Standard Bank

Unaudited condensed consolidated interim results
for the six months ended 30 June 2015

SBN Holdings Limited

100 years of moving you forward
1915 - 2015

The SBN Holdings Limited's (group) condensed consolidated interim results, including the statement of financial position, income statement, statement of changes in equity and statement of cash flows, for the six months ended 30 June 2015 (results) are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, the Institute of Chartered Accountants of Namibia (ICAN) Financial Reporting Guides as issued by the Accounting Practices Committee, financial pronouncements as issued by the Financial Reporting Standards Council, the presentation requirements of IAS 34 *Interim Financial Reporting* and the requirements of the Companies Act of Namibia.

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

These interim results have not been audited or independently reviewed by the group's external auditors. The group's 2014 annual financial information has been correctly extracted from the underlying audited consolidated annual financial statements.

1H15 refers to the first half year results for 2015. 1H14 refers to the first half year results for 2014. FY14 refers to the full year results for 2014. Change % reflects 1H15 growth on 1H14.

The results were made publicly available on 25 August 2015.

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Group highlights

Profit after tax

up 39%

N$235 million

1H14: N$170 million

Return on equity

up 32%

22.7%

1H14: 17.2%

Cost to income ratio

(5%)

57.9%

1H14: 60.9%

Credit loss ratio

(22%)

0.7%

1H14: 0.9%

Loans advances to customers

up 19%

N$16.5 billion

1H14: N$ 13.9 billion

Net interest margin

up 14%

4.9%

1H14: 4.3%

Deposits from customers

up 14%

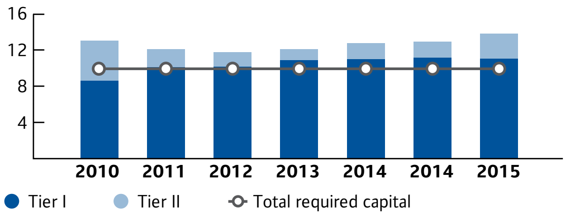
N$18.2 billion

1H14: N$15.9 billion

Financial highlights

	Change %	**Unaudited N$'000 1H15**	Unaudited N$'000 1H14	Audited N$'000 FY14
Total income	18.3	**945 349**	799 001	1 675 176
Credit impairments	(12.6)	**59 008**	67 513	112 615
Operating expenses	12.3	**547 177**	487 340	1 039 307
Profit after tax	38.8	**235 295**	169 516	362 090
Loans and advances to customers	18.9	**16 497 694**	13 869 925	15 263 925
Total assets	14.5	**23 246 664**	20 305 092	21 822 523
Deposits from customers	14.3	**18 178 392**	15 905 061	17 446 215
Debt securities issued	11.5	**732 404**	656 677	733 902

Capital adequacy – Standard Bank Namibia (%)



Overview of financial results

Group results

SBN Holdings produced a positive performance for the six months ended 30 June 2015, increasing profit after tax by 39% and loans and advances to customers by 19%. The group return on equity (ROE) has increased to 22.7% from 17.2% in 1H2014. Total income grew by 18% and expenses grew by 12% reflecting the investment made in systems and infrastructure over the past three years. Credit impairment charges were 13% lower than June 2014, indicative of the progress made in the management of our loan book.

Operating environment

Global growth of 2.2% in the first quarter of 2015 underperformed the International Monetary Fund (IMF) expectations set at the beginning of the year. The shortfall reflected an unexpected output contraction in the United States caused by one-off factors such as a notably harsh winter and port closures, as well as a strong downsizing of capital expenditure in the oil sector. The economic recovery in the Eurozone seems broadly on track, with a generally robust recovery in domestic demand and inflation beginning to increase in spite of uncertainty created by unfolding events in Greece. Growth in output and domestic demand in emerging markets and developing economies broadly weakened.

The decline in commodity prices has impacted sub-Saharan Africa in a highly differentiated manner. Oil exporters have been most affected, while for much of the rest of the region, the impact has been reasonably favourable, with many countries benefiting from lower oil prices although, for a number of them, this positive effect is partly offset by the decline in the prices of other exported commodities.

