FIRST NATIONAL BANK OF LESOTHO LIMITED

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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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 2020. 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 accounting policies applied is consistent with the prior year as none of the new or amended IFRS that became effective for the financial year ended 31 December 2020 impacted the group's reported earnings, financial position or reserves, or the accounting policies. The financial statements incorporate full and responsible disclosure in line with the bank's philosophy on corporate governance.

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 15 to 17.

The financial statements were approved by the board of directors on 23 March 2021 and are signed on its behalf by:

I. Leyenaar
Chairman
30 March 2021

D. Mokebe
Chief Executive Officer
29 March 2021

AUDIT COMMITTEE REPORT

The audit committee is pleased to present this report for the financial year ended 31 December 2020 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 three 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.
- 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.

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

29 March 2021

DIRECTORS' REPORT

Nature of business

The activities of FNBL include retail, commercial, corporate and financial services.

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 18 to 140.

Events subsequent to reporting date

The directors are not aware of any 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	October 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
M. Maharasoa	Member	September 2020	Independent Non-Executive Director
M. Moleko	Member	September 2020	Independent Non-Executive Director
D. Mokebe	Member	June 2020	Executive Director

Audit Committee

R. van Staden	Chairman
T. Bohloa	Member
P. Molapo	Member
M. Moleko	Member
G. Usher	Member

Directors Affairs and Governance Committee

P. Molapo	Chairman
I. Leyenaar	Member
T. Bohloa	Member
M. Moleko	Member
M. Maharasoa	Member

Remuneration Committee

T. Bohloa	Chairman
I. Leyenaar	Member
M. Maharasoa	Member
G. Usher	Member

Risk, Capital and Compliance Committee

T. Bohloa	Chairman
I. Leyenaar	Member
P. Molapo	Member
G. Usher	Member
M. Moleko	Member
M. Maharasoa	Member

Senior Credit Risk Committee

P. Molapo	Chairman
T. Bohloa	Member
D. Mokebe	Member

Changes to directorate are outlined below:

Resignations		**Effective Date**
B. Roper	Executive Director	22 May 2020

Senior Management

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

D. Mokebe	Chief Executive Officer
M. Lenkoe	Chief Operating Officer
K. Mocheba	Chief Financial Officer
M. Tsosane	Head of Commercial Corporate Investment Banking
T. Mhlanga	Head of Retail Segment
M. Marakabei	Head of WesBank
T. Nthebe	Head of Credit
T. Mochekele	Head of Risk
M. Makepe	Chief Internal Auditor
M. Madiba	Head of Human Resources
T. Mohami	Head of Legal and Company Secretary
M. Seoela	Head of Treasury
M. Mei	Acting Head of Compliance

INDEPENDENT AUDITORS REPORT

INDEPENDENT AUDITORS REPORT

INDEPENDENT AUDITORS REPORT

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 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2020, 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)	Taxation (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 and revised standards were adopted in the current year:

New/ revised IFRS	Description of change	Impact
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 other standards.	The amendments did not have any 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.	This amendment will be applied by the bank upon entering into any new business combination transactions.

New/ revised IFRS	Description of change	Impact
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 material is consistent across all IFRS Standards.	The amendments did not have any impact on the bank's accounting policies.
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 the bank's 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	The amendments did not have any impact on the bank's accounting policies as the bank does not apply hedge accounting.

New/ revised IFRS	Description of change	Impact
	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 are 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 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	

New/ revised IFRS	Description of change	Impact
	inception of such hedging relationships. These reliefs are essential to mitigate the hedge accounting issues that could arise during the period of uncertainty before IBOR contracts are amended to new ARRs	

None of the new or amended IFRS became effective for the 12 months ended 31 December 2020 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.

COVID-19 impact

Due to the coronavirus (COVID-19) pandemic, governments across the world have declared national lockdowns, which have resulted in extensive travel restrictions and quarantine measures being implemented. Businesses globally have had to limit or suspend their operations and as such, the COVID-19 measures implemented by governments globally have severely impacted a wide range of industries, including the financial sector. Due to the global economic downturn, a significant increase in the volatility of the financial and commodities markets worldwide has been noted.

Due to the unprecedented nature of the COVID-19 pandemic, it is not possible to accurately predict the full extent and duration of its economic impact.

While the specific areas of judgement detailed in note 9 did not change, given the dynamic and evolving nature of COVID-19, limited recent experience of the economic and financial impact of such a pandemic has resulted in, additional judgements having been applied within those identified areas, which has resulted in changes to the estimates and assumptions that have been applied in the measurement of some of the bank's assets and liabilities from the prior period.

Significant estimates, judgements and assumptions impacted by COVID-19

The table below provides an overview of the areas where additional judgement has been applied and includes references to the relevant sections in the notes to the annual financial statements, where additional information has been included.

Description	Additional information
Impairment provisions on advances	
Incorporating forward-looking information	
Forward-looking information, including a detailed explanation of the scenarios and related probabilities considered in determining the bank's forward-looking assumptions for the purposes of its Expected Credit Loss (ECL), has been provided. Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of the social and economic consequences of COVID-19 will manifest, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.	Accounting policy note 9.3 *Impairment of financial assets - Forward-looking information*.
Significant increase in credit risk	
The bank has not approached the ECL impact of COVID-19 on an overall blanket approach (where COVID-19 is seen as a Significant Increase in Credit Risk (SICR) trigger that will result in the entire portfolio of advances moving into their respective next staging bucket). A more systematic and targeted approach to the impact of COVID -19 on the customer base is being undertaken rather, which is in line with the bank's existing policy documented in the bank's Credit Impairment Framework.	Accounting policy note 9.3 *Impairment of financial assets*

The key statement of financial position items and related disclosures that have been impacted by COVID-19

In addition to the key areas where additional judgement has been applied, the following balances and related disclosures have also been impacted by COVID-19.

Description	Additional information
Overall application of the going concern principle	
The directors have reviewed the bank's budgets and considered the bank's ability to continue as a going concern in light of current and anticipated economic conditions. These budgets forecasts took the impact of the COVID-19 pandemic into consideration, including projections of the impact on the bank's capital, funding and liquidity requirements. As part of this assessment, the directors considered: • The sufficiency of the bank's financial resources throughout the pandemic. The management of the bank's financial resources, which it defines as capital, funding and liquidity, and risk capacity, is a critical enabler of the achievement of the bank's stated growth and return targets and is driven by the bank's overall risk appetite. Forecast growth in earnings and balance sheet risk weighted assets (RWA) is based on the bank's macroeconomic outlook and is evaluated against available financial resources, considering the requirements of capital providers, regulators and rating agencies. The expected outcomes and constraints are then stress tested, and the bank sets targets through different business cycles and scenarios to enable FNBL to deliver on its commitments to stakeholders at a defined confidence level; • The adequacy of the bank's liquidity as the bank supports customers throughout the pandemic;	Director's report page 3. Note 23 *Financial Risk – Capital Management*.

