Standard Lesotho Bank Limited

(Registration number I94/165)
Annual Financial Statements
for the year ended 31 December 2021

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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 2021, 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 2021 annual financial statements which appear on pages 8 to 116 were approved by the board on 09 March 2022 and signed on its behalf by:

'Mannete Ramaili	Anton Nicolaisen
Board Chairperson	**Chief Executive**
09 March 2022	09 March 2022

Directors' Report

for the year ended 31 December 2021

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 declined by 8% to M194 million. Net asset value per share marginally decreased by 0.75% to 8 036 cents, and the bank return on equity declined to 14.9% from the 17.1% in 2020.

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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

During 2021, no shares were issued and there was no change in the share capital structure of the bank.

Dividends to the shareholders

On 24th March 2021, a dividend of M250 million was declared to the shareholders recorded at the close of business on the same day and was paid on the 24th May 2021.

Directors' 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 are disclosed in note 21.

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	
	2021	**2020**
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 2021 continued

7. Directorate

The following changes in directorate have taken place since the last annual financial statements:

Appointments		
Jorg Fischer	as non-executive director	19 March 2021
Anton Nicolaisen	as executive director	24 March 2021
Neo Foulo	as non-executive director	25 June 2021
Antonio Coutinho	as non-executive director	21 September 2021
Retirements		
Ramosehlana Mapetla	as non-executive director	30 June 2021
Resignations		
Thabiso Tŝenki	as acting executive director	31January 2021
Selloane Tsike	as executive director	30 November 2021

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 2021

Segmental changes
The Bank has made significant structural changes to better serve clients and as of this year is primarily organised into three client segments: Consumer & High Net Worth clients, Business & Commercial clients and Wholesale clients.

The Client Segments are supported by its Client Solutions, Engineering and Innovation capabilities. These shifts have allowed the Bank to realise a more integrated and seamless delivery of financial services to our diverse client base, reduce time and cost to serve and to innovate more quickly and efficiently.

This operating structure will enable transformation from the Bank's current state as a trusted financial services provider, to achieve the 2025 ambition of being a platform business. By building out from its solid foundation in traditional financial services, SLB will meet its clients on the digital platforms where they are shopping, socialising and doing business.

This will be accomplished by driving or contributing to 'ecosystems', coordinated networks of participants and devices, combining its own offerings with those of partners, enabling clients and producers to fulfil a broad range of needs seamlessly. Ten ecosystems have been identified and prioritised that will be driven or contributed to, that are closely adjacent to what the Bank already do in traditional financial services, and where value can be added based on existing capacities and expertise.

Refer to note 26 for further details.

13. Post balance sheet event

The directors are not aware of any subsequent events which have occurred between the reporting date of 31st December 2021 and the date of authorizing these financial statements

Moores Rowland

Chartered Accountants (Lesotho)

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Report of the independent auditors 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 2021, 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 8 to 82.

In our opinion, the financial statements present fairly, in all material respects the financial position of the Bank as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and 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 A. 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.

A further description of the auditor's responsibilities for the audit of the financial statements is located at www.iaasb.org/auditor- reporting. This description forms part of the auditor's report.

Moores Rowland

Moores Rowland Lesotho
Per: M Fako
Registered Auditors (LIA)
Maseru
Date: 09 March 2022

Statement of financial position

as at 31 December 2021

	Notes	2021 M'000	2020 M'000
Assets			
Cash and balances with central bank	1	782 960	780 341
Derivative assets	2	4 360	115 319
Trading securities	3	1 622 893	971 809
Financial investments	4	2 466 654	2 720 879
Loans and advances	**5**	**6 275 458**	**5 551 136**
Loans and advances to customers		4 351 241	4 121 712
Loans and advances to banks		1 924 217	1 429 424
Deferred taxation	6	82 058	34 668
Other assets	7	215 190	215 985
Property, equipment and right of use assets	8	165 183	183 477
Intangible assets	9	274 432	304 115
Total Assets		**11 889 188**	**10 877 729**
Equity and liabilities			
Equity	10	**1 657 438**	**1 669 912**
Equity attributable to the ordinary shareholder		1 325 950	1 335 929
Ordinary share capital		16 500	16 500
Reserves		194 404	74 523
Retained income		1 115 046	1 244 906
Non-controlling interest		331 488	333 983
Liabilities			
Derivative liabilities	2	80 898	10 032
Deposits and debt funding		**9 608 064**	**8 693 647**
Deposits from customers	11	8 757 094	7 939 761
Deposits from banks	11	850 970	753 886
Subordinated debt	12	-	50 682
Current tax liabilities	13	93 922	12 132
Provisions and other liabilities	14	448 865	441 324
Total liabilities		**10 231 750**	**9 207 817**
Total equity and liabilities		**11 889 188**	**10 877 729**

Income statement
for the year ended 31 December 2021

	Notes	2021 M'000	2020 M'000
Income			
Net interest income		**599 599**	**567 880**
Interest income	18	773 545	838 495
Interest expense	18	(173 947)	(270 615)
Non-interest revenue		**538 006**	**508 827**
Net Fee and commission revenue		376 170	333 503
Fee and commission revenue	18	445 962	384 093
Fee and commission expense	18	(69 792)	(50 590)
Trading revenue	18	74 692	72 406
Other revenue	18	15 472	13 528
Other gains on financial instruments	18	71 672	89 390
Total income		**1 137 605**	**1 076 707**
Credit impairment charges	18	(97 677)	(86 038)
Income before operating expenses		**1 039 927**	**990 669**
Operating expenses	19	(667 502)	(609 327)
Net income before capital items and equity accounted earnings		**372 425**	**381 342**
Non-trading and capital items	20	-	185
Net income before indirect taxation		**372 425**	**381 527**
Indirect tax	22	(45 838)	(28 324)
Profit before direct taxation		**326 587**	**353 203**
Direct tax	22	(83 582)	(89 607)
Profit for the year		**243 005**	**263 596**
Attributable to non-controlling interests		48 601	52 719
Attributable to ordinary shareholders		194 404	210 877
Earnings per share			
Basic earnings per ordinary share(cents)	23	1 178	1 278

Statement of other comprehensive income
for the year ended 31 December 2021

	2021 M'000	2020 M'000
Profit for the year	243 005	263 596
Net gain/(loss) on investment in debt instruments measured at FVOCI	(5 479)	3 547
Net fair value (loss)/gains on debt financial assets	(5 943)	2 784
Fair value (loss)/gains on debt financial assets	(7 924)	3 712
Deferred tax on debt financial assets	1 981	(928)
FVOCI debt financial assets ECL	464	763
Total comprehensive income	237 526	267 143
Attributable to non-controlling interest	47 505	53 429
Total comprehensive income attributable to ordinary shareholder	**190 021**	**213 715**

Statement of cash flows
for the year ended 31 December 2021

	Note	2021 M'000	2020 M'000
Net cash flows from operating activities		**281 388**	**133 891**
Cash flows used in operations		**(269 755)**	**(378 997)**
Net income before indirect tax		372 425	381 341
Adjusted for:		(642 180)	(760 338)
Non-Cash items and other adjustments included in the income statement	24.1	(393 026)	(509 970)
Decrease/(Increase) in income earning assets	24.2	(1 120 431)	(1 844 459)
Increase/ (Decrease) in deposits and other liabilities	24.3	871 277	1 594 091
Interest received		773 545	838 495
Interest paid		(173 947)	(270 615)
Direct taxation paid	24.4	(48 455)	(54 992)
Net cash flows used in investing activities		**(12 749)**	**(38 560)**
Purchase of property and equipment		(12 749)	(32 035)
Sale of property and equipment		-	733
Purchase of intangible assets	9	-	(7 258)
Net cash flows used in financing activities		**(266 020)**	**(12 184)**
Dividends paid	24.5	(250 000)	-
Principal element of lease payments	14.2	(16 020)	(12 184)
Net increase in cash and cash equivalents		**2 619**	**83 147**
Cash and cash equivalents at beginning of the year		780 341	697 194
Cash and cash equivalents at the end of the year		**782 960**	**780 341**

Standard Lesotho Bank Limited

(Registration number I94/165)
Annual Financial Statements for the year ended 31 December 2021

Statement of changes in equity

for the year ended 31 December 2021

	Ordinary share capital	Statutory Credit Risk Reserve	Statutory Risk Reserve[2]	Fair Value through OCI reserve[1]	Share-based payment reserve	Total Reserves	Retained Income	Total attributable to ordinary shareholders	Non-controlling interest	Ordinary shareholder's equity
	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000
Balance at 01 January 2020	20 625	46 353	100 625	17	17	147 012	1 235 131	1 122 214	280 554	1 402 768
Other comprehensive income/(loss)for the year	-	-	-	3 548	-	3 548	-	2 838	710	3 548
Profit for the year	-	-	-	-	-	-	263 596	210 877	52 719	263 596
Dividends paid	-	-	-	-	-	-	-	-	-	-
Total changes	**-**	**-**	**-**	3 565	**-**	**150 560**	**263 596**	**213 715**	**53 429**	**267 143**
Balance at 31 December 2020	**20 625**	**46 353**	**100 625**	**3 565**	**17**	**150 560**	**1 498 727**	**1 335 929**	**333 983**	**1 669 912**
Balance at 1 January 2021	**20 625**	**46 353**	**100 625**	**3 565**	**17**	**150 560**	**1 498 727**	**1 335 929**	**333 983**	**1 669 912**
Other comprehensive income/(loss for the year)	-	-	-	(5 479)	-	(5 479)	-	(4 383)	(1 096)	(5 479)
Profit for the year	-	-	-	-	-	-	243 005	194 404	48 601	243 005
Dividends paid[3]	-	-	-	-	-	-	(250 000)	(200 000)	(50 000)	(250 000)
Total changes				(1 914)	**-**	**145 081**	**(6 995)**	**(9 979)**	**(2 495)**	**(12 474)**
Balance at 31 December 2021	**20 625**	**46 353**	**100 625**	**(1 914)**	**17**	**145 081**	**1 491 733**	**1 325 951**	**331 488**	**1 657 438**

[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.

Details relating to each reserve are provided in the accounting policies detailed in annexure A

All balances are stated net of applicable tax.

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 stated otherwise.

Basis of preparation

The 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 items in the statement of financial position:

- Financial assets classified at FVOCI financial assets and liabilities classified at FVTPL and liabilities for cash-settled share-based payment arrangements.
- Post-employment benefit obligations that are measured in terms of the projected unit credit method.

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)
- Cumulative gains and losses recognised in other comprehensive income (OCI) in terms of a cash flow hedge relationship are transferred from OCI and included in the initial measurement of the non-financial asset or liability (accounting policy 3)
- Commodities acquired principally for the purpose of selling in the near future or generating a profit from fluctuation in price or broker-traders' margin are measured at fair value less cost to sell (accounting policy 3)
- Intangible assets and property and equipment are accounted for at cost less accumulated amortisation and impairment (accounting policy 7 and 8)
- The portfolio exception to measure the fair value of certain group's 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 except as required in terms of the adoption of the following:

Adoption of new and amended standards effective for the current financial year

- IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments, IFRS 16 Leases, IAS 39 Financial Instruments: Recognition and Measurement (amendments). The second phase of Interest Rate Benchmark Reform (IBOR) resulted in amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16 requirements to enable companies to deal with its effect on financial instruments and to continue providing useful information to investors. The amendments require entities to update the effective interest rate to reflect the change to the alternative benchmark rate instead of derecognising or adjusting the carrying amount of financial instruments for changes required by the reform. In addition, the amendments require companies to provide additional information to investors about new risks arising from the reform and how it manages the transition to alternative benchmark rates. The bank will transition to alternative benchmarks as each interest rate benchmark is replaced. The bank leveraged on the existing governance structures within treasury and capital management to manage this transition.

	USD LIBOR 2021 M'000
Total assets recognized on the balance sheet subject to IBOR reform	
Loans and Advances to customers	7 393

- IFRS 16 Leases (amendment). In light of the recent Covid-19 pandemic and resultant rent concessions to be granted by lessors, the amendment permits lessees, as a practical expedient, not to assess whether particular Covid-19 related rent concessions are lease modifications and instead account for those rent concessions as if they were not lease modifications. The amendment permits lessees to apply the practical expedient as an accounting policy choice to rent concessions for which any reduction in lease payments affects payments originally due on or before 30 June 2022. The bank elected not to apply this practical expedient.

Early adoption of revised standards:

- IAS 16 Property, Plant and Equipment (amendments) (IAS 16). Narrow-scope amendments to IAS 16 for the accounting of amounts received when selling items produced while an entity is preparing an asset for its intended use. The amendments clarify the accounting requirements in prohibiting the entity from deducting such amount from the cost of property, plant and equipment and instead recognising such sales proceeds and related cost in profit or loss. The amendments will be applied retrospectively.

- IAS 1 Presentation of Financial Statements (amendments), IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (amendments). In response to the IASB's Disclosure Initiative – Principles of Disclosure, the amendments introduce a requirement on entities to disclose their material accounting policy information rather than significant accounting policies. To support this amendment the IASB also amended its IFRS Materiality Practice Statement to explain and demonstrate the application of the materiality process to accounting policy disclosures. The amendments have been applied prospectively.

- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (amendments). The amendments introduce the definition of accounting estimates and include amendments to assist entities to distinguish changes in accounting estimates from changes in accounting policies. The amendments have been applied prospectively.

- IAS 12 Income Taxes (amendment). The amendments narrow the scope of the initial recognition exemption of deferred tax assets and liabilities. The exemption no longer applies to transactions that, at initial recognition, give rise to equal taxable and deductible temporary differences. The amendments have been applied only in 2021 as the impact was minimal for retrospective application.

