FIRST NATIONAL BANK OF LESOTHO LIMITED

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENTS

BANK INFORMATION

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

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

Postal address
P.O. Box 11902
Maseru
100
Lesotho

Auditors
Sheeran & Associates Chartered Accountants (Lesotho)

Attorneys
Bosiu Consultants
Du Preez Liebetrau & Co
K Ndebele Chambers
Shale Chambers
M.V. Khesuoe Chambers

Holding Company

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

DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors of First National Bank of Lesotho Limited (the Bank) are responsible for the preparation of the annual financial statements as required by the Financial Institutions Act 2012 of Lesotho and the Companies Act of 2011. In discharging this responsibility, the directors rely on management to prepare the annual financial statements in accordance with International Financial Reporting Standards (IFRS) and for keeping adequate accounting records in accordance with the bank's system of internal control. As such, the annual financial statements include amounts based on judgments and estimates made by management.

In preparing the annual financial statements, suitable accounting policies in accordance with IFRS have been applied and reasonable judgements and estimates have been made by management. The directors approve significant changes to accounting policies. A significant change made to the bank's accounting policies during the current year is the implementation of IFRS 9 *Financial Instruments*. The financial statements incorporate full and responsible disclosure in line with the bank's philosophy on corporate governance.

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

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

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

The directors have reviewed the bank's budgets and forecasts and considered the bank's ability to continue as a going concern in light of 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, Sheeran & Associates 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, Sheeran and Associates 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. Sheeran and Associates audit report is presented on pages 12-14.

The financial statements were approved by the Board of directors on 14 March 2019 and are signed on its behalf by:

I Leyenaar
Chairman

B Roper
Chief Executive Officer

AUDIT COMMITTEE REPORT

The audit committee is pleased to present this report for the financial year ended 31 December 2018 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 First National Bank of Lesotho Limited.

Terms of reference

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

Members and meeting attendance

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

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

Role and responsibilities

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

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

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

External auditor appointment and independence

The audit committee has satisfied itself that the external auditors, Sheeran and Associates 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 re-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 for the 2018 financial position audit is in compliance with the Companies Act of 2011. The Audit Committee will make a recommendation to the Board of Directors for the appointment of new external auditors in line with the requirements of section 35(3) of the Financial Institutions Act of 2012.

Financial statements and accounting practices

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

Internal financial controls

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

Duties assigned by the Board

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

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

Signed on behalf of the audit committee;

R. van Staden
Chairman, Audit Committee
14 March 2019

DIRECTOR'S REPORT

Nature of business

The activities of First National Bank of Lesotho Limited include retail, commercial, corporate and instalment finance.

Share Capital

Ordinary share capital

Details of First National Bank of Lesotho Limited's 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 15 to 96.

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 organizational integrity in the direction, control and stewardship of the bank's affairs.

Board of Directors

		Appointed	Designation
I. Leyenaar	Chairman	November 2016	Independent Non-Executive Director
T. Bohloa	Member	May 2013	Independent Non-Executive Director
P. Molapo	Member	May 2013	Independent Non-Executive Director
M. Posholi	Member	February 2016	Independent Non-Executive Director
L. Lerotholi-Seeiso	Member	February 2016	Independent Non-Executive Director
G. Usher	Member	March 2016	Non-Executive Director
R. van Staden	Member	April 2018	Non-Executive Director
J. Fowle	Member	May 2018	Non-Executive Director
B. Roper	Member	July 2018	Executive Director

Audit Committee

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

Directors Affairs and Governance Committee

P. Molapo	Chairman
I. Leyenaar	Member
T. Bohloa	Member
L. Lerotholi-Seeiso	Member

Remuneration Committee

T. Bohloa	Chairman
I. Leyenaar	Member
L. Lerotholi-Seeiso	Member

Risk, Capital and Compliance Committee

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

Senior Credit Risk Committee

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

Senior Management

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

B. Roper	Chief Executive Officer
M. Lenkoe	Chief Operating Officer
B. Tsvetu	Chief Financial Officer
A. Black	Head of Business Segment
T. Mhlanga	Head of Retail Segment
M. Tsosane	Head of Corporate Banking
M. Marakabei	Head of WesBank
R. Roos	Head of Credit
B. Port	Head of Risk
M. Mofolo	Head of Internal Audit
D. Leanya	Head of Human Resources
M. Matela	Head of Legal and Compliance
D. Mokebe	Head of Treasury

Independent Auditors' Report

To the shareholders of First National Bank of Lesotho Limited

Report on the audit of the Financial Statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of First National Bank of Lesotho Limited (the Company) as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

First National Bank of Lesotho Limited's financial statements set out on pages 15 to 96 comprise:

- the statement of financial position as at 31 December 2018;
- the statement of other comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code).* We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

The directors are responsible for the other information. The other information comprises the information included in the First National Bank of Lesotho Limited financial statements for the year ended 31 December 2018, which includes the Director's report. Other information does not include the financial statements and our auditors' report thereon.

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

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

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

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Sheeran & Associates

SHEERAN & ASSOCIATES
Chartered Accountants (Lesotho)

Date: 27 March 2019

ACCOUNTING POLICIES

For the year ended 31 December 2018

1. Introduction

The bank's annual financial statements have been prepared in accordance with IFRS, the requirements of the Financial Institutions Act 2012 and the Companies Act of 2011 (Companies Act).These financial statements comprise the statement of financial position (also referred to as the balance sheet) as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2018, and the notes, comprising a summary of significant accounting policies and other explanatory notes.

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

Summary of significant accounting policies			
Related party transactions	Related party transactions (Section 3)		
Income, expenses and taxation	Income and expenses (Section 4.1)	Income tax expense (Section 4.2)	
Financial Instruments	Classification and measurement (Section 5.1)	Impairment of financial assets (Section 5.2)	
	Transfers and derecognition (Section 5.3)	Offset and collateral (Section 5.4)	
Other assets and liabilities	Classification and measurement Property and equipment (Section 6.1)	Classification and measurement Provisions (Section 6.1)	Leases (Section 6.2)
Capital and Reserves	Capital and reserves (Section 7)		
Transactions with employees	Employee benefits (Section 8.1)	Share based payment transactions (Section 8.2)	

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

New/revised IFRS	Description of change	Impact
IFRS 9	The bank adopted IFRS 9 in the current year. The following resulted from the implementation: ➢ the classification of financial assets under IFRS 9 is based on both the business model for holding the instruments as well as the contractual characteristics of the instruments; ➢ impairments in terms of IFRS 9 are determined based on an expected loss model that considers the significant changes to the assets' credit risk and the expected loss that will arise in the event of default; ➢ the requirements for the classification of liabilities remained unchanged. If a liability is designated at fair value, the changes in the fair value as a result of changes in own credit risk is recognised in other comprehensive income, unless this would create or enlarge an accounting mismatch in profit or loss; ➢ the general hedge accounting requirements under IFRS 9 are more closely aligned to how entities undertake risk management activities when hedging financial and non-	The main impacts on the bank's financial statements from the adoption of IFRS 9 were the following: ➢ certain items have been reclassified based on the new classification requirements. Investment securities have been reclassified from held-to-maturity to amortised cost; ➢ the loss allowance on financial assets has increased because of the change from an incurred loss to an expected credit loss model; ➢ the bank does not apply hedge accounting. Therefore, the requirements for general hedge accounting under IFRS 9 does not have an impact on the bank; ➢ the amended disclosure requirements of IFRS 7 will be prospectively applied by the bank. Therefore, all comparative disclosures relating to financial instruments are based on the classification and measurement requirements of IAS 39 and disclosure requirements of IFRS 7 before the IFRS 9 amendments.

New/revised IFRS	Description of change	Impact
	financial risk exposures. Hedge effectiveness will now be proved based on management's risk management objectives. IFRS 9 also allows for rebalancing of the hedge and the deferral of certain costs of hedging; and ➢ IFRS 7 has been amended to include additional disclosures as a result of the introduction of IFRS 9.	The details of these reclassifications are provided in note 10 of the accounting policies.
IFRS 15	➢ IFRS 15 contains a single model that is applied when accounting for contracts with customers. It replaces substantially all of the current revenue recognition guidance, except for contracts that are out of scope – e.g. leases and insurance. ➢ The model specifies that revenue is recognised as and when control of goods or services are transferred to a customer and that revenue is recognised at the amount to which an entity expects to receive. Depending on certain criteria revenue is recognised at a point in time or over time. ➢ IFRS 15 includes new quantitative and qualitative disclosure requirements to enable users of financial statements to understand the	Non-interest revenue in the form of fees and commission are what informs the Bank's revenue. Upon evaluation of each income stream accounted for per policy 4.1 below, a conclusion was reached that given the requirements of IFRS 15 there is no impact on adoption as there is also no product mix that would require a split of goods and services. The current revenue recognition is therefore aligned to the IFRS 15 requirements.

New/revised IFRS	Description of change	Impact
	nature, amount and timing of revenue from contracts with customers.	

2. Basis of preparation

Use of judgements and estimates

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

Presentation of financial statements, function and foreign currency

Presentation	The bank presents its statement of financial position in order of liquidity. Where permitted or required under IFRS, the bank offsets assets and liabilities or income and expenses and presents the net amount in the statement of financial position or in the statement of other comprehensive income.
Materiality	IFRS disclosure is only applicable to material items. Management applies judgement and considers both qualitative and quantitative factors in determining materiality applied in preparing these financial statements.
Functional and presentation currency of the bank	Lesotho Maloti (M).
Level of rounding	All amounts are presented in thousands of Maloti unless otherwise indicated.
Foreign currency transactions of the bank	Translated into the functional currency using the exchange rates prevailing at the date of the transactions.

3. Related party transactions

Related parties of the bank, as defined, include:

Parent Company	Subsidiaries and fellow subsidiaries	Associates and 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, Expense and Taxation

4.1. Income and expenses

Net Interest revenue recognised in profit or loss
Net interest includes: ➢ Interest on financial instruments measured at amortised cost. Interest is calculated using the effective interest rate which includes fees and transaction costs that form an integral part of generating an involvement with the resulting financial instrument. The original effective interest rate is applied to the gross carrying amount of financial assets which are not credit-impaired. ➢ the amortised cost of financial assets from the month after the assets become credit-impaired, the unamortised portion of origination fees and capitalised transaction costs on financial assets that are modified and derecognised are included as part of interest income. If the fees or costs are integral to the new asset recognised, these fees and transactions costs are capitalised to the new loan. The interest income on the modified financial asset is calculated by applying the original effective interest rate to the asset's modified gross carrying amount. ➢ an amount related to the unwinding of the discounted present value of non-performing loans measured at amortised cost on which specific impairments have been raised and where the recovery period is significant. When these advances are impaired, they are recognised at recoverable amount i.e. the present value of the expected future cash flows, and an element of time value of money is included in the specific impairment raised. As the advance moves closer to recovery, the portion of the discount included in the specific impairment unwinds.

