FIRST NATIONAL BANK OF LESOTHO LIMITED

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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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 2021. 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. None of the new or amended IFRS that became effective for the financial year ended 31 December 2021 impacted the bank's reported earnings, financial position or reserves, or the accounting policies. Additional disclosures have been provided relating to the Interest Rate Benchmark Reform – Phase 1 and Phase 2. 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 controls. To enable the directors to meet these responsibilities, the directors set the standards for internal controls 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 22 March 2022 and are signed on its behalf by:

I. Leyenaar
Chairman
22 March 2022

D. Mokebe
Chief Executive Officer
22 March 2022

AUDIT COMMITTEE REPORT

The audit committee is pleased to present this report for the financial year ended 31 December 2021 in line with the recommendations of the King IV report on corporate governance.

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

Terms of reference

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

Members and meeting attendance

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

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

Role and responsibilities

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

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

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

External auditor appointment and independence

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

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

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

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

Financial statements and accounting practices

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

Internal financial controls

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

Duties assigned by the Board

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

- Going Concern

  The audit committee has reviewed a documented assessment of the going concern assertion of the bank.
- 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;

M. Moleko
Chairman, Audit Committee

22 March 2022

DIRECTORS' REPORT

Nature of business

The bank is incorporated in Lesotho and operates as a licensed commercial bank. First National Bank of Lesotho Limited ("bank" or "FNB" or "FNB Lesotho") provides full banking services in Retail, Commercial and Corporate segments.

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 128.

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
J. Matlosa	Member	August 2021	Independent Non-Executive Director
M. Thabane	Member	August 2021	Independent Non-Executive Director
G. Usher	Member	March 2016	Non-Executive Director
W. Richard	Member	August 2021	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

M. Moleko	Chairman
J. Matlosa	Member
W. Richard	Member
G. Usher	Member

Directors Affairs and Governance Committee

M. Maharasoa	Chairman
I. Leyenaar	Member
J. Matlosa	Member
M. Moleko	Member
M. Thabane	Member
G. Usher	Member
W. Richard	Member

Remuneration Committee

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

Risk, Capital and Compliance Committee

M. Moleko	Chairman
I. Leyenaar	Member
M. Thabane	Member
G. Usher	Member
W. Richard	Member
M. Maharasoa	Member

Senior Credit Risk Committee

M. Maharasoa	Chairman
M. Moleko	Member
D. Mokebe	Member
M. Thabane	Member

Changes to directorate as outlined below:

Resignations		**Effective date**
R. van Staden	Non-Executive Director	31 March 2021
T. Bohloa	Independent Non-Executive Director	4 June 2021
P. Molapo	Independent Non-Executive Director	4 June 2021

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 and Investment Banking
N. Khoali	Head of Retail
M. Marakabei	Head of Marketing
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
R. Moshoeshoe	Head of Compliance

Moores Rowland

Chartered Accountants (Lesotho)

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Maseru

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Maseru 100
Lesotho

Independent auditor's report

To the shareholders of First National Bank of Lesotho Limited

Opinion

We have audited the accompanying financial statements of First National Bank of Lesotho Limited (the Bank), which comprise the statement of financial position as at 31 December 2021, the statements of comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the financial statements including together with a summary of significant accounting policies and other explanatory notes, as set out on pages 18 to 128.

In our opinion, the financial statements give a true and fair view of the financial position of First National Bank of Lesotho Limited as at 31 December 2021 and of its financial performance and cash flows for the year then ended, in accordance with the International Financial Reporting Standards and in the manner required by the Lesotho Companies Act.

Basis of opinion

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

Other information

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

•Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

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

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

Moores Rowland Lesotho
Partner: Anthony McAlpine
Registered Auditors (LIA)
Sentinel Park
Maseru

Date:
22 March 2022

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 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2021, 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, these policies have been consistently applied to all years presented:

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, modification and derecognition (Section 5.3)
	Offset and collateral (Section 5.4)		

Summary of significant accounting policies			
Other assets and liabilities	Classification and measurement of Property and equipment (Section 6.1)	Classification and measurement of 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)		

New standards adopted in the current year

None of the new or amended IFRS which became effective for the year ended 31 December 2021 impacted the bank's reported earnings, financial position, reserves or the accounting policies.

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:	The amendments did not have any impact on the bank's accounting policies.

New/ revised IFRS	Description of change	Impact
	prudence, stewardship, measurement uncertainty and substance over form. Minor amendments have also been made to various other standards.	
Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendment to IFRS 16	The International Accounting Standards Board (IASB) issued amendments to IFRS 16 – Leases to provide relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the Covid-19 pandemic. The amendment does not apply to lessors. ➢ As a practical expedient, a lessee may elect not to assess whether a Covid-19-related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16 if the change were not a lease modification. ➢ The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met: ○ The change in lease payments results in revised	The amendments did not have a significant impact on the bank's accounting policies

New/ revised IFRS	Description of change	Impact
	consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change. ○ Any reduction in lease payments affects only payments originally due on or before 30 June 2022 (for example, a rent concession would meet this condition if it results in reduced lease payments before 30 June 2022 and increased lease payments that extend beyond 30 June 2022). ○ There is no substantive change to other terms and conditions of the lease. Lessees will apply the practical expedient retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the amendment is first applied.	
IFRS 3 - Business	The amendments clarify the definition of a business, with the objective of assisting	This amendment will be applied by the bank

New/ revised IFRS	Description of change	Impact
Combinations - Amendments to clarify the definition of a business	entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.	upon entering into any new business combination transactions.
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. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of material is consistent across all IFRS.	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)	Phase 1 The IASB issued amendments to the following standards as part of the interest rate Interbank Offered Rates, (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	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
	forecast transaction is highly probable, a company shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform. • Prospective assessments – when performing prospective assessments for effectiveness, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based 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 inception of such hedging relationships.	

New/ revised IFRS	Description of change	Impact
	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	
Interest Rate Benchmark Reform Phase 2, (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	Phase 2 The amendments provide temporary reliefs which address the financial reporting effects when an Interbank Offered Rates (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). These include: ➢ Practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Fundamental to allowing the use of this practical expedient is the requirement that the transition from an IBOR benchmark rate to an RFR takes place on an economically equivalent basis with no value transfer having occurred. Any other changes made at the	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
	same time, such as a change in the credit spread or maturity date, are assessed separately. If the other changes result in substantial modification, the instrument is derecognised. If derecognition is not achieved the updated effective interest rate (EIR) is used to recalculate the carrying amount of the financial instrument, with any modification gain or loss recognised in profit or loss ➢ The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Permitted changes include redefining the hedged risk to reference an RFR and redefining the description of the hedging instruments and/or the hedged items to reflect the RFR. Entities are allowed until the end of the reporting period, during which a modification required by IBOR reform is made, to complete the changes.	

