

FIRST NATIONAL BANK OF SWAZILAND LIMITED

AUDITED ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2018

FIRST NATIONAL BANK OF SWAZILAND LIMITED

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2018

	Pages
Directors' Responsibility Statement and Approval of Financial Statements	1 - 2
Directors' report	3 - 5
Independent Auditors report	6 - 8
Statement of comprehensive income	9
Statement of financial position	10
Statement of changes in equity	11
Statement of cash flows	12
Summary of significant accounting policies	13 - 42
Notes to the financial statements	43 - 102

FIRST NATIONAL BANK OF SWAZILAND LIMITED

DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS**To the Shareholder of the First National Bank of Swaziland Limited**

The directors of First National Bank of Swaziland Limited are responsible for the preparation and fair presentation of the annual financial statements comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows, and the notes to the financial statements. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including interpretations issued by the IFRS Interpretations Committee, the Financial Reporting Pronouncements as issued by Financial Reporting Standards Council and in the manner required by the Financial Institutions Act of 2005.

In discharging this responsibility, the directors rely on management to prepare the annual financial statements and for keeping adequate accounting records in accordance with the bank's system of internal control. Siboniso Edison Mdluli, CA (SA) supervised the preparation of the annual financial statements for the year.

In preparing the financial statements, suitable accounting policies in accordance with IFRS have been applied and reasonable judgements and estimates have been made by management. The directors approve significant changes to accounting policies. Certain amendments to IFRS became effective for the year ended 30 June 2018, but did not have an effect on the bank's reported earnings, financial position or reserves or material impact on the accounting policies. The annual financial statements incorporate full and responsible disclosure in line with the bank's philosophy on corporate governance.

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

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

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

FIRST NATIONAL BANK OF SWAZILAND LIMITED

DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS *(continued)***To the Shareholder of the First National Bank of Swaziland Limited** *(continued)*

Based on the effective internal controls implemented by management, the directors are satisfied that the annual financial statements fairly present the state of affairs of the bank at the end of the financial year and the net income and cash flows for the year.

The directors have reviewed the bank's budget and flow of funds forecast and the assumptions underlying these and considered the bank's ability to continue as a going concern in light of current and anticipated economic conditions. On the basis of this review, and in light of the current financial position and profitable trading history, the directors are satisfied that the bank has adequate resources to continue in business for the foreseeable future. The going concern basis, therefore, continues to apply and has been adopted in the preparation of the annual financial statements.

It is the responsibility of the bank's independent external auditors, PricewaterhouseCoopers, to report on the fair presentation of the annual financial statements. These annual financial statements have been audited in terms of section 29 of the Financial Institutions Act of 2005. Their unmodified report appears on page 3.

The annual financial statements of the bank, which appear on pages 4 to 99, were approved by the board of directors on **08 August 2018** and are signed on its behalf by:



CHAIRMAN
J V NDLANGAMANDLA

CHIEF EXECUTIVE OFFICER
D T MBINGO

Mbabane

27th September 2018

FIRST NATIONAL BANK OF SWAZILAND LIMITED**DIRECTORS' REPORT**

for the year ended 30 June 2018

The directors have pleasure in submitting this report, which forms part of the financial statements of the bank for the year ended 30 June 2018.

Nature of Business

The bank is incorporated in Swaziland and operates as a commercial bank.

Financial Results

Full details of the financial results for the period are set out on pages 9 to 102.

Events subsequent to reporting date

The directors are not aware of any events that have occurred subsequent to year end that could impact the amounts presented in the financial statements.

Dividend

During the year the directors approved and paid a dividend distribution of Enil (2017: E100 000 000).

Share Capital

The authorised and issued share capital of the bank remained unchanged during the year. In terms of the Financial Institutions Act of 2005, section 20 (1) (a) (i), a financial institution is required to maintain capital of at least 5% of its liabilities to the public in Swaziland in terms of the most recent published statement of financial position. As at 30 June 2018, the bank's liabilities to the public in Swaziland totalled E4.027 billion (2017: E4.3 billion) requiring a minimum capital of E201 million (2017: E215 million). The requirement of the Financial Institutions Act of 2005 ("the Act") in this regard has been met.

A further requirement under section 20 (1) (a) (iii) of the Act is that the sum of capital and reserves together shall not be less than 8% of the sum of the bank's Risk Weighted Assets (RWA) computed in the manner prescribed by the Central Bank of Eswatini from time to time by notice in the Gazette. As at 30 June 2018, the bank complied with this requirement.

Transfer to Statutory Reserve

In terms of Section 20 (1) (a) (ii) of the Act, the bank is required to transfer not less than 10% of its post-tax profit to a statutory reserve account until the balance in this reserve account is equal to its minimum required capital. In accordance with this requirement an amount of E18.670 million (2017: E17.267 million) has been transferred to the statutory reserve in the current financial year.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

DIRECTORS' REPORT (continued)
for the year ended 30 June 2018**Appointment of Auditors**

At the annual general meeting the shareholders will be asked to determine the remuneration of the auditors, PwC, in respect of the past audit and to re-appoint them in office.

Corporate Governance

The First National Bank of Swaziland Limited board of directors is committed to good corporate citizenship practices and organisational integrity in the direction, control and stewardship of the bank's affairs. This commitment provides stakeholders with the comfort that the bank's affairs are managed in an ethical and disciplined manner. The bank subscribes to a philosophy of providing meaningful, timely and accurate communication to its primary stakeholders, based on transparency, accountability and integrity. The bank regards its shareholder, customers, employees, suppliers, regulators and the communities in which it operates as its key stakeholders.

Directors

The directors of the bank during the year were:

		Appointed	Retired
J V Ndlangamandla	(Chairman)	03 February 2016	
Dr D M J Von Wissell		08 November 2013	28 October 2017
D T Mbingo	(Chief Executive Officer)	01 April 2015	
D D Dlamini		08 November 2013	
S De Sousa		07 November 2014	
D E Wright		03 February 2016	
S L Balsdon		21 April 2017	
D Jones		21 April 2017	
E Arden		24 April 2018	

Holding Company

The bank's immediate holding company is FirstRand EMA Holdings Proprietary Limited, registered in South Africa.

Registered office and postal address of the bank

The address of is as follows:

Business Address (Head Office)

2nd Floor
Sales House Building
Swazi Plaza
Mbabane
Swaziland

Postal Address

P.O. Box 261
Eveni
Mbabane
Swaziland

FIRST NATIONAL BANK OF SWAZILAND LIMITED

DIRECTORS' REPORT (continued)
for the year ended 30 June 2018

Auditors

Business Address

PricewaterhouseCoopers
RHUS Office Park
Karl Grant Street
Mbabane
Swaziland

Postal Address

P O Box 569
Mbabane
Swaziland
H100



Independent auditor's report

To the Shareholders of First National Bank of Swaziland Limited

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of First National Bank of Swaziland Limited (the Bank) as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Companies Act, 2009 and the requirements of the Financial Institutions Act, 2005.

What we have audited

First National Bank of Swaziland Limited's financial statements set out on pages 9 to 99 comprise:

- the statement of financial position as at 30 June 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

We are independent of the Bank in accordance with the requirements of the Swaziland Institute of Accountants (SIA) Code of Ethics for Professional Accountants. We have fulfilled our ethical responsibilities in accordance with the SIA Code and in accordance with other ethical requirements to performing audits in Swaziland.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act, 2009, and the Directors' Responsibility Statement and Approval of Financial Statements. 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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, 2009 and the Financial Institutions Act, 2005, 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 Bank'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 Bank 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional 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 Bank'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 Bank'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 Bank 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers." The signature is written in a cursive, flowing style.

PricewaterhouseCoopers

Partner: Theo Mason

Registered Auditor

P.O. Box 569, Mbabane

Date: **03 October 2018**

FIRST NATIONAL BANK OF SWAZILAND LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Notes	2018 E'000	2017 E'000
Interest and similar income	1	459 293	428 587
Interest expense and similar charges	2	(116 872)	(106 662)
Net interest income before impairment of advances		342 421	321 925
Impairment of advances	9.2	(21 311)	(21 064)
Net interest income after impairment of advances		321 110	300 861
Non-interest revenue	3	306 850	262 622
Other gains	4	4 998	89
Income from operations		632 958	563 572
Operating and administration expenses	5	(356 496)	(313 632)
Income before tax		276 462	249 940
Indirect tax	6	(18 784)	(11 718)
Profit before tax		257 678	238 222
Income tax expense	7.1	(70 680)	(76 939)
Profit for the year		186 998	161 283

FIRST NATIONAL BANK OF SWAZILAND LIMITED

STATEMENT OF FINANCIAL POSITION

as at 30 June 2018

	Notes	2018 E'000	2017 E'000
ASSETS			
Cash and cash equivalents	8	718 930	694 228
Advances	9.1	2 917 426	2 732 461
Investment securities	10	617 820	518 969
Derivative financial instruments	11	16 098	10 227
Accounts receivable	12	35 524	18 879
Amounts due from related parties	24.2	993 870	1 320 075
Deferred income tax asset	7.2	26 308	23 786
Property and equipment	13	70 476	77 194
Total assets		<u>5 396 452</u>	<u>5 395 819</u>
EQUITY			
Capital and reserves attributable to equity holders of the parent			
Share capital	14	27 642	27 642
Share premium	14	2 686	2 686
Other reserves	15	182 348	161 606
Retained earnings		<u>769 051</u>	<u>602 795</u>
Total equity		<u>981 727</u>	<u>794 729</u>
LIABILITIES			
Deposits	16	4 026 737	4 297 775
Share based payments liability	17	8 320	6 653
Derivative financial instruments	11	6 214	5 103
Defined benefit post-employment liability	18	27 786	27 786
Accounts payable	19	82 764	48 214
Provision for other liabilities and charges	20	25 523	25 017
Current income tax liability	7.3	4 934	9 964
Amounts due to related parties	24.2	<u>232 447</u>	<u>180 578</u>
Total liabilities		<u>4 414 725</u>	<u>4 601 090</u>
Total equity and liabilities		<u>5 396 452</u>	<u>5 395 819</u>

FIRST NATIONAL BANK OF SWAZILAND LIMITED

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Share capital E'000	Share premium E'000	General risk reserve E'000	Available- for-sale reserve E'000	Statutory reserves E'000	Defined benefit post employment reserve E'000	Distributable reserves E'000	Total Equity E'000
Year Ended 30 June 2018								
Balance at 30 June 2017	27 642	2 686	27 736	822	134 405	(1 357)	602 795	794 729
Profit for the year	-	-	-	-	-	-	186 998	186 998
Other comprehensive income	-	-	-	-	-	-	-	-
Transfer to general risk reserve	-	-	2 072	-	-	-	(2 072)	-
Transfer to statutory reserve	-	-	-	-	18 670	-	(18 670)	-
Dividends paid	-	-	-	-	-	-	-	-
Balance as at 30 June 2018	27 642	2 686	29 808	822	153 075	(1 357)	769 051	981 727
Year Ended 30 June 2017								
Balance at 30 June 2016	27 642	2 686	25 999	822	117 138	(1 357)	560 516	733 446
Profit for the year	-	-	-	-	-	-	161 283	161 283
Other comprehensive income	-	-	-	-	-	-	-	-
Transfer to general risk reserve	-	-	1 737	-	-	-	(1 737)	-
Transfer to statutory reserve	-	-	-	-	17 267	-	(17 267)	-
Dividends paid	-	-	-	-	-	-	(100 000)	(100 000)
Balance as at 30 June 2017	27 642	2 686	27 736	822	134 405	(1 357)	602 795	794 729

FIRST NATIONAL BANK OF SWAZILAND LIMITED

STATEMENT OF CASH FLOWS

for the year ended 30 June 2018

	Notes	2018 E '000	2017 E '000
Cash flows from operating activities	22.1	290 430	272 283
<i>Cash received from customers</i>		767 006	691 905
Interest and similar income	1	459 293	428 587
Fee and commission income	3	306 850	262 711
Recoveries	9.2	863	607
<i>Cash paid to customers, suppliers and employees</i>		(476 576)	(419 622)
Interest expense and similar charges	2	(116 872)	(106 662)
Total other operating expenditure		(359 704)	(312 960)
Income tax paid	22.2	(78 232)	(73 144)
<i>Net cash flow from operating activities before changes in operating asset and liabilities</i>		212 198	199 139
Cash flow from changes in operating assets and liabilities			
Net (increase) in advances		(206 276)	(197 539)
Net decrease/(increase) in amounts due from related parties		326 205	(489 997)
Net (increase)/decrease in accounts receivable		(16 645)	24 673
Net (decrease)/increase in term deposits		(201 917)	85 867
Net increase in current and call deposit accounts		313 302	1 187 576
Net (decrease) in savings deposit accounts		(181 210)	(15 807)
Net (decrease)/increase in other deposits-off shore		(201 213)	22 954
Net increase/ (decrease) increase in amounts due to related parties		51 869	(445 717)
Net increase/(decrease) in accounts payable		34 628	(113 856)
Net increase in share based payments		1 667	953
Net increase/(decrease) in provisions for other liabilities and charges		506	(134)
<i>Net cash flow from changes in operating assets and liabilities</i>		(79 084)	58 793
<i>Net cash inflow from operating activities</i>		133 114	258 112
Cash flows from investing activities			
Acquisition of capital expenditure	13	(10 003)	(30 050)
Proceeds from sale of fixed assets & insurance compensation		5 202	336
Net (decrease) in derivative instruments		(4 760)	(8 721)
Net (increase) in investment securities		(98 851)	(62 416)
<i>Net cash outflow from investing activities</i>		(108 412)	(100 851)
Cash flows from financing activities			
Dividends paid		-	(100 000)
<i>Net cash outflow from financing activities</i>		-	(100 000)
Net increase in cash and short term funds		24 702	57 261
Cash and cash equivalents at beginning of the year		694 228	636 967
Cash and cash equivalents at end of the year	8	718 930	694 228

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the year ended 30 June 2018

1. INTRODUCTION AND BASIS OF PREPARATION**1.1 Introduction**

The First National Bank of Swaziland Limited (“the bank”) financial statements have been prepared in accordance with IFRS, including interpretations issued by the IFRS Interpretations Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Financial Institutions Act of 2005.

These financial statements comprise the statements of financial position (also referred to as the balance sheet) as at 30 June 2018, and the statements of comprehensive income (also referred to as the income statement), statements of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory notes.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES			
2	Related parties	Related party transactions (section 2.1)	
3	Income, expenses and taxation	Income and expenses (section 3.1)	Income tax expenses (section 3.2)
4	Financial instruments	Classification (section 4.1)	Measurement (section 4.2)
		Transfers and de-recognition (section 4.4)	Offset and collateral (section 4.5)
5	Other assets and liabilities	Property, equipment and investment properties (section 5.1)	Impairment (section 4.3)
		Non-current assets held for sale (section 5.2)	Derivatives and hedge accounting (section 4.6)
6	Capital and reserves	Intangible assets (section 5.1)	Provisions (section 5.1)
		Leases (section 5.3)	
		Share capital and treasury shares	Dividends and non-cash distributions
			Other reserves

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 for the year ended 30 June 2018
1.1 Introduction (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES				
7	Transactions with employees	Employee benefits (section 7.1)	Share-based payment transactions (section 7.2)	
8	Non-banking activities	Taxation (section 8.1)	Impairment of financial assets (section 8.2)	Other assets and liabilities assets (section 8.3)
				Impairment of financial assets (section 8.4)

1.2 Basis of preparation

. The bank prepares annual financial statements which include the assets, liabilities and results of the operations at 30 June each year. The financial statements of the bank have been prepared in accordance with IFRS.

The financial statements have been prepared in accordance with the going concern principal using the historical cost basis except for the following asset and liabilities:

- Financial assets classified as available-for-sale;
- Derivative financial instruments;
- Financial instruments designated as at fair value through profit or loss; and
- Employee benefit liabilities, valued using the projected unit credit method.

To compile the annual financial statements the following information is used:

Use of judgements and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are outlined in policy 8.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the year ended 30 June 2018

1.2 Basis of preparation (continued)

Presentation of financial statements, functional and foreign currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the bank operates (the functional currency).

Presentation	<p>The bank presents its statement of financial position in order of liquidity.</p> <p>Where permitted or required under IFRS, the bank offsets assets and liabilities or income and expenses and presents the net amount in the statement of financial position or in the statement of comprehensive income.</p>
Materiality	<p>IFRS disclosure is only applicable to material items. Management applies judgement and considers both qualitative and quantitative factors in determining materiality applied in preparing these financial statements.</p>
Functional and presentation currency of the group	<p>SZL Lilangeni (E)</p>
Level of rounding	<p>All amounts are presented in thousands of SZL Lilangeni (E).</p> <p>The bank has a policy of rounding in increments of E500. Amounts less than E500 will therefore round down to E nil and are presented as a dash.</p>
Foreign currency transactions of the group	<p>Translated into the functional currency using the exchange rates prevailing at the date of the transactions.</p>
Translation and treatment of foreign denominated balances	<p>Translated at the relevant exchange rates, depending on whether they are monetary items (in which case the closing spot rate is applied) or non-monetary items. For non-monetary items measured at cost the rate applied is the transaction date rate. For non-monetary items measured at fair value the rate at the date the fair value is determined (reporting date) is applied.</p> <p>Foreign exchange gains or losses are recognised in profit or loss in fair value gains or losses.</p> <p>To the extent that foreign exchange gains or losses relate to available-for-sale financial assets the following applies:</p> <ul style="list-style-type: none"> ➤ equity instruments are recognised in other comprehensive income as part of the fair value movement; and ➤ debt instruments are allocated between profit or loss (those that relate to changes in amortised cost) and other comprehensive income (those that relate to changes in the fair value).

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the year ended 30 June 2018

1.3 Standards and interpretations issued but not yet effective.

The following new and revised standards and interpretations are applicable to the business of the bank. The amendments have not had an impact on the bank's reported earnings, financial position, reserves or a material impact on the accounting policies.

