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FIRST NATIONAL BANK OF LESOTHO LIMITED

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Contents

BANK INFORMATION 2
DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS 3
AUDIT COMMITTEE REPORT 6
DIRECTORS’ REPORT 10
INDEPENDENT AUDITORS REPORT 14
ACCOUNTING POLICIES 17
STATEMENT OF COMPREHENSIVE INCOME 67
STATEMENT OF FINANCIAL POSITION 68
STATEMENT OF CHANGES IN EQUITY 69
STATEMENT OF CASH FLOWS 70
NOTES TO THE ANNUAL FINANCIAL STATEMENTS 71

BANK INFORMATION

First National Bank of Lesotho Limited
(Registration Number: I2008/729)

Registered address
Star Lion Group Building
Corner Kingsway and Parliament Road
Maseru
100
Lesotho

Postal address
P.O. Box 11902
Maseru
100
Lesotho

Auditors
Moores Rowland Chartered Accountants (Lesotho)

Attorneys
Bosiu Consultants
Du Preez Liebetrau & Co
Shale Chambers

Holding Company
The entity's holding company is FirstRand EMA Holdings Limited, and the ultimate holding company is FirstRand Limited, incorporated in the Republic of South Africa.

DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF FIRST NATIONAL BANK OF LESOTHO LIMITED

The directors of First National Bank of Lesotho Limited (FNBL or the bank) are responsible for the preparation and fair presentation of the annual financial statements comprising the statement of financial position, statement of comprehensive income, changes in equity and cash flows, and the notes to the annual financial statements as at 31 December 2019. These annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including interpretations issued by the IFRS Interpretations Committee and the requirements of the Financial Institutions Act 2012 of Lesotho and the Companies Act of 2011.

In discharging this responsibility, the directors rely on management to prepare the annual financial statements and for keeping adequate accounting records in accordance with the bank's system of internal control. As such, the annual financial statements include amounts based on judgments and estimates made by management.

In preparing the annual financial statements, suitable accounting policies in accordance with IFRS have been applied and reasonable judgements and estimates have been made by management. The financial statements incorporate full and responsible disclosure in line with the bank's philosophy on corporate governance. In the current financial year, the bank adopted IFRS 16 – Leases (IFRS 16). Refer to accounting policy 10 for further detail on the impact of this accounting standard on the bank.

The directors are also responsible for the bank's system of internal control. To enable the directors to meet these responsibilities, the directors set the standards for internal control to reduce the risk of error or loss in a cost-effective manner. The standards include the appropriate delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. The focus of risk management in the bank is on identifying, assessing, managing

and monitoring all known forms of risk across the bank.

Effective risk management requires various points of control. The directors and management are the risk owners, assisted by enterprise risk management and internal audit. Enterprise risk management is responsible for independent oversight and monitoring of controls and reports to the risk, capital and compliance committee, who oversees the bank's risk governance structures and processes. Internal audit provides independent assurance on the adequacy and effectiveness of controls and report to the audit committee.

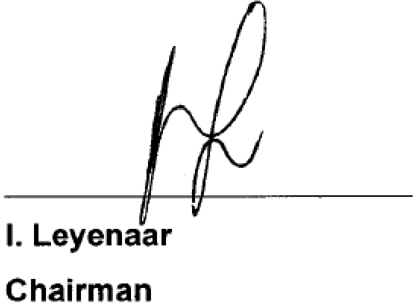
Based on the information and explanations given by management and the internal auditors, nothing has come to the attention of the directors to indicate that the internal controls are inadequate and that the financial records may not be relied on in preparing the annual financial statements and maintaining accountability for the bank's assets and liabilities. Nothing has come to the attention of the directors to indicate any breakdown in the functioning of internal controls, resulting in a material loss to the bank, during the year and up to the date of this report. Based on the effective internal controls implemented by management, the directors are satisfied that the annual financial statements fairly present the state of affairs of the bank at the end of the financial year and the net income and cash flows for the year.

The directors have reviewed the bank's budgets and forecasts and considered the bank's ability to continue as a going concern considering current and anticipated economic conditions. Based on this review, and in the light of the current financial position, the directors are satisfied that the bank has adequate resources to continue in business for the foreseeable future. The going concern basis, therefore, continues to apply and has been adopted in the preparation of the annual financial statements. It is the responsibility of the bank's independent external auditors, Moores Rowland Chartered Accountants (Lesotho), to report on the fair presentation of the financial statements. These financial statements have been audited in terms of section 94 of the Companies Act of 2011.

The independent auditors are responsible for expressing an independent opinion on the fair presentation of these annual financial statements based on their audit of the affairs of the bank in accordance with International Standards on Auditing.

The independent external auditors, Moores Rowland Chartered Accountants (Lesotho) were given unrestricted access to all financial records and related data, including minutes of the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate. Moores Rowland's audit report is presented on pages 14 to 16.

The financial statements were approved by the board of directors on 23 March 2020 and are signed on its behalf by:



I. Leyenaar
Chairman

B. Roper
Chief Executive Officer

AUDIT COMMITTEE REPORT

The audit committee is pleased to present this report for the financial year ended 31 December 2019 in line with the recommendations of the King IV report on corporate governance.

The audit committee is an independent committee appointed by the board of directors and performs its functions on behalf of the board of FNBL.

Terms of reference

The audit committee has adopted formal terms of reference as contained in the committee charter that have been approved by the board of directors. The committee has conducted its affairs in compliance with these terms of reference and has discharged its responsibilities contained therein.

Members and meeting attendance

The audit committee is independent and consists of two independent non-executive directors and two non-executive directors. Meetings are held at least four times per annum, with authority to convene additional meetings as circumstances require.

The chairman of the board, the executive director, external auditors, internal auditors, senior management and other assurance providers attend meetings by invitation only.

Role and responsibilities

The audit committee carried out its functions through the audit committee meetings and discussions with executive management and internal audit function.

The audit committee's role and responsibilities include statutory duties as per the

Financial Institutions Act of 2012, the Companies Act of 2011 and further responsibilities assigned to it by the board. The audit committee has executed its duties in terms of the recommendations of King IV.

The audit committee is satisfied that it has complied with its legal, regulatory and other responsibilities.

External auditor appointment and independence

The audit committee has satisfied itself that the external auditors, Moores Rowland Chartered Accountants (Lesotho), are independent and were able to conduct their audit functions without any influence from the bank. This conclusion was arrived at after taking into account the following:

- The representations made by the auditors to the audit committee;
- The auditors do not, except as external auditors or in rendering permitted non-audit services, receive any remuneration or other benefits from the bank;
- The auditors' independence was not impaired by any consultancy, advisory, or other work undertaken by them;
- The auditors' independence was not prejudiced as a result of any previous appointment as auditor; and
- The criteria specified for independence were met.

The audit committee has carried out their statutory duties, including evaluating the performance of the external auditors, agreeing to the terms of their audit plan, budget and terms of engagement.

The audit committee has ensured that the appointment of the external auditors is in compliance with the Companies Act of 2011.

Financial statements and accounting practices

The audit committee has reviewed the accounting policies and the financial statements of the bank and is satisfied that they are appropriate and comply with International Financial Reporting Standards and the Companies Act of 2011.

Internal financial controls

The audit committee has reviewed the process by which internal audit performs its assessment of the effectiveness of the bank's system of internal controls, including internal financial controls. Nothing has come to the attention of the committee to indicate any material breakdown in the bank's system of internal financial control. The audit committee is satisfied with the effectiveness of the bank's internal financial controls.

Duties assigned by the Board

In addition to the statutory duties of the audit committee, as reported above, the board of directors has determined further functions for the audit committee to perform. These functions include the following:

- Going Concern
  The audit committee has reviewed a documented assessment of the going concern assertion of the bank and budgets for the next three years.
- Governance of risk
  The audit committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting and Information Technology risks as it relates to financial reporting.
- Internal Audit
  The audit committee is responsible for ensuring that the bank's internal audit function is independent and has the necessary resources, standing and authority within the bank to enable it to discharge its duties.

- Evaluation of the expertise and experience of the Chief Financial Officer and the finance function.

The audit committee has satisfied itself that the Chief Financial Officer has appropriate expertise and experience. The audit committee has considered and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function, and experience of the members of management responsible for the financial function.

Signed on behalf of the audit committee;

R. van Staden
Chairman, Audit Committee

23 March 2020

DIRECTORS' REPORT

Nature of business

The activities of FNBL include retail, commercial, corporate and instalment finance.

Share Capital

Details of FNBL share capital are presented in note 18 of the financial statements.

Financial results

Full details of the financial results for the period are set out on pages 17 to 124.

Events subsequent to reporting date

It is envisioned that the Coronavirus (COVID 19) pandemic will most likely have a negative impact in terms of a slowdown in the economy which could have a further negative impact on the Expected Credit Loss (ECL) provisioning with regard to forward looking information. Further, a decline in interest rates could have a negative impact on the profitability of the bank. The bank is, however, not able to produce a reliable estimate of this impact at this point. The directors are not aware of any other material events that have occurred between the date of the statement of financial position and the date of this report.

Dividends

The directors recommend that a dividend not be paid in respect of the period under review.

Corporate governance

The directors of the bank are committed to good corporate governance practices and organisational integrity in the direction, control and stewardship of the bank's affairs.

Board of Directors

		Appointment	Designation
I. Leyenaar	Chairman	November 2016	Independent Non-Executive Director
T. Bohloa	Member	May 2013	Independent Non-Executive Director
P. Molapo	Member	May 2013	Independent Non-Executive Director
G. Usher	Member	March 2016	Non-Executive Director
R. van Staden	Member	April 2018	Non-Executive Director
B. Roper	Member	July 2018	Executive Director

Audit Committee

		Designation
R. van Staden	Chairman	Non-Executive Director
T. Bohloa	Member	Independent Non-Executive Director
P. Molapo	Member	Independent Non-Executive Director
G. Usher	Member	Non-Executive Director

Directors Affairs and Governance Committee

P. Molapo	Chairman
I. Leyenaar	Member
T. Bohloa	Member

Remuneration Committee

T. Bohloa	Chairman
I. Leyenaar	Member

Risk, Capital and Compliance Committee

T. Bohloa	Chairman
I. Leyenaar	Member
P. Molapo	Member
G. Usher	Member
R. van Staden	Member

Senior Credit Risk Committee

P. Molapo	Chairman
T. Bohloa	Member
B. Roper	Member

Changes to directorate are outlined below:

Resignations		**Effective Date**
M. Posholi	Independent Non-Executive Director	10 December 2019
L. Lerotholi-Seeiso	Independent Non-Executive Director	20 August 2019
J. Fowle	Non-Executive Director	31 December 2019

Senior Management

The Senior Management of First National Bank of Lesotho Limited as at the end of the year were as follows:

B. Roper	Chief Executive Officer
M. Lenkoe	Chief Operating Officer
B. Tsvetu	Chief Financial Officer
M. Tsosane	Head of Commercial Corporate Investment Banking
T. Mhlanga	Head of Retail Segment
M. Marakabei	Head of WesBank
R. Roos	Head of Credit
B. Port	Head of Risk
M. Makepe	Head of Internal Audit
D. Leanya	Head of Human Resources
T. Mohami	Acting Head of Legal and Compliance
D. Mokebe	Head of Treasury

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P O Box 1252
Maseru 100
Lesotho

Report of the independent auditors to the shareholders of First National Bank of Lesotho Limited

Opinion

We have audited the accompanying financial statements of First National Bank of Lesotho Limited which comprise the Statement of Financial Position as at 31 December 2019, the Statement of comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the financial statements, including significant accounting policies and other explanatory notes, as set-out on pages 17 to 124.

In our opinion, the financial statements give a true and fair view of the financial position of First National Bank of Lesotho Limited as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Lesotho Companies Act 2011.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described under the "Auditor's responsibilities for the Audit of the financial statements" section of our report. We are independent of the company in accordance with the International Ethics Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and in accordance with other ethical requirements that are relevant to our audit of the financial statements in Lesotho and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report, Directors' responsibility for financial reporting, and the audit committee report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

mrl

Partners : M M Fako, A S McAlpine, M Mofolo

PRAXITY Empowering Business Globally

Moores Rowland (Lesotho), a partnership established under the laws of Lesotho
is an affiliate member of Praxity, AISBL, a global alliance of independent firms.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act 2011, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

• Conclude on the appropriateness of the director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events

or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Moores Rowland (Lesotho)

15 United Nations Road
Maseru
Lesotho
25th March 2020

ACCOUNTING POLICIES

1. Introduction

The bank's annual financial statements have been prepared in accordance with IFRS, the requirements of the Financial Institutions Act 2012 and the Companies Act of 2011 (Companies Act).These financial statements comprise the statement of financial position (also referred to as the balance sheet) as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2019, and the notes, comprising a summary of significant accounting policies and other explanatory notes.

The bank adopts the following significant accounting policies in preparing its financial statements:

Summary of significant accounting policies			
Related party transactions	Related party transactions (Section 3)		
Income, expense and taxation	Income and expenses (Section 4.1)	Income tax expense (Section 4.2)	
Financial Instruments	Classification and measurement (Section 5.1)	Impairment of financial assets (Section 5.2)	Transfers and derecognition (Section 5.3)
	Offset and collateral (Section 5.4)		

Summary of significant accounting policies			
Other assets and liabilities	Classification and measurement Property and equipment (Section 6.1)	Classification and measurement Provisions (Section 6.1)	Leases (Section 6.2)
Capital and reserves	Capital and reserves (Section 7)		
Transactions with employees	Employee benefits (Section 8.1)	Share based payment transactions (Section 8.2)	
Critical judgements	Introduction (Section 9.1)	Taxation (Section 9.2)	Impairment of financial assets (Section 9.3)
	Provisions (Section 9.4)		
Impact of adopting revised accounting standards	Key impact of revised standards on adoption (Section 10)		

These polices have been consistently applied to all years presented. The following new standards were adopted in the current year:

New/ revised IFRS	Description of change	Impact
IFRS 16	IFRS 16 replaces existing leases guidance, including IAS 17 - Leases (IAS 17), IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The bank's date of initial adoption (DIA) was 1 January 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. It requires a lessee to recognise a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.	The bank has adopted the modified retrospective approach with no restatement of prior period information on the date of initial application. Where the bank is the lessee under an operating lease, the following amounts were recognised on the DIA: ➢ A lease liability included in other liabilities measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate for the remaining period of the lease. ➢ A corresponding right-of-use asset included in a new category within property, plant and equipment. ➢ The bank's remaining operating leases fell within the short-term and low value exemption, which resulted in no lease liability or right-of-use asset having to be recognised at DIA. For more details on the bank policy for these assets, please refer to accounting policy note 6.2. The recognition of the lease liability and right-of use asset has impacted the amounts recognised in the bank's income statement from the DIA. Under IAS 17 a straight-

New/ revised IFRS	Description of change	Impact
		lined operating lease charge was recognised in operating expenses. From DIA, the following amounts will be recognised in the income statement under IFRS 16: ➢ interest expense on the lease liability; ➢ depreciation charge on the right-of use assets and will be recognised over the lease term; and ➢ rental charge will be recognised in operating expenses for assets classified as short-term or low-value in terms of the bank's policy. The amended disclosure requirements of IFRS 16 and the updated presentation of operating leases, where the bank is the lessee, will be prospectively applied by the bank. Therefore, all comparative presentation and disclosures relating to operating leases are based on the measurement requirements of IAS 17. The adoption of IFRS 16 did not have an impact on leases where the bank is the lessor. For more detail on the amounts recognised on the DIA, refer to accounting policy note 10 Impact of adopting new standards.

