# FIRST NATIONAL BANK OF LESOTHO LIMITED

# ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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# BANK INFORMATION

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

**Registered address**
Sekhametsi Place
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
Webber Newdigate
Shale Chambers
Association of Lesotho Employers and Business
Ndebele Attorneys

**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 2022. 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 to keep 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 2022 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.

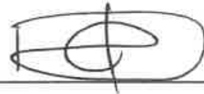
It is the responsibility of the bank's independent external auditors, Moores Rowland Chartered Accountants (Lesotho), to report on the fair presentation of the financial statements. These financial statements have been audited in terms of section 94 of the Companies Act of 2011.

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 24 March 2023 and are signed on its behalf by:

| |  |
|---|---|
| **M. Maharasoa** | **D. Mokebe** |
| **Chairperson** | **Chief Executive Officer** |
| **24 March 2023** | **24 March 2023** |

# AUDIT COMMITTEE REPORT

The audit committee is pleased to present this report for the financial year ended 31 December 2022 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;

**G. Usher**
**Chairman, Audit Committee**

**24 March 2023**

# 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 108.

**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 into Board | Designation |
|---|---|---|---|
| M. Maharasoa | Chairperson | September 2020 | Independent Non-Executive Director |
| I. Leyenaar | Director | October 2016 | Independent Non-Executive Director |
| J. Matlosa | Director | August 2021 | Independent Non-Executive Director |
| M. Thabane | Director | August 2021 | Independent Non-Executive Director |
| G. Usher | Director | March 2016 | Non-Executive Director |
| W. Richard | Director | August 2021 | Non-Executive Director |
| D. Mokebe | Director | June 2020 | Executive Director |

## Audit Committee

| | | |
|---|---|---|
| G. Usher | Director | Chairperson |
| J. Matlosa | Director | Member |
| W. Richard | Director | Member |
| I. Leyenaar | Director | Member |

## Directors Affairs and Governance Committee

| | | |
|---|---|---|
| M. Maharasoa | Director | Chairperson |
| I. Leyenaar | Director | Member |
| J. Matlosa | Director | Member |
| M. Thabane | Director | Member |
| G. Usher | Director | Member |
| W. Richard | Director | Member |

**Remuneration Committee**

| | | |
|---|---|---|
| I. Leyenaar | Director | Chairperson |
| M. Maharasoa | Director | Member |
| G. Usher (alternate member) | Director | Member |
| W. Richard | Director | Member |
| J. Matlosa | Director | Member |

**Risk, Capital and Compliance Committee**

| | | |
|---|---|---|
| J. Matlosa | Director | Chairperson |
| W. Richard | Director | Member |
| I. Leyenaar | Director | Member |
| M. Thabane | Director | Member |
| G. Usher | Director | Member |
| M. Maharasoa | Director | Member |

**Senior Credit Risk Committee**

| | | |
|---|---|---|
| M. Thabane | Director | Chairperson |
| J. Matlosa | Director | Member |
| D. Mokebe | Director | Member |
| I. Leyenaar | Director | Member (alternate member) |
| W. Richard | Director | Member (alternate member) |
| G. Usher | Director | Member (alternate member) |
| K. Mocheba | Chief Financial Officer | Member |
| T. Mochekele | Head of Risk | Member |
| T. Nthebe | Head of Credit | Member |

Changes to directorate as outlined below:

| Resignations | | Effective date |
|---|---|---|
| M. Moleko | Independent Non-Executive Director | 3 April 2022 |

**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 |
| L. Besetsa | Head Internal Auditor |
| M. Madiba | Head of Human Capital |
| T. Mohami | Head of Legal and Company Secretary |
| M. Seoela | Head of Treasury |
| M. Makepe | Head of Compliance |

# INDEPENDENT AUDITORS REPORT

Moores Rowland

Chartered Accountants (Lesotho)

Office address:
Sentinel Park
United Nations Road
Maseru

Telephone +266) 22 313929
Email mrl@mooresrowland.co.ls
Web mooresrowlandlesotho.com
Int.web praxity.com

Mail
P O Box 1252
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 2022, 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 17 to 106.

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 2022 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: Ramothamo 'Nyane
Registered Auditors (LIA)
Sentinel Park
Maseru

Date:
24 March 2023

# ACCOUNTING POLICIES

## 1. Introduction

The bank's annual financial statements have been prepared in accordance with IFRS, including interpretations issued by the IFRS Interpretations Committee, 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 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2022, 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) | | |
| 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) |

| Summary of significant accounting policies | | | |
|---|---|---|---|
| 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**

There were no new or amended IFRS standards which became effective for the year ended 31 December 2022 that impacted the bank's reported earnings, financial position, reserves or the accounting policies.

## 2. Basis of preparation

### Use of judgements and estimates

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

### Persistent global and local economic uncertainty

The impact of the Covid-19 endemic and global uncertainty around inflation and interest rates, required management to apply significant judgements and estimates to quantify the impact on the annual financial statements. The transition of Covid-19 from a global pandemic to endemic in the

past financial year due to the successful rollout of vaccines globally has resulted in stabilisation of the global economy including Lesotho with growth being noted early in the financial year, due to the gradual resumption of economic activity within various affected sectors. Russia's invasion of Ukraine however dampened these positive gains, as evidenced by inflation increasing globally, mostly attributable to high food and energy prices. As such, interest rates are expected to increase to bring inflation back to target levels across the globe after a prolonged period of support from central banks during the Covid-19 pandemic. Increasing inflation poses material risk to the global economy's recovery.

**Application of the going concern principle**

Forecast growth in earnings and balance sheet risk weighted assets (RWA) is based on the bank's macroeconomic outlook and is evaluated against available financial resources, considering the requirements of capital providers, regulators and rating agencies. The expected outcomes and constraints are then stress tested, and the bank sets targets through different business cycles and scenarios. 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. The bank adopts the following significant accounting policies in preparing its financial statements. These accounting policies have been consistently applied to all years presented.

**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:<br>➢ Interest on financial instruments measured at amortised cost.<br>➢ 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:<br>o the gross carrying amount of financial assets which are not credit-impaired; and<br>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).<br>➢ 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.<br>➢ 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.<br>Interest expense includes:<br>Interest on debt instruments measured at amortised cost. |

<table>
<tr><th colspan="2">Non-interest and financial instrument revenue recognised in profit or loss</th></tr>
<tr><td colspan="2">Net fee and commission income<br>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.</td></tr>
<tr><td>Fee and commission income</td><td>Fees and commissions that form an integral part of the effective interest rate are excluded from fees and commissions from customers and are recognised in net interest income.<br><br>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:<br>Banking fee and commission income.<br>• Knowledge-based fee and commission income.<br>• Management, trust and fiduciary fees.<br>• Fee and commission income from service providers.<br>• Other non-banking fee and commission income.<br><br>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).<br>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.<br>Where the performance obligation is satisfied over a period of time, the fees are recognised as follows:</td></tr>
</table>

| | |
|---|---|
| | ➢ fees for services rendered are recognised on an accrual basis as the service is rendered and the bank's performance obligation is satisfied, e.g. annual card fees and related fees; and<br>➢ 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.<br><br>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.<br><br>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:<br>➢ impairments and reversal of impairments of investment securities measured at amortised cost;<br>➢ Speed point rental income;<br>➢ Fees due from holding company and fellow subsidiaries; and<br>➢ Insurance commission. |
| **Expenses** |
| Expenses of the bank, apart from fee and commission expenses included in net fee and commission income, are recognised and measured in terms of the accrual principle and presented as operating expenses in profit or loss. |

### 4.2. Income tax expense

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

| Current income tax | |
| --- | --- |
| The current income tax expense is calculated by adjusting the net profit for the year for items that are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the reporting date. | |
| **Deferred income tax** | |
| Recognition | On temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. |
| Typical temporary differences in the bank that deferred tax is provided for | ➢ Depreciation of property and equipment;<br>➢ Provisions;<br>➢ Impairment losses; and<br>➢ 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.<br>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.<br>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:<br>➢ the bank's business model for managing the financial assets; and<br>➢ the contractual cash flow characteristics of the financial asset. |

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

## Business model

considered a sale transaction as substantially all the risks and rewards relating to the ownership of the asset have not been transferred and the asset is not derecognised from an accounting perspective.