Standard	Impact assessment	Effective date
IFRS 2 (amended)	<p>Classification and Measurement of Share-Based Payment Transactions</p> <p>As a result of work by the IFRS Interpretations Committee, several amendments have been made to IFRS 2 to clarify how to account for certain share-based payment transactions.</p> <p>The amendments to IFRS 2 are related to the following areas:</p> <ul style="list-style-type: none"> ➤ accounting for the effects of vesting and non-vesting conditions on the measurement of the liability of cash-settled share-based payment transactions; ➤ classification of share-based payment transactions with net settlement features for withholding tax obligations; and ➤ accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled. <p>The bank currently only has cash-settled share-based payment schemes. The bank is currently in line with the first two amendments as the bank is accounting for these items in line with the clarifications. The third amendment will be considered when such transactions take place and will be applied prospectively to any modifications made on or after the adoption date.</p>	Annual periods commencing on or after 1 January 2018
IFRS 4 (amended)	<p>Applying IFRS 9 with IFRS 4</p> <p>The amendment addresses concerns around temporary volatility in reported results arising from implementing IFRS 9 before implementing the insurance contracts standard that is being developed and that will replace IFRS 4.</p> <p>The amendment introduces two approaches:</p> <ul style="list-style-type: none"> ➤ The overlay approach - an option for all issuers of insurance contracts to remove from profit or loss the effects of some mismatches that may occur before adoption of IFRS 4, and temporarily recognise those impacts. The adjustment only applies to financial assets that are designated as relating to contracts in the scope of IFRS 4 and measured at FVTPL in accordance with IFRS 9, but would have been measured in their entirety at FVTPL under IAS 39. ➤ Temporary exemption - reporting entities whose activities are predominantly connected with insurance are temporarily exempt from applying IFRS 9 and will continue to apply IAS 39 until the new insurance contracts standard is issued. <p>The amendments will not impact the bank as the bank has no insurance contracts.</p>	Annual periods commencing on or after 1 January 2018

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
 for the year ended 30 June 2018
1.3 Standards and interpretations issued but not yet effective (continued).

Standard	Impact assessment	Effective date
IFRS 9	<p>Financial Instruments</p> <p>IFRS 9 is effective and will be implemented by the bank on 1 July 2018. IFRS 9 replaces IAS 39 and the revised requirements specifically deal with the classification and measurement of financial instruments, the measurement of impairment losses based on an expected credit loss model and includes revised requirements relating to hedge accounting.</p> <p>The bank has elected not to restate its comparative information included in the annual financial statements for the year ending 30 June 2019. The amended disclosure requirements of IFRS 7 will also be prospectively applied by the bank.</p> <p>Management used assumptions and judgement in applying the bank's IFRS 9 accounting policies to determine the estimated impact of the implementation of IFRS 9.</p> <p>Based on the work performed to date, the main impact of the revised classification and measurement requirements are:</p> <ul style="list-style-type: none"> • certain advances in the RMB Investment Banking Division will be reclassified from fair value through profit or loss (FVTPL) to amortised cost; • the above-mentioned reclassifications from FVTPL to amortised cost will impact the revenue recognition of origination fees that are an integral part of generating an involvement with the resulting advance; and • certain investment securities held in the group's liquidity portfolio will be reclassified from available-for-sale to amortised cost because they are held to collect contractual cash flows and those contractual cash flows are solely for the repayment of principal and interest. <p>The introduction of IFRS 9 results in earlier loss recognition and higher overall provision requirements than under IAS 39 due to the requirement to calculate provisions for expected credit losses rather than incurred losses. In addition, IFRS 9 requires the calculation of expected credit losses to incorporate probability-weighted forward-looking macro-economic information, whereas under IAS 39 only current macro-economic conditions are considered. IFRS 9 also requires expected credit losses to be calculated for off-balance sheet exposures such as undrawn amounts, loan commitments and financial guarantees. IAS 39 did not apply to these off-balance-sheet exposures.</p> <p>The bank developed and/or amended the applicable credit and accounting policies to incorporate the new requirements of IFRS 9. The bank will continue to further refine certain models during the upcoming financial year and will update, as appropriate, in line with local and industry trends.</p>	<p>Annual periods commencing on or after 1 January 2018</p>

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
for the year ended 30 June 2018

1.3 Standards and interpretations issued but not yet effective (continued).

Standard	Impact assessment	Effective date
	<p>In addition, group-wide definitions, such as the definition of default and significant increase in credit risk, have been finalised to ensure consistent application of key terms in model development across the group.</p> <p>The revised impairment models are expected to result in an overall increase of impairment provisions on the statement of financial position, impacting opening retained earnings for the 2019 financial year. In addition, the impact of re-measurement of financial assets and liabilities as a result of the classification and measurement changes noted above will result in an additional adjustment to retained earnings. These adjustments are expected to impact balance sheet provisions by no more than 93% post-tax, including suspended interest, and reduce the bank's CET 1 ratio by no more than approximately 30 basis points on a fully-loaded basis, post-tax. The impact of implementing IFRS 9 has been considered in the bank's capital planning.</p>	
IAS 28	<p>Investments in Associates and Joint Ventures</p> <p>The amendments introduce clarifications that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture.</p> <p>The amendments will not impact the bank as the bank has no investments in associates and joint ventures.</p>	Annual periods commencing on or after 1 January 2018
IFRS 15	<p>Revenue from Contracts with Customers</p> <p>IFRS 15 replaces several existing revenue standards and interpretations and introduces a new five-step principle model that an entity must apply to determine the measurement and timing of revenue recognition.</p> <p>The core principle of the new standard is that an entity will recognise revenue to depict the transfer of control of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods and services. Under the new model, revenue is recognised based on when the entity satisfies its performance obligations.</p> <p>IFRS 15 will be effective for the bank from 1 July 2018. The bank's main source of revenue is out of scope of IFRS 15 and as a result, IFRS 15 is not expected to have a significant impact on the bank. The bank has identified and reviewed the contracts with customers that are within the scope of this standard. The outcome of the reviews has resulted in the identification of additional performance obligations for certain products and as a result thereof a deferral of revenue relating to those products. The impact on retained earnings is not expected to be significant, which will have a negligible impact on the bank's CET1 ratio.</p>	Annual periods commencing on or after 1 January 2018

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
 for the year ended 30 June 2018
1.3 Standards and interpretations issued but not yet effective (continued)

Standard	Impact assessment	Effective date
IFRS 15	<p>Leases</p> <p>IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 will be effective for the bank from 1 July 2019.</p> <p>The biggest impact of the standard will be on lessee accounting because of the requirement for lessees to recognise an asset and corresponding liability in respect of operating leases.</p> <p>Under the current standard on leases, operating lease payments were expensed by the lessee when incurred, with no recognition on the statement of financial position. IFRS 16 requires that at the commencement date of the lease (regardless of whether it is finance or operating lease), a lessee shall recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payment. The exceptions available for lessees are leases of a short term (less than 12 months) or low-value assets.</p> <p>IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17; however, there are also enhanced disclosure requirements for lessors.</p> <p>IFRS 16 is expected to impact the bank's recognition of future operating lease commitments.</p>	Annual periods commencing on or after 1 January 2019

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
 for the year ended 30 June 2018
1.3 Standards and interpretations issued but not yet effective (continued)

Standard	Impact assessment	Effective date
IFRS 17	<p>Insurance Contracts</p> <p>IFRS 17 is the new standard that prescribes the accounting for insurance contracts and will replace the current insurance contracts standard, IFRS 4. IFRS 17 aims to provide more transparency and comparability between insurance companies and other industries by providing a prescriptive approach to determining policyholder liabilities as well as the release of profits on these contracts to the income statement. IFRS 17 will be effective for the bank from 1 July 2021.</p> <p>The recognition of insurance revenue will be consistent with that of IFRS 15. Insurance revenue is derived by the movement in the liability for the remaining insurance coverage period.</p> <p>The insurance contract liability is initially made up of:</p> <ul style="list-style-type: none"> the fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policyholders; and the contractual service margin (CSM), which represents the unearned profit the entity will recognise as it provides services over the coverage period. <p>Subsequently, the liability will comprise two components, namely, the liability for remaining coverage (fulfilment cash flows and the CSM) and the liability for incurred claims (fulfilment cash flows for claims and expenses incurred but not yet paid).</p> <p>To prepare for implementation, the bank has constituted a steering committee which will be supported by several working groups. The working groups will be responsible for the implementation of the different elements of the new standard and work has commenced. The impact of IFRS 17 will only be reliably determinable once the implementation project has progressed further</p>	Annual periods commencing on or after 1 January 2021
IAS 40	<p>Transfers of Investment Property (Amendments to IAS 40)</p> <p>The amendments introduce clarification of the requirements on transfers to, or from investment properties when there has been a change in use of the property.</p> <p>The clarified requirements will have no impact on the bank's financial statements as the bank does not have investment property.</p>	Annual periods commencing on or after 1 January 2018

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
for the year ended 30 June 2018

1.3 Standards and interpretations issued but not yet effective (continued)

Standard	Impact assessment	Effective date
IFRIC 22	<p>Foreign Currency Transaction and Advance Consideration</p> <p>This interpretation clarifies the accounting treatment for transactions that involves the advance receipt or payment of consideration in a foreign currency.</p> <p>The bank is in the process of assessing the impact on the annual financial statements but it is not expected to have a significant impact</p>	Annual periods commencing on or after 1 January 2018
IFRIC 23	<p>Uncertainty over Income Tax Treatments</p> <p>This interpretation is to be applied to the determination of taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. When considering that the filing deadlines for tax returns and financial statement may be months apart, IFRIC 23 may require more rigour when finalising the judgements about the amounts to be included in the tax return before the financial statements are finalised.</p> <p>The bank is in the process of assessing the impact on the annual financial statements but it is not expected to have a significant impact.</p>	Annual periods commencing on or after 1 January 2019
Annual Improvements 2014-2016 cycle	<p>Improvements to IFRS</p> <p>The IASB issued the <i>Annual Improvements to IFRS Standards 2014-2016 Cycle</i>. These annual improvements include amendments to IAS 12 and IAS 28. The annual improvement project's aim is to clarify and improve accounting standards.</p> <p>The amendments have been assessed and are not expected to have a significant impact on the bank.</p>	Annual periods commencing on or after 1 January 2018 (IAS 12 and IAS 28)
Improvements 2015-2017 cycle	<p>Improvements to IFRS</p> <p>The IASB issued the <i>Annual Improvements to IFRS Standards 2015-2017 Cycle</i>. These annual improvements include amendments to the following standards:</p> <ul style="list-style-type: none"> IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. IAS 12 - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises. <p>IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.</p>	Annual periods commencing on or after 1 January 2019

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
 for the year ended 30 June 2018
2. RELATED PARTIES**2.1 Related party transactions**

Related parties of the bank, as defined, include:

Parent company	Fellow subsidiaries	Associates of the bank's parent and fellow subsidiaries	Post-employment benefit funds (pension funds)
Entity that has significant influence over the bank.	Entities of the same group.	Close family members of key management personnel (KMP)	Banks employee pension fund.

The principal shareholder of the First National Bank of Swaziland Limited is FirstRand Limited incorporated in South Africa.

The KMP of the bank are the board of directors and prescribed officers, including any entities which provide key management personnel services to the bank. Their close family members include spouse/domestic partner and children, domestic partner's children and any other dependants of the individual or their domestic partner.

3. INCOME, EXPENSES AND TAXATION**3.1 Income and expenses**

Net interest revenue recognised in profit or loss
<p>Net interest includes:</p> <ul style="list-style-type: none"> ➤ interest on financial instruments measured at amortised cost and available-for-sale debt instruments determined using the effective interest method; ➤ interest on compound instruments. Where instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or long-term liabilities and are measured at amortised cost, dividends received or paid on these instruments are included in the cash flows used to determine the effective interest rate of the instrument; ➤ interest on debt instruments designated at fair value through profit or loss that are held by and managed as part of the bank's insurance or funding operations; ➤ an amount related to the unwinding of the discounted present value of non-performing loans measured at amortised cost on which specific impairments have been raised and where the recovery period is significant. When these advances are impaired, they are recognised at recoverable amount i.e. the present value of the expected future cash flows, and an element of time value of money is included in the specific impairment raised. As the advance moves closer to recovery, the portion of the discount included in the specific impairment unwinds;

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 for the year ended 30 June 2018
3 INCOME, EXPENSES AND TAXATION**3.1 Income and expenses (continued)**

Non-interest revenue recognised in profit or loss	
Net fee and commission income	
Fee and commission income	<p>Fees and transaction costs that do not form an integral part of the effective interest rate are recognised as income when the outcome of the transaction involving the rendering of services can be reliably estimated as follows:</p> <ul style="list-style-type: none"> ➤ fees for services rendered are recognised on an accrual basis when the service is rendered, e.g. banking fee and commission income, and asset management and related fees; ➤ fees earned on the execution of a significant act, e.g. knowledge-based fee and commission income, and non-banking fee and commission income, when the significant act has been completed; and ➤ commission income on bills and promissory notes endorsed is credited to profit or loss over the life of the relevant instrument on a time apportionment basis. <p>Commissions earned on the sale of insurance products to customers of the bank on behalf of an insurer and the income arising from third-party insurance cell captives and profit share agreements, are recognised as fee and commission income and not as part of insurance income.</p> <p>Other non-banking fee and commission income relates to fees and commissions earned for rendering services to client's other than those related to the banking and insurance and asset management operations.</p>
Fee and commission expenses	<p>Fee and commission expenses are expenses that are incremental and directly attributable to the generation of fee and commission income, and are recognised as part of fee and commission income. These include transaction and service fees, which are expensed as the services are received.</p>

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 for the year ended 30 June 2018
3.1 Income and expenses (continued)

Non-interest revenue recognised in profit or loss	
Fair value gains or losses	
Fair value gains or losses of the bank recognised in non-interest revenue includes the following:	
<ul style="list-style-type: none"> ➤ fair value adjustments and interest on trading financial instruments including derivative instruments that do not qualify for hedge accounting and adjustments relating to non-recourse investments and deposits (except where the bank owns the commercial paper issued by the conduits); ➤ fair value adjustments that are not related to credit risk on advances designated at fair value through profit or loss; ➤ a component of interest expense that relates to interest paid on liabilities which fund the bank's fair value operations. The interest expense is reduced by the amount that is included in fair value income; ➤ fair value adjustments on financial instruments designated at fair value through profit or loss in order to eliminate an accounting mismatch, except for such instruments relating to the bank's insurance and funding operations for which the interest component is recognised in interest income; ➤ ordinary and preference dividends on equity instruments designated at fair value through profit or loss or held for trading; ➤ any difference between the carrying amount of the liability and the consideration paid, when the bank repurchases debt instruments that it has issued; and 	
Gains less losses from investing activities	
The following items are included in gains less losses from investing activities:	
<ul style="list-style-type: none"> ➤ any gains or losses on disposals of investments; ➤ any amounts recycled from other comprehensive income in respect of available-for-sale financial assets; and ➤ dividend income on any equity instruments that are considered long term investments of the group, including dividends from subsidiaries, associates and joint ventures. 	
Dividend income	
The bank recognises dividend income when the bank's right to receive payment is established. This is the last day to trade for listed shares and on the date of declaration for unlisted shares.	
Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares, except to the extent that the scrip dividend is viewed as a bonus issue with no cash alternative and the transaction lacks economic significance.	
Expenses	
Expenses of the bank, apart from certain fee and commission expenses included in net fee and commission income, are recognised and measured in terms of the accrual principle and presented as operating expenses in profit or loss.	
Indirect tax expense	Indirect tax includes other taxes paid to central and local governments including value added tax, levies and stamp duties. Indirect tax is disclosed separately from income tax and operating expenses in the income statement.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

for the year ended 30 June 2018

3.2 Income tax expenses *(continued)*

Income tax includes Swaziland income tax payable.

Current income tax	
The current income tax expense is calculated by adjusting the net profit for the year for items that are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the reporting date, in each particular jurisdiction within which the bank operates.	
Deferred income tax	
Recognition	On temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.
Typical temporary differences in the group that deferred tax is provided for	<ul style="list-style-type: none"> ➤ Depreciation of property and equipment; ➤ revaluation of certain financial assets and liabilities, including derivative contracts; ➤ provisions for pensions and other post-retirement benefits; ➤ tax losses carried forward; and ➤ investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the difference will not reverse in the foreseeable future.
Measurement	<p>Using the liability method under IAS 12 and applying tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.</p> <p>For temporary differences arising from the fair value adjustments on investment available for sale assets, deferred income tax is provided at the rate that would apply on the sale of the assets.</p>
Presentation	<p>In profit or loss unless it relates to items recognised directly in equity or other comprehensive income.</p> <p>Items recognised directly in equity or other comprehensive income relate to:</p> <ul style="list-style-type: none"> ➤ the issue or buy back of share capital; ➤ fair value re-measurement of available-for-sale investments; ➤ re-measurements of defined benefit post-employment plans; and ➤ derivatives designated as hedging instruments in effective cash flow hedges. <p>Tax in respect of share transactions is recognised directly in equity. Tax in respect of the other items is recognised directly in other comprehensive income and subsequently reclassified to profit or loss (where applicable) at the same time as the related gain or loss.</p>
Deferred tax assets	The bank recognises deferred income tax assets only if it is probable that future taxable income will be available against which the unused tax losses can be utilised, based on management's review of the bank's budget and forecast information. The bank reviews the carrying amount of deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the year ended 30 June 2018

4. FINANCIAL INSTRUMENTS**4.1 Classification**

Management determines the classification of its financial instruments at initial recognition. The following table sets out the different classes of financial instruments of the bank:

Derivatives
Derivatives are either designated as hedging instruments in effective hedging relationships or are classified as held for trading and measured at fair value through profit or loss.
Cash and cash equivalents and accounts receivable
Cash and cash equivalents comprise coins and bank notes, money at call and short notice and balances with central banks. All balances included in cash and cash equivalents have a maturity date of less than three months from the date of acquisition. Money at short notice constitutes amounts withdrawable in 32 days or less.
Cash and cash equivalents and accounts receivable are measured at amortised cost in accordance with IAS 39.
Advances
Advances that are not designated at fair value through profit or loss are measured at amortised cost in accordance with IAS 39. These include retail and corporate bank advances.
Various advances to customers, structured notes and other investments held by the bank, which would otherwise be measured at amortised cost, have been designated at fair value to eliminate the accounting mismatch between the assets and the underlying derivatives used to manage the risk arising from the assets and/or are managed on a fair value basis.
Investment securities
The majority of investment securities of the bank are either designated at fair value because they are managed on a fair value basis or are classified as available-for-sale. Investment securities of the bank include investment in treasury bills and bonds.
There is a portfolio of debt investment securities measured at amortised cost.
Investment securities that represent an interest in the residual value of the investee are classified as equities within investment securities.
Financial liabilities and compound financial instruments
The bank classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Tier 2 instruments which have write down or conversion features are classified based on the nature of the instrument and the definitions of debt and equity.
Compound instruments are those financial instruments that have components of both financial liabilities and equity such as issued convertible bonds. At initial recognition, the instrument and the related transaction costs are split into their separate components in terms of the definitions and criteria of IAS 32 and are subsequently accounted for as a financial liability or equity.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the year ended 30 June 2018

4.1 Classification (continued)

Deposits, Tier 2 liabilities and other funding liabilities	
Liabilities are generally measured at amortised cost but may be measured at fair value through profit or loss if they are managed on a fair value basis or the fair value designation reduces or eliminates an accounting mismatch.	

