Goodwill Goodwill represents the excess of the consideration transferred and the acquisition date fair value of any previously held equity interest over the company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of the acquisition. The company's interest in acquired subsidiaries takes into account any non-controlling interest. Goodwill arising on the acquisition of subsidiaries (associates or joint ventures) is reported in the statement of financial position as part of 'Goodwill and other intangible assets' ('Interest in associates and joint ventures').	Not applicable.	The accounting treatment is generally the same as that for tangible assets except as noted below. Goodwill is tested annually for impairment and additionally when an indicator of impairment exists. An impairment loss in respect of goodwill is not reversed.
Computer software Costs associated with developing or maintaining computer software programmes and the acquisition of software licences are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the company and have a probable future economic benefit beyond one year, are recognised as intangible assets. 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 computer 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 at rates appropriate to the expected lives of the assets (two to 15 years) from the date that the asset is available for use. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary.	Intangible assets that have an indefinite useful life are tested annually for impairment and additionally when an indicator of impairment exists. The accounting treatment for computer software and other intangible assets is otherwise the same as for tangible assets.
Other intangible assets The company recognises the costs incurred on internally generated intangible assets such as brands, customer lists, customer contracts and similar rights and assets, in operating expenses as incurred. The company capitalises brands, customer lists, customer contracts, distribution forces and similar rights acquired in business combinations. Capitalised intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses.	Amortisation is recognised in operating expenses on a straight-line basis over the estimated useful lives of the intangible assets, not exceeding 20 years, from the date that the asset is available for use. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary.	
Derecognition Non-financial assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on derecognition is recognised in profit or loss and is determined as the difference between the net disposal proceeds and the carrying amount of the non-financial asset.		

<table>
<tr><th>Type and initial and subsequent measurement</th><th>Useful lives, depreciation/amortisation method or fair value basis</th><th>Impairment</th></tr>
<tr><td>Investment property
Initially measured at cost, including
• transaction costs.
• Subsequently measured at fair value and included as part of investment management and service fee income and gains within the profit or loss.</td><td>The fair value is based on valuation information at the reporting date.
If the valuation information cannot be reliably determined, the company uses alternative valuation methods such as discounted cash flow projections or recent prices in active markets.
Fair value adjustments recognised in investment management and service fee income and gains are adjusted for any double-counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination.</td><td></td></tr>
<tr><td colspan="3">Derecognition
Investment property is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on derecognition is recognised in investment management and service fee income and gains and is determined as the difference between the net disposal proceeds and the carrying amount of the non-financial asset.
When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

When the use of a property changes such that it is reclassified from property and equipment to investment property, the difference between the carrying value at date of reclassification and its fair value is recognised in OCI.</td></tr>
</table>

Leases

Type and description	Statement of financial position	Income statement
Finance leases – lessee Leases, where the company assumes substantially all the risks and rewards incidental to ownership, are classified as finance leases.	The leased asset is 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 together with an associated liability to the lessor. Refer to non-financial assets accounting policy for the treatment of the leased asset. Lease payments less the interest component, which is calculated using the interest rate implicit in the lease or the company's incremental borrowing rate, are recognised as a capital repayment which reduces the liability to the lessor.	A lease finance cost, determined with reference to the interest rate implicit in the lease or the company's incremental borrowing rate, is recognised within interest expense over the lease period.
Finance leases – lessor Leases, where the company transfers substantially all the risks and rewards incidental to ownership, are classified as finance leases.	Finance lease receivable, including initial direct costs and fees, are primarily accounted for as financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances.	Finance charges earned within interest income are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. The tax benefits arising from investment allowances on assets leased to clients are accounted for within direct taxation.
Operating leases – lessee All leases that do not meet the criteria of a financial lease are classified as operating leases.	Accruals for unpaid lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease expense are recognised.	Payments made under operating leases, net of any incentives received from the lessor, are recognised in operating expenses 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 a penalty is recognised as operating expenses in the period in which termination takes place.
Operating leases – lessor All leases that do not meet the criteria of a financial lease are classified as operating leases.	The asset underlying the lease continues to be recognised and accounted for in terms of the relevant company accounting policies. Accruals for outstanding lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease income are recognised.	Operating lease income 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 and is recognised in operating expenses. When an operating lease is terminated before the lease period has expired, any payment required by the company by way of a penalty is recognised as income in the period in which termination takes place.