If sales of financial assets are not infrequent, the significance of these sales are considered by comparing the carrying amount of assets sold during the period and cumulatively to the total carrying amount of assets held in the business model. If sales are either infrequent or insignificant, these sales will not impact the conclusion that the business model for holding financial assets is to collect contractual cash flows.

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

| Cash flow characteristics |
| --- |
| considered reasonable compensation which would not cause these assets to fail the SPPI test.<br><br>For Business advances, the SPPI test is applied to individual advances at initial recognition, based on the cash flow characteristics of the asset. Business advances that do not pass the SPPI test and that must be measured at fair value through profit or loss include advances with equity participation features, convertible bonds and 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.<br><br>Interest charged to customers compensates the bank for the time value of money, credit risk |

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

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

| | | |
|---|---|---|
| | than a sale, and the bank continues to recognise the asset and collect the contractual cash flows.<br><br>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.<br>These assets are held to collect contractual cash flows. | The cash flows on these assets are solely payments of principal and interest. |
| **Accounts receivable** | Financial accounts receivable are short- term financial assets which include intercompany accounts that are held to<br>collect contractual cash flows. | The cash flows on these assets are solely payments of principal and interest. |

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

| Financial liabilities and compound financial instruments |
|---|
| The bank classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Tier 2 instruments which have write down or conversion features are classified based on the nature of the instrument and the definitions. Tier 2 and other funding liabilities are presented in separate lines on the statement of financial position of the bank.<br>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) | |
| 12-month expected credit losses | Lifetime expected credit losses | Lifetime expected credit losses | |

| 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.<br><br>SICR test thresholds are re-assessed and, if necessary, updated, on at least an annual basis.<br><br>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.<br>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.<br><br>The SICR test is performed on a monthly basis, as part of the monthly impairment calculation process.<br><br>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.<br><br>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.<br><br>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.<br>Any distressed restructures of accounts which have experienced a significant increase in credit risk since initial recognition are defined as default events.<br><br>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).<br>➢ 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<br>➢ within retail portfolios, write-off definitions have been determined with reference to analysis of the materiality of post write-off recoveries; and<br>➢ within business portfolios, a judgmental approach to write-off is followed, based on case-by-case assessment by a credit committee.<br>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.<br>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.<br>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 |

| | **Other financial assets** |
|---|---|
| | classified as Stage 3.<br>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.<br>ECL for accounts receivable is calculated using the loss rate approach. |
| Investment securities | Impairment parameters for investment securities (PDs, LGDs and EADs) are determined using appropriate models, with the models to be applied determined with reference to the issuer of the security and the nature of the debt instrument. The tests for a significant increase in credit risk and default definitions are then applied and the ECL calculated in the same way as for advances. The significant increase in credit risk thresholds applied for investment securities are the same as those applied within the business credit portfolio to ensure consistency in the way that a significant increase in credit risk is identified for a particular counterparty and for similar exposures. The bank does not use the low credit risk assumption for investment securities, including government bonds. |
| Intercompany balances | Expected credit losses are calculated using PD, LGD and EAD parameters that are determined through application of expert credit judgement and approved through appropriate governance structures.<br>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, this includes debt restructuring accounts where the new terms of the contract (such as a lower interest rate) is mandated by law and do not have the same commercial terms as a new product that the bank would be willing to offer a customer with a similar risk profile. The same principle is applied for wholesale advances on a case-by-case basis. | Existing asset is not derecognised. The gross carrying amount of the financial asset is recalculated as the present value of the estimated future cash receipts through the expected life of the renegotiated or modified financial asset, discounted at the financial asset's original effective interest rate. The gain or loss on modification is recognised in profit or loss as part of impairment of advances. |
| **Modifications with derecognition (i.e. substantial modifications)** | | |
| Retail advances | The process for modifying a non-distressed advance is substantially the same as the process for raising a new advance, including re-assessing the customer's credit risk, repricing the asset and entering into a new legal agreement. | Existing asset is derecognised and a new asset is recognised at fair value based on the modified contractual terms. |

### 5.4. Offsetting of financial instruments

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

<table>
<tr><th>Classification</th><th>Measurement</th></tr>
<tr><td colspan="2">Property and equipment</td></tr>
<tr><td>Property and equipment of the bank includes:<br>➢ 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);<br>➢ assets which are owned by the bank and leased to third parties under operating leases as part of the bank's revenue generating operations;<br>➢ Right-of-use-assets; and<br>➢ other assets utilised in the normal course of operations including computer and office equipment, motor vehicles and furniture and fittings.</td><td>Historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated.<br><br>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).<br><br>Freehold property and property held under leasing agreements:<br>• Property – Leasehold premises: Lease contract term<br>• Office equipment: 5-10 years</td></tr>
</table>

| Classification | Measurement | |
|---|---|---|
| | • 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).<br><br>The lease liability is initially measured at the present value of the lease payments outstanding at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the bank uses its own incremental borrowing rate.<br><br>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. | Not applicable for FNBL |
| Over life of the lease | Each lease payment is allocated between the lease liability and interest expense. The interest expense is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.<br><br>The ROUA is subsequently measured at cost less accumulated depreciation and impairment losses. | Not applicable for FNBL |

| | Bank is the lessee | Bank is the lessor |
|---|---|---|
| | The asset is depreciated over the lease term on a straight-line basis, where ownership is not transferred at the end of the lease term. If ownership is transferred at the end of the lease term, the asset is depreciated over the shorter of the lease term or useful life.<br><br>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.<br>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.<br>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 2022

| | |
|---|---|
| Baseline regime<br>59.3% (2021 – 60%) prob. | Assumes:<br>• Developed Market (DM) central banks continue to signal a reduction in the size and pace of interest rate increases, which we expect to peak in the first half of this year.<br>• The faster than expected reopening of China's economy should help limit the extent of the global slowdown and provide some support to commodity prices but is unlikely to materially change the outlook for inflation and interest rates. In the medium to longer term, we expect global inflation to fall considerably from current elevated levels but remain above target.<br>• DM central banks are likely to accept slightly above target inflation rather than lifting real interest rates to the point of pushing inflation to or below target because this would likely make global government debt service burdens unserviceable.<br>• Once the global economy convincingly bottoms out and the Fed "pivots", sentiment likely improve which should benefit the rand and other risk assets from mid-2023 onwards. |
| Upside to Baseline<br>11.8% (2021 – 13%) prob. | Assumes: |

| | |
|---|---|
| | • Together the International Monetary Fund (IMF) and the government successfully reform the public sector wage bill, while also implementing Southern African Development Community (SADC) reforms to ensure African Growth and Opportunity Act (AGOA) eligibility<br>• Several higher-grade diamonds are discovered<br>• A more favourable global environment stimulates export prospects and boosts commodity prices<br>• The medical marijuana industry takes off and so provides much necessary support to manufacturing and related to that employment<br>• Good rains lead to a bumper crop<br>• The new pro-business coalition government delivers on campaign promises, and pursues growth enhancing structural reforms<br>• Coalition government addresses infrastructure gaps related to electricity generation, transport, and utilities<br>• Global inflation trends lower, as supply-side pressures dissipate<br>• A peaceful solution to the war in Ukraine results in a reduction in global commodity price pressures.<br>• Global investment into renewable energies gather pace faster than expected.<br>• Redistributionary policy raises labour and lower end income, boosting consumption<br>• Financial conditions loosen.<br>• Global growth remains above trend. |

