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FIRST NATIONAL BANK OF LESOTHO LIMITED

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

First National Bank Lesotho Limited
Company Registration Number: I2008/729;
Annual Financial Statements for the Year Ended 31 December 2017

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BANK INFORMATION

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

Registered address

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

Postal address

P.O Box 11902
Maseru
100
Lesotho

Auditors

Sheeran & Associates Chartered Accountants (Lesotho)

Attorneys

Webber Newdigate
Du Preez Liebetrau & Co
K Ndebele Chambers
Shale Chambers
M.V. Khesuoe Chambers

Holding Company

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

DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

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

In preparing the annual financial statements, suitable accounting policies in accordance with IFRS have been applied and reasonable judgements and estimates have been made by management. The directors approve significant changes to accounting policies. There were no significant changes to the bank's accounting policies during the current year. The financial statements incorporate full and responsible disclosure in line with the bank's philosophy on corporate governance.

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

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

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

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annual financial statements fairly present the state of affairs of the bank at the end of the financial year and the net income and cash flows for the year.

The directors have reviewed the bank's budgets and forecasts and considered the bank's ability to continue as a going concern in light of current and anticipated economic conditions. The reported loss in the current financial year does not impact the director's assessment that the entity is a going concern, the directors are satisfied that the bank has adequate resources to continue in business for the foreseeable future. The going concern basis, therefore, continues to apply and has been adopted in the preparation of the annual financial statements. It is the responsibility of the bank's independent external auditors, Sheeran & Associates Chartered Accountants (Lesotho), to report on the fair presentation of the financial statements. These financial statements have been audited in terms of section 94 of the Companies Act of 2011.


The independent auditors are responsible for expressing an independent opinion on the fair presentation of these annual financial statements based on their audit of the affairs of the bank in accordance with International Standards on Auditing.

The independent external auditors, Sheeran and Associates Chartered Accountants (Lesotho) were given unrestricted access to all financial records and related data, including minutes of the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate. Sheeran and Associates audit report is presented on pages 12.

The financial statements were approved by the board of directors on 14 March 2018 and are signed on its behalf by:



I Leyenaar
Chairman



W.J. Adams
Chief Executive Officer

AUDIT COMMITTEE REPORT

The audit committee is pleased to present this report for the financial year ended 31 December 2017 in line with the recommendations of the King III report on corporate governance.

The audit committee is an independent committee appointed by the board of directors and performs its functions on behalf of the board of First National Bank of Lesotho Limited.

Terms of reference

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

Members and meeting attendance

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

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

Role and responsibilities

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

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

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

External auditor appointment and independence

The audit committee has satisfied itself that the external auditors, Sheeran and Associates Chartered Accountants (Lesotho), are independent and were able to conduct their audit functions without any influence from the bank. This conclusion was arrived at after taking into account the following:

- The representations made by the auditors to the audit committee;
- The auditors do not, except as external auditors or in rendering permitted non-audit services, receive any remuneration or other benefits from the bank;
- The auditors' independence was not impaired by any consultancy, advisory, or other work undertaken by them;

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- The auditors' independence was not prejudiced as a result of any previous appointment as auditor; and
- The criteria specified for independence were met.

The audit committee has carried out their statutory duties, including re-evaluating the performance of the external auditors, agreeing to the terms of their audit plan, budget and terms of engagement.

The audit committee has ensured that the appointment of the external auditors is in compliance with the Companies Act of 2011.

Financial statements and accounting practices

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

Internal financial controls

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

Duties assigned by the board

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

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

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Signed on behalf of the audit committee;



G. Usher
Chairman, audit committee

DIRECTOR'S REPORT

Nature of business

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

Share Capital

Ordinary share capital

Details of First National Bank of Lesotho Limited's share capital are presented in note 18 of the financial statements.

Financial results

Full details of the financial results for the period are set out on pages 15 to 77.

Events subsequent to reporting date

The directors are not aware of any material events that have occurred between the date of the statement of financial position and the date of this report.

Dividends

The directors recommend that a dividend not be paid in respect of the period under review.

Appointment of auditors

As a result of the decision taken by the directors at the board meeting held on 15 March 2017, Sheeran and Associates Chartered Accountants (Lesotho) were re-appointed as auditors for the financial year under review.

Corporate governance

The directors of the bank are committed to good corporate governance practices and organizational integrity in the direction, control and stewardship of the bank's affairs.

Board of directors

		<u>Appointed</u>	
I. Leyenaar	Chairman	November 2016	Independent Non-Executive Director
P. Molapo	Member	May 2013	Independent Non-Executive Director
M. Posholi	Member	February 2016	Independent Non-Executive Director
L.Lerotholi-Seeiso	Member	February 2016	Independent Non-Executive Director
T.Bohloa	Member	May 2013	Independent Non-Executive Director
G Usher	Member	March 2016	Non-Executive Director
W.J. Adams	Member	June 2016	Executive Director

Audit Committee

G Usher	Chairman
P. Molapo	Member
T.Bohloa	Member
W.J.Adams	Member

Directors Affairs and Governance Committee

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

Remuneration Committee

T.Bohloa	Chairman
I. Leyenaar	Member
W.J.Adams	Member

Risk, Capital and Compliance Committee

T.Bohloa	Chairman
I. Leyenaar	Member
P. Molapo	Member
G Usher	Member
W.J.Adams	Member

Senior Credit Risk Committee

P. Molapo	Chairman
T.Bohloa	Member
W.J.Adams	Member

Senior Management

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

W.J. Adams	Chief executive officer
M. Mopeli	Deputy chief executive officer
M. Lenkoe	Chief operating officer
B. Tsvetu	Chief financial officer
A. Black	Head of business segment
T. Mhlanga	Head of retail segment
M. Tsosane	Head of corporate banking
M. Marakabei	Head of WesBank
R. Roos	Head of credit
B. Port	Head of risk
M. Mofolo	Head of internal audit
D. Leanya	Head of human resources
M. Matela	Head of legal and compliance
D. Mokebe	Head of treasury

Independent Auditors' Report

To the shareholders of First National Bank of Lesotho Limited

Report on the audit of the Financial Statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of First National Bank of Lesotho Limited (the Bank) as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

First National Bank of Lesotho Limited's financial statements set out on pages 15 to 77 comprise:

- the statement of financial position as at 31 December 2017;
- the statement of other comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

The directors are responsible for the other information. The other information comprises the Contents on page 2, Bank information on page 3, Directors' responsibility statement and approval of the financial statements on pages 4 to 5, the Audit committee report as set out on pages 6 to 8, the Directors' Report on pages 9 to 11. Other information does not include the financial statements and our auditors' report thereon.

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

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

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

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the 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.

Auditors' responsibilities for the audit of the financial statements

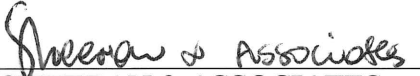
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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


SHEERAN & ASSOCIATES
Chartered Accountants (Lesotho)

Date: 22 March 2018

ACCOUNTING POLICIES

For the year ended 31 December 2017

1. Introduction

The bank's annual financial statements have been prepared in accordance with IFRS, the requirements of the Financial Institutions Act 2012 and the Companies Act of 2011 (Companies Act). These financial statements comprise the statement of financial position (also referred to as the balance sheet) as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended, and the notes, comprising a summary of significant accounting policies and other explanatory notes.

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

Summary of significant accounting policies			
Related party transactions	Related party transactions (Section 3)		
Income, expenses and taxation	Income and expenses (Section 4.1)	Income tax (Section 4.2)	
Financial Instruments	Classification (Section 5.1)	Measurement (Section 5.2)	Impairment (Section 5.3)
	Transfers and derecognition (Section 5.4)	Offset and collateral (Section 5.5)	
Other assets and liabilities	Property and equipment (Section 6.1)	Provisions (Section 6.1)	Leases (Section 6.2)
Capital and Reserves	Share capital (Section 7)	Other reserves (Section 7)	
Transactions with employees	Employee benefits (Section 8.1)	Share based payment transactions (Section 8.2)	

These policies have been consistently applied to all years presented.

Amendments to IAS 7 and IAS 12 became effective in the current year. These amendments have not had an impact on the bank's reported earnings, financial position, or reserves or a material impact on the accounting policies.

The amendments to IAS 7 introduces additional disclosures in the statement of cash flows that will enable the users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment has been applied retrospectively and comparative information has been presented in line with

the amended disclosure requirements. The amendment to IAS 12 relates to the recognition of deferred tax assets for unrealised losses on debt instruments that are measured at fair value for accounting purposes but considered at cost for tax purposes. The bank is accounting for deferred tax of these assets in line with the amendments and adoption of these amendments had not impact on the bank.

