FNB

FIRST NATIONAL BANK OF LESOTHO LIMITED

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

Contents

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
New Dawn Chartered Accountants (Lesotho)

Attorneys
Bosiu Consultants
Webber Newdigate
Shale Chambers
Association of Lesotho Employers and Business
Ndebele Attorneys
Mei and Mei Attorneys Inc
Da Silva Manyokole 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, and for the year ended 31 December 2024.

These annual financial statements have been prepared in accordance with IFRS® Accounting Standards including interpretations issued by the IFRS Interpretations Committee and the requirements of the Financial Institutions Act 2012 of Lesotho and the Companies Act 2011 of Lesotho.

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 Accounting Standards have been applied and reasonable judgements and estimates have been made by management. None of the new or amended IFRS Accounting Standards that became effective for the financial year ended 31 December 2024 impacted the bank's reported earnings, financial position or reserves, or the accounting policies. The financial statements incorporate full and responsible disclosure in line with the bank's philosophy on corporate governance.

The Directors are also responsible for the bank's system of internal 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 (RCCC), 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.

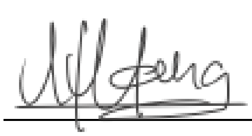
The Directors have reviewed the bank's budgets and forecasts and considered the bank's ability to continue as a going concern considering current and anticipated economic conditions. Based on this review, and in the light of the current financial position, the Directors are satisfied that the bank has 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.

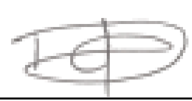
It is the responsibility of the bank's independent external auditors, New Dawn Chartered Accountants (Lesotho), to report on the fair presentation of the financial statements. These financial statements have been audited in terms of section 94 of the Companies Act of 2011.

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, New Dawn 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. New Dawn's audit report is presented on pages 11 to 12.

The financial statements were approved by the Board of Directors on 20 March 2025 and are signed on its behalf by:





M. Guni	**D. Mokebe**
Chairperson	**Chief Executive Officer**
20 March 2025	**20 March 2025**

AUDIT COMMITTEE REPORT

The Audit committee is pleased to present this report for the financial year ended 31 December 2024 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 chairperson 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, New Dawn 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 IFRS Accounting 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:

J. Matlosa
Chairperson, Audit Committee

20 March 2025

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" or "FNBL") 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 13 to 90.

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. Guni*	Chairperson	September 2020	Independent Non-Executive Director
J. Matlosa	Director	August 2021	Independent Non-Executive Director
M. Thabane	Director	August 2021	Independent Non-Executive Director
W. Richard	Director	August 2021	Non-Executive Director
D. Mokebe	Director	June 2020	Executive Director

*Chairperson surname has changed to Guni (previously Maharasoa)

Audit Committee

J. Matlosa	Director	Chairperson
M. Thabane	Director	Member
W. Richard	Director	Member

Directors Affairs and Governance Committee

M. Guni	Director	Chairperson
J. Matlosa	Director	Member
M. Thabane	Director	Member
W. Richard	Director	Member

Remuneration Committee

W. Richard	Director	Chairperson
M. Guni	Director	Member
M. Thabane	Director	Member
J. Matlosa	Director	Member

Risk, Capital and Compliance Committee

W. Richard	Director	Chairperson
J. Matlosa	Director	Member
M. Thabane	Director	Member
M. Guni	Director	Member

Senior Credit Risk Committee

M. Thabane	Director	Chairperson
M. Guni	Director	Member
J. Matlosa	Director	Member
D. Mokebe	Director	Member
W. Richard	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:

Retirements:

I. Leyenaar October 2024

G. Usher February 2024

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. Hanyane	Head of Marketing and Communication
T. Nthebe	Head of Credit
T. Mochekele	Head of Risk
L. Besetsa	Head Internal Auditor
M. Madiba	Head of Human Capital
M. Matsau	Head of Legal and Company Secretary
M. Seoela	Head of Treasury
M. Makepe	Head of Compliance

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2024

M'000	Notes	31 December 2024	31 December 2023
Interest and similar income	1.1	**402 444**	338 464
Interest expense and similar charges	1.2	**(118 149)**	(97 967)
Net interest income before impairment of advances		**284 295**	240 497
Impairment of advances	9	**(13 044)**	(12 016)
Net interest income after impairments of advances		**271 250**	228 481
Non-interest revenue	2	**177 419**	175 195
Income from operations		**448 669**	403 676
Operating expenses	3	**(401 396)**	(370 115)
Net income before indirect tax		**47 273**	33 561
Indirect tax	4	**(23 118)**	(14 776)
Profit before direct tax		**24 155**	18 785
Direct tax	4	**(9 095)**	(4 478)
Profit for the year		**15 060**	14 307

STATEMENT OF FINANCIAL POSITION

As at 31 December 2024

M' 000	Notes	**31 December 2024**	31 December 2023
ASSETS			
Cash and cash equivalents	6	**620 257**	585 203
Investments securities and other investments	7	**1 802 132**	1 467 300
Advances	8	**1 395 024**	1 224 194
Accounts receivable	10	**114 060**	178 295
Current tax asset			
Amounts due by holding company and fellow subsidiary companies	11	**389 941**	329 671
Property and equipment	12	**115 354**	63 358
Deferred income tax asset	13	**34 049**	35 804
Total assets		**4 470 817**	3 883 825
EQUITY AND LIABILITIES			
Liabilities			
Creditors, accruals and provisions	14	**59 954**	110 386
Current tax liability		**1 557**	193
Deposits	15	**4 043 713**	3 468 293
Employee liabilities	16	**14 317**	9 612
Lease liabilities	17	**74 081**	34 777
Amounts due to holding company and fellow subsidiary companies	11	**16 707**	15 135
Total liabilities		**4 210 329**	3 638 396
Equity			
Ordinary shares	18	**39 124**	39 124
Share premium	18	**59 109**	59 109
Reserves		**162 255**	147 196
Total equity		**260 488**	245 429
Total equity and liabilities		**4 470 817**	3 883 825

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2024

M'000	Share capital	Share premium**	General risk reserve*	Retained earnings	Reserves attributable to ordinary equity holders	Total equity
Balance as at 1 January 2023	39 124	9 109	17 775	115 112	**132 887**	**181 122**
Current year movement		50 000	5 674	(5 674)	**-**	**50 000**
Profit and total comprehensive income for the year				14 307	**14 307**	**14 307**
Balance as at 31 December 2023	**39 124**	**59 109**	**23 450**	**123 745**	**147 194**	**245 429**
Current year movement					**-**	**-**
Profit and total comprehensive income for the year				15 060	**15 060**	**15 060**
Balance as at 31 December 2024	**39 124**	**59 109**	**23 450**	**138 806**	**162 255**	**260 488**

**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.*

***Proceeds from the issuance of shares resulted in an increase in the share premium in the prior year.*

STATEMENT OF CASH FLOWS

For the year ended 31 December 2024

M' 000	Notes	31 December 2024	31 December 2023
Cash flows from operating activities			
Interest, fees and commission receipts		563 154	535 918
Interest received		385 744	360 868
Fee and commission received		177 410	175 050
Interest payment		(110 295)	(94 248)
Other operating expenses		(393 695)	(360 714)
Taxation paid		(5 978)	(5 212)
Cash flows from operating activities		53 187	75 745
Movements from operating assets and liabilities		43 359	108 569
Liquid assets and trading securities		(387 447)	(83 456)
Advances		(186 453)	(301 524)
Deposits		567 565	607 997
Other assets		77 430	(155 368)
Creditors		(45 641)	40 188
Employee liabilities		249	1 421
Other liabilities		17 655	(688)
Net cash generated from operating activities		96 546	184 314
Cash flows from investing activities			
Acquisition of property and equipment		(46 497)	(11 527)
Proceeds on disposal of property and equipment		9	145
Net cash outflow from investing activities		(46 487)	(11 382)
Cash flows from financing activities			
Proceeds from issuance of shares		-	50 000
Lease payments (IFRS 16)	17	(15 005)	(15 551)
Increase/ (Decrease) in cash and cash equivalents		35 053	207 380
Cash and cash equivalents at the beginning of the year	6	585 203	377 822
Cash and cash equivalents at the end of the year		620 256	585 203

ACCOUNTING POLICIES

1. Introduction and basis of preparation

The bank's annual financial statements have been prepared in accordance with IFRS® Accounting Standards, 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 2024, and the income statements and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2024, and the notes, comprising a summary of material accounting policies and other explanatory notes.

The bank adopts the following material 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)
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

The following amendments to existing IFRS accounting standards became effective for annual periods beginning on 1 January 2024:

- Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants - Amendments to IAS 1
- Lease Liability in a Sale and Leaseback – Amendments to IFRS 16
- Disclosures: Supplier Finance Arrangements -Amendments to IAS 7 and IFRS 7

None of these amendments will have a significant impact on FNBL's financial statements at 31 December 2024.

2. 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.

