Nedbank Lesotho Limited

(Registration number I92/191)

Financial statements for the year ended 31 December 2021

General Information

Country of incorporation and domicile	Lesotho
Registered office	115-117 Griffith Hill Kingsway Street Maseru 100
Postal address	P. O. Box 1001 Maseru 100
Holding company	Nedbank Group Limited incorporated in Republic of South Africa
Auditors	LETACC Firm of Chartered Accountants Number 7 Arrival Centre Kofi Annan Road Maseru 100
Company Secretary	Ms. Mojabeng Matsau
Legal advisors	Webber Newdigate

Contents

Audit Committee Report

1. Members of the Audit Committee

The members of the audit committee are independent non-executive directors of the bank except as indicated below:

Name	Designation	
Mr. Sebehela Selepe	Chairperson	Independent Non-Executive
Mr. Tsiu Khathibe	Member	Independent Non-Executive
Ms. Kandis Swanepoel	Member	Non-Executive

The committee is satisfied that the members thereof have the required knowledge and experience as set out in the Companies Act no 18 of 2011.

2. Meetings held by the Audit Committee

The Audit committee performs the duties laid upon it by the Companies Act no 18 of 2011 by holding meetings with the key role players on a regular basis and by the unrestricted access granted to the external auditor.

The committee held four scheduled meetings during 2021 and all the members of the committee attended all the meetings.

3. External auditors

The Audit committee has nominated Letuka Accounting Firm T/A LETACC Firm of Chartered Accountants as the independent auditors and Mr Letuka Sephelane as the designated partner, who is a chartered registered auditor, for appointment of the 2021 audit. Certain specified account balances and other audit procedures have been subcontracted to Deloitte and Touche, South Africa.

The committee satisfied itself through enquiry that the external auditor is independent as defined by the Companies Act no 18 of 2011 and as per the standards stipulated by the auditing profession. Requisite assurance was sought and provided by the Companies Act no 18 of 2011 that internal governance processes within the firm support and demonstrate the claim to independence.

The audit committee in consultation with executive management, agreed to the terms of the engagement. The audit fee for the external audit has been considered and approved taking into consideration such factors as the timing of the audit, the extent of the work required and the scope.

4. Financial statements

Following the review of the financial statements the Audit committee recommend Board approval thereof.

On behalf of the Audit committee

Mr. Sebehela Selepe

Chairman of the Audit Committee

Directors' Responsibilities and Approval

The directors are required in terms of the Companies Act no 18 of 2011 and Financial Institutions Act no 3 of 2012 to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the bank as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditor is engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the bank and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the bank and all employees are required to maintain the highest ethical standards in ensuring the bank's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the bank is on identifying, assessing, managing and monitoring all known forms of risk across the bank. While operating risk cannot be fully eliminated, the bank endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have noted the continued impact Covid 19 pandemic in 2021 which resulted in subdued economic activity resulting in amongst others: muted demand for credit by corporate clients. This posed challenges for the bank to meet its performance targets. However, performance is expected to turnaround with the opening up of the economy due to high levels of vaccinations. The bank continues to be adequately capitalised with strong liquidity position for sustainability.

The external auditors are responsible for independently auditing and reporting on the bank's financial statements. The financial statements have been examined by the bank's external auditor and their report is presented on pages 7 to 9.

The financial statements set out on pages 10 to 51, which have been prepared on the going concern basis, were approved by the board of directors on 25 March 2022 and were signed on their behalf by:

By Order of the Board

Mr. Sebehela Selepe	Mr. Nkau Matete
Chairman of the Audit Committee	**Managing Director**

Directors' Report

The directors have pleasure in submitting their report on the financial statements of Nedbank Lesotho Limited for the year ended 31 December 2021

1. Incorporation

The bank was incorporated on 02nd January 1997 and was re-registered as per the Companies Act no 18 of 2011 on the 01st August 2014.

The bank is domiciled in Lesotho where it is incorporated as a public company under the Companies Act no 18 of 2011 and issued a banking licence under the Financial Institutions Act No.3 of 2012. The address of the registered office is set out on page 1.

2. Nature of business

Nedbank Lesotho Limited carries out commercial banking business. The bank recorded profit after tax for the year of M28.1m, an increase of 5% over previous year's profit after tax of M26.7m.

There have been no material changes to the nature of the bank's business from the prior year.

3. Review of financial results and activities

The financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act no 18 of 2011. The accounting policies have been applied consistently compared to the prior year.
Full details of the financial position, results of operations and cash flows of the company are set out in these financial statements.

4. Share capital

	2021 M'000	2020 M'000
Authorised		
Ordinary shares	30 000	30 000
Issued		
Ordinary shares (20 000 000 at M1.00 each)	20 000	20 000
Split as follows:		
Majority Shareholder (Nedbank Group Limited)	19 999.99	20 000
Minority Shareholder (Nedgroup Investments Africa Limited)	0.01	-

There have been no changes to the authorised or issued share capital during the year under review. There was, however, a sale of 10 issued ordinary shares by Nedbank Group Limited to Nedgroup Investments Africa limited completed on 08 September 2021.

5. Dividends

Depending on the perceived need to retain funds for expansion or operating purposes, the board of directors may pass on the payments of dividends but no dividends were declared on 2021 profits due to the poor financial performance (2020; M23.779million dividends were declared but not paid per regulatory restrictions induced by Covid-19).

Directors' Report (cont'd)

6. Directorate

The directors in office at the date of this report are as follows:

Directors	Appointment Date	Designation
Mr. Ashley Sutton-Pryce	August 2017	Acting Chairperson
Mr. Tsiu Khathibe	May 2018	Independent Non-Executive
Mr. Sebehela Selepe	June 2020	Independent Non-Executive
Mr. Thulo Mokete	July 2020	Independent Non-Executive
Ms. Likentso Jankie	May 2021	Independent Non-Executive
Ms. Kandis Swanepoel	August 2017	Non-Executive
Mr. Nkau Matete	July 2019	Managing Director

Ms Likentšo Jankie was appointed in May 2021. Ms Jankie was also nominated to be the Chairperson of the Risk and Capital Management Committee.

7. Holding company

The bank's holding company is Nedbank Group Limited which holds 99.99995% (2020: 100%) of the bank's equity. Nedbank Group Limited is incorporated in Republic of South Africa. Nedgroup Investments Africa Limited holds the remaining 0.00005% in Nedbank Lesotho.

8. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

9. Company Secretary

The company secretary is Ms Mojabeng Matsau.

10. Terms of appointment of the auditors

LETACC Firm of Chartered Accountants were appointed as the bank's auditors at the general meeting held on Friday, 08 March 2019.Certain specified account balances and other audit procedures have been subcontracted to Deloitte and Touche South Africa. Shareholder wishing to inspect a copy of the terms on which the bank's auditor is appointed and remunerated may do so by contacting the Company Secretary.

