SBN Holdings Limited

# REVIEWED CONDENSED CONSOLIDATED INTERIM RESULTS

for the six months ended 30 June 2020

Standard Bank IT CAN BE™

Also trading as Stanbic Bank

# CONTENTS



The group no longer posts a physical copy of this announcement to its shareholders. Investors are referred to www.standardbank.com.na where a detailed analysis of the group's financial results can be found.

# GROUP RESULTS IN BRIEF

# 1

# HIGHLIGHTS

**PROFIT AFTER TAX (N$'m)**
227
**1H19: N$282 million**

**VALUE OF CREDIT RELIEF PROVIDED TO CLIENTS (N$'Bn)**
1.4

**RETURN ON EQUITY (%)**
11.1
**1H19: 16.7%**

**COST-TO-INCOME RATIO (%)**
61.0
**1H19: 54.9%**

**TOTAL CAPITAL ADEQUACY RATIO (%)**
15.6
**1H19: 14.4%**

**CREDIT LOSS RATIO (%)**
1.3
**1H19: 1.6%**

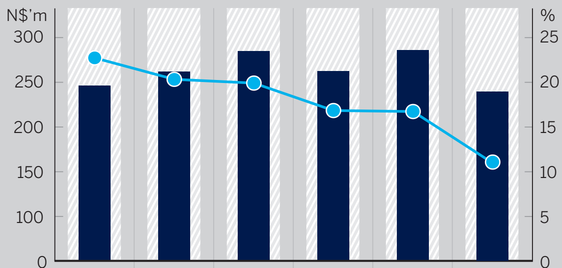
**COVID-19 SOCIAL SUPPORT**
± 500 000
**people reached through distribution of sanitisers, food hampers and access to water**

## SBN Holdings Limited is a Namibia based, client-centric, digitally enabled integrated financial services group with compelling competitive advantages

- Operates 61 branches in Namibia
- Two business lines: Personal & Business Banking and Corporate & Investment Banking
- 105-year operating history in Namibia
- Listed on the Namibia Stock Exchange (NSX) since 2019.

## PROFIT AFTER TAX AND RETURN ON EQUITY

CAGR (1H15 – 1H20): (0.6%)

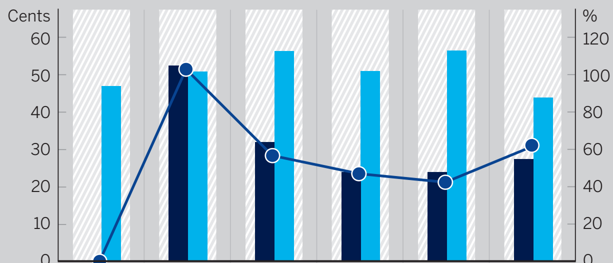



| | 1H15 | 1H16 | 1H17 | 1H18 | 1H19 | **1H20** |
|---|---|---|---|---|---|---|
| Profit after tax (N$'m) | 235 | 255 | 282 | 255 | 282 | **227** |
| Return on equity (ROE) (%) | 22.7 | 20.3 | 19.88 | 16.81 | 16.7 | **11.1** |

Profit after tax (N$'m)
Return on equity (ROE) (%)

## EARNINGS AND DIVIDEND PER SHARE[1]

CAGR (1H15 – 1H20):
Dividend per share: (3.8%)[2]
Earnings per share[2]: (1.5%)




| | 1H15 | 1H16 | 1H17 | 1H18 | 1H19 | **1H20** |
|---|---|---|---|---|---|---|
| Dividend per share (cents) | – | 53 | 32 | 24 | 24 | **27** |
| Earnings per share (cents) | 47 | 51 | 56 | 51 | 57 | **44** |
| Dividend payout ratio (%) | – | 103 | 57 | 47 | 42 | **63** |

Dividend per share (cents)
Earnings per share (cents)
Dividend payout ratio (%)

1 On 29 May 2019 SBN Holdings Limited affected a subdivision of its authorised and issued ordinary shares, which previously amounted to 100 000 000, on a one to five basis, thereby increasing the total number of issued ordinary shares to 500 000 000 shares. In order to achieve comparability, the earnings per share and dividend per share calculations for the periods 1H15 to 1H18 have been based on 500 000 000 shares. Actual earnings per share and dividends per share were as follows:

| | 1H15 | 1H16 | 1H17 | 1H18 |
|---|---|---|---|---|
| Dividends per share (cents) | – | 262 | 160 | 120 |
| Earnings per share (cents) | 235 | 255 | 282 | 255 |

2 Compound annual growth rate (CAGR) 1H17 – 1H20.

# OVERVIEW OF FINANCIAL RESULTS

## Group results

The COVID-19 outbreak has marked a turning point in the global economy, ushering uncertainty into a year that had been expected to mark the beginning of Namibia's long-awaited journey towards economic recovery. This unique circumstance has exacerbated the prolonged slump of the Namibian economy.

The pandemic, and its consequences, have not only impacted businesses financially but also tested the resilience of businesses in Namibia. The group started to prepare a response plan for the pandemic in January 2020 and implemented it as soon as the first two Namibian cases were announced. When lockdown started on 27 March 2020, 50% of our employees were already working from home which increased to about 70% of our employees working from home during the lockdown period. We have maintained a 'work from home' policy, where possible, after the relaxation of the lockdown measures. As at 30 June 2020, half of our employees continued to work from home to ensure the safety of our people and our nation.

Through-out the pandemic, our businesses have continued to provide uninterrupted services to our clients, testimony to the resilience of our systems and the agility of our employees.

Our 2020 aspirations of being a future-ready, agile and digital business centered on our clients remained our key focus during these challenging times. We are pleased to see a significant increase in the uptake of our digital products and channels during the pandemic, with specific reference to our card-less payment platform, PayPulse. We believe that the levels of penetration and adoption seen in the current year has established PayPulse as a preeminent transactional and payment medium in the country, and we look forward to its exponential growth in the second half of this year and the years ahead.

Even though the country was in lockdown, our digital transformation team embraced the latest virtual collaborative technological tools to drive and implement our broader digital transformation strategy. The output from this work is being prioritized for commercialization.

Our profit after tax did not escape the impact of COVID-19, reducing by 19.6% from prior year. The group's capital position remained strong, with a total capital adequacy ratio of 15.6%. The 2019 final dividend of 27.37 cents per share was paid on 8 May 2020.

Bank of Namibia has announced a cumulative 2.75% reduction in the repo rate since June 2019 which had a significant impact on net interest income (NII), resulting in a decrease of 4.3% compared with prior year. Non-interest revenue (NIR) decreased by 3.6% due to a decline in transactional volumes during April, May and June 2020 on account of lockdown restrictions.

Credit impairment charges improved by 15.3% compared to the prior year. The prior year impairment included a large charge of N$71 million raised in respect of one sector that has not reoccurred during 2020.

The group has stress-tested future macroeconomic scenarios with resulting provisions raised attributed to COVID-19. Adjusting for the large provisions raised in 2019, our provision increased by N$44 million (41%) reflective of the impact of COVID-19 on credit impairments.

## Operating environment

The Namibian economy had already been in a deep recession during 2019, recording an annual decline in GDP of 1.1%. The current year started off with positive sentiments given the good rainfall season and hopes of recovery in the Namibian economy, but COVID-19 and the lockdown restrictions depressed economic activities and the growth outlook. Even though restrictions only commenced in late March, the first quarter of 2020 recorded a contraction of 0.8%. Inflation for the first quarter of 2020 was recorded at 2.3%, down from 4.5% during the corresponding quarter of 2019.

The country was placed in lockdown from 27 March 2020 to 5 May 2020. Thereafter, certain restrictions were lifted and selected businesses were allowed to operate. Various sectors such as tourism and hotel & accommodation came to a standstill, with some businesses having shut down completely. Business and consumer confidence levels remain low, constraining spending and the demand for credit.

## Loans and advances

Gross loans and advances to customers declined by 3.3% from 30 June 2019 to 30 June 2020 (year-on-year) on the back of muted growth due to higher levels of liquidity since March 2020, among other reasons, due to the accelerated VAT refunds and outstanding invoices processed by Government in April 2020. Vehicle and asset finance declined by 10.7% on the back of a decline of 26.3% in new vehicle sales as at June 2020. Corporate loans recorded the highest growth at 8.7% while mortgage loans grew by 5.8%.

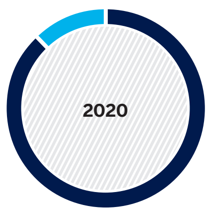
### GROSS LOANS AND ADVANCES TO CUSTOMERS

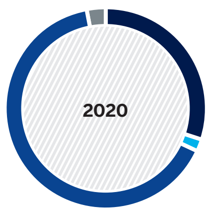
| | Change % | 1H20 N$'000 | 1H19 N$'000 | FY19 N$'000 |
|---|---|---|---|---|
| **PBB** | (0.3) | **17 818 623** | 17 874 880 | 18 138 648 |
| Mortgage loans | 5.8 | **12 485 216** | 11 806 495 | 11 739 977 |
| Vehicle and asset finance | (10.7) | **2 654 822** | 2 973 355 | 2 904 936 |
| Card debtors | (23.4) | **171 118** | 223 357 | 175 900 |
| Other loans and advances[1] | (12.7) | **2 507 467** | 2 871 673 | 3 317 835 |
| **CIB** | (13.2) | **4 607 251** | 5 307 508 | 5 259 041 |
| Corporate | 8.7 | **3 466 985** | 3 189 010 | 3 829 309 |
| Sovereign | (46.2) | **1 140 266** | 2 118 498 | 1 429 732 |
| **Gross loans and advances to customers** | (3.3) | **22 425 874** | 23 182 388 | 23 397 689 |
| Banks | (17.1) | **3 031 758** | 3 658 234 | 2 836 906 |
| **Gross loans and advances** | (5.2) | **25 457 632** | 26 840 622 | 26 234 595 |

1 Comprises personal unsecured lending and business and other lending.

Bank of Namibia issued guidelines to facilitate the granting of credit relief to clients impacted by COVID-19. In terms of these guidelines, banking institutions may give capital payment moratoria for a period ranging from six month up to a period of, but not exceeding 24 months. In response to this, the group invited its clients in the tourism industry, small and medium enterprises (SME) with revenue below N$10 million, students and any other clients impacted by COVID-19 to apply for capital and/or interest payment moratoria. More than 97% of all applications received have been approved, amounting to outstanding capital relief of N$1.4 billion.

### LOANS AND ADVANCES RELIEF (%)




## Deposits and debt funding

Deposits from customers increased year-on-year by 0.7% to N$26.4 billion of which current accounts grew by 16.9%, call deposits by 11.7% and term deposits by 31%. Negotiable certificates of deposit (NCDs) reduced by 28.5%.

| | Change % | 1H20 N$'000 | 1H19 N$'000 | FY19 N$'000 |
|---|---|---|---|---|
| **Deposits from banks** | (33.2) | **1 237 350** | 1 853 207 | 2 328 818 |
| **Deposits from customers** | 0.7 | **26 383 621** | 26 192 378 | 25 538 002 |
| Current accounts | 16.9 | **6 354 429** | 5 437 571 | 7 488 563 |
| Cash management deposits | (21.0) | **1 775 149** | 2 245 995 | 826 505 |
| Card creditors | 63.3 | **29 212** | 17 890 | 29 205 |
| Call deposits | 11.7 | **10 203 258** | 9 137 914 | 8 620 081 |
| Savings accounts | 6.3 | **645 554** | 607 578 | 603 995 |
| Term deposits | 31.0 | **2 472 688** | 1 887 025 | 2 312 001 |
| Negotiable certificates of deposit | (28.5) | **4 903 331** | 6 858 405 | 5 657 652 |
| **Deposits and current accounts** | (1.5) | **27 620 971** | 28 045 585 | 27 866 820 |

## Other balance sheet movements

Increase in derivative assets are mainly due to structured transactions, like interest rate swaps and foreign exchange options. To accommodate our customer hedging strategy through the use of derivatives, our liabilities increased in order to mitigate the risk with our group treasury division.

Trading assets and financial investments increased due to the strong liquidity in the market.

## Total income

Total income declined by 4.0% to N$1,2 billion. NII declined by 4.3% to N$630 million, while NIR declined by 3.6% to N$587 million.

## Credit impairment charges

Credit impairment charges improved by 15.3% compared with the prior year. The prior year included a large impairment charge raised in one sector that has not been repeated in 2020. The pandemic has impacted clients across all geographic and industry segments, and given the current uncertain economic environment, the group deemed it prudent to recognise an additional credit impairment charge on the portfolio of loans and advances to customers. The adjustment is considered to be reasonable based on estimates supported by pertinent information available at the reporting date. Adjusting for the large provision raised in 2019, our provision increased by N$44 million (41%), which reflects the impact of COVID-19 on credit impairments.

## Operating expenses

Operating expenses increased by 7.7% mainly due to an increase in other operating expenses because of higher spend on security costs and digital capabilities. Staff costs declined by 1% due to a reduction in headcount.

## Capital management

The group maintained strong capital adequacy ratios, with a total capital adequacy ratio of 15.6% (1H19: 14.4%). The group's liquidity position remained strong and within approved risk appetite and tolerance limits.