Overall, although economic growth has subsided slightly from the 5% achieved in 2014, sub-Saharan Africa remains one of the world's fastest growing regions.

In Namibia, the economic environment remains positive with growth trending marginally above long term averages for recent years. Historically low interest rates, expansive Government stimulus and foreign direct investment have spurred growth in the economy. Consumer credit growth has continued, while business and corporate credit demand has remained relatively robust. Household debt relative to disposable income inched higher as disposable income growth appears to be topping out as the Bank of Namibia tightens interest rates. Households may experience pressure given current the high levels of household debt should interest rates continue to rise and disposable income growth tighten given low levels of inflation.

Revenue

Total income grew by 18.3% in 1H15, with net interest income (NII) increasing by 28.9% primarily due to 18.9% increase in loans and advances to customers, driven mainly by growth in high quality Corporate & Investment Banking (CIB) assets. Margin improvement of 60 basis points (bps) resulted mainly from improved liquidity management and enhanced risk-adjusted pricing levels with customers. Higher funding costs and the requirement to hold higher levels of high quality liquid assets were largely offset by interest rates having increased by 75 basis points over the past 12 months.

Non-interest revenue (NIR) grew 7.1% supported by good growth in fees and commissions and other income. Fees and commissions were 9.9% higher than in the prior period as a result of CIB assets offset by lower fees in the retail space due to the removal of cash deposit fees for individuals.

Trading revenue decreased by 11.9% due mainly to currency trading volumes declining compared to 1H14.

Other revenue growth of 10.5% was due mainly to fair value gains within the financial investments portfolio.

Credit impairments

Total credit impairments were 12.6% lower than the prior period, with the credit loss ratio declining to 0.7% from 0.9%. Impairments in the vehicle and asset finance business declined as the recovery on defaults within the portfolio improved. Impairments in mortgage lending increased reflecting the cyclical nature of the recovery process whilst card debtors' impairments were substantially lower.

Operating expenses

Operating expenses increased by 12.3% over the prior period and the group's cost-to-income ratio decreased to 57.9% from 60.9%. Staff expenses increased by 10.7% while other operating expenses increased by 14%. Growth in staff expenses was affected by the recognition of incentive awards and the full-year impact of investment in specialist capabilities. Other operating expenses were affected by higher information technology (IT) expenses related to our banking systems taken into production and the investment made to refresh our branch network.

Loans and advances

Gross loans and advances to customers grew by 18.9% from 1H14 to 1H15.

Residential mortgages recorded growth of 7.9% with an increase in value of new business partly offset by a higher prepayment rate, while 13.9% growth was achieved in vehicle and asset finance. A contraction of 13% in card debtors was supplemented by growth of 7.3% in overdrafts and other demand loans. Substantial growth of 59.9% was achieved in term lending to high quality corporate and business customers.

Capital, funding and liquidity

SBN Holdings remains appropriately capitalised with tier I and total capital levels at 11.5% (FY14: 11.1%) and 13.8% (FY14: 12.8%) respectively. SBN Holdings is in a good position to meet the progressively higher requirements arising from Bank of Namibia's intent to implement Basel III capital standards towards the end of 2016.

Deposits and current accounts from customers increased by 14.3% with 98% growth in savings accounts outpacing the growth in wholesale priced deposits from customers.

Standard Bank Namibia maintained its strong liquidity positions within approved risk appetite and tolerance limits. Total liquidity in excess of specific prudential requirements amounted to N$2.2 billion as at 1H15 (1H14: N$827.5 million), and remains adequate to meet all internal stress testing, prudential and regulatory requirements.

An internal Basel III liquidity coverage ratio (LCR) was implemented on 1 January 2015 and at 30 June 2015 Standard Bank Namibia had exceeded the 60% minimum phased-in Basel III LCR Requirement.

Prospects

Global growth of 3.3% is expected by the IMF in 2015, marginally lower than in 2014, with a gradual improvement in advanced economies and a slowdown in emerging market and developing economies. The underlying drivers for a gradual acceleration in economic activity in advanced economies remain intact while lower commodity prices pose risks to the outlook in many low-income developing economies after several years of strong growth.