Non-Interest revenue recognised in profit or loss	
Net fee and commission income	
Fee and commission income	Fees and transaction costs that do not form an integral part of the effective interest rate are recognised as income when the outcome of the transaction involving the rendering of services can be reliably estimated as follows: ➢ fees for services rendered are recognised on an accrual basis when the service is rendered, e.g. banking fee and commission income; ➢ fees earned on the execution of a significant act, e.g. knowledge-based fee and commission income, and non-banking fee and commission income, when the significant act has been completed; and ➢ Commission earned on the sale of insurance products to customers of the bank on behalf of an insurer is recognised as fee and commission income.
Fee and commission expenses	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.

Expenses
Expenses of the bank, apart from certain 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.
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 bank 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 the business

Business model

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 have to 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.

<table>
<tr><th>Classes of financial assets</th><th>Business model considerations</th><th>Cash flow characteristics</th></tr>
<tr><th colspan="3">Amortised cost</th></tr>
<tr><td colspan="3">Financial assets are measured at amortised cost using the effective interest method when they are held to collect contractual cash flows which are solely payments of principle and interest, and sales of such assets are not significant or frequent. The majority of these are overdrafts, term loans, instalment sales, property finance and personal loans as well as certain investment securities utilised for liquidity risk management of the bank. For purchased or originated credit-impaired financial assets, the bank applies the credit-adjusted effective interest rate. This interest rate is determined based on the amortised cost and not the gross carrying amount of the financial asset, and incorporates the impact of expected credit losses in the estimated future cash flows of the financial asset.</td></tr>
<tr><td>Retail advances</td><td>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.</td><td>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.</td></tr>
<tr><td>Corporate and commercial advances</td><td>The business models of the Bank is 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.)
➢ Property finance; and
➢ Overdrafts.</td><td>The cash flows on these corporate and commercial 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</td></tr>
</table>

Classes of financial assets	Business model considerations	Cash flow characteristics
	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. Although the intention is to collect cash flows, not all of the instruments are held to maturity as some financial assets are sold under securitisation transactions. These sales are however insignificant in value in relation to the value of advances held to collect cash flows, and are usually also infrequent, and therefore the held to collect business model is still appropriate.	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	The cash flows on these investment securities are solely payments of principal and interest.

Classes of financial assets	Business model considerations	Cash flow characteristics
	needs in a stress scenario, which is consistent with a business model to collect contractual cash flows.	
Cash and cash equivalents	Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. These assets are held to collect contractual cash flows.	The cash flows on these assets are solely payments of principal and interest.
Accounts receivable	Financial accounts receivable are short-term financial assets which include intercompany accounts that are held to collect contractual cash flows.	The cash flows on these assets are solely payments of principal and interest.

5.1.3 Classification and subsequent measurement of financial liabilities and compound instruments

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

5.2. Impairment of financial assets

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. Refer to policy 9 for more details. 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 allowance on financial assets			
Credit risk has not increased significantly since initial recognition (Stage 1)	**Credit risk has increased significantly (SICR) since initial recognition, but asset is not credit-impaired (Stage 2)**	**Asset has become credit-impaired since initial recognition (Stage 3)**	**Purchased or originated credit impaired**
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Movement in lifetime expected credit losses from initial recognition

Advances	
Significant increase in credit risk since initial recognition (SICR)	In order to determine whether an advance has experienced a SICR, the PD of the asset calculated at the origination date is compared to that calculated at the reporting date. The origination date is defined to be the most recent date at which the bank had an opportunity to price or re-price the advance based on the outcome of either the original or an up-to-date risk assessment. SICR test thresholds are re-assessed and, if necessary, updated, on at least an annual basis. Any facility that is more than 30 days past due, or in the case of instalment-based products one instalment past due, is automatically considered to have experienced a significant increase in credit risk. 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 & Commercial SME 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, with the exception of distressed restructured exposures that are advised to remain in Stage 2 for a minimum period of 6 months before re-entering Stage 1 as per best practice.
Low credit risk	Financial assets with low credit risk are assumed not to have experienced a significant increase in credit risk since initial recognition. The bank does not use the low credit risk assumption.
Credit-impaired financial assets	Advances are considered credit impaired if they meet the definition of default.

Advances	
	The bank's definition of default applied for calculating provisions under IFRS 9 has been aligned to the definition applied for regulatory capital calculations across all portfolios, as well as those applied in operational management of credit and for internal risk management purposes. Exposures are considered to be in default when they are more than 90 days past due or, in the case of amortising products, more than 3 unpaid instalments. In addition, an exposure is considered to have defaulted when there are qualitative indicators that the borrower is unlikely to pay their credit obligations in full without any recourse by the bank to actions such as the realisation of security. Indicators of unlikeliness to pay are determined which include application for bankruptcy or obligor insolvency. Any distressed restructures of accounts which have experienced a significant increase in credit risk since initial recognition are defined as default events. Accounts are considered to no longer be in default if they meet the stringent cure definition, which has been determined at portfolio level based on analysis of re-defined rates.
Purchased or originated credit-impaired	Financial assets that meet the abovementioned definition of credit-impaired at initial recognition.
Write-offs and post-write-off 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 judgemental 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.

Advances	
	The requirements of the Central Bank of Lesotho as stipulated in the FIA of 2012 is to write-off all assets which remain non-performing for more 12 months. Subsequent recoveries of amounts previously written off decrease the amount of the impairment of advances in profit or loss.

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

5.3. Transfers and derecognition

Financial instruments are derecognised when:

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

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

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

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

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

Transaction type	Description	Accounting treatment
Modifications without derecognition		
Modification of contractual cash flows	Modified contractual terms are not priced to reflect current conditions and are thus not substantial. For retail advances, this includes debt restructuring accounts where the new terms of the contract (such as a lower interest rate) is mandated by law and do not have the same commercial terms as a new product that the bank would be willing to offer a customer with a similar risk profile. The same principle is applied for wholesale advances on a case-by-case basis.	Existing asset is not derecognised. The gross carrying amount of the financial asset is recalculated as the present value of the estimated future cash receipts through the expected life of the renegotiated or modified financial asset, discounted at the financial asset's original effective interest rate. The gain or loss on modification is recognised in profit or loss as part of impairment of advances.
Modifications with derecognition (i.e. substantial modifications)		
Retail advances	The process for modifying a non-distressed advance is substantially the same as the process for raising a new advance, including re-assessing the customer's credit risk, repricing the asset and entering into a new legal agreement.	Existing asset is derecognised and a new asset is recognised at fair value based on the modified contractual terms.

5.4. Offsetting of financial instruments and collateral arrangements

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

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

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

6. Other assets and liabilities

6.1. Classification and measurement

Classification	Measurement
Property and equipment	
Property and equipment of the bank includes: ➢ assets utilised by the bank in the normal course of operations to provide services including freehold property and leasehold premises and leasehold improvements (owner occupied properties); ➢ assets which are owned by the bank and leased to third parties under operating leases as part of the bank's revenue generating operations; ➢ capitalised leased assets; and ➢ other assets utilised in the normal course of operations including computer and office equipment, motor vehicles and furniture and fittings.	Historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated. Depreciation is on a straight-line basis over the useful life of the asset, except for assets capitalised under finance leases where the bank is the lessee; in which case, it is depreciated over the life of the lease.
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 and intangible assets are reviewed for impairment whenever objective evidence of impairment exists. Impairment losses are recognised in profit or loss as part of operating expenses.

Other assets are derecognised when they are disposed of or, in the case of intangible assets, when no future economic benefits are expected from its use. 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

The bank classifies leases of property and equipment where the lessee assumes substantially all the risks and rewards of ownership as finance leases. The bank classifies leases as operating leases if the lessor effectively retains the risks and rewards of ownership of the leased asset. The bank regards instalment sale agreements as financing transactions.

<table>
<tr><th colspan="2">Bank is the lessee</th><th>Bank is the lessor</th></tr>
<tr><td colspan="3">Finance leases</td></tr>
<tr><td>Inception</td><td>Capitalised as assets and a corresponding lease liability for future lease payments is recognised.</td><td>Recognise assets sold under a finance lease as advances and impair the advances, as required, in line with Section 5.2.</td></tr>
<tr><td>Over life of lease</td><td>The asset is depreciated – refer to Section 6.1.</td><td>Unearned finance income is recognised as interest income over the term of the lease using the effective interest method.</td></tr>
<tr><td colspan="3">Operating leases</td></tr>
<tr><td colspan="2">Recognised as an operating expense in profit or loss on a straight-line basis over the period of the lease.
Any difference between the actual lease amount payable and the straight-lined amount calculated is recognised as a liability of the bank in creditors and accruals.</td><td>Assets held under operating leases are recognised as a separate category of property and equipment (assets held under leasing arrangements) and depreciated - refer to policy 6.1.
Rental income is recognised as other non-interest revenue on a straight-line basis over the lease term.</td></tr>
<tr><td colspan="3">Instalment credit sale agreements where the bank is the lessor</td></tr>
<tr><td colspan="3">The bank regards instalment credit sale agreements as financing transactions and includes the total rentals and instalments receivable, less unearned finance charges, in advances. The bank calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to interest revenue in proportion to capital balances outstanding.</td></tr>
</table>

7. Capital and reserves

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

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

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

8. Transactions with employees

8.1. Employee benefits

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

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

8.2. Share-based payment transactions

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

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

9. Critical accounting estimates, assumptions and judgements

9.1. Introduction

In preparing the financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior year. Included below are all the critical accounting estimates, assumptions and judgements made by the bank.

9.2. Taxation

The bank is subject to direct tax in Lesotho. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. In determining whether an interpretation and/or application of the various tax rules may result in a dispute of which the outcome may not be favorable to the bank, the bank seeks, where relevant, expert advice to determine whether the unfavorable outcome is probable or possible. Where payment is determined to be possible but not probable the tax exposure is disclosed as a contingent liability. The bank recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, the difference will impact the income tax and deferred income tax provisions in the period in which such determination is made.

9.3. Financial instruments

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

General	
Collective impairment assessments of groups of financial assets	Impairment parameters are estimated using statistical analysis performed on homogeneous groups of accounts. Accounts are grouped at a portfolio level at a minimum, but more granular groupings are applied where specific sub-segments of the portfolio are expected to behave differently and where sufficient data is available for more granular modelling to be performed. 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. When impairments are calculated, each exposure is assigned unique impairment parameters (a PD, LGD and EAD) based on that exposure's individual characteristics. These account-level impairment parameters are then used to calculate account-level expected credit losses
Impairment assessment of collateralised financial assets	The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether the bank elects to foreclose or not.

