FIRSTRAND
NAMIBIA

'18

UNAUDITED INTERIM GROUP RESULTS AND CASH DIVIDEND DECLARATION

for the period ended 31 December 2018

FINANCIAL HIGHLIGHTS

Profit for the period (N$ millions)

↑5.2%

2018: 553m | 2017: 526m

Return on equity (%)

22.4%

2018: 22.4% | 2017: 23.3%

Headline earnings per share (cents)

↑4.8%

2018: 208.5c | 2017: 199.0c

Dividend per share (cents)

=91

2018: 91c | 2017: 91c

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DIVIDEND DECLARATION

Notice is hereby given that an interim dividend (number 51) for the six months ended 31 December 2018 of 91 cents per ordinary share was declared on 31 January 2019.

The last day to trade shares on a cum dividend basis will be on 15 March 2019 and the first day to trade ex dividend will be 18 March 2019. The record date will be 22 March 2019 and the payment date 5 April 2019.

By order of the board:

Nelago Ashipala, Company Secretary
31 January 2019

OVERVIEW OF PERFORMANCE

OUR PERFORMANCE

FirstRand Namibia's results for the period ended 31 December 2018 demonstrates strong performance in spite of the difficult economic climate experienced by all. Profit before tax increased by 4.1% to N$ 812.3 million (2017: N$ 780 million) for the period under review. The group's revenue performance demonstrates that the investment in digitization and customer-centric service is bearing fruit. Effective management of operating costs and the impact of prior period amortization of intangibles has resulted in an improvement in the cost to income ratio as it decreased to 51.7% (2017: 52.1%).

Earnings per share increased to 208.9 cents (2017: 198.1 cents). Return on average equity reduced to 22.4% (2017: 23.3%), return on average assets was 2.7% (2017: 2.8%).

OUR OPERATING ENVIRONMENT

The impact of the challenging economic climate was certainly felt in the financial services sector. The Namibian economy had to endure the main elements that detract from economic growth, namely high unemployment, harsh environmental conditions, increasing inflation, low commodity prices and lower investor confidence. Towards the end of the calendar year, there was a slight improvement in the economy as the country avoided a further downgrade from ratings agencies and interest rates remained stable.

Credit demand showed improvement although it was still relatively low in comparison to the past few years. The improvement in credit demand was mainly influenced by improved business sentiment.

STATEMENT OF COMPREHENSIVE INCOME

Interest income

Net interest income grew by 10.5% to N$ 1 001.1 million (2017: N$ 906.2 million) on the back of steady deposits and advances growth. The pressure on margins remained constant when compared to the same period a year ago, demonstrating the greater need for conscious effort to take risk into consideration when pricing the group's portfolios. Interest expense increased by 2.8% while interest income grew by 6.7% driven by the subdued growth in advances and the continued focus on growing retail deposits as opposed to the more expensive wholesale funding. Return on investments showed positive growth, increasing by 12.9% in comparison to the prior period.

Impairment losses

Group credit loss rates increased as expected, impacted by a more challenging macroeconomic environment and the implementation of IFRS 9. The total impairment charge increased year-on-year to N$ 117.2 million (2017: N$ 76.1 million). The impairment charge is 0.39% (2017: 0.26%) of gross advances. The portfolio impairment charge grew from N$ 13.3 million to N$ 31.3 million due to adherence to IFRS9 and as such, it was the main contributor to the impairment charge increase for the period. Performance is acceptable and within risk appetite. Credit origination strategies have been aligned to the group's macroeconomic outlook.

The ratio of non-performing loans (NPLs) to gross advances ended the period at 2.31% up from 1.69% in 2017 and in dollar terms increased from N$ 489 million to N$ 687 million. This is below the industry average of 3.4%, further highlighting relatively acceptable portfolio performance.

The group impairment levels remain well within acceptable levels through the cycle, and coverage ratios remained in line with industry.

Non-interest revenue

Group NIR increased by 6.4% primarily supported by a fee and commission income increase of 7.2%, demonstrating a positive performance in this challenging economic environment as the group benefited from healthy transaction volumes. Net fee and commission income represents 88.8% (2017: 88.6%) of group operational NIR and this positive performance justifies the move to digitisation and optimisation off-setting the reduction in transaction volumes in the more expensive traditional channels.

FNB Rewards has paid out N$ 7.4 million (2017: N$ 2.6 million) so far during the period under review.

The growth in major components of NIR was offset by a decrease in fair value income by 14.4%, reflecting the depressed economic environment.

Insurance premiums have declined to N$ 78.8 million (2017: N$ 89.2 million). Key drivers are the low premium inflation environment, increased competition and affordability witnessed by the increase in lapses due to non-payment of premiums. Claims paid for the period marginally declined to N$ 43.4 million (2017: N$ 45.3 million) .

Operating expenses

Group operating costs have increased by 6.9% to N$ 1 020.1 million (2017: N$ 954.0 million). This is reflected in our cost to income ratio of 51.7% (2017: 52.1%). This level of cost growth is in-line with inflation and demonstrates the measures taken by the group to manage discretionary spending, while managing structural cost programmes to realise efficiency gains that can be invested in growth initiatives. Once normalised for the impact of the Ebank closure costs in the prior year, investments in information technology and our digital platforms and higher share based payments in the prior year, operating costs increased by 7.4%.

Staff costs increased by 5.3%. Staff cost growth is influenced by the above inflationary wage increase settlement with the union for non-managerial staff and the continued conversion of staff from basic pay to Cost-to-Company. It is also worth noting that, this trend may continue in the short-term due to the need for specialist and skilled resources needed to assist with the large-scale information technology and digital transformation programmes as well as helping with the evolving compliance and regulatory requirements of the industry at large.

IT costs increased by 9.1% as a result of continued upgrades of bandwidth lines for new ADT's and ATMs, as well as an addition made to data line capacity. Investment in cyber security, new product development and regulatory projects has also contributed to the increase.

Advertising and marketing costs have increased by 15% as a result of sponsorship of national sporting events, business sponsorship and the FNB Rewards campaign.

STATEMENT OF FINANCIAL POSITION

Advances

The group's total assets increased by 8% to N$ 42.1 billion (2017: N$ 39.0 billion). Net advances making up 69% of the balance sheet, reflected a year on year increase of 2% to N$ 29.1 billion. Growth in private sector credit extension for the period has been on an upward trend and was 7.3% at the end of the period. The gap between our advances growth and that of PSCE is influenced by the significantly slower growth of individual credit demand.

Mortgage loans increased year on year by 2.7% to N$ 13.4 billion and constitute 45% (2017: 45.1%) of our advances book. Our exposure to home loans is reflective of the Namibian banking industry where home loans tend to average 40% of credit extended in the local market. As a result, the benign growth rate of mortgage loans dragged the overall growth of the advances portfolio.

The granting of instalment credit reduced by 3.9%, reflecting performance in an industry that has struggled over the past few years.

Commercial and Corporate lending showed improvement year-on-year with an increase of 3.8%. However, we continue to focus on ROE preservation given the prevailing competitive pressures.

Deposits and funding

Deposit growth was ahead of advances, growing by 7% to N$ 34.7 billion. The retail portfolio was a significant contributor to the deposits growth as a 13.3% increase was experienced aided by the increased demand for savings and investment products as individuals tighten their purse-strings. Fixed deposits decreased by 3.5% year on year whilst NCD's increased year on year by 7.5%. Current and call accounts increased by 2.8% and 15.7% respectively, whereas savings accounts increased by 26.5%.

Capital management

FirstRand Namibia remains well capitalized with a total capital adequacy ratio of 18.9%, reflecting an increase on the prior year's 17.7%. This remains securely above both the regulatory requirement of 10.5% and the internal board approved target of 14.2%. Furthermore, it remains our philosophy to back economic risk with core equity. Our Tier 1 capital level increased to 14.8% (from 14.4%).

The group's capital strategy is anchored in the following principles: to back economic risk with core equity, to maintain limited excess and to consider capital requirements on a forward looking basis taking into account growth, expansion, regulatory changes and stress. This outlook informs the dividend strategy.