The economies of sub-Saharan Africa are set to register solid economic performance with output expected to expand by 4.5% in 2015, but at the lower end of the range experienced in recent years.

The domestic economy is expected to grow by 5% in 2015, down from the initial estimate of 5.4%. The growth in the remainder of 2015 and over the next two years is expected to be driven mainly by the construction, infrastructure sectors and public works programmes.

We have seen continuing stability in our IT environment, strengthened our balance sheet and continue to strive for operational efficiency through increased digitisation and integration of the universal banking model. We will continue to leverage our brand, market positioning and talented staff to better service our clients and customers within Namibia.

Mr H Maier
Chairman

Mr VJ Mungunda
Chief Executive

20 August 2015

Consolidated statement of financial position

as at 30 June 2015

	Change %	1H15 Unaudited N$'000	1H14 Unaudited N$'000	FY14 Audited N$'000
Assets				
Cash and balances with central banks	35.0	**831 213**	615 550	1 701 328
Derivative assets	56.8	**39 203**	25 000	44 928
Trading assets	416.3	**208 662**	40 415	39 981
Financial investments	51.6	**3 217 609**	2 122 053	2 160 815
Loans and advances	15.9	**16 534 371**	14 262 728	15 645 096
Loans and advances to banks	(90.7)	**36 677**	392 803	381 171
Loans and advances to customers	18.9	**16 497 694**	13 869 925	15 263 925
Current tax receivable	(89.4)	**1 381**	13 080	3 030
Deferred taxation asset	126.1	**50 312**	22 253	46 769
Other assets	(32.2)	**630 170**	930 126	310 766
Assets in group companies and joint ventures	(27.8)	**1 433 965**	1 987 289	1 544 329
Property, plant and equipment	4.6	**299 778**	286 598	325 481
Total assets	14.5	**23 246 664**	20 305 092	21 822 523
Equity and liabilities				
Equity attributable to ordinary shareholders				
Share capital Ordinary		**1 000**	1 000	1 000
Share premium on issue of shares		**442 234**	442 234	442 234
Reserves	10.3	**1 763 691**	1 598 950	1 533 512
Total equity	8.1	**2 206 925**	2 042 184	1 976 746
Liabilities				
Derivative liabilities	60.1	**48 200**	30 115	43 744
Deposit and current accounts	12.4	**18 551 242**	16 505 900	17 460 602
Deposits from banks	(37.9)	**372 850**	600 839	14 387
Deposits from customers	14.3	**18 178 392**	15 905 061	17 446 215
Debt securities issued	11.5	**732 404**	656 677	733 902
Other liabilities	20.3	**610 421**	507 205	321 825
Loans from group companies	94.9	**1 097 472**	563 011	1 285 704
Total liabilities	15.2	**21 039 739**	18 262 908	19 845 777
Total equity and liabilities	14.5	**23 246 664**	20 305 092	21 822 523

Condensed consolidated income statement

for the six months ended 30 June 2015

	Change %	1H15 Unaudited N$'000	1H14 Unaudited N$'000	FY14 Audited N$'000
Net interest income	28.9	**528 486**	409 907	885 585
Interest income	33.5	**975 671**	731 059	1 594 229
Interest expense	39.2	**447 185**	321 152	708 644
Non-interest revenue	7.1	**416 863**	389 094	789 591
Net fee and commission revenue	9.9	**304 287**	276 815	568 407
Fee and commission revenue	17.7	**358 875**	304 926	652 092
Fee and commission expense	94.2	**54 588**	28 111	83 685
Trading revenue	(11.9)	**45 347**	51 454	104 229
Other income	10.5	**67 229**	60 825	116 955
Total income	18.3	**945 349**	799 001	1 675 176
Credit impairment charges	(12.6)	**59 008**	67 513	112 615
Income after credit impairment charges	21.2	**886 341**	731 488	1 562 561
Operating expenses	12.3	**547 177**	487 340	1 039 307
Employee costs	10.7	**281 274**	254 031	520 650
Other operating expenses	14.0	**265 903**	233 309	518 657
Net income	38.9	**339 164**	244 148	523 254
Income from equity accounted investments				236
Net income before indirect taxation	38.9	**339 164**	244 148	523 490
Indirect taxation	(17.1)	**7 870**	9 490	18 320
Profit before direct taxation	41.2	**331 294**	234 658	505 170
Direct taxation	47.4	**95 999**	65 142	143 080
Profit for the year attributable to ordinary shareholders	38.8	**235 295**	169 516	362 090