New/ revised IFRS	Description of change	Impact
Annual improvements 2015–2017 cycle	These annual improvements include amendments to: ➢ IFRS 3 - Business Combinations (IFRS 3) and IFRS 11 - Joint Arrangement (IFRS 11): The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. ➢ IAS 12 – Income Taxes (IAS 12): The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises. ➢ IAS 23 – Borrowing costs (IAS 23): The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.	The amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 are not applicable to the bank.

New/ revised IFRS	Description of change	Impact
IFRS 9 - Financial Instruments (IFRS 9) amendments	**Prepayment features with Negative Compensation** The IASB issued a narrow-scope amendment to IFRS 9 to enable companies to measure at amortised cost some prepayable financial assets with negative compensation. The assets affected include some advances and debt securities which would otherwise be measured at FVTPL.	The amendment will be considered when the bank issues instruments with these characteristics. The amendments to IFRS 9 are not applicable to the bank.
IAS 28– Investments in Associates and Joint Ventures (IAS 28)	**Long-term Interests in Associates (Amendments to IAS 28)** The amendments clarify that an entity should apply IFRS 9, including impairment requirements, to long-term interests in associates and joint ventures that in substance form part of the net investment in the associate or joint venture.	The amendments to IAS 28 are not applicable to the bank.
IFRIC 23 - Uncertainty over income tax treatments (IFRIC 23)	**Uncertainty over Income Tax Treatments** This interpretation is to be applied to the determination of taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. When considering that the filing deadlines for tax returns and financial statement may be months apart, IFRIC 23 may require more rigour when finalising the judgements about the amounts to be included in the tax return before the financial statements are finalised.	The bank has always been in compliance with the guidance issued by the IFRIC.

No other new or amended IFRS became effective for the 12 months ended 31 December 2019 that impacted the bank's earnings, financial position or reserves, or the accounting policies.

2. Basis of preparation

Use of judgements and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are outlined in accounting policy note 9.

Presentation of financial statements, function and foreign currency

Presentation	The bank presents its statement of financial position in order of liquidity. Where permitted or required under IFRS, the bank offsets assets and liabilities or income and expenses and presents the net amount in the statement of financial position or in the statement of comprehensive income.
Materiality	IFRS disclosure is only applicable to material items. Management applies judgement and considers both qualitative and quantitative factors in determining materiality applied in preparing these financial statements.
Functional and presentation currency of	Lesotho Maloti (M).

the bank	
Level of rounding	All amounts are presented in thousands of Maloti unless otherwise indicated.
Foreign currency transactions of the bank	Translated into the functional currency using the exchange rates prevailing at the date of the transactions.

3. Related party transactions

Related parties of the bank, as defined, include:

Parent Company	Fellow subsidiaries	Associates of the bank's parent and fellow subsidiaries	Post-employment benefits (pension funds)
Groups that have significant influence over the bank's parent	Key management personnel (KMP)	Close family members of KMP	Entities controlled, jointly controlled or significantly influenced by KMP or their close family members.

The ultimate parent of the bank is FirstRand Limited, incorporated in South Africa. Key management personnel of the bank are the First National Bank of Lesotho Limited board of directors, and the bank's prescribed officers, including any entities which provide key management personnel services to the bank. Their close family members include spouse/domestic partner and children, and any other dependents of the individual or their domestic partner.

4. Income, Expenses and Taxation

4.1. Income and expenses

Net interest revenue recognised in profit or loss

Interest income includes:

- Interest on financial instruments measured at amortised cost.
- Interest income is calculated using the effective interest rate which includes fees and transaction costs that form an integral part of generating an involvement with the resulting financial instrument. The original effective interest rate is applied to:
  - the gross carrying amount of financial assets which are not credit-impaired; and
  - the amortised cost of financial assets which represents the net carrying amount, from the month after the assets become credit-impaired (refer to section 5.2 of the accounting policies).
- Modified advances (derecognition not achieved) – the unamortised portion of origination fees and capitalised transaction costs on financial assets are included as part of interest income. The interest income on the modified financial asset (refer to accounting policy 5.3) is calculated by applying the original effective interest rate to the asset's modified gross carrying amount.
- Modified advances (derecognition is achieved) – the unamortised portion of origination fees and capitalised transaction costs on financial assets are included as part of interest income. New fees or costs charged on the new advance which are integral to the new asset recognised are capitalised to the new loan.

Interest expense includes:

Interest on debt instruments measured at amortised cost.

Non-interest and financial instrument revenue recognised in profit or loss

Net fee and commission income

Under IFRS 15, where a five-step analysis is required to determine the amount and timing of revenue recognition, the bank assesses contracts and determines whether the fees identified in the contract relate to revenue as defined in IFRS 15. The revenue is recognised only if the bank can identify the contract; and the performance obligation (i.e. the different services) and can determine the transaction price which is allocated to the identifiable performance obligations. The revenue is then recognised as and

when the performance obligation is satisfied, which may be over time or at a point in time.	
Fee and commission income	Fees and commissions that form an integral part of the effective interest rate are excluded from fees and commissions from customers and are recognised in net interest revenue. Fee and commission income is earned by the bank by providing customers with a range of services and products, and consists of the following main categories: Banking fee and commission income. • Knowledge-based fee and commission income. • Management, trust and fiduciary fees. • Fee and commission income from service providers. • Other non-banking fee and commission income. Fee and commission income is earned on the execution of a significant performance obligation, which may be over time as the performance obligation is fulfilled (over time) or when the significant performance obligation has been performed (point in time). Fees earned on the execution of a significant act typically include transactional banking fees, such as bank charges, interchange fees, point-of-sale fees, exchange commissions, cash deposit fees and knowledge-based fee and commission income. Where the performance obligation is satisfied over a period of time, the fees are recognised as follows: ➢ fees for services rendered are recognised on an accrual basis as the service is rendered and the bank's performance obligation is satisfied, e.g. annual card fees and related fees; and

	➢ commission income on bills and promissory notes endorsed is credited to profit or loss over the life of the relevant instrument on a time apportionment basis. Commitment fees for unutilised funds made available to customers in the past, are recognised as revenue at the end of the contract period. Commitment fees paid upfront for a future facility, where it is not probable that a specific lending arrangement will be entered into by the bank, are recognised as revenue on a straight-line basis over the period for which the funds are promised to be kept available. Other non-banking fee and commission income relates to fees and commissions earned for rendering services to customers other than those related to the banking. This includes fee and commission income earned from providing services on behalf of third-party service providers, in effect acting as an agent, this includes commission earned at the point when sale has been executed from the sale of prepaid airtime, data vouchers and electricity paid through FNB channels as well as insurance commission.
Fee and commission expense	Fee and commission expenses are expenses that are incremental and directly attributable to the generation of fee and commission income and are recognised as part of fee and commission income. These include transaction and service fees, which are expensed as the services are received.

Other non-interest revenue
The following items are included in other non-interest revenue: ➢ impairments and reversal of impairments of investment securities measured at amortised cost; ➢ Speed point rental income; ➢ Fees due from holding company and fellow subsidiaries; and ➢ Insurance commission.
Expenses
Expenses of the bank, apart from fee and commission expenses included in net fee and commission income, are recognised and measured in terms of the accrual principle and presented as operating expenses in profit or loss.

4.2. Income tax expense

Income tax includes Lesotho and foreign jurisdiction corporate tax payable and where applicable, includes capital gains tax.

Current income tax	
The current income tax expense is calculated by adjusting the net profit for the year for items that are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the reporting date.	
Deferred income tax	
Recognition	On temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.
Typical temporary differences in the bank that deferred tax is provided for	➢ Depreciation of property and equipment; ➢ Provisions; ➢ Impairment losses; and ➢ Tax losses carried forward.
Measurement	Using the liability method under IAS 12 and applying tax rates and laws that have been enacted or substantively enacted at

	the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
Presentation	In profit or loss unless it relates to items recognised directly in equity or other comprehensive income. In the current year, no transactions are recorded in equity or other comprehensive income which would require tax to be presented in these categories.
Deferred tax assets	The bank recognises deferred income tax assets only if it is probable that future taxable income will be available against which the unused tax losses can be utilised, based on management's review of the bank's budget and forecast information. The bank reviews the carrying amount of deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

5. Financial instruments

5.1. Classification and measurement

5.1.1. Initial measurement

All financial instruments are initially measured at fair value including transaction costs, except for those classified as fair value through profit or loss in which case the transaction costs are expensed upfront in profit or loss, usually as part of operating expenses. Any upfront income earned on financial instruments is recognised as is detailed under policy 4.1, depending on the underlying nature of the income.

Immediately after initial recognition, an expected credit loss allowance is recognised for newly originated financial assets measured at amortised cost.

5.1.2. Classification and subsequent measurement of financial assets

Classification and subsequent measurement of financial assets
Management determines the classification of its financial assets at initial recognition, based on: ➢ the bank's business model for managing the financial assets; and ➢ the contractual cash flow characteristics of the financial asset.

Business model
The bank distinguishes three main business models for managing financial assets: ➢ holding financial assets to collect contractual cash flows; ➢ managing financial assets and liabilities on a fair value basis or selling financial assets; and ➢ a mixed business model of collecting contractual cash flows and selling financial assets.

Business model
The business model assessment is not performed on an instrument by instrument basis, but at a level that reflects how financial assets are managed together to achieve a particular business objective. This assessment is done on a portfolio or sub-portfolio level depending on the intricacies of financial assets being assessed. The main consideration in determining the different business models across the bank is whether the objectives of the business model are met primarily through holding the financial assets to collect contractual cash flows, through the sale of these financial assets, by managing assets and liabilities on a fair value basis, or through a combination of these activities. In considering whether the business objective of holding a portfolio of financial assets is achieved primarily through collecting contractual cash flows, amongst other considerations, management monitors the frequency and significance of sales of financial assets out of these portfolios for purposes other than managing credit risk. For the purposes of performing the business model assessment, the bank only considers a transaction a sale if the asset is derecognised for accounting purposes. For example, a repo transaction where a financial asset is sold with the commitment to buy back the asset at a fixed price at a future date is not considered a sale transaction as substantially all the risks and rewards relating to the ownership of the asset have not been transferred and the asset is not derecognised from an accounting perspective. If sales of financial assets are not infrequent, the significance of these sales are considered by comparing the carrying amount of assets sold during the period and cumulatively to the total carrying amount of assets held in the business model. If sales are either infrequent or insignificant, these sales will not impact the conclusion that the business model for holding financial assets is to collect contractual cash flows. Determining whether sales are significant or frequent requires management to use their

Business model
judgement. The significance and frequency of sales is assessed on a case-by-case basis at the business model level. The frequency is assessed on an annual basis and sales of assets that take place once or less per annum is considered to be infrequent. If sales take place more than once per annum it doesn't mean that the business models are not to collect contractual cash flows but rather the reasons for the sales need to be more carefully considered. Management will consider both the volume and amount of sales relative to the total assets in the business model to determine whether it is significant. A change in business model of the bank only occurs on the rare occasion when the bank genuinely changes the way in which it manages a financial asset. Any changes in business model would result in a reclassification of the relevant financial assets from the start of the next reporting period.

Cash flow characteristics
In order for a debt instrument to be measured at amortised cost or fair value through other comprehensive income, the cash flows on the asset have to be solely payments of principal and interest (SPPI), i.e. consistent with those of a basic lending agreement. The SPPI test is applied on a portfolio basis for retail advances, as the cash flow characteristics of these assets are standardised. This includes the consideration of any prepayment penalties that are limited by consumer credit regulation and can therefore be considered reasonable compensation which would not cause these assets to fail the SPPI test. For Business advances, the SPPI test is applied to individual advances at initial recognition, based on the cash flow characteristics of the asset. Business advances that do not pass the SPPI test and that must be measured at fair value through profit or loss include advances with equity participation features, convertible bonds and

Cash flow characteristics
payments linked to commodity or other prices. If the contract contains prepayment penalties, the amount of the prepayment penalty is compared to the present value of the margin that will be earned if the loan is not prepaid. If the amount of the prepayment penalty is lower than or equal to the margin lost due to prepayment, this is considered reasonable compensation and the loan passes the SPPI test.

Classes of financial assets	Business model considerations	Cash flow characteristics
Amortised cost		
Financial assets are measured at amortised cost using the effective interest method when they are held to collect contractual cash flows which are solely payments of principle and interest, and sales of such assets are not significant or frequent. The majority of these are overdrafts, term loans, instalment sales, property finance and personal loans as well as certain investment securities utilised for liquidity risk management of the bank. For purchased or originated credit-impaired financial assets, the bank applies the credit-adjusted effective interest rate. This interest rate is determined based on the amortised cost and not the gross carrying amount of the financial asset and incorporates the impact of expected credit losses in the estimated future cash flows of the financial asset.		
Retail advances	The bank holds retail advances to collect contractual cash flows. Their business models focus on growing these advances within acceptable credit appetite limits and maintaining strong collection practices. The products included under this business models include:	The cash flows on retail advances are solely payments of principal and interest. Interest charged to customers compensates the bank for the time value of money, credit risk and administrative costs (including a profit margin).

	➢ Property finance (Home loans); ➢ Instalment sales (vehicle and asset finance); ➢ Personal loans and other retail products such as overdrafts. The key risk in these business models is credit risk. This is influenced by the macro environment within which the business operates.	Penalties on the prepayment of advances are limited to reasonable compensation for early termination of the contract.
Business and Corporate advances	The business models of the bank are focused on collecting contractual cash flows on advances and growing these advances within acceptable credit appetite limits. The products included under this business model include: ➢ Term loans (trade and working capital finance, specialised finance, and asset-backed finance.) ➢ Commercial property finance; and ➢ Overdrafts.	The cash flows on these business and corporate advances are solely payments of principal and interest. Interest charged to customers compensates the bank for the time value of money, credit risk and administrative costs (including a profit margin). Penalties on the prepayment of advances are limited to reasonable compensation for early termination of the contract.

	These advances are held primarily to realise the related contractual cash flows over the life of the instruments and earn a lending margin in return.	
Investment securities	The bank holds investment securities with lower credit risk (typically with counterparties such as the government) that are convertible into cash within a short time period as and when required for liquidity risk management purposes. The types of instruments used for liquidity risk management purposes are generally government bonds and treasury bills. These investment securities are held to collect contractual cash flows but are also available to be pledged as collateral or sold if required for liquidity management purposes. Sales are often in the form of a repurchase agreement transaction. If the accounting requirements for derecognition	The cash flows on these investment securities are solely payments of principal and interest.

	are not met, the transaction does not constitute a sale for IFRS 9 business model assessment purposes. For accounting purposes, repurchase agreement transactions are treated as a secured funding transaction rather than a sale, and the bank continues to recognise the asset and collect the contractual cash flows. These investment securities are only sold before maturity to meet liquidity needs in a stress scenario, which is consistent with a business model to collect contractual cash flows.	
Cash and cash equivalents	Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. These assets are held to collect contractual cash flows.	The cash flows on these assets are solely payments of principal and interest.
Accounts receivable	Financial accounts receivable are short- term financial assets which include intercompany accounts that are held to collect contractual cash flows.	The cash flows on these assets are solely payments of principal and interest.

5.1.3. Classification and subsequent measurement of financial liabilities and compound instruments

Financial liabilities and compound financial instruments
The bank classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Tier 2 instruments which have write down or conversion features are classified based on the nature of the instrument and the definitions. Tier 2 and other funding liabilities are presented in separate lines on the statement of financial position of the bank. Compound instruments are those financial instruments that have components of both financial liabilities and equity such as issued convertible bonds. At initial recognition, the instrument and the related transaction costs are split into their separate components and accounted for as a financial liability or equity in terms of the definitions and criteria of IAS 32.

