SME BANK

your partner in growth

Annual Report 2015

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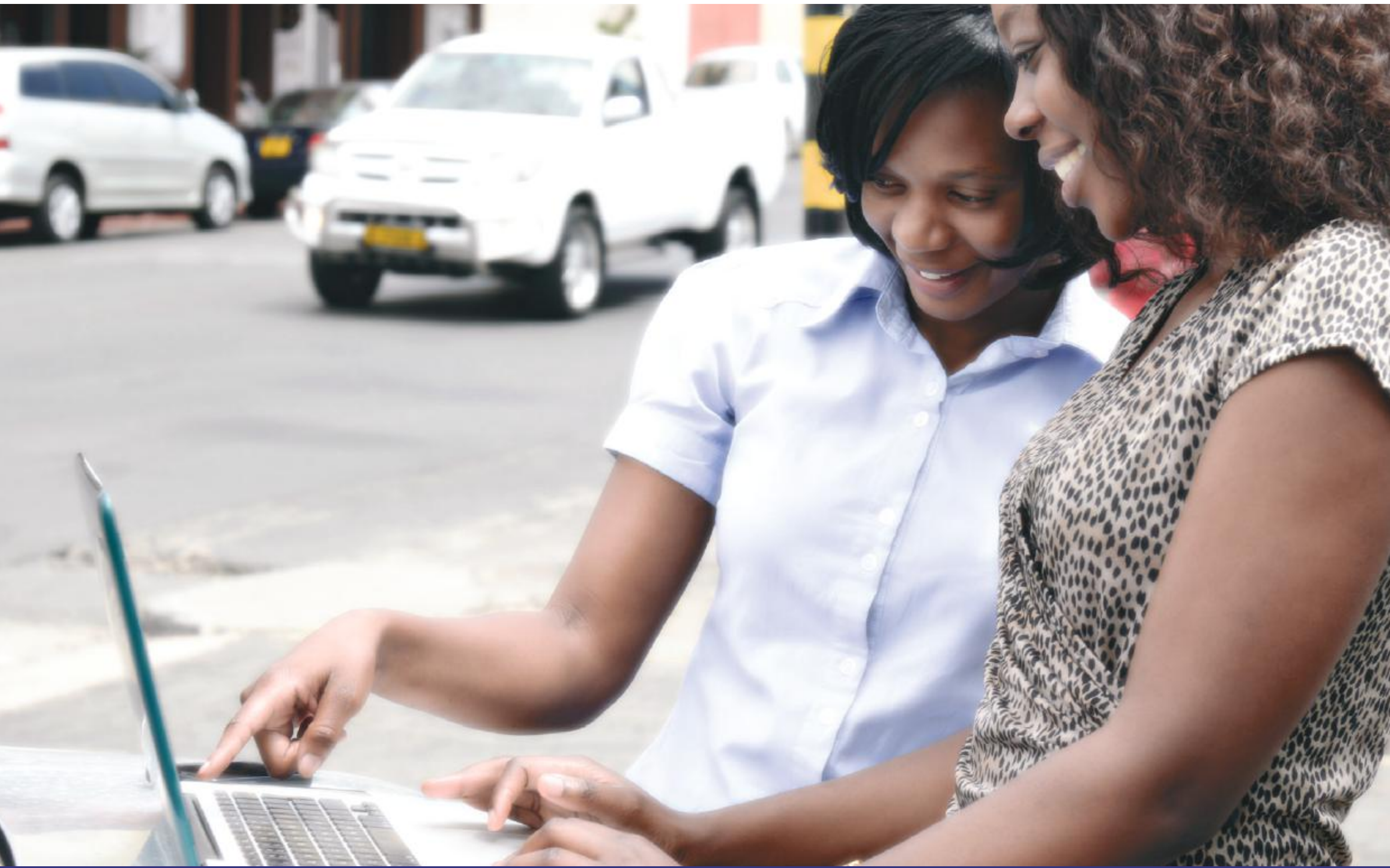

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Internet Banking is a simple and convenient way of doing banking. You will be able to save time by managing your day-to-day banking activities from any personal computer with Internet access - while still having complete control of your funds.

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- View account balances and download account statements
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- Set up personal beneficiaries and make beneficiary payments.
- Set up recurring and future-dated transfers (Scheduled Payments)

* This service is currently only available for Business Account holders.

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SME Bank is a registered Commercial Bank

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Mandate

SME Bank is a registered commercial bank established to support and develop the SME sector in Namibia by increasing value added production, services, jobs and income through the provision of affordable and accessible financial services and effective business support.

Vision

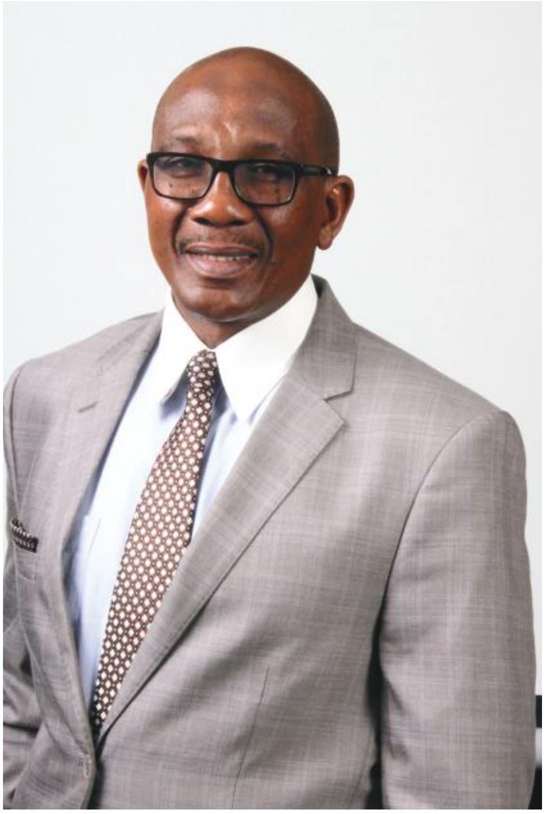
To be the nation's preferred bank and financial services provider for the SME sector.

Mission

To provide superior, well designed and targeted banking products and services to small, medium, micro and informal enterprises that will enable them to start, grow, compete and prosper in a global setting.

Values

Service Excellence
Learning and Growing
Honesty and Integrity
Professionalism
Passion to Serve
Respect and Teamwork



Mr. George Simataa
(Chairman)

I have the privilege and pleasure to present the 1st Annual Report of SME Bank Limited (the Bank) along with the Audited Financial Results for the year ended 28th February 2015.
The report looks back on the operations of the Bank from its inception in December 2012.

Economic Environment
The Namibian economy has been showing signs of improvement since the beginning of 2014. Available indicators show improvements in various sectors compared to the corresponding periods of 2012 and 2013. Growth is expected to improve to 5.6% in 2015 and 6.4% in 2016 as external demand improves and new mines start production and exporting.
Tight monetary policy has kept consumer price index (CPI) inflation within the target range of 3% to 6%. Bank of Namibia in August 2014 implemented a second increase in the repo rate by 25 basis points to 6% to stabilise rising inflation caused by escalating food and transport prices. Consequently, the CPI inflation rate moderated from 6.1% in June to 4.7% in December.

Political stability and prudent fiscal management have helped anchor Namibia's high growth rates and poverty reduction efforts. With strong ties to South Africa, the region's second biggest economy, Namibia has stronger competitiveness and investment attraction than average sub-Saharan countries.

The African Development Bank (AfDB) in its review of the Namibian economy made the following summation;
- 2014 growth accelerated to 5.3% and should remain strong in coming years as new mines start pro duction and exports grow.
- Political stability and prudent fiscal management have made Namibia attractive for investment but it must boost quality of education and training to improve skills and enhance competitiveness.
- Namibia must deepen reforms to get better value from agriculture and extend non-mineral diversification to create jobs and reinforce spatial inclusion. With this sound assessment of the country and the Government's commitment to recapture public confidence and strengthen the country's strong governance record, Namibia is making progress in reducing income disparities and eradicating poverty, one of the country's goals under Vision 2030.

Business and Strategic Intent
While SME Bank is a fully licensed commercial bank, it is a majority owned Government bank, thus the Strategic Plan of the Bank has been guided, in the main, by four high level national policy statements, namely: Vision 2030, Millennium Development Goals, the 4th National Development Plan (NDP4) and the Ministry of Industrialisation, Trade and SME Development Strategic Plan.

A common thread linking all the above statements is the grave concern over Namibia's high and persistent unemployment and income inequity affecting especially the youth, rural, women, previously disadvantaged individuals, and generally the indigenous small and medium scale entrepreneurs whose value-adding potential is being seriously hampered by critical skills shortage, insufficient, inadequate training and limited access to affordable financial services and structured business support.

Implicit in the Bank's concerns are such underlying factors such as low domestic production, poor inter-industry linkages, low labour productivity, poor access to local supplies and established market outlets. Thus, the Bank's 5 year Strategic Plan and Business Plan, as far as practically possible targets small, medium and micro-entrepreneurs, non-traditional and informal commercial traders and suppliers.

The NDP4 identifies the developing and expanding value adding production and trade activities in the key sectors of the economy in order to derive, enhance and spread meaningful and sustainable income in order to reduce poverty and the associated woes. The Bank's business strategy thus targets SMEs, rural-based, non-traditional and informal enterprises (micro enterprises).

Business Overview

As a new organisation, the key theme of our first two years of operation was establishing our foundation, upon which we will continue to build in the years to come. I am happy to report that the Bank has made good progress against the challenging commitments we set ourselves, and exceeded our target of realising N$469 million deposits, which has enabled us to offer financial assistance to our clients who are in the main MSMEs and Previously Disadvantaged Namibians (PDIs)

This has been possible thanks to the commitment of the bank's staff during a very challenging first year. It is still early days for the Bank to have reported a profit given the huge start-up costs the Bank has had to incur in setting up an appropriate and accessible banking infrastructure throughout the country. We have started very important work and we are ambitious and excited to do more in the coming years. We will continue to improve on the Bank's infrastructure and performance and make steps towards achieving our ambition to be recognised as "the nation's preferred bank and financial services provider for the MSME sector", making a real difference in the financial services sector in Namibia.

A key area of focus for the Board in 2015/16 will be an in-depth review of the Bank's strategy in terms of Stakeholder Satisfaction and Internal Processes. We believe these Balanced Score Card themes are critical to the Bank's success as they present the best growth opportunities going forward. The Bank's unique MSME brand, product technology, first class customer service and marketing skills ensure that it is well placed to deliver on its Mission "to provide superior, well designed and targeted banking products and services to small, medium, micro and informal enterprises that will enable them to start, grow, compete and prosper in a global setting". Tawanda Mumvuma, the Bank's Chief Executive Officer, gives further detail on our operations and achievements in his report and the Board will continue to track progress and performance against the agreed strategic objectives.

George Simataa
Chairman

Chief Executive Officer's Report

Mr. Tawanda Mumvuma
(Chief Executive Officer)

As the Chief Executive Officer (CEO), it is my role in this section of our Annual Report to review the year for our shareholders and to report on the Bank's performance. Our success as a business is central to our ability to be a good corporate citizen of Namibia and to play our part in the country's development. As stated by the Chairman in his report this is the first Annual Report of the Bank since its inception in December 2012, this report therefore covers activities of the Bank over the past two years.

I am pleased to report that the Bank delivered a solid operational performance in the 2014/15 financial year compared to the previous years, in spite of the net loss that we experienced. The results reflect an improved state of our operating assets and a team that is continuing to deliver in a challenging environment.

Taking the 2014/15 financial year as a whole, major highlights are:-
- 116.81% increase in customer deposits to N$490m compared to N$226m for 2013/14 financial year;
- 710.8% increase in the loan book to N$142.7m compared to N$17.6m for 2013/14 financial year;
- 271.4% increase in operating income of N$10.4m compared to N$2.8m for the year 2013/14;
- Total assets grew to N$738m from N$360m for the year 2013/14, thus an increase of 105%;
- Operating expenses increased to N$82m compared to N$72m for 2013/14 due to branch expansion;
- Opening of the Katutura Branch, the first branch of the Bank outside the Main Branch; and
- 11.85% increase in customer accounts from 6,075 in the last Quarter to 6,795.

In addition the Bank has achieved the following milestones;
- Integration into two payment streams i.e. cheque and Electronic Funds Transfer (EFT). To support our payment streams and coupled with the issuing of ATM Cards, we have managed to introduce E-Alert. This is a system whereby clients are immediately alerted electronically of any transactions that would have gone through their accounts;
- Introduction of Cellphone and Internet Banking Facilities;
- Introduction of new additions on our Value Added Services i.e. purchasing of Airtime (MTC, TN Mobile and Flexi Call) and Electricity (Municipality of Windhoek, Erongo Reds, Cenored and Nored). Besides these services being accessible on our ATMs, Cellphone and Internet Banking platforms, they can also be accessed at all Teller cubicles in our branches. Non-customers can also walk into our bank and purchase any of the above services at any one of our friendly Tellers' cubicles; and
- Access and Acceptability: in just over two years, the Bank has close to 10,000 clients who make deposits and normal transactions on a daily basis, of which the majority have received over N$300 million worth of loans.

Thanks to our valued clients, the Bank's financial position has grown significantly within a space of two years. The Bank acknowledges that it has incurred losses since inception, however the losses were anticipated as per the Bank's Business Plan. A turnaround plan is in place through which the Bank expects to break even in the 2017/2018 financial year and be profitable thereafter.

Outlook
The Bank is well positioned to increase its market share with more branches coming on stream in the 2015/16 financial year. We should see our client base increasing as we expand our branch network. Some of the immediate programmes and products we are working on are;

- Debit Card & Credit Card
- Letters of Credit
- Foreign Exchange
- International Trade Finance
- Home Mortgage
- Credit Insurance
- Business Support Services

I am grateful and indebted to the Board, staff and all the stakeholders of the Bank for their unwavering support. The trust and faith we have received from our clients in such a short spell has inspired us to strive to provide more solutions to entrepreneurs in our Country. With continued support from our stakeholders I am confident that SME Bank will realise its Vision and be the model for SME banking in the SADC region and the African continent.

Tawanda Mumvuma
Chief Executive Officer

GOVERNANCE

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The Board

The Bank is led by a Board of Directors which is responsible for setting the strategic objectives, goals of the Bank, oversight of Management and reporting to stakeholders.

The Board has six (6) non-executive directors and one (1) executive director, the CEO. The Board exercises some of its responsibilities through five board subcommittees: -

- Audit Committee;
- Credit Committee;
- Loans Review Committee;
- Nominations, Human Resources and Remuneration Committee; and
- Risk Management and Compliance Committee.

The Board is comprised of the following members:-

Mr. George Simataa (Chairman) appointed 1/09/2015
Mr. Tawanda Mumvuma (CEO)
Ms. Milka Mungunda (Non- Executive Director)
Ms. Petrina Nakale (Non-Executive Director)
Mr. Theofelus Mberirua (Non-Executive Director)
Mr. Ozias Bvute (Non-Executive Director)
Mr. Enock Kamushinda (Non-Executive Director)

Mr. Kapofi resigned on 30 April 2015, following his appointment as Minister of Presidential Affairs. He was appointed as Chairman of the Bank from 29 0ctober 2012.

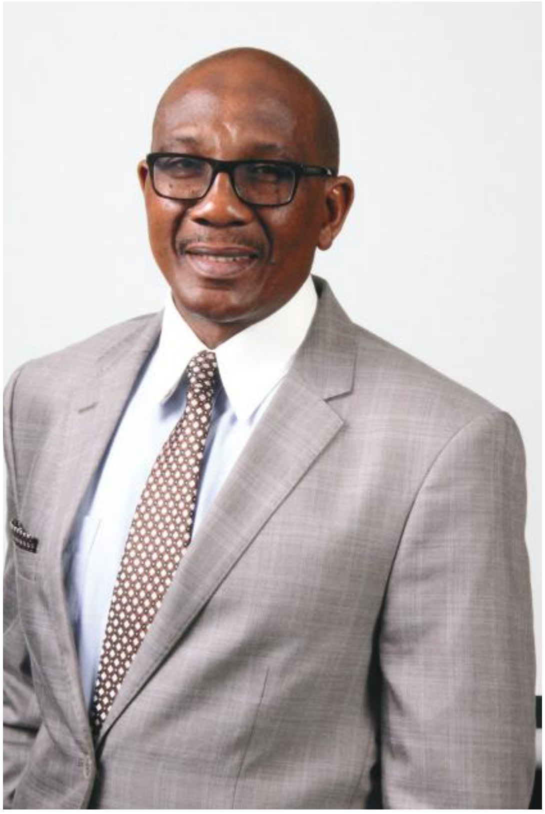
Board Appointment and Remuneration Structure

Directors are appointed by the shareholders at the annual general meeting ('AGM').
One third of the longest serving, non-executive directors are required to retire at each AGM and may offer themselves for re-election.