| Downside regime<br>28.9% (2021 – 27%) prob. | Assumes:<br>• Global supply chain disruptions weigh on the manufacturing sector and job losses follow<br>• Government fails to right-size the public sector wage bill and other socio-political spending and to implement SADC reforms to maintain AGOA eligibility<br>• The newly elected coalition government plagued by infighting, undermining the implementation of fiscal and economic reforms<br>• The Lesotho Highlands Water Project experiences further disruptions.<br>• Headwinds in SA result in continued low SACU receipts.<br>• Electricity shortages in SA weigh significantly on energy-intensive sectors in Lesotho.<br>• Worsening global conditions weakens the mining sector as commodity prices and demand slows.<br>• Rise in social and political insecurity due to food and/or water insecurity.<br>• Global inflation lifts further due to supply-side pressures.<br>• The war in Ukraine continues to damage global supply chains, creating global shortage of commodities, with high inflation globally.<br>• More frequent, protracted, and intense geopolitical risk events keep uncertainty elevated.<br>• Global investment into renewable energies is hampered by supply chain problems.<br>• Global climate disruptions add further pressure to global food prices.<br>• Global central banks tighten monetary conditions to address inflation, to prevent 2nd round effects.<br>• Financial conditions tighten.<br>• Global growth falls below trend. |
|---|---|

## Significant macroeconomic factors

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

2022

| | Upside scenario | | | Baseline expectation | | | Downside scenario | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2023** | **2024** | **2025** | **2023** | **2024** | **2025** | **2023** | **2024** | **2025** |
| GDP growth (%) | 4.2 | 4.8 | 5.0 | 2.8 | 2.7 | 2.4 | 0.8 | 1.0 | 1.0 |
| Inflation (Annual average) (%) | 5.0 | 3.8 | 4.0 | 6.1 | 4.9 | 5.1 | 8.4 | 7.2 | 7.4 |
| Foreign exchange rate | 13.6 | 14.2 | 14.5 | 17.4 | 17.4 | 18.2 | 22.4 | 21.7 | 20.5 |

2021

| | 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.<br><br>PD parameters are determined through assessment of the influence that various risk drivers have had on historical default rates.<br><br>EAD parameters are estimated based on product characteristics and historical draw-down and payment behaviour.<br><br>LGDs are determined by estimating expected future cash flows and are adjusted for forward looking information such as the prime lending rate and GDP. These cash flows include direct costs and proceeds from the sale | 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. |

| | | |
|---|---|---|
| | of collateral. Collateral recovery rates are based on historically observed outcomes.<br><br>The statistical models applied implicitly assume that risk drivers that influence default risk, payment behaviour and recovery expectations within the historical data will continue to be relevant in the future. | |
| | Parameters are calibrated for the calculation of 12-month and ECL using term structures that consider borrower risk, account age, historical behaviour, transaction characteristics and correlations between parameters.<br><br>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.<br><br>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.<br><br>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. 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 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. | 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. |
| **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 2022. 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 2022** | | |
|---|---|---|
| M'000 | **5% increase in gross carrying amount of exposure** | **Increase in ECL due to 5% increase in SICR** |
| Retail | 25 380 | 3 174 |
| Wholesale, commercial and other (including Bank Treasury) | 21 444 | 653 |
| Total increase in stage 2 advances and ECL | 46 823 | 3 827 |

| **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 | 30 230 | 6 066 |

## 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 2022

| M'000 | Notes | 31 December 2022 | 31 December 2021 |
|---|---|---|---|
| Interest and similar income | 1.1 | **247,244** | 203,433 |
| Interest expense and similar charges | 1.2 | **(57,039)** | (40,377) |
| **Net interest income before impairment of advances** | | **190,205** | 163,056 |
| Impairment of advances | 9 | **(18,150)** | (2,630) |
| **Net interest income after impairments of advances** | | **172,055** | 160,426 |
| Non-interest revenue | 2 | **164,537** | 164,601 |
| **Income from operations** | | **336,592** | 325,027 |
| Operating expenses | 3 | **(327,561)** | (284,346) |
| **Profit/(Loss) before income tax** | | **9,031** | 40,681 |
| Income tax expense | 4 | **(3,114)** | (10,221) |
| **Profit/(Loss) and total comprehensive income for the year** | | **5,917** | 30,461 |

**First National Bank of Lesotho Limited**
**Company Registration Number: I2008/729;**
**Annual Financial Statements for the Year Ended 31 December 2022**

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

| M' 000 | Notes | 31 December 2022 | 31 December 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 6 | **377,822** | 415,399 |
| Investments securities and other investments | 7 | **1,384,110** | 1,647,327 |
| Advances | 8 | **950,043** | 694,732 |
| Accounts receivable | 10 | **22,927** | 6,236 |
| Current tax asset | | **-** | - |
| Amounts due by holding company and fellow subsidiary companies | 11 | **334,854** | 247,315 |
| Property and equipment | 12 | **40,144** | 40,464 |
| Deferred income tax asset | 13 | **35,063** | 33,721 |
| **Total assets** | | **3,144,965** | 3,085,194 |
| **EQUITY AND LIABILITIES** | | | |
| **Liabilities** | | | |
| Creditors, accruals and provisions | 14 | **69,830** | 60,291 |
| Current tax liability | | **187** | 1,767 |
| Deposits | 15 | **2,856,577** | 2,786,607 |
| Employee liabilities | 16 | **9,350** | 9,485 |
| Lease liabilities | 17 | **14,362** | 23,300 |
| Amounts due to holding company and fellow subsidiary companies | 11 | **13,538** | 8,537 |
| Tier 2 liabilities | 11 | **-** | 20,005 |
| **Total liabilities** | | **2,963,844** | 2,909,992 |
| **Equity** | | | |
| Ordinary shares | 18 | **39,124** | 39,124 |
| Share premium | 18 | **9,109** | 9,109 |
| Reserves | | **132,889** | 126,970 |
| **Total equity** | | **181,122** | 175,203 |
| **Total equity and liabilities** | | **3,144,965** | 3,085,194 |

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

| M'000 | Share capital | Share premium | General risk reserve* | Retained earnings | Reserves attributable to ordinary equity holders | Total equity |
|---|---|---|---|---|---|---|
| Balance as at 1 January 2021 | 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** |
| Current year movement | - | - | 1,399 | (1,399) | - | - |
| Profit and total comprehensive income for the year | - | - | - | 5,917 | **5,917** | **5,917** |
| **Balance as at 31 December 2022** | **39,124** | **9,109** | **17,775** | **115,112** | **132,887** | **181,122** |

**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. The general risk reserve was increased due to the increase in the advances in the current year.*

# STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

| M' 000 | Notes | 31 December 2022 | 31 December 2021 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest, fees and commission receipts | | 411,982 | 357,663 |
| Interest received | | 247,468 | 193,202 |
| Fee and commission received | | 164,514 | 164,461 |
| Interest payment | | (52,022) | (40,628) |
| Other operating expenses | | (306,539) | (256,854) |
| Taxation paid | | (6,037) | (5,576) |
| **Cash flows from operating activities** | | 47,384 | 54,605 |
| **Movements from operating assets and liabilities** | | (39,383) | (280,610) |
| Liquid assets and trading securities | | 187,200 | (339,541) |
| Advances | | (280,206) | (49,555) |
| Deposits | | 64,953 | 109,763 |
| Creditors (net of debtors) | | (5,034) | (2,388) |
| Employee liabilities | | 1,028 | 396 |
| Other liabilities | | (7,324) | 715 |
| **Net cash generated from operating activities** | | 8,001 | (226,005) |
| **Cash flows from investing activities** | | | |
| Acquisition of property and equipment | | (10,871) | (2,105) |
| Proceeds on disposal of property and equipment | | 23 | 140 |
| **Net cash outflow from investing activities** | | (10,848) | (1,965) |
| **Cash flows from financing activities** | | | |
| Redemption of Tier 2 liabilities | | (20,005) | - |
| Lease payments (IFRS 16) | 17 | (14,725) | (11,448) |
| **Increase/ (Decrease) in cash and cash equivalents** | | (37,577) | (239,418) |
| Cash and cash equivalents at the beginning of the year | 6 | 415,399 | 654,817 |
| **Cash and cash equivalents at the end of the year** | | 377,822 | 415,399 |

*Interest, fees and commission receipts have been disaggregated into the material line items making up this balance. The presentation of the comparative information has also been updated. The total interest, fees and commission receipts as previously reported have not changed. The disaggregation is in line with the requirements of IAS 7.*

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2022

# 1. Analysis of interest income and interest expense

## 1.1. Interest and similar income

| M'000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Instruments at amortised cost | **247,244** | 203,432 |
| | | |
| Advances | **117,536** | 96,433 |
| Overdrafts and cash management accounts | **12,707** | 9,094 |
| Term loans | **12,900** | 4,730 |
| Instalment sales and hire purchase agreements | **20,009** | 18,556 |
| Property finance | **17,909** | 17,371 |
| Personal loans | **54,011** | 46,682 |
| Cash and cash equivalents | **16,891** | 20,805 |
| Investment securities | **100,260** | 77,445 |
| Amounts due by holding company and fellow subsidiaries | **9,173** | 8,697 |
| Other* | **3,384** | 52 |
| **Interest and similar income** | **247,244** | 203,432 |

**Other comprises of M3327 of unwinding on staff loans*

## 1.2. Interest expense and similar charges

| M'000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Instruments at amortised cost | **(57,039)** | (40,377) |
| Deposits from customers | | |
| Current accounts | **(9,975)** | (3,871) |
| Savings deposits | **(321)** | (7) |
| Call deposits | **(17,878)** | (12,094) |
| Fixed and notice deposits | **(27,418)** | (21,286) |
| Tier 2 liabilities | **(561)** | (1,739) |
| Interest on lease liability | **(885)** | (1,380) |
| **Interest expense and similar charges** | **(57,039)** | (40,377) |

## 2. Non-interest revenue

| M'000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| **Fee and commission income** | | |
| Instruments at amortised cost | **164,537** | 164,601 |
| **Net fee and commission income** | | |
| Income | | |
| Card commissions | **6,221** | 4,769 |
| Cash deposit fee | **32,594** | 35,563 |
| Commissions: bills, drafts and cheques | **1,726** | 3,447 |
| Exchange commissions | **2,291** | 1,656 |
| Bank charges | **94,011** | 99,975 |
| Other non-banking fee and commission income | **17,639** | 14,344 |
| Speed point income | **16,747** | 11,804 |
| Expenses | | |
| Conveyance of cash | **(19,972)** | (17,577) |
| **Net fee and commission income** | **151,257** | 153,981 |
| | | |
| Amounts earned from holding company and fellow subsidiaries | **2,507** | 7,478 |
| Other non-interest revenue | **10,773** | 3,142 |
| Translation Gains/Losses | **(538)** | 24 |
| Forex Gains and Losses | **164** | 132 |
| Trading Income | **11,531** | 8,166 |
| Gains and Losses from investment activities | **28** | (4,772) |
| Unclaimed balances write back | **(503)** | (555) |
| Profit/Loss on sale of property and equipment | **23** | 140 |
| Acceptance guarantees and indemnities | **68** | 7 |
| **Other non-interest revenue** | **13,280** | 10,620 |
| | | |
| **Total non-interest revenue** | **164,537** | 164,601 |

## 3. Operating expenses

| M'000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| **Auditors remuneration** | **(2,256)** | (2,632) |
| Audit fees | **(2,256)** | (2,632) |
| | | |
| **Staff costs** | **(103,737)** | (85,947) |
| Salaries, wages and allowances | **(77,777)** | (65,424) |
| Contributions to employee benefit funds | **(10,396)** | (9,361) |
| Share based payments | **(3,450)** | (2,716) |
| Other staff costs | **(12,114)** | (8,446) |
| | | |
| **Other operating costs** | **(221,568)** | (195,767) |
| Depreciation of property and equipment | **(24,302)** | (21,541) |
| Insurance | **(1,345)** | (1,565) |
| Advertising and marketing | **(6,725)** | (5,419) |
| Legal | **(25)** | (3,055) |
| Maintenance | **(6,769)** | (5,213) |
| Director's fees | **(1,544)** | (1,734) |
| Property | **(10,482)** | (10,846) |
| Business travel | **(1,321)** | (298) |
| Donations | **(159)** | - |
| Storage and delivery | **(1,605)** | (981) |
| Motor vehicle expenses | **(617)** | (332) |
| Bank charges - external | **(486)** | (350) |
| Subscriptions and memberships | **(3)** | (645) |
| Computer | **(9,920)** | (8,192) |
| Entertainment | **(1,412)** | (549) |
| Non-capitalised lease charges | **(2,045)** | (5,426) |
| short term lease charges | **(1,641)** | (2,976) |
| low-value lease charges | **(404)** | (2,450) |
| Stationery | **(2,465)** | (2,188) |
| Training expenses | **(1,622)** | (419) |
| Telecommunications | **(4,743)** | (5,990) |
| Expenses paid to holding company and fellow subsidiaries* | **(122,391)** | (103,176) |
| Management fees | **(18,578)** | (15,320) |
| Stamps - office | **(20)** | - |
| Other expenses | **(2,989)** | (2,528) |
| **Total operating expenses** | **(327,561)** | (284,346) |

**Costs the holding company and fellow subsidiaries incur on behalf of the bank as principal, are invoiced to the bank as part of the respective company's cost recovery process*

## 4. Income tax expense

| M'000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Current income tax | **(4,456)** | (6,458) |
| Current year | **(4,456)** | (6,458) |
| Deferred income tax | **1,342** | (3,763) |
| Current year | **1,342** | (3,763) |
| **Total income tax expense** | **(3,114)** | (10,221) |

### Tax rate reconciliation

| M' 000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| **Standard rate of income tax** | 25 | 25 |
| Total tax has been affected by: | | |
| - Prior year adjustment* | 10 | |
| Non-deductible amounts | ( 1) | ( 9) |
| **Effective rate of tax** | 34 | 16 |

** Prior year adjustment relates to prior year's tax recovery following assessment by the LRA*

## 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 2022 | | | | |
|---|---|---|---|---|---|
| M'000 | Financial assets measured at amortised cost | Non-financial instruments | Total carrying value | Current | Non-current |
| Cash and cash equivalents | 377,822 | - | 377,822 | 377,822 | - |
| Investments securities and other investments | 1,384,110 | - | 1,384,110 | 345,163 | 1,038,947 |
| Advances | 950,043 | - | 950,043 | 177,028 | 773,015 |
| Accounts receivable | 20,487 | 2,440 | 22,927 | 18,532 | 4,395 |
| Amounts due by holding company and fellow subsidiaries | 334,854 | - | 334,854 | 320,162 | 14,692 |
| Property and equipment | - | 40,144 | 40,144 | - | 40,144 |
| Deferred income tax asset | - | 35,063 | 35,063 | - | 35,063 |
| **Total assets** | **3,067,318** | **77,647** | **3,144,965** | **1,238,710** | **1,906,255** |

| | 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 | - | 694,732 | 34,076 | 660,656 |
| 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** | **3,085,194** | **1,027,603** | **2,057,590** |