4.2 Recognition & Measurement

Recognition	Financial instruments are initially recognised in the statement of financial position when the bank becomes a party to the contractual provisions of the instrument. A regular way purchase (financial asset that requires delivery within the timeframe established by regulation or market conventions) is recognised at trade date.
Initial measurement	All financial instruments are initially measured at fair value including transaction costs, except for those classified as fair value through profit or loss in which case the transaction costs are expensed upfront in profit or loss, usually as part of operating expenses. Any upfront income earned on financial instruments is recognised as is detailed under policy 3.1, depending on the underlying nature of the income.
Subsequent measurement	Amortised cost items are measured using the effective interest method, less any impairment losses. This includes available-for-sale debt instruments. Fair value items are measured at fair value at reporting date as determined under IFRS 13. The fair value gains or loss are either recognised in profit or loss (held for trading or designated at fair value through profit or loss) or in other comprehensive income (available-for-sale financial assets) until the items are disposed of or impaired.

The bank recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset is delivered or received.

4.3 Impairment of financial assets**General**

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment and its carrying amount is greater than its estimated recoverable amount. Included in impairments of loans and advances are the fair value of credit moves recognised in respect of advances designated at fair value through profit or loss.

Scope	This policy applies to: <ul style="list-style-type: none"> ➤ advances measured at amortised cost; ➤ investment securities at amortised cost; ➤ advances and debt instruments classified as available-for-sale; and ➤ accounts receivable.
--------------	---

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the year ended 30 June 2018

4.3 Impairment of financial assets (continued)

Objective evidence of impairment	<p>The bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.</p> <p>The following factors are considered when determining whether there is objective evidence that the asset has been impaired:</p> <ul style="list-style-type: none"> ➤ breaches of loan covenants and conditions; ➤ time period of overdue contractual payments; ➤ actuarial credit models; ➤ loss of employment or death of the borrower; and ➤ probability of liquidation of the customer. <p>Where objective evidence of impairment exists, impairment testing is performed based on the following:</p> <ul style="list-style-type: none"> ➤ loss given default (LGD) which is the expected loss that will be realised at default after taking into account recoveries through collateral and guarantees; ➤ probability of default (PD) which is a measure of the expectation of how likely the customer is to default; and ➤ exposure at default (EAD) which is the expected amount outstanding at the point of default. <p>For available-for-sale equity instruments objective evidence of impairment includes information about significant changes with an adverse effect on the environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be recovered and a significant or prolonged decline in the fair value of the security below its cost.</p>
Assessment of objective evidence of impairment	<p>An assessment of impairment is first performed individually for financial assets that are individually significant (typically corporate) and then individually or collectively for financial assets that are not individually significant (typically retail).</p> <p>If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.</p>
Collective assessment	<p>For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics; i.e. on the basis of the bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such financial assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the financial assets being evaluated.</p>
Recognition of impairment loss	<p>If there is objective evidence of impairment, an impairment loss is recognised in a separate line in profit or loss. The amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.</p> <p>For available-for-sale financial assets which are impaired the cumulative loss is reclassified from other comprehensive income to profit or loss.</p>

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the year ended 30 June 2018

4.3 Impairment of financial assets (continued)

Reversal of impairment loss	<p>If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating):</p> <ul style="list-style-type: none"> ➤ the previously recognised impairment loss is reversed by adjusting the allowance account (where applicable) and the amount of the reversal is recognised as part of operating expenses in profit or loss; and ➤ impairment losses recognised on available-for-sale equity instruments are not subsequently reversed through profit or loss, but are recognised directly in other comprehensive income.
------------------------------------	--

Impairment of advances

The adequacy of impairments of advances is assessed through the ongoing review of the quality of credit exposures. For amortised cost advances, impairments are recognised through the use of the allowance account method and an impairment charge in the income statement. For fair value advances, the credit valuation adjustment is charged to the income statement through fair value gains or losses and recognised as a change to the carrying value of the asset.

The following table sets out the bank's policy on the ageing of advances (i.e. when an advance is considered past due or non-performing) and the accounting treatment of past due, impaired and written off advances:

Past due advances	
<p>The past due analysis is only performed for advances with specific expiry or instalment repayment dates or demand loans for which payment has been demanded. The analysis is not applicable to overdraft products or products where no specific due date is determined. The level of risk on these types of products is assessed with reference to the counterparty ratings of the exposures and reported as such.</p>	
Type of advance	Bank policy on past due/impaired
Loans with a specific expiry date (e.g. term loans etc.) and consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans)	Treated as overdue where one full instalment is in arrears for one day or more and remains unpaid as at the reporting date. Advances on which partial payments have been made are included in neither past due nor impaired until such time as the sum of the unpaid amounts equal a full instalment, at which point it is reflected as past due.
Loans payable on demand (e.g. overdrafts)	Treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.
The full outstanding amount is reported as past due even if part of the balance is not yet due.	

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the year ended 30 June 2018

4.3 Impairment of financial assets (continued)

	Type of advance	Bank policy on past due/impaired
Non-performing loans	Retail loans	Individually impaired if three or more instalments are due or unpaid or if there is evidence before this that the customer is unlikely to repay the obligations in full.
	Commercial and wholesale loans	Analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.
Renegotiated advances	Advances that would otherwise be past due that have been renegotiated i.e. advances where, due to deterioration in the counterparty's financial condition, the bank granted a concession where the original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance.	Separately classified as neither past due nor impaired assets and remain classified as such until the terms of the renegotiated contract expire. Non-performing advances cannot be reclassified as renegotiated but current unless the arrears balance has been repaid.
	Excludes advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original.	Renegotiated advances are considered as part of the collective evaluation of impairment where advances are grouped on the basis of similar credit risk characteristics. The adherence to the new terms and conditions is closely monitored.
Impairments		
Specific	Created for non-performing loans where there is objective evidence that an incurred loss event will have an adverse impact on the estimated future cash flows from the advance. Potential recoveries from guarantees and collateral are incorporated into the calculation of impairment figures.	
Portfolio	Created with reference to performing advances. The impairment provision on the performing portfolio is split into two parts: ➤ An incurred but not reported (IBNR) provision i.e. the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified; and ➤ The portfolio specific impairment (PSI) which reflects the decrease in estimated future cash flows for the sub-segment of the performing portfolio where there is objective evidence of impairment.	

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the year ended 30 June 2018

4.3 Impairment of financial assets (continued)

Write offs
When an advance is uncollectible, it is written off against the related allowance account. Such advances are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment of advances in profit or loss.

4.4 Transfers and derecognition

Financial instruments are derecognised when the contractual rights or obligations expire or are extinguished, discharged or cancelled for example an outright sale or settlement.

For financial assets, this includes assets transferred that meet the derecognition criteria. Financial assets are transferred when the bank has either transferred the contractual right to receive cash flows from the asset or it has assumed an obligation to pay over all the cash flows from the asset to another entity (i.e. pass through arrangement under IAS 39).

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

4.5 Offsetting of financial instruments and collateral

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

Details of the offsetting and collateral arrangements of the bank are set out in the following table:

Derivative financial instruments	<p>The bank's derivative transactions that are not transacted on an exchange are entered into under International Derivatives Swaps and Dealers Association (ISDA) MNA. Generally, under such agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, e.g. when a credit event such as default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions (close-out netting).</p> <p>Financial collateral (mostly cash) is also obtained, often daily, for the net exposure between counterparties to mitigate credit risk.</p>
---	--

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the year ended 30 June 2018

4.5 Offsetting of financial instruments and collateral (continued)

It is the bank's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a transaction, either through physical inspection or indexation methods, as appropriate. For wholesale and commercial portfolios, the value of collateral is reviewed as part of the annual facility review. For mortgage portfolios, collateral valuations are updated on an ongoing basis through statistical indexation models. However, in the event of default, more detailed reviews and valuations of collateral are performed, which yields a more accurate financial effect.

4.6 Derivative financial instruments and hedge accounting

Derivative instruments are classified as held either for trading or formally designated as hedging instruments as required by IAS 39, which impacts the method of recognising the resulting fair value gains or losses.

For derivatives used in fair value hedges changes in the fair value of the derivatives are recorded in profit or loss as part of fair value gains or losses within non-interest revenue, together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

For derivatives used in cash flow hedges, the effective portion of changes in the fair value of derivatives is recognised in the cash flow hedge reserve in other comprehensive income and reclassified to profit or loss in the periods in which the hedged item affects profit or loss; the ineffective portion is recognised immediately in profit or loss as part of fair value gains or losses within non-interest revenue.

The bank documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions at the inception of the transaction. The bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The bank treats derivatives embedded in other financial or non-financial instruments, such as the conversion option in a convertible bond, as separate derivatives when they meet the requirements for bifurcation of IAS 39. Where bifurcated derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the year ended 30 June 2018

5. OTHER ASSETS AND LIABILITIES**5.1 Classification and measurement**

Classification	Measurement												
Information regarding land and buildings is kept at the bank's registered office and is open for inspection.													
Property and equipment													
<p>Property and equipment of the bank includes:</p> <ul style="list-style-type: none"> ➤ assets utilised by the bank in the normal course of operations to provide services including freehold property and leasehold premises and leasehold improvements (owner occupied); ➤ assets which are owned by the bank and leased to third parties under operating leases as part of the bank's revenue generating operations; ➤ capitalised leased assets; and ➤ other assets utilised in the normal course of operations including computer and office equipment, motor vehicles and furniture and fittings. 	<p>Historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated.</p> <p>Depreciation is on a straight-line basis over the useful life of the asset, except for assets capitalised under finance leases where the bank is the lessee, in which case depreciation is over the life of the lease (refer to policy 5.3).</p> <p>The useful life of each asset is assessed individually. The benchmarks used when assessing the useful life of the individual assets are set out below.</p> <table border="0"> <tr> <td>Leasehold premises</td><td>Shorter of estimated life or period of lease</td></tr> <tr> <td>Freehold property</td><td>40 years</td></tr> <tr> <td>Motor vehicle</td><td>5 years</td></tr> <tr> <td>Office equipment (ATMs)</td><td>5 years</td></tr> <tr> <td>Computer equipment</td><td>3 years</td></tr> <tr> <td>Furniture and fittings</td><td>10 years</td></tr> </table>	Leasehold premises	Shorter of estimated life or period of lease	Freehold property	40 years	Motor vehicle	5 years	Office equipment (ATMs)	5 years	Computer equipment	3 years	Furniture and fittings	10 years
Leasehold premises	Shorter of estimated life or period of lease												
Freehold property	40 years												
Motor vehicle	5 years												
Office equipment (ATMs)	5 years												
Computer equipment	3 years												
Furniture and fittings	10 years												
Intangible assets													
<p>Intangible assets of the bank includes:</p> <ul style="list-style-type: none"> ➤ internally generated intangible assets (including computer software and other assets such as trademarks or patents) are capitalised when the requirements of IAS 38 relating to the recognition of internally generated assets have been met; ➤ external computer software development costs are capitalised when they can be clearly associated with a strategic and unique system which will result in a benefit for the bank exceeding the costs incurred for more than one financial period; and ➤ material acquired trademarks, patents and similar rights are capitalised where the bank will receive a benefit from these intangible assets for more than one financial period. 	<p>Cost less accumulated amortisation and any impairment losses.</p> <p>Amortisation is on a straight-line basis over the useful life of the asset.</p> <p>The useful life of each asset is assessed individually. The benchmarks used when assessing the useful life of the individual assets are set out below.</p> <table border="0"> <tr> <td>Software and development costs</td><td>3 years</td></tr> </table>	Software and development costs	3 years										
Software and development costs	3 years												

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the year ended 30 June 2018

5.1 Classification and measurement (continued)

Intangible assets	
All other costs related to intangible assets are expensed in the financial period incurred.	
Provisions	
The bank will only recognise a provision measured in terms of IAS 37 when there is uncertainty around the amount or timing of payment. Where there is no uncertainty the bank will recognise the amount as an accrual. The most significant provisions recognised relate to litigation and claims.	

Other assets that are subject to depreciation and intangible assets, other than goodwill (refer to policy 2.1), are reviewed for impairment whenever objective evidence of impairment exists. Impairment losses are recognised in profit or loss as part of operating expenses.

Other assets are derecognised when they are disposed of or, in the case of intangible assets, when no future economic benefits are expected from its use. Gains or losses arising on derecognition are determined as the difference between the carrying amount of the asset and the net proceeds received, and are recorded in profit or loss as part of non-interest revenue.

5.2 Non-current assets and disposal groups held for sale

Assets and liabilities are classified and separately presented as held for sale by the bank when the specific conditions for classification as held for sale under IFRS 5 are met.

Any impairment losses on classification or that arise before sale and after the re-measurement of assets and liabilities in terms of their relevant IFRSs, are recognised in profit or loss in operating expenses, or as part of equity accounted earnings in the case of associates. If a disposal group contains assets that are outside of the measurement scope of IFRS 5, any impairment loss is allocated to those non-current assets in the disposal group that are within the measurement scope of IFRS 5. Any increases in fair value less costs to sell are recognised in non-interest revenue when realised.

When there is a change in intention to sell, any non-current assets and disposal groups held for sale are immediately reclassified back to their original line items. They are re-measured in terms of the relevant IFRS, with any adjustment being taken to profit or loss depending on the underlying asset to which it relates; for example operating expenses for property and equipment or intangible assets and equity accounted earnings for associates.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the year ended 30 June 2018

5.3 Leases

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

	Bank is the lessee	Bank is the lessor
Operating leases	<p>Recognised as an operating expense in profit or loss on a straight line basis over the period of the lease.</p> <p>Any difference between the actual lease amount payable and the straight-lined amount calculated is recognised as a liability of the group in creditors and accruals.</p>	<p>Assets held under operating leases are recognised as a separate category of property and equipment (assets held under leasing arrangements) and depreciated - refer to policy 5.</p> <p>Rental income is recognised as other non-interest revenue on a straight line basis over the lease term.</p>
Instalment credit sale agreements where the group is the lessor	<p>The bank regards instalment credit sale agreements as financing transactions and includes the total rentals and instalments receivable, less unearned finance charges, in advances. The bank calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to interest revenue in proportion to capital balances outstanding.</p>	

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the year ended 30 June 2018

6. CAPITAL AND RESERVES

Transaction	Liability	Equity
Shares issued and issue costs	<p>Preference shares issued by the bank that meet the definition of liabilities are classified as liabilities.</p> <p>Preference shares which qualify as Tier 2 capital have been included in Tier 2 liabilities.</p> <p>Other preference share liabilities have been included in other liabilities as appropriate.</p>	<p>Ordinary shares and any preference shares which meet the definition of equity including non-cumulative non-redeemable (NCNR) preference shares issued by the bank are recognised as equity. Any incremental costs directly related to the issue of new shares or options, net of any related tax benefit, are deducted from the issue price.</p>
Dividends paid/declared	<p>Recognised as interest expense on the underlying liability.</p>	<p>Dividends on ordinary shares and NCNR preference shares are recognised against equity.</p> <p>A corresponding liability is recognised when the dividends have been approved by the company's shareholders and distribution is no longer at the discretion of the entity.</p>
Distribution of non-cash assets to owners	<p>The liability to distribute non-cash assets is recognised as a dividend to owners at the fair value of the asset to be distributed.</p> <p>The difference between the carrying amount of the assets distributed and the fair value of the assets on the date of distribution is recognised as non-interest revenue in profit or loss for the period.</p>	<p>The carrying amount of the dividend payable is re-measured at the end of each reporting period and on settlement date. The initial carrying amount and any subsequent changes are recognised in equity.</p>
Other reserves		<p>Other reserves recognised by the bank include general risk reserves, statutory reserves, available-for-sale reserve and defined benefit post employment reserve. The general risk reserves and statutory reserves are required by legislation governing financial institutions and are calculated based on the requirements outlined in the relevant legislation applicable in the specific jurisdiction.</p>

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the year ended 30 June 2018

7. TRANSACTIONS WITH EMPLOYEES**7.1 Employee benefits**

The bank operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee administered funds. These funds are registered in terms of the Retirement Funds Act, 2005 in Swaziland and membership of the pension fund is compulsory for all permanent bank employees. The defined benefit plans are funded by contributions from employees and the relevant group companies, taking into account the recommendations of independent qualified actuaries.

Defined contribution plans	
Contributions are recognised as an expense, included in staff costs, when the employees have rendered the service entitling them to the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.	
Defined benefit plans	
Defined benefit obligation liability	Recognition <p>The liabilities and assets of these funds are reflected as a net asset or liability in the statement of financial position i.e. the present value of the defined benefit obligation at the reporting date less the fair value of plan assets.</p> <p>Where the value is a net asset, the amount recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.</p>
	Measurement <p>The present value of the defined benefit obligation is calculated annually by independent actuaries using the projected credit unit method. The discount rate used is the rate of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the terms of the related pension liability.</p>
Plan assets	The plan assets are carried at fair value. Where the plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits under the plan, the fair value is deemed to be the present value of the related obligation. If the qualifying insurance policy has a limit of indemnity the fair value of the insurance policy is limited to that amount.
Profit or loss	<p>Included as part of staff costs:</p> <ul style="list-style-type: none"> ➤ current and past service costs calculated using the projected unit credit method; ➤ gains or losses on curtailments and settlements that took place in the current period; ➤ net interest income calculated by applying the discount rate at the beginning of the period to the net asset or liability; and ➤ actuarial gains or losses on long term employee benefits.
Other comprehensive income	All other re-measurements in respect of the obligation and plan assets are included in other comprehensive income and never reclassified to profit or loss.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the year ended 30 June 2018

7. TRANSACTIONS WITH EMPLOYEES**7.1 Employee benefits (continued)**

Termination benefits	
The bank recognises termination benefits as a liability in the statement of financial position and as an expense, included in staff costs, in profit or loss when it has a present obligation relating to termination. The bank has a present obligation at the earlier of when the bank can no longer withdraw the offer of the termination benefit or when the bank recognises any related restructuring costs.	
Liability for short term employee benefits	
Leave pay	The bank recognises a liability for the employees' rights to annual leave in respect of past service. The amount recognised by the bank is based on current salary of employees and the contractual terms between the employee and the bank. The expense is included in staff costs.
Bonuses	The bank recognises a liability and an expense for management and staff bonuses when it is probable that the economic benefits will be paid and the amount can be reliably measured. The expense is included in staff costs.