New/ revised IFRS	Description of change	Impact
	➢ The amendments provide entities temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. The relief allows entities upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months	

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

The impact of the spread of Covid-19 continues to be felt across the global economy at different degrees in all sectors. Most economies around the globe, including Lesotho have eased the restrictions to balance anticipated economic recovery and containment of the outbreak. The ongoing successful rollout of vaccines is expected to remain the major boost towards global economic growth. It, however, is still not possible to accurately predict the full extent and duration of Covid-19 and its economic impact given occurrences of new variants with unknown impacts and level of resistance to vaccines.

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 and two years 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 and regulators. The expected outcomes and constraints are then stress tested, and the bank sets targets through different cycles and scenarios to enable FNBL to deliver on its commitments to stakeholders at a defined confidence level, adequacy of the bank's liquidity as the bank supports customers throughout the pandemic, 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, resilience of the bank's IT systems, legal and regulatory

environment in Lesotho and 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.

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 income (NII) 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: o the gross carrying amount of financial assets which are not credit-impaired; and o the amortised cost of financial assets which represents the net carrying amount, from the month after the assets become credit-impaired (refer to section 5.2 of the accounting policies). ➢ Modified advances (derecognition not achieved) – the unamortised portion of origination fees and capitalised transaction costs on financial assets are included as part of interest income. The interest income on the modified financial asset (refer to accounting policy 5.3) is calculated by applying the original effective interest rate to the asset's modified gross carrying amount. ➢ Modified advances (derecognition is achieved) – the unamortised portion of origination fees and capitalised transaction costs on financial assets are included as part of interest income. New fees or costs charged on the new advance which are integral to the new asset recognised are capitalised to the new loan. Interest expense includes: Interest on debt instruments measured at amortised cost.
Non-interest and financial instrument revenue recognised in profit or loss
Net fee and commission income Under IFRS 15, where a five-step analysis is required to determine the amount and timing of revenue recognition, the bank assesses contracts and determines whether

the fees identified in the contract relate to revenue as defined in IFRS 15. The revenue is recognised only if the bank can identify the contract; and the performance obligation (i.e. the different services) and can determine the transaction price which is allocated to the identifiable performance obligations. The revenue is then recognised as and when the performance obligation is satisfied, which may be over time or at a point in time.

<table>
<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 income.

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</td></tr>
</table>

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

	service fees, which are expensed as the services are received.

Other non-interest revenue
The following items are included in other non-interest revenue: ➢ impairments and reversal of impairments of investment securities measured at amortised cost; ➢ Speed point rental income; ➢ Fees due from holding company and fellow subsidiaries; and ➢ Insurance commission.

Expenses
Expenses of the bank, apart from fee and commission expenses included in net fee and commission income, are recognised and measured in terms of the accrual principle and presented as operating expenses in profit or loss.

4.2. Income tax expense

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

Current income tax
The current income tax expense is calculated by adjusting the net profit for the year for items that are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax	
Recognition	On temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.
Typical temporary differences in the bank that deferred tax is	➢ Depreciation of property and equipment; ➢ Provisions; ➢ Impairment losses; and

provided for	➢ 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.

Business model

Determining whether sales are significant or frequent requires management to use their 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

Cash flow characteristics
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 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 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

	The products included under this business models include: ➢ 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.	(including a profit margin). 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	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

	➢ Overdrafts. 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.	contract.
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	The cash flows on these investment securities are solely payments of principal and interest.

	transaction. If the accounting requirements for derecognition 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	The cash flows on these assets are solely payments of

	which include intercompany accounts that are held to collect contractual cash flows.	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	Lifetime expected	Lifetime expected	Movement in

credit losses	credit losses	credit losses	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. 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	The bank does not use the low credit risk assumption.
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). ➢ 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

Other financial assets	
	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 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, modifications 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,	Existing asset is not derecognised. The gross carrying amount of the financial asset is

Transaction type	Description	Accounting treatment
	this includes debt restructuring accounts where the new terms of the contract (such as a lower interest rate) is mandated by law and do not have the same commercial terms as a new product that the bank would be willing to offer a customer with a similar risk profile. The same principle is applied for wholesale advances on a case-by-case basis.	recalculated as the present value of the estimated future cash receipts through the expected life of the renegotiated or modified financial asset, discounted at the financial asset's original effective interest rate. The gain or loss on modification is recognised in profit or loss as part of impairment of advances.
Modifications with derecognition (i.e. substantial modifications)		
Retail advances	The process for modifying a non-distressed advance is substantially the same as the process for raising a new advance, including re-assessing the customer's credit risk, repricing the asset and entering into a new legal agreement.	Existing asset is derecognised and a new asset is recognised at fair value based on the modified contractual terms.

5.4. Offsetting of financial instruments

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	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:

Classification	Measurement
computer and office equipment, motor vehicles and furniture and fittings.	• 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
Provisions	
The bank will only recognise a provision measured in terms of IAS 37 when there is uncertainty around the amount or timing of payment. Where there is no uncertainty the bank will recognise the amount as a creditor or accrual. The bank usually recognises provisions related to litigation and claims.	

Other assets that are subject to depreciation are reviewed for impairment whenever objective evidence of impairment exists. Impairment losses are recognised in profit or loss as part of operating expenses. 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	Not applicable for FNBL

Bank is the lessee		Bank is the lessor
	present value of the lease payments outstanding at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the bank uses its own incremental borrowing rate. The ROUA's are measured at cost comprising of the amount of the initial measurement of the lease liability plus 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	Each lease payment is	Not applicable for FNBL

Bank is the lessee		Bank is the lessor
lease	allocated between the lease liability and interest expense. The interest expense is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The ROUA is subsequently measured at cost less accumulated depreciation and 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	

	Bank is the lessee	Bank is the lessor
	or useful life. The bank applies IAS 36 to determine whether a ROUA is impaired and accounts for any identified impairment loss.	
Presentation	The lease liability is presented in other liabilities in the consolidated statement of financial position. The ROUA's are not presented as a separate line in the consolidated statement of financial position, but rather disclosed as ROUA in the property, plant and equipment note.	Not applicable for FNBL
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.	

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.

Defined contribution plans
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.
Termination benefits
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.	
Liability for short term employee benefits	
Leave pay	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.
Bonuses	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.

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 favourable to the bank, the bank seeks, where relevant, expert advice to determine whether the unfavourable 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.