Condensed consolidated statement of other comprehensive income

for the six months ended 30 June 2015

	1H15 Unaudited N$'000	1H14 Unaudited N$'000	FY14 Audited N$'000
Profit for the year	**235 295**	169 516	362 090
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Change in fair value of post employment benefit obligations		(323)	(5 323)
Items that may be subsequently reclassified to profit or loss			
Net change in fair value of available-for-sale financial assets	**(5 447)**	(1 697)	1 337
Other comprehensive income for the year net of taxation	**(5 447)**	(2 020)	(3 986)
Total comprehensive income	**229 848**	167 496	358 104

Consolidated statement of changes in equity

for the six months ended 30 June 2015

	Total share capital N$'000	Available-for-sale revaluation reserve N$'000	Share-based payment reserve N$'000	Statutory credit risk reserve N$'000	Post-employment benefit reserve N$'000	Retained earnings N$'000	Total equity N$'000
Balance at 1 January 2014 (unaudited)	443 234	(2 253)	9 075	107 578	11 743	1 309 131	1 878 508
Profit for the period						169 516	169 516
Other comprehensive income		(1 697)			(323)		(2 020)
Total comprehensive income for the period		(1 697)			(323)	169 516	167 496
Equity-settled share-based payment transactions			326			(4 146)	(3 820)
Transfer between reserves				5 000		(5 000)	
Dividends							
Total contributions by and distributions to owners of company recognised directly in equity			326	5 000		(9 146)	(3 820)
Balance at 30 June 2014 (unaudited)	443 234	(3 950)	9 401	112 578	11 420	1 469 501	2 042 184
Balance at 1 July 2014 (unaudited)	443 234	(3 950)	9 401	112 578	11 420	1 469 501	2 042 184
Profit for the period						192 574	192 574
Other comprehensive income		3 034			(5 000)		(1 966)
Total comprehensive income for the period		3 034			(5 000)	192 574	190 608
Equity-settled share-based payment transactions			317			3 637	3 954
Transfer between reserves				10 000		(10 000)	
Dividends						(260 000)	(260 000)
Total contributions by and distributions to owners of company recognised directly in equity			317	10 000		(266 363)	(256 046)
Balance at 31 December 2014 (audited)	443 234	(916)	9 718	122 578	6 420	1 395 712	1 976 746
Balance at 1 January 2015 (unaudited)	**443 234**	**(916)**	**9 718**	**122 578**	**6 420**	**1 395 712**	**1 976 746**
Profit for the period						**235 295**	**235 295**
Other comprehensive income		**(5 447)**					**(5 447)**
Total comprehensive income for the period		**(5 447)**				**235 295**	**229 848**
Equity-settled share-based payment transactions			**331**				**331**
Transfer between reserves				**8 000**		**(8 000)**	
Dividends							
Total contributions by and distributions to owners of company recognised directly in equity			**331**	**8 000**		**(8 000)**	**331**
Balance at 30 June 2015 (unaudited)	**443 234**	**(6 363)**	**10 049**	**130 578**	**6 420**	**1 623 007**	**2 206 925**