Advances
The bank continuously assesses its credit portfolios for impairment. Significant advances are monitored by the credit committee and impaired in accordance with the bank's impairment policy when an indication of impairment is observed. The objective of the measurement of an impairment loss is to produce a quantitative measure of the bank's credit risk exposure. In determining the amount of the impairment, the bank considers the - following: ➢ the Probability of Default (PD) which is a measure of the expectation of how likely the customer is to default;

Advances
➢ the Exposure at Default (EAD) which is the expected amount outstanding at the point of default; and ➢ the Loss Given Default (LGD) which is the expected loss that will be realised at default after taking into account recoveries through collateral and guarantees. These parameters are estimated using statistical models that predict future cash flows on the basis of historical behaviour for similar exposures over equivalent measurement periods. Adjustments to statistical estimates are made to allow for current conditions that were not present in the historical data referenced, and to allow for the impact of forward-looking macro-economic forecasts
Forward-looking information
Forward-looking macro-economic information has been incorporated into expected loss estimates through the application of quantitative modelling and expert-judgement-based adjustments. Quantitative techniques applied estimate the impact of forecasted macro-economic factors on expected credit losses using regression techniques. Macro-economic factors are forecast by the executive of the bank and a forum of FirstRand economists who are independent from the bank's credit and modelling functions. This also incorporates internal and external economic research as well as the views of FirstRand senior management. Economic variables are forecasted for different scenarios (downside, upside and core) and a probability is assigned to each scenario. The scenarios and associated probabilities are then approved at Assets Liabilities Capital Compliance Committee, Executive Committee and Board before being, provided to the credit modelling teams for incorporation into quantitative models. The forecast horizon incorporated into models is 3 years, since the accuracy of macro-economic forecasts beyond this point is not considered sufficient for their inclusion in impairment estimates. For portfolios with remaining lifetimes of longer than 3 years, mean reversion is assumed beyond this point. For material portfolios where expected credit losses are influenced by economic cycles, the estimated impact of multiple macro-economic scenarios and their probabilities is considered. ECL is calculated for the core (best-estimate) scenario, an upside scenario and a downside scenario. The probability-weighted average of the ECL figures calculated under each of these scenarios is the final ECL figure for the portfolio. Calculation of a probability-weighted ECL estimate across multiple macro-economic scenarios ensures appropriate treatment of non-linear macro-economic impacts. The stage classification of an account for disclosure purposes is determined by calculating the probability-weighted forward-looking reporting date PD for that exposure and using this PD to determine whether an account has experienced a significant increase in credit risk and should therefore be moved into Stage 2. Accounts that have not experienced a significant increase in credit risk will remain in Stage 1.

Forward-looking information		
For portfolios that are not material and portfolios where it can be proven that credit losses are not influenced by macro-economic factors, expected credit losses are calculated and stage allocation determined only for the core scenario. Where credit experts have determined that the three macro-economic scenarios catered for through the quantitative modelling process are not adequately reflective of potential macro-economic event risk, expert judgement-based adjustments are made to staging and/or ECL estimates to better reflect potential portfolio-specific impacts. In addition to forward-looking macro-economic information, other types of forward-looking information, such as specific event risk, taken into account in ECL estimates when required through the application of out-of-model adjustments.		
Judgement or estimate	**Retail**	**Business & Commercial**
Measurement of the 12-month and 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.	Parameters are determined based on the application of statistical models that produce estimates on the basis of 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 credit experts who can motivate adjustments to modelled parameters.

<table>
<tr><th>Judgement or estimate</th><th>Retail</th><th>Business & Commercial</th></tr>
<tr><td rowspan="2"></td><td>and historical draw-down and payment behaviour.
LGDs are determined by estimating expected future cash flows, including costs and proceeds from sale of collateral, based on historically observed outcomes.
The statistical models applied implicitly assume that risk drivers that influence default risk, payment behaviour and recovery expectations within the historical data will continue to be relevant in the future</td><td></td></tr>
<tr><td colspan="2">Parameters are calibrated for the calculation of 12-month and LECL using term structures that consider 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.
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.</td></tr>
<tr><td>Determination of whether the credit risk of financial instruments have increased significantly since initial recognition</td><td colspan="2">The PDs used to perform the test for a significant increase in credit risk are calculated by applying the PD model in force as at the reporting date. This model is retro-applied using data as at the origination date to determine origination date PDs.
Origination date PDs are measured at initial recognition of an instrument, unless there has been a subsequent risk-based re-pricing opportunity. Where</td></tr>
</table>

Judgement or estimate	Retail	Business & Commercial
	the models used to determine PDs cannot discriminate good credit risks from bad credit risks effectively at initial recognition due to a lack of behavioural information, proxy origination dates of up to 6 months post initial recognition are applied. Where proxy origination dates are applied, early qualitative indicators of significant increase in credit risk, such as fraudulent account activity or partial arrears, are applied to trigger movement into Stage 2. Reporting date PDs are calculated on a forward-looking basis, with PDs adjusted where appropriate to incorporate the impacts of multiple forward-looking macro-economic scenarios	
Determination of whether a financial asset is a credit-impaired financial asset	The definition of default applied to determine whether an exposure must be classified into Stage 3 has been fully aligned with the regulatory definition of default. Accounts are therefore considered to be credit impaired if they are 90 days or more past due (for revolving products with minimum monthly instalments), 90 days in excess (for revolving products with no minimum monthly instalments) or 3 instalments or more in arrears (for amortising products). In addition, exposures are classified in Stage 3 if there are qualitative indicators that the obligor is unlikely to pay his/her/its credit obligations in full without any recourse by the bank to action such as the realisation of security. Distressed restructures of accounts in Stage 2 are also considered to be default events. For a retail account to cure from Stage 3 back to either Stage 2 or Stage 1, the account needs to meet a stringent cure definition. Cure definitions are determined on a portfolio level with reference to suitable analysis, and are set such that the probability of a previously cured account re-defaulting is equivalent to the probability of default for an account that has not defaulted in the past. For business exposures, cures are assessed on a case by case basis, subsequent to an analysis by the relevant debt restructuring credit committee. A default event is considered to be a separate default event only if an account has met the portfolio-specific cure definition prior to the second or subsequent default. Default events that are not separate are treated as a single default event when developing LGD term structures.	

Performing loans
Management is satisfied that the current total provisions held for performing accounts as per Central Bank of Lesotho requirements is appropriate. In terms of the Financial Institutions Act 2012, the minimum level of general provision equivalent to 2% of performing loans should be maintained. The total general provision is maintained at 2% inclusive of the impairment calculated on the performing loans as described above.

Non-performing loans
Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for commercial loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Management is comfortable that the level of provisions held for non-performing loans is appropriate.

9.4. Other assets and liabilities

Property and equipment	
The useful life of each asset is assessed individually. The benchmarks used when assessing the useful life of the individual assets are set out below.	
Leasehold premises	Shorter of estimated life or period of lease
Freehold property and property held under finance lease:	
➢ Buildings and structures	50 years
➢ Mechanical and electrical	20 years
➢ Components	20 years
➢ Sundries	20 years
Computer equipment	3 – 5 years
Other equipment	Varies between 3 – 10 years
Provisions	
The bank has a policy and process in place to determine when to recognise provisions for potential litigation and claims. The recognition of such provisions is linked to the ranking of legal risk of potential litigation on the bank's litigation database.	

10. IMPACT OF ADOPTING REVISED ACCOUNTING STANDARDS

The bank has adopted IFRS 9 and IFRS 15 during the current period. As set out in accounting policy note 1, comparative information has not been restated, but the retained earnings, as at the date of initial adoption (DIA) of 1 January 2018, has been restated.

Impact on adoption of IFRS 9 has been tabled below. The adoption of IFRS 15 had no impact on the bank as the current revenue recognition is aligned to the IFRS 15 requirements.

The key impact of adopting the revised standard has been set out below.

Requirement	Description of change	Impact
Classification and measurement	IFRS 9 introduced a principle-based approach for classifying financial assets, based on the entity's business model (for example how an entity manages its financial assets to generate cash flows) and the nature of its cash flows. Financial assets held to collect contractual cash flows, which relate SPPI, are classified at amortised cost. Financial assets held in a mixed business model (for example, held to collect contractual cash flows which meet the SPPI test and held for sale) are classified at fair value through other comprehensive income (FVOCI). All other financial assets held under a different business model or cash flows that do not meet the SPPI test are classified at fair value through profit or loss (FVTPL).	The bank's approach was to first reclassify the items, as indicated in the reclassification column, and then to remeasure the item included in the re-measurement column. Based on the business model assessments performed, only a reclassification was made. ➢ M424 million investment securities held in the bank's liquid asset portfolio were reclassified from assets held-to-maturity to financial assets held at amortised cost because they are held to collect contractual cash flows that meet the SPPI test. ➢ The above-mentioned reclassification did not result in re-measurement.

Requirement	Description of change	Impact
	The classification of financial liabilities remains relatively unchanged, with the exception of financial liabilities designated at fair value. Any changes in the fair value of the liability due to the entity's own credit risk will now be recognised in other comprehensive income. IFRS 9 also allows for the once-off reclassification of financial liabilities.	
ECL impairment	IFRS 9 introduced an ECL model which includes the incorporation of forward-looking information (FLI) for the recognition of impairments on financial assets. It is no longer required that a credit event occurs before credit losses are recognised. This applies to financial assets classified at amortised cost and FVOCI, lease receivables and trade receivables. It also applies to loan commitments, unutilised facilities and financial guarantee contracts not designated at FVTPL, referred to collectively as off-balance sheet exposures. The level of ECL to be recognised is determined with reference to the credit risk of the asset at reporting date in relation to its credit risk at origination. Where the credit risk has not increased significantly since origination, impairment is calculated based on a 12-month	The revised impairment requirements increased impairments by M11.6 million, excluding (suspended interest) ISP, due to earlier recognition of ECL, incorporating FLI, the inclusion of off-balance sheet exposures and the extension of the measurement period. The deferred tax impact of additional ECL amounted to M2.9 million.

Requirement	Description of change	Impact
	ECL. If there has been a significant increase in credit risk (SICR), impairment is based on LECL.	
Other ECL	Investment securities and non-advances	Government bonds were classified as held-to-maturity under IAS 39. These securities are short dated and held under a business model to collect contractual cash flows until maturity. These contractual cash flows are SPPI and these debt investment securities have therefore been classified at amortised cost under IFRS 9. Accordingly, an ECL provision of M0.9 million has been raised against these securities, referenced to the sovereign credit rating where these relate to government bonds. There was no ECL provision raised on non-advances with credit risk such as accounts receivable as the impact was concluded as immaterial.
Suspended Interest(ISP)	In terms of IAS 39 ISP was not capitalised to advances and interest suspended was tracked and managed separately off-balance sheet. Under IFRS 9, interest revenue is calculated by applying the effective interest rate to the amortised cost of financial assets classified in stage 3. The difference between the contractual interest and the interest recognised in line with IFRS 9 is therefore suspended. This suspended interest is capitalised to the advance and immediately impaired.	ISP is recognised against the ECL allowance, reflecting the fact that it is unrecoverable and therefore impaired. To the extent that the impairment coverage ratio under IAS 39 is identical to that under IFRS 9, the impact of ISP on transition to IFRS 9 is a gross-up of the advance and loss allowance by the amount of the suspended interest, with no impact on retained earnings. Where the coverage ratios under the two standards differ, the difference is reflected in retained earnings. The amount of ISP under IAS 39 was M5.3 million and this was reclassified from Advances to ECL. The impact of this

Requirement	Description of change	Impact
		reclassification resulted in a gross-up of advances amounting to M5.261 million. The reclassification caused a change in the coverage ratio resulting in an additional M0.1 million ISP, bringing total impact to M5.361 million. The deferred tax impact of ISP reclassification amounted to M1.340 million.