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 Accounting Standards are only applicable to material items. Applying the concept of materiality requires judgement, in particular, in relation to matters of presentation and disclosure. Management assesses the relevance of the information to user of the financial statement and considers both qualitative and quantitative factors in determining the materiality threshold for disclosure and presentation purposes.
Functional and presentation currency of the bank	Lesotho Maloti (M).
Level of rounding	All amounts are presented in thousands of Maloti unless otherwise indicated.
Foreign currency transactions of the bank	Translated into the functional currency using the exchange rates prevailing at the date of the transactions.

3. Related party transactions

Related parties of the bank, as defined, include:

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

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

4. Income, Expenses and Taxation

4.1. Income and expenses

Net interest income (NII) recognised in profit or loss	
Interest income includes: ➢ Interest on financial instruments measured at amortised cost. ➢ Interest income is calculated using the effective interest rate which includes fees and transaction costs that form an integral part of generating an involvement with the resulting financial instrument. The original effective interest rate is applied to: o the gross carrying amount of financial assets which are not credit-impaired; and o the amortised cost of financial assets which represents the net carrying amount, from the month after the assets become credit-impaired (refer to section 5.2 of the accounting policies). ➢ Modified advances (derecognition not achieved) – the unamortised portion of origination fees and capitalised transaction costs on financial assets are included as part of interest income. The interest income on the modified financial asset (refer to accounting policy 5.3) is calculated by applying the original effective interest rate to the asset's modified gross carrying amount. ➢ Modified advances (derecognition is achieved) – the unamortised portion of origination fees and capitalised transaction costs on financial assets are included as part of interest income. New fees or costs charged on the new advance which are integral to the new asset recognised are capitalised to the new loan. Interest expense includes: ➢ Interest on debt instruments measured at amortised cost ➢ Interest on capitalised leases where the bank is lessee.	
Non-interest and financial instrument revenue recognised in profit or loss	
Non interest revenue from contracts with customers Under IFRS 15, where a five-step analysis is required to determine the amount and timing of revenue recognition, the bank assesses contracts and determines whether the fees identified in the contract relate to revenue as defined in IFRS 15. The revenue is recognised only if the bank can identify the contract; and the performance obligation (i.e. the different services) and can determine the transaction price which is allocated to the identifiable performance obligations. The revenue is then recognised as and when the performance obligation is satisfied, which may be over time or at a point in time.	
Fee and commission income.	Fees and commissions that form an integral part of the effective interest rate are excluded from fees and commissions from customers and are recognised in net interest income.

Fee and commission income (continued)	Fee and commission income is earned by the bank by providing customers with a range of services and products, and consists of the following main categories: ➢ Banking fee and commission income. ➢ Knowledge-based fee and commission income. ➢ Management, trust and fiduciary fees. ➢ Fee and commission income from service providers. ➢ Other non-banking fee and commission income. Fee and commission income is earned on the execution of a significant performance obligation, which may be over time as the performance obligation is fulfilled (over time) or when the significant performance obligation has been performed (point in time). Fees earned on the execution of a significant act typically include transactional banking fees, such as bank charges, interchange fees, point-of-sale fees, exchange commissions, cash deposit fees and knowledge-based fee and commission income. Where the performance obligation is satisfied over a period of time, the fees are recognised as follows: ➢ fees for services rendered are recognised on an accrual basis as the service is rendered and the bank's performance obligation is satisfied, e.g. annual card fees and related fees; and ➢ commission income on bills and promissory notes endorsed is credited to profit or loss over the life of the relevant instrument on a time apportionment basis. Commitment fees for unutilised funds made available to customers in the past, are recognised as revenue at the end of the contract period. Commitment fees paid upfront for a future facility, where it is not probable that a specific lending arrangement will be entered into by the bank, are recognised as revenue on a straight-line basis over the period for which the funds are promised to be kept available. Other non-banking fee and commission income relates to fees and commissions earned for rendering services to customers other than those related to the banking. This includes fee and commission income earned from providing services on behalf of third-party service providers, in effect acting as an agent,

Fee and commission income (continued)	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.
Insurance income – non-risk related	Commission is earned on the sale of insurance products to customers of the bank on behalf of an insurer. Brokerage fees are received for services rendered in the bank's capacity as an insurance broker. Participation agreements arise when the bank provides a service to third party insurance providers by facilitating additional sales of their products for which the bank then earns a commission in the form of a share in the profits of the insurance products sold by third party insurers. Where the bank is acting as an agent, commissions and brokerage earned on the sale of insurance products to customers of the bank on behalf of an insurer are recognised at the point that the significant obligation has been fulfilled. Variable consideration income earned from participation agreements is dependent on the performance of insurance products sold by third party insurers. To the extent that the bank assesses that it is not highly probable that a significant reversal of revenue will not occur, the bank constrains the recognition of revenue recognised from the participation agreements. In this instance, the bank will only recognise the revenue once the uncertainty associated with the variable consideration is resolved, i.e. the point at which the amount of profits are earned are concluded upon and communicated to the group by the third parties.”

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

4.2. Income tax expense

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

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

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

5. Financial instruments

5.1. Classification and measurement

5.1.1. Initial measurement

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

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

5.1.2. Classification and subsequent measurement of financial assets

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

Business model

The bank distinguishes three main business models for managing financial assets:

- holding financial assets to collect contractual cash flows;
- managing financial assets and liabilities on a fair value basis or selling financial assets; and
- a mixed business model of collecting contractual cash flows and selling financial assets.

The business model assessment is not performed on an instrument by instrument basis, but at a level that reflects how financial assets are managed together to achieve a particular business objective. This assessment is done on a portfolio or sub-portfolio level depending on the intricacies of financial assets being assessed.

The main consideration in determining the different business models across the bank is whether the objectives of the business model are met primarily through holding the financial assets to collect contractual cash flows, through the sale of these financial assets, by managing assets and liabilities on a fair value basis, or through a combination of these activities.

In considering whether the business objective of holding a portfolio of financial assets is achieved primarily through collecting contractual cash flows, amongst other considerations, management monitors the frequency and significance of sales of financial assets out of these portfolios for purposes other than managing credit risk. For the purposes of performing the business model assessment, the bank only considers a transaction a sale if the asset is derecognised for accounting purposes. For example, a repo transaction where a financial asset is sold with the commitment to buy back the asset at a fixed price at a future date is not considered a sale transaction as substantially all the risks and rewards relating to the ownership of the asset have not been transferred and the asset is not derecognised from an accounting perspective.

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

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

Business model
the business models are not to collect contractual cash flows but rather the reasons for the sales need to be more carefully considered. Management will consider both the volume and amount of sales relative to the total assets in the business model to determine whether it is significant. A change in business model of the bank only occurs on the rare occasion when the bank genuinely changes the way in which it manages a financial asset. Any changes in business model would result in a reclassification of the relevant financial assets from the start of the next reporting period.

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

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

Investment securities	The bank holds investment securities with lower credit risk (typically with counterparties such as the government) that are convertible into cash within a short time period as and when required for liquidity risk management purposes. The types of instruments used for liquidity risk management purposes are generally government bonds and treasury bills. These investment securities are held to collect contractual cash flows but are also available to be pledged as collateral or sold if required for liquidity management purposes. Sales are often in the form of a repurchase agreement transaction. If the accounting requirements for derecognition are not met, the transaction does not constitute a sale for IFRS 9 business model assessment purposes. For accounting purposes, repurchase agreement transactions are treated as a secured funding transaction rather than a sale, and the bank continues to recognise the asset and collect the contractual cash flows. These investment securities are only sold before maturity to meet liquidity needs in a stress scenario, which is consistent with a business model to collect contractual cash flows.	The cash flows on these investment securities are solely payments of principal and interest .

Cash and cash equivalents	Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. These assets are held to collect contractual cash flows.	The cash flows on these assets are solely payments of principal and interest.
Accounts receivable	Financial accounts receivable are short-term financial assets which include intercompany accounts that are held to collect contractual cash flows.	The cash flows on these assets are solely payments of principal and interest.

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

Financial liabilities and compound financial instruments
The bank classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Tier 2 instruments which have write down or conversion features are classified based on the nature of the instrument and the definitions. Tier 2 and other funding liabilities are presented in separate lines on the statement of financial position of the bank. Compound instruments are those financial instruments that have components of both financial liabilities and equity such as issued convertible bonds. At initial recognition, the instrument and the related transaction costs are split into their separate components and accounted for as a financial liability or equity in terms of the definitions and criteria of IAS 32.
Financial liabilities measured at amortised cost
The following liabilities are measured at amortised cost using the effective interest rate method, unless they have been designated as measured at fair value through profit or loss: ➢ Deposits; ➢ Creditors; and ➢ Tier 2 liabilities (Constitutes a Subordinated Loan issued by the FirstRand Group).

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

This policy applies to:

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

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

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

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

Loss allowed on financial assets		
Credit risk has not increased significantly since initial recognition. (Stage 1)	Credit risk has increased significantly (SICR) since initial recognition, but asset is not credit- impaired. (Stage 2)	Asset has become credit-impaired since initial recognition. (Stage 3)
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.	