11. Date of authorisation for issue of financial statements

The financial statements set out on pages 10 to 51, which have been prepared on the going concern basis, were approved by the board of directors on 25 March 2022, and were signed on its behalf by:

Approval of financial statements

Mr. Sebehela Selepe
Chairman of the Audit Committee

Mr. Nkau Matete
Managing Director

LETACC FIRM
OF CHARTERED ACCOUNTANTS

LETUKA ACCOUNTING FIRM
Reg. No 2013/1462
BUSINESS CONSULTANTS
VAT Registration Number 50013895
TIN 200016558 - 5
P.O. Box 2368
Maseru 102
Lesotho

Number 7 Arrival Centre
Kofi Annan Road
Maseru, 100
Email: reception@letacc.co.ls
Tel: (+266) 2231 4504 / 2232 0072

sephelanel@letacc.co.ls
Fax: (+266) 223 20071
Cell: (+266) 5885 2357

Independent Auditor's Report

To the Shareholder of Nedbank Lesotho Limited

Opinion

We have audited the financial statements of Nedbank Lesotho Limited set out on 10 to 51, which comprise the statement of financial position as at 31 December 2021, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nedbank Lesotho Limited as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of both the Companies Act no 18 of 2011 and Financial Institutions Act number 3 of 2012.

Basis for Opinion

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Nedbank Lesotho Limited financial statements for the year ended 31 December 2021", which includes the Directors' Report and the Audit Committee's Report and Audit Committee's Report as required by the Companies Act no 18 of 2011 of Lesotho. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an 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 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 Companies Act no 18 of 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on 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 on 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

LETACC Firm of Chartered Accountants
Letuka Sephelane C.A. (L)
Director
Chartered Registered Auditor

25 March 2022

7 Arrival Centre
Kofi Annan Road
Maseru 100
Lesotho

Statement of Financial Position as at 31 December 2021

	Note(s)	2021 M '000	2020 M '000
Assets			
Cash and Cash Equivalents	13	2 745 852	2 363 749
Amounts Due from Banks	8	219 670	502 052
Non-Pledged Trading Assets		117 793	16 126
Derivative Assets		-	9 412
Loans and Advances	11	1 360 402	1 368 707
Current Tax Asset	9	11 653	19 945
Deferred Tax Asset	7	26 200	25 548
Other Assets	5	11 876	22 597
Property, Plant and Equipment	2	54 752	60 779
Right of Use Assets	3	16 911	22 807
Intangible assets	4	472	492
Total Assets		**4 565 581**	**4 412 214**
Equity and Liabilities			
Equity			
Share capital	14	20 000	20 000
Reserves	15	47 454	47 454
Retained earnings		536 663	512 672
Equity Attributable to ordinary shareholder		**604 117**	**580 126**
Non-controlling Interest (NCI)		-	-
Total Equity		**604 117**	**580 126**
Liabilities			
Deposits from Banks	10	1 068 067	666 014
Deposits from Customers	16	2 686 067	2 986 398
Derivative Liabilities		-	8 442
Deferred Revenue	18	18 178	15 180
Other Liabilities	17	169 758	131 080
Lease Liabilities	3	19 394	24 974
Total Liabilities		**3 961 464**	**3 832 088**
Total Equity and Liabilities		**4 565 581**	**4 412 214**

Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2021 M '000	2020 M '000
Interest Revenue	19	244 975	304 276
Interest Expense	20	(72 566)	(112 244)
Net Interest Income		**172 409**	**192 032**
Non-Interest Revenue	21	107 128	94 088
Impairment of Loans and Advances	22	(26 780)	(35 364)
Staff Costs		(83 018)	(80 893)
Depreciation and Amortisation		(17 174)	(17 559)
Other operating expenses	23	(118 509)	(116 959)
Profit before taxation		**34 056**	**35 345**
Taxation	24	(5 927)	(8 675)
Profit for the year		**28 129**	**26 670**
Attributable to Non-controlling Interests (NCI)		-	-
Attributable to Ordinary Shareholders		**28 129**	**26 670**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Re-measurements on net defined benefit liability/asset	6	(4 138)	(772)
Deferred Tax		-	216
Total items that will not be reclassified to profit or loss		**(4 138)**	**(556)**
Other comprehensive income for the year net of taxation		(4 138)	(556)
Total comprehensive income for the year		**23 991**	**26 114**
Attributable to Non-controlling Interest		-	-
Total Comprehensive Income Attributable to Ordinary Shareholders		**23 991**	**26 114**

Statement of Changes in Equity

	Share capital M '000	Statutory Reserve M '000	Revaluation reserve M '000	Total Reserves M '000	Retained income M '000	Total Equity M '000	Non-Controlling Interest M '000	Ordinary Shareholders Equity M '000
Balance at 31 December 2019	**20 000**	**20 000**	**19 385**	**39 385**	**486 774**	**546 159**	**-**	**546 159**
Dividends Paid	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	26 670	26 670	-	26 670
Re-measurement of defined benefit liability	-	-	-	-	(772)	(772)	-	(772)
Revaluation of Bank Properties	-	-	8 069	8 069	-	8 069	-	8 069
Balance at 31 December 2020	**20 000**	**20 000**	**27 454**	**47 454**	**512 672**	**580 126**	**-**	**580 126**
Dividends Paid	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	28 129	28 129	-	28 129
Re-measurement of defined benefit plan	-	-	-	-	(4 138)	(4 138)	-	(4 138)
Revaluation of Bank Properties	-	-	-	-	-	-	-	-
Balance at 31 December 2021	**20 000**	**20 000**	**27 454**	**47 454**	**536 663**	**604 117**	**-**	**604 117**
Note(s)	14	15	15	15				

The accounting policies on pages 14 to 29 and the notes on pages 30 to 51 form an integral part of the financial statements.

Accounting Policies

Statement of Cash Flows

	Note(s)	2021 M '000	2020 M '000
Cash flows from operating activities			
Cash generated from operations	25	**221 737**	**230 450**
Interest Received		244 975	304 276
Interest Paid		(72 566)	(112 244)
Tax paid		-	(10 080)
		394 146	**412 402**
Cash flows from investing activities			
Purchase of property, plant and equipment		(2 707)	(7 568)
Disposal Proceeds		32	7
Purchase of other intangible assets		-	(470)
		(2 675)	**(8 031)**
Cash flows from financing activities			
Dividends paid		-	-
Lease payments		(9 368)	(11 513)
		(9 368)	**(11 513)**
Total cash movement for the year		**382 103**	**392 858**
Cash at the beginning of the year		2 363 749	1 970 891
Total cash at end of the year	13	**2 745 852**	**2 363 749**

Accounting Policies

Corporate information

Nedbank Lesotho Limited is a public limited company incorporated and domiciled in Lesotho. The bank registered office is:

1st Floor
Nedbank Building
115-117 Griffith Kingsway Road
Maseru

The financial statements for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the directors on 25 March 2022.

1. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

1.1 Basis of preparation

The financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these financial statements and the Companies Act No 18 of 2011.

These financial statements are presented in Maloti which is the bank's functional currency.

The financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36.

Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2021 is set out below in relation to the following notes in relation to other areas:

- Note 2 - Land and buildings are recognised at the fair value based on external valuations
- Note 3 – estimation of incremental borrowing for IFRS 16 leases
- Note 7 – Deferred tax;
- Note 12 – Financial Risk Management:
  - determination of the fair value of financial instruments with significant unobservable inputs
  - recognition and measurement of contingencies, key assumptions about the likelihood and magnitude of an outflow of resources.

1.2 Property, plant and equipment

Property, plant and equipment are tangible assets which the bank holds for its own use which are expected to be used for more than one year.

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the bank, and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets in respect of hedge accounting, where appropriate.