## Overview of business unit performance

PROFIT AFTER TAX BY BUSINESS UNIT

| | Change % | **1H20 N$'000** | 1H19 N$'000 | FY19 N$'000 |
|---|---|---|---|---|
| PBB | (20.2) | **132 639** | 166 156 | 367 319 |
| CIB | (17.5) | **95 636** | 115 882 | 268 750 |
| Central and other | (>100) | **(1 384)** | 333 | (22 571) |
| **Total profit after tax** | (19.6) | **226 891** | 282 371 | 613 498 |

### Personal & Business Banking (PBB)

PBB's profit after tax was adversely affected by COVID-19 and decreased by N$33 million from N$166 million to N$133 million for the period ended 30 June 2020. The pandemic led to the introduction of stringent domestic, regional and international trading and travel restrictions. These restrictions resulted in low to no economic activities in most industries and, combined with the significant interest rate cut, contributed to the muted performance in PBB's business.

The impact of the COVID-19 related trade restrictions has filtered down to consumer level, evidenced in the decline in loans and advances and in both transactional volumes and values. The credit impairment charges have reduced from a CLR of 1.89% in the prior period compared with 1.47% in the current period. Included in the impairment provision is a significant provision which was raised in respect of one sector during the first half of the 2019 financial period.

Our customers continued to migrate to digital platforms, internet banking and mobile SmartApp. We have seen 13% growth for Internet Banking year-on-year, 12% for SmartApp, and 15% for USSD. PayPulse, our digital wallet and money transfer platform, continued to gain traction with transactional volumes increasing by 255% from 157 960 to 561 545 transactions and values increasing by 486% from N$52 million to N$304 million.

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## Corporate & Investment Banking (CIB)

CIB's profit after tax declined by 17.5% year-on-year, resulting in a profit after tax of N$96 million for 1H20. The main attributable factors were changes in the interest rate environment, subdued economic environment, which impacted activity levels and translated into a year-on-year decrease in NIR of 3.4%.

The volume of foreign exchange transactions has decreased by 32%; however Global Markets experienced a decrease in trading revenues of only 5% from June 2019 to June 2020.

The business saw strong average balance sheet growth toward the end of 2019, with the resultant NII largely offsetting the weak NIR year to date. Subdued market activity adversely impacted new debt, with market emphasis placed on consolidation.

We have completed the implementation of our core banking system which impacted a number of corporate clients in the first quarter of 2020. We are pleased that the initial challenges experienced by clients following the system implementation have now been resolved and that our clients can now benefit from the enhanced functionalities offered by the new system.

## Central and other

This segment comprises costs associated with corporate functions and the group's treasury and capital activities that have not otherwise been allocated to the business units.

# Prospects

Global economic growth is expected to remain slow as downside risks persist. These risks include, among others, the impact of the COVID-19 outbreak. In contrast, subdued inflation and accommodative monetary policy should support financial conditions.

Locally, there remains uncertainty relating to the duration of the COVID-19 outbreak and the likely economic recovery path. Given these uncertainties, the group developed a business impact assessment which requires ongoing review, including financial forecasts, to ensure our COVID-19 response plan remains up to date and focused on areas expected to be most impacted by the pandemic.

While there were some positive governance and growth-related developments in the beginning of 2020, there is so much more to be done to promote growth. The constraints to growth and productivity are structural and the reforms required are well understood. In the absence of tangible progress, we foresee sustained economic weaknesses ahead.

In the midst of these challenges, the group continues to focus on the execution of its strategy and key priorities for 2020.

Our top priority in 2020 is to improve client experience through the seamless delivery of relevant and personalised financial solutions to clients, in a secure manner, via their channel of choice. We will also continue to exercise tight cost discipline and seek to allocate resources efficiently and in support of our strategy to build a future-ready business supported by digital platforms, whilst the focus on balance sheet growth will continue without taking undue risks. Delivering on our strategic initiatives will not only provide new revenue streams but will support and grow existing non-interest revenue streams.

We recognise the gravity of the COVID-19 outbreak and the devastating impact it has on the country's economy and our clients' businesses. As a key player in our country's economy, it is imperative that we help to keep lives, livelihoods and businesses going as far as possible. In this regard, we have provided and will continue to assess the need for relief measures to our clients and our communities impacted by COVID-19.

During these challenging times, the safety of and support to our employees and clients have remained our foremost priority. A special word of appreciation goes out to our staff for their resilience, bravery and agility in how they adapted to the new working environments and continued to deliver to the expectations of clients and stakeholders. Thank you sincerely.

**Vetumbuavi Mungunda**
Chief Executive

**Herbert Maier**
Chairman

11 September 2020

# INDEPENDENT AUDITOR'S REVIEW REPORT ON INTERIM FINANCIAL STATEMENTS

## To the shareholders of SBN Holdings Limited

We have reviewed the condensed consolidated interim financial statements of SBN Holdings Limited in the accompanying interim report, on pages 7 to 46, which comprise the condensed consolidated statement of financial position as at 30 June 2020 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes.

## Directors' responsibility for the interim financial statements

The directors are responsible for the preparation and presentation of these interim financial statements in accordance with the International Financial Reporting Standard, (IAS) 34 Interim Financial Reporting 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 interim financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express a conclusion on these interim financial statements. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of interim financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained.

The procedures in a review are substantially less than and differ in nature from those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these interim financial statements.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of SBN Holdings Limited for the six months ended 30 June 2020 are not prepared, in all material respects, in accordance with the International Financial Reporting Standard, IAS 34 Interim Financial Reporting and the requirements of the Companies Act of Namibia.

PricewaterhouseCoopers

**PricewaterhouseCoopers**
Registered Accountants and Auditors
Chartered Accountants (Namibia)
Per: Louis van der Riet
Partner
Windhoek
Date: 11 September 2020

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2020

| | 1H20 Reviewed N$'000 | 1H19 Reviewed N$'000 | FY19 Audited N$'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central banks | **1 177 839** | 1 087 727 | 1 526 148 |
| Derivative assets | **273 488** | 50 070 | 149 910 |
| Trading assets | **492 240** | 389 329 | 268 177 |
| Pledged assets | | | 580 098 |
| Financial investments | **5 290 378** | 4 303 487 | 4 063 792 |
| Current tax assets[2] | **122 891** | 71 535 | 80 181 |
| Loans and advances[1] | **24 763 739** | 26 234 854 | 25 635 493 |
| Other assets[1] | **486 527** | 167 332 | 966 164 |
| Interest in group companies, associates and joint ventures[1] | **15 435** | 13 252 | 15 435 |
| Property, equipment and right-of-use assets | **1 163 057** | 1 174 609 | 1 172 065 |
| Intangible assets | **468 651** | 378 198 | 453 368 |
| Deferred tax assets[2] | **385 226** | 242 852 | 301 100 |
| **Total assets** | **34 639 471** | 34 113 245 | 35 211 931 |
| **Equity and liabilities** | | | |
| **Equity** | **4 090 871** | 3 474 207 | 3 992 011 |
| Share capital – ordinary | **1 045** | 1 000 | 1 045 |
| Share premium on issues of shares | **642 189** | 442 234 | 642 189 |
| Equity attributable to ordinary shareholders | **3 434 579** | 3 017 995 | 3 334 608 |
| Equity attributable to non-controlling interest | **13 058** | 12 978 | 14 169 |
| **Liabilities** | **30 548 600** | 30 639 038 | 31 219 920 |
| Derivative liabilities | **263 666** | 41 851 | 142 511 |
| Trading liabilities | **8 573** | 3 899 | 14 881 |
| Deposits and debt funding[1] | **27 620 971** | 28 045 585 | 27 866 820 |
| Debt securities issued[1] | **1 521 736** | 1 693 059 | 1 590 750 |
| Provisions and other liabilities[1] | **783 609** | 617 193 | 1 348 527 |
| Deferred tax liabilities[2] | **350 045** | 237 451 | 256 431 |
| **Total equity and liabilities** | **34 639 471** | 34 113 245 | 35 211 931 |

1 During the previous year, the group restated the presentation of balances with other Standard Bank Group companies (i.e. intergroup balances) in order to ensure consistency with the international banking sector, these intercompany balances have been reclassified into the underlying asset and liability lines to provide a fairer representation of the group's statement of financial of position. Refer to the restatements section on page 35 for more detail.

2 During the previous year, the current tax assets, deferred tax assets and deferred tax liabilities were combined into one net amount. In the current year it was disclosed separately.

# CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2020

| | 1H20 Reviewed N$'000 | 1H19 Reviewed N$'000 | FY19 Audited N$'000 |
|---|---|---|---|
| Net interest income | **630 441** | 658 749 | 1 332 543 |
| Non-interest revenue | **586 539** | 608 475 | 1 262 756 |
| **Total income** | **1 216 980** | 1 267 224 | 2 595 299 |
| Credit impairment charges | **(151 180)** | (178 482) | (239 165) |
| **Net income before operating expenses** | **1 065 800** | 1 088 742 | 2 356 134 |
| Operating expenses | **(742 897)** | (689 672) | (1 488 037) |
| **Net income** | **322 903** | 399 070 | 868 097 |
| Share of profit from equity accounted investment[1] | | 1 746 | 3 929 |
| **Net income before indirect taxation** | **322 903** | 400 816 | 872 026 |
| Indirect taxation | **(16 664)** | (16 723) | (33 005) |
| **Profit before direct taxation** | **306 239** | 384 093 | 839 021 |
| Direct taxation | **(79 348)** | (101 722) | (225 523) |
| **Profit after tax** | **226 891** | 282 371 | 613 498 |
| Attributable to ordinary shareholders | **228 002** | 283 066 | 613 002 |
| Attributable to non-controlling interests | **(1 111)** | (695) | 496 |
| **Earnings per share** | | | |
| Basic and diluted earnings per ordinary share (cents) | **44** | 57 | 122 |

[1] On 31 January 2020, Namclear (Proprietary) Limited converted to a non-profit organisation registered under section 21 of the Namibian Companies Act. Accordingly, the group no longer applies the equity method of accounting to the investment.

# CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2020

| | 1H20 Reviewed N$'000 | 1H19 Reviewed N$'000 | FY19 Audited N$'000 |
|---|---|---|---|
| **Profit for the period** | **226 891** | 282 371 | 613 498 |
| **Other comprehensive income (OCI) after tax for the period** | **16 894** | 6 719 | 3 617 |
| **Items that may be subsequently reclassified to profit or loss** | **16 894** | 6 719 | 3 617 |
| Net change in debt financial assets measured at fair value through OCI | **16 894** | 6 719 | 3 617 |
| Net change in expected credit loss | **4 016** | 208 | 706 |
| Net change in fair value | **12 878** | 6 511 | 2 911 |
| **Total comprehensive income for the period** | **243 785** | 289 090 | 617 115 |
| Attributable to ordinary shareholders | **244 896** | 289 785 | 616 619 |
| Attributable to non-controlling interests | **(1 111)** | (695) | 496 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2020

| | Ordinary shareholders' equity N$'000 | Non-Controlling Interest N$'000 | Total equity N$'000 |
|---|---|---|---|
| **Balance at 1 January 2019 (audited)** | 3 291 137 | | 3 291 137 |
| **Total comprehensive income/(loss) for the period** | 289 785 | (695) | 289 090 |
| **Transactions with owners and non-controlling interests recorded directly in equity** | (119 693) | 13 673 | (106 020) |
| Equity-settled share-based payment transactions | 451 | | 451 |
| Deferred tax on share-based payment transactions | (144) | | (144) |
| Transactions with non-controlling interest | | 13 673 | 13 673 |
| Net dividends paid | (120 000) | | (120 000) |
| **Balance at 30 June 2019 (reviewed)** | 3 461 229 | 12 978 | 3 474 207 |
| **Total comprehensive income for the period** | 326 834 | 1 191 | 328 025 |
| **Transactions with owners and non-controlling interests recorded directly in equity** | 189 779 | | 189 779 |
| Equity-settled share-based payment transactions | 600 | | 600 |
| Deferred tax on share-based payment transactions | 144 | | 144 |
| Issue of share capital and share premium | 189 035 | | 189 035 |
| **Balance at 31 December 2019 (audited)** | 3 977 842 | 14 169 | 3 992 011 |
| **Total comprehensive income/(loss) for the period** | **244 896** | **(1 111)** | **243 785** |
| **Transactions with owners and non-controlling interests recorded directly in equity** | **(144 925)** | | **(144 925)** |
| Share issue transaction costs | **(1 924)** | | **(1 924)** |
| Net dividends paid | **(143 001)** | | **(143 001)** |
| **Balance at 30 June 2020 (reviewed)** | **4 077 813** | **13 058** | **4 090 871** |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2020

| | 1H20 Reviewed N$'000 | 1H19 Reviewed N$'000 | FY19 Audited N$'000 |
|---|---|---|---|
| **Net cash flows from operating activities** | **(46 909)** | 23 104 | 373 749 |
| Direct taxation paid | **(118 358)** | (105 486) | (276 697) |
| Other operating activities | **71 450** | 128 590 | 650 446 |
| **Net cash flows used in investing activities** | **(80 193)** | (250 491) | (247 436) |
| Capital expenditure | **(80 193)** | (250 491) | (247 436) |
| **Net cash flows used in financing activities** | **(221 207)** | (231 243) | (146 522) |
| Dividends paid | **(143 001)** | (120 000) | (120 000) |
| Issuance of ordinary share capital | | | 200 000 |
| Senior debt issued | | | (100 000) |
| Principle element of lease payments | **(14 906)** | (11 243) | (26 522) |
| Redemption of subordinated debt | **(63 300)** | (100 000) | (100 000) |
| **Net decrease in cash and cash equivalents** | **(348 309)** | (458 630) | (20 209) |
| Cash and cash equivalents at the beginning of the period | **1 526 148** | 1 546 357 | 1 546 357 |
| **Cash and cash equivalents at the end of the period** | **1 177 839** | 1 087 727 | 1 526 148 |
| Cash and balances with central banks | **1 177 839** | 1 087 727 | 1 526 148 |

# SEGMENTAL REPORTING

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# SEGMENTAL STRUCTURE FOR KEY BUSINESS LINES

## SBN Holdings Limited

Banking activities

### Personal & Business Banking

Banking and other financial services to individual customers, SMEs and commercial banking customers in Namibia. 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.