Significant increase in credit risk since initial recognition (SICR) (continued)	SICR test thresholds are re-assessed and, if necessary, updated, on at least an annual basis. Any facility that is more than 30 days past due, or in the case of instalment-based products one instalment past due, is automatically considered to have experienced a significant increase in credit risk. In addition to the quantitative assessment based on PDs, qualitative considerations are applied when determining whether individual exposures have experienced a significant increase in credit risk. One such qualitative consideration is the appearance of business & corporate facilities on a credit watch list. Any up-to-date facility that has undergone a distressed restructure (i.e. a modification of contractual cash flows to prevent a client from going into arrears) will be considered to have experienced a significant increase in credit risk. The SICR test is performed on a monthly basis, as part of the monthly impairment calculation process. The credit risk on an exposure is no longer considered to be significantly higher than at origination if no qualitative indicators of a significant increase in credit risk are triggered, and if comparison of the reporting date PD to the origination date PD no longer indicates that a significant increase in credit risk has occurred. No minimum period for transition from Stage 2 back to Stage 1 is applied, except for distressed restructured exposures that are advised to remain in Stage 2 for a minimum period of 6 months before re-entering Stage 1 as per best practice.
Low credit risk	The bank does not use the low credit risk assumption.
Credit-impaired financial assets	Advances are considered credit impaired if they meet the definition of default. The bank's definition of default applied for calculating provisions under IFRS 9 has been aligned to the definition applied for regulatory capital calculations across all portfolios, as well as those applied in operational management of credit and for internal risk management purposes. Exposures are considered to be in default when they are more than 90 days past due or, in the case of amortising products, more than 3 unpaid instalments.

Credit-impaired financial assets (continued)	In addition, an exposure is considered to have defaulted when there are qualitative indicators that the borrower is unlikely to pay their credit obligations in full without any recourse by the bank to actions such as the realisation of security. Indicators of unlikeliness to pay are determined which include application for bankruptcy or obligor insolvency. Any distressed restructures of accounts which have experienced a significant increase in credit risk since initial recognition are defined as default events. Accounts are considered to no longer be in default if they meet the stringent cure definition, which has been determined at portfolio level based on analysis of re- defined rates.
Write-offs and post-write-off recoveries	Write-off must occur when it is not economical to pursue further recoveries i.e. there is no reasonable expectation of recovering the carrying amount of the asset (gross amount less specific impairments raised). ➢ by implication, in both retail and business, for secured as well as unsecured, write-offs cannot occur if there is evidence of recent payment behaviour. Each credit portfolio has articulated a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account; and ➢ within retail portfolios, write-off definitions have been determined with reference to analysis of the materiality of post write-off recoveries; and ➢ within business portfolios, a judgmental approach to write-off is followed, based on case-by-case assessment by a credit committee. Partial write-offs are not performed within credit portfolios. Where required, additional provisions against irrecoverable assets will be raised until such a time as final write-off can occur. The requirements of the Central Bank of Lesotho as stipulated in the FIA of 2012 is to write-off all assets which remain non-performing for more 12 months. Subsequent recoveries of amounts previously written off decrease the amount of the impairment of advances in profit or loss.

Other financial assets	
Cash and cash equivalents	All physical cash is classified as Stage 1. Other exposures are classified as Stage 1 unless specific evidence of impairment exists, in which case these assets are classified as Stage 3. ECL for physical cash is zero. ECL for other assets is calculated using the loss rate approach.
Accounts receivable	Up-to-date receivables are classified as Stage 1. Those that are in arrears but not in default are classified as Stage 2. Any accounts receivable in default are classified as Stage 3. ECL for accounts receivable is calculated using the simplified 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. 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

Classification	Measurement
Property and equipment	
Property and equipment of the bank includes: ➢ assets utilised by the bank in the normal course of operations to provide services including freehold property and leasehold premises and leasehold improvements (owner occupied properties); ➢ Right-of-use-assets; and ➢ other assets utilised in the normal course of operations including computer and office equipment, motor vehicles and furniture and fittings.	Historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated. Using the straight line method, depreciation is over the useful life of the asset, except for right-of-use-assets capitalised under leases where the bank is the lessee; in which case, it is depreciated over the shorter period of the life of the lease and its useful life (refer to accounting policy 6.2). ➢ Freehold Property — Lease contract term ➢ Office equipment — 5-10 years ➢ Sundries — 3-5 years ➢ Computer equipment — 3-5 years ➢ Other equipment — 3-10 years ➢ Right-of-use-asset — Lease contract term
Provisions	
The bank will only recognise a provision measured in terms of IAS 37 when there is uncertainty around the amount or timing of payment. Where there is no uncertainty the bank will recognise the amount as a creditor or accrual. The bank usually recognises provisions related to litigation and claims.	

Other assets that are subject to depreciation are reviewed for impairment whenever objective evidence of impairment exists. Impairment losses are recognised in profit or loss as part of operating expenses. The assets are impaired if the carrying amount is more than the recoverable amount, which is the higher of the assets' value in use and fair value less cost to sell. The impairment loss is calculated as the difference between the assets' carrying amount and their recoverable amounts.

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

6.2. Leases – IFRS 16

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

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

Bank is the lessee		Bank is the lessor
Inception	The bank recognises a ROUA and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as lease assets with a replacement value of M100 000 or less at the inception of the lease). The lease liability is initially measured at the present value of the lease payments outstanding at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the bank uses its own incremental borrowing rate. The ROUA's are measured at cost comprising of the amount of the initial measurement of the lease liability plus any initial direct costs and restoration costs. Where applicable, any lease payments made at or before the commencement date less any lease incentives received is deducted from the cost. Post initial recognition, ROUA's are treated in line with other property and equipment.	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.	Not applicable for FNBL

Bank is the lessee		Bank is the lessor
	The ROUA is subsequently measured at cost less accumulated depreciation and impairment losses. The asset is depreciated over the lease term on a straight-line basis, where ownership is not transferred at the end of the lease term. If ownership is transferred at the end of the lease term, the asset is depreciated over the shorter of the lease term or useful life. The bank applies IAS 36 to determine whether a ROUA is impaired and accounts for any identified impairment loss.	
Presentation	The lease liability is presented in other liabilities in the consolidated statement of financial position. The ROUA's are not presented as a separate line in the consolidated statement of financial position, but rather disclosed as ROUA in the property, plant and equipment note.	Not applicable for FNBL
Operating leases – bank is the lessee	The bank does not have operating leases where the bank is the lessor. For short-term and low value leases, which the bank has defined as all other leases except for property and vehicles leases, the lease payments are recognised as operating expense, spread on a straight-line basis over the term of the lease.	

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

7. Capital and reserves

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

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

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

8. Transactions with employees

8.1. Employee benefits

The bank operates a defined contribution scheme, the assets of which are held in separate trustee administered funds. Membership of the pension fund is compulsory for all bank employees. The funds are registered in terms of the Pensions Act 2019 and Income Tax Act 1993.

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 and indirect 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. The Bank recognises provisions based on objective estimates of the amount initially recorded, where the final tax determination/ tax base is different from these amounts such differences will impact the income tax and deferred tax in the period in which such determination is made. Deferred tax assets are reviewed at each reporting date, the impact of which is reported to the statement of comprehensive income. 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.

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 2024

Scenario	Probabilities	Description
Baseline regime	60% (2023 – 57.5%)	Assumes: ➢ Global growth slows but neither the US nor China experiences recession. A global hard landing is avoided; and/or ➢ Raw diamond prices remain under pressure for an extended period, depressing exports; and/or ➢ African Growth and Opportunity Act (AGOA) is extended, but even so, structural factors continue preventing the textile sector from gaining competitiveness thus keeping exports relatively weak; and/or ➢ Work on the Lesotho Highlands Water Project Phase II (LHWPII) progresses without disruptions and electricity supply remains stable; and/or ➢ A harsh El Nino induced drought gives way to more normal rainfall patterns. The agricultural sector gets a much-needed boost. Increased food supply helps to contain food price inflation; and/or ➢ The government increases its capital budget, but execution remains low, and infrastructure projects related to electricity generation, transport and utilities are slow in taking off; and/or ➢ Following bumper Southern African Customs Union (SACU) receipts in 2024, receipts are lower in the two years that follow. This, coupled with increased spending on public sector wages and developmental initiatives result in the budget balance swinging back into deficit; and/or ➢ While food price inflation moderates somewhat, rising transport, clothing and housing related inflation prevents the central bank from aggressively cutting policy interest rates; and/or ➢ Because the government drags its feet with implementing growth-enhancing structural reforms, the country remains disproportionally reliant on the LHWP as the key source of GDP growth.

