EswatiniBank

Grow With Us, Sitfutfuke Nawe

2018/2019 Annual Report

CONTENTS

CORPORATE PROFILE

VISION

To be a leading solutions-driven development and corporate bank that offers our clients innovative advisory and financing solutions across multiple industries in Eswatini.

MISSION

Offering financial solutions and promoting development of Eswatini economy through banking services.

CORE VALUES

- Excellence
- Ethical conduct driven by:

Honesty, Reliability, Integrity, Transparency, Accountability, Respect, Professionalism, Loyalty and Dependability.

STATEMENT FROM THE HONOURABLE MINISTER OF FINANCE

STATEMENT FROM THE HONOURABLE MINISTER OF FINANCE

Eswatini Bank is a State-Owned Enterprise established through the King's Order in Council No.49/1973 with a mandate to promote economic development whilst ensuring maximum participation of the country's citizens in such development.

Government has seen no need to amend its mandate and believes the Bank should continue to play it's role while also contributing to competition in the banking sector through its commercial operations.

The Bank continues to play a significant role in the agricultural sector and has spread its participation into other sectors such as industrial, commercial, transport, mining, Small Micro Medium Enterprises (SMMEs), health care, tourism, youth entrepreneurship, property development and retail.

I am happy that the Bank continues to grow despite difficult economic conditions.

In the financial report for this financial year I have noted the Bank's growth from the 5.1% growth in total assets from E2.4 billion the previous year to E2.5 billion and 30% increase in profit from E42.8 million the previous year to E56 million. The Balance Sheet shows growth in both loans and advances, and customer deposits. This portrays the amount of confidence the public has on the Bank.

Government commends the Bank in its efforts in ensuring that product and service offerings are in line with current and prospective customers' needs.

The Bank is continuously rolling out new technological innovations and upgrading its systems from its own resources. It is important that the Bank remains self sustainable in these times of tight Government budgetary constraints and be relevant in the market.

Furthermore, in the past financial year, the Bank paid a dividend amounting to E7.6 million, the third time it has paid a dividend.

Government will do its best to support the Bank by bringing to it some of its business, especially where the Bank is competitive.

I wish to extend my profound appreciation to the customers, investors and citizens who have continued to support the Bank. My appreciation goes to Management and Staff for their contribution.

The Board of Directors have also played a commendable role in ensuring that the Bank remains profitable.

May I take this opportunity to wish the Bank many more years of success!

HON. NEAL H. RIJKENBERG
Minister of Finance

LETTER TO THE MINISTER OF FINANCE

The Honourable N. Rijkenberg
Minister of Finance
Ministry of Finance
P.O. Box 443
Mbabane

Dear Honourable Minister,

REPORT OF ESWATINI BANK BOARD OF DIRECTORS FOR THE YEAR ENDED 31 MARCH 2019

The Board of Directors of Eswatini Bank is pleased to submit the Bank's Annual Report in terms of the Eswatini Development and Savings Bank Order No. 49 of 1973 as amended and the Public Enterprise (Control and Monitoring) Act Number 8 of 1989, in the following manner:

- Chairperson's Message;
- Managing Director's Review of Activities of the Bank;
- Review of Bank Operations;
- Report of the Eswatini Development and Savings Bank's financial analysis and operations during the year; and
- Annual Financial Statements for the year ended 31st March 2019 certified by the auditors.

Yours Faithfully,

SIBONGILE MDLULI
(Chairperson)

ZAKHELE LUKHELE
(Managing Director)

CORPORATE SOCIAL INVESTMENT

BOARD OF DIRECTORS

1


2


3


4


1 Mrs. Sibongile Mdluli
Chairperson

- M.Sc. Economic Policy Management *(Columbia University)*
- B.A. Economics *(University of Botswana, Lesotho and Swaziland)*
- Certificate in Corporate Governance

2 Mr. Zakhele Lukhele
Managing Director

- M.Sc. (Economics) (*University of Illinois) (USA)*
- B.A. (Economics) – (*University of Botswana, Lesotho and Swaziland)*
- Diploma in Advanced Banking *(University of Johannesburg)*

3 Mr. Samson Mavuso
Member

- Programme in Basic, Intermediate and Advanced Project Management
- BSc Agriculture
- Diploma in General Agriculture

4 Ms. Sizakele Dlamini
Member

- Master of Science (MSC) in International Logistics *(Chartered Institute of Purchasing & Supply - UK)*
- Master of Business Administrator
- Bachelor of Commerce – Accounting and Auditing *(UNISWA)*
- Graduate Diploma in Purchasing and Supply *(Plymouth University - UK)*

5 **Mrs. Ketshidile Masisi-Hlanze**
Member

- Masters in Leadership and Change Management (Msc) *(Leeds Metropolitan University -UK)*
- Bachelor of Laws (LLB) (*University of Botswana, Lesotho and Swaziland)*
- Attorney of the High Court of Botswana
- Attorney of the High Court of Swaziland
- Conveyancers of the High Court of Swaziland

6 **Mr. Sydney Mdluli**
Member

- Master's in Business Administration (MBA) – *(Stellenbosch University)*
- Association of Chartered Certified Accountants (ACCA) *(The Association of Chartered Certified Accountants) (Glasgow, UK)*
- Bachelor of Commerce (Accounting)*(UNISWA)*
- Diploma in Commerce *(University of Swaziland)*
- Certified Internal Auditor (CIA) *(The Institute of Internal Auditors) (Florida, USA)*

7 **Mr. Sifiso Mdluli**
Board Secretary

- M.Sc. Leadership and Change Management *(Leeds Beckett University)*
- LLB *(UNISWA)*
- BA Law *(UNISWA)*
- Certificate in Managing the Employment Process (UNISA)
- Admitted as an Attorney of the High Court of Swaziland

8 **Mr. Jabulani Nxumalo**
Member

- M.A. in Economics and Financial Analysis of Enterprises – *Turin*
- Conflict Resolution Diploma – *IPM, RSA*
- Certificate of Completion – Local Government & International Diplomacy, The Hague
- Diploma in Social Partnership (Labour Government, Business) *Georgia Washington University, USA*

9 **Dr. Sipho Nkambule**
Member

- PHD Soil Science – (*Cornel University, new York State, USA)*
- Msc (Soil Science) – (Reading University, Berkshire, United Kingdom)
- Bsc (Agriculture) – (University of Swaziland)

CHAIRPERSON'S MESSAGE

CHAIRPERSON'S MESSAGE

1. FOREWORD

The Bank is pleased to present its audited financial results for the year ended 31st March, 2019. The Bank achieved growth in both assets and net profit.

The profit generated during the year amounted to E56.083 million. It increased by E13.210 Million from the E42.873 Million realised in the previous year, against the backdrop of a tough 2018/2019 economic year.

What is clear is that the Kingdom of Eswatini economy is facing a period of weaker growth with an estimated GDP growth of 1.4% in 2019. A serious effort is being made by the Bank through the implementation of an upgrade of the Core Banking Systems to improve customer experiences and effeciencies.

Also, as more and more customers choose to transact online and through mobile devices, we are making the necessary investment to protect ourselves and our customers from cyber threats. The benefits of enhanced customer due diligence capabilities and greater systems security essentially go to the core of our systemic role and allows us to be more proactive in fulfilling that role as a key gate keeper to the financial system.

On the compliance front, we are moving towards tighter implementation of policies within the Bank to ensure adherence to Anti-Terrorist Financing and Anti-Money Laundering Laws.

EswatiniBank has developed into a strong brand and we continue to contribute to nation building, pioneer innovation, serve the growing financial needs of society and to be a significant part of the financial services ecosystem.

I am alive to the fact that Banking remains a risk-based industry and we will remain prudent in our management and pricing of risk. In the same token, we are well placed to take advantage of the opportunities that will undoubtedly arise. We are not complacent about the future but are confident that we will deliver another strong performance in 2019/2020.

2. GOVERNANCE FRAMEWORK AND ACCOUNTABILITIES

The way that Banks fund their operations means that, in comparison to other companies, their corporate governance needs to provide protection to a much broader pool of stakeholders, particularly depositors who do not usually have the possibility to influence the Banks' business decisions. Customers are the weakest party in the chain. Hence, good governance is important to balance those interests.

EswatiniBank is a Government Bank with its operations enabled by the Eswatini Development and Savings Bank (EDSB), Kings Order – in – Council no. 49/1973. The EDSB Order sets out the mandate and parameters within which the Bank operates.

As part of the Bank's commitment to sustainable growth in operations, the Bank is committed to adherence to good governance principles, in compliance with the King IV Report on Corporate Governance, on condition the code is not in conflict with the enabling statute and any other legislation impacting on the Bank's operations.

The Board serves as a focal point for and custodian of the Banks Corporate Governance. The Managing Director and the Executive Team deliver against agreed performane targets aligned to the Bank's strategy and in the best interest of the Bank and its material stakeholders.

3. BOARD OF DIRECTORS

We recognize that a balanced Board is pivotal for sustainable value creation. The Bank has a unitary Board, which is considered effective and appropriate for the size of the Bank. We believe that the Board composition is both qualitative and quantitatively poised in terms of skills, demographics, gender, experience, tenure and independence.

The Board is comprised of nine directors that include an Ex-Officio Director who is a representative of the Principal Secretary of the Ministry for Finance in terms of the Public Enterprises Control and Monitoring Act. The Managing Director is the only Executive Director in the Board.

During the reporting period, the Board had eight Directors with one vacancy on the Board. On the 1st May 2018, the Board welcomed the appointment into the Board of Dr. Sipho V. Nkambule and Ms. Ketshidile Masisi-Hlanze. During the year under review, the Board of Directors stood as follows:

1. **Ms. Sibongile G. Mdluli – Chairperson**
   19th September, 2017 (re-appointment)

2. **Ms. Sizakele Dlamini – Member**
   19th September, 2017 (re-appointment)

3. **Mr. Sydney Mdluli – Member**
   19th September, 2017 (re-appointment)

4. **Mr. Jabulani Nxumalo – Member**
   1st March, 2017

5. **Mr. Samson Mavuso – Member**
   1st June, 2017

6. **Dr. Sipho V. Nkambule – Member**
   1st May, 2018

7. **Ms. Ketshidile Masisi-Hlanze – Member**
   1st May, 2018

8. **Mr. Zakhele Lukhele – Managing Director**

We believe that the issue of the Board vacancy is receiving the shareholder's attention.

4. BOARD SUB-COMMITTEES

The permanent Committees established by the Board include the Audit and Finance, Credit, Remunerations, Risk and Information Technology Committees.

Whilst the Committees assist the Board in achieving its objectives, the Board still remains responsible for the overall performance of the Bank. The minutes of the Committee meetings form part of the Board papers, such that all Directors are aware of the issues obtaining at such Committee meetings.

During the reporting period, the Sub-Committees were constituted as follows:

Audit & Finance Committee

i) Mr. Sydney Mdluli – Chairperson
ii) Ms. Sizakele Dlamini – Member
iii) Dr. Sipho V. Nkambule – Member
iv) Mr. Zakhele Lukhele – MD / Member
v) Mr. Sifiso Mdluli - Secretary

Remunerations Committee

i) Mr. Jabulani Nxumalo – Chairperson
ii) Dr. Sipho V. Nkambule – Member
iii) Ms. Ketshidile Masisi - Hlanze – Member
iv) Mr. Zakhele Lukhele – MD / Member
v) Mr. Sifiso Mdluli – Secretary

Risk and IT Committee

i) Mr. Samson Mavuso – Chairperson
ii) Mr. Jabulani Nxumalo – Member
iii) Mr. Sydney Mdluli – Member
iv) Mr. Zakhele Lukhele – MD / Member
v) Mr. Sifiso Mdluli - Secretary

Credit Committee

i) Ms. Ketshidile Masisi - Hlanze – Chairperson
ii) Ms. Sizakele Dlamini – Member
iii) Dr. Sipho V. Nkambule – Member
iv) Mr. Samson Mavuso – Member
v) Mr. Zakhele Lukhele – MD / Member
vi) Mr. Sifiso Mdluli – Secretary

Dr. Sipho V. Nkambule who appears in three (3) of the Sub-Committees will be replaced in one of the Committees upon appointment of the remaining Board Member.

5. MEETINGS

To faciliate the smooth functioning of the Board, a year planner setting out Board and Board Sub-Committee meeting dates is developed well in advance. The Board also develops an Annual Work Plan detailing the activities of the Board during the year. The Work Plan assists the Board to execute all tasks in accordance with best Corporate Governance principles and in line with the enabling statute and all other ancillary legislation.

During the reporting period, the Board and its Sub-Committees held meetings in line with the PEU Circular no. 5/2013 on meetings issued in terms of the PEU Act.

6. TRAINING

On appointment, Directors are trained and provided with the EswatiniBank Governance manual containing all relevant governance information, including the Bank's founding statutes, mandates, governance structures, significant reports and policies. Ongoing Board education remains our focus.

The Directors during the year under review received training as follows:

6.1 Board Induction
6.2 Basel II
6.3 Assets and Liabilities Management
6.4 Anti-Money Laundering
6.5 Corporate Governance
6.6 Risk Management

7. BOARD EVALUATION

The Board's effectiveness and execution of its mandate is reviewed annually through the completion of evaluation forms.

Whilst the assessment takes place through an internally conducted process, consideration has been given to appointing an independent consultant to conduct this evaluation.

The focus of this review, is to identify areas of continous improvement for the Board and its Committees.

8. STRATEGY

During the year under review, the Board approved the Bank's strategy for 2019/2022 to guide the Bank's activities. The main focus of the strategy being to improve on revenue collection, customer base, management of risk and improved business processes.

The Board also launched a new tagline "Grow with Us, Sitfutfuke Nawe" in line with the strategic direction to be embarked on by the Bank.

The Board ensured that the strategy is aligned with the Bank's values, performance, sustainability objectives, and that it addresses the associated risks.
Financial performance is monitored through quarterly management reports to the Audit and Finance Committee and the Board.

Each strategic priority is complementary and underpinned by initiatives being undertaken within the Bank's day-to-day business. Together they create value for our customers, our shareholder, our various stakeholders, and contribute to the long-term sustainability of EswatiniBank.

As a Board we are cognizant that our largest contribution will be by executing our strategy with energy and discipline. We will continue to invest directly on upskilling our staff and ensure financial inclusion for all Eswatini citizens.

9. RISK MANAGEMENT

As a Board we realize that the complexities of managing regulatory compliance and the associated costs are a key challenge given the pace and scale of regulatory change.

Work is ongoing to ensure that a culture of compliance is embedded across the Bank as evidenced by the number of policies approved and reviewed by the Board in the previous year.

10. DECLARED DIVIDEND

During the year under review the Board declared and paid a Dividend of E7.6 Million to the Shareholder.

11. FUTURE OUTLOOK

The Bank looks forward to completing the upgrade of the core banking system and the enhancement to the digital banking platform. Automation and streamlining of business processes is a key focus area, which will help improve and enhance customer relationship management.

12. CONCLUSION

Thanks to the expertise, hardwork, discipline and dedication of our staff. Our staff has ensured that the Bank is well placed to serve our customers with consistent excellence.

The progress of the Bank would not have been achieved without the unwavering support of the sole shareholder, the Eswatini Government. To our customers, we register our sincere acknowledgement of the trust and loyality they have bestowed to the Bank, and we pledge to continue to provide them with seamless and optimal service.

To our stakeholders, we recognize the role they have played and most importantly the Regulator(s). Their support over the years has been steadfast and focused in ensuring that we comply with the relevant Laws.

We are thankful to our External Auditors for keeping a watchful eye on our books and ensuring our compliance with relevant international financial practices and standards.

Finally, I must express my profound gratitude to my fellow directors. Their wisdom, insights and dedication to the business of the Bank, has not gone unnoticed, and it is an honour to serve the country with them in this manner.

SIBONGILE MDLULI

(Chairperson of the Board)

SENIOR & HEAD OFFICE MANAGEMENT

Robinson Hlophe
Senior Manager - Corporate Services

Gab'sile Mhlanga
Branch Network Controller

Gilly Dlamini
Senior Manager - Strategy

Nelisiwe Mtshali
Senior Manager - Finance

Nomathemba Dlamini
Manager - Treasury and Investments

Phesheya Vilakati
Public Relations Officer (PRO)

Mazibuse Khumalo
Manager - AgriBusiness

Jansen Mkhweli
Manager - Industrial Relations

Babheke Dladla
Manager - Budgets

Chamkile Simelane
Manager - Small Medium and Micro Enterprises (SMME)

Lucky Lukhele
Manager - Housing and Property Finance

Elsie Dlamini
Manager - Credit

Mduduzi Hlophe
Manager - Insurance Business

SENIOR & HEAD OFFICE MANAGEMENT

Knowledge Manana
Legal Advisor

Sthembile Shabangu
Manager Corporate Business

Thembumenzi Kunene
Manager Risk and Compliance

Thembeni Dlamini
Assistant Manager - Motor Vehicle Finance

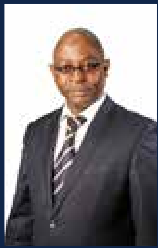
Bongiwe Sigwane
Supervisor Loans Securities

Nsimbi Shongwe
Assistant Manager - Administration

BRANCH MANAGEMENT

Andile Fakudze
Manager - Siteki

Thembumenzi Nxumalo
Manager - Cash Centre



Mbuso Mavuso
Manager - Manzini

Christopher Nkambule
Manager - Matata

Canaan Mavuso
Manager - Pigg's Peak

Tenele Shabangu
Manager OPC

Gcebile Soko
Assistant Manager
Foreign Exchange

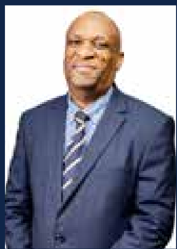
Doris Phiri
Manager - Simunye

Sibonisile Khumalo
Manager - Matsapha

Happy Nxumalo
Assistant Manager
Manzini

Lungile Matsebula
Manager - Nhlangano

Khayelihle Gama
Assistant Manager
Ezulwini Gables



Jabulani Mnisi
Manager - Mbabane

Nelsile Ginindza
Assistant Manager
Siphofaneni

MANAGING DIRECTOR'S REVIEW

MANAGING DIRECTOR'S REVIEW

ECONOMIC REVIEW

In 2018, economic activity, and therefore the business environment, improved slightly when compared to the previous year.

GDP expanded by 2.4 percent which is an improvement from the 2.0 percent growth experienced in 2017. This growth was mainly attributed to growth in the primary and tertiary sectors of the economy.

The primary sector recorded 7.4 percent growth, overcoming a four-year contraction which saw a 4.1 percent contraction recorded in 2017. The positive growth in the primary sector is largely a result of a significant increase in crop production and forestry output. In the secondary sector, a contraction of 0.1 percent was experienced due to continued poor performance of the manufacturing and construction subsectors. The tertiary sector exhibited 3.1 percent growth, following positive performance of the wholesale and retail trade, financial and insurance services, and information and communication subsectors.

With economic activity projected to decline to 1.4 percent in the 2019, the Bank will monitor all sectors and lend in profitable opportunities.

INFLATION

Inflation averaged 4.8 per cent in 2018, down from 6.2 per cent in 2017. Inflationary pressures were over the downside for the majority of the year under review. This was mainly because of a significant slowdown in food prices. The improved weather conditions experienced in the country aided an increase in agricultural production, which in turn led to lower food prices.

INTEREST RATES

The Central Bank of Eswatini's pursuit of a stable monetary policy, and in line with favourable inflation experienced, left interest rates unaltered through out the year. The Discount Rate and Prime Lending Rate therefore remained unchanged at 6.75 percent and 10.25 percent, respectively for the year 2018/2019.