2. Basis of preparation

Use of judgements and estimates

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

Presentation of financial statements, function and foreign currency

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

3. Related party transactions

Related parties of the bank, as defined, include:

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

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

4. Income, Expense and Taxation

4.1. Income and expenses

Net Interest revenue recognised in profit or loss	
<p>Net interest includes:</p> <ul style="list-style-type: none"> ➤ interest on financial instruments measured at amortised cost determined using the effective interest method. ➤ interest on compound instruments. Where instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or long-term liabilities and are measured at amortised cost, dividends received or paid on these instruments are included in the cash flows used to determine the effective interest rate of the instrument. ➤ interest on debt instruments designated at fair value through profit or loss that are held by and managed as part of the bank's funding operations and intercompany balances. ➤ an amount related to the unwinding of the discounted present value of non-performing loans measured at amortised cost on which specific impairments have been raised and where the recovery period is significant. When these advances are impaired, they are recognised at recoverable amount i.e. the present value of the expected future cash flows, and an element of time value of money is included in the specific impairment raised. As the advance moves closer to recovery, the portion of the discount included in the specific impairment unwinds. 	
Non-Interest revenue recognised in profit or loss	
Net fee and commission income	
Fee and commission income	<p>Fees and transaction costs that do not form an integral part of the effective interest rate are recognised as income when the outcome of the transaction involving the rendering of services can be reliably estimated as follows:</p> <ul style="list-style-type: none"> ➤ fees for services rendered are recognised on an accrual basis when the service is rendered, e.g. banking fee and commission income;

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	<ul style="list-style-type: none"> ➤ fees earned on the execution of a significant act, e.g. knowledge-based fee and commission income, and non-banking fee and commission income, when the significant act has been completed; and ➤ commission income on bills and promissory notes endorsed is credited to profit or loss over the life of the relevant instrument on a time apportionment basis. ➤ Commission earned on the sale of insurance products to customers of the bank on behalf of an insurer is recognised as fee and commission income.
Fee and commission expenses	Fee and commission expenses are expenses that are incremental and directly attributable to the generation of fee and commission income, and are recognised as part of fee and commission income. These include transaction and service fees, which are expensed as the services are received.
Expenses	
Expenses of the bank, apart from certain fee and commission expenses included in net fee and commission income, are recognised and measured in terms of the accrual principle and presented as operating expenses in profit or loss.	

4.2. Income tax expense

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

Current income tax	
The current income tax expense is calculated by adjusting the net profit for the year for items that are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the reporting date.	
Deferred income tax	
Recognition	On temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.
Typical temporary differences in the bank that deferred tax is provided for	<ul style="list-style-type: none"> ➤ depreciation of property and equipment; ➤ revaluation of certain financial assets and liabilities, including derivative contracts; ➤ provisions; ➤ impairment losses; and ➤ tax losses carried forward.
Measurement	Using the liability method under IAS 12 and applying tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
Presentation	In profit or loss unless it relates to items recognised directly in equity or other comprehensive income.
Deferred tax assets	<p>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.</p> <p>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.</p>

5. Financial instruments

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:

Cash and cash equivalents and accounts receivable
<p>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.</p> <p>Cash and cash equivalents and accounts receivable are measured at amortised cost in accordance with IAS 39.</p>
Advances
<p>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, commercial and corporate banking advances.</p>
Investment securities
<p>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.</p> <p>There is a portfolio of debt investment securities measured at amortised cost.</p>
Financial liabilities
<p>The bank classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Tier 2 instruments which have write down or conversion features are classified based on the nature of the instrument and the definitions of debt and equity.</p>
Deposits and other long-term liabilities
<p>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.</p> <p>Other long-term liabilities are presented in separate lines on the statement of financial position of the bank.</p>

5.2. Measurement

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 section 3.1, depending on the underlying nature of the income.
Subsequent measurement	<p>Amortised cost items are measured using the effective interest method, less any impairment losses. This includes available-for-sale debt instruments.</p> <p>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.</p>

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.

Scope	<p>This policy applies to:</p> <ul style="list-style-type: none"> ➤ advances measured at amortised cost; ➤ investment securities measured at amortised cost; ➤ advances and debt instruments classified as available-for-sale; and ➤ accounts receivable.
Objective evidence of impairment	<p>The bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.</p> <p>The following factors are considered when determining whether there is objective evidence that the asset has been impaired:</p> <ul style="list-style-type: none"> ➤ breaches of loan covenants and conditions; ➤ time period of overdue contractual payments;

	<ul style="list-style-type: none"> ➤ actuarial credit models; ➤ loss of employment or death of the borrower; and ➤ probability of liquidation of the customer. <p>Where objective evidence of impairment exists, impairment testing is performed based on the following:</p> <ul style="list-style-type: none"> ➤ 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; ➤ the probability of default (PD) which is a measure of the expectation of how likely the customer is to default; and ➤ the exposure at default (EAD) which is the expected amount outstanding at the point of default. <p>For available-for-sale equity instruments, objective evidence of impairment includes information about significant changes with an adverse effect on the environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be recovered and a significant or prolonged decline in the fair value of the security below its cost.</p>
<p>Assessment of objective evidence of impairment</p>	<p>An assessment of impairment is first performed individually for financial assets that are individually significant and then individually or collectively for financial assets that are not individually significant (typically retail).</p> <p>If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.</p>
<p>Collective assessment</p>	<p>For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics; i.e. on the basis of the bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such financial assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the financial assets being evaluated.</p>
<p>Recognition of impairment loss</p>	<p>If there is objective evidence of impairment, an impairment loss is recognised in a separate line in profit or loss.</p>

	<p>The amount of the loss is measured as the difference between the financial assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.</p> <p>For available-for-sale financial assets which are impaired the cumulative loss is reclassified from other comprehensive income to profit or loss.</p>
<p>Reversal of impairment loss</p>	<p>If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating):</p> <ul style="list-style-type: none"> ➤ the previously recognised impairment loss is reversed by adjusting the allowance account (where applicable) and the amount of the reversal is recognised in profit or loss; and ➤ impairment losses recognised on available-for-sale equity instruments are not subsequently reversed through profit or loss, but are recognised directly in other comprehensive income.

Impairment of advances

The adequacy of impairments of advances is assessed through the ongoing review of the quality of credit exposures. For amortised cost and fair value 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 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:

	Type of advance	Bank policy on past due/impaired
<p>Past due advances</p>	<p>Loans with a specific expiry date (e.g. term loans etc.) and loans repayable by regular instalments (e.g. mortgage loans and personal loans).</p>	<p>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 equals a full instalment, at which point it is reflected as past due.</p>

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	Type of advance	Bank policy on past due/impaired
	Loans payable on demand (e.g. overdrafts).	Treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.
	The full outstanding amount is reported as past due even if part of the balance is not yet due.	
Non-performing loans	Retail loans.	Individually impaired if three or more instalments are due or unpaid or if there is evidence before this that the customer is unlikely to repay the obligations in full. If three or more instalments are due or unpaid or if there is evidence before this that the customer is unlikely to repay the obligations in full.
	Commercial and wholesale loans.	Analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.
Renegotiated advances	<p>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.</p> <p>Excludes advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original.</p>	<p>Classified as neither past due nor impaired assets.</p> <p>Non-performing advances cannot be reclassified as neither past due nor impaired unless the arrears balance has been repaid.</p> <p>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.</p>

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: <ul style="list-style-type: none"> ➤ 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 de recognised 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 arrangements

Where the requirements of IFRS are met, the bank offsets financial assets and financial liabilities and presents the net amount. Financial assets and financial liabilities subject to master netting arrangements

(MNA) or similar agreements are not offset, if the right of set-off under these agreements is only enforceable in the event of default, insolvency and bankruptcy.

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

It is the bank's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a transaction, either through physical inspection or indexation methods, as appropriate. For corporate 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 on-going 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.

6. Other assets and liabilities

6.1. Classification and measurement

Classification	Measurement
Property and equipment	
Property and equipment of the bank includes: <ul style="list-style-type: none"> ➤ assets utilised by the bank in the normal course of operations to provide services including freehold property and leasehold premises and leasehold improvements (owner occupied properties); ➤ assets which are owned by the bank and leased to third parties under operating leases as part of the bank's revenue generating operations; ➤ capitalised leased assets; and ➤ other assets utilised in the normal course of operations including computer and office equipment, motor vehicles and furniture and fittings. 	Historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated. Depreciation is on a straight-line basis over the useful life of the asset, except for assets capitalised under finance leases where the bank is the lessee; in which case, it is depreciated over the life of the lease.