7.2 Share-based payment transactions

The bank operates cash settled share-based compensation plans for employees and historically disadvantaged individuals and organisations.

Options and share awards granted under equity settled plans are allocated to a share-based payment reserve in equity until such time that the options are revised, vest, are forfeited or exercised, at which point the reserve is transferred to equity (either share capital or retained earnings). Options granted under cash settled plans result in a liability being recognised and measured at fair value until settlement. An expense is recognised in profit or loss for employee services received over the vesting period of the plans.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 for the year ended 30 June 2018

8. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

In preparing the annual financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior year. Included below are all the critical accounting estimates, assumptions and judgements made by the bank, except those related to fair value measurement which are included in note 18.

8.1 Taxation

The bank is subject to direct tax in a number of jurisdictions. As such there may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The bank recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, the difference will impact the income tax and deferred income tax provisions in the period in which such determination is made.

8.2 Impairment of financial assets

Impairment of financial assets	
In determining whether an impairment loss should be recognised, the bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.	
General	
Collective impairment assessments of groups of financial assets	<p>Future cash flows in a group of financial assets are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.</p> <p>Estimates of changes in future cash flows for groups of financial assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are regularly reviewed by the bank to reduce any differences between loss estimates and actual loss experience.</p>
Impairment assessment of collateralised financial assets	The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether the bank elects to foreclose or not.
Advances	
<p>The bank continuously assesses its credit portfolios for impairment. Significant advances are monitored by the credit committee and impaired according to the bank's impairment policy when an indication of impairment is observed.</p> <p>The objective of the measurement of an impairment loss is to produce a quantitative measure of the bank's credit risk exposure.</p> <p>In determining the amount of the impairment the bank considers the following:</p> <ul style="list-style-type: none"> the probability of default (PD) which is a measure of the expectation of how likely the customer is to default; the exposure at default (EAD) which is the expected amount outstanding at the point of default; and the loss given default (LGD) which is the expected loss that will be realised at default after taking into account recoveries through collateral and guarantees. 	

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 for the year ended 30 June 2018

8.2 Impairment of financial assets (continued)

Performing loans									
<p>The assessment of whether objective evidence of impairment exists requires judgement and depends on the class of the financial asset. In the retail portfolios the account status, namely arrears versus non-arrears status, is taken as a primary indicator of an impairment event. In the commercial portfolios, other indicators such as the existence of high-risk accounts, based on internally assigned risk ratings and management judgements are used, while the wholesale portfolio assessment includes a judgemental review of individual industries for objective signs of distress.</p> <p>Where impairment is required to be determined for the performing book, the following estimates are required:</p> <ul style="list-style-type: none"> ➤ the IBNR provision is calculated on this sub segment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non-performing status and similar risk indicators over an estimated loss emergence period. Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate, external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio. Refer to the table below for additional information; and ➤ the PSI is the decrease in future cash flows primarily estimated based on analysis of historical loss and recovery rates for comparable sub segments of the portfolio. <p>The sensitivity of modelled provisions to key assumptions has been assessed for each portfolio. This assessment was performed by calculating the impact on modelled provisions of adjusting model inputs to reflect conservative assumptions. The impact of increasing conservatism was tested by varying assumptions individually and simultaneously.</p> <p>The sensitivity of modelled provisions for performing loans was assessed by adjusting loss emergence period assumptions and arrears definitions. The arrears definition was adjusted so that early and/or partial arrears are considered to be objective evidence of impairment and the loss emergence period was increased by one month.</p> <p>Based on the results of the sensitivity analysis performed, management is satisfied that the current total provisions held for performing accounts is appropriate.</p> <p>The table below provides a breakdown of the range of loss emergence periods for the main classes of advances</p> <table> <tr> <th></th><th>Loss emergence range</th></tr> <tr> <td>Retail secured</td><td>3 – 6 months</td></tr> <tr> <td>Retail unsecured</td><td>3 months</td></tr> <tr> <td>Corporate and commercial</td><td>3 months</td></tr> </table>			Loss emergence range	Retail secured	3 – 6 months	Retail unsecured	3 months	Corporate and commercial	3 months
	Loss emergence range								
Retail secured	3 – 6 months								
Retail unsecured	3 months								
Corporate and commercial	3 months								
Non-performing loans									
<p>Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for commercial and wholesale loans) for assets with similar credit risk characteristics.</p> <p>The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.</p> <p>Management is comfortable that the level of provisions held for non-performing loans is appropriate, considering the impact of a 10% relative change in NPL LGDs on modelled provisions.</p>									
Available-for-sale equity instruments									
<p>The bank determines that available-for-sale equity instruments are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the bank evaluates factors such as, <i>inter alia</i>, the normal volatility in share prices, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.</p>									

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 for the year ended 30 June 2018
8.3 Other assets and liabilities

Other assets and liabilities			
Property and equipment		Intangible assets	
The useful life of each asset is assessed individually. The benchmarks used when assessing the useful life of the individual assets are set out below.			
Leasehold premises	Shorter of estimated life or period of lease	Software and development costs	3 years
Freehold property	40 years		
Motor vehicle	5 years		
Office equipment (ATMs)	5 years		
Computer equipment	3 years		
Furniture and fittings	10 years		

Provisions
The bank has a policy and process in place to determine when to recognise provisions for potential litigation and claims. The recognition of such provisions is linked to the ranking of legal risk of potential litigation on the bank's litigation database.

8.4 Transactions with employees

Employee benefits - defined contribution plans	
Determination of purchased pension on retirement from defined contribution plan	<p>Upon retirement of current defined contribution active members, the fund provides a pension that can be purchased with the member's share. The pension so purchased is determined based on the purchasing member's demographic details (age, sex, age of spouse), the pension structure (guarantee period, spouse's reversion and pension increase target) and the economic assumptions at time of purchase (inflation linked bond yields available).</p> <p>A benefit on withdrawal and retrenchment are determined in terms of the prevailing legislation and is equivalent to the value of the actuarial reserve held in the fund.</p> <p>If the member chooses to buy into the fund on that date the fair value of plan assets and the value of plan liabilities on the defined benefit plan are increased by the amount of the initial contribution.</p>

FIRST NATIONAL BANK OF SWAZILAND LIMITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 for the year ended 30 June 2018
8.4 Transactions with employees (continued)

Employee benefits - defined benefit plans	
Determination of required funding levels	<p>Funding levels are monitored on an annual basis and the current agreed contribution rate in respect of the defined benefit pension fund is 21% of pensionable salaries (in excess of the minimum recommended contribution rate set by the fund actuary). The bank considers the recommended contribution rate as advised by the fund actuary with each actuarial valuation.</p> <p>In addition, the trustees of the fund target a funding position on the pensioner liabilities that exceeds the value of the best estimate actuarial liability. The funding position is also considered in relation to a solvency reserve basis, which makes allowance for the discontinuance cost of outsourcing the pensions.</p> <p>As at the last statutory actuarial valuation of the fund (during October 2015), all categories of liabilities were at least 100% funded.</p> <p>If the member chooses to buy into the fund, on that date the fair value of plan assets and the value of the plan liabilities on the defined benefit plan are increased by the amount of the initial contribution.</p>
Determination of present value of defined benefit plan obligations	<p>The cost of the benefits and the present value of the defined benefit pension funds and post-employment medical obligations depend on a number of factors that are determined annually on an actuarial basis, by independent actuaries, using the projected unit credit method which incorporates a number of assumptions.</p> <p>The key assumptions used in determining the charge to profit or loss arising from these obligations include the expected long-term rate of return on the relevant plan assets, discount rate and expected salary and pension increase rates. Any changes in these assumptions will impact the charge to profit or loss and may affect planned funding of the pension plans.</p>

9. FINANCIAL RISK MANAGEMENT

The bank's risk management policies are disclosed in note 23 of the financial statements.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
 for the year ended 30 June 2018

	2018 E'000	2017 E'000
1 Interest and similar income		
<i>Interest and similar income is earned on financial assets held:</i>		
<i>At amortised cost</i>		
Advances	331 768	326 328
Cash and cash equivalents	74 496	62 927
Investment securities – available-for-sale	58 463	47 484
	464 727	436 739
Accrued on impaired advances (suspended interest)	(5 434)	(8 152)
	459 293	428 587
2 Interest expense and similar charges		
Interest expense and similar charges are paid on the following financial liabilities carried at amortised cost:		
Current accounts	6 117	5 086
Call accounts	95 483	85 422
Savings accounts	1 083	2 703
Term deposit accounts	14 189	13 451
	116 872	106 662
3 Non- interest revenue		
<i>Fee and commission income comprises of banking fee and commission income categorised as follows:</i>		
<i>Banking fee and commission income</i>		
Card commissions	13 103	11 379
Cash and cheque deposit fees	2 729	2 394
Commissions - bills, drafts & cheques	4 657	3 151
Service fees	254 598	216 446
Exchange commissions	17 145	17 197
	292 232	250 567
<i>Other fee and commission income</i>	18 720	17 206
Total fee and commission income	310 952	267 773
<i>Fee and commission expenses</i>		
Cash sorting handling and transportation charges	(2 780)	(3 397)
Card and cheque book related	-	(719)
Transactional Processing fees	(1 322)	(1 035)
Total fee and commission expenses	(4 102)	(5 151)
Non-interest revenue	306 850	262 622

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

	2017 E'000	2017 E'000
4 Other gains/(losses)		
Insurance claims compensation	5 202	-
Loss from the sales of property and equipment	(204)	89
	<u>4 998</u>	<u>89</u>
5. Operating and administration expenses		
Operating expenses comprise the following:		
Auditors' remuneration		
Audit fees – statutory audit current year provision	1 510	600
Audit fees – BA returns	115	-
Fees for other services – current year provision	775	-
	<u>2 400</u>	<u>600</u>
Depreciation of property and equipment		
Freehold buildings	25	23
Leasehold premises	2 508	2 020
Computer equipment	4 601	3 985
Furniture and fittings	1 066	827
Motor vehicles	468	288
Office equipment	7 771	5 943
	<u>16 439</u>	<u>13 086</u>
Operating lease charges		
Land and buildings	14 751	13 769
Equipment	992	1 106
	<u>15 743</u>	<u>14 875</u>
Professional fees – Technical	<u>238</u>	<u>775</u>
Directors' fees		
Services as directors	1 130	1 603
Other services	2 273	2 135
	<u>3 403</u>	<u>3 738</u>

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
 for the year ended 30 June 2018

	2018 E'000	2017 E'000
5. Operating and administration expenses (continued)		
Employee benefit expenses		
Salaries, wages and allowances	132 182	113 705
Contributions to employee defined benefit plan	10 192	8 961
Share-based payments (note 25)	4 400	4 287
Other employee benefit expenses	1 668	4 733
	<u>148 442</u>	<u>131 686</u>
The number of employees employed by the bank at year end was 340 (2017: 381).		
Other operating costs		
Insurance	3 319	3 555
Advertising and marketing	6 139	5 658
Property and other maintenance	13 876	13 594
Computer	3 216	2 321
Stationery	3 971	3 887
Telecommunication	10 394	9 921
Training and business travel	4 605	3 015
Bank charges	2 436	2 023
Donations	1 729	1 949
Entertainment	2 468	2 139
Stationery and storage	2 346	3 123
Legal	802	846
Other operating expenses	5 273	3 078
	<u>60 574</u>	<u>55 109</u>
Intercompany expenses		
IT support services	42 146	26 452
IT development and maintenance	21 555	20 176
FNB branded stationary	10 877	16 588
Management fees	34 679	30 547
	<u>109 257</u>	<u>93 763</u>
Total operating and administration expenses	<u>356 496</u>	<u>313 632</u>
6. Indirect tax		
<i>Indirect taxation paid comprise of:</i>		
Stamp duties and value added tax reverse charge	18 734	11 718
Total indirect taxation	<u>18 734</u>	<u>11 718</u>

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

	2018 E'000	2017 E'000
7. Taxation		
7.1. Income tax expense		
<i>Income taxation comprises of:</i>		
Income tax expense	73 202	76 579
- Current tax	73 202	65 279
- Prior year adjustment	-	11 300
Deferred income tax (note 7.2)	(2 522)	360
Total income tax expense	70 680	76 939
 Taxation rate reconciliation - Swaziland normal taxation		
	%	%
Standard taxation rate	27.5	27.5
<i>Total taxation has been affected by:</i>		
Expense not deductible for tax purposes	(0.07)	0.1
Tax adjustment	-	4.7
Effective taxation rate	27.43	32.3
 7.2 Deferred income tax asset		
<i>The movement on the deferred income taxation account is as follows:</i>		
Balance at the beginning of the year	23 786	24 146
Credit to the statement of comprehensive income (note 7.1)	2 522	(360)
Balance at the end of the year	26 308	23 786
 Deferred Taxation-Net	26 308	23 786

Deferred tax assets and liabilities are offset when the income taxes relate to the same fiscal authority and there is a legal right to set-off. Deferred tax assets and liabilities and deferred taxation credit to the statement of comprehensive income are attributable to the following items:

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

7. Taxation (continued)**7.2 Deferred income tax asset** (continued)

The following are the detailed items giving rise to deferred tax balances and the movement in each during the year:

At 30 June 2018

	Opening Balance E'000	Taxation charge/ (release) E'000	Closing Balance E'000
Impairment of advances	8 665	4 407	13 072
Provision for other liabilities and charges	2 238	522	2 760
Deferred revenue	3 879	(1 568)	2 311
Post-retirement benefit liability	7 641	-	7 641
Share based payments liability	1 830	458	2 288
Prepayments	(155)	(1 297)	(1 452)
Fair value gains in investment securities to other comprehensive income	(312)	-	(312)
Net- deferred tax assets	23 786	2 522	26 308

At 30 June 2017

	Opening Balance E'000	Taxation charge/ (release) E'000	Closing Balance E'000
Impairment of advances	9 092	(427)	8 665
Provision for other liabilities and charges	2 627	(389)	2 238
Deferred revenue	3 754	125	3 879
Post retirement benefit liability	7 641	-	7 641
Share based payments liability	1 568	262	1 830
Prepayments	(224)	69	(155)
Fair value gains in investment securities to other comprehensive income	(312)	-	(312)
Net- deferred tax assets	24 146	(360)	23 786

Deferred income tax assets are recognised in respect of deductible temporary differences; unused tax losses and unused tax credits to the extent that the realisation of the related tax benefit is probable.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

7. Taxation (continued)

	2018 E'000	2017 E'000
7.3 Current income tax liabilities		
Balance at the beginning of the year	9 964	6 529
Income tax expense for the year (note 7.1)	73 202	76 579
Income tax paid during the year (note 22.2)	(78 232)	(73 144)
At the end of the year	<u>4 934</u>	<u>9 964</u>

8. Cash and cash equivalents

Coins and bank notes	114 527	137 942
Balances with the Central Bank	505 710	352 231
Balances with other banks	98 694	204 055
	<u>718 931</u>	<u>694 228</u>

Valuation committees comprising representatives from key management have been established within each franchise and at an overall Group level and are responsible for overseeing the valuation control process and considering the appropriateness of the valuation techniques applied in fair value measurement. The valuation models and methodologies are subject to independent review and approval at a franchise level by the required technical teams, valuation committees, relevant risk committees and external auditors annually or more frequently if considered appropriate.

Mandatory reserve balances included in above	<u>247 339</u>	<u>248 870</u>
--	-----------------------	-----------------------

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
 for the year ended 30 June 2018

9. Advances and impairment of advances	2018	2017
	E'000	E'000
9.1 Advances		
<i>Advances comprises of loans classified as loans and receivables and measured on amortised cost in terms of IAS 39.</i>		
Sector analysis		
Agriculture	571 451	405 420
Building and property development	133 651	165 442
Financial institutions	103 001	3 162
Government and public authority	36 678	150 243
Individuals	1 089 739	994 560
Manufacturing and commerce	832 693	722 610
Transport and communication	171 215	255 239
Other services	42 381	77 800
Gross advances	2 980 809	2 774 476
Impairment of loans and advances (note 9.2)	(63 383)	(42 015)
Advances	2 917 426	2 732 461
Geographic analysis (based on credit risk)		
Eswatini	2 980 809	2 774 476
Category analysis		
Overdrafts and managed accounts	655 107	577 371
Term loans	533 365	335 894
Lease payments receivable	674 397	727 651
Home loans	544 449	516 618
Property Finance	216 658	277 999
Personal loans	285 146	268 308
Floor Plans	71 687	70 635
Gross loans and advances	2 980 809	2 774 476
Impairment of advances (note 9.2)	(63 383)	(42 015)
Net loans and advances	2 917 426	2 732 461

The maturities of advances are disclosed in Note 23.3 (c).

The fair values of advances are disclosed in Note 23.4.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
 for the year ended 30 June 2018
9. Advances and impairment of advances (continued)**9.1 Advances** (continued)**Analysis of instalment sales and lease payments receivable**

	Within 1 year E'000	Between 1 and 5 years E'000	More than 5 years E'000	Total E'000
At 30 June 2018				
Lease payments receivable	48 501	735 183	24 636	808 320
Less : Unearned finance charges	(1 740)	(121 640)	(6 403)	(129 783)
	46 761	613 543	18 233	678 537

At 30 June 2017

Lease payments receivable	39 665	804 897	36 480	881 042
Less : Unearned finance charges	(1 598)	(140 165)	(10 075)	(151 838)
	38 067	664 732	26 405	729 204

9.2 Impairment of advances

Significant loans and advances are monitored by the credit committee and impaired according to the bank's impairment policy when an indication of impairment is observed.

The following factors are considered when determining whether there is objective evidence that the asset has been impaired:

- Breaches of loan covenants and conditions;
- The time period of overdue contractual payments;
- Actuarial credit models;
- Loss of employment or death of the borrower; and
- The probability of liquidation of the customer.