The adoption of the above amended standards on 1 January 2021 did not affect the Bank's previously reported financial results, and did not impact the Bank's results upon transition, unless otherwise specified. Disclosures and accounting policies have been amended as relevant. Refer to the detailed accounting policy section.

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 specifically retail, business and corporate clients, however, the Bank's risk appetite remained unchanged. As such the below significant increase in credit risk (SICR) and default assumptions, thresholds and/or triggers were not amended.

Expected 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 for Corporate and Investment Banking 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

A lifetime ECL requirement for all exposures for which there has been SICR. This included the impact of the LGD work out, being an increase in the life time period over which subsequent cures and re-defaults are considered. The requirement to hold ECL on off-balance sheet exposures has been included where appropriate within this classification.

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.

CIB 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 are assessed for SICR at each reporting date but are of a low credit risk for IFRS 9 purposes. 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 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 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.

The Bank's forward-looking economic expectations were 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 2021, for inclusion in the bank's forward-looking process and ECL calculation.

Lesotho economic expectation

As the global economy slowly continues to recover from the pandemic, and vaccines expected to be sufficient to deal with any new strains of Covid-19, economic activity is projected to recover gradually. The prospects of domestic economy growth have remained uneven and continued to be weighed against existing uncertainties around the political climate and effects of Covid-19. The Central Bank of Lesotho (CBL) noted in it's last Monetary Policy Committee statement of 2021 that whilst there were gains and on-going progress being made on vaccination, the effectiveness of the infection control measure remains key success factor to sustainably pave way for the easing of restrictions and unlocking of the economy.

The economy is expected to remain subdued with marginal improvement of 2.4% in 2021 and only to accelerate in 2022 at around 4.7% on the back of construction sector (underpinned by Lesotho Water Highland Project Phase II), mining and other primary sectors coupled with global economic rebound. However, the outlook for the domestic economic growth has recently been revised downwards and expected to average at 3.3% in the medium term. Risks to the domestic economic outlook included an unpredictable path of COVID-19 pandemic and uncertain fiscal outlook.

CPI closed the year at 6.8%. Contrary to the previous inflationary phases that were driven by food prices, the current phase is driven by energy and transport costs, with food prices somehow moderating the acceleration. The inflation rate is expected to average 5.2% over the medium-term.

The Lesotho Loti is likely to remain tied to the South African Rand (ZAR) over the forecast period. The Central Bank of Lesotho's monetary policy will likely continue to mirror that of the South African Reserve Bank.

Based on these macroeconomic outlook, the bank's Assets and Liabilities Committee (Alco) house view was as follows for the twelve months forecast for 2021 and 2022:

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.

2021	Base scenario		Bear scenario		Bull scenario	
Macro economic factors	Next 12 months	Remaining forecast period[2]	Next 12 months	Remaining forecast period[2]	Next 12 months	Remaining forecast period[2]
Lesotho						
Inflation (%)	5.01	4.35	4.56	3.90	5.76	5.10
Real GDP[1] (%)	4.76	4.80	2.91	4.41	4.41	5.41
Exchange rate GBP/USD	14.89	15.46	15.52	16.85	14.16	14.79
Prime lending rate (%)	9.50	11.0	10.0	11.50	9.25	10.25
2020						
Lesotho						
Inflation (%)	5.00	5.06	4.59	4.61	5.71	5.81
Real GDP[1] (%)	4.89	3.52	4.16	2.77	5.44	4.17
Exchange rate GBP/USD	15.76	15.61	17.13	16.61	15.19	15.05
Prime lending rate (%)	8.25	8.67	8.88	10.33	8.04	8.13

[1] Gross domestic product

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

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

Management assessed and considered the sensitivity of the provision against the forward-looking economic conditions at a client level. The reviews and ratings of each client are performed at least annually. This process entails credit analysts completing a credit scorecard and incorporating forward-looking information. The weighting is reflected in both the determination of significant increase in credit risk as well as the measurement of the resulting provision for the individual client. Therefore, the impact of forward-looking economic conditions is embedded into the total provision for each client and cannot be stressed or separated out of the overall provision. The following table shows a comparison of the forward-looking impact on the provision, based on the probability weightings of the above three scenarios resulting from recalculating each of the scenarios using a 100% weighting of the above factors.

	2021			2020	
	M'000	% change of total PBB IFRS 9 provision		M'000	% change of total PBB IFRS 9 provision
Forward looking impact on IFRS 9 provision	21 996			22 529	
Scenarios					
Base	20 083	(0.09)		21 679	(0.04)
Bearish	31 589	0.44		32 501	0.44
Bullish	12 897	(0.41)		10 403	(0.54)

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.

Post-model adjustments

Covid-19 has had a profound impact globally and there remains much uncertainty as to the future economic path and recovery. As mentioned in the sections above in determining the forward-looking impact, from an IFRS 9 perspective, the Bank has forecasted three possible future macroeconomic scenarios, being the Base, Bear and Bull scenarios and attributed weightings to these three scenarios. The outcome of the Covid-19 pandemic is unpredictable and this makes determining these scenarios and the assumptions underlying them complex. Given this uncertainty, and the fact that the pandemic has impacted clients across all geographies and client segments, the Bank has deemed it appropriate to recognise an additional M19.428 million judgemental credit adjustment on the total loans and advances to customers portfolio. The credit adjustment is based on reasonable and supportable information available at the reporting date and is held within central and other and disclosed as part of other loans and advances.

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.

In making appropriate valuation adjustments, bank apply 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;
- raising day one profit provisions in accordance with IFRS;
- 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 all entities in 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 banks of financial assets and financial liabilities on a net basis.

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.

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.

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
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

	RETIREMENT FUND	POST-EMPLOYMENT MEDICAL AID FUND
2020		
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	2021 M'000	2020 M'000
Coins and bank notes	512 613	537 413
Balances with the central bank[1]	270 347	242 928
	782 960	**780 341**

[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 balances are held at fair value through profit or loss.

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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.

Derivative assets and liabilities

Maturity analysis of net fair value

	Within 1 year M'000	After 1 year but within 5 years M'000	After 5 years M'000	Net fair value M'000	Fair value of assets M'000	Fair value of liabilities M'000
2021						
Derivatives held-for-trading						
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)**
2020						
Derivatives held-for-trading						
Foreign exchange derivatives	**102 361**	**-**	**-**	**102 361**	**110 395**	**(8 034)**
Foreign exchange futures – third party	-			-	-	-
Forwards	102 361	-	-	102 361	110 395	(8 034)
Interest rate derivatives	**2 926**	**-**	**-**	**2 926**	**4 924**	**(1 998)**
Swaps	2 926	-	-	2 926	4 924	(1 998)
Total derivative assets/(liabilities)	**105 287**	**-**	**-**	**105 287**	**115 319**	**(10 032)**

Notes to the Annual Financial Statements

3. Trading securities	2021 M'000	2020 M'000
Unlisted - Dated debt securities	1 622 893	971 809
Comprising		
Intercompany trading securities	508 195	297 815
Banks	886 865	477 837
Sovereign	227 832	196 157
	1 622 893	**971 809**

Maturity analysis

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

- Redeemable on demand	-	-
- Maturing within 1 month	135 045	131 767
- Maturing after 1 month but within 6 months	845 188	506 605
- Maturing after 6 months but within 12 months	642 510	333 286
- Maturing after 12 months	150	151
	1 622 893	**971 809**

4. Financial investments

Other Unlisted Investments	**2 466 654**	**2 720 879**
Comprising		
Sovereign	1 114 610	828 148
Corporate	1 352 044	1 892 731
	2 466 654	**2 720 879**

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

- Redeemable on demand	1 352 044	1 892 190
- Maturing within 1 month	18 356	22 544
- Maturing after 1 month but within 6 months	325 535	358 568
- Maturing after 6 months but within 12 months	381 509	92 636
- Maturing after 12 months	389 209	354 941
	2 466 654	**2 720 879**

Accounting classification

Net financial investments measured at amortised cost	**240 206**	**246 171**
Gross financial investments measured at amortised cost	240 825	246 710
Less: ECL for financial investments measured at amortised cost[1]	(619)	(539)
Financial investments measured at fair value	**2 226 448**	**2 474 708**
Financial investments measured at FVTPL	1 352 044	1 892 731
Debt financial investments measured at FVOCI	874 404	581 977
Total	**2 466 654**	**2 720 879**

[1]the current year credit impairment charge is M619,000 (2020: M539,000) on debt financial investments measured at amortised cost.

Notes to the Annual Financial Statements

5. Loans and advances	2021 M'000	2020 M'000
Gross loans and advances measured at amortised cost	**6 499 910**	**5 775 545**
Balances with banks	1 924 217	1 429 424
Mortgage lending	982 257	929 009
Vehicle and assets finance (note 5.4)	606 828	681 255
Card debtors	32 174	31 584
Overdrafts and other demand lending	2 524 450	2 247 592
Other term loans	429 984	456 680
Total expected credit loss	**(224 452)**	**(224 409)**
IFRS 9 Impairment Stages 1 and 2	(173 113)	(146 074)
IFRS 9 Impairment Stage 3	(21 611)	(52 278)
IFRS 9 Interest in suspense	(29 728)	(26 057)
Net Loans and advances	**6 275 458**	**5 551 136**

5.1 Total net loans and advances

Comprising:		
Gross loans and advances	6 499 910	5 775 545
Credit impairments	(194 724)	(198 352)
IFRS 9: Interest in Suspense (IIS)	(29 728)	(26 057)
Net loans and advances	**6 275 458**	**5 551 136**

5.2 Maturity analysis

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

Redeemable on demand	2 025 001	1 112 893
Maturing within 1 month	28 973	485 338
Maturing after 1 month but within 6 months	81 467	156 709
Maturing after 6 months but within 12 months	272 708	174 709
Maturing after 12 months	4 091 760	3 845 896
Gross loans and advances	**6 499 910**	**5 775 545**

5.3 Segmental analysis - Industry

Agriculture	25 572	14 990
Construction	111 431	167 777
Electricity	8 563	42 125
Finance, real estate and other business services	1 342 737	1 537 076
Individuals	4 421 228	3 421 727
Manufacturing	7 813	8 295
Mining	171 231	197 017
Other services	15 942	7 629
Transport	256 422	250 902
Wholesale	138 971	128 007
Gross loans and advances	**6 499 910**	**5 775 545**

Notes to the Annual Financial Statements

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:

	2021 %	2021 M'000	2020 %	2020 M'000
Segmental analysis – geographic area[1]				
Lesotho	86.14	5 599 128	87.72	5 065 195
South Africa	2.48	161 121	2.73	157 514
Outside Africa	11.38	739 662	9.55	551 836
Gross loans and advances	**100**	**6 499 910**	**100**	**5 775 545**

5.4 Vehicle and assets finance[1]

	2021 M'000	2020 M'000
Receivable within 1 year	89 316	72 883
Receivable after 1 year but within 5 years	491 006	595 130
Receivable after 5 years	26 506	13 242
Gross investment in instalment sale and finance leases	**606 828**	**681 255**

[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.

	2021 M'000	2020 M'000
5.5 Segmental analysis of Stage 3 provisions – industry		
Agriculture	(392)	(74)
Construction	-	(4 300)
Wholesale	(1 584)	(2 157)
Finance, real estate and other business	(818)	(1 318)
Transport	(1 144)	(221)
Individuals	(17 673)	(44 208)
Specific credit impairments	**(21 611)**	**(52 278)**

Segmental analysis of stage 3 provisions –geographic area

	2021 %	2021 M'000	2020 %	2020 M'000
All stage 3 impairments are within Lesotho	100	(21 611)	100	(52 278)

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 2020	**(59 610)**	**(74 751)**	**(67 791)**	**(202 152)**
Transfers between stages	**103 761**	**(17 222)**	**(86 539)**	-
Transfers to/(from) stage 1	-	(127 875)	24 114	(103 761)
Transfers to/(from) stage 2	127 875	-	(110 653)	17 222
Transfers to/(from) stage 3	(24 114)	110 653	-	86 539
Net ECL released/(raised)	**(105 180)**	**6 926**	**(3 408)**	**(101 662)**
ECL on new exposures raised	(11 921)	(2 914)	(2 656)	(17 491)
Subsequent changes in ECL	(93 987)	9 790	(752)	(84 949)
Change in ECL due to derecognition	728	50	-	778
Impaired accounts written off	-	-	83 283	83 283
Other movements[1]	3	-	**(3 881)**	**(3 878)**
Closing ECL 31 December 2020	**(61 026)**	**(85 047)**	**(78 336)**	**(224 409)**
Opening ECL 1 January 2021	**(61 026)**	**(85 047)**	**(78 336)**	**(224 409)**
Transfers between stages	**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[1]	-	-	(6 559)	**(6 559)**
Closing ECL 31 December 2021	**(99 373)**	**(73 740)**	**(51 338)**	**(224 452)**