Quantitative techniques applied estimate the impact of forecasted macroeconomic factors on expected credit losses using various techniques dependent on the portfolio within which models will be applied.

Within the Corporate and Investment banking portfolios, macroeconomic stress testing models are applied to estimate the impact of forward-looking information on expected credit losses. These stress testing models are industry-specific, and make use of regression techniques, observed macro-economic correlations and expert judgement, depending on the extent of data available in each industry. The outputs from these models are used to determine the level of stress that a particular industry is expected to experience, and through-the-cycle impairment parameters are scaled accordingly, with scalar factors based on historic S&P default data, to determine the forward-looking impairment parameters.

Within retail and commercial portfolios, forward-looking ECL is modelled using regression-based techniques that determine the relationship between key macroeconomic factors and credit risk parameters (with industry considerations further applied in the case of commercial portfolios) based on historically observed correlations.

Modelled correlations and macroeconomic variable weightings are adjusted based on expert judgement to ensure that the relationships between macroeconomic forecasts and risk parameters are intuitive and that ECL is reflective of forward-looking expectations of credit performance.

Where the impact of forward-looking macroeconomic information on ECL is determined based on historical relationships between macro-economic movements and default rates, and it is not expected for these relationships to hold under current macro-economic conditions, judgemental adjustments have been made through post-model adjustments to ensure that relationships between macro-economic forecasts and ECL estimates are intuitive, with ECL increasing where macroeconomic conditions are expected to worsen, and reflecting additional relevant information not catered for in the models.

This approach is followed across all portfolios. For the bank, three macroeconomic scenarios are utilised, namely a base scenario, an upside scenario and a downside scenario.

The following scenarios were applied at 31 December 2021

Baseline regime	Assumes:
60% (2020-58%) prob.	• The sustained recovery in global demand for diamonds from the U.S and China as well as 45%production capacity expansion at Mothae mine initiated in Q2-2021 will continue to support the mining sector. Furthermore, the Liqhobong mine is expected to return to pre-pandemic production levels in 2022 which will be supportive of growth going forward. • Given that 2022 is an election year, we expect election spending to also add to growth, although to a lesser extent owing to a constrained fiscal position. Thereafter, growth is expected to slow from these levels on account of fading base effects and the absence of election related spending. However, the growth profile will remain higher than previous forecasts given that a recovery in SACU receipts will bolster

	public spending which accounts for 21% of GDP. • Lesotho's monetary policy will continue to be guided by decisions made by the South African Reserve Bank (SARB) as the country will maintain interest rates on par with that of South Africa. The inflation profile over the forecast horizon has been lowered given the consistent decline in the prices of food and non-alcoholic beverages (which constitutes 36% of the basket) since May 2021. This decline in food inflation is broadly in line with regional peers like Namibia and Eswatini given favourable weather conditions and we expect the trend to continue in coming months
Upside to Baseline 13% (2020- 26%) prob.	Assumes: • Global inflation remains low, allowing for financial conditions to remain favourable; and/or, • Elevated commodity prices provide supportive conditions for mining operations and exports; and/or, • The government continues to ramp up its COVID-19 vaccination efforts, stemming the severity of subsequent waves and allowing for business and leisure travel to resume; and/or, • As the economy recovers and government arrears to the private sector get resolved the construction sector begins to take off; and/or, Stronger SACU revenues (due to faster reform-driven growth in South Africa) reduces the pressure on Lesotho's fiscus while increased remittances support the country's external balance of payments position; and/or, • Together the IMF and the government successfully reform the public sector wage bill, while also implementing SADC reforms to ensure AGOA eligibility; and/or, • Several higher-grade diamonds are discovered; and/or • A more favourable global environment stimulates export

	prospects and boosts commodity prices; and/or, • The medical marijuana industry takes off and so provides much necessary support to manufacturing and related to that employment; and/or,

Downside regime 27% (2020- 16%) prob.	Assumes: • Rapidly deteriorating public finances, rising inflation and the Central Bank of Lesotho (CBL) forced to follow the SARB's interest rate hikes all negatively affects business sentiment that drives private sector fixed investment and consequently GDP growth in Lesotho lower; and/or; • The coalition government collapses, and policy implementation is undermined for a prolonged period; and/or; • The Lesotho Highlands Water Project is delayed indefinitely; and/or; • Electricity shortages in SA weigh significantly on energy-intensive sectors in Lesotho; and/or; • Government fails to right-size the public sector wage bill and other socio-political spending and to implement SADC reforms to restore AGOA eligibility; and/or,

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		
	2022	**2023**	**2024**	**2022**	**2023**	**2024**	**2022**	**2023**	**2024**
GDP growth (%)	4.00	4.20	4.30	3.00	2.40	2.40	(0.60)	(0.40)	0.00
Inflation (Annual average) (%)	3.60	3.60	3.60	5.70	5.50	5.30	7.60	7.40	7.40
Foreign exchange rate	12.50	12.80	13.70	15.30	15.90	16.60	22.10	22.70	24.20

Judgement	Retail and retail SME	Wholesale and commercial SME
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	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.

<table>
<tr><td></td><td>such as the prime lending rate 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.</td><td></td></tr>
<tr><td></td><td colspan="2">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.</td></tr>
</table>

	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.	
Judgement	**Retail and retail SME**	**Wholesale and commercial SME**
Determination of Whether the credit risk of financial instruments have increased significantly since initial recognition	SICR triggers continue to be based on client behaviour, client-based behaviour scores and judgemental factors. Additional judgemental triggers that arose due to the impact of Covid-19, such as employment in industries in distress have been calibrated into the current year's SICR triggers. Additional enhancements incorporated in the current year, include SICR rules that cater for behaviour that had not been previously captured. For example, customers using savings and supporting or relying on family members to assist them in making payments to their debt providers. These updates specifically cater for performing customers, given the uncertainty of the length and severity of the third and future waves, and the fact that many customers, particularly in the most severely impacted sectors, have	SICR triggers continue are determined based on client behaviour, client internal bank rating or risk score, as well as judgemental factors, which includes triggers for industries in distress, 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.

	already utilised their emergency savings over the last year and therefore any safety buffers that the customer may have had would be exhausted or close to exhausted.	
Sensitivity staging	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 2021. A 5% increase in advances categorised as stage 2 can be viewed as a reasonably possible alternative based on the current economic conditions.	