BANK PERFORMANCE

The Bank is pleased with the performance achieved during the year. A profit of E56.0Million was realised . This was an increase of E13.2Million from the E42.9Million realised in the previous financial year. Total assets also increased by a net 5.1 percent (E123.2Million) from E2.4Billion in 2018 to E2.5Billion in the current year. Inflows in respect of new deposits enabled growth in lending activity.

The Bank continued to finance all sectors of the economy in line with its' mandate.

Summary of Salient Features of the Financial Statements

	2019 E'000	% Change 2018/ 2019	2018 E'000	% Change 2017/ 2018
Total Assets	2 520 035	5.1	2 396 801	12.7
Customer Deposits	1 375 609	3.6	1 327 496	20
Net Advances	1 390 571	4.9	1 325 354	1.1
Interest Income	226 929	-1	229 264	20.9
Interest Expense	88 209	3.6	85 177	28.4
Operating Expenses	222 675	0.6	221 295	14.9
Operating Profit	56 083	30.8	42 873	50

AUDIT OPINION

The Bank has received an unqualified audit opinion from the external auditors.

INFORMATION TECHNOLOGY ENHANCEMENTS

The upgrade of the Banking System (T24) is in progress and expected to go-live before the end of the calendar year 2019. This will bring about a number of enhancements and efficiencies that will enable further developments in banking products. The Bank is pleased with progress made in the digital banking platform which has brought about efficient customer service. These include enhancements of the Mobile Money Platform (to accommodate mobile money agents), the Digital Banking App and the roll-out of Auto Deposit Teller ATMs.

FUTURE OUTLOOK

The Bank looks forward to the completion of the core banking system upgrade and the roll out of the new system modules which will help enhance business operations and improve compliance. Prospects for business growth remain positive with a significant loan pipeline in place.

APPRECIATION

The Bank appreciates the support it has continued to receive from the Shareholder, the Board, esteemed customers and staff and remains committed to ensuring improved service delivery to all stakeholders.

ZAKHELE LUKHELE

(Managing Director)

FINANCE

Zanele Dlamini
Chief Financial Officer

- MBA (Heriot - Watt Univesity/Edinburgh Business School)
- ACMA – Associate Certified Management Accountant (CIMA-UK)
- B. Comm (Accounting) (UNISWA)
- Diploma in Commerce (UNISWA)

The Bank is pleased with the performance achieved in the current year. The Bank realised 30.8 percent growth in net profit and 5.1 percent in total assets. The growth is a result of the increase in net funding balances.

1. STATEMENT OF FINANCIAL POSITION

Total assets increased by 5.1percent during the year. The key drivers were inflows in respect of funding balances. The new resources were invested in loans and advances and available for sale securities. As a result, the total balance sheet increased from E2.4Billion in the previous year to E2.5Billion in the current year.

Shareholders' Funds

The Bank adopted IFRS 9 in the current year. The transitional impairment was adjustment against retained earnings. As a result, shareholders' funds decreased by a net E88.8Million from the E676.2million prior year balance.

Funding Balances

Funding Balances comprise; long-term borrowings and customer deposits. Long-term borrowings increased by a net E144.0Million whilst customer deposits increased by E48.1Million. New long-term funding was raised during the year due to the increased demand for lending particularly in the corporate space. 12.8 percent net growth in funding balances was realised (from E1.5Billion in 2018 to E1.7Billion in 2019).

Loans and Advances

Gross loans and advances increased by E185.3Million during the year. Significant growth was realised in the corporate business, agriculture and personal lending portfolios.

The Bank adopted IFRS 9 in the current year, as a result, impairment provisions increased significantly. The Bank continues to monitor the lending portfolio to ensure minimised credit losses.

Investments and Short Term Funds

These balances comprise Bond Investments (Government and Corporate), Government Treasury Bills and other money market instruments. Investments and short-term funds decreased by a net E59.1Million. This is a result of funding the increase in the loan book.

Fixed Assets

The Bank continued to invest in fixed assets, mainly information technology. The upgrade of the core banking system commenced during the year and will be completed in the coming financial year. Enhancements on the digital banking platform and debit card business continued during the year. These projects are due for completion in the coming financial year and will enhance the Bank's competitive edge.

2. STATEMENT OF PROFIT AND LOSS

The Bank realised an E56.1Million profit during the year. Profit increased by E13.2Million from the E42.9Million realised in the previous financial year. The major contributor was a reversal of impairments, recoveries on debts written off in prior years and profits from the associate investment.

Net Interest Income

E138.720Million Net Interest Income was realised from loans and investment balances net of interest paid to depositors. Net interest income declined by E5.4Million from the E144.1Million realised in the previous year. This is largely a result of lower lending activity during the first half of the financial year. Significant disbursements materialised during the last half of the year. Interest paid to the providers of finance amounted to E88.2Million.

Non-Interest Revenue

Non-interest revenue (commissions and other operating income) amounted to E129.4Million. Non-interest income was lower than the E134.879Million realised in the previous year. Prior year included once-off compensation from the insurer.

Income from Associate

The Bank realised a share of profit of E2.1Million from the associate investment. The share of profit was E0.6Million higher than the E1.5Million realised in the previous year.

Total Operating Costs

Total Operating Costs amounted to E222.7Million and were in line with the E221.3Million incurred in the previous year. Reversals of provisions raised in the previous year compensated for the current year increases in fixed assets costs and staff costs.

Regulatory Compliance

The Bank complied with all regulatory requirements as stipulated by the regulator (the Central Bank of Eswatini).

Audit Opinion

The Bank received an unmodified audit opinion from its' external auditors.

BANKING OPERATIONS

Enock Mavimbela
Banking Operations

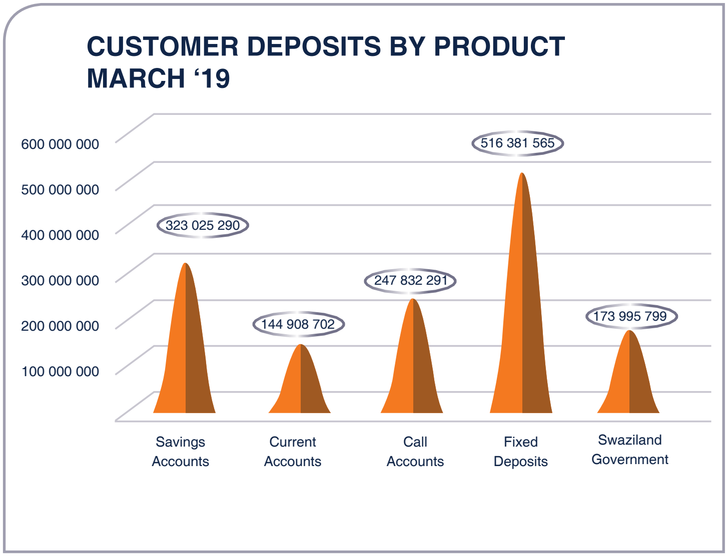
- Msc In Leadership and Change Management *(Leeds Metropolitan University,UK)*
- B.Comm - Banking *(University of Pretoria)*
- Post Graduate Diploma in Advanced Banking Law *(University of Johannesburg)*
- Associate Diploma in Banking *(Institute of Bankers SA)*
- Licentiate Diploma in Banking *(Institute of Bankers SA)*
- AAT Level III *(Association of Accounting Technicians, UK)*
- Certificate in Corporate Governance
- Certificate in Strategic Management and Business Process Re-engineering

1. BRANCH NETWORK

Eswatini Bank maintained its ten branches located strategically in major economic zones in the country. The number of Auto Teller Machines increased to fifty-two located in strategic points across the country.

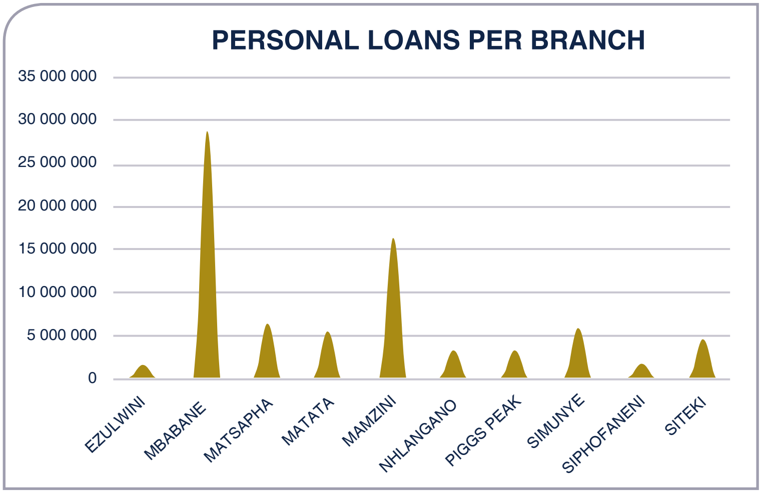
2. DEPOSITS

The value of customer deposits held by the bank at the end of the period under review was E 1.4Billion whereas we had E 1.5Billion the previous year. This reflects a decrease of 6.5 percent from the previous year. A total of 12 091 new accounts were opened during the year as compared to 14 574 opened in the previous year. The decline in activity is attributed to declining economic activity.



3. PERSONAL LOANS

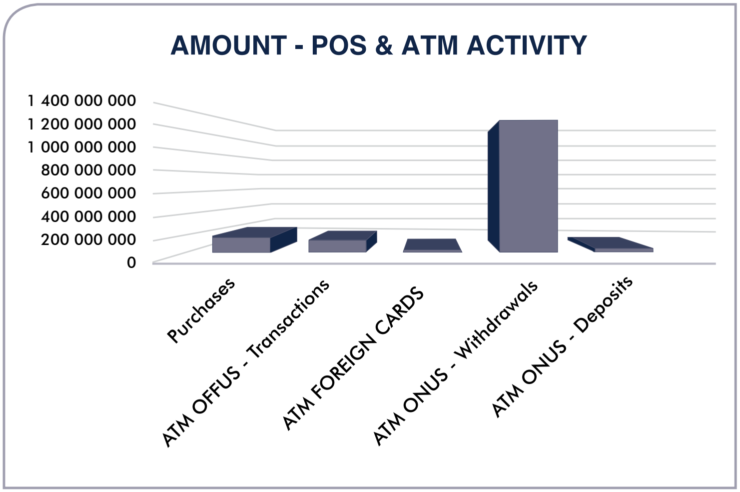
Personal loans granted increased by E 30.8Million from the reported E46.3Million in the previous year to E77.0Million. A total of 2045 personal loans valued at E77.1Million were granted during the year. Distribution of these loans by branch is as shown below:



4. ELECTRONIC BANKING BUSINESS

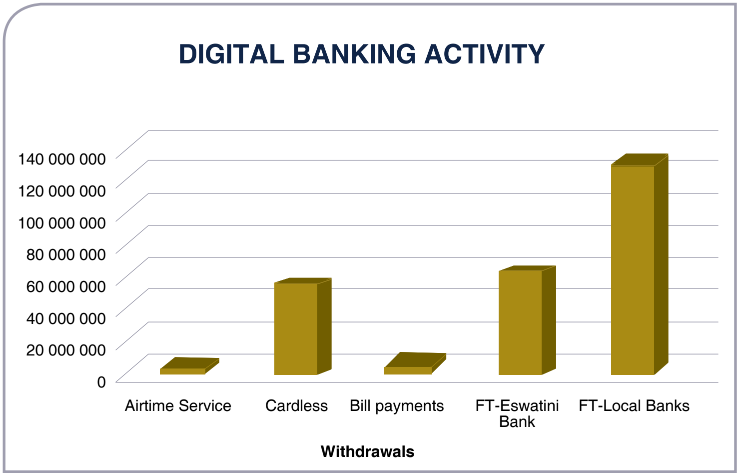
4.1 Card Business

The year under review saw a significant shift from ATM card usage to merchant point of sale. Merchant point of sale transactions increased from 169 384 in the previous year to 202 837 in the year under review. The graph below shows a summation of the banks card business in monetary terms.



4.2 Mobile Banking

The Banks Mobile Banking Platform launched in the 2017/18 financial year saw a modest growth in transactions during the period under review. The chart below shows activity on the various products on this platform.



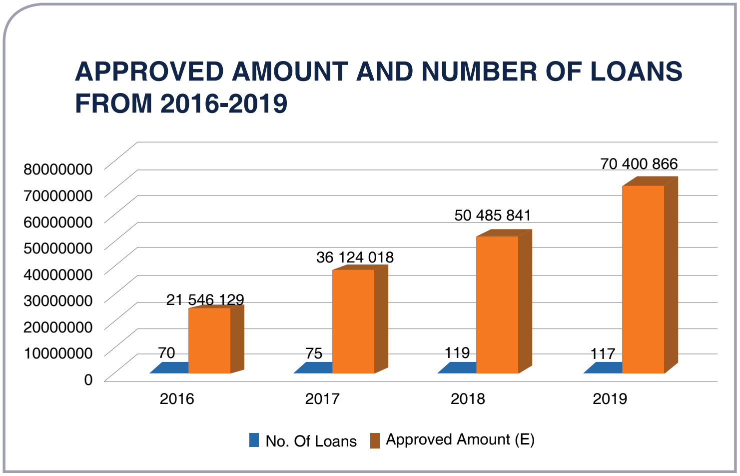
5. SMALL MEDIUM MICRO ENTERPRISES (SMME) DEVELOPMENT

The bank's SMME portfolio remained stagnant at E41.0Million in the period under review. A total of 100 facilities valued E37.4Million were disbursed during the year and this was 10.25 percent lower than the previous year where 147 facilities valued E41.7Million.

6. AGRIBUSINESS

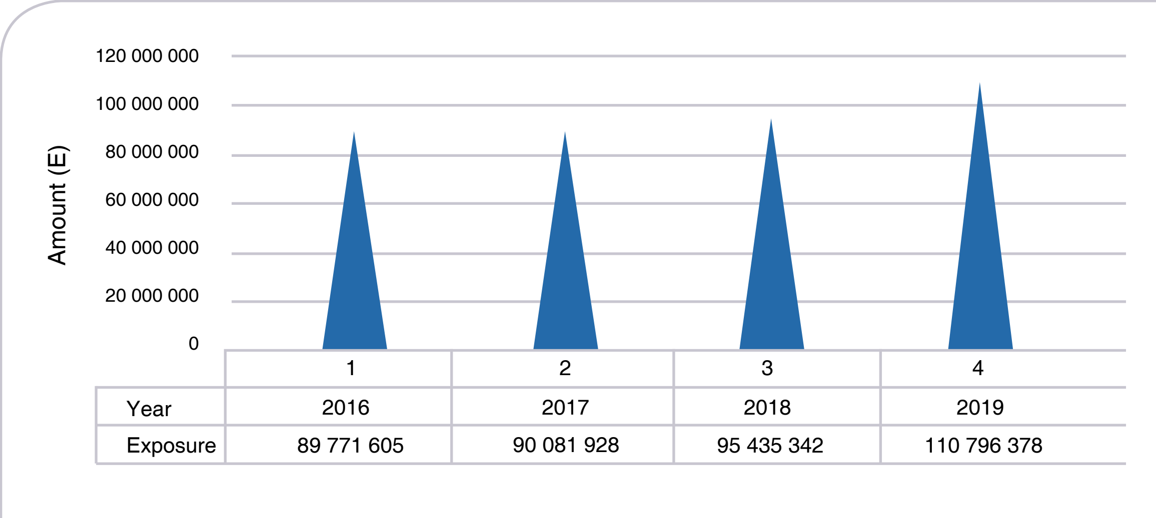
6.1 Approved Loans

A total of 117 agricultural loans valued E70.4Million were approved during the year 2018/2019 whereas 119 credit facilities valued at E50.4Million were granted in the previous year. This reflects a 39.5 percent growth which is attributed to efforts by farmers to fully recover from the drought experienced 3 years ago through replanting programs and expansions.



6.2 Total Loan Exposure

The bank's total exposure to the agricultural sector increased from E 95.4Million in the previous year to E111.0Million in the period under review as shown in graph below:



6.3 Agriculture Portfolio Distribution

The total exposure to agriculture is distributed into different sectors which is as shown below:

Sector	Distribution (E) Feb-19	Distribution (E) Mar-19	Total Exposure (%)
Sugarcane	78 744 781	86 115 773	77.72
Banana	6 942 071	7 035 240	6.35
Farm Purchase	6 264 888	6 319 457	5.7
Vegetables	480 452	488 622	0.44
Piggery	3 870 639	3 985 123	3.6
Poultry	6 440 606	6 235 778	5.63
Roller Mills	634 279	616 386	0.56
Total	**103 377 721**	**110 796 379**	**100**

INFORMATION TECHNOLOGY

Zakhele Mahlinza
Acting Executive Manager IT

- BSc. IT Management *(UNISA)*
- IT Diploma *(Boston College)*
- Project Management *(Prince2)*

INFORMATION TECHNOLOGY - continued

The year under review has been a year of embracing innovation and ensuring the bank systems remain relevant to international standards.

A Key project undertaken during the year is the upgrading of the core banking software from T24R11 to T24R18. The banking software integrations are transformational. They support the flow of information, improve business intelligence, provide crucial reporting capabilities, and offer insight into consumer behaviours.

ATM coverage increased to 52 ATMs placed in various strategic locations throughout the country, and more sites have been identified for future implementation. Customers can also access bank services through our digital platform; mobile banking and internet banking services. Further enhancement of our digital platform is on the cards to meet customers' expectations.

Soon, the bank will rollout it's own merchant POS terminals across the country to promote interoperability. VISA cards shall also be accepted on our ATMs and MPOS devices in addition to the MasterCard Debit Cards.

The bank is implementing a SADC directive in conjunction with SADC countries, to process cross border transactions within the SADC region. This Initiative enables the bank to compete effectively on cross border payments.

It is our objective to enhance all IT platforms to enhance customer experience through innovative banking products and services, in line with the Bank's Strategy.

BUSINESS BANKING

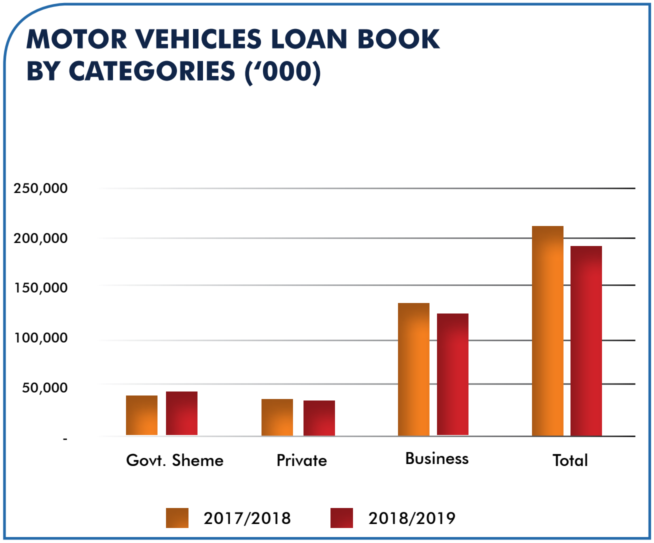
Mbongeni Bhembe
Acting Executive Manager Business Banking

- MBA (Herriot - Watt University/Edinburgh Business School)
- Bachelor of Arts in Social Sciences (Economics and Statistics) *(UNISWA)*
- ACI Dealing Certificate (The Financial Markets Association)
- *Certified Risk Analyst (CRA) - (International Academy of Business and Financial Management)*

1. ASSET FINANCE

1.1. Motor Vehicle Finance

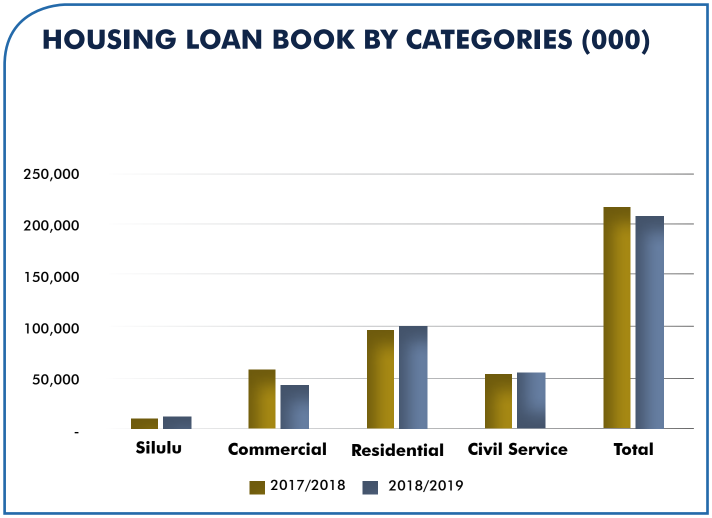
The year under review saw the Motor Vehicle Loan book declining to E191 Million from E209 Million seen during the previous year. This represented an 8.6 percent decrease. Contributing largely to the decrease in the loan book was credit extended to businesses which decreased by 21 percent thus offsetting the marginal increase that was seen on credit extended to individuals. The downward trajectory in the credit extended to business reflects the challenging economic conditions in the country. Below is the graphical representation of the Motor Vehicle Loan Book:



Strategies have already been put in place to grow this portfolio and these include partnering with key players in the industry. Whilst the department will be working on growing the loan book, this will be done in a prudent manner making sure that it is quality credit extension.