Provisions
The bank will only recognise a provision measured in terms of IAS 37 when there is uncertainty around the amount or timing of payment. Where there is no uncertainty the bank will recognise the amount as a creditor or accrual. The bank usually recognises provisions related to litigation and claims.

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

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

6.2. Leases

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

	Bank is the lessee	Bank is the lessor
Finance leases		
Inception	Capitalised as assets and a corresponding lease liability for future lease payments is recognised.	Recognise assets sold under a finance lease as advances and impair the advances, as required, in line with Section 4.3.
Over life of lease	The asset is depreciated – refer to Section 5.1.	Unearned finance income is recognised as interest income over the term of the lease using the effective interest method.
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	Assets held under operating leases are recognised as a separate category of property and equipment (assets held under leasing arrangements) and depreciated - refer to policy 5.1.

	Bank is the lessee	Bank is the lessor
	recognised as a liability of the bank in creditors and accruals.	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

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

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

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

8. Transactions with employees

8.1. Employee benefits

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

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

8.2. Share-based payment transactions

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

Options granted under cash settled plans result in a liability being recognised and measured at fair value until settlement. An expense is recognised in profit or loss for employee services received over the vesting period of the plans.

9. Critical accounting estimates, assumptions and judgements

9.1. Introduction

In preparing the financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events

that are believed to be reasonable under the circumstances. Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior year. Included below are all the critical accounting estimates, assumptions and judgements made by the bank.

9.2. Taxation

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

9.3. Impairment of financial assets

Impairment of financial assets	
In determining whether an impairment loss should be recognised, the bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.	
General	
Collective impairment assessments of groups of financial assets	<p>Future cash flows in a group of financial assets are estimated on the basis of the contractual cash flows of the assets in the bank and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.</p> <p>Estimates of changes in future cash flows for groups of financial assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in</p>

Impairment of financial assets	
	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	
<p>The bank continuously assesses its credit portfolios for impairment. Significant advances are monitored by the credit committee and impaired in accordance with the bank's impairment policy when an indication of impairment is observed.</p> <p>The objective of the measurement of an impairment loss is to produce a quantitative measure of the bank's credit risk exposure.</p> <p>In determining the amount of the impairment, the bank considers the PD, EAD and LGD.</p>	
Performing loans	
<p>The assessment of whether objective evidence of impairment exists requires judgement and depends on the class of the financial asset. In the retail portfolios the account status, namely arrears versus non-arrears status, is taken as a primary indicator of an impairment event. In the commercial portfolios, other indicators such as the existence of high-risk accounts, based on internally assigned risk ratings and management judgements are used.</p> <p>Where impairment is required to be determined for the performing book, the following estimates are required:</p> <ul style="list-style-type: none"> ➤ the IBNR provision is calculated on this sub segment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non-performing status and similar risk indicators over an estimated loss emergence period. Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate, external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding 	

customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 to 12 months; 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.

Management is satisfied that the current total provisions held for performing accounts is appropriate.

In terms of the Financial Institutions Act 2013, the minimum level of general provision equivalent to 2% of performing loans should be maintained. The total general provision is maintained at 2% inclusive of the impairment calculated on the performing loans as described above.

Non-performing loans

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for commercial loans) for assets with similar credit risk characteristics.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Management is comfortable that the level of provisions held for non-performing loans is appropriate.

9.4. Other assets and liabilities

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

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

M' 000	Notes	31 December 2017	31 December 2016
Interest and similar income	1.1	180 485	154 870
Interest expense and similar charges	1.2	(52 405)	(40 400)
Net interest income before impairment of advances		128 080	114 470
Impairment of advances	9	(67 350)	(25 245)
Net interest income after impairments of advances		60 730	89 225
Non-interest revenue	2	170 180	170 732
Income from operations		230 910	259 957
Operating expenses	3	(259 891)	(220 608)
Profit before income tax		(28 981)	39 349
Income tax expense	4	7 071	(9 889)
Profit for the year		(21 910)	29 460
Other comprehensive income		-	-
Total comprehensive income for the year		(21 910)	29 460

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

M' 000	Notes	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	6	240 488	372 207
Investments securities and other investments	7	370 411	174 931
Current tax asset		14 552	-
Advances	8	698 372	777 218
Accounts receivable	10	13 611	4 672
Amounts due by holding company and fellow subsidiary companies	11	570 550	369 602
Property and equipment	12	48 968	49 747
Deferred income tax asset	13	19 394	13 462
Total assets		1 976 346	1 761 839
EQUITY AND LIABILITIES			
Liabilities			
Creditors, accruals and provisions	14	36 177	42 270
Current tax liability		-	12 536
Deposits	15	1 647 340	1 461 815
Employee liabilities	16	9 367	6 360
Amounts due to holding company and fellow subsidiary companies	11	122 643	56 104
Tier 2 liabilities	17	19 939	19 965
Total liabilities		1 835 466	1 599 050
Equity			
Ordinary shares	18	39 124	39 124
Share premium	18	9 109	9 109
Reserves		92 647	114 556
Total equity		140 880	162 789
Total equity and liabilities		1 976 346	1 761 839

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

M' 000	Share capital and share premium	General risk reserve*	Retained Earnings	Reserves attributable to ordinary equity holders	Total equity
Balance as at 31 December 2015	48 233	6 590	78 506	85 097	133 330
Current year movement	-	1 552	(1 552)	-	-
Total comprehensive income for the year	-	-	29 460	29 460	29 460
Balance as at 31 December 2016	48 233	8 142	106 414	114 557	162 789
Current year movement	-	6 289	(6 289)	-	-
Total comprehensive income for the year	-	-	(21 910)	(21 910)	(21 910)
Balance as at 31 December 2017	48 233	14 431	78 215	92 647	140 880

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

M' 000	Notes	31 December 2017	31 December 2016
Cash flows from operating activities			
Interest, fees and commission receipts		350 665	325 602
Trading and other income		-	-
Interest payment		(52 405)	(40 400)
Other operating expenses		(280 433)	(290 078)
Cash flows from operating activities		17 827	(4 876)
Movements from operating assets and liabilities		(134 252)	4 730
Liquid assets and trading securities		(396 287)	(97 169)
Advances		50 940	(152 388)
Deposits		185 525	201 538
Creditors (net of debtors)		(8 912)	14 947
Employee liabilities		3 007	(721)
Other liabilities		66 513	40 320
Taxation paid		(35 038)	(1 797)
Net cash generated/ (utilised by) from operating activities		(116 425)	(146)
Cash flows from investing activities			
Acquisition of property and equipment		(15 294)	(17 141)
Proceeds on disposal		-	86
Net cash outflow from investing activities		(15 294)	(17 055)
Cash flows from financing activities			
Proceed on the issue of other liabilities		-	-
Redemption of other liabilities		-	-
Proceeds from issue of Tier 2 liabilities		-	-
Repayment of Tier 2 liabilities		-	-
Net cash inflow from financing activities		-	-
Decrease in cash and cash equivalents		(131 719)	(17 201)
Cash and cash equivalents at the beginning of the year		372 207	389 408
Cash and cash equivalents at the end of the year	6.0	240 488	372 207

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. Analysis of interest income and interest expense

1.1. Interest and similar income

M' 000	31 December 2017	31 December 2016
Instruments at fair value	19 353	11 257
Instruments at amortised cost	161 132	143 613
Interest and similar income	180 485	154 870
Advances	115 576	112 355
- Overdrafts and cash management accounts	12 411	13 258
- Term loans	11 023	12 032
- Installment sales and hire purchase agreements	24 304	27 230
- Property finance	18 623	15 370
- Personal loans	49 215	44 465
Cash and cash equivalents	4 180	7 392
Investment securities	19 353	11 257
Amounts due by holding company and fellow subsidiaries	41 237	23 724
Other	139	142
Interest and similar income	180 485	154 870

1.2. Interest expense and similar charges

M' 000	31 December 2017	31 December 2016
Instruments at amortised cost	(52 405)	(40 400)
Interest expense and similar charges	(52 405)	(40 400)
Deposits from customers		
- Current accounts	(4 679)	(3 031)
- Savings deposits	(16)	(109)
- Call deposits	(17 235)	(12 907)
- Fixed and notice deposits	(28 056)	(21 930)
Tier 2 liabilities	(2 419)	(2 423)
Interest expense and similar charges	(52 405)	(40 400)