31 December 2021*

M'000	**5% increase in gross carrying amount of exposure**	**Increase in ECL due to 5% increase in SICR**
Retail	23 617	4 113
Wholesale, commercial and other (including Bank Treasury)	12 613	1 953
Total increase in stage 2 advances and ECL	36 230	6 066

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

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.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

M'000	Notes	31 December 2021	31 December 2020
Interest and similar income	1.1	**203,433**	223,983
Interest expense and similar charges	1.2	**(40,377)**	(58,818)
Net interest income before impairment of advances		**163,056**	165,165
Impairment of advances	9	**(2,630)**	(62,430)
Net interest income after impairments of advances		**160,426**	102,735
Non-interest revenue	2	**164,601**	145,769
Income from operations		**325,027**	248,504
Operating expenses	3	**(284,346)**	(274,460)
Profit/(Loss) before income tax		**40,681**	(25,956)
Income tax expense	4	(10,221)	8,532
Profit/(Loss) and total comprehensive income for the year		**30,461**	(17,424)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

M' 000	Notes	31 December 2021	31 December 2020
ASSETS			
Cash and cash equivalents	6	**415,399**	654,817
Investments securities and other investments	7	**1,647,327**	1,257,103
Advances	8	**694,732**	648,376
Accounts receivable	10	**6,236**	8,525
Amounts due by holding company and fellow subsidiary companies	11	**247,315**	287,688
Property and equipment	12	**40,464**	43,903
Deferred income tax asset	13	**33,721**	37,485
Total assets		**3,085,194**	2,937,897
EQUITY AND LIABILITIES			
Liabilities			
Creditors, accruals and provisions	14	**60,291**	60,756
Current tax liability		**1,767**	886
Deposits	15	**2,786,607**	2,677,100
Employee liabilities	16	**9,485**	7,350
Lease liabilities	17	**23,300**	18,034
Amounts due to holding company and fellow subsidiary companies	11	**8,537**	9,028
Tier 2 liabilities	11	**20,005**	20,000
Total liabilities		**2,909,992**	2,793,154
Equity			
Ordinary shares	18	**39,124**	39,124
Share premium	18	**9,109**	9,109
Reserves		**126,970**	96,509
Total equity		**175,203**	144,742
Total equity and liabilities		**3,085,194**	2,937,897

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

M'000	Share capital	Share premium	General risk reserve*	Retained earnings	Reserves attributable to ordinary equity holders	Total equity
Balance as at 1 January 2020	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**
Current year movement	-	-	-	-	**-**	**-**
Profit and total comprehensive income for the year	-	-	-	30,461	**30,461**	**30,461**
Balance as at 31 December 2021	**39,124**	**9,109**	**16,376**	**110,594**	**126,970**	**175,203**

**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 2021

M' 000	Notes	31 December 2021	31 December 2020
Cash flows from operating activities			
Interest, fees and commission receipts		357,803	378,123
Interest payment		(40,628)	(57,134)
Other operating expenses		(256,854)	(250,830)
Taxation paid		(5,576)	(5,082)
Cash flows from operating activities		54,745	65,077
Movements from operating assets and liabilities		(280,610)	207,163
Liquid assets and trading securities		(339,541)	(168,434)
Advances		(49,555)	55,806
Deposits		109,763	308,610
Creditors (net of debtors)		(2,388)	10,073
Employee liabilities		396	325
Other liabilities		715	783
Net cash generated from operating activities		(225,865)	272,240
Cash flows from investing activities			
Acquisition of property and equipment		(2,105)	(5,045)
Net cash outflow from investing activities		(2,105)	(5,045)
Cash flows from financing activities			
Lease payments (IFRS 16)		(11,448)	(9,515)
Increase/ (Decrease) in cash and cash equivalents		(239,418)	257,680
Cash and cash equivalents at the beginning of the year	6	654,817	397,137
Cash and cash equivalents at the end of the year		415,399	654,817

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. Analysis of interest income and interest expense

1.1. Interest and similar income

M'000	**31 December 2021**	31 December 2020
Instruments at amortised cost	**203,433**	223,983
Advances	**96,434**	105,117
Overdrafts and cash management accounts	**9,095**	7,791
Term loans	**4,730**	8,811
Instalment sales and hire purchase agreements	**18,556**	20,605
Property finance	**17,371**	18,171
Personal loans	**46,682**	49,739
Cash and cash equivalents	**20,805**	21,046
Investment securities	**77,445**	84,471
Amounts due by holding company and fellow subsidiaries	**8,697**	13,259
Other	**52**	90
Interest and similar income	**203,433**	223,983

1.2. Interest expense and similar charges

M'000	**31 December 2021**	31 December 2020
Instruments at amortised cost	**(40,377)**	(58,818)
Deposits from customers		
Current accounts	**(3,871)**	(4,603)
Savings deposits	**(7)**	(7)
Call deposits	**(12,094)**	(23,560)
Fixed and notice deposits	**(21,286)**	(26,939)
Tier 2 liabilities	**(1,739)**	(1,971)
Interest on lease liability	**(1,380)**	(1,738)
Interest expense and similar charges	**(40,377)**	(58,818)

2. Non-interest revenue

M'000	**31 December 2021**	31 December 2020
Fee and commission income		
Instruments at amortised cost	**164,601**	145,769
Net fee and commission income		
Income		
Card commissions	**4,769**	3,311
Cash deposit fee	**35,563**	32,475
Commissions: bills, drafts and cheques	**3,447**	3,817
Exchange commissions	**1,656**	2,407
Bank charges	**99,975**	85,995
Other non-banking fee and commission income	**14,344**	12,832
Expenses		
Other non-banking fee and commission expenses	**(17,577)**	(16,644)
Speedpoint Income	**11,804**	10,526
Net fee and commission income**	**153,981**	134,719
Other non-interest revenue		
Amounts due by holding company and fellow subsidiaries	**7,478**	8,035
Other non-interest revenue	**3,142**	3,015
Translation Gains/Losses	**24**	(42)
Forex Gains and Losses	**132**	165
Trading Income**	**8,166**	4,620
Gains and Losses from investment activities	**(4,772)**	(590)
Unclaimed balances write back	**(555)**	(776)
Profit/Loss on sale of property and equipment	**140**	(362)
Acceptance guarantees and indemnities**	**7**	-
Other non-interest revenue	**10,620**	11,050
Total non-interest revenue	**164,601**	145,769

***Revenue from contracts with customers. Other non-interest income revenue has been disaggregated and in total the prior year has not changed.*