#### What we offer

**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 mainly to 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 customer
- Finance of vehicles and equipment in the business and corporate assets market
- Fleet solutions.

**Lending products**

- Lending products offered to both personal and business market
- Business lending offerings constitute a comprehensive suite of lending product offerings, structured working capital finance solutions, commercial property finance solutions and trade finance.

**Wealth**

- Short-term and life insurance products comprising
  - loan protection plans sold in conjunction with related banking products, homeowners' insurance, funeral cover, household contents and vehicle insurance
  - life, disability and investment policies sold by qualified intermediaries.
- Financial planning and modelling
- Integrated fiduciary services including fiduciary advice, will drafting and custody services as well as trust and estate administration
- Tailored banking, wealth management, investment and advisory services solutions for high net worth individual
- Offshore financial services to high net worth, mass-affluent and corporate clients of the group
- Investment services including global asset management
- Pension fund administration service.

### Corporate & Investment Banking

Services to clients including governments, parastatals, larger corporates, financial institutions and multinational corporates.

#### What we offer

**Client coverage**

Provide in-depth sector expertise to develop relevant client solutions and foster client relationships.

**Global markets**

Trading and risk management solutions across financial markets, including foreign exchange, money markets, interest rates, equities, credit and commodities.

**Transactional products and services**

Comprehensive suite of cash management, international trade finance, working capital and investor service solutions.

**Investment banking**

Full suite of advisory and financing solutions, from term lending to structured and specialised products across the equity and debt capital markets.

### Central and other

- Impact of group hedging activities, group capital instruments, group surplus capital and strategic acquisitions
- Costs of centralised corporate functions, direct costs of corporate functions are recharged to the business segments

# CONDENSED CONSOLIDATED SEGMENTAL REPORTS

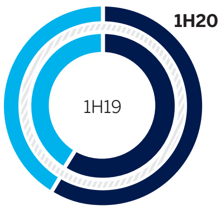
The group's primary segments comprise the group's banking activities, namely PBB, CIB and central and other.

| | **1H20 Reviewed N$'000** | 1H19 Reviewed N$'000 | FY19 Audited N$'000 |
|---|---|---|---|
| **Net interest income by business unit** | | | |
| PBB | **489 725** | 515 724 | 1 055 703 |
| CIB | **168 674** | 166 878 | 350 035 |
| Central and other | **(27 958)** | (23 853) | (73 195) |
| **Total net interest income** | **630 441** | 658 749 | 1 332 543 |
| **Non-interest revenue by business unit** | | | |
| PBB | **401 268** | 424 247 | 853 837 |
| CIB | **172 015** | 178 502 | 386 199 |
| Central and other | **13 256** | 5 726 | 22 720 |
| **Total non-interest revenue** | **586 539** | 608 475 | 1 262 756 |
| **Total income by business unit** | | | |
| PBB | **890 993** | 939 971 | 1 909 540 |
| CIB | **340 689** | 345 380 | 736 234 |
| Central and other | **(14 702)** | (18 127) | (50 475) |
| **Total income** | **1 216 980** | 1 267 224 | 2 595 299 |
| **Profit or loss after tax by business unit** | | | |
| PBB | **132 639** | 166 156 | 367 319 |
| CIB | **95 636** | 115 882 | 268 750 |
| Central and other | **(1 384)** | 333 | (22 571) |
| **Total profit after tax** | **226 891** | 282 371 | 613 498 |
| **Total assets by business unit** | | | |
| PBB | **18 366 830** | 18 701 900 | 19 573 557 |
| CIB | **15 291 782** | 14 508 747 | 14 479 608 |
| Central and other | **980 859** | 902 598 | 1 158 766 |
| **Total assets** | **34 639 471** | 34 113 245 | 35 211 931 |
| **Total liabilities by business unit** | | | |
| PBB | **16 721 319** | 16 979 383 | 17 787 532 |
| CIB | **13 607 983** | 13 370 549 | 13 362 639 |
| Central and other | **219 298** | 289 106 | 69 749 |
| **Total liabilities** | **30 548 600** | 30 639 038 | 31 219 920 |

# SEGMENTAL HIGHLIGHTS (Not reviewed)

## Personal & Business Banking

### PBB % OF GROUP EARNINGS




| | 1H20 | 1H19 |
|---|---|---|
| % of group earnings | **58.5** | 58.8 |

### PERSONAL AND BUSINESS BANKING

| | 1H20 | 1H19 |
|---|---|---|
| Profit after tax (N$'000) | **132 639** | 166 156 |
| Profit after tax contribution (%) | **58.5** | 58.8 |
| Cost-to-income ratio (%) | **63.2** | 57.7 |
| Gross loans and advances to customers (N$'000) | **17 818 623** | 18 649 589 |
| Net loans and advances to customers (N$'000) | **17 165 404** | 18 076 979 |

### Client focus

- In response to the competitive and economic landscape, the focus has been on delivering 'what matters' to the client.
- PBB continues to drive initiatives to enhance and improve client experience and satisfaction, including online lending and transactional offerings and direct servicing propositions.
- The decline in loans and advances is as a result of the challenging economic conditions experienced due to the impact of the COVID-19 pandemic.
- A slight growth in deposits was principally delivered through savings and investment products as clients shifted to higher-yielding offerings.
- Clients continued to migrate to alternative convenient digital channels in direct response to the COVID-19 pandemic. This behaviour increased digital channel volumes. We have seen 13% growth for Internet Banking year-on-year, 12% for SmartApp, and 15% for USSD. PayPulse, our digital wallet and money transfer platform, continued to gain traction with customers with transactional volumes increasing by 255% from 157 960 to 561 545 transactions and values increasing by 486% from N$52 million to N$304 million.

### Financial outcome

- The severe economic impact of COVID-19 adversely impacted the growth in NII.
- COVID-19 also resulted in declines in transactional volumes, resulting in adverse growth in fee and commission revenue growth.
- Decline in revenue growth resulted in an adverse cost-to-income ratio, and decline in ROE.

### Mortgage lending

- Growth in home loans of 5.8% year-on-year, resulting in a market share increasing by 0.35% to 27.14% year-on-year.
- While there has been a growth in mortgage lending, new business was down by 49% and registrations by 47% compared to prior year same period, mostly as a result of the revised lending parameters and the negative impact of COVID-19.
- Net interest margin contracted due to rate cuts amid the pressure of COVID-19.

### Card products

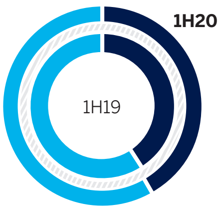
- Decline in interest rates and lower balances led to decreases in NII and consequently a decline in margins.
- An adverse growth in non-interest revenue was observed as a direct result of decreases in transaction volumes due to economic impact of COVID-19.

### Vehicle and asset finance

- While there has been cuts in interest rates, the industry experienced the lowest sales volume in 11 years, which adversely impacted balance sheet growth.
- Despite the industry contraction, we maintained our market share.

# Corporate & Investment Banking

## CIB % OF GROUP EARNINGS




| | 1H20 | 1H19 |
|---|---|---|
| % of group earnings | **42.2** | 41.0 |

## CORPORATE AND INVESTMENT BANKING

| | **1H20** | 1H19 |
|---|---|---|
| Profit after tax (N$'000) | **95 636** | 115 882 |
| Profit after tax contribution (%) | **42.2** | 41.0 |
| Cost-to-income ratio (%) | **57.8** | 52.5 |
| Gross loans and advances to customers (N$'000) | **4 607 251** | 4 532 799 |
| Net loans and advances (N$'000) | **4 566 783** | 4 500 146 |

## Client focus

- Actively responded to client needs with bespoke solutions and by launching new offerings.
- Provided tailored risk management solutions in volatile and fluid market conditions to protect client value.
- Focused on continuous improvement on platforms to enhance client experience.

## Financial outcome

- Revenue relatively on par with prior year amid tough operating and economic environment.
- Growth in customer loans and advances, assets and deposits were achieved on the back of client and mandate wins.
- Impairment pressure due to the current economic environment.

## Global markets

- Market share was maintained in a subdued trading environment.
- Foreign exchange revenue headwinds experienced on the back of low volumes.
- Interest rate reduction also translated into reduced interest rate expenses. Focus will be to contain interest rate expenses going forward.
- Focus on increasing trading client base and bring new products to the market.

## Investment banking

- Emphasis was on maintaining and defending both, local and foreign currency average loans and advances, given market sentiment and uncertainties relating to COVID-19.
- Proactive origination and bespoke deal structuring have been the order of the day in an effort to build the book going forward.
- Client margins remain under pressure, largely due to the competitive environment and limited tier 1 assets.
- New and increased debt was adversely impacted not only by COVID-19, but also already subdued market activity due to continuing sub-optimal macroeconomics.

## Transactional products and services

- Emphasis applied on maintaining and nurturing existing client base.
- Compressed margins experienced, largely due to repo rate cuts as a result of COVID-19 and competitive environment within the market.
- Continued investment in platform stability, new digital features and capabilities to meet client needs.

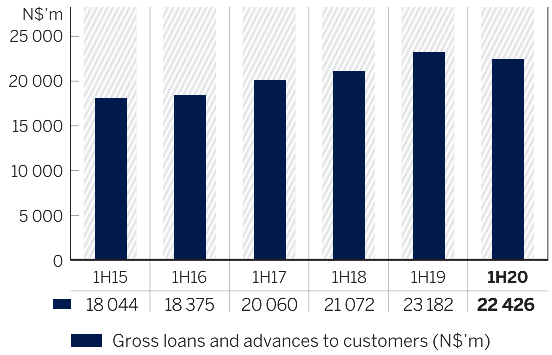
# FINANCIAL PERFORMANCE

# 17

# LOANS AND ADVANCES

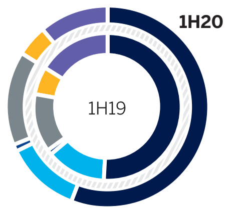
## GROSS LOANS AND ADVANCES TO CUSTOMERS

CAGR (1H15 – 1H20): 4.4%




Figures relating to periods 1H15, 1H16, 1H17 and 1H18 have not been reviewed.

## COMPOSITION OF GROSS LOANS AND ADVANCES TO CUSTOMERS(%)




| | 1H20 | 1H19 |
|---|---|---|
| Mortgage loans | **56** | 51 |
| Vehicle and asset finance | **12** | 13 |
| Card debtors | **1** | 1 |
| Corporate lending | **15** | 13 |
| Sovereign lending | **5** | 6 |
| Other loans and advances | **11** | 16 |

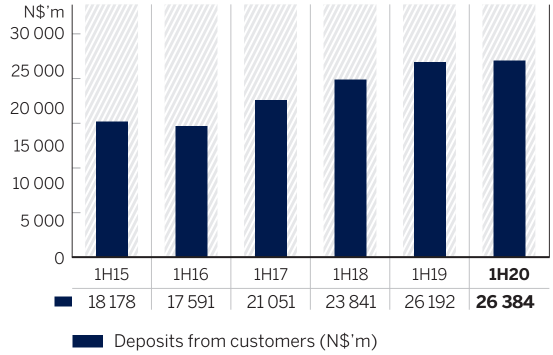
| | 1H20 Reviewed N$'000 | FY19 Audited N$'000 |
|---|---|---|
| **Net loans and advances measured at amortised cost** | **24 763 739** | 25 635 493 |
| **Gross loans and advances measured at amortised cost** | **25 457 632** | 26 234 595 |
| Mortgage loans | **12 485 216** | 11 739 977 |
| Vehicle and asset finance | **2 654 822** | 2 904 936 |
| Card debtors | **171 118** | 175 900 |
| Corporate lending | **3 466 985** | 3 829 309 |
| Sovereign lending | **1 140 266** | 1 429 732 |
| Banks | **3 031 758** | 2 836 906 |
| Other loans and advances | **2 507 467** | 3 317 835 |
| **Credit impairments on loans and advances, including IIS[1]** | **(693 893)** | (599 102) |
| **Total loans and advances** | **24 763 739** | 25 635 493 |

1 Interest in suspense (IIS).

# DEPOSITS AND DEBT FUNDING

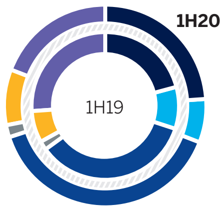
## DEPOSITS FROM CUSTOMERS

CAGR (1H15 – 1H20): 7.7%




Figures relating to periods 1H15, 1H16, 1H17 and 1H18 have not been reviewed.

