FIRST NATIONAL BANK OF ESWATINI LIMITED

Audited Annual Financial Statements
for the year ended 30 June 2019

CONTENTS

DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

To the Shareholder of the First National Bank of Eswatini Limited

The directors of First National Bank of Eswatini 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 as at 30 June 2019. 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 annual financial statements incorporate full and responsible disclosure in line with the bank's philosophy on corporate governance. In the current financial year, the bank adopted International Financial Reporting Standard 9 – *Financial Instruments* ("IFRS 9") and IFRS 15 – Revenue from contracts with customers ("IFRS 15"). Refer to accounting policy 10 for further detail on the impact of these new accounting standards on the bank.

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.

To the Shareholder of the First National Bank of Eswatini 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 pages 8 to 10.

The annual financial statements of the bank, which appear on pages 11 to 147, were approved by the board of directors on **8 August 2019** and are signed on its behalf by:

CHAIRMAN
J V NDLANGAMANDLA

CHIEF EXECUTIVE OFFICER
D T MBINGO

Mbabane

30 September 2019

DIRECTORS' REPORT
for the year ended 30 June 2019

The directors have pleasure in submitting this report, which forms part of the financial statements of the bank for the year ended 30 June 2019.

Nature of Business

The bank is incorporated in Eswatini and operates as a commercial bank. First National Bank of Eswatini Limited ("Bank" or "FNB" or "FNB Eswatini") is a full-service corporate, commercial and retail bank in Eswatini. FNB is one of Eswatini's leading financial institutions with a long history, having operated in Eswatini under the FNB brand since 1995. The Bank is a customer-focused, relationship-based, and technology led business which aims to put the customer at the centre of everything we do.

Financial Results

Full details of the financial results for the period are set out on pages 11 to 147.

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 E100 million (2018: Enil).

Holding Company

The bank's immediate holding company is the FirstRand EMA Holdings Proprietary Limited ("FREMA") registered in the Republic of South Africa. The bank is a wholly owned subsidiary of FREMA. The ultimate shareholder of First National Bank of Eswatini Limited is FirstRand Limited incorporated in Republic of South Africa.

In June 2018, an agreement was reached to localise 24.99% of the business in 2019 and to list the entire shareholding on the Eswatini Stock Exchange (ESX). This was near completion in April 2019, having received preliminary approvals from all regulators, when structural questions surrounding cross-border payments were raised. Plans are underway to continue with the localisation of shareholding at the appropriate time once costs of any regulatory changes are deemed quantifiable.

Regulatory Developments

The Board of Directors notes the ongoing engagement between the bank's Executive team and the Central Bank of Eswatini to address required changes to the bank's management of Emalangeni (SZL) to South African Rand (ZAR) flows. Progress has been made in implementing some requirements, and the operational impact on the bank and customers has been managed to date. Further improvements will be implemented in the new financial year as part of a roadmap approved by the Board.

The Board is comfortable that this engagement is working towards addressing the issue and as such no further action is required at present.

Capital and Reserve Account

i) Share Capital

The Bank share capital comprises of ordinary shares and non-cumulative non-redeemable preference shares. Details on share capital have been disclosed in note 17 of the financial statements.

In December 2018 the Bank implemented a 5 for 1 share split in terms of which the authorised ordinary share capital of the Company was split from 30,000,000 Ordinary Shares of 100 cents each into 150,000,000 authorised Ordinary Shares of 20 cents each and the issued ordinary share capital of the Company was split from 26,600,000 issued Ordinary Shares of 100 cents each into 133,000,000 issued Ordinary Shares of 20 cents each. Subsequently, the Bank increased its authorised ordinary share capital from 150,000,000 Ordinary Shares of 20 cents each to 300,000,000 Ordinary Shares of 20 cents each. As a result, FNB Eswatini's authorised share capital increased from E30 million to E60million. No change was made to the issued preference share capital. In the future, issued preference shares of the Bank (having a par value of 100 cents each) will be entitled to five times the dividend of an Ordinary Share (which has a par value of 20 cents each).

ii) Minimum required capital

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 Eswatini in terms of the most recent published statement of financial position.

As at 30 June 2019, the bank's liabilities to the public in Eswatini totalled E4.606 billion (2018: E4.027 billion) requiring a minimum capital of E230 million (2018: E201 million). Furthermore, the requirement of the Financial Institutions Act of 2005 ("the Act") in this regard has been met as the bank reported a solid financial position with total capital of E977 million (2018: E981 million)

iii) 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.

As at 30 June 2019, in accordance with this requirement of the Act, an amount of E20.620 million (2018: E18.670 million) has been transferred to the statutory reserve in the current financial year.

iv) Risk Weighted Assets (RWA) and Capital Adequacy

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 2019, the bank complied with this requirement of the Act reporting a Capital Adequacy Ratio (CAR) of 23.32% (2018: 23.41%).

Liquid Asset Requirement

In terms of Section 23 (1) of the Financial Institutions Act of 2005, the bank is required to maintain liquid assets amounting to not less than a prescribed percentage or percentages, not exceeding twenty-five percent (25%), of the total, or specified categories, of its liabilities to the public in Eswatini.

As at 30 June 2019, the bank's liabilities to the public in Eswatini totalled E4.606 billion (2018: E4.027 billion) requiring a minimum liquid asset requirement of E1.152 billion (2018: E1.007 billion). The requirement of the Financial Institutions Act of 2005 ("the Act") in this regard has been met. The total Bank's liquid assets was: -

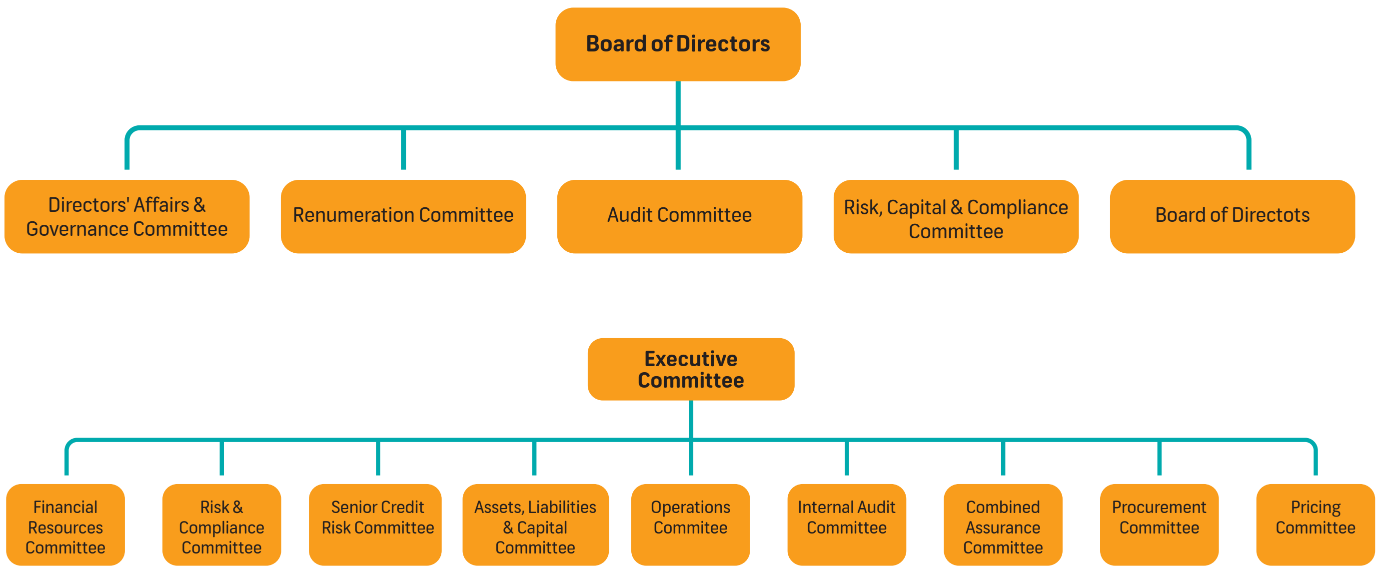
DIRECTORS' REPORT (continued)
for the year ended 30 June 2019

	2019 E'000	2018 E'000
Cash and cash equivalent	**1 619 251**	718 930
Investment in securities	**588 012**	617 820
Total liquid assets	**2 207 263**	1 336 750

Corporate Governance

The First National Bank of Eswatini 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.

The governance structure is as follows: -



The Board and Executive sub-committees have Charters which sets out the role, powers, responsibilities and composition of the Board and/or executive subcommittees.

FIRST NATIONAL BANK OF ESWATINI LIMITED

DIRECTORS' REPORT (continued)
for the year ended 30 June 2019

Board of Directors

DIRECTOR		APPOINTED	RETIRED
J V Ndlangamandla	Independent Non-Executive - Chairman	03 February 2016	
D T Mbingo	Executive - Chief Executive Officer	06 February 2015	
D D Dlamini	Independent Non-Executive	19 August 2002	
D E Wright	Independent Non-Executive	03 February 2016	
S L Balsdon	Non-Executive	21 April 2017	
S de Sousa	Independent Non-Executive	05 February 2010	
E B Arden	Independent Non-Executive	24 April 2018	
J Mouton	Non-Executive	30 April 2019	
D Jones	Non-Executive	21 April 2017	30 April 2019

FNB Eswatini has 8 board members, seven (7) of whom are non-executive and the majority (5) being independent and one (1) executive director.

The bank also has a Company Secretary, who provide professional corporate governance services to the Board.

The director's remuneration has been disclosed in detail in Note 4 and Note 28 of the financial statements.

Board Subcommittees and composition

Committee Chairperson	Committee Member	Permanent Invitee	Not a Member
X	X	X	

	Main Board	Directors' Affairs & Governance Committee	Audit Committee	Risk, Capital & Compliance Committee	Independent Loans Review Committee	Remuneration Committee
Independent Non-Executive						
J V Ndlangamandla	X	X		X		X
D D Dlamini	X	X	X	X	X	
S de Sousa	X	X	X		X	
D E Wright	X	X	X	X	X	
E B Arden	X	X	X			X
Non-Executive						
S L Balsdon	X	X	X	X		X
J Mouton	X	X	X	X	X	
Executive						
D T Mbingo	X	X	X	X	X	X

DIRECTORS' REPORT (continued)
for the year ended 30 June 2019

The Board and Board subcommittees are chaired by independent non-executive directors, except for Renumeration Committee which is chaired by a non-executive director, and meet on a quarterly basis.

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.

Registered Offices and Postal Addresses

The Bank

Business Address (Head Office)	Postal Address
2nd Floor	P O Box 261
Sales House Building	Eveni
Swazi Plaza	Mbabane
Mbabane, Eswatini	Eswatini

Auditors

Business Address	Postal Address
PricewaterhouseCoopers	P O Box 569
RHUS Office Park	Mbabane
Karl Grant Street	Eswatini
Mbabane, Eswatini	H100

Independent auditor's report

To the Shareholders of First National Bank of Eswatini Limited

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of First National Bank of Eswatini Limited (the Bank) as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Eswatini.

What we have audited

First National Bank of Eswatini Limited's financial statements set out on pages 11 to 147 comprise:

- the statement of financial position as at 30 June 2019;
- 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;
- the summary of significant accounting policies; and
- the notes to the annual financial statements.

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 International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) issued by the International Ethics Standards Board for Accountants and other independence requirements applicable to performing audits of financial statements in Eswatini. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and other ethical requirements applicable to performing audits of financial statements in Eswatini.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "FIRST NATIONAL BANK OF ESWATINI LIMITED AUDITED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2019", which includes the Directors' Report as required by the Companies Act of Eswatini. The other information does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Eswatini, 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.

PricewaterhouseCoopers

PricewaterhouseCoopers

Partner: Theo Mason

Registered Auditor

P.O. Box 569

Mbabane

21 October 2019

FIRST NATIONAL BANK OF ESWATINI LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2019

	Notes	2019 E'000	2018 E'000
Interest and similar income	1	**471 221**	459 293
Interest expense and similar charges	2	**(118 549)**	(116 872)
Net interest income before impairment of advances		**352 672**	342 421
Impairment of Advances	12.2	**343**	(21 311)
Net interest income after impairment of advances		**353 015**	321 110
Non-interest revenue	3	**330 137**	311 848
Net fee and commission income	3.1	**305 352**	286 761
Fee and commission income		**308 321**	290 863
Fee and commission expense		**(2 969)**	(4 102)
Insurance income	3.2	**2 780**	1 562
Fair value gains and losses	3.3	**21 200**	17 145
Other gains non-interest income	3.4	**805**	6 380
Income from operations		**683 152**	632 958
Operating and administration expenses	4	**(379 953)**	(356 496)
Income before indirect tax		**303 199**	276 462
Indirect tax	5	**(17 908)**	(18 784)
Profit before income tax		**285 291**	257 678
Income tax expense	6.1	**(79 123)**	(70 680)
Profit for the year		**206 168**	186 998

STATEMENT OF FINANCIAL POSITION
as at 30 June 2019

	Notes	2019 E'000	2018 E'000
ASSETS			
Cash and cash equivalents	11	**1 619 251**	718 930
Advances	12.1	**2 594 652**	2 917 426
Investment securities and other investments	13	**588 012**	617 820
Derivative financial instruments	14	**16 708**	16 098
Accounts receivable	15	**30 299**	35 524
Amounts due from related parties	28.2	**770 521**	993 870
Deferred income tax asset	9	**48 221**	26 308
Property and equipment	16	**68 477**	70 476
Total assets		**5 736 141**	5 396 452
EQUITY			
Capital and reserves attributable to equity holders of the parent			
Share capital	17.2	**27 642**	27 642
Share premium	17.3	**2 686**	2 686
Other reserves	18	**199 742**	182 348
Retained earnings		**747 603**	769 051
Total equity		**977 673**	981 727
LIABILITIES			
Deposits	19	**4 606 128**	4 026 737
Share based payments liability	20.1	**4 517**	8 320
Derivative financial instruments	14	**15 404**	6 214
Defined benefit post-employment liability	20.2	**27 786**	27 786
Accounts payable	21	**32 446**	82 764
Provision for other liabilities and charges	22	**31 205**	25 523
Current income tax liability	10	**25 281**	4 934
Amounts due to related parties	28.2	**15 701**	232 447
Total liabilities		**4 758 468**	4 414 725
Total equity and liabilities		**5 736 141**	5 396 452

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2019

	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 2019								
Balance at 30 June 2018	**27 642**	**2 686**	**29 808**	**822**	**153 075**	**(1 357)**	**769 051**	**981 727**
IFRS 9 adjustments	-	-	-	-	-	-	**(109 400)**	**(109 400)**
Restated total equity at the beginning of the financial year	**27 642**	**2 686**	**29 808**	**822**	**153 075**	**(1 357)**	**659 651**	**872 327**
Profit for the year	-	-	-	-	-	-	**206 168**	**206 168**
Other comprehensive income	-	-	-	**(822)**	-	-	-	**(822)**
Transfer to general risk reserve	-	-	**(2 404)**	-	-	-	**2 404**	-
Transfer to statutory reserve	-	-	-	-	**20 620**	-	**(20 620)**	-
Dividends paid	-	-	-	-	-	-	**(100 000)**	**(100 000)**
Balance as at 30 June 2019	**27 642**	**2 686**	**27 404**	-	**173 695**	**(1 357)**	**747 603**	**977 673**
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

STATEMENT OF CASH FLOWS
for the year ended 30 June 2019

	Notes	2019 E '000	2018 E '000
Cash flows from operating activities	24.1	**302 027**	290 430
Cash received from customers		**801 783**	767 006
Interest and similar income	1	**471 221**	459 293
Fee and commission income	3	**330 137**	306 850
Recoveries	12.2	**425**	863
Cash paid to customers, suppliers and employees		**(499 756)**	(476 576)
Interest expense and similar charges	2	**(118 549)**	(116 872)
Total other operating expenditure		**(381 207)**	(359 704)
Income tax paid	24.2	**(80 377)**	(78 232)
Net cash flow from operating activities before changes in operating asset and liabilities		**221 650**	212 198
Cash flow from changes in operating assets and liabilities			
Net decrease/ (increase) in advances		**238 085**	(206 276)
Net decrease in amounts due from related parties		**223 349**	326 205
Net decrease/ (increase) in accounts receivable		**5 225**	(16 645)
Net increase/ (decrease) in term deposits		**69 951**	(201 917)
Net increase in current and call deposit accounts		**483 690**	313 302
Net increase/ (decrease) in savings deposit accounts		**27 220**	(181 210)
Net (decrease) in other deposits-off shore		**(1 470)**	(201 213)
Net (decrease)/ increase in amounts due to related parties		**(216 746)**	51 869
Net (decrease)/ increase in accounts payable		**(50 518)**	34 628
Net (decrease)/ increase in share-based payments		**(3 803)**	1 667
Net increase in provisions for other liabilities and charges		**5 682**	506
Net cash flow from changes in operating assets and liabilities		**780 665**	(79 084)
Net cash inflow from operating activities		**1 002 315**	133 114
Cash flows from investing activities			
Acquisition of capital expenditure		**(14 582)**	(10 003)
Proceeds from sale of fixed assets and insurance compensation		**-**	5 202
Net decrease/ (increase) in derivative instruments		**8 580**	(4 760)
Net decrease/ (increase) in investment securities		**4 008**	(98 851)
Net cash outflow from investing activities		**(1 994)**	(108 412)
Cash flows from financing activities			
Dividends paid		**(100 000)**	-
Net cash outflow from financing activities		**(100 000)**	-
Net increase in cash and short-term funds		**900 321**	24 702
Cash and cash equivalents at beginning of the year		**718 930**	694 228
Cash and cash equivalents at end of the year	11	**1 619 251**	718 930

1. INTRODUCTION AND BASIS OF PREPARATION

Introduction

The First National Bank of Eswatini Limited's ("the bank") 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 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 2019, 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. Except for policies related to IFRS 9 and IFRS 15, these policies have been consistently applied to all years presented:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES				
2	**Related parties**	Related party transactions (section 2.)		
3	**Income, expenses and taxation**	Income and expenses (section 3.1)	Income tax expenses (section 3.2)	
4	**Financial instruments IFRS 9**	Classification and measurement (section 4.1)	Impairment of financial assets (section 4.2)	Transfers, modifications and derecognition (section 4.3)
		Offset and collateral (section 4.4)		
5	**Financial instruments IAS 39**	Classification (section 5.1)	Measurement (section 5.2)	Impairment (section 5.3)
		Transfers and de-recognition (section 5.4)	Offset and collateral (section 5.5)	Derivatives (section 5.6)
6	**Other assets and liabilities**	Classification and measurement (section 6.1)	Leases (section 6.2)	

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ended 30 June 2019

Introduction (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES						
7	**Capital and reserves**	Share capital and treasury shares	Dividends and non-cash distributions	Other reserves	
8	**Transactions with employees**	Employee benefits (section 8.1)	Share-based payment transactions (section 8.2)		
9	**Critical accounting estimates, assumptions and judgements**	Taxation (section 9.1)	Impairment of financial assets (section 9.2)	Other assets and liabilities (section 9.3)	Transactions with employees (section 9.4)

The following new standards were adopted in the current year:

New / revised IFRS	Description of change	Impact on FNB Eswatini
IFRS 9	The bank adopted IFRS 9 in the current year. The following resulted from the implementation: 1. the classification of financial assets under IFRS 9 is based on both the business model for holding the instruments as well as the contractual characteristics of the instruments; 2. impairments in terms of IFRS 9 are determined based on an expected loss model that considers the significant changes to the assets' credit risk and the expected loss that will arise in the event of default; 3. the requirements for the classification of liabilities remained unchanged; 4. the general hedge accounting requirements under IFRS 9 are more closely aligned to how entities undertake risk management activities when hedging financial and non-financial risk exposures; and 5. IFRS 7 has been amended to include additional disclosures as a result of the introduction of IFRS 9.	The main impacts on the bank's financial statements from the adoption of IFRS 9 were the following: 1. certain items have been reclassified based on the new classification rules. The details of these reclassifications are provided in note 10 of the accounting policies; 2. the loss allowance on financial assets has increased because of the change from an incurred loss to an expected credit loss model. For details refer to note 10 of the accounting policies; 3. the amended disclosure requirements of IFRS 7 will be prospectively applied by the bank. Therefore, all comparative disclosures relating to financial instruments are based on the classification and measurement requirements of IAS 39 and disclosure requirements of IFRS 7 before the IFRS 9 amendments.