Non – executive directors receive a sitting fee and a retainer fee for serving on the Board and Board committees. Executive directors receive a remuneration package as per their contract of employment.

Board Evaluation

The Board evaluated their performance through self-assessment questionnaires and gaps and weaknesses will be addressed in 2016.



Mr. Simataa received his early education at Catholic Schools of St Mulumba Primary and Kizito Secondary Schools from 1967 to 1975. He completed a Diploma in Public Administration at the University of Zululand (South Africa) in 1983. From 1989 to 1991 he completed a Bachelor of Administration Degree at the University of Namibia, followed by an Honors Degree in Public Administration from the University Of South Africa (UNISA). He completed a Master's Degree in Public Administration at the University of Namibia in 1998.

Mr. Simataa is a recipient of numerous awards including the Vice Chancellor's Medal as the best student of Masters Studies in the Faculty of Economics and Management Science at the University of Namibia in 1998 and as the best non-final year student in the same faculty and university in 1990. In 1993, he was awarded UNDP Scholarship to study a three-month programme in Regional Development and Planning in Nagoya, Japan. He also participated and won an essay competition on "Individual Freedom and Liberties" sponsored by the American Cultural Centre in 1991.

Mr. George Simataa
(Chairman)

A career civil servant, who joined the civil service in December 1979 and rose to various senior clerical and managerial positions in the Government both before and after the Independence of Namibia. At Independence he became Chief Control Officer at the then Ministry of Regional and Local Government, before he became Deputy Director of Elections in 1994. From 1995 to 1997, he worked as a Senior Special Assistant (Director) in the private office of the first Prime Minister of the Republic of Namibia, now President of the Republic. As Prime Minister's Assistant, he was instrumental in steering the cause of good governance, transparency and accountability in the Civil Service of Namibia. Later he became Director of Human Resources Management, and then Under Secretary in the Office of the Prime Minister. As Under Secretary for the Department of Public Service Management in the Office of the Prime Minister his responsibilities included amongst others developing and implementing Government Human Resources Policies and advising the Prime Minister on Human Resource related matters.

As a career civil servant, Mr Simataa completed several management related courses offered by the Commonwealth Secretariat and the British Civil Service College. Over the years he has also acquired both by training and practice, powerful negotiation skills. He has also attended and presented at various international conferences and workshops in various fields.

Mr Simataa also worked for the Social Security Commission from 2005-2008 before re-joining the civil service as the Permanent Secretary for the Ministry of Works and Transport on 1 April 2008. He also served as a Permanent Secretary of the former Ministry of Labour and Social Welfare from 1 June 2012 until 24 March 2015 when he was appointed as Secretary to Cabinet.

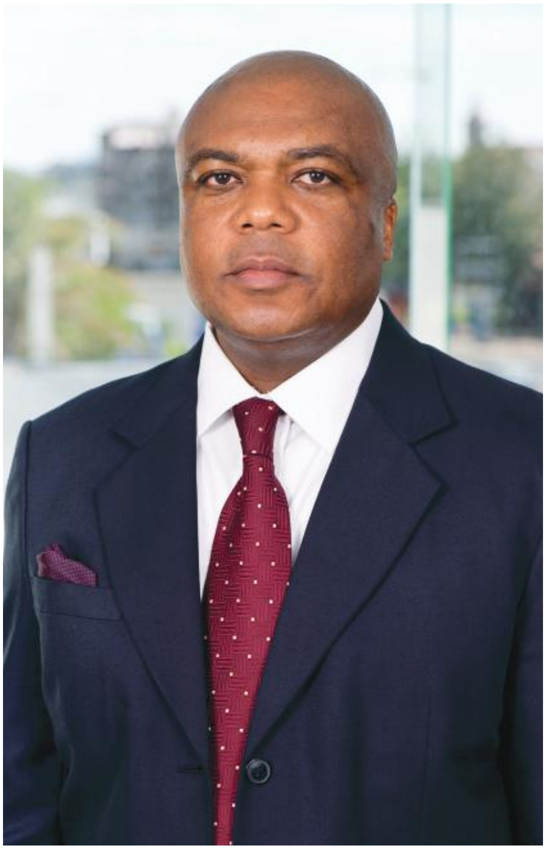
Mr. Mumvuma holds a Bachelor of Science Honours Degree in Mathematics from Solusi University and a Masters in Business Administration from University of Zimbabwe.

Mr. Mumvuma has fifteen (15) years' experience in banking with specialization in Bank Operations, Treasury Management, Human Resources, Branch Management, Retail Banking, Training Management and Operational Risk and Audit Management.

Mr. Mumvuma has worked at Metbank Limited (Zimbabwe) (Metbank) for 13 years and was the Deputy Chief Executive Officer in charge of Operations and ICT at Metbank. He was involved in the set up of three Metbank branches, and the establishment of the Operational Risk and Middle Office at Metbank between November 2003 and August 2004.

Mr. Mumvuma was the Chairperson of the Technical Team which spearheaded the transformation of the Small Business Credit Guarantee Trust (SBCGT) to SME Bank Limited.

Mr. Tawanda Mumvuma
(Chief Executive Officer)



Mr Kamushinda holds a B.Com Degree in Accounting and Auditing and a Masters of Commerce in Banking and Finance. In addition he holds post graduate diplomas in: Project Management, Foreign Trade Management, Taxation Law and Marketing. He trained at the State Bank of India in Pune.

Mr. Kamushinda is the founder of Metbank Zimbabwe (registered commercial bank). He set up the Bank in 1998. Mr. Kamushinda was responsible for pioneering the "Look East Policy" for Zimbabwe. The policy opened Zimbabwe to new markets in the East. New capital and export markets were opened including new sources of imports in the following countries: China, Malaysia, Singapore, Indonesia, Thailand, credit lines for Zimbabwe. Mr. Kamushinda has played a leading role in the setting up of the indigenization and empowerment program in Zimbabwe. He has held various directorships of State Owned Companies where he has played a pivotal role in turning around traditional loss - making entities to profitable entities.

Mr. Enock Kamushinda
(Non-Executive Director)

Some of the directorships held by Mr. Kamushinda included being: Chairman of stock listed Zimbabwean News Papers which launched Southern Times Newspaper during his tenure, Chairman of Grain Marketing Board, Chairman of Zimbabwe Broadcasting Authority, Deputy Chairman of the Zimbabwe Development Corporation, Board Member of Zimbabwe Investment Centre and a Member of the University of Zimbabwe Council. In addition he is Patron of Solusi University (Zimbabwe) and privately supports students studying both in Zimbabwe and abroad through a scholarship fund.

He began his career as an articled clerk at a law firm in Bulawayo. After completing his studies and training, he joined the Zimbabwe National Chamber of Commerce as Deputy Chief Executive. He was responsible for setting up 39 branches of the Zimbabwe National Chamber of Commerce throughout Zimbabwe. Mr Kamushinda's business interests include but not limited to mining, real estate, telecommunications and financial services.

Ms. Milka Mungunda
(Non-Executive Director)

Ms Mungunda holds an MBA (Finance, Banking and Strategic Management) from UNAM/MSM, M.Sc (Psychology) from the University of Natal, Durban, B.Sc (Hons) from University of the North, Diploma in Pedagogies from University of the North and a Certificate in Finance and Accounting from Wits University. She is currently pursuing an LLM (Economic Law) degree. She completed the course work successfully and is finalizing the thesis.

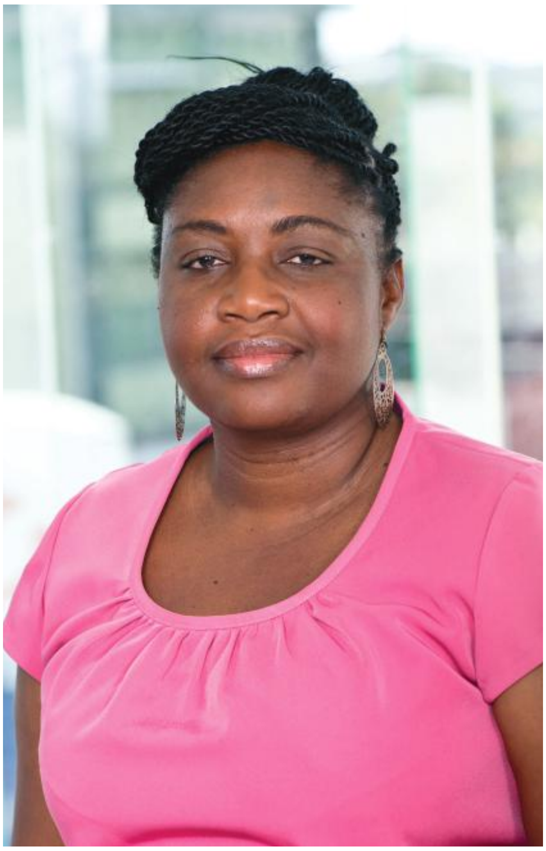
Ms Mundunga was a teacher for 4 years at Okakarara Secondary School and Otjikoto Secondary School before she completed her studies and became a Psychologist. As a Psychologist, she consulted on various government projects with the Ministry of Education and Culture, Ministry of Health, private initiatives and community work.

She was a Deputy Registrar and Acting Registrar of the University of Namibia, and was extensively involved during and after the formative years of the University of Namibia in terms of the restructuring and the introduction of new Departments and Faculties, the development of the new Statutes for the University. She also served on the University Council, the Senate and various Committees of the Council and the Senate.

Ms. Mungunda is the founder member and Chairperson of Namibia Network of Aids Services Organisation (NANASO), and an Executive Committee member of Southern Africa Network of AIDS Services Organization (SANASO); she was very instrumental in the establishment of SANASO and in so doing, expanding the activities of NANASO to the rest of Southern Africa. She was also appointed President of the Retirement Funds Institute of Namibia in 2004, a position she served for two terms.
She was one of the founder members, Director and Chairperson of the One Africa Television station. It is the only free-to-air private television station in Namibia. Ms. Mungunda serves as a director on PSG Konsult (Namibia), One Namibia Investment Holdings, Director and Deputy Chairperson of UNAM Foundation, an alternate director on AVIS (Namibia) Board, Ekuya Board, Director of the SME Bank and various other boards.

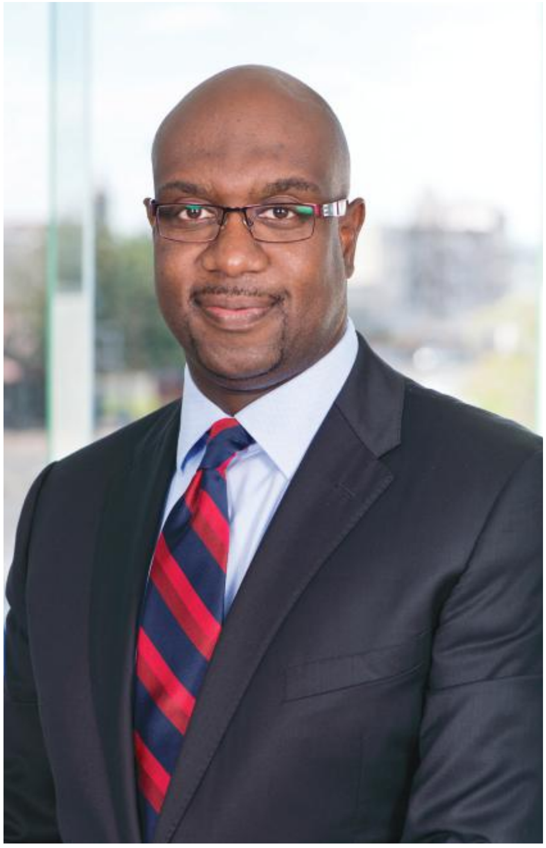
Ms. Mungunda is a member of the Health Professions Council of Namibia and was formerly registered as a Psychologist with the South African Medical and Health Council.

Ms. Mungunda is currently employed as a General Manager: Operations with Government Institutions Pension Fund (GIPF).



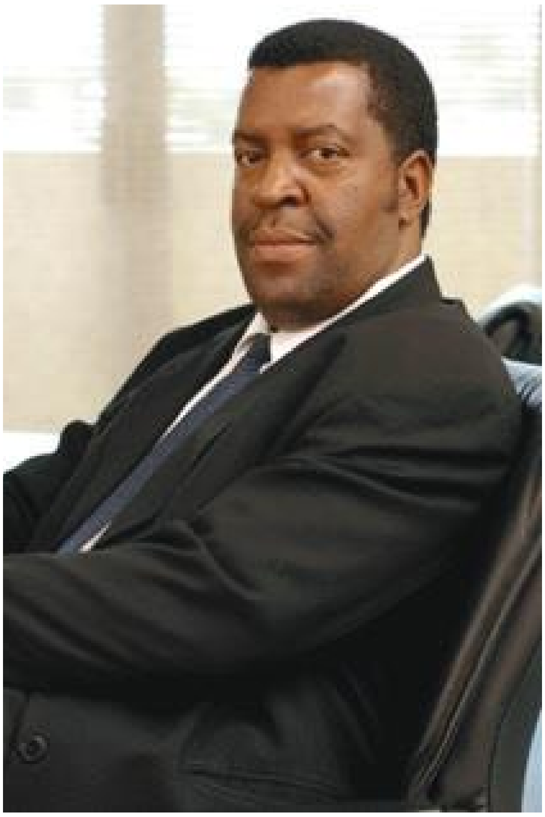
Ms. Petrina Ndahafa Nakale
(Non-Executive Director)

Ms. Nakale holds an MSc. Degree in Business Analysis and Finance from the University of Leicester UK, Honors degree in Development Theory and Policy from Wits, (RSA) as well as a Bachelor degree in Economics from the University of Murdoch, (Australia). She serves on various boards and is currently employed as the Director of Industrial Development Directorate, Ministry of Industrialization Trade and SME Development.



Mr. Ozias Bvute
(Non-Executive Director)

Mr. Bvute holds a Bachelor of Commerce degree specializing in Banking and Finance from the University of Pune, India. He is former Managing Director of Zimbabwe Cricket having served in that capacity for 8 years. Mr. Bvute is the group Chief Executive Officer of Met - Holdings Limited and also sits on the Board of Metbank Zimbabwe.



Mr. Theofelus Mberirua
(Non-Executive Director)

Mr. Mberirua holds an MBA in Accounting and Finance obtained from Baruch College of the City University of New York, as well as a Bachelor of Science-Accounting from Mercy College – Dobbs Ferry, (New York). He attended numerous Executive Development programs at TEMIC in Canada as well as INSEAD in France.

He has worked for several companies in the capacity of Managing Director/CEO which companies include; SBN Holdings, Standard Bank of Namibia. He also worked for Lonhro Namibia and Namibia Breweries, and was a Lecturer both here in Namibia and the USA.

His previous directorships was with Stanlib (Chairman), Stanfin (Chairman), Liberty Life (Chairman), Namibia Ports Authority (Chairman), First National Bank, MTC, Novanam Fishing and Trustco among others. He also served on numerous sub-committees of these boards.

In 2007 he was inducted to the Namibia Business Hall of Fame by Junior Achievement – Namibia. In 2008 he was elected as one of the Vice Presidents of the Namibia National Chamber of Commerce and Industry (NCCI).
Mr. Mberirua is currently employed as the Executive Director – Commercial and Business Development by Bidvest Namibia. He serves on numerous boards both in public and private Sector.

Attendance of Board Meetings

Below are the board meetings held during the year and attendance thereof:-

Date	F. Kapofi (then Chairman)	M. Mungunda	P. Nakale	T. Mberirua	O. Bvute	E. Kamushinda	T. Mumvuma
23/05/14	▲	▲	▲	▲	▲	▲	▲
19/08/14	▲	▲	▲	X	▲	X	▲
25/11/14	▲	▲	▲	X	▲	▲	▲
16/12/14	▲	▲	X	X	▲	▲	▲

Board Committees, Membership and Attendance

Each Board Committee's mandate, responsibilities and membership is set out in its terms of reference.