Expenditure incurred subsequently for major services, additions to or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the bank and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

Subsequent to initial recognition, property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses. Land and buildings are recognised at the revalued amount, which is based on external valuations obtained every three years on a rotation basis for all properties

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the bank. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Standard Computer Equipment and Software	Straight line	3 years
Specialised Computer Equipment and Software	Straight line	10 years
Auto Teller Machine	Straight line	5 years
Motor Vehicle	Straight line	6 years
Furniture and Fittings	Straight line	10 years
Plant and Equipment	Straight line	5 years
Mechanised Equipment	Straight line	5 years
Freehold Property	Straight line	50 years
Leasehold Property	Straight line	5 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

1.2 Property, plant and equipment (continued)

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.3 Leases

The Bank assesses whether a contract is or contains a lease, at inception of a contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the "incremental borrowing rate".

The 'incremental borrowing rate' is determined as follows:

- the bank's cost of funds
- Adjust the cost of funds with the liquidity premium used in the JIBAR Spread on Nedbank SA NCDs (Quoted on Bloomberg)
- Adjust the cost of funds with Credit Default Swaps spreads based on the country's NGR rating

Lease payments included in the measurement of the lease liability comprise:

- fixed rental payments.
- Any variable lease payments not included in the fixed rentals of the lease liability are classified as operating expenses

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The bank re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed; or
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised borrowing rate.

The Bank made such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The bank applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Accounting Policies

1.4 Intangible assets

Computer Software

If costs can be reliably measured and future economic benefits are available, expenditure on computer software is capitalised and stated at cost less accumulated amortisation and impairment losses. Amortisation of computer software is charged to profit or loss on a straight-line basis over the estimated useful lives of these assets. Subsequent expenditure relating to computer software is capitalised only when it increases the future economic benefits embodied in the specific asset, in its current condition, to which it relates. All other subsequent expenditure is recognised as an expense in the period in which it is incurred. On the disposal of computer software, the profit or loss on disposal is recognised in non-trading and capital items (in the statement of profit or loss and other comprehensive income). The profit and loss on disposal is the difference between the net proceeds received and the carrying amount of the asset.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Useful life
Computer Software	3 years

1.5 Financial Instruments

Financial assets and financial liabilities

IFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities.

i) **Recognition and initial measurement**

The Bank initially recognises loans and advances, deposits and debt securities issued on the date they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

ii) **Classification**

Financial assets

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

1.5 Financial instruments (continued)

i) **Classification**

Financial assets

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminate or significantly reduces an accounting mismatch that would otherwise arise.

a) Fair value through profit or loss (FVTPL), distinguishing between those designated into that category and those mandatorily measured at FVTPL.
b) Fair value through other comprehensive income (FVTOCI) and;
c) Amortized cost.

Business models for managing financial assets

i) Held-to-collect business model (measured at amortised cost) where the following are met:

a) The objective is to collect contractual cash flows over life of loan.
b) There is infrequent or insignificant sales incidental to objective of business model.
c) Sales consistent with objective if in response to credit deterioration (sale of non-performing loan assets).

ii) Held-to-collect-and-sell business model (measured at FVTOCI) where the following are met:

a) Both collecting contractual cash flows and sales are integral to business model.
b) There is more frequent and/or significant level of sales, however not trading.

iii) Residual (measured at FVTPL) when the following are met:

a) Subsequent measurement of financial assets. Business model is neither a held-to-collect business model nor a held-to-collect-and-sell business model.
b) Collection of contractual cash flows are incidental to the objective of the model.

Subsequent Measurement
The following accounting policies apply to the subsequent measurement of financial assets.

Financial Assets	Subsequent measurement
Financial assets at FVTPL	Fair value through other comprehensive income
Financial assets at amortised cost	Amortised cost using the effective interest method.

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Bank, are measured in accordance with the specific accounting policies.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is held for trading or designated as at FVTPL. A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking.

1.5 Financial instruments (continued)

Financial liabilities

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Gains or losses on financial guarantee contracts issued by the Bank that are designated by the Bank as at FVTPL are recognised in profit or loss.

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not held for trading, or designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

1.5 Financial instruments (continued)

Amortised cost measurement

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset. The Bank classifies its financial assets in one of the following categories:

Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e., the fair value of the consideration given or received. If the bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Identification and measurement of impairment

The Bank recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost and financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Accounting Policies

1.5 Financial instruments (continued)

Identification and measurement of impairment

The Bank recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward -looking information.

The Bank primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. overdraft), the date when the facility was first entered into could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment.

Despite the foregoing, the Bank assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default;
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Bank considers a financial asset to have low credit risk when the asset has an rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Bank becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Bank considers the changes in the risk that the specified debtor will default on the contract.

Definition of default

The Bank will consider financial assets to be in default when:

- The borrower is unlikely to pay its credit obligation to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- The borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

1.5 Financial instruments (continued)

Definition of default

This definition is largely consistent with the definition that will be used for regulatory purposes. In assessing whether a borrower is in default, the Bank will consider indicators that are:

- Qualitative e.g., breaches of covenant
- Quantitative e.g., overdue status and non-payment of another obligation of the same issuer to the Bank; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or past due event; or
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Measurement and Recognition of Expected Credit Losses

The measurement of expected credit losses is a function of the probability of default (PD), loss given default (LGD) and the exposure at default (EAD).

PD are estimates at a certain date, which are calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposure. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposure and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models considers the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by physical property, loan to value (LTV) ratios are key parameters in determining LGD.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is the gross carrying amount at default. For lending commitments and financial guarantees, the EAD of a financial asset is the gross carrying amount at default, as well as potential future amounts that can be drawn or repaid under the contract which is estimated based on historical observation and forward-looking forecasts.

If the Bank has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Bank measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

At each reporting date the Bank assesses whether there is objective evidence that financial assets not measured at fair value though profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Accounting Policies

1.5 Financial instruments (continued)

Measurement and Recognition of Expected Credit Losses

Objective evidence that financial assets are impaired includes:

a) Significant financial difficulty of the borrower or issuer.

b) Default or delinquency by a borrower;

c) The restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider;

d) Indications that a borrower or issuer will enter bankruptcy;

e) The disappearance of an active market for a security, or

f) (f) Observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

IFRS 9 Expected Credit Loss (ECL) model is forward looking. These ECL estimates incorporates forward-looking information, such as macroeconomic forecasts, which are updated at each reporting date to reflect changes in the credit risk of the underlying financial instruments.

Classification of financial assets in three different stages, which determine the ECL quantification approach:

- Stage 1: Financial assets without objective evidence of impairment, for which the credit risk at reporting date has not significantly increased since initial recognition.
- Stage 2: Financial assets without objective evidence of impairment, for which the credit risk at reporting date has significantly increased since initial recognition.
- Stage 3: Financial assets with objective evidence of impairment.

Financial assets in stage 1 are subject to a 12-month ECL, i.e. ECL on possible default events in the next 12 months from the reporting date, whereas financial assets in stage 2 are subject to a (higher) lifetime ECL, i.e. ECLs on any possible default event between the reporting date and the end of the lifetime of the financial asset.

Financial assets in stage 3 are also subject to a lifetime ECL. However, ECL is based on the difference between the gross carrying amount of the asset and the present value of estimated future cash flows, including expected realisations of any security held, discounted at the original effective interest rate of the financial asset, as the asset is already in default.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of the impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

1.5 Financial instruments (continued)

Write Off Policy

The Bank writes off a loan, either partially or in full, and any related allowance for impairment losses, when Bank Credit determines that there is no realistic prospect of recovery.