Introduction (continued)

New / revised IFRS	Description of change	Impact on FNB Eswatini
IFRS 15	IFRS 15 contains a single model that is applied when accounting for contracts with customers. It replaces substantially all of the current revenue recognition guidance, except for contracts that are out of scope – e.g. leases and insurance. IFRS 15 requires that goods and services are split out into their separate performance obligations and that the revenue from each performance obligation is recognised at a point in time or over time depending on the IFRS 15 criteria for revenue recognition. The model specifies that revenue is recognised as and when control of goods or services are transferred to a customer and that revenue is recognised at the amount to which an entity expects to receive. Depending on certain criteria revenue is recognised at a point in time or over time. IFRS 15 includes new quantitative and qualitative disclosure requirements to enable users of financial statements to understand the nature, amount and timing of revenue from contract with customers.	The application of the revised requirements had no impact on the bank's results.
IFRS 2 Amendments	**Classification and Measurement of Share-Based Payment Transactions** 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. The amendments to IFRS 2 are related to the following areas: 1. Accounting for the effects of vesting and non-vesting conditions on the measurement of the liability of cash-settled share-based payment transactions; 2. The classification of share-based payment transactions with net settlement features for withholding tax obligations; and 3. Accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled.	The bank currently 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. No such transactions have taken place in the current financial year.

Introduction (continued)

<table>
<tr><th>New / revised IFRS</th><th>Description of change</th><th>Impact on FNB Eswatini</th></tr>
<tr><td>IFRS 4 amendments</td><td>Applying IFRS 9 with IFRS 4

The amendment to IFRS 4 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.

The amendment introduces two approaches:
1. 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 9, and recognise those impacts temporarily. The adjustment only applies to financial assets that are designated as relating to contracts in scope of IFRS 4 and measured at fair value through profit or loss in accordance with IFRS 9, but would have been measured in their entirety as at fair value through profit or loss under IAS 39.
2. 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.</td><td>The bank has adopted IFRS 9 in the current financial year therefore the two approaches available under this amendment will not be elected and the amendment will have no impact on the bank.</td></tr>
<tr><td>IFRIC 22</td><td>Foreign Currency Transaction and Advance Consideration

IFRIC clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.</td><td>IFRIC 22 will be considered when such transactions take place. No such transactions have taken place in the current financial year.</td></tr>
</table>

Introduction (continued)

New / revised IFRS	Description of change	Impact on FNB Eswatini
Annual improvements 2014-2016 cycle	These annual improvements include amendments to IFRS 12 and IAS 28: 1. IFRS 12 – the amendments clarify the scope of the standard, i.e. IFRS 12 applies to entities classified as held for sale, held for distribution or discontinued operations in terms of IFRS 5. IAS 28 – the amendments clarify the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition	The clarified requirements of IFRS 12 will be applied by the bank when such transactions take place. No such transactions have taken place in the current financial year. The amendments to IAS 28 are not applicable to the bank.

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:

- Derivative financial instruments;
- Financial instruments designated as at fair value through profit or loss and fair value through other comprehensive income; 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 and requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are outlined in accounting policy note 9.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ended 30 June 2019

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	The bank presents its statement of financial position in order of liquidity. Where permitted or required under IFRS, the bank offsets assets and liabilities or income and expenses and presents the net amount in the statement of financial position or in the statement of comprehensive income.
Materiality	IFRS disclosure is only applicable to material items. Management applies judgement and considers both qualitative and quantitative factors in determining materiality applied in preparing these financial statements.
Functional and presentation currency of the bank	SZL Lilangeni (E)
Level of rounding	All amounts are presented in thousands of SZL Lilangeni (E). The bank has a policy of rounding in increments of E500. Amounts less than E500 will therefore round down to Enil and are presented as a dash.
Foreign currency transactions of the bank	Translated into the functional currency using the exchange rates prevailing at the date of the transactions.
Translation and treatment of foreign denominated balances	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. Foreign exchange gains or losses are recognised in profit or loss in fair value gains or losses.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ended 30 June 2019

Standards and interpretations issued but not yet effective.

The following new and revised standards and interpretations are applicable to the business of the bank.

Standard	Impact assessment	Effective date
IFRS 16	**Leases** IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 will be effective for the bank from 1 July 2019. The biggest impact of the standard will be on lessee accounting because of the requirement for lessees to recognise an asset and corresponding liability in respect of operating leases. Under the current standard on leases, operating lease payments were expensed by the lessee when incurred, with no recognition on the statement of financial position. IFRS 16 requires that at the commencement date of the lease (regardless of whether it is finance or operating lease), a lessee shall recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payment. The exceptions available for lessees are leases of a short term (less than 12 months) or low-value assets. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17; however, there are also enhanced disclosure requirements for lessors. IFRS 16 is expected to impact the bank's recognition of future operating lease commitments. The implementation of IFRS 16 on the bank results in recognition of lease liabilities of E11.3 million and Right of use asset (ROUA) of E11.3 million. The lease liability was calculated using the Banks transition date incremental borrowing rate. The bank will classify the ROUAs as Property, Plant and Equipment (PPE), with this impacting the CET1 ratios as the ROUAs are risk-weighted-assets with the same risk weighting as the underlying PPE.	Annual periods commencing on or after 1 January 2019

Standards and interpretations issued but not yet effective (continued)

Standard	Impact assessment	Effective date
IFRS 17	**Insurance Contracts** 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. 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. The insurance contract liability is initially made up of: • 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. 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). The amendments have been assessed and are not expected to have a significant impact on the bank.	Annual periods commencing on or after 1 January 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
for the year ended 30 June 2019

Standards and interpretations issued but not yet effective (continued)

Standard	Impact assessment	Effective date
IAS 19	**Employee Benefits Plan Amendment, Curtailment or Settlement** The amendments require an entity to use the updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and to recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that impact was not previously recognised because of the impact of the asset ceiling. Changes in the terms or membership of a defined benefit plan may result in a plan amendment, curtailment or settlement. IAS 19 requires an entity to determine the amount of any past service cost, or gain or loss on settlement, by remeasuring the net defined liability before and after the amendment, using current assumptions and the fair value plan assets at the time of the amendment. If the net defined liability is remeasured to determine past service cost or the gain or loss on curtailment or settlement, current service cost and net interest for the remainder of the period is remeasured using the same assumptions and the same fair value of the plan assets. This means that the amounts which would have ended up in profit or loss in the period after the amendment will be changed. A plan amendment, curtailment or settlement might reduce or eliminate a surplus, which could change the effect of the asset ceiling. Past service cost, or a gain or loss on settlement is recognised in profit or loss. This reflects the substance of the transaction because a surplus which has been used to settle an obligation or provide additional benefits is recovered. The impact on the asset ceiling is recognised on other comprehensive income and is not reclassified to profit or loss. The impact of this amendment is to confirm that these effects are not offset.	Annual periods commencing on or after 1 January 2019

Standards and interpretations issued but not yet effective (continued)

Standard	Impact assessment	Effective date
IFRIC 23	**Uncertainty over Income Tax Treatments** This interpretation is to be applied to the determination of taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. When considering that the filing deadlines for tax returns and financial statement may be months apart, IFRIC 23 may require more rigour when finalising the judgements about the amounts to be included in the tax return before the financial statements are finalised. The bank is in the process of assessing the impact on the annual financial statements, but it is not expected to have a significant impact.	Annual periods commencing on or after 1 January 2019
Annual Improvements 2014-2016 cycle	**Improvements to IFRS** The IASB issued the *Annual Improvements to IFRS Standards 2014-2016 Cycle.* These annual improvements include amendments to IAS 12 and IAS 28. The annual improvement project's aim is to clarify and improve accounting standards. The amendments have been assessed and are not expected to have a significant impact on the bank.	Annual periods commencing on or after 1 January 2019 (IAS 12 and IAS 28)
Improvements 2015-2017 cycle	**Improvements to IFRS** *The IASB issued the Annual Improvements to IFRS Standards 2015-2017 Cycle.* These annual improvements include amendments to the following standards: • IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The 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. 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.	Annual periods commencing on or after 1 January 2019

2. RELATED PARTIES

Related party transactions

Related parties of the bank, as defined, include:

Parent company	Fellow subsidiaries of FirstRand Limited	Fellow associates and joint ventures of-FirstRand Limited	Post-employment benefit funds (pension funds)
Entities that have significant influence over FirstRand Limited and its subsidiaries	Key management personnel (KMP)	Close family members of KMP	Entities controlled, jointly controlled or significantly influenced by KMP or their close family members

The principal shareholder of First National Bank of Eswatini Limited is FirstRand EMA Holdings (Pty) Ltd incorporated in the Republic of South Africa. The ultimate shareholder of First National Bank of Eswatini 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

Income and expenses

Net interest revenue recognised in profit or loss

Interest Income includes:

- interest on financial instruments measured at amortised cost. Interest is calculated using the effective interest rate which includes fees and transaction costs that form an integral part of generating an involvement with the resulting financial instrument. The original effective interest rate is applied to:
  - the gross carrying amount of financial assets which are not credit-impaired; and
  - the amortised cost of financial assets from the month after the assets become credit-impaired (refer to section 4.2 on the impairment of financial assets).
- Modified advances (derecognition not achieved) - the unamortised portion of origination fees and capitalised transaction costs on financial assets that are modified and derecognised are included as part of interest income. The interest income on the modified financial asset (refer to policy 4.3) is calculated by applying the original effective interest rate to the asset's modified gross carrying amount.
- Modified advances (derecognition is achieved) – the unamortised portion of origination fees and capitalised transaction costs on financial assets are included as part of interest income. New fees or costs charged on the new advance which are integral to the new asset recognised are capitalised to the new loan.
- interest 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 financial asset debt instruments measured at amortised cost that are held by and managed as part of the bank's funding operations;

The total interest expense includes:

- Interest on debt instruments measured at amortised cost; and
- interest on financial liability debt instruments measured at fair value through profit or loss that are held by and managed as part of the bank's funding operations.

Non-interest and financial instrument revenue recognised in profit or loss
Non-interest revenue from contracts with customers

IFRS 15 – Revenue from contracts with customers replaced all existing revenue recognition criteria under IFRS and was applied for all contracts with clients, unless the contracts are in the scope of the standard on leases, insurance contracts and financial instruments. The bank has applied IFRS 15 retrospectively. The application of the revised requirements had no impact on the bank's results.

Under IFRS 15, where a five-step analysis is required to determine the amount and timing of revenue recognition, the bank assesses contracts and determines whether the fees identified in the contract relate to revenue as defined in IFRS 15. The revenue is recognised only if the bank can identify the contract; the performance obligation (i.e. the different services) and can determine the transaction price which is allocated to the identifiable performance obligations. The revenue is then recognised as and when the performance obligation is satisfied, which may be over time or at a point in time.

Income and expenses (continued)

Fee and commission income	The fee and commission income that the bank earns from providing customers with services and selling products and services provided by external entities, consists of the following main categories: • Banking fees and commissions; and • Other non-banking fees and commissions. Fees and commission income is earned on the execution of a significant performance obligation, which may be over time as the performance obligation is fulfilled (over time) or when the significant performance obligation has been performed (point in time). For fees earned on the execution of a significant act, the performance obligation is satisfied when the significant act or transaction takes place. These fees typically include transactional banking fees, such as bank charges, interchange fees, point-of-sale fees, exchange commissions, cash deposit fees and commission income. Fees for services rendered are recognised on an accrual basis as the service is rendered and the bank's performance obligation is satisfied, e.g. annual card fees and related fees. Other non-banking fee and commission income relates to fees and commissions earned for rendering services to customers other than those related to the banking operations. This includes fee and commission income earned from providing services on behalf of third-party service providers, in effect acting as an agent, this includes commission earned at the point when sale has been executed from the sale of prepaid airtime, data vouchers, electricity and traffic fines paid through FNB channels as well insurance commission. Commitment fees for unutilised funds made available to customers in the past are recognised as revenue at the end of the contract period. Commitment fees paid upfront for a future facility, where it is not probable that a specific lending arrangement will be entered into by the bank, are recognised as revenue on a straight-line basis over the period for which the funds are promised to be kept available.
Fee and commission expenses	Fee and commission expenses are expenses that are incremental and directly attributable to the generation of fee and commission income and are recognised as part of fee and commission income. These include transaction and service fees, which are expensed as the services are received.

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:

- fair value adjustments and interest on trading financial instruments including derivative instruments and adjustments relating to deposits (except where the bank owns the commercial paper issued by the conduits);
- 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.

Gains less losses from investing activities

The following items are included in gains less losses from investing activities:
- any gains or losses on disposals of financial assets held at amortised cost; and
- impairments and reversal of impairments of investment securities measured at amortised cost.

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.

Income tax expenses (continued)

Income tax includes Eswatini 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 bank that deferred tax is provided for	• Provision for loan impairment. • Depreciation of property and equipment. • Revaluation of certain financial assets and liabilities, including derivative contracts. • Provisions for pensions and other post-retirement benefits. • Share-based payment liabilities. • Tax losses carried forward.
Measurement	Using the liability method under IAS 12 and applying tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.
Presentation	In profit or loss unless it relates to items recognised directly in equity or other comprehensive income. Items recognised directly in equity or other comprehensive income relate to: • the issue or buy back of share capital; and • re-measurements of defined benefit post-employment plans 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.
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.

4. FINANCIAL INSTRUMENTS – IFRS 9

4.1 Classification and measurement

4.1.1 Initial measurement

All financial instruments are initially measured at fair value including transaction costs, except for those classified as fair value through profit or loss in which case the transaction costs are expensed upfront in profit or loss, usually as part of operating expenses. Any upfront income earned on financial instruments is recognised as is detailed under policy 3.1, depending on the underlying nature of the income. Immediately after initial recognition, an expected credit loss allowance is recognised for newly originated financial assets measured at amortised.

4.1.2 Classification and subsequent measurement of financial assets

Classification and subsequent measurement of financial assets
Management determines the classification of its financial assets at initial recognition, based on: • the bank's business model for managing the financial assets; and • the contractual cash flow characteristics of the financial asset.
Business model
The bank distinguishes three main business models for managing financial assets: • holding financial assets to collect contractual cash flows; • managing financial assets and liabilities on a fair value basis or selling financial assets; and • a mixed business model of collecting contractual cash flows and selling financial assets. The business model assessment is not performed on an instrument by instrument basis, but at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment is done at least at a franchise level, although franchises will perform the assessment on a portfolio or sub-portfolio level depending on the manner in which groups of financial assets are managed in each franchise. The main consideration in determining the different business models across the bank is whether the objectives of the business model are met primarily through holding the financial assets to collect contractual cash flows, through the sale of these financial assets, by managing assets and liabilities on a fair value basis, or through a combination of these activities. In considering whether the business objective of holding a group of financial assets is achieved primarily through collecting contractual cash flows, amongst other considerations, management monitors the frequency and significance of sales of financial assets out of these portfolios for purposes other than managing credit risk. For the purposes of performing the business model assessment, the bank only considers a transaction a sale if the asset is derecognised for accounting purposes. For example, a repo transaction where a financial asset is sold with the commitment to buy back the asset at a fixed price at a future date is not considered a sale transaction as substantially all the risks and rewards relating to the ownership of the asset have not been transferred and the asset is not derecognised from an accounting perspective.

4.1 Classification and measurement (continued)

4.1.2 Classification and subsequent measurement of financial assets (continued)

Business Model (continued)
If sales of financial assets are infrequent, the significance of these sales are considered by comparing the carrying amount of assets sold during the period and cumulatively to the total carrying amount of assets held in the business model. If sales are either infrequent or insignificant, these sales will not impact the conclusion that the business model for holding financial assets is to collect contractual cash flows. Determining whether sales are significant or frequent requires management to use their judgement. The significance and frequency of sales is assessed on a case-by-case basis at the business model level. The frequency is assessed on an annual basis and sales of assets that take place once or less per annum is considered to be infrequent. If sales take place more than once per annum it doesn't mean that the business models are not to collect contractual cash flows but rather the reasons for the sales need to be more carefully considered. Management will consider both the volume and amount of sales relative to the total assets in the business model to determine whether it is significant, A change in business model of the bank only occurs on the rare occasion when the bank changes the way in which it manages financial assets. Any changes in business models would result in a reclassification of the relevant financial assets from the start of the next reporting period.
Cash flow characteristics
In order for a debt instrument to be measured at amortised cost or fair value through other comprehensive income, the cash flows on the asset have to be solely payments of principal and interest (SPPI), i.e. consistent with those of a basic lending agreement. The SPPI test is applied on a portfolio basis for retail advances, as the cash flow characteristics of these assets are standardised. This includes the consideration of any prepayment penalties that are limited by consumer credit regulation and can therefore be considered reasonable compensation which would not cause these assets to fail the SPPI test. For wholesale advances, the SPPI test is applied to individual advances at initial recognition, based on the cash flow characteristics of the asset.

4.1 Classification and measurement (continued)

4.1.2 Classification and subsequent measurement of financial assets (continued)

Classes of financial assets	Business model considerations	Cash flow characteristics
Amortised cost		
Financial assets are measured at amortised cost using the effective interest method when they are held to collect contractual cash flows which are solely payments of principle and interest, and sales of such assets are not significant or frequent. These include the majority of the retail, corporate and commercial advances of the bank as well as certain investment securities utilised for liquidity risk management of the bank. For purchased or originated credit-impaired financial assets, the bank applies the credit-adjusted effective interest rate. This interest rate is determined based on the amortised cost and not the gross carrying amount of the financial asset and incorporates the impact of expected credit losses in the estimated future cash flows of the financial asset.		
Retail advances	The FNB and WesBank franchises divisions hold retail advances to collect contractual cash flows. The business model focus on growing these advances within acceptable credit appetite limits and maintaining strong collection practices. The products included under this business models include: • residential mortgages; • vehicle and asset finance; • personal loans and other retail products such as overdrafts. The key risk in these business models is credit risk. This is influenced by the macro environment within which the business operates.	The cash flows on retail advances are solely payments of principal and interest. Interest charged to customers compensates the bank for the time value of money, credit risk and administrative costs (including a profit margin). Penalties on the prepayment of advances are limited to reasonable compensation for early termination of the contract.

4.1 Classification and measurement (continued)

4.1.2 Classification and subsequent measurement of financial assets (continued)

Classes of financial assets	Business model considerations	Cash flow characteristics
Amortised cost (continued)		
Corporate and Commercial Advances	This business model focuses on collecting contractual cash flows on advances and growing these advances within acceptable credit appetite limits. The products included under this business model include: • trade and working capital finance; • specialised finance; • commercial property finance; and • asset-backed finance. These advances are held primarily to realise the related contractual cash flows over the life of the instruments and earn a lending margin in return.	The cash flows on these corporate and commercial advances are solely payments of principal and interest. Interest charged to customers compensates the bank for the time value of money, credit risk and administrative costs (including a profit margin). Penalties on the prepayment of advances are limited to reasonable compensation for early termination of the contract.
Investment securities	Group Treasury division within the bank holds investment securities with lower credit risk (typically with counterparties such as the government) that are convertible into cash within a short time period as and when required for liquidity risk management purposes. The types of instruments used for liquidity risk management purposes are generally government bonds and treasury bills.	The cash flows on these investment securities are solely payments of principal and interest.
Cash and cash equivalents	Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. These assets are held to collect contractual cash flows.	The cash flows on these assets are solely payments of principal and interest.
Accounts receivable	Financial accounts receivable are short-term financial assets that are held to collect contractual cash flows.	The cash flows on these assets are solely payments of principal and interest.