3. Operating expenses

M'000	31 December 2021	31 December 2020
Auditors remuneration	**(2,632)**	(2,973)
Audit fees	**(2,632)**	(2,973)
Staff costs	**(85,947)**	(81,812)
Salaries, wages and allowances	**(65,424)**	**(62,386)**
Contributions to employee benefit funds	**(9,361)**	**(8,365)**
Share based payments	**(2,716)**	**(3,223)**
Other staff costs	**(8,446)**	**(7,838)**
Other operating costs	**(195,767)**	(189,675)
Depreciation of property and equipment	**(21,541)**	(22,183)
Insurance	**(1,565)**	(1,479)
Advertising and marketing	**(5,419)**	(4,745)
Maintenance	**(5,213)**	(5,299)
Property	**(10,846)**	(10,787)
Computer	**(8,192)**	(6,523)
Non-capitalised lease charges	**(5,426)**	(6,761)
Stationery	**(2,188)**	(2,628)
Telecommunications	**(5,990)**	(5,301)
Expenses paid to holding company and fellow subsidiaries	**(103,176)**	(100,031)
Other operating expenditure	**(26,211)**	(23,938)
Total operating expenses	**(284,346)**	(274,460)

4. Income tax expense

M'000	31 December 2021	31 December 2020
Current income tax	**(6,458)**	(5,511)
Current year	**(6,458)**	(7,032)
Prior year adjustment		1,521
Deferred income tax	**(3,763)**	14,043
Current year	**(3,763)**	14,043
Total income tax expense	**(10,221)**	8,532

Tax rate reconciliation

%	31 December 2021	31 December 2020
Standard rate of income tax	**25**	25
Adjustments:		
Other non-deductible amounts*	**(9)**	(52)
Effective rate of tax	**16**	(27)

*****_Other non-deductible amounts include temporary differences (impairment provisions as well as other income statement accruals/provisions)_

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 2021				
M'000	**Financial assets measured at amortised cost**	**Non-financial instruments**	**Total carrying value**	**Current**	**Non-current**
Cash and cash equivalents	415,399	-	415,399	415,399	-
Investments securities and other investments	1,647,327	-	1,647,327	342,289	1,305,037
Advances	694,732	-	-	-	-
Accounts receivable	6,236	-	6,236	3,216	3,020
Amounts due by holding company and fellow subsidiaries	247,315	-	247,315	232,623	14,692
Property and equipment	-	40,464	40,464	-	40,464
Deferred income tax asset	-	33,721	33,721	-	33,721
Total assets	**3,011,009**	**74,185**	**2,390,462**	**993,528**	**1,396,933**

	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**

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 liabilities are expected to be settled.

	31 December 2021				
M'000	Financial liabilities measured at amortised cost	Non-financial instruments	Total carrying value	Current	Non-current
Creditors, accruals and provisions	60,291	-	60,291	60,291	-
Current tax liability	1,767		1,767	1,767	
Deposits	2,786,607	-	2,786,607	2,434,733	351,874
Employee liabilities	-	9,485	9,485	9,485	
Other liabilities	23,300	-	23,300	3,624	19,676
Amounts due to holding company and fellow subsidiaries	8,537	-	8,537	8,537	-
Tier 2 liabilities	20,005	-	20,005	-	20,005
Total liabilities	**2,900,507**	**9,485**	**2,909,992**	**2,518,438**	**391,554**

	31 December 2020				
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**

6. Cash and cash equivalents

M'000	**31 December 2021**	31 December 2020
Coins and bank notes	**128,105**	110,959
Money at call and short notice	**203,265**	473,505
Balances with central banks*	**84,029**	70,352
Mandatory reserve balance with central banks	**82,098**	69,961
Other balances with centrala banks not included in mandatory reserve balance	**1,931**	391
Total cash and cash equivalents**	**415,399**	654,817

**Balances with central banks has been disaggregated into mandatory reserves and other balances. The total balance with central banks previously reported has not changed.*

*** ECL for physical cash is zero. ECL for cash equivalent is calculated using loss rate approach and is immaterial.*

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 2021**	31 December 2020
Treasury bills	**728,464**	551,660
Government bonds	**822,724**	557,620
Fixed deposit	**102,926**	149,839
Total gross carrying amount of investment securities	**1,654,114**	1,259,119
Loss allowance on investment securities	**(6,787)**	(2,016)
Total investment securities	**1,647,327**	1,257,103

Investment securities are classified as debt instruments at amortised cost.

Analysis of impairment stages of investment securities

	31 December 2021		31 December 2020	
M'000	Carrying Amount	ECL Allowance	Total carrying value	Current
Stage 1	1,654,114	(6,787)	1,259,119	(2,016)
Total investment securities	**1,654,114**	**(6,787)**	**1,259,119**	**(2,016)**

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 2021	31 December 2020
Category analysis			
Overdrafts and cash managed accounts		**88,410**	69,210
Term loans		**61,455**	53,555
Instalment sales and hire purchase agreements		**170,200**	168,922
Property finance		**194,026**	210,300
Personal loans		**270,526**	263,747
Gross value of advances		**784,617**	765,734
Impairment of advances	9	**(89,885)**	(117,358)
Net advances		**694,732**	648,376

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

M'000	Total	Stage 1	Stage 2	Stage 3
Amount as at 31 December 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	(0)	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
Transfer to Stage 1	(0)	(26,591)	25,421	1,170
Transfer to Stage 2	-	39,174	(41,838)	2,665
Transfer to Stage 3	-	1,565	6,059	(7,624)
Bad debts written off	(36,581)	-	-	(36,581)
New business and other changes in exposure	55,464	40,833	(5,815)	20,446
Amount as at 31 December 2021	**784,617**	**650,740**	**111,487**	**22,390**

The total contractual amount outstanding on financial assets that were written off during the period and are still subject to enforcement activity is M36.6million (2020: M20.7 million).

9. Impairment of advances

M'000	31 December 2021	31 December 2020
Increase in loss allowance	**(11,701)**	(71,478)
Recoveries of bad debts previously written off	**9,071**	9,048
Impairment of advances recognised during the period	**(2,630)**	(62,430)

Reconciliation of the loss allowance per segment

M'000	Total	Retail Segment	Commercial Segment	Corporate Segment	Wesbank Segment
Amount as at 1 January 2020	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	6,267	4,580	(1,228)	-	2,915
Increase/(decrease) in impairment	(44,870)	(33,000)	(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	23,125
Stage 1	57,082	39,087	11,986	74	5,935
Stage 2	26,114	14,169	6,569	882	4,495
Stage 3	28,139	17,567	1,315	-	9,258
Stage 3 interest	6,022	2,322	261	-	3,438
Increase/(decrease) in impairment	(27,473)	(22,319)	(3,790)	(926)	(439)
Stage 1	(1,004)	(1,473)	(1,267)	(44)	1,780
Stage 2	(14,134)	(7,495)	(3,138)	(882)	(2,619)
Stage 3	(9,742)	(11,390)	626	-	1,022
Stage 3 interest	(2,593)	(1,960)	(10)	(0)	(622)
Amount as at 31 December 2021	89,885	50,826	16,342	30	22,687