Audit Committee

Membership	22/05/14	18/08/14	24/11/14	15/12/14
Mr. Ozias Bvute	▲	▲	▲	▲
Ms. Milka Mungunda	▲	▲	▲	▲
Mr. Enock Kamushinda	▲	X	▲	▲

The Audit Committee ensures proper stewardship of resources and assets to oversee financial reporting and monitor the effectiveness of internal controls in line with Bank's risk management framework. It ensures effective systems of accounting policies, management and financial controls and oversees the appointment, dismissal, resourcing and performance of the Internal Audit service and the terms on which the External Auditing service is provided.

The Audit Committee is a sub-committee of the Board of Directors of the Bank, established in terms of Section 42 of the Banking Institutions Act 1998 as amended. The Committee's operations are guided by Board approved Terms of Reference and the committee operates within the framework of the terms of reference.

The Internal Audit Charter which guides the Internal Auditors was approved by the Board, as recommended by the Audit Committee. The Chief Internal Auditor reports functionally to the Audit Committee and administratively to the Chief Executive Officer. The Chief Internal Auditor also provides reports to the Audit Committee during Audit Committee meetings.

The Board is satisfied with the internal controls in the Bank, whose effectiveness is frequently monitored by the Internal Audit function through quarterly reports to the Audit Committee.

Credit Committee

The Membership of this Committee is as follows:

- Mr. Enock Kamushinda
- Ms. Milka Mungunda

The Credit Committee reviews and oversees the overall lending policy of the Bank. They deliberate and consider loan applications beyond the discretionary limits of the Credit Risk Management Committee. They further ensure that there are effective procedures and resources to identify and manage irregular credit facilities, minimize credit losses and maximize recoveries.

Loans Review Committee

The Loans Review Committee was established to review loans approved by the Credit Committee and issued by the Bank.

Membership	22/05/14	18/08/14	24/11/14	15/12/14
Mr. Theofelus Mberirua	▲	▲	✗	▲
Mr. Ozias Bvute	▲	▲	▲	▲
Mr. Frans Kapofi	▲	▲	▲	▲

Nominations, Human Resources and Remuneration Committee

The Nominations, Human Resources and Remuneration Committee was established to determine and agree with the Board on the framework for the remuneration of Bank employees excluding executive directors, but including contract workers and other employees engaged by the Bank to undertake various duties as described in their employment agreements. It reviews contracts for all employees and executive directors and makes sure that new employees are offered and accept terms within the agreed levels. It ensures that the remuneration of all employees, directors and the Chief Executive Officer are not out of line with the nature and size of operations of the Bank. It sets targets for any performance related pay schemes which may be operated by the Bank.

Membership	22/05/14	18/08/14	24/11/14	15/12/14
Ms. Milka Mungunda	▲	▲	▲	▲
Mr. Theofelus Mberirua	▲	▲	X	▲
Mr. Ozias Bvute	▲	▲	▲	▲

Risk Management and Compliance Committee

The Risk Management and Compliance Committee assists the Board in discharging its duties relating to the identification of key risk areas, measurement and control of risk, formulating risk management policies and ensuring that the controls, processes, procedures and systems employed within the Bank are appropriate to meet the regulatory, industry, country and international requirements.

Membership	22/05/14	18/08/14	24/11/14	15/12/14
Mr. Theofelus Mberirua	▲	▲	X	▲
Ms. Petrina Nakale	▲	▲	▲	X
Mr. Enock Kamushinda	▲	X	▲	▲

X Absent

▲ Present

Compliance

The core business of the Bank is the provision of commercial banking and financial services in Namibia and these services are regulated by the Bank of Namibia in terms of the Banking Institutions Act, Act No 2 of 1998, as amended and the determinations passed there under.

The Bank is obliged to comply with all the relevant and applicable laws, regulations and directives governing the operations of commercial banks in Namibia and also subscribes to international standards.

To ensure that the compliance risk management function of the Bank is properly executed, the board has set up a Risk and Compliance Department and the Risk and Compliance board sub-committee to oversee this function. The Department is led by a Manager who reports to the Board Risk and Compliance sub-committee functionally and administratively to the Chief Executive Officer.

The Department operates under the board approved compliance charter. Quarterly reports on the Bank's compliance risk management, significant issues of non compliance as well as the interactions with regulators are submitted to the board through the Risk and Compliance Board Sub - committee.

The compliance function and policies of the Bank are subjected to reviews by both internal and external auditors of the Bank.

Although the Board of Directors has delegated the compliance risk management function of the Bank to the Board Risk and Compliance Sub-committee and executive management, the Board retains accountability for this function. The Board of Directors is happy with compliance status of the Bank during the period under review.

MANAGEMENT

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Tawanda holds a Bachelor of Science Honours Degree in Mathematics from Solusi University and a Masters in Business Administration from University of Zimbabwe. He has fifteen (15) years' experience in banking operations with specialization in Bank Operations, Treasury Management, Human Resources, Branch Management, Retail Banking, Training Management and Operational Risk and Audit Management.

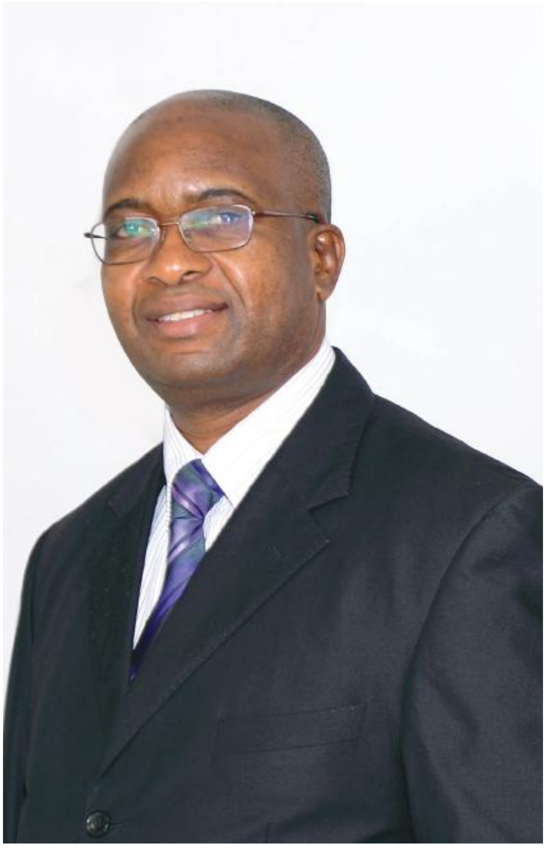
Tawanda has worked at Metbank Limited (Zimbabwe) (Metbank) for 13 years and was the Deputy Chief Executive Officer in charge of Operations and ICT at Metbank. He was involved in the set up of three Metbank branches, and the establishment of the Operational Risk and Middle Office at Metbank between November 2003 and August 2004.

He was the Chairperson of the Technical Team which spearheaded the transformation of the Small Business Credit Guarantee Trust (SBCGT) to SME Bank Limited.

Mr. Tawanda Mumvuma
Chief Executive Officer

Joseph holds a B.Sc. (Honors) Economics and M.Sc. Economics from University of Ibadan, Nigeria. He has thirty (30) years' experience in Banking and Development Finance. Joseph has worked for the following companies: Central Bank of Zimbabwe for 1 year during which time he was trained at Standard Chartered Bank Zimbabwe, Development Finance Company, Zimbabwe for 2 years and Small Enterprise Development Corporation, Zimbabwe for 20 years. He worked for SADC Development Finance Resource Centre (SADC-DFRC) for 4 years as Programme Manager SME Development. After leaving SADC - DFRC Joseph went into private consulting specializing in Strategic Planning and Financing for SMEs and Corporates in the SADC region.

Mr. Joseph Nyamunda
General Manager – Lending,
Business Development and
Support Services



Alec holds a Masters in Business Administration, MSc in Banking and Finance from Middlesex University London and has several certificates in Banking and Investments. He has twenty five (25) years' experience in Treasury Management. Alec worked at Standard Chartered Bank Zimbabwe for 12 years and held the following positions: Back Office,Corporate Dealer, Manager Dealing Room, and was finally promoted to Sales and Marketing Manager. Alec also worked for First Bank Zimbabwe for 10 years as Chief Dealer then Treasury Manager. He then moved to MBCA Bank Zimbabwe, a division of Nedbank South Africa where he held the position of Divisional Executive Treasury.

Mr. Alec Gore
General Manager Treasury and Investments

Rekayi holds a LLB (With Distinction) from University of Pretoria. She has eight (8) years' legal experience. She has experience in Commercial Law, Corporate Law and Pension Law. She is an admitted Attorney and Notary Public in the High Court of South Africa. Rekayi joined SME Bank in February 2013. She is currently studying for her CIS qualification with Chartered Secretaries Southern Africa.

Ms. Rekayi Tsokodayi
Company Secretary

Graduating with a B.Comm (Law) degree, followed by an L.LB at the University of Stellenbosch, Tania started working at the Office of the Prosecutor General, Ministry of Justice, as a public prosecutor and later a State Advocate in the High Court of Namibia until July 1998. In August 1998 she joined private law practice, was admitted as a practicing attorney in the High Court of Namibia in April 1999, and as a practicing attorney in the Supreme Court of Namibia in October 2001. She practiced as a lawyer specialising in Commercial transactions, Corporate Law, Property Law and Civil Law until joining the Bank in September 2012.

She qualified as a Conveyancer in 2001, and Notary Public in 2007. She lectured as a part-time lecturer at the University of Namibia (from 2001 to 2003, and again 2007 to 2012) and Justice Training Centre (from 2001 to 2003), in various subjects, including Commercial Transactions and Banking Law, Drafting of Contracts, Law of Property and Conveyancing and Notarial Practice.

Ms. Tania Pearson
Legal Advisor

Ben holds an Advanced Diploma in Business Administration and a Postgraduate Diploma in Business Administration and he is studying towards a Master's in Business Administration. He has thirty three (33) years' experience in banking with specialization in Retail Banking. Ben worked at Standard Bank Namibia for 22 years and held the following positions: - Waste Clerk,Teller, Check Clerk, Senior Officer, Branch Administrator and was eventually promoted to Branch Manager. Ben also worked at Nedbank Namibia for 8 years as Branch Manager.

Mr. Benestus Herunga
Head Retail Banking

Sifelani holds a Bachelor of Business Administration in Management Information Systems (BBA MIS) and is CISCO, Postilion and Fortress certified. He has extensive knowledge of Temenos T24 Core Banking System, jbase, Linux, Unix and involved in the setup of many payment platforms in the financial service area. Sifelani has worked for Metbank Zimbabwe for 13 years and held the following positions: Systems Administrator, Network Administrator, IT Manager and Senior Manager for IT.

Mr. Sifelani Basket
Head Information and Communications Technology

Emmanuel holds a Master of Business Leadership from Unisa School of Business Leadership and a B. Com Honors in Finance and Investments Management. He has eighteen (18) years of Banking and Finance experience. He has obtained training and expertise in the fields of Risk Management, Development Finance, Commercial Banking and Micro Finance. He has worked for Namibia Development Corporation (NDC) as Branch Manager, Care Austria as Program Manager, Namibia Development Foundation as Chief Program Officer, FNB Namibia as SME Branch Manager and Development Bank of Namibia as Portfolio Manager.

Mr. Emmanuel Masule
Head Risk

Mathias holds a Diploma in Banking and Foreign Exchange. He has forty (40) years of banking experience in Branch Operations and Internal Auditing. Mathias has worked for Standard Chartered Bank Zimbabwe for 25 years and has occupied the posts of Branch Operations Manager, Bank Inspector, and became Regional Auditor for Standard Chartered Bank Group Audit covering Zambia, Zimbabwe, Botswana, Malawi and Mozambique. Mathias has worked for First Bank Zimbabwe as a Banking Consultant before joining Metbank Limited, Zimbabwe in 2002. He occupied the posts of Audit Manager, Operational Risk Manager and Head Compliance.

Mr. Mathias Kanyenze
Chief Internal Auditor

Beatrice completed her Management Development Programme and Retail and Business banking based courses through Standard Bank Namibia. She is a banker by profession with over 14 years' experience in the banking industry. She started crafting her banking career when she joined the Standard Bank Group in 2000 as a Waste Clerk. She climbed the corporate ladder and exited Standard Bank Namibia as a Relationship Manager Business Banking in 2012. She joined SME Bank as Head: Executive Banking. She also oversees the Electronic Banking Department and Credit Administration Department (Branch Back – Office).

Ms. Beatrice Kahunda
Head Executive Banking

Fillemon holds a CIB (1999), CD (2002) and ACD & C.A.I.B (2002) all from IOB (South Africa), Labour Studies (2003) from Workers College (KN) & University of Natal an MDP (2003) from MaST, Namibia and a MLDP (2006) from UNISA. He has over 20 years of working experience within Namibia's Commercial and Public Banking sectors, 10 years of which were spent at Management Level. He is skilled in financial product portfolio design, development and management, credit risk management as well as client development & management. His current focus is on optimizing the execution of the SME Bank's lending portfolio.

Mr. Fillemon Kanana Nditya
Head Lending

Joseph holds an Honors Bachelor of Accounting Science (B Compt) from University of South Africa, a Post Graduate Diploma in Auditing from APT South Africa and Bachelor of Commerce Accounting Honors Degree from Midlands State University, Zimbabwe. He is a Chartered Accountant and he has nine (9) years' experience in Accounting and Auditing.

Mr. Joseph Banda
Finance Manager

Beverley is currently studying for her Bachelor of Human Resources to be completed in November 2015. She has twelve (12) years' in banking experience. She holds a Certificate in Accounting and Finance. Beverly has worked for Standard Bank Namibia for nine (9) years in the following departments:- Human Resources Department for seven (7) years, Standard Executors and Trustees, Treasury and International Operations and Retail Banking for 2 years.

Ms. Beverley Salmonia Skrywer
Human Resources Manager

Joe is currently studying towards becoming a Certified Project Manager. He started his career in banking as Teller at Bank Windhoek in 1997. He has 16 years of banking experience. He progressed through the ranks from being a Teller to Sales Advisor and ultimately became a Credit Manager. In 2007 he left the banking industry to pursue other interests and soon returned to banking. In 2012 he joined the SME Bank Operations Department. Joe holds a Certficate in Credit Analysis and has attended several other trainings during the span of his career.

Mr. Joe Moller
Operations Manager

Management Committees

In order for the Bank to effectively execute its mandate and accomplish its strategic goals, the Executive Management at the Bank has put in place management committees.The management committees meet regulary and have the following summarized responsibilities;

Asset and Liability Management Committee (ALCO)

- To manage the Bank's asset and liabilities portfolio.

Credit Committee

- To consider the credit risk and loan advances by the Bank.

Business Development Committee

- To consider existing and new business opportunities to the Bank.

Pricing Committee

- To ensure that the Bank's pricing policy and charges are in line with the Bank's mandate.

Operational Efficiency and Risk Management Committee

- To consider operational risk and departmental efficiency for all business units of the Bank.

Information and Communication Technology (ICT) Steering Committee

- To consider ICT related projects and development of business solutions.

Marketing and Public Relations Committee

- To consider marketing, publicity and corporate social responsibility matters for the Bank.

RISK MANAGEMENT

ANNUAL REPORT 2015

Risk Governance

The Board has the ultimate responsibility for ensuring that risks are adequately identified, measured, monitored and managed. To ensure optimal and efficient risk management across the Group, multiple control points and safeguards have been implemented together with an imbedded risk culture amongst board, management and staff levels. Although the Board is ultimately responsible for the risk function, it has delegated implementation roles to board subcommittees and executive management committees through its approved policies, procedure manuals, charters and code of ethics and conduct. There is a risk management structure for the Group comprising Board level committees, management and staff (stakeholders in the risk management process) where roles and responsibilities are delineated to ensure that control objectives are met across business units and the entire Group.

Board and management recognise and believe in the importance of the Three Lines of Defence principle for ensuring sound risk governance practices. This principle makes it possible to integrate risk management and controls in all business operations across the Group. It also ensures that there is ownership, control, and assurance in the enterprise risk management process.

Risk Appetite

The level of risk the Group is willing to take is determined by the Board which assumes the responsibility for ensure that risks are adequately managed and controlled through its Risk Management and Compliance Committee. The Group's Risk Management Framework sets out objectives, principles and measures that combine diverse considerations for example: business strategy, risk profiles of business units, capitalization levels, and acceptable earnings volatility. The context of business environment where the target market (MSMEs) tends to be of high risk profile has a bearing on the risk appetite of the Group considering the need to strike a balance between risk-returns and earnings sustainability.