4.1 Classification and measurement (continued)

4.1.3 Classification and subsequent measurement of financial liabilities and compound instruments

Financial liabilities and compound financial instruments
The bank classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Tier 2 instruments which have write down or conversion features are classified based on the nature of the instrument and the definitions. Tier 2 and other funding liabilities are presented in separate lines on the statement of financial position of the bank. Compound instruments are those financial instruments that have components of both financial liabilities and equity such as issued convertible bonds. At initial recognition the instrument and the related transaction costs are split into their separate components and accounted for as a financial liability or equity in terms of the definitions and criteria of IAS 32.
Financial liabilities measured at amortised cost
The following liabilities are measured at amortised cost using the effective interest rate method, unless they have been designated as measured at fair value through profit or loss: • deposits; and • creditors; • tier 2 liabilities;
Financial liabilities measured mandatory at fair value through profit or loss
Held for trading derivative liabilities are measured at fair value through profit or loss These assets liabilities are measured at fair value at reporting date as determined under IFRS 13, with fair value gains or losses recognised in profit or loss.
Financial liabilities designated at fair value through profit or loss
A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if: • such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or • the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the bank's documented risk management or investment strategy, and information about the banking is provided internally on that basis; or • it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL. The bank does not have any liabilities which are designated through profit or loss.

4.2 Impairment of financial assets

This policy applies to:

- financial assets measured at amortised cost including financial accounts receivable and cash;
- loan commitments; and
- finance lease debtors where the bank is the lessor

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

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

Refer to note 9.2 whereby all risk parameters, scenarios and sources of estimating are detailed more extensively.

4.2 Impairment of financial assets (continued)

Expected credit losses Loss allowance on financial assets			
Credit risk has not increased significantly since initial recognition (Stage 1)	**Credit risk has increased significantly since initial recognition, but asset is not credit-impaired (Stage 2)**	**Asset has become credit-impaired since initial recognition (Stage 3)**	**Purchased or originated credit impaired**
12-month expected credit losses	Lifetime expected credit losses (LECL)	LECL	Movement in LECL since initial recognition
Advances			
Significant increase in credit risk since initial recognition (SICR)	In order to determine whether an advance has experienced a significant increase in credit risk, the Probability of Default (PD) of the asset calculated at the origination date is compared to that calculated at the reporting date. The origination date is defined to be the most recent date at which the bank re-prices an advance/facility. A change in terms result in derecognition of the original advance/facility and recognition of a new advance/facility. SICR test thresholds are re-assessed and, if necessary, updated, on at least an annual basis. Any facility that is more than 30 days past due, or in the case of instalment-based products one instalment past due, is automatically considered to have experienced a significant increase in credit risk. In addition to the quantitative assessment based on PDs, qualitative considerations are applied when determining whether individual exposures have experienced a significant increase in credit risk. One such qualitative consideration is the appearance of wholesale and commercial SME facilities on a credit watch list. Any up-to-date facility that has undergone a distressed restructure (i.e. a modification of contractual cash flows to prevent a client from going into arrears) will be considered to have experienced a significant increase in credit risk. The credit risk on an exposure is no longer considered to be significantly higher than at origination if no qualitative indicators of a significant increase in credit risk are triggered, and if comparison of the reporting date PD to the origination date PD no longer indicates that a significant increase in credit risk has occurred. No minimum period for transition from Stage 2 back to Stage 1 is applied, with the exception of distressed restructured exposures that are required to remain in Stage 2 for a minimum period of 6 months before re-entering Stage 1.		

4.2 Impairment of financial assets (continued)

Advances	
Low credit risk	The bank does not use the low credit risk assumption.
Credit-impaired financial assets	Advances are considered credit impaired if they meet the definition of default. The bank's definition of default applied for calculating provisions under IFRS 9 has been aligned to the definition applied for regulatory capital calculations across all portfolios, as well as those applied in operational management of credit and for internal risk management purposes. Exposures are considered to be in default when they are more than 90 days past due or, in the case of amortising products, more than 3 unpaid instalments. In addition, an exposure is considered to have defaulted when there are qualitative indicators that the borrower is unlikely to pay their credit obligations in full without any recourse by the bank to actions such as the realisation of security. Indicators of unlikeliness to pay are determined based on IFRS 9 guidance. Examples include application for bankruptcy or obligor insolvency. Any distressed restructures of accounts which have experienced a significant increase in credit risk since initial recognition are defined as default events. Accounts are considered to no longer be in default if they meet the stringent cure definition, which has been determined at portfolio level based on analysis of re-defined rates.
Purchased or originated credit-impaired	Financial assets that meet the abovementioned definition of credit-impaired at initial recognition.

4.2 Impairment of financial assets (continued)

Advances	
Write-offs	Write-off must occur when it is not economical to pursue further recoveries i.e. there is no reasonable expectation of recovering the carrying amount of the asset (gross amount less specific impairments raised). • By implication, in both retail and wholesale, for secured as well as unsecured, write-offs cannot occur if there is evidence of recent payment behaviour. Each credit portfolio has articulated a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account; and • Within Retail portfolios, write-off definitions have been determined with reference to analysis of the materiality of post write-off recoveries; and • Within Wholesale portfolios, a judgemental approach to write-off is followed, based on case-by-case assessment by a credit committee. • Partial write-offs are not performed within credit portfolios. Where required, additional provisions against irrecoverable assets will be raised until such a time as final write-off can occur.
Other financial assets	
Cash and cash equivalents	All physical cash is classified as Stage 1. Other exposures are classified as stage 1 unless specific evidence of impairment exists, in which case due to the nature of these assets are classified immediately as Stage 3. ECL for physical cash is zero. ECL for cash equivalents is calculated using the loss rate approach. In applying the loss rate approach, loss-rate statistics on the basis of the amount written off over the life of the financial assets rather than using separate probability of default and loss given default statistics is calculated. The bank then adjusts these historical credit loss statistics to reflect current conditions and expectations about the future.
Accounts receivable	ECL for accounts receivable is calculated using the loss rate approach. This results LECL being recognised.

4.2 Impairment of financial assets (continued)

Other financial assets	
Investment securities	Impairment parameters for investment securities (PDs, LGDs and EADs) are determined using appropriate models, with the models to be applied determined with reference to the issuer of the security and the nature of the debt instrument. The tests for a significant increase in credit risk and default definitions are then applied and the ECL calculated in the same way as for advances. The significant increase in credit risk thresholds applied for investment securities are the same as those applied within the Wholesale credit portfolio to ensure consistency in the way that a significant increase in credit risk is identified for a particular counterparty and for similar exposures. This does not use the low credit risk assumption for investment securities, including government bonds.
Intercompany balances	Expected credit losses are calculated using PD, LGD and EAD parameters that are determined through application of expert credit judgement and approved through appropriate governance structures. All intercompany balances are classified as Stage 1, unless there is evidence of impairment, in which case exposures are moved directly to Stage 3.

4.3 Modifications and derecognition

Financial instruments are derecognised when:

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

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

If the contractual cash flows of a financial asset measured at amortised cost are modified (changed or restructured, including distressed restructures), the bank determines whether this is a substantial modification, following which could result in the derecognition of the existing asset, and the recognition of a new asset. If the change is simply a non-substantial modification of the existing terms, it does not result in derecognition.

4.3 Modifications and derecognition (continued)

A modification of a financial asset is substantial, and thus results in derecognition of the original financial asset, where the modified contractual terms are priced to reflect current conditions on the date of modification and are not merely an attempt to recover outstanding amounts. Where the modification does not result in an accounting derecognition the original asset continues to be recognised.

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

The following transactions are entered into by the bank in which it modifies the contractual terms of the asset and either achieves derecognition or continues to recognise the asset:

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

4.4 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	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). Financial collateral (mostly cash) is also obtained, often daily, for the net exposure between counterparties to mitigate credit risk.
Other advances and deposits	The advances and deposits that are offset relate to transactions where the bank has a legally enforceable right to offset the amounts and the bank has the intention to settle the net amount.

It is the bank's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a transaction, 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. For asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossession has not yet occurred, the realisation value of the vehicle is estimated using internal models and is included as part of total recoveries.

5. FINANCIAL INSTRUMENTS IAS 39

5.1 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 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.

5.1 Classification (continued)

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. 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.
Deposits 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.

5.2 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.

5.3 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.

<table>
<tr><td>Scope</td><td>This policy applies to:
advances measured at amortised cost;
investment securities at amortised cost;
advances and debt instruments classified as available-for-sale; and
accounts receivable.</td></tr>
<tr><td>Objective evidence of impairment</td><td>The bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

The following factors are considered when determining whether there is objective evidence that the asset has been impaired:
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.
Where objective evidence of impairment exists, impairment testing is performed based on the following:
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.
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.</td></tr>
</table>

5.3 Impairment of financial assets (continued)

Assessment of objective evidence of impairment	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). 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.
Collective assessment	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.
Recognition of impairment loss	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. For available-for-sale financial assets which are impaired the cumulative loss is reclassified from other comprehensive income to profit or loss.
Reversal of impairment loss	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): • 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.

5.3 Impairment of financial assets (continued)

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.

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:

<table>
<tr><th></th><th colspan="2"></th></tr>
<tr><td rowspan="5">Past due advances</td><td colspan="2">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.</td></tr>
<tr><td>Type of advance</td><td>Bank policy on past due/impaired</td></tr>
<tr><td>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)</td><td>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.</td></tr>
<tr><td>Loans payable on demand (e.g. overdrafts)</td><td>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.</td></tr>
<tr><td colspan="2">The full outstanding amount is reported as past due even if part of the balance is not yet due.</td></tr>
<tr><td></td><td>Type of advance</td><td>Bank policy on past due/impaired</td></tr>
<tr><td rowspan="2">Non-performing loans</td><td>Retail loans</td><td>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.</td></tr>
<tr><td>Commercial and wholesale loans</td><td>Analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.</td></tr>
</table>

5.3 Impairment of financial assets (continued)

	Type of advance	Bank policy on past due/impaired
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. Excludes advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original.	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. 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.	
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.		

5.4 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.

5.5 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	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). Financial collateral (mostly cash) is also obtained, often daily, for the net exposure between counterparties to mitigate credit risk.

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.

5.6 Derivative financial instruments

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

6. OTHER ASSETS AND LIABILITIES

6.1 Classification and measurement

<table>
<tr><th>Classification</th><th>Measurement</th></tr>
<tr><td colspan="2">Information regarding land and buildings is kept at the bank's registered office and is open for inspection.</td></tr>
<tr><th colspan="2">Property and equipment</th></tr>
<tr><td>Property and equipment of the bank includes:
assets utilised by the bank in the normal course of operations to provide services including freehold property and leasehold premises and leasehold improvements (owner occupied);
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.</td><td>Historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated.

Depreciation is on a straight-line basis over the useful life of the asset, except for assets capitalised under finance leases where the bank is the lessee, in which case depreciation is over the life of the lease (refer to policy 6.2).

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.

<table><tr><th>Asset category</th><th>Useful life</th></tr><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>5 years</td></tr><tr><td>Furniture and fittings</td><td>10 years</td></tr></table></td></tr>
</table>

6.1 Classification and measurement (continued)

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. The bank recognises a provision when a reliable estimate of the outflow required can be made and the outflow is more reliable than not.

Other assets that are subject to depreciation are reviewed for impairment whenever objective evidence of impairment exists. Impairment losses are recognised in profit or loss as part of operating expenses.

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

6.2 Leases

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	Recognised as an operating expense in profit or loss on a straight-line basis over the period of the lease. Any difference between the actual lease amount payable and the straight-lined amount calculated is recognised as a liability of the bank in creditors and accruals.	Assets held under operating leases are recognised as a separate category of property and equipment (assets held under leasing arrangements) and depreciated. Rental income is recognised as other non-interest revenue on a straight-line basis over the lease term.
Instalment credit sale agreements where the bank is the lessor	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.	

7. CAPITAL AND RESERVES

Transaction	Liability	Equity
Shares issued and issue costs	The bank does not have any shares in issue that meet the definition of a liability, therefore this classification is not applicable.	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.
Dividends paid/declared	The bank does not have any shares issues that meet the definition of a liability, therefore this classification is not applicable.	Dividends on ordinary shares and NCNR preference shares are recognised against equity. A corresponding liability is recognised when the dividends have been approved by the company's shareholders and distribution is no longer at the discretion of the entity.
Distribution of non-cash assets to owners	The bank does not have any shares issues that meet the definition of a liability, therefore this classification is not applicable.	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.
Other reserves	The bank does not have any shares in issue that meet the definition of a liability, therefore this classification is not applicable.	Other reserves recognised by the bank include general risk reserves, statutory reserves 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 applicable legislation.

8. TRANSACTIONS WITH EMPLOYEES

8.1 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 Eswatini 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 bank, 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** 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. 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.
	Measurement 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.
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	Included as part of staff costs: • 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.

8.1 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.

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 other classes of equity. Options granted under cash settled plans result in an expense being recognised in profit or loss for employee services received over the vesting period of the plans, and a corresponding liability being recognised and measured at fair value in terms of IFRS 2 until settlement.

9. 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 27.

9.1 Taxation

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

9.2 Impairment of financial assets (IFRS 9)

Impairment of financial assets
In determining whether an impairment loss should be recognised, the bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.
The objective of the measurement of an impairment loss is to produce a quantitative measure of the group's credit risk exposure. The group adopted the PD/LGD approach for the calculation of ECL for advances. The ECL is based on an average of three macroeconomic scenarios incorporating a base scenario, upside scenario and downside scenario, weighted by the probability of occurrence. Regression modelling techniques are used to determine which borrower and transaction characteristics are predictive of certain behaviours, based on relationships observed in historical data related to the group of accounts to which the model will be applied. This results in the production of models that are used to predict impairment parameters (PD, LGD and EAD) based on the predictive characteristics identified through the regression process.
Forward-looking information (FLI)
Forward-looking macro-economic information has been incorporated into expected loss estimates through the application of quantitative modelling and expert-judgement-based adjustments. Quantitative techniques applied estimate the impact of forecasted macro-economic factors on expected credit losses using regression techniques. The macroeconomic scenarios are defined by taking global and domestic macroeconomic considerations into account, and forecasts are developed for baseline, downside, upside and stress scenarios. The baseline, downside and upside scenarios are used in the ECL calculations. These scenarios are overseen by the FirstRand macro forum, which is responsible for oversight and is independent from credit and modelling functions. To arrive at the macroeconomic forecasts, a bottom-up and top-down process is followed. The bottom-up process is conducted by teams of economists both locally and within the various subsidiaries. These economists assess micro and macroeconomic developments to formulate (bottom-up) and adjust (top-down) the macroeconomic forecasts. A number of internal and external economists are then requested to assign a probability to each scenario. The rationale for probabilities assigned by each respondent are noted and explained. ECL results are calculated as probability-weighted average results across multiple macroeconomic scenarios. The creation of macroeconomic scenarios and the determination of associated probabilities are subjective, with final ECL results dependent on the assumptions applied during the process.

9.2 Impairment of financial assets (IFRS 9) (continued)

The following scenarios were applied at 30 June 2019

Baseline regime	Assumes that global growth slows below trend, developed market (DM) inflation remains benign and interest rates turn more accommodative while domestic policy uncertainty reduces relative to 2018 and meaningful economic reform remains absent.
Upside regime	Assumes that the global economy expands at a solid pace whilst DM inflation and interest rates lift gradually, and domestic policy certainty improves substantially, opening the door for positive economic reforms to drive growth higher.
Downside regime	Assumes that the global economy slows down whilst DM inflation and interest rates lift. Increased policy uncertainty. The country is unable to fund substitute markets for sugar and ancillary industries suffer; and/or Rainfall is low driving food and sugar production lower, therefore the government abandons fiscal consolidation and significantly increases public sector wages and social spending.

The macro forum currently assigns a 52% probability to the baseline macroeconomic regime. The probability of the downside regime has diminished marginally while the probability of the upside regime has remained flat.

Significant macroeconomic factors

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

Eswatini	Upside scenario	Baseline expectation	Downside scenario
Real GDP growth (%)	0.30	0.50	0.30
CPI Inflation (%)	5.10	4.40	5.10
Policy interest rate (%)	7.00	6.75	6.75
Foreign exchange rate (USD/SZL)	14.2	14.2	14.2

In addition to forward-looking macroeconomic information, other types of forward-looking information, such as specific event risk, are taken into account in ECL estimates when required. Furthermore, where there is uncertainty in respect of the respective models' ability to address specific trends or conditions due to inherent limitations of modelling based on past performance, the timing of model updates and macro-economic events, additional provisions via post model adjustments are made.

9.2 Impairment of financial assets (IFRS 9) (continued)

Judgement or estimate	Retail and retail SME	Wholesale and commercial SME
Measurement of the 12-month and LECL	Parameters are determined on a pooled basis, with exposures pooled on a portfolio level at a minimum. Where appropriate, more granular pooling is applied. The inputs used to determine parameter values include historically observed behaviour as well as behavioural and demographic information related to individual exposures currently on book. PD parameters are determined through assessment of the influence that various risk drivers have had on historical default rates. EAD parameters are estimated based on product characteristics and historical draw-down and payment behaviour. LGDs are determined by estimating expected future cash flows, including costs and proceeds from sale of collateral, based on historically observed outcomes. The statistical models applied implicitly assume that risk drivers that influence default risk, payment behaviour and recovery expectations within the historical data will continue to be relevant in the future.	Parameters are determined based on the application of statistical models that produce estimates on the basis of counterparty-specific financial information and transaction characteristics including the nature of available collateral. Due to the specialised nature of these exposures, parameters produced by models are taken through a robust review and challenge process before being applied to calculate expected credit losses, and are required to be signed off by a committee of Wholesale credit experts who can motivate adjustments to modelled parameters.
	Parameters are calibrated for the calculation of 12-month and LECL using term structures that consider account age, historical behaviour, transaction characteristics and correlations between parameters. Term structures have been developed over the entire remaining lifetime of an instrument. The remaining lifetime is limited to the contractual term of instruments in the portfolio, with the exception of instruments with an undrawn commitment such as where no limit is placed on the length of the remaining lifetime. Expected credit losses on open accounts are discounted from the expected date of default to the reporting date using the asset's original effective interest rate or a reasonable approximation thereof.	

9.2 Impairment of financial assets (IFRS 9) (continued)

Judgement or estimate	Retail and retail SME	Wholesale and commercial SME
Determination of whether the credit risk of financial instruments have increased significantly since initial recognition	In accordance with IFRS 9, all exposures are assessed to determine whether there has been a significant increase in credit risk (SICR) at each reporting date (monthly), in which case the expected credit loss is calculated on a lifetime basis. SICR triggers are client behavioural based and are derived from client behavioural scores as well as judgemental factors. These triggers are portfolio specific and are calibrated over time to determine what level of deterioration is reflective of a significant increase in credit risk with reference to historic default on that portfolio. The bank uses a relative movement in probability of default between reporting date and origination date to determine if there was a significant increase in credit risk. These levels are monitored and validated on a continuous basis. Management also considers other judgemental triggers, for example behaviour on other products and anticipated changes in legislation.	In accordance with IFRS 9, all exposures are assessed to determine whether there has been a significant increase in credit risk at each reporting date (monthly), in which case the expected credit loss is calculated on a lifetime basis. SICR triggers are client behavioural based and are derived from a client FR rating or risk score, as well as judgemental factors which may result in the client being added to the watch list through the group's ongoing risk management process. These triggers are tested at a deal and client level and the former is calibrated over time to determine what level of deterioration is reflective of a significant increase in credit risk. The bank uses a relative movement in probability of default between reporting date and origination date to determine if there was a significant increase in credit risk, and the client's watch list status at a point in time. These levels are monitored and validated on a continuous basis.