10. Accounts receivable

M'000	31 December 2021	31 December 2020
Prepayments	**1,301**	1,076
Accounts receivable	**4,935**	7,449
Total gross carrying amount of accounts receivable	**6,236**	8,525
Financial	**4,935**	7,449
Non-financial	**1,301**	1,076

**These accounts receivables do not carry any any loss allowance.*

Included in accounts receivables is an amount of M3.0 million (Dec 2020: M5.2million) 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 2021	31 December 2020
Amounts due by holding company	247,315	287,688
Total amount due by holding company and fellow subsidiaries	**247,315**	**287,688**
Amounts due to fellow subsidiaries	8,537	9,028
Tier 2 liabilities	20,005	20,000
Total amount due to holding company and fellow subsidiaries	**28,542**	**29,028**

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 2021**	31 December 2020
Opening balance	**20,000**	20,034
Non-cash flow movements		
Interest accrued	**1,739**	1,971
Cash flow movements		
Interest paid	**(1,734)**	(2,005)
Closing balance	**20,005**	20,000

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: 1 year

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 2020	**17,339**	**9,288**	**2,595**	**5,762**	**11,337**	**46,321**
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)
Movement for the year	**(4,933)**	**(528)**	**(1,371)**	**(1,259)**	**5,672**	**(2,419)**
Acquisitions	17	3,811	19	1,198	15,187	**20,232**
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)**
Fixed Assets in Clearing accounts	**(261)**	**(640)**	**2**	**661**	**-**	**(238)**
Movement for the year	**(3,119)**	**(2,715)**	**(858)**	**(1,059)**	**4,551**	**(3,200)**
Acquisitions	84	1,393	22	863	15,999	18,361
Disposals	-	(20)	-	-	-	(20)
Depreciation charge for the year	(3,203)	(4,088)	(880)	(1,922)	(11,448)	(21,541)
Net book value as at 31 December 2021	**9,026**	**5,405**	**368**	**4,105**	**21,560**	**40,464**
Cost	**61,945**	**28,964**	**11,343**	**24,502**	**48,820**	**175,574**
Accumulated depreciation and impairment	**(52,919)**	**(23,559)**	**(10,975)**	**(20,397)**	**(27,260)**	**(135,110)**

**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 2021	31 December 2020
Deferred income tax asset		
Opening balance	37,485	23,442
Movement recognised in profit or loss	**(3,764)**	**14,043**
Total deferred income tax asset	**33,721**	**37,485**

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	
	2021	2020	**2021**	2020
Deferred income tax asset				
Provision for loan impairment	**22,471**	29,339	**(6,869)**	12,793
Other provisions	**6,442**	4,088	**2,355**	(22)
Property and equipment	**4,372**	3,801	**571**	1,075
Right of Use Assets	**435**	256	**179**	196
Total deferred income tax asset	**33,721**	37,485	**(3,764)**	14,043

14. Creditors, accruals and provisions

M'000	31 December 2021	31 December 2020
Accounts payable	39,821	44,723
Accrued expenses	10,972	9,048
Audit fees accrued	2,694	2,101
Provisions (including litigations and claims)	6,804	4,884
Total creditors, accruals and provisions	**60,291**	**60,756**

Reconciliation of provisions

M'000	31 December 2021	31 December 2020
Fringe benefits tax	123	253
Staff litigations	4,072	4,629
E-wallet rejections	2	2
Internal fraud	715	-
Merchant services refund	1,892	-
Closing balance	**6,804**	**4,884**

15. Deposits

M'000	31 December 2021	31 December 2020
Deposits from customers		
Current accounts	**1,489,983**	1,292,669
Call deposits	**532,205**	648,959
Savings accounts	**25,939**	16,297
Fixed and notice deposits	**738,480**	719,175
Deposits	**2,786,607**	**2,677,100**

16. Employee liabilities

M'000	**31 December 2021**	31 December 2020
Liability for short term employee benefits	**9,485**	7,350
Total employee liabilities	**9,485**	**7,350**

17. Lease liabilities

M'000	**31 December 2021**	31 December 2020
Lease liabilities	**23,300**	18,034

17.1. Lease liabilities reconciliation

M'000	**31 December 2021**	31 December 2020
Opening balance	**18,034**	11,579
New leases recognised during the year	**15,334**	14,232
Non-cashflow movements		
Interest accrued	**1,380**	1,738
Cash flow movements		
Principal payments towards lease liabilities	**(11,448)**	(9,515)
Closing balance	**23,300**	18,034

18. Share capital and share premium

M'000	31 December 2021	31 December 2020
Ordinary shares		
Authorised		
50 000 000 shares with a par value of M1 per share		
Issued		
39 123 970 (2020: 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 2021	31 December 2020
The charge to profit or loss for share based payments is as follows:		
Conditional share plan	**(2,716)**	(3,223)
Amount included in profit or loss	**(2,716)**	**(3,223)**

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

The performance vesting conditions attached to the 2018 scheme were not met and the full obligation raised in the prior periods was therefore reversed in the current year.

Description of schemes and vesting conditions:

Conditional share scheme	
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.

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.

20. Contingencies and commitments

M'000	**31 December 2021**	31 December 2020
Guarantees	**14,893**	13,873
Irrevocable commitments*	**104,473**	52,103
Committed capital expenditure	**28,154**	13,496
Contigencies and commitments	**147,520**	**79,472**
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors.	**28,154**	13,496
Guarantees		
Guarantees consist predominantly of endorsements and performance guarantees.	**14,893**	13,873

****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 2021			
	Total carrying amount	**Fair value hierarchy**		
		Level 1	Level 2	Level 3
Assets				
Advances	694,732			697,802
Investment securities and other investments	1,647,326		1,647,326	
Total assets at amortised cost	**2,342,058**	**-**	**1,647,326**	**697,802**
Liabilities				
Deposits	2,786,607			2,794,908
Total liabilities at amortised cost	**2,786,607**	**-**	**-**	**2,794,908**

M'000	31 December 2020			
	Total carrying amount	**Fair 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	**1,905,479**	**-**	**1,257,103**	**627,269**
Liabilities				
Deposits	2,677,100	-		2,687,366
Total liabilities at amortised cost	**2,677,100**	**-**	**-**	**2,687,366**