## 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 2022 | | | | |
|---|---|---|---|---|---|
| M'000 | Financial liabilities measured at amortised cost | Non-financial instruments | Total carrying value | Current | Non-current |
| Creditors, accruals and provisions | 69,830 | - | 69,830 | 69,830 | - |
| Current tax liability | 187 | | 187 | 187 | |
| Deposits | 2,856,577 | - | 2,856,577 | 2,426,737 | 429,840 |
| Employee liabilities | - | 9,350 | 9,350 | 9,350 | |
| Other liabilities | 14,362 | - | 14,362 | 3,361 | 11,001 |
| Amounts due to holding company and fellow subsidiaries | 13,538 | - | 13,538 | 13,538 | - |
| Tier 2 liabilities | - | - | - | - | - |
| **Total liabilities** | **2,954,494** | **9,350** | **2,963,843** | **2,523,003** | **440,841** |

| | 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** | **2,518,437** | **391,555** |

## 6. Cash and cash equivalents

| M'000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Coins and bank notes | **166,404** | 128,105 |
| Money at call and short notice | **135,520** | 203,265 |
| Balances with central banks* | **75,898** | 84,029 |
| Mandatory reserve balance with central banks | **75,898** | 82,098 |
| Other balances with central banks not included in mandatory reserve balance | **-** | 1,931 |
| **Total cash and cash equivalents**** | **377,822** | 415,399 |

**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 2022 | 31 December 2021 |
|---|---|---|
| Treasury bills | **492,700** | 728,464 |
| Government bonds | **757,427** | 822,724 |
| Fixed deposit | **140,742** | 102,926 |
| **Total gross carrying amount of investment securities** | **1,390,869** | 1,654,114 |
| Loss allowance on investment securities | **(6,760)** | (6,787) |
| **Total investment securities** | **1,384,110** | 1,647,327 |

*Investment securities are classified as debt instruments at amortised cost.*

## Analysis of impairment stages of investment securities

| | 31 December 2022 | | 31 December 2021 | |
|---|---|---|---|---|
| M'000 | Carrying Amount | ECL Allowance | Total carrying value | Current |
| Stage 1 | 1,390,869 | (6,760) | 1,654,114 | (6,787) |
| **Total investment securities** | **1,390,869** | **(6,760)** | **1,654,114** | **(6,787)** |

Investment securities portfolio carried relatively high quantum of uninsured Lesotho debt securities at 81.09% (2021: 72.48%). This was mainly on account of removal of MIGA insurance cover for 5% of the portfolio and maturity of low risk supra papers. This resulted in muted ECL charge despite a drop in investment securities carrying amount.

## 8. Advances

| M'000 | Note | 31 December 2022 | 31 December 2021 |
|---|---|---|---|
| **Category analysis** | | | |
| Overdrafts and cash managed accounts | | **168,843** | 88,410 |
| Term loans | | **165,769** | 61,455 |
| Instalment sales and hire purchase agreements | | **175,853** | 170,200 |
| Property finance | | **212,993** | 194,026 |
| Personal loans | | **329,744** | 270,526 |
| **Gross value of advances** | | **1,053,202** | 784,617 |
| Impairment of advances | 9.2 | **(103,159)** | (89,885) |
| **Net advances** | | **950,043** | 694,732 |

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

| Retail Segment<br>M'000 | Total | Stage 1 | Stage 2 | Stage 3 |
|---|---|---|---|---|
| **Amount as at 31 December 2021** | **414,633** | **373,303** | **33,556** | **7,774** |
| Transfer to Stage 1 | 6,820 | - | 6,816 | 4 |
| Transfer to Stage 2 | 14,757 | 14,577 | - | 180 |
| Transfer to Stage 3 | 613 | 544 | 69 | - |
| Bad debts written off | (19,018) | - | - | (19,018) |
| New business and other changes in exposure | 70,541 | 52,405 | (2,420) | 20,557 |
| **Amount as at 31 December 2022** | **488,346** | **440,829** | **38,021** | **9,495** |

| Commercial Segment<br>M'000 | Total | Stage 1 | Stage 2 | Stage 3 |
|---|---|---|---|---|
| **Amount as at 31 December 2021** | **199,072** | **170,820** | **26,003** | **2,249** |
| Transfer to Stage 1 | 1,934 | - | 1,934 | - |
| Transfer to Stage 2 | 3,903 | 3,903 | - | - |
| Transfer to Stage 3 | - | - | - | - |
| Bad debts written off | (60) | - | - | (60) |
| New business and other changes in GCA | 98,067 | 108,874 | (16,346) | 5,539 |
| **Amount as at 31 December 2022** | **302,916** | **283,597** | **11,591** | **7,728** |

| WesBank Segment<br>M'000 | Total | Stage 1 | Stage 2 | Stage 3 |
|---|---|---|---|---|
| **Amount as at 31 December 2021** | **170,200** | **105,904** | **51,929** | **12,367** |
| Transfer to Stage 1 | 14,034 | - | 14,034 | - |
| Transfer to Stage 2 | 8,689 | 8,689 | - | - |
| Transfer to Stage 3 | 11,233 | 4,963 | 6,270 | - |
| Bad debts written off | - | - | - | - |
| New business and other changes in GCA | (28,304) | 35,953 | (66,379) | 2,123 |
| **Amount as at 31 December 2022** | **175,853** | **155,509** | **5,854** | **14,490** |

| Corporate Segment<br>M'000 | Total | Stage 1 | Stage 2 | Stage 3 |
|---|---|---|---|---|
| **Amount as at 31 December 2021** | **712** | **712** | **0** | **-** |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| Bad debts written off | - | - | - | - |
| New business and other changes in GCA | 85,375 | 85,376 | (0) | - |
| **Amount as at 31 December 2022** | **86,088** | **86,088** | **(0)** | **-** |

*The disclosure has been disaggregated to show the gross carrying amount per segment as required by IFRS 7. The comparative has been restated to show the reconciliation of gross carrying amount per segment.*

The total contractual amount outstanding on financial assets that were written off during the period and are still subject to enforcement activity is M16.9million (2021: M36.6 million).

## 9. Impairment of advances

### 9.1 Impairment of advances

| M'000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Increase in loss allowance | **(29,752)** | (11,701) |
| Recoveries of bad debts previously written off | **11,602** | 9,071 |
| **Impairment of advances recognised during the period** | **(18,150)** | (2,630) |

### 9.2 Reconciliation of the loss allowance per segment

| M'000 | Total | Retail Segment | Commercial Segment | Corporate Segment | Wesbank Segment |
|---|---|---|---|---|---|
| **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 |
| Stage 1 | 56,078 | 37,614 | 10,720 | 30 | 7,715 |
| Stage 2 | 11,980 | 6,673 | 3,431 | (0) | 1,876 |
| Stage 3 | 17,539 | 6,177 | 1,941 | - | 9,421 |
| Stage 3 interest | 4,288 | 362 | 251 | - | 3,675 |
| **Increase/(decrease) in impairment** | 13,274 | 8,762 | 292 | 3,195 | 1,024 |
| Stage 1 | 2,871 | 1,622 | 489 | - | 760 |
| Stage 2 | 1,641 | 1,228 | 199 | - | 214 |
| Stage 3 | 732 | 85 | - | - | 647 |
| Bad debts written off | (19,078) | (19,018) | (60) | - | - |
| New business and other changes in ECL | 27,108 | 24,846 | (336) | 3,195 | (597) |
| **Amount as at 31 December 2022** | 103,159 | 59,588 | 16,635 | 3,225 | 23,711 |

## 10. Accounts receivable

| M'000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Prepayments | **2,440** | 1,301 |
| Accounts receivable | **20,487** | 4,935 |
| **Total gross carrying amount of accounts receivable** | **22,927** | 6,236 |
| Financial | **20,487** | 4,935 |
| Non-financial | **2,440** | 1,301 |

These accounts receivables do not carry any loss allowance.