Effective 1 July 2018, the group's capital position was not impacted materially by the change relating to impairment allowances, due to the day 1 impact of IFRS 9. A decrease in the group's general risk reserve and a corresponding increase in the group's retained earnings has been recognised.

Dividend strategy

The group delivered positive earnings growth during the period. This growth combined with a strong capital position and low growth in risk weighted assets (RWA) for the six months to December 2018 informed board's decision to maintain the dividend cover. The long term dividend cover policy remains unchanged at 1.8x to 3x. The long-term cover range is assessed on an annual basis as part of the year end results process.

Events subsequent to the reporting date

The directors are not aware of any material events, as defined in IAS 10, occurring between 31 December 2018 and the date of authorisation of the results announcement.

Board changes

During the period under review, Mr. RJC Hamer resigned from the Board of FirstRand Namibia Ltd on 3 December 2018. Mr IN Nashandi has been appointed as non-executive Director effective 31 January 2019.

Group Prospects

As we look towards the future, our outlook is influenced by conservative economic growth expectations. The group is in a unique position to not only contribute but capitalise on the opportunities that may emerge in the current economic environment.

FirstRand Namibia's continued investment in digitalization and innovation provides the group with a solid platform to weather many an economic storm and continue to provide customer-centric service that ultimately translates to improved bottom-

line performance and sustainable balance sheet growth.

Condensed consolidated statement of comprehensive income

N$'000	Notes	Unaudited Six months ended 31 December 2018	Unaudited Six months ended 31 December 2017	Audited Year ended 30 June 2018
Net interest income before impairment of advances	2	**1 001 147**	906 189	1 820 756
Impairment and fair value of credit advances		**(117 190)**	(76 126)	(128 261)
Net interest income after impairment of advances		**883 957**	830 063	1 692 495
Non-interest income	3	**935 149**	878 943	1 795 926
Net insurance premium income		**78 892**	89 278	185 015
Net claims and benefits paid		**(43 475)**	(45 335)	(96 151)
Income from operations		**1 854 523**	1 752 949	3 577 285
Operating expenses	4	**(1 020 094)**	(953 962)	(1 981 249)
Net income from operations		**834 429**	798 987	1 596 036
Share of profit from associates after tax		**1 366**	562	1 102
Income before tax		**835 795**	799 549	1 597 138
Indirect tax		**(23 480)**	(19 511)	(45 841)
Profit before tax		**812 315**	780 038	1 551 297
Direct tax		**(259 622)**	(254 528)	(490 589)
Profit for the period		**552 693**	525 510	1 060 708
Other comprehensive income for the period				
Items that will not be reclassified to profit or loss		**-**	-	864
Remeasurements on net defined benefit post-employment plan		**-**	-	1 270
Deferred income tax		**-**	-	(406)
Items that may be reclassified subsequently to profit or loss		**-**	10 057	(3 289)
Available-for-sale financial assets adjustments*		**-**	14 291	(4 837)
Deferred income tax		**-**	(4 234)	1 548
Total comprehensive income for the period		**552 693**	535 567	1 058 283
Profit for the period attributable to:				
Equity holders of the parent		**545 782**	517 473	1 039 960
Non-controlling interests		**6 911**	8 037	20 748
Profit for the period		**552 693**	525 510	1 060 708
Total comprehensive income for the period attributable to:				
Equity holders of the parent		**545 782**	527 530	1 037 535
Non-controlling interests		**6 911**	8 037	20 748
Total comprehensive income for the period		**552 693**	535 567	1 058 283
Earnings per share (cents)				
Basic		**208.9**	198.1	398.1
Diluted		**208.6**	197.1	396.6

* Comparability will not be achieved as the comparative financial results were prepared based on IAS 39. The group has elected not to restate the comparative balances as this is permitted by IFRS 9. (See impact of adopting revised standards note 12).

Condensed consolidated statement of financial position

N$'000	Notes	Unaudited as at 31 December 2018	Unaudited as at 31 December 2017	Audited as at 30 June 2018
Assets				
Cash and cash equivalents		**2 201 441**	2 350 745	1 345 842
Due from banks and other financial institutions		**2 022 671**	1 454 575	2 781 551
Derivative financial instruments		**686 067**	111 219	93 520
Investment securities		**6 714 463**	5 010 847	5 266 144
Advances	6	**29 075 059**	28 552 376	28 531 833
Accounts receivable		**326 583**	272 971	245 171
Current tax asset		**135**	1 862	605
Reinsurance assets		**639**	-	219
Investments in associates		**26 687**	36 587	25 321
Property and equipment		**882 662**	976 386	907 259
Intangible assets		**170 398**	220 765	180 613
Deferred income tax asset		**43 356**	36 372	32 347
Total assets		**42 150 161**	39 024 705	39 410 425
Equity and liabilities				
Liabilities				
Short trading positions		**-**	16 238	-
Derivative financial instruments		**701 889**	117 394	109 755
Creditors and accruals		**364 480**	339 391	378 114
Current tax liability		**87 265**	307 625	186 646
Deposits	7.1	**32 688 915**	31 119 536	31 546 201
Due to banks and other financial institutions	7.2	**1 961 996**	1 258 244	897 408
Employee liabilities		**186 949**	198 780	247 337
Other liabilities		**254 976**	219 000	253 253
Policyholders liabilities		**45 091**	46 568	49 200
Tier 2 liabilities		**402 871**	402 944	402 783
Deferred income tax liability		**337 022**	265 582	323 672
Total liabilities		**37 031 454**	34 291 302	34 394 369
Capital and reserves attributable to ordinary equity holders of parent		**5 064 632**	4 673 468	4 943 411
Non-controlling interests		**54 075**	59 935	72 645
Total equity		**5 118 707**	4 733 403	5 016 056
Total equity and liabilities		**42 150 161**	39 024 705	39 410 425

Condensed consolidated statement of changes in equity

		Attributable to equity holders of the parent [1]			Non-controlling interests		
		Unaudited Six months ended 31 December		Audited Year ended 30 June	Unaudited Six months ended 31 December		Audited Year ended 30 June
N$'000	Note	2018	2017	2018	2018	2017	2018
Balance at beginning of the period		**4 943 411**	4 478 919	4 478 919	**72 646**	61 698	61 698
Initial adoption of IFRS 9	12	**(106 884)**	-	-	**-**	-	-
Restated balance at the beginning of the period		**4 836 527**	4 478 919	4 478 919	**72 646**	61 698	61 698
Total comprehensive income for the period		**545 782**	527 530	1 037 535	**6 911**	8 037	20 748
Staff share option transactions		**1 185**	1 796	3 882	**-**	-	-
Dividends		**(295 332)**	(295 330)	(533 042)	**(25 482)**	(9 800)	(9 800)
Consolidation of shares held by share trusts		**(23 530)**	(39 447)	(43 883)	**-**	-	-
Balance at end of the period		**5 064 632**	4 673 468	4 943 411	**54 075**	59 935	72 646

[1] Includes general risk reserve

Condensed consolidated statement of cash flows

	Unaudited Six months ended 31 December		Audited Year ended 30 June
N$'000	2018	2017	2018
Net cash generated from operations	1 604 571	1 101 889	583 974
Tax paid	(382 618)	(24 509)	(331 414)
Net cash flow from operating activities	1 221 953	1 077 380	252 560
Net cash flow from investing activities	(23 195)	(68 967)	(5 106)
Net cash flow from financing activities	(343 159)	(123 781)	(367 725)
Net increase in cash and cash equivalents	855 599	884 632	(120 271)
Cash and cash equivalents at beginning of the period [1]	1 345 842	1 466 113	1 466 113
Cash and cash equivalents at end of the period	2 201 441	2 350 745	1 345 842

[1] Includes mandatory reserve deposits with central bank

Condensed notes to the consolidated financial results
for the reporting period ended 31 December

1. Basis of preparation

The group prepares its condensed consolidated interim financial statements in accordance with:

- International Financial Reporting Standard, IAS 34 Interim Financial Reporting; and
- The Namibian Companies Act.

The condensed consolidated interim results for the six months ended 31 December 2018 have not been audited or independently reviewed by the group's external auditors.