2. Non-interest revenue

M' 000	31 December 2017	31 December 2016
Fee and commission income		
- Instruments at amortised cost	157 974	156 155
- Other	12 206	14 577
Total non-interest revenue	170 180	170 732
Net fee and commission income		
Card commissions	253	568
Cash deposit fee	58 487	72 087
Commissions: bills, drafts and cheques	3 102	1 937
Exchange commissions	2 314	1 794
Bank charges	97 460	86 814
Other non-banking fee and commission income	(3 642)	(7 045)
Net fee and commission income	157 974	156 155
Other non-interest revenue		
Amounts due by holding company and fellow subsidiaries	7 076	11 836
Other non-interest revenue	5 130	2 741
Other non-interest revenue	12 206	14 577
Total non-interest revenue	170 180	170 732

3. Operating expenses

M' 000	31 December 2017	31 December 2016
Auditors remuneration	(2 153)	(817)
- Audit fees	(1 280)	(817)
- Fees for other services	(873)	-
Operating lease charges	(14 373)	(14 094)
Staff costs	(70 060)	(71 771)
- Salaries, wages and allowances	(54 543)	(50 153)
- Contributions to employee benefit funds	(7 317)	(6 772)
- Share based payments	(2 923)	(2 460)
- Other staff costs	(5 277)	(12 386)
Other operating costs	(173 305)	(133 926)
- Depreciation of property and equipment	(14 903)	(14 001)
- Insurance	(1 406)	(1 295)
- Advertising and marketing	(1 273)	(4 635)
- Maintenance	(6 097)	(4 699)
- Property	(9 721)	(9 503)
- Computer	(5 132)	(3 257)
- Stationery	(2 506)	(4 336)
- Telecommunications	(4 752)	(4 710)
- Professional fees	(2 199)	(914)
- Expenses paid to holding company and fellow subsidiaries	(105 285)	(67 051)
- Other operating expenditure	(20 031)	(19 525)
Total operating expenses	(259 891)	(220 608)

4. Income tax expense

M' 000	31 December 2017	31 December 2016
Current income tax	1 140	(16 190)
- Current year	1 140	(16 079)
- Prior year adjustment	-	(111)
Deferred income tax	5 931	6 301
- Current year	5 931	6 309
- Prior year adjustment	-	(8)
Total Income tax expense	7 071	(9 889)

Tax rate reconciliation

M' 000	31 December 2017	31 December 2016
Standard rate of income tax	25	25
Total tax has been affected by:		
Prior year adjustments	-	-
Disallowed expenditure	-	-
Other non-deductible amounts	(21)	16
Effective rate of tax	4	41

5. Analysis of assets and liabilities

5.1. Analysis of assets

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

M'000	31 December 2017					
	Loans and receivables	Available for sale financial assets	Non- financial instruments	Total carrying value	Current	Non- current
Assets						
Cash and cash equivalents	240 488			240 488	240 488	
Investment securities		370 411		370 411	264 463	105 948
Current tax asset	14 552			14 552	14 552	
Advances	698 372			698 372	203 275	495 097
Accounts receivable	13 611			13 611	13 611	
Amounts due by holding company and fellow subsidiaries	570 550			570 550	570 550	
Property and equipment			48 968	48 968		48 968
Deferred income tax asset			19 394	19 394		19 394
Total Assets	1 537 573	370 411	68 362	1 976 346	1 306 939	669 407

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	31 December 2016					
M'000	Loans and receivables	Available for sale financial assets	Non-financial instruments	Total carrying value	Current	Non-current
Assets						
Cash and cash equivalents	372 207			372 207	372 207	
Investment securities		174 931		174 931	105 291	69 640
Current tax asset	-			-	-	
Advances	777 218			777 218	114 453	662 765
Accounts receivable	4 672			4 672	4 672	
Amounts due by holding company and fellow subsidiaries	369 602			369 602	369 602	
Property and equipment			49 747	49 747		49 747
Deferred income tax asset			13 462	13 462		13 462
Total Assets	1 523 699	174 931	63 209	1 761 839	966 225	795 614

5.2. Analysis of liabilities

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

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

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M'000	31 December 2016					
	Designated at fair value through profit or loss	Financial liabilities at amortised cost	Non-financial instruments	Total carrying value	Current	Non-current
Liabilities						
Creditors, accruals and provisions		42 270		42 270	42 270	
Current tax liability			12 536	12 536	12 536	
Deposits		1 461 815		1 461 815	1 454 498	7 317
Employee liabilities	6 360			6 360		6 360
Amounts due by holding company and fellow subsidiaries		56 104		56 104	56 104	
Tier 2 liabilities		19 965		19 965		19 965
Total liabilities	6 360	1 580 154	12 536	1 599 050	1 565 408	33 642

6. Cash and cash equivalents

M' 000	31 December 2017	31 December 2016
Coins and bank notes	180 649	146 220
Money at call and short notice	7	115 619
Balances with central banks	59 832	110 368
Total cash and cash equivalents	240 488	372 207
Mandatory reserve balances included above	57 831	46 716

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

7. Investment securities

M' 000	31 December 2017	31 December 2016
Treasury bills	264 463	105 291
Government bonds	105 948	69 640
Total investment securities	370 411	174 931

8. Advances

M' 000	31 December 2017	31 December 2016
Notional value of advances	764 284	814 355
Contractual interest suspended	(5 271)	(4 403)
Gross value of advances	759 013	809 952
Category analysis		
Overdrafts and cash managed accounts	90 642	104 018
Term loans	64 749	108 857
Installment sales and hire purchase agreements	177 373	208 567
Property finance	177 818	142 184
Personal loans	248 431	246 326
Gross value of advances	759 013	809 952
Impairment of advances	(60 641)	(32 734)
Net advances	698 372	777 218

Analysis of installment sale, hire purchase and lease payments receivable

M'000	31 December 2017			31 December 2016		
	Installment sale, hire purchase and lease payments receivable	Less: unearned finance charges	Net	Installment sale, hire purchase and lease payments receivable	Less: unearned finance charges	Net
Within 1 year	21 357	(1 044)	20 313	24 238	(39)	24 199
Between 1 and 5 years	181 095	(35 716)	145 379	184 122	(2 253)	181 869
More than 5 years	19 355	(5 783)	13 572	2 868	(42)	2 826
Sub total	221 807	(42 543)	179 264	211 228	(2 334)	208 894
Less: Interest in suspense			(1 891)			(327)
Total net installment sale, hire purchase and lease payments receivable			177 373			208 567

Under the terms of the lease agreements, no contingent rentals are payable. The agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectable minimum lease payments receivable included in the allowance for impairments at the reporting date is M13,368,774 (2016: 2,132,698)

9. Impairment of advances

M' 000	31 December 2017	31 December 2016
Analysis of movement in impairment of advances		
Opening balance	32 734	11 765
Amounts written off	(51 613)	(9 917)
Unwinding of discounted present value on NPLs	-	-
Net new impairment created / (released)	79 520	30 886
Closing balance	60 641	32 734
(Increase) / decrease in impairment	79 520	30 886
Recoveries of bad debts previously written off	(12 170)	(5 641)

10. Accounts receivable

M' 000	31 December 2017	31 December 2016
Items in transit	2 973	3 374
Prepayments	3 814	4 095
Accounts receivable	6 824	(2 797)
Closing balance	13 611	4 672

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

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

M' 000	31 December 2017	31 December 2016
Amounts due by holding company	570 550	369 602
Amounts due by fellow subsidiaries	-	-
Total amount due by holding company and fellow subsidiaries	570 550	369 602
Amounts due to holding company	-	-
Amounts due to fellow subsidiaries	122 643	56 104
Total amount due by holding company and fellow subsidiaries	122 643	425 706

12. Property and equipment

	Property - Leasehold Premises	Computer equipment	Office equipment	Other equipment	Total
Net book value as at 1 January 2016	20 848	13 315	2 270	10 408	46 841
- Cost	48 091	26 474	7 799	19 596	101 960
- Accumulated depreciation	(27 243)	(13 156)	(5 529)	(9 188)	(55 116)
- Disposals	-	(3)	-	-	(3)
Movement for the year	(2 178)	4 933	2 315	(2 164)	2 906
- Acquisitions	3 413	7 946	4 015	1 740	17 114
- Disposals	(5 591)	(3 013)	(1 700)	(3 904)	(14 208)
Net book value as at 31 December 2016	18 670	18 248	4 585	8 244	49 747
- Cost	49 832	27 722	11 004	21 423	109 981
- Accumulated depreciation	(31 162)	(9 474)	(6 419)	(13 179)	(60 234)
Movement for the year	(8 498)	10 115	(2 419)	23	(779)
- Acquisitions		14 252		1 042	15 294
- Disposals	(1 073)		(97)		(1 170)
- Depreciation charge for the year	(7 425)	(4 137)	(2 322)	(1 019)	(14 903)
Net book value as at 31 December 2017	10 172	28 363	2 166	8 267	48 968
- Cost	48 759	41 974	10 907	22 465	124 105
- Accumulated depreciation	(38 587)	(13 611)	(8 741)	(14 198)	(75 137)

13. Deferred income tax

Movement in deferred income tax account is shown below.