Board takes into account risk capacity when setting tolerance limits where the funding size especially plays a critical role. Credit risk is significant to the Group due to the inherent nature of the operations and can erode capital if there is no optimal trade-off between growth and asset quality.

Risk appetite measures are embedded in risk and management reports and at board level. These measures are continuously reviewed as more information becomes available from experience as well as from stress testing results.

Risk type	Definition	Control tools and mitigation
Credit Risk	Credit risk represents the risk of loss to the Group as a result of a client or counterparty being unable or unwilling to meet its contractual obligations. This is the most significant risk for the Group in terms of potential impact on earnings and capital quality. Credit risk arises out of lending transactions and trading transactions.	Credit risk exposure is monitored by: Board Credit Committee and Board Loans Review Committee. A centralised structure for decision making with decentralized limits is the basis on which applications for credit are considered. Decentralised limits are low to ensure high centralised involvement in all credit aspects where there is material credit risk impact.
Liquidity Risk	Liquidity risk is the risk that the Group will not be able to meet its payment obligations as liabilities fall due or to replace funds as and when they are withdrawn. This risk is significant to the Group's operations and arises out of gaps in market confidence which include: market rumours; systematic shocks; credit events and external events.	Board continues to manage this risk through the Liquidity Risk Policy that sets out strategies and functions of the Liquidity Committee by ensuring that internal target ratios and prudential limits are not breached. Part of the committee's functions is to apply the approved funding strategy that matches deposits with loans and advances to sustain operations through maturity transformation. Management consider normal as well as stressed conditioned conditions to optimally fund the Group by striving to: • Diversify funding base (concentration risk management) • Establishing liquidity risk appetite • Short and long term cash flow management • Lengthening the funding profile (minimizing mismatches in maturity time bands) • Undertaking regular stress testing

Risk type	Definition	Control tools and mitigation
Market Risk	Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements.	Sensitivity analysis is applied to measure the impact of changes in interest rates on margins. The exposure of the Group's trading portfolio and the effect of such changes on the interest margin is assessed. A comprehensive analysis of maturities both from the advance and funding perspective is also performed. Management through the ALCO committee monitors and manages this risk on behalf of Board on a weekly basis.
Interest Rate Risk	The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.	The board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. Interest rate risk analysis and interest rate sensitivity analysis are tools employed to monitor and control this risk. Management through the ALCO committee monitors and manages this risk on behalf of Board on a weekly basis.
Operational Risk	Operational risk relates to possible losses due to people, systems, processes, and external events. Specific operational risks that the Group identified and continue to monitor and control include: business continuity management, information security, legal risk, prevention of illegal activities, compliance risk and reputational risk, human resources risk, fraud and security risk, and risk insurance are integrated in the enterprise wide risk management framework.	Business continuity plan (BCP management. BCP management is an important aspect of risk controls where a resilient operational platform is tested and status reported regularly for reviews and improvements. Specific key control tools thus are: • BCP and BIA • Self-assessments • Risk register and key risk indicators (KRI) • Risk control matrix • Risk insurance (comprehensive insurance cover for banks)

Risk Architecture

The following structure shows the risk management organisation and arrangements in place for managing the Group's risk exposure.

Level 1: Board

Board of Directors

LEVEL 2: Board Committees

Audit Commitee

Risk Management & Compliance Comittee

Nominations, Human Resources and Remuneration Committee

Loans Review Committee

Credit Committee

LEVEL 3: Executive Management

Assets and Liabilities Management Committee

ICT Steering Committee

Operational Efficiency Committee

Head Risk

Compliance Manager

Chief Internal Auditor

Board approved the architecture as above to ensure that:

- Responsibilities are allocated to appropriate management committees;
- There is availability of appropriate competent advice on risks and controls;
- A risk aware culture exists within the Group and that, actions are in hand to enhance the level of risk maturity;
- Sources of risk assurance for the Board have been identified and validated.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2015

ANNUAL REPORT 2015

Directors’ Responsibilities and Approval

The directors are required in terms of the Companies Act of Namibia to maintain adequate accounting records and are responsible for the content and integrity of the consolidated financial statements and related financial information included in this report. It is their responsibility to ensure that the annual consolidated financial statements fairly present the state of affairs of Small and Medium Enterprises Bank Limited (hereafter referred to as “SME Bank” or the “Group”) as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the consolidated financial statements.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly de/fined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.The directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the Group’s cash flow forecast for the year to 28 February 2016 and, in the light of this review and the current financial position, they are satisfied that the Group has or had access to adequate resources to continue in operational existence for the foreseeable future. The external auditors are responsible for independently reviewing and reporting on the Group’s annual financial statements. The Group annual financial statements have been examined by the Group’s external auditors and their report is presented on page 38. The Group annual financial statements set out on page 39 - 91, which have been prepared on the going concern basis, were approved by the directors on 30 September 2015 and were signed on its behalf by:

George Simataa Chairperson	Tawanda J. Mumvuma Chief Executive Officer

Windhoek, 30 September 2015

Independent Auditors’ Report

To the shareholders of Small and Medium Enterprises Bank Limited We have audited the consolidated financial statements of Small and Medium Enterprises Bank Limited, as set out on pages 3 to 46, which comprise the consolidated statement of financial position as at 28 February 2015, the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory information, and the directors’ report.Directors’ Responsibility for the Consolidated financial statements. The Group’s directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and requirements of the Companies Act of Namibia, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group`s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group`s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Small and Medium Enterprises Bank Limited as at 28 February 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of Namibia. Emphasis of matter – Report on Legal and Regulatory RequirementsWithout qualifying our opinion above we draw your attention to the notes in the directors report under “Report on Legal and Regulatory Requirements” regarding the non-issuing of share certificates in accordance with the requirements of Companies Act No. 28 of 2004 and the delayed submission of annual financial statements to Bank of Namibia in accordance with the requirements of Banking Institutions Act 1998, (Act No.2 of 1998). The directors have taken adequate steps to ensure compliance with the relevant Acts.

BDO

Registered Accountants and Auditors
Chartered Accountants (Namibia)
Per: M Nel
Partner

Windhoek
30 September 2015

Directors' Report

The directors submit their report for the year ended 28 February 2015.

Incorporation
Small and Medium Enterprises Bank Limited was incorporated in Namibia on 23 March 2011 under company registration number 2011/0174 and obtained its Commercial Banking License on 30 November 2012.

Main business and operations
Small and Medium Enterprises Bank Limited trades as a registered commercial bank and provides a full range of banking services to its clients, operating principally in Namibia.

The Group also conducts property management business through Rentmeester Investment Company (Proprietary) Limited, a wholly owned subsidiary of the Bank.

The Group's Vision is; "To be the nation's preferred Bank and financial services provider for the SME sector".

The Group's Mission is; "To provide superior, well designed and targeted Banking products and services to small, medium, micro and informal enterprises that will enable them to start, grow, compete and prosper in a global setting".

The operating results and state of affairs of the Group are fully set out in the attached financial statements on pages
6 to 46.

Registered address
172 Jan Jonker Road
Windhoek
Namibia

Authorised and issued share capital
The Bank's authorized share capital consist of 50,000 ordinary shares of N$1 each, of which 100 shares have been issued.

The shareholding of the Bank as approved by Bank of Namibia:

Government of Namibia (through Namibian Financing Trust)	65%
Metbank Limited	30%
WorldEagle Investments (Private) Limited	5%
	100%

Going concern
The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the Group to continue as a going concern is dependent on a number of factors. The most significant of these is that the directors continue to secure funding for the ongoing operations of the Group and that the shareholders commit to continue injecting capital into the Group for so long as it takes for the group to become self-sustainable.

We draw attention to the fact that as at 28 February 2015, the Group has a loss for the year of N$72 354 998 (2014: N$69 754 039) and accumulated losses of N$ 183 980 335 (2014: N$ 111 625 338) with a loss for the year of N$ 71 589 340 (2014: N$ 69 972 799); and the company has accumulated losses of N$ 183 880 675 (2014: N$ 112 291 335).

The shareholders have committed to financing the Group in the short term. However, in the long term the Group has a turnaround plan in place through which the Bank expects to incur losses at a reducing rate for the next 2 financial years, break even in the 2017/2018 financial year and be profitable thereafter.

Report on Legal and Regulatory Requirements
Shareholding of the Bank in terms of Banking Institutions Act 1998, (Act No.2 of 1998)
The Shareholders' Agreement stated that the Government of Namibia was to be represented by Namibia Financing Trust (Pty) Ltd but the shareholder of the Bank (on behalf of the government) as per the Bank's incorporation documents is Namibia Financing Trust (Association not for gain). Cabinet had instructed that the Government's interest in the Shareholders' Agreement be represented by Namibia Financing Trust (Association not for gain).

On 9 October 2013 Metbank Limited voluntarily resigned as shareholders of the Bank stating that it wished to be a "Technical Partner to the SME Bank" and the resignation was accepted by the Bank of Namibia on 4 June 2014. On 19 September 2014, Metbank Limited applied to the Bank of Namibia to be reinstated as a shareholder. After conducting a fitness and probity test on Metbank, the Bank of Namibia reapproved Metbank Limited as a shareholder on 21 July 2015.

The required formalities were not yet concluded by 28 February 2015 and thus the share certificates were not issued.

Delayed submission of annual financial statements to Bank of Namibia
The Bank's annual financial statements were not submitted to the Bank of Namibia by the Bank in compliance with section 47 of the Banking Institutions Act 1998, (Act No.2 of 1998), which stipulates that the annual financial statements of the Bank should be issued within three months after the end of the financial year. The delay was because the financial statements could not be finalised as the shareholding of the Bank in terms of Banking Institutions Act 1998, (Act No.2 of 1998) was still to be concluded. (Please refer to the preceding section)

The Bank communicated the cause of the delay to Bank of Namibia. The annual financial statements were signed on 30 September 2015 and submitted to Bank of Namibia on 14 October 2015.

Compliance with BID-2: Asset classification, suspension of interest and provisioning
The Bank has complied in all material respects with the requirements set out in BID 2 with regard to asset classification, suspension of interest and provisioning.

Events after the reporting period
We draw attention to the following material events that occurred after the reporting date:

- Bank of Namibia confirmed the shareholding of Metbank Limited as required in terms of Section 20(4) of Banking Institutions Act 1998, (Act No.2 of 1998) on the 21st July 2015. The approval came after Bank of Namibia performed an evaluation and probity test of Metbank Limited as substantial shareholders to hold 30 percent shares in the Group.

- Mr. Frans Kapofi resigned as Chairperson of the Board of Directors on the 30th of April 2015. He served as chairman of the board from 29 October 2012. His resignation was motivated by his appointment as Minister of Presidential Affairs.

- Mr. George Simataa was appointed the Chairperson of the Board of Directors from 1 September 2015 to 31 August 2018. Mr. George Simataa is the current Secretary to the Cabinet of the Republic of Namibia.

- The Group opened a branch in Ongwediva on the 11th of September 2015, works re quired to open two (2) additional branches in Rundu and Walvis Bay are underway. The Group expects to open the Rundu and Walvis Bay branches by 28 February 2016.

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

Name	Nationality
Simataa George (Appointed on 1 September 2015)	Namibian
Kapofi Frans (Resigned on 30 April 2015)	Namibian
Kamushinda Enock	Zimbabwean
Nakale Petrina Ndahafa	Namibian
Mungunda Milka Martha Arnoldine	Namibian
Mumvuma Tawanda Jiles	Zimbabwean
Bvute Ozias	Zimbabwean
Mberirua Theofelus	Namibian

Secretary
The Company Secretary of the Group is Rekayi Tsokodayi.

Auditors
BDO were appointed auditors in accordance with the Banking Institutions Act and the Companies Act of Namibia.

Management by third party
The Bank has a Management Agreement under which it receives technical assistance from Metbank Limited.

No management fees were paid to Metbank during the year under review.

Interest in subsidiaries
Details of the Bank's investment in subsidiaries are set out in note 7.

Directors' interests
Board members are required to observe the requirements of Section 242 of the Companies Act of Namibia dealing with disclosures of interests and where appropriate excuse themselves from discussions or decisions on matters of potential conflict, unless resolved otherwise by the Chairman or the remaining members of the Board.

Dividends
No dividends were declared or paid during the year under review.

Insurance
Insurance cover is in place as required by BID-14: Determinations on minimum insurance for banking institutions.

Property, plant and equipment
The Group's property, plant and equipment is disclosed in note 9 in the financial statements.

Consolidated Statement of financial position

	Notes	Group 2015 N$	Group 2014 N$	Company 2015 N$	Company 2014 N$
Assets					
Cash and cash equivalents	3	192 951 312	156 591 893	192 951 312	156 492 231
Financial assets at fair value	4	263 727 292	58 578 775	263 727 292	58 578 775
Loans and advances	5	142 725 004	17 627 796	142 725 004	17 627 796
Other assets	6	14 647 358	18 765 915	8 251 516	11 682 293
Current tax asset		148 376	148 376	-	-
Investment in subsidiary	7	-	-	82 392 276	79 779 970
Intangible assets	8	13 459 500	10 840 627	13 459 500	10 840 627
Property, plant and equipment	9	110 589 315	97 453 307	34 840 918	24 275 101
Total assets		**738 248 156**	**360 006 689**	**738 347 817**	**359 276 793**
Equity and liabilities					
Liabilities					
Deposits from customers	10	489 521 853	226 073 308	489 521 853	226 073 308
Other liabilities	11	4 181 672	7 033 753	4 181 672	6 969 854
Total liabilities		**493 703 525**	**233 107 061**	**493 703 525**	**233 043 162**
Equity					
Share capital	12	100	100	100	100
Shareholders contributions	13	428 524 866	238 524 866	428 524 866	238 524 866
Retained earnings		(183 980 335)	(111 625 338)	(183 880 675)	(112 291 335)
Total shareholder's equity		**244 544 631**	**126 899 628**	**244 644 292**	**126 233 631**
Total equity and liabilities		**738 248 156**	**360 006 689**	**738 347 817**	**359 276 793**

Consolidated Statement of profit and loss and other comprehensive income

	Notes	Group 2015 N$	Group 2014 N$	Company 2015 N$	Company 2014 N$
Interest and similar income	14	26 536 840	4 270 026	26 536 840	4 270 026
Interest and similar expenses	15	(20 434 629)	(2 456 345)	(20 434 629)	(2 456 345)
Net interest income		**6 102 211**	**1 813 681**	**6 102 211**	**1 813 681**
Impairments of loans and advances	5	(2 051 387)	(501 957)	(2 051 387)	(501 957)
Net interest income after loan impairment		**4 050 823**	**1 311 724**	**4 050 823**	**1 311 724**
Non-interest income	16	6 362 444	1 475 320	6 362 444	1 475 320
Operating income		**10 413 267**	**2 787 044**	**10 413 267**	**2 787 044**
Operating expenses		(82 768 265)	(72 541 083)	(82 002 607)	(72 759 843)
Operating loss	17	**(72 354 998)**	**(69 754 039)**	**(71 589 340)**	**(69 972 799)**
Taxation	18	-	-	-	-
Loss for the year		**(72 354 998)**	**(69 754 039)**	**(71 589 340)**	**(69 972 799)**
Other comprehensive income		**-**	**-**	**-**	**-**
Total comprehensive loss for the year		**(72 354 998)**	**(69 754 039)**	**(71 589 340)**	**(69 972 799)**

Consolidated Statement of changes in equity

Group

	Share capital	Shareholders' contributions	Total share capital	Retained earnings	Total equity
Balance at 01 March 2013	**100**	**165 354 866**	**165 354 966**	**(41 871 299)**	**123 483 667**
Shareholders' contribution	-	73 170 000	73 170 000	-	73 170 000
Total loss for the year	-	-	-	(69 754 039)	(69 754 038)
Balance at 01 March 2014	**100**	**238 524 866**	**238 524 966**	**(111 625 338)**	**126 899 629**
Shareholders' contribution	-	190 000 000	190 000 000	-	190 000 000
Total loss for the year	-	-	-	(72 354 998)	(72 354 998)
Balance at 28 February 2015	**100**	**428 524 866**	**428 524 966**	**(183 980 335)**	**244 544 632**

Company

	Share capital	Shareholders' contributions	Total share capital	Retained earnings	Total equity
Balance at 01 March 2013	**100**	**165 354 866**	**165 354 966**	**(42 318 536)**	**123 036 430**
Shareholders' contribution	-	73 170 000	73 170 000	-	73 170 000
Total loss for the year	-	-	-	(69 972 799)	(69 972 799)
Balance at 01 March 2014	**100**	**238 524 866**	**238 524 966**	**(112 291 335)**	**126 233 631**
Shareholders' contribution	-	190 000 000	190 000 000	-	190 000 000
Total loss for the year	-	-	-	(71 589 340)	(71 589 340)
Balance at 28 February 2015	**100**	**428 524 866**	**428 524 966**	**(183 880 675)**	**244 644 292**

Consolidated Statement of cash flows

	Notes	Group 2015 N$	Group 2014 N$	Company 2015 N$	Company 2014 N$
Cash flows from operating activities before changes in operating assets and liabilities	19	**(62 886 730)**	**(76 155 380)**	**(62 744 954)**	**(75 429 620)**
Changes in operating assets and liabilities					
Net increase in loans and advances		(125 097 208)	(15 318 585)	(125 097 208)	(15 318 585)
Net increase in financial assets at fair value		(205 148 517)	(50 878 775)	(205 148 517)	(50 878 775)
Net increase in deposits from customers		263 448 545	224 218 296	263 448 545	224 218 296
Net cash generated from /(used in) operating activities		**(129 683 910)**	**81 865 557**	**(129 542 134)**	**82 591 316**
Cash flows from investing activities					
Purchase of intangible assets	8	(3 434 524)	(3 816 081)	(3 434 524)	(3 816 081)
Purchase of property, plant and equipment	9	(20 522 147)	(20 310 083)	(17 951 957)	(12 996 512)
Net increase in investment in subsidiary		-	-	(2 612 306)	(7 987 665)
Net cash used in investing activities		**(23 956 671)**	**(24 126 164)**	**(23 998 787)**	**(24 800 258)**
Cash flows from financing activities					
Shareholders' contributions		190 000 000	73 170 000	190 000 000	73 170 000
Net cash generated from financing activities		**190 000 000**	**73 170 000**	**190 000 000**	**73 170 000**
Total cash movement for the year		**36 359 419**	**130 909 393**	**36 459 079**	**130 961 058**
Cash and cash equivalents at the beginning of the year		156 591 893	25 682 500	156 492 231	25 531 173
Cash and cash equivalents at the end of year	3	**192 951 312**	**156 591 893**	**192 951 310**	**156 492 231**

1. Basis of Presentation

Small and Medium Enterprises Bank Ltd's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued by the IASB effective at the time of preparing these statements. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.1.2.