Accounting Policies

The accounting policies applied in the preparation of the condensed consolidated interim financial statements are in terms of IFRS and are consistent with those applied for the year ended 30 June 2018, except for the adoption of new and amended IFRS that became effective from 1 July 2018. The following new standards had the most significant impact on the group:

- IFRS 9 Financial Instruments ,which replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduced a principle-based approach for classifying financial assets based on the entity's business model and introduced an expected credit loss model for impairment; and

- IFRS 15 Revenue from Contracts with Customers which contains a single model that is applied when accounting for contracts with customers. It replaces substantially all of the current revenue recognition guidance, including IAS 18 Revenue and IFRS 13 Customer Loyalty Programmes. The adoption of IFRS 15 did not impact the group's results.

The adoption of IFRS 9 impacted the group's results on the date of initial adoption and had a significant impact on the group's accounting policies.

Classification and Measurement	
Initial measurement	All financial instruments are initially measured at fair value including transaction costs, except for those classified as FVTP, where the transaction costs are expenses on the transaction date. Immediately after initial recognition, an ECL allowance is recognised for newly originated financial assets measured at amortised cost, and debt instruments measured at fair value through other comprehensive income.
Subsequent measurement of financial assets	Management determines the classification of its financial assets at initial recognition based on: - the group's business model for managing the financial assets; and - the contractual cash flow characteristics of the financial asset.

1. Basis of preparation continued

Classification and Measurement continued	
Business model	The group distinguishes three main business models for managing financial assets: - holding financial assets to collect contractual cash flows; - managing financial assets and liabilities on a fair value basis or selling financial assets; and - a mixed business model of collecting contractual cash flows and selling financial assets. The business model assessment is not performed on an instrument by instrument basis, but at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment is done for each legal reporting entity at least at a business level, although businesses could perform the assessment on a portfolio or sub-portfolio level depending on the manner in which groups of financial assets are managed. The main consideration in determining the different business models is whether the objectives of the business model are met primarily through holding the financial assets to collect contractual cash flows, through the sale of these financial assets, by managing assets and liabilities on a fair value basis, or through a combination of these activities. One of the factors considered, when determining whether the business objective is achieved primarily through collecting contractual cash flows, is the frequency and significance of sales of financial assets out of these portfolios for purposes other than managing credit risk. For the purposes of performing the business model assessment, the group only considers a transaction a sale if the asset is derecognised for accounting purposes. If sales of financial assets are not infrequent, the significant of these sales is determined by comparing the amounts of assets sold during the period and cumulatively to the total carrying amount of assets held in the business model. If sales are either infrequent or insignificant, these will not impact the conclusion that the business model is to collect contractual cash flows. A change in one or more business models of the group only occurs on the rare occasion when the group genuinely changes the way in which it manages a financial asset. Any changes in business model would result in a reclassification of the relevant financial assets from the beginning of the next reporting period.
Cash flow characteristics	In order for a debt instrument to be measured at amortised cost or FVOCI , the cash flows on the asset have to be SPPI, consistent with those of a basic lending agreement. The SPPI test is applied on a portfolio basis for retail advances, as the cash flow characteristics of these assets are standardised. This includes the consideration of any pre-payment penalties that are limited by consumer credit regulation and can therefore be considered reasonable compensation which would not cause these assets to fail the SPPI test. For wholesale advances, the SPPI test is applied to individual advances at initial recognition, based on the cash flow characteristics of the asset. Wholesale advances that do not pass the SPPI test and that have to be measured at FVPL include advances with equity participation features, convertible bonds and payments linked to commodity or other prices. If the contract contains prepayment penalties, the amount of the prepayment penalty is compared to the present value of the margin that would be earned if the loan is not prepaid. If the amount of the prepayment penalty is lower than or equal to the margin lost due to prepayment, this is considered reasonable compensation and the loan passes the SPPI test.

1. Basis of preparation continued

Impairment of financial assets

This policy applies to:

- financial assets, measured at amortised cost including financial accounts receivable and cash;
- debt instruments measured at FVOCI;
- loan commitments;
- financial guarantees; and
- finance lease debtors where the group is the lessor.

IFRS 9 establishes a three-stage approach for the impairment of financial assets:

Stage 1	At initial recognition, the financial asset is classified as stage 1 and 12-month ECL is recognised. This is a credit loss related to default events expected to occur within the next 12 months.
Stage 2	If the asset has experienced a SICR since initial recognition but the asset is not credit impaired, it is classified as stage 2, and LECL is recognised.
Stage 3	If the asset has become credit impaired since initial recognition, it is classified as stage 3, with ECL measured and recognised on a lifetime basis.

ECL are calculated by multiplying the EAD of a financial asset by the PD and the LGD of the asset and by discounting this figure to the reporting date using the original effective interest rate. Impairment losses are recognised in profit or loss. The loss allowance on debt instruments measured at FVOCI is recognised in other comprehensive income.

In the section below, the term financial asset also refers to loan commitments, finance lease debtors where the group is the lessor and financial guarantees, unless stated otherwise.

Definitions	
SICR since initial recognition	In order to determine whether an advance has experienced a SICR, the PD of the asset calculated at the origination date is compared to that calculated at the reporting date. The origination date is defined to be the most recent date at which the group had an opportunity to price or re-price the advance based on the outcome of either the original or up-to-date risk assessment. SICR test thresholds have been determined at a portfolio level and are reassessed and, if necessary, updated, on at least an annual basis. Any facility that is more than 30 days past due, or in the case of instalment-based products one instalment past due, is automatically considered to have experienced a SICR. In addition to the quantitative assessment based on PDs, qualitative considerations are applied when determining whether individual exposures have experienced a SICR. One such qualitative consideration is the appearance of wholesale and commercial SME facilities on a credit watch list. Any up-to-date facility that has undergone a distressed restructure (such as a modification of contractual cash flows to prevent a client from going into arrears) will be considered to have experienced a SICR. The credit risk on an exposure is no longer considered to be significantly higher than at origination if no qualitative indicators of a significant increase in credit risk are triggered, and if comparison of the reporting date PD to the origination date PD no longer indicates that a significant increase in credit risk has occurred. When it no longer meets SICR requirements it cures back from stage 2 to stage 1, with the exception of distressed restructured exposures, which are required to remain in stage 2 for a minimum before re-entering stage 1.

1. Basis of preparation continued

Definitions continued	
Low credit risk	Financial assets with low credit risk are assumed not to have experienced a SICR since initial recognition. The group does not use the low credit risk assumption for advances.
Credit-impaired financial assets	Advances are considered credit impaired if they meet the definition of default. The definition of default applied by the group for calculating provisions under IFRS 9 has been aligned to the definition applied for regulatory capital calculations across all portfolios, to operational management of credit and for internal risk management purposes. Exposures are considered to be in default when they are more than 90 days past due or, in the case of amortising products, have more than three unpaid instalments. In addition, an exposure is considered to have defaulted when there are qualitative indicators that the borrower is unlikely to pay their credit obligations in full without any recourse by the group to actions such as the realisation of security. Indicators of the unlikelihood to pay are determined based on the requirements of BID-2 of the Banks Act. Examples include application for bankruptcy or obligor insolvency. Any distressed restructures of accounts that have experienced a SICR since initial recognition are defined as default events. Accounts are considered to no longer be in default if they meet the stringent cure definition which has been determined at a portfolio level based on an analysis of redefault rates.
Write-offs	Write-off must occur when it is not economical to pursue further recoveries i.e. there is no reasonable expectation of recovering the carrying amount of the asset (gross amount less specific impairments raised). - By implication, in both retail and wholesale, for secured as well as unsecured exposures, write-offs cannot occur if there is evidence of recent payment behaviour. Each credit portfolio has articulated a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account; - Within retail portfolios, write-off definitions have been determined with reference to analysis of the materiality of post-write recoveries. Within wholesale exposures, a judgemental approach to write off is followed based on a case-by-case basis by a credit committee. Partial write-offs are not performed within credit portfolios. Where required, additional provisions against irrecoverable assets will be raised until such a time as final write-off can occur.