Provisions, contingent assets and contingent liabilities

Provisions

Provisions are recognised when the company 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. The company's provisions typically (when applicable) include the following:

Provisions for legal claims

Provisions for legal claims are recognised on a prudent basis for the estimated cost for all legal claims that have not been settled or reached conclusion at the reporting date. In determining the provision management considers the probability and likely settlement (if any). Reimbursements of expenditure to settle the provision are recognised when and only when it is virtually certain that the reimbursement will be received.

Provision for restructuring

A provision for restructuring is recognised when the company 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.

Provision for onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the company 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 company recognises any impairment loss on the assets associated with that contract.

Contingent assets

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 company, 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 company's control.

Contingent liabilities

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

Employee benefits

Type and description	Statement of financial position	Statement of other comprehensive income	Income statement
Defined contribution plans The company operates a number of defined contribution plans. See note 32 for more information.	Accruals are recognised for unpaid contributions.	No direct impact.	Contributions are recognised as an operating expense in the periods during which services are rendered by the employees.
Defined benefit plans The company operates a number of defined benefit retirement and postemployment medical aid plans. Employer companies contribute to the cost of benefits taking account of the recommendations of the actuaries. See note 32 for more information.	Assets or liabilities 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 net defined benefit asset is only recognised to the extent that economic benefits are available to the company from reductions in future contributions or future refunds from the plan.	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.	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). Other expenses related to the defined benefit plans are also recognised in operating expenses. 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 operating expenses. The company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.
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.	A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the company 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.	No direct impact.	Short-term employee benefit obligations are measured on an undiscounted basis and are expensed in operating expenses as the related service is provided.

Taxation

Type	Description, recognition and measurement	Offsetting
Direct taxation: current tax	Current tax is recognised in the direct taxation line in the income statement 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.	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.
Direct taxation: deferred tax	Deferred tax is recognised in direct taxation 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. 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 • investments in subsidiaries, associates and jointly controlled arrangements (excluding mutual funds) where the company 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. Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the company is unable to control the reversal of the temporary difference for associates unless there is an agreement in place that gives the company the ability to control the reversal of the temporary difference. Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.	
Indirect taxation	Indirect taxes, including non-recoverable value added tax (VAT), skills development levies and other duties for banking activities, are recognised in the indirect taxation line in the income statement.	Not applicable.
Dividend tax	Taxes on dividends declared by the company are recognised as part of the dividends paid within equity as dividend tax represents a tax on the shareholder and not the company. Dividends tax withheld by the company on dividends paid to its shareholders and payable at the reporting date to the South African Revenue Service (where applicable) is included in 'Other liabilities' in the statement of financial position.	Not applicable.

Fair value

In terms of IFRS, the company is either required to or elects to measure a number of its financial assets and financial liabilities at fair value. 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 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. 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. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at the measurement date.

Fair value hierarchy

The company's financial instruments that are both carried at fair value and for which fair value is disclosed are categorised by level of fair value hierarchy. The different levels are 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.

Hierarchy levels

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.

Hierarchy transfer policy

Transfers of financial assets and financial liabilities between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Inputs and valuation techniques

Fair value is measured based on quoted market prices or dealer price quotations for identical assets and liabilities that are traded in active markets, which can be accessed at the measurement date, and where those quoted prices represent fair value. If the market for an asset or liability is not active or the instrument is not quoted in an active market, the fair value is determined using other applicable valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. 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.

Fair value measurements are categorised into level 1, 2 or 3 within the fair value hierarchy 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.

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 company's valuation control framework governs internal control standards, methodologies, and procedures over its valuation processes, which include the following valuation techniques and main inputs and assumptions per type of instrument:

<table>
<tr><th>Item and description</th><th>Valuation technique</th><th>Main inputs and assumptions</th></tr>
<tr><td>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.</td><td>Standard derivative contracts are valued using market accepted models and quoted parameter inputs. More complex derivative contracts are modelled using more sophisticated modelling techniques applicable to the instrument. Techniques include:
• discounted cash flow model
• Black-Scholes model
• combination technique models.</td><td rowspan="4">For level 2 and 3 fair value hierarchy items:
• discount rate*
• spot prices of the underlying
• correlation factors
• volatilities
• dividend yields
• earnings yield
• valuation multiples.</td></tr>
<tr><td>Trading assets and trading liabilities
Trading assets and liabilities comprise instruments which are part of the company's underlying trading activities. These instruments primarily include sovereign and corporate debt, commodities, collateral, collateralised lending agreements and equity securities.</td><td rowspan="3">Where there are no recent market transactions in the specific instrument, 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 is determined by adjusting the proxy fair value for differences between the proxy instrument and the financial investment being fair valued. 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.</td></tr>
<tr><td>Pledged assets
Pledged assets comprise instruments that may be sold or repledged by the company's counterparty in the absence of default by the company. Pledged assets include sovereign and corporate debt, equities, commodities pledged in terms of repurchase agreements and commodities that have been leased to third parties.</td></tr>
<tr><td>Financial investments
Financial investments are non-trading financial assets and primarily comprise of sovereign and corporate debt, listed and unlisted equity instruments, investments in debentures issued by the SARB, investments in mutual fund investments and unit-linked investments.</td></tr>
</table>