	31 December 2017	31 December 2016
M' 000		
Deferred income tax asset		
Opening balance	13 462	7 162
Recognised in profit or loss	5 932	6 300
Total deferred income tax asset	19 394	13 462

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

M'000	As at 31 December		Recognised in income statement	
	2017	2016	2017	2016
Deferred income tax asset				
Provision for loan impairment	15 160	8 183	6 977	5 242
Other provisions	3 622	3 825	(203)	524
Property and equipment	613	1 454	(842)	534
Total deferred tax income tax asset	19 394	13 462	5 932	6 300

14. Creditors, accruals and provisions

M' 000	31 December 2017	31 December 2016
Accounts payable	19 840	29 833
Operating lease liability arising from straight lining of lease payments	1 746	1 607
Accrued expenses	11 218	10 324
Audit fees accrued	1 417	506
Provisions (including litigations and claims)	1 956	-
Total creditors, accruals and provisions	36 177	42 270

Reconciliation of provisions

M' 000	31 December 2017	31 December 2016
Opening balance	-	-
Charge to profit or loss	11 741	-
- Additional provisions created	11 741	-
- Unused provisions reversed	-	-
Utilised	9 785	-
Closing balance	1 956	-

15. Deposits

M' 000	31 December 2017	31 December 2016
Deposits from customers		
- Current accounts	729 664	576 899
- Call deposits	408 292	310 980
- Savings accounts	14	7 398
- Fixed and notice deposits	509 315	566 493
- Other deposits from customers	55	45
Deposits	1647 340	1461 815

16. Employee liabilities

M' 000	31 December 2017	31 December 2016
Liability for short term employee benefits	5 387	3 603
Share based payment liability	3 980	2 757
Total employee liabilities	9 367	6 360

17. Tier 2 liabilities

M' 000	31 December 2017	31 December 2016
Subordinated debt held with FirstRand Limited	19 939	19 965
Tier 2 liabilities	19 939	19 965

18. Share Capital and share premium

M' 000	31 December 2017	31 December 2016
Ordinary shares		
Authorised		
50 000 000 shares with a par value of M1 per share		
Issued		
39 123 970 (2016: 39 123 970) ordinary shares with a par value of M1 per share	39 124	39 124
All issued share capital is fully paid up		
Ordinary share premium	9 109	9 109
Total issued ordinary share capital and share premium	48 233	48 233

19. Remuneration schemes

M' 000	31 December 2017	31 December 2016
The charge to profit or loss for share-based payments is as follows:		
FirstRand Bank Ltd conditional share plan	2 923	2 460
Amount included in profit or loss	2 923	2 460

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

Description of schemes and vesting conditions:

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

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

Corporate performance targets

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

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

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

Expired schemes

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

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

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

Currently open

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

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

2017(vests in 2020) – FirstRand Limited must achieve growth in normalised EPS adjusted for CPI, which equals or exceeds the South African Real GDP growth, on a cumulative basis, over the performance period from the base year-end, being 30 June 2017, to the year-end immediately preceding the vesting date. Real GDP is advised by the FirstRand Limited Group Treasury, Macro Strategy Unit; and the Company delivers ROE of at least 18% over the performance period.

The significant weighted average assumptions used to estimate the fair value of options and share transactions granted are detailed below.

	Conditional Share Plan	
	31 December 2017	31 December 2016
Option life (years)	3	3
Risk free rate (%)	6.92 - 7.46	7.36 - 8.06
Expected dividend yield (%)	-	-
Expected dividend growth (%)	-	-

	Conditional share plan	
	31 December 2017	31 December 2016
Options and share awards outstanding		
Number of options and share awards in force at the beginning of the year (millions)	0.167	0.170
Number of options and share awards granted during the year (millions)	0.043	0.100
Number of options and share awards transferred (within the group) during the year (millions)	0.010	(0.056)
Number of options and share awards exercised/released during the year (millions)	(0.025)	(0.032)
- Market value range at date of exercise/release (cents)	5 500 - 5 500	4 725 - 4 725
- Weighted average (cents)	5 500	4 725
Number of options and share awards cancelled/lapsed during the year (millions)	(0.035)	(0.015)
Number of options and share awards in force at the end of the year (millions)	0.160	0.167

	Conditional share plan			
	31 December 2017		31 December 2016	
	Weighted average remaining life (years)	Outstanding option (millions)	Weighted average remaining life (years)	Outstanding option (millions)
Options and share awards outstanding				
	0.81	0.040	0.78	0.039
	1.81	0.065	1.80	0.037
	2.80	0.055	2.81	0.091
Total options and share awards	-	0.160	-	0.167
Number of participants		14		10

20. Contingencies and commitments

M' 000	31 December 2017	31 December 2016
Guarantees	58 272	60 003
Total contingencies	58 272	60 003
Irrevocable commitments	67 671	59 447
Committed capital expenditure	33 522	65 796
Operating lease commitments	21 976	28 988
Contingencies and commitments	181 441	214 234
Legal proceedings		
There are a number of legal or potential claims against the bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or total basis. Provision is made for all liabilities that are expected to materialise.		
Commitments		
Commitments in respect of capital expenditure and long term investments approved by directors.	33 522	65 796
Guarantees		
Guarantees consist predominantly of endorsements and performance guarantees.	58 272	60 003

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

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

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

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

M' 000	31 December 2017	31 December 2016
Office Premises		
Within 1 year	6 936	8 257
Between 1 and 5 years	15 040	20 732
More than 5 years		-
Total operating lease commitments	21 976	28 989

21. Fair value measurements

21.1. Valuation methodology

In terms of IFRS, the bank is required to or elects to measure and/or disclose certain assets and liabilities at fair value. The bank has established control frameworks and processes to independently validate its valuation techniques and inputs used to determine its fair value measurements. Valuation specialists 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 the FirstRand Group 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 by the required valuation specialists, valuation committees and relevant risk committees annually or more frequently if considered appropriate.

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

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 the recoverable amount is based on the fair value less costs to sell;
- IFRS 3 where assets and liabilities are measured at fair value at acquisition date; and
- IAS 36 where the recoverable amount is based on the fair value less costs to sell.

These fair value measurements are determined on a case by case basis as they occur within each reporting period.

Financial instruments

When determining the fair value of a financial instrument, where the financial instrument has a bid or ask price (e.g. in a dealer market), the bank uses the price within the bid-ask spread that is most representative of fair value in the circumstances.

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.

Financial instruments not measured at fair value

This category includes 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. For all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

21.2. 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. Fair value may be 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. 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.

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;

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- 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;
- 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. The bank considers factors such as counterparty and own credit risk when making appropriate valuation adjustments.

The table below sets out the valuation techniques applied by the bank for recurring fair value measurements of assets and liabilities categorised as level 2.

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Investment securities			
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds or bonds listed in an inactive market are valued similarly to advances measured at fair value. Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Where the valuation technique incorporates observable inputs for credit risk, level 2 of the fair value hierarchy is deemed appropriate.	Market interest rates and interest rate curves
Treasury bills	Discounted cash flows	Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period.	Market interest rates and interest rate curves

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The table below sets out the valuation techniques applied by the bank for recurring fair value measurements of assets and liabilities categorised as level 3.

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Loans and advances to customers			
Other loans and advances	Discounted cash flows	Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Although the fair value of credit is not significant year-on-year it may become significant in future. For this reason, together with the fact that the majority of South African counterparties do not have actively traded or observable credit spreads, the bank has classified other loans and advances to customers at level 3 of the fair value hierarchy.	Credit inputs
Investment securities			
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds or bonds in an inactive market are valued similarly to advances measured at fair value. The future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Where the valuation technique incorporates unobservable inputs for credit risk, level 3 of the fair value hierarchy is deemed appropriate.	Credit inputs
Deposits			
Other deposits	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Credit inputs
Other liabilities	Discounted cash flows	Future cash flows are discounted using market-related interest rates adjusted for performance of the underlying contracts.	Performance of underlying contracts

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Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Discounted cash flows	Future cash flows are discounted using market-related interest rates and curves adjusted for credit inputs.	Credit inputs
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Non-recurring fair value measurements

For non-recurring fair value measurements, the fair value hierarchy classification and valuation technique applied in determining fair value will depend on the underlying asset or liability being measured. Where the underlying assets or liabilities are those for which recurring fair value measurements are required as listed in the table above, the technique applied and the inputs into the models would be in line with those as set out in the table. Where the underlying assets or liabilities are not items for which recurring fair value measurements are required, for example property and equipment or intangible assets, the carrying value is considered to be equal to a reasonable approximation of the fair value. This will be assessed per transaction and details will be provided in the relevant notes of the annual financial statements when applicable. There were no assets or liabilities measured at fair value on a non-recurring basis in the current and prior years.