Financial liabilities measured at amortised cost
The following liabilities are measured at amortised cost using the effective interest rate method, unless they have been designated as measured at fair value through profit or loss: ➢ Deposits; ➢ Creditors; and ➢ Tier 2 liabilities (Constitutes a Subordinated Loan issued by the FirstRand Group).

5.2. Impairment of financial assets and off-balance sheet exposures subject to impairment

This policy applies to:

- financial assets measured at amortised cost including financial accounts receivable and cash;
- loan commitments; and
- financial guarantees

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

- Stage 1 - at initial recognition of a financial asset, the asset is classified as stage 1 and 12-month expected credit losses are recognised, which are credit losses related to default events expected to occur within the next 12 months;
- Stage 2 - if the asset has experienced a significant increase in credit risk since initial recognition, the asset is classified as stage 2 and lifetime expected credit losses are recognised; and
- Stage 3 - non-performing assets are classified as stage 3, with expected credit losses measured and recognised on a lifetime basis.

Expected credit losses
Expected credit losses are calculated by multiplying the exposure at default (EAD) of a financial asset by the probability of default (PD) and the loss given default (LGD) of the asset and by discounting this figure to the reporting date using the original effective interest rate. Impairment losses are recognised in profit or loss. In the section below, the term financial asset also refers to loan commitments and financial guarantees, unless stated otherwise.

Loss allowed on financial assets			
Credit risk has not increased significantly since initial recognition. (Stage 1)	Credit risk has increased significantly (SICR) since initial recognition, but asset is not credit-impaired. (Stage 2)	Asset has become credit-impaired since initial recognition. (Stage 3)	Purchased or originated credit impaired.
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Movement in lifetime expected credit losses from initial recognition

Advances	
Significant increase in credit risk since initial recognition (SICR)	In order to determine whether an advance has experienced a SICR, the PD of the asset calculated at the origination date is compared to that calculated at the reporting date. The origination date is defined to be the most recent date at which the bank had an opportunity to price or re-price the advance based on the outcome of either the original or an up-to-date risk assessment. SICR test thresholds are re-assessed and, if necessary, updated, on at least an annual basis. Any facility that is more than 30 days past due, or in the case of instalment-based products one instalment past due, is automatically considered to have experienced a significant increase in credit risk.

Advances	
	In addition to the quantitative assessment based on PDs, qualitative considerations are applied when determining whether individual exposures have experienced a significant increase in credit risk. One such qualitative consideration is the appearance of business & corporate facilities on a credit watch list. Any up-to-date facility that has undergone a distressed restructure (i.e. a modification of contractual cash flows to prevent a client from going into arrears) will be considered to have experienced a significant increase in credit risk. The SICR test is performed on a monthly basis, as part of the monthly impairment calculation process. The credit risk on an exposure is no longer considered to be significantly higher than at origination if no qualitative indicators of a significant increase in credit risk are triggered, and if comparison of the reporting date PD to the origination date PD no longer indicates that a significant increase in credit risk has occurred. No minimum period for transition from Stage 2 back to Stage 1 is applied, except for distressed restructured exposures that are advised to remain in Stage 2 for a minimum period of 6 months before re-entering Stage 1 as per best practice.
Low credit risk	Financial assets with low credit risk are assumed not to have experienced a significant increase in credit risk since initial recognition. The bank does not use the low credit risk assumption.

Advances	
Credit-impaired financial assets	Advances are considered credit impaired if they meet the definition of default. The bank's definition of default applied for calculating provisions under IFRS 9 has been aligned to the definition applied for regulatory capital calculations across all portfolios, as well as those applied in operational management of credit and for internal risk management purposes. Exposures are considered to be in default when they are more than 90 days past due or, in the case of amortising products, more than 3 unpaid instalments. In addition, an exposure is considered to have defaulted when there are qualitative indicators that the borrower is unlikely to pay their credit obligations in full without any recourse by the bank to actions such as the realisation of security. Indicators of unlikeliness to pay are determined which include application for bankruptcy or obligor insolvency. Any distressed restructures of accounts which have experienced a significant increase in credit risk since initial recognition are defined as default events. Accounts are considered to no longer be in default if they meet the stringent cure definition, which has been determined at portfolio level based on analysis of re- defined rates.
Purchased or originated credit-impaired	Financial assets that meet the abovementioned definition of credit-impaired at initial recognition.
Write-offs and post-	Write-off must occur when it is not economical to pursue further

Advances	
write-off recoveries	recoveries i.e. there is no reasonable expectation of recovering the carrying amount of the asset (gross amount less specific impairments raised). ➢ by implication, in both retail and business, for secured as well as unsecured, write-offs cannot occur if there is evidence of recent payment behaviour. Each credit portfolio has articulated a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account; and ➢ within retail portfolios, write-off definitions have been determined with reference to analysis of the materiality of post write-off recoveries; and ➢ within business portfolios, a judgmental approach to write-off is followed, based on case-by-case assessment by a credit committee. Partial write-offs are not performed within credit portfolios. Where required, additional provisions against irrecoverable assets will be raised until such a time as final write-off can occur. The requirements of the Central Bank of Lesotho as stipulated in the FIA of 2012 is to write-off all assets which remain non-performing for more 12 months. Subsequent recoveries of amounts previously written off decrease the amount of the impairment of advances in profit or loss.

Other financial assets	
Cash and cash equivalents	All physical cash is classified as Stage 1. Other exposures are classified as Stage 1 unless specific evidence of impairment exists, in which case these assets are classified as Stage 3. ECL for physical cash is zero. ECL for other assets is calculated using the loss rate approach.
Accounts receivable	Up-to-date receivables are classified as Stage 1. Those that are in arrears but not in default are classified as Stage 2. Any accounts receivable in default are classified as Stage 3. ECL for accounts receivable is calculated using the loss rate approach.
Investment securities	Impairment parameters for investment securities (PDs, LGDs and EADs) are determined using appropriate models, with the models to be applied determined with reference to the issuer of the security and the nature of the debt instrument. The tests for a significant increase in credit risk and default definitions are then applied and the ECL calculated in the same way as for advances. The significant increase in credit risk thresholds applied for investment securities are the same as those applied within the business credit portfolio to ensure consistency in the way that a significant increase in credit risk is identified for a particular counterparty and for similar exposures. The bank does not use the low credit risk assumption for investment securities, including government bonds.
Intercompany balances	Expected credit losses are calculated using PD, LGD and EAD parameters that are determined through

Other financial assets	
	application of expert credit judgement and approved through appropriate governance structures. All intercompany balances are classified as Stage 1, unless there is evidence of impairment, in which case exposures are moved directly to Stage 3.

5.3. Transfers and derecognition

Financial instruments are derecognised when:

- the contractual rights or obligations expire or are extinguished, discharged or cancelled, for example an outright sale or settlement;
- they are transferred and the derecognition criteria of IFRS 9 are met; or
- the contractual terms of the instrument are substantially modified and the derecognition criteria of IFRS 9 are met.

Financial assets are transferred when the bank has either transferred the contractual right to receive cash flows from the asset or it has assumed an obligation to pay over all the cash flows from the asset to another entity (i.e. pass through arrangement under IFRS 9).

If the contractual cash flows of a financial asset measured at amortised cost are modified (changed or restructured, including distressed restructures), the bank determines whether this is a substantial modification, following which, results in the derecognition of the existing asset, and the recognition of a new asset, or whether the change is simply a non-substantial modification of the existing terms which does not result in derecognition. A modification of a financial asset is substantial, and thus results in derecognition of the original financial asset, where the modified contractual terms are priced to reflect current conditions on the date of modification and are not merely an attempt to recover outstanding amounts. Where the modification does not result in an accounting

derecognition the original asset continues to be recognised.

Derecognition of financial liabilities includes when there is a substantial modification to the terms and conditions of an existing financial liability. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability.

The following transactions are entered into by the bank in the normal course of business in terms of which it transfers financial assets directly to third parties or structured entities or modifies the contractual terms of the asset and either achieves derecognition or continues to recognise the asset.

Transaction type	Description	Accounting treatment
Transfers without derecognition		
Repurchase agreements	Investment securities and advances are sold to an external counterparty in exchange for cash and the bank agrees to repurchase the assets at a specified price at a specified future date. The counterparty's only recourse is to the transferred investment securities and advances that are subject to the repurchase agreement. The bank remains exposed to all the underlying risks to the assets including	The underlying securities purchased under agreements to resell (reverse repos) are not recognised on the statement of financial position. The bank does not recognise securities borrowed in the financial statements, unless these have been on sold to third parties, in which case the obligation to return these securities is recognised as

Transaction type	Description	Accounting treatment
	counterparty, interest rate, currency, prepayment and other price risks.	a financial liability measured at amortised cost or fair value.
Modification without derecognition		
Modification of contractual cash flows	Modified contractual terms are not priced to reflect current conditions and are thus not substantial. For retail advances, this includes debt restructuring accounts where the new terms of the contract (such as a lower interest rate) is mandated by law and do not have the same commercial terms as a new product that the bank would be willing to offer a customer with a similar risk profile. The same principle is applied for wholesale advances on a case-by-case basis.	Existing asset is not derecognised. The gross carrying amount of the financial asset is recalculated as the present value of the estimated future cash receipts through the expected life of the renegotiated or modified financial asset, discounted at the financial asset's original effective interest rate. The gain or loss on modification is recognised in profit or loss as part of impairment of advances.

Modifications with derecognition (i.e. substantial modifications)		
Retail advances	The process for modifying a non-distressed advance is substantially the same as the process for raising a new advance, including re-assessing the customer's credit risk, repricing the asset and entering into a new legal agreement.	Existing asset is derecognised and a new asset is recognised at fair value based on the modified contractual terms.

5.4. Offsetting of financial instruments and collateral arrangements

Where the requirements of IFRS are met, the bank offsets financial assets and financial liabilities and presents the net amount. Financial assets and financial liabilities subject to master netting arrangements (MNA) or similar agreements are not offset, if the right of set-off under these agreements is only enforceable in the event of default, insolvency and bankruptcy.

The advances and deposits that are offset relate to transactions where the bank has a legally enforceable right to offset the amounts and the bank has the intention to settle the net amount.

It is the bank's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a transaction, through engagement of external valuators vetted by the bank. For business and corporate portfolios, the value of collateral is reviewed after every 3 years under normal circumstances whereas mortgage portfolios, collateral valuations are updated when re-finance is requested by the client. However, in the event of default, more detailed reviews and valuations of collateral are performed, which yields a more accurate financial effect. For asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed at the date of

repossession.

6. Other assets and liabilities

6.1. Classification and measurement

Classification	Measurement
Property and equipment	
Property and equipment of the bank includes: ➢ assets utilised by the bank in the normal course of operations to provide services including freehold property and leasehold premises and leasehold improvements (owner occupied properties); ➢ assets which are owned by the bank and leased to third parties under operating leases as part of the bank's revenue generating operations; ➢ Right-of-use-assets; and ➢ other assets utilised in the normal course of operations including computer and office equipment, motor vehicles and furniture and fittings.	Historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated. Depreciation is over the useful life of the asset, except for right-of-use-assets capitalised under leases where the bank is the lessee; in which case, it is depreciated over the shorter period of the life of the lease and its useful life (refer to accounting policy 6.2). Freehold property and property held under leasing agreements: • Property – Leasehold premises 50 years • Office equipment 20 years • Sundries 3-5 years • Computer equipment 3-5 years • Other equipment 3-10 years • Right-of-use-asset 3 – 5 years

Provisions
The bank will only recognise a provision measured in terms of IAS 37 when there is uncertainty around the amount or timing of payment. Where there is no uncertainty the bank will recognise the amount as a creditor or accrual. The bank usually recognises provisions related to litigation and claims.

Other assets that are subject to depreciation are reviewed for impairment whenever objective evidence of impairment exists. Impairment losses are recognised in profit or loss as part of operating expenses.

Other assets are derecognised when they are disposed of. Gains or losses arising on derecognition are determined as the difference between the carrying amount of the asset and the net proceeds received and are recorded in profit or loss as part of non-interest revenue.

6.2. Leases – IFRS 16

The bank leases a variety of properties and equipment. Rental agreements typically include fixed periods over which the item is leased, which are individually negotiated and contain a wide range of different terms and conditions. The bank assesses whether a contract is or contains a lease at inception of a contract.

Qualifying leases are recognised as a right-of-use-asset (ROUA) and a corresponding liability at the date at which the leased asset is made available for use by the bank.

Bank is the lessee		**Bank is the lessor**
Inception	The bank recognises a ROUA and a corresponding lease liability with respect to all	Where the bank is the lessor under a finance lease, the bank recognises assets sold under a finance lease as advances and impair the advances, as

Bank is the lessee		Bank is the lessor
	lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as lease assets with a replacement value of M100 000 or less at the inception of the lease). The lease liability is initially measured at the present value of the lease payments outstanding at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the bank uses its own incremental borrowing rate. The ROUA's are measured at cost comprising of the amount of the initial measurement of the lease liability plus	required, in line with the impairment of financial assets accounting policy in section 5.2. No practical expedients are applied, and fully compliant IFRS 9 models are used for impairment calculation on advances.

Bank is the lessee		Bank is the lessor
	any initial direct costs and restoration costs. Where applicable, any lease payments made at or before the commencement date less any lease incentives received is deducted from the cost. Post initial recognition, ROUA's are treated in line with other property and equipment.	
Over life of the lease	Each lease payment is allocated between the lease liability and interest expense. The interest expense is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The ROUA is subsequently measured at cost less accumulated depreciation and	Where the bank is the lessor under a finance lease, unearned finance income is recognised as interest income over the term of the lease using the effective interest method. Finance lease debtors are assessed for impairment in terms of IFRS 9, as set out in the impairment of financial assets policy section 5.2.

	Bank is the lessee	Bank is the lessor
	impairment losses. The asset is depreciated over the lease term on a straight-line basis, where ownership is not transferred at the end of the lease term. If ownership is transferred at the end of the lease term, the asset is depreciated over the shorter of the lease term or useful life. The bank applies IAS 36 to determine whether a ROUA is impaired and accounts for any identified impairment loss.	
Presentation	The lease liability is presented in other liabilities in the consolidated statement of financial position. The ROUA's are not presented as a separate line in the consolidated	Finance lease receivables are presented as part advances in in the consolidated statement of financial position.

Bank is the lessee		Bank is the lessor
	statement of financial position, but rather disclosed as ROUA in the property, plant and equipment note.	
Operating leases – bank is the lessee	The bank does not have operating leases where the bank is the lessor. For short-term and low value leases, which the bank has defined as all other leases except for property and vehicles leases, the lease payments are recognised as operating expense, spread on a straight-line basis over the term of the lease.	
Instalment credit sale agreements where the bank is the lessor	The bank regards instalment credit sale agreements as financing transactions and includes the total rentals and instalments receivable, less unearned finance charges, in advances. The bank calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to interest revenue in proportion to capital balances outstanding.	

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the ROUA. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line operating expenses in the consolidated income statement.

Contracts were the bank is the lessee (IAS 17)

The bank classifies leases of property and equipment where it assumes substantially all the risks and rewards of ownership as finance leases. The bank classifies as operating leases if the lessor effectively retains the risks and rewards of ownership of the leased asset.

7. Capital and reserves

Ordinary shares are recognised as equity. These instruments do not obligate the bank to make payments to investors. Any incremental costs directly related to the issue of new shares or options, net of any related tax benefit, are deducted from the issue price.