9.2 Impairment of financial assets (IFRS 9) (continued)

Determination of whether a financial asset is a credit-impaired financial asset	Exposures are classified as stage 3 if there are qualitative indicators that the obligor is unlikely to pay his/her/its credit obligations in full without any recourse by the group to action such as the realisation of security. Distressed restructures of accounts in stage 2 are also considered to be default events. For a retail account to cure from stage 3 to either stage 2 or stage 1, the account needs to meet a stringent cure definition. Cure definitions are determined on a portfolio level with reference to suitable analysis and are set such that the probability of a previously cured account re-defaulting is equivalent to the probability of default for an account that has not defaulted in the past. In most retail portfolios curing is set at 12 consecutive payments. For wholesale exposures, cures are assessed on a case-by-case basis, subsequent to an analysis by the relevant debt restructuring credit committee. A default event is a separate default event only if an account has met the portfolio-specific cure definition prior to the second or subsequent default. Default events that are not separate are treated as a single default event when developing LGD models and the associated term structures.

Fair value movement due the credit risk of financial liabilities

The portion of the fair value movement on financial liabilities designated at fair value through profit or loss that is attributable to changes in the credit risk of the liability and accounted for in other comprehensive income is determined. If this fair value movement due to changes in credit risk is offset by a corresponding movement in the fair value of a linked asset measured at fair value, this movement is included in profit or loss rather than other comprehensive income.

9.3 Impairment of financial assets (IAS 39)

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	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. 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.
Impairment assessment of collateralised financial assets	The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether the bank elects to foreclose or not.
Advances	

The bank continuously assesses its credit portfolios for impairment. Significant advances are monitored by the credit committee and impaired according to the bank's impairment policy when an indication of impairment is observed.

The objective of the measurement of an impairment loss is to produce a quantitative measure of the bank’s credit risk exposure.

In determining the amount of the impairment the bank considers the following:

- the probability of default (PD) which is a measure of the expectation of how likely the customer is to default;
- 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.

9.3 Impairment of financial assets (IAS 39) (continued)

Performing loans

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.
Where impairment is required to be determined for the performing book, the following estimates are required:

- 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.

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.

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.

Based on the results of the sensitivity analysis performed, management is satisfied that the current total provisions held for performing accounts is appropriate.

The table below provides a breakdown of the range of loss emergence periods for the main classes of advances

	Loss emergence range
Retail secured	3 – 6 months
Retail unsecured	3 months
Corporate and commercial	3 months

9.3 Impairment of financial assets (IAS 39) (continued)

Non-performing loans
Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for commercial and wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Management is comfortable that the level of provisions held for non-performing loans is appropriate, considering the impact of a 10% relative change in NPL LGDs on modelled provisions.
Available-for-sale equity instruments
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, *inter alia*, 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.

9.4 Other assets and liabilities

Other assets and liabilities

Property and equipment

The useful life of each asset is assessed individually. The benchmarks used when assessing the useful life of the individual assets are set out below.

Asset category	Useful life
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	5 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.

9.5 Transactions with employees

Employee benefits – defined contribution plans	
Determination of purchased pension on retirement from defined contribution plan	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). 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. 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.

9.5 Transactions with employees (continued)

Employee benefits – defined benefit plans	
Determination of required funding levels	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 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. As at the last statutory actuarial valuation of the fund (during October 2015), all categories of liabilities were at least 100% funded. 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.
Determination of present value of defined benefit plan obligations	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. 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.

10. IMPACT OF ADOPTING REVISED ACCOUNTING STANDARDS

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

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

Requirement	Description of change	Impact on the bank
Classification and measurement	IFRS 9 introduced a principle-based approach for classifying financial assets, based on the entity's business model (for example how an entity manages its financial assets to generate cash flows) and the nature of its cash flows. Financial assets held to collect contractual cash flows, which relate SPPI, are classified at amortised cost. Financial assets held in a mixed business model (for example, held to collect contractual cash flows which meet the SPPI test and held for sale) are classified at fair value through other comprehensive income (FVOCI). All other financial assets held under a different business model or cash flows that do not meet the SPPI test are classified at fair value through profit or loss (FVTPL). The classification of financial liabilities remains relatively unchanged, with the exception of financial liabilities designated at fair value. Any changes in the fair value of the liability due to the entity's own credit risk will now be recognised in other comprehensive income. IFRS 9 also allows for the once-off reclassification of financial liabilities.	The bank's approach was to reclassify all investment in securities from available-for-sale classification under IAS 39 to amortised cost under IFRS 9. All advances were classified as Loans and Receivables under IAS 39 to amortised cost under IFRS 9. The advances did not have to be remeasured as Loans and Receivables classification is measured at amortised cost under IAS 39, which is the same measurement for the amortised cost classification under IFRS 9. The investment in securities were remeasured as available-for-sale classification under IAS 39 was measured at fair value, which is different to amortised cost measurement under IFRS 9. Refer to the subsequent table with heading "Summary of differences between IAS 39 and IFRS 9" for the impact of this remeasurement.

Impact of adopting revised accounting standards (continued)

Requirement	Description of change	Impact on the bank
ECL impairment	IFRS 9 introduced an ECL model which includes the incorporation of forward-looking information (FLI) for the recognition of impairments on financial assets. It is no longer required that a credit event occurs before credit losses are recognised. This applies to financial assets classified at amortised cost and FVOCI, lease receivables and trade receivables. It also applies to loan commitments, unutilised facilities and financial guarantee contracts not designated at FVTPL, referred to collectively as off-balance sheet exposures. The level of ECL to be recognised is determined with reference to the credit risk of the asset at reporting date in relation to its credit risk at origination. Where the credit risk has not increased significantly since origination, impairment is calculated based on a 12-month ECL. If there has been a significant increase in credit risk (SICR), impairment is based on LECL.	The revised impairment requirements increased impairments by E109.4million, excluding ISP, due to earlier recognition of ECL, incorporating FLI, the inclusion of off-balance sheet exposures and the extension of the measurement period.
Other ECL	Investment securities and non-advances	Debt investment securities comprising government and corporate bonds were classified as available-for-sale under IAS 39. These securities are short dated and held under a business model to collect contractual cash flows until maturity. These contractual cash flows are SPPI and these debt investment securities have therefore been classified at amortised cost under IFRS 9. Accordingly, an ECL provision of E25.8million has been raised against these securities, referenced to the sovereign credit rating where these relate to government bonds. As a result of the reclassification, the available-for-sale reserve of E1.133 million (net of tax E0.822million) was released, resulting in an adjustment to the carrying amount of the investment securities and the non-distributable reserves. No further ECL provision has been raised on non-advances with credit risk, such as accounts receivable, which were not previously provided for under IAS 39.

Impact of adopting revised accounting standards (continued)

Requirement	Description of change	Impact on the bank
Hedge accounting	IFRS 9 more closely aligns hedge accounting with the entity's risk management policies and permits the use of internally produced risk management information as a basis for hedge accounting, thereby widening the range of items that can be hedge accounted.	The bank does not currently apply hedge accounting.
ISP	In terms of IAS 39 ISP was not capitalised to advances and interest suspended was tracked and managed separately off-balance sheet. Under IFRS 9, interest revenue is calculated by applying the effective interest rate to the amortised cost of financial assets classified in stage 3. The difference between the contractual interest and the interest recognised in line with IFRS 9 is therefore suspended. This suspended interest is capitalised to the advance and immediately impaired.	ISP is recognised against the ECL allowance, reflecting the fact that it is unrecoverable and therefore impaired. To the extent that the impairment coverage ratio under IAS 39 is identical to that under IFRS 9, the impact of ISP on transition to IFRS 9 is a gross-up of the advance and loss allowance by the amount of the suspended interest, with no impact on retained earnings. Where the coverage ratios under the two standards differ, the difference is reflected in retained earnings. The amount of ISP under IAS 39 was E11.9 million and the ISP on the reclassified book amounted to E11.9 million. The impact of these amounts resulted in a gross-up of advances amounting to E11.9 million.
IFRS 15		
	IFRS 15 requires revenue to be recognised as an entity satisfies its performance obligations, which can be at a point in time or over time. This is different to IAS 18 – *Revenue* ("IAS 18") recognition of revenue which is dependent of when the risk and rewards of the product or service transfers to the customer.	The bank's revenue that does not fall within the scope of IFRS 9 is mainly derived from providing services to customers and was therefore recognised over the period of time in which the services were provided, in accordance with IAS 18. As the revenue from the provision of services is still required to be recognised over time in terms of IFRS 15, the adoption of IFRS 15 had no impact on the bank

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ended 30 June 2019

Summary of differences between IAS 39 and IFRS 9

E'000	Original classification under IAS 39	New classification under IFRS 9	IAS 39 carrying amount	Remeasurement	ECL impairment	ISP due to change in coverage ratio	IFRS 9 carrying amount
ASSETS							
Advances	Loans and receivables	Amortised cost	2 917 426	-	(79 022)	-	2 838 404
Investment securities	Available-for-sale	Amortised cost	617 820	-	(25 146)	-	592 674
Total			**3 535 246**	**-**	**(104 168)**	**-**	**3 431 078**

Reclassification of financial instruments to amortised cost

The table below sets out information about financial instruments that has been reclassified from available-for-sale to amortised cost upon the adoption of IFRS 9. The table sets out information about the financial instruments' fair value and fair value gains and losses that would have been recognised in OCI or profit or loss if the reclassification had not taken place.

E' 000	Fair value as at 30 June 2019	FV gain or loss that would have been recognised in other comprehensive income	Effective interest rate on 1 July 2018 - low	Effective interest rate on 1 July 2018- high	Interest revenue recognized for the year ended June 2019
ASSETS Classified as available-for-sale under IAS 39					
Investment securities	588 012	-	7.95%	7.95%	81 553

The bank has changed its accounting policies in respect of the classification of financial instruments under IFRS 9. The application of these changes resulted in changes in the impairment loss allowance balances for IFRS 9 adoption when compared to the IAS 39 impairment loss allowance balances. In addition, the application of the ECL impairment model under IFRS 9 has also resulted in an increase in the impairment loss allowance recognised.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ended 30 June 2019

Summary of differences between IAS 39 and IFRS 9 (continued)

The table below reconciles the impairment allowance measured in line with IAS 39 and IAS 37 to the IFRS 9 loss allowance recognised as at 1 July 2018:

E million	Loss allowance under IAS 39	Increase as a result of IFRS 9	Loss allowance under IFRS 9
ASSETS			
Advances	63 383	90 941	154 324
Investment securities	-	25 146	25 146
Total	**63 383**	**116 087**	**179 470**

	2019 E'000	2018 E'000
1. INTEREST AND SIMILAR INCOME		
Interest and similar income is earned on financial assets held at amortised cost		
Advances	**329 882**	326 334
- Property finance	**61 125**	75 687
- Home loans	**51 772**	53 157
- Commercial property finance	**9 353**	22 530
- Personal loans	**57 684**	96 009
- Lease payments receivable	**76 866**	82 959
- Overdrafts and cash management accounts	**60 464**	60 070
- Term loans	**71 174**	8 384
- Off market loans	**2 569**	3 225
Cash and cash equivalents	**88 102**	74 496
Investment securities	**53 237**	58 463
Total interest income and similar charges	**471 221**	459 293

2. INTEREST EXPENSE AND SIMILAR CHARGES

Interest expense and similar charges are paid on the following financial liabilities carried at amortised cost:

	2019 E'000	2018 E'000
Current accounts	**6 572**	6 117
Call accounts	**95 297**	95 483
Savings accounts	**783**	1 083
Term deposit accounts	**15 897**	14 189
Total interest expense and similar charges	**118 549**	116 872

3. NON- INTEREST REVENUE

Analysis of non-interest revenue is as follows: -

	2019 E'000	2018 E'000
Fee and Commission Income		
Instruments at amortised cost	**306 622**	289 303
Non-financial instruments	**1 699**	1 560
Fee and Commission Expenses	**(2 969)**	(4 102)
Net fee and commission income (Note 3.1)	**305 352**	286 761
Insurance income		
Non-financial instruments (Note 3.2)	**2 780**	1 562
Fair value gains or losses (Note 3.3)		
Instruments designated at fair value through profit or loss	**21 855**	17 145
Impairment of Investment in securities (Note 13)	**(655)**	-
Other non-interest income		
Other non-interest income (Note 3.4)	**805**	6 380
Total non-interest revenue	**330 137**	311 848

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2019

	2019 E'000	2018 E'000
3.1 Net fee and commission income		
Banking fee and commission income		
- Card commissions	**15 932**	13 103
- Cash and cheque deposit fees	**3 441**	2 729
- Commissions - bills, drafts & cheques	**5 740**	4 657
- Commitment fees	**9 188**	9 441
- Acceptance guarantees and indemnities	**331**	330
Total banking fee and commission income	**34 632**	30 260
Service fees		
- Exchange commissions	**6 476**	(159)
- Bank charges	**265 514**	259 202
- Transaction and service fees	**135 567**	130 371
- Documentation and administration fees	**62 792**	54 846
- Cash handling fees	**67 155**	73 985
Service fees	**271 990**	259 043
Other non-banking fee and commission income		
- Other non-banking fee and commission income	**1 699**	1 560
Total fee and commission income	**308 321**	290 863
Fee and Commission Expenses		
- Cash sorting handling and transportation charges	**(2 969)**	(2 780)
- Customer loyalty programmes	**-**	(3)
- Transactional Processing fees	**-**	(1 319)
Total fee and commission expenses	**(2 969)**	(4 102)
Net fee and commission income	**305 352**	286 761
3.2 Insurance income		
Commissions	**2 392**	1 562
Profit share income	**388**	-
Total insurance income	**2 780**	1 562
3.3 Fair value gains and losses		
Foreign exchange dealing gains	**21 855**	17 145
Gains/(Losses) on investment securities (note 13)	**(655)**	-
Other non-interest income	**21 200**	17 145
3.4 Other non-interest income		
Loss from the disposal of property and equipment	**(21)**	(205)
Other income	**826**	6 585
Other non-interest income	**805**	6 380

	2019 E'000	2018 E'000

4. OPERATING AND ADMINISTRATIVE EXPENSES

Operating expenses comprise the following:-

4.1 Auditors' remuneration

Audit fees – statutory audit current year provision	**1 600**	1 510
Audit fees – BA returns	**122**	115
Fees for other services – current year provision	**678**	775
Total Auditors' remuneration	**2 400**	2 400

4.2 Directors' fees

- For Services rendered as a director	**1 428**	1 130
- Other related costs	**-**	-
Total Directors costs (note 28.1)	**1 428**	1 130

4.3 Employee benefit expenses

Salaries, wages and allowances	**154 973**	130 292
Contributions to employee defined benefit plan	**11 714**	10 192
Share-based payments (note 29)	**3 048**	4 400
Off-market loans (note 1)	**2 569**	3 227
Other employee benefit expenses	**1 318**	2 604
Total employee benefit expenses	**173 622**	150 715

The number of employees (including fixed contract) employed by the bank at year end was **398** (2018: 406).

4.4 Other operating costs

Intercompany expenses	**105 480**	109 257
Insurance	**3 652**	3 319
Advertising and marketing	**7 453**	6 139
Business travel	**3 718**	3 169
Low valued assets	**834**	932
Depreciation of property and equipment	**16 561**	16 439
Operating lease charges	**16 692**	15 743
Repairs and maintenance	**6 134**	6 010
Computer	**2 557**	3 216
Property expenses (including utilities)	**8 705**	7 867
Telecommunication	**10 336**	10 394
Training expenses	**2 386**	1 436
Bank charges	**2 904**	2 436
Donations	**1 845**	1 729
Entertainment	**1 444**	2 468
Stationery and printing	**5 037**	3 971
Storage and delivery	**2 095**	2 346
Legal	**573**	802
Operational losses	**1 238**	1 223
Other operating expenses	**2 859**	3 355
	202 503	202 251
Total operating and administration expenses	**379 953**	356 496

	2019 E'000	2018 E'000

5. INDIRECT TAX

Indirect taxation comprises of:		
Stamp duties and value added tax reverse charge	**17 908**	18 734
Total indirect taxation	**17 908**	18 34

6. TAXATION

6.1. Income tax expense

Income taxation comprises of:

Total current tax expense	**100 724**	73 202
- Current tax on profits for the year	**100 724**	73 202
- Adjustments for current tax of prior periods	**-**	-
Total deferred tax expense (note 9)	**(21 601)**	(2 522)
- Decrease/(increase) in deferred tax assets	**915**	(2 522)
- Adjustments for deferred tax of prior periods – IFRS 9	**(22 516)**	-
Total income tax expense	**79 123**	70 680
Taxation rate reconciliation – Eswatini normal taxation	**%**	%
Standard taxation rate	**27.5**	27.5
Total taxation has been affected by:		
Expense not deductible for tax purposes	**0.23**	(0.07)
Tax adjustment	–	–
Effective taxation rate	**27.73**	27.43

	2019 E'000	2018 E'000

7. EARNINGS AND DIVIDENDS PER SHARE

7.1 Earnings attributable to ordinary equity holders		
- Basic	**206 168**	186 998
- Diluted	**-**	-
Earnings attributable to ordinary equity holders	**206 168**	186 998
7.2 Dividends Declared and paid		
Ordinary Shares		
- Interim	**-**	-
- Final declared/paid	**96 230**	-
Preference Shares		
- Interim	**-**	-
- Final declared/paid	**3 770**	-
Total Dividends Declared and paid	**100 000**	-
7.3 Dividends per share *(cents)*		
- Interim	**-**	-
- Final declared/paid	**72.35**	-
Dividends per share	**72.35**	

7.3 Weighted average number of shares

Weighted average number of shares before treasury shares	**138 210**	27 642
- Ordinary shares	**133 000**	26 600
- Preference shares	**5 210**	1 042
Less: Treasury shares	**-**	-
- Shares for client trading	**-**	-
Weighted average number of shares in issue	**138 210**	27 642
Add: Share options as a result of equity settled share scheme	**-**	-
Diluted weighted average number of shares in issue	**138 210**	27 642

During the year, the Bank implemented a 5 for 1 share split, with the 26 600 issued ordinary shares of 100 cents each into 133 000 ordinary shares of 20cents each.

No change was made to authorised preference shares, however, an issued preference share of 100 cents is entitled to five times the ordinary share with a par value of 20cents each.

8. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

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

	2019		
	Amortised cost	At fair value through profit or loss	
E'000		Mandatory	Designated
ASSETS			
Cash and cash equivalents	**1 619 251**	-	-
Derivative financial instruments	-	**16 708**	-
Investment securities	**588 012**	-	-
Advances	**2 594 652**	-	-
Accounts receivable	**30 201**	-	-
Amounts due from related parties	**770 521**	-	-
Non-financial assets	**116 697**	-	-
Total assets	**5 719 334**	**16 708**	-

	2018		
E'000	Held for trading	Designated at fair value through profit or loss	Held to maturity
ASSETS			
Cash and cash equivalents	-	-	718 930
Derivative financial instruments	-	16 098	-
Investment securities	-	-	617 820
Advances	-	-	2 917 426
Accounts receivable	-	-	35 524
Amounts due from related parties	-	-	993 870
Non-financial assets	-	-	96 784
Total assets	-	16 098	5 380 354

8. Analysis of assets and liabilities (continued)

2019						
	At fair value through other comprehensive income		Non- financial instruments	Total carrying value	Current	Non-Current
E'000	**Debt**	**Equity**				
Cash and cash equivalents	-	-	**1 619 251**	**1 619 251**	**1 619 251**	-
Derivative financial instruments	-	-	-	**16 708**	**16 708**	-
Investment securities	-	-	**588 012**	**588 012**	**239 615**	**348 397**
Advances	-	-	**2 594 652**	**2 594 652**	**898 719**	**1 695 933**
Accounts receivable	-	-	**30 201**	**30 201**	**30 299**	-
Amounts due from related parties	-	-	**770 521**	**770 521**	**770 521**	-
Non-financial assets	-	-	**116 697**	**116 697**	-	**116 698**
Total	-	-	**5 719 334**	**5 736 042**	**3 575 113**	**2 161 028**

2018						
E'000	**Loans and receivables**	**Available-for-sale financial assets**	**Non-financial instruments**	**Total carrying value**	**Current**	**Non-current**
Cash and cash equivalents	718 930	-	718 930	718 930	718 930	-
Derivative financial instruments	-	16 098	-	16 098	16 098	-
Investment securities	-	617 820	-	617 820	244 438	373 382
Advances	2 917 426	-	2 917 426	2 917 426	1 092 557	1 824 869-
Accounts receivable	35 524	-	35 524	35 524	35 524	-
Amounts due from related parties	993 870	-	993 870	993 870	993 870	-
Non-financial assets	-	-	96 784	96 784	-	96 784
Total	3 673 743	633 918	4 762 534	5 396 452	3 101 417	2 295 035

8. Analysis of assets and liabilities (continued)

E'000	2019		
	Amortised cost	At fair value through profit or loss	
		Mandatory	Designated
LIABILITIES			
Deposits	**4 606 128**	–	–
Share based payments liability	**4 517**	–	–
Derivative financial instruments	**15 404**	**15 404**	
Defined benefit post-employment liability	**27 786**	–	-
Accounts payable	**32 446**	–	-
Provision for other liabilities and charges	**31 205**	–	–
Current income tax liability	**25 281**	–	-
Amounts due to related parties	**15 701**	–	–
Total liabilities	**4 758 468**	**15 404**	–

E'000	2018		
	Held for trading	Held at fair value through profit or loss	Held to maturity
LIABILITIES			
Deposits	–	–	4 026 737
Share based payments liability	–	–	8 320
Derivative financial instruments	–	6 214	6 214
Defined benefit post-employment liability	–	–	27 786
Accounts payable	–	–	82 764
Provision for other liabilities and charges	–	–	25 523
Current income tax liability	–	–	4 934
Amounts due to related parties	–	–	232 447
Total assets	–	6 214	4 408 511

8 Analysis of assets and liabilities (continued)

2019					
E'000	"Fair value through profit or loss – mandatory	Non-financial instruments	Total carrying value	Current	Non-Current
Deposits	-	4 606 128	4 606 128	4 606 128	-
Derivative financial instruments	15 404		15 404	15 404	-
Accounts payables		32 446	32 446	32 446	-
Provision for other liabilities	-	31 205	31 205	31 205	-
Current income tax	-	25 281	25 281	25 281	-
Amounts due to related parties	-	15 701	15 701	15 701	-
Total liabilities	15 404	4 710 761	4 726 165	4 726 165	-

2018					
E'000	Fair value through profit or loss – mandatory	Non-financial instruments	Total carrying value	Current	Non-Current
Deposits	-	4 026 737	4 026 737	4 026 737	-
Derivative financial instruments	6 214		6 214	6 214	
Accounts payables		82 764	82 764	82 764	
Provision for other liabilities	-	25 523	25 523	25 523	-
Current income tax	-	4 934	4 934	4 934	-
Amounts due to related parties	-	232 447	232 447	232 447	-
Total liabilities	6 214	4 372 405	4 378 619	4 378 619	-

	2019 E'000	2018 E'000

9. DEFERRED INCOME TAX ASSETS

The movement on the deferred income tax asset account is as follows:

Balance at the beginning of the year	**26 308**	23 786
Adjustment on adoption of FRS 9 (Note 6.1)	**22 516**	-
Adjusted opening balance at 1 July 2018	**48 824**	23 786
Release to profit or loss	**(915)**	2 522
Charged to other comprehensive income	**312**	-
Balance at the end of the year	**48 221**	26 308
Deferred Taxation-Net	**48 221**	26 308

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.

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

2019				
E'000	**Opening Balance**	**Taxation charge/ (release)**	**Other Comprehensive income**	**Closing Balance**
Impairment of advances	**13 072**	**18 303**	**-**	**31 375**
Fair value losses – Investment in securities	**-**	**5 321**	**-**	**5 321**
Provision for other liabilities and charges	**2 760**	**117**	**-**	**2 877**
Deferred revenue	**2 311**	**(212)**	**-**	**2 099**
Post-retirement benefit liability	**7 641**	**-**	**-**	**7 641**
Share based payments liability	**2 288**	**(733)**	**-**	**1 555**
Prepayments	**(1 452)**	**(1 195)**	**-**	**(2 647)**
Fair value gains in investment securities to other comprehensive income	**(312)**	**-**	**312**	**-**
Net- deferred tax assets	**26 308**	**21 601**	**312**	**48 221**

2018				
E'000	**Opening Balance**	**Taxation charge/ (release)**	**Other Comprehensive income**	**Closing Balance**
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

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.

	2019 E'000	2018 E'000

10. CURRENT INCOME TAX LIABILITIES

Current income tax liabilities reconciliation		
Balance at the beginning of the year	**4 934**	9 964
Income tax expense for the year (note 6.1)	**100 724**	73 202
Income tax paid during the year (note 24.2)	**(80 377)**	(78 232)
Balance at the end of the year	**25 281**	4 934

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of: -		
Coins and bank notes	**111 317**	114 527
Balances with the Central Bank	**1 284 313**	505 710
Balances with other banks	**223 621**	98 694
Total cash and cash equivalents	**1 619 251**	718 931
Mandatory reserve balances included in above	**292 717**	247 339

Bank is required to deposit a minimum average balance, calculated monthly, with the Central Bank of Eswatini, which is available for use by the bank subject to certain restrictions and limitations levelled by the Central Bank of Eswatini. These deposits bear little or no interest.

	2019 E'000	2018 E'000

12. ADVANCES AND IMPAIRMENT OF ADVANCES

12.1 Advances

Advances comprises of loans classified as financial assets held at amortised cost in terms of IFRS 9. These loans are classified as loans and receivables and measured on amortised cost in terms of IAS 39 for the comparative period.

Analysis of Advances

	2019 E'000	2018 E'000
Value of advances	**2 760 528**	2 992 729
Interest on stage 3 advances (2018: IAS 39 Contractual interest suspended)	**(11 167)**	(11 920)
Gross value of Advances	**2 749 361**	2 980 809
Category analysis		
Overdrafts and managed accounts	**589 039**	655 107
Term loans	**550 410**	533 365
Lease payments receivable	**575 472**	674 397
Home loans	**516 983**	544 449
Property Finance	**169 401**	216 658
Personal loans	**307 559**	285 146
Floor Plans	**40 497**	71 687
Gross loans and advances	**2 749 361**	2 980 809
Impairment of loans and advances (note 12.2)	**(154 709)**	(63 383)
Net Advances	**2 594 652**	2 917 426

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 2019				
Lease payments receivable	**85 480**	**617 269**	**17 397**	**720 146**
Less: Unearned finance charges	**(7 251)**	**(94 269)**	**(2 657)**	**(104 177)**
Net lease payments receivable	**78 229**	**523 000**	**14 740**	**615 969**
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)
Net lease payments receivable	46 761	613 543	18 233	678 537

Under the terms of the lease agreements, no contingent rentals are payable. These agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectible minimum lease payments receivable included in the allowance for impairments at the reporting date is E48 million (2018: E33 million).

12.1 Advances (continued)

The Advances sector analysis is as follows: –	2019 E'000	2018 E'000
Agriculture	**618 095**	571 451
Financial Institutions	**79 867**	103 001
Building and property management	**116 022**	133 651
Public Sector	**22 044**	36 677
Individual	**966 824**	1 089 739
Manufacturing	**730 708**	832 693
Transport and communication	**178 991**	171 215
Other services	**36 811**	42 381
Total Advance	**2 749 362**	2 980 808

Analysis of advances per category

	2019		
E '000	**Total**	**Amortised cost**	**Loss allowance**
Overdrafts and managed accounts	**589 039**	**589 039**	**(12 893)**
Term loans	**550 410**	**550 410**	**(3 759)**
Lease payments receivable	**575 472**	**575 472**	**(12 289)**
Home loans	**516 983**	**516 983**	**(5 582)**
Property Finance	**169 401**	**169 401**	**(66)**
Personal loans	**307 559**	**307 559**	**(19 499)**
Floor Plans	**40 497**	**40 497**	**(7 562)**
Total advances	**2 749 361**	**2 749 361**	**(61 650)**

	2018		
E '000	**Total**	**Amortised cost**	**Impairment**
Overdrafts and managed accounts	655 107	655 107	(4 608)
Term loans	533 365	533 365	(2 203)
Lease payments receivable	674 397	674 397	(13 108)
Home loans	544 449	544 449	(2 248)
Property Finance	216 658	216 658	-
Personal loans	285 146	285 146	(8 711)
Floor Plans	71 687	71 687	(10 895)
Total advances	2 980 809	2 980 809	(41 773)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2019

12.1 Advances (continued)

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

E '000	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired
Amount as at 30 June 2018	2 980 808	2 688 379	215 983	76 446	-
Reallocation of ISP from Advances	11 920	-	-	11 920	-
Amount as at 1 July 2018 (IFRS 9)	2 992 728	2 688 379	215 983	88 366	-
Transfers to stage 1	-	114 419	(114 419)	-	-
Transfers to stage 2	-	(112 406)	111 136	1 270	-
Transfers to stage 3	-	(9 541)	(16 539)	26 080	-
Bad debts written off	(11 330)	-	-	(11 330)	-
Changes due to modifications that did not result in derecognition	-	-	-	-	-
New business originated	(232 036)	(194 466)	(26 970)	(10 600)	-
Amount as at 30 June 2019	2 749 362	2 486 385	169 191	93 786	-

The total contractual amount outstanding on financial assets that were written off during the period and are still subject to enforcement activity is E11.330million (2018: E0.806million)

12.2 Impairment of advances

Impairment recognised during the year	2019 E'000	2018 E'000
Increase in loss allowance (2018: IAS 39 impairment provision)	768	22 174
Recoveries of bad debts	(425)	(863)
Modification gain/(loss)	-	-
Impairment of advances recognised during the period	343	21 311

12.2 Impairment advances (continued)

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

E'000	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired
Amount as at 30 June 2018 (IAS 39)	63 383	17 606	4 003	41 774	-
IFRS 9 adjustments	90 941	47 651	31 370	11 920	-
Amount as at 1 July 2019 (IFRS 9)	**154 324**	**65 257**	**35 373**	**53 694**	-
Transfers to stage 1	-	16 109	(16 109)		-
Transfers to stage 2	-	(5 119)	3 121	1 998	-
Transfers to stage 3	-	(437)	(4 810)	5 247	-
Acquisition/ disposal of subsidiaries	-	-	-	-	-
Disposal of advances	-	-	-	-	-
Transfers from/(to) other divisions	5 179	4 872	299	8	-
Transfers from/(to) non-current assets or disposal banks held for sale	-	-	-	-	-
Exchange rate differences	-	-	-	-	-
Bad debts written off	(11 330)	-	-	(11 330)	-
Increase/(decrease) in impairment	84	(15 737)	10 241	5 580	-
- Changes in models and risk parameters	6 467	(2 535)	3 483	5 519	-
- New business and changes in exposure	(6 969)	(3 458)	1 802	(5 313)	-
- Changes in economic forecasts	97	117	(20)	-	-
- Provision created/(released) due to transfers	489	(9 861)	4 976	5 374	-
-Interest on stage 3 advances*	6 453	-	-	6 453	-
Amount as at 30 June 2019	**154 710**	**64 945**	**28 115**	**61 650**	-
Residential mortgages	15 861	7 566	2 713	5 582	-
Vehicle and asset finance	47 892	17 454	10 589	19 849	-
Total retail secured	**63 753**	**25 020**	**13 302**	**25 431**	-
Personal loans	40 717	12 691	8 471	19 555	-
Other retail	13 932	6 629	797	6 506	-
Total retail unsecured	**54 649**	**19 320**	**9 268**	**26 061**	-
FNB commercial	32 318	16 832	5 328	10 158	-
RMB corporate banking	3 990	3 772	218		-
Marketable advances	-	-	-	-	-
Total corporate and commercial	**36 308**	**20 604**	**5 546**	**10 158**	-
Group Treasury	-	-	-	-	-
Total Advances loss allowances	**154 710**	**64 944**	**28 116**	**61 650**	-

* *Interest on stage 3 advances are recognised based on the net carrying amount. The amount is reflective on the interest not recognised on stage 3 assets.*

12.3 Stage 3 Advances

At 30 June 2019	Total Advances	Security Held E'000	Interest on Stage 3 Advances E'000	Stage Impairments E'000
Non-performing lending by sector				
Agriculture	6 610	5 001	663	1 609
Building and property development	3 108	2 541	267	567
Other financial services	1 974	1 170	-	804
Government and public authority	360	359	-	-
Individuals	54 931	19 163	10 786	35 767
Manufacturing and commerce	17 476	1 036	3 407	16 440
Mining	-	-	-	-
Other Service	1 194	-	807	1 914
Transport and communication	8 133	2 989	2 458	4 549
Total non-performing Advances	93 786	32 259	18 388	61 650
Non-performing lending by category				
Overdrafts and managed account debtors	20 811	7 972	7 712	12 839
Lease payments receivable	29 378	9 528	4 170	12 287
Floor plan deals	-	-	-	7 562
Home loans	14 914	9 333	2 383	5 582
Personal loans	19 432	-	3 349	19 555
Term loans	9 251	1 727	774	3 825
Commercial Property Finance	-	3 699	-	-
Total non-performing lending	93 786	32 259	18 388	61 650
Geographic analysis				
Eswatini	93 786	32 259	18 388	61 650

12.3 Non-performing Advances (continued)

At 30 June 2018	Total Advances E'000	Security Held E'000	Contractual interest suspended E'000	Specific Impairments E'000
Non-performing lending by sector				
Agriculture	2 948	1 092	474	1 382
Building and property development	4 242	2 201	944	1 097
Other financial services	1 066	-	192	880
Government and public authority	2 665	1 899	142	625
Individuals	40 366	16 383	6 226	17 757
Manufacturing and commerce	15 178	7 977	2 245	4 956
Mining	-	-	-	-
Other Service	840	228	117	488
Transport and Communication	21 062	4 893	1 580	14 588
Total non-performing Advances	88 367	34 673	11 920	41 773

Non-performing lending by category				
Overdrafts and managed account debtors	17 229	8 139	4 482	4 608
Lease payments receivable	43 889	15 746	4 140	24 003
Floor plan deals	-	-	-	-
Home loans	12 084	8 654	1 183	2 247
Personal loans	10 225	1 743	2 113	10 915
Term loans	4 546			
Commercial Property Finance	394	391	2	-
Total non-performing Advances	88 367	34 673	11 920	41 773

Geographic analysis				
Eswatini	88 367	34 673	11 920	41 773

	2019 E'000	2018 E'000

13. INVESTMENT SECURITIES AND OTHER INVESTMENTS

Investment securities are financial assets held at amortised cost for purposes of IFRS 9 in the current year. Investment securities are classified as Available-for-sale financial assets for purposes of IAS 39 with respect to the comparative figures. These balances comprise of the following:

Investment securities comprises of:-		
Treasury bills	**250 129**	244 438
Government and Government guaranteed stock	**363 683**	373 382
Total gross carrying amount of investment securities	**613 812**	617 820
Loss allowance on investment securities	**(25 800)**	-
Total investment securities	**588 012**	617 820

The financial instruments held at amortised cost form part of the bank's liquid asset portfolio in terms of the Central Bank of Eswatini requirements.

Analysis of investment securities		
Listed		
Debt – Government and Government guaranteed stock	**363 683**	373 382
Unlisted		
Debt – Treasury bills	**250 129**	244 438
Total investment securities	**613 812**	617 820

Million	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit-impaired**
Amount as at 30 June 2018 (IAS 39)	**617 820**	**617 820**	-	-	-
IFRS 9 adjustments	**(25 145)**	**(25 145)**	-	-	-
Amount as at 1 July 2018 (IFRS 9)	**592 675**	**592 675**	-	-	
Transfers to stage 1	**(655)**	**(655)**	-	-	-
Transfers to stage 2	-	-	-	-	-
Transfers to stage 3	-	-	-	-	-
Changes due to modifications that did not result in derecognition	-	-	-	-	-
New business and other changes in exposures	**(4 008)**	**(4 008)**	-	-	-
Amount as at 30 June 2019	**588 012**	**588 012**	-	-	-

14. 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 held for trading.

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.

Held for trading activities
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 25 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
Held for trading - 2019				
Currency derivatives - Forward rate agreements	**527 671**	**16 708**	**481 565**	**15 404**
Held for trading - 2018				
Currency derivatives - Forward rate agreements	277 004	16 098	152 047	6 214

	2019 E'000	2018 E'000

15. ACCOUNTS RECEIVABLE

Account receivables comprises of:	**2019 E'000**	2018 E'000
Items in transit	**2 196**	8 558
Other receivables	**18 380**	21 682
Sundry debtors	**9 723**	5 284
Total gross carrying amount of accounts receivable	**30 299**	35 524
Analysis of accounts receivable: –		
Financial	**8 932**	24 527
Non-financial	**21 367**	10 997
Loss allowance on financial accounts receivable	**-**	-
Total accounts receivable	**30 299**	35 524

16. PROPERTY AND EQUIPMENT

	Cost 2019 E '000	**Accumulated depreciation and impairments 2019 E '000**	**Net Book Value 2019 E '000**	Cost 2018 E '000	Accumulated Depreciation And Impairments 2018 E '000	Net Book Value 2018 E '000
Property						
Freehold land and buildings	**12 118**	**(649)**	**11 470**	12 118	(624)	11 494
Leasehold premises	**39 403**	**(25 417)**	**13 986**	37 328	(23 096)	14 232
	51 521	**(26 065)**	**25 456**	49 446	(23 720)	25 726
Equipment						
Computer equipment	**41 732**	**(32 666)**	**9 066**	39 123	(27 694)	11 429
Furniture and fittings	**15 233**	**(7 686)**	**7 547**	13 866	(6 618)	7 248
Motor vehicles	**5 562**	**(2 770)**	**2 792**	5 309	(2 040)	3 269
Office equipment	**61 680**	**(44 623)**	**17 056**	59 425	(37 302)	22 123
Work in progress	**6 560**	**-**	**6 560**	681	-	681
	130 767	**(87 746)**	**43 021**	118 404	(73 654)	44 750
Total	**182 288**	**(113 811)**	**68 477**	167 850	(97 374)	70 476

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2019

16. Property and equipment (continued)

Reconciliation of property and equipment – net book value

	Freehold land and Buildings	Leasehold Premises	Computer Equipment	Furniture & 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 2019								
Net book value at 1 July 2018	**11 494**	**14 232**	**11 429**	**7 250**	**681**	**3 269**	**22 121**	**70 476**
Additions	**-**	**1 716**	**2 288**	**1 390**	**6 560**	**373**	**2 255**	**14 582**
Depreciation charge for the period	**(25)**	**(2 321)**	**(4 972)**	**(1 077)**	**-**	**(845)**	**(7 321)**	**(16 561)**
Disposals	**-**	**-**	**-**	**(15)**	**-**	**(6)**	**-**	**(21)**
Transfers to /(from) WIP	**-**	**359**	**322**	**-**	**(681)**	**-**	**-**	**-**
Net book value at 30 June 2019	**11 469**	**13 986**	**9 067**	**7 548**	**6 560**	**2 791**	**17 055**	**68 477**

For the year ending 30 June 2018								
Net book value at 01 July 2017	11 519	16 543	14 050	8 231	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	7 250	681	3 269	22 121	70 476

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 Eswatini.

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 2019 included in property and equipment are fully depreciated items of property, plant and equipment with an initial cost of E70 370 245 **(**2018: E53 832 581).

17. ORDINARY SHARES AND PREFERENCE SHARES

E '000	2019 Authorised Share Capital	2019 Issued Share Capital	2018 Authorised Share Capital	2018 Issued Share Capital
17.1 Number of Shares				
Number of Authorised Ordinary Shares				
- Ordinary Shares	**300 000**	**133 000**	30 000	26 600
Number of Non-cumulative non-redeemable preference shares				
- Non-cumulative non-redeemable preference shares	**1 042**	**1 042**	1 042	1 042
	301 042	**134 042**	31 042	27 642

17.2 Total value of share capital

	2019 Authorised Share Capital	2019 Issued Share Capital	2018 Authorised Share Capital	2018 Issued Share Capital
Ordinary Share Capital	**60 000**	**26 600**	30 000	27 642
- Ordinary shares with a par value of 20 cents per share	**60 000**	**26 600**	30 000	-
- Ordinary shares with a par value of 100 cents per share	**-**	**-**	-	26 600
Preference Shares	**1 042**	**1 042**	1 042	1 042
- 1,042 million non-cumulative non-redeemable preference shares with a par value of 100 cents per share.	**1 042**	**1 042**	1 042	1 042
Total issued share capital and share premium	**61 042**	**27 642**	31 042	27 642

The non-cumulative non-redeemable preference shares were issued at a nil interest rate.