21.2.1. Fair value hierarchy

The following table presents the fair value measurements and fair value hierarchy of assets and liabilities of the bank which are recognised at fair value.

M' 000	31 December 2017	31 December 2016
Investment securities and other investments		
Level 1		
Level 2	370 411	174 931
Level 3		
Total fair value	370 411	174 931

There were no transfers of financial instruments between level 1, 2 and 3 in the current and prior year.

21.3. Financial instruments not measured 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 is a reasonable approximation of the fair value.

M'000	31 December 2017			
	Total carrying amount	Fair value hierarchy		
		Level 1	Level 2	Level 3
Assets				
Advances	698 372			692 895
Total assets at amortised cost	698 372			692 895
Liabilities				
Deposits	1647 340		1657 853	
Total liabilities at amortised cost	1647 340		1657 853	

M'000	31 December 2016			
	Total carrying amount	Fair value hierarchy		
		Level 1	Level 2	Level 3
Assets				
Advances	777 218		104 710	692 061
Total assets at amortised cost	777 218		104 710	692 061
Liabilities				
Deposits	1461 815		1463 429	76 162
Total liabilities at amortised cost	1461 815		1463 429	76 162

22. Related party transactions

Related parties of the bank, as defined, include:

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

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

Balances with related parties

M' 000	31 December 2017	31 December 2016
Advances		
Key management personnel	8 942	8 434
Accounts receivable		
Holding company	4 881	869
Fellow subsidiaries	1 272	688
Amounts due by holding company and fellow subsidiaries		
Holding company	570 550	369 602
Tier 2 liabilities		
Holding company	19 939	19 965
Deposits		
Key management personnel	454	398
Accounts payable		
Holding company	15 244	16 716
Amounts due to holding company and fellow subsidiaries		
Fellow subsidiaries	122 643	56 104

Transactions with related parties

M' 000	31 December 2017	31 December 2016
Interest received		
Holding Company	41 237	23 724
Key management personnel	331	529
Interest paid		
Holding Company	2 419	2 423
Key management personnel	6	2
Non interest revenue		
Holding company	7 076	11 836
Operating expenses		
Holding company	105 285	67 051
Salaries and other employee benefits		
Key management personnel		
- Salaries and other short term benefits	11 650	10 388
- Share based payments	2 460	1 833

23. Standards and Interpretations issued but not yet effective

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

Standard	Impact assessment	Effective date
IFRS 2 (amended)	<p>Classification and Measurement of Share-Based Payment Transactions</p> <p>As a result of work by the IFRS Interpretations Committee, several amendments have been made to IFRS 2 to clarify how to account for certain share-based payment transactions.</p> <p>The amendments to IFRS 2 are related to the following areas:</p> <ul style="list-style-type: none"> • Accounting for the effects of vesting and non-vesting conditions on the measurement of the liability of cash settled share based payment transactions; • The classification of share based payment transactions with net settlement features for withholding tax obligations; and • Accounting for a modification to the terms and conditions of a share based payment that changes the transaction from cash settled to equity settled. <p>The FirstRand group currently only has cash-settled share-based payment schemes. The bank is currently in line with the first two amendments as the group is accounting for these items</p>	Annual periods commencing on or after 1 January 2018

	<p>in line with the clarifications. The third amendment will be considered when such transactions take place and will be applied prospectively to any modifications made on or after the adoption date.</p>	
IFRS 4 (amended)	<p>Applying IFRS 9 with IFRS 4</p> <p>The amendment addresses concerns around temporary volatility in reported results arising from implementing IFRS 9 before implementing the insurance contracts standard that is being developed and that will replace IFRS 4.</p> <p>The amendment introduces two approaches:</p> <ul style="list-style-type: none"> • The overlay approach - An option for all issuers of insurance contracts to remove from profit or loss the effects of some mismatches that may occur before adoption of IFRS 4, and 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 FVTPL in accordance with IFRS 9, but would have been measured in their entirety as at FVTPL under IAS 39. • Temporary exemption - Reporting entities whose activities are predominantly connected with insurance are temporarily exempt from applying IFRS 9 and will continue to apply IAS 39 until the new insurance contracts standard is issued. <p>All entities in the FirstRand group, including those who issue insurance contracts, will apply IFRS 9 for annual periods commencing on or after 1 January 2018 and therefore the two approaches made available under this amendment will not be elected and the amendment will have no impact on the group.</p>	Annual periods commencing on or after 1 January 2018
IFRS 9	<p>IFRS 9 incorporates amendments to the classification and measurement guidance as well as accounting requirements for impairment of financial assets measured at amortised cost and the general hedge accounting model. The significant amendments are:</p> <ul style="list-style-type: none"> • Classification and measurement of financial assets under IFRS 9 is based on both the business model and the rationale for holding the instruments as well as the contractual characteristics of the instruments. • Impairments in terms of IFRS 9 will be determined based on an expected loss model that considers significant changes to the asset's credit risk and the expected loss that will arise in the event of default. • Classification and measurement of financial liabilities is effectively the same as under IAS 39 i.e. IFRS 9 allows 	Annual periods commencing on or after 1 January 2018

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	<p>financial liabilities not held for trading to be measured at either amortised cost or fair value. If, however, fair value is elected then changes in the fair value as a result of changes in own credit risk should be recognised in other comprehensive income.</p> <ul style="list-style-type: none"> • General hedge accounting requirements under IFRS 9 are closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Hedge effectiveness will now be proved based on management's risk management objectives, rather than the 80%-125% band that was previously stipulated. IFRS 9 also allows for rebalancing of the hedge and deferral of costs of hedging. IFRS 9 does not include requirements that address the accounting treatment of macro hedges. <p>The bank is well positioned to implement IFRS 9 for the financial year ending 31 December 2018. (Refer to IFRS 9 implementation note below).</p>	
IFRS 15	<p>Revenue from Contracts with Customers</p> <p>IFRS 15 provides a single, principle based model to be applied to all contracts with customers. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.</p> <p>The new standard also provides guidance for transactions that were not previously comprehensively addressed and improves guidance for multiple-element arrangements. The standard also introduces enhanced disclosures about revenue.</p> <p>The impact of IFRS 15 is being assessed as part of the IFRS 9 project. The bank is well positioned to implement IFRS 15 for the financial year ending 31 December 2018. The bank has made progress with regards to the impact of IFRS 15.</p>	Annual periods commencing on or after 1 January 2018
IFRS 16	<p>Leases</p> <p>IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represent those transactions.</p> <p>The bank is in the process of assessing the impact IFRS 16 will have on the financial statements. Until the process has been completed, the bank is unable to determine the significance of the impact.</p>	Annual periods commencing on or after 1 January 2019

IFRS 17	<p>Insurance Contracts</p> <p>IFRS 17 is the new standard that deals with the accounting for insurance contracts and will replace IFRS 4. IFRS 4 currently contains no requirements to account for insurance contracts in a specific way. The accounting treatment differs between different jurisdictions, which make it very difficult to compare one insurance company to another. IFRS 17 contains specific requirements and aims to provide more transparency and comparability between insurance companies and other industries. IFRS 17 provides a prescriptive approach on determining policyholder liabilities as well as the release of profit in these contracts to the income statement.</p> <p>The recognition of insurance revenue will be consistent with that of IFRS 15. Insurance revenue is derived by the movement in the liability for remaining insurance coverage.</p> <p>The insurance contract liability is initially made up of:</p> <ul style="list-style-type: none"> • the fulfilment cash flows, which represents the risk-adjusted present value of the entity's rights and obligations to the policyholders; and • the contractual service margin (CSM), which represents the unearned profit the entity will recognise as it provides services over the coverage period. <p>Subsequently, the liability comprises the liability for remaining coverage (fulfilment cash flows and the CSM) and the liability for incurred claims (fulfilment cash flows for claims and expenses already incurred but not yet paid).</p> <p>The bank currently sells and earns insurance commission under an agency model, there will be no impact resulting from the standard.</p>	Annual periods commencing on or after 1 January 2021
IAS 28	<p>Long-term Interests in Associates (Amendments to IAS 28)</p> <p>The amendments clarify that an entity should apply IFRS 9, including impairment requirements, to long-term interests in associates and joint ventures that in substance form part of the net investment in the associate or joint venture.</p> <p>The bank currently has no interests in associates and joint ventures. There will be no impact resulting from this standard.</p>	Annual periods commencing on or after 1 January 2019
IAS 40	<p>Transfers of Investment Property (Amendments to IAS 40)</p> <p>The amendments introduce clarification of the requirements on transfers to, or from investment properties when there has been a change in use of the property.</p>	Annual periods commencing on or after 1 January 2018