Dividends on ordinary shares are recognised against equity. A corresponding liability is recognised when the dividends have been approved by the company's shareholders and distribution is no longer at the discretion of the entity.

Other reserves recognised by the bank relate to the general risk reserve which is used as part of the general debt provision as required by the Financial Institutions Act 2012.

8. Transactions with employees

8.1. Employee benefits

The bank operates a defined contribution scheme, the assets of which are held in separate trustee administered funds. Membership of the pension fund is compulsory for all bank employees.

<table>
<tr><th colspan="2">Defined contribution plans</th></tr>
<tr><td colspan="2">Contributions are recognised as an expense, included in staff costs, when the employees have rendered the service entitling them to the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.</td></tr>
<tr><th colspan="2">Termination benefits</th></tr>
<tr><td colspan="2">The bank recognises termination benefits as a liability in the statement of financial position and as an expense, included in staff costs, in profit or loss when it has a present obligation relating to termination. The bank has a present obligation at the earlier of when the bank can no longer withdraw the offer of the termination benefit or when the bank recognises any related restructuring costs.</td></tr>
<tr><th colspan="2">Liability for short term employee benefits</th></tr>
<tr><td>Leave pay</td><td>The bank recognises a liability for the employees' rights to annual leave in respect of past service. The amount recognised by the bank is based on the current salary of employees and the contractual terms between the employee and the bank. The expense is included in staff costs.</td></tr>
<tr><td>Bonuses</td><td>The bank recognises a liability and an expense for management and staff bonuses when it is probable that the economic benefits will be paid, and the amount can be reliably measured. The expense is included in staff costs.</td></tr>
</table>

8.2. Share-based payment transactions

The bank operates cash settled share-based compensation plans for employees.

Options granted prior to 2018 under cash settled plans result in a liability being recognised and measured at fair value until settlement. Offerings subsequently made have been hedged with RMB Morgan Stanley for which a lumpsum payment is made on assumption of liability and amortised over the vesting term. An expense is recognised in profit or loss for employee services received over the vesting period of the plans.

9. Critical accounting estimates, assumptions and judgements

9.1. Introduction

In preparing the financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements 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. Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior year. Included below are all the critical accounting estimates, assumptions and judgements made by the bank.

9.2. Taxation

The bank is subject to direct tax in Lesotho. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. In determining whether an interpretation and/or application of the various tax rules may result in a dispute of which the outcome may not be favorable to the bank, the bank seeks, where relevant, expert advice to determine whether the unfavorable outcome is probable or possible. Where payment is determined to be possible but not probable the tax exposure is disclosed as a contingent liability. The bank

recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, the difference will impact the income tax and deferred income tax provisions in the period in which such determination is made.

9.3. Financial instruments

Impairment of financial assets

In determining whether an impairment loss should be recognised, the bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

The objective of the measurement of an impairment loss is to produce a quantitative measure of the bank's credit risk exposure.

The bank adopted the PD/LGD approach for the calculation of ECL for advances. The ECL is based on an average of three macroeconomic scenarios incorporating a base scenario, upside scenario and downside scenario, weighted by the probability of occurrence.

Regression modelling techniques are used to determine which borrower and transaction characteristics are predictive of certain behaviours, based on relationships observed in historical data related to the group of accounts to which the model will be applied. This results in the production of models that are used to predict impairment parameters (PD, LGD and EAD) based on the predictive characteristics identified through the regression process.

Forward looking information

Forward-looking macroeconomic information has been incorporated into expected loss estimates through the application of quantitative modelling and expert-judgement-based adjustments. The quantitative techniques applied estimate the impact of forecasted macroeconomic factors on expected credit losses using regression techniques.

The macroeconomic scenarios are defined by taking global and domestic macroeconomic considerations into account, and forecasts are developed for baseline, downside, upside and stress scenarios. The baseline, downside and upside scenarios are used in the ECL calculations. These scenarios are overseen by the bank's macro forum, which is responsible for oversight and is independent from credit and modelling functions.

To arrive at the macroeconomic forecasts, a bottom-up and top-down process is followed. The bottom-up process is conducted by teams of economists both locally and within the bank's holding company. These economists assess micro and macroeconomic developments to formulate (bottom-up) and adjust (top-down) the macroeconomic forecasts. A number of internal and external economists are then requested to assign a probability to each scenario. The rationale for probabilities assigned by each respondent are noted and explained.

ECL results are calculated as probability-weighted average results across multiple macroeconomic scenarios. The creation of macroeconomic scenarios and the determination of associated probabilities are subjective, with final ECL results dependent on the assumptions applied during the process.

The following scenarios were applied at 31 December 2019

Baseline regime	Assumes: • The commencement of the larger scale infrastructure works for the construction of the Pohali dam in 2021 and/or • The resilience in the financial and insurance sector is expected to continue throughout the forecast period due to adequate liquidity levels and sufficient capital buffers; • several higher-grade diamonds continue to be discovered; and/or a more favourable global environment stimulates export prospects and commodity prices; and • the clearing of government arrears to the private sector could create scope for increased support to the construction sector.
Upside regime	Assumes: • higher than expected Southern Africa Customs Union (SACU) revenues due to structural reform in South Africa that places less pressure on Lesotho's fiscus; and/or • International Monetary Fund (IMF) and government work together to successfully reform the public wage bill, implement SADC reforms and ensure African Growth and Opportunity Act (AGOA) eligibility; • and/or several higher-grade diamonds continue to be discovered; and/or a more favourable global environment stimulates export prospects and commodity prices; • and/or Implementation of growth enhancing reforms in the agricultural and manufacturing sectors; and/or

	• exchange rate strengthens lowering the price of import sensitive components; and/or • good rains lead to a bumper crop, and/or • increase in textile and diamond exports due to favourable global conditions; and/or, • the clearing of government arrears to the private sector could create scope for increased support to the construction sector.
Downside regime	Assumes: • Government fails in its efforts to work with the IMF to reforming the public wage bill, implement SADC reforms and ensure AGOA eligibility; and/or • The rand spikes, inflation jumps and the South African Reserve Bank hikes rates; and/or • South African growth falls due to higher inflation and higher debt service cost as well as lower business investment; and/or • South African government finances deteriorate substantially as a result of the above; and/or • Political uncertainty results in the collapse of the coalition government, undermining policy implementation; and/or • The Lesotho Highlands Water Project is delayed; and/or • Low wage growth, high unemployment, and high levels of household indebtedness keep private consumption and credit extension at relatively low levels.

The macro forum currently assigns a 58% probability to the baseline macroeconomic regime. The probability of the downside regime has increased by 4% while the probability of the upside regime has decreased by 3%.

Significant macroeconomic factors

The table below sets out the most significant macroeconomic factors used to estimate the FLI on the ECL provisions.

	Upside scenario	Baseline expectation	Downside scenario
Real GDP growth (%)	2.50	1.30	1.30
CPI Inflation (%)	5.00	5.30	5.70
Policy interest rate (%)	5.75	6.25	8.50
Foreign exchange rate	12.02	14.87	16.20

The following table reflects the impact on the IFRS 9 impairment provisions on advances, if the probability weighting assigned to each of the scenarios were increased to 100%.

	M'000	% change on total IFRS 9 provision
IFRS 9 impairment provision at 31 December 2019	66 184	
Scenarios		
Baseline	75 173	14%
Upside	65 573	(20%)
Downside	78 353	7%

	M'000	% change on total IFRS 9 provision
IFRS 9 impairment provision at 31 December 2019	66 184	
Scenarios		
Baseline	75 173	14%
Upside	65 573	(20%)
Downside	78 353	7%

In addition to forward-looking macroeconomic information, other types of forward-looking information, such as specific event risk, is taken into account in ECL estimates when required. Furthermore, where there is uncertainty in respect of the respective models' ability to address specific trends or conditions due to inherent limitations of modelling based on past performance, the timing of model updates and macro-economic events, additional provisions via post model adjustments are made.

9.4. Provisions

Provisions for litigations
The bank has a policy and process in place to determine when to recognise provisions for potential litigation and claims. The recognition of such provisions is linked to the ranking of legal risk of potential litigation on the bank's litigation database.

10. Impact of new accounting standards

IFRS 16

The bank adopted IFRS 16 during the current period. As set out in Accounting policy note 1, comparative information has not been restated as the bank elected to apply the modified retrospective approach on the DIA being 1 January 2019.

On the DIA, a lease liability, measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at DIA was recognised. The bank elected to measure the ROUA at a value equal to the lease liability as calculated at the DIA, adjusted for any lease prepayments that were made as well as any operating lease smoothing liabilities that were raised under IAS 17.

The table below reconciles the operating lease commitments recognised under IAS 17 to the lease liabilities recognised on balance sheet as at 1 January 2019:

Row	Note	Amount
Operating lease commitments disclosed as at 31 December 2018 under IAS 17	20	**26 033**
Less: short term leases		(5 490)
Less: low-value leases		(1 632)
Total qualifying operating leases subject to IFRS 16		**18 911**
Less: Discounted using the bank's incremental borrowing rate		(1 277)
Additional lease liability recognised as at 1 January 2019.		**17 634**

The adoption of IFRS 16 had no impact on the amount of deferred tax recognised. There has however been a reclassification of the deferred tax recognised under IAS 17 and IFRS 16. Previously the deferred tax was recognised under the category “deferred revenue” and has now been reallocated to “other”.

Notes

Note	Adjustment	Description of the bank’s policy
1	Operating lease commitments under IAS 17	The bank applied the practical expedient in IFRS 16 C3 and did not reassess the definition of a lease on its current lease contracts but applied the requirements of IFRS 16 to all leases recognised as operating leases previously under IAS 17.
2	Short term leases	IFRS 16 provides an exemption for leases that are short-term in nature. The exemption allows a lessee to not recognise a ROUA or lease liability. The exemption is applied per class of leases (i.e. leases of property, leases of vehicles, etc.). The bank applied this exemption to all classes of leases at DIA and for new leases entered into after the DIA that meets the definition. The bank defines short term leases as any lease that has a lease term of 12 months or less and where the terms of the lease contain: • no extension periods that the bank will reasonably exercise which would result in the lease term being longer than 12 months; and • no purchase option in the lease contract.
3	Low-value leases	IFRS 16 provides an exemption for leases of assets that are low-value in nature. The exemption allows

Note	Adjustment	Description of the bank's policy
		a lessee to not recognise a ROUA or lease liability. The exemption is applied on an asset-by-asset basis and is at the election of the lessee. This exemption has been applied to all classes of leases, excluding property, at DIA and to new leases entered into after the DIA. The bank policy defines a low value lease as leased assets with a replacement value of M100 000 or less at the inception of the lease. The M100 000 threshold is based on the price of a new asset regardless of the age of the underlying asset being leased.
4	Variable rate leases	Under IAS 17, certain variable lease payments where included in the amount of operating lease commitments disclosed in the annual financial statements. Under IFRS 16 variable lease payments are not capitalised and are expensed. The bank does not have any variable leases for the current period.
5	Extension and termination options	The bank's policy is to include extension and termination options for certain property leases where there is a reasonably certain expectation asserted that the lease will be renewed and as such the value of these extension and termination options are taken into consideration in the determination of the lease liability. In assessing whether it is reasonably certain that the option will be exercised, past practices observed for

Note	Adjustment	Description of the bank's policy
		similar types of leases and the economic reasons for electing those options are used to conclude whether it is reasonably certain that the option will be exercised or not. The bank does not have any extension and termination option leases for the current period.
6	Discounting using the bank's incremental borrowing rate	IFRS 16 requires that the lease payments are discounted. The discounted amount is calculated using the incremental borrowing rate at DIA. The bank used the practical expedient in IFRS 16 that allows the use of a single discount rate to a portfolio of leases with reasonably similar characteristics. The incremental borrowing rate used was 6.75%. The range is indicative of: • Duration of the lease; and • Credit risk of the bank.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

M'000	Notes	**31 December 2019**	31 December 2018
Interest and similar income*	1.1	**248 407**	202 108
Interest expense and similar charges**	1.2	**(80 638)**	(58 257)
Net interest income before impairment of advances		**167 769**	143 851
Impairment of advances	9	**(10 244)**	(40 283)
Net interest income after impairments of advances		**157 525**	103 568
Non-interest revenue	2	**140 341**	151 452
Income from operations		**297 866**	255 020
Operating expenses**	3	**(258 033)**	(244 972)
Profit before income tax		**39 833**	10 048
Income tax expense	4	(10 928)	(3 858)
Profit and total comprehensive income for the year		**28 905**	6 190

**All interest income relates to interest calculated using the effective interest rate method.*
***The bank has elected not to restate comparative information, as permitted by IFRS 16. Comparability will not be achieved as comparative information is prepared on an IAS 17 basis. Refer to accounting policy note 10 for more details.*

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

M' 000	Notes	**31 December 2019**	31 December 2018
ASSETS			
Cash and cash equivalents	6	**397 137**	264 534
Investments securities and other investments	7	**1 137 646**	423 668
Advances	8	**751 661**	806 510
Accounts receivable	10	**10 667**	14 584
Current tax asset		**1 065**	7 003
Amounts due by holding company and fellow subsidiary companies	11	**321 749**	635 346
Property and equipment*	12	**46 322**	39 773
Deferred income tax asset	13	**23 442**	24 951
Total assets		**2 689 689**	2 216 369
EQUITY AND LIABILITIES			
Liabilities			
Creditors, accruals and provisions	14	**50 296**	47 838
Current tax liability		**-**	-
Deposits	15	**2 366 773**	1 890 298
Employee liabilities	16	**8 575**	8 984
Lease liabilities*	17	**11 579**	-
Amounts due to holding company and fellow subsidiary companies	11	**68 744**	114 048
Tier 2 liabilities	11	**20 034**	20 598
Total liabilities		**2 526 001**	2 081 766
Equity			
Ordinary shares	18	**39 124**	39 124
Share premium	18	**9 109**	9 109
Reserves		**115 455**	86 370
Total equity		**163 688**	134 603
Total equity and liabilities		**2 689 689**	2 216 369

**The bank has elected not to restate comparative information, as permitted by IFRS 16. Comparability will not be achieved as comparative information is prepared on an IAS 17 basis. Refer to accounting policy note 10 for more details.*

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

M'000	Share capital	Share premium	General risk reserve*	Retained earnings	Reserves attributable to ordinary equity holders	Total equity
Balance as at 31 December 2017	39 124	9 109	14 432	78 215	**92 647**	**140 880**
Initial adoption of IFRS 9	-	-	-	(8 230)	**(8 230)**	**(8 230)**
IFRS 9 impact on Deferred tax accounted for in the current year	-	-	-	(4 237)	**(4 237)**	**(4 237)**
Restated balance as at 1 January 2018	39 124	9 109	14 432	65 748	**80 180**	**128 413**
Current year movement	-	-	1 628	(1 628)	**-**	**-**
Profit and total comprehensive income for the year	-	-	-	6 190	**6 190**	**6 190**
Balance as at 31 December 2018	**39 124**	**9 109**	**16 060**	**70 310**	**86 370**	**134 603**
Current year movement	-	-	317	(137)	**180**	**180**
Profit and total comprehensive income for the year	-	-	-	28 905	**28 905**	**28 905**
Balance as at 31 December 2019	**39 124**	**9 109**	**16 377**	**99 078**	**115 455**	**163 688**

**This reserve is kept as part of the reserve as required by the Financial Institutions Act 2012 and used as part of the general debt provision.*