Where objective evidence of impairment exists, impairment testing is performed based on the Loss Given Default (LGD), Probability of Default (PD) and Exposure at Default (EAD).

Analysis of movement in impairment of advances per category

	Total Impairment E'000	Specific Impairment E'000	Portfolio Impairment E'000	Income Statement E'000
At 30 June 2018				
Opening balance	42 015	16 571	25 444	-
Amounts written off	(806)	(806)	-	-
Recoveries made during the year	-	-	-	(863)
Reclassifications	-	-	-	-
Net new impairments created	22 174	26 009	(3 835)	22 174
Closing balance	63 383	41 774	21 609	21 311

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
 for the year ended 30 June 2018
9. Advances and impairment of advances (continued)**9.2 Impairment advances (continued)**

	Total Impairment	Specific Impairment	Portfolio Impairment	Income Statement
	E'000	E'000	E'000	E'000
At 30 June 2017				
Opening balance	44 088	23 555	20 533	-
Amounts written off	(23 744)	(23 744)	-	-
Recoveries made during the year	-	-	-	(607)
Reclassifications	-	-	-	-
Net new impairments created	21 671	16 760	4 911	21 671
Closing balance	42 015	16 571	25 444	21 064

	Security Held E'000	Contractual interest suspended E'000	Specific Impairments E'000
At 30 June 2018			
<i>Non-performing lending by sector</i>			
Agriculture	1 092	474	1 382
Building and property development	2 201	944	1 097
Other financial services	-	192	880
Government and public authority	1 899	142	625
Individuals	16 383	6 226	17 757
Manufacturing and commerce	7 977	2 245	4 956
Mining	-	-	-
Other Service	228	117	488
Transport and communication	4 893	1 580	14 588
	34 673	11 920	41 773

Non performing lending by category

Overdrafts and managed account debtors	8 139	4 482	4 608
Lease payments receivable	15 746	4 140	24 003
Floor plan deals	-	-	-
Home loans	8 654	1 183	2 247
Personal loans	1 743	2 113	10 915
Commercial Property Finance	391	2	-
Total non-performing lending	34 673	11 920	41 773

Geographic analysis

Eswatini	34 673	11 920	41 773
----------	---------------	---------------	---------------

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
 for the year ended 30 June 2018
9. Advances and impairment of advances (continued)**9.2. Impairment advances (continued)**

	Security Held E'000	Contractual interest suspended E'000	Specific Impairments E'000
At 30 June 2017			
<i>Non-performing lending by sector</i>			
Agriculture	(138)	247	262
Building and property development	2 131	434	824
Other financial services	-	-	12
Government and public authority	(775)	775	-
Individuals	16 205	2 477	8 288
Manufacturing and commerce	3 769	327	1 211
Mining	-	-	-
Other Service	2 285	221	4 120
Transport and Communication	2 161	288	1 855
	<u>25 638</u>	<u>4 769</u>	<u>16 572</u>
<i>Non performing lending by category</i>			
Overdrafts and managed account debtors	7 169	2 002	1 969
Lease payments receivable	9 831	1 554	5 995
Floor plan deals	517	-	3 292
Home loans	6 619	593	188
Personal loans	1 501	621	5 127
Total non-performing lending	<u>25 637</u>	<u>4 770</u>	<u>16 571</u>
Geographic analysis			
Eswatini	<u>25 637</u>	<u>4 770</u>	<u>16 571</u>

2018
E'000
2017
E'000
10 Investment securities and other investments

*Investment securities: Available-for-sale financial assets
comprise the following:*

Treasury bills	244 438	172 768
Government and Government guaranteed stock	373 382	346 200
Total investment securities and other investments	<u>617 820</u>	<u>518 968</u>
Maturity analysis		
Less than 1 year	290 150	172 768
Between 1 and 5 year	228 549	248 224
More than 3 years	99 121	97 976
Total	<u>617 820</u>	<u>518 968</u>

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
 for the year ended 30 June 2018

	2018 E'000	2017 E'000
10 Investment securities and other investments (Continued)		
The financial instruments available for sale form part of the bank's liquid asset portfolio in terms of the Central Bank of Eswatini requirements.		
Analysis of investment securities		
<i>Listed</i>		
Debt – Government and Government guaranteed stock	373 382	346 200
<i>Unlisted</i>		
Debt – Treasury bills	<u>244 438</u>	<u>172 768</u>
	<u>617 820</u>	<u>518 968</u>
Aggregate fair value of listed securities	373 382	172 768
Aggregate directors' valuation of unlisted investments	<u>244 438</u>	<u>346 200</u>
	<u>617 820</u>	<u>518 968</u>

The details of the investments and their maturity are as follows:

Listed – Government Guaranteed Stock

Security Name	Nominal Amount	Discount Amount	Start Date	Coupon rate (%)	Maturity Date	Tenor (Year)	Yield Rate (%)
Swd Govt Bond - SG36M	20,000,000	20,000,000	23-Dec-16	9.25%	23-Dec-19	3	10.50%
Swd Govt Bond - SG016	20,000,000	20,284,589	31-Aug-13	8.25%	31-Aug-18	5	7.90%
Swd Govt Bond - SG016	5,000,000	5,060,908	31-Aug-13	8.25%	31-Aug-18	5	7.95%
Swd Govt Bond - SG016	20,000,000	20,366,814	31-Aug-13	8.25%	31-Aug-18	5	7.80%
Swd Govt Bond - SG020	25,000,000	25,253,465	20-Oct-14	8.25%	20-Oct-19	5	8.00%
Swd Govt Bond - SG023	31,000,000	31,000,000	30-Nov-15	8.75%	30-Nov-20	5	8.75%
Swd Govt Bond - SG023	10,329,600	10,227,431	30-Nov-15	8.75%	30-Nov-20	5	9.00%
Swd Govt Bond - SG023	15,000,000	13,832,988	30-Nov-15	8.75%	30-Nov-20	5	11.25%
Swd Govt Bond - SG023	7,000,000	6,577,430	30-Nov-15	8.75%	30-Nov-20	5	10.75%
Swd Govt Bond - SG025	38,000,000	38,000,000	20-Jun-16	10.00%	20-Jun-21	5	10.00%
Swd Govt Bond - SGIFB001	10,000,000	9,903,478	31-Jul-17	9.75%	31-Jul-22	5	9.75%
Swd Govt Bond - SG033	20,000,000	20,000,000	29-Jun-18	9.25%	29-Jun-23	5	9.25%
Swd Govt Bond - SG033	20,000,000	19,960,727	29-Jun-18	9.25%	29-Jun-23	5	9.30%
Swd Govt Bond - SG017	9,852,000	10,045,869	31-Oct-13	8.50%	31-Oct-20	7	8.25%
Swd Govt Bond - SG022	20,000,000	20,000,000	25-Sep-15	8.75%	25-Sep-22	7	8.75%

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

10 Investment securities and other investments (continued)**Listed – Government Guaranteed Stock** (continued)

Security Name	Nominal Amount	Discount Amount	Start Date	Coupon rate (%)	Maturity Date	Tenor (Year)	Yield Rate (%)
Swd Govt Bond - SGIFB001	10,000,000	9,808,123	31-Jul-17	9.75%	31-Jul-22	5	9.75%
Swd Govt Bond - SGIFB001	5,000,000	4,856,959	31-Jul-17	9.75%	31-Jul-22	5	9.75%
Swd Govt Bond - SG022	10,000,000	9,948,636	25-Sep-15	8.75%	25-Sep-22	7	8.85%
Swd Govt Bond - SG022	7,000,000	7,054,374	25-Sep-15	8.75%	25-Sep-22	7	8.60%
Swd Govt Bond - SG026	38,000,000	33,515,726	31-Aug-16	9.00%	31-Aug-23	7	11.50%
Swd Govt Bond - SG018	5,706,000	5,798,779	31-Jan-14	9.25%	31-Jan-24	10	9.25%
Swd Govt Bond - SG018	10,000,000	9,997,543	31-Jan-14	9.25%	31-Jan-24	10	9.25%
Swd Govt Bond - SG018	10,000,000	9,848,499	31-Jan-14	9.25%	31-Jan-24	10	9.50%

Unlisted - Treasury bills

Swd Gov Bill No	Nominal (E)	Start Date	Maturity Date	Cost (E)	Discount Rate (%)	Yield (%)
SZG3640174	37,320,000	2017/08/04	2018/08/03	34,183,660	8.43	9.20
SZG3640175	3,325,000	2017/09/01	2018/08/31	3,046,963	8.39	9.15
SZG3640175	10,000,000	2017/09/01	2018/08/31	9,167,986	8.34	9.10
SZGT18202727	20,000,000	2018/02/02	2018/08/03	19,223,533	7.79	8.10
SZGT18202750	16,490,000	2018/03/16	2018/09/14	15,849,803	7.79	8.10
SZGT3640140	20,000,000	2018/04/13	2019/04/12	18,428,717	7.88	8.55
SZGT18202750	20,000,000	2018/04/13	2018/10/12	19,223,533	7.79	8.10
SZGTB000760	20,000,000	2018/05/18	2018/08/17	19,623,285	7.56	7.70
SZG2730248	17,920,000	2018/05/18	2019/02/15	16,884,470	7.73	8.20
SZGT3640186	2,595,000	2018/06/08	2019/06/07	2,392,213	7.84	8.50
SZGT3640186	20,000,000	2018/06/08	2019/06/07	18,445,670	7.79	8.45
SZG2730249	8,666,700	2018/06/01	2019/03/01	8,165,884	7.73	8.20
SZG1820281	20,000,000	2018/06/08	2018/12/07	19,232,808	7.69	8.00
SZGT27302518	20,000,000	2018/06/29	2019/03/29	18,857,588	7.64	8.10
SZGT182282	16,400,000	2018/06/22	2018/12/21	15,770,902	7.69	8.00

The director's valuation of unlisted investments is considered to be at fair value in terms of IFRS 13.

The fair values of listed securities are based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the listed securities.

The maximum exposure to credit risk at the reporting date is the carrying value of the debt securities classified as available for sale.

None of these financial assets is either past due or impaired.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

11. Derivative financial instruments**Use of derivatives**

The bank transacts in derivatives for two purposes: to create risk management solutions for clients and to manage and hedge the bank's own risk. For accounting purposes, derivative instruments are classified as either held for trading or hedging.

Derivatives that are classified as hedging instruments are formally designated as hedging instruments as defined in IAS 39. All other derivatives are classified as held for trading. The held for trading classification includes two types of derivative instruments: those used in sales activities and those that are economic hedges but do not meet the criteria to qualify for hedge accounting. The latter includes derivatives managed in conjunction with financial instruments designated at fair value.

The bank's derivative activities do not give rise to open positions in portfolios of derivatives. Currency derivative exposures are held on behalf of the bank's customers and are matched by counter exposures taken out with the holding company. The bank does not hold exposures on its own accord. The difference between the asset and the liability represents the commission charged by the bank for the provision of the service. All derivative transactions are settled over the counter. These positions are managed constantly to ensure that they remain within acceptable risk levels, with offsetting deals being utilised to achieve this where necessary.

The bank's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in Note 23 of the financial statements.

The fair value of derivatives is recognised on the statement of financial position and is only netted to the extent that a legal set off exists and there is an intention to settle on a net basis

	Assets Notional value	Assets Fair value	Liabilities Notional value	Liabilities Fair value
<i>Held for trading – 2018</i>				
Currency derivatives - Forward rate agreements	<u>283 374</u>	<u>16 098</u>	<u>122 545</u>	<u>6 214</u>
<i>Held for trading – 2017</i>				
Currency derivatives - Forward rate agreements	<u>277 004</u>	<u>10 227</u>	<u>152 047</u>	<u>5 103</u>

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
 for the year ended 30 June 2018

	2018 E'000	2017 E'000
12 Accounts receivable		
Items in transit	8 558	3 632
Other receivables	21 682	14 681
Sundry debtors	5 284	566
	35 524	18 879
Analysis of accounts receivable: -		
Financial	24 527	2 667
Non-financial	10 997	16 212
Total accounts receivable	35 524	18 879

13 Property and equipment

	Cost 2018 E '000	Accumulated depreciation and impairments 2018 E '000	Net Book Value 2018 E '000	Cost 2017 E '000	Accumulated Depreciation And Impairments 2017 E '000	Net Book Value 2017 E '000
Property						
Freehold land and buildings	12 118	(624)	11 494	12 118	(599)	11 519
Leasehold premises	37 328	(23 096)	14 232	37 131	(20 588)	16 543
	49 446	(23 720)	25 726	49 249	(21 187)	28 062
Equipment						
Computer equipment	39 123	(27 694)	11 429	37 144	(23 093)	14 051
Furniture and fittings	13 866	(6 618)	7 248	13 781	(5 551)	8 230
Motor vehicles	5 309	(2 040)	3 269	3 107	(1 837)	1 270
Office equipment	59 425	(37 302)	22 123	51 969	(29 729)	22 240
Work in progress	681	-	681	3 341	-	3 341
	118 404	(73 654)	44 750	109 342	(60 210)	(49 132)
Total	167 850	(97 374)	70 476	158 591	(81 397)	77 194

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

13 Property and equipment (continued)**Reconciliation of property and equipment - net book value**

	Freehold land and Buildings	Leasehold Premises	Computer Equipment	Furniture and fittings	Work in Progress	Motor Vehicles	Office Equipment	Total
	E '000	E '000	E '000	E '000	E '000	E '000	E '000	E '000
For the year ending 30 June 2018								
Net book value at 01 July 2017	11 519	16 543	14 050	8 230	3 341	1 270	22 240	77 194
Additions		197	1 902	85	681	2 467	4 671	10 003
Depreciation charge for the period	(25)	(2 508)	(4 601)	(1 066)	-	(468)	(7 771)	(16 439)
Disposals	-	-	-	-	-	-	(282)	(282)
Transfers to /(from) WIP	-	-	78	-	(3 341)	-	3 263	-
Net book value at 30 June 2018	11 494	14 232	11 429	7 249	681	3 269	22 121	70 476

For the year ending 30 June 2017								
Net book value at 01 July 2016	10 978	9 388	13 936	3 973	3 822	685	17 698	60 480
Additions	564	8 115	4 099	2 572	3 341	873	10 485	30 050
Depreciation charge for the period	(23)	(2 020)	(3 985)	(826)	-	(288)	(5 943)	(13 086)
Disposals	-	(175)	-	(77)	-	-	-	(252)
Transfers to /(from) WIP	-	1 235	-	2 587	(3 822)	-	-	-
Net book value at 30 June 2017	11 519	16 543	14 050	8 230	3 341	1 270	22 240	77 192

Freehold land and buildings comprise property situated in Portion 71 of Farm 188, Dalriach, Mbabane in the Hhohho district, and Lot No.2 of the Offices Township, situated in the district of Hhohho Swaziland.

A schedule of the bank's properties is maintained at the bank's registered office and is available to the member for inspection.

At 30 June 2018 included in property, plant and equipment are fully depreciated items of property, plant and equipment with an initial cost of E53,832,581 (2017: E48 664 932).

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

14. Ordinary shares and preference shares	2018 E'000	2017 E'000
Ordinary shares		
<i>Authorised</i>		
30 million shares with a par value of 100 cents per share	30 000	30 000
1,042 million non-cumulative non-redeemable preference shares with a par value of 100 cents per share	1 042	1 042
<i>Issued - fully paid up</i>		
26.6 million (2017: 26.6 million) ordinary shares with a par value of 100 cents per share	26 600	26 600
1,042 million non-cumulative non-redeemable preference shares with a par value of 100 cents per share The non-cumulative non-redeemable preference shares were issued at a nil interest rate.	1 042	1 042
Total issued share capital	27 642	27 642
Non-cumulative non-redeemable preference shares		
Ordinary share premium	2 686	2 686
Total issued share capital and share premium	30 328	30 328
14.1 Capital adequacy		
Core capital		
Share capital	27 642	27 642
Share premium	2 686	2 686
Statutory reserve	153 075	134 405
Retained earnings	769 051	602 795
	952 454	767 528

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

	2018	2017
	E'000	E'000
14. Ordinary shares and preference shares (continued)		
14.1 Capital adequacy (continued)		
Supplementary capital		
Revaluation and fair value reserves subject to 25% risk adjustment	822	822
General Risk Reserve	29 808	27 736
Actuarial gains on defined benefit fund	(1 357)	(1 357)
Total qualifying capital	29 273	27 201
Risk adjusted assets - statement of financial position Items	2 752 962	2 509 713
- off-statement of financial position items	236 898	325 003
- operational risk	991 311	-
- Market risk	104 496	-
	4 085 675	2 834 716
Capital Adequacy Ratios		
- Core capital (%)	23.37	27.08
- Supplementary capital (%)	0.04	1.27
Total (%)	23.41	28.35

During the financial year, effective 01 January 2018, in accordance with the requirements of Central Bank of Eswatini the Bank migrated from Basel I to Basel II, adopting the standardized approach for credit risk and basic indicator approach for market risk. The minimum capital adequacy requirement remained unchanged at 8%.

15. Other reserves**Non-distributable reserves**

Defined benefit plan reserves	(1 357)	(1 357)
Fair value reserves - available for sale instruments	822	822
General risk reserve (impaired capital reserve)	29 808	27 736
Central Bank of Eswatini - Statutory Reserve	153 075	134 405
	182 348	161 606

A detailed reconciliation of the movements in the respective non-distributable reserve balances is set out in the statement of changes in equity.

Statutory Reserve

In terms of Section 20 (1) (a) (ii) of the Act, the bank is required to transfer not less than 10% of its post-tax profit to a statutory reserve account until the balance in this reserve account is equal to its minimum required capital. In accordance with this requirement an amount of E18.670 million (2017: E17.267million) has been transferred to the statutory reserve in the current financial year.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

15. Other reserves (continued)**General risk reserve**

This is a provision calculated for regulatory purposes, in accordance with Circular 8, which states that the bank has to transfer to non-distributable reserve at 1% of the balance of loans and advances.

The IAS 39 impairment provision may differ than the regulatory provision. In case of a shortfall, an additional general credit risk reserve has been created and maintained to eliminate the possible shortfall in impairment provision/losses.