TRANSITION-IMPACT ON STATEMENT OF FINANCIAL POSITION – IFRS 9

M' 000	IAS 39	ECL impairment	ISP	Total adjustments	IFRS 9
ASSETS					
Cash and cash equivalents	**240 488**	-	-	-	**240 488**
Investments securities and other investments	**370 411**	(881)	-	(881)	**369 530**
Current tax asset	**14 552**	-	-	-	**14 552**
Advances	**759 013**	-	5 361	5 361	**764 374**
-Provisions	**(60 641)**	(11 586)	(5 361)	(16 947)	**(77 588)**
Accounts receivable	**13 611**	-	-	-	**13 611**
Amounts due by holding company and fellow subsidiary companies	**570 550**	-	-	-	**570 550**
Property and equipment	**48 968**	-	-	-	**48 968**
Deferred income tax asset	**19 394**	2 897	1 340	4 237	**23 631**
Total assets	**1 976 346**	(9 570)	1 340	(8 230)	**1 968 116**
EQUITY AND LIABILITIES					
Liabilities					
Creditors, accruals and provisions	**45 544**	-	-	-	**45 544**
Deposits	**1 647 340**	-	-	-	**1 647 340**
Long term liabilities	**19 939**	-	-	-	**19 939**
Amounts due to holding company and fellow subsidiary companies	**122 643**	-	-	-	**122 643**
Total liabilities	**1 835 466**	-	-	-	**1 835 466**
Equity					
Ordinary shares	**39 124**	-	-	-	**39 124**
Share premium	**9 109**	-	-	-	**9 109**
Reserves	**92 647**	(9 570)	1 340	(8 230)	**84 417**
Total equity	**140 880**	(9 570)	1 340	(8 230)	**132 650**
Total equity and liabilities	**1 976 346**	(9 570)	1 340	(8 230)	**1 968 116**

TRANSITION IMPACT ON STATEMENT OF CHANGES IN EQUITY- IFRS 9

M' 000	Share capital and share premium	General risk reserve	Retained Earnings	Reserves attributable to ordinary equity holders	Total equity
Balance as at 31 December 2017	48 233	14 431	78 215	92 647	140 880
Opening retained earnings adjustment for IFRS 9	-	-	(8 230)	(8 230)	(8 230)
ECL impairment	**-**	**-**	(8 230)	(8 230)	(8 230)
Advances	-	-	(11 586)	(11 586)	(11 586)
Investment securities	-	-	(881)	(881)	(881)
Deposits	-	-	-	-	-
Current tax asset	-	-	-	-	-
Deferred tax asset	-	-	2 897	2 897	2 897
ISP	**-**	**-**	**-**	**-**	**-**
Advances	-	-	-	-	-
Current tax asset	-	-	-	-	-
Deferred tax asset	-	-	1 340	1 340	1 340
Balance as at 1 January 2018	**48 233**	**14 431**	**69 985**	**84 417**	**132 650**

SUMMARY OF DIFFERENCES BETWEEN IAS 39 AND IFRS 9

The table below represents a reconciliation of the statement of financial position under IAS 39 to IFRS 9 and sets out the impact of both the revised classification and measurement requirements of IFRS 9.

M' 000	New classification under IAS 39	Original classification under IFRS 9	IAS 39 carrying amount	ECL impairment	ISP	IFRS 9 carrying amount
ASSETS Cash and cash equivalents			240 488			240 488
Investments securities and other investments	Loans and receivables/Held-to-maturity	Amortised cost	370 411	(881)	-	369 530
Gross Advances	Loans and receivables/Held-to-maturity	Amortised cost	759 013		5 361	764 374
Impairment	Loans and receivables/Held-to-maturity	Amortised cost	(60 641)	(11 586)	(5 361)	(77 588)
Accounts receivable	Loans and receivables	Amortised cost	13 611	-	-	13 611
Amounts due by holding company and fellow subsidiary companies	Loans and receivables	Amortised cost	570 550	-	-	570 550
Property and equipment			48 968	-	-	48 968
Deferred & income tax assets			33 946	2 897	1 340	38 183
Total assets			**1 976 346**	**(9 570)**	**1 340**	**1 968 116**
EQUITY AND LIABILITIES **Liabilities** Creditors, accruals and provisions	Amortised cost	Amortised cost	45 544	-	-	45 544
Deposits	Amortised cost	Amortised cost	1 647 340	-	-	1 647 340
Long term liabilities	Amortised cost	Amortised cost	19 939	-	-	19 939
Amounts due to holding company and fellow subsidiary companies	Amortised cost	Amortised cost	122 643	-	-	122 643
Total liabilities			**1 835 466**	-	**-**	**1 835 466**
Equity adjustment as at 1 January 2018			**140 880**	**(9 570)**	**1 340**	**132 650**

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

M' 000	Notes	**31 December 2018**	31 December 2017
Interest and similar income	1.1	**202 108**	180 485
Interest expense and similar charges	1.2	**(58 257)**	(52 405)
Net interest income before impairment of advances		**143 851**	128 080
Impairment of advances	9	**(40 283)**	(67 350)
Net interest income after impairments of advances		**103 568**	60 730
Non-interest revenue	2	**151 452**	170 180
Income from operations		**255 020**	230 910
Operating expenses	3	**(244 972)**	(259 891)
Profit before income tax		**10 048**	(28 981)
Income tax expense	4	**(3 858)**	7 071
Profit and total comprehensive income for the year		**6 190**	(21 910)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

M' 000	Notes	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	6	**264 534**	240 488
Investments securities and other investments	7	**423 668**	370 411
Current tax asset		**7 003**	14 552
Advances	8	**806 510**	698 372
Accounts receivable	10	**14 584**	13 611
Amounts due by holding company and fellow subsidiary companies	11	**635 346**	570 550
Property and equipment	12	**39 773**	48 968
Deferred income tax asset	13	**24 951**	19 394
Total assets		**2 216 369**	1 976 346
EQUITY AND LIABILITIES			
Liabilities			
Creditors, accruals and provisions	14	**47 838**	36 177
Deposits	15	**1 890 298**	1 647 340
Employee liabilities	16	**8 984**	9 367
Amounts due to holding company and fellow subsidiary companies	11	**114 048**	122 643
Tier 2 liabilities	17	**20 598**	19 939
Total liabilities		**2 081 766**	1 835 466
Equity			
Ordinary shares	18	**39 124**	39 124
Share premium	18	**9 109**	9 109
Reserves		**86 370**	92 647
Total equity		**134 603**	140 880
Total equity and liabilities		**2 216 369**	1 976 346

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

M' 000	Share capital and share premium	General risk reserve*	Retained Earnings	Reserves attributable to ordinary equity holders	Total equity
Balance as at 31 December 2016	**48 233**	**8 142**	**106 414**	**114 557**	**162 790**
Current year movement	-	6 289	(6 289)	-	-
Total comprehensive income for the year	-	-	(21 910)	(21 910)	(21 910)
Balance as at 31 December 2017	**48 233**	**14 431**	**78 215**	**92 647**	**140 880**
Initial adoption of IFRS 9	-	-	(8 230)	(8 230)	(8 230)
Restated balance as at 1 January 2018	48 233	14 431	69 985	84 417	132 650
IFRS 9 impact on Deferred tax accounted for in the current year			(4 237)	(4 237)	(4 237)
Current year movement	-	1 628	(1 628)	-	-
Profit and total comprehensive income for the year	-	-	6 190	6 190	6 190
Balance as at 31 December 2018	**48 233**	**16 059**	**70 310**	**86 370**	**134 603**

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

M' 000	Notes	31 December 2018	31 December 2017
Cash flows from operating activities			
Interest, fees and commission receipts		**313 278**	283 315
Interest payment		**(58 257)**	(52 405)
Other operating expenses		**(229 172)**	**(213 083)**
Cash flows from operating activities		**25 849**	**17 827**
Movements from operating assets and liabilities		**5 056**	**(134 252)**
Liquid assets and trading securities		**(118 934)**	(396 287)
Advances		**(123 203)**	50 940
Deposits		**242 958**	185 525
Creditors (net of debtors)		**10 688**	(8 912)
Employee liabilities		**(383)**	3 007
Other liabilities		**(7 935)**	66 513
Taxation received /(paid)		**1 866**	(35 038)
Net cash generated/ (utilised by) from operating activities		**30 905**	**(116 425)**
Cash flows from investing activities			
Acquisition of property and equipment		**(6 859)**	(15 294)
Net cash outflow from investing activities		**(6 859)**	(15 294)
Decrease in cash and cash equivalents		**24 046**	(131 719)
Cash and cash equivalents at the beginning of the year	6	**240 488**	372 207
Cash and cash equivalents at the end of the year	6	**264 534**	240 488

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2018

1. Analysis of interest income and interest expense

1.1. Interest and similar income

M' 000	31 December 2018	31 December 2017
Instruments at amortised cost	**202 108**	180 485
Interest and similar income	**202 108**	180 485
Advances	**123 910**	115 576
Overdrafts and cash management accounts	**10 720**	12 411
Term loans	**11 213**	11 023
Instalment sales and hire purchase agreements	**25 790**	24 304
Property finance	**21 215**	18 623
Personal loans	**54 972**	49 215
Cash and cash equivalents	**2 166**	4 180
Investment securities	**29 056**	19 353
Amounts due by holding company and fellow subsidiaries	**46 901**	41 237
Other	**75**	139
Interest and similar income	**202 108**	180 485

1.2. Interest expense and similar charges

M' 000	31 December 2018	31 December 2017
Instruments at amortised cost	**(58 257)**	(52 405)
Interest expense and similar charges	**(58 257)**	(52 405)
Deposits from customers		
- Current accounts	**(9 579)**	(4 679)
- Savings deposits	**(4)**	(15)
- Call deposits	**(17 740)**	(17 235)
- Fixed and notice deposits	**(28 480)**	(28 057)
Tier 2 liabilities	**(2 454)**	(2 419)
Interest expense and similar charges	**(58 257)**	(52 405)

2. Non-interest revenue

M' 000	31 December 2018	31 December 2017
Fee and commission income		
-Instruments at amortised cost	**151 452**	170 180
Total non-interest revenue	**151 452**	170 180
Net fee and commission income		
Income		
Card commissions	**2 261**	252
Cash deposit fee	**38 206**	58 487
Commissions: bills, drafts and cheques	**3 186**	3 102
Exchange commissions	**1 348**	2 314
Bank charges	**95 169**	97 459
Other non-banking fee and commission income	**12 792**	7 933
Expenses		
Other non-banking fee and commission income	**(13 637)**	(11 573)
Net fee and commission income	**139 325**	157 974
Other non-interest revenue		
Amounts due by holding company and fellow subsidiaries	**5 369**	7 076
Other non-interest revenue	**6 758**	5 130
Other non-interest revenue	**12 127**	12 206
Total non-interest revenue	**151 452**	170 180