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

M' 000	Notes	31 December 2019	31 December 2018
Cash flows from operating activities			
Interest, fees and commission receipts		361 924	313 278
Interest payment		(79 316)	(58 257)
Other operating expenses		(230 291)	(229 172)
Taxation received /(paid)		(3 481)	1 866
Cash flows from operating activities		48 836	27 715
Movements from operating assets and liabilities		93 086	3 191
Liquid assets and trading securities		(424 596)	(118 934)
Advances		50 340	(123 203)
Deposits		474 770	242 958
Creditors (net of debtors)		(4 852)	10 688
Employee liabilities		(2 818)	(383)
Other liabilities		242	(7 935)
Net cash generated from operating activities		141 922	30 906
Cash flows from investing activities			
Acquisition of property and equipment		(9 319)	(6 860)
Net cash outflow from investing activities		(9 319)	(6 860)
Increase in cash and cash equivalents		132 603	24 046
Cash and cash equivalents at the beginning of the year	6	264 534	240 488
Cash and cash equivalents at the end of the year		397 137	264 534

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. Analysis of interest income and interest expense

1.1. Interest and similar income

M'000	**31 December 2019**	31 December 2018
Instruments at amortised cost	**248 407**	202 108
Advances	**132 179**	123 910
Overdrafts and cash management accounts	**8 632**	10 720
Term loans	**16 631**	11 213
Instalment sales and hire purchase agreements	**26 763**	25 790
Property finance	**23 362**	21 215
Personal loans	**56 791**	54 972
Cash and cash equivalents	**19 948**	2 166
Investment securities	**61 986**	29 056
Amounts due by holding company and fellow subsidiaries	**33 677**	46 901
Other	**617**	75
Interest and similar income	**248 407**	202 108

1.2. Interest expense and similar charges

M'000	**31 December 2019**	31 December 2018
Instruments at amortised cost	**(80 638)**	(58 257)
Deposits from customers		
Current accounts	**(8 567)**	(9 579)
Savings deposits	**(26)**	(4)
Call deposits	**(44 836)**	(17 740)
Fixed and notice deposits	**(23 864)**	(28 480)
Tier 2 liabilities	**(2 433)**	(2 454)
Interest on lease liability*	**(912)**	-
Interest expense and similar charges	**(80 638)**	(58 257)

**The bank has elected not to restate comparative information, as permitted by IFRS 16. Comparability will not be achieved as comparative information is prepared on an IAS 17 basis. Refer to accounting policy note 10 for more details.*

2. Non-interest revenue

M'000	31 December 2019	31 December 2018
Fee and commission income		
Instruments at amortised cost	**140 341**	151 452
Net fee and commission income		
Income		
Card commissions	**3 033**	2 261
Cash deposit fee	**32 033**	38 206
Commissions: bills, drafts and cheques	**3 289**	3 186
Exchange commissions	**2 507**	1 348
Bank charges	**79 542**	95 169
Other non-banking fee and commission income	**13 513**	12 792
Expenses		
Other non-banking fee and commission expenses	**(14 238)**	(13 637)
Net fee and commission income	**119 679**	139 325
Other non-interest revenue		
Amounts due by holding company and fellow subsidiaries	**6 110**	5 369
Other non-interest revenue	**14 552**	6 758
Other non-interest revenue	**20 662**	12 127
Total non-interest revenue	**140 341**	151 452

3. Operating expenses

M'000	**31 December 2019**	31 December 2018
Auditors remuneration	**(1 792)**	(1 342)
Audit fees	**(1 792)**	(1 342)
Staff costs	**(85 598)**	(72 299)
Salaries, wages and allowances	**(57 982)**	(54 280)
Contributions to employee benefit funds	**(8 154)**	(8 036)
Share based payments	**(4 107)**	(1 525)
Other staff costs	**(15 355)**	(8 458)
Other operating costs	**(170 643)**	(171 331)
Depreciation of property and equipment	**(20 035)**	(14 706)
Insurance	**(1 296)**	(1 356)
Advertising and marketing	**(4 197)**	(2 029)
Maintenance	**(4 176)**	(3 107)
Property	**(10 064)**	(10 129)
Computer	**(6 844)**	(4 736)
Non-capitalised lease charges*	**(5 617)**	(14 060)
Stationery	**(2 680)**	(2 348)
Telecommunications	**(3 672)**	(3 105)
Professional fees	**(119)**	(27)
Expenses paid to holding company and fellow subsidiaries	**(83 858)**	(96 071)
Other operating expenditure	**(28 085)**	(19 657)
Total operating expenses	**(258 033)**	(244 972)

** Current year non-capitalised lease charges consist of low value and short-term lease charges that are exempt from capitalisation in IFRS 16. The comparative amount relates to operating lease expense charge under IAS 17.*

4. Income tax expense

M'000	31 December 2019	31 December 2018
Current income tax	**(9 419)**	(9 415)
Current year	**(9 127)**	(7 241)
Prior year adjustment	**(292)**	(2 174)
Deferred income tax	**(1 509)**	5 557
Current year	**(1 509)**	(5 557)
Total income tax expense	**(10 928)**	(3 858)

Tax rate reconciliation

%	31 December 2019	31 December 2018
Standard rate of income tax	**25**	25
Adjustments:		
Prior year adjustments	**1**	(34)
Disallowed expenditure	**-**	1
Other non-deductible amounts	**1**	46
Effective rate of tax	**27**	38

5. Analysis of assets and liabilities

5.1. Analysis of assets

The following table analyses the assets in the statement of financial position per category of financial instrument and, therefore, by measurement basis and according to when the assets are expected to be realised.

	31 December 2019				
M'000	Financial assets measured at amortised cost	Non-financial instruments	Total carrying value	Current	Non-current
Cash and cash equivalents	397 137	-	397 137	397 137	-
Investments securities and other investments	1 137 646	-	1 137 646	143 033	994 613
Advances	751 661	-	751 661	225 800	525 861
Accounts receivable	10 667	-	10 667	10 667	-
Current tax asset	-	1 065	1 065	1 065	-
Amounts due by holding company and fellow subsidiaries	321 749	-	321 749	309 055	12 694
Property and equipment	-	46 322	46 322	-	46 322
Deferred income tax asset	-	23 442	23 442	-	23 442
Total assets	**2 618 860**	**70 829**	**2 689 689**	**1 086 757**	**1 602 932**

	31 December 2018				
M'000	Financial assets measured at amortised cost	Non-financial instruments	Total carrying value	Current	Non-current
Cash and cash equivalents	264 534	-	264 534	264 534	-
Investments securities and other investments	423 668	-	423 668	174 323	249 345
Advances	806 510	-	806 510	16 665	789 845
Accounts receivable	14 584	-	14 584	14 584	-
Current tax asset	-	7 003	7 003	7 003	-
Amounts due by holding company and fellow subsidiaries	635 346	-	635 346	623 650	11 696
Property and equipment	-	39 773	39 773	-	39 773
Deferred income tax asset	-	24 951	24 951	-	24 951
Total assets	**2 144 642**	**71 727**	**2 216 369**	**1 100 759**	**1 115 610**

5.2. Analysis of liabilities

The following table analyses the liabilities in the statement of financial position per category of financial instrument and, therefore, by measurement basis and according to when the assets are expected to be settled.

	31 December 2019				
M'000	Financial liabilities measured at amortised cost	Non-financial instruments	Total carrying value	Current	Non-current
Creditors, accruals and provisions	50 296	-	50 296	50 296	-
Deposits	2 366 773	-	2 366 773	2 347 996	18 777
Employee liabilities	-	8 575	8 575	5 536	3 039
Other liabilities	11 579	-	11 579	11 579	-
Amounts due to holding company and fellow subsidiaries	68 744	-	68 744	68 744	-
Tier 2 liabilities	20 034	-	20 034	-	20 034
Total liabilities	**2 517 426**	**8 575**	**2 526 001**	**2 484 151**	**41 850**

	31 December 2018				
M'000	Financial liabilities measured at amortised cost	Non-financial instruments	Total carrying value	Current	Non-current
Creditors, accruals and provisions	47 838	-	47 838	47 838	-
Deposits	1 890 298	-	1 890 298	1 873 560	16 738
Employee liabilities	-	8 984	8 984	6 355	2 629
Other liabilities	-	-	-	-	-
Amounts due to holding company and fellow subsidiaries	114 048	-	114 048	114 048	-
Tier 2 liabilities	20 598	-	20 598	-	20 598
Total liabilities	**2 072 782**	**8 984**	**2 081 766**	**2 041 801**	**39 965**

6. Cash and cash equivalents

M'000	**31 December 2019**	31 December 2018
Coins and bank notes	**139 633**	173 907
Money at call and short notice	**179 674**	32 103
Balances with central banks	**77 830**	58 524
Total cash and cash equivalents	**397 137**	264 534
Mandatory reserve balances included above	**75 803**	47 938

Banks are required to deposit a minimum average balance, calculated weekly, with the Central Bank of Lesotho, which is not available for use in the bank's day to day operations. These deposits bear no interest.

7. Investment securities

M'000	**31 December 2019**	31 December 2018
Treasury bills	**665 807**	117 254
Government bonds	**473 265**	307 294
Total gross carrying amount of investment securities	**1 139 072**	424 548
Loss allowance on investment securities	**(1 426)**	(880)
Total investment securities	**1 137 646**	423 668

Investment securities are classified as debt instruments at amortised cost.

Analysis of impairment stages of investment securities

	31 December 2019		31 December 2018	
M'000	Carrying Amount	ECL Allowance	Total carrying value	Current
Stage 1	1 139 072	(1 426)	424 548	(880)
Total investment securities	**1 139 072**	**(1 426)**	**424 548**	**(880)**

The increase in ECL is due to acquisitions of investment securities measured at amortised cost during the year.

8. Advances

M'000	Note	31 December 2019	31 December 2018
Gross value of advances		**817 845**	882 216
Category analysis			
Overdrafts and cash managed accounts		**59 658**	63 747
Term loans		**92 216**	156 697
Instalment sales and hire purchase agreements		**188 976**	187 870
Property finance		**198 965**	195 645
Personal loans		**278 030**	278 257
Gross value of advances		**817 845**	882 216
Impairment of advances	9	**(66 184)**	(75 706)
Net advances		**751 661**	806 510

Analysis of instalment sale, hire purchase and lease payments receivable

M' 000	**31 December 2019**			**31 December 2018**		
	Instalment sale, hire purchase and lease payments receivable	**Less: unearned finance charges**	**Net**	Instalment sale, hire purchase and lease payments receivable	Less: unearned finance charges	Net
Within 1 year	**11 528**	**(528)**	**11 000**	9 460	(465)	8 995
Between 1 and 5 years	**209 185**	**(39 267)**	**169 918**	196 733	(41 179)	155 554
More than 5 years	**12 885**	**(4 827)**	**8 058**	34 588	(11 267)	23 321
Sub total	**233 598**	**(44 622)**	**188 976**	240 781	(52 911)	187 870
Total net instalment sale, hire purchase and lease payments receviable	**233 598**	**(44 622)**	**188 976**	240 781	(52 911)	187 870

Under the terms of the lease agreements, no contingent rentals are payable. The agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectable minimum lease payments receivable included in the allowance for impairments at the reporting date is M10,172,453 (2018: M 8,376,742)

Reconciliation of the gross carrying amount of advances measured at amortised cost

M'000	Total	Stage 1	Stage 2	Stage 3
Amount as at 31 December 2017	759 013	666 600	35 183	57 230
IFRS 9 adjustments	5 361			5 361
Amount as at 1 January 2018	764 374	666 600	35 183	62 591
Transfer to Stage 1	-	31 352	(30 111)	(1 241)
Transfer to Stage 2	-	(63 685)	65 801	(2 116)
Transfer to Stage 3	-	(2 813)	(6 303)	9 116
Bad debts written off	(52 069)	-	-	(52 069)
New business and other changes in exposure	169 911	72 057	82 089	15 765
Amount as at 31 December 2018	882 216	703 511	146 659	32 046
Transfer to Stage 1	-	6 590	(7 672)	1 082
Transfer to Stage 2	-	9 915	(8 722)	(1 193)
Transfer to Stage 3	1	(11 422)	(14 205)	25 628
Bad debts written off	(28 129)	-	-	(28 129)
New business and other changes in exposure	(36 243)	15 584	(54 747)	2 920
Amount as at 31 December 2019	**817 845**	**724 178**	**61 313**	**32 354**

The total contractual amount outstanding on financial assets that were written off during the period and are still subject to enforcement activity is M28.1million (2018: M52.1 million).

9. Impairment of advances

M'000	31 December 2019	31 December 2018
Increase in loss allowance	**(20 454)**	(48 682)
Recoveries of bad debts previously written off	**10 210**	8 399
Impairment of advances recognised during the period	**(10 244)**	(40 283)

Reconciliation of the loss allowance on total advances measured at amortised cost and related exposures

M'000	Total	Stage 1	Stage 2	Stage 3
Amount as at 31 December 2017	60 641	7 623	16 607	36 411
IFRS9 adjustments - ECL	11 586	4 725	6 861	-
IFRS9 adjustments - ISP	5 361			5 361
Amount as at 1 January 2018	77 588	12 348	23 468	41 772
Transfer to Stage 1	-	7 528	(7 353)	(175)
Transfer to Stage 2	-	(8 771)	9 218	(447)
Transfer to Stage 3	-	(1 595)	(3 836)	5 431
Bad debts written off	(34 941)			(34 941)
Increase/(decrease) in impairment	33 059	5 262	14 717	13 080
Changes in models and risk parameters	(3 716)	(3 774)	(689)	747
New business and other changes in exposure	27 892	8 401	3 733	15 758
Changes in economic forecasts	5 887	6 783	2 575	(3 471)
Provision created/(released) due to transfers	2 996	(6 148)	9 098	46
Amount as at 31 December 2018	75 706	14 772	36 214	24 720
Transfer to Stage 1	-	14 598	(13 848)	(750)
Transfer to Stage 2	-	(4 798)	5 533	(735)
Transfer to Stage 3	-	-	(1 971)	1 971
Bad debts written off	(31 274)	-	-	(31 274)
Increase/(decrease) in impairment	16 921	(883)	(10 856)	28 660
Changes in models and risk parameters	26 121	2 623	2 898	20 600
New business and other changes in exposure	(12 757)	1 224	(16 120)	2 139
Changes in economic forecasts	520	(3 700)	(246)	4 466
Provision created/(released) due to transfers	3 037	(1 030)	2 612	1 455
Stage 3 interest	4 831	-	-	4 831
Amount as at 31 December 2019	66 184	23 689	15 072	27 423
Overdrafts and managed accounts	10 137	2 839	3 042	4 256
Term loans	3 572	1 891	346	1 335
Installment sales and hire purchase agreements	17 033	4 094	2 767	10 172
Property finance	6 290	2 948	2 277	1 065
Personal loans	26 764	10 117	6 052	10 595
Off balance sheet exposures	2 388	1 800	588	-

Reconciliation of the loss allowance per segment

M'000	Total	Retail Segment	Commercial Segment	Corporate Segment	Wesbank Segment
Amount as at 1 January 2018	77 588	37 535	18 127	15	21 911
Stage 1	12 348	4 716	3 213	15	4 404
Stage 2	23 468	16 538	4 212	-	2 718
Stage 3	41 772	16 281	10 702	-	14 789
Bad debts written off	(34 941)	(21 611)	(12 477)	-	(853)
Increase/(decrease) in impairment	33 059	20 417	13 131	1 083	(1 572)
Stage 1	5 262	8 677	(4 132)	1 974	(1 257)
Stage 2	14 717	(2 636)	12 278	(891)	5 966
Stage 3	13 080	14 376	4 985	-	(6 281)
Amount as at 31 December 2018	75 706	36 341	18 781	1 098	19 486
Stage 1	14 772	8 859	1 669	36	4 208
Stage 2	36 214	15 783	12 467	1 062	6 902
Stage 3	24 720	11 699	4 645	-	8 376
Bad debts written off	(31 274)	(17 587)	(9 296)	-	(4 391)
Increase/(decrease) in impairment	16 921	17 565	(2 070)	894	532
Stage 1	(881)	486	(640)	(414)	(313)
Stage 2	(10 857)	(744)	(8 234)	1 308	(3 187)
Stage 3	28 659	17 823	6 804	-	4 032
Stage 3 interest	4 831	2 724	699	-	1 408
Amount as at 31 December 2019	66 184	39 043	8 114	1 992	17 035
Stage 1	23 689	15 087	3 054	1 452	4 096
Stage 2	15 072	9 751	2 017	540	2 764
Stage 3	27 423	14 205	3 043	-	10 175

10. Accounts receivable

M'000	**31 December 2019**	31 December 2018
Items in transit	**848**	2 438
Prepayments	**5 657**	6 427
Accounts receivable	**4 162**	5 718
Total gross carrying amount of accounts receivable	**10 667**	14 584
Financial	**4 162**	5 718
Non-financial	**6 505**	8 865

11. Amounts due (to) / by holding company and fellow subsidiaries

M'000	**31 December 2019**	31 December 2018
Amounts due by holding company	321 749	635 346
Total amount due by holding company and fellow subsidiaries	**321 749**	**635 346**
Amounts due to fellow subsidiaries	68 744	114 048
Tier 2 liabilities	20 034	20 598
Total amount due to holding company and fellow subsidiaries	**88 778**	**134 646**

Amounts due by holding company and fellow subsidiaries is cash collateralised and therefore there were no ECL allowances recognised on amounts due by holding company and fellow subsidiaries.