Condensed notes to the consolidated financial results

for the reporting period ended 31 December continued

1. Basis of preparation continued

Definitions continued	
Modifications and derecognition	Financial instruments are derecognised when: - the contractual rights and obligations expire or are extinguished, discharged or cancelled, for example an outright sale or settlement; - they are transferred and the derecognition criteria of IFRS 9 are met; or - the contractual terms of the instrument are substantially modified and the derecognition criteria of IFRS 9 are met. Financial assets are derecognised when the group has either transferred the contractual right to receive cash flows from the asset or it has assumed an obligation to pay over all the cash flows from the asset to another entity (such as the pass through arrangement under IFRS 9). If the contractual cash flows of a financial asset measured at amortised cost are modified (changed or restructured, including distressed restructures), the group determines whether this is a substantial modification, which results in the derecognition of the existing asset, and the recognition of a new asset, or whether the change is simply a non-substantial modification of the existing terms which does not result in derecognition. A modification of a financial asset is substantial, and thus results in derecognition of the original financial asset, where the modified contractual terms are priced to reflect current conditions on the date of modification, and are not merely an attempt to recover outstanding amounts. Where the modification does not result in an accounting derecognition the original asset continues to be recognised.

The condensed consolidated interim financial statements 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.

No other new or amended IFRS standards became effective for the six months ended 31 December 2018 that impacted the group's reported earnings, financial position or reserves, or the accounting policies.

2. Analysis of interest income and interest expense

N$'000	Six month ended December 2018	Six month ended December 2017	Year ended June 2018
Interest and similar income			
- Advances	1 570 219	1 512 945	3 027 127
- Cash and cash equivalents	89 560	51 464	121 643
- Investment securities	234 196	207 372	401 187
- Unwinding of discounted present value on off-market advances	386	1 317	2 203
- Net release of deferred fee and expenses	5 650	6 001	13 780
- Other	10 120	11 784	17 460
	1 910 131	1 790 883	3 583 400
Interest expense and similar charges			
- Deposits from banks and financial institutions	(11 325)	(17 858)	(34 799)
- Current accounts	(62 232)	(66 909)	(122 521)
- Savings deposits	(4 303)	(3 388)	(7 042)
- Call deposits	(170 384)	(142 405)	(295 024)
- Term deposits	(295 809)	(273 830)	(558 910)
- Negotiable certificates of deposit	(277 953)	(297 380)	(573 902)
- Tier 2 liabilities	(19 526)	(19 830)	(39 075)
- Fixed and floating notes	(58 150)	(62 959)	(121 404)
- Other liabilities	(9 302)	(135)	(9 967)
	(908 984)	(884 694)	(1762 644)
Net interest income	1 001 147	906 189	1 820 756

Condensed notes to the consolidated financial results
for the reporting period ended 31 December continued

3. Non-interest income

	Six month ended December		Year ended June
N$'000	2018	2017	2018
Fee and commission income:			
- Card commissions	**89 966**	80 676	157 922
- Cash deposit fees	**57 911**	58 758	112 590
- Commissions: bills, drafts and cheques	**37 875**	33 011	155 090
- Bank charges	**652 725**	599 595	1 090 248
- Banking fee and commission income	**838 478**	772 040	1 515 850
- Brokerage income	**32 599**	37 257	76 372
- Management, trust and fiduciary service fees	**37 776**	38 816	85 970
- Non banking fee and commission income	**70 375**	76 073	162 342
Fee and commission income	**908 853**	848 113	1 678 192
Fee and commission expenses:			
- ATM commissions paid	**(2 695)**	(3 385)	(5 724)
- Cash sorting handling and transportation charges	**(12 974)**	(12 166)	(23 779)
- Card and cheque book related	**(803)**	(1 994)	(4 400)
- Customer loyalty program	**(7 397)**	(2 646)	(8 869)
- Transaction processing fees	**(52 442)**	(47 339)	(98 805)
- Other	**(1 669)**	(2 198)	(3 768)
Fee and commission expenses	**(77 980)**	(69 728)	(145 345)
Net fee and commission income	**830 873**	778 385	1 532 847

Non banking fee and commission income earned relates to fees and commissions earned for rendering services to clients other than those related to the banking operations. This includes commission earned on the sale of insurance products.

Fee and commision income expenses has been reclassified in order to better reflect the nature. The reclasification is a reallocation within fee and commision income and expenses and therefore had no impact on the overall balance.

3. Non-interest income continued

N$'000	Six month ended December 2018	Six month ended December 2017	Year ended June 2018
Fair value income:			
- Foreign exchange gains or losses	45 420	44 721	89 981
- Designated at fair value through profit or loss	18 048	26 050	55 489
- Other	(850)	2 357	7 333
Fair value income	62 618	73 128	152 803
Gains less losses from investing activities			
- Gains on investment securities designated at fair value through profit or loss	9 092	8 113	17 150
- Dividends received unlisted investments	10 862	7 314	15 204
- Loss allowance on investment securities	(314)	-	-
- Share of profit from associates after tax	1 366	562	1 102
Gross gains less losses from investing activities	21 006	15 989	33 456
Less: Share of profit from associates after tax (disclosed separately on face of the statement of comprehensive income)	(1 366)	(562)	(1 102)
Gains less losses from investing activities	19 640	15 427	32 354
Other non-interest income			
- Gains and losses on sale of property and equipment	1 447	(3 380)	49 276
- Rental income	1 109	3 621	6 027
- Other income	19 462	11 762	22 619
Other non-interest revenue	22 018	12 003	77 922
Total non-interest revenue	935 149	878 943	1 795 926

Condensed notes to the consolidated financial results

for the reporting period ended 31 December continued

4. Operating expenses

	Six month ended December		Year ended June
N$'000	2018	2017	2018
Auditors' remuneration			
- Audit fees	5 696	4 419	8 284
- Fees for other services	56	-	282
Auditors' remuneration	5 752	4 419	8 566
Operating lease charges			
- Property	24 520	23 837	48 238
- Equipment	9 796	10 322	19 924
Operating lease charges	34 316	34 159	68 162
Staff costs			
- Salaries, wages and allowances	450 801	410 104	830 728
- Off-market staff loans amortisation	386	1 317	2 203
- Defined contribution schemes: pension	41 983	39 319	78 831
- Defined contribution schemes: medical	43 572	44 341	91 852
- Post retirement medical expense	1 535	1 347	3 239
- Severance pay: death in service	267	109	929
- Social security levies	1 042	1 046	2 109
- Skills development levies	4 608	4 971	9 309
- Share-based payments	11 934	25 863	41 342
Total staff costs	556 128	528 417	1 060 543

4. Operating expenses continued

N$'000	Six month ended December		Year ended June
	2018	2017	2018
Other operating costs			
- Amortisation of intangible assets *	7 859	9 984	21 568
- Impairment of intangible assets*	403	-	50 987
- Depreciation	50 147	47 787	97 762
- Insurance	4 789	4 393	8 790
- Advertising and marketing	34 714	30 182	66 379
- Property and maintenance related expenses	39 340	39 042	81 854
- Legal and other related expenses	6 972	6 603	11 829
- Postage	2 231	2 411	5 002
- Stationery and printing	4 412	6 739	13 883
- Telecommunications	10 741	11 590	22 349
- Travel and accommodation	8 628	9 504	18 214
- Computer and processing related costs	167 245	153 285	311 393
- Other operating expenditure	78 048	56 592	114 822
- Total directors' remuneration	4 534	4 298	11 437
- Professional fees	3 835	4 557	7 709
Other operating costs	423 898	386 967	843 978
Total operating expenses	1 020 094	953 962	1 981 249

*** Significant impairments incurred during 2018**

Intangible assets - Ebank trademark

First National Bank of Namibia Limited, impaired the Ebank trademark after management reviewed the value of the trademark and found that it would no longer meet future needs of the group. This trademark has been impaired to a carrying amount of N$ nil based on its anticipated value in use to the business and an impairment loss of N$ 13.7 million recognised.

Intangible assets - software and development costs

First National Bank of Namibia Limited, impaired software after management reviewed their information technology platform and found that the software would no longer meet future needs as Ebank customers were migrated to the FNB Core banking system. This software has been impaired to a carrying amount of N$ nil based on its anticipated value in use to the business and an impairment loss of N$ 25.6 million recognised.

