Standard Lesotho Bank Limited
(Registration number I94/165)
Annual Financial Statements
for the year ended 31 December 2022

Contents

Directors' responsibility for financial reporting

In accordance with the Lesotho Companies Act 18 of 2011(Companies Act), the directors are responsible for the preparation of the annual financial statements.

These annual financial statements conform to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and the requirements of the Lesotho Companies Act and fairly present the affairs of the Standard Lesotho Bank as at 31 December 2022, and the net income and cash flows for the year then ended.

The directors are ultimately responsible for the internal controls of the bank. Management enables the directors to meet these responsibilities. Standards and systems of internal controls are designed, implemented and monitored by management to provide reasonable assurance of the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability for shareholder investments and bank assets. Systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties. It is the responsibility of the independent auditors to report on the fair presentation of the financial statements.

Based on the information and explanations provided by management and the bank's internal auditors, the directors are of the opinion that the internal financial controls are adequate and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS and to maintain accountability for the bank's assets and liabilities. Nothing has come to the attention of the directors to indicate that a breakdown in the functioning of these controls, resulting in material loss to the bank, has occurred during the year and up to the date of this report.

The directors have a reasonable expectation that the bank will have adequate resources to continue in operational existence and as a going concern in the financial year ahead. The 2022 annual financial statements which appear on pages 7 to 107 were approved by the board on 23 March 2023 and signed on its behalf by:

'Mannete Ramaili	Anton Nicolaisen
Board Chairperson	**Chief Executive**
23 March 2023	23 March 2023

Directors' Report

for the year ended 31 December 2022

1. Nature of business

Standard Lesotho Bank Limited (SLB or the bank) is a commercial financial institution licensed under the laws of Lesotho. The bank is a subsidiary of Standard Bank Group Limited (SBG), an African banking group and remained a controlling shareholder for the bank during the year under review.

2. Bank results

The bank's headline earnings increased by 14% to M221 million. Net asset value per share increased by 2.6% to 8 246 cents. The bank return on equity improved to 17.2 % from the 14.9% in 2021.

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3. Property and equipment

There was no change in the nature of the fixed assets of the bank or in the policy regarding their use during the year.

4. Share capital

No ordinary shares were issued during 2022 (2021: nil). Nominal values of shares are Loti 1.

Dividends to the shareholders

On the 25th March 2022, a dividend of M240 million was declared to the shareholders, recorded at the close of business on the same day and paid on the 04th May 2022.

Directors' changes and interest in shares

At the date of this report, no directors held, directly and/or indirectly, interests in the company's ordinary issued share capital of SLB.

5. Directors' emoluments disclosure

Directors' emoluments, as well as information relating to the determination of their share incentive allocations and related matters are contained in note 20.

6. Shareholder analysis

Shareholders at the close of the financial year, holding beneficial interests in excess of 5% of the issued share capital, determined from the share register were as follows:

	% held in 2022	% held in 2021
Ordinary shares		
Standard Bank Group Limited	80	80
Lesotho Unit Trust	10.35	10.35
Government of Lesotho	9.65	9.65

Directors' Report
for the year ended 31 December 2022 continued

7. Board of Directors

The following changes in directorate have taken place during 2022 financial year and up until 23 March 2023:

Appointments		
None		
Retirements		
Kelebone Leisanyane	as non-executive director	30 June 2022
Resignations		
None		

8. Bank secretary and registered office

The bank secretary is Pheta Setlojoane. The address of the bank secretary is that of the registered office, 1st floor, Central Services, Standard Lesotho Bank Building, Kingsway Road, Maseru 100, Lesotho.

9. Auditors

Moores Rowland Lesotho are the appointed external auditors of the bank for the statutory audit in accordance with section 98 of the Companies Act of Lesotho.

10. Management by third parties

The bank continued to outsource its cash-in-transit and servicing of the ATMs to SBV, a South African cash-in-transit company during the financial year. The scope of outsourcing service remained unchanged during the year. None of the directors of the bank had a beneficial interest in SBV. Disclosure of payments made to SBV can be found under note 25.

11. Insurance

The bank protects itself against loss by maintaining bankers' comprehensive crime and professional indemnity cover. The insurance terms and conditions are reviewed by the bank's management annually to ensure they are fit for purpose against the bank's risk exposures.

12. Events during 2022

Finacle Cloud Migration
The Bank embarked on a project to migrate Finacle suite of applications to Amazon Web Services (AWS) public cloud. Finacle public cloud would enhance business agility and help respond easier and faster to client requirements thus making it easier to serve customers faster and more efficiently. It is aimed to enabling Standard Lesotho Bank's transformation to become a truly digital platform provider and ecosystem curator in Lesotho by leveraging cloud computing technologies and its strategic partnership with AWS to ensure a data-driven and integrated experience across the customer value-chain, innovation, and agility to meet customers' evolving needs, growth within ecosystems, and operational efficiency. However, the project has been put on hold as at 31st December 2022 pending internal processes earmarked to maximize efficiency.

13. Post balance sheet event

The directors are not aware of any subsequent events which have occurred between the reporting date of 31st December 2022 and the date of authorizing these financial statements

Moores Rowland

Chartered Accountants (Lesotho)

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Independent Auditor's Report

To the Shareholders of Standard Lesotho Bank Limited

Opinion

We have audited the accompanying financial statements of Standard Lesotho Bank Limited (the Bank) which comprise the Statement of Financial Position as at 31 December 2022, and the Income Statement, Statements of Comprehensive Income, Cash Flows and Changes in Equity for the year then ended, together with a summary of significant accounting policies and other explanatory notes, as set-out on pages 7 to 77.

In our opinion, the financial statements present fairly, in all material respects the financial position of the Bank as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Lesotho Companies Act 2011.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and in accordance with other ethical requirements that are relevant to our audit of the financial statements in Lesotho. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, Directors' responsibility for financial reporting, and the Risk and Capital Management Report contained in Annexure B. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in the manner required by the Lesotho Companies Act 2011, and for such internal control as management determines 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, management is 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 management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Moores Rowland Lesotho
Per: A S McAlpine
Registered Auditors (LIA)
Sentinel Park
Maseru

Date: 27th March 2023

Statement of financial position

as at 31 December 2022

	Notes	2022 M'000	2021 M'000
Assets			
Cash and balances with central bank	1	952 890	782 960
Derivative assets	2	42 820	4 360
Trading securities	3	955 091	1 622 893
Financial investments	4	2 800 223	2 466 654
Loans and advances	**5**	**5 332 284**	**6 275 458**
Loans and advances to customers		4 630 462	4 351 241
Loans and advances to banks		701 822	1 924 217
Deferred taxation	6	67 365	82 058
Current Tax Asset	12	20 925	-
Other assets	7	273 653	215 190
Property, equipment and right of use assets	8	181 269	165 183
Intangible assets	9	247 959	274 432
Total Assets		**10 874 478**	**11 889 188**
Equity and liabilities			
Equity	10	**1 700 647**	**1 657 438**
Ordinary share capital		20 625	20 625
Reserves		152 364	145 081
Retained Income		1 527 658	1 491 733
Liabilities			
Derivative liabilities	2	19 370	80 898
Deposits and debt funding		**8 657 314**	**9 608 064**
Deposits from customers	11	8 315 992	8 757 094
Deposits from banks	11	341 322	850 970
Current tax liabilities	12	2 346	93 922
Provisions and other liabilities	13	494 801	448 865
Total liabilities		**9 173 831**	**10 231 750**
Total equity and liabilities		**10 874 478**	**11 889 188**

Income statement

for the year ended 31 December 2022

	Notes	2022 M'000	2021 M'000
Net interest income		**671 315**	**599 599**
Interest income	17	875 375	773 545
Interest expense	17	(204 060)	(173 947)
Non-interest revenue		**569 076**	**538 006**
Net Fee and commission revenue		377 818	376 170
Fee and commission revenue	17	464 594	445 962
Fee and commission expense	17	(86 777)	(69 792)
Trading revenue	17	93 754	74 692
Other revenue	17	12 746	15 472
Other gains on financial instruments	17	84 758	71 672
Total income		**1 240 391**	**1 137 605**
Credit impairment charges	17	(89 273)	(97 677)
Income before operating expenses		**1 151 118**	**1 039 927**
Operating expenses	18	(730 991)	(667 502)
Net income before capital items		**420 128**	**372 425**
Non-trading and capital items	19	165	-
Net income before indirect taxation		**420 292**	**372 425**
Indirect tax	21	(49 502)	(45 838)
Profit before direct taxation		**370 790**	**326 587**
Direct tax	21	(94 864)	(83 582)
Profit for the year		**275 927**	**243 005**
Earnings per share			
Basic earnings per ordinary share(cents)	22	1 338	1 178

Statement of other comprehensive income

for the year ended 31 December 2022

	2022 M'000	2021 M'000
Profit for the year	**275 927**	**243 005**
Net gain/(loss) on investment in debt instruments measured at FVOCI subsequently reclassified to PL	7 283	(5 479)
Net fair value gains/ (Loss) on debt financial assets	6 869	(5 943)
Fair value gains/ (Loss) on debt financial assets	9 158	(7 924)
Deferred tax on debt financial assets	(2 290)	1 981
FVOCI debt financial assets ECL	414	464
Total comprehensive income attributable to ordinary shareholder	**283 209**	**237 526**

Statement of cash flows

for the year ended 31 December 2022

	Notes	2022 M'000	2021 M'000
Net cash flows from operating activities		**447 417**	**281 388**
Cash flows used in operations		**(54 724)**	**(269 755)**
Net income before indirect tax		420 291	372 425
Adjusted for:		(475 016)	(642 180)
Non-Cash items and other adjustments included in the income statement	23.1	(708 961)	(393 026)
Decrease/(Increase) in income earning assets	23.2	1 138 759	(1 120 431)
(Decrease)/ Increase in deposits and other liabilities	23.3	(904 813)	871 277
Interest received		875 375	773 545
Interest paid		(204 060)	(173 947)
Direct taxation paid	23.4	(169 174)	(48 455)
Net cash flows used in investing activities		**(17 425)**	**(12 749)**
Purchase of property and equipment		(17 425)	(12 749)
Net cash flows used in financing activities		**(260 061)**	**(266 020)**
Dividends paid	23.5	(240 000)	(250 000)
Principal element of lease payments	13.2	(20 061)	(16 020)
Net increase in cash and cash equivalents		**169 930**	**2 619**
Cash and cash equivalents at beginning of the year		782 960	780 341
Cash and cash equivalents at the end of the year		**952 890**	**782 960**

Standard Lesotho Bank Limited
(Registration number I94/165)
Annual Financial Statements for the year ended 31 December 2022

Statement of changes in equity
for the year ended 31 December 2022

	Ordinary share capital M'000	Statutory Credit Risk Reserve M'000	Statutory Risk Reserve[2] M'000	Fair Value through OCI reserve[1] M'000	Share-based payment reserve M'000	Total Reserves M'000	Retained Income M'000	Ordinary shareholder's equity M'000
Balance at 1 January 2021	**20 625**	**46 353**	**100 625**	**3 565**	**17**	**150 560**	**1 498 727**	**1 669 912**
Other comprehensive income/(loss for the year)	-	-	-	(5 479)	-	(5 479)	-	(5 479)
Profit for the year	-	-	-	-	-	-	243 005	243 005
Dividends paid[3]	-	-	-	-	-	-	(250 000)	(250 000)
Total changes				(1 914)	**-**	**145 081**	**(6 995)**	**(12 474)**
Balance at 31 December 2021	**20 625**	**46 353**	**100 625**	**(1 914)**	**17**	**145 081**	**1 491 733**	**1 657 438**
Balance at 1 January 2022	**20 625**	**46 353**	**100 625**	**(1 914)**	**17**	**145 081**	**1 491 733**	**1 657 438**
Other comprehensive income/(loss for the year)	-	-	-	7 283	-	7 283	-	7 283
Profit for the year	-	-	-	-	-	-	275 927	275 926
Dividends paid[3]	-	-	-	-	-	-	(240 000)	(240 000)
Total changes							35 927	43 209
Balance at 31 December 2022	**20 625**	**46 353**	**100 625**	**5 369**	**17**	**152 364**	**1 527 658**	**1 700 647**

[1]The fair value through OCI reserve comprises of the fair value through OCI reserve for debt financial investments (note 4) measured at fair value through OCI.

[2]This is non-distributable reserve holding kept in terms of the Financial Institution Act (FIA) 2012 for single name lending requirements

[3]In terms of Section 70 (2) & (3) of the FIA 2012, the bank is required to notify the Commissioner of Central of Lesotho (CBL) of intention to declare dividend at any material time and accordingly seek approval prior to making dividend payment.

Dividend per share amounts to 1163 cents

Accounting policy elections

The principal accounting policies applied in the presentation of the bank's annual financial statements are set out below. The bank's accounting policies are consistent with that of the prior year unless otherwise stated.

Basis of preparation

The Bank's annual financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB), its interpretations adopted by the IASB and the Lesotho Companies Act. The annual financial statements have been prepared on the historical cost basis except for the following material item in the statement of financial position:

- Financial assets classified at FVOCI financial assets and liabilities classified at FVTPL.

The following principle accounting policy elections in terms of IFRS have been made, with reference to the detailed accounting policies shown in brackets:

- Purchases and sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned are recognised and derecognised using trade date accounting (accounting policy 3)
- Intangible assets and property, equipment and right of use assets are accounted for at cost less accumulated amortisation and impairment (accounting policy 6)
- The portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis (accounting policy 4).

Functional and presentation currency

The annual financial statements are presented in Lesotho Maloti, which is the presentation currency of the bank. All amounts are stated in thousands of Maloti (M'000), unless indicated otherwise.

Changes in accounting policies

The accounting policies are consistent with those reported in the previous year. There are no new or amended standards that are effective for the current reporting period. The Bank also did not early adopt any amended standards during the current reporting period.

Key Management Assumptions

In preparing the Bank's financial statements, estimates and assumptions are made that could materially affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of future events. While models have been enhanced, no material changes to assumptions have occurred during the current year. The following represents the most material key management assumptions applied in preparing these financial statements. The key management assumptions below apply to Bank, unless otherwise stated

Expected credit loss (ECL)

During the current reporting period models have been enhanced, but, no material changes to assumptions have occurred. Covid-19 placed considerable strain on our operations over the past two years, specifically retail, business and corporate clients, however, the Bank's risk appetite remained unchanged. As such, no significant changes were made to the below increase in credit risk (SICR) and default assumptions, thresholds and/or triggers.

ECL on financial assets - drivers

For the purpose of determining the ECL:

- The home services, vehicle and asset finance (VAF), card, personal, business and other lending products portfolios are based on the product categories or subsets of the product categories, with tailored ECL models per portfolio. The impairment provision calculation excludes post write off recoveries (PWOR) from the loss given default (LGD) in calculating the ECL. This LGD parameter is aligned to market practice

- Corporate, sovereign and bank exposures are calculated separately based on rating models for each of the asset classes.

ECL measurement period

- The ECL measurement period for stage 1 exposures is 12-months (or the remaining tenor of the financial asset relating to corporate, sovereign and bank exposures, including certain home services, VAF, card, personal, business lending and other product exposures, if the remaining lifetime is less than 12 months).
- A loss allowance over the full lifetime of the financial asset is required if the credit risk of that financial instrument has increased significantly since initial recognition (stage 2).
- A lifetime measurement period is applied to all credit impaired (stage 3) exposures.
- Lifetime includes consideration for multiple default events, i.e. where defaulted exposures cure and then subsequently re-default. This consideration increases the lifetime and the potential ECL.
- The measurement period for unutilised loan commitments utilise the same approach as on-balance sheet exposures.

Significant increase in credit risk (SICR) and low credit risk

Home services, vehicle and asset finance, card, personal, business and other lending products

All exposures are assessed to determine whether there has been SICR at the reporting date, in which case an impairment provision equivalent to the lifetime expected loss is recognised. SICR thresholds, which are behaviour score based, are derived for each portfolio vintage of exposures with similar credit risk and are calibrated over time to determine which exposures reflect deterioration relative to the originated population and consequently reflect an increase in credit risk. Behaviour scorecards are based on a combination of factors which include the information relating to customers, transactions and delinquency behaviour (including the backstop when contractual payments are more than 30 days past due) to provide a quantitative assessment (score), and more specifically, a ranking of customer creditworthiness. The creditworthiness of a customer is summarised by a score, with high scores corresponding to low-risk customers, and conversely, low scores corresponding to high-risk customers. These scores are often taken into account in determining the probability of default (PD) including relative changes in PD. Credit risk has increased since initial recognition when these criterion are met.

The Bank determines the SICR threshold by utilising an appropriate transfer rate of exposures that are less than 30 days past due (DPD) to stage 2. This transfer rate is such that the proportion of the 0-29 DPD book transferred into stage 2 is no less than the observed 12-month roll rate of 0-29 days accounts into 30 or more days in arrears. The SICR thresholds are reviewed regularly to ensure that they are appropriately calibrated to identify SICR by portfolio vintage and to consequently facilitate appropriate impairment coverage.

Where behaviour scores are not available, historical levels of delinquency are applied in determining whether there has been

SICR. For all exposures, the rebuttable presumption of 30 days past due as well as exposures classified as either debt review or as 'watch-list' are used to classify exposures within stage 2.

Corporate and Investment Banking (including certain Business Banking exposures)

The bank uses a 25-point master rating scale to quantify the credit risk for each exposure. On origination, each client is assigned a credit risk grade within the bank's 25-point master rating scale. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data for the applicable portfolio. These credit ratings are evaluated at least annually or more frequently as appropriate.

All exposures are evaluated for SICR by comparing the credit risk grade at the reporting date to the origination credit risk grade. Where the relative change in the credit risk grade exceeds certain pre-defined ratings' migration thresholds or, when a contractual payment becomes more than 30 days overdue (IFRS 9's rebuttable presumption), the exposure is classified within stage 2. These pre-defined ratings' migration thresholds have been determined based on historic default experience which indicate that higher rated risk exposures are more sensitive to SICR than lower risk exposures. Based on an analysis of historic default experience, exposures that are classified by the bank's master rating scale as investment grade (within credit risk grade 1 – 12 of the group's 25-point master rating scale) are assessed for SICR at each reporting date but are considered to be of low credit risk. To determine whether a client's credit risk has increased significantly since origination, the bank would need to determine the extent of the change in credit risk using the table below.

Bank master rating scale band	SICR trigger (from origination)
SB 1 – 12	Low credit risk
SB 13 – 20	3 rating or more
SB 21 – 25	1 rating or more

Incorporation of forward-looking information (FLI) in ECL measurement

The bank determines the macroeconomic outlook, over a planning horizon of at least three years, for each country based on the bank's global outlook and its global view of commodities.

For home services, VAF, card, personal, business and other lending products, these forward-looking economic expectations are included in the ECL where adjustments are made based on the bank's macro-economic outlook, using models that correlate these parameters with macro-economic variables. Where modelled correlations are not viable or predictive, adjustments are based on expert judgement to predict the outcomes based on the bank's macro-economic outlook expectations. In addition to forward-looking macroeconomic information, other types of forward-looking information (FLI), such as specific event risk, have been taken into account in ECL estimates when required, through the application of out-of-model adjustments. These out-of-model adjustments are subject to bank credit governance committee oversight.

The bank's macroeconomic outlooks are incorporated in CIB's client rating and include specific forward-looking economic considerations for the individual client. The client rating thus reflects the expected client risk for the bank's expectation of future economic and business conditions. Further adjustments, based on point-in-time market data, are made to the PDs assigned to each risk grade to produce PDs and ECL representative of existing market conditions.

Default

The definition of default, which triggers the credit impaired classification (stage 3), is based on the bank's internal credit risk management approach and definitions. While the specific determination of default varies according to the nature of the product, it is compliant to the Basel definition of default, and generally determined as occurring at the earlier of:

- where, in the bank's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realization of security, this includes the classification of distressed restructures (including debt review exposure accounts) as default for a minimum of 6 months, while observing payment behaviour; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

The bank has not rebutted the 90 days past due rebuttable presumption.

Write-off policy

An impaired loan is written off once all reasonable attempts at collection have been made and there is no economic benefit expected from attempting to recover the balance outstanding (i.e. no reasonable expectation of recovery). This assessment considers both qualitative and quantitative information, such as past performance, behaviour and recoveries. The Bank assesses whether there is a reasonable expectation of recovery at an exposure level. As such once the below criteria are met at an exposure level, the exposure is written off.

The following criteria must be met before a financial asset can be written off:

- the financial asset has been in default for the period defined for the specific product (i.e. VAF, home services, etc.) which is deemed sufficient to determine whether the bank is able to receive any further economic benefit from the impaired loan. The period defined for unsecured home services, VAF, card, personal, business and other lending products are determined with reference to post-default payment behaviour such as cumulative delinquency, as well as an analysis of post write-off recoveries. Factors that are within the bank's control are assessed and considered in the determination of the period defined for each product. The post-default payment period is generally once the rehabilitation probability (repayment of arrear instalments) is considered low to zero, and a period between 180 to 360 days in arrears; and

- at the point of write-off, the financial asset is fully impaired (i.e. 100% ECL allowance) with no reasonable expectation of recovery of the asset, or a portion thereof.

As an exception to the above requirements:

- where the exposure is secured (or for collateralised structures), the impaired loan can only be written off once the collateral has been realised. Post-realisation of the collateral, the shortfall amount can be written off if it meets the second requirement listed above.

- for corporate, sovereign and bank products, write-off is assessed on a case-by-case basis and approved by the CIB credit governance committee based on the individual facts and circumstances.

For unsecured exposures, post write-off collection and enforcement activities include outsourcing to external debt collection agents as well as, collection/settlement arrangements to assist clients to settle their outstanding debt. The Bank continuously monitors and reviews when exposures are written off, the levels of post write-off recoveries as well as the key factors causing post write-off recoveries, which ensure that the Bank's point of write-off remains appropriate and that post write-off recoveries are within expectable levels after time.

Curing

Continuous assessment is required to determine whether the conditions that led to a financial asset being considered to be credit impaired (i.e., stage 3) still exist. Distressed Restructured Financial assets that no longer qualify as credit impaired remain within stage 3 for a minimum period of six months (i.e., six full consecutive monthly payments per the terms and conditions). However, in the case of financial assets with quarterly or longer dated repayment terms, the classification of a financial asset out of stage 3 may be made subsequent to an evaluation by the bank's CIB or home services, VAF, card, personal, business and other lending products credit governance committees (as appropriate), such evaluation will take into account qualitative factors in addition to compliance with payment terms and conditions of the agreement. Qualitative factors include compliance with covenants and compliance with existing financial asset terms and conditions.

Where it has been determined that a financial asset no longer meets the criteria for significant increase in credit risk, when compared to the credit rating at initial recognition, the financial asset will be moved from stage 2 (lifetime expected credit loss model) back to stage 1 (12-month expected credit loss model) prospectively.

Forward-looking economic expectations applied in the determination of the ECL at the reporting date

A range of base, bullish and bearish forward-looking economic expectations were determined, as at 31 December 2022, for inclusion in the bank's forward-looking process and ECL calculation.

Lesotho economic expectation

Global economic activity has been projected to slow down in 2023 as many economies continue to grapple with the cost-of-living crisis and high debt levels. In addition, the resurgence of COVID-19 in some countries and the escalating Russia-Ukraine war continue to weigh negatively on global economic recovery. According to the IMF, World Economic Outlook *Update*, the global economy is projected to slow down to 2.9% in 2023.

The Central of Lesotho Statement of the Monetary Policy, January 2023, indicated that the domestic economy continued to underperform on account of structural rigidities and policy uncertainty. The economic activity was estimated to have contracted by 2.0% in November 2022 following a decline of 0.8% in the preceding month, indicating weakened production and aggregate demand. In terms of the outlook, the economy is expected to rebound around 2.2%, buoyed by construction from Phase II of the LHDA and wholesale and retail trade activities, as well as recent progress with agriculture and SME programs funded by the Millennium Challenge Corporation (MCC). However, the global economic backdrop of the Ukraine war, high inflation and continuing monetary policy tightening provide downside risk.

Domestic inflation continued to moderate due to the decline in the non-food component. The inflation rate declined from 8.1% in November to 8.0% in December 2022. Despite the slowdown observed in recent months, inflation is expected to remain high in the medium term due to, amongst others, high food inflation and protracted supply chain disruptions.

Based on these macroeconomic outlook, the bank's Assets and Liabilities Committee (Alco) house view was as follows for the twelve months forecast for 2023:

Base case scenario with 55% probability – the rates would remain unchanged;
Bull case with 15% probability – rates would decrease
Bear case with 30% probability – rates would increase

Main macro-economic factors

The following table shows the main macroeconomic factors used to estimate the forward-looking impact on the ECL provision on financial assets. For each scenario the average values of the factors over the next 12 months, and over the remaining forecast period, are presented.