1.2. Housing

In line with its mandate, the Housing Department continued to play its role in providing finance in the property market. The housing market was however stressed during the past financial year and the loan book in this sector decreased to E208.5Million from E216Million in the previous year. Whilst residential housing finance marginally increased, there was a decrease of 35 percent in commercial housing finance.



The department has developed strategies that will ensure that it maintains existing customers whilst attracting new ones. Strategic alliances will also be formed to make sure that this portfolio grows and impacts the lives of Emaswati positively.

1.3. Corporate Business

The Corporate Business Unit continued to extend credit across the different sectors of the economy. This fairly manages the sectorial risks that are faced by the department. This unit has been actively participating in, amongst others, the Agriculture, Manufacturing, Transport and Communication Sectors. During the year under review, this portfolio grew by an impressive 30 percent from E626 Million seen in the previous year to E812.6 Million. This growth has been largely propelled by a significant growth that was seen in short term financing which enables companies to cover their day to day financing needs.

The department will continue exploring opportunities in other sectors that have been earmarked by the national government for development. These include the energy sector among others. Whilst looking to increasing its participation in the different sectors, the department endeavours to make sure that there is a fair mix of both long term and short term credit extension.

1.4. Insurance

The Bank's Insurance Department facilitates the insurance of assets and other loan facilities through the various insurance companies in the local industry. All credit units within the Bank are stakeholders for the Insurance Business Unit and the facilities they have issued need to be insured. The department remains committed to also contribute to revenue generation and also making sure that the Bank's assets are insured.

Plan ahead for the future

FIXED DEPOSIT
flexible saving period

SWAZISAVE PREMIUM
minimum balance of E500

LIKUSASA LAKHO ACCOUNT
minimum balance of E100

SIPHEPHELO ACCOUNT
minimum balance of E1 000

INSIKA ACCOUNTS
minimum balances from E200

Open an Investment Account (Fixed Deposit, SwaziSave, Siphephelo, Insika or Likusasa Lakho) from as little as E100 and enjoy good returns.

Enjoy our wide range of investment accounts and save for the future.

Ts & Cs apply

EswatiniBank

INTERNAL AUDIT

Tawonga Sifundza
Executive Manager Internal Audit

- Chartered Accountant - South African Institute of Chartered Accountants (SAICA)
- Public Practice Examination by Independent Regulatory Board for Auditors South Africa
- Hon. Bachelor of Accounting Sciences (CTA) (*UNISA)*
- Postgraduate Diploma in Accounting Sciences *(UNISA)*
- B.Com Accounting - UNISWA
- Registered member of the Swaziland Institute of Accountants

Internal Audit continues to be an independent, assurance, and consulting activity reporting functionally to the Audit Committee and administratively to the Managing Director.

Internal Audit planned and performed audit assignments during the 2018/2019 financial period taking into consideration the bank's strategic initiatives, risk exposure, the bank's internal control environment and available internal audit resources. Full audits were planned and performed for areas assessed as high risk. Substantial investments have been made by the bank in its Information Technology systems and a number of innovative products have been implemented. As such, focus was also placed on the Information Technology department with audits such as system interfaces, information security and access controls, infrastructure back-up and recovery, IT supplier service delivery. 87% of the planned assignments were completed. The 13% shortfall was due to unforeseen challenges and extensive involvement of Internal Audit in the systems (T24) upgrade project.

The bank committed to upgrade its core banking system from Globus T-24 R11 to T-24 R18. The re-implementation is expected to improve the banks service delivery and overall customer experience. Internal Audit as an assurance provider planned to provide assurance over the project with focus being placed on the integrity, accuracy and completeness of cleansed and enriched data , accuracy and completeness of data migrated to R18, an assessment of the adequacy of test scripts, a review of controls implemented by the project team for project governance and for preparing, reviewing and approving business requirements and reviewing the completeness and adequacy of business processes captured on the Graphical Intelligent Electronic Operations Manual ("GIEOM").

Compliance matters remain critical in the financial services sector. As such, the Internal Audit function continues to adapt its approach and service delivery to be more relevant and add value to the operations of the bank. Compliance assessments were performed for areas such as KYC requirements, assessment of provisioning for loans in line with Circular Number 8, assessment of capital adequacy requirements per the Central Bank of Eswatini's specifications, assessment of compliance with the Eswatini Public Procurements Act, 2011 and review of compliance with PAYE requirements.

The Bank launched a new Strategy towards the end of the financial year. A new strategy has new business objectives and goals and inherent risks which may not have existed previously. Internal Audit will play a vital role in reviewing the risks assessment of the new strategy, the bank's processes for managing the assessed risks and performance of periodic assessments of progress made in achieving the bank's strategic goals.

CORPORATE SERVICES

Thembi Dlamini

Executive Manager
Corporate Services

- Master of Business Leadership *(UNISA)*
- B. Comm (Accounting) (UNISWA)
- Certificate in Human Resource Hiring Practices *(UNISA)*
- Certified Global Remuneration Professional *(WorldatWork)*
- Certified Train the Trainer *(Education and Training Seta – South Africa)*
- Diploma in Law Paralegal Studies *(University of Johannesburg)*

The Corporate Services Division partners with all stakeholders to provide support and human capital solutions, which address the Bank's needs with a view to enhance organisational performance and strategy achievement. The department also takes responsibility for the management of bank property to ensure a safe and secure environment.

HUMAN CAPITAL PROFILE

The staff complement as at the end of the year stood at 337 employees.

To make the organization more cost-efficient, the Bank has continued to maintain a headcount freeze. Internal mobility plays a vital role for the bank to keep expertise, experience and talent within the institution. Existing staff are given priority when filling vacant positions at all levels of seniority whenever possible. External Recruitments to bring in the necessary skills and capabilities that will help position the institution for long-term success is done where the required skills are not available internally.

OCCUPATIONAL SAFEY, HEALTH AND ENVIRONEMENT

Sustainability through Employee Wellness

The bank's employee wellness programme provides the necessary support to our staff, enabling them to cope with new demanding lifestyles. The core long-term health offering includes preventive medical examinations. In addition, the Employee Wellness Program supports staff as they deal with issues in their personal or professional lives, which includes personal finance management, stress management, legal matters, emotional matters and harassment in the workplace. Sustaining the focus on employee wellness to improve employee productivity and overall employee health.

Working conditions commitments

Our employees are essential to the success of our business, hence we work hard to ensure we provide them with safe and healthy working conditions and the tools they need to succeed in their careers.

LEARNING AND DEVELOPMENT

The Bank accords utmost importance to the process of human resources development. Allowing our staff the opportunity to grow in their chosen career paths remains a key objective for the bank. The main aim is to provide a positive workplace where all individuals may grow, participate and contribute to the overall success of our business. A variety of issues, prevalent in Human Resources, were not on the radar a few years ago. Regulatory compliance continues to be an ever-changing and evolving concern; processes being increasingly automated. To this end, the strategic human resources agenda required that all employees be encouraged to continuously develop the necessary skills in order to make their respective work processes compliant and efficient.

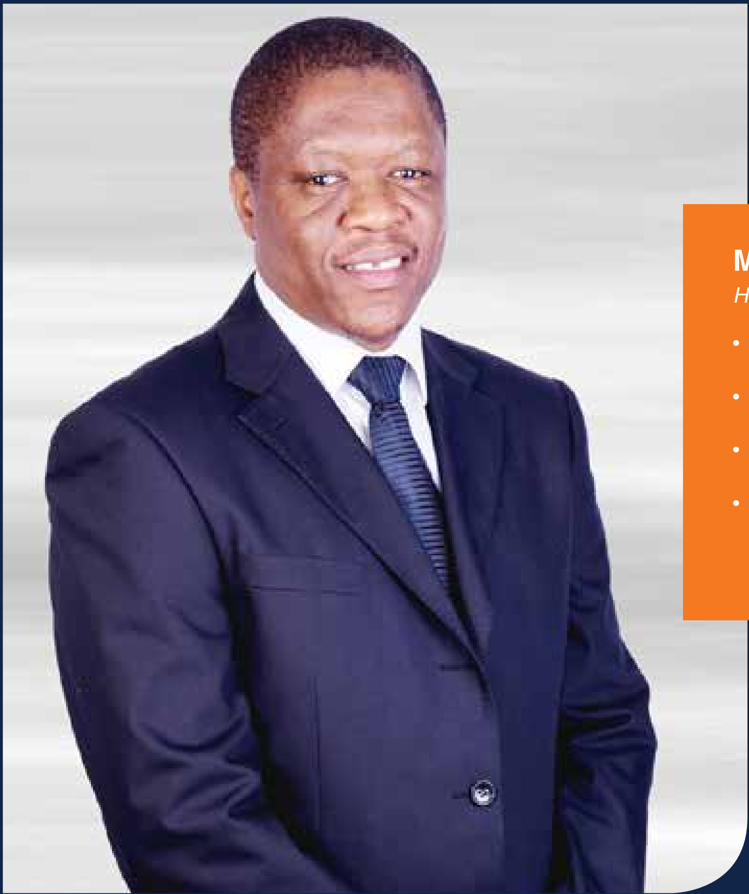
A total of 300 employee appearances were recorded for various training activities. Training covered 33 courses, 3 were Management Development, 26 Business Skills/ Technical and 4 Compliance Related.

The following key training initiatives were implemented during the year: Anti-Money Laundering; Balanced Scorecard; Project Appraisals; Tools and Techniques for Internal Auditors; Public Procurement; Strategic Assets and Liabilities Management; Remuneration Management and various IT Systems & Security courses.

INDUSTRIAL RELATIONS

Industrial relations in the Bank has been cordial and harmonious. The Bank believes that supporting mutual beneficial relationships is essential to the daily delivery of service to our customers. Continuing the Bank's effort of maintaining a positive employee relations climate, with a specific focus on completing negotiations of the Collective Agreement and closing out and concluding the agreement remains a priority.

RISK AND COMPLIANCE



Mbongeni Bhembe
Head of Risk and Compliance

- MBA (Herriot - Watt University/Edinburgh Business School)
- Bachelor of Arts in Social Sciences (Economics and Statistics) *(UNISWA)*
- ACI Dealing Certificate (The Financial Markets Association)
- *Certified Risk Analyst (CRA) - (International Academy of Business and Financial Management)*

RISK MANAGEMENT

During the year under review the Bank closely monitored its Top Ten Risks. These are the risks that directly impact on the Bank's strategic objectives. For the realization of the objectives, these risks had to be managed closely. Amongst others, these included Liquidity Risk, System Risk, Credit Risk, Compliance Risk, People Risk, Reputational Risk, Operational Risk and Political Risk.

In order to safeguard its capital base, Eswatini Bank follows best practices aligned with international standards to actively manage all inherent risks. During the year under review, the Bank was in constant engagement with the regulator on the implementation of the Internal Capital Adequacy Assessment Process (ICAAP) which made sure that the Bank also has a robust and clear Risk Appetite Statement (RAS).

Stress Tests were also undertaken during the year under review largely on Credit and Liquidity Risk. This was done following the Bank's Stress Test Framework. The aim was to ascertain the Bank's resilience during challenging times both on the credit and liquidity fronts. The Bank's credit risk taking capacity remained intact during the year under review and kept healthy liquidity levels.

The Department ensured that a consistent risk control approach is communicated to all divisions and staff so as to promote a strong institutional risk culture. The year also saw the Bank initiating projects to map the various processes, with the aim of minimizing operational risks and further strengthening risk management practices.

COMPLIANCE

The Bank continued complying with all requirements in line with its regulatory universe. Key Legislations were analyzed and trainings were afforded to staff members. These, amongst others included the Financial Institutions Act, 2005 and the Money Laundering / Terrorist Finance (Prevention) Act, 2011, as amended.

In ensuring that the Bank is not used as a conduit for money laundering, the Bank complied with all the AML / CTF Pillars. Trainings were conducted throughout the Bank where employees were made aware of their responsibilities.

The year under review also saw a full roll out of Basel II and the Bank complied with all its requirements.

FUTURE OUTLOOK

The year ahead will see the Bank rolling out GIEOM which is a system that will give access to processes and procedures to all employees. Trainings shall also be conducted using this system across the Bank. This is aimed at curbing Operational Risk which has proved to be a threat to the Bank.

Trainings on Compliance shall be of paramount importance across the Bank and these shall be afforded to all employees. The Department shall continue keeping track of all emerging legislations that will have a direct impact on the Bank.

MARKETING

Lindiwe Shongwe
Marketing and Premier Banking

- M.Sc. Leadership and Change Management *(Leeds Metropolitan University, UK)*
- B. Comm (Marketing) *UNISWA*
- Diploma in Commerce *(UNISWA)*
- Certificate in Corporate Governance

The theme for the next 3-year Strategy is growth, hence Eswatini Bank's new tagline, **'Grow With Us, Sitfutfuke Nawe'.** The Marketing Department also seeks to achieve same; growth and prosperity for the most important asset, the customer.

PRODUCT MANAGEMENT

The financial year saw the review and development of new products. This saw the enhancement of the bank's personal loans offering and development of low-cost deposit products following insights made through the Assets and Liabilities Committee (ALCO). Efforts were made thereafter to create awareness and cross-sell the new offerings to our customers and win new business through campaigns carried out.

Registration of customers onto the digital banking platform remained vital hence various campaigns which included a partnership with the National Contact Center (NCC). A campaign was carried out over a 3-month period to educate and register customers onto the digital platform, Nomakuphi App. Through telephonic efforts, the NCC registered approximately 15 000 customers onto the App. What remains key going forward, is usage of this product.

There was significant focus on asset based finance which saw the Bank run promotions in conjunction with Kia Motors for their Sportage. Furthermore, a 3-month campaign followed with incentives put up on offer for the promotion, which attracted many customers.

Through the Junior Achievement (JA) Financial Literacy program, the bank has paved a culture of saving and financial knowledge among students. Over and above this, the Bank has captured thousands of students for the uptake of Siyakhula Account, an account developed specifically for children / students whilst simultaneously instilling the Eswatini Bank brand and Siyakhula account in the minds of the students at an early age.

CORPORATE SOCIAL INVESTMENT

As per the Bank's mandate, the Department continued to ensure the Bank's role in terms of Corporate Social Investments (CSI) in various sectors of the economy. During the financial year, the Bank expanded its CSI programme contributing to institutions such as St Mary's High, Zombodze High School and Ngwane College.

Eswatini Bank continued its annual sponsorships which saw much investment in the following:
Arts: Schools Music Competitions
Sports: Eswatini Bank Cup and
Entrepreneurship: The Ministry of Commerce and Industry's Graduate Enterprise Programme, ENACTUS and Junior Achievement.

SALES

Awareness and selling of the bank's products and services remained key. The Unit's role in being out in the market has contributed immensely in understanding consumer behaviour as they bring much feedback on the bank's products and service offerings.

There was also much impact made by the team in the selling of the bank's new MTN Mobile Money Agent Top-Up products. This saw the mobilization of deposits, Agents opening transactor accounts and registering for digital banking to access this product.

CONTACT CENTRE

The now established Contact Centre continued to service customers. The platform to engage customers by the Contact centre now extends to emails, digital banking feedback platform and social media.

The Centre embarked on initiatives to gather data from on-boarding customers in an effort to gauge and enhance their customer experience. Focus was also made on account closures to identify gaps customer service and products offering at Eswatini Bank.

PREMIER BANKING

Customer retention in this portfolio remained at a high percentage as we continued to on-board new customers and service this high net-worth clientele.

CREDIT

Dumase Nxumalo
Credit

- M.Sc. Leadership and Change Management *(Leeds Metropolitan University, UK)*
- Chartered Accountant (SD), ACCA (UK) *(Botswana Accountancy College)*
- B. Comm *(UNISWA)*
- Diploma in Advanced Banking *(University of Johannesburg)*
- Programme in Risk Management *(University of South Africa)*
- Certificate in Fundamentals of Banking & Risk Management *(University of South Africa)*

The bank's mandate includes promoting and consciously stimulating economic growth. Hence the E1.6billion that was injected into the economy in the form of disbursements in the last four years, of which E354million was in the year under review. There was a 5 percent increase in disbursements when compared to the previous financial year.

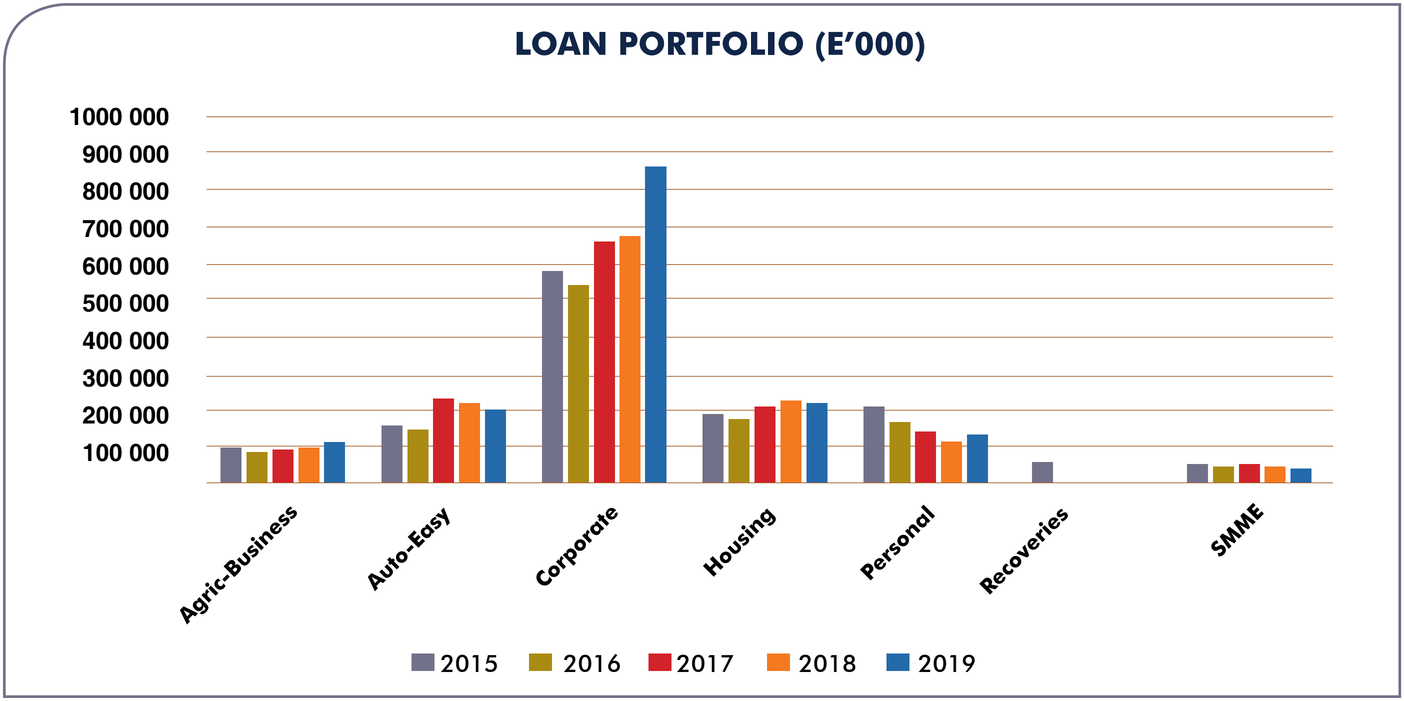
LENDING

The graph below shows a portfolio distribution of the E1.5billion gross loan book as at 31st March 2019. There was a net increase of 34 percent on the loan book over the last four years; that is from 2016 to 2019 as the loan portfolio moved from E1.1billion to E1.5billion. Eswatini Bank is focused on boarding good quality loans for sustainable growth.