Condensed notes to the consolidated financial results
for the reporting period ended 31 December continued

5. Earnings per share

5.1 Headline earnings per share

Headline earnings per share and diluted headline earnings per share are determined by dividing headline earnings and dilutive headline earnings by the weighted average number of ordinary share outstanding during the period.

Headline earnings and diluted headline earnings are determined by adjusting basic earnings and dilutive earnings by excluding seperately identifiable re-measurement items. Headline earnings and diluted headline earnings are presented after tax and non-controling interest.

	Six month ended December		Year ended June
N$'000	2018	2017	2018
Headline earnings (N$'000)	544 798	519 771	1 039 383
Weighted average number of ordinary shares in issue	261 319 819	261 178 117	261 201 333
Headline earnings per share (cents)	208.5	199.0	397.9
Headline earnings (N$'000)	544 798	519 771	1 039 383
Diluted weighted average number of ordinary shares in issue	261 618 961	262 498 571	262 233 217
Diluted headline earnings per share (cents)	208.2	198.0	396.4
Earnings attributable to equity holders of the parent (N$'000)	545 782	517 473	1 039 960
Gains and losses on sale of property and equipment *	(984)	2 298	(49 276)
Impairment of assets in terms of IAS 36 (N$ 000)	-	-	50 978
Tax effect (N$ 000)	-	-	(2 279)
Headline earnings (N$'000)	544 798	519 771	1 039 383

*Net of tax and non-controlling interests

5. Earnings per share

5.2 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders of the group, obtained from profit and loss, by the weighted average number of ordinary shares in issue during the period.

	Six month ended December		Year ended June
N$'000	2018	2017	2018
Earnings attributable to ordinary shareholders (N$'000)	545 782	517 473	1 039 960
Weighted average number of ordinary shares in issue	261 319 819	261 178 117	261 201 333
Basic earnings per share (cents)	208.9	198.1	398.1
Earnings attributable to ordinary shareholders (N$'000)	545 782	517 473	1 039 960
Diluted weighted average number of ordinary shares in issue	261 618 961	262 498 571	262 233 217
Diluted earnings per share (cents)	208.6	197.1	396.6

Diluted earnings per share is determined by dividing profit or loss attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

6. Advances

	December		June
N$'000	2018	2017	2018
Notional value of advances	**29 694 939**	28 880 636	28 900 547
IAS 39 Contractual interest suspended*	**-**	(58 030)	(67 154)
Gross advances	**29 694 939**	28 822 606	28 833 393
Category analysis			
Overdrafts and cash management accounts	**3 779 064**	3 224 383	3 357 351
Card loans	**429 037**	354 413	400 709
Instalment sales and hire purchase agreements	**3 062 043**	3 184 947	3 072 819
Lease payments receivable	**251 924**	298 504	305 648
Home loans	**13 350 704**	13 004 595	13 116 923
Term loans	**7 997 897**	8 086 462	7 697 143
Investment bank term loans	**392 206**	447 309	419 769
Assets under agreement to resell	**-**	15 511	-
Other	**432 064**	206 482	463 031
Gross advances	**29 694 939**	28 822 606	28 833 393
Impairment of advances *	**(619 880)**	(270 230)	(301 560)
Net advances	**29 075 059**	28 552 376	28 531 833

* Comparability will not be achieved as the comparative financial results were prepared based on IAS 39. The group has elected not to restate the comparative balances as this is permitted by IFRS 9. Contractual interest suspended of N$ 90 million has been included in impairment of advances as per IFRS 9. (See impact of adopting revised standards note 12).

7. Deposits

7.1 Deposits and current accounts

N$'000	December 2018	December 2017	June 2018
Category analysis			
- Current accounts	9 202 312	8 952 950	10 017 857
- Call deposits	7 981 200	6 897 210	5 690 059
- Savings accounts	285 563	225 771	230 756
- Fixed and notice deposits	7 523 940	7 794 097	8 251 072
- Negotiable certificates of deposit	6 425 714	5 976 225	6 086 548
- Fixed and floating rate notes	1 270 186	1 273 283	1 269 909
Total deposits	32 688 915	31 119 536	31 546 201

7.2 Due to banks and other financial institutions

N$'000	December 2018	December 2017	June 2018
To banks and financial institutions			
- In the normal course of business	1 961 996	1 258 244	897 408

8. Related parties

Related parties of the group as defined, include:

Subsidiaries	Entities that have significant influence over the group, and subsidiaries of these entities
Associates	Key management personnel
Joint ventures	Close family members of key management personnel
Post-employment benefit funds (pension funds)	Entities controlled, jointly controlled or significantly influenced by key management personnel or their close family members

The principal shareholder of FirstRand Namibia Limited is FirstRand EMA Holdings (Pty) Limited, with its ultimate holding company FirstRand Limited, incorporated in South Africa.

Key management personnel of the group are the FirstRand Namibia Limited board of directors and the FirstRand Namibia Limited executive committee, including any entities which provide key management personnel services to the group. Their close family members include spouse/domestic partner and children, domestic partner's children and any other dependants of the individual or their domestic partner.

Detailed balances with relevant related parties appears below:

	December		June
N$'000	2018	2017	2018
Deposits			
FirstRand SA group companies	539 306	821 262	2 210 785
Associates	26 230	12 510	17 422
Advances			
FirstRand SA group companies	1 833 815	138 293	2 195 395
Associates	11 689	15 367	13 399
Derivative assets			
FirstRand SA group companies	373 602	25 372	15 390
Derivative liabilities			
FirstRand SA group companies	329 234	91 047	93 287
Related party transactions:			
Interest paid to (received from) related parties:			
FirstRand SA group companies	(56 556)	(14 459)	(68 259)
Associates	5	384	640
FirstRand SA group companies	9 039	27 469	25 959
Non-interest expenditure			
FirstRand SA group companies	170 014	135 315	277 393
Associates	8 770	6 669	14 292

9. Fair value measurements

9.1 Valuation methodology

In terms of IFRS, the group is required to or elects to measure certain assets and liabilities at fair value. The group has established control frameworks and processes to independently validate its valuation techniques and inputs used to determine its fair value measurements. Technical teams are responsible for the selection, implementation and any changes to the valuation techniques used to determine fair value measurements. Valuation committees comprising representatives from key management have been established at an overall group level and are responsible for overseeing the valuation control process and considering the appropriateness of the valuation techniques applied in fair value measurement. The valuation models and methodologies are subject to independent review and approval by the required technical teams, valuation committees, relevant risk committees and external auditors annually or more frequently if considered appropriate.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date i.e. an exit price. Fair value is therefore a market based measurement and when measuring fair value the group uses the assumptions that market participants would use when pricing an asset or liability under current market conditions, including assumptions about risk. When determining fair value it is presumed that the entity is a going concern and the fair value is therefore not an amount that represents a forced transaction, involuntary liquidation or a distressed sale.

Fair value measurements are determined by the group on both a recurring and non-recurring basis.

Recurring fair value measurements

Recurring fair value measurements are those for assets and liabilities that IFRS requires or permits to be recognised at fair value and are recognised in the statement of financial position at reporting date. This includes financial assets, financial liabilities and non-financial assets that the group measures at fair value at the end of each reporting period.

Financial instruments

When determining the fair value of a financial instrument, where the financial instrument has a bid or ask price (for example in a dealer market), the group uses the price within the bid-ask spread that is most representative of fair value in the circumstances. Although not a requirement, the group uses the bid price for financial assets or the ask/offer price for financial liabilities where this best represents fair value.

When determining the fair value of a financial liability or the group's own equity instruments the quoted price for the transfer of an identical or similar liability or own equity instrument is used. Where this is not available, and an identical item is held by another party as an asset, the fair value of the liability or own equity instrument is measured using the quoted price in an active market of the identical item, if that price is available, or using observable inputs (such as the quoted price in an inactive market for the identical item) or using another valuation technique.

Where the group has any financial liability with a demand feature, such as demand deposits, the fair value is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid where the time value of money is significant.