[1]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

Reconciliation of the ECL for loans and advances by product - 2020

	Opening ECL 01-Jan-2020 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-2020 M'000
Mortgage loans	**(37 208)**	**-**	**(5 682)**	**2 565**	**5 165**	**(45 490)**
Stage 1	(1 593)	12 711	(13 220)	-	-	(2 102)
Stage 2	(1 932)	(10 067)	7 238	-	-	(4 761)
Stage 3 (includes IIS)	(33 683)	(2 644)	300	2 565	5 165	(38 627)
Vehicle and asset finance	**(22 432)**	**-**	**989**	**3 702**	**1 051**	**(16 690)**
Stage 1	(8 230)	(1 543)	5 526	-	-	(4 247)
Stage 2	(4 963)	3 764	(5 099)	-	-	(6 298)
Stage 3 (includes IIS)	(9 239)	(2 222)	563	3 702	1 051	(6 145)
Card debtors	**(11 468)**	**-**	**1 316**	**-**	**(66)**	**(10 218)**
Stage 1	(4 518)	(1 635)	1 646	-	-	(4 507)
Stage 2	(4 488)	131	(1 810)	-	-	(6 167)
Stage 3 (includes IIS)	(2 462)	1 504	1 480	-	(66)	456
Corporate	**(4 724)**	**-**	**(2 276)**	-	-	**(7 000)**
Stage 1	(4 635)	270	(840)	-	-	(5 205)
Stage 2	(89)	(270)	(1 436)	-	-	(1 795)
Stage 3 (includes IIS)	-	-	-	-	-	-
Bank	**(220)**	**-**	**30**	**-**	**3**	**(187)**
Stage 1	(153)	(36)	10	-	3	(176)
Stage 2	(67)	36	20	-	-	(11)
Stage 3 (includes IIS)	-	-	-	-	-	-
Other loans and advances	**(126 100)**	**-**	**(96 039)**	**77 016**	**299**	**(144 824)**
Stage 1	(40 480)	93 993	(98 301)	-	-	(44 788)
Stage 2	(63 213)	(10 816)	8 013	-	-	(66 016)
Stage 3 (includes IIS)	(22 407)	(83 177)	(5 751)	77 016	299	(34 019)
						-
Total	**(202 152)**	**-**	**(101 662)**	**83 283**	**(3 877)**	**(224 409)**

[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	**2021 M'000**	**2020 M'000**
Mortgage loans	977	29 067
Vehicle and asset finance	-	124 072
Other loans and advances	47 668	549 982
Total	**48 645**	**703 121**

5.8 Collateral accepted as security for assets

As part of the reverse repurchase and securities borrowing agreements, the bank has received securities which are not recorded in the statement of financial position that it is allowed to sell. The fair value of the financial assets accepted as collateral that the bank is permitted to sell in the absence of default is M7,125 billion (2020: M5,621 billion)

Notes to the Annual Financial Statements

6. Deferred tax	2021 M'000	2020 M'000
Deferred tax asset - net	82 058	34 668

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	3 524	3 597
Impairment charges on loans and advances	48 883	49 776
Sundry provisions[1]	4 433	3 647
Provision for staff related expenses	5 135	5 636
Provision against equity	1 224	-
Fair value adjustments on financial instruments	18 873	(27 988)
Assets on lease expenditure	(14)	-
	82 058	**34 668**

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

Reconciliation of deferred tax

Deferred tax at beginning of year	**34 668**	**52 928**
Provision against equity	1 224	(634)
Depreciation	(73)	8
Impairment charges on loans and advances	(893)	4 653
Sundry provisions[1]	786	763
Provision for staff related expenses	(501)	(1 502)
Assets on lease expenditure	(14)	-
Fair value adjustment	46 861	(21 548)
	82 058	**34 668**

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

Deferred tax balance at the end of the year	**34 668**	**52 928**
Temporary differences for the year comprise:		
Recognised in OCI	1 224	(634)
Recognised in profit or loss	46 166	(17 626)
	82 058	**34 668**

7. Other Assets

Financial assets	**124 305**	**131 006**
Trading settlement assets	29 310	55 530
Debtors[1]	94 995	75 476
Non-financial assets	**90 885**	**84 979**
Prepayments	82 241	75 213
Other non-financial assets	8 644	9 766
Total	**215 190**	**215 985**

[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.

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	Revaluation/ adjustments 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	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

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**

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

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

Notes to the Annual Financial Statements

8. Reconciliation of property, equipment and right of use assets 2020

	Opening balance M'000	Additions M'000	Disposals M'000	Account transfers M'000	Revaluation/ adjustments M'000	Depreciation M'000	Closing Balance M'000
Freehold land and buildings	41 448	5 792	-	-	-	(1 768)	45 472
Leasehold land and buildings	27 289	37	-	-	-	(395)	26 931
Computer equipment[1]	61 732	13 552	(374)	(7 724)	375	(13 962)	53 599
Motor vehicles	3 781	5 862	(1 133)	-	587	(1 746)	7 351
Office equipment	6 039	3 199	-	-	-	(1 766)	7 472
Furniture and fittings	19 153	3 593	(12)	-	12	(5 324)	17 422
	159 443	**32 035**	**(1 519)**	**(7 724)**	**974**	**(24 961)**	**158 248**
Right of use assets							
Buildings	217	19 329	-	-	-	(6 477)	13 069
Branches	8 303	9 288	(528)	-	-	(6 722)	10 341
ATMs	2 077	1 552	-	-	-	(1 808)	1 820
ROU assets	**10 597**	**30 168**	**(528)**	**-**	**-**	**(15 007)**	**25 229**
Total	**170 040**	**62 203**	**(2 047)**	**(7 724)**	**974**	**(39 968)**	**183 477**

[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

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

Notes to the Annual Financial Statements

9. Intangible assets

	Computer software 2021 M'000	Computer software 2020 M'000
Net book value - 1 January	**304 115**	**326 364**
Movements	**(29 683)**	**(22 249)**
Additions	-	7 258
Amortisation	(29 683)	(29 507)
Net book value - 31 December	**274 432**	**304 115**
Cost	410 996	410 996
Accumulated amortisation and impairment	(136 564)	(106 881)

10. Share Capital

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	145 081	150 560
Retained earnings	1 491 732	1 498 727
Total Equity	**1 657 438**	**1 669 912**
Attributable to ordinary shareholders	1 325 950	1 335 929
Non-controlling interest	331 488	333 983

Notes to the Annual Financial Statements

11. Deposits and debt funding	2021 M'000	2020 M'000
Deposits from banks	850 970	753 886
	850 970	**753 886**
Deposits from customers		
Current accounts	3 219 108	3 112 536
Card creditors	2 130	2 195
Call deposits	2 898 393	2 416 261
Savings accounts	865 222	784 587
Term deposits	1 228 027	1 213 245
Negotiable Certificate of deposit	544 214	410 938
	8 757 094	**7 939 761**
Total	**9 608 064**	**8 693 647**

11.1 Maturity analysis

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

Repayable on demand	7 782 972	6 848 317
Maturing within 1 month	253 609	303 965
Maturing after 1 month but within 6 months	902 749	871 317
Maturing after 6 months but within 12 months	621 318	636 909
Maturing beyond 12 months	47 416	33 139
	9 608 064	**8 693 647**

11.2 Rate Analysis

Floating rate	7 775 293	6 848 317
Fixed rate	1 832 771	1 845 330
Total	**9 608 064**	**8 693 647**

12. Subordinated debt

	Redeemable / repayable date	Notional value M'000	Carrying value[1] 2021 M'000	Carrying value[1] 2020 M'000
Subordinated debt, redeemable tier II capital - SBSA				
Total subordinated debt	**06th August 2021**	**50 000**	**-**	**50 682**

[1] The difference between the carrying and notional value represents transaction costs included in the initial carrying amounts and accrued interest. Interest is aggregate of applicable margin and JIBAR, whereby margin means 4.5% per annum for the period from the Utilisation Date to the First Redemption Date. The original maturity date was 01st July, 2025, however it was settled earlier.

Notes to the Annual Financial Statements

13. Current tax

	2021 M'000	2020 M'000
Current tax liabilities	93 922	12 132

Current tax analysis

	2021 M'000	2020 M'000
Withholding tax on interest - asset	(9 218)	(12 829)
Provision for income tax	103 140	24 961
Current tax - liabilities	**93 922**	**12 132**

14. Provisions and other liabilities

	2021 M'000	2020 M'000
Financial liabilities	**405 586**	**397 606**
ECL for off-balance sheet exposures (note 14.1)	190	211
Lease liabilities (note 14.2)	20 815	27 636
Trading settlement liabilities	143	30
Intercompany sundry creditors	126 926	18 379
Unclaimed balances	177 135	162 475
Accrued Expenses	30 436	31 687
Insurance suspense	7 171	10 527
Account's payables	20 042	116 252
Other financial liabilities	22 725	30 409
Non-financial liabilities	**43 279**	**43 718**
Other non-financial liabilities	15 576	13 677
Staff-related provisions	27 703	30 041
Total	**448 865**	**441 324**

14.1 Reconciliation of expected credit losses for off-balance sheet exposures

	Opening balance M'000	Net ECL released/(raised) M'000	Exchange and other movements M'000	Closing balance M'000
Letters of credit, bank acceptances and guarantees				
2021				
Stage 1	(210)	20	-	(190)
Stage 2	(1)	1	-	-
Stage 3	-	-	-	-
Total	**(211)**	**21**	**-**	**(190)**
2020				
Stage 1	(141)	(73)	4	(210)
Stage 2	(2)	-	1	(1)
Stage 3	-	-	-	-
Total	**(143)**	**(73)**	**5**	**(211)**

Notes to the Annual Financial Statements

14.2 Reconciliation of lease liabilities

	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-21 M'000
SLB						
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
Other	-	198	-	8	(51)	155
Total	**27 636**	**9 199**	**-**	**2 982**	**(19 002)**	**20 815**

Maturity of lease liabilities

	Balance 31-Dec-2021 M'000	Within 1 year M'000	From 1 to 5 years M'000	More than 5 years M'000
SLB				
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**	**-**

	Balance at 01-Jan-2020 M'000	Additions M'000	Terminations /modifications and/or cancellations M'000	Interest expense M'000	Payments[1] M'000	Balance at 31-Dec-20 M'000
SLB						
Buildings	(231)	19 329	-	1 741	(6 744)	14 096
Branches	10 116	9 288	(528)	645	(7 979)	11 542
ATM spacing	294	1 552	-	1 745	(1 592)	1 999
Total	**10 179**	**30 169**	**(528)**	**4 131**	**(16 315)**	**27 636**

Maturity of lease liabilities

	Balance 31-Dec-2020 M'000	Within 1 year M'000	From 1 to 5 years M'000	More than 5 years M'000
SLB				
Buildings	14 096	7 178	6 918	-
Branches	11 542	2 430	9 112	-
ATM spacing	1 998	536	1 462	-
Other	-	-	-	-
Total	**27 636**	**10 144**	**17 492**	**-**

[1]These amounts includes the principal lease repayments as disclosed in the statements of cash flows of M16 million (2020 M12.2 million) for the company. The remainder represents interest expense paid during the year.

Notes to the Annual Financial Statements

15. Classification of assets and liabilities

2021	Held-for-trading	Fair value through profit or loss - default	Fair value through Other Comprehensive Income	Amortised cost	Other assets/liabilities	Total carrying value	Fair value[1]
	M'000	M'000	M'000	M'000	M'000	M'000	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. [1] The fair
[2] value of other financial assets and liabilities approximates their carrying value due to their short-term nature

.

2020	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 non financial assets/liabilities M'000	Total carrying value M'000	Fair value[1] M'000
Assets							
Cash and balances with the central banks	-	780 341	-	-	-	780 341	780 341
Derivative assets	115 319	-	-	-	-	115 319	115 319
Trading assets	971 809	-	-	-	-	971 809	971 809
Financial investments	-	1 892 731	581 438	246 710	-	2 720 879	2 720 879
Loans and advances	-	-	-	5 551 136	-	5 551 136	5 551 136
Other financial assets[2]	-	-	-	131 006	-	131 006	131 006
Other non-financial assets	-	-	-	-	84 979	84 979	84 979
Deferred tax asset	-	-	-	-	34 668	34 668	34 668
Own assets	-	-	-	-	143 313	143 313	143 313
Right of Use Assets	-	-	-	-	25 230	25 230	25 230
Leased assets	-	-	-	-	14 934	14 934	14 934
Other intangible assets	-	-	-	-	304 115	304 115	304 115
	1 087 128	**2 673 072**	**581 438**	**5 928 852**	**607 239**	**10 877 729**	**10 877 729**
Liabilities						-	-
Derivative liabilities	(10 032)	-	-	-	-	(10 032)	(10 032)
Trading liabilities	-	-	-	-	-	-	-
Deposits and debt funding	-	-	-	(8 693 647)	-	(8 693 647)	(8 693 647)
Subordinated debt	-	-	-	(50 682)	-	(50 682)	(50 682)
Other financial liabilities[2]	-	-	-	(397 395)	-	(397 395)	(397 395)
Other non-financial liabilities	-	-	-	-	(43 929)	(43 929)	(43 929)
Current tax liabilities	-	-	-	-	(12 132)	(12 132)	(12 132)
	(10 032)	**-**	**-**	**(9 141 724)**	**(56 061)**	**(9 207 817)**	**(9 207 817)**
Total	**1 077 096**	**2 673 072**	**581 438**	**(3 212 872)**	**551 178**	**1 669 912**	**1 669 912**

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

Notes to the Annual Financial Statements

16. Assets and liabilities at fair value

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 whithin 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.