Related party transactions

Balances with related parties

M'000	31 December 2021	31 December 2020
Advances		
Key management personnel	**9,053**	8,125
Accounts receivable		
Holding company	**7,659**	771
Amounts due by holding company and fellow subsidiaries		
Holding company	**239,656**	286,917
Tier 2 liabilities		
Holding company	**20,005**	20,000
Deposits		
Key management personnel	**589**	432
Accounts payable		
Holding company	**8,537**	8,953
Amounts due to holding company and fellow subsidiaries		
Fellow subsidiaries	**0**	75

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 2021**	31 December 2020
Interest received		
Holding company	**8,697**	13,259
Key management personnel	**296**	451
Interest paid		
Holding company	**1,739**	1,971
Key management personnel	**1**	2
Non-interest revenue		
Holding company	**7,478**	8,035
Operating expenses		
Holding company	**103,176**	100,031
Salaries and other employee benefits		
Key management personnel		
Salaries and other short-term benefits	**20,500**	11,075
Share based payments	**5,600**	4,200

A list of the board of directors of the bank is on page 12 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	Annual periods commencing on or after 1 January 2023

Standard	Impact assessment	Effective date
	represents the unearned profit the entity will 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 2018 – 2020	**Improvements to IFRS** **IFRS 9 Financial Instruments:** Fees in the “10 per cent” test for derecognition of financial liabilities ➢ The amendment clarifies the 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. There is no similar amendment proposed for IAS 39. ➢ An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. **Lease incentives** ➢ The amendment removes the illustration of payments from the lessor relating to	Annual periods beginning on or after 1st January 2022.

Standard	Impact assessment	Effective date
	leasehold improvements in illustrative example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16. The amendments are not expected to have a significant impact on the annual financial 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	Annual periods beginning on or after 1st January 2022.

Standard	Impact assessment	Effective date
	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 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 8	**Definition of accounting estimates** The amendments to IAS 8 introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting	Annual periods beginning on or after 1st January 2023.

Standard	Impact assessment	Effective date
	estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.	
IAS 12	**Deferred tax related to assets and liabilities arising from a single transaction** The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result a deferred tax asset and a deferred tax liability will need to be recognised for temporary differences arising on initial recognition of a lease and decommissioning provision.	Annual periods beginning on or after 1st January 2023.
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 2023.

Standard	Impact assessment	Effective date
	Disclosure of accounting policies – amendments to IAS 1 and IFRS Practice Statement 2 The IASB issued amendments to IAS 1 and an update to IFRS Practice Statement 2 *Making Materiality Judgements* to help prepares provide useful accounting policy disclosures. The key amendments to IAS 1 include: ➢ requiring companies to disclose their material accounting policies rather than their significant accounting policies; ➢ clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and ➢ clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.	

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 rowspan="2">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 scenario.</td></tr>
<tr><td>Liquidity risk arises from all</td><td>The following information is</td></tr>
</table>

<table>
<tr><th colspan="3">Overview of financial risks</th></tr>
<tr><td></td><td>assets and liabilities with differing maturity profiles.</td><td>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"></td></tr>
<tr><td>Interest rate risk in the banking book (23.3.1) originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.</td><td>The following information is presented for interest rate risk in the banking book:
➢ projected NII sensitivity to interest rate movements; and
➢ banking book NAV sensitivity to interest rate movements as a percentage of total bank capital.</td></tr>
<tr><td>Capital management</td><td colspan="2">The overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the bank’s solvency and quality of capital during calm and turbulent periods in the economy and financial markets. The bank, therefore, maintains capitalisation ratios aligned to its risk appetite and appropriate to safeguard operations and stakeholder interests. The key focus areas and considerations of capital management are to ensure an optimal level and composition of capital, effective allocation of resources including capital and risk capacity, and a sustainable dividend policy.</td></tr>
</table>

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 (NIACC) 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 considering collateral and other credit enhancements.

M'000	**31 December 2021**	31 December 2020
On-balance sheet exposure		
Cash and short-term funds		
Money at call and short notice	**203,265**	473,505
Balances with central bank	**84,029**	70,352
Gross advances	**784,617**	765,734
Retail Segment	**414,633**	410,512
Commercial Segment	**199,072**	152,285
Corporate Segment	**712**	35,641
WesBank	**170,200**	167,296
Accounts receivable	**6,236**	8,525
Amounts due by holding company and fellow subsidiaries	**247,315**	287,688
Investments securities and other investments	**1,654,114**	1,259,119
Off-balance sheet exposure		
Financial and other guarantees	**14,893**	13,873
Loan commitments not drawn	**52,103**	40,219
Total	**3,831,189**	3,684,749

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 2021			31 December 2020		
M'000	FR 1 -25	FR 26 - 90	Above FR 90	FR 1 -25	FR 26 - 90	Above FR 90
Retail Segment	**-**	**362,177**	**49,487**	-	372,140	51,145
Stage 1	-	359,277	18,338	-	354,588	20,225
Stage 2	-	2,900	20,224	-	12,092	20,102
Stage 3	-	1	10,925	-	5,460	10,818
Commercial Segment	**-**	**185,676**	**13,808**	2	137,172	7,856
Stage 1	-	180,991	1,781	2	125,243	4,632
Stage 2	-	4,685	9,516	-	7,092	3,097
Stage 3	-	0	2,512	-	4,837	127
Corporate Segment	**-**	**716**	**0**	-	62,535	-
Stage 1	-	716	-	-	59,725	-
Stage 2	-	-	0	-	2,810	-
Stage 3	-	-	-	-	-	-
WesBank Segment	**-**	**146,935**	**25,333**	-	159,763	27,234
Stage 1	-	129,298	5,829	-	159,573	190
Stage 2	-	17,637	11,999	-	190	15,932
Stage 3	-	-	7,505	-	-	11,112
Total Advances	**-**	**695,503**	**88,629**	2	731,610	86,235
Off balance sheet exposures						
Commercial Segment	**-**	**119,366**	**-**	-	60,903	1,472
Stage 1	-	119,366		-	60,903	1,472

Analysis of impaired advances

M'000	31 December 2021		
	Total carrying amount	Security held and expected recoveries	Stage 3 impairment
Stage 3 assets by category			
Overdrafts and cash management accounts	1,893		3,474
Term loans	758	170	588
Instalment sales and hire purchase agreements	12,367		13,097
Property finance	3,438	2,737	701
Personal loans	3,933		3,967
Total NPLs	**22,389**	**2,907**	**21,827**