3. Operating expenses

M' 000	31 December 2018	31 December 2017
Auditors remuneration	**(1 342)**	(2 153)
- Audit fees	**(1 342)**	(1 280)
- Fees for other services	**-**	(873)
Operating lease charges	**(14 060)**	(14 373)
Staff costs	**(72 299)**	(70 060)
- Salaries, wages and allowances	**(54 280)**	(54 543)
- Contributions to employee benefit funds	**(8 036)**	(7 317)
- Share based payments	**(1 525)**	(2 924)
- Other staff costs	**(8 458)**	(5 276)
Other operating costs	**(157 271)**	(173 305)
- Depreciation of property and equipment	**(14 706)**	(14 903)
- Insurance	**(1 356)**	(1 406)
- Advertising and marketing	**(2 029)**	(1 273)
- Maintenance	**(3 107)**	(6 097)
- Property	**(10 129)**	(9 721)
- Computer	**(4 736)**	(5 132)
- Stationery	**(2 348)**	(2 506)
- Telecommunications	**(3 105)**	(4 752)
- Professional fees	**(27)**	(2 199)
- Expenses paid to holding company and fellow subsidiaries	**(96 071)**	(105 285)
- Other operating expenditure	**(19 657)**	(20 031)
Total operating expenses	**(244 972)**	(259 891)

4. Income tax expense

M' 000	31 December 2018	31 December 2017
Current income tax	**(9 415)**	1 140
- Current year	**(7 241)**	1 140
- Prior year adjustment	**(2 174)**	-
Deferred income tax	**5 557**	5 931
- Current year	**5 557**	5 931
Total Income tax expense	**(3 858)**	7 071

Tax rate reconciliation

M' 000	31 December 2018	31 December 2017
Standard rate of income tax	25	25
Total tax has been affected by:		
Disallowed expenditure	1	-
Other non-deductible amounts	46	(21)
Effective rate of tax	72	4

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

31 December 2017						
M '000	Loans and receivables	Held to maturity	Non-financial instruments	Total carrying value	Current	Non-current
Assets						
Cash and cash equivalents	240 488	-	-	240 488	240 488	-
Investment securities	-	370 411	-	370 411	264 463	105 948
Current tax asset	-	-	14 552	14 552	14 552	-
Advances	698 372	-	-	698 372	203 275	495 097
Accounts receivable	13 611	-	-	13 611	13 611	-
Amounts due by holding company and fellow subsidiaries	570 550	-	-	570 550	570 550	-
Property and equipment	-	-	48 968	48 968	-	48 968
Deferred income tax asset	-	-	19 394	19 394	-	19 394
Total Assets	**1 523 021**	**370 411**	**82 914**	**1 976 346**	**1 306 939**	**669 407**

5.2. Analysis of liabilities

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

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

31 December 2017					
M '000	Financial liabilities	Non-financial instruments	Total carrying value	Current	Non-current
Liabilities					
Creditors, accruals and provisions	36 177	-	36 177	36 177	-
Deposits	1 647 340	-	1 647 340	1 559 332	88 008
Employee liabilities	-	9 367	9 367	5 387	3 980
Amounts due by holding company and fellow subsidiaries	122 643	-	122 643	122 643	-
Tier 2 liabilities	19 939	-	19 939	-	19 939
Total liabilities	**1 826 099**	**9 367**	**1 835 466**	**1 723 539**	**111 927**

6. Cash and cash equivalents

M’ 000	**31 December 2018**	31 December 2017
Coins and bank notes	**173 907**	180 649
Money at call and short notice	**32 103**	7
Balances with central banks	**58 524**	59 832
Total cash and cash equivalents	**264 534**	240 488
Mandatory reserve balances included above	**47 938**	57 831

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

7. Investment securities

M' 000	**31 December 2018**	31 December 2017
Treasury bills	**117 254**	264 463
Government bonds	**307 294**	105 948
ECL provision for impairment	**(881)**	
Total investment securities	**423 668**	370 411

8. Advances

M' 000	31 December 2018	31 December 2017
Notional value of advances	**882 216**	759 013
Gross value of advances	**882 216**	759 013
Category analysis		
Overdrafts and cash managed accounts	**63 747**	90 642
Term loans	**156 697**	64 749
Instalment sales and hire purchase agreements	**187 870**	177 373
Property finance	**195 645**	177 818
Personal loans	**278 257**	248 431
Gross value of advances	**882 216**	759 013
Impairment of advances	**(75 706)**	(60 641)
Net advances	**806 510**	698 372

Analysis of instalment sale, hire purchase and lease payments receivable

M' 000	31 December 2018			31 December 2017		
	Instalment sale, hire purchase and lease payments receivable	Less: unearned finance charges	Net	Instalment sale, hire purchase and lease payments receivable	Less: unearned finance charges	Net
Within 1 year	**9 460**	**(465)**	**8 995**	21 357	(1 044)	20 313
Between 1 and 5 years	**196 733**	**(41 179)**	**155 554**	181 095	(35 716)	145 379
More than 5 years	**34 588**	**(11 267)**	**23 321**	19 355	(5 783)	13 572
Sub total	**240 781**	**(52 911)**	**187 870**	221 807	(42 543)	179 264
Less: Interest in suspense	**-**	**-**	**-**	-	-	(1 891)
Total net instalment sale, hire purchase and lease payments receivable	**-**	**-**	**187 870**	-	-	177 373

Under the terms of the lease agreements, no contingent rentals are payable. The agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectable minimum lease payments receivable included in the allowance for impairments at the reporting date is M 8,376,742 (2017: M 13,368,774)

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

M '000	Total	Stage 1	Stage 2	Stage 3
Amount as at 31 December 2017 (IAS 39)	759 013	666 600	35 183	57 229
IFRS 9 adjustments	5 361	-	-	5 361
Amount as at 31 December 2017 (IFRS 9)	**764 374**	**666 600**	**35 183**	**62 590**
Transfers to stage 1	-	31 352	(30 111)	(1 241)
Transfers to stage 2	-	(63 685)	65 801	(2 116)
Transfers to stage 3	-	(2 813)	(6 303)	9 116
Acquisition/ disposal of subsidiaries	-	-	-	-
Disposal of advances	-	-	-	-
Bad debts written off	(52 069)	-	-	(52 069)
Changes due to modifications that did not result in derecognition	-	-	-	-
New business and other changes in exposures	169 911	72 057	82 089	15 765
Amount as at 31 December 2018	**882 216**	**703 511**	**146 659**	**32 046**

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

Significant changes in the gross carrying amount that contributed to changes in the loss allowance include a change in the treatment of ISP.

9. Impairment of advances

M' 000	31 December 2018	31 December 2017
Analysis of movement in impairment of advances		
Opening balance	**60 641**	32 734
IFRS 9 Restatement	**16 947**	-
Amounts written off	**(34 941)**	(51 613)
Net new impairment created / (released)	**33 059**	79 520
Closing balance	**75 706**	60 641
(Increase) / decrease in impairment	**33 059**	79 520
Recoveries of bad debts previously written off	**(8 399)**	(12 170)

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

M '000	Total	Stage 1	Stage 2	Stage 3
Amount as at 31 December 2017 (IAS 39)	60 641	7 623	16 607	36 411
IFRS 9 adjustments - ECL	11 586	4 725	6 861	-
IFRS 9 adjustments - ISP	5 361			5 361
Amount as at 31 December 2017 (IFRS 9)	**77 588**	**12 348**	**23 468**	**41 772**
Transfers to stage 1	-	7 528	(7 353)	(175)
Transfers to stage 2	-	(8 771)	9 218	(447)
Transfers to stage 3	-	(1 595)	(3 836)	5 431
Bad debts written off	(34 941)	-	-	(34 941)
Increase/(decrease) in impairment	**33 059**	**5 262**	**14 717**	**13 080**
- Changes in models and risk parameters	(3 716)	(3 774)	(689)	747
- New business and changes in exposure	27 891	8 401	3 733	15 758
- Changes in economic forecasts	5 887	6 783	2 575	(3 471)
- Provision created/(released) due to transfers	2 997	(6 148)	9 098	46

Amount as at 31 December 2018	**75 706**	**14 770**	**36 216**	**24 720**
Overdrafts and cash managed accounts	14 737	1 281	9 790	3 666
Term loans	6 461	360	3 199	2 902
Instalment sales and hire purchase agreements	19 487	4 209	6 901	8 377
Property finance	18 024	6 350	10 866	808
Personal loans	16 495	2 369	5 159	8 967
Off Balance sheet exposure	502	201	301	-

Significant changes in the gross carrying amount that contributed to changes in the loss allowance include change in the treatment of ISP.

The total amount of undiscounted expected credit losses at initial recognition on purchased or originated credit impaired financial assets recognised during the reporting period is M12.5 million.

At the end of the financial year ended 31 December 2018, loans on which no coverage was calculated because of collateral held amounted to M591 million.

IMPAIRMENT OF ADVANCES continued

Reconciliation of the loss allowance per segment – Retail

M '000	Total	Stage 1	Stage 2	Stage 3
Amount as at 31 December 2017 (IAS 39)	30 005	4 300	11 426	14 279
IFRS 9 adjustments - ECL	5 528	416	5 112	-
IFRS 9 adjustments - ISP	2 002			2 002
Amount as at 31 December 2017 (IFRS 9)	**37 535**	**4 716**	**16 538**	**16 281**
Transfers to stage 1	-	1 790	(1 615)	(175)
Transfers to stage 2	-	(5 273)	5 361	(88)
Transfers to stage 3	-	(1 051)	(1 865)	2 916
Bad debts written off	(21 611)	-	-	(21 611)
Increase/(decrease) in impairment	**20 417**	**8 677**	**(2 636)**	**14 376**
- Changes in models and risk parameters	(6 085)	(3 650)	(4 255)	1 820
- New business and changes in exposure	22 107	8 196	3 003	10 908
- Changes in economic forecasts	6 665	5 299	972	394
- Provision created/(released) due to transfers	(2 270)	(1 168)	(2 356)	1 254
Amount as at 31 December 2018	**36 341**	**8 859**	**15 783**	**11 699**

IMPAIRMENT OF ADVANCES continued

Reconciliation of the loss allowance per segment – Commercial

M '000	Total	Stage 1	Stage 2	Stage 3
Amount as at 31 December 2017 (IAS 39)	15 165	2 604	3 798	8 763
IFRS 9 adjustments - ECL	1 023	609	414	-
IFRS 9 adjustments - ISP	1 939	-	-	1 939
Amount as at 31 December 2017 (IFRS 9)	**18 127**	**3 213**	**4 212**	**10 702**
Transfers to stage 1	-	3 427	(3 427)	-
Transfers to stage 2	-	(630)	648	(18)
Transfers to stage 3	-	(209)	(1 244)	1 453
Bad debts written off	(12 477)	-	-	(12 477)
Increase/(decrease) in impairment	**13 131**	**(4 132)**	**12 278**	**4 985**
- Changes in models and risk parameters	(731)	(1 294)	(396)	958
- New business and changes in exposure	3 208	(411)	(121)	3 739
- Changes in economic forecasts	4 643	1 317	3 297	29
- Provision created/(released) due to transfers	6 014	(3 744)	9 498	259
Amount as at 31 December 2018	**18 781**	**1 669**	**12 467**	**4 645**