Upside to Baseline	15% (2023 – 10.9%)	Assumes: ➢ Global growth gets a boost from aggressive fiscal stimulus in China and deep interest rate cuts in the US; and/or ➢ The recent slump in diamond prices proves fleeting, and several new high-grade diamonds are discovered. Exports receive further support from a strong rebound in US GDP growth that benefits textile exporters; and/or ➢ The medical marijuana industry takes off which provides substantial support to the ailing manufacturing sector; and/or ➢ La Nina proves lasting, but rainfall is not excessive so that crops are damaged. The agricultural sector experiences a multi-year upturn; and/or ➢ As the Southern African region profits from the global upturn, and successful reform drives growth higher in South Africa, SACU revenues rise notably. This, coupled with increased royalties related to the LHWP manifest in much improved public sector finances; and/or ➢ The government successfully completes several large social and economic infrastructure projects; and/or ➢ Multiplier effects large infrastructure projects bring about stimulate growth across a variety of industries which, in turn, give rise to new companies and increased job creation. Slowly the economy begins to become more diversified; and/or ➢ The investment drive broadens out to include private sector fixed investment, which is egged on by pro-business policies and interest rate cuts; and/or ➢ Easier financial conditions reflective in low inflation and falling interest rates coupled with jobs growth help kick start a multi-year upswing in household expenditure.

Downside regime	25% (2023 – 31.6%)	Assumes: ➢ Global growth slows as tensions in the Middle East/Ukraine escalate. Supply-chains get disrupted and global manufacturing becomes more costly so fuelling inflation; and/or ➢ Worsening global demand takes its toll on Lesotho's external-oriented sectors. Job losses mount as a result; and/or ➢ La Nina proves temporary and drought conditions unexpectedly return. The agricultural sector suffers. Coupled with more costly imports, food price inflation accelerates. Rising cost of living fuels social and political tensions; and/or ➢ The Bank of Lesotho hikes interest rates in lockstep with the SARB; and/or ➢ The LHWPII experiences disruptions and intermittent electricity outages occur as the drought hampers hydropower generation (and the Lesotho Electricity Company struggles to pay off its debt); and/or ➢ Government finances worsen notably as GDP contracts. To boot, a downturn in Southern African trade, alongside fiscal stress in South Africa, see SACU transfers to Lesotho fall. This is exacerbated by an increase in social security spending at the cost of capex; and/or ➢ Plagued by political infighting the implementation of key fiscal and economic reforms stalls, and investor confidence sours.

Significant macroeconomic factors

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

2024

	Upside scenario			**Baseline expectation**			**Downside scenario**		
	2025	**2026**	**2027**	**2025**	**2026**	**2027**	**2025**	**2026**	**2027**
GDP growth (%)	4.00	5.00	5.00	2.10	2.00	2.50	-1.00	-1.50	-0.50
Inflation (Annual average) (%)	4.00	3.80	3.80	5.40	4.80	4.70	7.00	8.50	7.00
Foreign exchange rate	16.90	17.10	17.40	17.80	18.20	18.90	20.80	20.80	19.50

2023

	Upside scenario			**Baseline expectation**			**Downside scenario**		
	2024	**2025**	**2026**	**2024**	**2025**	**2026**	**2024**	**2025**	**2026**
GDP growth (%)	4.80	5.00	4.00	2.40	2.30	2.20	1.00	1.10	1.10
Inflation (Annual average) (%)	4.20	4.00	4.00	5.40	5.20	5.00	7.79	7.59	7.00
Foreign exchange rate	15.40	14.90	15.60	18.10	17.50	18.35	23.50	21.00	22.00

Judgement	Retail and retail SME	Wholesale and commercial SME
Measurement of the 12-month and lifetime ECL	Parameters are determined on a pooled basis, with exposures pooled on a portfolio level at a minimum. Where appropriate, more granular pooling is applied. The inputs used to determine parameter values include historically observed behaviour as well as behavioural and demographic information related to individual exposures currently on book. PD parameters are determined through assessment of the influence that various risk drivers have had on historical default rates. EAD parameters are estimated based on product characteristics and historical draw-down and payment behaviour. LGDs are determined by estimating expected future cash flows and are adjusted for forward looking information such as the prime lending rate and GDP. These cash flows include direct costs and proceeds from the sale of collateral. Collateral recovery rates are based on historically observed outcomes. The statistical models applied implicitly assume that risk drivers that influence default risk, payment behaviour and recovery expectations within the historical data will continue to be relevant in the future.	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.

	Parameters are calibrated for the calculation of 12-month and ECL using term structures that consider borrower risk, account age, historical behaviour, transaction characteristics and correlations between parameters. Term structures have been developed over the entire remaining lifetime of an instrument. The remaining lifetime is limited to the contractual term of instruments in the portfolio, with the exception of instruments with an undrawn commitment such as credit cards, where no limit is placed on the length of the remaining lifetime. In such instances the remaining term is determined with reference to the change in client requirements that would trigger a review of the contractual terms, for example an increase in limit. Expected credit losses on open accounts are discounted from the expected date of default to the reporting date using the asset's original effective interest rate or a reasonable approximation thereof.

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)	SICR triggers continue to be based on client behaviour, client-based behaviour scores and judgemental factors.	SICR triggers are determined based on client behaviour, client internal bank rating or risk score, as well as judgmental 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 2024. 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 2024		
M'000	**5% increase in gross carrying amount of exposure**	**Increase in ECL due to 5% increase in SICR**
Retail	19 391	3 678
Wholesale, commercial and other (including Bank Treasury)	15 490	936
Total increase in stage 2 advances and ECL	34 881	4 614

31 December 2023		
M'000	**5% increase in gross carrying amount of exposure**	**Increase in ECL due to 5% increase in SICR**
Retail	15 943	3 000
Wholesale, commercial and other (including Bank Treasury)	9 736	747
Total increase in stage 2 advances and ECL	25 679	3 747

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2024

1. Analysis of interest income and interest expense

1.1. Interest and similar income

M'000	31 December 2024	31 December 2023
Instruments at amortised cost	**402 444**	338 464
Advances	**204 145**	172 954
Overdrafts and cash management accounts	**29 422**	25 667
Term loans	**26 334**	20 990
Instalment sales	**30 204**	25 441
Property finance	**27 054**	25 667
Personal loans	**91 131**	75 190
Cash and cash equivalents	**15 205**	25 957
Investment securities	**162 567**	117 055
Amounts due by holding company and fellow subsidiaries	**15 487**	18 346
Other*	**5 040**	4 152
Interest and similar income	**402 444**	338 464

**Other comprises of M4.6 million (2023: M4.0 million) of unwinding on staff loans*

1.2. Interest expense and similar charges

M'000	31 December 2024	31 December 2023
Instruments at amortised cost	**(118 149)**	(97 967)
Deposits from customers		
Current accounts	**(18 365)**	(15 844)
Savings deposits	**(1 218)**	(864)
Call deposits	**(33 492)**	(28 240)
Fixed and notice deposits	**(62 825)**	(52 332)
Interest on lease liability	**(2 249)**	(688)
Interest expense and similar charges	**(118 149)**	(97 967)

2. Non-interest revenue

M'000	31 December 2024	31 December 2023
Fee and commission income		
Instruments at amortised cost	**177 419**	175 195
Net fee and commission income		
Income		
Card commissions	**21 307**	15 121
Cash deposit fee	**33 168**	33 809
Commissions: bills, drafts and cheques	**1 425**	1 319
Exchange commissions	**3 791**	2 430
Bank charges	**115 050**	101 314
Other non-banking fee and commission income	**32 648**	23 377
Speed point income	**15 113**	17 609
Expenses		
Other non-banking fee and commission expenses*	**(54 415)**	(26 658)
Net fee and commission income	**168 087**	168 321
Amounts due by holding company and fellow subsidiaries	**767**	1 598
Other non-interest revenue	**8 565**	5 275
Translation Gains/(Losses)	**125**	(34)
Forex Gains/(Losses)	**(991)**	(1 680)
Trading income	**9 586**	6 499
Gains and losses from investment activities	**439**	954
Unclaimed balances write back	**(575)**	(636)
Profit/loss on sale of property and equipment	**9**	145
Fair value income/(Loss)	**(28)**	28
Other non-interest revenue	**9 332**	6 873
Total non-interest revenue	**177 419**	175 195

**Card commissions increased on account of VISA interchange fees M5.9 million*

3. Operating expenses

M'000	31 December 2024	31 December 2023
Auditors remuneration	**(2 714)**	(2 044)
Audit fees	**(2 714)**	(2 044)
Staff costs	**(140 821)**	(121 882)
Salaries, wages and allowances	**(104 322)**	(91 580)
Contributions to employee benefit funds	**(13 571)**	(11 524)
Share based payments	**(7 506)**	(6 087)
Other staff costs	**(15 422)**	(12 691)
Other operating costs	**(257 861)**	(246 188)
Depreciation of property and equipment	**(31 154)**	(24 967)
Insurance	**(1 809)**	(1 398)
Advertising and marketing	**(10 290)**	(6 570)
Maintenance	**(3 536)**	(5 030)
Property	**(10 124)**	(10 667)
Computer	**(10 755)**	(7 505)
Non-capitalised lease charges	**(4 340)**	(3 186)
Short term lease charges	**(3 070)**	(1 603)
low value lease charges	**(1 270)**	(1 583)
Stationery	**(1 316)**	(2 519)
Telecommunications	**(5 688)**	(5 314)
Expenses paid to holding company and fellow subsidiaries	**(165 441)**	(158 232)
Other operating expenditure	**(13 409)**	(20 801)
Total operating expenses	**(401 396)**	(370 115)