	2018 E'000	2017 E'000
16 Deposits		
Call and current accounts	3 753 434	3 440 132
Savings account	38 974	220 184
Term deposits accounts	232 574	434 491
	4 024 982	4 094 807
Other deposits	1 755	202 968
	4 026 737	4 297 775

Classification analysis of deposits held

	At amortised cost E'000	Designated at fair value E'000	Total E'000
At 30 June 2018			
Deposits	3 744 520	282 217	4 026 737
At 30 June 2017			
Deposits	4 082 046	215 729	4 297 775

The fair values of deposits and current accounts are disclosed in Note 23.4

Geographic analysis

Eswatini	4 026 737	4 297 775
----------	------------------	-----------

Sector analysis

Banks	11 851	96 428
Financial sector customers	175 889	395 713
Non-financial corporate customers	2 342 400	2 299 316
Other	956	132 259
Public Sector	612 896	531 858
Retail customers	882 745	842 201
	4 026 737	4 297 775

The maturities of deposits and current accounts are disclosed in Note 23.3 (c).

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
 for the year ended 30 June 2018

	2018 E'000	2017 E'000
17 Share based payment liability		
Share appreciation obligations	8 320	6 653
	<u>8 320</u>	<u>6 653</u>
Analysis of movement in share based payment liability: -		
Balance at the beginning of the year	6 653	5 700
Transfer between Group entities	1 120	-
Charged in statement of comprehensive income (Note 5 and 25)	4 400	4 287
Vested and settled	(3 853)	(3 334)
Balance at the end of the year	<u>8 320</u>	<u>6 653</u>

Refer to note 25 for detailed disclosures on conditional share plan and share appreciation plan.

18 Defined benefit post-employment liability
Nature of benefits

The bank operates a defined benefit plan, a plan that provides post-employment pension plan. The pension plan provides retired employees with annuity income after their service. In terms of the plan, the bank is liable to the employees for specific payments on retirement and for any deficit in the provision of the benefits from the plan assets. The liabilities and assets of these pension plans are reflected as a net asset or liability in the statement of financial position. For current pensioners the Fund pays a pension to the members and dependants' pension to the spouse and eligible children payable on death of the member. On retirement of current defined contribution active members, the Fund provides a pension that can be purchased with the Member's Share. The pension so purchased, is determined based on the purchasing member's demographic details (age, sex, age of spouse), the pension structure (guarantee period, spouse's reversion, pension increase target) and the economic assumptions at time of purchase (inflation linked bond yields available). The liability in respect of contributing defined contribution members is equal to the Member's Share of Fund, which is determined as the accumulation of the member's contributions and employer's contributions (net of deduction for Fund expenses and cost of death benefits) as well as any amounts transferred into the Fund by the member, increased with the net investment returns earned (positive or negative) on the member's assets.

In terms of the small number of defined benefit contributing members in the pension Fund, the Bank is liable for any deficit in the value of accrued benefits exceeding the assets in the Fund earmarked for these liabilities. In terms of the existing pensioners in the pension Fund, the Trustees are responsible for setting the Pension Increase Policy and granting of pension increases subject to the assets of the Fund supporting such increases. Should the Pension Account in the pension Fund be in a deficit to the extent that current pensions in payment cannot be maintained, the bank is liable to maintain the nominal value of pensions in payment. The liabilities and assets of these defined benefit plans are reflected as a net asset or liability in the statement of financial position.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

18 Defined benefit post-employment liability (continued)

Regulatory framework

The plan is governed by the office of the Registrar of Insurance and Retirement Funds through the Retirement Funds Act 2005 in Swaziland.

Governance of the plan

Responsibility for governance of the plan - including investment decisions and contribution schedules lies jointly with the bank and the board of trustees. The board of trustees must be composed of representatives of the bank and plan participants in accordance with the Retirement Fund Act 2005 in Swaziland and related regulations. The board consists of 3 representatives of the bank and 3 representatives of the plan participants in accordance with the Rules of the Fund. The trustees serve the board for 5 years and may be re-elected. An external auditor performs an audit of the Fund on an annual basis and such Annual Financial Statements are submitted to the Registrar of Insurance and Retirement Funds. A full actuarial valuation of the pension fund submission to the Registrar of Insurance and Retirement Funds is done every 3 years, with the last valuation being in 2014. Annual interim actuarial valuations are performed for the trustees and for IAS 19 purposes. At the last valuation date the fund was financially sound.

Funding policy

Funding levels are monitored on an annual basis and the current agreed contribution rate in respect of the defined benefit pension fund is 21% of pensionable salaries (in excess of the minimum recommended contribution rate set by the Fund actuary). The bank considers the recommended contribution rate as advised by the Fund actuary with each actuarial valuation.

In addition, the Trustees of the pension Fund targets a funding position on the pensioner liabilities that exceeds the value of the best estimate actuarial liability. The funding position is also considered in relation to a solvency reserve basis, which makes allowance for the discontinuance cost of outsourcing the pensions.

As at the last statutory actuarial valuation of the pension Fund (01 October 2015), all categories of liabilities was at least 100% funded.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

18 Defined benefit post employment liability (continued)

Asset-liability matching strategies

The bank ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the plan. Within this framework, the bank's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due. The bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. Investments are well diversified so that the failure of any single investment would not have a material impact on the overall level of assets.

The Trustees of the pension Fund have adopted an investment strategy in respect of the pensioner liabilities that largely follows a 70% exposure in fixed interest instruments to immunize the interest rate and inflation risk, and 30% exposure to local growth assets. The fixed interest instruments mainly consists of long dated inflation linked bonds, while the growth assets are allocated to selected local asset managers. The Trustees receive monthly reports on the funding level of the pensioner liabilities and an in-depth attribution analysis in respect of changes in the pensioner funding level.

The Trustees of the pension Fund have also adopted a "Lifestage" investment strategy in respect of the Defined Benefit active member assets. This strategy aims to apportion an appropriate level of Balanced portfolio, Conservative portfolio, Inflation Linked, and Money Market assets to match the maturing Defined Benefit active member liabilities. It should be noted that this is an approximate matching strategy as elements such as salary inflation and decrement rates cannot be matched. This is however an insignificant liability compared against the pensioner liability of the pension Fund.

Risk associated with the plan

Through its defined benefit pension plan, the bank is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility: Assets are held in order to provide a return to back the plans obligations, therefore any volatility in the value of these assets would create a deficit.

Inflation risk: The plan benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. Consumer price inflation and health care cost inflation for part of the financial assumptions used in the valuation.

Life expectancy: The plans obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans liabilities.

Demographic movements: The plan liabilities are determined based on a number of best estimate assumptions on demographic movements of participants, including withdrawal and early retirement rates. Should less eligible employees withdraw and/or should more eligible employees retire early than assumed, the liabilities could be understated.

The financial implication to the bank in the event of deficit of the pension plan has been discussed in the nature of the benefits section above.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018**18 Defined benefit post-employment liability** (continued)

Pensioners: The pensioners of the Fund were outsourced to the Swaziland Royal Insurance Corporation with effect from 01 April 2015, through the purchase of annuities in the individual pensioners' name, thereby extinguishing the Fund's pensioner liability.

	2018 E'000	2017 E'000
Details of the defined benefit plan assets and fund liability are as follows:		
Pension and post-retirement benefits		
Pension liability		
Present value of funded liability	147 104	147 104
Fair value of plan assets	(119 318)	(119 318)
Liability on statement of financial position	<u>27 786</u>	<u>27 786</u>
Other comprehensive income		
The amounts recognised in the profit of loss for the year are as follows		
Current service costs	-	-
Net interest costs	-	-
Total included in staff costs	<u>-</u>	<u>-</u>
Other Comprehensive Income (OCI)		
Current year Gains	-	-
Re-measurements recognised in Other Comprehensive Income	-	-

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

18 Defined benefit post-employment liability (continued)

	2018 E'000	2017 E'000
Movement in post retirement benefit liability		
Present value at the beginning of the year	147 104	147 104
Current service cost	-	-
Member contributions	-	-
Interest cost	-	-
Re-measurements- actuarial losses	-	-
Benefits paid	-	-
Risk premiums	-	-
Expenses	-	-
Defined benefit obligation at the end of the year	147 104	147 104
Movement in the fair value of plan assets		
Assets at fair market value at the beginning of the year	119 318	119 318
Interest income on assets	-	-
Re-measurements: actuarial gains	-	-
Risk Premiums	-	-
Member contributions	-	-
Employee contributions	-	-
Expenses	-	-
Benefits paid	-	-
At the end of the year	119 318	119 318
The plan assets of the fund were invested as follows:		
Cash	13 507	13 507
Equity	5 310	5 310
Bonds	18 423	18 423
International	82 078	82 078
	119 318	119 318

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
 for the year ended 30 June 2018
18 Defined benefit post-employment liability (continued)

	2018	2017
	E'000	E'000
The principal actuarial assumptions used for accounting purposes were:		
Pension increase allowance (%)	6.38	6.38
Discount rate before retirement (%)	11.7	11.7
Expected return on plan assets (%)	11.7	11.7
Salary inflation (%)	10.3	10.3
Long term price inflation (%)	9.3	9.3
Net interest rate used to value pensions, allowing for pension increases (%)	-	-
Number of employees covered	324	324
Average future working life	37.80 years	37.80 years
Assumptions regarding future mortality experience are set based on the following;		
Pension fund		
- Normal retirement age	60	60
- Mortality table rate used pre retirement	SA85-90	SA85-90
- Mortality table used post retirement (Rated down 1 year)	PA (90)	PA (90)
Sensitivity analysis		
	Main Result	
	(E'000)	
		+1%
		(E'000)
		-1%
		(E'000)
Discount rate		
Defined Benefit Obligation	147 104	118 172
% Change		(19.7%)
		26.2%
Inflation rate		
Defined Benefit Obligation	147 104	167 895
% Change		14.1%
		(12.0%)

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

19	Accounts payable	2018 E'000	2017 E'000
	Accounts payable	81 609	47 898
	Other creditors	1 155	321
		82 764	48 214
All amounts are expected to be settled within twelve months.			
The carrying value approximates the fair value.			
Analysis of accounts payables:-			
	Financial	32 601	33 151
	Non-financial	50 163	15 063
	Total accounts payables	82 764	48 214
20	Provision for other liabilities and charges		
	Provisions	25 524	25 017
Staff related (Bonus, leave and 13th cheque)			
	Opening Balance	22 559	20 215
	Raised during the year	19 251	17 995
	Utilised during the year	(19 315)	(15 651)
		22 495	22 559
Audit fees			
	Opening Balance	1 228	2 679
	Raised during the year (note 5)	2 400	600
	Utilised during the year	(1 829)	(2 051)
	Closing Balance	1 799	1 228
Other provision			
	Opening balance	1 230	2 257
	Utilised during the year	-	(1 027)
	Closing balance	1 230	1 230
	Total provisions	25 524	25 017

All of the above amounts are expected to be settled within the next twelve months.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018**20 Provision for other liabilities and charges** (continued)**Leave provision**

This provision is in respect of the number of days that the employees have not taken in respect of their leave entitlement. The anticipated utilisation of the amount provided is in the near future.

Bonus pay provision & 13 cheque

This provision consists of bonuses for the management team and employees based on the bank's formal bonus plan.

	2018 E	2017 E
21. Contingent liabilities and capital commitments		
Contingencies		
Guarantees and acceptances	202 645	152 548
Irrevocable unutilised facilities	408 465	496 798
Letters of credit	-	1 561
	<u>611 110</u>	<u>650 907</u>

Guarantees consist predominantly of endorsements and performance guarantees

Legal proceedings

There are a number of legal or potential claims against the bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or bank basis. Provision is made for all liabilities which are expected to materialise.

Claims

The bank has contingent liabilities in respect of certain outstanding claims received in the normal course of business.

The bank has reciprocal claims against other institutions. These claims qualify as contingent assets.

Commitments

Commitments in respect of capital expenditure and long-term investments approved by directors

Not contracted for	<u>53 109</u>	<u>54 561</u>
--------------------	----------------------	---------------

Funds to meet these commitments will be provided from the bank's resources.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

21. Contingent liabilities and capital commitments (continued)**Assets pledged**

Mandatory reserve deposits are held with the local Central Bank of Eswatini in accordance with statutory requirements. These deposits are not available to finance the bank's day-to-day operations.

	Restricted assets		Liabilities to the Public	
	2018 E'000	2017 E'000	2018 E'000	2017 E'000
Restricted assets and liabilities	247 339	248 870	4 026 737	4 297 775

The bank's commitments under operating leases

	Within 1 year E'000	1-5 years E'000
At 30 June 2018		
Office premises	<u>10 506</u>	<u>14 816</u>
At 30 June 2017		
Office premises	<u>9 484</u>	<u>12 065</u>

The bank leases 51 properties (2017: 45). Lease payments increase annually by a fixed amount to reflect market rates and trends.

22 Cash flow information**22.1 Reconciliation of operating profit to cash flow from operating activities**

	2018 E'000	2017 E'000
Profit before tax	257 678	238 222
<i>Adjusted for:</i>		
- Depreciation for property, plant and equipment (note 13)	16 439	13 086
- Impairment of advances (note 9.2)	21 311	21 064
- Defined benefit obligation expenses (note 5)	-	-
- Other (gains)/ (note 4)	(4 998)	(89)
Cash generated from operating activities	<u>290 430</u>	<u>272 283</u>

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

	2018 E'000	2017 E'000
22 Cash flow information (continued)		
22.2 Taxation paid		
Amounts unpaid at beginning of the year	9 964	6 529
Taxation charge per statement of comprehensive income (note 7.1)	73 202	76 579
Amounts unpaid at end of the year (note 7.3)	(4 934)	(9 964)
Total taxation paid during the year (note 7.3)	<u>78 232</u>	<u>73 144</u>

23. Risk management**23.1 General**

Risk control policies and exposure limits for the key risk areas of the bank are approved by the Board, while operational policies and control procedures are approved by the relevant risk committees.

Strategy in using financial instruments

By its nature the bank's activities are principally related to the use of financial instruments including derivatives. The bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that might fall due.

The bank also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives, to take advantage of short-term market movements in the equity and bond markets and in currency, interest rate and commodity prices. The Board of the bank places trading limits on the level of exposure than can be taken in relation to both overnight and intra-day positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions.

Financial risk management

The board acknowledges its responsibility for establishing and communicating appropriate risk and control policies and ensuring that adequate risk management processes are in place. The bank has a number of committees which deal with the various aspects on the policies for accepting risks, including selection and approval of loans and advances, use of limits and avoiding concentrations of risk, etc. as detailed below:

Responsibility for audit committee

An audit committee appointed by the bank's board is in place to assist the board in discharging its risk management obligations.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018**23. Risk management** (continued)**23.1 General** (continued)**Responsibility for audit committee** (continued)

The principal objectives of the bank's risk management committee are to:

- Review the bank's risk philosophy, strategy, policies and processes recommended by executive management;
- Review compliance with risk policies and with the overall risk profile of the bank;
- Review and assess the integrity of the process and procedures for identifying, assessing, recording and monitoring of risk;
- Review the adequacy and effectiveness of the bank's risk management function and its implementation by management;
- Ensure that material corporate risks have been identified, assessed and receive attention; and
- Provide the board with an assessment of the state of risk management within the bank.

A significant part of the bank's business involves the acceptance and management of risk. Primary responsibility for risk management at an operational level rests with the executive management. The bank's risk management processes, of which the systems of internal financial and operating controls are an integral part, are designed to control and monitor risk throughout the bank. For effectiveness, these processes rely on regular communication, sound judgement and a thorough knowledge of the products and markets by the people closest to them. Management and various specialist committees are tasked with integrating the management of risk into the day-to-day activities of the bank.

In particular:

Bank's Audit Committee

The bank audit committee's principal objectives (pertaining to risk) are as follows:

- Act as an effective communication channel between the board on one hand and the external auditors and the head of internal audit on the other;
- Satisfy the board that adequate internal, financial and operating controls are being identified, addressed and monitored by management and that material corporate risks have been identified and are being contained and monitored through the bank risk committee ; and
- Enhance the quality, effectiveness, relevance and communication value of the published financial statements and other public documentation of a financial nature issued by the bank, with focus being placed on the actuarial assumptions, parameters, valuations and reporting guidelines and practices adopted by the statutory actuary as appropriate to the bank's life insurance activities.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

23. Risk management (continued)**23.1 General****Risk Committee**

The purpose of the Risk Committee (the "Committee") is to assist the Board of Directors in fulfilling its oversight responsibilities with regard to (a) the risks inherent in the business of the bank and the control processes with respect to such risks, (b) the assessment and review of credit, market, fiduciary, liquidity, reputational, operational, fraud, strategic, technology, data-security and business-continuity risks, (c) the risk management activities of the, and (d) fiduciary activities of the bank.

Committee will have the responsibility to:

- review significant financial and other risk exposures and the steps management has taken to monitor, control and report such exposures, including, without limitation, credit, market, fiduciary, liquidity, reputational, operational, fraud, strategic, technology, data-security and business-continuity risks;
- evaluate risk exposure and tolerance and approve appropriate transactional or trading limits; review and evaluate the bank's policies and practices with respect to risk assessment and risk management and annually present to the Audit Committee of the Board a report summarizing the Committee's review of the bank's methods for identifying and managing risks;
- review the scope of work of the Risk Manager and its planned activities with respect to the risk management activities of the bank and review the bank's technology risk management programs;
- escalate to the Audit Committee for discussion at a joint session of the Audit and Risk Committees any items that have a significant financial statement impact or require significant financial statement/regulatory disclosures; and
- escalate other significant issues, including, but not limited to, significant compliance issues, as soon as deemed necessary by the Committee to a joint session of the Audit and Risk Committees.

The risk committee is responsible for the bank's risk management thereof. The responsibility of risk management resides at all levels throughout the bank, from member of the board to all employees. The risk committee therefore is fundamental to the bank's business and plays a crucial role in enabling management to operate more effectively in a changing environment. Overtime it has evolved into one of the bank's core capabilities. It is integral to the evaluation of strategic alternative and setting objectives all within a risk management framework that ensures alignment with the banks appetite and overall strategy.

Internal audit

It is the policy of the bank board to maintain an independent internal audit function to undertake internal audit work within the bank. The objective of internal audit is to provide reliable, valued and timely assurance to the board and executive management over effectiveness of controls mitigating current and evolving high risks and in doing so enhancing the controls culture of the bank

23.2 Strategy in using hedges

The bank strategy for using hedges is set out in note 11 and is also dealt with in the Risk Report.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

23. Risk management (continued)**23.3 Financial risk management****a) Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation and cause the bank to incur a financial loss.