## COMPOSITION OF DEPOSITS FROM CUSTOMERS(%)



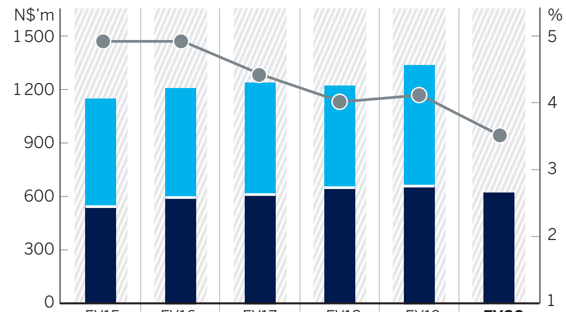

| | 1H20 | 1H19 |
|---|---|---|
| Current accounts | **24** | 21 |
| Cash management deposits | **7** | 9 |
| Call deposits | **39** | 35 |
| Savings accounts | **2** | 2 |
| Term deposits | **9** | 7 |
| NCDs | **19** | 26 |

| | 1H20 Reviewed N$'000 | FY19 Audited N$'000 |
|---|---|---|
| **Deposits from banks** | **1 237 350** | 2 328 818 |
| **Deposits from customers** | **26 383 621** | 25 538 002 |
| Current accounts | **6 354 429** | 7 488 563 |
| Cash management deposits | **1 775 149** | 826 505 |
| Card creditors | **29 212** | 29 205 |
| Call deposits | **10 203 258** | 8 620 081 |
| Savings accounts | **645 554** | 603 995 |
| Term deposits | **2 472 688** | 2 312 001 |
| Negotiable certificates of deposit | **4 903 331** | 5 657 652 |
| **Total deposits and debt funding** | **27 620 971** | 27 866 820 |

# TOTAL INCOME

## NET INTEREST INCOME AND NET INTEREST MARGIN

CAGR (1H15 - 1H20): 3.0%

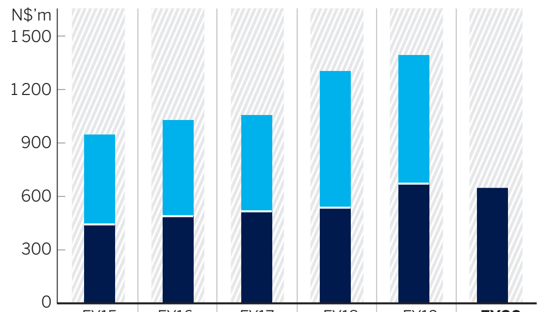



| | FY15 | FY16 | FY17 | FY18 | FY19 | **FY20** |
|---|---|---|---|---|---|---|
| First half (N$'m) | 544 | 595 | 609 | 642 | 659 | **630** |
| Second half (N$'m) | 604 | 610 | 627 | 578 | 674 | **–** |
| Net interest margin (%) | 4.9 | 4.9 | 4.4 | 4.0 | 4.1 | **3.5** |

Figures relating to periods 1H15, 1H16, 1H17 and 1H18 have not been reviewed.

## NON-INTEREST REVENUE

CAGR (1H15 - 1H20): 7.9%




| | FY15 | FY16 | FY17 | FY18 | FY19 | **FY20** |
|---|---|---|---|---|---|---|
| First half (N$'m) | 401 | 443 | 468 | 486 | 608 | **587** |
| Second half (N$'m) | 456 | 488 | 489 | 639 | 654 | **–** |

Figures relating to periods 1H15, 1H16, 1H17 and 1H18 have not been reviewed.

## Net interest income (Not reviewed)

- NII decreased by 4.3%, mainly attributable to the 2.75% staggered decrease in the repo rate since 30 June 2019.
- The net interest margin decreased to 3.5% because almost all loans and advances repriced with the full 2.75% rate adjustment while a significant portion of deposits and current accounts repriced with lower rates.
- The impact of the rate cut was partly off-set by the change in composition of deposits with strong growth in current and call accounts and a significant reduction in NCDs.

## Non-interest revenue (Not reviewed)

NIR declined by 3.6% to N$587 million. The reason for the decline is explained in more detail below.

### Net fee and commission

The 6.7% decline was caused by a decrease in all volume base fees due to COVID-19 and the economic impact it had on businesses and consumers. There was a substantial decline in volumes since the lockdown restrictions were imposed which did not immediately recover as expected after the lockdown restrictions were lifted.

Arrangement fees reduced due to low credit demand, driven by the current weak economic environment. Credit extension to corporate clients contracted by 3.6% year-on-year according the statistics released by Bank of Namibia for the month of June.

### Trading revenue

The decrease in volumes due to reduced trading activity, was partly offset by growth in revenue from structured products.

### Other revenue

In prior year certain revenue lines, relating to MobiPay, were presented under other income with the corresponding cost of sales being presented under fees and commission expense. Since 1 January 2020, the cost of sale amounts for those revenue line items were reallocated to other revenue to show the net revenue amount.

### Other gains and losses on financial instruments

Other gains and losses on financial instruments relate to investment income earned on our money market investments.

# NON-INTEREST REVENUE ANALYSIS

## Non-interest revenue

for the six months ended 30 June 2020

| | Change % | **1H20 Reviewed N$'000** | 1H19 Reviewed N$'000 | FY19 Audited N$'000 |
|---|---|---|---|---|
| **Net fee and commission revenue** | (6.7) | **405 916** | 435 033 | 881 640 |
| Fee and commission revenue | (4.7) | **498 182** | 522 942 | 1 076 438 |
| Account transaction fees | (15.1) | **152 683** | 179 841 | 351 263 |
| Card-based commission[1] | (2.0) | **87 672** | 89 425 | 89 644 |
| Documentation and administration fees[1] | (13.8) | **44 659** | 51 832 | 105 824 |
| Electronic banking fees[1] | (0.2) | **134 171** | 134 413 | 375 492 |
| Foreign currency service fees[1] | 77.5 | **9 525** | 5 367 | 16 059 |
| Custody fees | (17.9) | **11 864** | 14 447 | 30 977 |
| Trustees and executors' fees | 42.9 | **4 507** | 3 154 | 7 472 |
| Arrangement fees | (55.0) | **8 432** | 18 735 | 33 524 |
| Guarantees commission[1] | 20.1 | **9 826** | 8 184 | 16 973 |
| Other[2] | 98.6 | **34 843** | 17 544 | 49 210 |
| Fee and commission expense[2] | 5.0 | **(92 266)** | (87 909) | (194 798) |
| **Trading revenue** | (4.7) | **50 749** | 53 224 | 117 597 |
| **Other revenue[2]** | 9.5 | **58 766** | 53 658 | 117 283 |
| **Other gains and losses on financial instruments** | 6.8 | **71 108** | 66 560 | 146 236 |
| **Total non-interest revenue** | (3.6) | **586 539** | 608 475 | 1 262 756 |

1 Following a review of the financial statements it was apparent that a change in classification of these line items would provide information that is more relevant to users of the financial statements. FY19 was not restated as the reclassification of accounts was done during the period 1 July 2019 to 31 December 2019.

The table below presents a more detailed breakdown of the reclassification within NIR:

| | 1H19 | | |
|---|---|---|---|
| | Previously reported N$'000 | Reclassification N$'000 | Revised balance N$'000 |
| Documentation and administration fees | 56 092 | (4 260) | 51 832 |
| Card-based commission | 104 725 | (15 300) | 89 425 |
| Electronic banking fees | 114 853 | 19 560 | 134 413 |
| Guarantees commission | 2 393 | 5 791 | 8 184 |
| Foreign currency service fees | 11 158 | (5 791) | 5 367 |

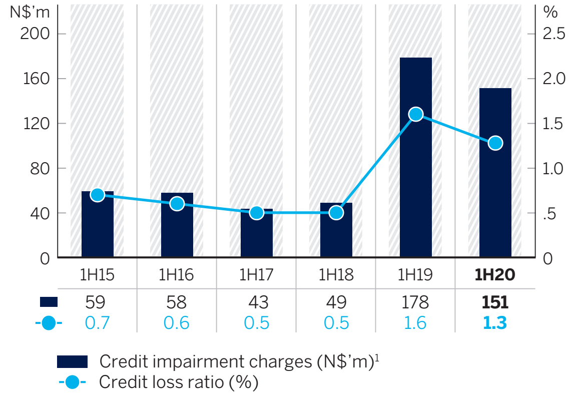
2 Certain commission income has been reported on a net basis where it was previously separated into other revenue and fee and commission expense. It is more accurate to record the net result in fee and commission income in order to reflect the nature of the income and, accordingly, the respective line items for the comparative periods have been adjusted. The effect of the reclassification is presented below.

| | 1H19 | | | FY19 | | |
|---|---|---|---|---|---|---|
| | Previously reported N$'000 | Reclassification N$'000 | Revised balance N$'000 | Previously reported N$'000 | Reclassification N$'000 | Revised balance N$'000 |
| Fee and commission revenue – other | 17 156 | 388 | 17 544 | 48 082 | 1 128 | 49 210 |
| Fee and commission expense | (99 762) | 11 853 | (87 909) | (237 353) | 42 555 | (194 798) |
| Other revenue | 65 899 | (12 241) | 53 658 | 160 966 | (43 683) | 117 283 |

# CREDIT IMPAIRMENT ANALYSIS

## CREDIT IMPAIRMENT ANALYSIS

CAGR (1H15 – 1H20): 20.7%




Figures relating to periods 1H15, 1H16, 1H17 and 1H18 have not been reviewed.

1 The group adopted IFRS 9 in 2018 and, as permitted by IFRS 9, elected not to restate its comparative financial statements. Therefore, comparability will not be achieved by the fact that the 1H15 – 1H17 information has been prepared on an IAS 39 basis.

| | **1H20 Reviewed N$'000** | 1H19 Reviewed N$'000 | FY19 Audited N$'000 |
|---|---|---|---|
| **Net expected credit loss raised and released:** | **119 307** | 196 403 | 276 077 |
| Other financial investments | **4 014** | 316 | 708 |
| Loans and advances | **162 842** | 196 527 | 273 864 |
| Letters of credit and guarantees | **(1 078)** | (440) | 1 505 |
| **Recoveries on loans and advances previously written off** | **(14 598)** | (17 921) | (36 912) |
| **Total credit impairment charge** | **151 180** | 178 482 | 239 165 |

# Reconciliation of ECL for loans and advances measured at amortised costs

## Reconciliation of ECL for loans and advances measured at amortised cost

| 1H20 (reviewed) | Opening ECL 1 January 2020 N$'000 | Total transfers between stages N$'000 | Net ECL raised/ (released)[1] N$'000 | Impaired accounts written-off N$'000 | Exchange and other movements N$'000 | Closing ECL 30 June 2020 N$'000 |
|---|---|---|---|---|---|---|
| **Mortgage loans** | 277 767 | | 59 894 | (5 609) | 4 408 | 336 460 |
| Stage 1 | 18 382 | 9 328 | (8 955) | | (2 508) | 16 247 |
| Stage 2 | 38 461 | (6 756) | 35 532 | | (3 267) | 63 970 |
| Stage 3[2] | 220 924 | (2 572) | 33 317 | (5 609) | 10 183 | 256 243 |
| **Vehicle and asset finance** | 100 582 | | 26 763 | (6 206) | | 121 139 |
| Stage 1 | 9 424 | 2 861 | (3 540) | | (1) | 8 744 |
| Stage 2 | 38 703 | (2 968) | 20 064 | | | 55 799 |
| Stage 3[2] | 52 455 | 107 | 10 239 | (6 206) | 1 | 56 596 |
| **Card debtors** | 10 842 | | 824 | (4 065) | | 7 601 |
| Stage 1 | 1 457 | 609 | (590) | | | 1 476 |
| Stage 2 | 6 343 | (467) | (2 886) | | | 2 990 |
| Stage 3[2] | 3 042 | (142) | 4 300 | (4 065) | | 3 135 |
| **Corporate** | 22 155 | | 9 785 | (133) | 3 294 | 35 101 |
| Stage 1 | 22 198 | (8 654) | 5 771 | | 524 | 19 839 |
| Stage 2 | (177) | 8 422 | 1 746 | | 2 770 | 12 761 |
| Stage 3[2] | 134 | 232 | 2 268 | (133) | | 2 501 |
| **Sovereign** | | | 1 689 | | | 1 689 |
| Stage 1 | | | 1 436 | | | 1 436 |
| Stage 2 | | | 253 | | | 253 |
| Stage 3[2] | | | | | | |
| **Bank** | (696) | | 2 089 | | 3 015 | 4 408 |
| Stage 1 | (695) | | 2 546 | | 2 409 | 4 260 |
| Stage 2 | (1) | | (457) | | 606 | 148 |
| Stage 3[2] | | | | | | |
| **Other loans and advances[3]** | 188 452 | | 61 798 | (38 940) | (23 815) | 187 495 |
| Stage 1 | 37 642 | 3 641 | (5 865) | | (433) | 34 985 |
| Stage 2 | 58 504 | (2 366) | 10 142 | | | 66 280 |
| Stage 3[2] | 92 306 | (1 275) | 57 521 | (38 940) | (23 382) | 86 230 |
| **Total** | 599 102 | | 162 842 | (54 953) | (13 098) | 693 893 |
| Stage 1 | 88 408 | 7 785 | (9 197) | | (9) | 86 987 |
| Stage 2 | 141 833 | (4 135) | 64 394 | | 109 | 202 201 |
| Stage 3[2] | 368 861 | (3 650) | 107 645 | (54 953) | (13 198) | 404 705 |

1 Net ECL raised/(released) less interest recovered on cured accounts as well as recoveries of amounts written off in previous years equals income statement impairment charge.
2 Stage 3 includes IIS.
3 Comprises personal unsecured lending and business and other lending.