Derecognition

Financial assets

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminate or significantly reduces an accounting mismatch that would otherwise arise. The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest recognized in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position but retains either all risks or rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions because the Bank retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of the financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to serve the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria.

Accounting Policies

1.5 Financial instruments (continued)

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire

Designation at Fair Value Through Profit or Loss

The Bank has designated financial assets and financial liabilities as fair value through profit and loss in either of the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise

1.6 Loans and Advances

Loans and advances to banks are classified as financial assets at amortised cost.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. When the Bank chooses to designate the loans and advances as measured at fair value through profit or loss, they are measured at fair value with face value changes recognised immediately in profit or loss.

1.7 Deposits

Deposits are the Bank's sources of debt funding.

Deposits are initially measured are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank designates liabilities at FVTPL.

1.8 Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

1.9 Impairment of Non-Financial Assets

The bank assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the bank estimates the recoverable amount of the asset. Irrespective of whether there is any indication of impairment, the bank also:

- Tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.
- If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.
- The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.
- If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.
- An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

1.9 Impairment of Non-Financial Assets (continued)

- The bank assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.
- A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.10 Share Capital and Equity

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of par value is classified as 'share premium' in equity. Dividends are recognised as a liability of the bank in which they are declared and approved by shareholders. Incremental costs directly attributed to the issue of ordinary shares are recognised as a deduction from equity, net of tax effects.

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

1.11 Taxation

Taxation expense, recognised in the statement of profit and loss and other comprehensive income, comprises both current and deferred taxation. Income or direct taxation is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, in which case it too is recognised in equity.

- **Current taxation**

  Current taxation, recognised in the statement of profit and loss and other comprehensive income, is the expected tax payable on the taxable income for the year, using taxation rates enacted or substantively enacted as at the balance sheet date, and any adjustment to taxation payable (prior period tax paid) in respect of previous years.

- **Deferred taxation**

  Deferred taxation is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective taxation bases. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities and is measured at the taxation rates (enacted or substantively enacted at the reporting date) that are expected to be applied to the temporary differences when they reverse.

  Deferred taxation is recognised in profit or loss for the period, except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination that is accounted for as acquisition. The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss for the period, except to the extent that it relates to items previously charged or credited directly to equity.

  Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

  Deferred taxation is not recognised for the following temporary differences: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will not reverse in the foreseeable future.

Accounting Policies

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.
Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the bank's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method.
Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested and are otherwise amortised on a straight-line basis over the average period until the amended benefits become vested.

Actuarial gains or losses within the corridor are not recognised.

Actuarial gains and losses are recognised in the year in which they arise, in other comprehensive income.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the bank is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In profit or loss, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.13 Provisions and Contingencies

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Accounting Policies

1.14 Foreign Currency Transactions

Transactions in foreign currencies are translated into Maloti at the date of the transaction by applying the spot exchange rate ruling at the transaction date to the foreign currency amounts.
Monetary assets and liabilities in foreign currencies are translated into Maloti at the spot exchange rate ruling at the balance sheet date.

Exchange differences that arise on the settlement or translation of monetary items are recognised in profit or loss in the period that they arise.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into Maloti using the foreign exchange rates ruling at the dates when the fair values were determined.

Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are converted into Maloti at the spot exchange rate ruling at the date of the transaction and are not subsequently retranslated. Exchange differences on non-monetary items are recognised consistently with the gains and losses that arise on such items. For example, exchange differences relating to an item for which gains, and losses are recognised directly in equity are recognised in equity. Conversely, exchange differences for non-monetary items for which gains, and losses are recognised in profit or loss are recognised in profit or loss.

1.15 Interest

Interest income and expense are recognised in profit or loss using the nominal interest rate method. The effective interest rate will be used being the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank will estimate future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Interest income and expense presented in the statement of profit or loss and other comprehensive income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis. Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value-added taxation.

1.16 Non-interest revenue

The Bank recognizes revenue to depict the transfer of goods or services to clients at an amount that the entity expects to be entitled to in exchange for those goods or services. Revenue is recognized based on the satisfaction of performance obligations. The Bank follows this five-step process: identify the contract with a client; identify the separate performance obligations in the contract; determine the transaction price; allocate the transaction price to the separate performance obligations; and recognize revenue when (or as) each performance obligation is satisfied.

Fees and commission

The Bank earns fees and commissions from a range of services it provides to clients and these are accounted for as follows: Income earned on the execution of a significant act is recognised when the significant act has been performed.

Income earned from the provision of services is recognised as the service is rendered by reference to the stage of completion of the service.

Income that forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in interest income.

Net trading income

Net trading income comprise all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest, expense, costs and dividends. Interest earned while holding trading securities and interest incurred on trading liabilities are reported within non-interest revenue.

Accounting Policies

1.16 Non-interest revenue (continued)

Other

Fair value gains or losses on financial instruments at fair value through profit or loss, including derivatives, are included in noninterest revenue. These fair value gains or losses are determined after deducting the interest component, which is recognised separately in interest income and expense.

Gains or losses on de-recognition of any financial assets or financial liabilities are included in non-interest revenue.

1.17 Financial Guarantees and Commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

ECL on financial guarantees and loan commitments is measured as the present value of expected payments to reimburse the holder less any amount that the Bank expects to recover.

Notes to the Financial Statements

2. Property, Plant and Equipment

	2021			2020		
	Cost or Revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Property	38 912	(14 783)	24 129	38 912	(14 339)	24 573
Capital Work in Progress	2 887	-	2 887	1 663	-	1663
Furniture and Equipment	128 636	(101 098)	27 537	127 754	(93 545)	34 208
Motor vehicles	1 832	(1 633)	199	1 832	(1 497)	335
Total	**172 267**	**117 514**	**54 752**	**170 161**	**109 381**	**60 779**

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Transfers	**Other changes, Movements	Depreciation	Total
Property*	24 573	-	165	-	(609)	24 129
Capital Work in Progress	1 663	1 932	(708)	-	-	2 887
Furniture and Equipment	34 208	775	543	(33)	(7 956)	27 537
Motor vehicles	335	-	-	-	(136)	199
Total	**60 779**	**2 707**	**-**	**(33)**	**(8 701)**	**54 752**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Transfers	**Other changes, Movements	Depreciation	Total
Property	17 124	8 069	-	(13)	(607)	24 573
Capital Work in Progress	1 686	1 658	(1 681)	-	-	1 663
Furniture and Equipment	35 549	5 897	1 681	(535)	(8 384)	34 208
Motor vehicles	305	198	-	-	(168)	335
	54 664	**15 761**	**-**	**(548)**	**(9 159)**	**60 779**

*Valuation of property (owned branches, head office and residential house) was not carried out during the current financial year.

Notes to the Financial Statements

2. **Property, plant and equipment (continued)**

Property, plant and equipment encumbered as security

As at 31 December 2021, there were no restrictions on title for the assets and no assets had been pledged as security (2020: Nil).

Transfers: For Property, transfers relate to re-classification of leasehold improvements that were classified as furniture and fittings. Transfer from Capital work in progress was largely due to capitalization of partitioning of new Maseru Mall VAF offices.