1.1 Going Concern

The Group continues to adopt the going concern basis in preparing its consolidated financial statements.

1.2 Functional and Presentation Currency

The consolidated financial statements are presented in Namibia Dollar, which is the functional and presentation currency of the Group.

1.3 Standards and Interpretations

1.3.1 Standards and Interpretations Issued Affecting Amounts Reported and Disclosures in the Current Year

Amendment to IFRS 7 Financial Instruments: Disclosures – Transfer of Financial Assets

The amendments are intended to address concerns raised during the financial crisis, that financial statements did not allow users to understand the ongoing risks the entity faced due to derecognised receivables and other financial assets. This amendment did not have any effect on the amounts reported as no such transactions occurred in the current year.

Amendment to IAS 24 – Related Party Disclosures

This amendment provides partial relief from the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party. This amendment did not have any effect on the amounts reported as no such transactions occurred in the current year.

Amendments to IFRS 1, 'First Time Adoption' on Hyperinflation and Fixed Dates

The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRS's, thus eliminating the need for companies adopting IFRS's for the first time to restate derecognition transactions that occurred before the date of transition to IFRS's. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS's after a period when the entity was unable to comply with IFRS's because its functional currency is subject to severe hyperinflation. This amendment did not have any effect on the amounts reported as no such transactions occurred in the current year.

IFRIC 14 (AC 447) – Pre-Payments of a Minimum Funding

This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 (AC 447) related to voluntary pension prepayments when there is a minimum funding requirement. This amendment did not have any effect on the amounts reported as no such transactions occurred in the current year.

1.3.2. Standards and Interpretations Issued But not yet Effective

These amendments are not expected to have a significant impact on the consolidated financial statements.

Disclosure Initiative: Amendment to IAS 1: Presentation of Financial Statements - (*Applicable to annual reporting periods beginning after 1 July 2014*)
The amendment provides new requirements when an entity presents subtotals in addition to those required by IAS 1 in its annual financial statements. It also provides amended guidance concerning the order of presentation of the notes in the annual financial statements, as well as guidance for identifying which accounting policies should be included.

It further clarifies that an entity's share of comprehensive income of an associate or joint venture under the equity method shall be presented separately into its share of items that a) will not be reclassified subsequently to profit or loss and b) that will be reclassified subsequently to profit or loss.

Amendment to IFRS 2: Share-based Payment: Annual Improvements Project – (*effective 1 July 2014*)
The IASB amended the definitions of "vesting conditions" and "market conditions" and added definitions for "performance condition" and "service condition."

Amendment to IAS 19, 'Employee benefits' – (*effective 1 July 2014*)
The amendment clarifies that when a discount rate is determined for currencies where there is no deep market in high quality corporate bonds, then market yields on government bonds in that currency should be used.

Amendment to IFRS 13: Fair Value Measurement: Annual Improvements project – (*effective 1 July 2014*)
The amendment clarifies that references to financial assets and financial liabilities in paragraphs 48–51 and 53–56 should be read as applying to all contracts within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities in IAS 32 Financial Instruments: Presentation.

Amendment to IAS 38: Intangible Assets: Annual improvements project – (*effective 1 July 2014*)
The amendment adjusts the option to proportionately restate accumulated amortisation when an intangible asset is revalued. Instead, the gross carrying amount is to be adjusted in a manner consistent with the revaluation of the carrying amount. The accumulated amortisation is then adjusted as the difference between the gross and net carrying amount.

Amendment to IFRS 7: Financial Instruments: Disclosures: Annual Improvements project – (*effective 1 July 2014*)
The amendment provides additional guidance regarding transfers with continuing involvement. Specifically, it provides that cash flows exclude cash collected which must be remitted to a transferee. It also provides that when an entity transfers a financial asset but retains the right to service the asset for a fee, that the entity should apply the existing guidance to consider whether it as continuing involvement in the asset.
Amendment to IAS 24: Related Party Disclosures: Annual improvements project – (*effective 1 July 2014*)
The definition of a related party has been amended to include an entity, or any member of a group of which it is a part, which provides key management personnel services to the reporting entity or to the parent of the reporting entity ("management entity"). Disclosure is required of payments made to the management entity for these services but not of payments made by the management entity to its directors or employees.

Amendment to IAS 16: Property, Plant and Equipment: Annual improvements project – (*effective 1 July 2014*)
The amendment adjusts the option to proportionately restate accumulated depreciation when an item of property, plant and equipment is revalued. Instead, the gross carrying amount is to be adjusted in a manner consistent with the revaluation of the carrying amount. The accumulated depreciation is then adjusted as the difference between the gross and net carrying amount.

Amendment to IAS 27: Consolidated and Separate Financial Statements – (*effective 1 January 2016*)
Amendments to IAS 27 will allow entities to use the Separate Financial Statements equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Amendment to IAS 40: Investment Property: Annual improvements project – (*effective 1 July 2014*)
The amendment requires an entity to determine whether the acquisition of investment property is the acquisition of an asset or a business combination, in which case the provisions of IFRS 3 Business Combinations applies.

Amendments to IFRS 9 – Financial Instruments – (*no stated effective date*)
IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting.

Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

The effective date has not yet been established as the project is currently incomplete. The IASB has communicated that the effective date will not be before years beginning on or after 01 January 2018. IFRS 9 may be early adopted. If IFRS 9 is early adopted, the new hedging requirements may be excluded until the effective date.

IFRS 15 Revenue from Contracts with Customers – (*effective 1 January 2017*)
IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation – (*effective 1 January 2016*)
The amendment clarifies that a depreciation or amortisation method that is based on revenue that is generated by an activity that includes the use of the asset is not an appropriate method. This requirement can be rebutted for intangible assets in very specific circumstances as set out in the amendments to IAS 38.

IFRS 5 Non-current assets Held for Sale and Discontinued Operations – (*effective 1 January 2016*)
Amendments for sale and discontinued operations clarifying that a change in the manner of disposal of a non-current asset or disposal group held for sale is considered to be a continuation of the original plan of disposal, and accordingly, the date of classification as held for sale does not change.

IFRS 7 Financial Instruments: Disclosures – (*effective 1 January 2016*)
Amendment clarifying under what circumstances an entity will have continuing involvement in a transferred financial asset as a result of servicing contracts.

IFRS 12 Disclosure of Interests – (*effective 1 January 2016*)
Narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards

2. Summary of significant accounting policies
The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated:

2.1 Consolidation

2.1.1 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of; the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired are recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between the Group and subsidiary companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Bank, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

2.1.2 Transactions and non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Interests in the equity of subsidiaries not attributable to the parent are reported in equity as non-controlling interest. Profits or losses attributable to non-controlling interests are reported in the statement of comprehensive income as profit or loss attributable to non-controlling interests.

When the Bank ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Bank had directly disposed of the related assets or liabilities.

This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2 Critical accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the consolidated financial statements. Significant judgments include:

(a) Impairment losses
Estimates in assessing the general impairment are dependent on the analysis of historical data relating to probability of default, emergence period and loss given default. Specific impairment is triggered for individual non-performing loans. Non-performing loans comprises of loans due and unpaid for longer than 60 days, as well as other loans where events have been identified which would compromise the repayability of the loan. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Impairment of available-for-sale equity investments
The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. There was no such evidence requiring impairment for the year ended 28 February 2015.

(c) Fair value of financial instruments
The fair value of financial instruments requires the use of estimates and judgments. Refer to note 2.4.3 for methodology and assumptions utilised.

(d) Trade receivables and held to maturity investments
The Group assesses its trade receivables and held to maturity investments for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and held to maturity investments is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

(e) Provisions
Provisions were raised and management determined an estimate based on the information available.

(f) Taxation
Judgment is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

2.3 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss under trading income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equity investments whose changes in the fair value are presented in other comprehensive income, are included in the related reserve in equity.

2.4 Financial instruments

2.4.1 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held- to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

Financial assets are initially recognised at fair value, which is the cash consideration to originate or purchase the loan including any transaction costs, for all financial assets not carried at fair value through profit or loss.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available - for sale, are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers.

(i) Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. The designation cannot be subsequently changed.

This category has two subcategories: financial assets held for trading; and those designated at fair value through profit or loss at inception. Treasury bills, government stock and derivatives are designated in this category. Derivatives are designated as held for trading, unless they are designated and effective as hedging instruments.

Financial assets are designated at fair value through profit or loss when:

– doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and debt securities in issue.

– financial assets are designated at fair value through profit or loss when they are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

– financial instruments, such as debt securities held, containing one or more embedded derivative that significantly modify the cash flows, are designated at fair value through profit or loss.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the 'Financial assets at fair value through profit or loss' category are included under net gain from financial instruments designated at fair value through profit or loss in the profit or loss and in the period in which they arise.

Interest income and expense and dividend income and expense on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to debtor with no intention of trading the receivable.

Loans and receivables are carried at amortised cost using the effective interest rate method. Interest calculated using the effective interest rate method is recognised in the profit or loss.

Loans and advances are classified in this category.

(iii) Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method. Interest calculated using the effective interest rate method is recognised in the profit or loss.

(iv) Available-for-sale
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in the statement of comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in the statement of comprehensive income should be recognised in the profit or loss.

However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale, as well as impairment losses, are recognised in the profit or loss.

If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in the profit or loss in 'Dividend income' when the Group's right to receive payment is established.

2.4.2 Financial liabilities
The Group recognises a financial liability when it becomes a party to the contractual terms of the financial instrument. The Group classifies its financial liabilities in the following categories: at amortised cost; and financial liabilities at fair value through profit or loss.

(i) At amortised cost
The liability is recognised initially at fair value, being its issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, it is stated at amortised cost, any difference between proceeds net of transaction costs and the redemption value is recognised in the profit or loss over the period of the liability using the effective interest rate method.

(ii) Financial liabilities at fair value through profit or loss
This category comprises two subcategories: financial liabilities classified as held for trading; and financial liabilities designated by the Group as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller. Those financial instruments are recognised in the statement of financial position as 'Financial liabilities held for trading'.

Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the profit or loss and are reported as 'Net gains / (losses) on financial instruments classified as held for trading'. Interest expenses on financial liabilities held for trading are included in 'Net interest income'. The Group designated certain debt securities upon initial recognition as at fair value through profit or loss (fair value option); this designation cannot be changed subsequently. According to IAS 39, the fair value option is applied, as the debt securities consist of debt host and embedded derivatives that must otherwise be separated.

Financial liabilities for which the fair value option is applied are recognised in the statement of financial position as 'Financial liabilities designated at fair value'. Fair value changes relating to financial liabilities designated at fair value through profit or loss are recognised in 'Net gains on financial instruments designated at fair value through profit or loss'.

2.4.3 Determination of fair value
For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges (e.g. FTSE, NYSE).

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or when there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the statement of financial position.

The Group uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

2.4.4 Derecognition
Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.4.5 Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.4.6 Derivative financial instruments and hedge accounting
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, which include discounted cash flow models and options pricing models, as appropriate.

All derivatives are carried as assets when its fair value is positive and as liabilities when its fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits on day one.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or
(2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Group only applies hedge accounting when these criteria are met. Where the criteria are not met; derivatives are fair valued through profit or loss and these adjustments are disclosed separately.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security, at which point it is included in the consolidated statement of comprehensive income.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in equity are recycled to the profit or loss in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place). They are recorded in the revenue or expense line item associated with the related hedged item. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit or loss.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss.

(iii) Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the profit or loss and the derivatives are disclosed separately in the statement of financial position. No hedge accounting was applied during the year and as at year-end.

2.5 Sale and repurchase agreements
Securities sold subject to repurchase agreements ('repos') are reclassified in the consolidated financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method. Securities lent to counterparties are also retained in the consolidated financial statements.

Securities borrowed are not recognised in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

2.6 Impairment of financial assets
2.6.1 Assets carried at amortised cost
The Group assesses at each reporting date whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(i) significant financial difficulty of the issuer or obligator;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the Group granting to the borrower, for economic or legal reasons relating to the bor rower's financial difficulty, a concession that the lender would not otherwise consider;
(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or
(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
– adverse changes in the payment status of borrowers in the Group; or
– national or local economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

2.6.2 Impairment of loans and advances

Impairment losses are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the profit or loss. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment allowance
accounts. Losses expected from future events are not recognised.

(i) Individually assessed loans and advances All loans and advances are assessed on a case-by-case basis at each reporting date as to whether there is any objective evidence that a loan is impaired. The criteria used to determine that there is such objective evidence, include the loss events described above. For those loans where objective evidence of impairment exists, impairment losses are determined considering the aggregate exposure to the client and the realisable value of security (or other credit mitigants) and the likelihood of successful repossession.

(ii) Collectively assessed loans and advances

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating estimated portfolio impairment. The calculation is based on the Incurred But Not Reported ('IBNR') model, which takes into account that it may take a period of time before management becomes aware of an objective evidence that a loan is impaired. Key inputs into this model are the historical average of probability of default and the historic average loss given default. The emergence period is

also factored into the model, which represents management's view of the how long it takes for the objective evidence to become known to management.

To the extent that the unidentified impairments are insufficient to meet the minimum regulatory general provision, such shortfall is accommodated by a transfer of the applicable after-tax amount from distributable to non-distributable reserves. When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the profit or loss.

2.6.3 Assets carried at fair value

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the profit or loss.

Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

2.6.4 Renegotiated loans
Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if the new terms are not met.

2.7 Intangible assets

2.7.1 Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'Intangible assets'.
Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.
The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

2.7.2 Computer software and development costs
Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:
- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of a software product include software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria, are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives, which ranges between five to fifteen years depending on the project lifecycle.

2.7.3 Trademarks
Trademarks and licenses are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives.

2.8 Property, plant and equipment
Land and buildings comprise mainly of branches and offices. Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Computer equipment	3-5 years
Motor vehicles	5 years
Office equipment	5 years
Furniture and fittings	10 years
Automated teller machines	10 years
Buildings	50 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the profit or loss. Investment properties held by Group companies and which are occupied by other group companies are recognised as property, plant and equipment in the Group Consolidated Financial Statements.

2.9 Repossessed property
In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed property is included under other assets as inventory as it is held for sale in the ordinary course of business, at the lower of cost or net realisable value, and is derecognised when the assets are sold to third parties.