The loan portfolio mix and concentration has been stable over the last four years. Corporate business loans are spread throughout all economic sectors and clearly remain the highest, followed by Housing and Auto Easy (asset finance) which are of almost the same magnitude.

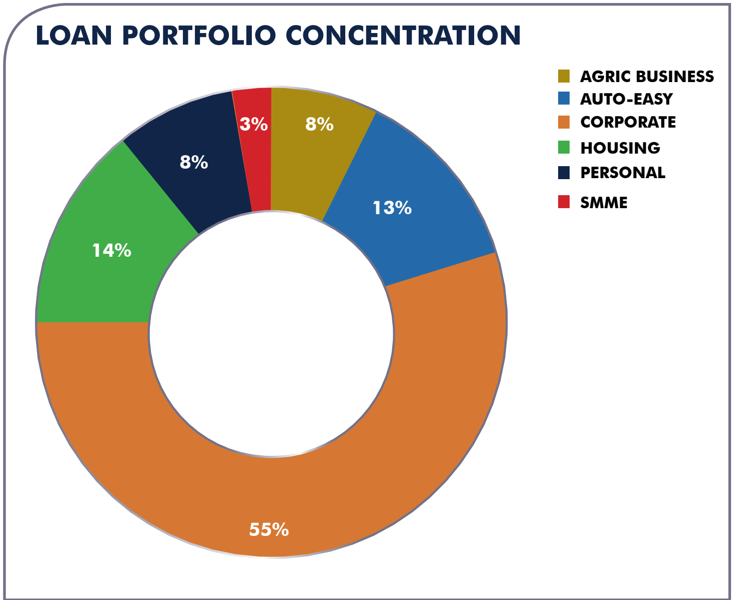
SMME loans followed by Agri-Business loans are the lowest and yet the most complex to manage especially the start-ups. The 18 percent growth in Agri-Business loans is a sign of the portfolio's recovery from the drought. SMME on the other hand decreased by 15 percent and this is mainly attributed to the overdependency by SMMEs on government expenditure, which currently is constrained.

In the current year, the lending in Auto Easy and Housing also decreased compared to the previous year. The wide range of personal loans addressing household needs, boosted this portfolio's performance.



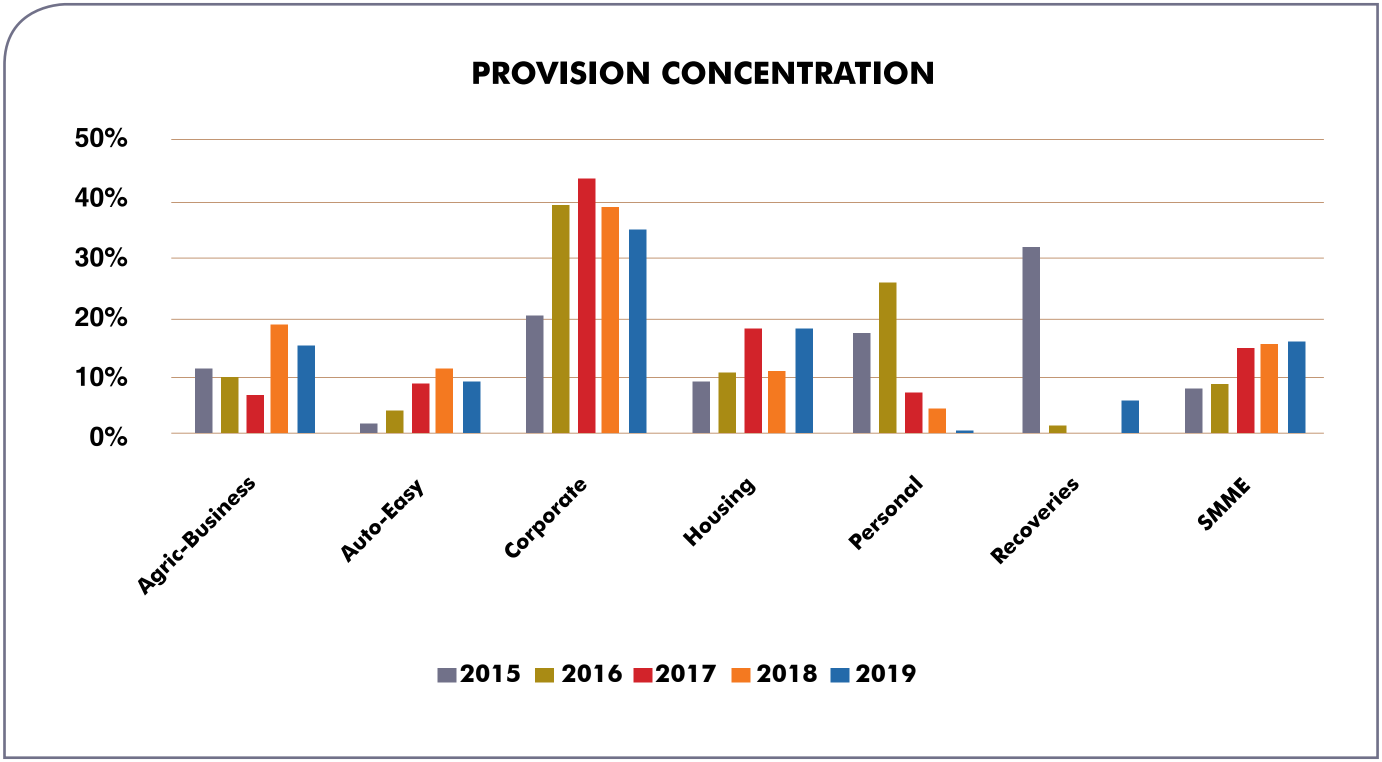
The loan book concentration as at 31 March 2019, is reflected on the chart. Corporate loans closed at 55 percent, which is the highest, followed by Housing loans 14 percent and Auto Easy loans 13 percent. Personal loans and Agricultural loans are almost the same size contributing at 8 percent and 7 percent respectively to total loans. SMME had the least lending at 3 percent.

Approximately 90 percent of the Agricultural loans are in the sugar industry. The drought effects are now history.



LOAN IMPAIRMENTS

The bank's provisions reduced from E102.8million to E96.8million over the last four years, leaving the average loan provisions stable at 6 percent of total loans. The financial year end results reflect that 11 percent of the loans are non-performing.



In line with the 55 percent portfolio share concentration, Corporate loans account for 35 percent of total provisions. Although the agricultural sector has recovered from the drought and loan repayments are coming through, about a quarter of the Agricultural business loans were not performing; leading to a contribution of 15 percent to total provisions. Housing loans contributed 18 percent to total provisions because almost a fifth of this portfolio is performing poorly. Almost half of the SMME loans were non-performing and this resulted in the portfolio contributing 16 percent to total provisions. In line with the development mandate, the bank is looking at, where possible resuscitating these poor performing loans, through training and empowering the business owners.

TRAINING

The Credit department is focused on multi-skilling the team members through job rotation within the department. It is anticipated that the Credit Officers can use this as a strong base for their various careers paths. Succession planning is also inherent in this strategy.

LEGAL COMPLIANCE AND GOVERNANCE

Sifiso Mdluli
Legal Services and Board Secretary

- M.Sc. Leadership and Change Management *(Leeds Beckett University)*
- LLB *(UNISWA)*
- BA Law *(UNISWA)*
- Certificate in Managing the Employment Process (UNISA)
- Admitted as an Attorney of the High Court of Swaziland

The Banks legal department has three sections namely the Bank secretariat unit, the legal services/litigation/advisory and conveyancing unit. It ensures that the Bank display utmost respect of the rule of law. The department ensures that a culture for sound legal risk management is inculcated across the Bank. This is required in order to mitigate losses due to litigation while at the same time protecting the image of the Bank. It also ensures the existence of an enabling legal framework at all times and provides legal advice to all units of the Bank. It also verifies the credibility of security documents presented by customers and other stakeholders. It is also mandated with reviewing and recommending amendments to Acts and statutory instruments which impact on the operations of the Bank.

LEGAL PROCEEDINGS

The Bank is vexed with various pending and threatened legal proceedings in which claims for monetary damages and other relief are asserted. These claims result from ordinary business activities relating to our operations. During the year under review there were no successful lawsuits against the Bank and the Bank managed to forge an out of court settlement on one labour matter.

DISBURSEMENTS AND VETTING OF SECURITIES

The department vetted a plethora of legal instruments to ensure prudent lending within the Bank. During the year under review the department authorized and recommended the disbursement of loans upon vetting of securities in excess of E417 Million. The department ensures that securities are in place and registered at the Deeds office, where applicable, before authorization or recommendation of disbursement. In order to improve the turn-around times of disbursements the department conducted refresher training to lending units on completion of security documents in order to mitigate against mistakes which have a negative impact on customer service.

MILESTONES ACHIEVED

The department's strategy which was coined in 2015 came to an end in March, 2019. The department achieved a number of gains during the three-year strategy and some are highlighted herein below:

- The department reviewed the Code of Ethics Policy which sets out the professionalism and integrity required for the Bank's Operations which covers compliance with the Laws, conflicts of interest, environmental issues, human rights, reliability of financial reporting, bribery and strict adherences to the principles so as to eliminate the potential for illegal practices and sexual harassment.

- Ensured that all legal instruments and contracts are reviewed before being signed by the appropriate authority and also outsourced the function to external legal services providers in exceptional cases.
- Facilitated the consummation of Service Level Agreements with various third parties including, and most importantly, our external legal service providers to bring certainty *albeit* to a limited extent on fees to be levied for work done.

- Reduced paperwork by inculcating a culture bank wide, and by extension to our external stakeholders, on electronic communication. Legal opinions to departments are now transmitted by email, and by extension, correspondence to our Lawyers which innovation improved on turn-around times. Requests for legal services are procured electronically by bank branches and departments.
- Delivered an electronic board pack which innovation curtailed costs of delivering the pack and enhanced on efficiency and ease of transmitting the pack.

FORECAST

The department coined its three-year strategy for 2019 – 2022 which is at draft stage, crafted from the main strategy of the bank and will inter alia aim to achieve the highlighted strategic initiatives whilst at the same time executing the tasks for which the department was created to do:

- Improve collection initiatives on NPL’s.
- Coordinate the introduction of electronic mandates and electronic signatories to improve customer service.
- Develop an electronic document management system (security, contracts etc.) – upload all historic documents and ensure further documents are uploaded in real-time.
- Strengthen governance framework to ensure adherence to good governance principles.
- Develop and implement delegation of authority framework.

- Develop stakeholder framework and policy in order to improve and formalize stakeholder engagement.
- Introduce and implement Corporate Governance culture for all departments and level's by conducting awareness workshops for all staff across the Bank.
- Develop and implement a succession policy and procedure.

BOARD MATTERS

During the year under review the department continued to enhance sound corporate governance principles and practices aligned to international best practices. The board was exposed to a number of trainings on Anti-Money Laundering, Basel II, Corporate Governance, Assets and Liabilities (ALCO). The department also monitored subsequent actions in accordance with resolutions of board meetings and facilitated board activities.

ESWATINI DEVELOPMENT AND SAVINGS BANK

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2019

CONTENTS

The Directors are responsible for the preparation and fair presentation of the financial statements of the Eswatini Development and Savings Bank ("the Bank"), comprising the statement of financial position as at 31 March 2019, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes and the Directors' report, in accordance with International Financial Reporting Standards and in a manner required by the Eswatini Development and Savings Bank Order 1973, as amended and the Financial Institutions Act, 2005.

The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Directors have made an assessment of the ability of the Bank to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of financial statements

The financial statements of the Bank, as identified in the first paragraph and set out on pages 66 to 176, were approved by the Board of Directors on 29 August 2019 and are signed on its behalf by:

SIBONGILE MDLULI
(Chairperson)

ZAKHELE LUKHELE
(Managing Director)

Opinion

We have audited the financial statements of Eswatini Development and Savings Bank, ("the bank"), which comprise the statement of financial position as at 31 March 2019, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes, and the directors report as set out on pages 66 to 176.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 March 2019, 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 Eswatini Development and Savings Bank Order 1973, as amended and the Financial Institutions Act, 2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the bank in accordance with the Eswatini Institute of Accountants Code of Professional Conduct (ESIA Code) and other independence requirements applicable to performing audits of financial statements in Eswatini. We have fulfilled our other ethical responsibilities in accordance with the ESIA Code and in accordance with other ethical requirements applicable to performing audits in Eswatini. The ESIA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). 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 statement of responsibility by the board of directors attached to the financial statements which we obtained prior to date of sign off. Other information does not include the financial statements and our auditors' report thereon.

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

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

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in the manner required by the Eswatini Development and Savings Bank Order 1973, as amended and the Financial Institutions Act, 2005, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG

Auditors

The Directors present their report, which forms part of the audited financial statements of the Bank, for the year ended 31 March 2019.

NATURE OF BUSINESS

The Bank was incorporated under the King's Order in Council No. 49 of 1973 as amended by the King's Order in Council No. 15 of 1993.

It provides normal commercial banking services with particular focus on business and development finance.

An extensive network of branches is operated, covering Mbabane, Manzini, Matsapha, Piggs Peak, Nhlangano, Simunye, Siteki, Matata, Siphofaneni and Ezulwini.

SALIENT FEATURES OF THE FINANCIAL STATEMENTS

	2019 E'000	Change %	2018 E'000	Change %
Interest income	226 929	(1.0%)	229 264	20.9%
Interest expense	88 209	3.6%	85 177	28.4%
Profit for the year	56 083	30.8%	42 873	50.0%
Total assets	2 520 035	5.1%	2 396 801	12.7%
Customer deposits	1 375 609	3.6%	1 327 496	20.0%
Net advances	1 390 571	4.9%	1 325 354	1.1%

INTEREST OF DIRECTORS AND OFFICERS IN SHARE CAPITAL AND CONTRACTS

Directors and officers of the Bank have no beneficial interest in the Bank's share capital. No material advances involving Directors were made in the current year.

DIRECTORS AND SECRETARY

Directors

S G Mdluli (Chairperson)
Z W Lukhele (Managing Director)
S O Mdluli
J Nxumalo
S Dlamini
S M Mavuso
Dr SV Nkambule
K Masisi-Hlanze

The Directors are appointed by the Minister for Finance for a renewable period of three years.

DIRECTORS AND SECRETARY (continued)

The Secretary to the Board and his address is as follows:

Secretary
Sifiso C Mdluli
P. O. Box 336
Mbabane
Eswatini

REGISTERED OFFICE AND ADDRESS OF THE BANK

Physical address
Eswatini Development and Savings Bank
Head Office
Engungwini Building
Gwamile Street,
Mbabane, Eswatini

Postal Address
P O Box 336
Mbabane
Eswatini

AUDITORS

KPMG Chartered Accountants (Swaziland) are the auditors of the Bank.

Physical address
Umkhiwa House
Lot 195 Kal Grant Street
Mbabane
Eswatini

Postal Address
P.O. Box 331
Mbabane
Eswatini

ATTORNEYS

- Magagula & Hlophe Attorneys
- M J Manzini & Associates
- Mngomezulu Attorneys
- Robinson Bertram
- S V Mdladla & Associates
- Musa Sibandze Attorneys
- Waring Attorneys

BANKERS

- ABSA Bank Limited
- Central Bank of Eswatini
- Nedbank South Africa Limited
- South African Reserve Bank
- Standard Bank South Africa Limited
- EBI SA Groupe Eco Bank

INVESTMENT MANAGERS

- Old Mutual Eswatini
- African Alliance Eswatini Limited
- Stanlib Investment Limited

SUBSEQUENT EVENTS

Subsequent events to the reporting date:

(a) have been fully taken into account insofar as they have a bearing on the amounts attributable to assets and/or liabilities at that date;

(b) apart from changes in the ordinary course of business, have not made the present financial position substantially different from that shown by the statement of financial position; and

(c) have not required adjustments to the fair value measurements and disclosures included in the financial statements.

GOING CONCERN

The Directors have assessed the Bank's ability to continue as a going concern and they have no reason to believe that the Bank will not be able to continue as a going concern in the foreseeable future.