4. Direct and indirect tax

M' 000	31 December 2024	31 December 2023
Indirect Taxation	**(23 118)**	(14 796)
Direct Taxation	**(9 095)**	(4 478)
Total Tax	**(32 213)**	(19 274)
Indirect Taxes		
Indirect taxes and levies	**(23 118)**	(14 796)
Direct Taxation		
Current income tax	**(7 341)**	(5 219)
Current year	**(7 341)**	(5 219)
Deferred income tax	**(1 755)**	741
Current year	**(1 755)**	741
Total Income tax expense	**(9 095)**	(4 478)

Tax rate reconciliation

%	31 December 2024	31 December 2023
Standard rate of income tax	**25**	25
Adjustments:		
Other non-deductible amounts*	**3**	7
Prior year adjustments		(4)
Effective rate of tax	**28**	28

**These are disallowed tax expenses per the Income Tax Act 1993 namely entertainment and sponsorship.*

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 2024				
M'000	Financial assets measured at amortised cost	Non-financial instruments	Total carrying value	Current	Non-current
Cash and cash equivalents	620 257		620 257	620 257	
Investments securities and other investments	1 802 132		1 802 132	118 288	1 683 844
Advances	1 395 024		1 395 024	243 313	1 151 711
Accounts receivable	109 674	4 386	114 060	99 294	14 766
Amounts due by holding company and fellow subsidiaries	389 941		389 941	389 941	
Property and equipment		115 354	115 354		115 354
Deferred income tax asset		34 049	34 049		34 049
Total assets	**4 317 028**	**153 790**	**4 470 817**	**1 471 093**	**2 999 724**

	31 December 2023				
M'000	Financial assets measured at amortised cost	Non-financial instruments	Total carrying value	Current	Non-current
Cash and cash equivalents	585 203		585 203	585 203	
Investments securities and other investments	1 467 300		1 467 300	400 719	1 066 581
Advances	1 224 194		1 224 194	303 288	920 906
Accounts receivable	175 514	2 781	178 295	172 230	6 065
Amounts due by holding company and fellow subsidiaries	329 671		329 671	329 671	
Property and equipment		63 358	63 358		63 358
Deferred income tax asset		35 804	35 804		35 804
Total assets	**3 781 882**	**101 943**	**3 883 825**	**1 791 111**	**2 092 713**

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 2024				
M'000	Financial liabilities measured at amortised cost	Non-financial instruments	Total carrying value	Current	Non-current
Creditors, accruals and provisions	51 493	8 461	59 954	59 954	
Current tax liability		1 557	1 557	1 557	
Deposits	4 043 713		4 043 713	3 497 255	546 458
Employee liabilities		14 317	14 317	14 317	
Other liabilities	74 081		74 081	4 677	69 404
Amounts due to holding company and fellow subsidiaries	16 707		16 707	16 707	
Total liabilities	**4 185 993**	**24 336**	**4 210 329**	**3 594 468**	**615 861**

	31 December 2023				
M'000	Financial liabilities measured at amortised cost	Non-financial instruments	Total carrying value	Current	Non-current
Creditors, accruals and provisions	101 977	8 408	110 386	110 386	
Current tax liability		193	193	193	
Deposits	3 468 293		3 468 293	3 021 977	446 315
Employee liabilities		9 612	9 612	9 612	
Other liabilities	34 777		34 777	4 528	30 249
Amounts due to holding company and fellow subsidiaries	15 135		15 135	15 135	
Total liabilities	**3 620 182**	**18 214**	**3 638 396**	**3 161 831**	**476 565**

6. Cash and cash equivalents

M'000	31 December 2024	31 December 2023
Coins and bank notes	**194 317**	270 650
Money at call and short notice	**299 730**	291 149
Balances with central banks	**126 210**	23 403
Total cash and cash equivalents*	**620 257**	585 203

* *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 available for use by the bank subject to certain restrictions and limitations levelled by the central bank. These deposits bear no interest.

7. Investment securities and other investments

M'000	31 December 2024	31 December 2023
Treasury bills	**361 944**	647 397
Government bonds	**1 255 026**	682 280
Fixed deposit	**190 529**	143 428
Total gross carrying amount of investment securities	**1 807 499**	1 473 105
Loss allowance on investment securities	**(5 367)**	(5 805)
Total investment securities	**1 802 132**	1 467 300

Investment securities are classified as debt instruments at amortised cost.

Analysis of impairment stages of investment securities

	31 December 2024		31 December 2023	
M'000	Carrying Amount	ECL Allowance	Total carrying value	Current
Stage 1	1 807 499	(5 368)	1 473 105	(5 805)
Total investment securities	**1 807 499**	**(5 368)**	**1 473 105**	**(5 805)**

8. Advances

M'000	Note	31 December 2024	31 December 2023
Category analysis			
Overdrafts and cash managed accounts		**240 431**	223 082
Term loans		**188 981**	215 884
Instalment sales		**240 499**	228 263
Property finance		**245 650**	237 569
Personal loans		**576 258**	424 899
Gross value of advances		**1 491 819**	1 329 697
Impairment of advances	9.2	**(96 795)**	(105 504)
Net advances		**1 395 024**	1 224 194

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

Basis of preparation of the reconciliation

The reconciliation of the gross carrying amount (GCA) and ECL has been prepared using a year-to-date view. This means that the bank reports exposures based on the impairment stage at the end of the reporting period. The reconciliation distinguishes between the back book and new business as this provides meaningful information to the user in gaining an understanding of the performance of advances overall.
The group transfers opening balances (back book) at the value as at 1 January, based on the impairment stage at the end of the reporting period. Any change in exposure and additional ECL raised or released is included in the impairment stage as at the end of the reporting period. Exposures that are in the back book can move directly from stage 3 to stage 1 if the curing requirements have been met in a reporting period.

The opening balances as at 1 January are transferred to the impairment stage at 31st December in the transfers section. The current year movements of the back book are included in changes in exposure and net movement GCA and ECL provided/(released) are reflected separately in the reconciliation. The current year movement in the ECL for stage 2 advances is split between exposure where there has been a change in the measurement basis from 12 months to lifetime expected credit losses (LECLs) and other changes.

The movement on GCA is split between:

- additional amounts advanced on the back book and any settlements, with transfers on the back book reflected separately; and
- new business originated during the financial year, the transfers between stages of the new origination and any settlements.

Current year ECL provided/(released) relates to:

- an increase/(decrease) in the carrying amount of the back book during the current financial year, as well as the increase/(decrease) in the risk associated with the opening balance of the back book; and
- includes interest on stage 3 advances for stage 3 exposures in the back book and new business.

New business is broadly defined as any new product issued to a new or existing customer during the current financial year. All new business is reflected based on the impairment stage at the end of the reporting period. Therefore, exposures in the new business lines can be reported in stage 3 at the end of the reporting date.The decrease in the advance as a result of a write-off is equal to the decrease in the ECL (bad debts written off), as exposures are 100% provided for before being written off.

M'000	FNB Lesotho	Retail	Commercial	Wesbank	Corporate
GCA reported as at 31 December 2023	**1 313 502**	**595 439**	**364 338**	**227 155**	**126 570**
– Stage 1	1 144 065	542 330	270 811	204 462	126 462
– Stage 2	129 068	40 831	83 342	4 787	108
– Stage 3	40 369	12 279	10 185	17 906	-
Transfers between stages	**-**	**-**	**-**	**-**	**-**
– Transfers to/(from) stage 1	**(22 386)**	**(8 711)**	**(11 998)**	**(1 676)**	**(1)**
Transfers into stage 1	23 376	16 512	4 660	2 203	1
Transfers out of stage 1	(45 762)	(25 223)	(16 658)	(3 879)	(3)
– Transfers to/(from) stage 2	**25 110**	**11 954**	**13 443**	**(288)**	**1**
Transfers into stage 2	47 496	27 554	17 241	2 698	3
Transfers out of stage 2	(22 386)	(15 601)	(3 798)	(2 986)	(1)
– Transfers to/(from) stage 3	**(2 724)**	**(3 243)**	**(1 445)**	**1 964**	**-**
Transfers into stage 3	2 311	347	-	1 964	-
Transfers out of stage 3	(5 035)	(3 590)	(1 445)	-	-
Current year movement	**155 099**	**153 437**	**16 576**	**11 646**	**(26 560)**
New business	387 473	272 839	42 648	71 976	10
Changes in exposure Back book – current year movement	(193 777)	(96 181)	(18 568)	(52 459)	(26 569)
– Exposures with a change in measurement basis from 12 months to LECL	(6 473)	(1 974)	(4 497)	-	(1)
– Other current year change in exposure/net movement on GCA	(187 305)	(94 207)	(14 071)	(52 459)	(26 567)
Bad debts written off	(38 597)	(23 221)	(7 504)	(7 871)	(1)
GCA as at 31 Dec 2024	**1 468 600**	**748 876**	**380 913**	**238 801**	**100 010**
– Stage 1	1 327 325	688 949	316 568	221 799	100 009
– Stage 2	106 585	46 486	53 327	6 771	1
– Stage 3	34 691	13 441	11 018	10 232	-
Core lending advances	1 468 600	748 876	380 913	238 801	100 010
Total GCA of advances at 31 December 2024	**1 468 600**	**748 876**	**380 913**	**238 801**	**100 010**

The total contractual amount outstanding on financial assets that were written off during the period and are still subject to enforcement activity is M32.8million (2023: M21.9 million).