M'000	31 December 2020		
	Total carrying amount	Security held and expected recoveries	Stage 3 impairment
Stage 3 assets by category			
Overdrafts and cash management accounts	4,386	-	4,463
Term loans	1,347	528	819
Instalment sales and hire purchase agreements	13,219	523	12,696
Property finance	11,354	7,720	3,634
Personal loans	12,006	-	12,549
Total NPLs	**42,313**	**8,771**	**34,162**

Credit quality of credit assets – non - advances

	31 December 2021			31 December 2020		
M'000	**AAA to A**	**BB+ to B-**	**B+ to B**	AAA to A	BB+ to B-	B+ to B
Investment securities at amortised cost Stage 1	**361,513**	**1,285,813**		-	1,257,103	
Amounts due by holding company and fellow subsidiary companies Stage 1					287,688	
Accounts receivable Stage 1			**7,590**			8,525
Cash and cash equivalents Stage 1			**287,294**		70,352	584,464

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 several 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 2021		31 December 2020	
M'000	Lesotho	South africa	Lesotho	South Africa
On-balance sheet exposures				
Cash and cash equivalents	**415,399**		654,817	
Total advances	**694,732**		648,376	
Investments securities and other investm	**796,173**	**851,153**	950,113	306,990
Amounts due by holding company and fellow subsidiary companies		**247,315**		287,688
Accounts receivable	**6,236**		8,525	
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	**14,893**		13,873	

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 2021			
		Stage 3		
	Total advances	Total	Security held and expected recoveries	Stage 3 impairment
Agriculture	7,513	65	3	61
Financial Institutions	1,768			
Building and property development	40,253	482		630
Government land bank and public authority	27,775	1,029	52	977
Individuals	484,481	14,079	978	13,101
Manufacturing and commerce	113,850	3,063	61	3,002
Mining	7,563			
Transport and communication	48,458	3,187	1,594	3,725
Other services	52,955	485	220	329
Gross value of advances	**784,617**	**22,390**	**2,907**	**21,827**
Impairment of credit advances	**(89,885)**			
Net advances	**694,732**			

M'000	31 December 2020			
		Stage 3		
	Total advances	Total	Security held and expected recoveries	Stage 3 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**	**42,314**	**8,770**	**34,162**
Impairment of credit advances	**(117,358)**			
Net advances	**648,376**			

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 2021				
M'000	Gross Carrying amount	Loss Allowances	Maximum exposure to credit risk	Unsecured	Secured
Overdrafts and managed accounts	88,410	(7,673)	80,737	88,410	
Term loans	61,455	(32,562)	28,893	43,019	18,437
Installment sales and fire purchase	170,200	(22,687)	147,513	85,100	85,100
Property finance	194,026	(7,743)	186,283		194,026
Personal loans	270,526	(18,964)	251,562	270,526	
Total Advances	**784,617**	(89,629)	**694,988**	**487,055**	**297,563**
Off balance sheet exposure	119,366	(256)	119,109	104,473	14,893
Investment securities and other investme	1,647,327	(6,787)	1,640,540	1,647,327	
Amounts due by holding company and fellow subsidiary companies	247,315	-	247,315	247,315	
Accounts receivables	6,236	-	6,236	6,236	

	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)	55,309	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)	144,171	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**	(115,131)	**650,603**	**287,153**	**388,138**	**377,596**
Off balance sheet exposure	77,470	(358)	77,112		77,470	-
Investment securities and other investme	1,257,103	(2,016)	1,255,087		1,257,103	
Amounts due to holding company and fellow subsidiary companies	8,537	-	8,537		8,537	
Accounts receivables	8,525	-	8,525		8,525	

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 2021			
		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	2,786,607	2,434,733	323,105	28,769
Creditors, accruals and provisions	60,291	60,291		
Tier 2 liabilities	20,005		20,005	
Amounts due to holding company and fellow subsidiaries	8,537	8,537		
Lease liabilities	23,300	3,624	7,022	12,653
Off-balance sheet amounts				
Financial and other guarantees	14,893	14,893		
Facilities not drawn	104,473	104,473		

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	2,677,100	2,254,425	397,845	24,905
Creditors, accruals and provisions	68,992	8,236	-	60,756
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	-	-

22.2.2. Concentration analysis of deposits

M'000	**31 December 2021**	31 December 2020
Sector analysis		
Deposits, current accounts and other loans		
Sovereigns, including central bank	**95,772**	128,811
Public sector entities	**54,764**	33,526
Banks	**262,540**	243,479
Corporate customers	**1,609,589**	1,608,154
Retail customers	**690,575**	603,682
Other	**73,367**	59,448
Total deposits	**2,786,607**	**2,677,100**
Geographical analysis		
Lesotho	**2,786,607**	2,677,100

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 2021**	31 December 2020
Downward 200bps	**(16.87)**	(16.50)
Upward 200bps	**16.87**	16.50

22.3.2. Earnings sensitivity

Earnings models are run monthly 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 behavioural 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 behaviour.

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 420m for the year (2020: M1 116m).

Projected Maloti NII sensitivity to interest rate movements

M'000	**31 December 2021**	31 December 2020
Downward 200bps	**9,910**	11,050
Upward 200bps	**13,830**	10,332

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 M9 0910 (2020: M11 050). A similar increase in interest rates would result in an increase in projected 12-month NII of M13 830 (2020: M10 332).

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 2021**	31 December 2020
Share capital and premium	**48,233**	48,233
Retained earnings	**126,969**	96,509
Total qualifying Tier 1 capital	**175,202**	144,742
General debt provision	**11,224**	13,025
Perpetual debt instrument	**4,000**	8,000
Total qualifying Tier 2 capital	**15,224**	21,025
Total regulatory capital	**190,426**	165,767
Risk weighted assets	**802,881**	921,316
Capital adequacy ratio	**24%**	18%
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.

Moores Rowland

Chartered Accountants (Lesotho)

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Independent auditor's report

To the shareholders of First National Bank of Lesotho Limited

Opinion

We have audited the accompanying financial statements of First National Bank of Lesotho Limited (the Bank), which comprise the statement of financial position as at 31 December 2021, the statements of comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the financial statements including together with a summary of significant accounting policies and other explanatory notes, as set out on pages 18 to 128.

In our opinion, the financial statements give a true and fair view of the financial position of First National Bank of Lesotho Limited as at 31 December 2021 and of its financial performance and cash flows for the year then ended, in accordance with the International Financial Reporting Standards and in the manner required by the Lesotho Companies Act.

Basis of opinion

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

Other information

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

•Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

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

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

Moores Rowland

Moores Rowland Lesotho
Partner: Anthony McAlpine
Registered Auditors (LIA)
Sentinel Park
Maseru

Date:
22 March 2022