STATEMENT OF FINANCIAL POSITION
at 31 March 2019

	Notes	2019 E'000	2018 E'000
ASSETS			
Cash balances and balances with Central Bank	12	197 732	219 608
Amounts due from other banks	13	272 853	319 287
Other assets	16	18 532	41 708
Investment securities	14	410 548	283 088
Loans and advances to customers	15	1 390 571	1 325 354
Investment in associate	30	19 223	17 141
Property and equipment	17	172 992	173 902
Intangible assets	18	37 584	16 713
Total assets		2 520 035	2 396 801
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders of the Bank			
Share capital	19	54 800	54 800
Capital grant	20	135 000	135 000
Other reserves	21	116 856	123 061
Statutory reserve	22	41 286	35 678
General credit risk reserve	22	-	12 248
Retained earnings		239 506	315 441
Total equity		587 448	676 228
Liabilities			
Customers' deposits and current accounts	23	1 375 609	1 327 496
Other liabilities	24	240 088	220 272
Provisions for other liabilities and charges	26	2 031	1 972
Borrowings	25	314 859	170 833
Total liabilities		1 932 587	1 720 573
Total equity and liabilities		2 520 035	2 396 801

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 March 2019

	Notes	2019 E'000	2018 E'000
Interest and similar income	7	226 929	229 264
Interest expense and similar charges	8	(88 209)	(85 177)
Net interest income before impairment losses on loans and advances		138 720	144 087
Impairment losses released/(raised) on loans and advances to customers	31.2.3	5 665	(18 127)
Recoveries of previously written-off loans and advances		2 860	1 814
Net interest income after impairment losses and recoveries on loans and advances		147 245	127 774
Fee income and commission	9	127 920	128 307
Impairment loss on other financial instruments		(137)	-
Other gains- net		212	93
Other operating income	10	1 436	6 479
Net income from operations before operating and administrative expenses		276 676	262 653
Operating and administrative expenses	11	(222 675)	(221 295)
Operating profit		54 001	41 358
Share of profit of equity-accounted investees, net of tax	30	2 082	1 515
Profit for the year		56 083	42 873
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Revaluation gain on property and equipment		-	-
Items that are or may be reclassified subsequently to profit or loss:			
Available for sale financial assets:			
Net change in fair value		-	5 575
Total other comprehensive income for the year		-	5 575
Total comprehensive income for the year		56 083	48 448

	Share Capital E'000	Capital Grants E'000	Statutory Reserve E'000	Other Reserves E'000	General risk Reserves E'000	Retained Earnings E'000	Total Equity E'000
2018							
Balance at 1 April 2017	54 800	135 000	31 391	117 486	12 151	281 452	632 280
Comprehensive income for the year							
Profit for the year	-	-	-	-	-	42 873	42 873
Other comprehensive income for the year, net of income tax	-	-	-	5 575	-	-	5 575
Movement in general credit risk reserve	-	-	-	-	97	(97)	-
Transfer to statutory reserve	-	-	4 287	-	-	(4 287)	-
Total comprehensive income for the year	-	-	4 287	5 575	97	38 489	48 448
Contributions by and distributions to owners							
Dividends declared and paid	-	-	-	-	-	(4 500)	(4 500)
Total contributions by and distributions to owners	-	-	-	-	-	(4 500)	(4 500)
Balance at 31 March 2018	54 800	135 000	35 678	123 061	12 248	315 441	676 228

	Share Capital E'000	Capital Grants E'000	Statutory Reserve E'000	Other Reserves E'000	General risk Reserves E'000	Retained Earnings E'000	Total Equity E'000
2019							
Balance as at 31 March 2018	54 800	135 000	35 678	123 061	12 248	315 441	676 228
IFRS 9 transitional adjustment	-	-	-	(6 205)	(12 248)	(118 810)	(137 263)
Restated balance at 1 April 2018	54 800	135 000	35 678	116 856	-	196 631	538 965
Comprehensive income for the year							
Profit for the year	-	-	-	-	-	56 083	56 083
Other comprehensive income for the year, net of income tax				-	-	-	-
Transfer to statutory reserve	-	-	5 608	-	-	(5 608)	-
Total comprehensive income for the year	-	-	5 608	-	-	50 475	56 083
Contributions by and distributions to owners							
Dividends declared and paid	-	-	-	-	-	(7 600)	(7 600)
Total contributions by and distributions to owners	-	-	-	-	-	(7 600)	(7 600)
Balance at 31 March 2019	54 800	135 000	41 286	116 856	-	239 506	587 448

	Notes	2019 E'000	2018 E'000
Cash flows from operating activities			
Interest and similar income	7	226 929	229 264
Interest expense and similar charges	8	(88 209)	(85 177)
Fee and commission income	9	127 920	128 307
Cash from other operating income	10	1 436	6 479
Recoveries of previously written off loans and advances		2 860	1 814
Cash payments to employees and suppliers		(208 112)	(211 380)
Operating profit before changes in operating assets	28.1	62 824	69 307
Change in operating assets	28.2	(58 766)	50 294
Net cash generated from operating activities		4 058	119 601
Cash flows from investing activities			
Proceeds on disposal of property and equipment		2 179	306
Acquisition of property and equipment	17	(9 345)	(15 383)
Acquisition of intangible assets	18	(27 146)	(5 130)
Acquisition of investment securities		(125 809)	(9 553)
Redemption of investment securities		120	5 000
Net cash utilised from investing activities		(160 001)	(24 760)
Cash flows from financing activities			
Repayment of borrowings		(58 333)	(29 167)
Loan received		200 000	-
Dividends paid		(7 600)	(4 500)
Net cash generated/(utilised) from financing activities		134 067	(33 667)
Net (decrease)/increase in cash balances and balances with Central Bank		(21 876)	61 174
Cash balances and balances with Central Bank at the beginning of the year		219 608	158 434
Cash balances and balances with Central Bank at end of the year	12	197 732	219 608

1 REPORTING ENTITY

Eswatini Development and Savings Bank (the "Bank") was incorporated under the King's Order in Council No. 49 of 1973 as amended by the King's Order in Council No. 15 of 1993.

The Bank provides normal commercial Banking services with particular focus on business and development finance.

An extensive network of branches is operated, covering Mbabane, Manzini, Matsapha, Pigg's Peak, Nhlangano, Simunye, Siteki, Matata, Siphofaneni and Ezulwini.
These financial statements were authorised for issue by the Board of Directors on 29 August 2019.

2 BASIS OF PREPARATION

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Statement of compliance

The financial statements of Eswatini Development and Savings Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Eswatini Development and Savings Bank Order 1973, as amended, and the Financial Institutions Act, 2005.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and land and buildings which are measured at revalued amounts.

2.3 Functional and presentation currency

These financial statements are presented in Emalangeni, which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, except when otherwise indicated.

2.4 Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

Applicable to 2019

Note 3d-Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal outstanding.

Note 3e-establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL and selection and approval of models used to measure ECL.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 March 2019 is included in the following notes:

Applicable to 2019 only

Impairment of financial instruments, determining inputs into the ECL measurement model, including incorporation of forward-looking information (refer to note 31.2).

Applicable to 2019 and 2018

Determination of the fair value of financial instruments with significant unobservable inputs (refer to note 3d and 31.5).

Impairment of financial instruments: key assumptions used in estimating recoverable cash flows (refer to note 31.2).

2.5 Change in accounting policies

The bank has initially adopted IFRS 9 and IFRS 15 from 1 April 2018. Also, the bank adopted Prepayment Features with Negative Compensation (Amendments to IFRS 9), issued in October 2017.

A number of other new standards are also effective from 1 April 2018 but they do not have a material effect on the Bank's financial statements.

Due to the transition method chosen by the bank in applying IFRS 9, comparative information through these financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets
- additional disclosures related to IFRS 9
- additional disclosures related to IFRS 15

Except for the changes below, the bank has consistently applied the accounting policies as set out in Note 3 to all periods presented in these consolidated financial statements.

2.5 Change in accounting policies-(continued)

a) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Additionally, the bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures for 2019, but have not been applied to the comparative information.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 34.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories for held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Bank classifies financial assets under IFRS 9 see note 3d.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Bank classifies financial liabilities under IFRS 9, see note 3d.

2.5 Change in accounting policies-(continued)

a) IFRS 9 Financial Instruments- (continued)

Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 April 2018. Accordingly, the information presented for 2018 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2019 under IFRS 9.

The bank used the exemption not to restate comparative periods.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

If a debt security had low credit risk at the date of initial application of IFRS 9, then the bank has assumed the credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see note 34.

b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The bank initially applied IFRS 15 on 1 April 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the bank's fee commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements.

3 SIGNIFICANT ACCOUNTING POLICIES

a) Interest income and expense

Policy applicable from 1 April 2018

Effective interest rate

Interest income and expense is recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

3 SIGNIFICANT ACCOUNTING POLICIES - (continued)

a) Interest income and expense - (continued)

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using the estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 April 2018).

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability.

3 SIGNIFICANT ACCOUNTING POLICIES - (continued)

a) Interest income and expense - (continued)

Policy applicable from 1 April 2018 (continued)

From an operational perspective, the Bank suspends the accrual of contractual interest on non-recoverable advances. Interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the discounted recoverable amount of the advance. This difference between the discounted and undiscounted recoverable amount is released to interest income over the expected collection period of the advance.

For financial assets that were credit impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest rate method presented in the statement of profit or loss and OCI includes:

- Interest on financial assets measured at amortised cost

Interest expense presented in the statement of profit or loss and OCI includes:

- Financial liabilities measured at amortised cost.

The Bank recognises interest income and expense in profit or loss for all instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the average expected life of the financial instruments or portfolios of financial instruments.

3 SIGNIFICANT ACCOUNTING POLICIES - (continued)

a) Interest income and expense-(continued)

Policy applicable from 1 April 2018 (continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (for example, transaction costs and all other premiums or discounts).

From an operational perspective, the Bank suspends the accrual of contractual interest on non-recoverable advances. However, in terms of IAS 39, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the discounted recoverable amount of the advance. This difference between the discounted and undiscounted recoverable amount is released to interest income over the expected collection period of the advance.

Instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or long-term liabilities. Dividends received or paid on these instruments are included and accrued in interest income and expense.

b) Fee and commission

Fees and commission income expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (3a).

Other fee and commission income-including account administration fees, ATM charges, Insurance commission, Cash and cheque deposit charges, cash and cheque withdrawal charges, foreign exchange charges, cash transfer charges,

3 SIGNIFICANT ACCOUNTING POLICIES - (continued)

security commission and other commission- is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the bank applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fee, which are expensed as the services are received.

c) Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES - (continued)

d) Financial assets and financial liabilities

The bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial assets – policy applicable from 1 April 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

3 SIGNIFICANT ACCOUNTING POLICIES - (continued)

d) Financial assets and financial liabilities (continued)

Classification (continued)

Financial assets – policy applicable from 1 April 2018 (continued)

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of transactions in prior periods, the reasons for such transactions and its expectations about future activity. However, information about transactions activity is not considered in isolation,

3 SIGNIFICANT ACCOUNTING POLICIES - (continued)

d) Financial assets and financial liabilities (continued)

Classification (continued)

Business model assessment (continued)

but as part of an overall assessment of how the bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

Assessment of whether contractual cash flows are solely payments of principal and interest (continued)

In assessing whether the contractual cash flows are SPPI, the bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

3 SIGNIFICANT ACCOUNTING POLICIES - (continued)

d) Financial assets and financial liabilities (continued)

Classification (continued)

Business model assessment (continued)

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the bank changes its business model for managing financial assets.

Policy applicable before 1 April 2018

Recognition

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The bank classifies its financial liabilities, other than financial guarantee and loan commitments, as measured at amortised cost or fair value through profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES - (continued)

d) Financial assets and financial liabilities (continued)

Policy applicable before 1 April 2018 (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the bank does not intend to sell immediately or in the near term.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative instruments that are designated as available for sale or not classified as another category of financial assets. Available for sale investments comprise debt securities.

Recognition and measurement

Available-for-sale financial assets at fair value through profit or loss are subsequently carried at fair value.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Investment income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of other operating income when the Bank's right to receive payments is established.

3 SIGNIFICANT ACCOUNTING POLICIES - (continued)

d) Financial assets and financial liabilities (continued)

Policy applicable before 1 April 2018 (continued)

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income. A gain or loss on available for sale financial assets shall be recognised in other comprehensive income except for impairment losses and foreign exchange gains which are recognised in profit or loss until the financial asset is derecognised. At the time, the cumulative gain or loss previously recognised in other comprehensive income shall be reclassified from equity to profit or loss as a classification adjustment.

Recognition and measurement

Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss as part of other operating income. Dividends on available-for sale equity instruments are recognised in profit or loss as part of other operating income when the Bank's right to receive payment is established.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss in the period in which they arise.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments as measured at amortised cost.

3 SIGNIFICANT ACCOUNTING POLICIES - (continued)

d) Financial assets and financial liabilities (continued)

Policy applicable before 1 April 2018 (continued)

Derecognition

Financial assets

The bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From 1 April 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition 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 on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

3 SIGNIFICANT ACCOUNTING POLICIES - (continued)

d) Financial assets and financial liabilities (continued)

Policy applicable before 1 April 2018 (continued)

Derecognition

Financial assets

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 sale-and-repurchase transactions, because the bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Before 1 January 2018, retained interests were primarily classified as available-for-sale investment securities and measured at fair value.

Financial liabilities

The bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

3 SIGNIFICANT ACCOUNTING POLICIES - (continued)

d) Financial assets and financial liabilities (continued)

Policy applicable before 1 April 2018 (continued)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

3 SIGNIFICANT ACCOUNTING POLICIES - (continued)

d) Financial assets and financial liabilities (continued)

Policy applicable before 1 April 2018 (continued)

Fair value measurement (continued)

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

e) Impairment of financial assets

Policy applicable from 1 April 2018

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment of financial assets

No impairment loss is recognised on equity investments.

The bank measures loss allowances at an amount equal to lifetime Expected Credit Losses, except for the following, for which they are measured as 12-month ECL.

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment of financial assets (continued)

Policy applicable from 1 April 2018 (continued)

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the bank if the commitment is drawn down and the cash flows that the bank expects to receive;
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the bank expects to recover; and
- Letters of credit: a guarantee by the bank guaranteeing that the clients' payment to another will be received on time and at the correct amount.

Credit impaired financial assets

At each reporting date, the bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment of financial assets (continued)

Policy applicable from 1 April 2018 (continued)

Credit impaired financial asset (continued)

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the bank on terms that the bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different

In making an assessment of whether an investment in sovereign debt is credit-impaired, the bank considers the following factors;

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment of financial assets (continued)

Policy applicable from 1 April 2018 (continued)

Credit impaired financial asset (continued)

The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment of financial assets (continued)

Policy applicable from 1 April 2018 (continued)

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on loans and advances or financial instruments' in the statement of profit or loss and OCI.

Non-integral financial guarantee contracts

The bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another bank within the borrower's bank.

If the bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The bank presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment of financial assets (continued)

Policy applicable before 1 April 2018 (continued)

General

At each reporting date, the bank assesses if there is objective evidence that financial assets not carried at fair value through profit or loss are impaired.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss includes:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(i) adverse changes in the payment status of borrowers in the portfolio; and
(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment of financial assets (continued)

Policy applicable before 1 April 2018 (continued)

Assets carried at amortised cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment of financial assets (continued)

Policy applicable before 1 April 2018 (continued)

Assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

Available-for-sale Financial Assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Impairment losses on an available-for sale equity instruments may not be reversed through profit or loss. Any increase in the fair value of such an instrument after an impairment loss has been recognised is treated as a revaluation and is recognised in other comprehensive income.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Property and equipment

All items of property and equipment are initially measured at cost. Subsequently land and buildings are carried at a revalued amount, which is the fair value at the date of the revaluation as determined from market based evidence. Valuations are performed every three years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation loss is recognised in profit or loss except to the extent that it decreases a credit balance which exists in the revaluation surplus in which case it is recognised in other comprehensive income. The revaluation surpluses are transferred directly to retained earnings in the statement of changes in equity when the related assets are derecognised.

Other items of property and equipment are subsequently carried at cost, and exclude the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the bank. Depreciation is based on a straight line basis estimated to write each asset down to its estimated residual value over the term of its useful life at the following rates:

Motor vehicles	5 years
Furniture and equipment	5-10 years
Leasehold improvements	10 years

Land and buildings and work in progress are not depreciated.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Property and equipment (continued)

Items of property and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss arising from the derecognition of an item of property and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Residual values, useful lives and impairment are assessed annually and adjusted as appropriate. Impairment losses are recognised as an expense immediately.

Expenditure on repairs or maintenance of property and equipment incurred to restore or maintain future economic benefits expected from the assets is recognised as an expense when incurred.

g) Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Investment securities

Policy applicable from 1 April 2018

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

For any debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Investment securities (continued)

Policy applicable before 1 April 2018

Investment securities consist of government and corporate fixed maturity debt instruments. The accounting basis is dependent on the purpose for which such securities were acquired. Investment securities with fixed maturity where management has both the intent and ability to hold to maturity are classified as 'held-to maturity'. Securities that management may sell in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as 'available for sale'. Management determines the classification of such securities at the time of the purchase and re-evaluates such designation on a regular basis.

Purchases and sales of investment securities are recognised on the trade date, which is the date that the Bank commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available-for-sale investment securities are subsequently carried at fair value. Held-to-maturity investment securities are carried at amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income. The fair values of investment securities are based on quoted bid prices. Investment securities for which fair values cannot be measured reliably are recognised at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in profit or loss as gains and losses from investment securities.

i) Amounts due from other Banks

Amounts due from other Banks are measured at amortised cost.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Cash and cash equivalents

Policy applicable before 1 April 2018

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short term commitments.

Cash and cash equivalent are subsequently measured at amortised cost in the statement of financial position.

k) Loans and advances

Loans and advances captions in the statement of financial position include:

- Loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

When the bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock, borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the bank's financial statements.

Policy applicable before 1 April 2018

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the bank did not intend to sell immediately or in the near term.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Policy applicable before 1 April 2018

Loans and advances to banks are classified as loans and receivables. Loans and advances to customers included those classified as loans and receivables.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

When the bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the bank's financial statements.

l) Employee benefits

Post-employment benefits

Retirement benefits are provided for under a contributory defined contribution scheme. Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as operating and administrative expenses in profit or loss.

Termination benefits

The Bank recognises termination benefits as a liability in the statement of financial position and as an expense in the statement of profit or loss and other comprehensive income when it has a present obligation relating to termination.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Employee benefits (continued)

Policy applicable before 1 April 2018

Leave pay provision

The Bank recognises in full employees' rights to annual leave entitlement in respect of past service. Unutilised entitlements are recognised as a liability on the statement of financial position.

m) Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

When such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in 'Total shareholders' equity', net of any directly attributable incremental transaction costs.

n) Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Intangible assets (continued)

- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development costs.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives which does not exceed 10 years and have no residual values.

o) Income tax

The bank claims exemption from paying income tax through section 27 of the King's Order in Council No. 49 of 1973, as amended (also referred to as the Eswatini Development and Savings Bank Order, 1973, as amended).

p) Associates

Associates are all entities over which the bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The bank's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

The bank's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the bank does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the bank and its associate are recognised in the bank's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising in investments in Associates are recognised in profit or loss.

q) Deposits

Deposits are the Bank's source of funding.

Deposits are recognised initially at fair value, net of transaction costs incurred. These are subsequently carried at amortised cost.

r) Borrowings

Borrowings are the Bank's source of funding.

Borrowings are recognised initially at fair value, net of transaction costs incurred. These are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Leases

Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

The bank as a lessee

Assets held by the bank under leases that transfer to the bank substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets held under other leases are classified as operating leases and are not recognised in the bank's statement of financial position.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Other assets

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

u) Other liabilities

Accounts payable are initially measured at fair value minus incremental direct transaction costs and subsequently measured at amortised cost using the effective interest method.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Capital grant

Grants to recapitalise the bank are classified as equity as these are non-redeemable and represent a residual interest in the assets of the bank after deducting all its liabilities.

w) Financial guarantees

Financial guarantees are contracts that require the bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially measured at fair value. Subsequently, they are measured as follows:

- From 1 April 2018: at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less , when appropriate , the cumulative amount of income recognised in accordance with principles of IFRS 15;and
- Before 1 April 2018: at the higher of the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

Where payment is not probable financial guarantees are disclosed as contingent liabilities.

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At the date of approval of the financial statements of Eswatini Development and Savings Bank for the period ended 31 March 2019, the following Standards and Interpretations were in issue but not yet effective:

Effective for the financial year commencing 1 April 2019

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)
- Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)
- Annual Improvements to IFRS Standards 2015/2017 Cycle various standards
- Effective for the Financial year commencing 1 April 2020
- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)

Effective for the financial year commencing 1 April 2021

- IFRS 17 Insurance Contracts

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the Bank).

IAS 19, IFRIC 23 IFRS 3 and IFRS 17 are not applicable to the business of the Bank and will therefore have no impact on future financial statements. The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)

Amendments to References to Conceptual Framework in IFRS Standards

The IASB decided to revise the Conceptual Framework because certain important issues were not covered and certain guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes:

- a new chapter on measurement;
- guidance on reporting financial performance;
- improved definitions of an asset and a liability, and guidance supporting these definitions; and
- clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing Amendments to References to the Conceptual Framework in IFRS Standards. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction.

The amendments are not expected to have a significant impact on the financial statements.

Definition of Material (Amendments to IAS 1 and IAS 8)

The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework.

The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is quoted below from the final amendments "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)

Definition of Material (Amendments to IAS 1 and IAS 8) (continued)

The Board has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 April 2020 but may be applied earlier. However, the Board does not expect significant change as the refinements are not intended to alter the concept of materiality.

Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The amendments apply for annual periods beginning on or after 1 April 2019. Early adoption is permitted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The IASB has decided to defer the effective date for these amendments indefinitely. Early adoption is still permitted.

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)

IFRS 16 Leases

The Bank is required to adopt IFRS 16 Leases from 1 April 2019. The Bank has assessed the estimated impact that the initial application of IFRS 16 will have on its financial statements as described below. The actual impact of adopting the standard on 1 April 2019 may change because:

- the Bank has not finalised the testing and assessment of controls over its new systems; and
- the new accounting policies are subject to change until the Bank presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Leases in which the Bank is a lessee

The Bank has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Bank's lease portfolio, the Bank's assessment of whether it will exercise any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions.

The Bank will recognise new assets and liabilities for its operating leases of branch and office premises. The nature of expenses related to these leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liability.

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)

IFRS 16 Leases (continued)

Previously, the Bank recognised operating lease expense on the straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

As at 31 March 2019, the Bank's future minimum lease payments under non-cancellable operating leases amounted to SZL14 million, which the Bank estimates it will recognise as additional lease liabilities.

Transition

The Bank plans to apply IFRS 16 initially on 1 April 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFR 16 will be recognised as an adjustment to the opening balance of retained earnings as at 1 April 2019 with no restatement of comparative information.

The Bank plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 April 2019 and identified as lease in accordance with IAS 17 and IFRIC 4.

5 FINANCIAL RISK MANAGEMENT

The Bank's risk management policies are disclosed in note 31.

6 COMPARATIVES

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

	2019 E'000	2018 E'000
7 INTEREST INCOME		
The categories of loans and advances from which interest is earned are as follows:-		
Civil Service Housing Loans	6 115	6 395
Overdrafts	21 219	21 881
Mortgages	24 361	21 615
Motor vehicle loans	23 364	29 441
Agricultural loans	11 712	10 283
Corporate loans	47 613	52 740
Personal loans	26 847	29 313
Staff loans and other loans	7 058	8 068
Interest on amounts due from other banks and balances with Central Bank	29 830	22 509
Interest income on investment securities	28 810	27 019
	226 929	229 264
8 INTEREST EXPENSE AND SIMILAR CHARGES		
Interest expense and similar charges are paid on:-		
Customer's deposits and current accounts:		
- Current accounts	95	259
- Savings accounts	5 646	9 547
- Other demand and short term notice deposits	51 176	41 523
- Eswatini Government deposits	10 659	10 878
Borrowings		
- The Public Service Pensions Fund	15 449	18 106
- Revolving funds	5 184	4 864
	88 209	85 177

9 FEE INCOME AND COMMISSION

	2019 E'000	2018 E'000
Account administration fees	38 139	36 646
ATM charges	15 801	15 634
Insurance commission	2 701	2 795
Cash and cheque deposit charges	825	1 053
Cash and cheque withdrawal charges	20 549	22 211
Loan account fees and commissions	31 597	32 937
Foreign exchange charges	4 366	3 149
Cash transfer charges	9 473	9 400
Securities commission	504	785
Other commission	3 965	3 697
	127 920	128 307

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The bank recognises revenue when it transfers control over a service to a customer.

The table below provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

9 FEE INCOME AND COMMISSION - (continued)

	Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 April 2018)
	Retail and corporate banking services	The bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The bank sets the rates separately for retail and corporate banking customers for each product on an annual basis. Transactions-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

	2019 E'000	2018 E'000
10 OTHER OPERATING INCOME		
Rent receivable and other income	1 436	6 479
	1 436	6 479
11 OPERATING AND ADMINISTRATIVE EXPENSES		
Auditor's remuneration		
Audit fees	1 107	1 200
Audit fees prior year reversal	-	(783)
Other services	55	215
	1 162	632

11 OPERATING AND ADMINISTRATIVE EXPENSES (continued)

	2019 E'000	2018 E'000
Depreciation of property and equipment (note 17)		
Motor vehicles	597	689
Leasehold improvements	937	688
Furniture and equipment	6 365	4 568
	7 899	5 945
Amortisation of intangible assets (note 18)	6 664	3 970
Directors fees	438	284
Consultancy fees	405	891
Repairs and maintenance costs	21 801	20 413
Employee benefit expenses		
Salaries and wages	110 536	107 762
Pension costs – defined contribution plan	9 855	8 727
Other staff costs	2 657	4 299
	123 048	120 788
Average number of employees 335 (2018: 343)		
Other operating and administrative expenses		
Advertising	9 266	8 639
Electricity	3 676	3 111
IT expenses	15 187	15 164
Insurance	6 879	5 622
Legal fees	1 149	815
Motor vehicle expenses	756	627
Other expenses	4 043	15 332
Printing, stationery and postage	1 340	1 842
Public Enterprise Unit Management fees	2 377	1 563
Rent and rates	4 638	4 167
SAECH administration fees	830	916
Security	4 600	3 537
Telephone expenses	4 354	5 484
Training expenses	1 568	1 137
Traveling and entertainment	595	416
	61 258	68 372
Total operating and administrative expenses	222 675	221 295

	2019 E'000	2018 E'000
12 CASH BALANCES AND BALANCES WITH THE CENTRAL BANK OF ESWATINI		
Call deposits	16 892	55 968
Cash and bank notes	180 840	163 640
	197 732	219 608
13 AMOUNTS DUE FROM OTHER BANKS		
Balances held with other banks	243 666	262 088
Balances held with South African banks	16 219	25 967
Money on call – South African banks	13 087	31 232
Expected credit losses	(119)	-
	272 853	319 287
14 INVESTMENT SECURITIES		
Bonds and treasury bills	410 548	283 088
	410 548	283 088
Classified as:		
Net debt instruments at amortised cost	410 548	-
Gross debt financial investments measured at amortised cost	413 946	-
Less: Expected credit losses for debt financial investments measured at amortised cost (note 25.4.2)	(3 398)	-
Available for sale	-	283 088
Closing carrying value	410 548	283 088
Maturity Analysis		
Less than 1 year	201 496	30 819
Between 2 to 5 years	159 052	211 114
Over 5 years	50 000	41 155
	410 548	283 088

	2019 E'000	2018 E'000
15 LOANS AND ADVANCES		
Business loans	474 886	474 014
Mortgage	299 632	275 636
Motor vehicle	206 924	226 300
Personal loans	184 127	167 698
Agriculture	111 716	94 722
Overdrafts	303 248	156 810
Total loans and advances before impairment losses	1 580 533	1 395 180
Expected credit losses on loans and advances measured at amortised cost	(189 962)	-
Credit impairment on loans and advances IAS 39	-	(69 826)
Total loans and advances after impairment losses	1 390 571	1 325 354
15.1 Maturity analysis of loans and advances		
Less than 1 year	632 955	244 198
Between 1 and 5 years	570 409	637 532
More than 5 years	187 207	443 624
	1 390 571	1 325 354
16 OTHER ASSETS		
Amounts in transit from other banks	2 362	5 764
Accounts receivable	8 394	30 317
Prepayments	7 776	5 627
	18 532	41 708

All other assets are due within 12 months from the end of the reporting period.

The carrying amount of the other assets approximates fair value due to the nature of the assets.

17 PROPERTY AND EQUIPMENT

	Buildings E'000	Land E'000	Work in progress E'000	Motor Vehicles E'000	Leasehold Improvements E'000	Furniture and Equipment E'000	Total E'000
At 31 March 2018							
Cost/valuation	127 594	15 043	2 131	4 869	11 906	62 159	223 702
Balance at 01 April 2017	121 677	15 043	8 960	5 735	8 251	53 155	212 821
Additions	951	-	4 150	44	136	10 102	15 383
Transfer from work in progress	4 966	-	(10 979)	-	3 521	2 492	-
Transfer to intangible assets	-	-	-	-	-	(3 178)	(3 178)
Disposals	-	-	-	(910)	(2)	(412)	(1 324)
Accumulated depreciation and impairment losses	-	-	-	(3 268)	(5 520)	(41 012)	(49 800)
Balance at 01 April 2017	-	-	-	(3 489)	(4 832)	(38 611)	(46 932)
Charge for the year	-	-	-	(689)	(688)	(4 568)	(5 945)
Transfer to intangible assets	-	-	-	-	-	1 966	1 966
Disposals	-	-	-	910	-	201	1 111
Net book value at 31 March 2018	127 594	15 043	2 131	1 601	6 386	21 147	173 902

17 PROPERTY AND EQUIPMENT (continued)

	Buildings E'000	Land E'000	Work in progress E'000	Motor Vehicles E'000	Leasehold Improvements E'000	Furniture and Equipment E'000	Total E'000
At 31 March 2019							
Cost/valuation	127 305	15 020	1 024	5 203	12 285	69 839	230 676
Balance at 01 April 2018	127 594	15 043	2 131	4 869	11 906	62 159	223 702
Additions	1 448	171	-	334	379	7 013	9 345
Transfer from work in progress	-	-	(1 107)	-	-	1 107	-
Transfer to intangible assets	-	-	-	-	-	(389)	(389)
Disposals	(1 737)	(194)	-	-	-	(51)	(1 982)
Accumulated depreciation and impairment losses	-	-	-	(3 865)	(6 457)	(47 362)	(57 684)
Balance at 01 April 2018	-	-	-	(3 268)	(5 520)	(41 012)	(49 800)
Charge for the year	-	-	-	(597)	(937)	(6 365)	(7 899)
Disposals	-	-	-	-	-	15	15
Net book value at 31 March 2019	127 305	15 020	1 024	1 338	5 828	22 477	172 992

A register of the Bank's properties is maintained at the bank's registered office and is available to members for inspection. At 31 March 2019, included in property and equipment are fully depreciated items of property and equipment with an initial cost of E 54 243 118 (2018: E48 214 804).

Leasehold improvements comprise fittings in branches where the bank is party to operating leases. Lease rentals are charged to profit or loss and are included under "Operating and administrative expenses".

There are no restrictions or encumbrances over property and equipment as at reporting date.

17 PROPERTY AND EQUIPMENT (continued)

Measurement of fair values

The following table shows the valuation technique used in measuring the fair value of land and buildings, as well as the significant unobservable inputs used:

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Income method/discounted cash flows: The valuation method considers the present value of net cash flows to be generated from the land and buildings taking into account expected rental growth rates, void periods occupancy rate, lease incentive costs such as rent-free periods, and other costs not paid by tenants. The expected net cash flows are discounted using risk adjusted discount rates. Among other factors, the discount rate estimation considers the quality of the building and its location (prime vs secondary), tenant credit quality and lease terms.	• Expected market rental growth (10%). • Void periods (Nil). • Occupancy rate (95%). • Rent-free periods (Nil). • Risk-adjusted discount rates (8-10%).	The estimated fair value would increase/(decrease) if: • expected market rental growth was higher /(lower); • void periods were shorter/(longer); • occupancy rates were higher/(lower); • rent free periods were shorter/(longer); or • the risk-adjusted discount rates were lower/(higher).

The land and buildings were valued on 31 March 2017 by Swaziland Realty Consultants (Pty) Limited independent professional qualified valuers, using the valuation technique disclosed above. The fair value measurement for all land and buildings has been categorised as a level 3 fair value based on the inputs to the valuation technique used.

	2019 E'000	2018 E'000
18 INTANGIBLE ASSETS		
Intangible assets comprise computer software and development costs.		
Cost	70 881	43 346
Opening balance	43 346	35 038
Additions	27 146	5 130
Transfer from equipment	389	3 178
Accumulated from amortisation and impairment losses	(33 297)	(26 633)
Opening balance	(26 633)	(20 697)
Charge for the year	(6 664)	(3 970)
Transfer from equipment	-	(1 966)
Net book value	37 584	16 713
There are no restrictions or encumbrances over intangible assets as at reporting date.		

	2019 E'000	2018 E'000
19 SHARE CAPITAL		
Authorised - 54 800 000 shares of E1 each	54 800	54 800
Issued and fully paid – 54 800 000 share of E1 each	54 800	54 800
20 CAPITAL GRANT		
Swaziland Government permanent grant finance	135 000	135 000

The grant has no conditions attached, is not repayable and has no future related costs.

21 OTHER RESERVES

	Revaluation reserve E'000	Fair value reserve E'000	Total E'000
Year ended 31 March 2019			
Balance at the beginning of the year	116 856	6 205	123 061
Reclassification from available for sale to amortised cost	-	(6 205)	(6 205)
Balance at the end of the year	116 856	-	116 856
Year ended 31 March 2018			
Balance at the beginning of the year	116 856	630	117 486
Reserves adjustments in the current year	-	-	-
Fair value gain on available-for-sale financial assets arising during the year	-	5 575	5 575
Balance at the end of the year	116 856	6 205	123 061

Revaluation reserve

The purpose of the reserve is to recognise any revaluation gains/losses on valuation of property and equipment.

Fair value reserve

The purpose of the reserve is to recognise any fair value gains/losses on the valuation of investment securities.

22 REGULATORY RESERVES

	General credit risk reserve E'000	Statutory reserve E'000	Total E'000
Year ended 31 March 2019			
Balance at beginning of the year	12 248	35 678	47 926
Transfer (from)/to reserve	(12 248)	5 608	(6 640)
Balance at end of the year	-	41 286	41 286
Year ended 31 March 2018			
Balance at beginning of the year	12 151	31 391	43 542
Transfer to reserve	97	4 287	4 384
Balance at end of the year	12 248	35 678	47 926

The general credit risk reserve was a provision calculated for regulatory purposes, in accordance with Circular 8 before the introduction of IFRS 9, which require the Bank to transfer to a non-distributable reserve at least 1% of the value of loans and advances.

The statutory reserve in terms of section 20(i)(a)(ii) of the Financial Institutions Act requires the Bank to transfer each year to a reserve account a sum not less than ten percent of its net profit until the balance in the reserve account is equal to its minimum required capital.

	2019 E'000	2018 E'000
23 CUSTOMERS' DEPOSITS AND CURRENT ACCOUNTS		
Current accounts	114 545	101 332
Savings accounts	309 299	341 237
Other demand and short term notice deposits	228 463	303 528
Term deposits	549 336	415 344
Eswatini Government permanent deposit	173 966	166 055
	1 375 609	1 327 496
23.1 Maturity Analysis		
Less than 1 year	907 713	1 119 058
Between 1 and 5 years	293 930	42 383
More than 5 years	173 966	166 055
	1 375 609	1 327 496
24 Other liabilities		
Other liabilities	82 894	69 606
Expected credit losses guarantees	1 345	-
Revolving loan funds (refer note 24.1)	155 849	150 666
	240 088	220 272
24.1 Revolving loan funds		
These are guarantee funds from the Government of the Kingdom of Eswatini for financing loans and advances to customers. The funds comprise the following:-		
Government of the Kingdom of Eswatini		
- Venture Capital Fund	107 132	104 265
- Food Agricultural Organisation Guarantees	72	65
- Agricultural Development Fund	419	398
- Eswatini Government former African Development Bank line of credit	38 004	36 108
- Rural Education Centre Programme Guarantee Fund	238	227
- Eswatini Agricultural Development Project	9 984	9 603
Total due at the end of the year	155 849	150 666

	2019 E'000	2018 E'000
25 BORROWINGS		
The Public Service Pensions Fund ("PSPF")	314 859	170 833
	314 859	170 833

PSPF loan 1
The principal amount is payable quarterly in instalments of E8.33 million commencing on 31 December 2017. Interest on this loan is charged at prime minus 1.65%.

PSPF loan 2
The principal amount is payable half yearly in instalments of E12.5 million commencing on 31 March 2018. Interest on this loan is charged at prime minus 1.65%.

PSPF loan 3
The principal amount is payable half yearly in instalments of E25 million commencing on 31 August 2020. Interest on this loan is charged at prime minus 1.2%.

	2019 E'000	2018 E'000
The maturity analysis of borrowings is as follows:-		
Less than 1 year	83 333	58 333
Between 1 and 5 years	231 526	112 500
	314 859	170 833
Provision for other liabilities and charges		
Opening balance	1 972	1 520
Amount charged to profit or loss	59	452
	2 031	1 972

Leave pay
This provision is in respect of the number of days that the employees have not taken in respect of their leave entitlement. The anticipated utilisation of the amount provided is in the next financial year.

	2019 E'000	2018 E'000
27 COMMITMENTS AND CONTINGENCIES		
a) Commitments		
(i) Assets pledged		
Mandatory reserve deposits are held with the Central Bank of Eswatini in accordance with statutory requirements. These deposits are not available to finance the Bank's day-to-day operations.	30 000	10 000
(ii) Operating lease receivable – Bank as lessor		
The bank leases various branch outlets, offices and residential houses under non-cancellable operating lease agreements to third parties. The lease terms are between one and three years.		
The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:		
Not later than 1 year	169	623
Later than 1 year	-	149
	169	772
(iii) Operating lease commitments - Bank as lessee		
The bank has leased various branch outlets, offices and residential houses under non-cancellable operating lease agreements from third parties. The lease terms are between one and three years.		
The future aggregate minimum lease payments payable under non - cancellable operating leases are as follows:		
Not later than 1 year	3 062	491
Later than 1 year	4 818	4 364
	7 880	4 855
Capital commitments		
The directors have approved the purchase to purchase property and equipment and intangible assets for E59 593 000 (2018: E38 414 000). This will be funded from own resources and is expected to take place in the 2020 financial year.		
b) Contingencies		
Guarantees	151 427	151 427
Irrevocable unutilised facilities	17 266	17 381
	168 693	168 808
c) Legal proceedings and claims		
The Bank has contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for.		

	2019 E'000	2018 E'000
28 CASH FLOW INFORMATION		
28.1 Operating profit before changes in operating assets		
Profit for the year	56 083	42 873
Adjustment for:		
Depreciation of property and equipment (note 17)	7 899	5 945
(Profit) on disposal of assets	(212)	(93)
Amortisation of intangible assets (note 18)	6 664	3 970
Share of profit of equity accounted investees net of tax (note 30)	(2 082)	(1 515)
Impairment losses on other financial instruments	137	-
Impairment losses (released)/raised on loans and advances	(5 665)	18 127
	62 824	69 307
28.2 Change in operating assets		
Decrease/(increase) in amounts due from other banks	46 308	(157 552)
Increase in loans and advances to customers	(194 893)	(32 432)
Decrease/(increase) in other assets	23 176	(14 587)
Increase in deposit and current accounts	48 113	221 550
Increase in other liabilities	18 471	32 863
Increase in provision for other liabilities and charges	59	452
	(58 766)	50 294

29 RELATED PARTY INFORMATION

The Bank is controlled by the Government of Eswatini, which owns 100% of the Bank's shares.

The Bank also has related party relationships with other entities controlled by the Eswatini Government such as the Central Bank of Eswatini (Refer notes 7,8,12 and 14), central and local government departments and utility companies for electricity, telephones and water services.

Associate entities are disclosed in note 30.

	2018 E'000	2017 E'000
29 RELATED PARTY INFORMATION (continued)		
The following transactions were carried out with related parties:-		
29.1 Commissions earned from insurance agency business		
Associates	2 701	2 795
Commissions are earned based on rates which have been agreed upon and specified in agency agreements entered into with Associates.		
29.2 Short term compensation and post-employment benefits		
Executive and Senior Management	18 723	16 676
29.3 Fees for services as Directors		
Non-executive Directors	438	283
29.4 Balances due by and (to) Executive and Senior Management		
Loans and advances	9 389	9 776
Deposits	(565)	(930)
The loans to executive and senior management are based on terms ranging between one to twenty years and are repaid in equal monthly instalments of capital and interest. Concessionary interest rates are based on rates applicable to all employees of the Bank.		
29.5 Balances due (by) and to related parties		
- Eswatini Government-Revolving funds (note 24.1)	155 849	150 666
- Eswatini Government – Deposits (note 23)	173 966	166 055
- Deposits-entities under Government control	268 919	239 403
- Loans-entities under Government control	(143 118)	(180 287)
- Borrowings-The Public Service Pensions Fund (note 25)	314 859	170 833
- Associate	27 988	44 349
29.6 Impairment of related party balances		
Expected credit losses.	2 223	-
30 INVESTMENT IN ASSOCIATE		
Balance at the beginning of year	17 141	15 626
Share of profit of equity-accounted investees, net of tax	2 082	1 515
Balance at the end of the year	19 223	17 141

30 INVESTMENT IN ASSOCIATES (continued)

This investment in Associates represents a 33% shareholding that was acquired in Metropolitan Life Swaziland. Metropolitan acquired a 100% shareholding in Momentum Swaziland on 01 July 2012 which resulted in the new company MMI. The associate provides insurance services.