Description	Additional information
• The bank's operating resilience, such as call centres, mobile and online channels and the bank's ability to provide continuity of service through the pandemic; • The resilience of the bank's IT systems; • The legal and regulatory environment in Lesotho; and • The potential valuation concerns around the bank's assets recognised on the statement of financial position. On the basis of this review, and in light of the current financial position and profitable trading history, 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.	
Financial instruments	
COVID-19 debt relief measures provided to customers	
Due to the COVID-19 pandemic and resultant impact on the economy, a liquidity crisis was experienced by a large number of customers. In order to assist customers, the bank has provided various relief measures to customers. In the retail and commercial segments, these included the following: - Restructure of existing exposures with no change in the present value of the estimated future cash flows; and - Restructure of existing exposures with a change in the present value of the estimated future cash flows.	For the impact on the staging of debt relief measures refer to accounting policy note 9 *Impairment of financial assets - Treatment of financial relief offered in response to the impacts of COVID-19.*

Description	Additional information
In order to determine the appropriate accounting treatment of the restructure of existing facilities and related additional disclosures required, the principles set out in accounting policy note 9 were applied.	*Refer to note 9 Impairment of advances - Modified advances measured at amortised cost for details of all modifications and resultant gains or losses recognised in the current year.*
Financial risks	
The bank's robust risk management framework continues to be applied across the various risk areas introduced by financial instruments and the various risk owners continues to monitor the impact of COVID-19 on the bank's risk profile. Non-financial risks emerging from global movement restrictions, and remote working by our staff, counterparties, clients and suppliers are being identified, assessed, managed and governed through timely application of the bank's risk management framework.	Note 23 *Financial Risk*

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 the bank	Lesotho Maloti (M).
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

<table>
<tr><td colspan="2">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.</td></tr>
<tr><td>Fee and commission income</td><td>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:</td></tr>
</table>

	➢ 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.
Write-offs and post-write-off recoveries	Write-off must occur when it is not economical to pursue further recoveries i.e. there is no reasonable expectation of recovering the carrying amount of the asset (gross amount less specific impairments raised).

Advances	
	- 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
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	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

Transaction type	Description	Accounting treatment
	advances on a case-by-case basis.	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

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.

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. Using the straight line method, 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: Lease contract term • Office equipment: 5-10 years • Sundries: 3-5 years • Computer equipment: 3-5 years • Other equipment: 3-10 years • Right-of-use-asset: Lease contract term

<table>
<tr><th>Classification</th><th>Measurement</th></tr>
<tr><td colspan="2">Provisions</td></tr>
<tr><td colspan="2">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.</td></tr>
</table>

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. The assets are impaired if the carrying amount is more than the recoverable amount, which is the higher of the assets' value in use and fair value less cost to sell. The impairment loss is calculated as the difference between the assets' carrying amount and their recoverable amounts.

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 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	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 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
	measured at cost comprising of the amount of the initial measurement of the lease liability plus 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.	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
	The ROUA is subsequently measured at cost less accumulated depreciation and 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.	Finance lease receivables are presented as part advances in in the consolidated statement of financial position.

Bank is the lessee		Bank is the lessor
	The ROUA's are not presented as a separate line in the consolidated 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.

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 the liability resulting in the derecognition of the share-based payment obligation and the recognition of a prepaid debtor, which the bank releases to the income statement over the vesting period of the original award granted to the employees. 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 2020

Scenario	Assumptions
Baseline regime	Assumes: • a balance between the impact of Covid-19 and key economic sectors, Sovereign and structural weaknesses in the economy. • Adjustments on the CBL rate to align with SARB MPC repo rate. • Measured approach to the impact of the sharp drop in SACU receipts over the short term on fiscus and external position. • Deteriorated economic outlook through dampened demand, lower tourism receipts and constraints on trade as the global environment struggles from Covid - 19
Upside to Baseline	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 favorable 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% to 26% while the probability of the upside regime has decreased by 4% to 14%.

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		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
GDP growth (%)	4.00	3.00	3.20	2.80	2.00	2.10	(2.00)	(0.50)	0.00
Inflation (Annual average) (%)	3.60	3.60	3.60	5.20	5.00	5.00	5.80	6.60	6.60
Policy rate (%)	3.50	3.50	3.50	3.25	3.25	3.25	6.30	6.50	6.50
Foreign exchange rate	12.00	11.90	12.10	15.50	16.20	17.00	18.20	21.40	22.50

Post-model adjustments

In addition to forward-looking macroeconomic information, other types of forward-looking information (FLI), 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. The following table summarises the reasons for the material post-model adjustments made.

Post-model adjustment	Description	Portfolios impacted
COVID-19 macroeconomic adjustment	Post-model adjustment made on the basis of constrained expert judgement to allow for macroeconomic impacts not adequately captured by existing statistical models. Adjustment calculated through application of expert judgement-based weightings to macroeconomic factors within the existing FLI methodology.	Retail and commercial credit portfolios.
Adjustment for COVID-19 relief	Adjustments made to coverage held for COVID-19 relief to allow for impact of delayed arrears recognition, which results from an inability to observe normal arrears behaviour and to provide accordingly where payment relief is offered.	Retail and commercial credit portfolios.

Judgement	Retail	Wholesale
Measurement of the 12-month and lifetime ECL	Parameters are determined on a pooled basis, with exposures pooled on a portfolio level at a minimum. Where appropriate, more granular pooling is applied. The inputs used to determine parameter values include historically observed behaviour as well as behavioural and demographic information related to individual exposures currently on book. PD parameters are determined through assessment of the influence that various risk drivers have had on historical default rates. EAD parameters are estimated based on product characteristics and historical draw-down and payment behaviour. LGDs are determined by estimating expected future cash flows and are adjusted for forward looking information such as the prime lending rate	Parameters are determined based on the application of statistical models that produce estimates based on counterparty-specific financial information and transaction characteristics including the nature of available collateral. Due to the specialised nature of these exposures, parameters produced by models are taken through a robust review and challenge process before being applied to calculate expected credit losses, and are required to be signed off by a committee of wholesale credit experts who can motivate adjustments to modelled parameters.

	and GDP. These cash flows include direct costs and proceeds from the sale of collateral. Collateral recovery rates are based on historically observed outcomes. The statistical models applied implicitly assume that risk drivers that influence default risk, payment behaviour and recovery expectations within the historical data will continue to be relevant in the future.	
	Parameters are calibrated for the calculation of 12-month and ECL using term structures that consider borrower risk, account age, historical behaviour, transaction characteristics and correlations between parameters. Term structures have been developed over the entire remaining lifetime of an instrument. The remaining lifetime is limited to the contractual term of instruments in the portfolio, with the exception of instruments with an undrawn commitment such as credit cards, where no limit is placed on the length of the remaining lifetime. In such instances the remaining term is determined with reference to the change in client requirements that would trigger a review of the contractual terms, for example an increase in limit.	