Notes to the Annual Financial Statements

Assets and liabilities that are measured at fair value

2021	Level 1	Level 2	Level 3	Total
	M '000	M '000	M '000	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	1 352 044	874 404	-	2 226 448
	2 135 004	**2 501 657**	**-**	**4 636 661**

Liabilities	Level 1	Level 2	Level 3	Total
Derivative liabilities	-	(80 898)	-	(80 898)
	-	**(80 898)**	**-**	(80 898**)**

2020	Level 1	Level 2	Level 3	Total
	M '000	M '000	M '000	M'000
Assets				
Cash and balances with central banks	780 341	-	-	780 341
Derivative assets	-	115 319	-	115 319
Trading assets	-	971 809	-	971 809
Financial investments	1 892 731	581 438	-	2 474 169
	2 673 072	**1 668 566**	**-**	**4 341 638**

Liabilities	Level 1	Level 2	Level 3	Total
Derivative liabilities	-	(10 032)	-	(10 032)
	-	**(10 032)**	**-**	**(10 032)**

Notes to the Annual Financial Statements

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

2021	**Level 1**	**Level 2**	**Level 3**	**Total**
	M '000	M '000	M '000	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)**

2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	M '000	M '000	M '000	M'000
Assets				
Financial investments	-	246 710	-	246 710
Loans and advances to banks	-	1 429 424	-	1 429 424
Loans and advances to customers	-	-	4 121 712	4 121 712
	-	**1 676 134**	**4 121 712**	**5 797 847**

	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities				
Deposits from banks	(528 760)	(225 125)	-	(753 886)
Deposits from customers	(6 319 556)	(1 620 205)	-	(7 939 761)
Subordinated debt	-	(50 682)	-	(50 682)
	(6 848 317)	**(1 896 012)**	**-**	**(8 744 329)**

Notes to the Annual Financial Statements

17. Contingent liabilities and commitments

Contingent liabilities

	2021 M'000	2020 M'000
• Letters of credit and bankers' acceptances	-	-
• Guarantees	522 617	404 781
• Irrevocable facilities	380 561	426 548
• Other	10 560	329
	913 738	**831 658**

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.

Notes to the Annual Financial Statements

18. Supplementary income statement information	2021 M'000	2020 M'000
Interest income		
Interest on investments and short-term funds	168 114	225 272
Interest on loans and advances	605 431	613 223
	773 545	**838 495**

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

	2021 M'000	2020 M'000
Interest expense		
Call and term deposits	(54 273)	(61 812)
Balances from other banks	(51 153)	(116 534)
Other interest-bearing liabilities	(14)	464
Current accounts	(8 081)	(11 304)
Savings and deposits	(37 490)	(64 355)
Lease Liabilities	(2 982)	(4 131)
Negotiable certificate of deposit	(19 954)	(12 943)
	(173 947)	**(270 615)**

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

	2021 M'000	2020 M'000
Fee and commission revenue		
Account transaction fees	105 312	99 574
Card-based commission	87 717	73 200
Electronic banking	64 293	52 387
Bancassurance	26 297	17 960
Documentation & Administration Fee	117 816	104 891
Other	39 582	29 392
Foreign currency services	4 944	6 689
	445 962	**384 093**

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.

	2021 M'000	2020 M'000
Fee and commission expense		
Documentation and Administration Fees Pd	(1 988)	(550)
Card processing costs	(67 803)	(50 040)
	(69 791)	**(50 590)**

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

	2021 M'000	2020 M'000
Trading revenue		
Foreign exchange	116 245	97 888
Interest rates	(41 553)	(25 482)
	74 692	**72 406**

Notes to the Annual Financial Statements

Other revenue

Other Income	8 472	7 599
Property Related Income	1 368	1 058
Insurance related income	5 631	4 871
	15 472	**13 528**

Other gains and losses on financial instruments	**71 672**	**89 390**

Credit impairment charges

IFRS 9 Credit Impairments Stage 1 & 2:Off BS	21	(73)
Recoveries on loans and advances previously written off	22 121	16 626
IFRS 9 credit impairments Stages 1 & 2	(27 038)	(11 714)
IFRS 9 credit impairments: Stage 3	(92 329)	(89 947)
ECL on financial investments	(544)	(1 050)
Interest in suspense	92	119
	(97 677)	**(86 038)**

Notes to the Annual Financial Statements

19. Operating expenses	2021 M'000	2020 M'000
Amortisation - intangible assets (note 9)	29 683	29 507
Audit fees - current financial year	2 382	2 308
Communication related expenses	14 535	15 697
Depreciation (note 8)	**40 222**	**39 968**
Property Freehold	1 992	1 768
Property Leasehold	406	395
Owned Computer Equipment	12 127	13 961
Owned Motor Vehicles	2 250	1 745
Owned Office Equipment	2 387	1 766
Owned Furniture and Fittings	5 297	5 324
Right of use assets[1]	15 763	15 007
Information Technology	147 868	98 051
Premises	18 753	15 978
Professional Fees	59 090	52 760
Security Expenses	18 877	18 409
Marketing & Advertising	16 119	12 696
Staff costs	**287 743**	**280 411**
Salaries and wages	250 222	251 334
Equity-linked transactions	7 185	413
Medical aid - company contributions	9 568	9 323
Pension and other post-employment benefit costs	20 768	19 341
Other expenses	32 230	43 543
Total	**667 502**	**609 327**

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

20. Non-trading and capital related items

Loss/(profit) on sale of property and equipment	-	(185)

Notes to the Annual Financial Statements

21. Emoluments of Standard Lesotho Bank Limited Directors

	2021 M'000	2020 M'000
Non-executive directors	1 596	1 048

22. Taxation

	2021 M'000	2020 M'000
Indirect taxation	45 838	28 324
Direct taxation	83 582	89 607
	129 421	**117 931**
Indirect taxation		
Indirect taxes and levies	45 838	28 324
Direct taxation		
Normal tax	128 991	71 981
Deferred tax	(45 409)	17 626
Direct taxation per the income statement	**83 582**	**89 607**

22. 1 Income tax recognised in OCI

	2021 M'000	2020 M'000
Net change in fair value of FVOCI financial assets	1 826	1 183

22.2 Rate reconciliation including indirect and direct tax

	2021 %	2020 %
The total tax charge for the year as a percentage of net income before indirect tax	34.80	30.90
Indirect taxes	(12.30)	(7.40)
Rate reconciliation including indirect and direct tax	**22.50**	**23.50**
Net tax charge	**22.50**	**23.50**
Other permanent differences	2.50	1.60
Standard rate of tax	**25.00**	**25.00**

Notes to the Annual Financial Statements

23. Earnings per ordinary share

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

	2021 M'000	2020 M'000
Basic earnings (M'000)	194 404	210 877
Headline earnings (M'000)	194 404	210 729
Number of shares (million)	16.5	16.5
Basic earnings per ordinary share (cents)	**1 178**	**1 278**
Headline earnings per ordinary share (cents)	**1 178**	**1 277**

Notes to the Annual Financial Statements

24. Statement of cash flows notes	**2021 M'000**	**2020 M'000**
24.1 - Adjustment for non-cash items and other adjustments included within the income statement		
Depreciation of property and equipment	40 222	39 968
Amortisation of intangible assets	29 683	29 507
ECL (raised)/ or released	119 798	102 664
Interest income	(773 545)	(838 495)
Interest expense	173 947	270 615
Profit (loss) on sale of assets	-	(185)
Indirect taxation	(45 838)	(28 324)
Fair value adjustments included within income statement	70 866	(84 751)
Other adjustments	(8 158)	(969)
	(393 025)	**(509 970)**
24.2 – Decrease/(Increase) in income earning assets		
Financial investments	254 225	(854 116)
Trading Securities	(651 084)	(353 538)
Loans and advances - banks	(494 793)	(536 236)
Loans and advances - customers	(229 574)	(64 479)
Other assets	795	(36 090)
	(1 120 431)	**(1 844 459)**
24.3 - Increase/ (Decrease) in deposits and other liabilities		
Deposits from customers	817 333	1 345 892
Deposits from banks	97 084	104 347
Subordinated debt	(50 682)	(312)
Provisions and other liabilities	7 541	144 164
	871 277	**1 594 091**
24.4 – Direct taxation paid		
Current and deferred tax at beginning of the year	(12 132)	(16 891)
Recognised in income statement	(128 991)	(71 981)
Other tax movement	(1 254)	21 748
Current and deferred tax at end of the year	93 922	12 132
Tax paid during the year	**(48 455)**	**(54 992)**
24.5 Cash used in financing activities		
Dividends to ordinary shareholder	(250 000)	-
Principal element of lease payments	(16 020)	(12 184)
	(266 020)	**(12 184)**

Notes to the Annual Financial Statements

25. 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 2020 and 2021. 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.

	2021 M'000	2020 M'000
Key management compensation		
Salaries and other short-term benefits	24 238	24 291
Pension contributions and medical aid	1 487	1 572

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.

	2021 M'000	2020 M'000
Deposits and current accounts		
Deposits outstanding at beginning of the year	4 073	2 248
Net deposits movement during the year	(1 253)	1 825
Deposits outstanding at end of the year	**2 820**	**4 073**

Deposits include cheque, current and savings accounts.

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

	2021 M'000	2020 M'000
Dividends paid to Standard Bank Group Limited	200 000	-
	200 000	**-**

Transactions with fellow subsidiaries

	2021 M'000	2020 M'000
During the year the bank received the following from fellow subsidiaries:	**(171 308)**	**103 480**
Interest and other income – Standard Bank of South Africa	9 068	12 145
Trading revenue gain/(losses) – Isle of Man	1 740	5 805
Trading revenue gain/(losses) – Standard Bank of South Africa	(182 116)	85 530

Notes to the Annual Financial Statements

	2021 M'000	2020 M'000
During the year the bank paid the following to fellow subsidiaries:	**(144 972)**	**(106 308)**
Franchise fees - Standard Bank of South Africa	(34 128)	(32 301)
Interest paid - Standard Bank of South Africa	(2 432)	(5 168)
	(316 280)	**(2 828)**

[1]Other costs include the payment of licence fees for the core banking and the dealing systems

Balances (from)/with fellow subsidiaries

Assets outstanding at end of the year:	**1 209 272**	**1 068 949**
Standard Bank of South Africa	110 862	244 214
Standard Bank Isle of Man	1 098 378	824 688
Stanbic Botswana	33	47
Liabilities / Deposits outstanding at end of the year:	**(235 323)**	**(134 182)**
Standard Bank of South Africa	(235 323)	(134 182)
	973 949	**934 767**

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 2021 for services received was M28.52 million (2020: M26.07 million).

Standard Lesotho Bank Limited

(Registration number I94/165)
Annual Financial Statements for the year ended 31 December 2021

Notes to the Annual Financial Statements

26. Segment Reporting

SEGMENTAL STRUCTURE FOR KEY BUSINESS LINES

Standard Bank Group

Our traditional structure to 31 December 2020

Client segments

We have shifted the business to be future-ready and client centric. Our reporting has changed to align to this principle. The client segments will be responsible for designing and executing the client value proposition strategy. Client segments will own the client relationship and create multi-product customer experiences to address life events distributed through our client engagement platforms.

Consumer & High Net Worth clients

The consumer & high net worth (CHNW) client segment is responsible for the end-to-end lifecycle of clients. CHNW services individual clients across Sub-Saharan Africa. We enable our clients' daily lives by providing relevant solutions throughout their life journeys.

NEW CAPABILITY MODEL
from 01 January 2021

Business & Commercial clients

The business & commercial client (BCC) segment provides broad based client solutions for a wide spectrum of small- and medium-sized businesses as well as large commercial enterprises. Our client coverage support extends across a wide range of industries, sectors and solutions that deliver the necessary advisory, networking and sustainability support required by our clients to enable their growth.

Wholesale clients

The wholesale client segment serves large companies (multinational, regional and domestic), governments, parastatals and institutional clients across Africa and internationally. Our clients leverage our in-depth sector and regional expertise, our specialist capabilities and our access to global capital markets for advisory, transactional, trading and funding support.

Where reporting responsibility for individual cost centres and divisions within segments change, the segmental analyses' comparative figures are reclassified accordingly.

Notes to the Annual Financial Statements

Client solutions

Client solutions support the client segments and the group as a whole. This team works in partnership with the client segments in pursuit of the client value proposition strategy. Client solutions provide products and services for banking, insurance and investments and will expand into non-financial services and solutions over time.

Banking

Home services Residential accommodation financing solutions, including related value added services.	**Vehicle and asset finance** Comprehensive finance solutions in instalment credit, fleet management and related services across our retail and business markets.	**Card and payments** Credit card facilities to individuals and businesses. Merchant acquiring services. Enablement of digital payment capabilities through various products and platforms. Mobile money and cross-border businesses.
Retail lending Comprehensive suite of lending products provided to individuals and small and medium-sized businesses.	**Retail transactional** Comprehensive suite of transactional, savings, payment and liquidity management solutions.	**Global markets** Trading and risk management solutions across financial markets, including foreign exchange, money markets, interest rates, equities, credit and commodities.
Investment banking Full suite of advisory and financing solutions, from term lending to structured and specialised products across equity and debt capital markets.	**Transactional products and services** Comprehensive suite of cash management, international trade finance, working capital and investor services solutions.	

Insurance

Short-term and life insurance activities
- Short term: Homeowners' insurance, household contents, vehicle insurance and commercial all risk insurance.
- Long term: Life, disability, funeral cover and loan protection plans sold in conjunction with related banking products.
- Advice and brokerage.

Investments

- Stockbroking & advisory, alternative investments, compulsory investments and discretionary investments.
- Wealth management, passive investments, international investments, structured products and social impact investing.
- Integrated fiduciary services including fiduciary advice, will drafting and custody services as well as trust and estate administration.
- Asset management.
- Pension fund administration.

Central and other

- Group hedging activities.
- Unallocated capital.
- Liquidity earnings.
- Central costs.