Condensed consolidated statement of cash flows

for the six months ended 30 June 2015

	1H15 Unaudited N$'000	1H14 Unaudited N$'000	FY14 Audited N$'000
Net cash flows from operating activities	**(859 906)**	(14 450)	1 327 278
Cash flow generated from operations	**(1 290 082)**	(380 779)	542 564
Dividends received	**23 230**	17 514	36 778
Interest paid	**(450 012)**	(323 285)	(704 044)
Interest received	**953 053**	728 261	1 599 897
Direct taxation paid	**(96 095)**	(56 161)	(147 917)
Cash flows from investing activities	**(10 209)**	(13 729)	(84 174)
Net cash from investing activities	**(10 209)**	(13 729)	(84 174)
Cash flows from financing activities			(185 000)
Subordinated debt issued			100 000
Senior debt redeemed			(210 000)
Senior debt issued			185 000
Dividends paid			(260 000)
Effects of exchange rate changes			(505)
Total cash and balances with central banks movement for the period	**(870 115)**	(28 179)	1 057 599
Cash and balances with central banks at the beginning of the period	**1 701 328**	643 729	643 729
Total cash and balances with central banks at end of the year	**831 213**	615 550	1 701 328

Notes to the unaudited condensed consolidated interim results

for the six months ended 30 June 2015

Condensed segment report

	Change %	1H15 Unaudited N$'000	1H14 Unaudited N$'000	FY14 Audited N$'000
Revenue contribution by business unit				
Personal & Business Banking	16	**698 937**	603 384	1 264 972
Corporate & Investment Banking	31	**251 921**	191 860	414 761
Banking activities	20	**950 858**	795 244	1 679 733
Other	(201)	**(5 466)**	5 424	(1 752)
SBN Holdings – ordinary shareholders	18	**945 392**	800 668	1 677 981
Profit attributable to ordinary shareholders				
Personal & Business Banking	38	**154 397**	111 987	242 267
Corporate & Investment Banking	57	**84 560**	53 841	120 762
Banking activities	44	**238 957**	165 828	363 029
Other	(199)	**(3 662)**	3 688	(939)
SBN Holdings – ordinary shareholders	39	**235 295**	169 516	362 090
Total assets by business unit				
Personal & Business Banking	8	**14 091 948**	13 049 089	13 635 741
Corporate & Investment Banking	26	**9 151 596**	7 253 119	8 184 672
Banking activities	14	**23 243 544**	20 302 208	21 820 354
Other	8	**3 120**	2 884	3 120
	14	**23 246 664**	20 305 092	21 823 533
Total liabilities by business unit				
Personal & Business Banking	23	**6 476 298**	5 251 182	5 729 872
Corporate & Investment Banking	11	**14 458 913**	13 011 726	14 016 405
Banking activities	15	**20 935 211**	18 262 908	19 747 228
Other	>100	**104 528**		99 500
	15	**21 039 739**	18 262 908	19 845 777

Contingent liabilities and commitments

	1H15 Unaudited N$'000	1H14 Unaudited N$'000	FY14 Audited N$'000
Contingent liabilities			
Letters of credit	**37 764**	779 567	86 279
Guarantees	**1 012 634**	839 477	832 098
Unutilised borrowing facilities*	**3 319 115**	2 541 020	2 418 584
	4 369 513	4 160 064	3 336 961

*Undrawn facilities are conditionally cancellable.

	1H15 Unaudited N$'000	1H14 Unaudited N$'000	FY14 Audited N$'000
Capital commitments			
Contracted capital expenditure	**265**	4 534	1 872

The expenditure will be funded from internal resources.

	1H15 Unaudited N$'000	1H14 Unaudited N$'000	FY14 Audited N$'000
Operating lease commitments			
Properties:			
Within 1 year	**36 546**	31 973	34 324
After 1 year but within 5 years	**67 059**	89 273	79 885
	103 605	121 246	114 209
Equipment			
Within 1 year	**1 773**	1 612	1 612

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

Legal proceedings

In the conduct of its ordinary course of business, the group is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non compliance with laws and regulations. The directors are satisfied, based on present information and the assessed probability of claims eventuating, that the group has adequate insurance programmes and provisions in place to meet such claims.

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

IFRS requires financial assets and financial liabilities to be offset and the net amount presented in the statement of financial position when, and only when, the group 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.

The following table sets out the impact of offset, as well as financial assets and financial liabilities that are subject to enforceable master netting arrangements, or similar agreements, irrespective of whether they have been offset in accordance with IFRS. There are no items measured on different measurement bases within the line items in the tables.