# Reconciliation of ECL for loans and advances measured at amortised costs

## Reconciliation of ECL for loans and advances measured at amortised cost

| FY19 (audited) | Opening ECL 1 January 2019 N$'000 | Total transfers between stages N$'000 | Net ECL raised/ (released)[1] N$'000 | Impaired accounts written-off N$'000 | Exchange and other movements N$'000 | Closing ECL 31 December 2019 N$'000 |
|---|---|---|---|---|---|---|
| **Mortgage loans** | 179 665 | | 149 132 | (8 012) | (43 018) | 277 767 |
| Stage 1 | 16 929 | 12 266 | (10 813) | | | 18 382 |
| Stage 2 | 51 712 | (4 045) | (9 207) | | 1 | 38 461 |
| Stage 3[2] | 111 024 | (8 221) | 169 152 | (8 012) | (43 019) | 220 924 |
| **Vehicle and asset finance** | 95 765 | | 38 859 | (34 042) | | 100 582 |
| Stage 1 | 10 838 | 11 157 | (12 571) | | | 9 424 |
| Stage 2 | 37 355 | (6 368) | 7 716 | | | 38 703 |
| Stage 3[2] | 47 572 | (4 789) | 43 714 | (34 042) | | 52 455 |
| **Card debtors** | 12 971 | | 3 987 | (6 116) | | 10 842 |
| Stage 1 | 1 735 | 2 612 | (2 890) | | | 1 457 |
| Stage 2 | 7 433 | (1 363) | 273 | | | 6 343 |
| Stage 3[2] | 3 803 | (1 249) | 6 604 | (6 116) | | 3 042 |
| **Corporate** | 20 795 | | (1 839) | | 3 199 | 22 155 |
| Stage 1 | 16 506 | (174) | 2 667 | | 3 199 | 22 198 |
| Stage 2 | 3 120 | 18 | (3 315) | | | (177) |
| Stage 3[2] | 1 169 | 156 | (1 191) | | | 134 |
| **Sovereign** | 2 564 | | (2 564) | | | |
| Stage 1 | 2 050 | | (2 050) | | | |
| Stage 2 | 514 | | (514) | | | |
| Stage 3[2] | | | | | | |
| **Bank** | (967) | | 271 | | | (696) |
| Stage 1 | (967) | | 272 | | | (695) |
| Stage 2 | | | (1) | | | (1) |
| Stage 3[2] | | | | | | |
| **Other loans and advances** | 155 942 | | 86 018 | (77 605) | 24 097 | 188 452 |
| Stage 1 | 41 247 | 15 413 | (19 018) | | | 37 642 |
| Stage 2 | 57 572 | (12 240) | 13 172 | | | 58 504 |
| Stage 3[2] | 57 123 | (3 173) | 91 864 | (77 605) | 24 097 | 92 306 |
| **Total** | 466 735 | | 273 864 | (125 775) | (15 722) | 599 102 |
| Stage 1 | 88 338 | 41 274 | (44 403) | | 3 199 | 88 408 |
| Stage 2 | 157 706 | (23 998) | 8 124 | | 1 | 141 833 |
| Stage 3[2] | 220 691 | (17 276) | 310 143 | (125 775) | (18 922) | 368 861 |

1 Net ECL raised/(released) less interest recovered on cured accounts as well as recoveries of amounts written off in previous years equals income statement impairment charge.
2 Stage 3 includes IIS.

# Loans and advances performance

## Loans and advances measured at amortised cost performance

| 1H20 (reviewed) | | SB 1 – 12 Stage 1 N$'000 | SB 1 – 12 Stage 2 N$'000 | SB 13 – 20 Stage 1 N$'000 | SB 13 – 20 Stage 2 N$'000 |
|---|---|---|---|---|---|
| **Loans and advances measured at amortised cost** | | | | | |
| **PBB** | 17 818 623 | | | 14 503 974 | |
| Mortgage loans | 12 485 216 | | | 9 904 934 | |
| Vehicle and asset finance | 2 654 822 | | | 2 329 126 | |
| Card debtors | 171 118 | | | 153 521 | |
| Other loans and advances | 2 507 467 | | | 2 116 393 | |
| Personal unsecured lending | 1 626 329 | | | 1 539 031 | |
| Business lending and other | 881 138 | | | 577 362 | |
| **CIB** | 7 639 009 | 2 931 758 | | 4 046 162 | 644 204 |
| Corporate | 3 466 985 | | | 2 829 189 | 620 911 |
| Sovereign | 1 140 266 | | | 1 116 973 | 23 293 |
| Bank | 3 031 758 | 2 931 758 | | 100 000 | |
| **Gross carrying amount** | 25 457 632 | 2 931 758 | | 18 550 136 | 644 204 |

The group uses a 25-point master rating scale to quantify the credit risk for each borrower (corporate asset classes) or facility (specialised lending and retail asset classes), as illustrated in the table above. These ratings are mapped to probability of defaults (PDs) by means of calibration formulae that use historical default rates and other data from the applicable PPB portfolios.

| | SB 21 – 25 | | Default | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 N$'000 | Stage 2 N$'000 | Stage 3 N$'000 | Total gross carrying amount of default exposures N$'000 | Securities and expected recoveries on default exposures N$'000 | Balance sheet ECL on default exposures and IIS on stage 3 N$'000 | Gross default coverage % | Stage 3 exposures % |
| | | 1 608 641 | 1 706 008 | 1 706 008 | 1 304 009 | 401 999 | | |
| | | 1 126 000 | 1 454 282 | 1 454 282 | 1 198 039 | 256 243 | 18 | 12 |
| | | 253 926 | 71 770 | 71 770 | 15 174 | 56 596 | 79 | 3 |
| | | 14 462 | 3 135 | 3 135 | | 3 135 | 100 | 2 |
| | | 214 253 | 176 821 | 176 821 | 90 796 | 86 025 | | |
| | | 66 774 | 20 524 | 20 524 | | 20 524 | 100 | 1 |
| | | 147 479 | 156 297 | 156 297 | 90 796 | 65 501 | 42 | 12 |
| | | 11 889 | 4 996 | 4 996 | 2 495 | 2 501 | | |
| | | 11 889 | 4 996 | 4 996 | 2 495 | 2 501 | | |
| | | 1 620 530 | 1 711 004 | 1 711 004 | 1 306 504 | 404 500 | | |

# Loans and advances performance continued

## Loans and advances measured at amortised cost performance continued

| FY19 (audited) | | SB 1 – 12 | | SB 13 – 20 | |
|---|---|---|---|---|---|
| | | Stage 1 N$'000 | Stage 2 N$'000 | Stage 1 N$'000 | Stage 2 N$'000 |
| **Loans and advances measured at amortised cost** | | | | | |
| **PBB** | 18 138 648 | | | 14 840 905 | |
| Mortgage loans | 11 739 977 | | | 9 181 485 | |
| Vehicle and asset finance | 2 904 936 | | | 2 541 197 | |
| Card debtors | 175 900 | | | 154 195 | |
| Other loans and advances | 3 317 835 | | | 2 964 028 | |
| Personal unsecured lending | 1 868 727 | | | 1 750 621 | |
| Business lending and other | 1 449 108 | | | 1 213 407 | |
| **CIB** | 8 095 947 | 4 140 657 | | 3 871 041 | 71 585 |
| Corporate | 3 829 309 | 25 397 | | 3 759 163 | 32 085 |
| Sovereign | 1 429 732 | 1 278 354 | | 111 878 | 39 500 |
| Bank | 2 836 906 | 2 836 906 | | | |
| **Gross carrying amount** | 26 234 595 | 4 140 657 | | 18 711 946 | 71 585 |

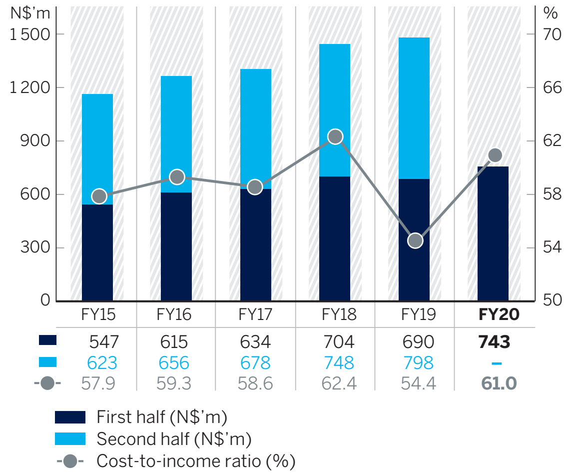
The group uses a 25-point master rating scale to quantify the credit risk for each borrower (corporate asset classes) or facility (specialised lending and retail asset classes), as illustrated in the table above. These ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data from the applicable PPB portfolios.

| SB 21 – 25 | | Default | | | | | |
|---|---|---|---|---|---|---|---|
| Stage 1 N$'000 | Stage 2 N$'000 | Stage 3 N$'000 | Total gross carrying amount of default exposures N$'000 | Securities and expected recoveries on default exposures N$'000 | Balance sheet ECL on default exposures and IIS on stage 3 N$'000 | Gross default coverage % | Non-performing exposures % |
| | 1 741 302 | 1 556 441 | 1 556 441 | 1 188 315 | 368 125 | | |
| | 1 227 452 | 1 331 040 | 1 331 040 | 1 080 753 | 250 287 | 19 | 11 |
| | 300 638 | 63 101 | 63 101 | 10 645 | 52 456 | 83 | 2 |
| | 18 662 | 3 043 | 3 043 | | 3 042 | 100 | 2 |
| | 194 550 | 159 257 | 159 257 | 96 917 | 62 340 | | |
| | 100 007 | 18 099 | 18 099 | 933 | 17 166 | 95 | 1 |
| | 94 543 | 141 158 | 141 158 | 95 984 | 45 174 | 32 | 6 |
| | 12 664 | | | (134) | 134 | | |
| | 12 664 | | | (134) | 134 | | |
| | 1 753 966 | 1 556 441 | 1 556 441 | 1 188 181 | 417 149 | | |

# OPERATING EXPENSES

## OPERATING EXPENSES

CAGR (1H15 - 1H20): 6.3%




Figures relating to periods 1H15, 1H16, 1H17 and 1H18 have not been reviewed.

## OPERATING EXPENSES

| | Change % | **1H20 Reviewed N$'000** | 1H19 Reviewed N$'000 | FY19 Audited N$'000 |
|---|---|---|---|---|
| Auditors' remuneration | 115.2 | **5 188** | 2 411 | 6 101 |
| Amortisation | 48.4 | **18 820** | 12 685 | 30 668 |
| Communication expense | (17.6) | **8 460** | 10 269 | 21 646 |
| Depreciation | 16.5 | **62 893** | 53 968 | 112 205 |
| IT expenses | 74.9 | **93 623** | 53 544 | 125 300 |
| Lease rentals | (63.3) | **5 347** | 14 564 | 31 396 |
| Professional fees | 2.6 | **63 934** | 62 302 | 144 675 |
| Loss on sale of property and equipment | 339.9 | **981** | 223 | 1 920 |
| Premises costs | (19.4) | **22 918** | 28 433 | 56 360 |
| Staff costs | (1.0) | **403 047** | 407 121 | 868 400 |
| Other expenses | 30.7 | **57 686** | 44 152 | 89 366 |
| **Total** | 7.7 | **742 897** | 689 672 | 1 488 037 |

## Operating expenses (Not reviewed)

Operating expenses increased by 7.7% year-on-year due to:

- Amortisation expense increased in line with the increase in intangible assets which is mainly attributable to the completion of many strategic and regulatory projects.
- The increase in information technology spend is due to:
  - Higher spend on digital capabilities in line with the client journeys and improving the customer experience.
  - Higher spend on security costs to ensure a secure and safe environment.
  - Higher software license costs due to the Namibia Dollar weakening against the US Dollar.
- The higher depreciation charge and lower lease rentals compared to the prior year is attributable to the depreciation charge for our new head office and the expiry of our lease agreement at Post Street Mall.
- Increase in other expenses is largely due to costs incurred due to the migration of our business banking and corporate clients from the old core banking system onto Finacle.