IMPAIRMENT OF ADVANCES continued

Reconciliation of the loss allowance per segment – Corporate

M '000	Total	Stage 1	Stage 2	Stage 3
Amount as at 31 December 2017 (IAS 39)	15	15	-	-
IFRS 9 adjustments	-	-	-	-
Amount as at 31 December 2017 (IFRS 9)	**15**	**15**	**-**	**-**
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	(1 953)	1 953	-
Transfers to stage 3	-	-	-	-
Bad debts written off	-	-	-	-
Increase/(decrease) in impairment	**1 083**	**1 974**	**(891)**	**-**
- Changes in models and risk parameters	(9)	(9)	-	-
- New business and changes in exposure	1 074	1 965	(891)	-
- Changes in economic forecasts	18	18	-	-
- Provision created/(released) due to transfers	-	-	-	-
Interest in suspense	-	-	-	-
Amount as at 31 December 2018	**1 098**	**36**	**1 062**	**-**

IMPAIRMENT OF ADVANCES continued

Reconciliation of the loss allowance per segment – Wesbank

M '000	Total	Stage 1	Stage 2	Stage 3
Amount as at 31 December 2017 (IAS 39)	15 456	704	1 383	13 369
IFRS 9 adjustments - ECL	5 035	3 700	1 335	-
IFRS 9 adjustments - ISP	1 420			1 420
Amount as at 31 December 2017 (IFRS 9)	**21 911**	**4 404**	**2 718**	**14 789**
Transfers to stage 1	-	2 311	(2 311)	-
Transfers to stage 2	-	(915)	1 256	(341)
Transfers to stage 3	-	(335)	(727)	1062
Bad debts written off	(853)	-	-	-
Increase/(decrease) in impairment	**(1 572)**	**(1 257)**	**5 966**	**(6 281)**
- Changes in models and risk parameters	3 110	1 179	3 962	(2 031)
- New business and changes in exposure	1 504	(1 349)	1 742	1 111
- Changes in economic forecasts	5 439	149	(1 694)	(3 894)
- Provision created/(released) due to transfers	(747)	(1 236)	1 956	(1 467)
Interest in suspense	-	-	-	-
Amount as at 31 December 2018	**19 486**	**4 208**	**6 902**	**8 376**

10. Accounts receivable

M' 000	31 December 2018	31 December 2017
Items in transit	**2 438**	2 973
Prepayments	**6 427**	3 814
Accounts receivable	**5 719**	6 824
Closing balance	**14 584**	13 611

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

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

M' 000	**31 December 2018**	31 December 2017
Amounts due by holding company	635 346	570 550
Total amount due by holding company and fellow subsidiaries	**635 346**	570 550
Amounts due to fellow subsidiaries	114 048	122 643
Total amount due to holding company and fellow subsidiaries	**114 048**	122 643

12. Property and equipment

M' 000	Property - Leasehold Premises	Computer equipment	Office equipment	Other equipment	Total
Net book value as at 1 January 2017	**24 806**	**11 082**	**6 466**	**7 392**	**49 747**
- Cost	57 268	19 294	12 885	20 420	109 867
- Accumulated depreciation and impairment	(32 462)	(8 212)	(6 419)	(13 027)	(60 119)
Movement for the year	**394**	**(1 940)**	**(1 072)**	**1 839**	**(780)**
- Acquisitions	7 587	1 581	1 060	5 128	15 356
- Disposals	(1 073)	-	(97)	-	(1 170)
- Depreciation charge for the year	(6 120)	(3 521)	(2 034)	(3 289)	(14 965)
Net book value as at 31 December 2017	**25 201**	**9 141**	**5 394**	**9 231**	**48 968**
- Cost	63 782	20 875	13 847	25 548	124 052
- Accumulated depreciation and impairment	(38 580)	(11 734)	(8 453)	(16 317)	(75 085)
Movement for the year	**(5 334)**	**1 318**	**(1 542)**	**(3 637)**	**(9 195)**
- Acquisitions	533	5 402	231	693	6 859
- Disposals	-	-	-	(2 035)	(2 035)
-Depreciation charge for the year	(5 867)	(4 084)	(1 773)	(2 295)	(14 019)
Net book value as at 31 December 2018	**19 868**	**10 459**	**3 852**	**5 594**	**39 773**
- Cost	64 315	26 277	14 079	24 206	128 877
- Accumulated depreciation and impairment	(44 448)	(15 818)	(10 226)	(18 612)	(89 104)

13. Deferred income tax

Movement in deferred income tax account is shown below.

M' 000	31 December 2018	31 December 2017
Deferred income tax asset		
Opening balance	**19 394**	13 463
IFRS 9	**4 237**	5 931
All other temporary differences recognised in profit or loss	**1 320**	-
Total deferred income tax asset	**24 951**	19 394

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

M '000	As at 31 December		Recognised in income statement	
	2018	2017	2018	2017
Deferred income tax asset				
Provision for loan impairment	**18 927**	15 160	**3 767**	6 977
Other provisions	**3 590**	3 622	**(32)**	(203)
Property and equipment	**2 434**	612	**1 822**	(842)
Total deferred tax income tax asset	**24 951**	19 394	**5 557**	5 932

14. Creditors, accruals and provisions

M' 000	31 December 2018	31 December 2017
Accounts payable	**37 989**	19 840
Operating lease liability arising from straight lining of lease payments	**1 475**	1 746
Accrued expenses	**4 473**	11 218
Audit fees accrued	**1 299**	1 417
Provisions (including litigations and claims)	**2 602**	1 956
Total creditors, accruals and provisions	**47 838**	36 177

Reconciliation of provisions

M' 000	31 December 2018	31 December 2017
Opening balance	**1 956**	-
Charge to profit or loss	**646**	1 956
- Additional provisions created	**1 443**	11 741
Utilised	**(797)**	(9 785)
Closing balance	**2 602**	1 956

15. Deposits

M' 000	31 December 2018	31 December 2017
Deposits from customers		
- Current accounts	**842 909**	729 664
- Call deposits	**395 504**	408 292
- Savings accounts	**2 467**	14
- Fixed and notice deposits	**649 369**	509 315
- Other deposits from customers	**49**	55
Deposits	**1 890 298**	1 647 340

16. Employee liabilities

M' 000	31 December 2018	31 December 2017
Liability for short term employee benefits	**6 355**	5 387
Share based payment liability	**2 629**	3 980
Total employee liabilities	**8 984**	9 367

17. Tier 2 liabilities

M' 000	31 December 2018	31 December 2017
Subordinated debt held with FirstRand Limited *(Loan nominal value: LSL 20 million Interest rate: 3 months JIBAR plus 500 basis points Loan term: 10 years)*	20 598	19 939
Tier 2 liabilities	**20 598**	**19 939**

18. Share Capital and share premium

M' 000	31 December 2018	31 December 2017
Ordinary shares		
Authorised		
50 000 000 shares with a par value of M 1 per share		
Issued		
39 123 970 (2016: 39 123 970) ordinary shares with a par value of M 1 per share	**39 124**	39 124
All issued share capital is fully paid up		
Ordinary share premium	**9 109**	9 109
Total issued ordinary share capital and share premium	**48 233**	48 233

19. Remuneration schemes

M' 000	31 December 2018	31 December 2017
The charge to profit or loss for share-based payments is as follows:		
Conditional share plan	1 525	2 924
Amount included in profit or loss	**1 525**	**2 924**

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

Description of schemes and vesting conditions:

Conditional share scheme	
IFRS 2 treatment	Cash settled
Description	The conditional award comprises a number of full shares with no strike price.

Conditional share scheme	
Vesting conditions	These awards vest after three years. The number of shares that vest is determined by the extent to which the performance conditions are met. Conditional awards are made annually and vesting is subject to specified financial and non-financial performance targets set annually by the group's remuneration committee. These corporate performance targets (CPTs) are set out below.
Valuation methodology	The conditional share plan (CSP) is valued using the Black Scholes option pricing model with a zero strike price. The scheme is cash settled and is therefore repriced at each reporting date.
Valuation assumptions	
Dividend data	Management's estimates of future discrete dividends.
Market related	Interest rate is the risk-free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan.
Employee related	The weighted average forfeiture rate used is based on historical forfeiture data over all schemes and takes cognisance of whether the shares are in or out the money and the vesting date.

The group also has a bonus conditional incentive. These incentives are the same as those described above except that they are subject to vesting conditions that are either based on continuous employment over the performance period or continuous employment over the performance period and the fulfilment of certain performance conditions. These awards vest over two years.

Corporate performance targets

The FirstRand Limited group remuneration committee sets the CPTs based on the expected prevailing macroeconomic conditions anticipated during the performance period for the group's long-term incentive schemes, the conditional share plan and the conditional incentive plan. These criteria, which must be met or exceeded to enable vesting, vary from year-to-year, depending on the macro conditions expected to prevail over the vesting period.

In terms of the scheme rules, participants are not entitled to any dividends on their conditional share schemes during the performance period, nor do these accrue to them during the performance period.

The criteria for the expired and currently open schemes are as follows:

Expired schemes

2015 (vested in September 2018) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 1% growth on a cumulative basis over a three-year period, from base year end 30 June 2015 to the financial year end immediately preceding the vesting date. In addition, ROE must be equal to or greater than cost of equity plus 5% over the three-year performance period. Should nominal GDP plus 1% not be achieved, remuneration committee may sanction a partial vesting of conditional shares, which is calculated pro rata to the performance which exceeds nominal GDP.

Currently open

2016 (vests in 2019) - FirstRand Limited must achieve growth in normalised earnings per share which equals or exceeds the South African Nominal Gross Domestic Product (“GDP”) growth, on a cumulative basis, over the performance period from the base year-end, being 30 June 2016, to the financial year-end immediately preceding the vesting date. Nominal GDP is advised by the FirstRand Limited Group Treasury macro strategy unit and the Company delivers ROE of 18-22% over the performance period.

2017 (vests in 2020) - FirstRand Limited must achieve growth in normalised earnings per share, adjusted for CPI, which equals or exceeds the South African Real Gross Domestic Product (“GDP”) growth, on a cumulative basis, over the performance period from the base year-end, being 30 June 2017, to the year-end immediately preceding the vesting date. Real GDP is advised by the FirstRand Limited Group Treasury macro strategy unit and the company delivers ROE of at least 18% over the performance period.