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

	Amount offset			Amount not offset	
	Gross asset N$'000[2, 3]	Gross liabilities offset N$'000[2, 3]	Net amount presented N$'000[1, 4]	Financial instruments N$'000	Net N$'000
30 June 2015 (unaudited)					
Assets					
Derivative asset	**39 203**		**39 203**	**(39 203)**	
Liabilities					
Derivative liabilities		**48 200**	**48 200**	**(48 200)**	
31 December 2014 (audited)					
Assets					
Derivative asset	44 927		44 927	(44 927)	
Liabilities					
Derivative liabilities		43 744	43 744	(43 744)	

1 There are no instances where the group has a current legally enforceable right to offset without the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2 In accordance with the requirements of IFRS 7, it should be noted there are no items measured on different measurement basis within this line item.

3 Gross amount are disclosed for recognised assets and liabilities that are either offset in the statement of financial position or subject to a master netting arrangement or similar agreement, including financial collateral (whether recognised or unrecognised).

4 Recognised financial instruments that do not qualify for offset in terms of the criteria per IAS 32.42, but are subject to an enforceable master netting arrangement or similar agreement, including financial collateral (whether recognised or unrecognised).

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

Fair value disclosures

Financial assets and liabilities measured at fair value

Fair value hierarchy of instruments measured at fair value

In terms of IFRS, the group is either required to or elects to measure a number of its financial assets and financial liabilities at fair value, being the price that would, respectively, be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date.

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

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

Valuation process

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

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

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

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

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

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

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

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

Fair value hierarchy

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

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

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

Notes to the unaudited condensed consolidated interim results continued | Fair value disclosures continued

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

Significant unobservable inputs

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

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

Exposure to such illiquid risk drivers is typically managed by:

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

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

Accounting classifications and fair values of financial assets and liabilities

The unaudited table below categorises the group's assets and liabilities as at 30 June 2015 between that which is financial and non-financial. All financial assets and liabilities have been classified according to their measurement category with disclosure of the fair value being provided for those items.

	Held-for-trading	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Other non-financial assets/ liabilities	Total carrying amount	Fair value[1]
Assets								
Cash and balances with central banks			831 213				831 213	831 213
Derivative assets	39 203						39 203	39 203
Trading assets	208 662						208 662	208 662
Financial investments		573 334		2 644 275			3 217 609	3 217 609
Loans and advances to banks			36 677				36 677	36 677
Loans and advances to customers			16 497 694				16 497 694	16 921 685
Assets in group companies and joint ventures			1 430 845			3 120	1 433 965	1 433 965
Other financial assets			630 170				630 170	630 170
Other non-financial assets						351 471	351 471	490 663
	247 865	573 334	19 426 599	2 644 275		354 591	23 246 664	23 809 847
Liabilities								
Derivative liabilities	48 200						48 200	48 200
Debt securities issued					732 404		732 404	740 910
Deposit and current accounts from banks					372 850		372 850	372 850
Deposit and current accounts from customers					18 178 392		18 178 392	18 178 392
Loans from group companies					1 097 472		1 097 472	1 097 472
Other financial liabilities					610 421		610 421	610 421
Other non-financial liabilities								
Total	48 200				20 991 539		21 039 739	21 048 245

[1] Carrying value has been used where it approximates fair value, excluding non-financial instruments. Refer to the fair value section in accounting policy 4 – Financial instruments for a description on how fair values are determined.

Accounting classifications and fair values of financial assets and liabilities (audited)

as at 31 December 2014

	Held-for-trading	Designated at fair value	Loans and receivables	Available-for-sale	Other amortised cost	Other non-financial assets/ liabilities	Total carrying amount	Fair value[1]
Assets								
Cash and balances with central banks			1 701 328				1 701 328	1 701 328
Derivative assets	44 928						44 928	44 928
Trading assets	39 981						39 981	39 981
Financial investments		566 842		1 593 973			2 160 815	2 160 815
Loans and advances to banks			381 171				381 171	381 171
Loans and advances to customers			15 263 925				15 263 925	15 655 794
Assets in group companies and joint ventures			1 541 209			3 120	1 544 329	1 544 329
Other financial assets						310 766	310 766	310 766
Other non-financial assets						375 280	375 280	514 472
	84 909	566 842	18 887 633	1 593 973		689 166	21 822 523	22 353 584
Liabilities								
Derivative liabilities	43 744						43 744	43 744
Debt securities issued					733 902		733 902	747 982
Deposit and current accounts from banks					14 387		14 387	14 387
Deposit and current accounts from customers					17 446 215		17 446 215	17 446 215
Loans from group companies					1 285 704		1 285 704	1 285 704
Other financial liabilities					321 825		321 825	321 825
Other non-financial liabilities								
Total	43 744				19 802 033		19 845 777	18 276 405