Non-recurring fair value measurements

Non-recurring fair value measurements are those triggered by particular circumstances and include the classification of assets and liabilities as non-current assets or disposal groups held for sale under IFRS 5 where fair value less costs to sell is the recoverable amount, IFRS 3 business combinations where assets and liabilities are measured at fair value at acquisition date, and IAS 36 impairments of assets where fair value less costs to sell is the recoverable amount. These fair value measurements are determined on a case by case basis as they occur within each reporting period.

Financial instruments not measured at fair value

Other fair value measurements include assets and liabilities not measured at fair value but for which fair value disclosures are required under another IFRS e.g. financial instruments at amortised cost. The fair value for these items is determined by using observable quoted market prices where these are available, such as market prices quoted on JSE Debt market, or in accordance with generally acceptable pricing models such as a discounted cash flow analysis. Except for the amounts included under point 9.3 below, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

Condensed notes to the consolidated financial results

for the reporting period ended 31 December continued

9. Fair value measurements continued

9.2 Non-financial instruments

When determining the fair value of a non-financial asset, a market participant's ability to generate economic benefits by using the assets in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use, is taken into account. This includes the use of the asset that is physically possible, legally permissible and financially feasible. In determining the fair value of the group's investment properties and commodities, the highest and best use of the assets was their current use.

The group classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item. If this information is not available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. The valuation techniques employed by the group include, inter alia, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option-pricing models, and discounted cash flow techniques.

Where a valuation model is applied and the group cannot mark-to-market, it applies a mark-to-model approach, subject to prudent valuation adjustments. Mark-to-model is defined as any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input. When applying mark-to-model, an extra degree of conservatism is applied. The group will consider the following in assessing whether a mark-to-model valuation is appropriate:

- As far as possible, market inputs are sourced in line with market prices;
- Generally accepted valuation methodologies are consistently used for particular products unless deemed inappropriate by the relevant governance forums;
- Where a model has been developed in-house, it is based on appropriate assumptions, which have been assessed and challenged by suitably qualified parties independent of the development process;
- Formal change control procedures are in place;
- Awareness of the weaknesses of the models used and appropriate reflection in the valuation output;
- The model is subject to periodic review to determine the accuracy of its performance; and
- Valuation adjustments are only made when appropriate, for example, to cover the uncertainty of the model valuation.

9.3 Fair value hierarchy and measurements

The table below sets out the valuation techniques applied by the group for recurring fair value measurements of assets and liabilities categorised as Level 2 and Level 3 in the fair value hierarchy:

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs
Loans and advances to customers					
Investment banking book*	Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate. To calculate the fair value of credit the group uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance. Similarly an increase in credit rating would result in a decrease in the spread below the base rate and an increase of the fair value of the advance.	Market interest rates and curves	Credit inputs
Other loans and advances	Level 2 and Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period.	Market interest rates and curves	Credit inputs

9. Fair value measurements continued

9.3 Fair value hierarchy and measurements continued

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs
Investment securities and other investments					
Equities/ bonds listed in an inactive market	Level 2	Discounted cash flows	For listed equities and bonds, the listed price is used where the market is active (i.e. Level 1). However if the market is not active and the listed price is not representative of fair value, these are classified as Level 2 and a valuation technique is used, for example the discounted cash flow is used for listed bonds. This will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
Unlisted bonds	Level 2 and Level 3	Discounted cash flows	Unlisted bonds are valued similarly to advances measured at fair value. The future cash flows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period.	Market interest rates and curves	Credit inputs
Unlisted equities	Level 2 and Level 3	Price earnings ("P/E") model	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place.	Market transactions	Growth rates and P/E ratios
Negotiable certificates of deposit	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate. Inputs to these models include information that is consistent with similar market quoted instruments, where available.	Market interest rates and curves	Not applicable
Treasury Bills	Level 2	JSE Debt market bond pricing model	The JSE Debt market bond pricing model uses the BESA mark to market bond yield.	Market interest rates and curves	Not applicable

9. Fair value measurements continued

9.3 Fair value hierarchy and measurements continued

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs
Derivative financial instruments					
Option contracts	Level 2 and Level 3	Option pricing model	The Black Scholes model is used.	Strike price of the option; market related discount rate; forward rate and cap and floor volatility.	Not applicable
Swaps	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date of each swaplet is determined in terms of legal documents pertaining to the swap.	Market interest rates and curves	Not applicable
Forward rate agreements	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rates and curves	Not applicable
Forward contracts	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Market interest rates and curves	Not applicable
Deposits					
Call and non-term deposits	Level 2	None - the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand i.e. the undiscounted amount of the deposit.	None - the undiscounted amount approximates fair value and no valuation is performed	Not applicable
Deposits that represent collateral on credit linked notes	Level 3	Discounted cash flows	These deposits represent the collateral leg of credit linked notes. The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves	Credit inputs on related advance
- Other deposits	Level 2 and Level 3	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves	Credit inputs

9. Fair value measurements continued

9.3 Fair value hierarchy and measurements continued

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs
Other liabilities and Tier 2 liabilities	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Level 2 and Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate and curves adjusted for credit inputs.	Market interest rates and curves	Credit inputs

* The group has elected to designate certain investment banking book advances at fair value through profit or loss. The designation is on a deal basis. Credit risk is not observable and has a significant impact on the fair value measurement of these advances and as such, these advances are classified as Level 3 on the fair value hierarchy.

For non-recurring fair value measurements, the fair value hierarchy classification and valuation technique applied in determining fair value will depend on the underlying asset or liability being measured. Where the underlying assets or liabilities are those for which recurring fair value measurements are required as listed in the table above, the technique applied and the inputs into the models would be in line with those as set out in the table. Where the underlying assets or liabilities are not items for which recurring fair value measurements are required, for example property and equipment or intangible assets, the carrying value is considered to be equal to or a reasonable approximation of the fair value. This will be assessed per transaction and details will be provided in the relevant notes. There were no assets or liabilities measured at fair value on a non-recurring basis in the current and prior period.

During the current reporting period there were no changes in the valuation techniques used by the group.

Condensed notes to the consolidated financial results
for the reporting period ended 31 December continued

9. Fair value measurements continued

9.3 Fair value hierarchy and measurements continued

The following table presents the fair value measurements and fair value hierarchy of assets and liabilities of the group which are recognised at fair value:

N$'000 **December 2018**	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Recurring fair value measurements				
Investment securities*	-	493 819	55 630	549 449
Advances	-	-	392 206	392 206
Derivative financial instruments	-	686 067	-	686 067
Total financial assets		1 179 886	447 836	1 627 722
Liabilities				
Recurring fair value measurements				
Derivative financial instruments	-	701 889	-	701 889
Other liabilities	-	-	34 191	34 191
Total financial liabilities	-	701 889	34 191	736 080

N$'000 **December 2017**	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Recurring fair value measurements				
Investment securities*	-	5 001 271	9 576	5 010 847
Advances	-	-	447 309	447 309
Derivative financial instruments	-	111 219	-	111 219
Total financial assets	-	5 112 490	456 885	5 569 375
Liabilities				
Recurring fair value measurements				
Derivative financial instruments	-	117 394	-	117 394
Short trading position	16 238	-	-	16 238
Total financial liabilities	16 238	117 394	-	133 632

9. Fair value measurements continued

9.3 Fair value hierarchy and measurements continued

N$'000 **June 2018**	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Recurring fair value measurements				
Investment securities*	-	5 213 527	52 617	5 266 144
Advances	-	-	419 769	419 769
Derivative financial instruments	-	93 520	-	93 520
Total financial assets	-	5 307 047	472 386	5 779 433
Liabilities				
Recurring fair value measurements	-	109 755	-	109 755
Derivative financial instruments	-	-	32 805	32 805
Short trading position	-	-	-	-
Total financial liabilities	-	109 755	32 805	142 560

* Comparability will not be achieved as the comparative financial statements were prepared based on IAS 39. The group has elected not to restate the comparative balances as this is permitted by IFRS 9. (See impact of adopting revised standards note 12).

During the reporting period ending 31 December 2018 (31 December 2017), there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Changes in the group's best estimate of the non-observable inputs (Level 3) could affect the reported fair values recognised on statement of financial position and the movement in fair values recognised in the statement of comprehensive. However, changing these inputs to reasonably possible alternatives would change the fair value using more positive reasonable assumptions to N$ 489 305 (2017:N$ 492 040) and using more negative reasonable possible assumptions to N$ 400 340 (2017:N$ 402 578). These amounts are based on the assumptions without first tier margins and additional first tier margins respectively.