****Other Changes or Movements:** Relates to disposal of two laptops with netbook value of M33 018.

3. **Right of Use Assets**

	2021 M'000	**2020** M'000
Right of Use Assets		
Opening Balance 01 January	22 807	30 590
Net movements*	2 577	618
Depreciation	(8 473)	(8 401)
Closing Balance	**16 911**	**22 807**
Lease Liabilities		
Maturity analysis – contractual undiscounted cash flows		
Less than one year	9 349	10 543
One to five years	11 441	24 854
	20 790	**35 397**
Statement of Financial Position		
Current	9 309	9 997
Non-current	10 085	23 977
	19 394	**24 974**

*New lease for Mapholang ATM and lease modifications (lease term extensions) for Berea Branch and 5 ATMs.

Statement of Profit or Loss		
Expenses:		
Depreciation	8 473	8 401
Lease interest	1 212	1 532

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Notes to the Financial Statements

4. Intangible assets

Amounts in M'000

	2021			2020		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer Software	3 026	(2 552)	472	3 026	(2 534)	492

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Amortisation	Total
Computer Software	492	-	(18)	472

Reconciliation of intangible assets – 2020

	Opening balance	Additions	Amortisation	Total
Computer Software	43	470	(21)	492

5. Other Assets

	2021 M'000	2020 M'000
Remittances in Transit	8 530	19 534
Debtors and Accruals	1 949	2 085
Prepayments	1 397	978
	11 876	**22 597**

6.Employee Benefit

The bank sponsors defined benefit plan for qualifying employees. The defined benefit plans are administered by a separate fund that is legally separate from the bank. The trustees of the pension fund as required by law to act in the interest of the fund and of all relevant stakeholders in the plan. The trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund.

The Bank makes contributions to a defined benefit pension fund that entitles a retired employee to receive an annual pension payment equivalent to 1/60 of final salary for each year of service that the employee provided. The defined benefit pension plan is administered by an independent and legally separate entity. The Board of Trustees is composed of employee and employer representatives who are required to act in the best interests of the plan participants.

	2021 M '000	2020 M '000
Reconciliation of net defined benefit liability		
Current Service Cost	2 748	3,121
Net Interest on Net Defined Benefit Liability	(191)	(34)
Past Service Cost	-	-
Expense / (Income) / recognised in Profit and Loss	(2 558)	(3 087)
Company Contribution	6 694	3 859
Re-measurements Recognised in Other Comprehensive Income	**4 138**	**772**

(Liability) / Asset at the end of the year	-	-
Current year (Gain)/Loss	13 329	4 113
Change in Paragraph 65 Limits	(9 190)	(3 341)
Re-measurement recognised in Other Comprehensive Income	**4 138**	**772**

Key assumptions used

Assumptions used on last valuation on:

Discount rates used	10.0%	9.90%
Salary Inflation	6.60%	5.70%
General Inflation	5.60%	4.70%

Sensitivity information

1% increase in inflation		
Increase in defined benefit obligation (amount)	134 929	13 398
Increase in defined benefit obligation (percentage)	15.0%	15.3%
1% decrease in inflation		
Decrease in defined benefit obligation (amount)	103 278	10 817
Decrease in defined benefit obligation (percentage)	12.0%	12.3%

Notes to the Financial Statements

7. Deferred tax

Movement in Deferred Tax Balances	2021 M '000	2020 M '000
Opening Balance	**25 548**	**18 555**
Charge or Release for the year	652	7 183
Deferred tax liability	-	(190)
	26 200	**25 548**

2021

Amounts in M'000	**Net Balance at 1 Jan 2021**	**Recognised in profit or loss**	**Net balance at 31 Dec 2021**	**Deferred Tax Asset at 31 Dec 2021**	**Deferred Tax Liability at 31 Dec 2021**
Property, Plant and Equipment	(2 694)	1 020	(1 674)	-	(1 674)
Provision for leave pay	894	(143)	751	751	
Provision for bonus	500	(125)	375	375	
Provision for employee share scheme	219	493	712	712	
Provision for Audit Fees	598	33	631	631	
Provision for legal Costs	173	(11)	162	162	
Provision for Retirement Bonus	411	68	479	479	
Provision for Bad Debts	29 530	(683)	28 847	28 847	
Provision for Defined Benefit Plan	(2 280)	-	(2 280)	-	(2 280)
Revaluation of Property	(1 803)	-	(1 803)	-	(1 803)
	25 548	**652**	**26 200**	**31 957**	**(5 757)**

2020

Amounts in M'000	**Net Balance at 1 Jan 2020**	**Recognised in profit or loss**	**Net balance at 31 Dec 2020**	**Deferred Tax Asset at 31 Dec 2020**	**Deferred Tax Liability at 31 Dec 2020**
Property, Plant and Equipment	(447)	(2 247)	(2 694)	-	(2 694)
Provision for leave pay	396	499	894	894	
Provision for bonus	875	(375)	500	500	
Provision for employee share scheme	259	(40)	219	219	
Provision for Audit Fees	229	368	598	598	
Provision for legal Costs	148	25	173	173	
Provision for Retirement Bonus	389	22	411	411	
Provision for Bad Debts	20 599	8,931	29 530	29 530	
Provision for Defined Benefit Plan	(2 090)	(190)	(2 280)	-	(2 280)
Revaluation of Property	(1 803)	-	(1 803)	-	(1 803)
	18 555	**6 993**	**25 548**	**32 325**	**(6 777)**

	2021 M '000	**2020** M '000
8. Amounts Due from Banks		
Foreign Banks (Correspondent Banks)	**219 670**	**502 052**

	2021 M '000	2020 M '000
9. Current Tax Receivable		
Balance at the beginning of the year	19 945	15 512
Instalments paid during the year	-	10 080
Withholding tax	2 926	9 995
Current year charge	(6 579)	(15 641)
Other Movements*	(4 639)	-
Net Tax Receivable	**11 653**	**19 945**

* Other movements relate to an adjustment processed to align the Bank's tax balance with the Lesotho Revenue Authority's records balance following the reconciliation exercise completed in October 2021.

	2021 M '000	2020 M '000
10. Deposits from Banks		
Call and Current Accounts	913 678	666 014
Placements (Fixed Deposits)	154 388	-
	1 068 067	**666 014**
11. Loans and Advances		
11.1 Category Analysis		
Performing Loans		
Overdrafts	201 002	166 603
Instalment credit	204 522	230 383
Loans	989 949	1 011 908
	1 395 473	1 408 894
Non-Performing Loans		
Irregular Accounts	79 438	77 932
Total Loans and Advances (Gross)	**1 474 911**	**1 486 826**
Impairment of Loans and Advances	(114 509)	(118 119)
	1 360 402	**1 368 707**

11.2 Sector Analysis

Concentrations of credit risk (whether on or off statement of financial position) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by industry and type of customer in relation to the Bank's loans and advances to customers and banks.

An analysis of the statement of financial position by economic sector and credit risk concentrations are presented in the table below in M'000:

Individual loans and overdraft	481 298	432 717
Business Loans:		
Manufacturing	8 588	10 766
Construction	121 853	99 407
Wholesale and Trade	13 646	3 218
Retailers, Catering and Accommodation	119 645	79 511
Mining and Quarrying	105 890	157,963
Transport, Storage and Communication	45 892	19 696
Government and Public Sector	62 453	44 126
Others	515 645	639 423
	1 474 911	**1 486 826**

Notes to the Financial Statements

	2021 M '000	2020 M '000
11. Loans and Advances (continued)		
11.3 Allowance for Impairments		
Balance at the Beginning of the Year	118 119	85 254
Impairment Raised During the Year	34 318	43 635
Bad Debts Written-off and Reversals/Release	(37 928)	(10 770)
	114 509	**118 119**
Comprising		
Specific Impairments	79 438	77 932
Portfolio Impairments	35 071	40 187
	114 509	**118 119**

12. Financial Risk Management

This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

Credit risk

i) Credit quality analysis

ii) Collateral held and other credit enhancements

iii) Offsetting financial assets and financial liabilities) Concentration of credit risk

iv) Impaired loans and advances

Liquidity risk

i) Exposure to liquidity risk

ii) Maturity analysis for financial liabilities and financial assets

Market risk

i) Interest rate risk
ii) Currency risk

Loans and Advances inherently exposes the bank to credit risk, being the risk that the bank will incur financial loss if counterparties fail to make payments as they fall due.