Included in accounts receivables are Items in transit M12million (Dec 2021:-M2.7million), off market staff loans M13million (Dec 2021: Nil) and M4.4 million (Dec 2021: M3.0million) 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 2022 | 31 December 2021 |
|---|---|---|
| Amounts due by holding company | 334,854 | 247,315 |
| **Total amount due by holding company and fellow subsidiaries** | **334,854** | **247,315** |
| Amounts due to fellow subsidiaries | 13,538 | 8,537 |
| Tier 2 liabilities | - | 20,005 |
| **Total amount due to holding company and fellow subsidiaries** | **13,538** | **28,542** |

Amounts due by holding company and fellow subsidiaries is cash collateralised and therefore ECL is considered immaterial, these amounts are valued at commercial terms .

## Tier 2 liabilities

| M'000 | **31 December 2022** | 31 December 2021 |
|---|---|---|
| Opening balance | **20,005** | 20,000 |
| **Non-cash flow movements** | | |
| Interest accrued | **561** | 1,739 |
| **Cash flow movements** | | |
| Interest paid | **(566)** | (1,734) |
| Redemption | **(20,000)** | - |
| **Closing balance** | **-** | 20,005 |

Early redemption option was exercised on the Tier 2 liability. Redemption details were as follows:

- Loan nominal: value M20 million.
- Interest rate: 3-month JIBAR plus 500 basis points.
- Loan original term: 10 years.
- Redemption amount: M20 million
- Early settlement fee: Nil
- Loan remaining term: Nil

## 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 2021** | **12,408** | **8,759** | **1,224** | **4,502** | **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** | **5,406** | **368** | **4,105** | **21,558** | **40,464** |
| Cost | 61,945 | 28,964 | 11,343 | 24,502 | 48,819 | 175,573 |
| Accumulated depreciation and impairment | (52,919) | (23,559) | (10,975) | (20,397) | (27,260) | (135,109) |
| **Fixed Assets in Clearing accounts** | **3** | **2,238** | **(2)** | **(182)** | **-** | **2,057** |
| **Movement for the year** | **(2,337)** | **(649)** | **819** | **8,238** | **(8,447)** | **(2,377)** |
| Acquisitions | 293 | 2,648 | 1,100 | 11,223 | 6,672 | 21,936 |
| Disposals | - | (11) | - | - | - | (11) |
| Depreciation charge for the year | (2,631) | (3,286) | (281) | (2,985) | (15,119) | (24,302) |
| **Net book value as at 31 December 2022** | **6,692** | **6,994** | **1,185** | **12,161** | **13,111** | **40,144** |
| Cost | 62,241 | 29,843 | 7,447 | 34,623 | 55,491 | 189,645 |
| Accumulated depreciation and impairment | (55,549) | (22,848) | (6,261) | (22,462) | (42,380) | (149,501) |

**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 2022 | 31 December 2021 |
|---|---|---|
| **Deferred income tax asset** | | |
| Opening balance | 33,721 | 37,485 |
| Movement recognised in profit or loss | **1,342** | **(3,763)** |
| **Total deferred income tax asset** | **35,063** | **33,721** |

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 | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| **Deferred income tax asset** | | | | |
| Provision for loan impairment | **25,790** | 22,471 | **3,319** | (6,869) |
| Other provisions | **5,921** | 6,442 | **(521)** | 2,355 |
| Property and equipment | **3,040** | 4,372 | **(1,332)** | 571 |
| Right of Use Assets | **313** | 435 | **(123)** | 179 |
| **Total deferred income tax asset** | **35,063** | 33,721 | **1,342** | (3,763) |

## 14. Creditors, accruals and provisions

| M'000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Accounts payable | 50,339 | 39,821 |
| Accrued expenses | 9,648 | 8,430 |
| Audit fees accrued | 1,964 | 2,694 |
| Provisions (including litigations and claims) | 7,879 | 9,346 |
| **Total creditors, accruals and provisions** | **69,830** | **60,291** |

The provisions balance includes operational loss provisions and litigations.

## Reconciliation of provisions

| M'000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Opening balance | **9,346** | 4,884 |
| Charge to profit and loss | | |
| - Additional provisions created | 705 | 5,149 |
| Utilised | (2,172) | (687) |
| **Closing balance** | **7,879** | **9,346** |

## 15. Deposits

| M'000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Deposits from customers | | |
| Current accounts | **1,526,406** | 1,489,983 |
| Call deposits | **480,602** | 532,205 |
| Savings accounts | **34,845** | 25,939 |
| Fixed and notice deposits | **814,724** | 738,480 |
| **Deposits** | **2,856,577** | **2,786,607** |

## 16. Employee liabilities

| M'000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Liability for short term employee benefits | **9,350** | 9,485 |
| **Total employee liabilities** | **9,350** | **9,485** |

## 17. Lease liabilities

| M'000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| **Lease liabilities** | **14,362** | **23,300** |

## 17.1. Lease liabilities reconciliation

| M'000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| **Opening balance** | 23,300 | 18,034 |
| **Cashflow movements** | | |
| Lease principal paid | 14,725 | 9,351 |
| Interest paid | 885 | 1,380 |
| | | |
| **Non-cashflow movements** | | |
| IFRS 16 Lease additions | 6,672 | 15,997 |
| **Closing balance** | **14,362** | **23,300** |

*Comparative information relating to the lease additions and lease payments has been separately disclosed to improve the disclosure.*

## 18. Share capital and share premium

| M'000 | **31 December 2022** | 31 December 2021 |
|---|---|---|
| Ordinary shares | | |
| **Authorised** | | |
| 50 000 000 shares with a par value of M1 per share | | |
| **Issued** | | |
| 39 123 970 (2021: 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 2022 | 31 December 2021 |
|---|---|---|
| The charge to profit or loss for share based payments is as follows: | | |
| Conditional share plan | **(3,450)** | (2,716) |
| **Amount included in profit or loss** | **(3,450)** | **(2,716)** |

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 2019 scheme were not met and part of the obligation relating to awards with market vesting conditions raised in prior periods was 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.<br>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 2022 | 31 December 2021 |
|---|---|---|
| **Contigencies and commitments** | **150,947** | **147,520** |
| **Commitments** | | |
| Commitments in respect of capital expenditure and long-term investments approved by directors. | **14,501** | 28,154 |
| Irrevocable commitments are made up of unutilised overdrafts facilities and committed loan facilities. | **91,674** | 104,473 |
| **Letters of credit** | **25,000** | - |
| **Guarantees** | **19,772** | 14,893 |

## 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 2022** | | | |
|---|---|---|---|---|
| | **Total carrying amount** | **Fair value hierarchy** | | |
| | | Level 1 | Level 2 | Level 3 |
| **Assets** | | | | |
| Advances | 950,043 | | | 950,043 |
| Investment securities and other investments | 1,384,110 | | 1,384,110 | |
| **Total assets at amortised cost** | **2,334,153** | **-** | **1,384,110** | **950,043** |
| **Liabilities** | | | | |
| Deposits | 2,856,577 | | 2,856,577 | |
| **Total liabilities at amortised cost** | **2,856,577** | **-** | **2,856,577** | **-** |

| M'000 | 31 December 2021 | | | |
|---|---|---|---|---|
| | Total carrying amount | Fair value hierarchy | | |
| | | Level 1 | Level 2 | Level 3 |
| **Assets** | | | | |
| Advances | 694,732 | | | 694,732 |
| Investment securities and other investments | 1,647,327 | | 1,647,327 | - |
| **Total assets at amortised cost** | **2,342,059** | **-** | **1,647,327** | **694,732** |
| **Liabilities** | | | | |
| Deposits | 2,786,607 | - | 2,786,607 | |
| **Total liabilities at amortised cost** | **2,786,607** | **-** | **2,786,607** | **-** |