Item and description	Valuation technique	Main inputs and assumptions
Loans and advances to banks and customers 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 (CDS) 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.	For level 2 and 3 fair value hierarchy items: discount rate*.
Deposits and debt funding 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. **Third-party financial liabilities arising on the consolidation of mutual funds (included in other liabilities)** These are liabilities that arise on the consolidation of mutual funds.	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 company'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. The credit risk of the reference asset in the embedded CDS in credit-linked deposits is incorporated into the fair value of all credit-linked deposits that are designated to be measured at fair value through profit or loss. For collateralised deposits that are designated to be measured at fair value through profit or loss, such as securities repurchase agreements, the credit enhancement is incorporated into the fair valuation of the liability.	

* Discount rates, where applicable, include the risk-free rate, risk premiums, liquidity spreads, credit risk (own and counterparty as appropriate), timing of settlement, storage/service costs, prepayment and surrender risk assumptions and recovery rates/loss given default.

Portfolio valuations

The company has elected the portfolio exception to measure the fair value of certain companys of financial assets and financial liabilities. This exception permits the company of financial assets and financial liabilities to be measured at fair value on a net basis, with the net fair value being allocated to the financial assets and financial liabilities.

Day one profit or loss

For financial instruments, where the fair value of the financial instrument differs from the transaction price, the difference is commonly referred to as day one profit or loss. Day one profit or loss is recognised in profit or loss immediately where the fair value of the financial instrument is either evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models with only observable market data as inputs.

Day one profit or loss is deferred where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models that utilise non-observable market data as inputs.

The timing of the recognition of deferred day one profit or loss is determined individually depending on the nature of the instrument and availability of market observable inputs. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Cost exception (IAS 39)

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.

Equity

Reacquired equity Instruments

Where subsidiaries purchase/(short sell) Standard Bank company Limited's equity instruments, the consideration paid/(received) is deducted/(added) from/(to) equity attributable to ordinary shareholders as treasury shares on consolidation.

Fair value changes recognised by subsidiaries on these instruments are reversed on consolidation and dividends received are eliminated against dividends paid. Where such shares are subsequently sold or reissued/(reacquired) outside the company, any consideration received/(paid) is included in equity attributable to ordinary shareholders.

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.

Dividends

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 to the annual financial statements.

Equity-linked transactions

Equity-settled share-based payments

The fair value of the equity-settled share-based payments are determined on grant date and accounted for within operating expenses – staff costs over the vesting period with a corresponding increase in the company's 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 operating expenses and share-based payment reserve over the remaining vesting period.

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

Cash-settled share-based payments

Cash-settled share-based payments are accounted for as liabilities at fair value until the date of settlement. The liability is recognised over the vesting period and is revalued at every reporting date up to and including the date of settlement. All changes in the fair value of the liability are recognised in operating expenses.

Revenue and expenditure

Description	Recognition and measurement
Net interest income	Interest income and expense (with the exception of borrowing costs that are capitalised on 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 recognised in net interest income using the effective interest method for all interest-bearing financial instruments. 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 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 adjusted 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. When a financial asset is classified as specifically impaired (before 1 January 2018) or as Stage 3 impaired (after 1 January 2018), interest income is calculated on the impaired value (gross carrying amount less specific impairment) based on the original effective interest rate The contractual interest income on the gross exposure is suspended and is only recognised in interest income (before 1 January 2018) and other interest (after 1 January 208) when the financial asset is no longer specifically impaired (before 1 January 2018) or is reclassified out of Stage 3 (after 1 January 2018). Dividends received on preference share investments classified as debt form part of the company's lending activities and are included in interest income. Before the adoption of IFRS 9 on 1 January 2018, the following additional amounts were recognised in net interest income: • Fair value gains and losses on debt financial assets that were designated at fair value through profit or loss • The gain or loss on the derecognition of a financial asset classified as available-for-sale • Gains and losses arising from the derecognition of financial assets and financial liabilities classified as at amortised cost. • Fair value gains and losses on financial liabilities (including changes as a result of own credit risk) that were designated at fair value through profit or loss.
Net fee and commission 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 company 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 to the income statement as interest income. The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract. Fee and commission expenses, 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 presented 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.