17.3 Share Premium

	2019 Authorised Share Capital	2019 Issued Share Capital	2018 Authorised Share Capital	2018 Issued Share Capital
- Ordinary shares	**-**	**2 686**	-	2 686

	2019 E'000	2018 E'000
17.4 Capital adequacy		
Core capital		
Share capital (note 17.2)	**27 642**	27 642
Share premium (note 17.3)	**2 686**	2 686
Statutory reserve	**173 695**	153 075
Retained earnings	**747 603**	769 051
Total Core capital	**951 626**	952 454

	2019 E'000	2018 E'000
17.4 Capital adequacy (continued)		
Supplementary capital		
Revaluation and fair value reserves subject to 25% risk adjustment	-	822
General Risk Reserve	27 404	29 808
Actuarial gains on defined benefit fund	(1 357)	(1 357)
Total qualifying capital	26 047	29 273
Risk adjusted assets Items - statement of financial position	2 518 935	2 752 962
- off-statement of financial position items	612 362	236 898
- operational risk	1 132 080	991 311
- market risk	104 414	104 496
	4 367 791	4 085 667
Capital Adequacy Ratios		
- Core capital (%)	22.38	23.37
- Supplementary capital (%)	0.94	0.04
Total (%)	23.32	23.41

18. OTHER RESERVES

	2019 E'000	2018 E'000
Non-distributable reserves		
Defined benefit plan reserves	(1 357)	(1 357)
Fair value reserves - available for sale instruments	-	822
General risk reserve (impaired capital reserve)	27 404	29 808
Central Bank of Eswatini - Statutory Reserve	173 695	153 075
Total non-distributable reserves	199 742	182 348

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 E20.620 million (2018: E18.670 million) has been transferred to the statutory reserve in the current financial year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2019

18. 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 IFRS 9/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.

	2019 **E'000**	2018 E'000
19. DEPOSITS		
Deposits comprised of: -		
Call accounts	**2 118 187**	1 349 233
Current accounts	**2 134 200**	2 121 984
Savings account	**51 034**	38 974
Term deposits accounts	**302 525**	514 791
Other deposits	**182**	1 755
Total deposits	**4 606 128**	4 026 737
Geographic analysis		
Eswatini	**4 606 128**	4 026 737
Sector analysis		
Public Sector	**800 860**	612 896
Banks	**30 966**	11 851
Non-financial corporate customers	**2 061 251**	2 342 400
Financial sector customers	**462 983**	175 889
Small medium enterprises	**278 548**	-
Retail customers	**971 520**	882 745
Other	**-**	956
Total deposits	**4 606 128**	4 026 737

The maturities of deposits and current accounts are disclosed in Note 25.3.

		2019 E'000	2018 E'000

20. EMPLOYEE LIABILITIES AND RELATED COSTS

		2019 E'000	2018 E'000
Employee liabilities and related costs analysis			
Share-based payment liability	20.1	**4 517**	8 320
Defined benefit post-employment liability	20.2	**147 104**	147 104
Other long-term employee benefit liability		**2 006**	1 230
Other short-term employee benefit liability			
- Provisions for leave pay		**7 958**	8 059
- Provisions for bonuses		**19 044**	14 435
Total employee liabilities		**180 629**	179 148
Defined benefit post-employment asset	20.2	**(119 318)**	(119 318)
Net amount due to employees		**61 311**	59 830

20.1 Share based payment liability

	2019 E'000	2018 E'000
Share appreciation obligations	**4 517**	8 320
Analysis of movement in share-based payment liability: -		
Balance at the beginning of the year	**8 320**	6 653
Transfer between Bank entities	**(1 657)**	1 120
Charged in statement of comprehensive income (Note 4.3 and 29)	**3 048**	4 400
Vested and settled	**(5 194)**	(3 853)
Balance at the end of the year	**4 517**	8 320

Refer to note 29 for detailed disclosures on conditional share plan and share appreciation plan.

20.2 Defined benefit post-employment liability

Nature of benefits – Pension

The bank operates a defined benefit plan, a plan that provides a post-employment pension plan. The pension plan provides retired employees with annuity income after their service.

A separate account (the fund) has been established. The account holds assets that are used solely to pay pension benefits. For current pensioners the fund pays a pension to the members and a dependants' pension to the spouse and eligible children on death of the pensioner.

There are also a small number of active members whose benefit entitlement will be determined on a defined benefit basis as prescribed in the rules of the fund.

For the small number of defined benefit contributing members in the pension plan, the bank is liable for any deficit in the value of accrued benefits exceeding the assets in the fund earmarked for these liabilities.

The liability in respect of retiring defined contribution members is equal to the member's share of the 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 existing pensioners in the pension plan, 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 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 fund also provides death, retrenchment and withdrawal benefits. The fund provides a pension that can be purchased with the member's fund credit (equal to member and employer contributions of 7.5% of pensionable salary each year, plus net investment returns).

Regulatory framework

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

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 Eswatini and related regulations. The board consists of four representatives of the bank and four representatives of the plan participants in accordance with the plans' regulations. The trustees serve the board for 5 years and may be re-elected a number of times.

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 2017. Annual interim actuarial valuations are performed for the trustees and for IAS 19 purposes. At the last valuation date, the fund was financially sound.

20.2 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 immunise the interest rate and inflation risk, and 30% exposure to local growth assets.

The fixed interest instruments mainly consist 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 fund aim 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 to the liability of the pension fund.

Risks 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 plans' 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.

Pensioners: The pensioners of the Fund were outsourced to the Eswatini Royal Insurance Corporation with effect from 1 April 2015, through the purchase of annuities in the individual pensioners' name, thereby extinguishing the Fund's pensioner liability.

20.2 Defined benefit post-employment liability (continued)

	2019 E'000	2018 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)
- Equity instruments	**(83 391)**	(83 391)
- Cash and cash equivalents	**(9 522)**	(9 522)
- Debt instruments	**(23 243)**	(23 243)
- Other	**(3 162)**	(3 162)
Total pension liability	**27 786**	27 786
Other comprehensive income		
Total included in the income statement (included in staff costs)		
Current service costs	**-**	-
Net interest costs	**-**	-
Total included in staff costs	**-**	-
Movement in post-retirement benefit liability		
Present value at the beginning of the year	**27 786**	27 786
Current service cost	**-**	-
Employer contributions	**-**	-
Employee contributions	**-**	-
Interest cost	**-**	-
Remeasurements: recognised in OCI	**-**	-
Defined benefit obligation at the end of the year	**27 786**	27 786

20.2 Defined benefit post-employment liability (continued)

	2019 E'000	2018 E'000
Movement in fair value of plan assets:		
Opening balance	**27 786**	27 786
Interest income	**-**	-
Employer contributions	**-**	-
Employee contributions	**-**	-
Interest cost	**-**	-
Remeasurements: recognised in OCI	**-**	-
Actuarial gains or losses arising on changes in demographic assumptions	**-**	-
Actuarial gains or losses arising on changes in financial assumptions	**-**	-
Benefits paid and settlements	**-**	-
Closing balance	**27 786**	27 786
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
Total plan asset	**119 318**	119 318

The principal actuarial assumptions used for accounting purposes were:

	2019	2018
Financial assumptions:		
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
Demographic assumptions:		
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)

20.2 Defined benefit post-employment liability (continued)

Sensitivity analysis	Main Result (E'000)	+1% (E'000)	-1% (E'000)
Discount rate			
Defined Benefit Obligation	**147 104**	**118 172**	**185 638**
%Change		**(19.7%)**	**26.2%**
Inflation rate			
Defined Benefit Obligation	**147 104**	**167 895**	**129 508**
%Change		**14.1%**	**(12.0%)**

	2019 E'000	2018 E'000
Pension		
The number of employees covered by the scheme:		
Active members	**354**	347
Pensioners	**-**	-
Deferred plan participants	**-**	-
Total	**354**	347
Defined benefit obligation amounts due to:		
Benefits vested at the end of the reporting period	**72 994**	57 802
Benefits accrued but not vested at the end of the reporting period	**-**	-
Conditional benefits	**-**	-
Amounts attributable to future salary increases	**106 524**	101 865
Other benefits	**-**	-
	179 518	159 667

	2019 E'000	2018 E'000

21. ACCOUNTS PAYABLE

Accounts payables		
Accounts payable	**31 971**	81 609
Other creditors	**475**	1 155
Total Accounts payables	**32 446**	82 764

All amounts are expected to be settled within twelve months.

Analysis of accounts payables: -		
Financial	**17 495**	32 601
Non-financial	**14 951**	50 163
Total accounts payables	**32 446**	82 764

22. PROVISION FOR OTHER LIABILITIES AND CHARGES

	2019 E'000	2018 E'000
Total provisions for other liabilities and charges	**31 205**	**25 524**
Staff related (Bonus, leave and 13th cheque)		
Opening Balance	**22 495**	22 559
Additional provision raised during the year	**25 955**	19 251
Utilised amount reversed	**(10)**	-
Utilised during the year	**(21 438)**	(19 315)
Closing balance	**27 002**	22 495
Audit fees		
Opening Balance	**1 799**	1 228
Additional provision raised during the year (note 4.1)	**2 400**	2 400
Utilised during the year	**(2 002)**	(1 829)
Closing Balance	**2 197**	1 799
Other provision		
Opening balance	**1 230**	1 230
Utilised during the year	**776**	-
Closing balance	**2 006**	1 230
Total provisions for other liabilities and charges	**31 205**	25 524

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

i) 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.

ii) Bonus pay provision & 13 cheque

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

	2019 E'000	2018 E'000

23. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Contingencies		
Guarantees (endorsements and performance guarantees)	**139 802**	202 645
Irrevocable unutilised facilities	**589 915**	408 465
Letters of credit	**-**	-
Total Contingencies	**729 717**	611 110

i) 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.

ii) Commitments

Commitments in respect of capital expenditure and long-term investments approved by directors not contracted for	**248 843**	53 109

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

iii) 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**	
	2019 E'000	2018 E'000	**2019 E'000**	2018 E'000
Restricted assets and liabilities	**282 717**	244 779	**4 606 128**	4 026 737

The bank's commitments under operating leases

The bank's significant operating leases relate to property rentals of office premises and the various branch network channels represented by full-service branches, agencies, mini branches and ATM lobbies. The rentals have fixed monthly payments, often including a contingent rental based on a percentage contribution of the monthly operating costs of the premises. Escalation clauses are based on market related rates and vary between 5% and 10%.

The leases are usually for a period of one to five years. The leases are cancellable and certain of the leases have an option to renew for a further leasing period at the end of the original lease term.
Restrictions are more an exception than the norm and usually relate to the restricted use of the asset for the business purposes specified in the lease contract.

23. Contingent liabilities and capital commitments (continued)

	Within 1 year E'000	1-5 years E'000	More than 5 years E'000
At 30 June 2019			
Office premises	**13 533**	**6 410**	**-**
At 30 June 2018			
Office premises	10 506	14 816	

Operating lease payments increase annually by a fixed amount to reflect market rates and trends.

24. CASH FLOW INFORMATION

	2019 E'000	2018 E'000
24.1 Reconciliation of operating profit to cash flow from operating activities		
Profit before tax	**285 291**	257 678
Adjusted for non-financial:		
- Depreciation for property and equipment (note 16)	**16 561**	16 439
- Impairment of advances (note 12.2)	**(343)**	21 311
- Impairment of investment in securities (note 3)	**655**	-
- Defined benefit obligation expenses (note 4.3)	**-**	-
- Other (gains)/losses	**(137)**	(4 998)
Cash generated from operating activities	**302 027**	290 430
24.2 Taxation paid		
Amounts unpaid at beginning of the year	**4 934**	9 964
Taxation charge per statement of comprehensive income (note 6.1)	**100 724**	73 202
Amounts unpaid at end of the year (note 10)	**(25 281)**	(4 934)
Total taxation paid during the year (note 10)	**80 377**	78 232

25. RISK MANAGEMENT

25.1 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.

25.2 Financial risk

Overview
The financial instruments recognised on the bank's statement of financial position, expose the bank to various financial risks.

The information presented in this note represents the quantitative information required by IFRS 7 and sets out the bank's exposure to these financial risks.

<table>
<tr><th colspan="3">Overview of financial risks</th></tr>
<tr><td rowspan="2">Credit risk</td><td colspan="2">Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads.</td></tr>
<tr><td>Credit risk arises primarily from the following instruments:
• Advances; and
• Certain investment securities.

Other sources of credit risk are:
• Cash and cash equivalents;
• Accounts receivable;
• Derivative balances; and
• Off-balance sheet exposures</td><td>The following information is presented for these assets:
• Summary of all credit assets (25.2.2);
• Information about the quality of credit assets (25.2.3);
• Exposure to concentration risk (25.2.5);
• Credit risk mitigation techniques and collateral held (25.2.6)</td></tr>
<tr><td rowspan="2">Liquidity risk</td><td colspan="2">Liquidity risk is the risk that the bank is unable to meet its obligations when they fall due and payable. It is also the risk of not being able to realise assets when required to do so to meet repayment obligations in a stress scenario.</td></tr>
<tr><td>All assets and liabilities with differing maturity profiles expose the bank to liquidity risk.</td><td>The following information is presented for these assets and liabilities:
• Undiscounted cash flow analysis of financial liabilities (25.3.1);
• Discounted cash flow analysis of all assets and liabilities (25.3.2); and
• Collateral pledged (25.3.3).</td></tr>
</table>

25. **Risk management** (continued)

25.2 **Financial risk** (continued)

<table>
<tr><th colspan="3">Overview of financial risks</th></tr>
<tr><td rowspan="4">Market risk</td><td colspan="2">The bank distinguishes between market risk in the trading book and non-traded market risk. For non-traded market risk, the bank distinguishes between interest rate risk in the banking book and structural foreign exchange risk.

Market risk in the trading book is the risk of adverse revaluation of any financial instrument as a consequence of changes in the market prices and or rates.</td></tr>
<tr><td>Market risk in the trading book (26.4.1)
emanates mainly from the provision of hedging solutions for clients, market-making activities and term-lending products.</td><td>The following information is presented for market risk in the trading book:
• 1 day 99% value at risk (VaR) analysis; and
• 10 day 99% VaR analysis.</td></tr>
<tr><td>Interest rate risk in the banking book (26.4.2.1)
originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in the banking book products.</td><td>The following information is presented for interest rate risk in the banking book:

• Projected Net Interest Income (NII) sensitivity to interest rate movements; and
• Banking book Net Asset Value (NAV) sensitivity to interest rate movements as a percentage of total bank capital.</td></tr>
<tr><td>Structural foreign exchange risk (26.4.3)
arises from balances denominated in foreign currencies and bank entities with functional currencies other than Eswatini Lilangeni (SZL).</td><td>Information about the bank's net structural foreign exposure and the sensitivity of the exposure is presented.</td></tr>
<tr><td>Capital Management</td><td colspan="2">The overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the bank's solvency and quality of capital during calm and turbulent periods in the economy and financial markets. The bank therefore, maintains capitalisation ratios aligned to its risk appetite and appropriate to safeguard operations and stakeholder interests. The key focus areas and considerations of capital management are to ensure an optimal level and composition of capital, effective allocation of resources including capital and risk capacity and a sustainable dividend policy.</td></tr>
</table>

25. Risk management (continued)

25.2 Financial risk (continued)

25.2.1 Credit risk

Objective

Credit risk management objectives are two-fold:

- **Risk control:** Appropriate limits are placed on the assumption of credit risk and steps taken to ensure the accuracy of credit risk assessments and reports. Deployed and central credit risk management teams fulfil this task.
- **Management:** Credit risk is taken within the constraints of the risk appetite framework. The credit portfolio is managed at an aggregate level to optimise the exposure to this risk. Business units and deployed risk functions, overseen by the bank credit risk management function in Enterprise Risk Management (ERM) and relevant board committees, fulfil this role.

Based on the bank's credit risk appetite, as measured on a ROE, NIACC and volatility-of-earnings basis, credit risk management principles include holding the appropriate level of capital and pricing for risk on an individual and portfolio basis. The scope of credit risk identification and management practices across the bank, therefore, spans the credit value chain, including risk appetite, credit origination strategy, risk quantification and measurement as well as collection and recovery of delinquent accounts.

Assessment and management

Credit risk is managed through the implementation of comprehensive policies, processes and controls to ensure a sound credit risk management environment with appropriate credit granting, administration, measurement, monitoring and reporting of credit risk exposure. Credit risk management across the bank is split into three distinct portfolios: retail, commercial and corporate, and are aligned to customer profiles.

The assessment of credit risk across the bank relies on internally-developed quantitative models for addressing regulatory and business needs. The models are used for the internal assessment of the three primary credit risk components:

- probability of default (PD);
- exposure at default (EAD); and
- loss given default (LGD).

Management of the credit portfolio is reliant on these three credit risk measures. PD, EAD and LGD are inputs into the portfolio and bank-level credit risk assessment where the measures are combined with estimates of correlations between individual counterparties, industries and portfolios to reflect diversification benefits across the portfolio.

The bank employs a granular, 100-point master rating scale, which has been mapped to the continuum of default probabilities, as illustrated in the following table. FirstRand (FR)1 is the lowest PD and FR100 the highest. External ratings have also been mapped to the master rating scale for reporting purposes. These mappings are reviewed and updated on a regular basis.

25. **Risk management** (continued)

25.2 **Financial risk** (continued)

25.2.1 **Credit risk** (continued)

FirstRand rating	Midpoint PD	RMB external rating (based on S&P)
FR 1 – 14	0.06%	AAA, AA+, AA, AA-, A+, A, A-
FR 15 – 25	0.29%	BBB+, BBB(upper), BBB, BBB-(upper), BBB-, BB+(upper)
FR 26 – 32	0.77%	BB+, BB(upper), BB, BB-(upper)
FR 33 - 39	1.44%	BB-, B+(upper)
FR 40 – 53	2.52%	B+
FR 54 – 83	6.18%	B(upper), B, B-(upper)
FR 84 – 90	13.68%	B-
FR 91 – 99	59.11%	CCC
FR 100	100%	D (Defaulted)

25.2.2 **Credit assets**

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

E' 000	**2019**	2018
ON-BALANCE SHEET EXPOSURES	4 729 133	4 333 657
Cash and cash equivalents	**1 619 251**	718 931
- Cash and short-term funds	111 317	114 527
- Money at call and short notice	223 621	98 694
- Balances with central banks	1 284 314	505 710
Gross advances	**2 479 362**	2 980 808
FNB		
- Retail	843 709	835 148
- Commercial	1 006 064	1 071 816
WesBank	615 969	748 124
RMB		
- Corporate banking	283 620	325 720
FCC (including Group Treasury)	**613 812**	617 820
Derivatives	**16 708**	16 098
OFF-BALANCE SHEET EXPOSURES	**729 717**	611 110
Total contingencies	**139 802**	202 645
- Guarantees	139 802	202 645
Irrevocable commitments	**589 915**	408 465
Total	**5 458 850**	4 944 767

25. Risk management (continued)

25.2 Financial risk (continued)

25.2.3 Quality of credit assets

The following table shows the gross carrying amount of advances carried at amortised cost, as well as the exposure to credit risk of loan commitments and financial guarantees per class of advance and per internal credit rating.

The amounts in stage 3 that do not have a rating of FR 91-100 relates to technical cures (performing accounts that have previously defaulted but don't meet the 12-month curing definition remain in stage 3) and paying debt-review customers as the PDs on these customers are lower than operational stage 3 advances and the PD drives the FR rating. In addition, where the group holds a guarantee against a stage 3 advance, the FR rating would reflect same.