	Expected credit losses on open accounts are discounted from the expected date of default to the reporting date using the asset's original effective interest rate or a reasonable approximation thereof.
Determination of Whether the credit risk of financial instruments have increased significantly since initial recognition	Although COVID-19 has had a negative impact on the economic environment in which the bank operates, in isolation COVID-19 initially reflected a liquidity constraint more than an inherent increase in credit risk for the entire portfolio of advances held by the bank. As such the bank did not impose a blanket downgrade on all ECL stages. A more systematic and targeted approach to the impact of COVID-19 on the bank's customer base was undertaken, following the bank's existing credit framework, which allowed for well-balanced and consistent decision-making that considered not only the impact of COVID-19, but existing economic trends as well. As such, the bank did not view requests for payment deferrals and liquidity assistance as the sole indicator that SICR had occurred for performing advances. IFRS 9 contains a rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. This means that where payments are 30 days past due, the financial asset needs to migrate from stage 1 to stage 2. Instead of rebutting this presumption, the bank views that where the customer and the bank have agreed to a deferral of payment for a specified period, that such an extension will not trigger the counting of days past due.

SICR assessment of COVID-19 relief exposures	In accordance with IFRS 9, all exposures are assessed to determine whether there has been a SICR at each reporting date (monthly), in which case the expected credit loss is calculated on a lifetime basis. SICR triggers are based on client behaviour, client-based behavior scores and judgemental factors. These triggers are portfolio specific and are calibrated over time to determine what level of deterioration is reflective of a significant increase in credit risk with reference to historic default rates within that portfolio. The bank uses a relative movement in probability of default between reporting date and origination date to determine if there was a significant increase in credit risk. These levels are monitored and validated on a continuous basis. Management also considers	In accordance with IFRS 9, all exposures are assessed to determine whether there has been a significant increase in credit risk at each reporting date (monthly), in which case the expected credit loss is calculated on a lifetime basis. SICR triggers are determined based on client behaviour, client internal bank rating or risk score, as well as judgemental factors which may result in the client being added to the watch list through the bank's ongoing risk management process. These triggers are determined at a deal and client level and are calibrated over time to determine what level of deterioration is reflective of a significant increase in credit risk. Additional judgmental triggers, such as belonging to an industry in distress, are considered in the context of the financial impact of COVID-19.

<table>
<tr><td></td><td>other judgemental triggers, for example behaviour on other products. Additional judgemental triggers, such as employment in industries in distress, have also been considered in the context of COVID-19 and its financial impacts.</td><td>The bank uses a relative movement in probability of default between reporting date and origination date to determine if there was a significant increase in credit risk, and the client's watch list status at a point in time. These levels are monitored and validated on a continuous basis.</td></tr>
<tr><td>Sensitivity staging</td><td colspan="2">As outlined above, when there is a SICR since initial recognition, the exposure is moved from stage 1 to stage 2 and the ECL is calculated based on lifetime expected credit losses.

The move from 12-month expected credit loss to lifetime expected credit loss can result in a substantial increase in ECL. The sensitivity information provided in the table below details the additional ECL charge to the income statement that the bank would need to recognise if 5% of the gross carrying amount of advances suffered a SICR and were moved from stage 1 to stage 2 as at 31 December 2020. A 5% increase in advances categorised as stage 2 can be viewed as a reasonably possible alternative based on the current economic conditions.</td></tr>
</table>

31 December 2020*		
M'000	**5% increase in gross carrying amount of exposure**	**Increase in ECL due to 5% increase in SICR**
Retail	18 741	3 232
Wholesale, commercial and other (including Bank Treasury)	11 165	1 925
Total increase in stage 2 advances and ECL	29 906	5 157

**Comparative information has not been provided. As IFRS 9 is refined and embedded in the bank's reporting process, additional disclosure is included. This information was not produced in the prior year.*

As indicated, the bank applied two specific judgements in determining the ECL for the current year, namely:

- the bank did not apply a blanket downgrade to all ECL stages to advances that qualified and received a form of COVID-19 relief; and
- the bank applied a post-model adjustment against advances where COVID-19 relief had been provided, so as to allow for the impact of delayed arrears recognition, which results from an inability to observe normal arrears behaviour.

The following table sets out the additional ECL charge to the income statement if all advances which were subject to a form of COVID-19 relief were deemed to have suffered a SICR and were moved from stage 1 to stage 2, or where the COVID-19 relief was deemed to be an indicator of impairment and the

advance was moved from stage 2 to stage 3 as at 31st December 2020.

The increase in the loss allowance is calculated as the difference between the impairment that would have been raised in either stage 2 or stage 3 and the impairment recognised as at 31 December 2020. The impairment recognised as at 31 December 2020 already includes the post-model adjustment for COVID-19 relief detailed in the post-model adjustment section in this note.

The impact on the income statement impairment charge is set out below:

M'000	31 December 2020	
	Stage 2	Stage 3
Additional impairment charge recognised if the exposures reported in stage 1 at year end had moved into stage 2	7 936	
Additional impairment charge if the exposures reported in stage 2 at year end moved into stage 3		16 060

The table below sets out the additional ECL charge to the income statement if the post-model adjustment for COVID-19 was stressed and increased by 10%. A 10% increase in post-model adjustment can be viewed as a reasonably possible alternative based on the current economic conditions.

M'000	31 December 2020		
	Stage 1	Stage 2	Stage 3
Additional provisions	3090	491	104

Treatment of financial relief offered in response to the impacts of COVID-19 – retail and commercial exposures

The bank offered financial relief through various mechanisms in response to COVID-19. These included the following:

- restructure of existing exposures with no change in the present value of the estimated future cash flows; and
- restructure of existing exposures with a change in the present value of the estimated future cash flows.

Prior to COVID-19 relief being granted, the customer was assessed against eligibility for relief criteria. In doing so, the bank was able to identify customers who were in good standing but were facing financial distress due to the impact of COVID-19 directly or indirectly. The COVID-19 relief provided to these customers were deemed to be temporary and cash flow in nature. Where a customer was already experiencing financial distress and was in arrears prior to 25 March 2020, any restructuring of the customer's facilities was deemed to be permanent in nature.

Where relief is expected to be temporary in nature and as such qualifies as a non-distressed restructure, the staging of the

	exposure as at 25 March 2020 has been maintained, and adjustments have been made to coverage to allow for incremental credit risk and potential masking of normal arrears. Where the relief is expected to be permanent in nature, the exposure has been treated as a distressed restructure, and staging and coverage have been adjusted in line with the bank's normal practice. Where the relief provided as an emergency facility is part of a distressed restructure, the staging of the emergency facility has been aligned to the staging of the underlying exposures. Where there are multiple underlying exposures with different stages, the worst of these stages has been applied. The ECL for all exposures on which relief has been offered and for all emergency facilities has been adjusted to reflect the impact of forward-looking macroeconomic information in line with the rest of the portfolio.
Treatment of financial relief offered in response to the impacts of COVID-19 – wholesale exposures	Debt relief measures for wholesale clients have been undertaken on a case-by-case basis within the boundaries of existing credit risk management processes. Treatment of financial relief offered to wholesale customers remains the same as for other wholesale restructures.
Determination of whether a financial asset is credit impaired	Exposures are classified as stage 3 if there are qualitative indicators that the obligor is unlikely to repay their credit obligations in full without any recourse action by the bank, such as the realisation of security.