Macroeconomic factors – 2022	Base scenario		Bear scenario		Bull scenario	
Lesotho[4]	Next 12 months[2]	Remaining forecast period[3]	Next 12 months[2]	Remaining forecast period[3]	Next 12 months[2]	Remaining forecast period[3]
Inflation (%)	6.16%	4.96%	6.91%	5.71%	5.71%	4.51%
Real GDP[1] (%)	1.29%	2.34%	0.54%	1.59%	1.94%	2.99%
Exchange rate USD/LSL	16.60	15.99	17.58	17.25	15.87	15.01
Prime lending rate (%)*	10.75%	10.50	11.75%	11.15%	10.50%	10.00%

[1] Gross domestic product.
[2] Next 12 months following 31 December 2022 is 1 January 2023 to 31 December 2023.
[3] The remaining forecast period is 1 January 2024 to 31 December 2026.
[4] The scenario weighting is: base at 55%, bear at 30% and bull at 15%. The scenario weighting remains unchanged.
*The Prime lending rate forecast information has been internally generated

Macroeconomic factors – 2021 Lesotho[4]	Base scenario		Bear scenario		Bull scenario	
	Next 12 months	Remaining forecast period[5]	Next 12 months	Remaining forecast period[5]	Next 12 months	Remaining forecast period[5]
Inflation (%)	5.01%	4.35%	4.56%	3.90%	5.76%	5.10%
Real GDP[5] (%)	4.76%	4.80%	2.91%	4.41%	4.41%	5.51%
Exchange rate USD/LSL	14.89	15.46	15.52	16.85	14.16	14.79
Prime lending rate (%)*	9.50	11.00	10.00	11.50	9.25	10.25

[5] The remaining forecast period is 1 January 2023 to 31 December 2025.

*The Prime lending rate forecast information has been internally generated

Sensitivity analysis of the forward-looking impact on the total ECL provision on all financial instruments relating to corporate, sovereign and bank products

The expected credit loss methodology for corporate, sovereign and bank products is based primarily on client specific risk metrics, as such the forward-looking macroeconomic information is one of the component and/or driver of the total reported expected credit loss. Rating reviews of each client are performed at least annually, and entails credit analysts completing a credit scorecard and incorporating forward-looking information at a client level. The weighting is reflected in both the determination of significant increase in credit risk as well as the measurement of the resulting expected credit loss for the individual client. Therefore, the impact of forward-looking economic conditions is embedded into the total expected credit loss for each client and cannot be stressed or separated out of the overall expected credit loss provision.

Sensitivity analysis of home services, vehicle and asset finance, card, personal, business lending and other products forward-looking impact on ECL provision

During 2022, a higher forward-looking ECL provisioning has been raised due to significant uncertainty on the impact linked to Ukraine/Russia war, Covid-19 after-effects, ever-increasing interest rates and high inflation, though it has stabilized in the last quarter of 2022. Term loan is the most affected product being the most volatile and high-risk product, the reason being most of our customers are government employees and the anticipated 2022/2023 salary adjustments will not be anywhere near the 8% inflation rate as at December 2022. The lower forward-looking provision during 2021 was linked to marginal improvements in the macro-economic outlook as well as the recovery of the global economy from the Covid-19 pandemic and Ukraine/Russia war never anticipated.

The following table shows a comparison of the forward-looking impact on the provision as at 31 December 2022, based on the probability weightings of the above three scenarios (base, bear and bull) resulting from recalculating each of the scenarios using a 100% weighting of the above factors.

	2022		2021	
	Forward-looking component of ECL provision M'000	Income statement charge M'000	Forward-looking component of ECL provision M'000	Income statement charge M'000
Forward-looking impact on the total ECL provision	53,326	31,330	21,996	532
Scenarios				
Base	51,986	29,990	20,441	-1,023
Bear	62,581	40,585	31,389	9,925
Bull	41,974	19,978	14,332	-7,132

Refer to **note 5** loans and advances, for the carrying amounts of the loans and advances and the credit risk section of the risk and capital management report for the bank's assessment of the risk arising out of the failure of counterparties to meet their financial or contractual obligations when due.

Fair value

Financial instruments

In terms of IFRS, the bank is either required to or elects to measure a number of its financial assets and financial liabilities at fair value, being the price that would, respectively, be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities. Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions.

When determining fair value, it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. Information obtained from the valuation of financial instruments is used to assess the performance of the bank (and company) and, in particular, provides assurance that the risk and return measures that the bank has taken are accurate and complete.

Valuation process

Bank's valuation control framework governs internal control standards, methodologies, and procedures over its valuation processes, which include:

Prices quoted in an active market: The existence of quoted prices in an active market represents the best evidence of fair value. Where such prices exist, they are used in determining the fair value of financial assets and financial liabilities.

Valuation techniques: Where quoted market prices are unavailable, the bank establishes fair value using valuation techniques that incorporate observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices, for such assets and liabilities. Parameter inputs are obtained directly from the market, consensus pricing services or recent transactions in active markets, whenever possible. Where such inputs are not available, bank make use of theoretical inputs in establishing fair value (unobservable inputs). Such inputs are based on other relevant input sources of information and incorporate assumptions that include prices for similar transactions, historic data, economic fundamentals, and research information, with appropriate adjustments to reflect the terms of the actual instrument being valued and current market conditions. Changes in these assumptions would affect the reported fair values of these financial instruments. Valuation techniques used for financial instruments include the use of financial models that are populated using market parameters that are corroborated by reference to independent market data, where possible, or alternative sources, such as, third party quotes, recent transaction prices or suitable proxies. The fair value of certain financial instruments is determined using industry standard models such as, discounted cash flow analysis and standard option pricing models. These models are generally used to estimate future cash flows and discount these back to the valuation date. For complex or unique instruments, more sophisticated modelling techniques may be required, which require assumptions or more complex parameters such as correlations, prepayment spreads, default rates and loss severity.

Valuation adjustments: Valuation adjustments are an integral part of the valuation process. Adjustments include but are not limited to:

- credit spreads on illiquid issuers,
- implied volatilities on thinly traded instruments,
- correlation between risk factors,
- prepayment rates, and other illiquid risk drivers,
- other illiquid risk drivers.

In making appropriate valuation adjustments, the bank applies methodologies that consider factors such as bid-offer spreads, liquidity, counterparty and own credit risk. Exposure to such illiquid risk drivers is typically managed by:

- using bid-offer spreads that are reflective of the relatively low liquidity of the underlying risk driver;
- quantifying and reporting the sensitivity to each risk driver; and
- limiting exposure to such risk drivers and analysing this exposure on a regular basis.

Validation and control: All financial instruments carried at fair value, regardless of classification, and for which there are no quoted market prices for that instrument, are fair valued using models that conform to international best practice and established financial theory. These models are validated independently by the bank's model validation unit and formally reviewed and approved by the market risk methodologies committee. This control applies to both off-the-shelf models as well as those developed internally by the bank. Further, all inputs into the valuation models are subject to independent price validation procedures carried out by bank's market risk unit. Such price validation is performed on at least a monthly basis, but daily where possible given the availability of the underlying price inputs. Independent valuation comparisons are also performed, and any significant variances noted are appropriately investigated.

Less liquid risk drivers, which are typically used to mark level 3 assets and liabilities to model, are carefully validated and tabled at the monthly price validation forum to ensure that these are reasonable and used consistently across the bank. Sensitivities arising from exposures to such drivers are similarly scrutinised, together with movements in level 3 fair values. They are also disclosed on a monthly basis at the market risk and asset and liability committees.

Portfolio exception: The Bank has, on meeting certain qualifying criteria, elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis.

Refer to **note 16** for fair value measurement of financial assets and financial liabilities disclosures.

Computer software intangible assets

The Bank reviews its assets under construction and assets brought into use for impairment at each reporting date and tests the carrying value for impairment whenever events or changes in circumstances indicate that the carrying amount (or components of the carrying amount) may not be recoverable. These circumstances include, but are not limited to, new technological developments, obsolescence, changes in the manner in which the software is used or is expected to be used, changes in discount rates or changes in estimates of related future cash benefits. The impairment tests are performed by comparing an asset's recoverable amount to its carrying amounts. The review and testing of assets for impairment inherently requires significant management judgement as it requires management to derive the estimates of the identified assets' future cash flows in order to derive the asset's recoverable amount.

Current and deferred tax

The Bank is subject to direct and indirect taxation requirements which are determined with reference to transactions and calculations for which the ultimate tax determination has an element of uncertainty in the ordinary course of business. Bank recognise provisions for tax based on objective estimates of the amount of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions, disclosed in note 22 and note 13, respectively, in the period in which such determination is made.

Uncertain tax positions, which do not meet the probability criteria defined within IFRS, are not provided for but are rather disclosed as contingent liabilities or assets as appropriate. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The most significant management assumption is the forecasts that are used to support the probability assessment that sufficient taxable profits will be generated by the entities in the bank in order to utilise the deferred tax assets.

Refer to **note 6 and note 13** for current and deferred tax disclosures.

Provisions

The principal assumptions taken into account in determining the value at which provisions are recorded at include determining whether there is an obligation as well as assumptions about the probability of the outflow of resources and the estimate of the amount and timing for the settlement of the obligation. For legal provisions management assesses the probability of the outflow of resources by taking into account historical data and the status of the claim in consultation with the bank's legal counsel. In determining the amount and timing of the obligation once it has been assessed to exist, management exercises its judgement by taking into account all available information, including that arising after the reporting date up to the date of the approval of the financial statements.

Refer to **note 14** for provisions and other liabilities disclosures.

Share-based payment

The bank has both cash and equity-settled share incentive schemes which are issued to qualifying employees based on the rules of the respective schemes. The bank uses the Black-Scholes option pricing model to determine the fair value of awards on grant date for its equity-settled share incentive schemes. The valuation of the bank's obligations with respect to its cash-settled share incentive scheme obligations is determined with reference to the SBG's share price, which is an observable market input. In determining the expense to be recognised for both the cash and equity-settled share schemes, the bank estimates the expected future vesting of the awards by considering staff attrition levels. The bank also makes estimates of the future vesting of awards that are subject to non-market vesting conditions by taking into account the probability of such conditions being met.

Post-employment benefits

The bank's post-employment benefits consist of both post-employment retirement funds and healthcare benefits. The bank's obligations to fund these benefits are derived from actuarial valuations performed by the appointed actuaries taking into account various assumptions. The funds are subject to a statutory financial review by the bank's independent actuaries at intervals of not more than three years.

The principle assumptions used in the determination of the bank's obligations include the following:

	RETIREMENT FUND	POST-EMPLOYMENT MEDICAL AID FUND
2022		
Salary/benefit inflation	7% for General Staff and 6% for Management	Not applicable to fund
Medical inflation	8%	Not applicable to fund
Pension increase in allowance	7% for General Staff and 6% for Management	Not applicable to fund
	RETIREMENT FUND	**POST-EMPLOYMENT MEDICAL AID FUND**
2021		
Salary/benefit inflation	Inflation rate plus 1% plus a merit scale	Not applicable to fund
Medical inflation	Not applicable to fund	Not applicable to fund
Pension increase in allowance	Inflation rate plus 1% in line with basic salary adjustment	Not applicable to fund

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1. Cash and balances with the central bank	2022 M'000	2021 M'000
Coins and bank notes	631 278	512 613
Balances with the central bank[1]	321 612	270 347
	952 890	**782 960**

[1]These balances primarily comprise reserving requirements levied by the Central Bank of Lesotho (CBL). These balances are available for use by the bank subject to certain restrictions and limitations imposed by the CBL. These minimum balances are held at fair value through profit or loss while the excess above the reserving is held as amortised cost.

Notes to the Annual Financial Statements

2. Derivative instruments

All derivatives are classified as derivatives held-for-trading.

Use and measurement of derivative instruments

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations. In the normal course of business, the bank enters into a variety of derivative transactions for trading purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange and interest rate exposures. Derivative instruments used by the bank in both trading and hedging activities include swaps, forwards and futures.

The fair value of all derivatives is recognised on the statement of financial position.

Maturity analysis of net fair value	**Within 1 year**	**After 1 year but within 5 years**	**After 5 years**	**Net fair value**	**Fair value of assets**	**Fair value of liabilities**
2022	**M'000**	**M'000**	**M'000**	**M'000**	**M'000**	**M'000**
Foreign exchange derivatives	**23 450**	**-**	**-**	**23 450**	**42 820**	**(19 370)**
Foreign exchange futures - Third Party Forwards	23 450	-	-	23 450	42 820	(19 370)
Interest rate derivatives						
Swaps	-	-	-	-	-	-
Total derivative assets/(liabilities)	**23 450**	**-**	**-**	**23 450**	**42 820**	**(19 370)**
2021						
Foreign exchange derivatives	**(76 538)**	**-**	**-**	**(76 538)**	**3 930**	**(80 468)**
Foreign exchange futures - Third Party	**-**			**-**	**-**	**-**
Forwards	(76 538)	-	-	(76 538)	3 930	(80 468) **-**
Interest rate derivatives	**-**	**-**	**-**	**-**	**430**	**(430)**
Swaps	-	-	-	-	430	(430)
Total derivative assets/(liabilities)	**(76 538)**	**-**	**-**	**(76 538)**	**4 360**	**(80 898)**

Notes to the Annual Financial Statements

3. Trading securities

	2022 M'000	2021 M'000
Unlisted - Dated debt securities	955 091	1 622 893
Comprising		
Intercompany Money Market trading securities	558 249	508 195
Banks	193 949	886 865
Sovereign	202 893	227 832
	955 091	**1 622 893**

Maturity analysis

The maturities represent periods to contractual redemption of the trading assets recorded.

	2022 M'000	2021 M'000
- Redeemable on demand	-	-
- Maturing within 1 month	360 266	135 045
- Maturing after 1 month but within 6 months	440 944	845 188
- Maturing after 6 months but within 12 months	153 605	642 510
- Maturing after 12 months	276	150
	955 091	**1 622 893**

4. Financial investments

	2022 M'000	2021 M'000
Other Unlisted Investments	**2 800 223**	**2 466 654**
Comprising		
Sovereign	1 228 823	1 114 610
Corporate	1 571 400	1 352 044
	2 800 223	**2 466 654**

Maturity analysis

The maturities represent periods to contractual redemption of the financial investments recorded.

	2022 M'000	2021 M'000
- Redeemable on demand	1 571 400	1 352 044
- Maturing within 1 month	10 188	18 356
- Maturing after 1 month but within 6 months	229 367	325 535
- Maturing after 6 months but within 12 months	488 260	381 509
- Maturing after 12 months	501 008	389 209
	2 800 223	**2 466 654**

Accounting classification

	2022 M'000	2021 M'000
Net financial investments measured at amortised cost	**142 102**	**240 206**
Gross financial investments measured at amortised cost	142 410	240 825
Less: ECL for financial investments measured at amortised cost[1]	(308)	(619)
Financial investments measured at fair value	**2 658 121**	**2 226 448**
Financial investments measured at FVTPL	1 571 400	1 352 044
Debt financial investments measured at FVOCI[2]	1 086 721	874 404
Total	**2 800 223**	**2 466 654**

[1]The current year credit impairment charge is M308,000 (2021: M619,000) on debt financial investments measured at amortised cost.
[2]Refer to note 14 for the reconciliation of FVOCI reserve for financial investments. The credit impairment charges are deemed insignificant; therefore no credit impairment charges were recognised on debt financial investments measured at FVOCI during the current or prior year.

Notes to the Annual Financial Statements

5. Loans and advances

	2022 M'000	2021 M'000
Gross loans and advances measured at amortised cost	**5 548 143**	**6 499 910**
Balances with banks	701 822	1 924 217
Mortgage lending	995 532	982 257
Vehicle and assets finance (note 5.4)	585 120	606 828
Card debtors	32 797	32 174
Overdrafts and other demand lending	2 721 705	2 524 450
Other term loans[1]	511 167	429 984
Total expected credit loss	**(215 859)**	**(224 452)**
IFRS 9 Impairment Stages 1 and 2	(157 114)	(173 113)
IFRS 9 Impairment Stage 3	(45 570)	(21 611)
IFRS 9 Interest in suspense	(13 174)	(29 728)
Net Loans and advances	**5 332 284**	**6 275 458**

5.1 Total net loans and advances

	2022	2021
Comprising:		
Gross loans and advances	5 548 143	6 499 910
Credit impairments	(202 685)	(194 724)
IFRS 9: Interest in Suspense (IIS)	(13 174)	(29 728)
Net loans and advances	**5 332 284**	**6 275 458**

5.2 Maturity analysis

The maturities represent periods to contractual redemption of the loans and advances recorded.

	2022	2021
Redeemable on demand	728 104	2 025 001
Maturing within 1 month	53 866	28 973
Maturing after 1 month but within 6 months	193 475	81 467
Maturing after 6 months but within 12 months	184 131	272 708
Maturing after 12 months	4 388 567	4 091 760
Gross loans and advances	**5 548 143**	**6 499 910**

5.3 Segmental analysis - Industry

	2022	2021
Agriculture	12 611	25 572
Construction	92 705	111 431
Electricity	290	8 563
Finance, real estate and other business services	916 565	1 342 737
Individuals	3 920 645	4 421 228
Manufacturing	6 600	7 813
Mining	338 115	171 231
Other services	21 876	15 942
Transport	52 901	256 422
Wholesale	185 835	138 971
Gross loans and advances	**5 548 143**	**6 499 910**

[1]Other term loans include medium term loans and commercial property finance

5.3 Loans and advances (continued)

The following table sets out the distribution of the bank's loans and advances by geographic area where the loans are recorded:

	2022 %	2022 M'000	2021 %	2021 M'000
Segmental analysis – geographic area				
Lesotho	91.05	5 051 321	86.14	5 599 128
South Africa	3.01	167 263	2.48	161 121
Outside Africa	5.94	329 559	11.38	739 662
Gross loans and advances	**100**	**5 548 143**	**100**	**6 499 910**

5.4 Vehicle and assets finance[1]

	2022 M'000	2021 M'000
Receivable within 1 year	61 304	89 316
Receivable after 1 year but within 5 years	503 464	491 006
Receivable after 5 years	20 352	26 506
Gross investment in instalment sale and finance leases	**585 120**	**606 828**

[1]Leases entered into are at market-related terms. Under the terms of the lease agreement, no contingent rentals are payable. Moveable assets are leased or sold to customers under finance leases and instalment sale agreements for periods varying between 12 and 72 months. Depending on the terms of the agreement, the lessee may have the option to purchase the asset at the end of the lease term.

5.5 Segmental analysis of Stage 3 provisions – industry	2022 M'000	2021 M'000
Agriculture	(340)	(392)
Construction	(379)	-
Wholesale	(3 770)	(1 584)
Finance, real estate and other business	(2 837)	(818)
Transport	(17 246)	(1 144)
Individuals	(18 848)	(17 673)
Mining	(2 150)	-
Specific credit impairments	**(45 570)**	**(21 611)**

	2022 %	2022 M'000	2021 %	2021 M'000
All stage 3 impairments are within Lesotho[2]	100	**(45 570)**	100	**(21 611)**

[2]All stage 3 provisions are in the BCC and CHNW space and not in sovereign, corporate or banks..

Notes to the Annual Financial Statements

5.6 Reconciliation of ECL for loans and advances measured at amortised cost

	Stage 1 M'000	Stage 2 M'000	Stage 3 (incl interest in suspense) M'000	Total M'000
Opening ECL 1 January 2021	**(61 026)**	**(85 047)**	**(78 336)**	**(224 409)**
Transfers between stages[1]	**97 266**	**3 640**	**(100 906)**	-
Transfers to/(from) stage 1	-	(122 549)	25 283	(97 266)
Transfers to/(from) stage 2	122 549	-	(126 189)	(3 640)
Transfers to/(from) stage 3	(25 283)	126 189	-	100 906
Net ECL released/(raised)	**(135 613)**	**7 667**	**(6 379)**	**(134 326)**
ECL on new exposures raised	(22 895)	(3 187)	(16 434)	(42 516)
Subsequent changes in ECL	(113 527)	10 767	10 055	(92 706)
Change in ECL due to derecognition	809	87	-	896
Impaired accounts written off	-	-	140 842	140 842
Other movements[2]	-	-	(6 559)	**(6 559)**
Closing ECL 31 December 2021	**(99 373)**	**(73 740)**	**(51 338)**	**(224 452)**
Opening ECL 1 January 2022	**(99 373)**	**(73 740)**	**(51 338)**	**(224 452)**
Transfers between stages[1]	**108 741**	**9 151**	**(117 892)**	
Transfers to/(from) stage 1	-	(122 036)	13 295	108 741
Transfers to/(from) stage 2	122 036	-	(131 187)	(9 151)
Transfers to/(from) stage 3	(13 295)	131 187	-	117 892
Net ECL released/(raised)	**(77 603)**	**(24 315)**	**(10 609)**	**(112 527)**
ECL on new exposures raised	(12 779)	(3 740)	(4 870)	(21 389)
Subsequent changes in ECL	(65 435)	(20 928)	(5 739)	(92 102)
Change in ECL due to derecognition	611	353	-	964
Impaired accounts written off	-	-	104 543	104 543
Other movements[2]	25	-	16 553	16 578
Closing ECL 31 December 2022	**(68 210)**	**(88 904)**	**(58 744)**	**(215 858)**

[1]The group and company policy is to transfer opening balances based on the ECL stage at the end of the reporting period. Therefore, it may appear that exposures were transferred directly from stage 3 to stage 1 as the curing requirements would have been satisfied during the reporting period.

[2]Exchange and other movements includes the time value of money (TVM) unwind and net interest in suspense (IIS) raised and released during the year.

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Reconciliation of the ECL for loans and advances by product - 2022

	Opening ECL 01-Jan-2022 M'000	Total transfers between stages[1] M'000	Net ECL (raised)/ released[2] M'000	Impaired accounts written off M'000	Other movements[3] M'000	Closing ECL 31-Dec-2022 M'000
Mortgage loans	**(40 961)**	**-**	**1 708**	**10 483**	**5 990**	**(22 780)**
Stage1	(2 639)	(753)	1 770	-	-	(1 622)
Stage2	(1 327)	5 863	(4 921)	-	-	(385)
Stage3 (includes IIS)	(36 995)	(5 110)	4 859	10 483	5 990	(20 773)
Vehicle and asset finance	**(25 227)**	**-**	**8 108**	**1 529**	**965**	**(14 625)**
Stage1	(2 733)	(2 092)	1 263	-	-	(3 562)
Stage2	(4 366)	10 031	(7 474)	-	-	(1 809)
Stage3 (includes IIS)	(18 128)	(7 939)	14 319	1 529	965	(9 254)
Card debtors	**(6 962)**		**(61)**			**(7 023)**
Stage1	(2 388)	(3 289)	3 609	-	-	(2 068)
Stage2	(4 812)	3 277	(2 884)	-	-	(4 419)
Stage3 (includes IIS)	238	12	(786)	-	-	(536)
Corporate	**(4 898)**		**1 057**	**-**	**19**	**(3 822)**
Stage1	(4 320)	53	1 224	-	19	(3 024)
Stage2	(578)	(53)	(167)	-	-	(798)
Stage3 (includes IIS)	-	-	-	-	-	-
Bank	**(215)**		**169**		**6**	**(40)**
Stage1	(21)	-	8	-	6	(7)
Stage2	(194)	-	161	-	-	(33)
Stage3 (includes IIS)	-	-	-	-	-	-
Other loans and advances	**(146 189)**	**-**	**(114 861)**	**92 531**	**951**	**(167 568)**
Stage1	(87 272)	114 822	(85 477)	-	-	(57 927)
Stage2	(62 463)	(9 967)	(9 030)	-	-	(81 460)
Stage3 (includes IIS)	3 546	(104 855)	(20 354)	92 531	951	(28 181)
Total	**(224 452)**	**-**	**(103 880)**	**104 543**	**7 931**	**(215 858)**

[1]The bank's policy is to transfer opening balances based on the ECL stage at the end of the reporting year. Therefore, exposures can be transferred directly from stage 3 to stage 1 as the curing requirements would have been satisfied during the reporting year.
[2]The ECL recognised on new exposures originated during the reporting year (which are not included in opening balances) are included within the rows "ECL on new exposures raised" based on the exposures' ECL stage as at the end of the reporting year.
[3]Exchange and other movements includes the time value of money (TVM) unwind and net interest in suspense (IIS) raised and released during the year

Notes to the Annual Financial Statements

Reconciliation of the ECL for loans and advances by product - 2021

	Opening ECL 01-Jan-2021 M'000	Total transfers between stages[1] M'000	Net ECL (raised)/ released[2] M'000	Impaired accounts written off M'000	Other movements[3] M'000	Closing ECL 31-Dec-2021 M'000
Mortgage loans	**(45 490)**	**-**	**9 125**	**366**	**(4 962)**	**(40 961)**
Stage1	(2 102)	3 956	(4 493)	-	**-**	(2 639)
Stage2	(4 761)	(2 192)	5 626	-	-	(1 327)
Stage3 (includes IIS)	(38 627)	(1 764)	7 992	366	(4 962)	(36 995)
Vehicle and asset finance	**(16 690)**	**-**	**(9 951)**	**2 100**	**(686)**	**(25 227)**
Stage1	(4 247)	(4 368)	5 882	-	-	(2 733)
Stage2	(6 298)	1 402	530	-	-	(4 366)
Stage3 (includes IIS)	(6 145)	2 966	(16 363)	2 100	(686)	(18 128)
Card debtors	**(10 218)**	**-**	**3 256**	**-**	**-**	**(6 962)**
Stage1	(4 507)	(2 163)	4 282	-	-	(2 388)
Stage2	(6 167)	1 688	(333)	-	-	(4 812)
Stage3 (includes IIS)	456	475	(693)	-	-	238
Corporate	**(7 000)**	**-**	**2 102**	**-**	**-**	**(4 898)**
Stage1	(5 205)	10	875	-	-	(4 320)
Stage2	(1 795)	(10)	1 227	-	-	(578)
Stage3 (includes IIS)	-	-	-	-	-	-
Bank	**(187)**	**-**	**(29)**	**-**	**1**	**(215)**
Stage1	(176)	100	55	-	-	(21)
Stage2	(11)	(100)	(84)	-	1	(194)
Stage3 (includes IIS)	-	-	-	-	-	-
Other loans and advances	**(144 824)**	**-**	**(138 829)**	**138 376**	**(912)**	**(146 189)**
Stage1	(44 788)	99 731	(142 215)	-	-	(87 272)
Stage2	(66 016)	2 852	701	-	-	(62 463)
Stage3 (includes IIS)	(34 020)	(102 583)	2 685	138 376	(912)	3 546
	-					**-**
Total	**(224 409)**	**-**	**(134 326)**	**140 842**	**(6 559)**	**(224 452)**

[1] The bank's policy is to transfer opening balances based on the ECL stage at the end of the reporting year. Therefore, exposures can be transferred directly from stage 3 to stage 1 as the curing requirements would have been satisfied during the reporting year.
[2] The ECL recognised on new exposures originated during the reporting year (which are not included in opening balances) are included within the rows "ECL on new exposures raised" based on the exposures' ECL stage as at the end of the reporting year.
[3] Exchange and other movements includes the time value of money (TVM) unwind and net interest in suspense (IIS) raised and released during the year

Notes to the Annual Financial Statements

5.7 Modifications on loans and advances measured at amortised cost

Stage 2

Amortised cost before modification	2022 M'000	2021 M'000
Mortgage loans	6 965	977
Vehicle and asset finance	1 466	-
Other loans and advances	10 831	47 668
Total	**19 262**	**48 645**

6. Deferred tax

	2022 M'000	2021 M'000
Deferred tax asset - net	67 365	82 058

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position.