Liberty

Life insurance and investment management activities
- South Africa Retail: Insurance and investment solutions to individual customers in South Africa.
- Business development: Insurance and investment solutions to corporate clients and retirement funds across sub-Saharan Africa.
- Asset management: Capabilities to manage investment assets in South Africa and southern African Regions.

Other banking interests

Equity investments held in terms of strategic partnership agreements with ICBC
- ICBC Standard Bank Plc (40% associate).
- ICBC Argentina (20% associate). The disposal of the associate was completed during June 2020.

26. Segment reporting continued

	Total Bank		Consumer & High Net Worth		Business and Commercial Clients		Corporate & Investment Banking		Other Entities	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	M'000		M'000		M'000		M'000		M'000	
Income										
Net interest income	**599 599**	**567 880**	**425 640**	**409 051**	**86 404**	**91 386**	**74 503**	**58 312**	**13 051**	**9 131**
Interest income	773 545	838 495	531 965	537 482	64 372	83 844	177 208	217 169	0	0
Interest expense	(173 947)	(270 615)	(106 325)	(128 431)	22 033	7 542	(102 705)	(158 857)	13 051	9 131
Non-interest revenue	**538 006**	**508 827**	**224 165**	**183 750**	**105 889**	**103 710**	**213 729**	**224 459**	**(5 777)**	**(3 092)**
Net Fee and commission revenue	376 170	333 503	216 945	178 093	97 806	94 151	67 238	62 665	(5 819)	(1 406)
Fee and commission revenue	445 962	384 093	269 110	214 338	113 183	106 783	67 238	62 665	(3 569)	307
Fee and commission expense	(69 791)	(50 590)	(52 165)	(36 245)	(15 376)	(12 632)	-	-	(2 250)	(1 713)
Trading revenue	74 692	72 406	-	-	-	-	74 692	72 406	0	0
Other revenue	15 472	13 528	7 220	5 657	8 083	9 560	127	(2)	41	(1 686)
Other gains and losses on financial instruments	71 672	89 390	-	-	-	-	71 672	89 390	-	-
Total income	**1 137 605**	**1 076 707**	**649 805**	**592 801**	**192 294**	**195 096**	**288 232**	**282 771**	**7 273**	**6 039**
Credit Impairment Charges	(97 677)	(86 038)	(100 716)	(88 426)	1 717	5 252	1 553	(2 863)	(232)	-
Income before operating expenses	**1 039 927**	**990 669**	**549 090**	**504 375**	**194 010**	**200 348**	**289 786**	**279 907**	**7 042**	**6 039**
Total Operating Expenses	(667 502)	(609 327)	(284 148)	(268 160)	(251 773)	(240 639)	(176 059)	(145 469)	44 478	44 941
Net income before capital items and equity accounted earnings	**372 425**	**381 342**	**264 942**	**236 215**	**(57 763)**	**(40 291)**	**113 727**	**134 438**	**51 520**	**50 980**
Non-trading and capital items	-	185	-	-	-	-	-	-	-	185
Net income before indirect taxation	**372 425**	**381 527**	**264 942**	**236 215**	**(57 763)**	**(40 291)**	**113 727**	**134 438**	**51 520**	**51 165**
Indirect tax	(45 838)	(28 324)	(4 044)	(3 758)	(1 563)	1 576	(10 635)	(3 346)	(29 596)	(14 855)
Profit before direct taxation	**326 587**	**353 203**	**260 898**	**239 973**	**(59 326)**	**(41 867)**	**103 092**	**131 093**	**21 924**	**36 310**
Direct tax	(83 582)	(89 607)	(65 923)	(60 475)	(14 157)	(9 991)	(26 335)	(33 122)	(5 481)	(6 001)
Profit for the year	**243 005**	**263 596**	**194 975**	**179 499**	**(45 170)**	**(31 876)**	**76 757**	**97 970**	**16 443**	**18 003**
Attributable to non-controlling interests	48 601	52 719	38 995	35 900	(9 034)	(6 375)	15 351	19 594	3 601	3 601
Attributable to ordinary shareholders banking activities	194 404	210 877	155 980	143 599	(36 136)	(25 500)	61 406	78 376	13 154	14 402
Standard Lesotho Bank headline earnings	**194 404**	**210 877**	**155 980**	**143 599**	**(36 136)**	**(25 500)**	**61 406**	**78 376**	**13 154**	**14 402**

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.

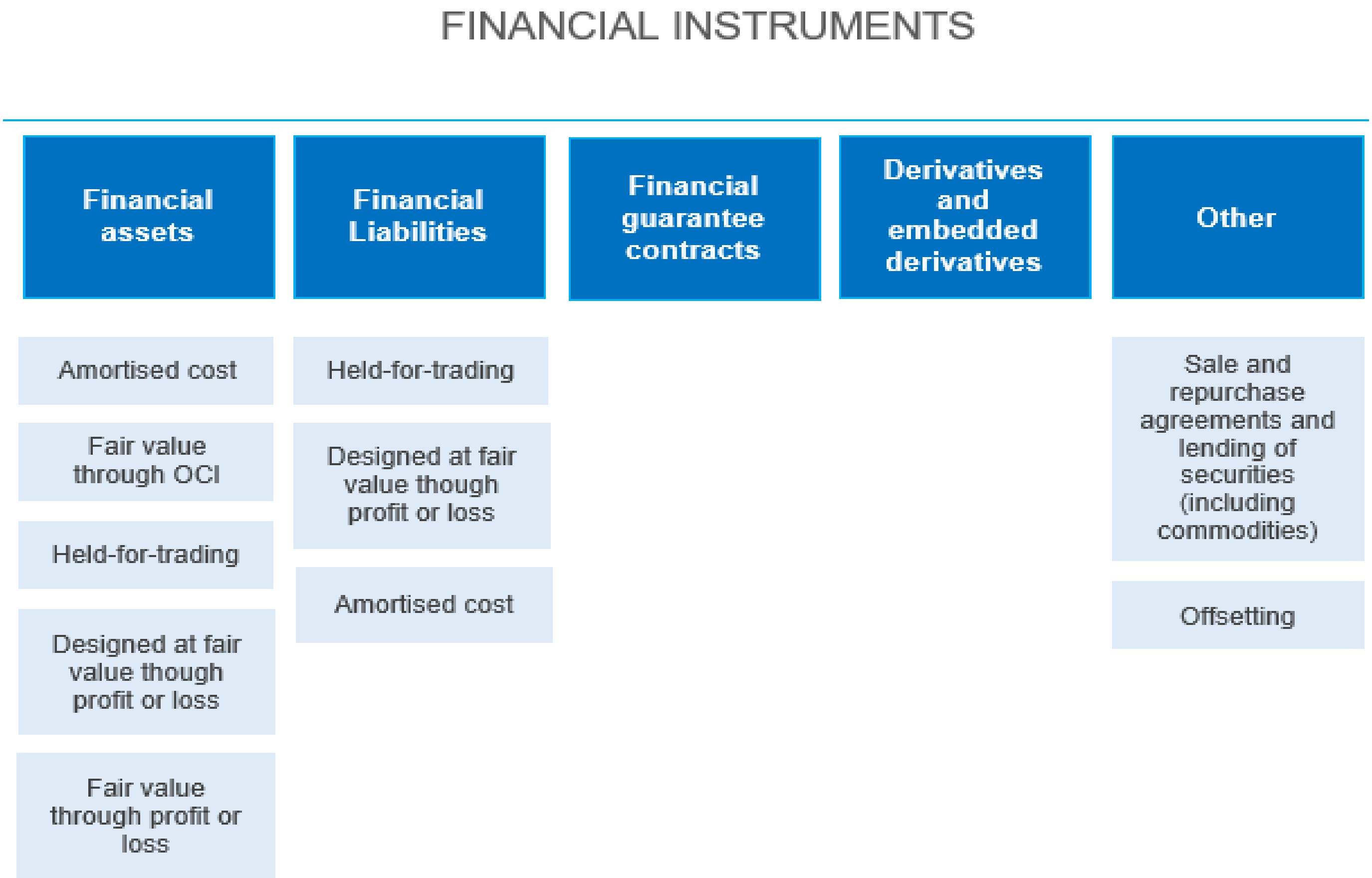
Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate 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. Cash and balances with central bank comprise coins and bank notes, and balances with central bank. Cash and Cash equivalents are subsequently measured at 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. Included are commodities that are acquired principally for the purpose of selling in the near future or generating a profit from fluctuations in price or broker-trader margin.
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. 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.
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.

Reclassification

Reclassifications of debt financial assets are permitted when, and only when, the Bank changes its business model or 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.	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. Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee.

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. Loan commitments at a below market interest rate are initially recognised when the Bank becomes party to the irrevocable commitment at fair value.

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:

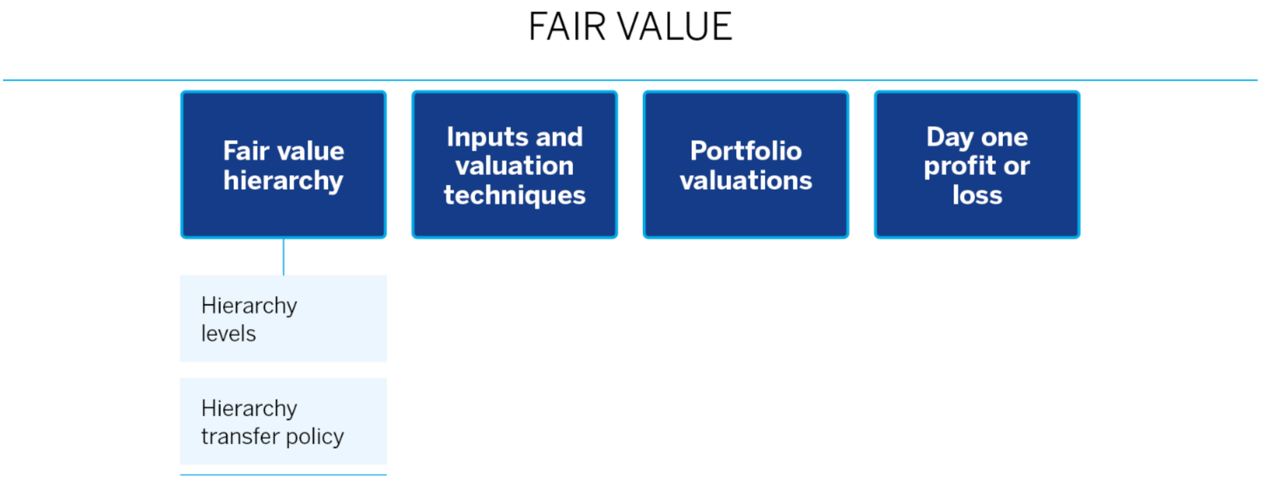
- ECL calculated for the financial guarantee; or
- unamortised premium.

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 and for hedging foreign exchange, interest rate, inflation, credit, commodity and equity exposures. 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. 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.

Embedded derivatives included in hybrid instruments, where the host is a financial asset, is assessed in terms of the accounting policy on financial assets. In all other instances (being non-financial host contracts and financial liabilities), the embedded derivatives are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The host contract is accounted for and measured applying the relevant Bank accounting policy.

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 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:

<table>
<tr><th>Item and description</th><th>Valuation technique</th><th>Main inputs and assumptions</th></tr>
<tr><td>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.</td><td>Standard derivative contracts are valued using market accepted models and quoted parameter inputs. More complex derivative contracts are modelled using more sophisticated modelling techniques applicable to the instrument. Techniques include:
• Discounted cash flow model
• Black-Scholes model
• Combination technique models.</td><td rowspan="4">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.</td></tr>
<tr><td>Trading assets and trading liabilities
Trading assets and liabilities comprise instruments which are part of the Bank's underlying trading activities. These instruments primarily include sovereign and corporate debt, commodities, collateral, collateralised lending agreements and equity securities.</td><td rowspan="3">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. Where proxies are not available, the fair value is estimated using more complex modelling techniques.