The overall increase in operating expenses was partly offset by:

- A decline in headcount supported slower growth in staff costs resulting in a decline of 1%.

# TAXATION

## DIRECT TAXATION RATE RECONCILIATION

| | 1H20 Reviewed % | 1H19 Reviewed % | FY19 Audited % |
|---|---|---|---|
| The total tax charge for the period as a percentage of net income before indirect tax | **29.7** | 29.8 | 29.6 |
| Indirect taxation | **(5.1)** | (3.8) | (3.8) |
| **Direct taxation charge for the period as a percentage of profit before indirect taxation** | **24.6** | 26.0 | 25.8 |
| Permanent differences: | **7.4** | 6.0 | 6.2 |
| Non-taxable income – dividends | **6.2** | 4.4 | 4.6 |
| Non-taxable income – other | **0.1** | 0.3 | 0.2 |
| Non-deductible expenditure | | (0.7) | (0.3) |
| Other | **1.1** | 2.0 | 1.7 |
| **Standard rate of Namibian tax** | **32.0** | 32.0 | 32.0 |

### Direct taxation rate

The decrease in effective direct taxation rate is largely attributable to calculated tax losses in a subsidiary.

# LIQUIDITY AND CAPITAL MANAGEMENT

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# LIQUIDITY MANAGEMENT (Not reviewed)

## Liquidity management overview

- Appropriate liquidity buffers were held in line with the assessment of liquidity risk in stressed market conditions.
- Proactive liquidity management in line with group liquidity standards ensured that, despite an uncertain liquidity environment, adequate liquidity was maintained to fully support balance sheet strategies.
- The group continues to leverage the extensive deposit franchises across the portfolio to ensure that it has the appropriate amount, tenure and diversification of funding to support its current and forecast asset base while minimising cost of funding.

## Total contingent liquidity

- Portfolios of marketable and liquid instruments to meet regulatory and internal stress testing requirements are maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within the asset and liability committee's defined limits on the basis of diversification and liquidity.
- Managed liquidity represents unencumbered marketable instruments, which would be able to provide sources of liquidity in a stress scenario.

| | **1H20 N$' million** | 1H19 N$' million | FY19 N$' million |
|---|---|---|---|
| **Unencumbered marketable assets comprising:** | **7 401** | 6 652 | 6 279 |
| Notes and coins | **355** | 231 | 455 |
| Balances with central banks | **1 191** | 1 959 | 2 128 |
| Government bonds and bills | **945** | 416 | 85 |
| Other liquid asset | **4 910** | 4 046 | 3 610 |
| **Total contingent liquidity as a % of funding-related liabilities (%)** | **25.14** | 22.50 | 20.98 |

## Internal stress ratio

- The group's internal stress ratio promotes short-term resilience of the group's 30 calendar day liquidity risk profile by ensuring it has sufficient marketable assets to meet potential outflows in a stressed environment.

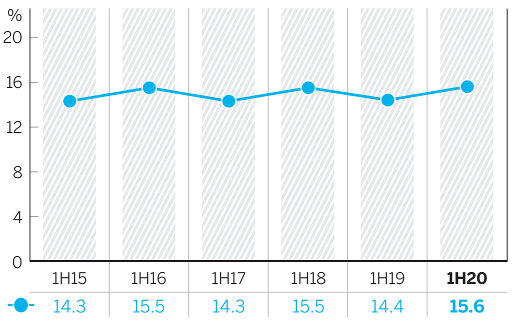
| | **1H20 N$'000** | 1H19 N$'000 | FY19 N$'000 |
|---|---|---|---|
| Total marketable assets | **7 400** | 6 650 | 6 280 |
| Net cash outflows | **5 220** | 5 050 | 5 120 |
| **Internal stress ratio (%)** | **141.74** | 131.67 | 122.73 |
| Minimum requirement (%) | **100** | 100 | 100 |

## Diversified funding base

Funding markets are evaluated on an ongoing basis to ensure appropriate group funding strategies are executed, depending on the competitive and regulatory environment. The group continued to focus on building its deposit base as a key component of the funding mix.

# CAPITAL ADEQUACY (Not reviewed)

## CAPITAL ADEQUACY RATIO




Figures relating to periods 1H15, 1H16, 1H17 and 1H18 have not been reviewed

## BASEL III REGULATORY CAPITAL

| | **1H20 N$'000** | 1H19 N$'000 | FY19 N$'000 |
|---|---|---|---|
| **Tier 1** | | | |
| Ordinary share capital and premium | **643 234** | 475 395 | 643 234 |
| Ordinary shareholders' reserves | **2 991 994** | 2 590 161 | 3 151 231 |
| | **3 635 228** | 3 065 556 | 3 794 465 |
| **Less: regulatory adjustments** | **(336 841)** | (129 671) | (298 130) |
| Intangible assets | **(167 430)** | (65 065) | (160 582) |
| Deferred tax asset | **(120 142)** | (42 390) | (89 989) |
| Defined benefit pension fund assets and liabilities | **(49 269)** | (22 216) | (47 559) |
| **Common equity tier 1 capital** | **3 298 387** | 2 935 885 | 3 496 335 |
| **Tier II** | | | |
| Subordinated debt | **100 000** | 100 000 | 100 000 |
| Current unappropriated profits | **203 007** | 240 899 | 344 247 |
| General allowance for credit impairments | **299 463** | 255 601 | 234 696 |
| **Tier II capital** | **602 470** | 596 500 | 678 943 |
| **Total eligible capital (including unappropriated profits)** | **3 900 857** | 3 532 385 | 4 175 278 |

## CAPITAL ADEQUACY RATIOS

| | Minimum regulatory requirement | Target ratio | Including unappropriated profits | | | Excluding unappropriated profits | | |
|---|---|---|---|---|---|---|---|---|
| | % | % | **1H20 %** | 1H19 % | FY19 % | **1H20 %** | 1H19 % | FY19 % |
| Total capital adequacy ratio | 10 | 11 – 12 | **15.62** | 14.43 | 15.31 | **15.62** | 14.43 | 15.31 |
| Tier I capital adequacy ratio | 7 | 7.7 – 8.2 | **14.02** | 13.05 | 13.97 | **13.21** | 12.08 | 12.60 |
| Tier I leverage ratio | 6 | 6.6 – 7.2 | **9.77** | 8.89 | 9.47 | **9.21** | 8.24 | 8.54 |

## BASEL III RISK-WEIGHTED ASSETS

| | **1H20 N$'000** | 1H19 N$'000 | FY19 N$'000 |
|---|---|---|---|
| Credit risk | **21 708 626** | 21 224 491 | 21 827 334 |
| Market risk | **377 400** | 451 471 | 413 719 |
| Operational risk | **2 890 164** | 2 668 292 | 2 783 568 |
| **Total risk-weighted assets** | **24 976 190** | 24 344 254 | 25 024 621 |

# OTHER INFORMATION

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# BASIS OF PREPARATION AND PRESENTATION

SBN Holdings Limited's (the group) financial results, including the condensed consolidated statement of financial position, condensed consolidated income statement, condensed consolidated statement of other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months ended 30 June 2020 (results) are prepared in accordance with the requirements of the NSX Listings Requirements, the requirements of IFRS and its interpretations as adopted by the International Accounting Standards Board (IASB), the presentation requirements of IAS 34 Interim Financial Reporting and the requirements of the Companies Act of Namibia, applicable to condensed financial statements.

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. This report is presented in Namibia dollars (N$), which is the presentation currency of the group. All amounts are stated in thousands of Namibia dollar (N$'000), unless indicated otherwise. 1H20 refers to the first half-year results for 2020. 1H19 refers to the first half-year results for 2019. FY19 refers to the full year results for 2019. Change % reflects 1H20 change on 1H19. All amounts relate to the group's consolidated results, unless otherwise specified.

The 1H20 results, including comparatives for 1H19, where applicable, have been independently reviewed by the group's external auditors.

The group's FY19 financial information has been correctly extracted from the underlying audited consolidated annual financial statements for the year ended 31 December 2019, unless otherwise specified.

The accounting policies applied in the preparation of these reviewed condensed consolidated interim results are in terms of IFRS. These accounting policies are consistent with the accounting policies applied in the preparation of the group's previous consolidated annual financial statements.

The board of directors (the board) of the group takes full responsibility for the preparation of this report. The preparation of the group's results was supervised by the group chief financial officer, Letitea du Plessis, CA (SA).

The results were made publicly available on 15 September 2020.

# CHANGES IN ACCOUNTING POLICIES AND RESTATEMENTS

## 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 for of the adoption of the following standards and amendments effective for the current year:

- IFRS 3 Business Combinations (amendment) (IFRS 3), the amendment clarifies 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 will be applied prospectively.
- IFRS 7 Financial Instruments: Disclosures (IFRS 7), IFRS 9 Financial Instruments (amendments) (IFRS 9) and IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). Interest Rate Benchmark Reform resulted in amendments to IFRS 9, IAS 39 and IFRS 7 requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting. The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendment will be applied retrospectively.
- Conceptual Framework of Financial Reporting (revised) (conceptual framework), the revised conceptual framework includes a comprehensive set of concepts for financial reporting, replacing the previous version of the conceptual framework. These concepts are by the IASB as the framework for setting IFRS standards. The revision did not result in any changes to IFRS standards.

Early adoption of revised standards:

- IFRS 3 Business Combinations (amendments) (IFRS 3). This standard requires an entity to refer to the Conceptual Framework for Financial Reporting in determining what constitutes an asset or a liability. The amendments update the reference from the previous version of the Conceptual Framework that existed to the version issued in March 2018 and adds an exception for some types of liabilities and contingent liabilities to refer to IAS 37 instead of the Conceptual Framework. The amendments will be applied prospectively.
- IAS 16 Property, Plant and Equipment (amendments) (IAS 16). Narrow-scope amendments to IAS 16 for the accounting of amounts received when selling items produced while an entity is preparing an asset for its intended use. The amendments clarify the accounting requirements in prohibiting the entity from deducting such amount from the cost of property, plant and equipment and instead recognising such sales proceeds and related cost in profit or loss. The amendments will be applied retrospectively.
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (amendments) (IAS 37). Narrow-scope amendments to IAS 37 in determining which costs to include in estimating the cost of fulfilling a contract for the purposes of assessing whether that contract is onerous. The amendments clarify that the cost of fulfilling the contract includes both the incremental costs of fulfilling the contract and an allocation of costs that relate directly to fulfilling contracts. The amendments will be applied retrospectively. Adjusting prior periods is not required, but rather adjusting the opening Retained Earnings with the cumulative effect of the amendments on transition date.

The adoption of new and amended standards on 1 January 2020 did not affect the group's previously reported financial results, disclosures or accounting policies and did not impact the group's results upon transition.

## Restatements

### Reclassification of inter-company balances

During 2019, there was a review of the presentation of the group statement of financial position. It was identified that international banking sector disclosure does not aggregate balances with group companies and report them separately on the statement of financial position but rather reports these intergroup exposures together with third-party exposures. During the period, these line items have been reclassified into the underlying asset and liability line items to provide a fairer representation of the group statement of financial position. The restatement on the group's statement of financial position only impacts the following:

| | 1H19 (reviewed) | | |
|---|---|---|---|
| | Previously reported statement of financial position N$'000 | Restatement N$'000 | Restated statement of financial position N$'000 |
| **Assets** | | | |
| Loans and advances | 24 429 626 | 1 805 228 | 26 234 854 |
| Interests in group companies, associates and joint ventures | 1 856 380 | (1 843 128) | 13 252 |
| Other assets | 129 432 | 37 900 | 167 332 |
| **Total** | 26 415 438 | | 26 415 438 |
| **Liabilities** | | | |
| Deposits and current accounts | 26 566 305 | 1 479 280 | 28 045 585 |
| Loans from group companies | 1 709 149 | (1 709 149) | |
| Debt securities issued | 1 591 250 | 101 809 | 1 693 059 |
| Provisions and other liabilities | 489 132 | 128 060 | 617 192 |
| **Total** | 30 355 836 | | 30 355 836 |

# 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. No material changes to assumptions have occurred during the current period. The following represents the most material key management assumptions applied in preparing these financial statements.

## Expected credit loss on financial assets – 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. The impairment provision calculation excludes post write off recoveries (PWOR) from the loss given default (LGD) in calculating the ECL. This LGD parameters is aligned to market practice.
- 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, including certain PBB business banking 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.
- Lifetime includes consideration for multiple default events, i.e. where defaulted exposures cure and then subsequently re-default. This consideration increases the lifetime and the potential ECL.
- The measurement period for unutilised loan commitments utilise the same approach as on-balance-sheet exposures.

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

### PBB

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. Behaviour scorecards are based on a combination of factors which include the information relating to customers, transactions and delinquency behaviour (including the backstop when contractual payments are more than 30 days past due) to provide a quantitative assessment (score), and more specifically, a ranking of customer creditworthiness. The creditworthiness of a customer is summarised by a score, with high scores corresponding to low-risk customers, and conversely, low scores corresponding to high-risk customers. These scores are often taken into account in determining the PD including relative changes in PD and absolute PD backstop. Credit risk has increased significantly since initial recognition when these criteria are met.