Deferred tax asset analysis		
Depreciation	3 886	3 524
Impairment charges on loans and advances	50 755	48 883
Sundry provisions[1]	2 877	4 433
Provision for staff related expenses	8 084	5 135
Provision against equity	(1 071)	1 224
Fair value adjustments on financial instruments	(5 753)	18 873
Assets on lease expenditure	8 587	(14)
	67 365	**82 058**

[1]Sundry provisions include irrecoverable losses and leave pay provision

Reconciliation of deferred tax

Deferred tax at beginning of year	**82 058**	**34 668**
Provision against equity	(2 295)	1 224
Depreciation	362	(73)
Impairment charges on loans and advances	1 872	(893)
Sundry provisions[1]	(1 556)	786
Provision for staff related expenses	2 949	(501)
Assets on lease expenditure	8 601	(14)
Fair value adjustment	(24 626)	46 861
	67 365	**82 058**

[1]Sundry provisions include irrecoverable losses and leave pay provision

Deferred tax balance at the end of the year	**82 058**	**34 668**
Temporary differences for the year comprise:		
Recognised in OCI	(2 295)	1 224
Recognised in profit or loss	(12 398)	46 166
	67 365	**82 058**

Notes to the Annual Financial Statements

7. Other Assets	2022 M'000	2021 M'000
Financial assets	**147 340**	**124 305**
Trading settlement assets	17 926	29 310
Debtors[1]	129 414	94 995
Non-financial assets	**126 313**	**90 885**
Prepayments	114 085	82 241
Other non-financial assets	12 227	8 644
Total	**273 653**	**215 190**

[1]Due to the short-tern nature of these assets and historical experience, debtors are regarded as having a low probability of default, therefore, ECL has been assessed to be insignificant.

8. Reconciliation of property, equipment and right of use – 2022

	Opening balance M'000	Additions M'000	Disposals M'000	Account[2] transfers M'000	Depreciation M'000	Total M'000
Freehold Land and Buildings[1]	55 831	943	-	(303)	(2 027)	54 444
Leasehold Land and Buildings	14 621	364	-	303	(408)	14 880
Computer Equipment	45 996	12 741	(11)	2 875	(13 312)	48 289
Motor Vehicles	5 331	182	-	-	(1 695)	3 818
Office Equipment	9 671	630	-	(3)	(2 348)	7 950
Furniture and Fittings	15 088	2 565	(20)	-	(4 907)	12 726
Property and Equipment	**146 538**	**17 425**	**(31)**	**2 872**	**(24 697)**	**142 107**
Right of use assets						
Buildings	5 994	24 422	(591)	-	(6 759)	23 066
Branches	10 348	9 632	-	-	(6 594)	13 386
ATMs	2 156	2 244	-	-	(1 771)	2 629
Other	148	-	-	-	(66)	82
ROU assets	**18 646**	**36 298**	**(591)**	**-**	**(15 190)**	**39 163**
Total	**165 184**	**53 723**	**(622)**	**2 872**	**(39 887)**	**181 270**

[1]A register of freehold land and buildings is available for inspection at the company's registered office

Valuation

The valuation was carried out during 2022, however the valuation report was not yet finalized by the end of the financial year. Therefore, the open market value of freehold properties (own branches and residential houses) is based on valuations undertaken during 2018 being estimated at M97.3 million by Math Properties. Registers of property are available for inspection by members, or their authorised agents, at the registered office of the bank

[2]Transfer between classes relates to movements of items housed in assets under construction which uses on common GL and then get moved to other classes.

Notes to the Annual Financial Statements

8. Reconciliation of property, equipment and right of use – 2021

	Opening balance M'000	Additions M'000	Disposals M'000	Account transfers M'000	Depreciation M'000	Total M'000
Freehold Land and Buildings	56 674	1 149	-	-	(1 992)	55 831
Leasehold Land and Buildings	14 934	93	-	-	(406)	14 621
Computer Equipment [1]	52 910	8 198	-	(2 985)	(12 127)	45 996
Motor Vehicles	7 351	230	-	-	(2 250)	5 331
Office Equipment	7 735	1 338	-	2 985	(2 387)	9 671
Furniture and Fittings	18 644	1 741	-	-	(5 297)	15 088
Property and Equipment	**158 248**	**12 749**	**-**	**-**	**(24 459)**	**146 538**
Right of use assets[2]						
Buildings	13 069	118	-	-	(7 193)	5 994
Branches	10 341	7 004	-	-	(6 997)	10 348
ATMs	1 820	1 879	-	-	(1 543)	2 156
Other	-	197	-	-	(49)	148
ROU assets	**25 229**	**9 198**	**-**	**-**	**(15 782)**	**18 645**
Total	**183 477**	**21 947**	**-**	**-**	**(40 241)**	**165 183**

[1]Additions of computer equipment include work in progress of M7,783 million for which depreciation has not yet commenced.
A register of freehold land and buildings is available for inspection at the company's registered office

[2]For lease liability refer to note 13.2 for further details on the leases.

Valuation

There was no valuation of freehold property carried out during the current financial year. However, the open market value of freehold properties (own branches and residential houses) based on valuations undertaken during 2018 was estimated at M97.3 million by Math Properties. Registers of property are available for inspection by members, or their authorised agents, at the registered office of the bank

9. Intangible assets

	Computer software 2022 M'000	Computer software 2021 M'000
Net book value - 1 January	**274 432**	**304 115**
Movements	**(26 474)**	**(29 683)**
Amortisation	(26 474)	(29 683)
Net book value - 31 December	**247 958**	**274 432**
Cost	410 996	410 996
Accumulated amortisation and impairment	(163 038)	(136 564)

10. Share Capital

	2022 M'000	2021 M'000
Authorised		
20 625 001 (2020: 20 625 001) ordinary shares of M1.00 each	20 625	20 625
Issued		
20 625 001 (2020: 20 625 001) ordinary shares of M1.00 each	20 625	20 625
Ordinary share capital	20 625	20 625
Reserves	152 364	145 081
Retained earnings	1 527 658	1 491 732
Total Equity	**1 700 647**	**1 657 438**

Notes to the Annual Financial Statements

11. Deposits and debt funding

	2022 M’000	2021 M’000
Deposits from banks	341 322	850 970
	341 322	**850 970**
Deposits from customers		
Current accounts	3 240 186	3 219 108
Card creditors	1 861	2 130
Call deposits	2 719 419	2 898 393
Savings accounts	951 152	865 222
Term deposits	1 053 298	1 228 027
Negotiable Certificate of deposit	350 076	544 214
	8 315 992	**8 757 094**
Total	**8 657 314**	**9 608 064**

11.1 Maturity analysis

The maturity analysis is based on the remaining periods to contractual maturity from year end.

Repayable on demand	7 164 046	7 782 972
Maturing within 1 month	125 875	253 609
Maturing after 1 month but within 6 months	713 482	902 749
Maturing after 6 months but within 12 months	605 417	621 318
Maturing beyond 12 months	48 494	47 416
	8 657 314	**9 608 064**

11.2 Rate Analysis

Floating rate	7 164 046	7 775 293
Fixed rate	1 493 268	1 832 771
Total	**8 657 314**	**9 608 064**

Notes to the Annual Financial Statements

12. Current tax	2022 M'000	2021 M'000
Net Current Tax asset	**(18 578)**	**93 922**
Current Tax asset	(20 925)	-
Current tax liabilities	2 346	93 922
Current tax analysis		
Withholding tax on interest - asset	(10 023)	(9 218)
Provision for income tax asset	(10 902)	-
Provision for income tax Liability	2 346	103 140
Current tax - liabilities	**(18 578)**	**93 922**

13. Provisions and other liabilities	2022 M'000	2021 M'000
Financial liabilities	**436 991**	**405 586**
ECL for off-balance sheet exposures (note 13.1)	26	190
Lease liabilities (note 13.2)	39 446	20 815
Trading settlement liabilities	265	143
Intercompany sundry creditors[1]	41 990	126 926
Unclaimed balances	193 120	177 131
Accrued Expenses	44 479	30 436
Insurance suspense	8 843	7 171
Account's payables	78 322	20 042
Other financial liabilities	30 502	22 732
Non-financial liabilities	**57 810**	**43 279**
Other non-financial liabilities	15 089	15 576
Staff-related provisions	42 721	27 703
Total	**494 801**	**448 865**

13.1 Reconciliation of expected credit losses for Guarantees

	Opening balance M'000	Net ECL released/(raised) M'000	Closing balance M'000
Letters of credit, bank acceptances and guarantees			
2022			
Stage 1	(190)	164	(26)
Stage 2	-	-	-
Stage 3	-	-	-
Total	**(190)**	**164**	**(26)**
2021			
Stage 1	(210)	20	(190)
Stage 2	(1)	1	-
Stage 3	-	-	-
Total	**(211)**	**21**	**(190)**

13.2 Reconciliation of lease liabilities[3]

SLB	Balance at 01-Jan-2022 M'000	Additions[2] M'000	Terminations /Modifications and/or cancellations M'000	Interest expense M'000	Payments[1] M'000	Balance at 31-Dec-2022 M'000
Buildings	7 047	25 034	-	387	(9 272)	23 196
Branches	11 134	10 411	-	473	(8 891)	13 127
ATM spacing	2 479	2 244	-	134	(1 831)	3 026
Other	155	-	-	9	(67)	97
Total	**20 815**	**37 689**	**-**	**1 003**	**(20 061)**	**39 446**

Maturity of lease liabilities

SLB	Balance 31-Dec-2022 M'000	Within 1 year M'000	From 1 to 5 years M'000	More than 5 years M'000
Buildings	23 196	-	23 196	-
Branches	13 127	305	12 822	-
ATM spacing	3 026	199	2 827	-
Other	97	-	97	-
Total	**39 446**	**504**	**38 942**	**-**

SLB	Balance at 01-Jan-2021 M'000	Additions M'000	Terminations /Modifications and/or cancellations M'000	Interest expense M'000	Payments[1] M'000	Balance at 31-Dec-2021 M'000
Buildings	14 096	118	-	1 595	(8 762)	7 047
Branches	11 542	7 004	-	948	(8 360)	11 134
ATM spacing	1 999	1 879	-	431	(1 828)	2 479
	-	198	-	8	(51)	155
Total	**27 636**	**9 199**	**-**	**2 982**	**(19 002)**	**20 815**

Maturity of lease liabilities

SLB	Balance 31-Dec-2021 M'000	Within 1 year M'000	From 1 to 5 years M'000	More than 5 years M'000
Buildings	7 047	7 047	-	-
Branches	11 134	6 488	4 646	-
ATM spacing	2 479	2 164	315	-
Other	155	63	93	-
Total	**20 815**	**15 762**	**5 054**	**-**

[1]These amounts includes the principal lease repayments as disclosed in the statements of cash flows of M20.61 million (2021 M16 million) for the company. The remainder represents interest expense paid during the year.

[2]During the year only one significant lease was renewed to the value of M25m under building, there are no restrictions or covenant's on the Leases.

[3]For Right of Use assets refer to note 8 for further details on the leases.

14. Classification of assets and liabilities

2022	Held-for-trading M'000	Fair value through profit or loss - default M'000	Fair value through Other Comprehensive Income M'000	Amortised cost M'000	Other assets/liabilities M'000	Total carrying value M'000	Fair value[1] M'000
Assets							
Cash and balances with the central banks	-	896 731	-	56 158	-	952 890	952 890
Derivative assets	42 820	-	-	-	-	42 820	42 820
Trading assets	955 091	-	-	-	-	955 091	955 091
Financial investments	-	1 571 400	1 086 721	142 102	-	2 800 223	2 800 223
Loans and advances	-	-	-	5 332 284	-	5 332 284	5 332 284
Other financial assets[2]	-	-	-	-	147 340	147 340	147 340
Other non-financial assets	-	-	-	-	126 313	126 313	126 313
Current and deferred tax asset	-	-	-	-	88 290	88 290	88 290
Owned assets	-	-	-	-	127 227	127 227	127 227
Right of Use Assets	-	-	-	-	39 163	39 163	39 163
Leased assets	-	-	-	-	14 879	14 879	14 879
Other intangible assets	-	-	-	-	247 959	247 959	247 959
	997 911	**2 468 131**	**1 086 722**	**5 530 554**	**791 170**	**10 874 478**	**10 874 478**
Liabilities							
Derivative liabilities	(19 370)	-	-	-	-	(19 370)	(19 370)
Deposits and debt funding	-	-	-	(8 657 314)	-	(8 657 314)	(8 657 314)
Other financial liabilities[2]	-	-	-	-	(436 991)	(436 991)	(436 991)
Other non-financial liabilities	-	-	-	-	(57 810)	(57 810)	(57 810)
Current and deferred tax liabilities	-	-	-	-	(2 346)	(2 346)	(2 346)
	(19 370)			**(8 657 314)**	**(497 147)**	**(9 173 831)**	**(9 173 831)**
Total	**978 541**	**2 468 131**	**1 086 722**	**(3 126 770)**	**294 023**	**1 700 647**	**1 700 647**

[1] Carrying value has been used where it closely approximates fair values, excluding non-financial instruments. Refer to the fair value section in key management assumptions and detailed accounting policies for a description on how fair values are determined.
[2] The fair value of other financial assets and liabilities approximates their carrying value due to their short-term nature

Notes to the Annual Financial Statements

2021	Held-for-trading M'000	Fair value through profit or loss - default M'000	Fair value through Other Comprehensive Income M'000	Amortised cost M'000	Other assets/liabilities M'000	Total carrying value M'000	Fair value[1] M'000
Assets							
Cash and balances with the central banks	-	782 960	-	-	-	782 960	782 960
Derivative assets	- 4 360	-	-	-	-	4 360	4 360
Trading assets	1 622 893	-	-	-	-	1 622 893	1 622 893
Financial investments	-	1 352 044	874 404	240 206	-	2 466 654	2 466 654
Loans and advances	-	-	-	6 275 458	-	6 275 458	6 275 458
Other financial assets[2]	-	-	-	124 305	-	124 305	124 305
Other non-financial assets	-	-	-	-	90 885	90 885	90 885
Current and deferred tax asset	-	-	-	-	82 058	82 058	82 058
Own assets	-	-	-	-	131 915	131 915	131 915
Right of Use Assets	-	-	-	-	18 646	18 646	18 646
Leased assets	-	-	-	-	14 622	4 622	14 622
Other intangible assets	-	-	-	-	274 432	274 432	274 432
	1 627 253	**2 135 004**	**874 404**	**6 639 969**	**612 558**	**11 889 188**	**11 889 188**
Liabilities						-	-
Derivative liabilities	(80 898)	-	-	-	-	(80 898)	(80 898)
Deposits and debt funding	-	-	-	(9 608 064)	-	(9 608 064)	(9 608 064)
Other financial liabilities[2]	-	-	-	(405 586)	-	(405 586)	(405 586)
Other non-financial liabilities	-	-	-	-	(43 279)	(43 279)	(43 279)
Current and deferred tax liabilities	-	-	-	-	(93 922)	(93 922)	(93 922)
	(80 898)	**-**	**-**	**(10 013 650)**	**(137 201)**	**(10 231 750)**	**(10 231 750)**
Total	**1 546 355**	**2 135 004**	**874 404**	**(3 373 681)**	**475 357**	**1 657 438**	**1 657 438**

[1] Carrying value has been used where it closely approximates fair values, excluding non-financial instruments. Refer to the fair value section in key management assumptions and detailed accounting policies for a description on how fair values are determined.

[2] The fair value of other financial assets and liabilities approximates their carrying value due to their short-term nature

15. Fair value measurement of financial assets and financial liabilities

Financial assets and liabilities measured at fair value

The tables below analyse financial and non-financial assets and liabilities carried at fair value at the end of the reporting period, by level of fair value hierarchy as required by IFRS 7 and IFRS 13. The different levels are based on the extent that quoted prices are used in the calculation of the fair value of the assets and liabilities and the levels have been defined as follows;

Level 1 - fair values are based on quoted market prices (unadjusted) in active markets for an identical asset or liability.

Level 2 - fair values are calculated using valuation techniques based on observable inputs, either directly (i.e. as quoted prices) or indirectly (i.e. derived from quoted prices). This category includes assets and liabilities valued using quoted market prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 - fair values are based on valuation techniques using significant unobservable inputs. This category includes all assets and liabilities where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the asset's or liability's valuation. This category includes assets and liabilities that are valued based on quoted prices for similar assets or liabilities where significant unobservable adjustments or assumptions are required to reflect differences between the assets or liabilities.

The valuation techniques used in determining the fair value of assets and liabilities classified within level 2 and level 3 of the fair value hierarchy includes the discounted cash flow model, Black-Scholes model and earnings multiple and sustainable earnings valuation methods. The inputs used include the discount, liquidity discount, risk-free and volatility rates.

For assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position in particular circumstances.

There were no transfers between levels 1, 2 and 3 during the year.

The bank used discounted cash flow model for valuation, and the applicable market rates are being used and for staff loans at low rates there is a fair value adjustment model used in line with market rates to arrive at the fait value. On top of those there is also ECL calculation which will then be added to further beef up the fair value amount.

Notes to the Annual Financial Statements

Assets and liabilities that are measured at fair value

2022	Level 1 M '000	Level 2 M '000	Level 3 M '000	Total M'000
Assets				
Cash and balances with central banks	896 731	-	-	896 731
Derivative assets	-	42 819	-	42 819
Trading assets	-	955 091	-	955 091
Financial investments	-	2 658 122	-	2 658 122
	896 731	**3 656 032**	**-**	**4 552 763**
Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative liabilities	-	(19 369)	-	(19 369)
	-	**(19 369)**	**-**	**(19 369)**

2021	Level 1 M '000	Level 2 M '000	Level 3 M '000	Total M'000
Assets				
Cash and balances with central banks	782 960	-	-	782 960
Derivative assets	-	4 360	-	4 360
Trading assets	-	1 622 893	-	1 622 893
Financial investments	-	2 226 448	-	2 226 448
	782 960	**3 853 701**	**-**	**4 636 661**
Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative liabilities	-	(80 898)	-	(80 898)
	-	**(80 898)**	**-**	**(80 898)**

Notes to the Annual Financial Statements

Assets and liabilities not measured at fair value for which fair value is disclosed

2022	Level 1 M '000	Level 2 M '000	Level 3 M '000	Total M'000
Assets				
Cash and balances with central banks	56 158	-	-	56 158
Financial investments	-	142 410	-	142 410
Loans and advances to banks	-	701 822	-	701 822
Loans and advances to customers	-	-	4 846 321	4 846 321
	56 158	**844 232**	**4 846 321**	**5 746 711**
Liabilities				
Deposits from banks	(229 150)	(112 172)	-	(341 322)
Deposits from customers	(6 934 896)	(1 381 097)	-	(8 315 993)
	7 164 046	**(1 493 269)**	**-**	**(8 657 315)**

2021	Level 1 M '000	Level 2 M '000	Level 3 M '000	Total M'000
Assets				
Financial investments	-	240 206	-	240 206
Loans and advances to banks	-	1 924 217	-	1 924 217
Loans and advances to customers	-	-	4 545 965	4 545 965
	-	**2 164 423**	**4 545 965**	6 710 388
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities				
Deposits from banks	(790 189)	(60 781)	-	(850 970)
Deposits from customers	(6 992 783)	(1 764 312)	-	(8 757 095)
Subordinated debt	-	-	-	-
	(7 782 972)	**(1 825 093)**	**-**	**(9 608 065)**

Notes to the Annual Financial Statements

16. Contingent liabilities and commitments

Contingent liabilities	2022 M'000	2021 M'000
• Letters of credit and bankers' acceptances	7 469	-
• Guarantees	448 874	522 617
• Irrevocable facilities	401 458	380 561
• Other (Litigation Claims)	10 525	10 560
	868 326	**913 738**

Loan commitments that are irrevocable over the life of the facility or revocable only in response to material adverse changes are included in the risk and capital management section.

Legal proceedings

In the conduct of its ordinary course of business, the bank is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non-compliance with laws and regulations. The directors are satisfied, based on present information and the assessed probability of claims eventuating, that the bank has adequate insurance programmes and provisions in place to meet such claims. Most of the significant claims are around staff claims and based on the ratings, the bank is adequately covered in terms of probabilities.

Notes to the Annual Financial Statements

17. Supplementary income statement information	2022 M'000	2021 M'000
Interest income		
Interest on investments and short-term funds	121 603	164 682
Interest income on items measured at FVOCI	59 881	3 432
Interest on loans and advances	693 881	605 431
	875 375	**773 545**

All interest income reported above relates to financial assets not carried at fair value through profit or loss.

Interest expense		
Call and term deposits	(78 870)	(54 273)
Balances from other banks	(25 755)	(51 153)
Other interest-bearing liabilities	(12)	(14)
Current accounts	(18 998)	(8 081)
Savings and deposits	(50 836)	(37 490)
Lease Liabilities	(1 003)	(2 982)
Negotiable certificate of deposit	(28 586)	(19 954)
	(204 060)	**(173 947)**

All interest expense reported above relates to financial liabilities carried at amortised cost

Fee and commission revenue		
Account transaction fees	100 245	105 312
Card-based commission	106 871	87 717
Electronic banking	73 693	64 293
Bancassurance	33 894	26 297
Documentation & Administration Fee	116 548	117 816
Other[1]	28 981	39 582
Foreign currency services	4 362	4 944
	464 594	**445 962**

All fee and commission revenue reported above relates to financial assets or liabilities not carried at fair value through profit or loss for the bank.

Fee and commission expense		
Point of Representation Trans Fees Paid	(73)	-
Electronic Banking Transaction Fees Paid	(4)	-
Documentation and Administration Fees Paid	(2 669)	(1 988)
Card processing costs	(84 031)	(67 803)
	(86 777)	**(69 791)**

All fee and commission expenses reported above relate to financial assets or liabilities not carried at fair value through profit or loss for the bank

[1]Other primarily comprises of fee and commission revenue earned on sundry services such as arrangement, agency and asset management fees as well as guarantee and commitment commissions.