	Distressed restructures of accounts in stage 2 are also considered to be default events. For a retail account to cure from stage 3 to either stage 2 or stage 1, the account needs to meet a stringent cure definition. Cure definitions are determined on a portfolio level with reference to suitable analysis and are set such that the probability of a previously cured account re-defaulting is equivalent to the probability of default for an account that has not defaulted in the past. In most retail portfolios curing is set at 12 consecutive payments. For wholesale exposures, cures are assessed on a case-by-case basis, subsequent to an analysis by the relevant debt restructuring credit committee. A default event is a separate default event only if an account has met the portfolio- specific cure definition prior to the second or subsequent default. Default events that are not separate are treated as a single default event when developing LGD models and the associated term structures.

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

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 accounting policies applied is consistent with the prior year as none of the new or amended IFRS that became effective for the financial year ended 31 December 2020 impacted the group's reported earnings, financial position or reserves, or the accounting policies. The financial statements incorporate full and responsible disclosure in line with the bank's philosophy on corporate governance.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

M'000	Notes	31 December 2020	31 December 2019
Interest and similar income	1.1	**223 983**	248 407
Interest expense and similar charges	1.2	**(58 818)**	(80 638)
Net interest income before impairment of advances		**165 165**	167 769
Impairment of advances	9	**(62 430)**	(10 244)
Net interest income after impairments of advances		**102 735**	157 525
Non-interest revenue	2	**145 769**	140 341
Income from operations		**248 504**	297 866
Operating expenses	3	**(274 460)**	(258 033)
(Loss)/Profit before income tax		**(25 956)**	39 833
Income tax expense	4	**8 532**	(10 928)
(Loss)/Profit and total comprehensive income for the year		**(17 424)**	28 905

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

M' 000	Notes	**31 December 2020**	31 December 2019
ASSETS			
Cash and cash equivalents	6	**654 817**	397 137
Investments securities and other investments	7	**1 257 103**	1 137 646
Advances	8	**648 376**	751 661
Accounts receivable	10	**8 525**	10 667
Current tax asset		**-**	1 065
Amounts due by holding company and fellow subsidiary companies	11	**287 688**	321 749
Property and equipment	12	**43 903**	46 322
Deferred income tax asset	13	**37 485**	23 442
Total assets		**2 937 897**	2 689 689
EQUITY AND LIABILITIES			
Liabilities			
Creditors, accruals and provisions	14	**60 756**	50 296
Current tax liability		**886**	-
Deposits	15	**2 677 100**	2 366 773
Employee liabilities	16	**7 350**	8 575
Lease liabilities	17	**18 034**	11 579
Amounts due to holding company and fellow subsidiary companies	11	**9 028**	68 744
Tier 2 liabilities	11	**20 000**	20 034
Total liabilities		**2 793 154**	2 526 001
Equity			
Ordinary shares	18	**39 124**	39 124
Share premium	18	**9 109**	9 109
Reserves		**96 509**	115 455
Total equity		**144 742**	163 688
Total equity and liabilities		**2 937 896**	2 689 689

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

M'000	Share capital	Share premium	General risk reserve*	Retained earnings	Reserves attributable to ordinary equity holders	Total equity
Balance as at 31 December 2018	39 124	9 109	16 059	70 310	**86 369**	**134 602**
Restated balance as at 1 January 2019	39 124	9 109	16 059	70 310	**86 369**	**134 602**
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**	**16 376**	**99 078**	**115 454**	**163 687**
Current year movement	-	-	-	(1 521)	**(1 521)**	**(1 521)**
Profit and total comprehensive income for the year	-	-	-	(17 424)	**(17 424)**	**(17 424)**
Balance as at 31 December 2020	**39 124**	**9 109**	**16 376**	**80 133**	**96 509**	**144 742**

**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 2020

M' 000	Notes	31 December 2020	31 December 2019
Cash flows from operating activities			
Interest, fees and commission receipts		378 123	361 924
Interest payment		(57 134)	(79 316)
Other operating expenses		(250 830)	(230 291)
Taxation received /(paid)		(5 082)	(3 481)
Cash flows from operating activities		65 077	48 836
Movements from operating assets and liabilities		207 163	99 384
Liquid assets and trading securities		(168 434)	(424 596)
Advances		55 806	50 340
Deposits		308 610	474 770
Creditors (net of debtors)		10 073	(4 852)
Employee liabilities		325	(2 818)
Other liabilities *		783	6 540
Net cash generated from operating activities		272 240	148 220
Cash flows from investing activities			
Acquisition of property and equipment		(5 045)	(9 319)
Net cash outflow from investing activities		(5 045)	(9 319)
Cash flows from financing activities			
Lease payments (IFRS 16)*		(9 515)	(6 298)
Net cash outflow from financing activities		(9 515)	(6 298)
Increase in cash and cash equivalents		257 680	132 603
Cash and cash equivalents at the beginning of the year	6	397 137	264 534
Cash and cash equivalents at the end of the year		654 817	397 137

* *Prior year Lease payments has been reallocated to Cashflow from Financing Activities in alignment to IFRS 16 provisions*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. Analysis of interest income and interest expense

1.1. Interest and similar income

M'000	**31 December 2020**	31 December 2019
Instruments at amortised cost	**223 983**	248 407
Advances	**105 117**	132 179
Overdrafts and cash management accounts	**7 791**	8 632
Term loans	**8 811**	16 631
Instalment sales and hire purchase agreements	**20 605**	26 763
Property finance	**18 171**	23 362
Personal loans	**49 739**	56 791
Cash and cash equivalents	**21 046**	19 948
Investment securities	**84 471**	61 986
Amounts due by holding company and fellow subsidiaries	**13 259**	33 677
Other	**90**	617
Interest and similar income	**223 983**	248 407

1.2. Interest expense and similar charges

M'000	**31 December 2020**	31 December 2019
Instruments at amortised cost	**(58 818)**	(80 638)
Deposits from customers		
Current accounts	**(4 603)**	(8 567)
Savings deposits	**(7)**	(26)
Call deposits	**(23 560)**	(44 836)
Fixed and notice deposits	**(26 939)**	(23 864)
Tier 2 liabilities	**(1 971)**	(2 433)
Interest on lease liability	**(1 738)**	(912)
Interest expense and similar charges	**(58 818)**	(80 638)

2. Non-interest revenue

M'000	**31 December 2020**	31 December 2019
Fee and commission income		
Instruments at amortised cost	**145,769**	140,341
Net fee and commission income		
Income		
Card commissions	**3,311**	3,033
Cash deposit fee	**32,475**	32,033
Commissions: bills, drafts and cheques	**3,817**	3,289
Exchange commissions	**2,407**	2,507
Bank charges	**85,995**	79,542
Other non-banking fee and commission income	**12,832**	13,513
Expenses		
Other non-banking fee and commission expenses	**(16,644)**	(14,238)
Net fee and commission income	**124,193**	119,679
Other non-interest revenue		
Amounts due by holding company and fellow subsidiaries	**8,035**	6,110
Other non-interest revenue	**13,541**	14,552
Other non-interest revenue	**21,576**	20,662
Total non-interest revenue	**145,769**	140,341