Tier 2 liabilities

M'000	**31 December 2019**	31 December 2018
Opening balance	**20 598**	19 939
Non-cash flow movements		
Interest accrued	**2 433**	2 454
Cash flow movements		
Interest paid	**(2 997)**	(1 795)
Closing balance	**20 034**	20 598

Tier 2 liabilities consist of a subordinated debt held with FirstRand Limited:

- Loan nominal: value M20 million.
- Interest rate: 3-month JIBAR plus 500 basis points.
- Loan original term: 10 years.
- Loan remaining term: 3 years

The remaining loans have no fixed terms of repayment and carry varying rates of interest.

12. Property and equipment

M'000	Property - Leasehold premises*	Computer equipment	Office equipment	Other equipment	Right of use assets - property	Total
Net book value as at 1 January 2018	**25 202**	**9 141**	**5 394**	**9 231**	**-**	**48 968**
Cost	63 782	20 875	13 847	25 548	-	124 052
Accumulated depreciation and impairment	(38 580)	(11 734)	(8 453)	(16 317)	-	(75 084)
Movement for the year	**(5 334)**	**1 318**	**(1 542)**	**(3 637)**	**-**	**(9 195)**
Acquisitions	533	5 402	231	693	**-**	**6 859**
Disposals	-	-	-	(2 035)	**-**	**(2 035)**
Depreciation charge for the year	(5 867)	(4 084)	(1 773)	(2 295)	**-**	**(14 019)**
Net book value as at 31 December 2018	**19 868**	**10 459**	**3 852**	**5 594**	**-**	**39 773**
Cost	64 315	26 277	14 079	24 206	**-**	**128 877**
Accumulated depreciation and impairment	(44 448)	(15 818)	(10 226)	(18 612)	**-**	**(89 104)**
IFRS 16 adjustment	-	-	-	-	**17 635**	**17 635**
Movement for the year	**(2 528)**	**(1 171)**	**(1 257)**	**168**	**(6 298)**	**(11 086)**
Acquisitions	**2 948**	**3 076**	**558**	**2 737**	**-**	**9 319**
Disposals	**(218)**	**(76)**	**(76)**	**-**	**-**	**(370)**
Depreciation charge for the year	**(5 258)**	**(4 171)**	**(1 739)**	**(2 569)**	**(6 298)**	**(20 035)**
Net book value as at 31 December 2019	**17 340**	**9 288**	**2 595**	**5 762**	**11 337**	**46 322**
Cost	**65 260**	**24 751**	**11 537**	**24 082**	**17 635**	**143 265**
Accumulated depreciation and impairment	**(47 920)**	**(15 463)**	**(8 942)**	**(18 320)**	**(6 298)**	**(96 943)**

**Property – leasehold premises consist of leasehold improvements to leased properties.*

13. Deferred income tax

Movement in deferred income tax account is shown below.

M'000	31 December 2019	31 December 2018
Deferred income tax asset		
Opening balance	24 951	19 394
IFRS 9 adjustments	-	4 237
All other temporary differences recongnised in profit or loss	**(1 509)**	**1 320**
Total deferred income tax asset	**23 442**	**24 951**

The deferred income tax asset and deferred income charged / released to profit or loss are attributable to the items below:

M'000	As at 31 December		Recognised in income statement	
	2018	2017	**2018**	2017
Deferred income tax asset				
Provision for loan impairment	16 546	18 927	(2 381)	3 767
Other provisions	4 110	3 590	520	(32)
Property and equipment	2 786	2 434	352	1 822
Total deferred income tax asset	23 442	24 951	(1 509)	5 557

14. Creditors, accruals and provisions

M'000	31 December 2019	31 December 2018
Accounts payable	32 212	37 989
Operating lease liability arising from straight lining of lease payments*	-	1 475
Accrued expenses	10 220	4 473
Audit fees accrued	1 592	1 299
Provisions (including litigations and claims)	6 272	2 602
Total creditors, accruals and provisions	**50 296**	**47 838**

**Operating lease liability arising from straight lining of lease payments is zero for the year ended 31 December 2019 because of the adoption of IFRS16.*

Reconciliation of provisions

M'000	31 December 2019	31 December 2018
Opening balance	2 602	1 956
Additional provisions created	6 470	1 443
Utilised	(2 800)	(797)
Closing balance	**6 272**	**2 602**

15. Deposits

M'000	31 December 2019	31 December 2018
Deposits from customers		
Current accounts	**889 241**	842 909
Call deposits	**914 053**	395 504
Savings accounts	**6 629**	2 467
Fixed and notice deposits	**556 804**	649 369
Other deposits	**46**	49
Deposits	**2 366 773**	**1 890 298**

16. Employee liabilities

M'000	31 December 2019	31 December 2018
Liability for short term employee benefits	**8 575**	6 355
Share based payment liability	**-**	2 629
Total employee liabilities	**8 575**	**8 984**

17. Lease liabilities

M'000	31 December 2019	31 December 2018
Lease liabilities	**11 579**	-

17.1. Lease liabilities reconciliation

M'000	31 December 2019	31 December 2018
Opening balance	**-**	-
IFRS 16 adjustment	**17 634**	-
Non-cashflow movements		
Interest accrued	**912**	-
Cash flow movements		
Principal payments towards lease liabilities	**(6 967)**	-
Closing balance	**11 579**	-

18. Share capital and share premium

M'000	**31 December 2019**	31 December 2018
Ordinary shares		
Authorised		
50 000 000 shares with a par value of M1 per share		
Issued		
39 123 970 (2018: 39 123 970) ordinary shares with a par value of M1 per share)	39 124	39 124
All issued share capital is fully paid up		
Ordinary share premium	9 109	9 109
Total issued ordinary share capital and share premium	**48 233**	**48 233**

19. Remuneration schemes

M'000	**31 December 2019**	31 December 2018
The charge to profit or loss for share based payments is as follows:		
Conditional share plan	**4 107**	1 525
Amount included in profit or loss	**4 107**	**1 525**

The purpose of this scheme is to appropriately attract, incentivise and retain managers and employees within the bank.

Description of schemes and vesting conditions:

Conditional share scheme	
IFRS 2 treatment	Cash settled.
Description	The conditional award is a notional share based on the FirstRand Limited share price.
Vesting conditions	These awards vest after three years. The awards vest if the employment and performance conditions are met. Conditional awards are made annually, and vesting is subject to specified financial performance targets set annually by the group's remuneration committee. These corporate performance targets (CPTs) are set out below.
Valuation methodology	The conditional share plan (CSP) is valued using the Black Scholes option pricing model with a zero-strike price. The scheme is cash settled and is therefore repriced at each reporting date.

Valuation assumptions	
Dividend data	Management's estimates of future discrete dividends.
Market related	Interest rate is the risk-free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan.
Employee related	The weighted average forfeiture rate used is based on historical forfeiture data over all schemes.

Bonuses of certain employees are deferred into a bonus conditional incentive plan. The incentives require continuous employment over the period. Performance conditions consider the profitability of the relevant business unit and that the aggregate of all the divisional contributions of the FirstRand Group is positive for the duration of the performance period. These awards vest over two years.

Corporate performance targets (CPTs)

The FirstRand Limited group remuneration committee sets the CPTs for each award based on the expected macroeconomic conditions and group earnings forecasts over the performance period. These criteria vary from year to year, depending on the expectations for each of the aforementioned variables. For vesting, the criteria must be met or exceeded. However, to avoid a binary outcome of 0% or 100% vesting, the scheme rules allow the remuneration committee the discretion to determine whether the conditional awards will vest, in full or partially in circumstances where the performance conditions were not fulfilled. This applies to the 2016, 2017 and 2018 schemes.

In terms of the scheme rules, participants are not entitled to dividends on their conditional share awards during the vesting period.

The criteria for the expired and currently open schemes are set out below:

Expired schemes

2015 (Vested in 2018) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 1% growth on a cumulative basis over a three-year period, from base year end 30 June 2015 to the financial year end immediately preceding the vesting date. Nominal GDP is advised by the FirstRand Limited Group Treasury, macro Strategy unit. In addition, ROE must be equal to or greater than the cost of equity plus 5% over the three-year performance period. For vesting, the criteria must be met or exceeded.

2016 (Vests in 2019) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP growth, on a cumulative basis, over the performance period from the base year-end being 30 June 2016, to the financial year-end immediately preceding the vesting date. and the company delivers ROE of 18%-22% over the performance period. Nominal GDP is advised by the FirstRand Group Treasury, macro strategy unit. For vesting, the criteria must be met or exceeded, however, the scheme rules allow the remuneration committee the discretion to determine that the

conditional awards will vest, in full or partially, in circumstances where the performance conditions were not fulfilled.

Currently open

2017 (vests in 2020) - FirstRand Limited must achieve growth in normalised earnings per share, adjusted for CPI, which equals or exceeds the South African Real Gross Domestic Product ("GDP") growth, on a cumulative basis, over the performance period from the base year-end, being 30 June 2017, to the year-end immediately preceding the vesting date, and the company delivers ROE of at least 18% over the performance period. Real GDP is advised by the FirstRand Limited Group Treasury macro strategy unit. For vesting, the criteria must be met or exceeded, however, the scheme rules allow the remuneration committee the discretion to determine that the conditional awards will vest, in full or partially, in circumstances where the performance conditions were not fulfilled.

2018 (vests in 2021) - FirstRand Limited must achieve growth in normalised earnings per share which equals or exceeds the South African CPI plus Real Gross Domestic Product ("GDP") growth, on a cumulative basis, over the performance period from the base year-end, being 30 June 2018, to the year-end immediately preceding the vesting date, and the company delivers ROE of at least 18% over the performance period. If Real Gross Domestic Product is negative, then growth in normalised earnings should equal or exceed CPI over the same period. Real GDP is advised by the FirstRand Limited Group Treasury macro strategy unit. For vesting, the criteria must be met or exceeded, however, the scheme rules allow the remuneration committee the discretion to determine that the conditional awards will vest, in full or partially, in circumstances where the performance conditions were not fulfilled.

2019 (vests in 2022) - The performance conditions include both a growth target and a Return on Equity (ROE) target. The table below stipulates the performance conditions to be fulfilled by the Group and the corresponding vesting level for purposes of calculating the vesting value of this portion of the conditional award.

Performance Conditions to be fulfilled	Vesting Level band	Vesting Level for purposes of calculating Vesting Value
A ROE target of at least 20%; and a growth target of more than base growth;	70% to 99,9%	Calculated within the vesting level band, to have an exact linear correlation to the values between more than base growth to the growth achieved up to base growth plus <1,5%.
A ROE target of at least 20,5%; and a growth target of at least base growth plus 1,5%.	100%	100%
A ROE target of at least 21%; and a growth target of more than base growth plus 3%.	100,1% to 119,9%	Calculated within the vesting level band to have an exact linear correlation to the values between more than base growth plus 3% to the growth achieved up to base growth plus 5%.
A ROE target of at least 21%; and a growth target of more than base growth plus 5%.	120%	120%
A ROE target of at least 22%; and a growth target of more than base growth plus 7%.	120,1% to 150%	Calculated within the vesting level band to have an exact linear correlation to the values between more than base growth plus 7% to the growth achieved up to base growth plus 10%.

The significant weighted average assumptions used to estimate the fair value of the conditional share awards granted are detailed below.

	Conditional share plan	
	31 December 2019	31 December 2018
Award life (years)	**2 - 3**	2 - 3
Risk free rate (%)	**7.08 - 7.78**	6.99 - 7.61

	Conditional share plan	
Options and share awards outstanding	**31 December 2019**	31 December 2018
Number of options and share awards in force at the beginning of the year (millions)	**0.205**	0.160
Number of options and share awards granted during the year (millions)	**0.073**	0.075
Number of options and share awards transferred (within the group) during the year (millions)	**(0.006)**	(0.012)
Number of options and share awards exercised/released during the year (millions)	**(0.049)**	(0.018)
Market value range at date of exercise/release (cents)	**6 520 - 6 520**	6 662-6 662
Weighted average (cents)	**6 520**	6 662
Number of options and share awards cancelled/lapsed during the year (millions)	**-**	(0.035)
Number of options and share awards in force at the end of the year (millions)	**0.223**	0.205

	Conditional share plan			
	31 December 2019		**31 December 2018**	
Options and share awards outstanding	**Weighted average remaining life (years)**	**Outstanding option (millions)**	Weighted average remaining life (years)	Outstanding option (millions)
Vesting during 2019	-	-	0.73	0.055
Vesting during 2020	0.72	0.075	1.72	0.075
Vesting during 2021	1.71	0.075	2.71	0.075
Vesting during 2022	2.71	0.073	-	-
Total options and share awards	-	0.223	-	0.205
Number of participants		12		13

20. Contingencies and commitments

M'000	**31 December 2019**	31 December 2018
Guarantees	22 156	23 106
Total contingencies	22 156	23 106
Irrevocable commitments*	**40 219**	51 877
Committed capital expenditure	**36 379**	11 175
Operating lease commitments**	**-**	26 033
Contigencies and commitments	**98 754**	**112 191**
Legal proceedings There are a number of legal or potential claims against the bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or total basis. Provision is made for all liabilities that are expected to materialise. (refer to note 14). **Commitments** Commitments in respect of capital expenditure and long-term investments approved by directors.	**36 379**	11 175
Guarantees Guarantees consist predominantly of endorsements and performance guarantees.	**22 156**	23 106

**Irrevocable commitments are made up of unutilised overdrafts facilities and committed loan facilities.*

*** The bank has elected not to restate comparative information, as permitted by IFRS 16. Comparability will not be achieved as comparative information is prepared on an IAS 17 basis. Refer to accounting policy note 10 for more details.*

21. Fair value measurements

All assets and liabilities are measured at amortised cost and not at fair value. IFRS 13 however requires the disclosure of the fair value of these instruments and the fair value hierarchy for determining the fair value. For all financial instruments at amortised cost, not included in the tables below, the carrying value is equal to or a reasonable approximation of the fair value.