Notes to the Annual Financial Statements

Trading revenue	**2022**	**2021**
Foreign exchange forward contracts	127 783	116 245
Interest rates	(34 029)	(41 553)
	93 754	**74 692**

Other revenue		
Other Income[1]	6 535	8 472
Property Related Income	1 363	1 368
Insurance related income	4 848	5 631
	12 746	**15 472**
Other gains and losses on financial instruments	**84 758**	**71 672**
Credit impairment charges		
IFRS 9 Credit Impairments :Off BS	164	21
Recoveries on loans and advances previously written off	23 139	22 121
IFRS 9 credit impairments	(112 527)	(119 367)
ECL on financial investments	(103)	(544)
Interest in suspense	55	92
	(89 273)	**(97 677)**

1Other primarily comprises of fee and commission revenue earned on ATM sharing services

Notes to the Annual Financial Statements

18. Operating expenses

	2022 M'000	2021 M'000
Amortisation – intangible assets (note 9)	26 474	29 683
Audit fees – current financial year	3 798	2 382
Communication related expenses	14 935	14 535
Depreciation (note 8)	**39 887**	**40 222**
Property Freehold	2 027	1 992
Property Leasehold	408	406
Owned Computer Equipment	13 312	12 127
Owned Motor Vehicles	1 695	2 250
Owned Office Equipment	2 348	2 387
Owned Furniture and Fittings	4 907	5 297
Right of use assets[1]	15 190	15 763
Information Technology	151 339	147 868
Premises	21 975	18 753
Professional Fees	58 634	59 090
Security Expenses	22 593	18 877
Marketing & Advertising	20 934	16 119
Travel & Entertainment	9 553	4 079
Staff costs	**324 973**	**287 743**
Salaries and wages	289 021	250 222
Equity-linked transactions	3 451	7 185
Medical aid – company contributions	10 330	9 568
Pension and other post-employment benefit costs	22 171	20 768
Other expenses	35 896	32 230
Total	**730 991**	**667 502**

[1]Net of 19k derecognition on right of use ATMs

19. Non-trading and capital related items

	2022 M'000	2021 M'000
(Profit) on sale of property and equipment	(165)	-

Notes to the Annual Financial Statements

20. Emoluments of Standard Lesotho Bank Limited Directors

	2022 M'000	2021 M'000
Non-executive directors	1 644	1 596

21. Taxation

	2022 M'000	2021 M'000
Indirect taxation	49 502	45 838
Direct taxation	94 864	83 582
	144 366	**129 421**
Indirect taxation		
Indirect taxes and levies	49 502	45 838
Direct taxation		
Normal tax	82 483	128 991
Deferred tax	12 382	(45 409)
Direct taxation per the income statement	**94 864**	**83 582**

21. 1 Income tax recognised in OCI

	2022 M'000	2021 M'000
Net change in fair value of FVOCI financial assets	**(2 427)**	**1 826**

21.2 Rate reconciliation including indirect and direct tax	**2022 %**	**2021 %**
The total tax charge for the year as a percentage of net income before indirect tax	34.30	34.80
Indirect taxes	(11.80)	(12.30)
Rate reconciliation including indirect and direct tax	**22.50**	**22.50**
Net tax charge	**22.50**	**22.50**
Other permanent differences	2.90	2.50
Standard rate of tax	**25.00**	**25.00**

Notes to the Annual Financial Statements

22. Earnings per ordinary share

The calculations of basic earnings and headline earnings per ordinary share are as follows:

	2022 M'000	2021 M'000
Basic earnings	275 927	243 005
Headline earnings	275 927	243 005
Number of shares (20.625 million ordinary shares)	20 625	20 625
Basic earnings per ordinary share (cents)	**1 338**	**1 178**
Headline earnings per ordinary share (cents)	**1 338**	**1 178**

Notes to the Annual Financial Statements

23. Statement of cash flows notes	2022 M'000	2021 M'000
23.1 - Adjustment for non-cash items and other adjustments included within the income statement		
Depreciation of property and equipment	39 988	40 222
Amortisation of intangible assets	26 475	29 683
ECL (raised)/ or released	89 273	119 798
Interest income	(875 375)	(773 545)
Interest expense	204 060	173 947
Profit (loss) on sale of assets	(165)	-
Indirect taxation	(49 502)	(45 838)
Fair value adjustments included within income statement	(99 987)	70 866
Other adjustments[1]	(43 728)	(8 158)
	(708 961)	**(393 025)**
23.2 – Decrease/(Increase) in income earning assets		
Financial investments	(333 569)	254 225
Trading Securities	579 025	(651 084)
Loans and advances - banks	1 222 395	(494 793)
Loans and advances - customers	(270 628)	(229 574)
Other assets	(58 464)	795
	1 138 759	**(1 120 431)**
23.3 - Increase/ (Decrease) in deposits and other liabilities		
Deposits from customers	(441 102)	817 333
Deposits from banks	(509 648)	97 084
Subordinated debt	-	(50 682)
Provisions and other liabilities	45 936	7 541
	(904 813)	**871 277**
23.4 – Direct taxation paid		
Current and deferred tax at beginning of the year	(93 922)	(12 132)
Recognised in income statement	(82 483)	(128 991)
Other tax movement	25 809	(1 254)
Current and deferred tax at end of the year	(18 578)	93 922
Tax paid during the year	**(169 174)**	**(48 455)**
23.5 Cash used in financing activities		
Dividends to ordinary shareholder	(240 000)	(250 000)
Principal element of lease payments	(20 061)	(16 020)
	(260 061)	**(266 020)**

[1]Other primarily comprises of fee and commission as well as operating expenses of non-cash in natures being accrued not yet paid or fees not yet collected as at year end.

24. Related party transactions

Parent
Standard Lesotho Bank limited is a subsidiary of Standard Bank Group Limited, a South African registered company.

Key management personnel
Key management personnel have been defined as SLB board of directors and prescribed officers effective for 2021 and 2022. Non-executive directors are included in the definition of key management personnel as required by IFRS. The definition of key management includes the close members of family of key management personnel and any entity over which key management exercises control or joint control. Close members of family are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the bank. They may include the individual's domestic partner and children, the children of the individual's domestic partner, and dependants of the individual or the individual's domestic partner.

	2022 M'000	2021 M'000
Key management compensation		
Salaries and other short-term benefits	26 710	24 238
Pension contributions and medical aid	1 372	1 487

Loans and Advances (Key management) [1]		
Loans outstanding at beginning of the year	29 832	34 312
Net loans and advances movement during the year	(6 192)	(4 480)
Loans outstanding at end of the year [2]	**23 640**	**29 832**

[1]Key management loans and advances are provided at normal staff rates and periods, that is at 6% for unsecured loans and VAF and Mortgage, term is in the normal range of from 12 months to 72 months, the lower rate will be forfeited upon staff member exit of employment.

[2]Loans include mortgage loans, instalment sale and finance leases and credit cards. No specific impairment has been recognised in respect of loans granted to key management personnel in the current or prior year. The mortgage loans and instalment sale and finance leases are secured by the underlying assets. All other loans are unsecured.

Deposits and current accounts (Key management) [3]		
Deposits outstanding at beginning of the year	2 820	4 073
Net deposits movement during the year	(504)	(1 253)
Deposits outstanding at end of the year	**2 316**	**2 820**

[3]Deposits include cheque, current and savings accounts.

Transactions with parent
During the year the bank paid the following to the parent company:

Dividends paid to Standard Bank Group Limited	192 000	200 000
	192 000	**200 000**

Transactions with fellow subsidiaries

During the year the bank received the following from fellow subsidiaries:	**129 962**	**(171 308)**
Interest and other income – Standard Bank of South Africa	21 849	9 068
Trading revenue gain/(losses) – Isle of Man	7 550	1 740
Trading revenue gain/(losses) – Standard Bank of South Africa	100 563	(182 116)

Notes to the Annual Financial Statements

During the year the bank paid the following to fellow subsidiaries:	**(122 298)**	**(144 972)**
Franchise fees - Standard Bank of South Africa	(37 222)	(34 128)
Information Technology Costs – Standard Bank of South Africa	(85 076)	(108 412)
Interest paid - Standard Bank of South Africa	-	(2 432)
Net income(expense) from fellow subsidiaries	**7 664**	**(316 280)**

Balances (from)/with fellow subsidiaries		
Assets outstanding at end of the year:[4]	**859 107**	**1 209 272**
Standard Bank of South Africa	88 348	110 862
Standard Bank Isle of Man	761 559	824 688
Stanbic Botswana	9 199	33
Liabilities / Deposits outstanding at end of the year:[4]	(90 991)	**(235 323)**
Standard Bank of South Africa	(90 991)	(235 323)
	768 115	**973 949**

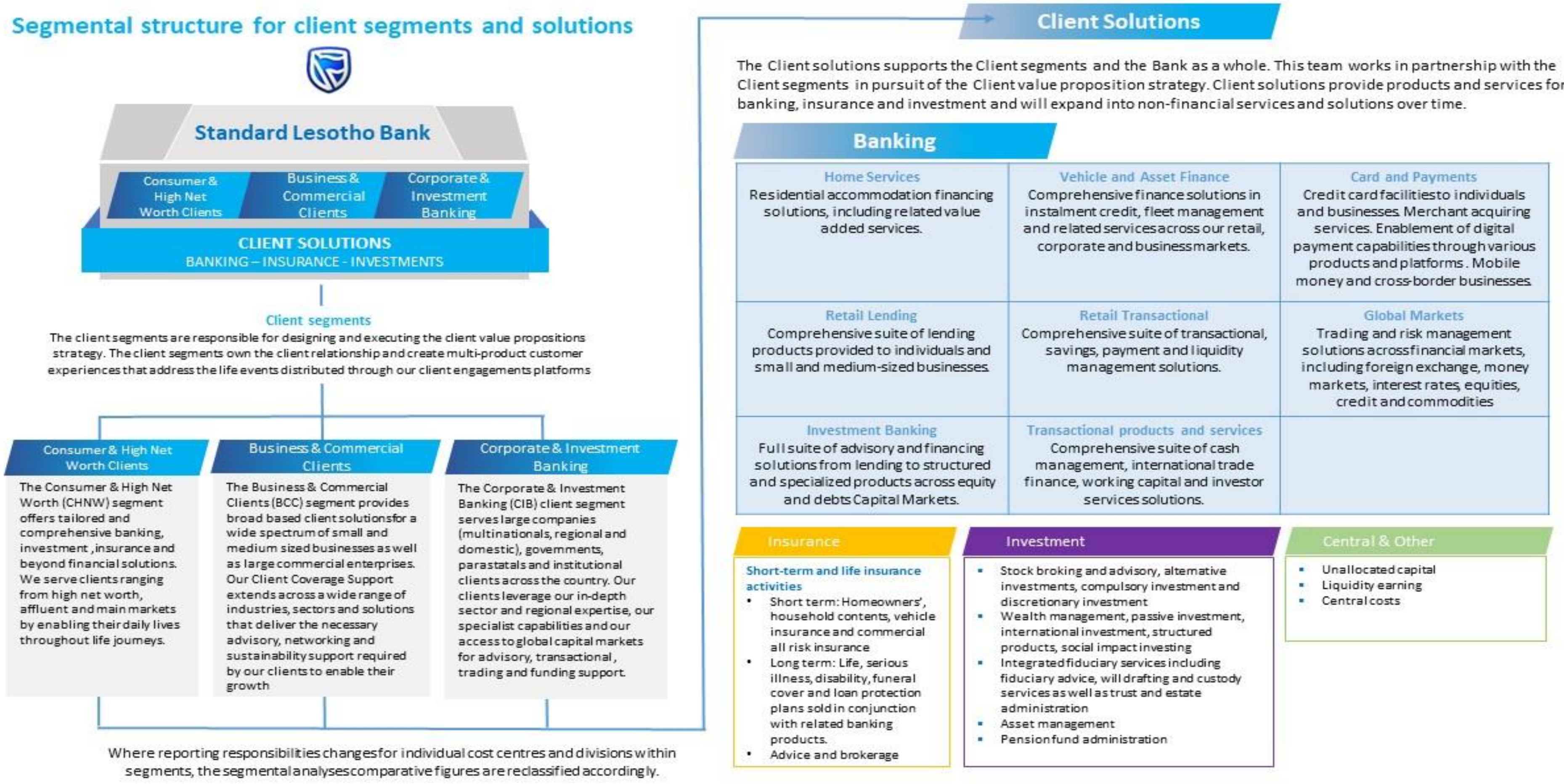
[4]As at year end we had nostro balances with Standard bank of South Africa and Stanbic Botswana which are basically transactional accounts, the balances with Standard Bank Isle of Man are money market trading and call accounts which earns interest and trading revenue, the liabilities are Vostro accounts and liabilities to be settled for items like franchise fees other services provided from group yet to be settled

Management by third parties

The bank continued outsourcing ATMs cash management services during the year from SBV, a South African registered company specializing in cash management services. The payment made for 2022 for services received was M32 million (2021: M28.52 million).

Notes to the Annual Financial Statements

25. Segment Reporting



25. Segment reporting continued

	Total Bank		Consumer & High Net Worth		Business and Commercial Clients		Corporate & Investment Banking		Other Entities	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	M'000		M'000		M'000		M'000		M'000	
Income										
Net interest income	**671 315**	**599 599**	**438 247**	**425 640**	**108 633**	**86 404**	**100 952**	**74 503**	**23 483**	**13 051**
Interest income	875 375	773 545	603 963	531 965	68 017	64 372	203 395	177 208	-	-
Interest expense	(204 060)	(173 947)	(165 716)	(106 325)	40 616	22 033	(102 443)	(102 705)	23 483	13 051
Non-interest revenue	**569 076**	**538 006**	**218 550**	**224 165**	**111 551**	**105 889**	**243 922**	**213 729**	**(4 947)**	**(5 777)**
Net Fee and commission revenue	377 818	376 170	215 629	216 945	101 940	97 806	65 462	67 238	(5 212)	(5 819)
Fee and commission revenue	464 594	445 962	280 273	269 110	118 852	113 183	65 462	67 238	7	(3 569)
Fee and commission expense	(86 777)	(69 791)	(64 644)	(52 165)	(16 913)	(15 376)	-	-	(5 220)	(2 250)
Trading revenue	93 754	74 692	-	-	-	-	93 754	74 692	-	-
Other revenue	12 746	15 472	2 921	7 220	9611	8 083	(52)	127	266	41
Other gains and losses on financial instruments	84 758	71 672	-	-	-	-	84 758	71 672	-	-
Total income	**1 240 391**	**1 137 605**	**656 797**	**649 805**	**220 184**	**192 294**	**344 875**	**288 232**	**18 536**	**7 273**
Credit Impairment Charges	(89 273)	(97 677)	(80 893)	(100 716)	(9 667)	1 717	1 287	1 553	-	-232
Income before operating expenses	**1 151 118**	**1 039 927**	**575 903**	**549 090**	**210 517**	**194 010**	**346 162**	**289 786**	**18 536**	**7 042**
Total Operating Expenses	(730 991)	(667 502)	(366 678)	(284 148)	(252 753)	(251 773)	(166 109)	(176 059)	54 550	44 478
Net income before capital items and equity accounted earnings	**420 128**	**372 425**	**209 225**	**264 942**	**(42 236)**	**(57 763)**	**180 052**	**113 727**	**73 086**	**51 520**
Non-trading and capital items	165	-	-	-	-	-	-	-	165	-
Net income before indirect taxation	**420 292**	**372 425**	**209 225**	**264 942**	**(42 236)**	**(57 763)**	**180 052**	**113 727**	**73 251**	**51 520**
Indirect tax	(49 502)	(45 838)	(6 876)	(4 044)	(2 716)	(1 563)	(2 554)	(10 635)	(37 356)	(29 596)
Profit before direct taxation	**370 790**	**326 587**	**202 349**	**260 898**	**(44 952)**	**(59 326)**	**177 498**	**103 092**	**35 896**	**21 924**
Direct tax	(94 864)	(83 582)	(51 119)	(65 923)	10 698	(14 157)	(45 098)	(26 335)	(9 346)	(5 481)
Profit for the year	**275 927**	**243 005**	**151 230**	**194 975**	**(34 254)**	**(45 170)**	**132 400**	**76 757**	**26 550**	**16 443**

Detailed accounting policies

The following accounting policies were applied in the preparation of the Bank's financial statements, unless otherwise stated.

1. Basis of presentation

BASIS OF PRESENTATION

Functional and presentation currency

Transactions and balances

Functional and presentation currency

Items included in the annual financial statements are measured using the currency of the primary economic environment in which the entity operates (functional currency). These annual financial statements are presented in Lesotho Maloti, which is the functional and presentation currency of Standard Lesotho Bank (the Bank).

Transactions and balances

Foreign currency transactions are translated into the bank functional currency at exchange rates prevailing at the date of the transactions (in certain instances a rate that approximates the actual rate at the date of the transaction is utilised, for example, an average rate for a month). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in profit or loss (except when recognised in OCI as part of qualifying cash flow hedges and net investment hedges.

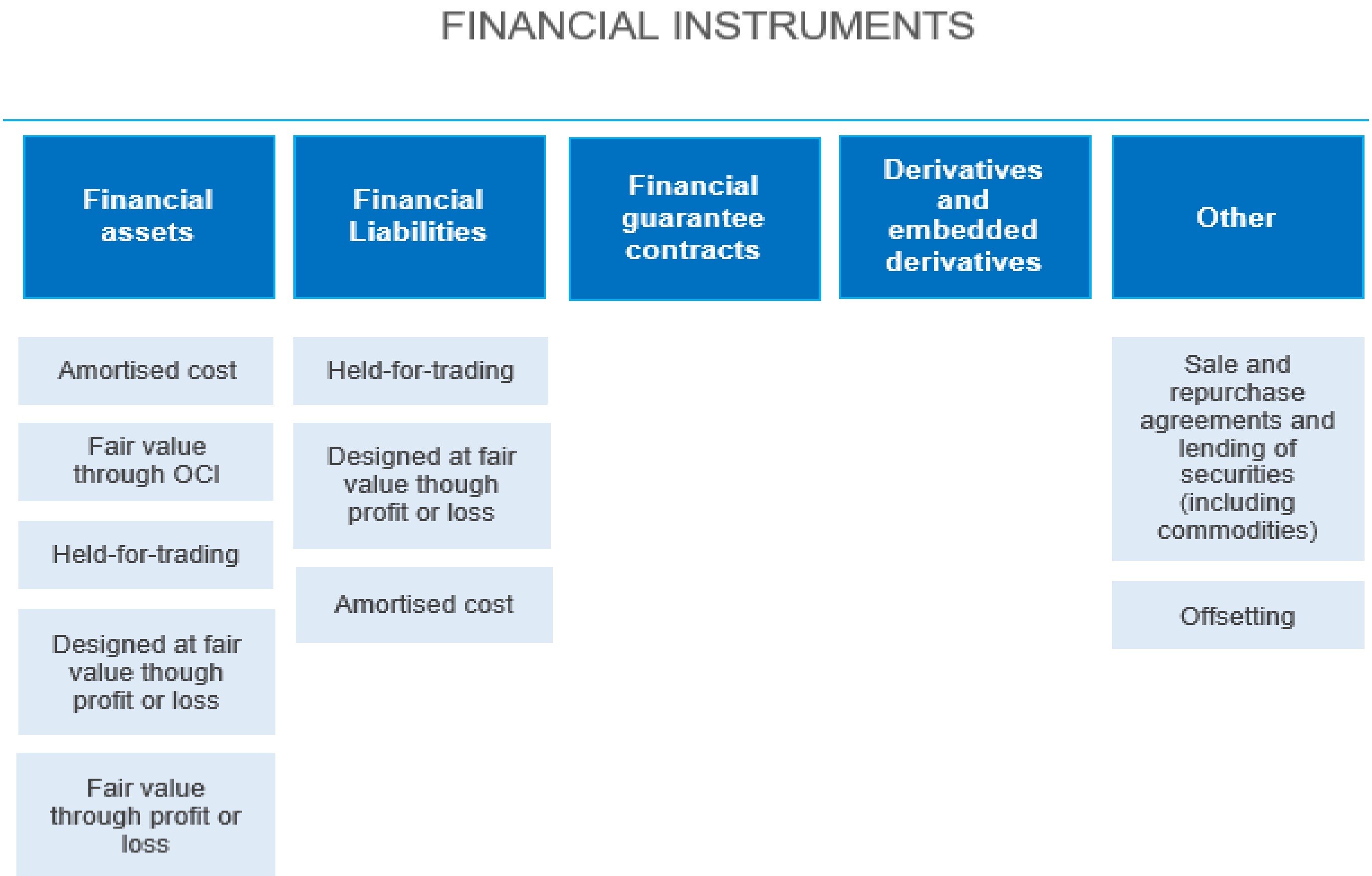
Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items.

Foreign exchange gains and losses on equities (debt) classified as available-for-sale financial assets are recognised in the available-for-sale reserve in OCI (interest income), whereas the exchange differences on equities (debt) that are classified as held at fair value through profit or loss are reported as part of the other revenue (interest income).

2. Cash and cash equivalents

Cash and cash equivalents presented in the statement of cash flows consist of cash and balances with central bank. These balances are available for use by the bank subject to certain restrictions and limitations imposed by the CBL. These minimum balances are held at fair value through profit or loss while the excess above the reserving is held as amortised cost.

3. Financial instruments



Initial measurement – financial instruments

All financial instruments are measured initially at fair value plus directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss where such transaction costs and fees are immediately recognised in profit or loss. Financial instruments are recognised (derecognised) on the date the Bank commits to purchase (sell) the instruments (trade date accounting).

Financial assets

Nature

Amortised cost	A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): • Held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows; and • The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss - default.
Fair value through OCI	A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): • Held within a business model in which the debt instrument (financial asset) is managed to both collect contractual cash flows and sell financial assets; and • The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss - default. Equity financial assets which are not held for trading and are irrevocably elected (on an instrument-by-instrument basis) to be presented at fair value through OCI.
Held for trading	Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
Designated at fair value through profit or loss	Financial assets are designated to be measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch that would otherwise arise.
Fair value through profit or loss – default	Financial assets that are not classified into one of the above mentioned financial asset categories.

Financial assets continued

Subsequent measurement

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortised cost or fair value as follows:

Amortised cost	Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.
Fair value through OCI	**Debt instrument:** Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When a debt financial asset is disposed of, the cumulative fair value adjustments, previously recognised in OCI, are reclassified to the other gains and losses on financial instruments within non-interest revenue. Expected credit impairments losses are recognised as part of credit impairment charges. However, for these FVOCI debt instruments the expected credit loss is recognised in OCI and does not reduce the carrying amount of the financial asset in the statement of financial position. Interest income on a debt financial asset is recognised in interest income in terms of the effective interest rate method. **Equity instrument:** Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When equity financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified within reserves to retained income.
Held for trading	Fair value, with gains and losses arising from changes in fair value (including interest) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value gains and losses (including interest and dividends) on the financial asset recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.
Fair value through profit or loss – default	Fair value gains and losses (including interest and dividends) on the financial asset are recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.

Impairment

ECL is recognised on debt financial assets classified as at either amortised cost or fair value through OCI, financial guarantee contracts that are not designated at fair value through profit or loss as well as loan commitments that are not measured at fair value through profit or loss nor are used to provide loans at a below market interest rate.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a SICR at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The measurement basis of the ECL, which is set out in the table that follows, is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR.
Stage 2	A lifetime ECL is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.
Stage 3 (credit impaired assets)	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: • default • significant financial difficulty of borrower and/or modification • probability of bankruptcy or financial reorganisation • disappearance of an active market due to financial difficulties.

Financial assets continued
Impairment continued

The key components of the impairment methodology are described as follows:

Significant increase in credit risk (SICR)	At each reporting date the Bank assesses whether the credit risk of its exposures has increased significantly since initial recognition by considering the change in the risk of default occurring over the expected life of the financial asset. Credit risk of exposures which are overdue for more than 30 days are also considered to have increased significantly.
Low credit risk	Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure's ability to fulfil its contractual obligations.
Default	The Bank's definition of default has been aligned to its internal credit risk management definitions (Annexure A_ Risk and Capital Management) and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets: • significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower) • a breach of contract, such as default or delinquency in interest and/or principal payments • disappearance of active market due to financial difficulties • it becomes probable that the borrower will enter bankruptcy or other financial reorganisation • where the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Bank would not otherwise consider. • exposures which are overdue for more than 90 days are also considered to be in default.
Forward-looking information	Forward-looking information is incorporated into the Bank's impairment methodology calculations and in the Bank's assessment of SICR. The Bank includes all forward looking information which is reasonable and available without undue cost or effort. The information will typically include expected macro-economic conditions and factors that are expected to impact portfolios or individual counterparty exposures.
Write-off	Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.

ECLs are recognised within the statement of financial position as follows:

Financial assets measured at amortised cost (including loan commitments)	Recognised as a deduction from the gross carrying amount of the asset (group of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (group of assets), the excess is recognised as a provision within other liabilities.
Off-balance sheet exposures (excluding loan commitments)	Recognised as a provision within other liabilities.
Financial assets measured at fair value through OCI	Recognised in the fair value reserve within equity. The carrying value of the financial asset is recognised in the statement of financial position at fair value.

Cash and balances with the central bank

Cash and balances with the central bank comprise coins and bank notes and balances with the central bank (CBL). Included in balances with central bank are balances that primarily comprise of reserving requirements held with the central bank which are readily convertible to a known amount of cash and available for use by the group and company within less than three months since initial deposit, subject to certain restrictions and limitations levied by the central bank, but are subject to an insignificant risk of changes in value.

Coins and bank notes and balances with central banks comprising reserving requirements are measured at fair value through profit or loss – default. Any excess over reserving balance is measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with the central bank and on demand gross loans and advances to banks.

Reclassification

Reclassifications of debt financial assets are permitted when, and only when, the Bank changes its business model for managing of its financial assets, in which case all affected financial assets are reclassified. Reclassifications are accounted for prospectively from the date of reclassification as follows:

- Financial assets that are reclassified from amortised cost to fair value are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in other gains and losses on financial instruments

- The fair value of a financial asset that is reclassified from fair value to amortised cost becomes the financial asset's new carrying value

- Financial assets that are reclassified from amortised cost to fair value through OCI are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in OCI

- The fair value of a financial asset that is reclassified from fair value through OCI to amortised cost becomes the financial asset's new carrying value with the cumulative fair value adjustment recognised in OCI being recognised against the new carrying value

- The carrying value of financial assets that are reclassified from fair value through profit or loss to fair value through OCI remains at fair value

- The carrying value of financial assets that are reclassified from fair value through OCI to fair value through profit or loss remains at fair value, with the cumulative fair value adjustment in OCI being recognised in the income statement at the date of reclassification.