*In the prior year Deposits were incorrectly reflected under level 3, this has been corrected in the current year.*

## Related party transactions

## Balances with related parties

| M'000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| **Advances** | | |
| Key management personnel | **12,258** | 9,053 |
| **Accounts receivable** | | |
| Holding company | **7,276** | 7,659 |
| **Amounts due by holding company and fellow subsidiaries** | | |
| Holding company | **327,578** | 239,656 |
| **Tier 2 liabilities** | | |
| Holding company | **-** | 20,005 |
| **Deposits** | | |
| Key management personnel | **144** | 589 |
| **Accounts payable** | | |
| Holding company | **13,538** | 8,537 |
| **Amounts due to holding company and fellow subsidiaries** | | |
| Fellow subsidiaries | **0** | 0 |

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 | **9,173** | 8,697 |
| Key management personnel | **296** | 451 |
| **Interest paid** | | |
| Holding company | **561** | 1,739 |
| Key management personnel | **1** | 2 |
| **Non-interest revenue** | | |
| Holding company | **2,507** | 7,478 |
| **Operating expenses** | | |
| Holding company | **122,391** | 103,176 |
| **Salaries and other employee benefits** | | |
| Key management personnel | | |
| Salaries and other short-term benefits | **19,251** | 9,978 |
| Defined contribution | **1,249** | 1,097 |
| Share based payments | **5,600** | 4,200 |

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

### Standards and Interpretations issued but not yet effective

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

| Standard | Impact assessment | Effective date |
|---|---|---|
| IFRS 3 | **Reference to the Conceptual Framework – Amendment to IFRS 3**<br>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.<br><br>At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments are intended to update a reference to the conceptual framework without significantly changing requirements of IFRS 3. The amendments will promote consistency in financial reporting and avoid potential confusion from having more than one version of the conceptual framework in use.<br><br>The amendment is not expected to have a significant impact on the annual financial statements | Annual periods commencing on or after 1 January 2022 |
| IFRS 17 | **Insurance Contracts**<br>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 | Annual periods commencing on or after 1 January 2023 |

| Standard | Impact assessment | Effective date |
|---|---|---|
| | 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.<br><br>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.<br><br>The insurance contract liability is initially made up of:<br>➢ fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policyholders; and<br>➢ the contractual service margin (CSM), which represents the unearned profit the entity will recognise as it provides services over the coverage period.<br>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).<br><br>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**<br>**IFRS 9 Financial Instruments:**<br>Fees in the "10 per cent" test for derecognition of financial liabilities<br>➢ 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 | Annual periods beginning on or after 1st January 2022. |

| Standard | Impact assessment | Effective date |
|---|---|---|
| | 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.<br>➢ 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.<br>**Lease incentives**<br>➢ The amendment removes the illustration of payments from the lessor relating to leasehold improvements in illustrative example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.<br><br>The amendments are not expected to have a significant impact on the annual financial statements. | |
| IAS 16 | **Property, plant and equipment: Proceeds before intended use**<br>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**<br>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.<br>The amendments also clarify the relationship between accounting policies and accounting estimates by specifying | Annual periods beginning on or after 1st January 2023. |

| Standard | Impact assessment | Effective date |
|---|---|---|
| | 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**<br>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.<br>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**<br>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.<br>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 1 | **Amendments to classification of liabilities as current or non-current:**<br>The IAS 1 amendments clarify the requirements for classifying liabilities as current or non-current. More specifically:<br>• 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 | Annual periods beginning on or after 1st January 2023. |

| Standard | Impact assessment | Effective date |
|---|---|---|
| | of a liability exists.<br>• 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.<br>• The amendments clarify the situations that are considered settlement of a liability.<br><br>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. | |
| IAS 1 | **Disclosure of accounting policies – amendments to IAS 1 and IFRS Practice Statement 2**<br>The IASB issued amendments to IAS 1 and an update to IFRS Practice<br>Statement 2 *Making Materiality Judgements* to help prepares provide<br>useful accounting policy disclosures.<br>The key amendments to IAS 1 include:<br>➢ requiring companies to disclose their material accounting policies rather than their significant accounting policies;<br>➢ clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and<br>➢ clarifying that not all accounting policies that relate to material transactions, other events or conditions are | |

| Standard | Impact assessment | Effective date |
|---|---|---|
| | 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:<br>➢ advances; and<br>➢ certain investment securities.<br><br>Other sources of credit risk arise from:<br>➢ cash and cash equivalents;<br>➢ accounts receivable; andoff-balance sheet exposures.</td><td>The following information is presented for these assets:<br>➢ summary of all credit assets (22.1.1);<br>➢ information about the quality of credit assets (22.1.2);<br>➢ exposure to concentration risk (22.1.2); and<br>➢ credit risk mitigation and collateral held (22.1.3).</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 assets and liabilities with differing maturity profiles.</td><td>The following information is presented for these assets and liabilities:</td></tr>
</table>

<table>
<tr><th colspan="3">Overview of financial risks</th></tr>
<tr><td></td><td></td><td>➢ undiscounted cash flow analysis of financial liabilities (22.2.1);<br>➢ concentration analysis of deposits (22.2.2).</td></tr>
<tr><td rowspan="2">Market risk</td><td colspan="2"></td></tr>
<tr><td>Interest rate risk in the banking book (22.3.1) 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:<br>➢ projected NII sensitivity to interest rate movements; and<br>➢ 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 2022 | 31 December 2021 |
|---|---|---|
| **On-balance sheet exposure** | | |
| Cash and short-term funds | | |
| Money at call and short notice | **135,520** | 203,265 |
| Balances with central bank | **75,898** | 84,029 |
| Gross advances | **1,053,202** | 784,617 |
| Retail Segment | **488,346** | 414,633 |
| Commercial Segment | **302,916** | 199,072 |
| Corporate Segment | **86,088** | 712 |
| WesBank | **175,853** | 170,200 |
| Accounts receivable | **22,927** | 6,236 |
| Amounts due by holding company and fellow subsidiaries | **334,854** | 247,315 |
| Investments securities and other investments | **1,390,869** | 1,654,114 |
| **Off-balance sheet exposure** | | |
| Financial and other guarantees | **19,772** | 14,893 |
| Loan commitments not drawn | **91,674** | 104,473 |
| **Total** | **3,124,717** | 3,098,942 |