Fair value hierarchy

M'000	31 December 2019			
	Total carrying amount	Fair value hierarchy		
		Level 1	Level 2	Level 3
Assets				
Advances	751 661			778 408
Investment securities and other investments	1 137 646		1 137 646	
Amounts due by holding company and fellow subsidiary companies	321 749			321 749
Total assets at amortised cost	**2 211 056**	**-**	**1 137 646**	**1 100 157**
Liabilities				
Deposits	2 366 773	-	-	2 373 668
Total liabilities at amortised cost	**2 366 773**	**-**	**-**	**2 373 668**

M'000	31 December 2018			
	Total carrying amount	Fair value hierarchy		
		Level 1	Level 2	Level 3
Assets				
Advances	806 510	-	-	920 168
Investment securities and other investments	423 668	-	423 668	-
Amounts due by holding company and fellow subsidiary companies	635 346			635 346
Total assets at amortised cost	**1 865 524**	**-**	**423 668**	**1 555 514**
Liabilities				
Deposits	1 890 298	-		1 960 140
Total liabilities at amortised cost	**1 890 298**	**-**	**-**	**1 960 140**

Related party transactions

Balances with related parties

M'000	31 December 2019	31 December 2018
Advances		
Key management personnel	**7 389**	8 772
Accounts receivable		
Holding company	**3 403**	3 329
Fellow subsidiaries	**-**	1 165
Amounts due by holding company and fellow subsidiaries		
Holding company	**318 346**	630 835
Tier 2 liabilities		
Holding company	**20 034**	20 598
Deposits		
Key management personnel	**315**	367
Accounts payable		
Holding company	**60 108**	23 787
Amounts due to holding company and fellow subsidiaries		
Fellow subsidiaries	**8 636**	90 261

The amounts advanced to key management personnel consist of mortgages, installment finance agreements and other loans. The amounts deposited by key management personnel are held in cheque and current accounts, savings accounts and other term accounts and are at market-related rates, terms and conditions.

Transactions with related parties

M'000	**31 December 2019**	31 December 2018
Interest received		
Holding company	**33 677**	46 901
Key management personnel	**469**	561
Interest paid		
Holding company	**2 433**	2 454
Key management personnel	**2**	4
Non-interest revenue		
Holding company	**6 110**	5 369
Operating expenses		
Holding company	**83 858**	96 071
Salaries and other employee benefits		
Key management personnel		
Salaries and other short-term benefits	**20 101**	17 973
Share based payments	**3 018**	1 958

A list of the board of directors of the bank is on page 11 of the annual financial statements. During the financial year, no contracts were entered into in which directors or officers of the company had an interest and which significantly affected the business of the bank. The directors had no interest in any third party or company responsible for managing any of the business activities of the bank.

22. Standards and Interpretations issued but not yet effective

The following new and revised standards and interpretations are applicable to the bank. The bank will comply with these from the stated effective date.

Standard	Impact assessment	Effective date
IFRS 17	**Insurance Contracts** IFRS 17 is the new standard that prescribes the accounting for insurance contracts and will replace the current insurance contracts standard, IFRS 4. IFRS 17 aims to provide more transparency and comparability between insurance companies and other industries by providing a prescriptive approach to determining policyholder liabilities, as well as the release of profits on these contracts to the income statement. IFRS 17 will be effective for the bank from 1 July 2022. The recognition of insurance revenue will be consistent with that of IFRS 15. Insurance revenue is derived by the movement in liability for the remaining insurance coverage period. The insurance contract liability is initially made up of: ➢ fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policyholders; and ➢ the contractual service margin (CSM), which represents the unearned profit the entity will	Annual periods commencing on or after 1 January 2022

Standard	Impact assessment	Effective date
	recognise as it provides services over the coverage period. Subsequently, the liability will comprise two components, namely the liability for remaining coverage (fulfilment cash flows and the CSM) and the liability for incurred claims (fulfilment cash flows for claims and expenses incurred but not yet paid). To prepare for implementation, the FirstRand Banking Group has constituted a steering committee which will be supported by several working groups. The working groups will be responsible for the implementation of the different elements of the new standard and work has commenced. The impact of IFRS 17 will only be reliably determinable once the implementation project has progressed further. The amendment is not expected to have an impact on the bank.	
Conceptual framework	The improvements to the conceptual framework include revising the definitions of an asset and liability and updating the recognition criteria for including assets and liabilities in financial statements. The following concepts have been clarified: prudence, stewardship, measurement uncertainty and substance over form. Minor amendments have also been made to various	Annual periods commencing on or after 1 January 2020

Standard	Impact assessment	Effective date
	other standards. The amendments are not expected to have a significant impact on the bank's accounting policies.	
IFRS 3	**Business Combinations - Amendments to clarify the definition of a business** The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment is not expected to have a material impact on the bank and the clarified requirements will be applied on a transaction by transaction basis.	Business combinations entered into on or after 1 January 2020
IAS 1 and IAS 8	**Amendments regarding the definition of material** The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of	Annual periods commencing on or after 1 January 2020

Standard	Impact assessment	Effective date
	material is consistent across all IFRS Standards. The amendments will be applied prospectively. The amendment is not expected to have a significant impact on the annual financial statements.	
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	The IASB issued amendments to the following standards as part of the interest rate (IBOR) benchmark reform that has a direct impact on hedging relationships. These impacts are: - ➢ The highly probable requirement under IFRS 9 and IAS 39 - when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur. When determining whether a forecast transaction is highly probable, a company shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform. ➢ Prospective assessments – When performing prospective assessments for effectiveness, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform. ➢ Separately identifiable risk components – IFRS 9 and IAS 39 require a risk component (or a portion) to be separately identifiable to be eligible for hedge accounting. The amendment	Annual periods commencing on or after 1 January 2020

Standard	Impact assessment	Effective date
	allows for hedges of a non-contractually specified benchmark component of interest rate risk, a company shall apply the separately identifiable requirement only at the inception of such hedging relationships. The amendment is not expected to have an impact on the bank.	

23. Financial Risk Management

The financial instruments recognised on the bank's statement of financial position, expose the bank to various financial risks. The information presented in this note represents the quantitative information required by IFRS 7 and sets out the bank's exposure to these financial risks. This section also contains details about the bank's capital management process.

Overview of financial risks		
Credit risk	Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation.	
	Credit risk arises primarily from the following instruments: ➢ advances; and ➢ certain investment securities. Other sources of credit risk arise from: ➢ cash and cash equivalents; ➢ accounts receivable; and off-balance sheet exposures.	The following information is presented for these assets: ➢ summary of all credit assets (23.1.1); ➢ information about the quality of credit assets (23.1.2); ➢ exposure to concentration risk (23.1.3); and ➢ credit risk mitigation and collateral held (23.1.4).
Liquidity risk	Liquidity risk is the risk that the bank is unable to meet its obligations when those fall due and payable. It is also the risk of not being able	

<table>
<tr><th colspan="3">Overview of financial risks</th></tr>
<tr><td rowspan="2"></td><td colspan="2">to realise assets when to meet repayment obligations in a stress scenario.</td></tr>
<tr><td>Liquidity risk arises from all assets and liabilities with differing maturity profiles.</td><td>The following information is presented for these assets and liabilities:
➢ undiscounted cash flow analysis of financial liabilities (23.2.1);
➢ concentration analysis of deposits (23.2.2).</td></tr>
<tr><td rowspan="2">Market risk</td><td colspan="2">For non-traded market risk, the bank distinguishes between interest rate risk in the banking book and structural foreign exchange risk.</td></tr>
<tr><td>Interest rate risk in the banking book (23.3.1) originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.</td><td>The following information is presented for interest rate risk in the banking book:
➢ projected NII sensitivity to interest rate movements; and
➢ banking book NAV sensitivity to interest rate movements as a percentage of total bank capital.</td></tr>
<tr><td>Capital management</td><td colspan="2">The overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the bank's solvency and quality of capital during calm and turbulent periods in the economy and financial markets. The bank, therefore, maintains capitalisation ratios aligned to its risk appetite and appropriate to safeguard operations and stakeholder interests. The key focus areas and considerations of capital management are to ensure an optimal level and composition of capital, effective allocation of resources including capital and risk capacity, and a sustainable dividend policy.</td></tr>
</table>

23.1. Credit risk

23.1.1. Credit assets

Objective

Credit risk management objectives are twofold:

- Risk control: Appropriate limits are placed on the assumption of credit risk and steps taken to ensure the accuracy of credit risk assessments and reports. Deployed and central credit risk management teams fulfil this task.
- Management: Credit risk is taken within the constraints of the risk appetite framework. The credit portfolio is managed at an aggregate level to optimise the exposure to this risk. Business units and deployed risk functions, overseen by the Enterprise Risk Management function and relevant board committees, fulfil this role.

Based on the bank's credit risk appetite, as measured on a Return On Equity (ROE), Net Income After Cost of Capital and volatility-of-earnings basis, credit risk management principles include holding the appropriate level of capital and pricing for risk on an individual and portfolio basis. The scope of credit risk identification and management practices across the bank, therefore, spans the credit value chain, including risk appetite, credit origination strategy, risk quantification and measurement, as well as collection and recovery of delinquent accounts.

Assessment and management

Credit risk is managed through the implementation of comprehensive policies, processes and controls to ensure a sound credit risk management environment with appropriate credit granting, administration, measurement, monitoring and reporting of credit risk exposure. Credit risk management across the bank is split into four distinct portfolios: retail, commercial, corporate, and Wesbank, and are aligned to customer profiles.

The assessment of credit risk across the bank relies on internally developed quantitative models for addressing regulatory and business needs. The models are used for the

internal assessment of the three primary credit risk components:

- probability of default (PD);
- exposure at default (EAD); and
- loss given default (LGD).

Management of the credit portfolio is reliant on these three credit risk measures. PD, EAD and LGD are inputs into the portfolio and bank-level credit risk assessment where the measures are combined with estimates of correlations between individual counterparties, industries and portfolios to reflect diversification benefits across the bank.
The bank employs a granular, 100-point master rating scale, which has been mapped to the continuum of default probabilities, as illustrated in the following table. FirstRand (FR)1 is the lowest PD and FR100 the highest. External ratings have also been mapped to the master rating scale for reporting purposes. These mappings are reviewed and updated on a regular basis.

Mapping of FR grades to rating agency scales

FirstRand rating	Midpoint PD	RMB rating (based on S&P)*
FR 1- 14	0.06%	AAA, AA+, AA, AA-, A+, A. A-
FR 15- 25	0.29%	BBB+, BBB(upper), BBB,BBB-(upper),BBB-, BB+(upper)
FR 26 - 32	0.77%	BB+, BB(upper), BB, BB-(upper)
FR 33 - 39	1.44%	BB-, B+(upper)
FR 40 -53	2.52%	B+
FR 54 - 83	6.18%	B(upper), B B-(upper)
FR 84 - 90	13.68%	B-
FR 91 - 99	59.11%	CCC
FR 100	100%	D(Defaulted)

**Indicative mapping to the international rating scales of S&P Global Ratings (S&P). The bank currently only uses mappings to S&P's rating scales.*

The following assets and off-balance sheet amounts expose the bank to credit risk. For all on-balance sheet exposures, the carrying amount recognised on the statement of financial position represents the maximum exposure to credit risk, before taking into account collateral and other credit enhancements.

M'000	**31 December 2019**	31 December 2018
On-balance sheet exposure		
Cash and short-term funds		
Money at call and short notice	**179 674**	32 103
Balances with central bank	**77 830**	58 524
Gross advances	**817 845**	882 216
Retail Segment	**423 285**	408 700
Commercial Segment	**145 028**	180 569
Corporate Segment	**62 535**	105 077
WesBank	**186 997**	187 870
Accounts receivable	**10 667**	14 584
Amounts due by holding company and fellow subsidiaries	**321 749**	635 346
Investments securities and other investments	**1 139 072**	424 548
Off-balance sheet exposure		
Financial and other guarantees	**22 156**	23 106
Loan commitments not drawn	**40 219**	51 877
Total	**3 427 057**	3 004 518

Quality of credit assets

The following table shows the gross carrying amount of advances carried at amortised cost and the exposure to credit risk of loan commitments and financial guarantees per class of advance and per internal credit rating.

The amounts in stage 3 that do not have a rating of above FR 90 relates to technical cures (performing accounts that have previously defaulted but don't meet the 12-month curing definition remain in stage 3) and paying debt-review customers as the PDs on these customers are lower than operational stage 3 advances and the PD drives the FR rating. In addition, where the bank holds a guarantee against a stage 3 advance, the FR rating would reflect same.

	31 December 2019			31 December 2018		
M'000	FR 1 -25	FR 26 - 90	Above FR 90	FR 1 -25	FR 26 - 90	Above FR 90
Retail Segment	**-**	**372 140**	**51 145**	-	366 913	41 787
Stage 1	-	354 588	20 225	-	354 743	18 370
Stage 2	-	12 092	20 102	-	9 525	11 970
Stage 3	-	5 460	10 818	-	2 645	11 447
Commercial Segment	**-**	**137 172**	**7 856**	2	169 030	11 537
Stage 1	-	125 243	4 632	2	159 583	3 575
Stage 2	-	7 092	3 097	-	4 009	5 772
Stage 3	-	4 837	127	-	5 438	2 190
Corporate Segment	**-**	**62 535**	**-**	-	105 064	13
Stage 1	-	59 725	-	-	1 440	13
Stage 2	-	2 810	-	-	103 624	-
Stage 3	-	-	-	-	-	-
WesBank Segment	**-**	**159 763**	**27 234**	-	160 204	27 666
Stage 1	-	159 573	190	-	160 204	5 583
Stage 2	-	190	15 932	-	-	11 759
Stage 3	-	-	11 112	-	-	10 324
Total Advances	**-**	**731 610**	**86 235**	2	801 211	81 003
Off balance sheet exposures						
Commercial Segment	**-**	**60 903**	**1 472**	-	73 422	1 561
Stage 1	-	60 903	1 472	-	73 422	1 561

Analysis of impaired advances

M'000	31 December 2019		
	Total carrying amount	Security held and expected recoveries	Stage 3 impairment
Stage 3 assets by category			
Overdrafts and cash management accounts	4 672	418	4 254
Term loans	2 798	1 436	1 362
Instalment sales and hire purchase agreements	11 112	939	10 173
Property finance	3 204	2 139	1 065
Personal loans	10 567	-	10 567
Total NPLs	**32 353**	**4 932**	**27 421**

M'000	31 December 2018		
	Total carrying amount	Security held and expected recoveries	Stage 3 impairment
Stage 3 assets by category			
Overdrafts and cash management accounts	4 219	553	3 666
Term loans	5 380	2 478	2 902
Instalment sales and hire purchase agreements	10 324	1 948	8 376
Property finance	3 209	2 401	808
Personal loans	8 913	(54)	8 967
Total NPLs	**32 045**	**7 326**	**24 719**

Credit quality of credit assets – non - advances

	31 December 2019		31 December 2018	
M'000	BB+ to B-	Unrated	BB+ to B-	Unrated
Investment securities at amortised cost				
Stage 1	**1 137 646**		**423 668**	
Amounts due by holding company and fellow subsidiary companies				
Stage 1	**321 749**		**635 346**	
Accounts receivable				
Stage 1		**10 667**		**14 584**
Cash and cash equivalents				
Stage 1	**77 830**	**319 307**	**58 524**	**206 010**

23.1.2. Concentration risk

Credit concentration risk is the risk of loss to the bank arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity. This concentration typically exists when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Concentration risk is managed based on the nature of the credit concentration in each portfolio. The bank’s credit portfolio is well diversified, achieved through setting maximum exposure guidelines to individual counterparties. The bank constantly reviews its concentration levels and sets maximum exposure guidelines for these.