The bank's share of the results of the principal associate, which is unlisted, and its assets as at 31 December 2018 are as follows:

Name of Associate	Country of Incorporation	Assets E'000	Liabilities E'000	Revenue E'000	Profit/Loss E'000	Value of Investment E'000	Share of Profits 33% E'000
MMI	Eswatini	604 869	520 591	98 969	6 310	19 223	2 082

At 31 December 2017

Name of Associate	Country of Incorporation	Assets E'000	Liabilities E'000	Revenue E'000	Profit/Loss E'000	Value of Investment E'000	Share of Profits 33% E'000
MMI	Eswatini	679 303	638 254	101 463	4 592	17 141	1 515

The bank has an interest in the post-acquisition profits and losses of the Associate

31 FINANCIAL RISK MANAGEMENT

31.1 Financial risk factors

The Bank's activities expose it to a variety of financial risks such as market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Bank's financial performance.

A greater portion of the Bank's income is generated from the different financial instruments it holds. These instruments include cash (notes and coins), balances with Central and other Banks, treasury bills, loans, investments, bonds, overdrafts, leases, savings accounts, deposits and guarantees.

31 FINANCIAL RISK MANAGEMENT (continued)

31.1 Financial risk factors (continued)

Risk management is carried out by a Risk and Compliance Department under policies approved by the board of directors. The Risk and Compliance Department identifies, evaluates and monitors these financial risks in close co-operation with the Bank's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Bank is exposed to the following financial risks:

31.2 Credit risk

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

Credit risk mainly arises from loans and advances by the Bank. Credit risk also arises from exposures to other Banks, investments and guarantees issued by the Bank. The Credit department assesses all loans, approves accordingly and assigns ratings.

There is the risk that a counterparty or obligor will fail to settle a debt with the Bank. It mainly results from lending and when holding instruments that are issued by other institutions such as bonds. The Bank has a credit policy which stipulates the investment exposure that it can have in different industries. This is to avoid concentration risk, which is when a Bank has invested a greater portion of its assets in one or a few industries.

To reduce credit risk, the Bank requires collateral for loans advanced. Guarantees are also accepted. Reports are regularly generated to assess and monitor the extent of credit risk as required by the Regulator.

Lending decisions are made by credit managers who are allocated specific lending limits. Lending limits for significant amounts are referred to the Board for approval.

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Strategy

Credit risk is a core component of lending quality and it impacts on the risk versus reward model. Credit risk has been under increased focus due to the recent recessionary conditions and subdued growth.

The Bank's credit risk strategy involves:

- Operating a sound credit granting process;
- Ensuring adequate and operationally effective controls throughout the credit cycle;
- Optimising the use of available credit bureau data to make informed decisions; and
- Maintaining appropriate credit administration, measurement and monetary processes.

31.2.1 Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively

Loans and advances to customers at amortised cost

	Stage 1 E'000	Stage 2 E'000	Stage 3 E'000	Total E'000	2018 E'000
Personal	144 631	24 070	15 426	184 127	167 698
Agriculture	64 496	22 256	24 964	111 716	94 722
Business	222 208	167 180	85 498	474 886	474 014
Motor vehicle	118 762	68 341	19 821	206 924	226 300
Mortgage	168 967	92 860	37 805	299 632	275 636
Overdraft	250 598	20 255	32 395	303 248	156 810
Gross carrying amount	969 662	394 962	215 909	1 580 533	1 395 180
Impairment loss (IAS 39)	-	-	-	-	(69 826)
Expected credit loss	(11 734)	(69 720)	(108 508)	(189 962)	-
Carrying amount	957 928	325 242	107 401	1 390 571	1 325 354

Loans and advances to banks

	Stage 1 E'000	Stage 2 E'000	Stage 3 E'000	Total E'000	2018 E'000
Amounts due from other banks	272 972	-	-	272 972	319 287
Gross carrying amount	272 972	-	-	272 972	319 287
Impairment loss (IAS 39)	-	-	-	-	-
Expected credit loss	(119)	-	-	(119)	-
Carrying amount	272 853	-	-	272 853	319 287

Investment securities

	Stage 1 E'000	Stage 2 E'000	Stage 3 E'000	Total E'000	2018 E'000
Government securities and Corporate bonds	413 946	-	-	413 946	283 088
Gross carrying amount	413 946	-	-	413 946	283 088
Impairment loss (IAS 39)	-	-	-	-	-
Expected credit loss	(3 398)	-	-	(3 398)	-
Carrying amount	410 548	-	-	410 548	283 088

Cash and cash equivalents

	Stage 1 E'000	Stage 2 E'000	Stage 3 E'000	Total E'000	2018 E'000
Guarantees	151 427	-	-	151 427	151 427
Gross carrying amount	151 427	-	-	151 427	151 427
Impairment loss (IAS 39)	-	-	-	-	-
Expected credit loss	(1 345)	-	-	(1 345)	-
Carrying amount	150 082	-	-	150 082	151 427

The bank held cash and cash equivalents of E 197 732 000 at 31 March 2019 (2018: E 219 608 000). The cash and cash equivalents are held with central banks and financial institution counterparties that have low credit risk.

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

31.2.2 Collateral

Loans and advances to customers
The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However collateral provides additional security and the Bank generally requests that borrowers provide it. The Bank may take collateral in the form a first charge over real estate and other liens and guarantees.

Because of the Bank's focus on corporate customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to customers. Valuation of collateral is updated when the loan is put on watch list and the loan is monitored more closely. For credit impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management of credit risk actions.

At 31 March 2019, the net carrying amount of credit impaired loans and advances to customers amounted to E107 403 000 (2018: E96 981 000) and the approximate value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to E317 111 036 (2018:E160 893 664).

31.2.3 Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
- the remaining lifetime probability of a default (PD) as at reporting date; with
- the remaining lifetime PD for this point in time that was estimated as the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations)

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

31.2.3 Amounts arising from ECL (continued)

Credit risk grades

Each exposure is allocated a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves the use of the following data.

Corporate exposure	Retail exposure	All exposure
Information obtained during periodic review of customer files e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes.	Internally collected data on customer behaviour – e.g. utilisation of credit card facilities.	Payment record – this includes overdue status as well as a range of variables about payment ratios.
Data from credit reference agencies, press articles, changes in external credit ratings.	Affordability metrics.	Utilisation of the granted limit
Quoted bond and credit default swap (CDS) prices for the borrower where available.	External data from credit reference agencies, including industry-standard credit scores.	Requests for and granting of forbearance.
Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities		Existing and forecast changes in business, financial and economic conditions.

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31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

31.2.3 Amounts arising from ECL (continued)

Generating the term structure of PD
Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The bank collects performance and default information about its credit risk exposures analysed by region and by type of product and borrower as well as by credit risk grading.

The bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Relevant information would typically include a description of different methods used - e.g. simpler methodology for smaller portfolios – and the size of portfolios, both in terms of value and number of items.

Determining whether credit risk has increased significantly

The bank assesses whether credit risk has increased significantly at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant differs for different types of lending. In particular between wholesale and retail.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the bank's quantitative modelling:

- the remaining lifetime PD is determined to have increased by more than 2% of the corresponding amount estimated on initial recognition: or
- if the absolute change is annualised, lifetime PD since initial recognition is greater than 200 basis points.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experiences.

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

31.2.3 Amounts arising from ECL (continued)

Determining whether credit risk has increased significantly

As backstop, the bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12 month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist.

In these cases, the bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12 month ECL measurement to credit impairment; and
- there is no unwanted volatility in loss allowance from transfers between 12 month PD (stage 1) and lifetime PD (stage 2).

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

31.2.3 Amounts arising from ECL (continued)

Definition of default

The bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the bank in full, without recourse by the bank to actions such as realising security (if any is held).
- The borrower is more than 90 days past due on any material credit to the bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the bank considers indicators that are:

- qualitative: e.g. breaches of covenants;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstance.

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

31.2.3 Amounts arising from ECL (continued)

Incorporation of forward-looking information

The bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The bank formulates three economic scenarios, a base case, which is the median scenario assigned a 60% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 20% probability of occurring The base case is aligned with information used by the bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

Periodically, the bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the bank's senior management.

The bank identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk are: GDP growth, unemployment rates and interest rates. For exposures to specific industries and/or regions, the key drivers also include relevant commodity and/or real estate prices.

The economic scenarios used as at 31 March 2019 included the following key indicators for the years ending 31 March 2020 to 2022.

	2020 E	2021 E	2022 E
GDP growth	Base 1.7% Upside 2.04%	Base 1.8% Upside 2.16%	Base 1.5% Upside 1.8%

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

31.2.3 Amounts arising from ECL (continued)

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the bank considers a longer period. The maximum contractual period extends to the date at which the bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

31.2.3 Amounts arising from ECL (continued)

Measurement of ECL (continued)

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the bank measures ECL over a period longer than the maximum contractual period if the bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are banked on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular bank remain appropriately homogeneous.

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk

31.2.3 Amounts arising from ECL

Expected credit loss

	Opening ECL 1 April 2018 E'000	Total transfers between stages E'000	Net impairments raised/(released) E'000	Impaired accounts written-off E'000	Closing ECL 31 March 2019 E'000
Personal loans					
Stage 1	248	9	538	-	795
Stage 2	35 104	87	(28 003)	-	7 188
Stage 3	5 835	(96)	6 175	-	11 914
Agriculture					
Stage 1	1 225	-	164	-	1 389
Stage 2	10 085	(93)	2 726	-	12 718
Stage 3	11 490	93	8 731	-	20 314
Business					
Stage 1	1 557	(52)	(605)	-	900
Stage 2	17 420	814	(14 795)	-	3 439
Stage 3	19 288	(762)	(1 854)	-	16 672
Overdrafts					
Stage 1	3 519	4 237	(939)		6 817
Stage 2	9 905	(9 574)	12 207		12 538
Stage 3	2 901	5 337	24 157		32 395
Motor vehicles					
Stage 1	982	3	2	-	987
Stage 2	20 364	19	(2 250)	-	18 133
Stage 3	18 307	(22)	(4 347)	-	13 938
Mortgages					
Stage1	570	50	226	-	846
Stage 2	18 074	23	(2 393)	-	15 704
Stage 3	18 753	(73)	(5 405)	-	13 275
Total	**195 627**	**-**	**(5 665)**	**-**	**189 962**

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk

31.2.3 Amounts arising from ECL

	Opening ECL 1 April 2018 E'000	Total transfers between stages E'000	Net impairments raised/(released) E'000	Impaired accounts written-off E'000	Closing ECL 31 March 2019 E'000
Banks					
Stage 1	126	-	(7)	-	119
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Totals	126	-	(7)	-	119
Investments securities					
Stage 1	3 254	-	144	-	3 398
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Total	3 254	-	144	-	3 398
Guarantees					
Stage 1	1 345	-	-	-	1 345
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Total	1 345	-	-	-	1 345

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk

31.2.4 Concentration of credit risk

Concentrations of credit risk arising from financial instruments exist in relation to certain groups of customers. A group concentration arises when a number of counterparties have similar economic characteristics that would cause their ability to meet their contractual obligations to be similarly affected by the changes in economic and other conditions.

The Bank is exposed to major concentrations of credit risk which arise by customer type in relation to loan and credit commitments either by product type or industry. The concentration of credit risk for performing advances at year - end was as follows:

	2019	2018
Business	30%	34%
Mortgages	19%	20%
Motor vehicle	13%	16%
Personal	12%	12%
Agriculture	7%	7%
Overdraft	19%	11%
	100%	100%

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk

31.2.5 IAS 39 Comparatives

Financial assets subject to credit risk

For purposes of the Bank's disclosure regarding credit quality, the maximum exposure to credit risk of financial assets at the reporting date has been analysed as follows:

31 March 2018	Neither past due nor impaired E'000	Past due but not impaired E'000	Renegotiated E'000	Impaired E'000	Total E'000
Cash balances and balances with Central Bank	219 608	-	-	-	219 608
Amounts due from other banks	319 287	-	-	-	319 287
Investment securities	283 088	-	-	-	283 088
Other assets	36 081	-	-	-	36 081
Loans and advances	1 226 098	58 522	5 246	105 314	1 395 180
	2 084 162	58 522	5 246	105 314	2 253 244

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk

31.2.5 IAS 39 Comparatives

Credit Ratings Used By The Bank
The Bank's assets are classified in line with the guidelines provided by the Central Bank Inspection Circular No. 8. Loans are graded into one of five categories:

Grade 1 - Pass,
Grade 2 - Special Mention,
Grade 3 - Substandard,
Grade 4 - Doubtful, and
Grade 5 - Loss

These ratings are reviewed with the performance of each loan in compliance with guidelines set by the Central Bank of Eswatini. Significant amounts are approved by the Board of Directors and, where applicable, the Central Bank of Eswatini.

Grade Definitions

Pass
This refers to loans / advances where borrowers are current in meeting commitments and full repayment of interest and principal from normal sources is not in any doubt.

Pass Characteristics
- The advance is performing accordance with the original contractual terms and conditions and, is expected to continue doing so.
- There is adequate documentation to support the granting of credit, i.e. financial statements, cash flows, credit checks and evaluation reports on collateral held.
- Financial condition of the borrower is sound/undoubted.
- Interest charges are always covered by deposits/lodgements.
- Any advances which are fully secured by any of the securities as set out under the guidelines section titled "Treatment of Collateral for Grading / Provision Purposes".

Special Mention
This refers to loans / advances where borrowers are currently up-to-date, but evidence suggests that certain factors could in future affect the borrower's ability to service the account properly or impair the collateral, but such evidence is not to the extent that a substandard grade is warranted.

(Special Mention loans generally have adequate debt service capacity, but require close and active supervision because potential weakness, if not corrected, may result in deterioration of repayment prospects).

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk

31.2.5 IAS 39 Comparatives

Grade Definitions (continued)
Special mention (continued)
Special Mention Characteristics

- Deteriorating economic conditions or adverse trends in the borrower's financial condition which may, if not checked, jeopardize repayment capacity.
- Collateral is not fully in place.
- Loans which have arrears of between 30 and 59 days.
- The interest charges for 1 to 2 months have been capitalized, refinanced or rolled-over.
- Overdrafts which appear to be developing a hardcore or that have exceeded their agreed limit for a period of 59 days in the last 12 months or the credit limit has expired more than 30 days, but less than 60 days.
- Overdrafts which have not received a lodgment for over 30 and less than 60 days.
- Deposits have failed to cover interest charges for 1 month.

Substandard
This refers to loans / advances where borrowers are displaying a definable credit weakness that is likely to jeopardize repayment. This may include loans where some loss of principal or interest is possible after taking into account the net realisable value of security.

Substandard Characteristics
- Where the primary source of repayment is insufficient to service the debt and the Bank is relying on the secondary sources of repayment, such as the collateral or refinancing for repayment.
- Lack of adequate current information including financial information.
- Re-negotiated advances where principal and interest have been capitalized or a modification in interest rates or term of debt.
- The Bank must refer to secondary sources for repayment, such as collateral, the sale of a fixed asset, refinancing, or fresh capital.
- Borrower's cash flow may not be sufficient to meet currently maturing debt.
- Arrears of between 60 and 120 days.
- Overdrafts which are continually exceeding their approved limit without authority or where cheques are being frequently returned.
- Hardcore (60-120 days) has or where the limit has expired for a period of between 60 and 120 days and where renewal at the current limit is questionable or cannot be supported.

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk

31.2.5 IAS 39 Comparatives

Grade definitions (continued)

Doubtful
This refers to loans/advances where collection in full is improbable (unlikely) and the Bank expects to incur a loss of principal and/or interest. This would also be the case even after taking into account the net realisable value of security.

Doubtful Characteristics
- Accounts have been placed on non-accrual.
- Same weaknesses as substandard assets, but their collection in full is questionable.
- All available information, facts and conditions indicate that collection in full is either highly questionable or improbable.
- Lack of co-operation from the borrower.
- The possibility of loss is high, but some factors exist which could improve the situation.
- Inadequate security or no security to cover the payment of principal plus interest.
- Loan accounts which are in arrears for a period of between 120 and 180 days.
- Overdrafts which are continually in excess of their approved limit or where the limit has expired for a period of over 120 days and the current analysis demonstrates that a renewal would not be in the Bank's best interest.

Loss
This refers to loans/advances which are considered uncollectible after exhausting all collection efforts, such as realisation of collateral, institution of legal proceedings, etc.

Loss characteristics
- Accounts where the prospects of recovery are deemed to be nil or is not cost effective to recover.
- Accounts where the probability of full or part recovery may be affected at a later date through liquidation of security or assets, but will require long term efforts.
- Accounts where part of the debt is considered as irrecoverable. However, in such instances the remaining portion (deemed recoverable) must be supported by a written analysis report and a current security valuation if security exists.
- All accounts which are Past Due for 360 days and over.
- The classification does not mean that an asset has absolutely no recovery or salvage value, but rather that it is neither practical nor desirable to defer the process of writing it off.

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk

31.2.5 IAS 39 Comparatives (continued)

Financial assets that are past due, but not impaired

These are financial assets which the Bank does not recognise as impaired and thus should be able to collect the amounts due according to the contractual terms of the loans and advances. The amounts for past due, but not impaired assets also include loans that have past due dates that have been given the minimum regulatory provision

	0 Days E'000	< 30 Days E'000	60 Days (>=30 and <=60) E'000	Grand Total E'000
31 March 2018				
Mortgage lending	93	-	12 902	12 995
Other loans and advances	2 051	-	43 476	45 527
	2 144	-	56 378	58 522

Renegotiated financial assets

These are financial assets that the Bank recognises as probable that it will collect the amounts due in the event that the client becomes past due and temporarily cannot afford to pay the arrears or monthly instalments. The client's credit profile is re-assessed for affordability and customer risk.

	2018 E'000
Loans and advances to customers	
Agricultural loans	5 246
	5 246

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit risk

31.2.5 IAS 39 Comparatives

Impaired financial assets

These are financial assets that the Bank recognised as probable that it will not be able to collect all amounts due (principal and interest) according to the contractual terms of the loans and advances.

Analysis of assets individually assessed as impaired

Loans and Advances	Original Carrying Amount E'000	Specific Impairment Allowance E'000	Revised Carrying Amount E'000
Agricultural loans	20 675	10 626	10 049
Business loans	13 222	7 756	5 466
Cheque accounts	29 890	18 786	11 104
Mortgages	19 090	9 716	9 374
Motor vehicle loans	8 124	4 895	3 229
Other loans	11 010	6 463	4 547
Personal loans	3 303	2 806	497
	105 314	61 048	44 266

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. It is the risk that sufficient funds are not available to deliver on time to discharge an obligation to a counterparty.

Liquidity risk is inherent in all banking operations and confidence can be affected by a range of institution specific and market-wide events.