	2018 E'000	2017 E'000
Assets		
Gross loans and advances (note 9.1)	2 980 809	2 774 476
Contingencies (note 21)	611 110	650 907
	<u>3 591 919</u>	<u>3 425 383</u>

Economic sector risk concentrations in respect of advances are set out in note 9.

Maximum exposure to credit risk

The table below presents the maximum exposure to credit risk of statement of financial position and off statement of financial position financial instruments, before taking into account any collateral held.

Maximum exposure to credit risk:

Cash and cash equivalents (note 8)		
- Balances with other banks	98 694	204 055
- Balances with the Central Bank	505 710	352 231
Advances (note 9.1)	2 980 809	2 774 476
Financial and other guarantees (note 21)	202 645	152 548
Loan commitments not drawn (note 21)	408 465	496 798
Other (note 10) and (note 12)	653 344	537 847
Letters of credit (note 21)	-	1 561
	<u>4 849 667</u>	<u>4 519 516</u>

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

23. Risk management (continued)**23.3. Financial risk management** (continued)**a) Credit risk** (continued)**Credit quality**

The table below presents an analysis of the credit quality of neither past due nor impaired advances:

Total neither past due nor impaired

E'000	2018	2017
FR 1 – 14	-	87
FR 15 – 25	-	503 589
FR 26 – 32	697 590	267 329
FR 33 – 39	1 744 208	956 622
FR 40 – 53	-	575 890
FR 54 – 83	4 809	97 684
FR 84 – 90	14 443	41 789
FR 91 – 99	22 579	187 438
Total	2 483 628	2 630 428

Credit quality of financial assets other than advances neither past due nor impaired

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

23. Risk management (continued)**23.3 Financial risk management** (continued)**a) Credit risk** (continued)

	Treasury Bills	Other Government And Government Guaranteed Stock	Cash and Short Term Funds	Accounts Receivable	Derivatives	Total
	E'000	E'000	E'000	E'000	E'000	E'000
At 30 June 2018						
International scale mapping (National equivalent):						
AAA,AA,A (AAA,AA+)	-	-	82 082	-	-	82 082
BBB (AA,AA-)	-	-	23 145	-	-	23 145
BB+,BB(A)	-	-	-	-	-	-
BB-(BBB)	-	-	-	7 304	-	7 304
B+(BB)	-	-	-	-	-	-
B(B+)	-	-	-	-	-	-
B- (B)	-	-	-	-	-	-
CCC	244 438	373 382	499 175	3 694	16 098	1 136 787
Unrated	-	-	-	-	-	-
Total	244 438	373 382	604 403	10 998	16 098	1 249 318

	Treasury Bills	Other Government And Government Guaranteed Stock	Cash and Short Term Funds	Accounts Receivable	Derivatives	Total
	E'000	E'000	E'000	E'000	E'000	E'000
At 30 June 2017						
International scale mapping (National equivalent):						
AAA,AA,A (AAA,AA+)	-	-	195 739	-	-	195 739
BBB (AA,AA-)	-	-	-	-	-	-
BB+,BB(A)	-	-	-	-	-	-
BB-(BBB)	-	-	7 118	-	-	7 118
B+(BB)	-	-	-	-	-	-
B(B+)	-	-	-	-	-	-
B- (B)	-	-	-	-	-	-
CCC	172 768	346 200	353 427	2 667	5 431	880 494
Unrated	-	-	-	-	4 796	4 797
Total	172 768	346 200	556 284	2 667	10 227	1 088 148

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018**23. Risk management** (continued)**23.3 Financial risk management** (continued)**a) Credit risk** (continued)

FR rating mapping to international and national rating scales.

The bank categorises current exposures according to an internal rating scale, the FR ratings, ranging from FR1 to FR100, with FR1 being the best rating with the lowest probability of default. The FR ratings have been mapped to default probabilities as well as external rating agency international rating scales.

The ratings and associated probability of default (PD) reflect two different conventions. The “point in time” PDs reflect the default expectations under the current economic cycle whereas the “through the cycle” PDs reflect longer term average over the economic cycle.

The FR scale is summarised in the following table, together with a mapping to international scale rating from external agencies:

FR Rating	Mid point PD	International scale mapping*
FR 28 -91	3.73%	AAA to B-
Above FR 92		Below B-

*Indicative mapping to international rating scale of Fitch and S&P.

Debt collection procedures are vigorously carried out on defaulters. Full provision is made for non-recoverability as soon as management is uncertain as to the recovery.

There were no credit limits that were exceeded during the reporting period and management does not expect any losses from non performance from counterparties.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

23. Risk management (continued)**23.3 Financial risk management** (continued)**a) Credit risk** (continued)

Age analysis of loans and advances was as follows:

	Neither past due nor impaired E'000	Renegotiated but current E'000	1 full instalment past due E'000	2 instalments past due E'000	Impaired E'000	Total E'000
At 30 June 2018						
Loans and advances	2 483 628	-	384 613	36 121	76 446	2 908 808
Total	2 483 628	-	384 613	36 121	76 446	2 908 808
At 30 June 2017						
Loans and advances	2 630 428	-	65 336	36 504	42 208	2 774 476
Total	2 630 428	-	65 336	36 504	42 208	2 774 476

The above assets are managed with reference to the instalments in arrears and include assets where monthly payments are due as residential mortgages, instalment sale products and personal loans.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

23. Risk management (continued)**23.3 Financial risk management** (continued)**(b) Market risk**

Market risk includes currency risk, interest rate risk and equity price risk. From time to time derivative financial instruments are entered into to reduce this exposure to market risk.

The bank takes on exposure to market risk. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The bank applies a "value at risk" methodology to estimate the market risk positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The primary risk control mechanism used for risk control purposes are stress loss test and limits.

(i) Interest rate risk

Interest rate risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The bank continuously assesses the market expectations within South Africa and Swaziland interest rate environments.

The following financial instruments will be directly impacted by changes in market interest rates: advances, cash and cash equivalents and amounts due from FirstRand Holdings Limited.

A change of 50 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables remained constant. The analysis is performed on the same basis as for 2017:

	2018 E'000	2017 E'000
Base asset		
Cash with Central Bank and other banks (note 8)	604 404	556 286
Advances (note 9.1)	2 980 809	2 774 476
Amounts due from FirstRand Holding Limited (note 24.2)	993 870	1 320 075
Total assets base	4 579 083	4 650 837
 Increase in 50 basis points	 22 895	 23 254
Decrease in 50 basis points	(22 895)	(23 254)

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
 for the year ended 30 June 2018
23. Risk management (continued)**23.3 Financial risk management** (continued)**(b) Market risk** (continued)**(i) Interest rate risk** (continued)
Interest sensitivity of assets, liabilities and off statement of financial position items
- repricing analysis

The bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the bank's exposure to interest rate risks. Included in the table are the bank's assets and liabilities at carrying amounts, categorised by the earlier of repricing or maturity dates.

The table below summarises the bank's exposure to interest rate risk, categorised by contractual repricing date.

2018 E '000's	Interest sensitivity gap analysis						Non- Interest earning/ bearing
	Carrying Amount	Demand	1 - 3 months	Term to maturity 4-12 Months	1-5 years	Over 5 Years	
ASSETS							
Cash and cash equivalents	718 930	718 930	-	-	-	-	
Advances	2 917 426	2 956 508	-	-	-	-	(39 082)
Investment securities: Available-for-sale	617 820	-	192 460	145 582	191 182	63 706	24 891
Derivative instruments: held for trading	21 478	-	-	-	-	-	21 478
Amounts due from related companies	988 490	701 860	-	-	-	-	286 630
Other assets	35 524	-	-	-	-	-	35 524
Deferred income tax asset	26 308	-	-	-	-	-	26 308
Property and equipment	70 476	-	-	-	-	-	70 476
	5 396 452	4 377 298	192 460	145 582	191 182	63 706	426 225
LIABILITIES							
Deposits	4 026 737	3 674 807	9 803	38 212	21 227	-	282 688
Derivative instruments: held for trading	6 214	-	-	-	-	-	6 214
Amounts due to related companies	232 447	-	-	-	-	-	232 447
Accounts payable	82 764	-	-	-	-	-	82 764
Share based payments liability	8 320	-	-	-	-	-	8 320
Defined benefit post-employment liability	27 786	-	-	-	-	-	27 786
Provision for other liabilities and charges	25 523	-	-	-	-	-	25 523
Current income tax liability	4 934	-	-	-	-	-	4 934
Shareholders' equity	981 727	-	-	-	-	-	981 727
	5 296 452	3 674 807	9 803	38 212	21 227	-	1 652 403
Net interest sensitivity gap	-	702 491	182 657	107 370	169 955	63 706	(1 226 178)

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018
23. Risk management (continued)**23.3 Financial risk management (continued)****(b) Market risk (continued)****(i) Interest rate risk (continued)**

2017 E '000's	Interest sensitivity gap analysis						Non- Interest earning/ bearing
	Carrying Amount	Demand	1 - 3 months	Term to maturity 4-12 Months	1-5 years	Over 5 Years	
ASSETS							
Cash and cash equivalents	694 228	694 228	-	-	-	-	
Advances	2 732 461	453 126	42 593	403 735	1 247 222	585 785	-
Investment securities: Available- for-sale	518 969	-	153 504	19 265	248 224	97 976	-
Derivative instruments: held for trading	10 227	-	-	-	-	-	10 227
Amounts due from related companies	1 320 075	1 104 346	-	-	215 729	-	-
Other assets	18 879	-	-	-	-	-	18 879
Deferred income tax asset	23 786	-	-	-	-	-	23 786
Property and equipment	77 194	-	-	-	-	-	77 194
	5 395 819	2 251 700	196 097	423 000	1 711 175	683 761	130 086
LIABILITIES							
Deposits	4 299 775	3 253 647	717 645	100 462	226 021	-	-
Derivative instruments: held for trading	5 103	-	-	-	-	-	5 103
Amounts due to related companies	180 578	-	-	-	-	-	180 578
Accounts payable	48 214	-	-	-	-	-	48 214
Share based payments liability	6 653	-	-	-	-	-	6 653
Defined benefit post-employment liability	27 786	-	-	-	-	-	27 786
Provision for other liabilities and charges	25 017	-	-	-	-	-	25 017
Current income tax liability	9 964	-	-	-	-	-	9 964
Shareholders' equity	794 729	-	-	-	-	-	794 729
	5 395 819	3 253 647	717 645	100 462	226 021	-	1 098 044
Net interest sensitivity gap	-	(1 991 947)	(521 548)	322 538	1 485 154	683 761	(967 958)

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
 for the year ended 30 June 2018
23. Risk management (continued)**23.3. Financial risk management** (continued)**(b) Market risk** (continued)**(ii) Currency risk**

Currency risk is the risk that the financial instruments that are denominated in foreign currency will fluctuate due to changes in foreign rates.

The bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Foreign currency sensitivity

Other than foreign denominated cash, the bank does not hold open exposures of any significance. All gains and losses on foreign exposure and derivatives are reported in the profit and loss.

The bank manages foreign currency exposure in terms of approved limits. The currency position at 30 June 2018 is set out below:

E'000's	2018							Total
	Emalangeni (SZL)	Rand (ZAR)	Pula(P)	Maloti (M)	UK£	US\$	Euro	
ASSETS								
Cash and cash equivalents	611 679	8 558		-	4 520	70 532	23 642	718 931
Advances	2 980 808	-	-	-	-	-	-	2 980 808
Investment securities	617 820	-	-	-	-	-	-	617 820
Amounts due from related companies	-	993 870			-	-	-	993 870
Other assets	35 524	-	-	-	-	-	-	35 524
Derivative instrument: Held for trading	-	16 098	-	-	-	-	-	16 098
	4 245 831	1 018 526	-	-	4 520	70 532	23 642	5 363 051
LIABILITIES								
Deposits	4 026 737	-	-	-	-	-	-	4 026 737
Derivative financial instruments – held for trading	-	6 214	-	-	-	-	-	6 214
Amounts due to related companies	-	232 447	-	-	-	-	-	232 447
Other liabilities	82 964	-	-	-	-	-	-	82 964
Shareholders' equity	981 727	-	-	-	-	-	-	981 727
	5 091 228	238 661	-	-	-	-	-	5 329 889

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
 for the year ended 30 June 2018
23. Risk management (continued)**23.3 Financial risk management** (continued)**(b) Market risk** (continued)**(ii) Currency risk** (continued)

2017								
E'000's	Emalangeni (SZL)	Rand (ZAR)	Pula(P)	Maloti (M)	UK£	US\$	Euro	Total
ASSETS								
Cash and cash equivalents	482 105	8 128	81	-	6 660	190 027	7 227	694 228
Advances	2 732 461	-	-	-	-	-	-	2 732 461
Investment securities	518 969	-	-	-	-	-	-	518 969
Amounts due from related companies	-	1 312 254	-	7 821	-	-	-	1 320 075
Other assets	18 879	-	-	-	-	-	-	18 879
Derivative instrument: Held for trading	-	10 277	-	-	-	-	-	10 277
	3 752 414	1 330 659	81	7 821	6 660	190 027	7 227	5 294 889
LIABILITIES								
Deposits	4 297 775	-	-	-	-	-	-	4 297 775
Derivative financial instruments – held for trading	-	5 103	-	-	-	-	-	5 103
Amounts due to related companies	-	180 578	-	-	-	-	-	180 578
Other liabilities	48 214	-	-	-	-	-	-	48 214
Shareholders' equity	794 729	-	-	-	-	-	-	794 729
	5 140 718	185 681	-	-	-	-	-	5 326 399

(iii) Equity price risk

This is the risk that the fair value or future cash flows of a financial investment will fluctuate as a result of changes in market prices.

The bank is not exposed to commodity/ equity price risk as it does not have investment in equities that are traded in the market.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

23. Risk management (continued)

23.3 Financial risk management (continued)

(a) Liquidity risk

Liquidity risk is the risk that the bank will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The bank is exposed to daily liquidity requirements from overnight deposits, current accounts, maturing deposits, loan draw-downs and other cash requirements. The bank does not maintain sufficient cash resources to meet all of these liquidity needs, as historical experience indicates a minimum level of reinvestment of maturing funds with a high level of certainty.

The matching and controlled mismatching of maturities and interest rates of assets and liabilities is fundamental to the management of the bank. It is unusual for banks to be completely matched since business transactions are often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but may also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the bank and its exposure to changes in interest rates and exchange rates.

The table below sets out the maturity analysis of the bank's statement of financial position based on the remaining period from year-end to contractual maturity. "Demand" denotes assets or liabilities with a contractual maturity of 32 days or less.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

23. Risk management (continued)**23.3 Financial risk management** (continued)**(c) Liquidity risk** (continued)

2018 E '000's	Term to maturity					
	Carrying Amount	Demand	1 – 3 Months	4-12 months	1-5 years	Over 5 Years
ASSETS						
Cash and cash equivalents	718 930	718 930	-	-	-	-
Advances	2 917 425	659 121	82 612	342 988	1 255 944	576 760
Investment securities – available-for-sale	617 820	-	151 649	138 501	228 549	99 121
Derivative instruments – held for trading	16 098	16 098	-	-	-	-
Amounts due from related companies	993 870	711 602	51	-	282 217	-
Accounts receivable	35 525	15 703	7 304	-	-	12 518
	5 299 668	2 121 454	241 616	481 489	1 766 710	688 399
LIABILITIES						
Deposits	4 026 737	3 526 445	34 793	341 388	124 111	-
Derivative instruments: held for trading	6 214	6 214	-	-	-	-
Amounts due to related parties	232 447	19 330	213 117	-	-	-
Provisions for other liabilities and charges	59 831	395	-	15 604	14 816	29 016
Accounts payable	84 766	53 885	5 874	-	-	25 007
Income tax liability	4 934	-	-	4 934	-	-
Shareholders' equity	981 727	-	-	-	-	981 727
	5 396 656	3 606 269	253 784	361 926	138 927	1 035 750
Net liquidity gap	(96 784)	(1 484 815)	(12 168)	119 563	1 627 783	(347 351)

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
 for the year ended 30 June 2018
23. Risk management (continued)**23.3 Financial risk management (continued)****(c) Liquidity risk (continued)**

2017 E '000's	Term to maturity					
	Carrying Amount	Demand	1 – 3 Months	4-12 months	1-5 years	Over 5 Years
ASSETS						
Cash and cash equivalents	694 228	694 228	-	-	-	-
Advances	2 732 461	453 126	42 593	403 735	1 247 222	585 785
Investment securities – available-for-sale	518 969	-	153 504	19 265	248 224	97 976
Derivative instruments – held for trading	10 227	10 227	-	-	-	-
Amounts due from related companies	1 320 075	1 104 347	-	-	215 728	-
Accounts receivable	18 879	-	2 173	494	-	16 212
	5 294 839	2 261 928	198 270	423 494	1 711 174	699 973
LIABILITIES						
Deposits	4 297 775	3 253 647	717 645	100 462	226 021	-
Derivative instruments: held for trading	5 103	5 103	-	-	-	-
Amounts due to related parties	177 702	177 702	-	-	-	-
Provisions for other liabilities and charges	26 665	-	22 556	1 228	2 881	-
Accounts payable	49 442	12 779	9 488	2 090	16 080	9 005
Income tax liability	9 964	-	9 964	-	-	-
Shareholders' equity	794 729	-	-	-	-	794 729
	5 361 380	3 449 231	759 653	103 780	244 982	803 734
Net liquidity gap	(66 541)	(1 187 303)	(561 383)	319 714	1 466 192	(103 761)

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018**23 Risk management** (continued)**23.3 Financial risk management** (continued)**(b) Other risks****(i) Legal risk**

Legal risk is the risk that the bank will be exposed to contractual obligations which have not been provided for.

The bank has a policy of ensuring all contractual obligations are documented and by the relevant parties. As at 30 June 2018 the directors are not aware of any significant obligations not provided for.

(ii) Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

The initiation of all transactions and their administration is conducted on the foundation of segregation of duties that has been designed to ensure materially the completeness, accuracy and validity of all transactions. These controls are augmented by management and executive review of control accounts and systems, electronic and manual checks and controls, back-up facilities and contingency planning. The internal control systems and procedures are also subjected to regular internal audit reviews.

(iii) Taxation risk

Taxation risk is the risk that the bank will incur a financial loss due to an incorrect interpretation and application of taxation legislation or due to the impact of new taxation legislation on existing structures.