In order to mitigate the risk of financial loss from defaults, the bank only deals with reputable counterparties with consistent payment histories. Sufficient collateral or guarantees are also obtained in all cases. Each counterparty is analysed individually for creditworthiness before terms and conditions are offered. The analysis involves making use of information submitted by the counterparties as well as external bureau data (where available). Counterparty credit limits are in place and are reviewed and approved by credit management committees. The exposure to credit risk and the creditworthiness of counterparties is continuously monitored.

In determining the amount of expected credit losses, the bank has taken into account any historic default experience, the financial positions of the counterparties as well as the future prospects in the industries in which the counterparties operate or are employed. This information has been obtained from the counterparties themselves, as well as from economic reports, financial analyst reports and various external sources of actual and forecast data and is applied to estimate a probability of default occurring as well as estimating the loss upon default.

12. Financial Risk Management (continued)

Credit Quality Analysis

The following tables set out the carrying amount, loss allowance and measurement basis of expected credit losses for financial assets by credit rating grade:

	Loans and Advances		Cash and Cash Equivalent		Non-Pledged Trading Assets	
	2021 M'000	2020 M'000	2021 M'000	2020 M'000	2021 M'000	2020 M'000
Maximum Exposure to Credit Risk						
Gross Amount	**1 474 911**	**1 486 826**	**1 292 269**	**919 760**	**117 793**	**16 126**
Subject to 12 months ECL	1 351 686	1 293 139	1 292 269	919 760	117 793	16 126
Subject to Lifetime ECL	26 108	85 255	-	-	-	-
Credit Impaired	97 117	108 432	-	-	-	-
Total Gross Amount	**1 474 911**	**1 486 826**	**1 292 269**	**919 760**	**117 793**	**16 126**
Allowance for Impairment	(114 509)	(118 119)	(779)	(252)		
	1 360 402	**1 368 707**	1 291 490	919 508	**117 793**	**16 126**

	2021	2020
Subject to 12 months ECL		
Stage 1	1 351 686	1 293 139
Subject to Lifetime ECL		
Stage 2	26 108	85 255
Credit Impaired		
Stage 3	97 117	108 432
Total Gross	**1 474 911**	**1 486 826**
Allowance for Impairments	(114 509)	(118 119)
	1 360 402	**1 368 707**

Notes to the Financial Statements

12. Financial Risk Management (continued)

Lending Commitments and Financial Guarantees

Maximum Exposure	2021 M'000	2020 M'000
Gross Amount	169 588	87 591
Lending Commitments		
At Amortised Cost		
Subject to 12 months ECL	107 269	71 156
Financial Guarantees		
Subject to 12 months ECL	62 319	16 435
Total Gross Amount	169 588	87 591
Allowance for Impairment	(664)	(310)
	168 924	**87 281**

a) **Credit risk**

Credit quality analysis

Impaired loans

The Bank regards a loan or advance as impaired when there is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.

A loan that has been renegotiated due to a deterioration in the borrower's conditions is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Loans that are past due but not impaired

Loans that are 'past due but not impaired' are those for which contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank. The amounts disclosed exclude assets measured at fair value through profit or loss.

Notes to the Financial Statements

12. Financial Risk Management (continued)

Loans with renegotiated terms

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet revised terms.
The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Audit Committee regularly reviews reports on forbearance activities.

For purposes of disclosure in these financial statements, 'loans with renegotiated terms' are defined as loans that have been restructured due to deterioration in the borrower's financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Bank had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write off. Irrespective of whether loans with renegotiated terms have been derecognised, they remain disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-repayment of future cash flows and there are no other indicators of impairment.

Collateral held and other credit enhancements

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities over assets and guarantees. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral are as follows:

- For commercial lending, charges over real estate properties, inventory, call and fixed deposits and trade receivables;
- For retail lending, mortgages over residential properties and lien over call and fixed deposits; and
- For non-performing advances, collateral are cash, funds on security realisation accounts, and mortgage bonds.

Collateral Loans and Advances	2021	2020
	M '000	M '000
Retail	156 196	131 890
Wholesale	228 466	267 917
	384 662	**399 807**

Notes to the Financial Statements

Amounts in M'000	Subject to 12month ECL	Subject to Lifetime ECL	Credit Impaired	Total
Balance 01 January 2021	**24 838**	**15 349**	**77 932**	**118 119**
Net re-measurement increase or decrease in allowances	4 890	(10 005)	39 433	34 318
Amounts Written Off	-	-	(37 928)	(37 928)
Balance 31 December 2021	**29 728**	**5 344**	**79 438**	**114 409**

Assets obtained by taking possession of collateral

The Bank's policy is to pursue timely realization of collateral in an orderly manner. The Bank does not generally use the non-cash collateral for its own operations. Repossessed assets as at end of the year amounted to M1.82 million (2020: M1.71 million).

Offsetting financial assets and financial liabilities

There are no financial assets and financial liabilities that are offset in the Bank's statement of financial position or that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Notes to the Financial Statements

12. Financial Risk Management (continued)

Exposure to Liquidity Risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. The Central Bank of Lesotho requirement is that the Bank should hold at least 25% of the ratio. For this purpose, net liquid assets are considered as including cash and cash equivalents and non-pledged securities for which there is an active and liquid market less any collateral on borrowings from other banks, other borrowings and commitments maturing within the next month.

The concentration of funding requirements at any one date or from any one source is managed continuously. A substantial proportion of the Bank's deposit base is made up of current accounts and other short term customer deposits.

The liquidity ratios at the reporting date and during the reporting period (based on weekly ratios) were as follows:

	2021	2020
At 31 December	31.53%	33.21%
Average for the period	29.27%	30.12%
Highest for the period	38.08%	46.60%
Lowest for the period	22.70%	22.25%

Notes to the Financial Statements

2021 In M'000	Contractual Cash Flow	Less than One month	One to three months	Three months to one year	One to five Years	More than Five Years	Indeterminate maturity
Non-Derivative Financial Liabilities							
Deposits from Customers	2 686 067	2 153 027	142 561	390 462	17	-	-
Deposits from Banks	1 068 067	913 678	-	100 229	54 160	-	-
Total Non-Derivative Liabilities	**3 754 134**	**3 066 705**	**142 561**	**490 691**	**54 177**	-	-
Total Financial Liabilities	**3 754 134**	**3 066 705**	**142 561**	**490 691**	**54 177**	-	-
Non-Derivative Financial Assets							
Cash and Cash Equivalents	2 745 852	1 476 695	107 830	987 094	175 012	-	(779)
Non-Pledged Trading Assets	117 793	24	14 195	49 257	54 317	-	-
Amounts Due from Banks	219 670	219 670	-	-	-	-	-
Loans and advances	1 474 911	217 571	66 214	229 638	664 471	192 849	104 168
Total Non-Derivative Assets	**4 558 226**	**1 913 960**	**188 239**	**1 265 989**	**893 800**	**192 849**	**103 389**
Total Financial Assets	**4 558 226**	**1 913 960**	**188 239**	**1 265 989**	**893 800**	**192 849**	**103 389**
Maturity Mismatch	**804 092**	**(1 152 745)**	**45 678**	**775 298**	**839 623**	**192 849**	**103 389**