2018 (vests in 2021) - FirstRand Limited must achieve growth in normalised earnings per share which equals or exceeds the South African CPI plus Real Gross Domestic Product (“GDP”) growth, on a cumulative basis, over the performance period from the base year-end, being 30 June 2018, to the year-end immediately preceding the vesting date. If Real GDP is negative, then growth in normalised earnings should equal or exceed CPI over the same period. CPI and Real GDP is advised by the FirstRand Limited Group Treasury, macro strategy unit and the company delivers ROE of at least 18% over the performance period.

	Conditional Share Plan	
	31 December 2018	**31 December 2017**
Option life (years)	3	3
Risk free rate (%)	7.27 - 7.49	6.92 - 7.46
Expected dividend yield (%)	-	-
Expected dividend growth (%)	-	-

	Conditional share plan	
Options and share awards outstanding	**31 December 2018**	**31 December 2017**
Number of options and share awards in force at the beginning of the year (millions)	0.160	0.167
Number of options and share awards granted during the year (millions)	0.075	0.043
Number of options and share awards transferred (within the group) during the year (millions)	(0.012)	0.010
Number of options and share awards exercised/released during the year (millions)	(0.018)	(0.025)
- Market value range at date of exercise/release (cents)	6 662 - 6 662	5 500 - 5 500
- Weighted average (cents)	6 662	5 500
Number of options and share awards cancelled/lapsed during the year (millions)	-	(0.035)
Number of options and share awards in force at the end of the year (millions)	0.205	0.160

	Conditional share plan			
	31 December 2018		31 December 2017	
Options and share awards outstanding	**Weighted average remaining life (years)**	**Outstanding option (millions)**	Weighted average remaining life (years)	Outstanding option (millions)
Vesting during 2018			0.81	0.040
Vesting during 2019	0.73	0.055	1.81	0.065
Vesting during 2020	1.72	0.075	2.80	0.055
Vesting during 2021	2.71	0.075		
Total options and share awards	-	0.205	-	0.160
Number of participants	-	13	-	14

20. Contingencies and commitments

M' 000	**31 December 2018**	31 December 2017
Guarantees	**23 106**	58 272
Total contingencies	**23 106**	58 272
Irrevocable commitments	**51 877**	67 671
Committed capital expenditure	**11 175**	33 522
Operating lease commitments	**26 033**	21 976
Contingencies and commitments	**112 191**	181 441
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.		
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors.	**11 175**	33 522
Guarantees		
Guarantees consist predominantly of endorsements and performance guarantees.	**23 106**	58 272

20.1. Commitments under operating leases where the bank is the lessee

The bank's significant operating leases relate to property rentals of office premises and the various branch network channels represented by branches and ATMs. The rentals have fixed monthly payments. Escalation clauses are based on market related rates and vary between 6% and 10%.

The leases are usually from a period of one to 3 years. The leases are non-cancellable and certain of the leases have an option to renew for a further leasing period at the end of the original lease term.

Restrictions are more an exception than the norm and usually relate to the restricted use of the asset for the business purposes specified in the lease contract.

M' 000	**31 December 2018**	31 December 2018
Office Premises		
Within 1 year	**10 916**	6 936
Between 1 and 5 years	**15 118**	15 040
More than 5 years	**-**	-
Total operating lease commitments	**26 034**	21 976

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 2018			
	Total carrying amount	Fair value hierarchy		
		Level 1	Level 2	Level 3
Assets				
Advances	**806 510**	-	-	**920 168**
Investment securities and other investments	**423 668**		423 668	
Total assets at amortised cost	**806 510**	-	-	**920 168**
Liabilities				
Deposits	**1 890 274**	-	**1 960 140**	-
Total liabilities at amortised cost	**1 890 274**	-	**1 960 140**	**-**

M' 000	31 December 2017			
	Total carrying amount	Fair value hierarchy		
		Level 1	Level 2	Level 3
Assets				
Advances	698 372	-	-	692 895
Investment securities and other investments	370 411		370 411	
Total assets at amortised cost	**698 372**	**-**	**-**	**692 895**
Liabilities				
Deposits	1 647 340	-	1 657 853	-
Total liabilities at amortised cost	**1 647 340**	**-**	**1 657 853**	**-**

22. Related party transactions

Balances with related parties

M' 000	31 December 2018	31 December 2017
Advances		
Key management personnel	8 772	8 942
Accounts receivable		
Holding company	3 329	4 881
Fellow subsidiaries	1 165	1 272
Amounts due by holding company and fellow subsidiaries		
Holding company	630 835	570 550
Tier 2 liabilities		
Holding company	20 598	19 939
Deposits		
Key management personnel	367	454
Accounts payable		
Holding company	23 787	15 244
Amounts due to holding company and fellow subsidiaries		
Fellow subsidiaries	90 261	122 643

Transactions with related parties

M' 000	31 December 2018	31 December 2017
Interest received		
Holding Company	46 901	41 237
Key management personnel	561	331
Interest paid		
Holding Company	2 454	2 419
Key management personnel	4	6
Non-interest revenue		
Holding company	5 369	7 076
Operating expenses		
Holding company	96 071	105 285
Salaries and other employee benefits		
Key management personnel		
- Salaries and other short-term benefits	17 973	15 832
- Share based payments	1 958	2 792

23. Standards and Interpretations issued but not yet effective

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

Standard	Impact Assessment	Effective date
IFRS 9	**Financial Instruments** **Prepayment features with Negative Compensation** The IASB issued a narrow-scope amendment to IFRS 9 to enable companies to measure at amortised cost some prepayable financial assets with negative compensation. The assets affected, that include some advances and debt securities which would otherwise be measured at FVTPL. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the pre-payment amount could be less than the unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be a reasonable compensation for early termination of the contract.	Annual periods commencing on or after 1 January 2019
IFRS 16	**Leases** IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 will be effective for the bank from 1 January 2019. The accounting treatment of leases by the lessee will change fundamentally. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead there is a single on-balance sheet model that is similar to the current finance lease accounting with the exception of low value and short-term leases. Lessor accounting remains similar to current accounting, whereby the lessor continues to classify leases as finance or operating leases. There are enhance disclosure requirements for lessors in terms of IFRS 16. The biggest impact of the standard will be on lessee accounting because of the requirement for lessees to recognise an asset and corresponding liability in respect of operating leases. Under the current standard on leases, operating lease payments were expensed by the lessee when incurred, with no recognition on the statement of financial position. IFRS 16 requires that at the commencement date of the lease (regardless of whether it is finance or operating lease), a lessee shall recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payment. The exceptions available for lessees are leases of a short term (less than 12 months) or low-value assets. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17; however, there are also enhanced disclosure requirements for lessors. To prepare for implementation the bank has established several working groups whom will be responsible for the implementation of the different elements of the new standard and work has commenced.	Annual periods commencing on or after 1 January 2019

	IFRS 16 is expected to impact the banks' recognition of future operating lease commitments of circa M 24.1 million.	
IAS 19	**Employee Benefits** **Plan Amendment, Curtailment or Settlement** The amendments require an entity to use the updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and to recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that impact was not previously recognised because of the impact of the asset ceiling. Changes In the terms or membership of a defined benefit plan may result in a plan amendment or a curtailment or settlement. IAS 19 requires an entity to determine the amount of any past service cost, or gain or loss on settlement, by remeasuring the net defined liability before and after the amendment, using current assumptions and the fair value plan assets at the time of the amendment. If the net defined liability is remeasured to determine past service cost or the gain or loss on curtailment or settlement, current service cost and net interest for the remainder of the period is remeasured using the same assumptions and the same fair value of the plan assets. This means that the amounts which would've ended up in profit or loss in the period after the amendment will be changed. A plan amendment, curtailment or settlement might reduce or eliminate a surplus, which could change the effect of the asset ceiling. Past service cost, or a gain or loss on settlement is recognised in profit or loss. This reflects the substance of the transaction because a surplus which has been used to settle an obligation or provide additional benefits is recovered. The impact on the asset ceiling is recognised on other comprehensive income and is not reclassified to profit or loss. The impact of this amendment is to confirm that these effects are not offset.	Annual periods commencing on or after 1 January 2019
IFRIC 23	**Uncertainty over Income Tax Treatments** This interpretation is to be applied to the determination of taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. When considering that the filing deadlines for tax returns and financial statement may be months apart, IFRIC 23 may require more rigour when finalising the judgements about the amounts to be included in the tax return before the financial statements are finalised. The bank has always been in compliance with the guidance issued by the IFRIC.	Annual periods commencing on or after 1 January 2019
Conceptual framework	The improvements to the conceptual framework include: revising the definitions of an asset and liability, updating the recognition criteria for including assets and liabilities in financial statements and the following concepts have been clarified; prudence, stewardship, measurement uncertainty and substance over form.	Annual periods commencing on or after 1 January 2020
Annual Improvements 2015-2017 cycle	**Improvements to IFRS** The IASB issued the Annual Improvements to IFRS Standards 2015-2017 Cycle. These annual improvements include amendments to the following standards: ➢ IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The	Annual periods commencing on or after 1 January 2019

	amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. ➢ IFRS 15 – The IASB has provided guidance on the principal vs agent assessments, as well as practical expedients on transition • The IASB has clarified that the principal in an arrangement controls a good or service before it is transferred to a customer. The amendments make targeted improvements to clarify the relationship between the control principle to services. The IASB also revised the structure of the indicators so that they indicated when the entity is the principal rather than indicates when it is an agent, and eliminates two of the indicators – "the entity's consideration is in the form of a commission" and "the entity is not exposed to credit risk" • The amendments introduce two new practical expedients to simplify transition. One expedient allows entities to use hindsight at the beginning of the earliest period presented or the date of initial application to account for contract modifications before that date. The second expedient allows entities applying the full retrospective method to elect not to restate contracts that are completed at the beginning of the earliest period presented. ➢ IAS 12 - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises. IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.	

24. Financial Risk Management

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

Overview of financial risks	
Credit Risk	Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads.

<table>
<tr><td rowspan="2"></td><td colspan="2"></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 (24.1.1);
➢ information about the quality of credit assets (24.1.2);
➢ exposure to concentration risk (24.1.3); and
➢ credit risk mitigation and collateral held (24.1.4).</td></tr>
<tr><td rowspan="2">Liquidity risk</td><td colspan="2">Liquidity risk is the risk that the bank is unable to meet its obligations when those fall due and payable. It is also the risk of not being able to realise assets when to meet repayment obligations in a stress scenario.</td></tr>
<tr><td>Liquidity risk arises from all 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 (24.2.1);
➢ discounted cash flow analysis of total assets and liabilities (24.2.2); and
➢ concentration analysis of deposits (24.2.2).</td></tr>
<tr><td>Market Risk</td><td colspan="2">The bank distinguishes between market risk in the trading book and non-traded market risk. For non-traded market risk, the bank distinguishes between interest rate risk in the banking book and structural foreign exchange risk.

Market risk in the trading book is the risk of adverse revaluation of any financial instrument as a consequence of changes in the market prices or rates.</td></tr>
<tr><td></td><td>Interest rate risk in the banking book (31.4.1) originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.</td><td>The following information is presented for interest rate risk in the banking book:
➢ projected NII sensitivity to interest rate movements; and
➢ banking book NAV sensitivity to interest rate movements as a percentage of total bank capital.</td></tr>
</table>

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.