Credit quality of advances

E'000	2019	2018
FR 1 – 14		-
FR 15 – 25	119 470	-
FR 26 – 32	10 618	697 590
FR 33 – 39	204 098	1 744 208
FR 40 – 53	153 448	-
FR 54 – 83	1 568 945	4 809
FR 84 – 90	430 619	14 443
FR 91 – 99	262 164	22 579
Total	**2 749 362**	2 483 628

Analysis of impaired advances (Stage 3/ NPLs)

	2019		
	Total	Security held and expected recoveries	Stage 3 impairment
Stage 3 by class			
FNB			
- Retail	44 828	13 185	31 643
- Commercial	19 581	9 423	10 158
WesBank	29 377	9 528	19 849
RMB			
- Investment banking	-	-	-
- Corporate banking	-	-	-
Total stage 3	**93 786**	**32 136**	**61 650**

25. Risk management (continued)

25.2 Financial risk (continued)

25.2.3 Quality of credit assets

Analysis of impaired advances (Stage 3/ NPLs) (continued)

	2019		
E'000	**Total**	**Security held and expected recoveries**	**Stage 3 impairment**
Stage 3 by category			
Overdrafts and cash management accounts	20 811	7 972	12 839
Term loans	9 251	5 426	3 825
Lease payments receivable	29 377	9 528	19 849
Property finance	–	–	–
Personal loans	19 555	–	19 555
Home loans	14 915	9 333	5 582
Other	–	–	–
Total stage 3	**93 909**	**32 259**	**61 650**

	2018		
E'000	**Total**	**Security held and expected recoveries**	**impairment**
Stage 3/ NPLs by class			
FNB			
- Retail	29 980	17 197	12 783
- Commercial	14 498	9 511	4 987
- Rest of Africa	-	-	-
WesBank	43 889	19 885	24 004
RMB			
- Investment banking	-	-	-
- Corporate banking	-	-	-
Total Stage 3/ NPLs	88 367	46 593	41 774
Stage 3/ NPLs by category			
Overdrafts and cash management accounts	17 229	12 621	4 608
Term loans	4 546	2 343	2 203
Card loans	-	-	-
Instalment sales and hire purchase agreements	-	-	-
Lease payments receivable	43 889	19 886	24 003
Property finance	394	394	-
Personal loans	10 225	1 513	8 712
Home loans	12 084	9 836	2 248
Investment bank term loans	-	-	-
Long-term loans to bank associates and joint	-	-	-
Other	-	-	-
Total stage 3/ NPLs	88 367	46 593	41 774

25 Risk management (continued)

25.2 Financial risk (continued)

25.2.3 Quality of credit assets (continued)

Analysis of credit risk exposure of advances

The following table shows the gross carrying amount of advances carried at amortised cost as well as the exposure to credit risk of loan commitments and financial guarantee per class of advance and per internal credit rating.

Age analysis of loans and advances was as follows:

E'000	Neither past due nor impaired	Renegotiated but current	1 full instalment past due	2 instalments past due	Impaired	Total
At 30 June 2019						
Loans and advances	**2 486 384**	**-**	**169 192**	**93 786**		**2 749 362**
Total	**2 486 384**	**-**	**169 192**	**93 786**		**2 749 362**
At 30 June 2018						
Loans and advances	2 483 628	-	384 614	36 121	76 446	2 980 809
Total	2 483 628	-	384 614	36 121	76 446	2 980 809

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.

25.2.4 Quality of credit assets – non-advances

The following table shows the gross carrying amount of non-advances carried at amortised cost and the fair value of non-advances measured at fair value through profit or loss per external credit rating.

	2019		
E'000	AAA to BBB	BB+ to B-	CCC
Investment securities at amortised cost			
Stage 1	-	-	588 012
Stage 2	-	-	-
Stage 3	-	-	-
Purchased or originated credit impaired	-	-	-
Total investment securities	-	-	588 012
Accounts receivable			
Stage 1	-	-	30 299
Stage 2	-	-	-
Stage 3	-	-	-
Purchased or originated credit impaired	-	-	-
Total accounts receivable	-	-	30 299

25 Risk management (continued)

25.2 Financial risk (continued)

25.2.4 Quality of credit assets – non-advances (continued)

	2019		
E'000	AAA to BBB	BB+ to B-	CCC
Cash and cash equivalents			
Stage 1	202 393	15 295	1 401 563
Stage 2	-	-	-
Stage 3	-	-	-
Purchased or originated credit impaired	-	-	-
Total cash and cash equivalents	202 393	15 295	1 401 563
Derivative assets	-	-	16 708

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

	2019					
		Past due but not impaired				
E'000	Neither past due nor impaired	1 - 30 days	31 - 60 days	61 - 90 days	Impaired	Total
Accounts receivables	**30 299**	-	-	-	-	**30 299**
Amounts due from related parties	**770 521**	-	-	-	-	**770 521**
Total financial accounts receivable	**800 820**	-	-	-	-	**800 820**

	2018					
		Past due but not impaired				
E'000	Neither past due nor impaired	1 - 30 days	31 - 60 days	61 - 90 days	Impaired	Total
Accounts receivables	35 524	-	-	-	-	35 524
Amounts due from related parties	993 870	-	-	-	-	993 870
Total financial accounts receivable	1 029 394	-	-	-	-	1 029 394

25.2.5 Concentration risk

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

25 Risk management (continued)

25.2 Financial risk (continued)

25.2.5 Concentration risk (continued)

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

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

Geographic concentration of significant credit asset exposure

The following tables provide a breakdown of the gross credit exposure across geographical areas.

	2019							
E'000	Eswatini	Rest of Africa	UK	Other Europe	North and South America	Austra lasia	Asia	Total
On-balance sheet exposures								
Cash and short-term funds	1 379 034	22 529	2 104	15 295	200 289	–	–	1 619 251
Total advances	2 917 426	–	–	–	–	–	–	2 917 426
Stage 3 advances/ NPLs	93 786	–	–	–	–	–	–	93 786
Derivatives	16 708	–	–	–	–	–	–	16 708
Debt investment securities	–	–	–	–	–	–	–	–
Accounts receivable	30 201	–	–	–	–	–	–	30 201
Off-balance sheet exposures								
Guarantees, acceptances, and letters of credit	139 802	–	–	–	–	–	–	139 802
Irrevocable commitments	589 915	–	–	–	–	–	–	589 915

25 Risk management (continued)

25.2 Financial risk (continued)

25.2.5 Concentration risk (continued)

	2018							
E'000	**Eswatini**	**Rest of Africa**	**United Kingdom**	**Other Europe**	**North and South America**	**Australasia**	**Asia**	**Total**
On-balance sheet exposures								
Cash and short-term funds	611 679	8 558	4 520	23 642	70 532	-	-	718 931
Total advances	2 980 809	-	-	-	-	-	-	2 980 809
Stage 3 advances/ NPLs	88 367	-	-	-	-	-	-	88 367
Derivatives	16 098	-	-	-	-	-	-	16 098
Debt investment securities	-	-	-	-	-	-	-	-
Accounts receivable	35 524	-	-	-	-	-	-	35 524
Off-balance sheet exposures								
Guarantees, acceptances, and letters of credit	202 645	-	-	-	-	-	-	202 645
Irrevocable commitments	408 465	-	-	-	-	-	-	408 465

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2019

25 Risk management (continued)

25.2 Financial risk (continued)

25.2.5 Concentration risk (continued)

Sector analysis concentration of advances

Advances expose the bank to concentration risk to the various industry sectors. The tables below set out the Bank's exposure to the various industry sectors for total advances and credit-impaired advances

	2019			
		Stage 3		
E'000	Total advances	Advances	Security held and expected recoveries	Impairment
Sector analysis				
Agriculture	618 095	6 610	–	1 609
Financial Institutions	79 867	1 974	1 170	804
Building and property management	116 022	3 108	2 541	567
Public Sector	22 044	360	359	-
Individual	966 824	54 931	19 163	35 767
Manufacturing	730 708	17 476	1 036	16 440
Transport and communication	178 991	8 133	2 989	2 831
Other services	[illegible]	1 194	-	3 632
Gross carrying amount of advances	**2 749 362**	**93 786**	**27 258**	**61 650**

25 Risk management (continued)

25.2 Financial risk (continued)

25.2.5 Concentration risk (continued)

	2018			
		NPLs		
E'000	Total advances	Total value net of ISP	Security held and expected recoveries	Specific impairment
Sector analysis				
Agriculture	571 451	2 948	1 092	1 382
Financial Institutions	103 001	1 066	–	880
Building and property management	133 651	4 242	2 201	1 097
Public Sector	36 677	2 665	1 899	625
Individual	1 089 739	40 366	16 383	17 757
Manufacturing	832 693	15 178	7 977	4 956
Transport and communication	171 215	21 061	4 893	14 588
Other services	42 381	840	228	488
Gross carrying amount of Advances	2 980 808	88 366	34 673	41 773

Mitigation and collateral held

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

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

25 Risk management (continued)

25.2 Financial risk (continued)

25.2.6 Credit risk mitigation and collateral held (continued)

Credit risk mitigation instruments

- Mortgage and instalment sale finance portfolios are secured by the underlying assets financed;
- FNB commercial credit exposures are secured by the assets of the SME counterparties and commercial property finance deals are secured by the underlying property and associated cash flows; and
- Personal loans, overdrafts and credit card exposures are generally unsecured or secured by guarantees and securities.

The bank employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally to ensure that title is retained over collateral taken over the life of the transaction. Collateral is valued at inception of the credit agreement and subsequently where necessary through physical inspection or index valuation methods. For corporate and commercial counterparties, collateral is reassessed during the annual review of the counterparty's creditworthiness

to ensure that proper title is retained. For mortgage portfolios, collateral is revalued on an ongoing basis using an index model and physical inspection are performed at the beginning of the recovery process. For asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossession has not yet occurred, the realisation value of the vehicle is estimated using internal models and is included as part of total recoveries.

Concentrations in credit risk mitigation types, such as property, are monitored and managed at a product and credit segment level, in-line with the requirements of the bank credit risk appetite framework.

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

25 Risk management (continued)

25.2 Financial risk (continued)

25.2.6 Credit risk mitigation and collateral held (continued)

The table below sets out the maximum exposure to credit risk for financial assets at amortised cost debt instruments.

	2019				
E'000	Carrying amount	Off balance sheet exposure	Maximum exposure to credit risk	Netting and financial collateral	Net exposure to credit risk
Residential mortgages	516 983	49 838	566 821	-	566 821
Vehicle and asset finance	615 969	47 464	663 433	-	663 433
Credit card	-	-	-	-	-
Personal loans	307 559	-	307 559	-	307 559
Other retail	19 167	14 967	34 134	-	34 134
Commercial	1 006 064	440 776	1 446 840	-	1 446 840
RMB corporate banking	283 620	179 672	463 292	-	463 292
RMB investment banking	-	-	-	-	-
Marketable advances	-	-	-	-	-
Total advances	**2 749 362**	**732 717**	**3 482 079**	**-**	**3 482 079**
Investment securities	613 812	-	613 812	-	613 812
Cash and cash equivalents	1 619 251	-	1 619 251	-	1 619 251
Accounts receivable	30 299	-	30 299	-	30 299
Derivatives	16 708	-	16 708	-	16 708

The bank holds the following collateral that it has the ability to sell or repledge in the absence of default by the owner of the collateral.

	2019		2018	
E'000	Fair value	Fair value of collateral sold or repledged	Fair value	Fair value of collateral sold or repledged
Cash and cash equivalents	-	-	-	-
Investment securities-	-	-	-	-
Total collateral held	-	-	-	-

25 Risk management (continued)

25.2 Financial risk (continued)

25.2.6 Credit risk mitigation and collateral held (continued)

The table below sets out the cash collateral held against the net derivative position

Collateral held against derivative positions

E'000	2019	2018
Cash collateral held	-	-

This is the collateral that the bank holds that it has the ability to sell or repledge in the absence of default by the owner of the collateral;

Collateral held in structured transactions

	2019		2018	
R million	**Fair Value**	**Fair value of collateral sold or repledged in the absence of default**	Fair Value	Fair value of collateral sold or repledged in the absence of default
Cash and cash equivalents	-	-	-	-
Investment securities	-	-	-	-
Total collateral pledged	-	-	-	-

Investment securities exclude securities lending transactions where securities are obtained as collateral for securities lent. This is in line with industry practice

Collateral taken possession of

When the bank takes possession of collateral that is not cash or not readily convertible into cash, the bank determines a minimum sale amount (pre-set sale amount) and auctions the asset for the pre-set sale amount. Where the bank is unable to obtain the pre-set sale amount in an auction, the bank will continue to hold the asset whole actively marketing it to ensure an appropriate value is obtained.

25 Risk management (continued)

25.2 Financial risk (continued)

25.2.7 Offsetting of financial assets and financial liabilities

Where appropriate, various instruments are used to mitigate the potential exposure to certain counterparties. These include financial or other collateral in line with common credit risk practices, as well as netting agreements, guarantees and credit derivatives. In addition, the bank has set up a function to clear OTC derivatives centrally as part of the risk mitigation.

The bank uses International Swaps and Derivatives Association (ISDA) and International Securities Market Association agreements for the purpose of netting derivative transactions and repurchase transactions respectively. These master agreements as well as associated credit support annexes (CSA) set out internationally accepted valuation and default covenants, which are evaluated and applied daily, including daily margin calls based on the approved CSA thresholds.

The tables below include information about financial assets and financial liabilities that are:

- offset and the net amount presented in the bank's statement of financial position in accordance with the requirements of IAS 32; and
- subject to enforceable MNA or similar agreements where the amounts have not been offset because one or both of the requirements of IAS 32 are not met or the amounts relate to financial collateral (cash or non-cash) that mitigates credit risk.

Structured transactions refer to reverse repurchase, securities borrowing and similar arrangements and repurchase in the asset table and securities lending and similar arrangements on the liability section of the table.

The net amount reported on the statement of financial position represents the net amount of financial assets and financial liabilities where offsetting has been applied in terms of IAS 32 and financial instruments that are subject to MNA and similar agreements, but no offsetting has been applied.

The financial collateral included in the table above is limited to the net statement of financial position exposure in line with the requirements of IFRS 7 and excludes the effect of any over-collateralisation. The amount of collateral included in the table for IFRS 7 disclosure purposes has been determined at a business unit level. If these limits were determined on a bank wide level, the amount of collateral included in this table could increase. The total amount reported on the statement of financial position is the sum of the net amount reported in the statement of financial position and the amount of financial instruments not subject to set-off or MNA.

25. Risk management (continued)

25.3 Liquidity risk objective

The bank strives to fund its activities in a sustainable, diversified, efficient and flexible manner, underpinned by strong counterparty relationships within prudential limits and minimum requirements. The objective is to maintain natural market share, but also to outperform at the margin, which will provide the bank with a natural liquidity buffer.

Given the liquidity risk introduced by its business activities, the bank's objective is to optimise its funding profile within structural and regulatory constraints to enable its franchises to operate in an efficient and sustainable manner.

Compliance with the Basel II LCR influences the bank's funding strategy, in particular as it seeks to restore the correct risk-adjusted pricing of liquidity. The bank is actively building its deposit franchise through innovative and competitive product and pricing, while also improving the risk profile of its institutional funding. This continues to improve the funding and liquidity profile of the bank.

Given market conditions and the regulatory environment, the bank increased its holdings of available liquidity over the year in line with risk appetite. The bank utilised new market structures, platforms and regulatory programmes to efficiently increase the available liquidity holdings.

Liquidity risk arises from all assets and liabilities with differing maturity profiles.

Assessment and management
The bank focuses on continuously monitoring and analysing the potential impact of other risks and events on the funding and liquidity position of the bank to ensure business activities preserve and improve funding stability. This ensures the bank is able to operate through periods of stress when access to funding is constrained.

Mitigation of market and funding liquidity risks is achieved via contingent liquidity risk management. Buffer stocks of high quality, highly liquid assets are held either to be sold into the market or provide collateral for loans to cover any unforeseen cash shortfall that may arise.

The bank's approach to liquidity risk management distinguishes between structural, daily and contingency liquidity risk management across all currencies and various approaches are employed in the assessment and management of these on a daily, weekly and monthly basis.

Structural liquidity risk	Daily liquidity risk	Contingency liquidity risk
Managing the risk that structural, long-term on- and off-balance sheet exposures cannot be funded timeously or at a reasonable cost	Ensuring that intraday and day-to-day anticipated and unforeseen payment obligations can be met by maintaining a sustainable balance between liquidity inflows and outflows	Maintaining a number of contingency funding sources to draw upon in times of economic stress

Regular and rigorous stress tests are conducted on the funding profile and liquidity position as part of the overall stress testing framework with a focus on:

- quantifying the potential exposure to future liquidity stresses;
- analysing the possible impact of economic and event risks on cash flows, liquidity, profitability and solvency position; and
- proactively evaluating the potential secondary and tertiary effects of other risks on the bank.

25.3 Liquidity risk objective (continued)

25.3.1 Undiscounted cash flow

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

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

25.3 Liquidity risk objective (continued)

25.3.1 Undiscounted cash flow

	2019			
		Term to maturity		
E'000	Carrying amount	Call - 3 months	4 - 12 months	> 12 Months and non contractual
On-balance sheet exposures				
Deposits and current accounts	4 606 129	4 430 902	175 227	–
Derivative financial instruments	15 404	15 404	–	–
Creditors, accruals and provisions	121 235	20 661	33 405	67 169
Intragroup liabilities	15 701	15 701	–	–
Off-balance sheet exposures				
Financial and other guarantees	139 802	139 802	–	–
Operating lease commitments	19 957	5 774	7 773	6 410
Other contingencies and commitments	–	–	–	–
Facilities not drawn	589 915	589 915	–	–

	2018			
		Term to maturity		
E'000	Carrying amount	Call - 3 months	4 - 12 months	> 12 Months and non-contractual
On-balance sheet exposures				
Deposits and current accounts	4 026 737	3 561 238	341 388	124 111
Derivative financial instruments	6 214	6 214	–	–
Creditors, accruals and provisions	149 531	60 154	20 538	68 839
Intragroup liabilities	232 447	232 447	–	–
Off-balance sheet exposures				
Financial and other guarantees	202 645	202 645	–	–
Operating lease commitments	25 322	3 721	6 785	14 816
Other contingencies and commitments	–	–	–	–
Facilities not drawn	408 465	408 465	–	–

25.3 Liquidity risk objective

25.3.4 Discounted cash flow

The following table represents the bank's expected discounted cash flows of assets, liabilities and equity for the bank. Relying solely on the liquidity mismatch when assessing a bank's maturity analysis would overstate risk, since this represents an absolute worst-case assessment of cash flows at maturity.

Due to Eswatini's structural liquidity position, banks tend to have a particularly pronounced negative gap in the shorter term short-term institutional funds which represent a significant proportion of banks' liabilities. These are used to fund long-term assets, e.g. mortgages.

Discounted cash flow analysis – maturity analysis of assets and liabilities based on the present value of the expected payment.

	2019			
		Term to maturity		
E'000	Carrying amount	Call - 3 months	4 - 12 months	> 12 months
Total assets	5 736 141	3 132 689	475 537	2 127 915
Total equity and liabilities	5 736 141	4 482 667	208 632	1 044 842
Net liquidity gap		(1 349 978)	266 905	1 083 073
Cumulative liquidity gap		(1 349 978)	(1 083 073)	-

	2018			
		Term to maturity		
E'000	Carrying amount	Call - 3 months	4 - 12 months	> 12 months
Total assets	5 396 452	2 363 069	481 489	2 551 894
Total equity and liabilities	5 396 452	3 860 053	361 926	1 174 473
Net liquidity gap		(1 496 984)	119 563	1 377 421
Cumulative liquidity gap		(1 496 984)	(1 377 421)	-

As illustrated in the table above, the negative liquidity short-term gap increased slightly in the short end on a cumulative basis. This is aligned to the funding strategy to grow the deposit franchise via transactional deposit accounts. Management continues to align stress funding buffers both locally and offshore, taking into account prevailing economic and market conditions.