The group determines the SICR threshold by utilising an appropriate transfer rate of exposures that are less than 30 days past due (DPD) to stage 2. This transfer rate is such that the proportion of the 0-29 DPD book transferred into stage 2 is no less than the observed 12-month roll rate of 0-29 day accounts into 30 or more days in arrears. The SICR thresholds are reviewed regularly to ensure that they are appropriately calibrated to identify SICR by portfolio vintage and to 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, the 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 group'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 group's master rating scale as investment grade (within credit risk grade 1 – 12 of the group's 25-point master rating scale) are assessed for SICR at each reporting date but are considered to be of a low credit risk. To determine whether a client's credit risk has increased significantly since origination, the group would need to determine the extent of the change in credit risk using the table below:

| Group 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 (FLI) in ECL measurement

For PBB these forward-looking economic expectations are included in the ECL where adjustments are made based on the group's macroeconomic 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 group's macroeconomic outlook expectations. In addition to forward-looking macroeconomic information, other types of forward-looking information, such as specific event risk, have been taken into account in ECL estimates when required, through the application of out-of-model adjustments. These out-of-model adjustments are subject to group credit governance committee oversight.

The group'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 group'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 group'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 group'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 the 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. vehicle and asset finance, mortgage 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% ECL allowance) with no reasonable expectation 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.

## 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 group'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 with existing financial asset terms and conditions.

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 ECL model) back to stage 1 (12-month ECL) prospectively.

## The group'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 30 June 2020, for inclusion in the group's forward-looking process and ECL calculation:

### Namibia economic expectation

Our base case for Namibia is premised on a weakened economic prospect due to negative implications emanating from COVID-19 with extended lockdown restrictions during the first four months of the pandemic, which would result in low business and consumer confidence and slow implementation of intended economic reforms. Modest recovery in economic activities may be experienced towards end of the year as restrictions are relaxed and business activities and infrastructure normalise somewhat.

A more bearish outcome would materialise should the recession continue due to extended lockdown restrictions to contain an unrelenting pandemic, resulting in destruction of businesses and associated prolonged loss of jobs and income. This would derail Government's targets of ensuring debt stabilisation and fiscal sustainability.

There's a moderate probability of a bullish case emerging, from better than expected fast tracked policy reform implementation, early resumption of economic activities, which improve both business and consumer confidence and, ultimately, private sector fixed investment and employment. Consumer spending, still quite resilient, would also further benefit from improved business confidence and employment growth.

### COVID-19 impact

COVID-19 has had a profound impact globally and there remains much uncertainty as to the future economic path and recovery. As mentioned in the sections above in determining the forward-looking impact, from an IFRS 9 perspective, the group has forecasted three possible future macroeconomic scenarios, being the base, bear and bull scenarios and attributed weightings to these three scenarios. The ultimate economic impact of the pandemic is unpredictable and forecasting these scenarios is complex. The forward-looking scenario ratios have been changed from base case (60%), bullish (20%) and bearish (20%) to base case (55%), bullish (15%) and bearish (30%). Although the current period ECL charge has decreased compared with the prior period, it was as a result of a significant once-off ECL charge raised in the prior period. Gross loans and advances decreased from N$26,2 billion at 31 December 2019 to N25,5 billion as at 30 June 2020 and the related ECL allowance increased from N$599 million to N$694 million.

## Main macroeconomic factors

The following table shows the main macroeconomic factors used to estimate the forward-looking impact on the ECL provision on financial assets. For each scenario, namely, the base case (55%), bullish (15%) and bearish (30%) scenario, the average values of the factors over the next 12 months, and over the remaining forecast period, are presented.

| | Base scenario | | Bearish scenario | | Bullish scenario | |
|---|---|---|---|---|---|---|
| **Macroeconomic factors – 1H20 (Reviewed)** | **Next 12 months** | **Remaining forecast period[1]** | **Next 12 months** | **Remaining forecast period[1]** | **Next 12 months** | **Remaining forecast period[1]** |
| **Namibia** | | | | | | |
| Inflation (%) | **2.10** | **4.37** | **1.78** | **3.03** | **3.60** | **4.35** |
| Real GDP (%) | **(7.00)** | **2.34** | **(11.00)** | **(0.33)** | **(3.00)** | **3.30** |
| Exchange rate NAD/USD | **17.39** | **15.76** | **18.46** | **16.89** | **16.65** | **15.19** |
| Prime (%) | **4.00** | **5.15** | **4.50** | **5.70** | **4.00** | **5.29** |

1 The remaining forecast period is 2021 to 2023.

| | Base scenario | | Bearish scenario | | Bullish scenario | |
|---|---|---|---|---|---|---|
| Macroeconomic factors – FY19 (Audited) | Next 12 months | Remaining forecast period[1] | Next 12 months | Remaining forecast period[1] | Next 12 months | Remaining forecast period[1] |
| **Namibia** | | | | | | |
| Inflation (%) | 4.30 | 5.30 | 6.20 | 6.00 | 4.45 | 5.10 |
| Real GDP (%) | 0.40 | 1.12 | (0.09) | 1.84 | 1.54 | 2.84 |
| Exchange rate NAD/USD | 14.83 | 13.10 | 14.85 | 14.26 | 12.05 | 12.04 |
| Prime (%) | 9.75 | 10.75 | 10.00 | 11.00 | 10.25 | 10.50 |

1 The remaining forecast period is 2020 to 2023.

## Sensitivity analysis of CIB forward-looking impact on ECL provision

Management assessed and considered the sensitivity of the 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 provision for the individual client. Therefore, the impact of forward-looking economic conditions is embedded into the total provision for each CIB client and cannot be stressed or separated out of the overall CIB provision. Thus, a sensitivity analysis of the total CIB provision of N$44 million as at 30 June 2020 was performed. This analysis entailed recalculating the total provision, using a 100% weighting of each scenario. The impact of each scenario is N$62 million (99% increase in the total provision) for the base scenario, N$66 million (99% increase in total provision) for the bearish scenario and N$59 million bull scenario (99% increase in total provision). The income statement impact of N$16 million for 1H20 was assessed by applying the same sensitivity analysis principles mentioned above. The impact for each scenarios is N$34 million for the base scenario, N$38 million for the bear scenario and N$31 million for the bull scenario.

## Sensitivity analysis of PBB forward-looking impact on ECL provision

The following table shows a comparison of the forward-looking impact on the provision as at 31 December 2019 based on the probability weightings of the above three scenarios resulting from recalculating each of the scenarios using a 100% weighting of the above factors.

| | 1H20 (Reviewed) | | FY19 (Audited) | |
|---|---|---|---|---|
| | **N$'000** | **% change of total PBB provision** | N$'000 | % change of total PBB provision |
| **Forward-looking impact on IFRS 9 provision** | **84 979** | | 35 360 | |
| **Scenarios** | | | | |
| Base | **72 302** | **(15)** | 32 596 | (8) |
| Bearish | **214 284** | **152** | 114 840 | 225 |
| Bullish | **1 022** | **(99)** | 15 512 | (56) |

# Fair value

## Financial instruments

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, through 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 including correlations, prepayment spreads, default rates and loss severity. Changes in these assumptions would affect the reported fair values of these financial instruments.

When possible such inputs are corroborated by reference to independent data such as quotes, recent transaction prices or suitable proxies.

**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
- other illiquid risk drivers.

In making appropriate valuation adjustments, the group applies 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 and loss provisions in accordance with IFRS
- quantifying and reporting the sensitivity to each risk driver
- limiting exposure to such risk drivers and analysing 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 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. They 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.

## Post-employment benefits

The group's post-employment benefits consist of both post-employment retirement funds and healthcare benefits for Namibian operations which have been deemed to be most material. The measurement of the group'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 group's independent actuaries at intervals of not more than three years.

The principal assumptions used in the determination of the group's obligations include the following:

### POST-EMPLOYMENT MEDICAL AID FUND

| | **1H20 (Reviewed)** | FY19 (Audited) |
|---|---|---|
| Discount rate | Nominal government bond yield curve at a 16.9 year duration | Nominal government bond yield curve at a 17.7 year duration |
| Salary/benefit inflation | CPI plus 1% | CPI plus 1% |
| Medical cost inflation | CPI plus 1.5% | CPI plus 1.5% |
| CPI inflation | Reciprocal between the discount rate and real yield at 16.9 year duration. | Reciprocal between the discount rate and real yield at 17.7 year duration. |
| Remaining service life of employees | 16.1 years | 15.9 years |

# FAIR VALUE

## Accounting classifications and fair values of financial assets and liabilities

The table below categorises the group's assets and liabilities as at 30 June 2020 between that which is financial and non-financial.

| 1H20 (Reviewed) | Fair value through profit or loss: Held-for-trading N$'000 | Fair value through profit or loss: Fair value through profit or loss – default N$'000 | Fair value through OCI: Debt instruments N$'000 | Total assets and liabilities measured at fair value N$'000 | Amortised cost N$'000 | Other non-financial assets/liabilities N$'000 | Total carrying amount N$'000 | Fair value[1] N$'000 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and balances with central banks | | 668 265 | | 668 265 | 509 574 | | 1 177 839 | 1 177 839 |
| Derivative assets | 273 488 | | | 273 488 | | | 273 488 | 273 488 |
| Trading assets | 492 240 | | | 492 240 | | | 492 240 | 492 240 |
| Pledged assets | | | | | | | | |
| Financial investments | | 2 399 556 | 2 836 092 | 5 235 648 | 54 730 | | 5 290 378 | 5 290 378 |
| Loans and advances | | | | | 24 763 739 | | 24 763 739 | 25 477 846 |
| Other financial assets[2] | | | | | 486 527 | | 486 527 | |
| Other non-financial assets | | | | | | 2 155 260 | 2 155 260 | |
| **Total assets** | 765 728 | 3 067 821 | 2 836 092 | 6 669 641 | 25 814 570 | 2 155 260 | 34 639 471 | |
| **Liabilities** | | | | | | | | |
| Derivative liabilities | 263 666 | | | 263 666 | | | 263 666 | 263 666 |
| Trading liabilities | 8 573 | | | 8 573 | | | 8 573 | 8 573 |
| Deposits and debt funding | | | | | 27 620 971 | | 27 620 971 | 27 708 973 |
| Debt securities issued | | | | | 1 521 736 | | 1 521 736 | 1 521 901 |
| Other financial liabilities[2] | | | | | 783 609 | | 783 609 | |
| Other non-financial liabilities | | | | | | 350 045 | 350 045 | |
| **Total liabilities** | 272 239 | | | 272 239 | 29 926 316 | 350 045 | 30 548 600 | |

1 Carrying value has been used where it closely approximates fair values, excluding non-financial assets and liabilities.
2 The fair value of the other financial assets and liabilities approximates the carrying value due to their short-term nature.

## Accounting classifications and fair values of financial assets and liabilities

The table below categorises the group's assets and liabilities as at 31 December 2019 between those which are financial and non-financial.

All financial assets and liabilities have been classified according to their measurement category as per IFRS 9 with disclosure of the fair value being provided for those items.

| | Fair value through profit or loss | | Fair value through OCI | | | | | |
|---|---|---|---|---|---|---|---|---|
| FY19 (Audited) | Held-for-trading N$'000 | Fair value through profit or loss – default N$'000 | Debt instruments N$'000 | Total assets and liabilities measured at fair value N$'000 | Amortised cost[1] N$'000 | Other non-financial assets/ liabilities N$'000 | Total carrying amount N$'000 | Fair value[1] N$'000 |
| **Assets** | | | | | | | | |
| Cash and balances with central banks | | 801 472 | | 801 472 | 724 676 | | 1 526 148 | 1 526 148 |
| Derivative assets | 149 910 | | | 149 910 | | | 149 910 | 149 910 |
| Trading assets | 268 177 | | | 268 177 | | | 268 177 | 268 177 |
| Pledged assets | 580 098 | | | 580 098 | | | 580 098 | 580 098 |
| Financial investments | | 1 933 514 | 2 075 524 | 4 009 038 | 54 754 | | 4 063 792 | 4 063 792 |
| Loans and advances | | | | | 25 635 493 | | 25 635 493 | 27 174 075 |
| Other financial assets[2] | | | | | 966 164 | | 966 164 | |
| Other non-financial assets | | | | | | 2 022 149 | 2 022 149 | |
| **Total assets** | 998 185 | 2 734 986 | 2 075 524 | 5 808 695 | 27 381 087 | 2 022 149 | 35 211 931 | |
| **Liabilities** | | | | | | | | |
| Derivative liabilities | 142 511 | | | 142 511 | | | 142 511 | 142 511 |
| Trading liabilities | 14 881 | | | 14 881 | | | 14 881 | 14 881 |
| Deposits and debt funding | | | | | 27 866 820 | | 27 866 820 | 28 400 135 |
| Debt securities issued | | | | | 1 590 750 | | 1 590 750 | 1 052 916 |
| Other financial liabilities[2] | | | | | 1 348 527 | | 1 348 527 | |
| Other non-financial liabilities | | | | | | 256 431 | 256 431 | |
| **Total liabilities** | 157 392 | | | 157 392 | 30 806 097 | 256 431 | 31 219 920 | |

1 Carrying value has been used where it closely approximates fair values, excluding non-financial assets and liabilities.
2 The fair value of the other financial assets and liabilities approximates the carrying value due to their short-term nature.