The bank seeks to establish a balances portfolio profile and closely monitors credit concentrations.

Geographical concentration of significant asset exposure

	31 December 2019		31 December 2018	
M'000	Lesotho	South africa	Lesotho	South Africa
On-balance sheet exposures				
Cash and cash equivalents	**397 137**		264 534	
Total advances	**751 661**		806 510	
Investments securities and other investments	**618 019**	**519 627**	423 668	
Amounts due by holding company and fellow subsidiary companies		**321 749**		635 346
Accounts receivable	**10 667**		14 584	
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	**22 156**		23 106	

Sector analysis concentration of advances

Advances expose the bank to concentration risk to the various industry sectors. The tables below set out the bank's exposure to the various industry sectors for total advances and Stage 3 assets.

M'000	31 December 2019			
		Stage 3		
	Total advances	Total	Security held and expected recoveries	Stage 3 impairment
Agriculture	5 788	386	15	371
Financial Institutions	75 992	-	-	-
Building and property development	53 702	1 246	479	767
Government land bank and public authority	10 084	-	-	-
Individuals	509 933	20 748	2 806	17 942
Manufacturing and commerce	81 782	840	325	515
Mining	2 732	424	83	341
Transport and communication	22 799	3 215	356	2 859
Other services	55 033	5 494	1 034	4 460
Gross value of advances	**817 845**	**32 353**	**5 098**	**27 255**
Impairment of credit advances	**(66 184)**			
Net advances	**751 661**			

M'000	31 December 2018			
		Stage 3		
	Total advances	Total	Security held and expected recoveries	Stage 3 impairment
Agriculture	6 871	850	370	480
Financial Institutions	127 598	-	-	-
Building and property development	55 742	3 123	519	2 604
Government land bank and public authority	13 077	258	-	258
Individuals	510 639	17 678	3 307	14 371
Manufacturing and commerce	85 891	3 476	1 323	2 153
Mining	3 450	67	-	67
Transport and communication	23 529	1 317	362	955
Other services	55 419	5 276	1 445	3 831
Gross value of advances	**882 216**	**32 045**	**7 326**	**24 719**
Impairment of credit advances	**(75 706)**			
Net advances	**806 510**			

23.1.3. Credit risk mitigation and collateral held

Since taking and managing credit risk is core to its business, the bank aims to optimise the amount of credit risk it takes to achieve its return objectives. Mitigation of credit risk is an important component of this, beginning with the structuring and approval of facilities for only those clients and within those parameters that fall within risk appetite.

Although, in principle, credit assessment focuses on the counterparty's ability to repay the debt, credit mitigation instruments are used where appropriate to reduce the bank's lending risk, resulting in security against the majority of exposures. These include financial or other collateral, netting agreements, guarantees or credit derivatives. The collateral types are driven by portfolio, product or counterparty type.

Credit risk mitigation instruments

- Mortgage and instalment sale finance portfolios are secured by the underlying assets financed.
- Commercial credit exposures are secured by the assets of the SME counterparties and commercial property finance deals are secured by the underlying property and associated cash flows.
- Personal loans, overdrafts and credit card exposures are generally unsecured or secured by guarantees and sureties.
- Working capital facilities in corporate banking are unsecured.

The bank employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally to ensure that title is retained over collateral taken over the life of the transaction. Collateral is valued at inception of the credit agreement and subsequently where necessary through physical inspection or index valuation methods. For corporate and commercial counterparties, collateral is reassessed during the annual review of the counterparty's creditworthiness to ensure that proper title is retained. For mortgage portfolios, collateral is revalued on an ongoing basis using an index model and physical inspection is performed in the event of default at the beginning of the recovery process.

For asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossession has not yet occurred, the realisation value of the vehicle is estimated using internal models and is included as part of total recoveries.

Concentrations in credit risk mitigation types, such as property, are monitored and managed in the three credit portfolios, FNB home loans, housing finance and wealth monitor exposure to a number of geographical areas, as well as within loan-to-value bands.

Collateral is taken into account for capital calculation purposes through the determination of LGD. Collateral reduces LGD, and LGD levels are determined through statistical modelling techniques based on historical experience of the recovery processes.

The table below sets out the financial effect of collateral per class of advance.

	31 December 2019					
M'000	Gross Carrying amount	Loss Allowances	Maximum exposure to credit risk	Netting and financial collateral	Unsecured	Secured
Overdrafts and managed accounts	59 658	(10 137)	49 521	15 864	15 125	18 532
Term loans	92 216	(3 572)	88 644	27 897	32 850	27 897
Installment sales and fire purchase	188 976	(17 033)	171 943	-	-	171 943
Property finance	198 965	(6 290)	192 675	-	-	192 675
Personal loans	278 030	(26 764)	251 266	-	251 266	-
Total Advances	**817 845**	(63 796)	**754 049**	**43 761**	**299 241**	**411 047**
Off balance sheet exposure	62 375	(2 388)	59 987	-	59 987	-
Investment securities and other investr	1 137 646	(1 426)	1 136 220	-	1 136 220	-
Amounts due by holding company and fellow subsidiary companies	321 749	-	321 749	-	321 749	-
Accounts receivables	10 667	-	10 667	-	10 667	-

The financial effect of collateral and other credit enhancements has been calculated separately per class of advance for the performing book and the non-performing book. The amounts disclosed above represent the difference between the impairment recognised in the statement of financial position using the actual LGD and a proxy LGD for all secured portfolios. The proxy LGD is based on the LGD used to determine the impairment on the statement of financial position for unsecured portfolios.

Where there is no collateral or where collateral is disregarded for provisioning purposes, no financial effect is calculated.

Offsetting of financial assets and financial liabilities

Where appropriate, various instruments are used to mitigate the potential exposure to certain counterparties. These include financial or other collateral in line with common credit risk practices, as well as netting agreements, guarantees and credit derivatives.

No offsetting of financial assets and financial liabilities has occurred in the current financial year.

23.2. Liquidity risk

Objective

The bank strives to fund its activities in a sustainable, diversified, efficient and flexible manner, underpinned by strong counterparty relationships within prudential limits and minimum requirements. The objective is to maintain natural market share, but also to outperform at the margin, which will provide the bank with a natural liquidity buffer.

Given the liquidity risk introduced by its business activities, the bank's objective is to optimise its funding profile within structural and regulatory constraints to enable its franchises to operate in an efficient and sustainable manner.

Compliance with the Basel III LCR influences the bank's funding strategy, in particular as it seeks to restore the correct risk-adjusted pricing of liquidity. The bank is actively building its deposit franchise through innovative and competitive product and pricing, while also improving the risk profile of its institutional funding. This continues to improve the funding and liquidity profile of the bank.

Given market conditions and the regulatory environment, the bank increased its holdings of available liquidity over the year in line with risk appetite.

Liquidity risk arises from all assets and liabilities with differing maturity profiles.

Assessment and management

The bank focuses on continuously monitoring and analysing the potential impact of other risks and events on the funding and liquidity position of the bank to ensure business activities preserve and improve funding stability. This ensures the bank is able to operate through periods of stress when access to funding is constrained.

Mitigation of market and funding liquidity risks is achieved via contingent liquidity risk management. Buffer stocks of high quality, highly liquid assets are held either to be sold into the market or provide collateral for loans to cover any unforeseen cash shortfall that may arise.

The bank's approach to liquidity risk management distinguishes between structural, daily and contingency liquidity risk management across all currencies. Various approaches are employed in the assessment and management of these on a daily, weekly and monthly basis.

- Structural liquidity risk
  Managing the risk that structural, long term on- and off-balance sheet exposures cannot be funded timeously or at reasonable cost.
- Daily liquidity risk
  Ensuring that intraday and day-to-day anticipated and unforeseen payment obligations can be met by maintaining a sustainable balance between liquidity inflows and outflows.
- Contingency liquidity risk
  Maintaining a number of contingency funding sources to draw upon in times of economic stress.

  Regular and rigorous stress tests are conducted on the funding profile and liquidity position as part of the overall stress testing framework with a focus on:
  - quantifying the potential exposure to future liquidity stresses;

- analysing the possible impact of economic and event risks on cash flows, liquidity, profitability and solvency position; and
- proactively evaluating the potential secondary and tertiary effects of other risks on the bank.

23.2.1. Undiscounted cash flow

The following table presents the bank's undiscounted cash flows of financial liabilities and off- balance sheet amounts and includes all cash outflows related to principal amounts as well as future payments. These balances will not reconcile to the balance sheet for the following reasons:

- balances are undiscounted amounts whereas the statement of financial position is prepared using discounted amounts;
- the table includes cash flows not recognised on the statement of financial position;
- all instruments held for trading purposes are included in the call to three-month bucket and not by maturity as trading instruments are typically held for short periods of time; and
- cash flows relating to principal and associated future coupon payments have been included on an undiscounted basis.

M'000	31 December 2019			
	Total	Term to maturity		
		Call to 3 months	4 to 12 months	Greater than 12 months and non-contractual
On-balance sheet amounts				
Deposits and current accounts	2 366 773	2 099 656	248 379	18 738
Creditors, accruals and provisions	50 296	16 252	-	34 044
Tier 2 liabilities	20 034	34	-	20 000
Amounts due to holding company and fellow subsidiaries	68 744	68 744	-	-
Lease liabilities	11 579	1 846	5 723	4 010
Off-balance sheet amounts				
Financial and other guarantees	22 156	22 156	-	-
Operating lease commitments*	-	-	-	-
Facilities not drawn	40 219	40 219	-	-

**The bank has elected not to restate comparative information, as permitted by IFRS 16. Comparability will not be achieved as comparative information is prepared on an IAS 17 basis. Refer to accounting policy note 10 for more details.*

M'000	31 December 2018			
	Total	Term to maturity		
		Call to 3 months	4 to 12 months	Greater than 12 months and non-contractual
On-balance sheet amounts				
Deposits and current accounts	1 890 298	1 709 979	163 581	16 738
Creditors, accruals and provisions	47 838	6 367	18 365	23 106
Tier 2 liabilities	20 598	598	-	20 000
Amounts due to holding company and fellow subsidiaries	114 049	114 049	-	-
Off-balance sheet amounts				
Financial and other guarantees	23 106	23 106	-	-
Operating lease commitments	26 033	2 724	-	23 309
Facilities not drawn	51 877	51 877	-	-

23.2.2. Concentration analysis of deposits

M'000	**31 December 2019**	31 December 2018
Sector analysis		
Deposits, current accounts and other loans		
Public sector entities	**56 916**	60 698
Banks	**97 476**	162 536
Corporate customers	**1 410 200**	840 125
Retail customers	**535 670**	537 742
Other	**266 511**	289 197
Total deposits	**2 366 773**	**1 890 298**
Geographical analysis		
Lesotho	**2 366 773**	1 890 298

23.3. Non-traded market risk

23.3.1. Economic value of equity (EVE)

An EVE sensitivity measure is used to assess the impact on the total Net Asset Value (NAV) of the bank as a result of a shock to underlying rates. The realisation of a rate move in the banking book will impact the distributable and non-distributable reserves to varying degrees and is reflected in the NII margin more as an opportunity cost/benefit over the life of the underlying positions. As a result, a purely forward-looking EVE sensitivity measure is applied to the banking book, be it a one bps shock or a full stress shock, which is monitored relative to total risk limit, appetite levels and current economic conditions.

The EVE shock applied is based on regulatory guidelines and is a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates. This is applied to risk portfolios as managed by the bank's treasurer which, as a result of the risk transfer through the internal funds transfer pricing process, captures relevant open risk

positions in the banking book. This measure does not take into account the unrealised economic benefit embedded as a result of the banking book products which are not recognised at fair value.

The following table:

- highlights the sensitivity of banking book NAV as a percentage of total capital; and
- reflects a point-in-time view which is dynamically managed and can fluctuate over time.

Banking book NAV sensitivity to interest rate movements as a percentage of total bank capital:

%	**31 December 2019**	31 December 2018
Downward 200bps	**(15.36)**	(5.98)
Upward 200bps	**15.36**	5.98

23.3.2. Earnings sensitivity

Earnings models are run on a monthly basis to provide a measure of the NII sensitivity of the existing banking book to shocks in interest rates. Underlying transactions are modelled on a contractual basis and behavioral adjustments are applied where relevant. The calculation assumes a constant balance sheet size and product mix over the forecast horizon. A pass- through assumption is applied in relation to non-maturing deposits, which reprice at the bank's discretion. This assumption is based on historical product behavior.

The following tables show the 12-month NII sensitivity for a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates.

Most of NII sensitivity is a result of the endowment book mismatch. The bank's average endowment book was M935m for the year (2018: M784m).

Projected Maloti NII sensitivity to interest rate movements

M'000	**31 December 2019**	31 December 2018
Downward 200bps	**424**	9 300
Upward 200bps	**370**	8 040

Assuming no change in the balance sheet and no management action in response to interest rate movements, an instantaneous, sustained parallel 200 bps decrease in interest rates would result in a reduction in projected 12-month NII of M424 (2018: M9 300). A similar increase in interest rates would result in an increase in projected 12-month NII of M370 (2018: M8 040).

23.4. Capital management

The capital planning process ensures that the total capital adequacy and CET1 ratios remain within or above targets across economic and business cycles. Capital is managed on a forward-looking basis, and the bank remains appropriately capitalised under a range of normal and severe stress scenarios, which includes expansion initiatives, corporate transactions, as well as ongoing regulatory, accounting and tax developments. The bank aims to back all economic risk with loss absorbing capital and remains well capitalised in the current environment.

The bank continues to focus on maintaining strong capital and leverage levels, with focus on the quality of capital and optimisation of the bank’s RWA and capital mix.

The bank operated above its capital and leverage targets during the year. The internal targets set by management are more stringent than the regulatory imposed targets. The table below summarises the bank's capital and leverage targets as at 31 December 2019.

	Tier 1	Tier 2	Total qualifying capital
Local capital requirements	8.0%	0.0%	8.0%
Internal targets - Group capital requirements	15.0%	2.5%	17.5%

The following table shows the composition of regulatory capital and ratios of the bank at 31 December 2019. The bank complied with all capital requirements which are prescribed by the Financial Institutions Act 2012.

M'000	31 December 2019	31 December 2018
Share capital and premium	**48 233**	48 233
Retained earnings	**113 933**	86 370
Total qualifying Tier 1 capital	**162 166**	134 603
General debt provision	**12 650**	14 343
Perpetual debt instrument	**12 000**	16 000
Total qualifying Tier 2 capital	**24 650**	30 343
Total regulatory capital	**186 816**	164 946
Risk weighted assets	**942 081**	1 070 004
Capital adequacy ratio	**20%**	15%
Minimum capital ratio per Financial Institutions Act 2012	**8%**	8%

24. Subsequent events

Coronavirus (COVID 19)

It is envisioned that the COVID 19 pandemic will most likely have a negative impact in terms of a slowdown in the economy which could have a further negative impact on the ECL provisioning with regard to forward looking information. Further, a decline in interest rates could have a negative impact on the profitability of the bank. The bank is, however, not able to produce a reliable estimate of this impact at this point.

The directors are not aware of any other material events that have occurred between the date of the statement of financial position and the date of this report.