Notes to the unaudited condensed consolidated interim results continued |

Fair value disclosures continued

Financial assets and liabilities measured at fair value (unaudited)

as at 30 June 2015

	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000
Financial assets				
Derivative assets		39 203		39 203
Trading assets	208 662			208 662
Financial investments	327 656	2 889 953		3 217 609
	536 318	2 929 156		3 465 474
Comprising:				
Held-for-trading				247 865
Designated at fair value				2 889 953
Available-for-sale				327 656
				3 465 474
Financial Liabilities				
Derivative liabilities		48 200		48 200
		48 200		48 200
Comprising:				
Held-for-trading				48 200
				48 200

Financial assets and liabilities measured at fair value (audited)

as at 31 December 2014

	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000
Financial assets				
Derivative assets		44 927		44 927
Trading assets	39 981			39 981
Financial investments	280 862	1 879 953		2 160 815
	320 843	1 924 880		2 245 723
Comprising:				
Held-for-trading				84 908
Designated at fair value				566 842
Available-for-sale				1 593 973
				2 245 723
Financial Liabilities				
Derivative liabilities		43 744		43 744
		43 744		43 744
Comprising:				
Held-for-trading				43 744
				43 744

Level 2 and 3 – valuation techniques and inputs

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

Trading assets and liabilities, pledged assets and financial investments

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

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

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

Loans and advances

Loans and advances comprise:

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

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

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

Deposits from banks and customers and other financial liabilities

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

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

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

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

Level 2 financial assets and financial liabilities

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

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

Accounting policies

Basis of preparation

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

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

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

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

- IAS 19 *Employee benefits: Amendment to employee contributions* for defined benefit plans (IAS 19).

Early adoption of revised standards:

- Amendment to IAS 16 *Property, Plant and Equipment* (IAS 16) and IAS 41 Agriculture (IAS 41).
- Annual improvements 2012 – 2014: amendment to IFRS 7 *Financial Instruments: Disclosures*
- Annual improvements 2010 – 2012 cycle and 2011 – 2013 cycle.

The abovementioned amendments to IFRS, adopted on 1 January 2015, did not have any effect on the group's previously reported financial results or disclosures and had no material impact on the group's accounting policies.

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*Namibian ◆ South African ▼ Zimbabwean # Executive

Disclaimer
This document contains certain statements that are 'forward-looking' with respect to certain of the group's plans, goals and expectations relating to its future performance, results, strategies and objectives. Words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "aim", "outlook", "believe", "plan", "seek", "predict" or similar expressions typically identify forward-looking statements. These forward-looking statements are not statements of fact or guarantees of future performance, results, strategies and objectives, and by their nature, involve risk and uncertainty because they relate to future events and circumstances which are difficult to predict and are beyond the group's control, including but not limited to, domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities (including changes related to capital and solvency requirements), the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of changes in domestic and global legislation and regulations in the jurisdictions in which the group and its affiliates operate. The group's actual future performance, results, strategies and objectives may differ materially from the plans, goals and expectations expressed or implied in the forward-looking statements. The group makes no representations or warranty, express or implied, that these forward-looking statements will be achieved and undue reliance should not be placed on such statements. The group undertakes no obligation to update the historical information or forward-looking statements in this document and does not assume responsibility for any loss or damage arising as a result of the reliance by any party thereon.

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Namibia Head Office

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 the leading financial services group on the continent.

We are committed to moving Namibia forward.

100 years of moving you forward 1915 - 2015