Description	Recognition and measurement
Dividend income	Dividends are recognised in interest income (other revenue) for debt (equity instruments) when the right to receipt is established. Scrip dividends are recognised as dividends received where the dividend declaration allows for a cash alternative.
Insurance premium revenue	Insurance premium revenue includes life insurance premiums, health insurance premiums and short-term insurance premiums.
Investment income	Investment income for investment management and life insurance activities comprises mainly rental income from properties, interest, hotel operations' sales and dividends. Dividends are recognised when the right to receive payment is established and interest income is recognised using the effective interest method. Hotel operation sales comprise the fair value of the sale of accommodation, food and beverage, other guest facilities and rentals received. Revenue is shown net of VAT, returns, rebates and discounts.
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.
Other gains/losses on financial instruments	After 1 January 2018, includes: • Fair value gains and losses on debt financial assets that are at fair value through profit or loss • The gain or loss on the derecognition of a debt financial asset classified as at fair value through OCI • Gains and losses arising from the derecognition of financial assets and financial liabilities classified as at amortised cost • Gains and losses arising from the reclassification of a financial asset from amortised cost to fair value • Gains and losses arising from the modification of a financial asset (which is not distressed) and financial liability as at amortised cost • Fair value gains and losses on designated financial liabilities.
Other revenue	Other revenue includes dividends on equity financial assets, underwriting profit from the company's short-term insurance operations and related insurance activities and re-measurement gains and losses from contingent consideration on disposals and purchases. Before 1 January 2018, gains and losses on equity instruments designated at fair value through profit or loss are recognised within other revenue. Gains and losses on equity instruments classified as available-for-sale financial assets are reclassified from OCI to other revenue on derecognition or impairment.
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 company and comprises the cash value of commission earned when premiums are payable directly to the underwriters.

Offsetting

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

Interest in suspense

In addition to the above identified changes between IAS 39 and IFRS 9, interest in suspense (refers to contractual interest which accrues on financial assets which are classified as non-performing) is presented as follows:

IAS 39 accounting treatment

Up to 31 December 2017, IAS 18 Revenue required interest income to be recognised only when it was probable that the economic benefits associated with a transaction would flow to the entity. The company, in line with these requirements, suspended the recognition of contractual interest income on all exposures where it was determined that future economic benefits were not probable. The accounting presentation policy for this suspended contractual interest was to present the balance sheet interest in suspense account as part of the gross carrying amount of the financial asset (i.e. gross carrying amount net of interest in suspense). In addition, upon the curing of the non-performing financial asset, the company elected an accounting presentation policy to recognise this suspended contractual interest (previously unrecognised interest) within net interest income line within the income statement. This policy was elected on the basis that the presentation best represented the nature of the amount in terms of IAS 1 Presentation of Financial Statements (IAS 1).

IFRS 9 accounting treatment

IFRS 9 requires that interest income for financial assets classified as Stage 3 be calculated on the net carrying amount (after deducting credit impairments), which will result in a portion of contractual interest being suspended. IFRS 9 requires that this suspended contractual interest be presented as part of the financial assets' gross carrying amount. The company has applied this requirement by presenting balance sheet suspended contractual interest as a separate reconciling item when calculating the financial assets' net carrying amount. Hence suspended contractual interest does not impact the net carrying amount of the financial asset as presented on the statement of financial position. However, this change in presentation has resulted in an increased gross carrying amount of financial assets when compared to IAS 39.

The company has elected to present previously unrecognised interest earned on curing of a financial asset out of Stage 3 within net interest income. This presentation is consistent with the company's treatment under IAS 39 and was elected on the basis that the presentation best represented the nature of the amount in terms of IAS 1.

Other significant accounting policies

Segment reporting

An operating segment is a component of the company 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 company's identification of segments and the measurement of segment results is based on the company's internal reporting to the chief operating decision maker.

Fiduciary activities

The company 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 company. However, fee income earned and fee expenses incurred by the company relating to the company's responsibilities from fiduciary activities are recognised in profit or loss.