9. Impairment of advances

9.1 Impairment of advances

M'000	31 December 2024	31 December 2023
Increase in loss allowance	**(24 917)**	(21 815)
Recoveries of bad debts previously written off	**11 873**	9 799
Impairment of advances recognised during the period	**(13 044)**	(12 016)

9.2 Reconciliation of the loss allowance per segment

M'000	FNB Lesotho	Retail	Commercial	Wesbank	Corporate
ECL reported as at 31 Dec 2023	**105 504**	**51 821**	**28 014**	**20 069**	**5 600**
– Stage 1	46 104	26 837	11 979	1 725	5 563
– Stage 2	20 817	11 913	7 947	919	37
– Stage 3	38 583	13 070	8 088	17 425	-
Transfers between stages	**-**	**-**	**-**	**-**	**-**
– Transfers to/(from) stage 1	**2 296**	**1 980**	**138**	**177**	**0**
Transfers into stage 1	4 843	3 876	734	232	1
Transfers out of stage 1	(2 547)	(1 896)	(596)	(55)	(0)
– Transfers to/(from) stage 2	**1 561**	**1 085**	**737**	**(261)**	**(0)**
Transfers into stage 2	4 941	3 927	979	35	0
Transfers out of stage 2	(3 380)	(2 842)	(242)	(295)	(1)
– Transfers to/(from) stage 3	**(3 856)**	**(3 065)**	**(875)**	**84**	**-**
Transfers into stage 3	206	102	-	104	-
Transfers out of stage 3	(4 062)	(3 167)	(875)	(20)	-
Current year provision created/(released)	**29 889**	**26 343**	**3 827**	**2 563**	**(2 845)**
New business – impairment charge/(release)	13 530	14 015	896	1 698	(3 079)
Back book – impairment charge/(release)	16 359	12 328	2 931	865	234
– Exposures with a change in measurement basis from 12 months to LECL	1 434	759	675	-	0
– Other current year impairment charge/(release)	14 925	11 570	2 256	865	234
Bad debts written off	(38 597)	(23 221)	(7 504)	(7 871)	(1)
ECL as at 31 Dec 2024	**96 795**	**54 943**	**24 337**	**14 761**	**2 754**
– Stage 1	47 127	32 676	8 631	3 066	2 753
– Stage 2	17 414	9 647	6 231	1 535	1
– Stage 3	32 254	12 620	9 475	10 160	0
– Purchased or originated credit impaired	-	-	-	-	-
Current year provision created/(released) per impairment stage	**29 889**	**26 343**	**3 827**	**2 563**	**(2 845)**
– Stage 1	(1 273)	3 859	(3 485)	1 164	(2 811)
– Stage 2	(4 963)	(3 352)	(2 453)	877	(36)
– Stage 3	36 125	25 835	9 765	523	1

10. Accounts receivable

M'000	31 December 2024	31 December 2023
Prepayments	**4 386**	2 781
Accounts receivable	**109 674**	175 514
Total gross carrying amount of accounts receivable	**114 060**	178 295
Financial	**109 674**	175 514
Non-financial	**4 386**	2 781

These accounts receivables do not carry any loss allowance.

Included in accounts receivables are Items in transit M65 million (Dec 2023:M165 million), off market staff loans M22 million (Dec 2023: M16 million) and M14.8 million (Dec 2023: M6.1million) 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 2024	31 December 2023
Total amount due by holding company and fellow subsidiaries	**389 941**	**329 671**
Total amount due to holding company and fellow subsidiaries	**16 707**	**15 135**

Amounts due by holding company and fellow subsidiaries is cash collateralised and therefore ECL is considered immaterial.

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 2023	**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)
Fixed Assets in Clearing accounts	**30**	**(2 304)**	**-**	**(540)**	**-**	**(2 814)**
Movement for the year	**(942)**	**3 536**	**(2)**	**1 761**	**21 675**	**26 029**
Acquisitions	979	7 228	389	5 745	36 654	50 995
Depreciation charge for the year	(1 921)	(3 693)	(391)	(3 984)	(14 979)	(24 967)
Net book value as at 31 December 2023	**5 779**	**8 226**	**1 183**	**13 383**	**34 787**	**63 358**
Cost	61 273	34 767	7 836	39 240	92 145	235 261
Accumulated depreciation and impairment	(55 493)	(26 541)	(6 653)	(25 857)	(57 358)	(171 903)
Fixed Assets in Clearing accounts	**6 037**	**2 376**	**1 293**	**1 110**	**-**	**10 815**
Movement for the year	**(1 285)**	**5 210**	**(277)**	**625**	**36 909**	**41 181**
Acquisitions	617	9 910	84	5 313	56 395	72 318
Depreciation charge for the year	(1 902)	(4 700)	(361)	(4 688)	(19 486)	(31 136)
Net book value as at 31 December 2024	**10 531**	**15 812**	**2 199**	**15 118**	**71 695**	**115 354**
Cost	67 926	46 926	9 213	45 662	148 540	318 267
Accumulated depreciation and impairment	(57 395)	(31 114)	(7 013)	(30 545)	(76 845)	(202 912)

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

13. Deferred income tax asset

Movement in deferred income tax account is shown below.

M'000	31 December 2024	31 December 2023
Deferred income tax asset		
Opening balance	**35 804**	35 063
Movement recognised in profit or loss	**(1 755)**	741
Total deferred income tax asset	**34 049**	35 804

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	
	2024	2023	**2024**	2023
Deferred income tax asset				
Provision for loan impairment	**25 541**	27 648	**(2 108)**	168
Accruals	**4 278**	2 990	**1 289**	161
Other provisions	**2 115**	2 102	**13**	699
Property and equipment	**1 519**	3 067	**(1 548)**	27
Right of Use Assets	**596**	(2)	**599**	(315)
Total deferred income tax asset	**34 049**	35 804	**(1 755)**	741

In the prior year, the accruals figure was disclosed under other provisions

14. Creditors, accruals and provisions

M'000	31 December 2024	31 December 2023
Accounts payable	42 940	90 186
Accrued expenses	5 757	9 446
Audit fees accrued	2 796	2 346
Provisions (including litigations and claims)	8 461	8 408
Total creditors, accruals and provisions	**59 954**	**110 386**

The provisions balance includes operational loss provisions and litigations.

Reconciliation of provisions

M'000	**31 December 2024**	31 December 2023
Opening Balance	8 408	7 879
Charge to profit and loss		
Additional provisions created	1 093	3 385
Utilised	(1 040)	(2 856)
Closing balance	**8 461**	**8 408**

15. Deposits

M'000	**31 December 2024**	31 December 2023
Deposits from customers		
Current accounts	**2 103 697**	1 906 898
Call deposits	**762 206**	646 756
Savings accounts	**64 580**	48 265
Fixed and notice deposits	**1 113 230**	866 374
Deposits	**4 043 713**	**3 468 293**

16. Employee liabilities

M'000	**31 December 2024**	31 December 2023
Liability for short term employee benefits	**14 317**	9 612
Total employee liabilities	**14 317**	**9 612**

17. Lease liabilities

M'000	31 December 2024	31 December 2023
Lease liabilities	**74 081**	**34 777**

17.1. Lease liabilities reconciliation

M'000	31 December 2024	31 December 2023
Opening balance	34 777	14 362
Cashflow movements		
Lease principal paid	(15 005)	(15 551)
Interest paid	(2 249)	(688)
Non-cashflow movements		
IFRS 16 Lease additions	56 558	36 654
Closing balance	**74 081**	**34 777**

For details on the contractual maturity of lease liabilities, refer to Note 22.2 – Liquidity risk

18. Ordinary shares and Share premium

M'000	31 December 2024	31 December 2023
Ordinary shares		
Authorised		
50 000 000 shares with a par value of M1 per share		
Issued		
39 124 020 (2023: 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	**59 109**	59 109
Total issued ordinary share capital and share premium	**98 233**	**98 233**

	Number of Shares 2024	Number of Shares 2023
Opening Balance	**39 124 020**	39 123 970
Shares issued	**-**	50
Total Issued shares	**39 124 020**	**39 124 020**

19. Remuneration schemes

M'000	31 December 2024	31 December 2023
The charge to profit or loss for share based payments is as follows:		
Conditional share plan	**(7 506)**	(6 087)
Amount included in profit or loss	**(7 506)**	**(6 087)**

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

Description of schemes and vesting conditions:

Conditional share scheme	
Description	The conditional award is a notional share based on the FirstRand Limited share price.
Vesting conditions	These awards vest after three years. The awards vest if the employment and performance conditions are met. Conditional awards are made annually, and vesting is subject to specified financial performance targets set annually by the group's remuneration committee. These corporate performance targets (CPTs) are set out below.