These techniques include discounted cash flow and Black-Scholes models using current market rates for credit, interest, liquidity, volatility and other risks. Combination techniques are used to value unlisted equity securities and include inputs such as earnings and dividend yields of the underlying entity.</td></tr>
<tr><td>Pledged assets
Pledged assets comprise instruments that may be sold or repledged by the Bank's counterparty in the absence of default by the Bank. Pledged assets include sovereign and corporate debt, equities, commodities pledged in terms of repurchase agreements and commodities that have been leased to third parties.</td></tr>
<tr><td>Financial investments
Financial investments are non-trading financial assets and primarily comprise of sovereign and corporate debt, listed and unlisted equity instruments, investments in debentures issued by the SARB, investments in mutual fund investments and unit-linked investments.</td></tr>
</table>

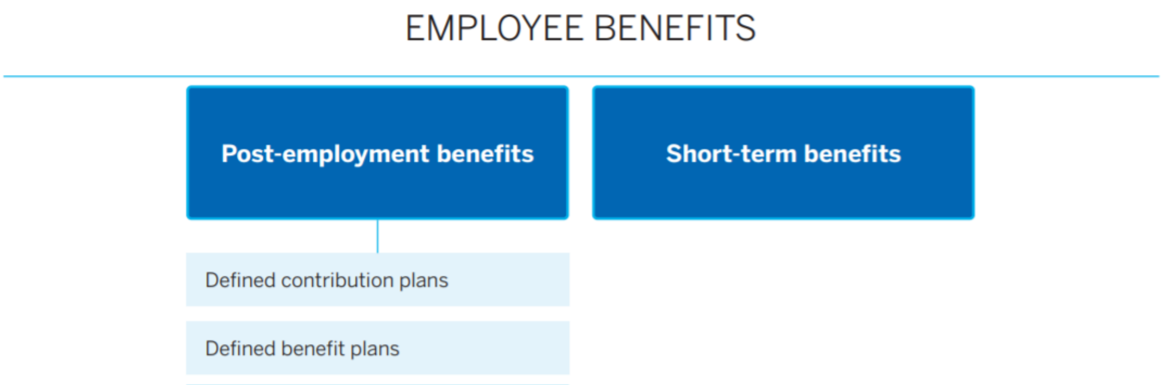
Inputs and valuation techniques continued

*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

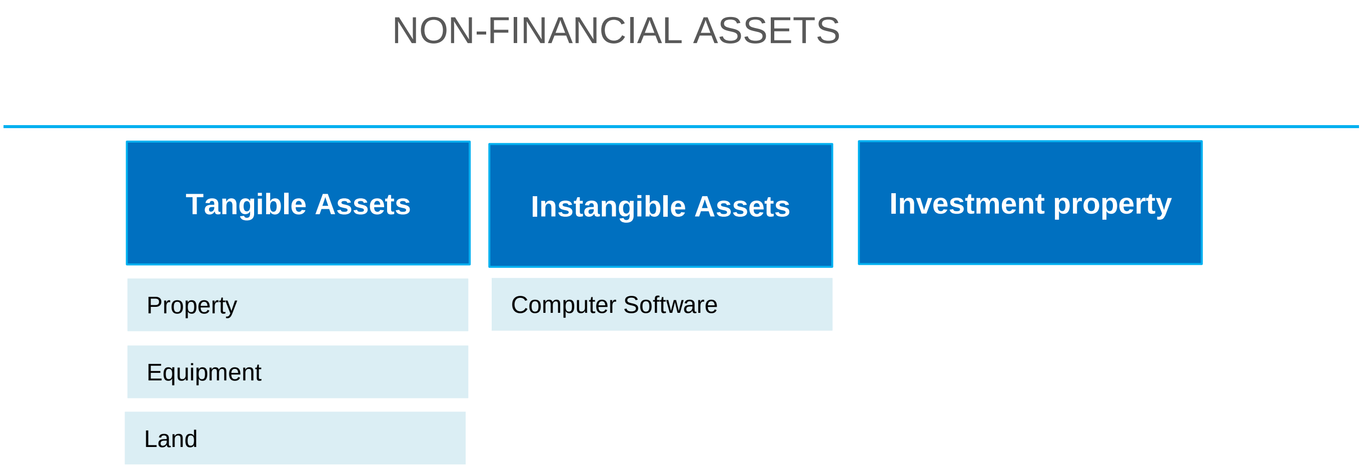
The Bank has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits the group of financial assets and financial liabilities to be measured at fair value on a net basis, with the net fair value being allocated to 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.
Defined benefit plans The Bank operates a number of defined benefit retirement and post-employment medical aid plans. The company contributes to the cost of benefits taking account of the recommendations of the actuaries.	Assets or liabilities measured at the present value of the estimated future cash outflows, using interest rates of government bonds denominated in the same currency as the defined benefit plan (corporate bonds are used for currencies for which there is a deep market of high-quality corporate bonds), with maturity dates that approximate the expected maturity of the obligations, less the fair value of plan assets. A net defined benefit asset is only recognised to the extent that economic benefits are available to the Bank from reductions in future contributions or future refunds from the plan.	Remeasurements of the net defined benefit obligation, including actuarial gains and losses, the return on plan assets (excluding interest calculated) and the effect of any asset ceiling are recognised within OCI.	Net interest income/(expense) is determined on the defined benefit asset/(liability) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset/(liability). Other expenses (including current service costs) related to the defined benefit plans are also recognised in operating expenses. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in operating expenses. The Bank recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.
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.	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
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.

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. Property developments and properties in possession

PROPERTY DEVELOPMENTS
AND PROPERTIES IN POSSESSION

Property developments | Properties in possession

Property developments

Property developments are stated at the lower of cost or net realisable value. Cost is assigned by specific identification and includes the cost of acquisition and where applicable, development and borrowing costs during development.

Properties in possession

Properties in possession are properties acquired by the Bank which were previously held as collateral for underlying lending arrangements that, subsequent to origination, have defaulted. The properties are initially recognised at cost and are subsequently measured at the lower of cost and its net realisable value. Any subsequent write-down in the value of the acquired properties as well as gains and losses on disposal is recognised as an operating expense. Any subsequent increases in the net realisable value, to the extent that it does not exceed its original cost, are also recognised within operating expenses.

8. Leases

LEASES

Single lessee accounting model | Reassessment and modification of leases | Separating components of a lease contract

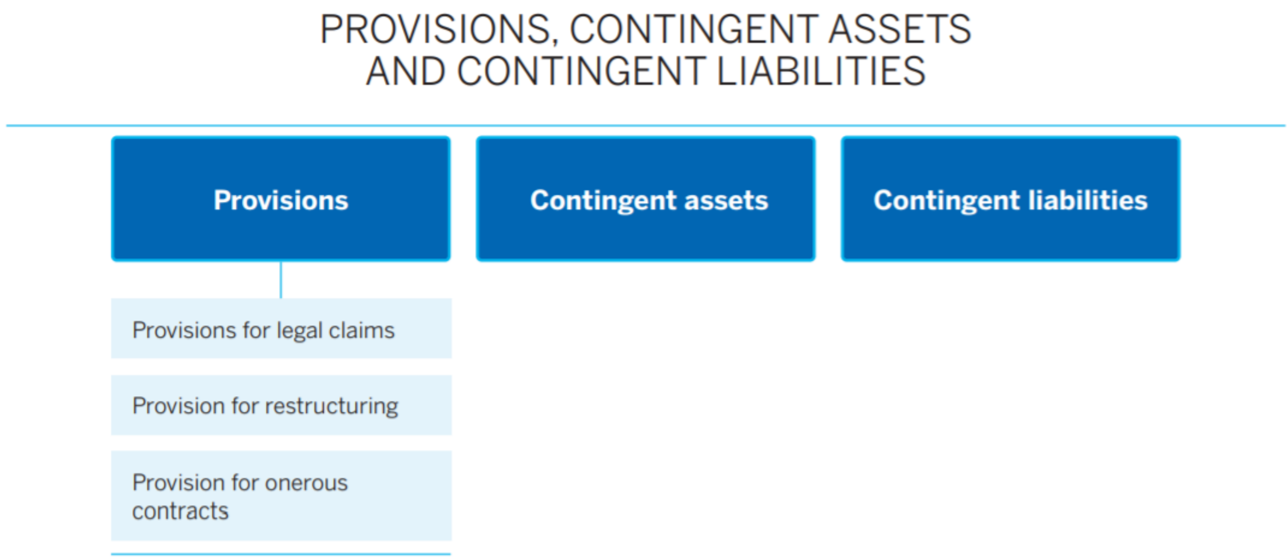
<table>
<tr><th>Type and description</th><th>Statement of financial position</th><th>Income statement</th></tr>
<tr><td colspan="3">Lessee accounting policies</td></tr>
<tr><td rowspan="3">Single lessee accounting model
All leases are accounted for by recognising a right-of-use asset and a lease liability except for:
• leases of low value assets; and
• leases with a duration of twelve months or less.</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 Bank's Funds Transfer Pricing 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.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.</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 Funds Transfer Pricing 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>

Type and description	Statement of financial position	Income statement
Lessee accounting policies continued		
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.	

9. Provisions, contingent assets and contingent liabilities



Provisions for legal claims

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.

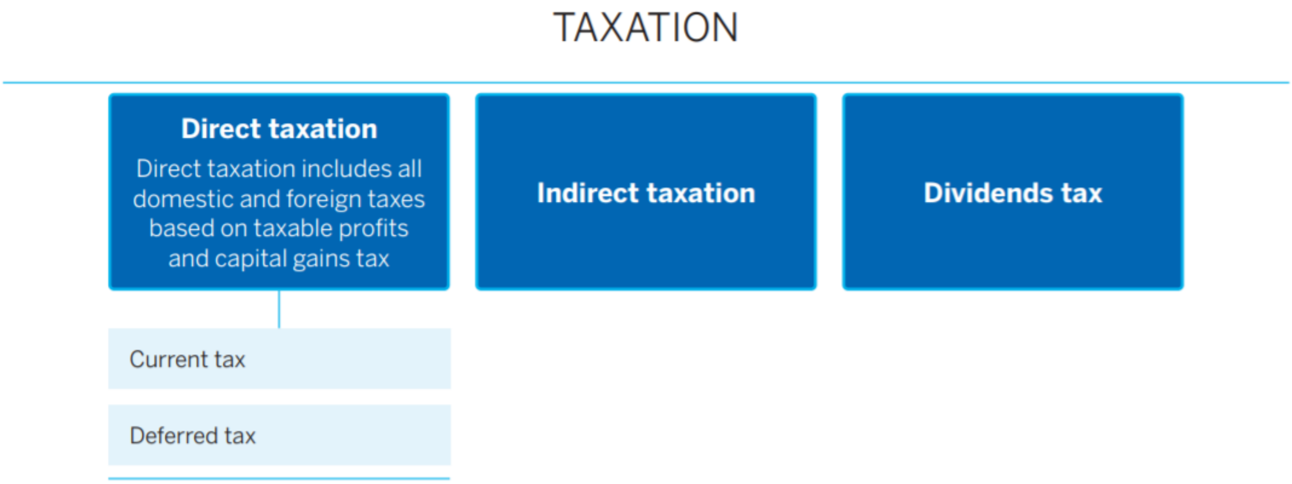
Provision for restructuring
A provision for restructuring is recognised when the Bank has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for.

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.

10. 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.

<table>
<tr><th>Type</th><th>Description, recognition and measurement</th><th>Offsetting</th></tr>
<tr><td>Direct taxation: deferred tax</td><td>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.</td><td>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.</td></tr>
<tr><td>Indirect taxation</td><td>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.</td><td>Not applicable</td></tr>
<tr><td>Dividend tax</td><td>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.</td><td>Not applicable</td></tr>
</table>

11. Revenue and expenditure

REVENUE AND EXPENDITURE

Banking activities	Investment Management
Net interest income	Investment Income
Non- Interest revenue	Management Fees on assets under management
• Net fee and commission revenue • Trading revenue • 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. Dividends received on preference share investments classified as debt form part of the Bank's lending activities and are included in interest income.

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 could include re-measurement gains and losses from contingent consideration on disposals and purchases.

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.

12. 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.

13. 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 impairments of joint ventures and associates
- 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 2021 and have not been applied in preparing these annual financial statements.

Title: IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments)

Effective date: deferred the effective date for these amendments indefinitely

The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be applied prospectively and are not expected to have a material impact on the Bank's 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. The impact on the annual financial statements.

Annexure A

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 budget and forecasting process. The capital plan is tested under a range of stress scenarios as part of the bank's annual ICAAP and recovery plan.

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 and the model risk governance framework.

Risk management

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 risks and non-financial risks. Financial risks are categorised into credit, funding and liquidity and market risk.

The bank's approach to managing risk and capital is set out in the bank's risk and compliance governance framework and capital management framework approved by the Board Risk and Compliance Committee and Board Audit Committee respectively.

Covid-19 impact on risk management

Risk management is a cornerstone of the bank's response to the Covid-19 crisis, enabling fast, targeted and responsible support of our clients, at the same time providing appropriate supporting measures for our people while preserving the bank's financial position. Our response to the pandemic was swift and purposeful, and a testament to our operational resilience. As we executed our business continuity measures on an unprecedented scale across the bank, we put our people, our customers and our communities front and centre of our response efforts to this public health emergency. We maintained the collections activity by enabling employees to work from home. We continue to manage portfolio concentrations, including concentrations in specific client sectors, such as mining and construction.

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 1

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, retained earnings as stated in the latest audited financial statements of the bank divided by the total risk weighted assets (RWA).

Total capital adequacy

Tier 1 plus 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 divided by total RWA. Subordinated debt that complies with Basel I rules was included in total capital in 2020 but was fully repaid during the 2021 financial year in accordance with the regulatory phase-out requirements.

Capital adequacy ratio

The capital adequacy Tier I improved by basis points to compare to prior period and remained in compliance with all externally imposed capital requirements on its banking operations. The main requirements are those specified in the Financial Institutions Act and related regulations which are broadly consistent with the Basel I guidelines issued by the Central Bank of Lesotho.

Key Indicators	2021 M'000	2020 M'000
Share capital and premium	20 625	20 625
Statutory reserves	100 625	100 625
General reserves	17	17
Retained earnings	1 491 733	1 498 727
Total Tier I Capital	**1 613 000**	**1 619 994**
Subordinated debt	-	50 682
General debt provision (1.25% of RWAs)	71 421	67 494
Available for sale reserves	(2 203)	1 363
Total Tier II Capital	69 218	119 539
Less deductions: Intangible assets	(274 432)	(304 114))
Total Qualifying Capital	**1 407 786**	**1 435 420**
Total risk weighted assets (M'000)	5 609	5 613
Capital adequacy ratio (Tier I)	28.8%	31.0%
Total Capital adequacy ratio	25.1%	27.0%
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 wholesale and retail loans and advances, 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. The management of credit risk is aligned to the bank's three lines of defence framework. The business function owns the credit risk assumed by the bank and as the first line of defence is primarily responsible for its management, control and optimisation in the course of business generation.

The credit function acts as the second line of defence and is responsible for providing independent and objective approval and oversight for the credit risk-taking activities of business, to ensure the process of procuring revenue, while assuming optimal risk, is undertaken with integrity. Further second-line oversight is provided by the bank risk function through independent credit risk assurance.