9. Fair value measurements continued

9.3 Fair value hierarchy and measurements continued

Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives

Fair values of financial instruments recognised in the financial statements may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data. In these instances, the net fair value recorded in the financial statements is the sum of three components:

(i) the value given by application of a valuation model, based upon the group's best estimate of the most appropriate model inputs;

(ii) any fair value adjustments to account for market features not included within valuation model (for example, bid mid spreads, counterparty credit spreads and / or market data uncertainty); and

(iii) day one profit or loss, or an unamortised element thereof, not recognised immediately in the income statement in accordance with the group's accounting policy, and separately detailed within the derivative note above.

The group classifies financial instruments in Level 3 of the fair value hierarchy when significant inputs into the valuation model are not observable. In addition to the valuation model for Level 3, financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

Changes in level 3 fair value instruments

N$'000	Fair value on June 2018	Gains or losses recognised in profit and loss	Gains or losses recognised in other comprehensive income	Purchases/ (sales)/ issues/ (settlements)	Fair value on December 2018
Assets					
Advances	419 769	15 035	-	(42 598)	392 206
Investment securities	52 617	3 013	-	-	55 630
Total financial assets at fair value	472 386	18 048	-	(42 598)	447 836

9. Fair value measurements continued

9.3 Fair value hierarchy and measurements continued

N$'000	Fair value on June 2017	Gains or losses recognised in profit and loss	Gains or losses recognised in other comprehensive income	Purchases/ (sales)/ issues/ (settlements)	Fair value on December 2017
Assets					
Advances	464 205	26 050	-	(42 946)	447 309
Investment securities	9 576	-	-	-	9 576
Total financial assets at fair value	473 781	26 050	-	(42 946)	456 885

N$'000	Fair value on June 2017	Gains or losses recognised in profit and loss	Gains or losses recognised in other comprehensive income	Purchases/ (sales)/ issues/ (settlements)	Fair value on June 2018
Assets					
Advances	464 205	45 656	-	(90 092)	419 769
Investment securities	9 576	9 833	-	33 208	52 617
Total financial assets at fair value	473 781	55 489	-	(56 884)	472 386

Condensed notes to the consolidated financial results
for the reporting period ended 31 December continued

9. Fair value measurements continued

9.3 Fair value hierarchy and measurements continued

The table below presents the total gains (losses) relating to financial instrument classified in Level 3 that are still held on:

	December 2018		December 2017		June 2018	
N$'000	Advances	Investment securities	Advances	Investment securities	Advances	Investment securities
Assets						
Gains or losses recognised in profit and loss	15 035	3 013	26 050	-	45 656	9 833
Total	15 035	3 013	26 050	-	45 656	9 833

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position.

For all other instruments the carrying value is equal to or a reasonable approximation of the fair value.

	December 2018		December 2017		June 2018	
N$'000	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Assets						
Cash and cash equivalents	2 201 441	2 201 441	2 350 745	2 350 745	1 345 842	1 345 842
Due from banks and other financial institutions	2 022 671	2 022 671	1 454 575	1 454 575	2 781 551	2 781 551
Investment securities	6 165 015	6 161 435	-	-	-	-
Advances	29 075 059	28 841 405	28 552 376	28 746 045	28 112 064	28 091 637
Accounts receivable	51 840	51 840	46 735	46 735	8 156	8 156
Total	39 516 026	39 278 792	32 404 431	32 598 100	32 247 613	32 227 186
Liabilities						
Deposits	32 688 915	32 548 655	31 119 536	31 016 633	31 546 201	31 526 598
Due to banks and other financial institutions	1 961 996	1 961 996	1 258 244	1 258 244	897 408	897 408
Creditors and accruals	50 462	50 462	77 650	77 650	206 590	206 590
Tier 2 liabilities	402 871	402 833	402 944	450 888	402 783	446 334
Other liabilities	220 540	219 351	219 000	219 000	220 447	219 243
Total	35 324 784	35 183 297	33 077 374	33 022 415	33 273 429	33 296 173

10. Contingent liabilities and capital commitments

N$'000	Six months ended 31 December 2018	Six months ended 31 December 2017	Year ended 30 June 2018
Contingent liabilities	7 119 825	6 942 360	7 004 290
Capital commitments	7 550	12 308	3 168

11. Condensed consolidated segment information

N$'000	Six months ended 31 December 2018	Six months ended 31 December 2017	Year ended 30 June 2018
Income from operations:			
Banking operations [1]	1 746 582	1 629 655	1 526 615
Short-term insurance	48 584	57 346	61 331
Other [2]	59 357	65 948	8 090
	1 854 523	1 752 949	1 596 036
Profit for the period			
Banking operations [1]	544 518	499 075	1 022 234
Short-term insurance	14 104	23 773	42 360
Other [2]	(5 929)	2 663	(3 886)
	552 693	525 511	1 060 708
Total assets:			
Banking operations [1]	41 903 866	39 000 674	39 179 585
Short-term insurance	146 981	165 335	191 153
Other [2]	99 314	105 165	39 687
	42 150 161	39 271 174	39 410 425
Total liabilities:			
Banking operations [1]	36 947 976	34 209 188	34 380 312
Short-term insurance	62 528	72 305	68 805
Other [2]	20 950	9 809	(54 748)
	37 031 454	34 291 302	34 394 369

[1] Banking operations include FNB Retail, FNB Commercial, RMB Corporate and WesBank

[2] Other segment includes FirstRand Namibia, FNB Insurance Brokers, FNB Fiduciary Services, Ashburton Unit Trusts, Pointbreak Group Companies and consolidation entries.

Condensed notes to the consolidated financial results

for the reporting period ended 31 December continued

12. Impact of adopting revised accounting standards

	30 June 2018 Balances before restatement	Reclassification from IAS39 to IFRS9	To amortised cost	Recognistion increase or decrease of ECL	Interest in suspense (ISP)	Total impact	30 June 2018 Balances after restatement
Assets							
Advances	28 531 833	-	-	(141 718)	-	(141 718)	28 390 115
- Gross value of advances	28 833 393	-	-	-	67 154	67 154	28 900 547
- Impairment and fair value of credit of advances	(301 560)	-	-	(141 718)	(67 154)	(208 872)	(510 432)
Investment securities	5 266 144	-	35 385	(889)	-	34 496	5 300 640
- Amortised cost	-	4 755 470	35 385	(889)		4 789 966	4 789 966
- Available for sale	4 866 658	(4 866 658)	-	-	-	(4 866 658)	-
- Held for trading	24 302	-	-	-	-	-	24 302
- Designated at fair value	375 184	101 612	-	-	-	101 612	476 796
- Fair value through other comprehensive income	-	9 576	-	-	-	9 576	9 576
Other assets	5 612 448	-	-	-	-	-	5 612 448
Total assets	39 410 425	-	35 385	(142 607)	-	(107 222)	39 303 203
Equity and liabilities							
Liabilities							
Deferred income tax liability	323 672	-	11 071	(11 409)	-	(338)	323 334
Other liabilities	34 070 697	-	-	-	-	-	34 070 697
Equity							
Reserves	4 911 461	-	24 314	(131 198)	-	(106 884)	4 804 577
Other components of equity	104 595	-	-		-	-	104 595
Total equity and liabilities	39 410 425	-	35 385	(142 607)	-	(107 222)	39 303 203

The group has adopted IFRS 9 and IFRS 15 during the current period. The group, as permitted by these standards, elected not to restate any comparative information. The adoption of IFRS 15 had no impact on the group's reported results. Accordingly, the impact of adopting the revised requirements of IFRS 9 has been applied retrospectively with an adjustment to the group's 1 July 2018 opening reserves. Reported information in terms of the 30 June 2018 year end and all previous financial years were unaffected by the application of IFRS 9.