2.10 Impairment of non-financial assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are banked at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversals of the impairment at each reporting date.

2.11 Leases
2.11.1 Group as the lessee
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the Group are primarily operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.11.2 Group as the lessor
Leases of property, plant and equipment where the Group retains substantially all the risks and rewards of ownership are classified as finance leases. When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease, using the net investment method (before tax), which reflects a constant periodic rate of return.

2.12 Cash and cash equivalents
Cash and cash equivalents are stated at cost which approximates fair value due to the short-term nature of these instruments.

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the reporting date, including cash and non-restricted balances with the Bank of Namibia, treasury bills and other eligible bills, placements with other banks, short-term government securities, money market investments and short-term borrowings from other banks.

2.13 Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The Group recognises no provisions for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to passage of time is recognised as interest expense.

2.14 Financial guarantee contracts
Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the consolidated financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history or past losses, supplemented by the judgment of management. Any increase in the liability relating to financial guarantees is taken to the profit or loss under operating expenses.

2.15 Investment in subsidiaries
Investments in subsidiaries in the company annual financial statements are carried at cost less any accumulated impairment. The cost of an investment in a subsidiary is the aggregate of:

(i) the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the company; and
(ii) any costs directly attributable to the purchase of the subsidiary.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

2.16 Post-employment benefits

2.16.1 Pension obligations

The Group operates a defined contribution plan. The plan is generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The Group provides no other post-retirement benefits to their retirees.

2.16.2 Severance pay provision

In terms of the new Labour Act of 2007, the Group is required to make payments (or provide other benefits) to employees when it terminates their employment. The implications of this requirement are that severance pay has to be paid to all employees when the employee:

(i) is dismissed (except if due to misconduct or poor performance); or
(ii) dies while employed.

The Group therefore has an obligation, more specifically a defined benefit, in terms of IAS 19, 'Employee benefits'. The benefit is not funded by any plan assets as defined in IAS 19.

2.16.3 Leave pay

Employee benefits in the form of annual leave entitlements are provided for when they accrue to employees with reference to services rendered up to the reporting date.

2.16.4 Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where it is contractually obliged or where there is a past practice that has created a constructive obligation.

2.17 Deferred and current income tax

The tax expense for the period comprises of deferred and current income tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.17.1 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts and tax losses carried forward and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit nor loss.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to fair value re-measurement of available-for-sale investments, which are recognised in other comprehensive income, is also recognised in other comprehensive income and is subsequently recognised in profit or loss together with the deferred gain or loss.

2.17.2 Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Where appropriate, it establishes provisions on the basis of amounts expected to be paid to the tax authorities.

2.18 Revenue recognition

Banking activities

Revenue is derived substantially from the business of banking and related activities and comprises interest income, fee and commission revenue, trading revenue and other non-interest revenue.

2.18.1 Net interest income

Interest income and expense are recognised in profit or loss on an accrual basis using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

Where the estimates of payments or receipts on financial assets (except those that have been reclassified – refer to accounting on Financial instruments) or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the estimated cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income.

Where financial assets have been impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate.

Dividends received on preference share investments form part of the group's lending activities and are included in interest income.

2.18.2 Non-interest revenue

2.18.2.1 Net fee and commission revenue

Fee and commission revenue, including transactional fees, account servicing fees, investment management fees, sales commissions and placement fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period.

The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract.

Fee and commission expense included in net fee and commission revenue are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received.

2.18.2.2 Trading revenue

Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends.

2.18.2.3 Other revenue
Other revenue includes gains and losses on equity instruments designated at fair value through profit or loss and dividends relating to those financial instruments.

Gains and losses on equity available-for-sale financial assets are reclassified from OCI to profit or loss on derecognition or impairment of the investments. Dividends on these instruments are recognised in profit or loss.

2.18.2.4 Dividend income
Dividends are recognised in profit or loss when the right to receipt is established. Scrip dividends are recognised as dividends received where the dividend declaration allows for a cash alternative.

2.19 Share capital
Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities. Incremental costs directly attributable to the issue of new shares or options, or to the acquisition of a business, are shown in equity as a deduction, net of tax, from the proceeds.

2.20 Dividend distribution
Dividend distribution to the Group's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are declared by the Board of Directors.

Dividends for the year that are declared after the reporting date are dealt with in the events subsequent to year-end note under the directors' report.

2.21 Operating segments
The Group considers its banking operations as one operating segment. This is in a manner consistent with the internal reporting provided to the chief operating decision-maker, identified as the Chief Executive Officer of the Group. The chief operating decision-maker is the person that allocates resources to and assesses the performance of the operating segment(s) of an entity.

In assessing the performance of the banking operation, the Chief Executive Officer reviews the various aggregated revenue streams, the total costs and the assets and liabilities related to banking activity, which have been disclosed in the various notes to the consolidated financial statements.

	Group 2015 N$	Group 2014 N$	Company 2015 N$	Company 2014 N$
3 Cash and cash equivalents				
Cash and cash equivalents consist of:				
Cash on hand	11 936 317	3 665 253	11 936 317	3 665 253
Balances with Bank of Namibia other than mandatory reserve deposits	12 252 230	1 520 942	12 252 230	1 520 942
Balances with other banks	164 289 381	150 249 559	164 289 381	150 149 897
	188 477 928	**155 435 754**	**188 477 928**	**155 336 092**
Mandatory reserve deposits with Bank of Namibia	4 473 384	1 156 139	4 473 384	1 156 139
	192 951 312	**156 591 893**	**192 951 312**	**156 492 231**

The balance with Bank of Namibia includes the mandatory reserve deposits which are not available for use in the group's day to day operations. Cash balances as well as mandatory reserve deposits with Bank of Namibia are non-interest earning. The carrying amount approximates the fair value.

Money Market Investments	78 398 550	-	78 398 550	-
Treasury bills	185 328 742	58 578 775	185 328 742	58 578 775
	263 727 292	**58 578 775**	**263 727 292**	**58 578 775**

4 Financial Assets at Fair Value
Treasury bills and Money market investments are classified as financial assets at fair value through profit and loss and are presented within 'operating activities' in the statement of cash flows. Changes in the fair value of financial assets at fair value through profit and loss are recorded in the 'net trading income' in the statement of profit or loss and other comprehensive income.

Treasury bills are securities issued by the Namibian treasury department for a term of three months, six months, a year or longer. Treasury bills held have maturity periods of between three months and six months from the reporting date.

	Group 2015 N$	Group 2014 N$	Company 2015 N$	Company 2014 N$
5 Loans and advances				
Overdrafts	28 515 350	8 281 418	28 515 350	8 281 418
Loans advanced	116 762 998	9 848 335	116 762 998	9 848 335
Gross loans and advances	**145 278 348**	**18 129 753**	**145 278 348**	**18 129 753**
General loan loss provision	(1 198 787)	(207 049)	(1 198 787)	(207 049)
Specific loan loss provision	(1 354 557)	(294 908)	(1 354 557)	(294 908)
	142 725 004	**17 627 796**	**142 725 004**	**17 627 796**

The carrying amount approximates the fair value. The Group employs scientific techniques to determine the specific and general impairment of its loans and advances. Refer to note 2.6 for the detailed descriptions of the techniques.

Gross loans and advances	145 278 348	18 129 753	145 278 348	18 129 753
Interest suspended on non-performing loans	(179 702)	-	(179 702)	-
Notional value of loans and advances	**145 098 646**	**18 129 753**	**145 098 646**	**18 129 753**

Maturity analysis of gross loans and advances to customers for the Group were as follows:

Repayable within 1 month	27 059 114	3 352 520	27 059 114	3 352 520
Repayable after 1 month but within 3 months	13 760 891	2 172 515	13 760 891	2 172 515
Repayable after 3 months but within 6 months	16 023 450	1 323 275	16 023 450	1 323 275
Repayable after 6 months but within 12 months	29 789 048	8 084 043	29 789 048	8 084 043
Repayable after 12 months	58 645 845	3 197 400	58 645 845	3 197 400
	145 278 348	**18 129 753**	**145 278 348**	**18 129 753**

6 Other assets

Prepayments	7 659 136	9 569 565	7 659 136	9 569 566
Value added taxation receivable	6 912 282	8 705 077	516 441	1 621 454
Other receivables	75 940	491 273	75 939	491 273
	14 647 358	**18 765 915**	**8 251 516**	**11 682 293**

7 Investments in subsidiary

Name of company	**% holding 2015**	**% holding 2014**	**Carrying amount 2015**	**Carrying amount 2014**
Rentmeester Investment Company (Proprietary) Limited	100	100	82 392 276	79 779 970

The carrying amount of the subsidiary is shown net of impairment losses. The Group's interest in the aggregate loss before taxation earned from its subsidiary was N$ Nil for the year (2014: N$237,554). No dividends were declared for the year (2014: Nil).

The subsidiary is registered in Namibia and has a year end of 28 February.

8 Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Group						
Computer software	15 103 555	(1 644 055)	13 459 500	11 669 030	(828 403)	10 840 627

	2015			2014		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Company						
Computer software	15 103 555	(1 644 055)	13 459 500	11 669 030	(828 403)	10 840 627

Reconciliation of intangible assets

2015	Opening balance	Additions	Amortisation	Total
Computer software	10 840 627	3 434 524	(815 651)	13 459 500

2014	Opening balance	Additions	Amortisation	Total
Computer software	7 733 418	3 816 081	(708 872)	10 840 627

9 Property, plant and equipment

Group	2015			2014		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land and buildings	75 748 397	-	75 748 397	73 178 206	-	73 178 206
Leasehold Improvements	13 613 753	(2 564 212)	11 049 541	-	-	-
Computer equipment	14 577 635	(8 522 987)	6 054 648	13 283 911	(4 693 821)	8 590 090
Auto teller machines	10 281 721	(339 240)	9 942 481	10 281 721	(64 887)	10 216 834
Furniture and fittings	5 504 241	(924 783)	4 579 458	4 265 800	(583 282)	3 682 518
Office equipment	3 456 831	(736 853)	2 719 978	1 650 793	(480 870)	1 169 923
Motor vehicles	861 813	(367 002)	494 811	861 813	(246 077)	615 736
	124 044 392	(13 455 077)	110 589 315	103 522 244	(6 068 937)	97 453 307

	Opening balance	Additions	Depreciation	Total
Land and buildings	73 178 206	2 570 190		75 748 396
Leasehold Improvements	-	13 613 753	(2 564 211)	11 049 542
Computer equipment	8 590 090	1 293 724	(3 829 166)	6 054 648
Automated teller machines	10 216 834	-	(274 353)	9 942 481
Furniture and fittings	3 682 518	1 238 441	(341 501)	4 579 458
Office equipment	1 169 923	1 806 039	(255 984)	2 719 978
Motor vehicles	615 736	-	(120 925)	494 811
	97 453 307	**20 522 147**	**(7 386 140)**	**110 589 315**

Reconciliation of property, plant and equipment – 2014

	Opening balance	Additions	Depreciation	Total
Land and buildings	65 864 635	7 313 571	-	73 178 206
Computer equipment	8 580 978	4 025 292	(4 016 180)	8 590 090
Automated teller machines	2 146 982	8 134 739	(64 887)	10 216 834
Furniture and fittings	3 520 684	659 149	(497 315)	3 682 518
Office equipment	1 575 436	-	(405 514)	1 169 922
Motor vehicles	651 851	177 332	(213 446)	615 737
	16 475 931	**20 310 083**	**(5 197 342)**	**97 453 307**

Company	**2015**			**2014**		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Leasehold Improvements	13 613 753	(2 564 212)	11 049 542	-	-	-
Computer equipment	14 577 635	(8 522 987)	6 054 648	13 283 911	(4 693 821)	8 590 090
Auto teller machines	10 281 721	(339 240)	9 942 481	10 281 721	(64 887)	10 216 834
Furniture and fittings	5 504 241	(924 783)	4 579 458	4 265 800	(583 282)	3 682 518
Office equipment	3 456 832	(736 854)	2 719 978	1 650 792	(480 870)	1 169 922
Motor vehicles	861 813	(367 002)	494 811	861 813	(246 077)	615 737
	48 295 995	**(13 455 078)**	**34 840 918**	**30 344 037**	**(6 068 937)**	**24 275 101**

Reconciliation of property, plant and equipment – 2015

	Opening balance	Additions	Depreciation	Total
Leasehold Improvements	-	13 613 753	(2 564 212)	11 049 542
Computer equipment	8 590 090	1 293 724	(3 829 166)	6 054 648
Automated teller machines	10 216 834	-	(274 353)	9 942 481
Furniture and fittings	3 682 518	1 238 441	(341 501)	4 579 458
Office equipment	1 169 922	1 806 039	(255 984)	2 719 977
Motor vehicles	615 737	-	(120 925)	494 812
	24 275 101	**17 951 957**	**(7 386 140)**	**34 840 918**

Reconciliation of property, plant and equipment – 2014

	Opening balance	Additions	Depreciation	Total
Computer equipment	8 580 978	4 025 292	(4 016 180)	8 590 090
Automated teller machines	2 146 982	8 134 739	(64 887)	10 216 834
Furniture and fittings	3 520 684	659 149	(497 315)	3 682 518
Office equipment	1 575 436	-	(405 514)	1 169 922
Motor vehicles	651 851	177 332	(213 446)	615 737
	16 475 931	**12 996 512**	**(5 197 342)**	**24 275 101**

Detailed asset registers are available at the registered office of the Group. All property, plant and equipment is owned by the Bank except for land and building which is owned by Rentmeester Investment Company (Pty) Ltd, a subsidiary of Small and Medium Enterprises Bank Limited.

The net carrying value of the land and buildings as at 28 February 2015 is N$ 75 748 397 (2014: N$ 73 178 206). The building is occupied by Small and Medium Enterprises Bank Limited.

No assets were encumbered at 28 February 2015 or as at 28 February 2014.

		Group 2015 N$	Group 2014 N$	Company 2015 N$	Company 2014 N$
10	**Deposits from customers**				
	Current, demand and savings accounts	37 159 929	11 435 525	37 159 929	11 435 525
	Term and notice deposits	452 361 924	214 186 888	452 361 924	214 186 888
	Other deposits	-	450 895	-	450 895
		489 521 853	**226 073 308**	**489 521 853**	**226 073 308**
11	**Other liabilities**				
	Other payables	340 245	3 541 441	340 245	3 477 542
	Accrued leave pay	2 934 630	2 569 962	2 934 630	2 569 962
	Payroll liabilities	906 797	922 350	906 797	922 350
		4 181 672	**7 033 753**	**4 181 672**	**6 969 854**
12	**Share capital**				
	Authorised				
	50,000 Ordinary shares of N$1,00 each	**50 000**	**50 000**	**50 000**	**50 000**
	Issued				
	100 Ordinary shares at N$1,00 each	**100**	**100**	**100**	**100**
13	**Shareholders' contributions**				
	Namibia Financing Trust	370 774 901	180 774 901	370 774 901	180 774 901
	Metbank Zimbabwe Limited	49 499 970	49 499 970	49 499 970	49 499 970
	Worldeagle Investments (Private) Limited	8 249 995	8 249 995	8 249 995	8 249 995
		428 524 866	**238 524 866**	**428 524 866**	**238 524 866**

Bank of Namibia confirmed the shareholding of Metbank Zimbabwe Limited as required in terms of Section 20(4) of Banking Institutions Act 1998, (Act No.2 of 1998) on the 21st of July 2015. The approval came after Bank of Namibia performed an evaluation and probity test of Metbank Zimbabwe Limited as substantial shareholders to hold 30 percent shares in the Group.

	Group 2015 N$	Group 2014 N$	Company 2015 N$	Company 2014 N$
14 Interest income				
Loans and advances	7 452 771	824 385	7 452 771	824 385
Fixed and notice placements	10 765 917	2 266 624	10 765 917	2 266 624
Investment securities	8 318 152	1 179 017	8 318 152	1 179 017
	26 536 840	**4 270 026**	**26 536 840**	**4 270 026**
15 Interest expense				
Term deposits	20 368 644	159 707	20 368 644	159 707
Current, demand and savings accounts	65 985	2 296 638	65 985	2 296 638
	20 434 629	**2 456 345**	**20 434 629**	**2 456 345**
16 Non - interest income				
Establishment and administration income	5 997 306	1 086 465	5 997 306	1 086 465
Transaction based income	365 138	388 855	365 138	388 855
	6 362 444	**1 475 320**	**6 362 444**	**1 475 320**
17 Operating loss for the year is stated after accounting for the following:				
Employee costs	47 714 934	47 393 343	47 714 934	47 393 343
Depreciation on property, plant and equipment	7 386 140	5 197 342	7 386 140	5 197 342
Operating lease charges	1 870 702	1 824 820	1 870 702	1 824 820
Amortization of intangible assets	815 651	708 872	815 651	708 872
Audit fees	837 717	172 551	837 717	172 551

18 Taxation

No provision has been made for 2015 tax as the company has no taxable income. The estimated tax loss available for set off against future taxable income is Group N$ 217 560 893 (2014: N$ 137 955 776); Company N$ 203 186 631 (2014: N$ 126 011 773).