24.1. Credit risk

24.1.1. Credit assets

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

M' 000	31 December 2018	31 December 2017
On-balance sheet exposure		
Cash and short-term funds		
- Money at call and short notice	**32 102**	7
- Balances with central bank	**58 524**	59 832
Gross advances	**882 216**	759 013
Accounts receivable	**14 584**	13 611
Amounts due by holding company and fellow subsidiaries	**635 346**	570 550
Investments securities and other investments	**424 548**	370 411
Off-balance sheet exposure		
Financial and other guarantees	**23 106**	58 272
Loan commitments not drawn	**51 877**	67 671
Total	**2 122 303**	1 899 367

24.1.2. Quality of credit assets

Age analysis of advances

M' 000	31 December 2018
Stage 1	**703 511**
Stage 2	**146 660**
Stage 3	**32 045**
Total	**882 216**

M' 000	31 December 2017
Neither past due nor impaired	666 600
One full instalment past due	22 536
Two full instalments past due	12 647
Impaired (NPLs)	57 230
Total	759 013

The following table provides the credit quality of advances in the in-force portfolio.

Credit quality of advances (all stages)

M' 000	31 December 2018
FR 1 - 25*	**1**
FR 26 - 90*	**801 211**
Above FR 90*	**81 004**
Total	**882 216**

Credit quality of performing advances (neither past due or impaired)

M' 000	31 December 2017
FR 1 - 25*	98 240
FR 26 - 90*	566 141
Above FR 90*	2 219
Total	666 600

**Credit quality is a measure on an FR scale of 1 to 100, 1 being low risk customer and 100 being highest risk customer.*

Analysis of impaired advances (NPLs)

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

	31 December 2017		
M' 000	Total net of interest in suspense	Security held and expected recoveries	Specific impairment
NPLs by category			
Overdrafts and cash management accounts	13 911	6 956	6 955
Term loans	8 100	5 000	3 100
Instalment sales and hire purchase agreements	20 226	6 857	13 369
Property finance	2 597	2 095	501
Personal loans	12 396	(89)	12 486
Total	57 230	20 819	36 411

Credit quality of other financial assets (excluding advances)

31 December 2018					
M' 000	Treasury bills	Treasury bonds	Cash and short-term funds	Accounts receivable	Total
B+/B	117 254	307 294	58 526	-	**483 074**
Unrated	-	-	206 008	14 584	**220 592**
Total	**117 254**	**307 294**	**264 534**	**14 584**	**703 666**

31 December 2017					
M' 000	**Treasury bills**	**Treasury bonds**	**Cash and short-term funds**	**Accounts receivable**	**Total**
B+/B	264 463	105 948	59 839	13 611	**443 861**
Unrated	-	-	-	-	-
Total	**264 463**	**105 948**	**59 839**	**13 611**	**443 861**

The age analysis of financial instruments included in accounts receivable is provided in the table below.

31 December 2018				
M' 000	Stages			Total
	Stage 1	Stage 2	Stage 3	
Items in transit	2 489	-	-	2 498
Other accounts receivable	12 086	-	-	12 086
Total financial accounts receivable	**14 584**	**-**	**-**	**14 584**

31 December 2017						
M' 000	Neither past due nor impaired	Past due but not impaired			Impaired	Total
		1 - 30 days	31 - 60 days	61 - 90 days		
Items in transit	2 973	-	-	-	-	2 973
Other accounts receivable	10 638	-	-	-	-	10 638
Total financial accounts receivable	**13 611**	**-**	**-**	**-**	**-**	**13 611**

24.1.3. Concentration risk

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

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

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

Geographical concentration of significant asset exposure

M' 000	31 December 2018	31 December 2017
	Lesotho	Lesotho
On-balance sheet exposure		
Cash and short-term funds	264 534	240 488
Total advances	806 510	698 372
Accounts receivable	14 584	13 611
Off-balance sheet exposure		
Guarantees, acceptances and letters of credit	23 106	58 272

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 NPLs.

M' 000	31 December 2018			
		NPLs		
	Total advances	**Total**	**Security held and expected recoveries**	**Specific impairment**
Agriculture	6 871	850	370	480
Financial Institutions	127 598	-	-	-
Building and property development	55 742	3 123	519	2 604
Government land bank and public authority	13 077	258	-	258
Individuals	510 639	17 678	3 307	14 371
Manufacturing and commerce	85 891	3 476	1 323	2 153
Mining	3 450	67	-	67
Transport and communication	23 529	1 317	362	955
Other services	55 419	5 276	1 444	3 831
Gross value of advances	**882 216**	**32 045**	**7 325**	**24 719**
Impairment and fair value of credit advances	(75 706)			
Net advances	**806 510**			

M' 000	31 December 2017			
		NPLs		
	Total advances	**Total net of interest in suspense**	**Security held and expected recoveries**	**Specific impairment**
Agriculture	6 569	29	8	21
Financial Institutions	10 992	-	-	--
Building and property development	65 755	18 303	7 312	10 991
Individuals	453 418	19 508	2 212	17 297
Manufacturing and commerce	118 381	10 697	8 840	1 857
Mining	1 393	-	-	-
Transport and communication	31 940	1 145	656	489
Other services	70 565	7 547	1 791	5 756
Gross value of advances	**759 013**	**57 229**	**20 819**	**36 411**
Impairment and fair value of credit advances	(60 641)			
Net advances	**698 372**			

24.1.4. Credit risk mitigation and collateral held

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

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

Credit risk mitigation instruments

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

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

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

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

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

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

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.

24.2. Liquidity risk

24.2.1. Undiscounted cash flow

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

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

	31 December 2018			
		Term to maturity		
M' 000	Carrying amount	Call - 3 months	4 - 12 months	> 12 months and non-contractual
On-balance sheet amounts				
Deposits and current accounts	1 890 297	1 709 979	163 581	16 737
Creditors, accruals and provisions	47 838	6 367	18 365	23 106
Tier 2 liabilities	20 598	598	-	20 000
Amounts due to holding company and fellow subsidiaries	114 049	114 049	-	-
Off-balance sheet amounts				
Financial and other guarantees	23 106	23 106	-	
Operating lease commitments	23 034	2 724	8 191	15 118
Facilities not drawn	51 877	51 877	-	-

	31 December 2017			
		Term to maturity		
M' 000	Carrying amount	Call - 3 months	4 - 12 months	> 12 months and non-contractual
On-balance sheet amounts				
Deposits and current accounts	1 647 340	1 481 770	77 561	88 009
Creditors, accruals and provisions	36 177	4 874	9 887	21 416
Tier 2 liabilities	19 939	-	-	19 939
Amounts due to holding company and fellow subsidiaries	122 643	122 643	-	-
Off-balance sheet amounts				
Financial and other guarantees	58 272	58 272	-	-
Operating lease commitments	21 976	6 936	-	15 040
Facilities not drawn	67 670	67 670	-	-

Concentration analysis of deposits

M' 000	**31 December 2018**	31 December 2017
Sector analysis		
Deposits, current accounts and other loans		
Sovereigns, including central bank		
Public sector entities	**60 698**	47 149
Banks	**162 536**	201 416
Corporate customers	**840 125**	544 011
Retail customers	**537 742**	545 759
Other	**289 197**	309 005
Total deposits	**1 890 298**	1 647 340
Geographical analysis		
Lesotho	**1 890 298**	1 647 340

24.3. Non-traded market risk

24.3.1. Interest rate risk in the banking book

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

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

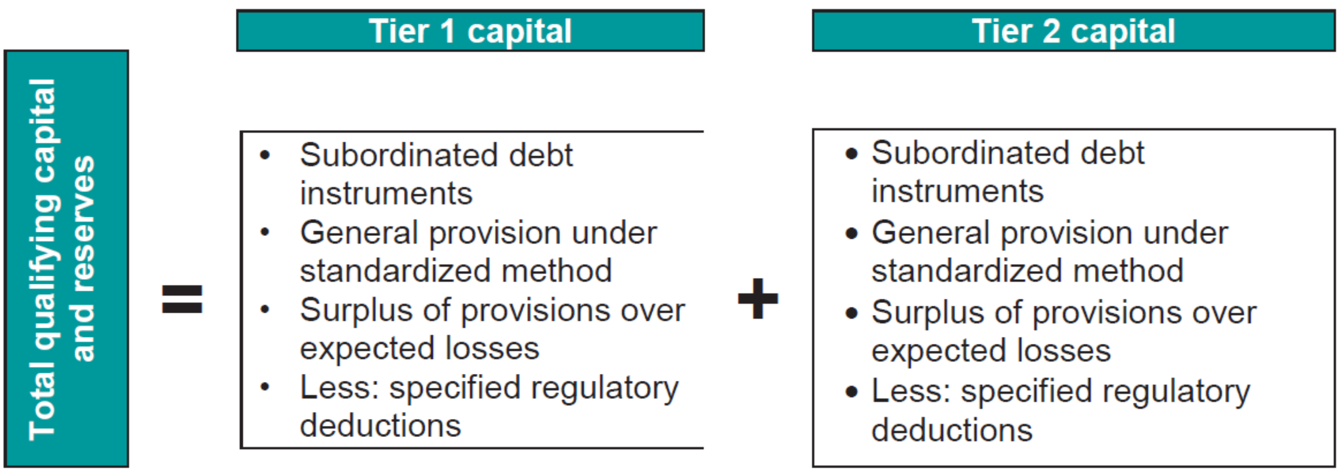
Most of NII sensitivity is a result of the endowment book mismatch. The bank's average endowment book was M784m for the year (2017: M745m).

Projected Maloti NII sensitivity to interest rate movements

M' 000	**31 December 2018**	31 December 2017
Downward 200bps	**9 300**	6 320
Upward 200bps	**8 040**	5 070

Assuming no change in the balance sheet and no management action in response to interest rate movements, an instantaneous, sustained parallel 200 bps decrease in interest rates would result in a reduction in projected 12-month NII of M9 300 (2017: M6 320). A similar increase in interest rates would result in an increase in projected 12-month NII of M8 040 (2017: M5 070).

24.4. 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 below 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 2018.

	Tier 1	Tier 2	Total qualifying capital
Internal targets - local capital requirement	16%	4%	20%
Internal targets - Group capital requirement	11%	3%	14%

The following table shows the composition of regulatory capital and ratios of the bank at 31 December 2018. The bank complied with all capital requirements which are prescribed by the Financial Institutions Act 2012.

M' 000	31 December 2018	31 December 2017
Share capital and premium	48 233	48 233
Retained earnings	92 647	78 215
Total qualifying Tier 1 capital	140 880	126 448
General debt provision	14 343	13 246
Perpetual debt instrument	16 000	20 000
Total qualifying Tier 2 capital	30 343	33 246
Total regulatory capital	171 223	159 694
Risk weighted assets	1 070 004	997 851
Capital adequacy ratio	16%	16%
Minimum capital ratio per Financial Institutions Act 2012	8%	8%

25. 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.