The third line of defence is provided by bank internal audit, under its mandate from the Board Audit Committee (BAC). The fourth line of defence is provided by external audit.

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.

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).

Netting agreements, such as collateral under the CSA of an ISDA agreement, are only obtained where the bank firstly, has a legally enforceable right to offset credit risk by way of such an agreement, and secondly, where the bank has the intention of utilising such agreement to settle on a net basis.

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.

Wrong way risk exposures

Wrong way risk arises where there is a positive correlation between counterparty default and transaction exposure. Transactions where this may arise are, for example, reverse repurchase and collateralised forward sale transactions. This risk is addressed by taking into consideration the higher than normal correlation between the default and exposure to a counterparty when calculating the potential exposure on these transactions.

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

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 Banking	**2 222 997**	**211 046**	**701 530**	**301 760**	**1 006 062**	**231**	**2 368**	**-**	**-**	**-**	**-**	**-**	**-**
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	(194 723)	-	-	-	-	-	-	-	-	-	-	-	-
Net carrying amount of loans and advances measured at amortised cost	**6 305 187**	-	-	-	-	-	-	-	-	-	-	-	-
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 to ECL	**9 688 100**	-	-	-	-	-	-	-	-	-	-	-	-
Add the following exposures not subject to ECL:	**2 625 403**	-	-	-	-	-	-	-	-	-	-	-	-
Cash and balances with the central bank - held at FVTPL	782 960	-	-	-	-	-	-	-	-	-	-	-	-
Derivative assets	4 360	-	-	-	-	-	-	-	-	-	-	-	-
Other financial investments		-	-	-	-	-	-	-	-	-	-	-	-
Trading assets	1 622 893	-	-	-	-	-	-	-	-	-	-	-	-
Other financial assets	215 190	-	-	-	-	-	-	-	-	-	-	-	-

Total exposure to credit risk	**12 313 503**	-	-	-	-	-	-	-	-	-	-	-	-	-

Credit Quality of financial Assets

2020	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	**3 940 759**	**-**	**-**	**3 404 105**	**-**	**-**	**383 381**	**153 273**	**153 273**	**74 937**	**78 335**	**51**	**4**
Mortgage loans	964 628	-	-	704 566	-	-	160 849	99 213	99 213	60 586	38 627	39	10
Vehicle and asset finance	506 000	-	-	477 700	-	-	17 323	10 977	10 977	4 832	6 145	56	2
Card debtors	31 584	-	-	20 775	-	-	9 941	868	868	1 324	(456)	(53)	3
Other loans and advances	**2 438 547**	**-**	**-**	**2 201 064**	**-**	**-**	**195 268**	**42 215**	**42 215**	**8 195**	**34 019**	**81**	**2**
Personal unsecured lending	2 219 402	-	-	2 019 789	-	-	175 516	24 097	24 097	(5 383)	29 480	122	1
Business lending and other	219 145	-	-	181 275	-	-	19 752	18 118	18 118	13 578	4 539	25	8
Corporate & Investment Banking	**1 186 596**	**49 395**	**-**	**1 092 518**	**9 176**	**-**	**35 507**	**-**	**-**	**-**	**-**	**-**	**-**
Corporate and sovereign	405 362	4 710		364 182	963	-	35 507	-	-	-	-	-	-
Bank	781 234	44 685	-	728 336	8 213	-	-	-	-	-	-	-	-
								-	-	-	-	-	-

Gross carrying amount	**5 127 355**	-	-	-	-	-	-	-	-	-	-	-	-
Less ECL on Loans and Advances	(198 352)	-	-	-	-	-	-	-	-	-	-	-	-
Net carrying amount of loans and advances measured at amortised cost	**4 929 002**	-	-	-	-	-	-	-	-	-	-	-	-
Financial investments measured at amortised cost													
Sovereign	246 710	246 710	-	-	-	-	-	-	-	-	-	-	-
Gross carrying amount	**246 710**	**246 710**	-	-	-	-	-	-	-	-	-	-	-
Less: ECL for financial investments measured at amortised cost	(539)	-	-	-	-	-	-	-	-	-	-	-	-
Net carrying amount of financial investments measured at amortised cost	**246 171**	-	-	-	-	-	-	-	-	-	-	-	-
Financial investments at FVOCI													
Corporate	1 892 731	-	-	1 892 731	-	-	-	-	-	-	-	-	-
Sovereign	581 977	581 977	-	-	-	-	-	-	-	-	-	-	-
Gross carrying amount	**2 474 708**	**581 977**	-	**1 892 731**	-	-	-	-	-	-	-	-	-

Add: Fair value reserve relating to fair value adjustments (before the ECL balance)	(2 708)	-	-	-	-	-	-	-	-	-	-	-	-
Total financial investment at fair value through OCI	**2 472 000**	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet exposures													
Guarantees	446 524	426 548	-	19 976	-	-	-	-	-	-	-	-	-
Unutilised facilities	405 110	405 110	-	-	-	-	-	-	-	-	-	-	
Total exposure to off-balance sheet credit risk	**851 633**	**831 658**	-	**19 976**	-	-	-	-	-	-	-	-	-
Less: ECL for off-balance sheet exposures	(211)	-	-	-	-	-	-	-	-	-	-	-	-
Net carrying amount of off-balance sheet exposures	**851 422**	-	-	-	-	-	-	-	-	-	-	-	-
Total exposure to credit risk on financial assets subject to ECL	**8 498 597**	-	-	-	-	-	-	-	-	-	-	-	-
Add the following exposures not subject to ECL:	**1 998 475**	-	-	-	-	-	-	-	-	-	-	-	-
Cash and balances with the central bank - held at FVTPL	780 341	-	-	-	-	-	-	-	-	-	-	-	-

Derivative assets	115 319	-	-	-	-	-	-	-	-	-	-	-	-
Other financial investments		-	-	-	-	-	-	-	-	-	-	-	-
Trading assets	971 809	-	-	-	-	-	-	-	-	-	-	-	-
Other financial assets	131 006	-	-	-	-	-	-	-	-	-	-	-	-
Total exposure to credit risk	**10 497 072**	-	-	-	-	-	-	-	-	-	-	-	-

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:

	2021 M'000	2020 M'000
Balance with the central bank	270 347	242 927
Derivative assets	4 360	115 319
Trading securities	1 622 893	971 809
Financial investments	2 466 654	2 720 879
Loans and advances with banks	1 924 217	1 429 424
Loans and advances with customers	4 575 693	4 346 121
Total recognised on-balance sheet financial instruments	10 864 164	9 826 479
Financial guarantees	522 617	404 781
Uncommitted/Undrawn facilities	380 597	426 548
Other	-	329
Total credit exposure	**11 767 378**	**10 658 137**

The above table represents a worst-case scenario of the credit risk exposure to the bank as at 31 December 2021 and comparative figures for 2020, 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, 39% of the total maximum exposure is derived from loans and advances to customers (2020: 41%) followed by financial investments that represented 26% (2020: 22%) 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

2021	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	
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**

Ageing of loans and advances past due but not specifically impaired

2020	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	**759 011**	**41 975**	**77 066**	**-**	**-**	**878 052**
Mortgage loans	192 582	7 605	10 384	-	-	210 571
Instalment sale and finance leases	34 442	6 295	6 967	-	-	47 704
Card debtors	2 143	830	141	-	-	3 114
Other loans and advances	529 844	27 245	59 574	-	-	616 663
Corporate & Investment Banking	**-**	**-**	**-**	**-**	**-**	**-**
Corporate loans	-	-	-	-	-	-
Total	**759 011**	**41 975**	**77 066**	**-**	**-**	**878 052**

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 M46.6million in 2021 (2020: M703.1million).

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 2021 was M7,193 million (2020: M5,620 million) and predominantly related to properties in possession.

Concentration Risk

Segmental analysis - Industry	2021 M'000	2020 M'000
Agriculture	25 572	14 990
Construction	111 431	167 777
Electricity	8 563	42 125
Finance, real estate and other business services	1 342 737	1 537 076
Individuals	4 421 228	3 421 727
Manufacturing	7 813	8 295
Mining	171 231	197 017
Other services	15 942	7 629
Transport	256 422	250 902
Wholesale	138 971	128 007
Gross loans and advances	**6 499 910**	**5 775 545**

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

Segmental analysis of Stage 3 provisions – industry	**2021** M'000	**2020** M'000
Agriculture	(392)	(74)
Construction	-	(4 300)
Wholesale	(1 584)	(2 157)
Finance, real estate and other business	(818)	(1 318)
Transport	(1 144)	(221)
Individuals	(17 672)	(44 208)
Specific credit impairments	**(21 610)**	**(52 278)**

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 both the corporate and retail sectors to ensure that payment obligations can be met by the bank, under both normal and stressed conditions. 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.

Proactive liquidity management in line with the Bank liquidity standards ensured that, despite volatile and constrained liquidity environments at the onset of the Covid-19 pandemic, adequate liquidity was maintained to fully support balance sheet strategies. This has been achieved through continuous engagements between treasury and capital management, risk and business units in which the liquidity risk with respect to on- and off-balance sheet positions was carefully monitored. At the same time consideration has been provided to the adequacy of contingent funding, ensuring sufficiency to accommodate unexpected liquidity demands. The Bank continues to leverage the extensive deposit franchises across the portfolio to ensure that it has the appropriate amount, tenor and diversification of funding to support its current and forecast asset base while minimizing cost of funding.

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

	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
2021						
Financial liabilities						
Derivative financial instruments	-				80 898	80 898
Deposits from customers and banks	7 757 079	252 875	902 768	621 318	47 415	9 581 455
Subordinated debt	-	-	-	-	-	-
Other Liabilities					427 776	427 776
Total	7 757 079	252 875	902 768	621 318	556 089	10 137 544
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	-	380 597
Total						903 214
2020						
Financial liabilities						
Derivative financial instruments	-	-	-	-	10 032	10 032
Deposits from customers and banks	6 848 317	303 965	871 317	636 909	33 139	8 693 647
Subordinated debt	-	-	-	-	50 682	50 682
Other Liabilities					453 456	453 456
Total	6 848 317	303 965	871 317	636 909	547 309	9 207 817
Unrecognised financial instruments						
Letters of credit and bankers' acceptances	-	-	-	-	-	-
Financial guarantees	150	27 701	376 292	-	-	404 143
Revocable facilities	285	3 259	423 004	-	-	426 548
Total	435	30 960	799 296	-	-	830 691

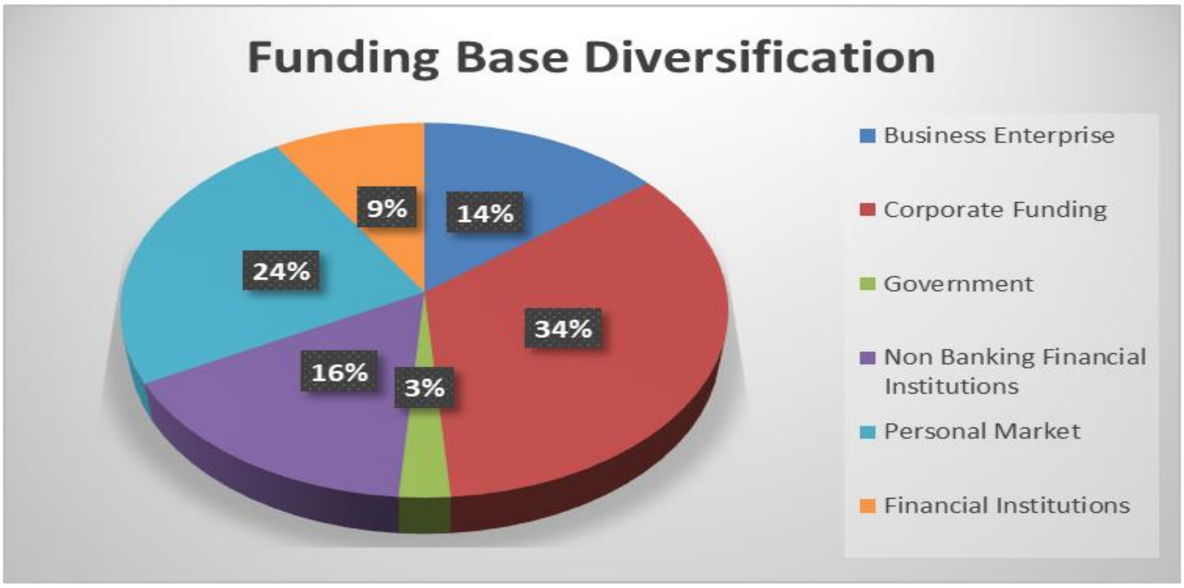
Funding strategy

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

	2021 M'mil	2020 M'mil
Financial institutions	850	754
Corporate funding	3 295	2 823
Government and parastatals	239	350
Non-Banking Financial Institutions	1 529	1 286
Retail deposits	2 288	2 187
Business Enterprise	1 368	1 245
Subordinated debt	0	50
Total Bank funding-related liabilities	**9 570**	8 695

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 framework applied in the bank is consistent with the SBG's market risk management framework.

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 only to be noted and historically kept 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 respective 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.

If the regional market risk head is not satisfied that the appropriate action has been given to a breach or a series of breaches, the matter is escalated to the CIB: Market Risk Head for further consideration and escalation.