	Group 2015 N$	Group 2014 N$	Company 2015 N$	Company 2014 N$
19 Cash used in operations				
Loss before taxation	(72 354 998)	(69 754 039)	(71 589 340)	(69 972 799)
Adjustments for:				
Depreciation on property, plant and equipment	7 386 140	5 197 342	7 386 140	5 197 342
Amortisation of intangible assets	815 651	708 872	815 651	708 872
Changes in working capital:				
Other receivables	4 118 557	(10 864 310)	3 430 776	(9 869 483)
Other payables	(2 852 081)	(1 443 245)	(2 788 182)	(1 493 552)
	(62 886 730)	**(76 155 380)**	**(62 744 954)**	**(75 429 620)**

20 Commitments

Authorized capital expenditure				
Property, plant and equipment	31 490 929	11 171 532	31 490 929	11 171 532

Operating leases – as lessee (expense)

Operating lease payments represent rentals payable by the company for certain branches. Leases are negotiated for an average term of five years and rentals are fixed for an average of three years. No contingent rent is payable.

21 Contingencies

Performance	28 049 000	9 579 651	28 049 000	9 579 651

The Group has determined the probability of settling contingent liabilities to be possible, but not probable and accordingly no provision for any liability has been made in the annual consolidated financial statements.

22 Related Parties

Group	
Namibia Financing Trust	Shareholder
Metbank Zimbabwe Limited	Shareholder
WorldEagle Investments (Private) Limited	Shareholder
Assure Investments (Proprietary) Limited	Common control
Crown Finance Corporation (Proprietary) Limited	Common control
Heritage Investments (Proprietary) Limited	Common control
Mumvuma Tawanda Jiles	Executive director
Simataa George	Non- executive director
Kamushinda Enock	Non- executive director
Nakale Petrina Ndahafa	Non- executive director
Mungunda Milka Martha Arnoldine	Non- executive director
Bvute Ozias	Non- executive director
Mberirua Theofelus	Non- executive director

Company

Namibia Financing Trust	Shareholder
Metbank Zimbabwe Limited	Shareholder
WorldEagle Investments (Private) Limited	Shareholder
Rentmeester Investment Company (Proprietary) Limited	Subsidiary
Assure Investments (Proprietary) Limited	Common control
Crown Finance Corporation (Proprietary) Limited	Common control
Heritage Investments (Proprietary) Limited	Common control
Heritage Investments (Proprietary) Limited	Common control
Mumvuma Tawanda Jiles	Executive director
Simataa George	Non- executive director
Kamushinda Enock	Non- executive director
Nakale Petrina Ndahafa	Non- executive director
Mungunda Milka Martha Arnoldine	Non- executive director
Bvute Ozias	Non- executive director
Mberirua Theofelus	Non- executive director

	Group 2015 N$	Group 2014 N$	Company 2015 N$	Company 2014 N$
Related party balances				
Shareholders' contributions				
Namibia Financing Trust	370 774 901	180 774 901	370 774 966	180 774 866
Metbank Zimbabwe Limited	49 500 000	49 500 000	49 500 000	49 500 000
Worldeagle Investments (Private) Limited	8 250 000	8 250 000	8 250 000	8 250 000
Cash collateral to Metbank for MasterCard project	4 438 000	4 438 000	4 438 000	4 438 000
Related party transactions				
Reimbursements paid to Metbank	-	2 411 576	-	2 411 576
Reimbursements Crown Finance	-	300 660	-	300 660
Accommodation costs paid to Assure Investments	-	842 375	-	842 375

23 Director's emoluments

Directors' fees	**1 867 765**	**1 565 050**	**1 867 765**	**1 565 050**

24 Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the Group to continue as a going concern is dependent on a number of factors. The most significant of these is that the directors continue to secure funding for the ongoing operations of the Group and that the shareholders commit to continue injecting capital into the Group for so long as it takes for the group to become self-sustainable.

We draw attention to the fact that at 28 February 2015, the Group has a loss for the year of N$72 354 988
(2014: N$69 754 039) and accumulated losses of N$ 183 980 335 (2014: N$ 111 625 338) and the Company has a loss for the year of N$ 71 589 340 (2014: N$ 69 972 799); and the company has accumulated losses of N$ 183 880 675 (2014: N$ 112 291 335).

The shareholders have committed to financing the Group in the short term. However, in the long term the Group has a turnaround plan in place through which the directors expect to incur losses at a reducing rate for the next 2 financial years, break even in the 2017/2018 financial year and be profitable thereafter

25 Events after the reporting date we draw attention to the following material events that occurred after the reporting date:

- Bank of Namibia confirmed the shareholding of Metbank Zimbabwe Limited as required in terms of Section 20(4) of Banking Institutions Act 1998, (Act No.2 of 1998) on the 21st July 2015. The approval came after Bank of Namibia performed an evaluation and probity test of Metbank Zimbabwe Limited as substantial shareholders to hold 30 percent shares in the Group.

- Mr. Frans Kapofi resigned as Chairperson of the Board of Directors on the 30th of April 2015. He served as chairman of the board from 29 October 2012. His resignation was motivated by his appointment as Minister of Presidential Affairs.

- Mr. George Simataa was appointed the Chairperson of the Board of Directors from 1 September 2015 to 31 August 2018. Mr. George Simataa is the current Secretary to the Cabinet of the Republic of Namibia.

- The Group opened a branch in Ongwediva on the 11th of September 2015, works required to open two (2) additional branches in Rundu and Walvis Bay are underway. The Group expects to open the Rundu and Walvis Bay branches by 28 February 2016.

26 Risk Management
Assuming financial risks is inherent in the Group's business. Managing these risks continues to play a pivotal role within the Group to ensure an appropriate balance is reached between risks and returns.

The Board of Directors is ultimately responsible to ensure that the Group is not exposed to risks which may have a negative impact on its financial performance, and which may ultimately have an adverse effect on the continued operations of the Group. However, it is the responsibility of management to identify risks, whether real or anticipated, within their business units and to take appropriate actions.

The following subcommittees have been formed to assist the board of directors to manage risks:

Asset and Liability Committee (ALCO)
The Group trades in financial instruments where it takes positions in traded instruments to take advantage of short-term market movements in bonds, interest rate and commodity prices. Amongst other responsibilities, ALCO is tasked to monitor the risks associated with these activities.
Risk management includes the setting of trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. In addition, with the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

The ALCO, comprising members of the executive management team and reporting to the Board, has the primary responsibility of monitoring the Group's liquidity position, as well as formulating the funding strategy

Credit Committee and Loans Review Committee
One of the Group's primary activities is lending to retail and commercial borrowers. The Group accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Credit Committee and Loan Review Committee are tasked to ensure this objective is achieved through the sanctioning of credit and thereby ensuring credit exposures remain within an acceptable range of credit standing. Such exposures involve not just loans and advances reflected on the statement of financial position; but also guarantees and other commitments such as letters of credit.

Audit Committee
The Board of Directors, through its Board Audit Committee, also places reliance on the function of internal audit to detect whether business units comply with the Group's policies and report non-compliance thereof.

Risk Management and Compliance Committee
In addition to the above committees, a Risk Management and Compliance Committee was also established and its primary responsibilities are to:
- evaluate the risk management model employed by the Group in terms of effectiveness and efficient deployment of resources;
- discuss and identify gaps and weaknesses in the Management Information System (MIS) to enable management to make the correct decisions;
- discuss the findings and recommendations of the Group's risk functions and evaluate whether appropriate action has been taken when necessary;
- enhance general risk awareness within the Group;
- monitor the management of risks to ensure that the Group complies with the Bank of Namibia's guidelines for effective risk management; and

Significant risks to which the Group is exposed are discussed in the following paragraphs.

Analysis of assets and liabilities
Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies in the preceding sections describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analysis the financial assets and liabilities in the statement of financial position by category of financial instrument to which they are assigned and therefore measured. The table includes non-financial assets and liabilities to reconcile to the statement of financial position.

2015 Assets	Fair value through profit / loss N$'000	Loans and receivables N$'000	Available for-sale financial assets N$'000	Financial liabilities at amortised cost N$'000	Non-financial assets / liabilities N$'000	Total N$'000
Cash and cash equivalents	-	192 951	-	-	-	192 951
Financial Assets at Fair Value	263 727	-	-	-	-	263 727
Loans and advances	-	142 725	-	-	-	142 725
Other assets	-	-	-	-	14 647	14 647
Current tax asset	-	-	-	-	-	148
Intangible assets	-	-	-	-	13 460	13 460
Property and equipment					110 589	110 589
Total assets	**263 727**	**335 676**	**-**	**-**	**138 696**	**738 248**
2015 Liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Customer deposits	-	-	-	489 522	-	489 522
Other liabilities	-	-	-	4 182	-	4 182
Total liabilities	**-**	**-**	**-**	**493 704**	**-**	**493 704**

2014 Assets	Fair value through profit / loss N$'000	Loans and receivables N$'000	Available for-sale financial assets N$'000	Financial liabilities at amortised cost N$'000	Non-financial assets / liabilities N$'000	Total N$'000
Cash and cash equivalents	-	156 592	-	-	-	156 592
Financial Assets at Fair Value	58 579	-	-	-	-	58 579
Loans and advances	-	17 628	-	-	-	17 628
Other assets	-	4 258	-	-	14 508	18 766
Current tax asset					148	148
Intangible assets	-	-	-	-	10 841	10 841
Property and equipment	-	-	-	-	97 453	97 453
Total assets	**58 579**	**178 478**	**-**	**-**	**122 950**	**360 007**
2014 Liabilities						
Customer deposits	-	-	-	226 073	-	226 073
Other liabilities	-	-	-	7 034	-	7 034
Total liabilities	**-**	**-**	**-**	**233 107**	**-**	**233 107**

26.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the reporting date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the reporting date.

Credit risk, together with large exposures, is monitored by the Board Credit and Board Loans' Review Committees.

In addition to credit risk through a loan, the Group is exposed to counterparty credit risk, which is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Unlike credit exposures to loans, exposures to counterparty credit could result in a positive or negative impact to the financial performance of the Group, depending on the underlying market factors. Such risk is associated primarily with derivative transactions.

Maximum exposure to credit risk before collateral held

Credit risk exposure relating to on-statement of financial position assets is as follows:

	Maximum exposure	
	2015 N$ '000	2014 N$ '000
Cash and cash equivalents	192 951	156 592
Financial assets	263 727	58 579
Loans and advances	145 275	18 130
Total on statement of financial position	**601 593**	**233 301**

	2015 N$ '000	2014 N$ '000
Credit risk exposure relating to off-statement-of-financial-position items are as follows:		
-Liabilities under guarantees	28 049	9 580

26.1.1 Risk limit control and mitigation policies

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks, including exposures to industry segments, are monitored on a monthly basis and are subject to regular review at least once annually. Limits on the level of credit risk by country are approved by the Board of Directors.

Exposure to credit risk is managed upfront when an application for credit is received. The credit risk management model is utilised by the Group and assesses the three components of safety, desirability and profitability. Throughout the lifespan of the credit facility, regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations is assessed and lending limits are changed where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but for a portion of personal lending no such collateral or guarantee can be obtained. The amount the Group is willing to lend unsecured is also capped and approved by the board.

Placements with banks, including loans and advances to banks, are subject to the normal credit process. Credit limits to these banks take into consideration ratings performed by external rating agencies.

Some other specific control and mitigation measures are outlined below:

(i) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- cash which is deposited with and ceded to the Group;
- deposit with any registered financial institution and ceded to the Group;
- life assurance policies with a confirmed surrender value; and
- any other form of tangible collateral security subject to approval by the Credit Department

Valuation methodologies and the period of validity on collateral are outlined in established policies, which are approved by the Board of Directors.

Long-term finance and lending to corporate entities are generally secured. In addition, in order to minimise the credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Although revolving individual credit facilities are generally unsecured, these are only granted to clients after stringent credit reviews.

(ii) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities reflected on the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(iii) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurance that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

26.1.2 Impairment and provisions

The Group employs various techniques to determine the specific and general impairment of its financial assets.

Loans and advances are individually assessed for impairment when they have been flagged as being past due more than 60 days. Other financial assets are impaired according to the general impairment policy as per note 2.6.For regulatory purposes, the Group adheres to BID-2 with regard to asset classification, suspension of interest and provisioning

2015	Neither past due nor impaired	Special mention 31-60 days	Substandard 61-180 days	181-360 days	Non-performing More than 360 days	Total
	N$'000	N$'000	N$'000	N$'000	N$'000	N$'000
Loans and advances	128 047	10 723	5 307	1 201	-	**145 278**
Provision raised against unsecured amount*	(1 199)	(377)	(113)	(864)	-	**2 553**
Total loans and advances after specific provisions	126 848	10 346	5 194	337	-	**142 725**
Security held against loans	(4 546)	(246)	(45)	(337)	-	**(5 174)**
	122 302	**10 100**	**5 149**	**-**	**-**	**137 551**

2014	Neither past due nor impaired	Special mention 31-60 days	Substandard 61-180 days	181-360 days	Non-performing More than 360 days	Total
	N$'000	N$'000	N$'000	N$'000	N$'000	N$'000
Loans and advances	15 956	1525	15	634	-	**18 130**
Provision raised against unsecured amount*	(178)	(29)	(2)	(293)	-	**(502)**
Total loans and advances after specific provisions	15 778	1 496	13	341	-	**17 628**
Security held against loans	(499)	(78)	-	(48)	-	**(625)**
	15 279	**1 418**	**13**	**293**	**-**	**17 003**

(i) Loans and advances subject to general impairment

The total loans and advances to customer's portfolio are subject to collective assessment as described in note 2.6.

(ii) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is N$1.201m (2014: N$0.634m). The breakdown of the gross amount of individually impaired loans and advances, along with the fair value of related tangible collateral held by the Group as security, is as follows:

	2015 N$ N$'000	2014 N$ N$'000
Impaired loans	1 201	634
Security	(357)	(48)
Impaired loans net of security	844	586

iii) Credit ratings of financial assets other than loans and advances

	Carrying value N$ '000	Investment grade (AAA to BBB) N$ '000	Unrated N$ '000	Total N$ '000
As at 28 February 2015				
Cash and cash equivalents	-	**62 622**	**130 329**	**192 951**
Financial Assets at Fair Value	-	**263 727**	-	**263 727**
Other assets	**14 647**	-	-	**14 647**
Non-financial assets	**124 048**	-	-	**124 048**
Total assets (excluding loans and advances)	**138 695**	**326 349**	**130 329**	**595 373**

	Carrying value N$ '000	Investment grade (AAA to BBB) N$ '000	Unrated N$ '000	Total N$ '000
As at 28 February 2014				
Cash and cash equivalents	-	48 529	108 063	156 592
Financial Assets at Fair Value	-	58 579	-	58 579
Other assets	18 766	-	-	18 766
Non-financial assets	108 294	-	-	108 294
Total assets (excluding loans and advances)	**127 060**	**107 108**	**108 063**	**342 231**

Unrated exposures consist of cash and cash equivalents which are short term and highly liquid in nature. The credit worthiness of these Government and large commercial banks are of high quality, which poses low credit risk. Other asset consists of prepayments and value added taxes.

26.1.3 Repossessed collateral
Repossessed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the statement of financial position as other assets.

During the financial year, the Group did not take possession of collateral held as security (2014: Nil).