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	The clarified requirements will be applied by the bank to any transfer to or from investment property, when these transactions take place.	
IFRIC 22	<p>Foreign Currency Transaction and Advance Consideration</p> <p>This interpretation clarifies the accounting treatment for transactions that involves the advance receipt or payment of consideration in a foreign currency.</p> <p>The bank is in the process of assessing the impact on the annual financial statements but it is not expected to have a significant impact.</p>	Annual periods commencing on or after 1 January 2018
IFRIC 23	<p>Uncertainty over Income Tax Treatments</p> <p>This interpretation is to be applied to the determination of taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. When considering that the filing deadlines for tax returns and financial statement may be months apart, IFRIC 23 may require more rigor when finalising the judgements about the amounts to be included in the tax return before the financial statements are finalised.</p> <p>The bank is in the process of assessing the impact on the annual financial statements but it is not expected to have a significant impact.</p>	Annual periods commencing on or after 1 January 2019
Annual Improvements 2014-2016 cycle	<p>Improvements to IFRS</p> <p>The IASB issued the 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 group.</p>	Annual periods commencing on or after 1 January 2018 (IAS 12 and IAS 28)
Annual Improvements 2015-2017 cycle	<p>Improvements to IFRS</p> <p>The IASB issued the Annual Improvements to IFRS Standards 2015-2017 Cycle. These annual improvements include amendments to the following standards:</p> <ul style="list-style-type: none"> • IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. 	Annual periods commencing on or after 1 January 2019

	<ul style="list-style-type: none"> • 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. 	
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IFRS 9 implementation

The introduction of IFRS 9 results in earlier loss recognition and higher overall provision requirements than under IAS 39 due to the requirement to calculate provisions for expected credit losses rather than incurred losses. In addition, IFRS 9 requires the calculation of expected credit losses to incorporate forward-looking information, whereas under IAS 39 only current macro-economic conditions are considered. IFRS 9 requires expected credit losses to be calculated for loan commitments and financial guarantees. IAS 39 did not apply to these off-balance-sheet exposures.

The FirstRand Group (“the Group”) has developed and/or amended the applicable credit and accounting policies to incorporate the new requirements of IFRS 9. In addition, group-wide definitions, such as the definition of default and significant increase in credit risk, have been finalised to ensure consistent application of key terms in model development across the group, with the significant items described in the table below.

Modelling overview	<p>The group will be adopting the PD/LGD approach for the calculation of expected credit losses (ECL) for credit advances and a simplified approach for non-advances e.g. accounts receivable. The ECL will be adjusted for forward-looking macro-economic information. This necessitated development of appropriate models, including underlying PD, LGD and EAD models, to facilitate the calculation of ECL. Historical credit performance data has been used where possible to develop statistical models to predict expected credit losses. Where required due to low data volumes or changes in portfolio composition, historical data has been augmented with suitable proxy data, and expert judgement has been applied to ensure that modelling outcomes are appropriate.</p> <p>All required models have been developed within the group and are validated independently both internally by the independent validation unit within the Enterprise Risk Management function (ERM) and externally by the group’s external auditors. Model development has been guided by appropriate frameworks, which articulate minimum required standards and reference industry guidance and best practice.</p>
Significant increase in credit risk	All up-to-date advances are assessed to determine whether they have experienced a significant increase in credit risk (SICR) since origination. Lifetime PDs at the reporting date are compared to SICR thresholds, which are determined on portfolio

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	<p>level, to determine whether a significant increase in credit risk has occurred. The complexity of the SICR approach applied for each portfolio is reflective of the materiality of the portfolio in question and of the availability of reliable origination date PD data.</p> <p>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.</p> <p>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.</p>
Definition of default	<p>Advances are considered credit impaired if they meet the definition of default. The group'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, and considers delinquency as well as indicators of unlikelihood to pay.</p> <p>Accounts are considered to no longer be in default only once they have met a stringent cure definition, which requires them to have been in a performing state for 12 consecutive months before they are allowed to cure fully.</p>
Period of exposure to credit risk	<p>Lifetime expected losses are measured over the period that the entity is exposed to credit risk. This period is determined through analysis of historical behavioural data where available, augmented with suitable proxy data where required. For non-revolving products, this period is capped at the remaining contractual term of the financial instrument. For revolving products, such as credit cards and overdrafts, no restrictions are imposed on the length of the period of exposure to credit risk.</p>
Incorporation of forward-looking information	<p>Forward-looking macro-economic information will be incorporated into expected loss estimates through the application of quantitative modelling and expert-judgement-based adjustments. The number of macro-economic scenarios applied will be dependent on the materiality of the portfolio and on the availability of reliable data and suitable macro-economic forecasts. Where credit experts have determined that the macro-economic scenarios considered in the quantitative models are not adequately reflective of potential macro-economic event risk, expert judgement-based adjustments will be made to staging and/or ECL estimates to better reflect potential portfolio-specific impacts.</p>
Governance	<p>Existing governance frameworks will be utilised for the governance of IFRS 9-related processes. Overall, no significant changes are anticipated in the governance processes related to impairments. Where necessary, these have been amended to incorporate elements not presently catered for in existing frameworks. One such amendment is the governance process to ensure the independence of the production of forward-looking macroeconomic information which is incorporated into the ECL models.</p>

Impact	Impact assessments have been performed on a six-monthly basis since the formal inception of the IFRS 9 project in 2015 and the group continues to refine the calculations. An accurate indication of the impact of IFRS 9 is dependent on the internal independent validation and external audit of models, which are still ongoing, the distribution of the advances portfolio and on forward-looking macro-economic expectations, amongst other factors, on the date of adoption.
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24. Financial Risk Management

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

Overview of financial risks	
Credit Risk	Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads.
	<p>Credit risk arises primarily from the following instruments:</p> <ul style="list-style-type: none"> ➤ advances; and ➤ certain investment securities. <p>Other sources of credit risk arise from:</p> <ul style="list-style-type: none"> ➤ cash and cash equivalents; ➤ accounts receivable; ➤ derivative balances; and ➤ off-balance sheet exposures.
Liquidity risk	Liquidity risk is the risk that the bank is unable to meet its obligations when these fall due and payable. It is also the risk of not being able to realise assets when to meet repayment obligations in a stress scenario.
	<p>Liquidity risk arises from all assets and liabilities with differing maturity profiles.</p> <p>The following information is presented for these assets and liabilities:</p> <ul style="list-style-type: none"> ➤ undiscounted cash flow analysis of financial liabilities (24.2.1); ➤ concentration analysis of deposits (24.2.1).

Market Risk	<p>The bank distinguishes between market risk in the trading book and non-traded market risk. For non-traded market risk, the group distinguishes between interest rate risk in the banking book and structural foreign exchange risk.</p> <p>Market risk in the trading book is the risk of adverse revaluation of any financial instrument as a consequence of changes in the market prices or rates.</p>	
Capital Management	<p>Interest rate risk in the banking book (24.3.1) originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.</p>	<p>The following information is presented for interest rate risk in the banking book:</p> <ul style="list-style-type: none"> ➤ projected NII sensitivity to interest rate movements; and ➤ banking book NAV sensitivity to interest rate movements as a percentage of total bank capital.
Capital Management	<p>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.</p>	

24.1. Credit risk

24.1.1. Credit assets

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

M' 000	31 December 2017	31 December 2016
On-balance sheet exposure		
Cash and short term funds		
- Money at call and short notice	7	115 619
- Balances with central bank	59 832	110 368
Gross advances	759 013	809 952
Accounts receivable	13 611	4 672
Amounts due by holding company and fellow subsidiaries	570 550	369 602
Investments securities and other investments	370 411	174 931
Off-balance sheet exposure		
Financial and other guarantees	58 272	60 003
Loan commitments not drawn	67 671	59 447
Total	1 899 367	1 704 594

24.1.2. Quality of credit assets

Age analysis of advances

M' 000	31 December 2017	31 December 2016
Neither past due nor impaired	666 600	719 457
One full installment past due	22 536	40 458
Two full installments past due	12 647	12 829
Impaired (NPLs)	57 230	37 208
Total	759 013	809 952

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

Credit quality of performing advances (neither past due nor impaired)

M' 000	31 December 2017	31 December 2016
FR 1 - 25*	98 240	129 892
FR 26 - 90*	566 141	547 123
Above FR 90*	2 219	42 442
Total	666 600	719 457

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

Analysis of impaired advances (NPLs)

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

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M' 000	31 December 2016		
	Total net of interest in suspense	Security held and expected recoveries	Specific impairment
NPLs by category			
Overdrafts and cash management accounts	4 615	3 164	1 451
Term loans	12 324	10 132	2 193
Installment sales and hire purchase agreements	2 591	458	2 133
Property finance	4 876	3 980	896
Personal loans	12 802	(43)	12 844
Total	37 208	17 691	19 517

Credit quality of other financial assets (excluding advances) neither past due nor impaired.