25.3 Liquidity risk objective

25.3.4 Concentration analysis of deposits

E' 000	2019	2018
Sector analysis		
Deposit current accounts and other loans	**-**	-
Sovereigns, including central banks	**-**	-
Public sector entities	**800 860**	612 896
Local authorities	**-**	-
Banks	**30 966**	11 851
Securities firms	**-**	-
Corporate customers	**2 524 235**	2 518 289
Retail customers	**971 519**	882 746
Small and Medium Enterprises (SME's)	**278 548**	-
Other	**-**	955
Total deposits	**4 606 128**	4 026 737
Geographical analysis	**-**	-
Eswatini	**4 606 128**	4 026 737
Total deposits	**4 606 128**	4 026 737

25.4 Market risk

The bank distinguishes between market risk in the trading book and non-traded market risk

25.4.1 Market risk in the trading book

Objective

The bank's market risk in the trading book emanates mainly from the provision of hedging solutions for clients, market-making activities and term-lending products. Market risk is managed and contained within the bank's appetite. Overall diversified levels of market risk have remained fairly low during the last few years, with this trend continuing over the year under review. There are no significant concentrations in the portfolio, which also reflects overall lower levels of risk.

Market risk in the trading book includes interest rate risk in the trading book, credit risk, foreign exchange risk and interest rate risk in the corporate banking book which is managed as part of the trading book.

25.4 Market risk

25.4.1 Market risk in the trading book (continued)

Assessment and management

Management and monitoring of the banking book is managed through the market risk framework, with risk measured and monitored in conjunction with the trading book and management oversight provided by the Assets, Liability & Capital Committee (ALCCO) and Risk and Compliance Committee (RCC).

The risk related to market risk-taking activities is measured as the hght of the bank's internal ETL measure (as a proxy for economic capital) and regulatory capital based on Value-at-Risk (VaR) plus stressed VaR (sVaR).

ETL	The internal measure of risk is an ETL metric at the 99% confidence level under the full revaluation methodology using historical risk factor scenarios (historical simulation method). In order to accommodate the regulatory stress loss imperative, the set of scenarios used for revaluation of the current portfolio comprises historical scenarios which incorporate both the past 260 trading days and at least one static period of market distress observed in history (2008/2009). The choice of period 2008/2009 is based on the assessment of the most volatile period in recent history. ETL is liquidity adjusted for illiquid exposures. Holding periods, ranging between 10 and 90 days or more, are used in the calculation and are based on an assessment of distressed liquidity of portfolios.
VaR	VaR is calculated at the 99%, 10-day actual holding period level using data from the past 260 trading days.

25.4 Market risk

25.4.2 Non-traded market risk

25.4.2.1 Interest rate risk in the banking book (IRRBB)

IRBB originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.

Assessment and management

The measurement techniques used to monitor IRRBB include NII sensitivity/earnings risk and NAV/economic value of equity (EVE). A repricing gap is also generated to better understand the repricing characteristics of the balance sheet. In calculating the repricing gap, all banking book assets, liabilities and derivative instrument are placed in gap intervals based on repricing characteristics. The repricing gap, however, is not used for management decisions.

The internal funds transfer pricing process is used to transfer interest rate risk from the bank to FirstRand Group Treasury. This process allows risk to be managed centrally and holistically in line with the bank's macroeconomic outlook. Management of the resultant risk position is achieved by balance sheet optimisation or through use of derivative transactions.

Derivative instruments used are mainly interest rate swaps, for which a liquid market exists. Interest rate risk from the fixed-rate book is managed to low levels with remaining risk stemming from timing and basis risk.

Sensitivity analysis

A change in interest rates impact both the earnings potential of the banking book (as underlying assets and liabilities reprice to new rates), as well as in the economic value/NAV of an entity (as a result of a change in the fair value of any open risk portfolios used to manage the earnings risk). The role of management is to protect both the financial performance as a result of a change in earnings and to protect the long-term economic value. To achieve this, both earnings sensitivity and economic sensitivity measures are monitored and managed within appropriate risk limits and appetite levels, considering the macroeconomic environment and factors which would cause a change in rates.

Earnings sensitivity

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

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

25.4 Market risk (Continued)

The following financial instruments will be directly impacted by changes in market interest rates: advances, cash and cash equivalent and amounts due from FirstRand 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 2018:

	2019 E'000	2018 E'000
Base asset		
Cash with Central Bank and other banks (note 11)	**1 507 934**	604 404
Advances (note 12.1)	**2 749 361**	2 980 809
Amounts due from FirstRand Limited (note 28.2)	**770 521**	993 870
Total assets base	**5 027 816**	4 579 083
Increase in 50 basis points	25 139	22 895
Decrease in 50 basis points	(25 139)	(22 895)

Economic value of equity (EVE)

An EVE sensitivity measure is used to assess the impact on the total NAV of the bank as a result of a shock to underlying rates. Unlike the trading book, where a change in rates will impact fair value income and reportable earnings of an entity when a rate change occurs, the realisation of a rate move in the banking book will impact the distributable and non-distributable reserves of the entity to varying degrees and is reflected in the NII margin more as an opportunity cost/benefit over the life of the underlying transactions. As a result, a purely forward-looking EVE sensitivity measure applied to the banking book, be it a 1bps shock or a full stress shock, which is monitored relative to total risk limit, appetite levels and current economic conditions.

The EVE shock applied is based on regulatory guidelines and is a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates. This is applied to risk portfolios as managed by Group Treasury which, as a result of the risk transfer through the internal funds transfer pricing process, captures relevant open risk positions in the banking book. This measure does not take into account the unrealised economic benefit embedded in the entity as a result of the banking book products which are not recognised at fair value.

25.4.3 Structural foreign exchange risk

Objective

The bank is exposed to foreign exchange risk both as a result of on-balance sheet transactions in a currency other than the Eswatini Lilalangeni

Reporting and management for the bank's foreign exchange exposure and macro prudential limit utilisation is centrally owned by Group Treasury as the clearer of all currency positions in the bank. Group Treasury is also responsible for oversight of structural foreign exchange risk with reporting to the bank's ALCCO, a subcommittee of the RCC committee.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2019

25. Risk management (continued)

25.4 Market risk (continued)

25.4.3 Structural foreign exchange risk (continued)

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 2019 is set out below:

2019								
E'000's	Lilangeni (SZL)	Rand (ZAR)	Pula(P)	Maloti (M)	UK£	US$	Euro	Total
ASSETS								
Cash and cash equivalents	1 383 514	16 596	-	-	2 462	201 172	15 507	1 619 251
Advances	2 749 361	-	-	-	-	-	-	2 749 361
Investment securities	613 812	-	-	-	-	-	-	613 812
Amounts due from related companies	-	766 109	63	4 349	-	-	-	770 521
Other assets	30 299	-	-	-	-	-	-	30 299
Derivative instrument: Held for trading	16 708	-	-	-	-	-	-	16 708
	4 793 694	782 705	63	4 349	2 462	201 172	15 507	5 799 952
LIABILITIES								
Deposits	4 606 128	-	-	-	-	-	-	4 606 128
Derivative financial instruments – held for trading	15 404	-	-	-	-	-	-	15 404
Amounts due to related companies	-	15 701	-	-	-	-	-	15 701
Other liabilities	32 446	-	-	-	-	-	-	32 446
Shareholders' equity	977 673	-	-	-	-	-	-	977 673
	5 631 651	15 701	-	-	-	-	-	5 647 352

25. Risk management (continued)

25.4 Market risk (continued)

25.4.3 Structural foreign exchange risk (continued)

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

2018								
E'000's	Lilangeni (SZL)	Rand (ZAR)	Pula(P)	Maloti (M)	UK£	US$	Euro	Total
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
	5 091 428	238 661	-	-	-	-	-	5 330 089

Assessment and management

The ability to transact on-balance sheet in a currency other than the home currency (Lilangeni) is governed by in-country macro-prudential and regulatory limits. In the bank, additional board limits and management appetite levels are set for this exposure. The impact of any residual on-balance positions is managed as part of market risk reporting (see market risk in the trading book section). Group Treasury is responsible for consolidated bank reporting and utilisation of these limits against approved limits and appetite levels.

25. Risk management (continued)

25.4 Market risk (continued)

25.4.3 Structural foreign exchange risk (continued)

Foreign exchange risk in the banking book comprises funding and liquidity management, and risk mitigating activities which are managed to low levels. To minimise funding across the bank, foreign currency transactions which are matched where possible, with residual liquidity risk managed centrally by Group Treasury. Structural foreign exchange risk impacts both the current NAV of the bank as well as future profitability and earnings potential. Economic hedging is done where viable, given market constraints and within risk appetite levels. Any open hedges are included as part of market risk in the trading book.

Equity investment 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.

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.

25.5 Governance

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.

24. Risk management (continued)

25.5 Governance (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.

25. Risk management (continued)

25.5 Governance (continued)

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: -

(i) the risks inherent in the business of the bank and the control processes with respect to such risks,
(ii) the assessment and review of credit, market, fiduciary, liquidity, reputational, operational, fraud, strategic, technology, data-security and business-continuity risks,
(iii) the risk management activities of the, and
(iv) 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 bank’s appetite and overall strategy.

Internal audit

It is the policy of the 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.

25. Risk management (continued)

25.6 Financial risk management

(a) 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 2019 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.

26. 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 Bank 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 bank 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.

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-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.

26. Fair value of financial instruments (continued)

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.

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.

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.

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.

26. Fair value of financial instruments (continued)

Fair value of instruments not carried at fair value: -

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position, but for which fair value is required to be disclosed. For all other financial instruments, the carrying value is equal to or a reasonable approximation of the fair value.

	2019				
E'000	Carrying value	Total fair value	Level 1	Level 2	Level 3
Assets Advances	2 594 653	2 611 903	-	-	2 611 903
Total Assets at amortised cost	**2 594 653**	**2 611 903**	**-**	**-**	**2 611 903**
Liabilities Deposits	4 606 128	4 607 107	-	-	4 606 128
Total liabilities at amortised cost	**4 606 128**	**4 607 107**	**-**	**-**	**4 606 128**

	2018				
E'000	Carrying value	Total fair value	Level 1	Level 2	Level 3
Assets Advances	2 979 860	2 979 860	-	648 860	2 331 000
Total Assets at amortised cost	**2 979 860**	**2 079 860**	**-**	**648 860**	**2 331 000**
Liabilities Deposits	4 029 574	4 029 575	-	4 029 574	-
Total liabilities at amortised cost	**4 029 574**	**4 029 575**	**-**	**4 029 574**	**-**

26.1 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;

26. Fair value of financial instruments (continued)

26.1 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 forward contracts, investments in debt instruments, and deposits such as credit linked notes.

26. Fair value of financial instruments (continued)

26.1 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:

At 30 June 2019			
	Level 1 E'000	**Level 2 E'000**	**Level 3 E'000**
Assets			
Derivatives	-	**16 708**	-
Investment securities and other investments	-	**588 012**	-
Total assets	-	**604 720**	-
Liabilities			
Derivatives	-	**15 404**	-
Deposits	-	-	-
Total liabilities	-	**15 404**	-

At 30 June 2018			
	Level 1 E'000	**Level 2 E'000**	**Level 3 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	-

27. RELATED PARTIES

The bank defines related parties as:

(i) The parent company;

(ii) Fellow subsidiary companies of FirstRand Limited;

(iii) Fellow associates and joint venture companies of FirstRand Limited;

(iv) Post-employment benefit funds;

(v) Entities that have significant influence over FirstRand Limited and its subsidiaries;

(vi) 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;

(vii) 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

(viii) 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 Proprietary Limited, incorporated in the Republic of South Africa.

27. Related parties (continued)

27.1 *Related party transactions*

	2019 E'000	2018 E'000
(i) Interest received		
FirstRand Bank Limited	**59 682**	57 259
(ii) Fees and commission earned		
FirstRand Bank Limited	**690**	1 645
(iv) Fees and commission paid		
FirstRand Bank Limited	**105 480**	107 207
(v) Key management personnel		
Key management compensation comprises of the following:		
Salaries and other short-term benefits	**12 748**	10 309
Post-employment benefits	**1 496**	1 217
Share-based payments	**5 857**	4 400
Total compensation	**20 101**	15 926
(vi) Directors' fees		
Directors fees comprises of the following		
Services as directors	**1 428**	1 130
Other services	**424**	2 273
Total directors' fees	**1 852**	3 403

A listing of the board of directors of the bank is on page 6 of the financial statements.

27. Related parties (continued)

27.2 *Year end balances arising from related parties*

	2019 E'000	2018 E'000
(i) Due from related parties		
Due from FirstRand Bank Limited – deposits	**770 521**	993 870
Due from First National Bank of Lesotho	**-**	-
	770 521	993 870
(ii) Due to related parties		
Due to FirstRand Bank Limited – loans	**15 701**	232 447

(iii) Loans and Advances

Key management personnel

Loans and advances in normal course of business by product

	2019	2018
Mortgages	**19 154**	16 952
Overdrafts	**125**	317
Personal	**610**	207
Instalment finance	**1 815**	2 257
	21 704	19 733

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 (2018: nil). Mortgage loans are repayable monthly over 20 years. These loans are collaterised by the properties that were financed.

(iv) Deposits and current accounts at amortised cost

Key management personnel
Deposits balances in normal course of business are as follows:

	2019	2018
Current and Savings Accounts	**370**	145

	2019 E'000	2018 E'000

27.3 Post- employment benefit plan

Deposits held with the bank	**4 006**	**1 587**

27.4 FNB Foundation Trust

The FNB Foundation Trust was established to spearhead and administer Corporate Social Responsibility initiatives of the First National Bank of Eswatini Limited. The FNB Foundation Trust's vision is to create a better eSwatini through responsible investments in community and welfare projects.

In its endeavour to achieve this vision, the Trust support and fund non-profit making organisations and institutions working towards the social development and empowerment within Eswatini, as well as individuals in a charity arrangement

According to the Trust deed document, the bank Limited is to donate 1% of its after-tax profits to the FNB Foundation Trust annually.

Contributions by the bank	**1 845**	1 729
Deposits held with the bank	**4 510**	3 706

28 REMUNERATION SCHEMES

The amount recognised in profit or loss for share based payments is as follows:		
Unwinding of share options liability (note 29.1)	**1 692**	-
Conditional share plan (note 20)	**3 048**	4 400
Amount included in profit or loss	**4 740**	4 400

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

29.1 Assumption of conditional share plan

Payment made during the year	**9 233**	-
Charged in statement of comprehensive income (unwinding of liability)	**(1 692)**	-
Balance at the end of the year	**7 541**	-

28 Remuneration schemes (continued)

Conditional share scheme	
IFRS 2 treatment	Cash settled
Description	The conditional award is a notional share based on the FirstRand Limited share price.
Vesting conditions	These awards vest after three years. The awards vest if the employment and performance conditions are met. Conditional awards are made annually, and vesting is subject to specified financial performance targets set annually by the group's remuneration committee. These corporate performance targets (CPTs) are set out below.
Valuation methodology	The conditional incentive plan (CIP) is valued using the Black Scholes option pricing model. The scheme is cash settled and is therefore repriced at each reporting date.
Valuation assumptions	
Dividend data	Management's estimates of future discrete dividends.
Market related	Interest rate is the risk-free rate of return as recorded on the last day of the financial year, on a funding curve of a term equal to the expected life of the plan.
Employee related	The weighted average forfeiture rate used is based on historical forfeiture data over all schemes.

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

Corporate performance targets

The FirstRand Limited group remuneration committee sets the CPTs for each award based on the expected macroeconomic conditions and group earnings forecasts over the performance period. These criteria vary from year to year, depending on the expectations for each of the aforementioned variables. For vesting, the criteria must be met or exceeded. However, to avoid a binary outcome of 0% or 100% vesting, the scheme rules allow the remuneration committee the discretion to determine whether the conditional awards will vest, in full or partially in circumstances where the performance conditions were not fulfilled. This applies to the 2016, 2017 and 2018 schemes.

In terms of the scheme rules, participants are not entitled to dividends on their conditional share awards during the vesting period.

28 Remuneration schemes (continued)

The criteria for the expired and currently open schemes are set out below:

Expired schemes

2015 (Vested 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. Nominal GDP is advised by the FirstRand Limited Group Treasury, macro Strategy unit. In addition, ROE must be equal to or greater than the cost of equity plus 5% over the three-year performance period. For vesting, the criteria must be met or exceeded.

Currently open

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 being 30 June 2016, to the financial year-end immediately preceding the vesting date. and the company delivers ROE of 18%-22% over the performance period. Nominal GDP is advised by the FirstRand Group Treasury, macro strategy unit. For vesting, the criteria must be met or exceeded, however, the scheme rules allow the remuneration committee the discretion to determine that the conditional awards will vest, in full or partially, in circumstances where the performance conditions were not fulfilled.

2017 (vests in 2020) – FirstRand Limited must achieve growth in normalised earnings per share, adjusted for CPI, which equals or exceeds the South African Real Gross Domestic Product ("GDP") growth, on a cumulative basis, over the performance period from the base year-end, being 30 June 2017, to the year-end immediately preceding the vesting date, and the company delivers ROE of at least 18% over the performance period. Real GDP is advised by the FirstRand Limited Group Treasury macro strategy unit. For vesting, the criteria must be met or exceeded, however, the scheme rules allow the remuneration committee the discretion to determine that the conditional awards will vest, in full or partially, in circumstances where the performance conditions were not fulfilled.

2018 (vests in 2021) – FirstRand Limited must achieve growth in normalised earnings per share which equals or exceeds the South African CPI plus Real Gross Domestic Product ("GDP") growth, on a cumulative basis, over the performance period from the base year-end, being 30 June 2018, to the year-end immediately preceding the vesting date, and the company delivers ROE of at least 18% over the performance period. If Real Gross Domestic Product is negative, then growth in normalised earnings should equal or exceed CPI over the same period. Real GDP is advised by the FirstRand Limited Group Treasury macro strategy unit. For vesting, the criteria must be met or exceeded, however, the scheme rules allow the remuneration committee the discretion to determine that the conditional awards will vest, in full or partially, in circumstances where the performance conditions were not fulfilled.

28 Remuneration schemes (continued)

The significant weighted average assumptions used to estimate the fair value of the conditional share awards granted are detailed below.

	Conditional incentive plan	
	2019	2018
Award life (years)	2 - 3	2 - 3
Risk-free rate (%)	7.08 - 7.78	6.99 - 7.61

	Conditional incentive plan (FSR shares)	
Share awards outstanding	**2019**	2018
Number of awards in force at the beginning of the year	**0.279**	0.273
Number of awards granted during the year (millions)	0.098	0.093
Number of awards transferred (within the group) during the	(0.043)	0.024
Number of awards exercised/released during the year	(0.078)	(0.070)
- Market value range at date of exercise/release (cents)*	6 662 - 6 662	5 500 - 5 500
- Weighted average (cents)	6 662	5 500
Number of share cancelled/lapsed during the year (millions)	(0.006)	(0.041)
Number of awards in force at the end of the year (millions)	**0.250**	**0.279**

28 Remuneration schemes (continued)

	Conditional share plan (FSR shares)			
	2019		2018	
Share awards outstanding**	**Weighted average remaining life (years)**	**Outstanding Awards (millions)**	Weighted Average Remaining Life (years)	Outstanding Awards (millions)
Vesting during 2018			0.31	0.072
Vesting during 2019	0.32	0.073	1.32	0.114
Vesting during 2020	1.30	0.095	2.30	0.093
Vesting during 2021	2.30	0.082		
Total conditional awards		**0.250**		**0.279**
Number of participants		19		12

* Market values indicated above include those instances where a probability of vesting is applied to accelerated share award vesting prices due to a no-fault termination, as per the rules of the scheme.

** Years referenced in the rows relate to calendar years and not financial years.