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

20. Contingencies and commitments

M'000	31 December 2024	31 December 2023
Legal proceedings		
There are a number of legal or potential claims against the bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or total basis. Provision is made for all liabilities that are expected to materialise.	**-**	1 286
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors.	**32 016**	41 895

The note has been updated to reflect only committed capital expenditure and legal proceedings as commitments and contingencies. In the prior year, this note included commitments relating to guarantees, letters of credit and irrevocable commitments. These financial commitments are reflected in Note 22.1.1 Credit risk and Note 22.2 Liquidity risk.

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 2024			
	Total carrying amount	Fair value hierarchy		
		Level 1	Level 2	Level 3
Assets				
Advances	1 395 024			1 382 819
Investment securities and other investments	1 802 132	847 500	959 999	
Total assets at amortised cost	**3 197 156**	**847 500**	**959 999**	**1 382 819**
Liabilities				
Deposits	4 043 713		4 068 447	
Total liabilities at amortised cost	**4 043 713**	**-**	**4 068 447**	**-**

M'000	31 December 2023			
	Total carrying amount	Fair value hierarchy		
		Level 1	Level 2	Level 3
Assets				
Advances	1 224 194			1 225 556
Investment securities and other investments	1 467 300		1 467 300	-
Total assets at amortised cost	**2 691 494**	**-**	**1 467 300**	**1 225 556**
Liabilities				
Deposits	3 468 293	-	3 471 152	
Total liabilities at amortised cost	**3 468 293**	**-**	**3 471 152**	**-**

Related party transactions

Balances with related parties

M'000	**31 December 2024**	31 December 2023
Advances		
Key management personnel	**25 919**	22 466
Accounts receivable		
Holding company	**121**	95
Amounts due by holding company and fellow subsidiaries		
Holding company	**403 010**	329 576
Deposits		
Key management personnel	**5 403**	845
Accounts payable		
Holding company	**16 702**	15 135

The amounts advanced to key management personnel consist of mortgages, instalment 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 2024**	31 December 2023
Interest received		
Holding company	**15 487**	18 346
Key management personnel	**1 562**	990
Interest paid		
Holding company	**-**	-
Key management personnel	**66**	15
Non-interest revenue		
Holding company	**767**	1 598
Key management personnel*	**67**	27
Operating expenses		
Holding company	**165 441**	158 232
Salaries and other employee benefits		
Key management personnel		
Salaries and other short-term benefits	**24 865**	19 251
Defined contribution	**1 500**	1 249
Share based payments	**8 633**	5 600

**Non-interest revenue related to key management personnel was not disclosed in the prior year*

A list of the Board of Directors of the bank is on page 10 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 business of the bank. The bank will comply with these from the stated effective date.

Standard	Impact assessment	Effective date
IAS 21	**Lack of exchangeability – Amendments to IAS 21** The amendment to IAS 21 specifies how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The bank does not expect this amendment to have a significant impact on the annual financial statements.	Annual periods commencing on or after 1 January 2025
IFRS 9 and IFRS 7	**Amendments to the Classification and Measurement of Financial Instruments** The amendments clarify: ➢ that a financial liability is derecognised on the settlement date. It also introduces an accounting policy option to derecognise financial liabilities that are settled through an electronic payment system before settlement date if certain conditions are met. ➢ how to assess the contractual cash flow characteristics of financial assets that include environmental, social and governance (ESG)-linked features and other similar contingent features. ➢ the treatment of non-recourse assets and contractually linked instruments ➢ Additional disclosure requirements for financial assets and liabilities with contractual terms that reference a contingent event. The group does not expect this amendment to have a significant impact on the annual financial statements	Annual periods commencing on or after 1 January 2026

Standard	Impact assessment	Effective date
IFRS 9 and IFRS 7	**Contracts referencing nature-dependent electricity - Amendments to IFRS 9 and IFRS 7** The amendments include: ➢ Clarifying the application of the 'own-use' requirements. · Permitting hedge accounting if these contracts are used as hedging instruments. ➢ Adding new disclosure requirements to enable investors to understand the effect of these contracts on a company's financial performance and cash flows. The group does not expect this amendment to have a significant impact on the annual financial statements	Annual periods commencing on or after 1 January 2026
IFRS 18	**Presentation and Disclosure in Financial Statements** IFRS 18 aims to improve how companies communicate in their financial statements, with a focus on information about financial performance in the statement of profit or loss. IFRS 18 is accompanied by limited amendments to the requirements in IAS 7 Statement of Cash Flows. IFRS 18 aims to improve financial reporting by: ➢ requiring additional defined subtotals in the statement of profit or loss; ➢ requiring disclosures about management-defined performance measures; and ➢ adding new principles for grouping (aggregation and disaggregation) of information The new standard is expected to impact group presentation of its statement of profit or loss.	Annual periods commencing on or after 1 January 2027
IFRS 19	**Subsidiaries without Public Accountability: Disclosures** IFRS 19 enables eligible entities to provide reduced disclosures compared to the requirements in other IFRS accounting standards. Entities that elect IFRS 19 are still required to apply recognition, measurement and presentation requirements of other IFRS accounting standards. IFRS 19 would not be applicable to the group annual financial statements, however IFRS 19 application will be evaluated for the company annual financial statements.	Annual periods commencing on or after 1 January 2027

22. Financial Risk Management

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

<table>
<tr><th colspan="3">Overview of financial risks</th></tr>
<tr><td rowspan="2">Credit risk</td><td colspan="2">Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation.</td></tr>
<tr><td>Credit risk arises primarily from the following instruments:
➢ advances; and
➢ certain investment securities.

Other sources of credit risk arise from:
➢ cash and cash equivalents;
➢ accounts receivable; and off-balance sheet exposures.</td><td>The following information is presented for these assets:
➢ summary of all credit assets (22.1.1);
➢ information about the quality of credit assets (22.1.2);
➢ exposure to concentration risk (22.1.2); and
➢ 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:
➢ undiscounted cash flow analysis of financial liabilities (22.2.3);
➢ concentration analysis of deposits (22.2.4).</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</td><td>The following information is presented for interest rate risk in the banking book:</td></tr>
</table>

Overview of financial risks		
	sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.	➢ projected NII sensitivity to interest rate movements; and ➢ banking book NAV sensitivity to interest rate movements as a percentage of total bank capital.
Capital management	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.	
Tax Risk	The risk of financial loss due to the final determination of the tax treatment of a transaction by revenue authorities being different from the implemented tax consequences of such a transaction, combined with the imposition of penalties, sanction or reputational damage due to: ➢ non-compliance with the various revenue acts; and/or ➢ the inefficient use of available mechanisms to benefit from tax dispensations.	
	Any event, action or inaction in the strategy, operations, financial reporting or compliance that either adversely affects the entity's tax or business position, or results in unanticipated penalties, assessments, additional taxes, harm to reputation, lost opportunities or financial statement exposure is regarded as tax risk.	

22.1 Credit risk

22.1.1. Credit assets

Objective

Credit risk management objectives are two fold:

- 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 gross carrying amount recognised on the statement of financial position represents the maximum exposure to credit risk, before considering collateral and other credit enhancements. Off-balance sheet exposures disclosed include loan commitments as defined in the bank's accounting policy.