The appropriate and efficient management of liquidity risk by banks is of utmost importance in ensuring confidence in the financial markets and in ensuring that banks pursue a sustainable business model, thereby fulfilling their key economic role of maturity transformation (i.e. the process by which a bank transforms deposits from customers, which tend to be of a shorter-term nature, into loans, which tend to be of a longer term nature).

The efficient management of liquidity risk is essential to the bank to ensure that:
- normal banking operations continue uninterrupted;
- the interest of all stakeholders in the bank are protected;
- financial market confidence is maintained at all times; and
- liquidity risk is managed in line with regulatory liquidity requirements at all times.

Strategy

The liquidity funding strategy of the bank is based on the following:
- growing and diversifying the funding base to support asset growth and other strategic initiatives; and
- Lengthening the bank’s funding profile.

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 Liquidity Risk

The risk arises mainly in treasury operations. The servicing and maturities of assets and liabilities are closely monitored and diversified to avoid any undue concentration of funding requirements at any one time or from any one source. The Bank's Assets and Liabilities Committee ("ALCO") is responsible for ensuring that the Bank meets its planned commitments as they fall due. The table below summarises the remaining contractual maturities of the Bank's financial liabilities based on undiscounted cash flows

	Carrying amount E'000	Contractual cashflows E'000	Redeemable on demand E'000	More than 1 months but less than 6 months E'000	More than 6 months but less than 12 months E'000	More than 12 months but less than 5 years E'000	More than 5 years E'000
31 March 2019							
Customer Deposits	1 375 609	1 430 589	669 319	242 739	31 918	305 002	181 611
Borrowings	314 859	343 197	-	31 792	59 042	252 363	-
Revolving Funds	155 849	162 464	-	-	-	-	162 464
Other Liabilities	82 894	82 894	82 894	-	-	-	-
Total	1 929 211	2 019 144	752 213	274 531	90 960	557 365	344 075
31 March 2018							
Customer Deposits	1 327 496	1 393 870	828 647	329 877	16 486	44 502	174 358
Borrowings	170 833	184 350	-	30 146	31 747	122 457	-
Revolving Funds	150 666	156 908	-	-	-	-	156 908
Other Liabilities	69 606	69 606	69 606	-	-	-	-
Total Liabilities	1 718 601	1 804 734	898 253	360 023	48 233	166 959	331 266

31 FINANCIAL RISK MANAGEMENT (continued)

31.4 Market Risk

Market risk is the risk faced by the Bank due to changes in economic indicators. These include changes in market prices, interest rates or exchange rates.

The bank is also exposed to market risk through non traded interest rate risk in its banking book.

Strategy

The bank's market risk management objectives are:

- ensuring a higher degree of interest rate mismatch margin stability and lower interest rate risk throughout the interest rate cycle in the banking book;
- understanding and controlling market risk through robust measurement, controls and oversight; and
- facilitating business growth with a controlled and transparent risk management framework.

(a) Cash flow and fair value interest rate risk

Cash flow and fair value interest rate risk is the risk that the value and cash flow of a financial instrument will fluctuate due to changes in market interest rates.

This type of risk is faced mainly through our loan portfolio, which is directly affected by changes in interest rates. Investments in the form of placements with the Bank's counterparties also expose the Bank to changes in market risk. To measure interest rate risk, the Bank uses duration analysis. This measures the responsiveness of the Banks different portfolios to changes in interest rates. Changes in interest rates in the past years have been 50 basis points either up or down at a point in time. The Bank also uses this margin to shock its assets and liabilities to ascertain the impact of these changes in its statements of comprehensive income and changes in equity.

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

31.4 Market Risk

(a) Cash flow and fair value interest rate risk (continued)

Sensitivity analysis on interest rate sensitive assets - 31 March 2019

Product	Balance at 31 March 2019 E'000	Impact of 50 basis points increase on the statement of comprehensive income and equity E'000	Impact of 50 basis points decrease on the statement of comprehensive income and equity E'000
Personal retail	112 629	563	(563)
Agriculture	372 875	1 864	(1 864)
Private sector	1 016 825	5 084	(5 084)
Public sector	78 204	391	(391)
Total	1 580 533	7 902	(7 902)

Sensitivity analysis on interest rate sensitive liabilities – 31 March 2019

Product	Balance at 31 March 2019 E'000	Impact of 50 basis points increase on the statement of comprehensive income and equity E'000	Impact of 50 basis points decrease on the statement of comprehensive income and equity E'000
Savings and other	711 728	3 559	(3 559)
Current accounts	114 545	-	-
Borrowings	314 859	1 574	(1 574)
Fixed Deposits	549 336	-	-
Total	1 690 468	5 133	(5 133)

31 FINANCIAL RISK MANAGEMENT (continued)

31.4 Market Risk

(a) Cash flow and fair value interest rate risk (continued)

Sensitivity analysis on interest rate sensitive assets - 31 March 2018

Product	Balance at 31 March 2018 E'000	Impact of 50 basis points increase on the statement of comprehensive income and equity E'000	Impact of 50 basis points decrease on the statement of comprehensive income and equity E'000
Personal retail	378 742	1 894	(1 894)
Agriculture	95 821	479	(479)
Private sector	721 146	3 606	(3 606)
Public sector	199 471	998	(998)
Total	1 395 180	6 977	(6 977)

Sensitivity analysis on interest rate sensitive liabilities – 31 March 2018

Product	Balance at 31 March 2018 E'000	Impact of 50 basis points increase on the statement of comprehensive income and equity E'000	Impact of 50 basis points decrease on the statement of comprehensive income and equity E'000
Savings and other	810 819	4 054	(4 054)
Current accounts	101 332	-	-
Borrowings	170 833	854	(854)
Fixed Deposits	415 345	-	-
Total	1 498 329	4 908	(4 908)

(b) Equity Price risk

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.
The Bank is not exposed to equity price risk.

31 FINANCIAL RISK MANAGEMENT (continued)

31.4 Market Risk

(c) Foreign currency risk

Foreign exchange risk is the risk that the value of financial instrument will fluctuate as a result of changes in foreign exchange rates.

Currency risk relates to exposure on foreign currency accounts held with foreign Banks. These accounts are used to settle the Banks and customers' liabilities denominated in foreign currency. The amounts are not covered by forward exchange contracts and they are payable or receivable on demand. The amounts at the reporting date were as follows:

CURRENCY CONCENTRATION	US$ E'000	GBP E'000	EURO E'000	SZL E'000	TOTAL E'000
31 March 2019					
Financial assets					
Cash balances and balances with Central Bank	120	67	32	197 513	197 732
Amounts due from / (to) other Banks	1 073	-	320	271 460	272 853
Other assets	-	-	-	18 532	18 532
Investment securities	-	-	-	410 548	410 548
Loans and advances	-	-	-	1 580 533	1 580 533
Total assets	1 193	67	352	2 478 586	2 480 198
Financial liabilities					
Borrowings	-	-	-	314 859	314 859
Customer Deposits	-	-	-	1 375 609	1 375 609
Revolving Funds	-	-	-	155 849	155 849
Total Liabilities	-	-	-	1 846 317	1 846 317

31 FINANCIAL RISK MANAGEMENT (continued)

31.4 Market Risk

(c) Foreign currency risk (continued)

CURRENCY CONCENTRATION	US$ E'000	GBP E'000	EURO E'000	SZL E'000	TOTAL E'000
31 March 2018					
Financial assets					
Cash balances and balances with Central Bank	512	2	1 005	218 089	219 608
Amounts due from other Banks	77	-	732	318 478	319 287
Other assets	-	-	-	41 708	41 708
Investment securities	-	-	-	283 088	283 088
Loans and advances	-	-	-	1 395 180	1 395 180
Total assets	589	2	1 737	2 256 543	2 258 871
Financial liabilities					
Borrowings	-	-	-	170 833	170 833
Customer Deposits	-	-	-	1 327 496	1 327 496
Revolving loan funds	-	-	-	150 666	150 666
Total Liabilities	-	-	-	1 648 995	1 648 995

31 FINANCIAL RISK MANAGEMENT (continued)

31.4 Market Risk

31.5 Fair value estimation

The Bank measures fair values using the following fair hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1-Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2-Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from 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 in which all significant inputs are directly or indirectly observable from market data

Level 3-Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable 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 for which significant unobservable adjustments or assumptions are required to reflect the differences between the instruments.

31 FINANCIAL RISK MANAGEMENT (continued)

31.6 Fair value estimation

The following table presents the bank's financial assets that are measured at fair value. Fair value approximates to the carrying amount.

At 31 March 2019	Level 1 E'000	Level 2 E'000	Level 3 E'000
Assets			
Loans and advances	-	-	1 390 571
Amounts due from other banks	-	272 853	-
Investment securities	-	410 548	-
Total assets	-	683 401	1 390 571
Liabilities			
Deposits	-	1 375 609	-
Total liabilities	-	1 375 609	-

At 31 March 2018	Level 1 E'000	Level 2 E'000	Level 3 E'000
Assets			
Loans and advances	-	-	1 325 354
Amounts due from other banks	-	319 287	-
Investment securities	-	283 088	-
Total assets	-	602 375	1 325 354
Liabilities			
Deposits	-	1 327 496	-
Total liabilities	-	1 327 496	-

The valuation techniques used in determining the fair value of assets and liabilities classified within level 2 and level 3 of the fair value hierarchy include the discounted cash flow model. Such models 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 inputs used include discount rates (including credit spreads), liquidity discount rates, risk-free and volatility rates, risk premiums, volatilities and correlations. There were no movements (transfers) between levels 1, 2 and 3 hence no reconciliation has been included.

31 FINANCIAL RISK MANAGEMENT (continued)

31.7 Capital risk management

The bank's capital management policies have not changed from those of prior years. The bank reports to the regulator which is the Central Bank of Eswatini ("CBE") which monitors all banking institutions' capital requirements in Eswatini.

In implementing current capital requirements the bank has to maintain prescribed ratios of capital to total risk-weighted assets. The bank has complied with the externally imposed capital requirements as in prior years.

Capital is classified into two tiers for regulatory purposes:

- Tier I capital, which includes ordinary share capital, the capital grant, retained earnings and other regulatory adjustments.
- Tier II capital, which includes qualifying subordinated liabilities.

The bank's regulatory capital position at 31 March 2019 was as follows:

	2019 E'000	2018 E'000
Tier I Capital		
Ordinary share capital	54 800	54 800
Capital grant	135 000	135 000
Statutory reserves	41 286	35 678
Retained earnings	239 506	315 441
	470 592	540 919
Tier II Capital		
General credit risk reserve	-	12 248
Other reserves	116 856	123 061
	116 856	135 309
Total regulatory capital	587 448	676 228
Risk-weighted assets		
CBS calculated total	1 695 319	1 725 027
Capital ratios		
Total capital as % of total risk-weighted assets		
CBS	34.6%	39.2%
Total tier 1 as % of risk-weighted assets		
CBS	27.8%	31.4%

The bank is capital ratios are in compliant with the minimum capital requirement of 8% set by the regulator.

32 MATURITY PROFILE OF FINANCIAL INSTRUMENTS

31 March 2019	On call and 1 month E'000	2-12 months E'000	1 to 5 years E'000	Over 5 years E'000	Total E'000
Financial assets					
Interest earning assets					
Cash at Central Bank	197 732	-	-	-	197 732
Amounts due from other banks	272 853	-	-	-	272 853
Investment securities	-	201 496	159 052	50 000	410 548
Loans and advances	206 995	425 960	570 409	187 207	1 390 571
Total interest earning assets	677 580	627 456	729 461	237 207	2 271 704
Percentage profile	30%	28%	32%	10%	100%
Non-interest earning assets					
Other assets	18 532	-	-	-	18 532
Total financial assets	696 112	627 456	729 461	237 207	2 290 236
Reconciliation of financial assets to assets shown on the statement of financial position					
Property and equipment	-	-	-	172 992	172 992
Investment in associate	-	-	-	19 223	19 223
Intangible assets	-	-	-	37 584	37 584
Total assets	696 112	627 456	729 461	467 006	2 520 035
Liabilities					
Interest bearing liabilities					
Current accounts	114 545	-	-	-	114 545
Savings accounts	309 299	-	-	-	309 299
Demand and short term deposits	219 733	264 136	293 930	-	777 799
Eswatini Government deposit	-	-	-	173 966	173 966
Borrowings	-	83 333	231 526	-	314 859
Revolving funds	-	-	-	155 849	155 849
Total interest bearing liabilities	643 577	347 469	525 456	329 815	1 846 317
Percentage profile	35%	19%	28%	18%	100%
Non-interest bearing liabilities	86 270	-	-	-	86 270
Total liabilities	729 847	347 469	525 456	329 815	1 932 587

(a) The maturity profile for loans and advances is an estimate based on expected maturity dates
(b) The maturity profile for customer deposits is an estimate based on expected maturity dates.

32 MATURITY PROFILE OF FINANCIAL INSTRUMENTS (continued)

31 March 2018	On call and 1 month E'000	2-12 months E'000	1 to 5 years E'000	Over 5 years E'000	Total E'000
Financial assets					
Interest earning assets					
Cash at Central Bank	219 608	-	-	-	219 608
Amounts due from other banks	319 287	-	-	-	319 287
Investment securities	-	30 819	211 114	41 155	283 088
Loans and advances	86 154	158 044	637 532	443 624	1 325 354
Total interest earning assets	625 049	188 863	848 646	484 779	2 147 337
Percentage profile	29.1%	8.8%	39.5%	22.6%	100%
Non-interest earning assets					
Other assets	41 708	-	-	-	41 708
	41 708	-	-	-	41 708
Total financial assets	666 757	188 863	848 646	484 779	2 189 045
Reconciliation of financial assets to assets shown on the statement of financial position					
Property and equipment	-	-	-	173 902	173 902
Investment in associate	-	-	-	17 141	17 141
Intangible assets	-	-	-	16 713	16 713
Total assets	666 757	188 863	848 646	692 535	2 396 801
Liabilities					
Interest bearing liabilities					
Current accounts	101 332	-	-	-	101 332
Savings accounts	341 237	-	-	-	341 237
Demand and short term deposits	346 618	329 871	42 383	-	718 872
Eswatini Government deposit	-	-	-	166 055	166 055
Borrowings	-	58 333	112 500	-	170 833
Revolving funds	-	-	-	150 666	150 666
Total interest bearing liabilities	789 187	388 203	154 884	316 721	1 648 995
Percentage profile	48%	24%	9%	19%	100%
Non-interest bearing liabilities	71 578	-	-	-	71 578
Total liabilities	860 765	388 204	154 883	316 721	1 720 573

(a) The maturity profile for loans and advances is an estimate based on expected maturity dates
(b) The maturity profile for customer deposits is an estimate based on expected maturity dates.

33 FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or amortised cost. The summary of significant accounting policies describes how the classes of financial instruments are measured and how income and expenses, including fair value gains are recognised. The following table analyses the carrying amounts of the financial assets and liabilities by category:

	Amortised cost E'000	Total E'000
31 March 2019		
Financial assets		
Cash balances and balance with Central Bank	197 732	197 732
Amounts due from other Banks	272 853	272 853
Other assets	18 532	18 532
Loans and advances	1 390 571	1 390 571
Investment securities	410 548	410 548
	2 290 236	2 290 236
Financial liabilities		
Customer deposits and current accounts	1 375 609	1 375 609
Borrowings	314 859	314 859
Other liabilities	240 088	240 088
	1 930 556	1 930 556

33 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Available for sale E'000	Loans and receivables E'000	Other financial liabilities E'000	Total E'000
31 March 2018				
Financial assets				
Cash balances and balance with Central Bank	-	219 608	-	219 608
Amount due from other Banks	-	319 287	-	319 287
Loans and advances	-	41 708	-	41 708
Other assets	-	1 325 354	-	1 325 354
Investment securities	283 088	-	-	283 088
	283 088	1 905 597	-	2 189 045
Financial liabilities				
Customer deposits and current accounts	-	-	1 327 496	1 327 496
Borrowings	-	-	170 833	170 833
Other liabilities	-	-	220 272	220 272
	-	-	1 718 601	1 718 601

34 CHANGES IN ACCOUNTING POLICIES

Application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 April 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 E'000	New carrying amount under IFRS 9 E'000
Financial asset				
Cash balances and balance with Central Bank	Loans and receivables	Amortised cost	219 608	219 608
Amount due from other Banks	Loans and receivables	Amortised cost	319 287	319 161
Loans and advances	Loans and receivables	Amortised cost	1 325 354	1 199 553
Other assets	Loans and receivables	Amortised cost	41 708	41 708
Investment securities	Available for sale	Amortised cost	283 088	273 098
			2 189 045	2 053 128
Financial liabilities				
Customer deposits and current accounts	Amortised cost	Amortised cost	1 327 496	1 327 496
Borrowings	Amortised cost	Amortised cost	170 833	170 833
Other liabilities	Amortised cost	Amortised cost	220 272	221 617
			1 718 601	1 719 946

Changes in carrying amounts relate to the recognition of expected credit losses.

34 CHANGES IN ACCOUNTING POLICIES (continued)

Application of IFRS 9 - (continued)

Classification and measurement

	IAS 39 carrying amount 31 March 2018 E'000	Re-classification E'000	Re-measurement E'000	IFRS 9 carrying amount 1 April 2018 E'000
Financial asset				
Cash balances and balance with Central Bank	219 608	-	-	219 608
Amount due from other Banks	319 287	-	-	319 287
Loans and advances	1 325 354	-	-	1 325 354
Other assets	41 708	-	-	41 708
Investment securities-Amortised cost	-	283 088	(6 736)	276 352
Investment securities-Available for sale	283 088	(283 088)	-	-
	2 189 045	-	(6 736)	2 182 309
Financial liabilities				
Customer deposits and current accounts	1 327 496	-	-	1 327 496
Borrowings	170 833	-	-	170 833
Other liabilities	220 272	-	-	220 272
	1 718 601	-	-	1 718 601

34 CHANGES IN ACCOUNTING POLICIES (continued)

Application of IFRS 9 - (continued)

Impairment

	IAS 39 carrying amount 31 March 2018 E'000	Re-classification E'000	Re-measurement E'000	IFRS 9 carrying amount 1 April 2018 E'000
Financial asset				
Cash balances and balance with Central Bank	219 608	-	-	219 608
Amount due from other Banks	319 287	-	(126)	319 161
Loans and advances	1 325 354	-	(125 801)	1 199 553
Other assets	41 708	-	-	41 708
Investment securities-Amortised cost	276 352	-	(3 254)	273 098
	2 182 309	-	(129 181)	2 053 128
Financial liabilities				
Customer deposits and current accounts	1 327 496	-	-	1 327 496
Borrowings	170 833	-	-	170 833
Other liabilities	220 272	-	1 345	221 617
	1 718 601	-	1 345	1 719 946

34 CHANGES IN ACCOUNTING POLICIES (continued)

Application of IFRS 9-(continued)

The following table summarises the impact of transition to IFRS 9 on the opening balance of Other reserves, General credit reserve and retained earnings

	Retained earnings E'000	Other reserves E'000	General credit reserve E'000	Total E'000
Closing balance as at 31 March 2018	315 441	123 061	12 248	450 750
Recognition of expected credit losses under IFRS 9	(130 527)	-	-	(130 527)
Reclassification of investment securities from available for sale amortised cost	6 205	(6 205)	-	-
Re-measurement on classification of financial assets	(6 736)	-	-	(6 736)
De-recognition of the General credit reserve	12 248	-	(12 248)	-
	196 631	116 856	-	313 487

NOTES

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EswatiniBank

HEAD OFFICE

Gwamile Street, Mbabane, Swaziland

P.O. Box 336, Mbabane, H100

Tel: +268-2409 5000

Fax: +268-2404 2550

e-mail: swazibank@swazibank.co.sz

Website: www.swazibank.co.sz