Financial liabilities

Nature

Held-for-trading	Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
Designated at fair value through profit or loss	Financial liabilities are designated to be measured at fair value in the following instances: • to eliminate or significantly reduce an accounting mismatch that would otherwise arise where the financial liabilities are managed and their performance evaluated and reported on a fair value basis • where the financial liability contains one or more embedded derivatives that significantly modify the financial liability's cash flows.
Amortised cost	All other financial liabilities not included in the above categories.

Subsequent measurement

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-for-trading	Fair value, with gains and losses arising from changes in fair value (including interest) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value, with gains and losses arising from changes in fair value (including interest and dividends but excluding fair value gains and losses attributable to own credit risk) are recognised in the other gains and losses on financial instruments as part of non-interest revenue. Fair value gains and losses attributable to changes in own credit risk are recognised within OCI, unless this would create or enlarge an accounting mismatch in which case the own credit risk changes are recognised within trading revenue.
Amortised cost	Amortised cost using the effective interest method recognised in interest expense.

Financial liabilities continues

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised/modified in the following instances:

	Derecognition	Modification
Financial assets	Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Bank has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability. The Bank enters into transactions whereby it transfers assets, recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.	In determining whether a modification is substantial, for a financial asset qualitative factors are considered and for a financial liability, both qualitative and quantitative factors are considered. Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes. If the terms are not substantially different for financial assets or financial liabilities, the Bank recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).
Financial liabilities	Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.	

Financial liabilities continues

Financial guarantee contracts and loan commitments below market interest rate.

A financial guarantee contract is a contract that requires the Bank (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A loan commitment is described in IFRS 9 as a firm commitment to provide credit under specified terms and conditions. It is a binding promise from a lender that a specified amount of loan or line of credit will be made available to the named borrower at a certain interest rate, during a certain period and, usually, for a certain purpose.

Financial guarantee contracts and loan commitments at a below market interest rate are initially recognised when the Bank become party to the irrevocable commitment at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts (that are not designated at fair value through profit or loss) and loan commitments at a below market interest rate, are subsequently measured at the higher of the:

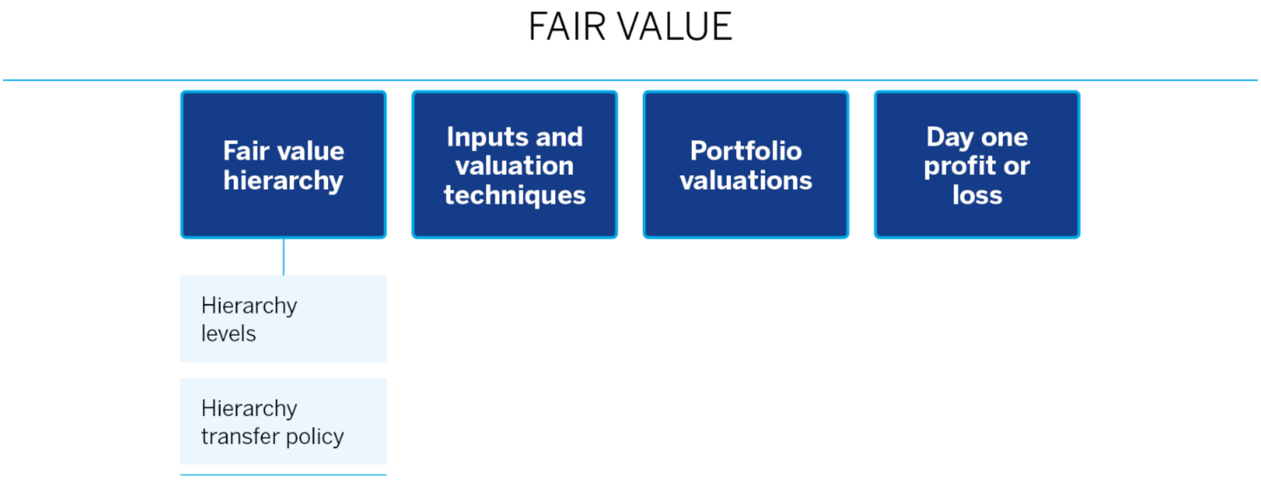
- ECL calculated for the financial guarantee; or
- unamortised premium.

Derivatives and embedded derivatives

In the normal course of business, the Bank enters into a variety of derivative transactions for trading purposes. Derivative financial instruments are entered into for trading purposes. Derivative instruments used by the Bank in trading activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of commodities and equities.

Derivatives are initially recognised at fair value. Derivatives that are not designated in a qualifying hedge accounting relationship are classified as held-for-trading with all changes in fair value being recognised within trading revenue. This includes forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs, and the commodities are held to settle another derivative contract. All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

4. Fair value



In terms of IFRS, the Bank is either required to or elects to measure a number of its financial assets and financial liabilities at fair value. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date under current market conditions. Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions. When determining fair value, it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at the measurement date.

Fair value hierarchy

The Bank's financial instruments that are both carried at fair value and for which fair value is disclosed are categorised by the level of fair value hierarchy. The different levels are based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

Hierarchy levels

The levels have been defined as follows:

Level 1
Fair value is based on quoted market prices (unadjusted) in active markets for an identical financial asset or liability. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2
Fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3
Fair value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instrument being valued and the similar instrument.

Hierarchy transfer policy

Transfers of financial assets and financial liabilities between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Inputs and valuation techniques

Fair value is measured based on quoted market prices or dealer price quotations for identical assets and liabilities that are traded in active markets, which can be accessed at the measurement date, and where those quoted prices represent fair value. If the market for an asset or liability is not active or the instrument is not quoted in an active market, the fair value is determined using other applicable valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

Fair value measurements are categorised into level 1, 2 or 3 within the fair value hierarchy based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market-related discount rate at the reporting date for an asset or liability with similar terms and conditions. If an asset or a liability measured at fair value has both a bid and an ask price, the price within the bid-ask spread that is most representative of fair value is used to measure fair value.

The fair value of items included in cash and cash equivalents is the same as the amortised cost value, as amortised cost items are initially measured at fair value. The fair value of cash and cash equivalents does not change, as there are no adjustments made to these items subsequent to initial recognition. These items are included in level 1 of the fair value hierarchy.

The Bank's valuation control framework governs internal control standards, methodologies, and procedures over its valuation processes, which include the following valuation techniques and main inputs and assumptions per type of instrument:

Item and description	Valuation technique	Main inputs and assumptions
Derivative financial instruments Derivative financial instruments comprise foreign exchange, interest rate, commodity, credit and equity derivatives that are either held-for-trading or designated as hedging instruments in hedge relationships.	Standard derivative contracts are valued using market accepted models and quoted parameter inputs. More complex derivative contracts are modelled using discounted cash flow model.	For level 2 and 3 fair value hierarchy items: • discount rate* • spot prices of the underlying • correlation factors • volatilities • dividend yields • earnings yield • valuation multiples.
Trading assets Trading assets comprise instruments which are part of the Bank's underlying trading activities. These instruments primarily include sovereign and corporate debt.	Where there are no recent market transactions in the specific instrument, fair value is derived from the last available market price adjusted for changes in risks and information since that date. Where a proxy instrument is quoted in an active market, the fair value is determined by adjusting the proxy fair value for differences between the proxy instrument and the financial investment being fair valued.	
Financial investments Financial investments are non-trading financial assets and primarily comprise of sovereign and corporate debt, listed and unlisted equity instruments, investments in bonds and treasury bills issued by the CBL, investments in mutual fund investments and unit-linked investments.	Where proxies are not available, the fair value is estimated using more complex modelling technique. This technique is the discounted cash flow using current market rates for credit, interest, liquidity, volatility and other risks.	

Inputs and valuation techniques continued

Item and description	Valuation technique	Main inputs and assumptions
Loans and advances to banks and customers Loans and advances comprise: ■ Home services ■ Vehicle and asset finance ■ Card and payments ■ Personal unsecured lending ■ Business lending and other ■ Corporate and sovereign ■ Bank	For certain loans fair value may be determined from the market price of a recently occurring transaction adjusted for changes in risks and information between the transaction and valuation dates. Loans and advances are reviewed for observed and verified changes in credit risk and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value. Discounted cash flow models incorporate parameter inputs for interest rate risk, foreign exchange risk, liquidity and credit risk, as appropriate. For credit risk, probability of default and loss given default parameters are determined using credit default swaps (CDS) markets, where available and appropriate, as well as the relevant terms of the loan and loan counterparty such as the industry classification and subordination of the loan.	For level 2 and 3 fair value hierarchy items: ■ discount rate*
Deposits and debt funding Deposits from banks and customers comprise amounts owed to banks and customers, deposits under repurchase agreements, negotiable certificates of deposit, credit-linked deposits and other deposits.	For certain deposits, fair value may be determined from the market price on a recently occurring transaction adjusted for all changes in risks and information between the transaction and valuation dates. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value based on the contractual cash flows related to the instrument. The fair value measurement incorporates all market risk factors, including a measure of the bank's credit risk relevant to that financial liability. The market risk parameters are valued consistently to similar instruments held as assets stated in the section above. The credit risk of the reference asset in the embedded CDS in credit-linked deposits is incorporated into the fair value of all credit-linked deposits that are designated to be measured at fair value through profit or loss. For collateralised deposits that are designated to be measured at fair value through profit or loss, such as securities repurchase agreements, the credit enhancement is incorporated into the fair valuation of the liability.	For level 2 and 3 fair value hierarchy items: ■ discount rate*

*Discount rates, where applicable, include the risk-free rate, risk premiums, liquidity spreads, credit risk (own and counterparty as appropriate), timing of settlement, storage/service costs, prepayment and surrender risk assumptions and recovery rates/loss given default.

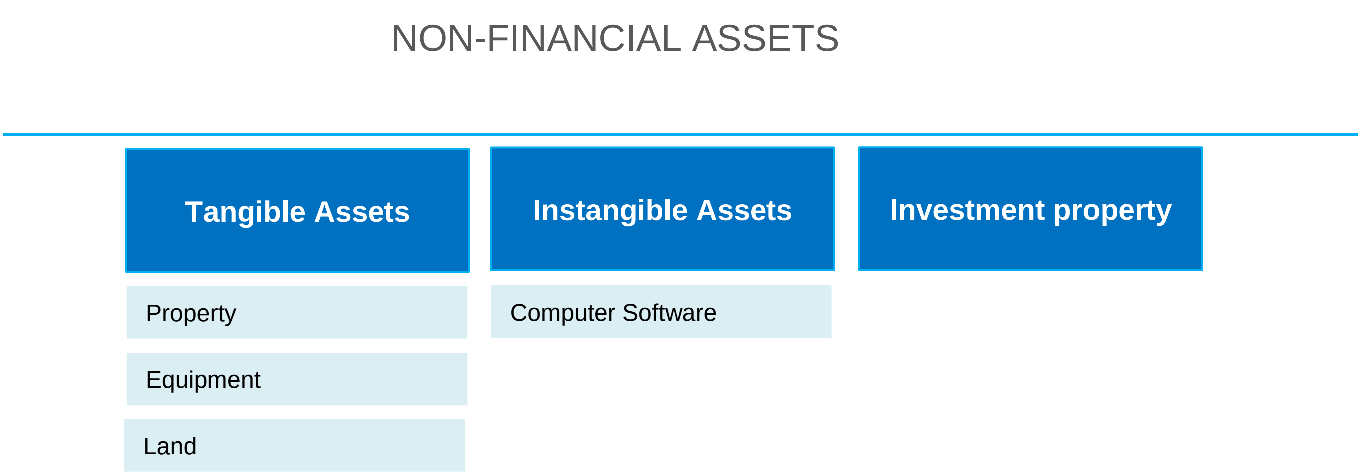
Portfolio valuations

The Bank has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits the group of financial assets and financial liabilities to be measured at fair value on a net basis, with the net fair value being allocated to the financial assets and financial liabilities.

5. Employee benefits

Type and description	Statement of financial position	Statement of other comprehensive	Statement of Profit and Loss
Defined contribution plans The Bank operates a number of defined contribution plans.	Accruals are recognised for unpaid contributions.	No direct impact.	Contributions are recognised as an operating expense in the periods during which services are rendered by the employees.
Short-term benefits Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions.	A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.	No direct impact.	Short-term employee benefit obligations are measured on an undiscounted basis and are expensed in operating expenses as the related service is provided.

6. Non-financial assets



Type and initial and subsequent measurement	Useful lives, depreciation/ amortisation method or fair value basis	Impairment
Tangible assets (property, equipment, land and right-of-use assets) Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Land is measured at cost less accumulative impairment losses. Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Bank and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised in operating expenses as incurred. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate major components of property and equipment. Leasehold improvements follow the same treatment for the class of assets in terms of IAS 16.	Property and equipment are depreciated on the straight-line basis over estimated useful lives (see below) of the assets to their residual values. Land is not depreciated. Significant Freehold Property 10 years Buildings 40 years Computer equipment 4 – 5 years Motor vehicles 4 – 5 years Office equipment 3 – 10 years Furniture 5 – 13 years Leased assets - shorter of useful life or lease term The residual values, useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year end.	These assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in non-trading and capital related items for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest cash generating units (CGUs). Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. The carrying amount of these other assets may, however, not be reduced below the higher of the CGU's fair value less costs to sell and its value in use. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through non-trading and capital related items only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Type and initial and subsequent measurement	Useful lives, depreciation/ amortisation method or fair value basis	Impairment
Computer software Costs associated with developing or maintaining computer software programmes and the acquisition of software licences are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the Bank and have a probable future economic benefit beyond one year, are recognised as intangible assets. Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses from the date that the assets are available for use. Expenditure subsequently incurred on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.	Amortisation is recognised in operating expenses on a straight line basis at rates appropriate to the expected lives of the assets (2 to 15 years) from the date that the asset is available for use. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary.	Intangible assets that have an indefinite useful life are tested annually for impairment and additionally when an indicator of impairment exists. The accounting treatment for computer software and other intangible assets is otherwise the same as for tangible assets.

Derecognition

Non-financial assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on derecognition is recognised in profit or loss and is determined as the difference between the net disposal proceeds and the carrying amount of the non-financial asset.

7. Leases

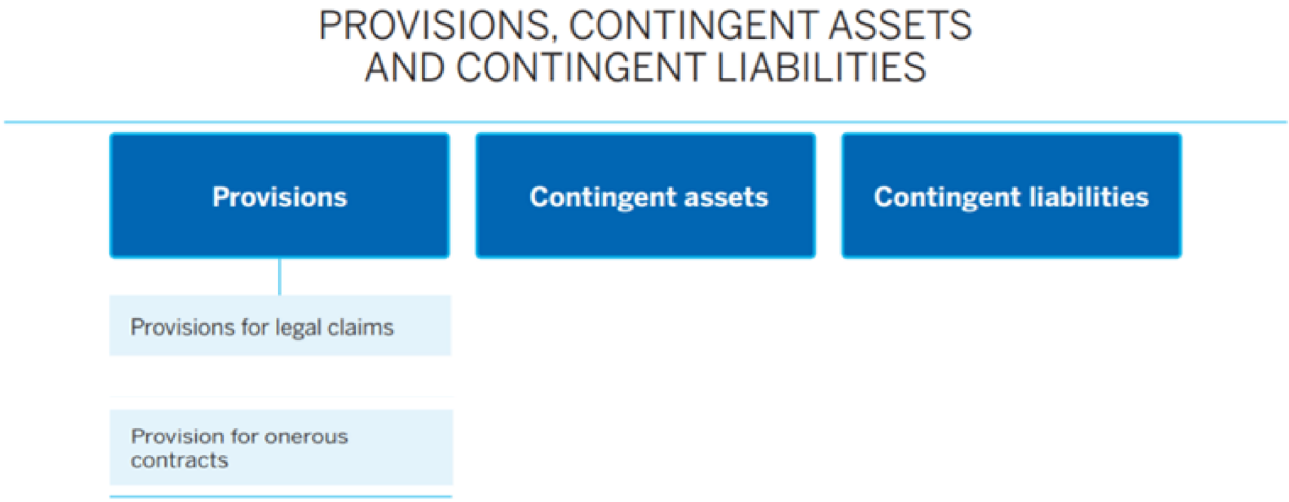
<table>
<tr><th>Type and description</th><th>Statement of financial position</th><th>Income statement</th></tr>
<tr><td colspan="3">Lessee accounting policies</td></tr>
<tr><td rowspan="3">Single lessee accounting model
All leases are accounted for by recognising a right-of-use asset and a lease liability</td><td>Lease liabilities:
Initially measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate implicit in the lease unless (as is typically the case for the Bank) this is not readily determinable, in which case the prevailing funds transfer pricing rate (FTP rate) on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate. On initial recognition, the carrying value of the lease liability also includes:
• Amounts expected to be payable under any residual value guarantee;
• The exercise price of any purchase option granted in favour of the Bank, should it be reasonably certain that this option will be exercised;
• Any penalties payable for terminating the lease, should the term of the lease be estimated on the basis of this termination option being exercised.</td><td>Interest expense on lease liabilities:
A lease finance cost, determined with reference to the interest rate implicit in the lease or the Bank's FTP rate, is recognised within interest expense over the lease period.</td></tr>
<tr><td>Right of use assets:
Initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:
• lease payments made at or before commencement of the lease;
• initial direct costs incurred; and
• the amount of any provision recognised where the Bank is contractually required to dismantle, remove or restore the leased asset.

The Bank applies the cost model subsequent to the initial measurement of the right of use assets.</td><td>Depreciation on right of use assets:
Subsequent to initial measurement, the right of use assets are depreciated on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset should this term be shorter than the lease term unless ownership of the underlying asset transfers to the Bank at the end of the lease term, whereby the right of use assets are depreciated on a straight-line basis over the remaining economic life of the asset. This depreciation is recognised as part of operating expenses. The accounting treatment for impairment of right of use assets is the same as that for tangible assets.</td></tr>
<tr><td>Termination of leases:
When the Bank or lessor terminates or cancels a lease, the right of use asset and lease liability are derecognised.</td><td>Termination of leases:
On derecognition of the right of use asset and lease liability, any difference is recognised as a derecognition gain or loss in profit or loss.</td></tr>
</table>

Leases (Continued)

Type and description	Statement of financial position	Income statement
Lessee accounting policies continued		
All leases that meet the criteria as either a lease of a low value asset or a shortterm lease are accounted for on a straight-line basis over the lease term.	Accruals for unpaid lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease expense are recognised.	Payments made under these leases, net of any incentives received from the lessor, are recognised in operating expenses on a straight-line basis over the term of the lease. When these leases are terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as operating expenses in the period in which termination takes place.
Reassessment and modification of leases	**Reassessment of lease terms and lease modifications that are not accounted for as a separate lease:** When the Bank reassesses the terms of any lease (i.e. it re-assesses the probability of exercising an extension or termination option) or modifies the terms of a lease without increasing the scope of the lease or where the increased scope is not commensurate with the stand-alone price, it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term, which are discounted at the applicable rate at the date of reassessment or modification. The carrying amount of lease liability is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. For reassessments to the lease terms, an equivalent adjustment is made to the carrying amount of the right of use asset, with the revised carrying amount being depreciated over the revised lease term. However, if the carrying amount of the right of use asset is reduced to zero any further reduction in the measurement of the lease liability is recognised in profit or loss. For lease modifications that are not accounted for as a separate lease, an equivalent adjustment is made to the carrying amount of the right of use asset, with the revised carrying amount being depreciated over the revised lease term. However, for lease modifications that decrease the scope of the lease the carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease, with any resulting difference being recognised in profit or loss as a gain or loss relating to the partial or full termination of the lease.	
	Lease modifications that are accounted for as a separate lease: When the Bank modifies the terms of a lease resulting in an increase in scope and the consideration for the lease increases by an amount commensurate with a stand-alone price for the increase in scope, the Bank accounts for these modifications as a separate new lease. This accounting treatment equally applies to leases which the Bank elected the short-term lease exemption and the lease term is subsequently modified.	
Separating components of a lease contract	The Bank has elected to apply the practical expedient to not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. The practical expedient is applied to each class of underlying asset.	

8. Provisions, contingent assets and contingent liabilities



Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The Bank's provisions typically (when applicable) include the following:

Provisions for legal claims

Provisions for legal claims are recognised on a prudent basis for the estimated cost for all legal claims that have not been settled or reached conclusion at the reporting date. In determining the provision management considers the probability and likely settlement (if any). Reimbursements of expenditure to settle the provision are recognised when and only when it is virtually certain that the reimbursement will be received.

Provision for onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

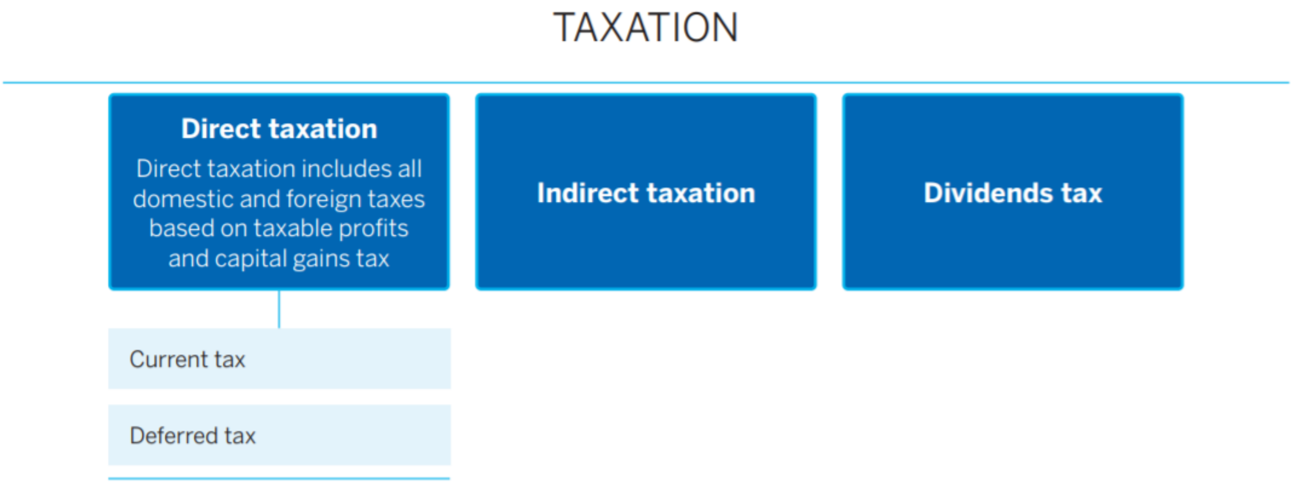
Contingent assets

Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the Bank, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Bank's control.

Contingent liabilities

Contingent liabilities include certain guarantees (other than financial guarantees) and letters of credit and are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are considered remote.

9. Taxation



Type	Description, recognition and measurement	Offsetting
Direct taxation: current tax	Current tax is recognised in the direct taxation line in the income statement except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI. Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.	Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Type	Description, recognition and measurement	Offsetting
Direct taxation: deferred tax	Deferred tax is recognised in direct taxation except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI. Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax is not recognised for the following temporary differences: • the initial recognition of goodwill; • the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses; and • investments in subsidiaries, associates and jointly controlled arrangements (excluding mutual funds) where the Bank controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Bank is unable to control the reversal of the temporary difference for associates unless there is an agreement in place that gives the Bank the ability to control the reversal of the temporary difference. Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.	Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.
Indirect taxation	Indirect taxes, including non-recoverable value added tax (VAT), skills development levies and other duties for banking activities, are recognised in the indirect taxation line in the income statement.	Not applicable
Dividend tax	Taxes on dividends declared by the Bank are recognised as part of the dividends paid within equity, as dividend tax represents a tax on the shareholder and not the Bank. Dividends tax withheld by the Bank on dividends paid to its shareholders and payable at the reporting date to the Lesotho Revenue Authority (where applicable) is included in ‘Provisions and other liabilities’ in the statement of financial position.	Not applicable

10. Revenue and expenditure

REVENUE AND EXPENDITURE

Net interest income	Non- Interest revenue
	• Net fee and commission revenue • Trading revenue • Other gains/losses on financial investments • Other revenue

Description	Recognition and measurement
Net interest income	Interest income and expense (with the exception of borrowing costs that are capitalised on qualifying assets, that is assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value) are recognised in net interest income using the effective interest method for all interest-bearing financial instruments. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate. Where the estimates of payments or receipts on financial assets or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the adjusted cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income. When a financial asset is classified as stage 3 impaired, interest income is calculated on the impaired value (gross carrying amount less specific impairment) based on the original effective interest rate. The contractual interest income on the gross exposure is suspended and is only recognised in credit impairments when the financial asset is reclassified out of stage 3.