M'000	31 December 2024	31 December 2023
On-balance sheet exposure		
Cash and short-term funds		
Money at call and short notice	**299 730**	291 149
Balances with central bank	**126 210**	23 403
Gross advances	**1 491 819**	1 329 697
Retail Segment	**770 396**	610 526
Commercial Segment	**380 913**	364 338
Corporate Segment	**100 011**	126 570
WesBank	**240 499**	228 263
Accounts receivable	**114 060**	178 295
Amounts due by holding company and fellow subsidiaries	**389 941**	329 671
Investments securities and other investments	**1 807 499**	1 473 105
Off-balance sheet exposure		
Guarantees and letters of credit*	**257 897**	178 745
Loan commitments not drawn	**80 842**	80 464
Total	**4 567 997**	3 884 530

**The description has changed from the prior year, from "Financial and other guarantees" to "Guarantees and letters and credit".*

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 2024			31 December 2023		
	FR 1 -25	FR 26 - 90	Above FR 90	FR 1 -25	FR 26 - 90	Above FR 90
Retail Segment	**-**	**672 854**	**76 023**	-	516 893	78 546
Stage 1		665 121	23 828		515 485	26 844
Stage 2		7 732	38 754		1 038	39 792
Stage 3		-	13 441		370	11 909
Commercial Segment	**-**	**349 007**	**31 906**	-	321 436	42 901
Stage 1		314 090	2 478	-	265 365	5 446
Stage 2		34 917	18 410		56 057	27 285
Stage 3		-	11 018		14	10 170
Corporate Segment	**-**	**100 001**	**9**	-	126 566	4
Stage 1		100 001	8		126 459	3
Stage 2		0	1		107	1
Stage 3						
WesBank Segment	**-**	**228 569**	**10 232**	-	201 314	25 840
Stage 1		221 799	-		201 072	3 390
Stage 2		6 770	-		228	4 559
Stage 3		-	10 232		14	17 891
Total Advances	**-**	**1 350 431**	**118 170**	-	1 166 210	147 292
Off balance sheet exposures						
Commercial Segment	**-**	**284 242**	**-**	-	259 208	-
Stage 1	-	284 242		-	259 208	

Analysis of impaired advances

M'000	31 December 2024		
	Total carrying amount	Security held and expected recoveries	Stage 3 impairment
Stage 3 assets by category			
Overdrafts and cash management accounts	7 420		8 073
Term loans	3 210	297	2 913
Instalment sales and hire purchase agreements	10 232	72	10 159
Property finance	5 700	3 810	1 890
Personal loans	8 129		9 219
Total NPLs	**34 691**	**4 179**	**32 254**

M'000	31 December 2023		
	Total carrying amount	**Security held and expected recoveries**	**Stage 3 impairment**
Stage 3 assets by category			
Overdrafts and cash management accounts	4 191		4 586
Term loans	6 377	1 622	4 755
Instalment sales and hire purchase agreements	17 906	481	17 425
Property finance	3 783	1 168	2 614
Personal loans	8 113		9 203
Total NPLs	**40 369**	**3 272**	**38 583**

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 2024		31 December 2023	
M'000	Lesotho	South africa	Lesotho	South Africa
On-balance sheet exposures				
Cash and cash equivalents	**620 257**		585 203	
Total advances	**1 395 024**		1 224 194	
Investments securities and other investm	**580 039**	**1 222 186**	578 065	889 235
Amounts due by holding company and fellow subsidiary companies		**389 941**		329 671
Accounts receivable	**114 060**		178 295	
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	**203 400**		178 745	

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.

	31 December 2024			
		Stage 3		
	Total advances	Total	Security held and expected recoveries	Stage 3 impairment
Agriculture	26 369	867		867
Financial Institutions	128 008	9		9
Building and property development	88 866	2 740	198	2 542
Government land bank and public authority	25 899	1 076	662	414
Individuals	834 251	17 122	471	16 651
Manufacturing and commerce	243 397	6 123	728	5 395
Mining	8 050	2 671		2 671
Transport and communication	32 623	2 986	480	2 506
Other services	81 137	1 245	46	1 199
Gross value of advances	**1 468 600**	**34 839**	**2 585**	**32 254**
Impairment of credit advances	**(96 795)**			
Net advances	**1 371 806**			

M'000	31 December 2023			
	Total advances	Stage 3		
		Total	Security held and expected recoveries	Stage 3 impairment
Agriculture	46 445	1 400	8	1 392
Financial Institutions	100 887			
Building and property development	73 112	2 795	248	2 546
Government land bank and public authority	23 727	13	0	13
Individuals	672 138	21 378		21 378
Manufacturing and commerce	228 956	7 813	1 532	6 281
Mining	35 923	541		541
Transport and communication	74 578	3 842		3 842
Other services	57 735	2 811	220	2 591
Gross value of advances	**1 313 502**	**40 592**	**2 009**	**38 583**
Impairment of credit advances	**(105 504)**			
Net advances	**1 207 998**			

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 2024					
M'000	Gross Carrying amount	Loss Allowances	Maximum exposure to credit risk	Netting and financial collateral	Unsecured	Secured
Overdrafts and managed accounts	240 431	(17 920)	222 511	1 875	220 636	
Term loans	188 981	(10 818)	178 162	12 608	115 888	49 666
Installment sales	240 499	(14 761)	225 738	1 837	111 951	111 951
Property finance	245 650	(7 099)	238 551	148 778		89 773
Personal loans	576 258	(43 329)	532 929		532 929	
Total Advances	**1 491 819**	**(93 928)**	**1 397 891**	**165 097**	**981 404**	**251 390**
Off balance sheet exposure	284 242	(2 867)	281 375		80 842	203 400
Investment securities and other investmer	1 802 132	(5 368)	1 796 764		1 802 132	
Amounts due by holding company and fellow subsidiary companies	389 941		389 941		389 941	
Accounts receivables	114 060		114 060		114 060	

Secured represent balances which have non-financial collateral attached to the financial asset.

	31 December 2023				
M'000	Gross Carrying amount	Loss Allowances	Maximum exposure to credit risk	Unsecured	Secured
Overdrafts and managed accounts	223 082	(20 288)	202 793	223 082	
Term loans	215 884	(15 696)	200 188	151 119	64 765
Installment sales	228 263	(20 069)	208 194	114 132	114 132
Property finance	237 569	(9 132)	228 437		237 569
Personal loans	424 899	(38 857)	386 042	424 899	
Total Advances	**1 329 697**	(104 042)	**1 225 655**	**913 231**	**416 466**
Off balance sheet exposure	259 208	(1 461)	257 747	80 464	178 745
Investment securities and other investmer	1 467 300	(5 805)	1 461 495	1 467 300	
Amounts due to holding company and fellow subsidiary companies	329 671		329 671	329 671	
Accounts receivables	178 295		178 295	178 295	

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

22.2.1 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.

22.2.2 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.

22.2.3 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 2024			
		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	4 043 713	3 497 255	501 482	44 976
Creditors, accruals and provisions	59 954	59 954		
Amounts due to holding company and fellow subsidiaries	16 702	16 702		
Lease liabilities	74 081	4 677	13 196	56 208
Off-balance sheet amounts				
Guarantees and letters of credit*	257 897	257 897		
Facilities not drawn	80 842	80 842		

**The description has changed from the prior year, from "Financial and other guarantees" to "Guarantees and letters of credit".*

M'000	31 December 2023			
		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	3 468 293	3 021 977	409 899	36 416
Creditors, accruals and provisions	110 386	110 386		
Amounts due to holding company and fellow subsidiaries	15 135	15 135		
Lease liabilities	34 777	4 528	5 227	25 023
Off-balance sheet amounts				
Financial and other guarantees	178 745	178 745		
Facilities not drawn	80 464	80 464		

22.2.4 Concentration analysis of deposits

M'000	31 December 2024	31 December 2023
Sector analysis		
Deposits, current accounts and other loans		
Sovereigns, including central bank	**302 621**	202 177
Public sector entities	**18 032**	19 424
Banks	**433 114**	319 915
Corporate customers	**2 311 511**	2 041 153
Retail customers	**868 805**	793 304
Other	**109 630**	92 320
Total deposits	**4 043 713**	**3 468 293**
Geographical analysis		
Lesotho	**4 043 713**	3 468 293

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 2024**	31 December 2023
Downward 200bps	**(3.41)**	(2.63)
Upward 200bps	**4.81**	0.35

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 M1.8 billion for the year (2023: M1.5 billion).

Projected Maloti NII sensitivity to interest rate movements

M'000	**31 December 2024**	31 December 2023
Downward 200bps	**8 881**	6 444
Upward 200bps	**(12 524)**	871

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 M8.9 million (2023: M6.4 million). A similar increase in interest rates would result in an increase in projected 12-month NII of M12.5 million (2023: M871 thousand).

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 2024.

	Tier 1	Conservation buffer	Total qualifying capital
Local capital requirements	8.0%	2.0%	10.0%
Internal targets - Group capital requirements	14.5%		14.5%

The following table shows the composition of regulatory capital and ratios of the bank at 31 December 2024. The bank complied with all capital requirements which are prescribed by the Financial Institutions Act 2012.

M'000	31 December 2024	31 December 2023
Share capital and premium	**98 233**	98 233
Retained earnings	**162 255**	147 195
Total qualifying Tier 1 capital	**260 488**	245 428
General debt provision	**22 316**	21 908
Perpetual debt instrument	**-**	
Total qualifying Tier 2 capital	**22 316**	21 908
Total regulatory capital	**282 804**	267 336
Risk weighted assets	**2 220 871**	1 645 592
Capital adequacy ratio	**13%**	16%
Minimum capital ratio per Financial Institutions Act 2012	**10%**	8%

The Central Bank of Lesotho adopted Basel 11.5 and enforced it through the Financial Institutions Computation of Capital Charge for Credit, Operational and Market Risks Regulations 2023.

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.