Any major or Level 1 limit breach must be reported to the relevant ALCOs above a threshold, 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 M432 thousand and M946 thousand respectively with an annual average of M711 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 2021 (LCY)

VAR (LCY)	Bankwide	Fixed Income Trading	FX Trading	Money Market Trading
Min	432 750,16	16,34	19 362,00	390 058,00
Max	946 194,05	809,75	227 747,00	936 727,70
Average	711 445,16	476,99	144 114,53	742 324,63

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 M3186 thousand and M6809 thousand respectively with an annual average of M5265 thousand against the stress bank-wide Var limit of M10.84million (set by ALCO and reviewed on an annual basis).

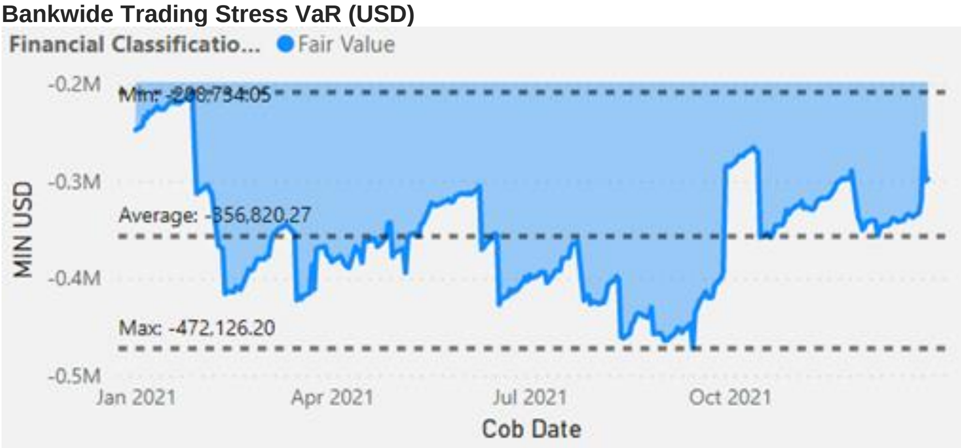
Stress VAR Profile: 1 Jan to 31 Dec 2021 (LCY)

VAR (LCY)	Bankwide	Fixed Income Trading	FX Trading	Money Market Trading
Min	3 185 970,43	6 713,58	75 185,48	3 574 237,00
Max	6 809 293,79	11 651,90	697 191,39	7 317 411,22
Ave	5 265 222,23	8 007,97	473 518,49	5 659 689,57

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 2021.

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.

6. Interest rate risk

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
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%**	**-**
2020					
Interest rate sensitivity gap	M'000	2 764 424	(559 556)	(456 258)	(1 748 610)
Cumulative interest rate sensitivity gap	M'000	2 764 424	2 204 868	1 748 610	-
Cumulative interest rate sensitivity gap as a percentage of total assets	%	25	20	16	-

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 M42.5million and a decline amounting to M51.5million respectively based on 31 December 2021 balance sheet.

Interest rate sensitivity analysis

		2021	2020
Increase in basis points		200	200
Sensitivity of annual net interest income	M'000	42 468	62 433
Decrease in basis points		200	200
Sensitivity of annual net interest income	M'000	51 539	77 572

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.

7. Non-Financial Risks

Definition

In 2021 the bank enhanced its approach to manging operational risk through the introduction of non-financial risks, which is an integrated risk management approach to management of all non-financial risks across the Bank. Non-financial risk is the risk of inadequate or failed processes, people and systems as a result of changes in internal or external factors. This excludes strategic and financial risks. Non-financial risks are complex, difficult to anticipate and quantify. They evolve rapidly with significant overlaps among risk types and could have financial or non-financial impact. The Bank manages the below sixteen non-financial risks.

Risk Types	
Business Resilience risk	Conduct risk
Compliance risk	Cyber risk
Environmental Social Governance risk	Financial/Accounting risk
Financial crime risk	Information risk
Legal risk	Model risk
Physical Assets, safety and Security risk	People risk
Tax risk	Technology risk
Third party risk	Transaction process risk

The bank's approach to managing these non-financial risks is to adopt fit-for-purpose l 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 systems introduced in 2021 included the risk management system analytics (Risk Market Place), as well as a third-party risk management system (ARAVO). The following key non-financial risks and developments for 2021 are worth highlighting;

Business resilience risk - the bank's business model continued to be tested both by the prevalent covid19 pandemic. The bank continued to rely on its business continuity plans as the covid19 virus redefined the new ways of work. The same plans are improved continuously to ensure that the bank is resilient around people, systems and processes. The majority of staff continued to work from home. Through appropriate governance structures response plans and improvements were formulated, and implementation tracked.

People risk - the bank continued to rely on the covid-19 protocols in line with the World Health Organisation (WHO) as well as country specific prescriptions. Social distancing across all the business lines was implemented, personal protective equipment (PPE) was availed for use by staff and clients, and frequent cleaning of the Bank's areas of representations were implemented in line with covid-19 cleaning protocols. The Bank adopted a working model that allowed staff to work from home and/or in office in need. This was adopted to manage concentration risk and to minimise covid-19 infections. Staff and clients' health remain key priority to the Bank to ensure that the risk of covid-19 is minimised.

Cyber risk - building cyber resilience capabilities is paramount to the Bank to create the needed security on its platforms. In 2021 the bank successfully conducted a cyber simulation, which demonstrated a significant improvement to the maturity in the Bank's cyber resilience capabilities.

Technology risk -

The risk management framework 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. In 2021 incident management process was digitised through the introduction of Risk Market Place (RMP) which is a system intended to provide data analytics on all risk incidents for informed decisions.

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

Operational Loss Profile

	2021	2020
	M	M
Execution, Delivery and Process Management	1 513 767	1 461 056
Internal Fraud	68 549	18 622
External Fraud	109 557	0
Covid-19 costs[1]	346 806	6 276 828

- Execution, delivery and process management was made up of regulatory fine related to non-compliance with exchange control requirements, as well as disbursement on disputed loans and teller differences.
- Increase in internal fraud resulted from misappropriation of dormant accounts and creation of fraudulent loan accounts.
- Most of the external fraud issues relate to card fraud [1]Covid-19 costs included PPE for staff, cleaning costs, and data to enable staff to work from home.
- There were recoveries to the value of M3 455 369 from previous years take-on difference resulting from migration to Finacle. Total operational losses for 2021 were a surplus of M688 350.

8. 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 as a result of failure to comply with laws, regulations, codes of conduct and standard of good practice that are applicable. Therefore, for enforcement, the bank continued under the integrated risk process to identify, measure, monitor and control risks. It was also the idea of the bank to ensure that conduct and culture drive this critical principle and also acknowledge that there were emerging risks brought about by the changing environment due to disruptions in the market- in technology innovations, uprising competition by non-bank financial services and absence of regulation in new markets. As a result, the bank ‘s compliance oversight heightened to match the new product architecture that was in progress to meet the new demands from customers. Compliance was no longer about only advisory on regulatory compliance but facilitation of a dialogue and advocacy with the regulator in lieu of new markets, client transactions an determine relevant jurisdiction. This was a proactive approach to minimise and avoid unwarranted risks of penalties and reputation

The Sub Risks

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

Financial crime risks
As there was unprecedented decrease in employment and loss of income due to job losses, there was increased social engineering seen in the communities, as people tried to make ends meet as reported by the Policy statistics therefore tightening of controls in fraud, corruption, identity theft became crucial. The training and awareness programme were targeted hence the bank managed to arrest incidents and contain related operational losses. The major component in fighting crime and combat with efficacy was through corroboration and collaboration with law informant bodies and share intelligence strategies for preventative and case management. All effort curtailed actual frauds as compared to previous year and red flags mechanism strengthened to arrest malpractice.

Conduct risks

Statistics depicted that “75% of employees have either personally experienced or witnessed some form of workplace misconduct during their working lives”, the bank therefore had deployed the mechanisms for open platforms for declarations and conduct management. The risks if not managed could lead to reputation damage, punitive measures, client confidence and operational losses. The main defence for market abuse and consumer protection was sitting at first line of defence, that had incorporated risk management functions into the daily operations and processes to detect developments and treat incidents as they occur. Any attempted and actual incidents were reported accordingly either internally or to the regulators and competent authorities. Over and above, the lines of reporting misconduct are open to encourage people to speak up and the hotline or whistle blower beefed up for anonymous reporting to guard against victimisation.

Cross- border transactions risks
As people were away from the home countries and primary residences due to the pandemic travel restrictions, the remittances went up and the transaction monitoring had to be on the look-out of any unknown or suspicions transactions as required by Money Laundering and Proceeds of Crime Act and it was critical for the bank to identify high risk areas, while at the same time making it easier for the clients to transact. It was at the back of this that a digital internal payments solution was introduced for easy online transaction processing and seamlessly tightening the controls for prevention and minimisation of risks that may materialise. Customer due diligence and documentary verification were the backbone of the successful processing of the transactions hence the bank continued to review the client data and do confirmations as necessary.

Regulatory risks
Amid the pandemic, cross border transactions, changing financial services landscape and introduction of new entrants, the regulation also became more stringent. This came with additional reporting requirements, stricter application assessments on new and amended activities and reviews of documentary requirements. This posed the bank to increased inherent regulatory risk requiring the bank to adjust its compliance modus operandi by partnering with stakeholders in all critical initiates. This proved to feed the two birds with one stone, as a culture of compliance was cultivated alongside the compliance function business and legal acumen that was harnessed.

The regulator (CBL) also continued the regulatory landscape reviews and covered banking regulation policy, resolution framework, systemically important domestic banks and agent banking. As much as the reviews were on early stage, industry commentaries were closed hence e a high possibility for fruition in 2022. They also introduced payment of examination fees and cyber risk management guidelines and their impact would be felt in 2022. The bank did measure up to the required cyber risks standards taking into consideration the new demands of working from home, cyber threats and that meant deployment of highest standards of security and access management.

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

Developments in the current year

The Financial Institutions (Banks 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. The Regulatory Universe and Compliance Risk Management Plans as the mainframe of the bank’s compliance architecture as compared to the previous period, its format was improved and automated. This was a prerequisite base for digitised monitoring tool, strengthening the second line of defence with modern tools to move with speed in identifying any deficiencies and providing remedial actions. In pursuing our strategic goals for 2021 the milestones were:

Completion of automation of ethical conduct tools and housing them in the centralised Non-Financial Risk registry

Review of the CRMPs format for automation and emdembedment in the monitoring tool and minimise manual intervention

Review of all new products and identify risk and build in mitigants in line with Risk Based Approach under FATF principles

Reinfencing the significant intiatives compliance requirements including automation of products sign-off

Strengthening the fight against financial crime by housing all units responsible for financial crime oversight under one auspice

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 2021, the level of compliance compared to 2020 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 because 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 principle 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 priority. 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 to provide oversight and identify and gaps using a risk-based approach, third line of defence to provide an independent assurance of the control environment and fourth line of defence for provision of external professional and independent opinion. All these mechanisms put the compliance of the bank on tab to push for high standards of meeting the requirements not only per letter but as embedded seamless practices that also add a competitive edge and add to customer experience. What keeps the bank safe was an open, responsive and persistent attitude to address issues and follow-through mechanism until issues were finalised.

Compliance is also an integral part of risk management hence granted direct access to management and Board of Directors with unfettered access to information, with its mandate emanating from Board Risk and Compliance Committee, hence the tone is set from the top. The internal audit also assessed the Compliance function for areas of development and applied exceptional reporting so that there should focus on high risk areas and matters of importance. The bank was still under a preliminary regulatory examination and had managed to submit all documentary requirements. still. Where material non-compliance observations were identified, remedial actions were in place with set timelines to ensure issues would be closed. In conclusion, the bank's compliance status was largely compliant with laws and regulations and internal compliance standards, as depicted by thresholds reported under operational, market, liquidity, capital and credit risk management in the body of the report.

Customer Due Diligence and Transaction Monitoring

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. Overall, they represent an imperative of payments processing and a catalyst of international trade which is the backbone of the economy in exports and imports, with Lesotho being reported as net importer. The bank maintained its international bank relations with sensitivity with full appreciation of de-risking or sanctioning of jurisdictions, markets, goods and even persons. All transactions were analysed to combat financial crime, reported in line 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.

9. 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
- 2020 was a challenging year for Standard Lesotho Bank, more so because of the ailing economic environment, however the bank remained profitable. 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.
- 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

10. 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 2021 system stability remains 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 all factors which have an impact on the system stability for improved client experience.

In order to mitigate the negative impact that these incidents might pose on the reputation of the Bank, enhanced security and surveillance was deployed in collaboration with state security agents to beef up security at the Bank's points of service. Robust public relations interventions were also employed to protect the reputation of the Bank. In the wake of Covid 19, internal fraud remained a potential reputational risk as the Bank was enabling staff to work remotely, given that banking formed part of essential services during state-imposed lockdowns. To the extent possible, the Bank limited access to core banking systems for staff to minimize possible system security breaches that could lead to internal and syndicate fraud incidents.

Key Developments in 2021

- Through its Corporate and Social Investment initiatives, the bank continues to build it reputation and brand by implementing initiatives that help communities 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 with security agencies 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 platforms.
- The bank continues to strengthen participation in social media to manage conversations with clients, by providing updates or answering customers queries.

11. 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 goodwill gain or impairment, capital profits and losses, and profits and losses on available for-sale financial instruments transferred to profit or loss and non controlling interests.
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.

12. Acronyms and abbreviations

ALCO	Asset and liability committee
ATM	Automated teller machine
Basel	Capital Accord
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 capital management committee
Lcm	Millions of maloti
ROE	Return on equity
SA	South Africa
SARB	South African Reserve Bank
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