2020	Contractual Cash Flow	Less than One month	One to three months	Three months to one year	One to five Years	More than Five Years	Indeterminate maturity
Non-Derivative Financial Liabilities							
Deposits from Customers	2 986 398	2 439 093	164 546	382 604	155	-	-
Deposits from Banks	666 014	666 014	-	-	-	-	-
Total Non-Derivative Liabilities	**3 652 412**	**3 105 107**	**164 546**	**382 604**	**155**	-	-
Total Financial Liabilities	**3 652 412**	**3 105 107**	**164 546**	**382 604**	**155**	-	-
Non-Derivative Financial Assets							
Cash and Cash Equivalents	2 363 749	1 456 349	59 487	581 192	266 973	-	(252)
Non-Pledged Trading Assets	16 126	4 792	3 271	8 063	-	-	
Amounts Due from Banks	502 052	502 052	-	-	-	-	
Loans and advances	1 486 826	192 147	77 425	260 911	648 763	200 839	106 741
Total Non-Derivative Assets	**4 368 753**	**2 155 340**	**140 183**	**850 166**	**915 736**	**200 839**	**106 489**
Total Financial Assets	**4 368 753**	**2 255 340**	**140 183**	**850 166**	**915 736**	**200 839**	**106 489**
Maturity Mismatch	**716 341**	**(949 767)**	**(24 363)**	**467 562**	**915 581**	**200 839**	**106 489**

Currency Risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of profit or loss and other comprehensive income. These exposures comprise the monetary assets and monetary liabilities of the Bank, as follows (in Lesotho Maloti (M'000) terms)

2021	USD	GBP	ZAR	EURO	OTHER	TOTAL
Monetary Assets	200 424	1 060	1 681 813	19 713	2 549 237	4 452 247
Monetary Liabilities	195 367	-	154 388	18 151	3 542 100	3 910 006
Net Position	**5 057**	**1 060**	**1 527 425**	**1 562**	**(992 863)**	**542 241**

2020	USD	GBP	ZAR	EURO	OTHER	Total
Monetary Assets	751 841	775	1 156 604	903	2 492 381	4 402 504
Monetary Liabilities	752 422	53	-	66	3 068 222	3 820 763
Net Position	**(581)**	**772**	**1 156 604**	**837**	**(575 841)**	**581 741**

In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

Exposure to interest rate risk

Interest rate risk

The following is a summary of the Bank's interest rate gap position on non-trading portfolios.

2021	Gross Amounts	Less than Three Months	Between Three Months and One Year	Between One and Five Years	More than Five Years	Non-Interest Sensitive
	M'000	M'000	M'000	M'000	M'000	M'000
Cash and Cash Equivalents	2 745 852	1 708 933	753 012	-	-	283 907
Non-Pledged Trading Assets	117 793	14 219	49 257	53 140	-	1 177
Amounts Due from Banks	219 670		-	-	-	219 670
Loans and Advances	1 474 911	1 367 463	-	-	-	107 448
Total Financial Assets	**4 558 226**	**3 090 615**	**802 269**	**53 140**	-	**612 202**
Deposits from Customers	2 686 067	2 293 928	384 362	17	-	7 760
Deposits from Banks	1 068 067	913 399	100 000	53 140	-	1 528
Total Financial Liabilities	**3 754 134**	**3 207 327**	**484 362**	**53 157**	-	**9 288**
Interest Rate Gap	**804 092**	**(116 712)**	**317 907**	**(17)**	-	**602 914**

2020	Gross Amounts	Less than Three Months	Between Three Months and One Year	Between One and Five Years	More than Five Years	Non-Interest Sensitive
	M'000	M'000	M'000	M'000	M'000	M'000
Cash and Cash Equivalents	2 363 749	1 463 712	474 000	-	-	426 036
Non-Pledged Trading Assets	16 126	8 063	8 063	-	-	-
Amounts Due from Banks	502 052	-	-	-	-	502 052
Loans and Advances	1 486 826	1 374 077	-	-	-	112 750
Total Financial Assets	**4 368 753**	**2 845 852**	**482 063**	-	-	**1 040 838**
Deposits from Customers	2 986 398	1 512 588	377 345	155	-	1 096 311
Deposits from Banks	666 014	660 109	-	-	-	5 905
Total Financial Liabilities	**3 652 412**	2 172 697	**377 345**	**155**	-	**1 102 216**
Interest Rate Gap	**716 341**	**673 155**	**104 718**	**(155)**	-	**(61 378)**

Sensitivity analysis interest rate risk

The sensitivity analysis on the accrual book is measured by the change in DV01(Dollar value of 01) that measures the change in value of the accrual portfolio due to a 1 basis point parallel move in the interest rates. As at 31 December 2021 a 100-basis point parallel increase in the interest rates with all other variables held constant would have resulted in a pre-tax profit movement of M10 100 (2020: M 7 150)

Fair value of Financial Instruments

Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond prices, foreign currency exchange rates and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instruments at the reporting date that would have been determined by market participants acting at arm's length.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

2021	**Level 1** M'000	**Level 2** M'000	**Level 3** M'000	**Total** M'000
Assets				
Non-Pledged Trading Assets	-	-	-	-
Derivative Assets		-		-
	-	-	-	-
Liabilities	-	-	-	-
Derivative Liabilities	-	-	-	-

2020	**Level 1** M'000	**Level 2** M'000	**Level 3** M'000	**Total** M'000
Assets				
Non-Pledged Trading Assets	-	16 126	-	16 126
Derivative Assets		9 412		9 412
	-	**25 538**	-	**25 538**
Liabilities	-	8 443	-	8 443
Derivative Liabilities	-	**8 443**	-	**8 443**

Level 2: the fair value is determined using valuation models with directly or indirectly market observable inputs. Currently, non-pledged assets, consisting of treasury bills, are carried at cost as the effect of fair valuing is not material as they are short term in nature (less than one year). Derivative assets and liabilities are valued using Nedbank Group CIB internal model based on market related inputs

There were no transfers from level 1 to level 2 fair values

Notes to the Financial Statements

Financial Instruments not measured at Fair Value.