Statutory credit risk reserve

The statutory credit risk reserve represents the amount by which local regulatory authorities within the company's African Regions operations require in addition to the IFRS impairment provision. Changes in this reserve are accounted for as transfers to and from retained earnings as appropriate.

Non-trading and capital related items

Non-trading and capital related items primarily include the following:

- gains and losses on disposal of subsidiaries, joint ventures and associates (including foreign exchange translation gains and losses)
- gains and losses on the disposal of property and equipment and intangible assets
- impairment and reversals of impairments of joint ventures and associates
- impairment of investments in subsidiaries, associates and joint ventures, property and equipment, and intangible assets
- other items of a capital related nature.

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 2018 and have not been applied in preparing these annual financial statements.

Title: IFRS 3 Business Combinations (amendment)

Effective date: 1 January 2020 with earlier application permitted

The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment is not expected to have a material impact on the company.

Title: IFRS 9 Financial Instruments (amendment)

Effective date: 1 January 2019 with earlier application permitted

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The amendment is required to be applied retrospectively. The amendment is not expected to have a material impact on the company.

Title: IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Effective date: To be determined

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 company's financial statements.

Title: IFRS 16 Leases

Effective date: 1 January 2019 with earlier application permitted

This standard will replace the 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 for operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases as either operating 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 have not changed substantially in terms of this standard. A lessor hence continues to classify its leases as operating leases or finance leases and accounts for these as it currently done in terms of IAS 17. In addition, the standard requires lessors to provide enhanced disclosures about its leasing activities and, in particular, about its exposure to residual value risk and how it is managed.

The company has established an IFRS 16 working group and detailed project plan, identifying key responsibilities and milestones of the project. The company intends to apply the modified retrospective approach to IFRS 16. As a lessee, the company elects to use a number of practical expedients. Under this approach the company does not restate its comparatives but recognises the cumulative effect of adopting IFRS16 as a adjustment to equity at the beginning of the adoption period The company's estimated gross up is expected to be approximately N$66 million.

Title: IFRS 17 Insurance Contracts

Effective date: 1 January 2021 with earlier application permitted

This standard replaces IFRS 4 Insurance Contracts which provided entities with dispensation to account for insurance contracts (particularly measurement) using local actuarial practice, resulting in a multitude of different approaches.

The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts globally. The standard requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. A general measurement model (GMM) will be applied to long-term insurance contracts, and is based on a fulfilment objective (risk-adjusted present value of best estimate future cash flows) and uses current estimates, informed by actual trends and investment markets. IFRS 17 establishes what is called a contractual service margin (CSM) in the initial measurement of the liability which represents the unearned profit on the contract and results in no gain on initial recognition. The CSM is released over the life of the contract, but interest on the CSM is locked in at inception rates. The CSM will be utilised as a "shock absorber" in the event of changes to best estimate cash flows. On loss making (onerous) contracts, no CSM is set up and the full loss is recognised at the point of contract inception. The GMM is modified for contracts which have participation features.

An optional simplified premium allocation approach (PAA) is available for all contracts that are less than 12 months at inception. The PAA is similar to the current unearned premium reserve profile over time.

The requirement to eliminate all treasury shares has been amended such that treasury shares held for a company of direct participating contracts or investment funds are not required to be eliminated and can be accounted for as financial assets.

These requirements will provide transparent reporting about an entities' financial position and risk and will provide metrics that can be used to evaluate the performance of insurers and how that performance changes over time. An entity may re-assess its classification and designation of financial instruments under IFRS 9, on adoption of IFRS 17.

The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

Title: IAS 19 Employee Benefits (amendments)

Effective date: 1 January 2019 with earlier application permitted

The amendments require a company to use the updated assumptions when a change to a plan either an amendment, curtailment or settlement, takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Until now, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The amendment will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

Title: IAS 28 Interest in Associates and Joint Ventures (amendment)

Effective date: 1 January 2019 with earlier application permitted

This amendment clarifies that an entity should apply IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture only when the equity method is not applied. The amendments will be applied retrospectively. The amendment is not expected to have a significant impact on the annual financial statements.

Title: Annual improvements 2015-2017 cycle

Effective date: 1 January 2019 with earlier application permitted

The IASB has issued various amendments and clarifications to existing IFRS, none of which is expected to have a significant impact on the company's annual financial statements.

Title: IFRIC 23 Uncertainty over Income Tax Treatments

Effective date: 1 January 2019 with earlier application permitted

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined by applying this interpretation. This interpretation addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The IFRIC will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

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