## 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.

| M'000 | 31 December 2022 | | | 31 December 2021 | | |
|---|---|---|---|---|---|---|
| | FR 1 -25 | FR 26 - 90 | Above FR 90 | FR 1 -25 | FR 26 - 90 | Above FR 90 |
| Retail Segment | **-** | **382,783** | **93,577** | - | 362,177 | 49,487 |
| Stage 1 | | 370,760 | 58,084 | | 359,277 | 18,338 |
| Stage 2 | | 12,023 | 25,998 | | 2,900 | 20,224 |
| Stage 3 | | | 9,495 | | 1 | 10,925 |
| Commercial Segment | **8,035** | **278,219** | **16,662** | - | 185,676 | 13,808 |
| Stage 1 | 8,035 | 270,760 | 4,803 | | 180,991 | 1,781 |
| Stage 2 | | 7,460 | 4,132 | | 4,685 | 9,516 |
| Stage 3 | | | 7,728 | | 0 | 2,512 |
| Corporate Segment | **-** | **83,439** | **2,648** | - | 716 | - |
| Stage 1 | | 83,439 | 2,648 | | 716 | - |
| Stage 2 | | | | | | |
| Stage 3 | | | | | | |
| WesBank Segment | **-** | **146,215** | **28,493** | - | 146,935 | 25,333 |
| Stage 1 | | 146,215 | 8,149 | | 129,298 | 5,829 |
| Stage 2 | | | 5,854 | | 17,637 | 11,999 |
| Stage 3 | | | 14,490 | | - | 7,505 |
| **Total Advances** | **8,035** | **890,656** | **141,381** | - | 695,503 | 88,629 |
| **Off balance sheet exposures** | | | | | | |
| Commercial Segment | **-** | **111,446** | **-** | - | 119,366 | - |
| Stage 1 | - | 111,446 | | - | 119,366 | |

## Analysis of impaired advances

| M'000 | 31 December 2022 | | |
|---|---|---|---|
| | Total carrying amount | Security held and expected recoveries | Stage 3 impairment |
| **Stage 3 assets by category** | | | |
| Overdrafts and cash management accounts | 3,773 | | 4,724 |
| Term loans | 3,518 | 1,318 | 2,200 |
| Instalment sales and hire purchase agreements | 14,490 | 638 | 13,852 |
| Property finance | 4,662 | 3,879 | 784 |
| Personal loans | 5,270 | | 5,275 |
| **Total NPLs** | **31,713** | **5,835** | **26,835** |

| 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** | **22,390** | **2,907** | **21,827** |

**Credit quality of credit assets – non - advances**

### 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 2022 | | 31 December 2021 | |
|---|---|---|---|---|
| M'000 | Lesotho | South africa | Lesotho | South Africa |
| **On-balance sheet exposures** | | | | |
| Cash and cash equivalents | **377,822** | | 415,399 | |
| Total advances | **950,043** | | 694,732 | |
| Investments securities and other investm | **667,399** | **716,711** | 796,173 | 851,153 |
| Amounts due by holding company and fellow subsidiary companies | | **334,854** | | 247,315 |
| Accounts receivable | **22,927** | | 6,236 | |
| **Off-balance sheet exposures** | | | | |
| Guarantees, acceptances and letters of credit | **19,772** | | 14,893 | |

### 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 2022 | | | |
|---|---|---|---|---|
| | Total advances | Stage 3 | | |
| | | Total | Security held and expected recoveries | Stage 3 impairment |
| Agriculture | 22,695 | 610 | 2 | 608 |
| Financial Institutions | 84,411 | | | |
| Building and property development | 43,050 | 4,149 | 361 | 3,788 |
| Government land bank and public authority | 25,890 | | | |
| Individuals | 548,676 | 16,125 | 1,533 | 14,592 |
| Manufacturing and commerce | 160,703 | 6,771 | 2,419 | 4,352 |
| Mining | 10,138 | | | |
| Transport and communication | 50,295 | 2,494 | 450 | 2,044 |
| Other services | 94,214 | 1,564 | 113 | 1,451 |
| **Gross value of advances** | **1,040,072** | **31,713** | **4,879** | **26,835** |
| Impairment of credit advances | **(103,159)** | | | |
| **Net advances** | **936,913** | | | |

| M'000 | 31 December 2021 | | | |
|---|---|---|---|---|
| | Total advances | Stage 3 | | |
| | | 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** | | | |

### 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 2022 | | | | |
|---|---|---|---|---|---|
| M'000 | Gross Carrying amount | Loss Allowances | Maximum exposure to credit risk | Unsecured | Secured |
| Overdrafts and managed accounts | 168,843 | (13,728) | 155,115 | 168,843 | |
| Term loans | 165,769 | (8,854) | 156,915 | 116,038 | 49,731 |
| Installment sales | 175,853 | (23,711) | 152,142 | 87,927 | 87,927 |
| Property finance | 212,993 | (7,541) | 205,452 | | 212,993 |
| Personal loans | 329,744 | (49,009) | 280,735 | 329,744 | |
| **Total Advances** | **1,053,202** | **(102,843)** | **950,359** | **702,552** | **350,650** |
| Off balance sheet exposure | 111,446 | (316) | 111,130 | 91,674 | 19,772 |
| Investment securities and other investme | 1,384,110 | (6,760) | 1,377,350 | 1,384,110 | |
| Amounts due by holding company and fellow subsidiary companies | 334,854 | | 334,854 | 334,854 | |
| Accounts receivables | 22,927 | | 22,927 | 22,927 | |

| | 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 | 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** | **(89,628)** | **694,989** | **487,055** | **297,563** |
| Off balance sheet exposure | 119,366 | (358) | 119,008 | 104,473 | 14,893 |
| Investment securities and other investme | 1,647,327 | (6,787) | 1,640,540 | 1,647,327 | |
| Amounts due to holding company and fellow subsidiary companies | 247,315 | - | 247,315 | 247,315 | |
| Accounts receivables | 6,236 | - | 6,236 | 6,236 | |

### 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 2022 | | | |
|---|---|---|---|---|
| | | 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 | 2,856,577 | 2,426,737 | 413,114 | 16,726 |
| Creditors, accruals and provisions | 69,830 | 69,830 | | |
| Amounts due to holding company and fellow subsidiaries | 13,538 | 13,538 | | |
| Lease liabilities | 14,362 | 3,361 | 7,232 | 3,769 |
| **Off-balance sheet amounts** | | | | |
| Financial and other guarantees | 19,772 | 19,772 | | |
| Facilities not drawn | 91,674 | 91,674 | | |

| 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 | | |

### 22.2.2. Concentration analysis of deposits

| M'000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| **Sector analysis** | | |
| **Deposits, current accounts and other loans** | | |
| Sovereigns, including central bank | **150,564** | 95,772 |
| Public sector entities | **23,436** | 54,764 |
| Banks | **286,668** | 262,540 |
| Corporate customers | **1,581,663** | 1,609,589 |
| Retail customers | **728,361** | 690,575 |
| Other | **85,886** | 73,367 |
| **Total deposits** | **2,856,577** | **2,786,607** |
| **Geographical analysis** | | |
| Lesotho | **2,856,577** | 2,786,607 |

## 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 2022 | 31 December 2021 |
|---|---|---|
| Downward 200bps | **(16.00)** | (16.87) |
| Upward 200bps | **16.00** | 16.87 |

### 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.

NII sensitivity is mostly a result of the endowment book mismatch. The bank's average endowment book was M1 478m for the year (2021: M1 420m).

Projected Maloti NII sensitivity to interest rate movements

| M'000 | **31 December 2022** | 31 December 2021 |
|---|---|---|
| Downward 200bps | **6,560** | 11,050 |
| Upward 200bps | **6,950** | 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 M6.6m (2021: M11.1m). A similar increase in interest rates would result in an increase in projected 12-month NII of M7.0m (2021: M10.3m).

### 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 2022.

| | 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 2022. The bank complied with all capital requirements which are prescribed by the Financial Institutions Act 2012.

| M'000 | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Share capital and premium | **48,233** | 48,233 |
| Retained earnings | **132,887** | 126,970 |
| **Total qualifying Tier 1 capital** | **181,122** | 175,203 |
| General debt provision | **15,076** | 11,224 |
| Perpetual debt instrument | **-** | 4,000 |
| **Total qualifying Tier 2 capital** | **15,076** | 15,224 |
| **Total regulatory capital** | **196,198** | 190,427 |
| Risk weighted assets | **1,100,218** | 802,881 |
| Capital adequacy ratio | **18%** | 24% |
| 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.