31 December 2021	**Level 1** M'000	**Level 2** M'000	**Level 3** M'000	**Total** M'000
Assets				
Cash and Cash Equivalents	-	2 745 852	-	2 745 852
Non-Pledged Trading Assets	-	117 793	-	117 793
Amounts Due from Banks	-	219 670	-	219 670
Loans and advances	-	1 474 911	-	1 474 911
	-	**4 558 226**	-	**4 558 226**
Liabilities				
Deposits from Customers	-	2 686 067	-	2 686 067
Deposits from Banks	-	1 068 067	-	1 068 067
	-	**3 754 134**	-	**3 754 134**

31 December 2020

	Level 1 M'000	**Level 2** M'000	**Level 3** M'000	**Total** M'000
Assets				
Cash and Cash Equivalents	-	2 363 749	-	2 363 749
Non-Pledged Trading Assets	-	16 126	-	16 126
Amounts Due from Banks	-	502 052	-	502 052
Loans and Advances	-	1 486 826	-	1 486 826
	-	**4 368 753**	-	**4 368 753**
Liabilities				
Deposits from Customers	-	2 986 398	-	2 986 398
Deposits from Banks	-	666 014	-	666 014
	-	**3 684 412**	-	**3 684 412**

13. Cash and cash equivalents

Cash and cash equivalents consist of:

	2021 M'000	**2020** M'000
Banknotes and coins	101 169	89 952
Balance with Central Bank of Lesotho	165 927	319 128
Balance with Group	1 288 435	1 138 045
Balance with other banks	1 191 100	816 876
Impairments	(779)	(252)
	2 745 852	**2 363 749**

Amounts in M'000	Subject to 12 Months ECL	Credit Impairment	Total
Balance 01 January 2021	**252**	-	**252**
Net-re-measurement increase or decrease in allowances	527	-	527
Balance 31 December 2021	**779**	-	**779**

14. Share Capital

	2021 M'000	2020 M'000
Authorised	30 000	30 000
30 million ordinary shares of M1 each		
Issued and Fully Paid		
Issued and fully paid 20 million ordinary shares of M1 each	20 000	20 000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and to vote at meetings of the Bank.

15. Reserves

Statutory Reserves		
It is the requirement in terms of section 22 of the Financial Institutions Act number 3 of 2012	**20 000**	**20 000**
Revaluation Reserves:		
Balance 01 January 2021	27 454	19 385
Revaluation of Bank properties	-	8 069
Balance 31 January 2020	**27 454**	**27 454**
Total Reserves	**47 454**	**47 454**
Attributable to Non-controlling Interest	-	-
Attributable to Ordinary Shareholders	**47 454**	**47 454**

16. Deposits from Customers

Demand Deposits	1 899 939	2 693 886
Savings Accounts	321 684	211 341
Other Customer Deposits	464 444	81 172
	2 686 067	**2 986 398**

Exposure to liquidity risk

Refer to note Financial instruments and financial risk management for details of liquidity risk exposure and management.

Sector Analysis

Individuals	446 794	416 365
Business	2 239 273	2 570 033
	2 686 067	**2 986 398**

17. Other Liabilities

Major Provisions/Reserves	7 043	7 134
Provision for Bonus	4 349	2 877
Post Retirement Benefit	1 917	1,645
Provision for Leave Pay	3 002	3 577
Sundry Creditors	28 316	18 351
Credit Items in Transit	124 467	97 185
Provision for Off-Balance Sheet Items	664	310
	169 758	**131 079**

Notes to the Financial Statements

18. Deferred Revenue

	2021 M'000	2020 M'000
Opening Balance	15 180	12 775
2018 Write Back	(1 204)	(1 204)
2019 Write Back	(2 248)	(2 548)
2020 Write Back	(1 727)	-
Current year deferred income	8 177	6 157
Closing Balance	**18 178**	**15 180**

19. Interest Income

Cash and Cash Equivalents	88 125	120 058
Treasury Bills	3 009	7 019
Loans and Advances	153 841	177 199
	244 975	**304 276**

20. Interest Expense

Current and Demand Accounts	47 859	104 716
Savings Accounts	1 209	1,494
Term Deposits	22 286	4,501
Lease Liability Interest	1 212	1,532
	72 566	**112 224**

21. Non-Interest Revenue

Fees and Commission Income	96 649	85 170
Gains from Securities Dealings	10 479	8 918
	107 128	**94 088**

22. Impairments of Financial Instruments

Specific Impairments	38 769	41 183
Portfolio Impairments	(3 573)	3 095
Bad debs Recovered	(8 418)	(8 914)
Total Impairments	**26 780**	**35 364**

23. Other Operating Expenses

Audit Fees	2 786	2 308
Communication and Travel	4 977	5 592
Computer Processing	21 312	16,116
Directors Emoluments	745	734
Insurance	1 385	2 261
Management Fees	47 619	46 876
Marketing and Public Relations	2 787	2 606
Occupation and Accommodation	9 898	11 751
Other Operating Expenses	20 143	21 446
Other Professional Fees	5 428	6 071
Stationery and Consumables	1 429	1 198
	118 509	**116 959**

Notes to the Financial Statements

24. Taxation

Major components of the tax expense	2021 M'000	2020 M'000
Current tax	6 579	15 642
Deferred Tax	(652)	(6 967)
	5 927	**8 675**

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate. Domestic tax rate is 25%

	2021		2020	
	M'000	%	M'000	%
%Corporate Tax	8 514	25 %	8 836	25 %
Temporary Differences	(982)	-3 %	8 579	24 %
Prior Year Adjustments	-	0%	(2 066)	
Permanent Differences (Penalties and Fines)	(953)	-3 %	292	1%
Current tax Charge	**6 579**	19%	**15 642**	

Notes to the Financial Statements

	2021 M '000	2020 M '000
25. Cash generated from operating activities		
Profit after taxation	28 129	26 670
Adjustments for:		
Depreciation of Property, Plant and Equipment	8 701	9 159
Amortisation of intangible assets	19	22
Impairment of Loans and Advances	34 318	35 364
Lease Liability Interest	1 212	-
Re-measurement of employee benefits	(4 138)	(772)
Interest Income	(244 975)	(304 276)
Interest Expense	72 566	112 244
Tax Expense	5 927	8 675
Gain on Disposal	2	(7)
Right of use Assets Depreciation	8 473	8 401
Changes in working capital:		
Loans and Advances	(26 013)	109 501
Amounts Due from Banks	282 382	(349 272)
Non pledged Trading Assets	(101 667)	245 991
Derivative Assets	9 412	(9 412)
Other Assets	10 721	(2 525)
Deposits from Customers	(300 331)	124 776
Deposits from Banks	402 053	129 502
Derivative liabilities	(8 443)	8 443
Other Liabilities	43 389	77 966
Cash generated from operating activities	**221 737**	**230 450**

26. Related parties

26.1 Related Party Disclosure

Nedbank Lesotho Limited is a subsidiary of Nedbank Group Limited (Incorporated in South Africa). Nedbank Group Limited also owns Nedbank South Africa and Nedbank Námibia, Swaziland and London

	2021	2020
26.2 Related Party Balances		
Short-term Deposits with Group Banks	1 288 435	1 138 045
Obligations to Group Banks	(166 679)	(14 346)
	1 121 756	**1 123 699**
26.3 Related party transactions		
Distribution		
Dividends paid to immediate holding company	-	-
Income		
Interest Income from group banks	53 074	85 992
Expenses		
Interest Expense	(1 247)	(3 417)
Management fees charged by Nedbank Group	(31 800)	(47 003)
Project fees	(28 406)	(12 590)
Net (expense)/income	**(8 379)**	**22 982**

27. Contingent Liabilities

	2021 M'000	2020 M'000
Guarantees	62 319	16 435
Committed undrawn facilities	107 269	71 156
Committed capital expenditure	-	51
	169 588	**87 642**

28. Directors' Remuneration

The Bank's policy on remuneration of executive and non-executive directors is fair and reasonable and takes into account what is offered by the market and competition, in line with the unique circumstances of the Bank and complexities of the business.

The total remuneration paid to non-executive directors for the year ended 31 December 2021 amounted to M 745k (2020: M 734k).