# Financial assets and liabilities measured at fair value

## 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.

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.

Level 3 – fair value is determined through valuation techniques using significant unobservable inputs.

| | 1H20 (Reviewed) | | | | FY19 (Audited) | | | |
|---|---|---|---|---|---|---|---|---|
| Measured on a recurring basis[1] | **Level 1 N$'000** | **Level 2 N$'000** | **Level 3 N$'000** | **Total N$'000** | Level 1 N$'000 | Level 2 N$'000 | Level 3 N$'000 | Total N$'000 |
| **Financial assets** | | | | | | | | |
| Cash and balances with central banks | **668 265** | | | **668 265** | 801 472 | | | 801 472 |
| Derivative assets | | **273 488** | | **273 488** | | 149 910 | | 149 910 |
| Trading assets | | **492 240** | | **492 240** | 268 177 | | | 268 177 |
| Pledged assets | | | | | 580 098 | | | 580 098 |
| Financial investments | **2 836 092** | **2 399 556** | | **5 235 648** | 2 075 524 | 1 933 514 | | 4 009 038 |
| **Total financial assets at fair value** | **3 504 357** | **3 165 284** | | **6 669 641** | 3 725 271 | 2 083 424 | | 5 808 695 |
| **Financial liabilities** | | | | | | | | |
| Derivative liabilities | | **263 666** | | **263 666** | | 142 511 | | 142 511 |
| Trading liabilities | | **8 573** | | **8 573** | 14 881 | | | 14 881 |
| **Total financial liabilities at fair value** | | **272 239** | | **272 239** | 14 881 | 142 511 | | 157 392 |

1 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.

## Financial assets and liabilities measured at fair value continued

### Level 2 and 3 – valuation techniques and inputs

<table>
<tr><th>Item and description</th><th>Valuation technique</th><th>Main inputs and assumptions</th></tr>
<tr><td>Derivative financial instruments<br>Derivative financial instruments comprise foreign exchange, interest rate, and derivatives that are held-for-trading.</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.<br>Techniques include:<br>• Discounted cash flow model<br>• Black-Scholes model<br>• combination technique models.</td><td rowspan="4">For level 2 and 3 fair value hierarchy items:<br>• discount rate*<br>• spot prices of the underlying correlation factors<br>• volatilities<br>• dividend yields<br>• Earnings yield<br>• valuation multiples.</td></tr>
<tr><td>Trading assets and trading liabilities<br>Trading assets and liabilities comprise instruments which are part of the group'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<br>Pledged assets comprise instruments that may be sold or repledged by the group's counterparty in the absence of default by the group. 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<br>Financial investments are non-trading financial assets and primarily comprise of sovereign and corporate debt, listed and unlisted equity instruments, investments in mutual fund investments and unit-linked investments.</td></tr>
<tr><td>Loans and advances to banks and customers<br>Loans and advances comprise:<br>Loans and advances to banks: call loans, loans granted under resale agreements and balances held with other banks<br>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).</td><td>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.</td><td>For level 2 and 3 fair value hierarchy items<br>discount rate*</td></tr>
</table>

## Financial assets and liabilities measured at fair value continued

### Level 2 and 3 – valuation techniques and inputs continued

| Item and description | Valuation technique | Main inputs and assumptions |
|---|---|---|
| **Deposits and debt funding**<br>Deposits from banks and customers comprise amounts owed to banks and customers, deposits under repurchase agreements, negotiable certificates of deposit, credit-linked deposits and other deposits. | For certain deposits, fair value may be determined from the market price on a recently occurring transaction adjusted for all changes in risks and information between the transaction and valuation dates. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value based on the contractual cash flows related to the instrument. The fair value measurement incorporates all market risk factors, including a measure of the group's credit risk relevant for that financial liability. The market risk parameters are valued consistently to similar instruments held as assets stated in the section above. 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. | For level 2 and 3 fair value hierarchy items<br>discount rate* |

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

# OTHER REPORTABLE ITEMS

## Going concern

The existence of the COVID-19 is an ongoing threat to the global economy. During this outbreak, protecting the health and well-being of our staff, clients and other key stakeholders is at the centre of our response plans. Precautionary measures have been put in place and are consistent with protocol from the World Health Organisation and Standard Bank Group policies. We have activated our business continuity plans to ensure continued performance of essential functions even under stressed conditions and identified appropriate mitigating initiatives to address the challenges being faced. We are also working with Bank of Namibia and other key partners to identify appropriate interventions that will support our clients through this challenging time and ensure the continued stability and smooth operations of the financial system. The group is well capitalised and liquid. We are also working closely with our clients to identify and remediate any potential challenges and are confident that the right attention is being applied across the spectrum of risks that need to be managed. At this time, the situation is still evolving and the impact on communities and business activities is difficult to quantify.

The condensed interim financial statements have been prepared on the basis of accounting policies applicable to going concern. The directors have considered the impact of COVID-19 and are satisfied that no material uncertainty exists that might cast significant doubt on the group's ability to continue as a going concern.

## Legal proceedings

In the ordinary course of business, the group 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'. The group is also the defendant in some legal cases for which the group is fully indemnified by external third parties, none of which are individually material. Management is accordingly satisfied that the legal proceedings currently pending against the group should not have a material adverse effect on the group's consolidated financial position and the directors are satisfied that the group has adequate insurance programmes and, where required in terms of IFRS for claims that are probable, provisions in place to meet claims that may succeed.

## Related party balances

### Balances with Standard Bank Group

The following significant balances were outstanding between the group and Standard Bank Group Limited and all its subsidiaries:

### AMOUNTS INCLUDED IN THE GROUP'S STATEMENT OF FINANCIAL POSITION

| | **1H20 Reviewed N$'000** | FY19 Audited N$'000 |
|---|---|---|
| Trading assets | | 10 348 |
| Loans and advances | **1 310 756** | 1 601 065 |
| Derivative assets | **119 012** | 93 571 |
| Other assets | **46 836** | 13 092 |
| Derivative liabilities | **(153 142)** | (55 470) |
| Deposits and current accounts | **(914 190)** | (1 394 799) |
| Other liabilities | **(64 649)** | (64 565) |
| Debt securities issued | **(101 372)** | (101 776) |

# FINANCIAL AND OTHER DEFINITIONS

## SBN Holdings Limited

| | |
|---|---|
| **Dividend payout ratio (%)** | Dividend per share divided by earnings per share. |
| **Dividend per share (cents)** | Dividends declared to ordinary shareholders divided by weighted average number of shares. |
| **Earnings per share (cents)** | Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue. |
| **Profit attributable to ordinary shareholders (N$'000)** | Profit for the year after distributions to non-controlling interests and other equity instrument holders. |
| **Profit for the year (N$'000)** | Profit for the year attributable to ordinary shareholders, before non-controlling interests and other equity instrument holders. |
| **Return on average risk-weighted assets (%)** | Earnings as a percentage of monthly average risk-weighted assets. |
| **Return on equity (%)** | Earnings as a percentage of monthly average ordinary shareholders' equity. |
| **Risk-weighted assets (N$'000)** | Determined by applying prescribed risk weightings to on-balance sheet and off-balance sheet exposures according to the relative risk of the counterparty. |
| **Shares in issue (number)** | Number of ordinary shares in issue listed on the NSX. |
| **Tier 1 capital adequacy ratio (%)** | Tier 1 regulatory capital as a percentage of total risk-weighted assets. |
| **Weighted average number of shares (number)** | The weighted average number of ordinary shares in issue during the year as listed on the NSX. |

## Banking activities

| | |
|---|---|
| **Available financial resources (N$'000)** | The amount of permanent capital that is available to the group to absorb potential losses. |
| **Cost-to-income ratio (%)** | Operating expenses as a percentage of total income after revenue sharing agreements with group companies but before credit impairments. |
| **Credit loss ratio (%)** | Total income statement impairment charges on loans and advances, as a percentage of average daily and monthly gross loans and advances, excluding interest in suspense. |
| **Effective direct taxation rate (%)** | Direct taxation as a percentage of net income before direct taxation. |
| **Effective total taxation rate (%)** | Direct and indirect taxation as a percentage of net income before taxation. |
| **Gross stage 3 loans coverage ratio (%)** | Balance sheet impairments for credit impaired loans and off-balance sheet credit impaired exposures including IIS, as a percentage of gross non-performing loans and advances (including IIS). |
| **Interest-earnings assets (N$'000)** | Net loans and advances, financial investments, and cash and balances with central banks. |
| **Interest in suspense (N$'000)** | Contractual interest on loans that have been classified as stage 3 and cannot be recognised in terms of IFRS 9. |
| **Jaws (%)** | Total income growth minus total operating expenses growth. |
| **Net interest margin (%)** | Net interest income as a percentage of average interest-earning assets. |
| **Non-interest revenue to total income (%)** | Non-interest revenue as a percentage of total income. |
| **Stage 1 and stage 2 loans (N$'000)** | Performing loans include credit exposures classified as follows:<br>• Credit exposures for which there has been no default event and for which the credit risk has not significantly increased since recognition<br>• Credit exposures for which the credit risk has increase significantly since recognition, unless the credit risk is low in which case it remains classified as stage 1 |
| **Stage 1 and 2 loan credit impairments (N$'000)** | Impairment for latent losses inherent in groups of loans and advances that have not yet been classified as non-performing. |
| **Stage 3 loans (N$'000)** | Credit exposures that are either in default or where default is imminent. There is a rebuttable presumption that the default does not occur later than when a financial asset is 90 days past due. |
| **Stage 3 loan credit impairments (N$'000)** | Impairment for credit impaired (stage 3) loans, net of the present value of estimated recoveries. |

## Abbreviations and acronyms

| | |
|---|---|
| **BIA** | Business impact assessment |
| **CAGR** | Compound annual growth rate |
| **CDS** | Credit default swaps |
| **CET1** | Common equity tier 1 |
| **CIB** | Corporate & Investment Banking |
| **CLR** | Credit loss ratio |
| **DPD** | Days past due |
| **ECL** | Expected credit loss |
| **GDP** | Gross domestic product |
| **IAS** | International Accounting Standards |
| **IASB** | International Accounting Standards Board |
| **IBORs** | Interbank offered rates |
| **IFRS** | International Financial Reporting Standards |
| **IIS** | Income in suspense |
| **ISRE** | International Standard on Review Engagements |
| **LGD** | Loss given default |
| **N$, NAD** | Namibian Dollar |
| **NCD** | Negotiable certificates of deposit |

| | |
|---|---|
| **NII** | Net interest income |
| **NIM** | Net interest margin |
| **NIR** | Non-interest revenue |
| **NPL** | Non-performing loans |
| **NSX** | Namibian Stock Exchange |
| **OCI** | Other comprehensive income |
| **PBB** | Personal & Business Banking |
| **PDs** | Probability of defaults |
| **PWOR** | Post-write off recoveries |
| **Results** | Financial results including condensed consolidated financial statements |
| **ROE** | Return on equity |
| **SICR** | Significant increase in credit risk |
| **SME** | Small- and medium-sized enterprises |
| **The group** | SBN Holdings Limited |
| **The board** | Board of directors |
| **US** | United States of America |
| **VAF** | Vehicle and Asset Finance |
| **VAT** | Value Added Tax |

## NOTES

# ADMINISTRATIVE AND CONTACT DETAILS

## SBN Holdings Limited
Registration No. 2006/306
Incorporated in the Republic of Namibia
Website: www.standardbank.com.na

## Group company secretary
**Sigrid Tjijorokisa**
Tel: +264 61 294 2036
Email: sigrid.tjijorokisa@standardbank.com.na

## Chief financial officer
**Letitea du Plessis**
Tel: +264 61 294 2592
Email: letitea.duplessis@standardbank.com.na

## Registered office
No 1 Chasie Street
Kleine Kuppe, Windhoek
Po Box 3327, Windhoek, Namibia

## Head office switchboard
Tel: +64 61 294 2000

## Transfer secretaries in Namibia
**Transfer Secretaries (Proprietary) Limited**
4 Robert Mugabe Avenue,
Windhoek, Namibia
(Entrance in Burg Street)
PO Box 2401, Windhoek, Namibia

## NSX independent sponsor
**IJG Securities**
4th Floor 1 @ Steps, C/O Grove and Chasie Street
Kleine Kuppe, Windhoek
P.O. Box 186, Windhoek, Namibia

## Directors
Herbert Maier (chairman), Isac Hiriua Tjombonde, Jerry Muadinohamba, Peter Schlebusch[1], Adv Natasha Bassingthwaighte, Birgit Rossouw, Maria Shivute Dax, Pindie Nyandoro[2], Vetumbuavi Mungunda (chief executive officer), Letitea du Plessis (chief financial officer)

[1] South African, [2] Zimbabwean

All nationalities are Namibian, unless otherwise specified.

## Share code
NSX share code: SNO

Please direct all customer queries and comments to:
**information@standardbank.com.na**

Please direct all shareholder queries and comments to:
**InvestorRelations@standardbank.com.na**

**www.standardbank.com.na**

standardbank.com.na