3. Operating expenses

M'000	**31 December 2020**	31 December 2019
Auditors remuneration	**(2 973)**	(1 792)
Audit fees	**(2 973)**	(1 792)
Staff costs	**(81 812)**	(85 598)
Salaries, wages and allowances	**(62 386)**	(57 982)
Contributions to employee benefit funds	**(8 365)**	(8 154)
Share based payments	**(3 223)**	(4 107)
Other staff costs	**(7 838)**	(15 355)
Other operating costs	**(189 675)**	(170 643)
Depreciation of property and equipment	**(22 183)**	(20 035)
Insurance	**(1 479)**	(1 296)
Advertising and marketing	**(4 745)**	(4 197)
Maintenance	**(5 299)**	(4 176)
Property	**(10 787)**	(10 064)
Computer	**(6 523)**	(6 844)
Non-capitalised lease charges	**(6 761)**	(5 617)
Stationery	**(2 628)**	(2 680)
Telecommunications	**(5 301)**	(3 672)
Professional fees	**-**	(119)
Expenses paid to holding company and fellow subsidiaries	**(100 031)**	(83 858)
Other operating expenditure	**(23 938)**	(28 085)
Total operating expenses	**(274 460)**	(258 033)

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4. Income tax expense

M'000	**31 December 2020**	31 December 2019
Current income tax	**(5 510)**	(9 419)
Current year	**(7 032)**	(9 127)
Prior year adjustment	**1 522**	(292)
Deferred income tax	**14 043**	(1 509)
Current year	**14 043**	(1 509)
Total income tax expense	**8 533**	(10 928)

Tax rate reconciliation

%	**31 December 2020**	31 December 2019
Standard rate of income tax	**25**	25
Adjustments:		
Prior year adjustments	**-**	1
Disallowed expenditure	**0**	-
Other non-deductible amounts	**(52)**	1
Effective rate of tax	**(27)**	27

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 2020				
M'000	Financial assets measured at amortised cost	Non-financial instruments	Total carrying value	Current	Non-current
Cash and cash equivalents	654 817	-	654 817	654 817	-
Investments securities and other investments	1 257 103	-	1 257 103	551 660	705 443
Advances	648 376	-	648 376	143 416	504 960
Accounts receivable	8 525	-	8 525	3 353	5 172
Amounts due by holding company and fellow subsidiaries	287 688	-	287 688	287 688	
Property and equipment	-	43 903	43 903	-	43 903
Deferred income tax asset	-	37 485	37 485	-	37 485
Total assets	**2 856 509**	**81 388**	**2 937 897**	**1 640 934**	**1 296 963**

	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**

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.

M'000	Financial liabilities measured at amortised cost	Non-financial instruments	Total carrying value	Current	Non-current
Creditors, accruals and provisions	60 756	-	60 756	60 756	-
Current tax liability	886		886	886	
Deposits	2 677 100	-	2 677 100	2 652 195	24 905
Employee liabilities	-	7 350	7 350	7 350	
Other liabilities	18 034	-	18 034	4 647	13 387
Amounts due to holding company and fellow subsidiaries	9 028	-	9 028	9 028	-
Tier 2 liabilities	20 000	-	20 000	-	20 000
Total liabilities	**2 785 804**	**7 350**	**2 793 154**	**2 734 862**	**58 292**

	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**

6. Cash and cash equivalents

M'000	31 December 2020	31 December 2019
Coins and bank notes	**110 959**	139 633
Money at call and short notice	**473 505**	179 674
Balances with central banks	**70 352**	77 830
Total cash and cash equivalents	**654 816**	397 137
Mandatory reserve balances included above	**69 961**	75 803

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 2020	31 December 2019
Treasury bills	**551 660**	665 807
Government bonds	**557 620**	473 265
Fixed deposit	**149 839**	-
Total gross carrying amount of investment securities	**1 259 119**	1 139 072
Loss allowance on investment securities	**(2 016)**	(1 426)
Total investment securities	**1 257 103**	1 137 646

Investment securities are classified as debt instruments at amortised cost.

Analysis of impairment stages of investment securities

	31 December 2020		31 December 2019	
M'000	Carrying Amount	ECL Allowance	Total carrying value	Current
Stage 1	1,109,280	(2,016)	1,139,072	(1,426)
Total investment securities	**1,109,280**	**(2,016)**	**1,139,072**	**(1,426)**

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 2020	31 December 2019
Category analysis			
Overdrafts and cash managed accounts		**69 210**	59 658
Term loans		**53 555**	92 216
Instalment sales and hire purchase agreements		**168 922**	188 976
Property finance		**210 300**	198 965
Personal loans		**263 747**	278 030
Gross value of advances		**765 734**	817 845
Impairment of advances	9	**(117 358)**	(66 184)
Net advances		**648 376**	751 661

Analysis of instalment sale, hire purchase and lease payments receivable

M' 000	31 December 2020			31 December 2019		
	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	**11 523**	**(374)**	**11 149**	11 528	(528)	11 000
Between 1 and 5 years	**177 357**	**(26 036)**	**151 321**	209 185	(39 267)	169 918
More than 5 years	**8 638**	**(2 186)**	**6 452**	12 885	(4 827)	8 058
Total net instalment sale, hire purchase and lease payments receviable	**197 518**	**(28 596)**	**168 922**	233 598	(44 622)	188 976

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 M12,696,019 (2019: M 10,172,453)

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

M'000	Total	Stage 1	Stage 2	Stage 3
Amount as at 1 January 2019	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
Transfer to Stage 1	-	(110 768)	105 921	4 847
Transfer to Stage 2	-	55 425	(64 389)	8 964
Transfer to Stage 3	-	29	1 346	(1 376)
Bad debts written off	(20 776)	-	-	(20 776)
New business and other changes in exposure	(31 335)	(73 105)	23 469	18 301
Amount as at 31 December 2020	**765 734**	**595 759**	**127 661**	**42 314**

The total contractual amount outstanding on financial assets that were written off during the period and are still subject to enforcement activity is M20.7million (2019: M28.1 million).

9. Impairment of advances

M'000	31 December 2020	31 December 2019
Increase in loss allowance	**(71,478)**	(20,454)
Recoveries of bad debts previously written off	**9,048**	10,210
Impairment of advances recognised during the period	**(62,430)**	(10,244)

Reconciliation of the loss allowance per segment

M'000	Total	Retail Segment	Commercial Segment	Corporate Segment	Wesbank Segment
Amount as at 1 January 2019	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	21 752	20 289	(1 371)	894	1 940
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	33 393	24 002	8 930	(1 379)	1 840
Stage 2	11 040	4 418	4 553	342	1 727
Stage 3	6 268	4 580	(1 228)	-	2 915
Bad debts written off	(20 776)	(17 531)	(3 244)	(1)	-
Increase/(decrease) in impairment	(44 870)	(33 001)	(12 255)	1 037	(652)
Stage 1	(33 393)	(24 002)	(8 930)	1 379	(1 840)
Stage 2	(11 040)	(4 418)	(4 553)	(342)	(1 727)
Stage 3	(437)	(4 580)	1 228	-	2 915
Stage 3 interest	473	1 101	(237)	1	(392)
Amount as at 31 December 2020	117 358	73 145	20 132	956	23 126

10. Accounts receivable

M'000	**31 December 2020**	31 December 2019
Items in transit	**(2,151)**	848
Prepayments	**1,076**	5,657
Accounts receivable	**9,600**	4,162
Total gross carrying amount of accounts receivable	**8,525**	10,667
Financial	**9,600**	4,162
Non-financial	**(1,075)**	6,505

Included in accounts receivables is an amount of M5.2 million (Dec 2019: Nil) relating to the share option scheme under the assumption of liability fund managed by RMB Morgan Stanley. share option schemes are allocated to employees and are accumulated in advance through the fund.