Description	Recognition and measurement
Net fee and commission revenue	Fee and commission revenue, including accounting transaction fees, card-based commission, documentation and administration fees, electronic banking fees, foreign currency service fees, insurance based fees and commissions, and knowledge-based fees and commissions are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the Bank does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised to the income statement as interest income. The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract. Fee and commission expenses, included in net fee and commission revenue, are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is presented as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue.
Trading revenue	Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income and expense.
Other gains/losses on financial instruments	Includes: • Fair value gains and losses on financial assets that are classified at fair value through profit or loss (designated and default) • The gain or loss on the derecognition of a debt financial asset classified as at fair value through OCI • Gains and losses arising from the derecognition of financial assets and financial liabilities classified as at amortised cost • Gains and losses arising from the reclassification of a financial asset from amortised cost to fair value • Gains and losses arising from the modification of a financial asset (which is not distressed) and financial liability as at amortised cost • Fair value gains and losses on designated financial liabilities
Other revenue	Other revenue comprises of revenue that is not included in any of the categories mentioned above. This include rentals on sublease, joint venture revenue sharing on bancassurance services

Offsetting

Income and expenses are presented on a net basis only when permitted by IFRS, or for gains and losses arising from a group of similar transactions.

11. Non-current and liabilities assets held for sale

Type and description	Statement of financial position	Statement of other comprehensive income	Income statement
Non-current assets and liabilities Comprising assets and liabilities that are expected to be recovered primarily through sale or distribution to owners rather than continuing use (including regular purchases and sales in the ordinary course of business).	Immediately before classification, the assets (or components of a disposal Bank) are remeasured in accordance with the Bank's accounting policies and tested for impairment. Thereafter, the assets are measured at the lower of their carrying amount and fair value less costs to sell. Assets and liabilities (or components of a disposal group) are presented separately in the statement of financial position. In presenting the Bank's non-current assets and liabilities as held for sale, intercompany balances are eliminated in full.	OCI movements are presented separately.	Impairment losses on initial classification as well as subsequent gains and losses on remeasurement of these assets are recognised in profit or loss. Property and equipment and intangible assets are not subsequently depreciated or amortised.

12. Other significant accounting policies

Segment reporting
An operating segment is a component of the Bank engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. The Bank's identification of segments and the measurement of segment results is based on the Bank's internal reporting to the chief operating decision makers, comprising of the chief executive and members of the finance executive.

Fiduciary activities
The Bank commonly engages in trust or other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising directly thereon are excluded from these annual financial statements as they are not assets of the Bank. However, fee income earned and fee expenses incurred by the Bank relating to the Bank's responsibilities from fiduciary activities are recognised in profit or loss.

Non-trading and capital related items
Non-trading and capital related items primarily include the following:

- gains and losses on the disposal of property and equipment and intangible assets
- Impairment and reversals of property and equipment and intangible assets
- other items of a capital related nature.

New standards and amendments not yet adopted

The following new standards, and amendments are not yet effective for the year ended 31 December 2022 and have not been applied in preparing these annual financial statements.

Title: IAS 1 Presentation of Financial Statements (amendments)
Effective date: 1 January 2023

The amendment clarifies how to classify debt and other liabilities as current or non-current. The objective of the amendment is aimed to promote consistency in applying the requirements by helping entities determine whether, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

The amendment also includes clarifying the classification requirements for debt an entity might settle by converting it into equity. These are clarifications, not changes, to the existing requirements, and so are not expected to affect entities' financial statements significantly. However, these clarifications could result in reclassification of some liabilities from current to non-current, and vice versa. The amendment will be applied retrospectively. Pending the finalisation of the exposure draft on ED/2021/9 – Non-Current Liabilities with Covenants: Proposed Amendments to IAS 1, the effective date of all IAS 1 amendments will be deferred to 1 January 2024.

The impact on the annual financial statements has not yet been fully determined, however not expected to have a significant impact on the group.

Title: IFRS 16 Leases (narrow scope amendments)
Effective date: 1 January 2024

The amendments add to requirements explaining how a company accounts for a sale and leaseback after the date of the transaction. IFRS 16 had not previously specified how to measure the transaction when reporting after that date. The amendments add to the sale and leaseback requirements in IFRS 16, thereby supporting the consistent application of the standard. These amendments will not change the accounting for leases other than those arising in a sale and leaseback transaction. The amendments will be applied retrospectively and are not expected to have a material impact on the group’s financial statements

Annexure B

Risk and Capital Management Report

1. Overview

Capital management

The bank's capital management function is designed to ensure that regulatory requirements are met at all times and that the bank is capitalised in line with the bank's risk appetite and target ratios, both of which are approved by the board.

It further aims to facilitate the allocation and use of capital, such that it generates a return that appropriately compensates shareholders for the risks incurred. Capital adequacy is actively managed and forms a key component of the bank's forecasting process. The capital plan is tested under a range of stress scenarios as part of the bank's annual Internal Capital Adequacy Assessment Practice (ICAAP) and periodic Integrated Recovery Plan (IRP).

The capital management function is governed primarily by management level subcommittee that oversees the risks associated with capital management, namely the bank asset and liability committee (ALCO). The principal governance documents are the capital management governance framework, self-assessment thereof, ICAAP and the dividend policy.

Risk management

Our business resilience is underpinned by the strength of our risk management processes, ethical personal, market and societal conduct. We are a responsible corporate citizen, we adhere to good corporate governance practices, and promote sustainability, social and economic development goals of Lesotho. Our risk management system is governed by board and management with appropriate expertise.

- **Governance:** Our risk management governance comprises of frameworks, standards and policies. Oversight and accountability are maintained through mandated board and management committees.
- **Approach:** Three lines of defence model is used to maintain strong and resilient risk culture. Our risk is managed through board approved risk appetite.

Risk Universe: The bank's activities give rise to various financial and non-financial risks. Standard Lesotho Bank's risks are categorised into three categories being strategic risk, financial risk, and non-financial risk. Risk management is a cornerstone to the bank's resilience, enabling fast, targeted and responsible support for our clients, at the same time providing appropriate support measures for our people, while preserving the bank's financial position. There were no material breaches of board approved risk appetite, and there were no material regulatory fines that affected our licence to operate. The effects of covid 19 and the muted economic growth continued to add financial pressure on many of our clients. Acceleration of digitisation resulted in us exploring new ways of doing business which introduced new risk exposures to our business. Furthermore, the complex and ever-changing regulatory environment required us to be adaptable in order to remain compliant and resilient.

2. Capital management

The bank manages its capital levels to support business, growth, maintain depositor and creditors confidence, create value for the shareholders and ensure regulatory compliance. The main regulatory requirements to be complied with are those specified in the Financial Institutions Act (FIA) 2012 and related regulations, which are aligned with Basel I.

Regulatory capital adequacy is currently measured through the following two risk-based ratios:

Tier I

Issued and fully paid ordinary shares or common stock and related surplus (share premium) or assigned capital of a bank, fully paid-up perpetual non-cumulative preference shares and related surplus of a bank, a statutory reserve account as required by the FIA 2012, retained earnings as stated in the latest audited financial statements of the bank divided by the total risk weighted assets (RWA).

Tier II

Tier II capital or supplementary capital is limited to 100% of Tier I or Core Capital and consist of fixed assets revaluation reserves, securities revaluation reserves, general provisions or general reserves for losses on assets, which refer to provisions and reserves not ascribed to specific assets, subordinated term debt and other items as prescribed by the Act.

Total Tier I and Tier II capital adequacy

Tier 1 plus Tier II other items such as general credit impairments and subordinated debt with either contractual or statutory principal loss absorption features that comply with the Basel I rules less allowable deductions divided by total RWA.

Capital adequacy ratio

The capital adequacy Tier I improved by 90 basis points compared to prior period and remained in compliance with all regulatory capital requirements on its banking operations.

Key Indicators	2022 M'000	2021 M'000
Share capital and premium	20 625	20 625
Statutory reserves	100 625	100 625
General reserves	17	17
Retained earnings	1 527 658	1 491 733
Total Tier I Capital	**1 648 761**	**1613 000**
General debt provision (1.25% of RWAs)	70 604	71 421
Available for sale reserves	1 928	(2 203)
Total Tier II Capital	72 532	69 218
Less deductions: Intangible assets	(247 959)	(274 432)
Total Qualifying Capital	**1 473 335**	**1 407 786**
Total risk weighted assets	5 556 332	5 609 600
Capital adequacy ratio (Tier I)	29.7%	28.8%
Total Capital adequacy ratio	26.5%	25.1%
Minimum capital ratio per Financial Institutions Act	8.0%	8.0%

3. Credit risk

Definition

Credit risk is the risk of loss arising out of the failure of obligors to meet their financial or contractual obligations when due. It is composed of obligor risk, concentration risk and country risk and represents the largest source of risk to which the bank is exposed.

Approach to managing and measuring credit risk

The bank's credit risk is a function of its business model and arises from CIB and retail loans and advances, underwriting and guarantee commitments, as well as from the counterparty credit risk (CCR) arising from derivative and securities financing contracts entered into with our customers and trading counterparties..

Credit risk is managed through:

- maintaining a culture of responsible lending and a robust risk policy and control framework
- identifying, assessing and measuring credit risk across the bank, from an individual facility level through to an aggregate portfolio level
- defining, implementing and continually re-evaluating risk appetite under actual and stressed conditions
- monitoring the bank's credit risk exposure relative to approved limits
- ensuring that there is expert scrutiny and approval of credit risk and its mitigation independently of the business functions.

A bank credit limit and concentration guideline are embedded within the bank's enterprise-wide risk management process. Within the bank's overall risk appetite disciplines, the credit metrics and concentrations framework include key credit ratios and counterparty, sector and country concentration guidelines. These in turn are cascaded to business units where they are monitored against approved appetite thresholds.

The bank distinguishes between through-the-cycle PDs and point-intime PDs, and utilises both measures in decision-making. To determine point-in-time PD's for IFRS 9 measurement, through-the-cycle PDs are used as a starting point and adjusted to determine appropriate point-intime PDs. PD's are used for purposes of managing credit risk exposures and measuring impairments against credit exposures

A credit portfolio limit framework has been defined to monitor and control the credit risk profile within our approved risk appetite. All primary lending credit limits are set, and exposures measured on the basis of risk weighting in order to best estimate exposure at default (EAD).

Pre-settlement CCR inherent in trading book exposures is measured on a potential future exposure (PFE) basis, modelled at a defined level of confidence using approved methodologies and models, and controlled within explicit approved limits for the counterparties concerned.

Credit risk mitigation

Wherever warranted, the bank will attempt to mitigate credit risk, including CCR to any counterparty, transaction, sector, or geographic region, so as to achieve the optimal balance between risk, cost, capital utilisation and reward. Risk mitigation may include the use of collateral, the imposition of financial or behavioural covenants, the acceptance of guarantees from parents or third parties, the recognition of parental support, and the distribution of risk.

Collateral, parental guarantees, credit derivatives and on and off-balance sheet netting are widely used to mitigate credit risk. Credit risk mitigation policies and procedures ensure that risk mitigation techniques are acceptable, used consistently, valued appropriately and regularly, and meet the risk requirements of operational management for legal, practical and timely enforcement. Detailed processes and procedures are in place to guide each type of mitigation used.

In the case of collateral where the bank has an unassailable legal title, the bank’s policy is such that collateral is required to meet certain criteria for recognition in loss given default (LGD) modelling, including:

- is readily marketable and liquid
- is legally perfected and enforceable
- has a low valuation volatility
- is readily realisable at minimum expense
- has no material correlation to the obligor credit quality
- has an active secondary market for resale.

The main types of collateral obtained by the bank for its banking book exposures include:

- mortgage bonds over residential, commercial and industrial properties
- cession of book debts
- pledge and cession of financial assets
- bonds over plant and equipment
- the underlying movable assets financed under leases and
- instalment sales.

Reverse repurchase agreements and commodity leases to customers are collateralised by the underlying assets.

Guarantees and related legal contracts are often required, particularly in support of credit extension to banks of companies and weaker obligors. Guarantors include banks, parent companies, shareholders and associated obligors. Creditworthiness is established for the guarantor as for other obligor credit approvals.

For trading and derivatives transactions where collateral support is considered necessary, the bank typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure (CSA).

Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if the mark-to-market credit exposure exceeds acceptable limits, and termination of the contract if certain credit events occur, for example, downgrade of the counterparty's public credit rating.

Wrong-way risk arises in transactions where the likelihood of default (i.e., the probability of default (PD) by a counterparty and the size of credit exposure (as measured by EAD) to that counterparty tend to increase at the same time. This risk is managed both at an individual counterparty level and at an aggregate portfolio level by limiting exposure to such transactions, taking adverse correlation into account in the measurement and mitigation of credit exposure and increasing oversight and approval levels. The bank has no appetite for wrong-way risk arising where the correlation between EAD and PD is due to a legal, economic, strategic or similar relationship (i.e., specific wrong-way risk). General wrong-way risk, which arises when the correlation between EAD and PD for the counterparty, due mainly to macro factors, is closely managed within existing risk frameworks.

To manage actual or potential portfolio risk concentrations in areas of higher credit risk and credit portfolio growth, the bank implements hedging and other strategies from time-to-time. This is done at individual counterparty, sub-portfolio and portfolio levels through the use of syndication, distribution and sale of assets, asset and portfolio limit management, credit derivatives and credit protection.

Use of internal estimates

Our credit risk rating systems and processes differentiate and quantify credit risk across counterparties and asset classes. Internal risk parameters are used extensively in risk management and business processes, including:

- setting risk appetite
- setting concentration and counterparty limits
- credit approval and monitoring

Collateral

Within risk functions and business units there are specialised legal practitioners who are responsible for ensuring that legally valid, binding and enforceable loan agreements and amendments to standard security documents are in place where required. Security is provided to the bank by counterparties accepting lending facilities. In certain instances, further counsel is sought from external attorneys in respect of unusual forms of security or where security is provided by foreign companies.

Collateral required in the event of a credit rating downgrade

The bank enters into derivative contracts with rated and unrated counterparties. To mitigate counterparty credit risk, the bank stipulates credit protection terms such as limitations on the amount of unsecured credit exposure it will accept, collateralisation if marked-to-market credit exposure exceeds those amounts and collateralisation and /or termination of the contract if certain credit events occur, including but not limited to a downgrade of the counterparty's public credit rating.

Certain counterparties require that the bank provide similar credit protection terms. From time to time, the bank may agree to provide those terms on a restrictive basis. Rating downgrades as a collateralisation or termination event are generally conceded only to highly rated counterparties and, whenever possible, on a bilateral reciprocal basis. In exceptional cases, the bank might concede such rating downgrades to unrated counterparties when their size, credit strength and business potential are deemed acceptable.

The impact on the bank in respect of the amount of collateral it would have to provide given a credit downgrade is determined by the negative marked-to-market on derivative contracts where such a collateralisation trigger has been conceded.

Where the impact on Bank's liquidity of a collateral call linked to downgrading is deemed to be material, the potential exposure is taken into account in model stress testing. However, the extent of legal commitments that could result in collateral calls triggered by a rating downgrade is not material and would not have an adverse effect on the bank's financial position.

Credit risk measurement

Loans and advances including loan commitments and guarantees

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

(i) Probability of default

The bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. Clients of the bank are segmented into four rating classes. The bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. Observed defaults per rating category vary year on year, especially over an economic cycle.

(ii) Exposure at default

Exposure at default is based on the amounts the bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the bank includes any amount already drawn plus the additional amount that may have been drawn by the time of default, should it occur.

(iii) Loss given default

Loss given default or loss severity represents the bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation

Risk limit control and mitigation policies

The bank manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and banks, and to industries and countries.

The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below.

(a) Collateral

The bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(b) Lending limits for derivatives and loan books

The bank maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts), by both amount and term.

The amount subject to credit risk is limited to the expected future net cash inflows of the instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding.

This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not always obtained for credit risk exposures on these instruments.

Settlement risk arises in any situation where a payment in cash or securities is made in the expectation of a corresponding receipt in cash or securities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the bank's market transactions on any single day.

(c) Financial covenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the bank on behalf of a customer authorising a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment and provisioning policies

The internal and external rating systems described above focus on credit-quality mapping from the inception of the lending and investment activities. 2018 was the adoption of the new accounting standard (IFRS 9) moving away from the old IAS 39, which was criticised mostly for being event based, that is, waiting for non-payment to trigger provisions. The new IFRS 9 objectives are Expected loss, pre-emptively assess the book for increased risk (significant increase in credit risk) and consider the impact of the forecasted Macroeconomic view on quality of the credit the book today and raise required impairments.

Corporate, sovereign and banking portfolios

Corporate entities include large companies, as well as small medium entities (SMEs) that are managed on a relationship basis or have a combined exposure to the bank of more than M35 million. Corporate exposures also include specialized lending (project, object and commodity finance, as well as income-producing real estate (IPRE)) and public sector entities.

Sovereign and bank borrowers include sovereign government entities, central banks, local government entities, bank and non-bank financial institutions.

The creditworthiness of corporate (excluding specialized lending), sovereign and bank exposures are assessed based on a detailed individual assessment of the financial strength of the borrower. This quantitative analysis, together with expert judgement and external rating agency ratings, leads to an assignment of an internal rating to the entity.

Specialized lending's creditworthiness is assessed on a transactional level, rather than on the financial strength of the borrower, in so far as the bank relies only on repayment from the cash flows generated by the underlying assets financed.

Concentration risk management is performed to ensure that credit exposure concentrations in respect of obligors, countries, sectors and other risk areas are effectively managed. This includes concentrations arising from credit exposure to different entities within an obligor economic group, such as exposure to public sector and other government entities that are related to the same sovereign.

Credit portfolio characteristics and metrics

Maximum exposure to credit risk

Debt financial assets at amortised cost and FVOCI as well as off-balance sheet exposure subject to an ECL are analysed and categorised based on credit quality using the bank's master rating scale. Exposures within stage 1 and 2 are rated between 1 to 25 in terms of the bank's master rating scale. The bank uses a 25-point master rating scale to quantify the credit risk for each borrower (corporate asset classes) or facility (specialised lending and retail asset classes), as illustrated in the table below. These ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data from the applicable BCC and CHNW portfolios. The bank distinguishes between through-the-cycle PDs and point-in-time PDs, and utilises both measures in decision-making, managing credit risk exposures and measuring impairments against credit exposures. Exposures which are in default are not considered in the 1 to 25-point master rating scale.

Default

The bank's definition of default has been aligned to its internal credit risk management definitions and approaches. Whilst the specific determination of default varies according to the nature of the product, it is generally determined (aligned to the BASEL definition) as occurring at the earlier of:

- where, in the bank's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

The bank has not rebutted IFRS 9's 90 days past due rebuttable presumption and therefore exposures which are overdue for more than 90 days are also considered to be in default

A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or banks of financial assets:

- significant financial difficulty of borrower and/or modification (i.e., known cash flow difficulties experienced by the borrower)
- a breach of contract, such as default or delinquency in interest and/or principal payments
- disappearance of active market due to financial difficulties
- it becomes probable that the borrower will enter bankruptcy or another financial reorganisation
- where the bank, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the bank would not otherwise consider.

Credit Quality of financial Assets

2022	Gross carrying amount	SB 1 - 12		SB 13 - 20		SB 21-25		Default	Total gross carrying amount of default exposures	Securities and expected recoveries on default exposures	Statement of Financial Position expected credit loss and interest in suspense on default exposures	Gross default coverage	Non-performing
		Stage1	Stage2	Stage1	Stage2	Stage1	Stage 2	Stage 3					exposures
	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	%	%
Loans and advances at amortised cost													
Personal & Business Banking	**1 575 958**	**-**	**-**	**1 371 318**	**71 499**	**-**	**-**	**133 141**	**133 141**	**111 831**	**30 565**	**23%**	**8%**
Mortgage loans	1 052 933	-	-	888 915	47 046	-	-	116 972	116 972	102 935	20 726	88%	11%
Vehicle and asset finance	490 590	-	-	458 843	15 959	-	-	15 788	15 788	8 762	9 303	56%	3%
Card debtors	32 435	-	-	23 560	8 494	-	-	381	381	133	536	35%	1%
Other loans and advances	**2 957 771**	**-**	**-**	**2 665 837**	**253 641**	**-**	**-**	**38 293**	**38 293**	**12 324**	**28 179**	**81%**	**1%**
Personal unsecured lending	2 702 136	-	-	2 447 056	231 695	-	-	23 385	23 385	3 975	28 869	17%	1%
Business lending and other	255 635	-	-	218 781	21 946	-	-	14 908	14 908	8 348	(690)	56%	6%
Corporate & Investment Banking	**1 014 414**	**10 856**	**-**	**991 503**	**12 055**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Corporate and sovereign	312 592	10 856	-	289 681	12 055	-	-	-	-	-	-	-	-
Bank	701 822	-	-	701 822	-	-	-	-	-	-	-	-	-
								-	-	-	-	-	-
Gross carrying amount	**5 548 143**	-	-	-	-	-	-	-	-	-	-	-	-
Less ECL on Loans and Advances & IIS	-215 859	-	-	-	-	-	-	-	-	-	-	-	-

Net carrying amount of loans and advances measured at amortised cost	**5 332 284**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financial investments measured at amortised cost													
Sovereign	142 410	142 410	-	-	-	-	-	-	-	-	-	-	-
Gross carrying amount	**142 410**	**142 410**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Less: ECL for financial investments measured at amortised cost	-308	-308	-	-	-	-	-	-	-	-	-	-	-
Net carrying amount of financial investments measured at amortised cost	**142 102**	**142 102**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financial investments at FVOCI													
Corporate	1 571 400	-	-	1 460 497	110 903	-	-	-	-	-	-	-	-
Sovereign	1 086 722	1 086 722	-	-	-	-	-	-	-	-	-	-	-
Gross carrying amount	**2 658 122**	**1 086 722**	**-**	**1 460 497**	**110 903**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Add: Fair value reserve relating to fair value adjustments (before the ECL balance)	-3 633	-3 633	-	-	-	-	-	-	-	-	-	-	-
Total financial investment at fair value through OCI	**2 654 489**	**1 083 089**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Off-balance sheet exposures													
Letters of Credit	7 469	7 469											
Guarantees	448 874	448 874	-	-	-	-	-	-	-	-	-	-	-
Unutilised facilities	411 983	411 983	-	-	-	-	-	-	-	-	-	-	
Total exposure to off-balance sheet credit risk	**868 326**	**868 326**	-	-	-	-	-	-	-	-	-	-	-
Less: ECL for off-balance sheet exposures	-26	-26	-	-	-	-	-	-	-	-	-	-	-
Net carrying amount of off-balance sheet exposures	**868 300**	**868 300**	-	-	-	-	-	-	-	-	-	-	-
Total exposure to credit risk on financial assets subject to ECL	**9 010 350**	-	-	-	-	-	-	-	-	-	-	-	-
Add the following exposures not subject to ECL:	**2 098 140**	-	-	-	-	-	-	-	-	-	-	-	-
Cash and balances with the central bank - held at FVTPL	952 890	-	-	-	-	-	-	-	-	-	-	-	-
Derivative assets	42 819	-	-	-	-	-	-	-	-	-	-	-	-
Other financial investments		-	-	-	-	-	-	-	-	-	-	-	-
Trading securities	955 091	-	-	-	-	-	-	-	-	-	-	-	-
Other financial assets	147 340	-	-	-	-	-	-	-	-	-	-	-	-
Total exposure to credit risk	**11 108 489**	-	-	-	-	-	-	-	-	-	-	-	-

Credit Quality of financial Assets

2021	Gross carrying amount	SB 1 - 12		SB 13 - 20		SB 21-25		Default	Total gross carrying amount of default exposures	Securities and expected recoveries on default exposures	Statement of Financial Position expected credit loss and interest in suspense on default exposures	Gross default coverage	Non-performing
		Stage1	Stage2	Stage1	Stage2	Stage1	Stage 2	Stage 3					exposures
	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	%	%
Loans and advances at amortised cost													
Personal & Business Banking	**4 276 913**	**-**	**-**	**3 843 365**	**-**	**-**	**263 797**	**169 751**	**169 751**	**74 937**	**78 335**	**51**	**4**
Mortgage loans	1 022 394	-	-	838 662	-	-	64 079	119 653	119 653	60 586	38 627	39	10
Vehicle and asset finance	478 713	-	-	434 297	-	-	31 228	13 188	13 188	4 832	6 145	56	2
Card debtors	32 174	-	-	21 377	-	-	10 404	393	393	1 324	(456)	(53)	3
Other loans and advances	**2 743 632**	**-**	**-**	**2 549 029**	**-**	**-**	**158 086**	**36 517**	**36 517**	**8 195**	**34 019**	**81**	**2**
Personal unsecured lending	2 515 712	-	-	2 360 814	-	-	139 488	15 410	15 410	(5 383)	29 480	122	1
Business lending and other	227 920	-	-	188 215	-	-	18 598	21 107	21 107	13 578	4 539	25	8
Corporate & Investment	**2 222 997**	**211 046**	**701 530**	**301 760**	**1 006 062**	**231**	**2 368**	**-**	**-**	**-**	**-**	**-**	**-**

Banking													
Corporate and sovereign	298 780	12 682	-	272 260	11 239	231	2 368	-	-	-	-	-	-
Bank	1 924 217	198 364	701 530	29 500	994 823	-	-	-	-	-	-	-	-
								-	-	-	-	-	-
Gross carrying amount	**6 499 910**	-	-	-	-	-	-	-	-	-	-	-	-
Less ECL on Loans and Advances	(224 452)	-	-	-	-	-	-	-	-	-	-	-	-
Net carrying amount of loans and advances measured at amortised cost	**6 275 458**	-	-	-	-	-	-	-	-	-	-	-	-
Financial investments measured at amortised cost													
Sovereign	240 825	240 825	-	-	-	-	-	-	-	-	-	-	-
Gross carrying amount	**240 825**	**240 825**	-	-	-	-	-	-	-	-	-	-	-
Less: ECL for financial investments measured at amortised cost	(619)	(619)	-	-	-	-	-	-	-	-	-	-	-
Net carrying amount of financial investments measured at amortised cost	**240 206**	240 206	-	-	-	-	-	-	-	-	-	-	-

Financial investments at FVOCI													
Corporate	1 352 044	1 293 971	-	58 073	-	-	-	-	-	-	-	-	-
Sovereign	874 404	874 404	-	-	-	-	-	-	-	-	-	-	-
Gross carrying amount	**2 226 448**	**2 168 375**	**-**	**58 073**	**-**	**-**	**-**	**-**	-	-	-	-	-
Add: Fair value reserve relating to fair value adjustments (before the ECL balance)	3 235	3 235	-	-	-	-	-	-	-	-	-	-	-
Total financial investment at fair value through OCI	**2 229 683**	3 235	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet exposures													
Guarantees	522 617	522 617	-	-	-	-	-	-	-	-	-	-	-
Unutilised facilities	380 597	380 597	-	-	-	-	-	-	-	-	-	-	
Total exposure to off-balance sheet credit risk	**903 214**	**903 214**	**-**	**-**	-	-	-	-	-	-	-	-	-
Less: ECL for off-balance sheet exposures	(190)	(190)	-	-	-	-	-	-	-	-	-	-	-
Net carrying amount of off-balance sheet exposures	**913 024**	**913 024**	-	-	-	-	-	-	-	-	-	-	-
Total exposure to credit risk on financial assets subject	**9 658 371**	-	-	-	-	-	-	-	-	-	-	-	-

to ECL													
Add the following exposures not subject to ECL:	**2 534 518**	-	-	-	-	-	-	-	-	-	-	-	-
Cash and balances with the central bank - held at FVTPL	782 960	-	-	-	-	-	-	-	-	-	-	-	-
Derivative assets	4 360	-	-	-	-	-	-	-	-	-	-	-	-
Other financial investments		-	-	-	-	-	-	-	-	-	-	-	-
Trading securities	1 622 893	-	-	-	-	-	-	-	-	-	-	-	-
Other financial assets	124 305	-	-	-	-	-	-	-	-	-	-	-	-
Total exposure to credit risk	**12 192 889**	-	-	-	-	-	-	-	-	-	-	-	-

Maximum exposure to credit risk before collateral held or other credit enhancements

Gross maximum exposure to credit risk relating to on-balance and off-balance sheet without taking into account any collateral or other credit enhancements is as follows:

	2022 M'000	2021 M'000
Balance with the central bank	321 612	270 347
Derivative assets	42 820	4 360
Trading securities	955 091	1 622 893
Financial investments	2 800 223	2 466 654
Loans and advances with banks	701 822	1 924 217
Loans and advances with customers	4 630 462	4 351 241
Total recognised on-balance sheet financial instruments	**9 452 030**	**10 639 712**
Financial guarantees	448 874	522 617
Uncommitted/Undrawn facilities	411 983	380 597
Other	7 469	-
Total credit exposure	**10 320 356**	**11 542 926**

The above table represents a worst-case scenario of the credit risk exposure to the bank as at 31 December 2022 and comparative figures for 2021, without taking account of any collateral held or other credit enhancements attached. For the on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 45% of the total maximum exposure is derived from loans and advances to customers (2021: 39%) followed by financial investments that represented 27% (2021: 21%) of the total exposure.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the bank resulting from both its loans and advances portfolio and financial investments based on the following:

- Mortgage loans and vehicle and asset finance are supported by collateral; and
- Large corporates have dedicated relationship managers monitoring company performance and other factors that could indicate potential default.