Item	Requiment	Impact on group
Classification and measurement	IFRS 9 introduced a principle-based approach for classifying financial instruments, which is based on the entity's business model (i.e. how an entity manages its financial assets in order to generate cash flows) and nature of its cash flows. Financial assets whose business model is achieved by collecting contractual cash flows are classified at amortised cost. Financial assets with a mixed business model (i.e. held to collect contractual cash flows which are solely payments of principal and interest and through sale) are classified at fair value through other comprehensive income. All other financial assets under a different business model are classified at fair value through profit or loss The classification of financial liabilities remains relatively unchanged, with the exception of financial liabilities designated at fair value. Any changes in the fair value of the liability due to the entity's own credit risk will now be recognised in other comprehensive income.	The group's approach was to first reclassify the items, as indicated in the reclassification column, and then to remeasure the item included in the re-measurement column. Based on the business model assessments performed, the following were the significant reclassifications and re-measurements: - N$ 4 755 million investment securities held in the group's liquid asset portfolio were reclassified from available-for-sale to amortised cost because they are held to collect contractual cash flows that meet the SPPI test. N$ 9.5 million was reclassified to FVOCI as it is held in a mixed business model. N$ 101.6 million was reclassified to FVTPL. This resulting in a N$ 24.3 million (after-tax) release of available-for-sale reserve.
ECL impairment	IFRS 9 introduced an expected credit loss model for the recognition of impairment on financial assets, which includes the incorporation of forward-looking information and no longer requires a credit event to occur before credit losses are recognised. This applies to financial assets classified at amortised cost and fair value through other comprehensive income, lease receivables, trade receivables, loan commitments and financial guarantee contracts. The level of expected credit losses to be raised is determined in relation to the credit risk of the asset at reporting date in relation to its credit risk at origination. Where the credit risk has not increased significantly since origination, impairment is calculated based on 12-month expected credit losses. If this is not the case, impairment is based on lifetime expected credit losses.	The revised impairment requirements increased impairments by N$ 142 million, excluding ISP, due to earlier recognition of ECL, incorporating FLI, the inclusion of off-balance sheet exposures and the extension of the measurement period. This resulted in a opening retained earnings adjustment of N$ 131 million (after-tax).
Hedge accounting	IFRS 9 more closely aligns hedge accounting with the entity's risk management and permits the use of internally produced risk management information as a basis for hedge accounting, thereby widening the scope for items that can be hedge accounted.	The revised hedge accounting requirements were applied by the group prospectively, as required by IFRS 9, to its existing hedge accounting relationships and as such did not have an impact on the amounts recognised on DIA. However, hedge documentation was updated to comply with the requirements of IFRS 9.

Condensed notes to the consolidated financial results

for the reporting period ended 31 December continued

12. Impact of adopting revised accounting standards continued

Item	Requiment	Impact on group
ISP	In terms of IAS 39 ISP was not capitalised to advances and interest suspended was tracked and managed separately off-balance sheet. Under IFRS 9, interest revenue is calculated by applying the effective interest rate to the amortised cost of financial assets classified in stage 3. The difference between the contractual interest and the interest recognised in line with IFRS 9 is therefore suspended. This suspended interest is capitalised to the advance and immediately impaired.	ISP is recognised against the ECL allowance, reflecting the fact that it is unrecoverable and therefore impaired. To the extent that the impairment coverage ratio under IAS 39 is identical to that under IFRS 9, the impact of ISP on transition to IFRS 9 is a gross-up of the advance and loss allowance by the amount of the suspended interest, with no impact on retained earnings. Where the coverage ratios under the two standards differ, the difference is reflected in retained earnings. The amount of ISP under IAS 39 was N$ 67.2 million and remained the same under IFRS9. Advances are increased by N$ 67.2 million and impairments increased by N$ 67.2 million.

Salient features of the group results

	Six months ended 31 December		Year ended 30 June
	2018	2017	2018
Financial statistics			
Headline earnings per share (cents)	**208.5**	199.0	397.9
Diluted headline earnings per share (cents)	**208.2**	198.0	396.4
Ordinary dividends per share (cents) - (declared for the period)	**91.0**	91.0	204.0
Number of shares in issue (‘000) - ordinary*	**261 359**	261 215	261 248
Weighted number of shares in issue (‘000) - ordinary*	**261 320**	261 178	261 201
* after consolidation of share trusts			
Net asset value per share (cents)	**1 938**	1 789	1 892
Closing share price (cents)	**4 344**	4 663	4 498
Market capitalisation (millions)	**11 624**	12 478	12 036
Price earnings ratio	**10.4**	11.7	11.3
Price to book ratio	**2.2**	2.6	2.4
Selected ratios			
Return on equity (headline earnings on average equity) (%)	**22.4**	23.3	22.1
Return on average assets (%)	**2.7**	2.8	2.7
Cost to income ratio (%)	**51.7**	52.1	53.5
Normalised cost to income ratio (%)	**51.7**	50.2	50.3

Capital adequacy

Banking Operations

N$'000	Six months ended 31 December 2018	Six months ended 31 December 2017	Year ended 30 June 2018
Risk weighted assets			
Credit risk	25 533 193	22 819 644	23 695 641
Market risk	18 738	51 408	18 977
Operational risk	4 364 309	4 080 791	4 228 852
Total risk weighted assets	29 916 240	26 951 843	27 943 470
Regulatory capital			
Share capital and share premium	1 142 792	1 142 792	1 142 792
Retained profits	3 256 116	2 731 870	3 506 042
Capital impairment*	(98 521)	(150 923)	(104 244)
Total tier 1	4 300 387	3 723 739	4 544 590
Eligible subordinated debt	400 000	400 000	400 000
General risk reserve, including portfolio impairment	301 504	285 246	291 663
Current board approved profits	263 950	243 787	
Total tier 2	965 454	929 033	691 663
Total tier 1 and tier 2 capital	5 265 841	4 652 772	5 236 253
Banking group			
Capital adequacy ratios			
Tier 1	14.3%	13.8%	16.2%
Tier 2	3.3%	3.5%	2.5%
Total	17.6%	17.3%	18.7%
Tier 1 leverage ratio	10.2%	9.6%	11.7%

* Includes intangible assets, investment in deconsolidated entities and investment in significant minority and majority insurance entities

Capital adequacy
Regulated consolidated group

N$'000	Six months ended 31 December 2018	Six months ended 31 December 2017	Year ended 30 June 2018
Risk weighted assets			
Credit risk	25 753 472	22 965 899	23 876 025
Market risk	18 738	51 408	18 977
Operational risk	4 444 933	4 131 748	4 292 965
Total risk weighted assets	30 217 143	27 151 055	28 187 967
Regulatory capital			
Share capital and share premium	282 149	282 149	282 148
Retained profits	4 374 738	3 819 329	4 595 866
Capital impairments*	(159 581)	(205 028)	(162 810)
Total tier 1	4 497 306	3 896 450	4 715 204
Eligible subordinated debt	400 000	400 000	400 000
Current board approved profits	544 518	243 787	
General risk reserve, including portfolio impairment	301 504	285 246	291 663
Capital impairments*	(19 945)	(19 945)	(19 945)
Total tier 2	1 226 077	909 088	671 718
Total tier 1 and tier 2 capital	5 723 383	4 805 538	5 386 922
Consolidated group			
Capital adequacy ratios			
Tier 1	14.8%	14.4%	16.7%
Tier 2	4.1%	3.3%	2.4%
Total	18.9%	17.7%	19.1%
Tier 1 leverage ratio	10.9%	10.5%	12.4%

* Includes intangible assets, investment in deconsolidated entities and investment in significant minority and majority insurance entities.

FirstRand Namibia Ltd
(previously FNB Namibia Holdings Limited)
(Incorporated in the Republic of Namibia)
(Registration number: 88/024)
ISIN: NA0003475176 | Share Code (NSX): FNB
("FirstRand Namibia Ltd" or "the Company")

Directors:
II Zaamwani-Kamwi (Chairperson), SH Moir** (Deputy-Chairperson), OLP Capelao, JG Daun, CLR Haikali, JH Hausiku, Adv. GS Hinda, JR Khethe*, GCP Kruger*, IN Nashandi, SJ van Zyl (Chief Executive) ** South African, ** South African with Namibian Permanent Residence.*

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