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

M'000	**31 December 2020**	31 December 2019
Amounts due by holding company	287,688	321,749
Total amount due by holding company and fellow subsidiaries	**287,688**	**321,749**
Amounts due to fellow subsidiaries	9,028	68,744
Tier 2 liabilities	20,000	20,034
Total amount due to holding company and fellow subsidiaries	**29,028**	**88,778**

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 2020**	31 December 2019
Opening balance	**20 034**	20 598
Non-cash flow movements		
Interest accrued	**1 971**	2 433
Cash flow movements		
Interest paid	**(2 005)**	(2 997)
Closing balance	**20 000**	20 034

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: 2 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 2019	**19 868**	**10 459**	**3 852**	**5 594**	**-**	**39 773**
Cost	64 315	26 277	14 079	24 321	-	128 992
Accumulated depreciation and impairment	(44 448)	(15 818)	(10 226)	(18 727)	-	(89 219)
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	(47 921)	(15 463)	(8 942)	(18 320)	**(6 298)**	**(96 944)**
IFRS 16 adjustment	-	-	-	-	**15 187**	**15 187**
Movement for the year	**(4 933)**	**(529)**	**(1 371)**	**(1 258)**	**(9 515)**	**(17 606)**
Acquisitions	17	3 811	19	1 198		5 045
Disposals	(303)	(2)	(6)	(157)	-	(468)
Depreciation charge for the year	(4 647)	(4 337)	(1 384)	(2 300)	(9 515)	(22 183)
Net book value as at 31 December 2020	**12 407**	**8 759**	**1 224**	**4 503**	**17 009**	**43 903**
Cost	**62 123**	**28 307**	**11 319**	**23 368**	**32 822**	**157 939**
Accumulated depreciation and impairment	**(49 716)**	**(19 548)**	**(10 094)**	**(18 866)**	**(15 813)**	**(114 036)**

**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 2020	31 December 2019
Deferred income tax asset		
Opening balance	23 442	24 951
All other temporary differences recongnised in profit or loss	**14 043**	**(1 509)**
Total deferred income tax asset	**37 485**	**23 442**

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	
	2020	2019	**2020**	2019
Deferred income tax asset				
Provision for loan impairment	**29 339**	16 546	**12 793**	(2 381)
Other provisions	**4 088**	4 110	**(22)**	520
Property and equipment	**3 801**	2 726	**1 075**	292
Right of Use Assets	**256**	60	**196**	60
Total deferred income tax asset	**37 485**	23 442	**14 043**	(1 509)

14. Creditors, accruals and provisions

M'000	31 December 2020	31 December 2019
Accounts payable	44 723	32 212
Accrued expenses	9 048	10 220
Audit fees accrued	2 101	1 592
Provisions (including litigations and claims)	4 884	6 272
Total creditors, accruals and provisions	**60 756**	**50 296**

Reconciliation of provisions

M'000	31 December 2020	31 December 2019
Opening balance	6 272	2 602
Additional provisions created	1 309	6 470
Utilised	(2 697)	(2 800)
Closing balance	**4 884**	**6 272**

15. Deposits

M'000	31 December 2020	31 December 2019
Deposits from customers		
Current accounts	**1,292,669**	889,241
Call deposits	**648,959**	914,053
Savings accounts	**16,297**	6,629
Fixed and notice deposits	**719,175**	556,804
Other deposits	**-**	46
Deposits	**2,677,100**	**2,366,773**

16. Employee liabilities

M'000	31 December 2020	31 December 2019
Liability for short term employee benefits	**7 350**	8 575
Total employee liabilities	**7 350**	**8 575**

17. Lease liabilities

M'000	31 December 2020	31 December 2019
Lease liabilities	**18,034**	11,579

17.1. Lease liabilities reconciliation

M'000	31 December 2020	31 December 2019
Opening balance	**11 579**	-
IFRS 16 adjustment	**14 232**	17 634
Non-cashflow movements		
Interest accrued	**1 738**	912
Cash flow movements		
Principal payments towards lease liabilities	**(9 515)**	(6 967)
Closing balance	**18 034**	11 579

18. Share capital and share premium

M'000	31 December 2020	31 December 2019
Ordinary shares		
Authorised		
50 000 000 shares with a par value of M1 per share		
Issued		
39 123 970 (2019: 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 2020	31 December 2019
The charge to profit or loss for share based payments is as follows:		
Conditional share plan	**(3 223)**	(4 107)
Amount included in profit or loss	**(3 223)**	**(4 107)**

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

2016 (Vested 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 must deliver a ROE of at least 18% over the performance period. Nominal GDP is advised by the FirstRand Group Treasury, macro strategy unit. For vesting to occur, the criteria had to be met or exceeded. The award vested in September 2019 based on the earnings growth and ROE delivered over the three-year period ended 30 June 2019.

2017 (Not vesting at September 2020) – FirstRand Limited must achieve growth in normalised EPS, adjusted for CPI, which equals or exceeds the South African real 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 must deliver a ROE of at least 18% over the performance period. Real GDP and CPI are advised by the Group Treasury, macro strategy unit. For vesting to occur, the criteria must be met or exceeded. However, 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. During the current year, the company failed to achieve the targets set for the cumulative growth in normalised earnings per share and Remco notified qualifying employees that the scheme would consequently not vest.

Currently open

2018 (Vesting in 2021) – FirstRand Limited must achieve growth in normalised earnings per share which equals or exceeds the South African CPI plus 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 must deliver 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 and CPI are advised by the Treasury, macro strategy unit. For vesting to occur, the criteria must be met or exceeded. However, 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.

2019 (Vesting in 2022) – The vesting conditions of the 2019 award are set out below, with the apportionment to vesting without conditions described below.

The awards for all top and certain senior management have performance conditions applied to 100% of the award. For all other participants, 50% of the award seeks to drive retention and will vest in three years without performance conditions, provided the participant remains in employment and the remaining 50% of the award remains subject to performance conditions. For the awards subject to performance conditions, graded vesting applies. The awards are subject to the achievement of performance conditions set at award date and these determine the value that will ultimately vest. These

performance conditions include a minimum condition to achieve any vesting, a target, a stretch and a super stretch target with linear grading between targets. If the minimum ROE and earnings growth conditions are met, vesting will commence at 70% and if these are not met, the award will lapse.

2020 (Vesting in 2023) – The vesting conditions of the 2020 award are set out below, with the apportionment to of vesting without conditions described below.

The awards for all top and certain senior management have performance conditions applied to 100% of the award. For all other participants, 50% of the award seeks to drive retention and will vest in three years without performance conditions, provided the participant remains in employment and the remaining 50% of the award remains is subject to performance conditions. For the awards subject to performance conditions, graded vesting applies. The awards are subject to the achievement of performance conditions set at award date and these determine the value that will ultimately vest. These performance conditions include a minimum condition to achieve any vesting, a target, a stretch and a super stretch maximum target with linear grading between targets. If the minimum ROE and earnings growth conditions are met, vesting will commence at 70% and if these are not met, the award will lapse. The Remco has the right to adjust the vesting level down by up to 20% if the risk profile does not support the vesting.