Credit impairment losses on loans and advances

Loans and advances are assessed for possible impairment at each reporting date. Before impairments are allocated to individual loans, consideration is first given to whether there is evidence of a decrease in expected cash flows from a portfolio of loans and advances. This will include estimations of the emergence period between the date of the occurrence of the loss event and the identification of that loss. Portfolio impairments are calculated for both performing and non-performing but not specifically impaired loans. Factors such as national- and industry-specific economic conditions, the extent of early arrears and any legislation that could affect recovery, are all considered when calculating the portfolio impairment charge.

For those non-performing loans (NPL) where there is objective evidence of default, specific impairments are calculated using methodologies that include inputs such as segmentation, modelled expected loss (EL) and PD. Estimates of future cash flows on individually impaired loans are based on historical loss experience for similar loans.

Ageing of loans and advances past due but not specifically impaired

2022	Performing (Early arrears)			Non-performing		Total LCY'000
	Less than 31 days LCY'000	31-60 days LCY'000	61-90 days LCY'000	91-180 days LCY'000	More than 180 days LCY'000	
CHNW and BCC	**936 037**	**36 908**	**58 568**	**-**	**-**	**1 031 514**
Mortgage loans	170 109	6 320	8 413	-	-	184 841
Instalment sale and finance leases	27 740	2 673	4 765	-	-	35 178
Card debtors	2 565	453	318	-	-	3 336
Other loans and advances	735 623	27 462	45 072	-	-	808 159
Corporate & Investment Banking	-	-	-	-	-	-
Corporate loans	-	-	-	-	-	-
Total	**936 037**	**36 908**	**58 568**	**-**	**-**	**1 031 514**

Ageing of loans and advances past due but not specifically impaired

2021	Performing (Early arrears)			Non-performing		
	Less than 31 days LCY'000	31-60 days LCY'000	61-90 days LCY'000	91-180 days LCY'000	More than 180 days LCY'000	Total LCY'000
Personal & Business Banking	**758 745**	**38 931**	**38 396**	**-**	**-**	**836 072**
Mortgage loans	138 870	13 427	3 697	-	-	155 994
Instalment sale and finance leases	25 863	2 389	4 909	-	-	33 161
Card debtors	2 771	449	190	-	-	3 410
Other loans and advances	591 241	22 667	29 599	-	-	643 507
Corporate & Investment Banking	-	-	-	-	-	-
Corporate loans	-	-	-	-	-	-
Total	**758 745**	**38 931**	**38 396**	**-**	**-**	**836 072**

Renegotiated loans and advances

Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified because of weaknesses in the counterparty's financial position, and where it has been judged that normal repayment will likely continue after the restructure. Renegotiated loans that would otherwise be past due or impaired totalled M19.62million in 2022 (2021: M46.6million).

Collateral obtained by the bank

It is the bank's policy to dispose of repossessed assets in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. Generally, the bank does not use repossessed assets for business purposes. The collateral held by the bank for 2022 was M5,491 million (2021: M7,125 million) and predominantly related to properties in possession.

Concentration Risk

Segmental analysis – Industry	**2022 M'000**	**2021 M'000**
Agriculture	12 611	25 572
Construction	95 705	111 431
Electricity	290	8 563
Finance, real estate and other business services	916 585	1 342 737
Individuals	3 920 645	4 421 228
Manufacturing	6 600	7 813
Mining	338 115	171 231
Other services	21 876	15 942
Transport	52 901	256 422
Wholesale	185 835	138 971
Gross loans and advances	**5 548 143**	**6 499 910**

IFRS: INDUSTRY SEGMENTAL ANALYSIS OF STAGE 3 CREDIT IMPAIRMENT OF LOANS AND ADVANCES

Segmental analysis of Stage 3 provisions – industry	**2022 M'000**	**2021 M'000**
Agriculture	(340)	(392)
Construction	(379)	-
Wholesale	(3 771)	(1 584)
Finance, real estate and other business	(2 837)	(818)
Transport	(17 246)	(1 144)
Mining	(2 150)	-
Individuals	(18 848)	(17 672)
Specific credit impairments	**(45 570)**	**(21 610)**

4. Funding and Liquidity risk

Definition

Liquidity risk is defined as the risk that an entity, although solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

Approach to managing liquidity risk

The nature of the bank's banking and trading activities gives rise to continuous exposure to liquidity risk. Liquidity risk may arise where counterparties, who provide the bank with short-term funding, withdraw or do not roll over that funding, or normally liquid assets become illiquid as a result of a generalized disruption in asset markets.

The bank manages liquidity in accordance with applicable regulations and within the bank's risk appetite framework. The bank's liquidity risk management governance framework supports the measurement and management of liquidity across the Corporate & Investment Banking, Consumer and High Net Worth and Business and Commercial client sectors to ensure that payment obligations can be met by the bank, under both normal and stressed conditions within the bank's risk appetite framework and that regulatory minimum requirements are always met. This is achieved through a combination of maintaining adequate liquidity buffers, to ensure that cash flow requirements can be met, and ensuring that our balance sheet is structurally sound and supportive of our strategy. Liquidity risk management ensures that the bank has the appropriate amount, diversification and tenor of funding and liquidity to always support its asset base. The bank manages liquidity risk as three interrelated pillars, which are aligned to the Basel III liquidity requirements, namely tactical short-term liquidity risk management, structural long-term liquidity risk management and contingency liquidity risk management.

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Organisational structure and governance

The Board reviews and approves the liquidity risk policy framework annually in accordance with regulatory requirements and international best practice. This ensures that a comprehensive and consistent governance framework for liquidity risk management is followed across the bank. ALCO is responsible for ensuring compliance with liquidity risk policies.

Liquidity management categories

Tactical (shorter-term) liquidity risk management:	Structural (longer-term) liquidity risk management:	Contingency liquidity risk management:
– manage intra-day liquidity positions; – monitor interbank shortage levels; – monitor daily cash flow requirements; (daily dashboard) – manage short-term cash flows; – manage daily foreign currency liquidity; and – set deposit rates in accordance with structural and contingent liquidity requirements as informed by ALCO.	– ensure a structurally sound balance sheet; – identify structural liquidity mismatches; – determine and apply behavioural profiling; – manage long-term cash flows; – preserve a diversified funding base; – inform term funding requirements; – assess foreign currency liquidity exposures; – establish liquidity risk appetite; and – ensure appropriate transfer pricing of liquidity costs.	– monitor and manage liquidity early warning indicators; – establish and maintain contingency funding plans; – undertake regular liquidity stress testing and scenario analysis; – if need be, convene liquidity crisis management committees; – set liquidity buffer levels in accordance with anticipated stress events; and – advise diversification of liquidity buffer portfolios.

The liquidity management process is independently reviewed on a regular basis. Daily, the liquidity position is prepared and circulated to relevant stakeholders for proactive management. Then the bank's consolidated liquidity risk position is monitored on at least a monthly basis by ALCO. In periods of increased volatility, the monitoring frequency is increased as required to facilitate appropriate and timely management action.

Tactical liquidity risk management

Active liquidity and funding management is an integrated effort across a number of functional areas. Short-term cash flow projections are used to plan for and meet the day-to-day requirements of the business, including adherence to prudential and internal requirements.

The bank's wholesale funding strategy is derived from the projected net asset growth which includes consideration of Personal & Business Banking and Corporate & Investment Banking asset classes, capital requirements, the maturity profile of existing wholesale funding and anticipated changes in the retail deposit base. Funding requirements and initiatives are assessed in accordance with ALCO requirements for diversification, tenure and currency exposure, as well as the availability and pricing of alternative liquidity sources.

Structural liquidity mismatch management

Maturity analysis of financial liabilities by contractual maturity (audited)
The tables below analyses cash flows on a contractual, undiscounted basis based on the earliest date on which the bank can be required to pay (except for trading liabilities and trading derivatives) and will therefore not agree directly to the balances disclosed in the consolidated statement of financial position.

Derivative liabilities are included in the maturity analysis on a contractual, undiscounted basis when contractual maturities are essential for an understanding of the derivatives' future cash flows. Management considers only contractual maturities to be essential for understanding the future cash flows of derivative liabilities that are designated as hedging instruments in effective hedge accounting relationships. All other derivative liabilities are treated as trading and are included at fair value in the 'redeemable on demand' bucket since these positions are typically held for short periods of time.

The tables also include contractual cash flows with respect to off-balance sheet items which have not yet been recorded on-balance sheet. Where cash flows are exchanged simultaneously, the net amounts have been reflected.

Maturity analysis of financial liabilities by contractual maturity

2022	Redeemable on demand M'000	Maturing within 1 month M'000	Maturing between 2 – 6 months M'000	Maturing between 7– 12 months M'000	Maturing after 12 months M'000	Total M'000
Financial liabilities						
Derivative financial instruments (note 2)	-	19 370	-	-		19 370
Deposits from customers and banks (note 11)	7 164 046	125 865	713 482	605 417	48 494	8 657 314
Other Liabilities (note 13)	398 055	-	-	504	38 942	436 997
Total	**7 562 101**	**145 235**	**713 482**	**605 921**	**87 436**	**9 113 681**
Unrecognised financial instruments						
Letters of credit and bankers' acceptances	-	-	7 469	-	-	7 469
Financial guarantees	1 387	108 234	339 253	-	-	448 874
Revocable facilities	500	2 103	398 856	-	-	401 459
Total	**1 887**	**110 337**	**745 578**	**-**	**-**	**857 802**
2021						
Financial liabilities						
Derivative financial instruments	-	-	-	-	80 898	80 898
Deposits from customers and banks	7 782 972	253 609	902 749	621 318	47 416	9 608 064
Other liabilities	384 770	-	-	15 762	5 054	405 586
Total	**8 782 972**	**253 609**	**902 749**	**637 080**	**133 368**	**10 094 548**
Unrecognised financial instruments						
Letters of credit and bankers' acceptances	**-**	**-**	**-**	**-**	**-**	
Financial guarantees	150	34 115	488 352	-	-	522 617
Revocable facilities	57	257 518	122 986	36	57	380 597
Total	**207**	**291 633**	**611 338**	**36**	**57**	**903 214**

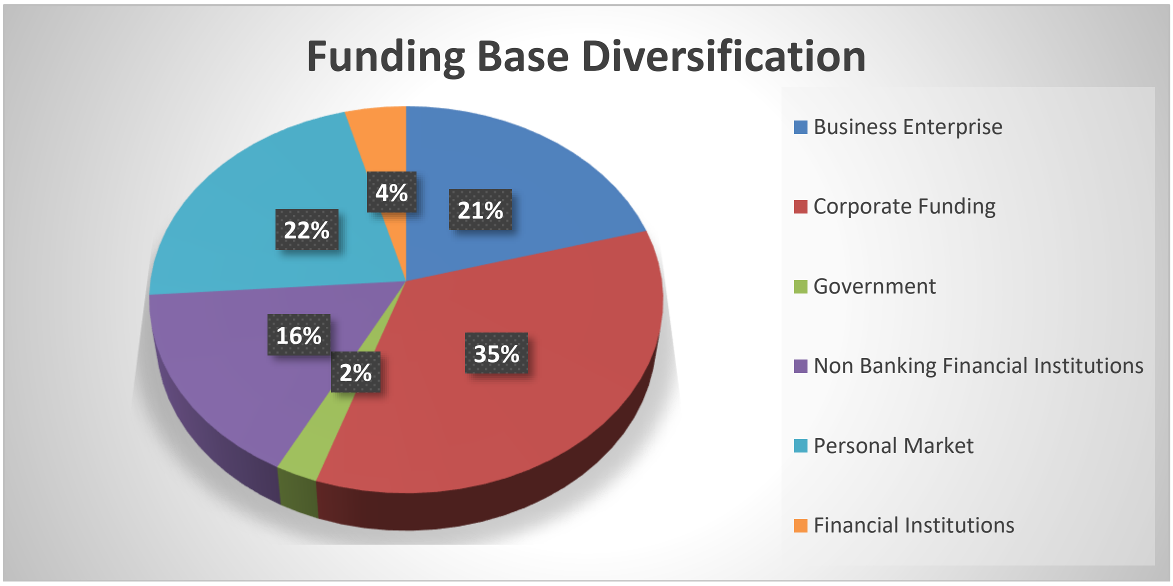
Funding strategy

Funding markets are evaluated on an on-going basis to ensure the appropriate bank funding strategies are executed depending on the market, competitive and regulatory environment. The bank employs a diversified funding strategy, sourcing liquidity in both domestic and offshore markets, and incorporates a coordinated approach to accessing capital and loan markets across the bank.

Concentration risk limits are used within the bank to ensure that funding diversification is maintained across products, sectors, geographic regions and counterparties.

The primary funding sources are in the form of deposits across a spectrum of Corporate and retail clients, as well as long-term capital. The bank remains committed to increasing its core deposits and accessing domestic and foreign capital markets when appropriate to meet its anticipated funding requirements.

Funding-related liabilities composition



Funding-related liabilities composition

	2022 M'000	2021 M'000
Financial institutions	364	850
Corporate funding	2 969	3 295
Government and parastatals	300	239
Non-Banking Financial Institutions	1 397	1 529
Retail deposits	1 882	2 288
Business Enterprise	1 776	1 368
Total Bank funding-related liabilities	**8 597**	**9 570**

Contingency funding plans

The objective of the Liquidity Contingency Plan is to ensure appropriate liquidity is available during periods of temporary and long-term adverse liquidity situations, and to provide a pre-planned response mechanism for managing such situations. It incorporates the various elements required to identify, assess, communicate and remediate a liquidity stress event. It is intended to facilitate a swift and effective response during liquidity stress periods. The stress period may be as a result of a market or bank specific event.

The plans incorporate an extensive early warning indicator methodology supported by clear and decisive crisis response strategies. Early warning indicators cover bank-specific and systemic crises and are monitored according to assigned frequencies and tolerance levels. Crisis response strategies are formulated for the relevant crisis management structures and address internal and external communications, liquidity generation and operations, as well as heightened and supplementary information requirements.

5. Market risk

Definition

The bank defines Market risk as the risk of a change in market value, actual or effective earnings or future cashflows of a portfolio of financial instruments, including commodities, caused by adverse moves in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all these variables.

Governance

The Market Risk Standard and Policy approved by the bank's ALCO and Board governs the measurement, reporting, monitoring and management of market risk.

The Market Risk Management unit is independent of trading operations and accountable to the ALCO to monitor market risk exposures due to trading and banking activities. The unit is responsible for the identification, measurement, management, control and reporting of market risk as outlined in the Market Risk Standard with support from the group market risk teams. Exposures and excesses are monitored daily and are reported daily, weekly, monthly (to ALCO) and quarterly to the Board.

In the event of a limit or trigger breach, the trader should be notified in writing of the excess, prompting for action, with a copy sent to the GM head.

Technical Limit Breaches are noted and recorded by Market Risk but are usually not reported formally to the responsible trader and/or GM head.

In the event of a non-technical breach the trader is required to provide a written response to the market risk manager of the Limit Breach Notification within the same working day providing a reason for the breach and management action plan for mitigating and resolving the breach. Responses to minor breaches are sent to the GM head and relevant trader whilst responses to major breaches are sent to the GM head, relevant trader and GM regional head.

Any major or Level 1 limit breach are reported to t ALCO for approval of the recommended action. Details on committee structures are contained in the Market Risk Policy document.

Risk Appetite

The Market Risk Standard outlines the approach for setting risk appetite. The Market Risk Policy details the risk appetite approach followed for market risk.

a. The risk appetite is allocated down to business lines within legal entities.

b. ALCO is responsible for ensuring that risk appetite is commensurate with available capital, budgeted/projected revenues, estimated business mix (i.e., risk-based vs. customer flow) and portfolio diversification.

c. The amount of market risk that a particular legal entity or business line can take, is its *Value-at-risk* (VAR) limit, *Stress Value-at-risk* limit, *Stress Test triggers* and desk/portfolio *Stop Loss triggers*.

d. Risk appetite is typically expressed in the following compulsory and optional measures:

    i. A normal VaR appetite (compulsory for MTM portfolios) by trading desk and by legal entity.

    ii. A Stress VaR and Stop loss trigger appetite by desk and Stress test appetites for specific scenario's MTM activities (compulsory) by trading desk and by legal entity.

    iii. A regulatory or economic capital value (optional).

    iv. A maximum value for position, sensitivity, Greek-based or tenor (optional).

    v. For issuer risk, limit structures based on ratings and liquidity per issuer (taking into account size of issuance where relevant and practical). (Compulsory for trading activities)

    vi. A maximum 10% adverse movement in annual NII following a currency-specific standardised parallel rate shock (stress limit compulsory for Banking Book portfolios).

vii. Economic Value of Equity (EVE) sensitivity limits only where a regulatory requirement exists (compulsory for Banking Book portfolios where a regulatory requirement exists, otherwise optional)

Market risk appetite and limits are based on VaR using a 95% confidence interval and a one day holding period. This means that losses are not expected to exceed the VaR number for a single day, with a likelihood of 95% (or 19 days out of 20). The VaR calculation assumes no corrective action is taken during the assumed holding period. However, where actual losses do exceed a VaR number, the VaR number does not indicate the magnitude of the loss. Stress testing is undertaken to give an indication of the magnitude of the loss given extreme market events.

VaR is computed using the most recent 12 months' worth of actual market data. In times of extreme volatility an additional intra-month update to the historical VaR can be required at the instruction of senior management.
Stress VaR provides an indication of the potential losses that could occur under extreme market conditions and where longer holding periods may be required to exit positions. Stress VaR is defined with a 10-day holding period, worst case and uses the same methodology as normal VaR, except that historical data period is required to cover at least 5 years of data and for entities with internal model approval, a worst case 12-month window period determined using historical data, including the 2008/9 financial crises and onwards (termed "extended historical data"). In recognition of the limitations of VaR and Stress VaR, Stress testing provides an indication of the potential losses that could occur under extreme market conditions.

If the bank enters a period of market volatility that turns out to be a stressed scenario, stop loss procedures are in place to cap losses. Stop loss triggers are set to ensure that losses suffered in trading do not erode, or have the potential to erode, the income generated by the market making and sales activity. As such, the overall objective is to preserve the bank's revenue. A stop loss trigger alert can result in any or all of the following actions being taken:

- Risk position reduction.
- Risk limit(s) reduction.
- Transfer of positions out of the control of the relevant trader and into that of management.

VaR limits and triggers are monitored on a daily basis for every portfolio. Breaches in limits and triggers are reported and corrective action is taken to either increase the limits or reduce the risk. All limits and triggers are assumed to be end of day based, unless otherwise specified.

The table below highlights the historical diversified normal VaR across the various trading desks. The minimum and maximum bank-wide trading diversified normal VaR ranged between M137.7 thousand and M664.8 thousand respectively with an annual average of M376.9 thousand against the normal bank-wide Var limit of M2.13million (set by ALCO and reviewed on an annual basis).

Normal VAR Profile: 1 Jan to 31 Dec 2022 (LCY)

VAR (LCY)	Bankwide	Fixed Income Trading	FX Trading	Money Market Trading
Min	137,664	12.49	33,795	119,609
Max	664,827	24.00	243,445	735,645
Ave	376,851	17.16	143,174	394,920

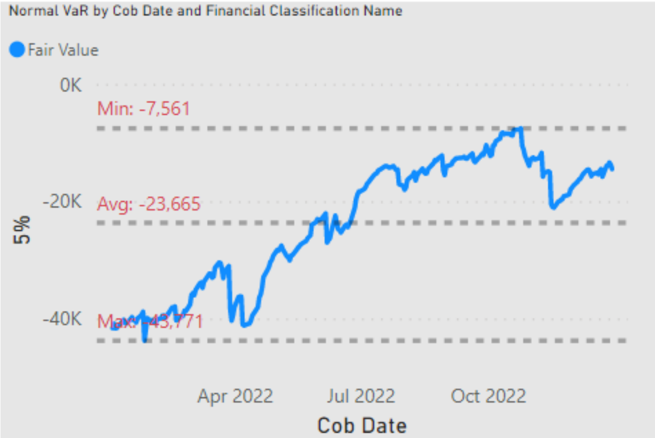
The table below highlights the historical diversified stress VaR across the various trading desks. The minimum and maximum bank-wide trading diversified stress VaR ranged between M1.44 million and M4.71 million respectively with an annual average of M2.81 million against the stress bank-wide Var limit of M10.84 million (set by ALCO and reviewed on an annual basis).

Stress VAR Profile: 1 Jan to 31 Dec 2022 (LCY)

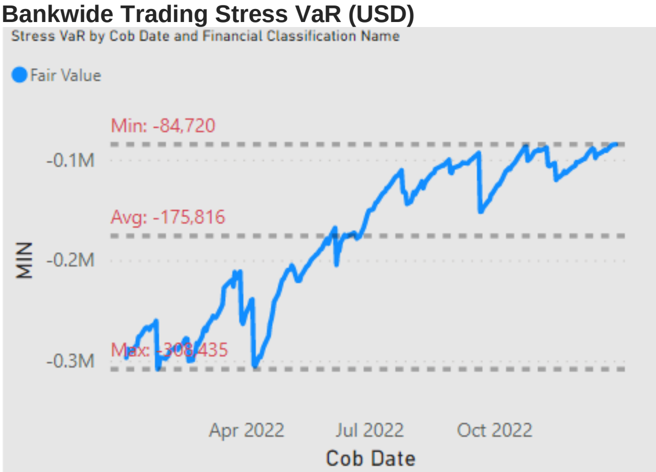
VAR (LCY)	Bankwide	Fixed Income Trading	FX Trading	Money Market Trading
Min	1,435,565	4,886	83,082	1,529,926
Max	4,712,674	6,742	832,476	5,236,367
Ave	2,809,393	5,738	441,922	3,020,779

The graphs that follow show the normal and stress VaR bank wide analysis. Lesotho bank wide normal VaR was graded green as at 31 December 2022.