During the development stage of any product and prior to any corporate transactions the taxation resources of the bank, and if required external resources, identify and advise on any material potential taxation impact thereof.

Taxation risk is further mitigated through policy terms and conditions, which enable the risk to be passed back to policyholders. This is the case on all classes of business other than non-participating annuity business.

(iv) Regulatory risk

Regulatory risk is the risk arising from a change in regulations pertaining to the business of the bank.

In order to manage this risk, the bank accordingly report to the Central Bank of Eswatini in the manner required by the Financial Institutions Act of 2005.

Furthermore, the bank is to comply with the Money Laundering (Prevention) Act, 2001.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018**23. Risk management** (continued)**23.4 Fair value of financial instruments**

In terms of IFRS, the bank is required to or elects to measure certain assets and liabilities at fair value. The bank has established control frameworks and processes at a franchise level to independently validate its valuation techniques and inputs used to determine its fair value measurements. At a franchise level technical teams are responsible for the selection, implementation and any changes to the valuation techniques used to determine fair value measurements.

Valuation committees comprising representatives from key management have been established within each franchise and at an overall Group level and are responsible for overseeing the valuation control process and considering the appropriateness of the valuation techniques applied in fair value measurement. The valuation models and methodologies are subject to independent review and approval at a franchise level by the required technical teams, valuation committees, relevant risk committees and external auditors annually or more frequently if considered appropriate.

Fair value is defined as 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 i.e. an exit price. Fair value is therefore a market based measurement and when measuring fair value the bank uses the assumptions that market participants would use when pricing an asset or liability under current market conditions, including assumptions about risk. When determining fair value it is presumed that the entity is a going concern and the fair value is therefore not an amount that represents a forced transaction, involuntary liquidation or a distressed sale.

Fair value measurements are determined by the Group on both a recurring and non-recurring basis.

Recurring fair value measurements

Recurring fair value measurements are those for assets and liabilities that IFRS requires or permits to be recognised at fair value and are recognised in the statement of financial position at reporting date. This includes financial assets, financial liabilities and non-financial assets, including investment properties and commodities that the bank measures at fair value at the end of each reporting period.

Financial instruments

When determining the fair value of a financial instrument, where the financial instrument has a bid or ask price (for example in a dealer market), the bank uses the price within the bid-ask spread that is most representative of fair value in the circumstances. Although not a requirement, the bank uses the bid price for financial assets or the ask/offer price for financial liabilities where this best represents fair value.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018**23. Risk management** (continued)**23.4 Fair value of financial instruments** (continued)

When determining the fair value of a financial liability or the bank's own equity instruments the quoted price for the transfer of an identical or similar liability or own equity instrument is used. Where this is not available, and an identical item is held by another party as an asset, the fair value of the liability or own equity instrument is measured using the quoted price in an active market of the identical item, if that price is available, or using observable inputs (such as the quoted price in an inactive market for the identical item) or using another valuation technique.

Where the bank has any financial liability with a demand feature, such as demand deposits, the fair value is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid where the time value of money is significant.

Non-financial assets

When determining the fair value of a non-financial asset, a market participant's ability to generate economic benefits by using the assets in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use, is taken into account. This includes the use of the asset that is physically possible, legally permissible and financially feasible. In determining the fair value of the bank's investment properties and commodities, the highest and best use of the assets was their current use.

Non-recurring fair value measurements

Non-recurring fair value measurements are those triggered by particular circumstances and include the classification of assets and liabilities as non-current assets or disposal groups held for sale under IFRS 5, where fair value less costs to sell is the recoverable amount; IFRS 3 business combinations where assets and liabilities are measured at fair value at acquisition date; and IAS 36 impairments of assets where fair value less costs to sell is the recoverable amount. These fair value measurements are determined on a case by case basis as they occur within each reporting period. During the current year there were no items carried at fair values on a non-recurring basis.

Other fair value measurements

Other fair value measurements include assets and liabilities not measured at fair value but for which fair value disclosures are required under another IFRS e.g. financial instruments at amortised cost. The fair value for these items is determined by using observable quoted market prices where these are available, such as market prices quoted on BESA, or in accordance with generally acceptable pricing models such as a discounted cash flow analysis. Except for the amounts included below, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

Government, stocks and Treasury Bills

Where market prices are not available the fair value is estimated using quoted market prices of securities with similar credit, maturity and yield characteristics.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018**23. Risk management** (continued)**23.4 Fair value of financial instruments** (continued)**Derivatives**

Contracts for difference are valued by using the differential between the market price and the traded price multiplied by the notional amount. Market prices are obtained from applicable trading exchanges.

Credit derivatives are valued using the discounted cash flow model. Where prices are obtained from the market individual credit spreads are added.

Option contracts are valued using the Black-Scholes model. Inputs are obtained from market observable data. Where prices are obtainable from trading exchanges the value per the exchange is used.

Forward contracts are valued by discounting the projected cash flows to obtain the present value of the forward contract. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.

Forward rate agreements are valued by means of the discounted cash flow model. The discount rate is determined using a yield curve of similar market traded instruments. The reset rate is determined in terms of the legal agreement.

Swaps are valued by discounting the expected cash flows using discount and forward rates determined from similar market traded instruments. The reset rate of each swap is determined in terms of legal documents pertaining to the swap.

Commodity linked instruments are measured by taking into account the price, the location differential, grade differential, silo differential and the discount factor of the most liquidly traded futures linked to the commodity.

Deposits

Fair value of deposits and current accounts is determined by discounting future cash flows using a swap curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account as these are considered to have an immaterial impact on the economic value of the instruments.

Call deposits are valued at the undiscounted amount of the cash balance, this is considered appropriate because of the short term nature of these instruments.

Fair valuation will only be applied to deposits having a maturity profile of longer than 30 days. For all non term products it is assumed that fair value will equal amortised cost.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

23. Risk management (continued)**23.4 Fair value of financial instruments** (continued)**Fair value of instruments not carried at fair value:-**

E'000	2018				
	Carrying value	Total fair value	Level 1	Level 2	Level 3
Assets					
Advances	2 979 860	-	-	648 860	2 331 000
Total Assets at amortised cost	2 979 860	-	-	648 860	2 331 000
Liabilities					
Deposits	4 029 574	-	-	4 029 574	-
Total liabilities at amortised cost	4 029 574	-	-	4 029 574	-

E'000	2017				
	Carrying value	Total fair value	Level 1	Level 2	Level 3
Assets					
Advances	2 732 461	2 729 639	-	577 371	2 152 268
Total Assets at amortised cost	2 732 461	2 729 639	-	577 371	2 152 268
Liabilities					
Deposits	4 297 775	4 082 170	-	4 082 170	-
Total liabilities at amortised cost	4 297 775	4 082 170	-	4 082 170	-

23.5 Fair value hierarchy and measurements

The bank classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item. If this information is not available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

The valuation techniques employed by the bank include, inter alia, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option-pricing models, and discounted cash flow techniques. The details per type of asset or liability are set out in the tables below.

Where a valuation model is applied and the bank cannot mark-to-market, it applies a mark-to-model approach, subject to valuation adjustments. Mark-to-model is defined as any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input. The bank will consider the following in assessing whether a mark-to-model valuation is appropriate:-

- As far as possible, market inputs are sourced in line with market prices;
- Generally accepted valuation methodologies are consistently used for particular products unless deemed inappropriate by the relevant governance forums;
- Where a model has been developed in-house, it is based on appropriate assumptions, which have been assessed and challenged by suitably qualified parties independent of the development process;

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

23. Risk Management**23.5 Fair value hierarchy and measurements** (continued)

- Formal change control procedures are in place;
- Awareness of the weaknesses of the models used and appropriate reflection in the valuation output;
- The model is subject to periodic review to determine the accuracy of its performance; and
- Valuation adjustments are only made when appropriate, for example, to cover the uncertainty of the model valuation.

Levels of fair value hierarchy***Level 1***

Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities where this is readily available and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. This category includes listed bonds and equity, exchange-traded derivatives, exchange-traded commodities and short trading positions.

Level 2

Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly such as quoted prices for similar items in an active market or for an identical item in an inactive market, or valuation models using observable inputs or inputs derived from observable market data. This category includes loans and advances to customers, equities listed in an inactive market, certain debt instruments, over the counter derivatives or exchange-traded derivatives where a market price is not available, deposits, other liabilities, Tier 2 liabilities and commodities which are not exchange-traded.

Level 3

Fair value is determined using a valuation technique and significant inputs that are not based on observable market data (i.e. unobservable inputs) such as an entity's own assumptions about what market participants would assume in pricing assets and liabilities. The assumptions applied by the bank are set out in the table below. This category includes specific loans and advances to customers, over the counter derivatives such as equity options, investments in debt instruments, and deposits such as credit linked notes.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

23. Risk management (continued)**23.5 Fair value hierarchy and measurements** (continued)

An analysis of financial instruments, measured at fair value at the end of the reporting period, by level in the fair value hierarchy into which the fair value measurement is categorised can be found in the notes to the financial statements.

The following table presents the bank's assets and liabilities that are measured at fair value:

	Level 1	Level 2	Level 3
At 30 June 2018	E'000	E'000	E'000
Assets			
Derivatives	-	16 098	-
Investment securities and other investments	-	617 820	-
Total assets	-	633 918	-
Liabilities			
Derivatives	-	6 214	-
Deposits	-	282 217	-
Total liabilities	-	288 431	-
<hr/>			
	Level 1	Level 2	Level 3
At 30 June 2017	E'000	E'000	E'000
Assets			
Derivatives	-	10 227	-
Investment securities and other investments	-	518 568	-
Total assets	-	529 195	-
Liabilities			
Derivatives	-	215 729	-
Deposits	-	5 103	-
Total liabilities	-	220 832	-

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018**24. Related parties**

The bank defines related parties as:

- (i) The parent company;
- (ii) Subsidiaries and fellow subsidiaries;
- (iii) Associate companies;
- (iv) Joint ventures;
- (v) Associates and joint ventures of the parent company and fellow subsidiaries;
- (vi) Groups that have significant influence over the parent. If an investor has significant influence over the parent, it is a related party not only of the parent but also of the subsidiaries, including the bank. If an investor that has significant influence over the parent has subsidiaries, those subsidiaries are also related to the bank;
- (vii) Post-retirement benefit funds (pension funds);
- (viii) Key management personnel, being the FirstRand Limited board of directors, the bank's board of directors and the bank's executive committee, including any entities which provide key management personnel services to the bank;
- (ix) Close family members of key management personnel (individual's spouse/domestic partner and children; domestic partner's children and dependants of individual or domestic partner); and
- (x) Entities controlled, jointly controlled or significantly influenced by an individual referred to in (viii) and (ix).

The parent of the bank is FirstRand EMA Holding Limited, incorporated in South Africa.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

24. Related parties (continued)**24.1 Related party transactions**

	2018 E'000	2017 E'000
(i) Interest received		
FirstRand Bank Holdings Limited	<u>57 259</u>	<u>46 467</u>
(ii) Fees and commission earned		
FirstRand Bank Holdings Limited	<u>1 645</u>	<u>6 593</u>
(iv) Fees and commission paid		
FirstRand Bank Holdings Limited	<u>108 658</u>	<u>93 763</u>
(v) Key management personnel		
<i>Key management compensation comprises of the following:</i>		
Salaries and other short-term benefits	10 309	7 730
Post-employment benefits	1 217	437
Share-based payments	<u>4 400</u>	<u>1 360</u>
Total compensation	<u>15 926</u>	<u>9 527</u>
(vi) Directors' fees		
Services as directors	1 130	1 603
Other services	<u>2 273</u>	<u>2 135</u>
	<u>3 403</u>	<u>3 738</u>

A listing of the board of directors of the bank is on page 5 of the financial statements.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

24.2 Year end balances arising from related parties

	2018 E'000	2017 E'000
(i) Due from related parties		
Due from FirstRand Bank Holdings Limited – deposits	993 870	1 312 254
Due from First National Bank of Lesotho	-	7 821
	993 870	1 320 075
(ii) Due to related parties		
Due to FirstRand Bank Holdings Limited – loans	232 447	180 578
	232 447	180 578
(iii) Loans and advances		
Key management personnel		
<i>Loans and advances in normal course of business by product</i>		
Mortgages	16 952	12 740
Overdrafts	317	364
Personal	207	234
Instalment finance	2 257	1 385
	19 733	14 723
<p>All transactions with related parties are entered into in the normal course of business at fair market terms. No impairment has been recognised for loans granted to key management (2017: nil). Mortgage loans are repayable monthly over 20 years. These loans are collateralised by the properties that were financed.</p>		
(iv) Deposits and current accounts at amortised cost		
Key management personnel		
<i>Deposits balances in normal course of business are as follows:</i>		
Current and Savings Accounts	145	640

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

	2018 E'000	2017 E'000
24.3 Post- employment benefit plan		
Deposits held with the bank	<u>1 587</u>	<u>4 638</u>
24.4 FNB Foundation		
Contributions by the bank	<u>1 729</u>	<u>1 949</u>
Deposits held with the bank	<u>3 706</u>	<u>3 149</u>
25 Remuneration schemes		
The amount recognised in profit or loss for share based payments is as follows:		
Conditional share plan	<u>4 400</u>	<u>4 287</u>
Amount included in profit or loss (note 5 and 17)	<u>4 400</u>	<u>4 287</u>
The purpose of the schemes is to appropriately attract, incentivise and retain managers within the Group.		

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018

25 Remuneration schemes (continued)

Conditional share scheme	
IFRS 2 treatment	Cash settled
Description	The conditional award comprises a number of full shares with no strike price.
Vesting conditions	<p>These awards vest conditionally after three years. The number of shares that vest is determined by the extent to which the performance conditions are met.</p> <p>Conditional awards are made annually and vesting is subject to specified financial and non-financial performance set annually by the group's remuneration committee. These corporate performance targets are set out on page 92.</p>
Valuation methodology	The conditional share plan is valued using the Black Scholes option pricing model with a zero strike price. The scheme is cash settled and is therefore repriced at each reporting date.
Valuation assumptions	
Dividend data	Management's estimates of future discrete dividends.
Market related	<p>Ø Volatility is the expected volatility over the period of the plan and historical volatility was used as a proxy for expected volatility; and</p> <p>Ø The interest rate is the risk free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan.</p>
Employee related	The weighted average forfeiture rate used is based on historical forfeiture data over all schemes and takes cognisance of whether the shares are in or out the money and the vesting date.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018**25 Remuneration schemes** (continued)**Corporate performance targets**

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

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

The criteria for the currently open schemes are as follows:

Expired Scheme

2012 (vested in September 2015) – FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 3% growth on a cumulative basis over the life of the conditional award, from base year end 30 June 2012 to the financial year end immediately preceding the vesting date. In addition, NIACC must be positive over the three-year performance period.

2013 (vested in September 2016) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 1.5% growth on a cumulative basis over the life of the conditional award, from base year end 30 June 2013 to the financial year end immediately preceding the vesting date. In addition, NIACC must be positive over the three-year performance period.

Currently Open

2014 (vests in 2017) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 2% growth on a cumulative basis over the life of the conditional award, from base year end 30 June 2014 to the financial year end immediately preceding the vesting date. In addition, NIACC must be positive over the three-year performance period.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018**25 Remuneration schemes** (continued)**Currently Open** (continued)

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

2016 (vests in 2019) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP growth, on a cumulative basis, over the performance period from the base year-end immediately preceding the vesting period date. Nominal GDP is advised by the FirstRand group treasury, macro strategy unit, and the company delivers ROE of 18-22% over the performance period.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2018**25 Remuneration schemes** (continued)

The significant weighted average assumptions used to estimate the fair value of options and share awards granted and the IFRS 2 expenses for the year under review are:

	Conditional share plan
2018	
Range of exercise prices (Rand)	
Expected volatility (%)	-
Expected option life (years)	2 - 3
Expected risk free rate (%)	6.99 – 7.61
Expected dividend yield (%)	-
Expected dividend growth (%)	-
2017	
Range of exercise prices (Rand)	-
Expected volatility (%)	-
Expected option life (years)	2 - 3
Expected risk free rate (%)	6.92 – 7.46
Expected dividend yield (%)	-
Expected dividend growth (%)	-

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
 for the year ended 30 June 2018

25 Remuneration schemes (continued)

	2018 Conditional share plan (FSR shares)*	2017 Conditional share plan (FSR shares)*
Number of options and share awards in force at the beginning of the year (million)	0.273	0.223
Granted at prices ranging between (cents)	-	-
Weighted average (cents)	-	-
Number of options and share awards granted during the year (million)	0.093	0.121
Fair value per share on grant date	-	-
Number of options and share awards transferred (within the Group) during the year (million) **	-	-
Granted at prices ranging between (cents)	-	-
Weighted average (cents)	-	-
Number of options and share awards exercised/released during the year (million)	(0.070)	(0.071)
Market value range at date of exercise/release (cents)	5 500 – 5 500	4 725 – 4 725
Weighted average (cents)	5 500	4 725
Number of options and share awards cancelled/lapsed during the year (million)	(0.041)	-
Granted at prices ranging between (cents)	-	-
Weighted average (cents)	-	-
Number of options and share awards in force at the end of the year (million)	0.273	0.273
Granted at prices ranging between (cents)	-	-
Weighted average (cents)	-	-

* The grant date fair value was not determined as these share awards are cash settled and are remeasured to fair value at each reporting date.

** These relate to options and share awards for employees transferred between legal entities within the FirstRand Limited Group.

FIRST NATIONAL BANK OF SWAZILAND LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
 for the year ended 30 June 2018
25 Remuneration schemes (continued)

	2018		2017	
	Conditional share plan (FSR shares) *		Conditional share plan (FSR shares) *	
	Weighted average remaining life (years)	Outstanding options (million)	Weighted average remaining life (years)	Outstanding options (million)
Options and share awards outstanding				
Vesting during 2017	0.31	0.072	0.28	0.081
Vesting during 2018	1.32	0.114	1.31	0.072
Vesting during 2019	2.30	0.093	2.32	0.120
Total Options and share awards outstanding (million)		0.279		0.273
Total options and share awards - in the money (million)		0.279		0.223
Total options and share awards - out of the money (million)		-		-
Total options and share awards (R million)		0.279		0.223
Value of company loans to share option trust at the beginning of the year (R million)		-		-
Value of company loans to share option trust at the end of the year (R million)		-		-
Number of participants				12

* The employees are awarded these shares, there is therefore no strike price associated with the awards made under the conditional share plan.