Performance Conditions to be fulfilled	**Vesting Level band**	**Vesting Level for purposes of calculating Vesting Value**
The prudential targets have been met.	70%	70%
The prudential targets have been met and a growth target of at least 4.3%	70,1% to 94,9%*	Calculated within the vesting level band, to have an exact linear correlation to the values between growth achieved of 4.3% up to but excluding growth achieved of 12%.
The prudential targets have been met and a ROE target of at least 15.5%; and a growth target of at least 12%.	95% to 99,9%	Calculated within the vesting level band, to have an exact linear correlation to the values between growth achieved of 12% up to but excluding growth achieved of 13.4%.
The prudential targets have been met and a ROE target of at least 15.5%; and a growth target of at least 13,4%.	100%	100%
The prudential targets have been met and a ROE target of at least 18%; and a growth target of at least 17.5%.	100,1% to 119,9%	Calculated within the vesting level band to have an exact linear correlation to the values between growth achieved of 17.5% up to but excluding growth achieved of 22%.
The prudential targets have been met and a ROE target of at least 20%; and a growth target of at least 22%.	120%	120%

The prudential targets have been met and an ROE target of at least 22%; and a growth target of more than 22%.	120,1% to 150%	Calculated within the vesting level band to have an exact linear correlation to the values between growth achieved from but excluding 22% to growth achieved up to 28.2%.

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 2020	31 December 2019
Award life (years)	**2 - 3**	2 - 3
Risk free rate (%)	**3.79 - 4.58**	7.08 - 7.78

	Conditional share plan	
Options and share awards outstanding	**31 December 2020**	31 December 2019
Number of options and share awards in force at the beginning of the year (millions)	**0.223**	0.205
Number of options and share awards granted during the year (millions)	**0.106**	0.073
Number of options and share awards transferred (within the group) during the year (millions)	**(0.094)**	(0.006)
Number of options and share awards exercised/released during the year (millions)	**-**	(0.049)
Market value range at date of exercise/release (cents)	**-**	6 520 - 6 520
Weighted average (cents)	**-**	6 520
Number of options and share awards cancelled/lapsed during the year (millions)	**(0.069)**	-
Number of options and share awards in force at the end of the year (millions)	**0.165**	0.223

	Conditional share plan			
	31 December 2020		**31 December 2019**	
Options and share awards outstanding	**Weighted average remaining life (years)**	**Outstanding option (millions)**	Weighted average remaining life (years)	Outstanding option (millions)
Vesting during 2020	-	-	0.72	0.075
Vesting during 2021	0.79	0.030	1.71	0.075
Vesting during 2022	1.79	0.029	2.71	0.073
Vesting during 2023	2.80	0.106		
Total options and share awards		0.165		0.223
Number of participants		16		12

20. Contingencies and commitments

M'000	**31 December 2020**	31 December 2019
Guarantees	**13 873**	22 156
Irrevocable commitments*	**52 103**	40 219
Committed capital expenditure	**13 496**	36 379
Contigencies and commitments	**79 472**	**98 754**
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.	**13 496**	36 379
Guarantees		
Guarantees consist predominantly of endorsements and performance guarantees.	**13 873**	22 156

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

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 2020			
	Total carrying amount	Fiar Value hierarchy		
		Level 1	Level 2	Level 3
Assets				
Advances	648 376			627 269
Investment securities and other investments	1 257 103	-	1 257 103	-
Total assets at amortised cost	**1 905 478**	**-**	**1 257 103**	**627 269**
Liabilities				
Deposits	2 677 100	0	0	2 687 366
Total liabilities at amortised cost	**2 677 100**	**-**	**-**	**2 687 366**

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**

Related party transactions

Balances with related parties

M'000	31 December 2020	31 December 2019
Advances		
Key management personnel	**8 125**	7 389
Accounts receivable		
Holding company	**771**	3 403
Amounts due by holding company and fellow subsidiaries		
Holding company	**286 917**	318 346
Tier 2 liabilities		
Holding company	**20 000**	20 034
Deposits		
Key management personnel	**432**	315
Accounts payable		
Holding company	**8 953**	60 108
Amounts due to holding company and fellow subsidiaries		
Fellow subsidiaries	**75**	8 636

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 2020	31 December 2019
Interest received		
Holding company	**13 259**	33 677
Key management personnel	**451**	469
Interest paid		
Holding company	**1 971**	2 433
Key management personnel	**2**	2
Non-interest revenue		
Holding company	**8 035**	6 110
Operating expenses		
Holding company	**100 031**	83 858
Salaries and other employee benefits		
Key management personnel		
Salaries and other short-term benefits	**11 075**	20 101
Share based payments	**4 200**	3 018

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.

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 2023

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). The amendment is not expected to have an impact on the bank, as currently the bank does not hold any insurance contracts that fall into the scope of IFRS 17.	
Annual improvements 2016 – 2018	The IASB issued the Annual improvements to IFRS standards 2016-2018 Cycle. These annual improvements include amendments to the following standards: IFRS 9 – The amendment clarifies that fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The amendment is not expected to have a significant impact on the annual financial	Annual periods beginning on or after 1st January 2022.

Standard	Impact assessment	Effective date
	statements.	
IFRS 3	**Reference to the Conceptual Framework** The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments are intended to update a reference to the Conceptual Framework without significantly changing requirements of IFRS 3. The amendments will promote consistency in financial reporting and avoid potential confusion from having more than one version of the Conceptual Framework in use. The amendment is not expected to have any impact on these annual financial statements, given the bank doesn't have any business	Annual periods beginning on or after 1st January 2022.

Standard	Impact assessment	Effective date
	combinations.	
IAS 16	**Property, plant and equipment: Proceeds before intended use** The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is not expected to have a significant impact on the annual financial statements.	Annual periods beginning on or after 1st January 2022.
IAS 37	**Onerous contracts – cost of fulfilling a contract** The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.	Annual periods beginning on or after 1st January 2022.

Standard	Impact assessment	Effective date
	The amendment is not expected to have a significant impact on the annual financial statements.	
IAS 1	**IAS 1 - Amendments to classification of liabilities as current or non-current:** The IAS 1 amendments clarify the requirements for classifying liabilities as current or non-current. More specifically: • The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. • Management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant. • The amendments clarify the situations that are considered settlement of a liability. The bank presents its assets and liabilities in order of liquidity in its statement of financial position. This amendment will only affect the disclosures and the bank does not expect this amendment to have a significant impact on the annual financial statements. Annual periods beginning on or after 1st January	

Standard	Impact assessment	Effective date
	2023.	

22. 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.

<table>
<tr><th colspan="3">Overview of financial risks</th></tr>
<tr><td rowspan="2">Credit risk</td><td colspan="2">Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation.</td></tr>
<tr><td>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.</td><td>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).</td></tr>
<tr><td>Liquidity risk</td><td colspan="2">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 to realise assets when to meet repayment obligations in a stress</td></tr>
</table>

<table>
<tr><th colspan="3">Overview of financial risks</th></tr>
<tr><td rowspan="2"></td><td colspan="2">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</td></tr>
</table>

Overview of financial risks	
	including capital and risk capacity, and a sustainable dividend policy.