Bankwide Normal Trading VaR (USD)



Bankwide Trading Stress VaR (USD)



Commentary

Volatility in Normal VaR are mainly due to movements in NOP and volatility in the ZAR basis curve.

Approach to managing IRRBB

Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity.

The bank’s approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the bank operates. The treasury and capital management team monitors banking book interest rate risk on a monthly basis operating under the oversight of ALCO.

Measurement

The analytical techniques used to quantify IRRBB include both earnings- and valuation-based measures. The analysis takes into account embedded optionality such as loan prepayments and accounts where the account behaviour differs from the contractual position.

The results obtained from forward-looking dynamic scenario analyses, as well as Monte Carlo simulations, assist in developing optimal hedging strategies on a risk-adjusted return basis. Desired changes to an interest rate risk profile are achieved through the restructuring of on-balance sheet repricing and/or maturity profiles and, where appropriate, the use of derivative instruments.

The assets, liabilities and derivative instruments are allocated to gap intervals based on either their repricing or maturity characteristics. Assets and liabilities for which no identifiable contractual repricing or maturity dates exist are allocated to gap intervals based on statistical analysis.

The repricing gaps for the bank's non-trading portfolios before tax are shown in the table below.

The Repricing Gap

		Up to 1 month	2 – 6 months	7 – 12 months	> 12 months
2022					
Interest rate sensitivity gap	M'000	2 077 361	286 354	271 079	-2 634 794
Cumulative interest rate sensitivity gap	M'000	2 077 361	2 363 715	2 634 794	-
Cumulative interest rate sensitivity gap as a percentage of total assets	%	**19%**	**21%**	**24%**	**-**
2021					
Interest rate sensitivity gap	M'000	2 263 061	(438 814)	20 997)	(1 803 786)
Cumulative interest rate sensitivity gap	M'000	2 263 061	1 824 247	1 803 786	-
Cumulative interest rate sensitivity gap as a percentage of total assets	%	**19%**	**15%**	**15%**	**-**

Analysis of banking book interest rate sensitivity

The table below indicates the sensitivity of the bank's net interest income and equity in response to a parallel yield curve shock, before tax. Hedging transactions are taken into account while other variables are kept constant.

Based on the standardised interest rate shock, an upward and downward 200 basis point (bps) parallel interest rate shock across all yield curves will result in twelve-month net interest income increase amounting to M17.2million and a decline amounting to M25.9million respectively based on 31 December 2022 balance sheet.

Interest rate sensitivity analysis

		2022	2021
Increase in basis points		200	200
Sensitivity of annual net interest income	M'000	17 197	42 468
Decrease in basis points		200	200
Sensitivity of annual net interest income	M'000	25 885	51 539

Hedging of the endowment risk

Interest rate risk in the banking book is predominantly the consequence of endowment exposures, being the net effect of non-rate sensitive assets less non-rate sensitive liabilities and equity. The endowment risk emanating from the anticipated turn in the economic cycle is hedged as and when it is considered opportune, using bonds and derivative instruments such as swaps and interest rate options. A significant component of the bank's endowment risk derives from equity, and during the recurring bottom rate cycle, ALCO regularly reviewed exposure and hedging opportunities. The interest rate view is formulated through the ALCO process, following meetings of the monetary policy committees, or notable market.

6. Non-Financial Risk

Definition

Non-Financial risks are considered inherent in the operations of a business. They generally do not have a financial upside; they cannot always be measured in financial terms and can lead to severe reputational damage. Non-Financial Risk is defined as part of a broad term which is usually classified by way of exclusion, that is, any risks other than the traditional financial risks of market, credit, and liquidity. Non-Financial Risk includes Operational Risks (OR) which is defined as the risk of loss suffered as a result of the inadequacy of, or a failure in, internal processes, people and / or systems or from external events.

NFRs (Non-Financial Risks) evolve rapidly and are difficult to anticipate, oversee, measure and monitor. They are introduced by process, people, systems or external events. Non-Financial risks can result in financial and non-financial exposure. This includes but not limited to the following specialised **non-financial** risk types:

• Business Resilience Risk • Conduct Risk • Financial Crime Risk • Legal Risk • Compliance Risk • Model Risk • Technology Risk • Cyber Risk • Tax Risk	• Third Party Risk • Information Risk (including Data Privacy Risk) • Operational Risk • Financial Accounting Risk • Physical Assets, Safety and Security Risk • People Risk • Transaction Processing Risk • Environmental, Social and Governance Risk

The bank's approach to managing these non-financial risks is to adopt fit-for-purpose risk practices that assist business segments management in understanding their inherent risk and reducing their risk profile while maximising operational performance and efficiency. It is not the bank's objective to eliminate all exposure to non-financial risks as this would be neither commercially viable nor possible. As part of the risk management strategy to leverage on data for effective risk management, the bank continued to introduce system capabilities to bring all non-financial risk management framework tools in one place to enable enterprise-wide risk management.

The risk management framework for non-financial risks is based on the following core components;

- **Risk identification and control methodology**: Facilitates the identification of risks and the management thereof across business units. It comprises two key elements:
  - ***Risk Control Self-Assessment*** – Each business unit is required to analyse its activities and critical process to identify the key risks to which it is exposed and assess adequacy and effectiveness of controls. The assessments are facilitated and monitored by the Risk team on an annual basis, or when there are significant changes in activities and processes.
  - ***Key Risk Indicators*** – Based on the key risks and controls identified above, relevant indicators are used to monitor key business environment and internal control factors that may influence the bank's risk profile. Each indicator is used as an early warning signal of potential risk exposures and/or potential breakdown of controls.

- **Incidents management**: all business units are required to report risk incidents. The definition of risk incidents includes not only events resulting in actual loss, but those resulting in non-financial impacts and near misses. This process is intended to enable identification of the "root cause" of each individual incident and to identify and analyse trends, in an effort to reduce exposure to losses and/or enhance controls. Incidents are reported on Risk Market Place (RMP) which is a system intended to provide data analytics on all risk incidents for informed decisions.

- **Scenario Analysis**: The Bank uses scenario analysis as a risk management technique to supplement the internal incident management data, to identify concentrations and vulnerabilities not readily identified by risk and control self-assessments (RCSAs) and to add a more forward-looking dimension to the management of non-financial risks. The scenario analysis process provides input into non-financial risk capital modelling and updates the universe of key non-financial risks within the RCSA and other underlying non-financial risk components such as indicators and incident management.

- **Reporting:** Risk reports are produced on a regular and/or event-driven basis. Specific reports are prepared for the

Management Committees and Board Committees on a monthly and quarterly basis respectively. These Governance Committees have clearly defined mandates and delegated authorities in management and oversight of risk issues.

- **Risk Data and aggregation:** As part of the data journey, the bank worked extensively on embedding adoption of BCBS 239 (Risk Data Aggregation and Risk Reporting – RDARR) principles to improve management of risk, and decision making through enhanced data capabilities and internal reporting practices. The embedment of RDARR resulted in remediation of a number of datasets which enabled the bank to improve decision making and enhance efficiency of service to clients.

The following key non-financial risks and developments for 2022 are worth highlighting;

Business resilience risk - the bank has implemented a business resilience tool on which business continuity management (BCM) plans are captured. This is to improve access to plans, use of the data to monitor the adequacy as well as monitoring of plan reviews. Simulations were successfully conducted to test the robustness and practicality of plans in place.

People risk – employees remained resilient in the disrupted work environment. As the covid-19 protocols were relaxed, a hybrid model of working was adopted by the Bank, which allowed employees to work from office on need basis.

Cyber risk - building cyber resilience capabilities is paramount to the Bank to create the needed security on its platforms. In 2022 the bank successfully conducted a cyber simulation, which demonstrated a significant improvement to the maturity in the Bank's cyber resilience capabilities. A review was also conducted to assess bank`s level of adoption and compliance to the guidelines on Cyber Risk Management for the Bank in Lesotho.

Environmental, Social and Governance (ESG) risks - the Bank strives to increase the positive societal, economic and the environmental (SEE) impacts arising from our business activities and to reduce negative impacts. We do this by managing environmental, social and governance risks and embedding a culture of responsible banking. To fulfil this responsibility, we started work in 2022 of embedding ESG considerations into the Bank culture, client engagements and business unit strategies. The key milestones in 2022 included approval of ESG frameworks, policies and procedure by the board and adoption thereof integration of ESG risk into non-financial risk, training of staff and board on ESG related matters and introduction of environmental and societal (E&S) impact screening on all our lending corporate and commercial clients.

Technology risk – In 2022 the Bank embarked on a programme to migrate the core banking system, Finacle, to the cloud. The Finacle Cloud Migration programme intends to migrate the current SA-hosted Finacle Core Banking solution and related systems, to a Finacle version on the public cloud (AWS) that is managed by Lesotho. The programme intends to optimize on long-term costs, decentralize control, create autonomy at a country level, align with the Bank's strategy for cloud migration and address the challenge stability challenges that the bank has encountered over the years. The programme was approved after a Proof of Concept (POC) in Lesotho confirmed the technical viability of running Finacle in an AWS cloud.

Third Party Risk – the need for digitisation, increases our dependency on third-party relationships to deliver on our strategic objectives. This exposes us to risks such as cyber risk, information risk and failure to deliver to our clients. To strengthen management of third-party relationships, we reviewed our approach to management of these relationships in 2022. We introduced a Steering Committee to oversee and account for third-party risk management, we adopted an automated third party risk management system for onboarding of third parties and introduced policies and procedure for effective management of third parties. All new third parties are required to be onboarded in the system. A remediation plan was also put in place to identify and capture existing third parties.

Operational Loss Profile

	2022 M'000	2021 M'000
Execution, Delivery and Process Management	546 978	1 513 767
Internal Fraud	34 308	68 549
External Fraud	37 304	109 557
Covid-19 costs[1]	33 173	346 806

- Execution, delivery and process management was made up of disbursement on disputed loans and teller differences. The reduction is largely attributable to a fine that was paid in 2021.
- Internal fraud resulted from misappropriation of dormant accounts and divergence of deposits.
- External fraud issues relate to one card fraud incident, [1]Covid-19 costs included PPE for staff, cleaning costs, and data to enable staff to work from home until March 2022.
- Total operational losses for 2022 amounted to M651 763.

7. Compliance Risk

Definition and Background

Compliance risk is defined as the risk of loss arising from legal or regulatory sanctions and damage to reputation that the bank may suffer because of failure to comply with laws, regulations, codes of conduct and standard of good practice that are applicable. This translates into revisiting this definition from time to time and extrapolate relevant key drivers that are commensurate with the strategy direction of the bank and build adaptive compliance measures. Compliance has become a key imperative for the bank's operations and with that the current definition meant being a trusted advisor that provides a competitive edge and seamless solutions in support of excellent client experience, and delivery to main stakeholders especially the competent authorities and clear message for proactive management of emerging risks. The bank continued with its journey to drive a culture of compliance and maintained the behaviour metrics that proved integrity of the workforce. There was a robust and all-encompassing review of the framework ensuring that it remains relevant year on year. Furthermore, on the emerging disruptions, as much as they challenge the competition landscape and traditional means of doing business, the bank also felt the need to respond by contributing to furtherance of the financial inclusion and latest technologies. This meant ground-breaking in the mobile and digital technologies and fusion with the small medium enterprises. Despite the absence of regulations of new markets and technologies, regulators provide all the necessary guidance. As mentioned in the previous year, the dialogue strengthens our relationship with the regulators and sets a stage for learning. The compliance function has been continuously built to respond to these developments and continued to assess new and amended products and activities, revisits customer due diligence taxonomies and facilitates the proper stage for regulatory engagements.

The Sub Risks

The main risks that were apparent during the review period were as follows:

Financial crime risks

The macroeconomic background clearly depicts the risks that the financial services face daily and for the area of financial crime, there are social factors that have exacerbated the need for the bank to be vigilant. The unprecedented decrease in employment and loss of income due to job losses, increased social engineering seen in the communities reported by the Police Statistics, the typologies on fraud, corruption, stock theft and identity theft. COVID -19 and the war of Russia- Ukraine has also added to the high pricing of goods and services opening more vulnerabilities in predicate offences such as human trafficking or Ponzi investments. There are measures in place such as; training, frontline and back-end surveillance, investigations to predict, prevent, monitor, and response to crime. This is meant to protect the depositors' funds and trust, maintain the required integrity as a regulated financial institution, monitor money laundering and terrorist financing, and manage international trade that plays a pivotal role in our economy as Lesotho is a net importer. It is critical that the bank upholds the best international practices and adheres to international conventions to maintain cordial relations with global banks and financial institutions.

The bank also has adopted and enrolled in multi-disciplinary forums where there is corroboration and collaboration with law enforcement bodies and competent authorities. Sharing of intelligence strategies for preventative and case management to curtail financial crime continues.

Conduct risks

The conduct of the bank had shown maturity with room for constant improvement. Last year, we reported that the bank does not operate an island and is quite aware of the global generic unbecoming personal conduct in particular, the area of witnessing misconduct. This becomes an uphill in balancing the drive for expected behaviour and people speaking up without fear of prejudice and victimisation. The bank continued offerings of compulsory trainings, management of conflict of interest for all employees, good corporate governance and whistle blowing mechanisms. On market abuse, new products, pricing, dealings were assessed to ensure that the bank adheres to competition codes, prohibits use of insider information, and restricts certain dealings by the bank or employees in maintaining the integrity of the market trading platforms and relations.

From the client conduct perspective, the bank has been operating under the industry Code of Good Conduct and own internal service principles of treating customers fairly. Ongoing monitoring of client services remained vital with the satisfaction threshold of queries met most of the time. The challenging area was from complex complaints of which the bank was on a journey to deploy modern and world class programmes to meet the client demands. The client services systems have been successfully established and the people piece and client notifications remain the future focus to ensure that all complexity thresholds are also met. With the introduction of the Financial Consumer Protection Act 2022, oversight on treating customers fairly has increased and mapped with the need for fair arbitration and mediation techniques. The fiduciary obligation of reporting conduct incidents and addressing client complaints respectively, was given high priority.

Cross- border transactions risks

The Russia-Ukraine war and COVID 19 implications as said earlier provoked certain social engineering challenges but on the other hand, they still managed to stimulate cross border transactions across the globe and the rise in non-profit organisations and philanthropist activities. With the issuance of the sanctions against Russia, the screening was tightened to ensure non-acceptance of related transactions and to guard our relations with correspondent banks as they all remained exposed to sanctions in handling of these type of transactions.

The use of international payments systems and screening methods guard against all unwarranted risks as the bank maintains rigorous pre-screening of customer due diligence and documentary requirements.

Regulatory risks

The bank's compliance risk appetite statement remains at zero tolerance to non-compliance. All the regulatory obligations were considered at serious light and the related returns were submitted periodically to Central Bank of Lesotho. The permissible activities and major changes in operations were shared and graced by the regulator. The ongoing engagements with the regulator were the catalyst to successful compliance and introduction of new requirements.

In the past year, CBL was reviewing a number of requirements covering banking regulation policy, resolution framework, systemically important domestic banks, and agent banking. There were also additional reviews in the areas of National Payments Systems and Basel 2.5. The bank participated in all forums assessing the readiness for the banking sector.

This year saw the introduction of National Payments switch and enablement of the mobile money services interoperability, and the year closed with SLB at ready level. Amongst the developments, there were also review of the bank's security guidelines, the exchange controls and financial consumer protection.

The developments translated into business disruption, additional compliance costs and regulatory burden, notwithstanding the bank's continued commitment to zero tolerance of non-compliance.

Developments of Compliance Function

The Financial Institutions (Bank's Risk Management) Regulations require banks to have risk management control commensurate with nature, size, and operations of the bank and that means the approved compliance framework has to be on check on an annual basis in order to align with the bank's operations and any market and regulatory developments.

- Completion of automation of surveillance of mobile money platform
- Acquiring of additonal analysts to reinforce the surveillance of financial crime compliance
- Review of the Risk Based Approach Framework and underlying risk assessment meta data
- Establishment of forums per business unit for application of correct customer due diligence

The function provides support to business units as the second line of defence by four pillars of compliance being advice, training, monitoring, and reporting. In 2022, the level of compliance compared to 2021 was satisfactory and set regulatory thresholds were all met as already indicated in the financial and credit risk reports above. The internal concept threshold was also met and with quite an improvement on employee voluntary culture of compliance. The bank was at maturity level of its compliance hence the need to guard against any complacency that may occur.

The bank continued in its journey to upgrade its services to support its operational efficiency and client focus strategy and the quest for perfection for client experience opened for digital upliftment of its core banking system. This meant involving our regulator to walk-in the journey with us and to adopt a phased approach to ensure compliance and appreciation of new technologies. Guarding against cyber risk and information risk becomes key and as key data privacy function, compliance will remain vigilant in this regard.

As stated in the last reporting period, the main changes emanated from the regulatory requirements covering business continuity framework categorised by bank resolution, deposit protection, recovery plans, cyber risk management and the bank had to flex to get ready for implementation in 2021. The cyber risk guidelines were issued, and the bank flexed enough to meet the requirements and in line with the cyber risks principles that were already adopted and remained top of mind on emerging risks. The regulator focus was demonstrated on consumer protection and financial inclusion and targeted pricing and market disclosure. As the more concrete decisions were made towards the end of the year, the bank continued in improving client experience and bringing solutions that will deepen the bank's response in financial inclusion with transparent, reasonable pricing and digitised "know your customer" processes and still in alignment with regulatory requirements.

Bank Compliance Risk Assessments

The position of the bank's compliance status remained one of the bank's highest priorities. The bank's compliance risk management was built on four lines of defence, the first line of defence to manage daily risks and apply set controls, the second line of defence being to provide oversight and identify the gaps using a risk-based approach, third line of defence being to provide an independent assurance of the control environment and fourth line of defence being provision of external professional and independent opinion.

The last audit for the bank's Compliance function was in 2021 and all the deficiencies that were noted were corrected and monitored during 2022. Constant improvement is necessary, and the four-eye principle ensures also the completeness and relevance of the compliance framework. The bank has also been examined by the Central Bank of Lesotho to assess compliance of the Money Laundering and Proceeds of Crime Act as amended 2016. Areas of improvement were identified and the deployed all efforts to ensure compliance.

In conclusion, the bank's compliance status is compliant with laws and regulations and internal compliance standards, as depicted by thresholds reported under operational, market, liquidity, capital and credit risk management in this report.

Customer Due Diligence and Transaction Monitoring

The Customer due diligence and transaction monitoring are the integrated back-to-back functions embedded to control financial crime risk but at the same time contribute towards smooth and safe processing of daily customer transactions, including international payments and maintenance of good international relations of the bank. The key features cater for surveillance of suspicious behaviour, sanctions and PEP screening of all clients and transactions. For effectiveness of monitoring, the rules were reviewed to ensure blanket coverage and close any loopholes. With the introduction of digital platforms, there were related digital know your customer technologies that were also implemented for risk management. The mobile money transactions monitoring and case management module was also implemented. With this the bank was enabled to duly report to the competent authorities on both traditional transactions and modern transactions. There was also focus on rein fencing the enhanced due diligence process for maintaining dual registration for the client network and compliance to facilitate reconciliation of ongoing reviews.
All transactions were analysed to combat financial crime, reported in line with Balance of Payments provisions and exceptions reported with the regulator. Observation of local, regional, and international standards was of high priority and reporting of relevant transactions in line with statutory obligations.

8. Business risk

Definition

Business risk is the risk of loss due to adverse business performance caused by matters within and outside the Bank's control.
Business risk is usually caused by the following:

- Inflexible cost structures
- Market dynamic such as increase in and shift in suppliers and competitor bases.
- Inappropriate strategy choices and actions

2022 was yet another tough financial year for Standard Lesotho Bank due to the Pricing Directives issued by the Central Bank of Lesotho on the financial institutions; the Russia-Ukraine war, and the aftereffects of Covid-19. However, the impact of pricing directives was partly counteracted by a series of interest rate hikes, therefore yielding financial performance that is better than 2021. To mitigate business risk, the bank deployed a number of initiatives including establishment of strategic partnerships and alliances with Mobile Network Operators and other non-bank institutions on areas of mutual interest. Below is an unexhaustive list of key initiatives that the bank continues to keep on its score card to mitigate the business risk:

- Managing relationships in a value creating manner
- Evaluating the value creating potential of new products and investments

- Active stakeholder engagements to lessen business impact in matters beyond the Bank's control
- Regularly assessing trends in the business environment and adjusting the business model
- Reviewing performance regularly and identifying opportunities for cost containment

9. Reputational risk

Definition

Reputational risk is the risk of potential or actual damage to the bank's image which may impair its profitability and/or sustainability of its business.

Reputation is fundamental to banking as the bank's business is essentially a business of trust, where depositors and investors have a legitimate expectation that their money is safe and secure at all times. The reputation of Standard Lesotho Bank is therefore founded on trust by and between its employees, clients, shareholders, regulators and from the public in general.

In 2022 system stability remained one of the key concerns that continued to have a negative impact on the bank's reputation. To address the stability challenges the bank introduced the "Always On" initiative aimed at addressing and enhancing factors which have an impact on the system stability for improved client experience and convenience for accessing all the bank's services.

Key Developments in 2022

- Through its Corporate and Social Investment (CSI) initiatives, the bank continues to build its reputation and brand by implementing initiatives that help communities in addressing key social, economic and environmental issues, and promote the good name and image of the Bank.
- The bank continues to engage with stakeholders at all levels to forge and maintain harmonious working relations to maintain support and cooperation.
- The bank regularly embarks upon fraud awareness initiatives, particularly those related to cybercrime to educate its customers and the public at large to be aware of potential risks in digital banking platforms.
- The bank continues to strengthen participation in social media to engage closely with clients, provide updates and key information and manage conversations with clients by providing updates and timely addressing customers queries.

10. Financial and other definitions

Basic earnings per ordinary share (cents)	Earnings attributable to the ordinary shareholder divided by the weighted average number of ordinary shares in issue.
Capital adequacy ratio (%)	Capital as a percentage of risk-weighted assets.
Cost-to-income ratio (%)	Operating expenses as a percentage of total income including share of profits/(losses) from associates and joint ventures.
Credit loss ratio (%)	Total impairment charges on loans and advances per the income statement as a percentage of average gross loans and advances.
Effective taxation rate (%)	Direct and indirect taxation as a percentage of income before taxation.
Headline earnings (M'000)	Earnings attributable to the ordinary shareholder excluding capital profits and losses, and profits and losses on available for-sale financial instruments transferred to profit or loss.
Headline earnings per ordinary share (cents)	Headline earnings divided by the weighted average number of ordinary shares in issue.
International Financial Reporting Standards (IFRS)	International accounting standards issued by the International Accounting Standards Board.
Loans-to-deposits ratio (%)	Loans and advances as a percentage of deposit and current accounts.
Loss given default (LGD)	Amount of a counterparty's obligation to the Bank that is not expected to be recovered after default and is expressed as a percentage of the exposure at default.
Net asset value (M'000)	Equity attributable to the ordinary shareholder.
Net asset value per ordinary share (cents)	Net asset value divided by the number of ordinary shares in issue at year end.
Non-interest revenue to total income (%)	Non-interest revenue as a percentage of total income.
Portfolio credit impairments (M'000)	Impairment for latent losses inherent in banks of loans and advances that have not yet been specifically impaired.
Probability of default (PD)	Probability of a counterparty not making full and timely repayment of credit obligations over a specific time horizon.

Financial and other definitions continued

Profit attributable to the ordinary shareholder (M'000)	Profit for the year attributable to the ordinary shareholder.
Return on average risk-weighted assets (%)	Headline earnings as a percentage of average risk-weighted assets.
Return on equity (ROE) (%)	Headline earnings as a percentage of average ordinary shareholder's funds.
Risk-weighted assets (M'000)	Determined by applying prescribed risk weightings to on- and off-balance sheet exposures according to the relative credit risk of the counterparty.
Specific credit impairments (M'000)	Impairment for specific identified credit losses on loans and advances, net of the present value of estimated recoveries.
Weighted average number of ordinary shares	The weighted average number of ordinary shares in issue during the year.

11. Acronyms and abbreviations

ALCO	Asset and liability committee
ATM	Automated teller machine
Basel	Capital Accord
CSI	Corporate Social Investment or Corporate Social Responsibility
ESG	Environmental, Social and Governance
IAS	International Accounting Standards
ICAAP	Internal capital adequacy assessment process
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IT	Information technology
OCI	Other comprehensive income
RCMC	Risk and Compliance Management Committee
Lcm	Millions of maloti
ROE	Return on equity
SA	South Africa
SARB	South African Reserve Bank
SEE	Societal, Economic and Environmental
CBL	Central Bank of Lesotho
SBG	Standard Bank Group
SBSA	The Standard Bank of South Africa Limited
Tier I	Primary capital
Tier II	Secondary capital
The code	Code of Banking Practice
The company	The Standard Lesotho Bank Limited
The bank	The Standard Lesotho Bank Limited
USD	United States dollar
VaR	Value-at-risk
IASB	International Accounting Standards Board