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

31 December 2016					
M' 000	Treasury bills	Treasury bonds	Cash and short term funds	Accounts receivable	Total
B+/B	105 292	69 640	225 988	3 850	404 770
Unrated					
Total	105 292	69 640	225 988	3 850	404 770

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

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

31 December 2016						
M'000	Neither past due nor impaired	Past due but not impaired			Impaired	Total
		1 - 30 days	31 - 60 days	61 - 90 days		
Items in transit	3 374					3 374
Sundry debtors						
Other accounts receivable	1 298					1 298
Total financial accounts receivable	4 672					4 672

24.1.3. Concentration risk

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

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

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

Geographical concentration of significant asset exposure

M' 000	31 December 2017	31 December 2016
	Lesotho	Lesotho
On-balance sheet exposure		
Cash and short term funds	240 488	372 207
Total advances	698 372	777 218
NPLs		
Accounts receivable	13 611	4 672
Off-balance sheet exposure		
Guarantees, acceptances and letters of credit	58 272	60 003

Sector analysis concentration of advances

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

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

M'000	31 December 2016			
	Total advances	NPLs		
		Total net of interest in suspense	Security held and expected recoveries	Specific impairment
Agriculture	7 533	537	414	123
Banks				
Financial Institutions	29 232	351	287	64
Building and property development	90 778	3 666	2 900	767
Individuals	412 349	19 961	4 296	15 664
Manufacturing and commerce	142 445	1 905	1 556	349
Mining	8 703			
Transport and communication	36 250	7 165	5 761	1 404
Other services	82 662	3 623	2 478	1 145
Gross value of advances	809 952	37 208	17 692	19 516
Impairment and fair value of credit advances	(32 734)			
Net advances	777 218			

24.1.4. Credit risk mitigation and collateral held

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

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

Credit risk mitigation instruments

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

The bank employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally to ensure that title is retained over collateral taken over

the life of the transaction. Collateral is valued at inception of the credit agreement and subsequently where necessary through physical inspection or index valuation methods. For corporate and commercial counterparties, collateral is reassessed during the annual review of the counterparty's creditworthiness to ensure that proper title is retained. For mortgage portfolios, collateral is revalued on an ongoing basis using an index model and physical inspection is performed in the event of default at the beginning of the recovery process.

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

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

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

Offsetting of financial assets and financial liabilities

Where appropriate, various instruments are used to mitigate the potential exposure to certain counterparties. These include financial or other collateral in line with common credit risk practices, as well as netting agreements, guarantees and credit derivatives.

No offsetting of financial assets and financial liabilities has occurred in the current financial year.

24.2. Liquidity risk

24.2.1. Undiscounted cash flow

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

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

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	31 December 2017			
	Carrying amount	Term to maturity		
		Call - 3 months	4 - 12 months	> 12 months and non-contractual
M'000				
On-balance sheet amounts				
Deposits and current accounts	1 647 340	1 481 770	77 561	88 009
Creditors, accruals and provisions	36 177	4 874	9 887	21 416
Tier 2 liabilities	19 939			19 939
Employee liabilities	9 367	5 387		3 980
Amounts due to holding company and fellow subsidiaries	122 643	122 643		
Off-balance sheet amounts				
Financial and other guarantees	58 272	58 272		
Operating lease commitments	21 976	6 936		15 040
Facilities not drawn	67 670	67 670		

	31 December 2016			
	Carrying amount	Term to maturity		
		Call - 3 months	4 - 12 months	> 12 months and non-contractual
M'000				
On-balance sheet amounts				
Deposits and current accounts	1 461 815	1 210 215	244 283	7 317
Creditors, accruals and provisions	42 270	40 663	1 607	
Tier 2 liabilities	19 965			19 965
Employee liabilities	6 360	3 205		3 155
Amounts due to holding company and fellow subsidiaries	56 104	56 104		
Off-balance sheet amounts				
Financial and other guarantees	60 003	60 003		
Operating lease commitments	28 988	8 257		20 731
Facilities not drawn	59 447	59 447		

Concentration analysis of deposits

M' 000	31 December 2017	31 December 2016
Sector analysis		
Deposits, current accounts and other loans		
Sovereigns, including central bank		
Public sector entities	47 149	108 250
Banks	201 416	110 008
Securities firms		
Corporate customers	544 011	436 064
Retail customers	545 759	466 634
Other	309 005	340 859
Total deposits	1 647 340	1 461 815
Geographical analysis		
Lesotho	1 647 340	1 461 815

24.3. Non-traded market risk

24.3.1. Interest rate risk in the banking book

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

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

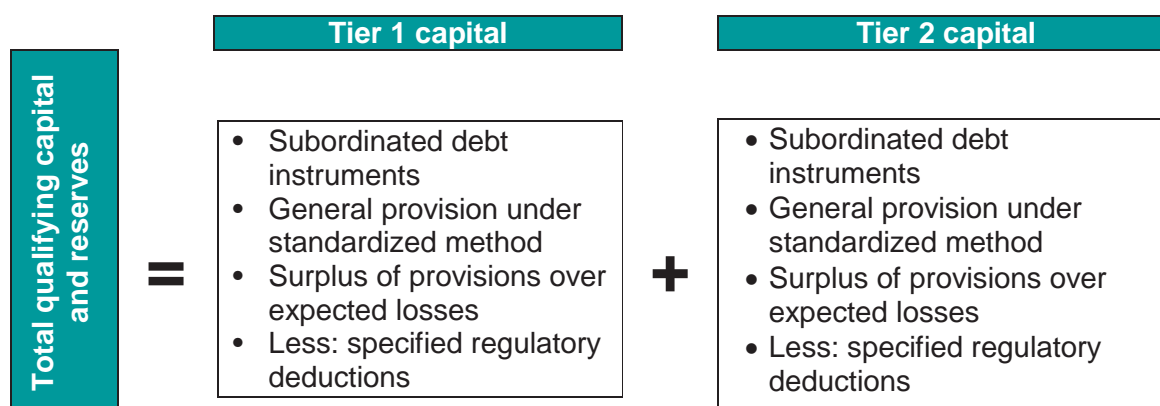
Most of NII sensitivity is a result of the endowment book mismatch. The bank's average endowment book was M745m for the year (2016: M705).

Projected Maloti NII sensitivity to interest rate movements

M' 000	31 December 2017	31 December 2016
Downward 200bps	6 320	6 270
Upward 200bps	5 070	6 080

Assuming no change in the balance sheet and no management action in response to interest rate movements, an instantaneous, sustained parallel 200 bps decrease in interest rates would result in a reduction in projected 12-month NII of M'000: 6 320 (2016:6 270). A similar increase in interest rates would result in an increase in projected 12-month NII of 5 070 (2016: M6 080).

24.4. Capital management



The capital planning process ensures that the total capital adequacy and CET1 ratios remain within or above targets across economic and business cycles. Capital is managed on a forward-looking basis, and the bank remains appropriately capitalised under a range of normal and severe stress scenarios, which includes expansion initiatives, corporate transactions, as well as ongoing regulatory, accounting and tax developments. The bank aims to back all economic risk with loss absorbing capital and remains well capitalised in the current environment.

The bank continues to focus on maintaining strong capital and leverage levels, with focus on the quality of capital and optimisation of the bank's RWA and capital mix.

The bank operated below its capital and leverage targets during the year. The internal targets set by management are more stringent than the regulatory imposed targets. The table below summarises the bank's capital targets as at 31 December 2017.

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

The following table shows the composition of regulatory capital and ratios of the bank at 31 December 2017. The bank complied with all capital requirements which are prescribed by the Financial Institutions Act 2012.

	31 December 2017	31 December 2016
M' 000		
Share capital and premium	48 233	48 233
Retained earnings	78 215	106 413
Total qualifying Tier 1 capital	126 448	154 646
General debt provision	13 246	13 260
Perpetual debt instrument	20 000	20 000
Total qualifying Tier 2 capital	33 246	33 260
Total regulatory capital	159 694	187 906
Risk weighted assets	997 851	1 033 201
Capital adequacy ratio	16.0%	18.2%
Minimum capital ratio per Financial Institutions Act 2012	8%	8%

25. Subsequent events

The directors are not aware of any other material events that have occurred between the date of the statement of financial position and the date of this report.