Credit risk

22.1.1. 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 2020**	31 December 2019
On-balance sheet exposure		
Cash and short-term funds		
Money at call and short notice	**473,505**	179,674
Balances with central bank	**70,352**	77,830
Gross advances	**765,734**	817,845
Retail Segment	**410,512**	423,285
Commercial Segment	**152,285**	145,028
Corporate Segment	**35,641**	62,535
WesBank	**167,296**	186,997
Accounts receivable	**8,525**	10,667
Amounts due by holding company and fellow subsidiaries	**287,688**	321,749
Investments securities and other investments	**1,109,280**	1,139,072
Off-balance sheet exposure		
Financial and other guarantees	**13,873**	22,156
Loan commitments not drawn	**52,103**	40,219
Total	**3,546,794**	3,427,057

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 2020			**31 December 2019**		
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

	31 December 2020		
M' 000	Total carrying amount	Security held and expected recoveries	Specific impairement
NPLs by category			
Overdrafts and cash management accounts	4 386	-	4 463
Term loans	1 347	528	820
Installment sales and hire purchase agreements	13 219	523	12 696
Property finance	11 354	7 720	3 635
Personal loans	12 006	-	12 549
Total NPLs	42 313	8 770	34 162

	31 December 2019		
M'000	**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**

Credit quality of credit assets – non - advances

	31 December 2020		**31 December 2019**	
M'000	**BB+ to B-**	**Unrated**	BB+ to B-	Unrated
Investment securities at amortised cost Stage 1	**1 257 103**		**1 137 646**	
Amounts due by holding company and fellow subsidiary companies Stage 1	**287 688**		**321 749**	
Accounts receivable Stage 1		**8 525**		**10 667**
Cash and cash equivalents Stage 1	**70 352**	**584 464**	**77 830**	**319 307**

22.1.2. 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 balanced portfolio profile and closely monitors credit concentrations.

Geographical concentration of significant asset exposure

	31 December 2020		31 December 2019	
M'000	Lesotho	South africa	Lesotho	South Africa
On-balance sheet exposures				
Cash and cash equivalents	**654 817**		397 137	
Total advances	**648 376**		751 661	
Investments securities and other investments	**950 113**	**306 990**	618 019	519 627
Amounts due by holding company and fellow subsidiary companies		**287 688**		321 749
Accounts receivable	**8 525**		10 667	
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	**13 873**		22 156	

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 2020			
		NPLs		
	Total advances	Total	Security held and expected recoveries	Specific impairment
Agriculture	3 290	770	208	561
Financial Institutions	36 645	-	-	-
Building and property development	38 192	739		847
Government Land bank and public authority	30 332	-	-	-
Individuals	498 903	33 555	7 131	25 813
Manufacturing and commerce	63 103	690		1 262
Mining	3 781	1 147	678	469
Transport and communication	29 547	1 337		1 887
Other services	61 941	4 076	753	3 323
Gross value of advances	**765 734**	**42 313**	**8 770**	**34 162**
Impairment and fair value of credit advances	(117 358)			
Net advances	**648 376**			

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**			

22.1.3. 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 two credit portfolios, being FNBL home loans and commercial property finance. This is to 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.

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.

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

	31 December 2020					
M'000	Gross Carrying amount	Loss Allowances	Maximum exposure to credit risk	Netting and financial collateral	Unsecured	Secured
Overdrafts and managed accounts	74 863	19 554	55 308	28 398	74 863	
Term loans	52 636	5 509	47 127	27 897	52 636	
Installment sales and fire purchase	167 296	23 125	144 170	83 648		167 296
Property finance	210 300	18 262	192 038	147 210		210 300
Personal loans	260 639	48 681	211 958	-	260 639	-
Total Advances	**765 734**	**115 132**	**650 601**	**287 153**	**388 138**	**377 596**
Off balance sheet exposure	77 470	358	77 112	-	77 112	-
General Overlays	-	1 868	-	-	-	-
Investment securities and other investments	1 257 103	2 016	1 255 087	-	1 255 087	-
Accounts receivables	8 525	-	8 525	-	8 525	-

	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	59 658	
Term loans	92 216	(3 572)	88 644	27 897	92 216	
Installment sales and fire purchase	188 976	(17 033)	171 943	94 488	-	188 976
Property finance	198 965	(6 290)	192 675	139 276	-	198 965
Personal loans	278 030	(26 764)	251 266	-	278 030	-
Total Advances	**817 845**	(63 796)	**754 049**	**277 525**	**429 904**	**387 941**
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	-

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.

22.2. 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.

22.2.1. 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 2020			
		Term to maturity		
	Total	Call to 3 months	4 to 12 months	Greater than 12 months and non-contractual
On-balance sheet amounts				
Deposits and current accounts	2 677 175	2 254 425	397 845	24 905
Creditors, accruals and provisions	86 141	25 529		60 612
Tier 2 liabilities	20 000			20 000
Amounts due to holding company and fellow subsidiaries	9 028	9 028		
Lease liabilities	18 034	1 596	4 428	12 010
Off-balance sheet amounts				
Financial and other guarantees	13 873	13 873		
Facilities not drawn	52 103	52 103		

M'000	31 December 2019			
		Term to maturity		
	Total	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	-	-

22.2.2. Concentration analysis of deposits

M' 000	31 December 2020	31 December 2019
Sector analysis		
Deposits, current accounts and other loans		
Sovereigns, including central bank	128 811	
Public sector entities	33 526	56 916
Banks	243 479	97 476
Corporate customers	1 608 154	1 410 199
Retail customers	603 682	535 670
Other	59 448	266 511
Total deposits	**2 677 100**	**2 366 773**
Geographical analysis		
Lesotho	2 677 100	2 366 773

22.3. Non-traded market risk

22.3.1. 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 2020**	31 December 2019
Downward 200bps	**(16.50)**	(15.36)
Upward 200bps	**16.50**	15.36

22.3.2. 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 M1 116m for the year (2019: M935m).

Projected Maloti NII sensitivity to interest rate movements

M'000	**31 December 2020**	31 December 2019
Downward 200bps	**11 050**	424
Upward 200bps	**10 332**	370

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 M11 050 (2019: M424). A similar increase in interest rates would result in an increase in projected 12-month NII of M10 332 (2019: M370).

22.4. 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 2020.

	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 2020. The bank complied with all capital requirements which are prescribed by the Financial Institutions Act 2012.

M'000	**31 December 2020**	31 December 2019
Share capital and premium	**48 233**	48 233
Retained earnings	**96 509**	113 933
Total qualifying Tier 1 capital	**144 742**	162 166
General debt provision	**13 025**	12 650
Perpetual debt instrument	**8 000**	12 000
Total qualifying Tier 2 capital	**21 025**	24 650
Total regulatory capital	**165 767**	186 816
Risk weighted assets	**921 316**	942 081
Capital adequacy ratio	**18%**	20%
Minimum capital ratio per Financial Institutions Act 2012	**8%**	8%

23. Subsequent events

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.