26.1.4 Credit risk weighted amounts
The following risk weighted amounts, including related impairments and write-off, have been assigned to the components of credit risk, as defined in BID 5 - Determination on Capital Adequacy:

	Exposure	Impairment	Risk weighted amounts	Written off
As at 28 February 2015				
Counterparties	**N$'000**	**N$'000**	**N$'000**	**N$'000**
Sovereign and central bank	279 353	-	-	-
Public sector entities	-	-	-	-
Banks	164 289	-	82 145	-
Corporate	118 665	-	115 972	-
Retail	25 160	-	18 938	-
Other assets	-	-	-	-
	587 467	-	217 055	-
Commitments	28 049	-	24 421	-

	Exposure	Impairment	Risk weighted amounts	Written off
As at 28 February 2014				
Counterparties	**N$'000**	**N$'000**	**N$'000**	**N$'000**
Sovereign and central bank	60 100	-	-	-
Public sector entities	-	-	-	-
Banks	150 250	-	69 754	-
Corporate	13 967	-	13 650	-
Retail	4 185	-	3 150	-
Other assets	4 297	-	-	-
	232 799	-	86 554	-
Commitments	9 580	-	5 371	-

Only claims on banks are risk-weighted based on external credit assessment. The Group utilises available external rating agencies' ratings on both short-term and long term exposures.

26.1.5 Credit risk concentration by industry

The following table breaks down the Group's main credit exposure at their gross amounts, as categorised by the industry sectors of counterparties:

28 February 2015	Cash and cash equivalents 'N$'000	Financial Assets at Fair Value N$'000	Loans and Advances N$'000	Other assets N$'000	Total N$,000
Sector					
Commerce,	-	-	8 887	-	8 887
Individuals	-	-	31 706	-	31 706
Construction	-	-	73 622	-	73 622
Transport	-	-	1 731	-	1 731
Business Services	-	-	17 447	-	17 447
Manufacturing	-	-	7160	-	7160
Entertainment	-	-	1 630	-	1 630
Technology	-	-	1 107	-	1 107
Travel & tourism			1 988	-	1 988
Finance	192 951	78 398	-	-	271 349
Government	-	185 329	-	-	185 329
Total	**192 951**	**263 727**	**145 278**	**-**	**601 956**

28 February 2014	Cash and cash equivalents 'N$'000	Financial Assets at Fair Value N$'000	Loans and Advances N$'000	Other assets N$'000	Total N$,000
Sector					
Commerce,	-	-	8 062	-	**8 062**
Individuals	-	-	4 185	-	**4 185**
Construction	-	-	2 677	-	**2 677**
Transport	-	-	1 199	-	**1 199**
Business	-	-	-	-	**-**
Services	-	-	989	10 061	**11 050**
Manufacturing	-	-	748	-	**748**
Entertainment	-	-	155	-	**155**
Technology	-	-	138	-	**138**
Finance	152 927	-	-	-	**152 927**
Government	-	58 579	-	8 705	**67 284**
Total	**152 927**	**58 579**	**18 153**	**18 766**	**248 425**

26.2 Market risk
The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. It is the Group's policy not to enter into long-term, unhedged fixed interest rate contracts for loans and advances. Interest rate structures of deposits reflect the interest rate view and strategy of the ALCO and maturity structures of term deposits are in line with the ALCO policy. Interest rate structures are discussed on a weekly basis by the ALCO Committee and external market resources are used to recommend interest rate views.

26.2.1 Market risk measurement techniques
The Group employs several measurement techniques to assess potential exposures to market change. Sensitivity analysis is applied to measure the impact of changes in interest rates. This measure is of importance in assessing the exposure of the Group's trading portfolio and the effect of such changes on the interest margin. Other measurement techniques include comprehensive analysis of maturities, both from the advance and funding perspective.

26.2.2 Interest rate risk
Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the Group's exposure to interest rate risks. It includes the group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates:

i) Interest rate risk analysis

	Up to 1 month	1-3 months	3-12months	More than 1 year	Non interest sensitive	Total
	N$'000	N$'000	N$'000	N$'000	N$'000	N$'000
As at 28 February 2015						
ASSETS						
Cash and cash equivalents	-	-	-	-	12 763	12 763
Financial assets designated at fair value through profit and loss	263 727	-	-	-	-	263 727
Due from banks	180 188	-	-	-	-	180 188
Loans and advances to customers	26 584	13 519	45 007	57 615	-	142 725
Other assets					14 796	14 796
Total financial assets	470 499	13 519	45 007	57 615	27 558	614 199
Total non-financial assets					124 049	124 049
Total assets	470 499	13 519	45 007	57 615	151 607	738 248

	Up to 1 month N$'000	1-3 months N$'000	3-12 months N$'000	More than 1 year N$'000	Non interest sensitive N$'000	Total N$'000
As at 28 February 2015						
LIABILITIES						
Deposits	362 809	150	6 050	120 512	-	489 522
Other liabilities	-	-	-	-	4 182	4 182
Total financial liabilities	362 809	150	6 050	120 512	4 182	493 704
Total non-financial liabilities	-	-	-	-	-	-
Total liabilities	362 809	150	6 050	120 512	4 182	493 704
Total equity	-	-	-	-	244 546	244 544
Total equity and liabilities	362 809	150	6 050	120 512	248 728	738 248
Interest sensitivity gap (financial instruments)	104 520	13 611	39 762	(61 866)	(97 270)	(1 243)
Cumulative interest sensitivity gap (financial instruments)	104 520	118 131	157 893	96 027	(1 243)	-

Interest sensitivity gap (financial instruments)	104 520	13 611	39 762	(61 866)	(97 270)	(1 243)
Cumulative interest sensitivity gap (financial instruments)	104 520	118 131	157 893	96 027	(1 243)	-

	Up to 1 month N$'000	1-3 months N$'000	3-12 months N$'000	More than 1 year N$'000	Non interest sensitive N$'000	Total N$'000
As at 28 February 2014						
ASSETS						
Cash and cash equivalents	-	-	-	-	3 665	3 665
Financial assets designated at fair value through profit and loss	58 579	-	-	-	-	58 579
Due from banks	110 220	-	20 000	20 000	2 706	152 927
Loans and advances to customers	2 851	2 173	9 407	3 197	-	17 628
Other assets	-	-	-	-	18 914	18 914
Total financial assets	171 650	2 173	29 407	23 197	25 286	251 713
Total non-financial assets	-	-	-	-	108 294	108 294
Total assets	**171 650**	**2 173**	**29 407**	**23 197**	**133 580**	**360 007**

	Up to 1 month	1-3 months	3-12 months	More than 1 year	Non interest sensitive	Total
	N$'000	**N$'000**	**N$'000**	**N$'000**	**N$'000**	**N$'000**
As at 28 February 2014						
LIABILITIES						
Deposits	127 510	-	50 024	40 507	8 032	226 073
Other liabilities	-	-	-	-	7 034	7 034
Total financial liabilities	127 510	-	50 024	40 507	15 066	233 107
Total non-financial liabilities	-	-	-	-	-	-
Total liabilities	127 510	-	50 024	40 507	15 066	233 107
Total equity	-	-	-	-	126 900	126 900
Total equity and liabilities	**127 510**	**-**	**50 024**	**40 507**	**141 966**	**360 007**
Interest sensitivity gap (financial instruments)	44 139	2 173	(20 618)	(17 309)	6 404	14 789
Cumulative interest sensitivity gap (financial instruments)	44 139	46 312	25 694	8 385	14 789	-

The interest rate sensitivity gap is determined based on methodology applied when reviewing interest rate risk.

ii) Interest rate sensitivity analysis

An interest sensitivity analysis shows how net interest income will perform under a variety of scenarios. The sensitivities below measure the effect of overall changes in interest rates on profit or loss (net interest income). The extent of the shock (50, 100 or 200 basis points) is applied to all interest rates and the effects of these shocks are detailed below.The following interest-rate sensitivity is based on the effect of changes to the interest rate over a 12 month period on net interest income: Average interest bearing assets and liabilities for the year was used in the calculation based on the yield and cost at the yearend date.

	2015	2014
50 basis points increase	(203 287)	136 691
- Increase in interest income	1 608 293	343 802
- Increase in interest expense	(1 811 581)	(207 112)
50 basis points decrease	203 287	(136 691)
- Decrease in interest income	(1 608 293)	(343 802)
- Decrease in interest expense	1 811 581	207 112
100 basis points increase	(406 574)	273 381
- Increase in interest incomes	3 216 587	687 605
- Increase in interest expense	(3 623 161)	(414 223)
100 basis points decrease	406 574	(273 381)
- Decrease in interest income	(3 216 587)	(687 605)
- Decrease in interest expense	3 623 161	414 223
200 basis points increase	(813 149)	546 763
- Increase in interest incomes	6 433 173	1 375 210
- Increase in interest expense	(7 246 322)	(828 447)
200 basis points decrease	813 149	(546 763)
- Decrease in interest income	(6 433 173)	(1 375 210)
- Decrease in interest expense	7 246 322	828 447

iii) Average balances and effective interest rate analysis

	2015 Average balance N$'000	2015 Average interest rate %	2015 Interest income/ expense N$'000	2014 Average balance N$'000	2014 Average interest rate %	2014 Interest income/ expense N$'000
Assets						
Cash, balances due from other banks and derivatives	149 110	7.47%	11 139	42 860	5.29%	2 267
Investment and securities	138 604	6.00%	8 316	18 558	6.35%	1 179
Gross loans and advances to customers	74 308	9.53%	7 082	10 771	7.65%	824
Interest earning assets / interest income	362 022		26 536	72 189		4 270
Non interest earning assets						
Cash, balances due from other banks and derivatives	11 657			7 541		
Other assets	151 132			109 447		
Total assets / interest income	519 851		26 536	189 177		4 270

Liabilities						
Deposits, balances due to banks and derivatives	333 582	6.13%	20 435	72 274	3.40%	2 456
Interest-earning liabilities / interest expense	333 582		20 435	72 274		2 456
Non-interest earning liabilities						
Other liabilities	8 142		-	4 441		-
Total liabilities / interest expense	341 724		20 435	76 7145		2 456

26.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn.

Asset liquidity risk represents the availability of sufficient assets in liquid form to meet pressing obligations. In situations where liquid assets on hand could be utilised to earn a higher return instead of paying current obligations, the opportunity cost also plays a role (i.e. potential higher return less the cost of obtaining replacement liquidity). Liquidity management must attempt to match the most appropriate available liquidity to the most appropriate maturing liabilities.

Funding liquidity risk relates to an enterprise's capability to generate funding at short notice at reasonable expense to meet pressing liquidity requirements.

The Group's liquidity management process is outlined in the liquidity policy which includes, inter alia, the Group's funding strategy. Procedures, as set out in this policy, include the:

- daily monitoring of liquid assets;
- proactive identification of liquidity requirements and maturing assets;
- liquid asset minimum limit;
- proactive identification of short, medium and long-term liquidity requirements; and
- relationship management with other financial institutions.

The table below presents the cash flows payable by the Group by remaining contractual maturities at the date of the statement of financial position.

As at February 2015

	..........Days.........		..............Months...............				.....Years.....		
	1 - 7 Days	8 - 31 Days	>1 to 2	>2 to 3	>3 to 6	>6 to 12	>1 to 5	> 5 years	Total
	N$ '000	N$ '000	N$ '000	N$ '000	N$ '000	N$ '000	N$ '000	N$ '000	N$ '000
Business as usual maturity of liquid assets	255 340	64 241	40 204	74 694	55 291	65 567	43 940	127	599 404
Business as usual maturity of liabilities	334 963	14	27 733	-	6 090	210	120 512	-	489 522
Net funding commitments	**(79 623)**	**64 227**	**12 471**	**74 694**	**49 201**	**65 357**	**(76 572)**	**127**	**109 882**
Cumulative on-balance sheet mismatch	**(79 623)**	**(15 396)**	**(2 925)**	**71 769**	**120 970**	**186 327**	**109 755**	**109 882**	

As at February 2014

	..........Days.........		.............Months...............				.....Years.....		
	1 - 7 Days	8 - 31 Days	>1 to 2	>2 to 3	>3 to 6	>6 to 12	>1 to 5	> 5 years	Total
	N$ '000	N$ '000	N$ '000	N$ '000	N$ '000	N$ '000	N$ '000	N$ '000	N$ '000
Business as usual maturity of liquid assets	101 112	21 910	6 837	335	71 323	8 084	23 197	-	232 798
Business as usual maturity of liabilities	113 369	22 173	-	-	50 015	10	19 994	20 512	226 073
Net funding commitments	**(12 257)**	**(263)**	**6 837**	**335**	**21 308**	**8 074**	**3 203**	**(20 512)**	**6 725**
Cumulative on-balance sheet mismatch	**(12 257)**	**(12 520)**	**(5 683)**	**(5 348)**	**15 960**	**24 034**	**27 237**	**6 725**	

26.4 Fair values of financial assets and liabilities

(a) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date.

(i) Cash and balances with the Bank of Namibia
Due to its short-term nature, the carrying amount approximates the fair value of these financial assets.

(ii) Derivative financial instruments and financial assets designated at fair value through profit or loss.
Financial instruments are measured at fair value using valuation techniques supported by observable market prices or rates.

(iii) Investment securities
For listed investment securities, the fair value is derived by using stock market prices, adjusted for any restrictions on its tradability. Unlisted investments are valued using market prices for similar instruments.

(iv) Due to and from other banks
Amounts due to and from other banks include interbank placements. The fair value of overnight deposits represents its carrying amount.

(v) Loans and advances to customers
The nominal value less impairment provision approximates the fair value.

(vi) Deposits and borrowings
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

(vii) Debt securities in issue
The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. No debt securities were issued in the 2015 financial year (2014: Nil)

(viii) Other deposits
The carrying amount approximates the fair value of these financial liabilities.

(ix) Trade receivables and payables
The nominal values less impairment provision of trade receivables and payables are assumed to approximate their fair value, due to the short-term nature of these assets and liabilities.

(x) Financial instruments not recorded on the statement of financial position The estimated fair values of the financial instruments not recorded on the statement of financial position are based on market prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

(b) Fair value hierarchy
IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflet market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like JIBAR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

The following are the Group's' Assets and liabilities disclosed at fair value:

	Level 1	Level 2	Level 3	Total
2015 Assets				
Financial assets at fair value	263 727 292	-	-	263 727 292
Loans and advances	-	-	142 725 004	142 725 004
	263 727 292	-	142 725 004	**406 452 296**

	Level 1	Level 2	Level 3	Total
2014 Assets				
Financial assets at fair value	58 578 775	-	-	58 578 775
Loans and advances	-	-	17 627 796	17 627 796
	58 578 775	-	**17 627 796**	**76 206 571**

26.4 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the statement of financial position, are to:

- comply with the capital requirements set by the regulators of the banking market where the Group operates;
- safeguard the Group's ability to continue as a going concern so that it can continue to provide returns
  for the shareholders and benefits for other stakeholders; and
- maintain a strong capital base to support the development of its business. The Bank of Namibia requires each Bank to hold the minimum level of the regulatory capital of N$10 million, as well as to maintain the following capital adequacy ratios:

• Tier 1 capital to total assets, as reported in the statutory return, at a minimum of 6%, referred to as leverage capital ratio;
• Tier 1 capital to the risk-weighted assets at a minimum of 7%, referred to as Tier 1 risk-based capital ratio; and
• The total regulatory capital to risk weighted assets at a minimum of 10%, referred to as total risk-based capital ratio.

The Group's regulatory capital is divided into three tiers:

Tier 1 capital

Share capital (net of any book values of treasury shares, if any), non-controlling interest arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital;

Tier 2 capital

Qualifying subordinated loan capital and collective impairment allowances; and

Tier 3 capital

This Includes short-term subordinated debt that may be used only to cover a portion of banking institution's capital charges for market risk.

The Bank of Namibia has adopted a standardised approach to BASEL II, with risk-weighted assets being measured at three different levels, namely operational risk, market risk and credit risk.

	2015 N$	2014 N$
Share capital	100	100
Shareholders' contributions	428 524 866	238 524 866
Accumulated losses	(183 980 335)	(111 625 338)
Tier 1	244 544 631	126 899 628
Tier 2	-	-
Tier 3	-	-
	244 544 631	**126 899 628**
Total Qualifying Capital	244 544 631	126 899 628
Aggregate Risk Weighted Assets	290 655 687	95 195 219
Credit risk	263 695 925	91 925 071
Market risk	-	-
Operational risk	26 959 762	3 270 148
TOTAL RISK-WEIGHTED CAPITAL RATIO	84%	133.3%

During these two years, the Group complied with all of the externally imposed capital requirements to which it is subjected.

In addition to the above minimum capital requirements, the Bank of Namibia requires the Group to perform an Internal Capital Adequacy and Assessment Process (ICAAP) in terms of Pillar II of BASEL II, which has been documented and approved by the board. The process results in:

- The identification of the Group's risk exposures;
- Quantification of risk appetites for the major risks identified; and
- Control measures that mitigate the major risks.

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