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BRAND NEW DAY

Nedbank Swaziland Limited

# IR Integrated Report 2016

FOR THE YEAR ENDED 31 DECEMBER

20

*Celebrating 20 years of great business in the Kingdom*

*1996 - 2016*

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**NEDBANK**

A Member of the OLDMUTUAL Group

# Deep Green Aspirations

**OUR DEEP GREEN ASPIRATIONS**

To be the most admired financial services provider in Africa that …

| | | |
|---|---|---|
| Staff | GREAT PLACE TO WORK | …attracts, develops and retains a highly skilled and talented workforce… |
| Clients | GREAT PLACE TO BANK | …exceeds client expectations to become the financial partner of choice… |
| Shareholders | GREAT PLACE TO INVEST | …grows profit sustainably to create shareholder value… |
| Regulators | WORLD CLASS AT MANAGING RISK | …while effectively managing risk… |
| Communities | GREEN AND CARING BANK | …and building sustainable communities. |

# Contents



## UNIVERSAL INSIGHT

**Money, well managed, can make a real difference to people's lives. One should always take it seriously.**

# Who are we?

Nedbank (Swaziland) Limited is a subsidiary of Nedbank Group which is a diversified financial services-provider, offering a wide range of wholesale and retail banking services, as well as insurance, asset management and wealth management solutions.

With a view to being the most admired bank by our stakeholders, our Deep Green aspirations and targets strongly influence our planning for the long term.

| EMPLOYEES | BRANCHES |
|---|---|
| 297 | 12 |

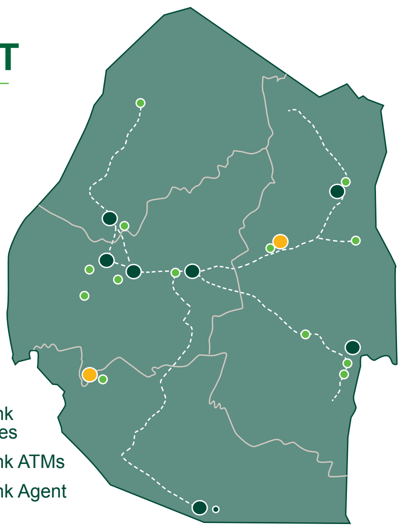
| CLIENTS | ATMs |
|---|---|
| 49 497 | 42 |

| TOTAL ASSETS | TOTAL INCOME | NET PROFIT |
|---|---|---|
| SZL 4.2 billion | SZL 399 million | SZL 121 million |

## OPERATIONAL FOOTPRINT

NEDBANK

■ Nedbank's existing presence
■ Expansion opportunities



● Nedbank Branches
● Nedbank ATMs
● Nedbank Agent

## PURPOSE

TO USE OUR FINANCIAL EXPERTISE TO DO GOOD FOR INDIVIDUALS, FAMILIES, BUSINESSES AND SOCIETY

## VISION

TO BE THE MOST ADMIRED FINANCIAL SERVICES PROVIDER IN AFRICA BY OUR STAFF, CLIENTS, SHAREHOLDERS, REGULATORS AND COMMUNITIES

## DEEP GREEN ASPIRATIONS

GREAT PLACE TO WORK

GREAT PLACE TO BANK

GREAT PLACE TO INVEST

WORLDCLASS AT MANAGING RISK

GREEN AND CARING BANK

## OUR BRAND

NEDBANK

## WHO WE ARE

A UNIVERSAL BANK WITH AN INTEGRATED WEALTH FRANCHISE DELIVERED THROUGH A REGIONAL FOOTPRINT WITH STRATEGIC ACCESS TO A PAN-AFRICAN BANKING NETWORK

## LIVING OUR VALUES

INTEGRITY | RESPECT | ACCOUNTABILITY | CLIENT-DRIVEN | PEOPLE-CENTRED

# Our Vision, Mission and Values

## OUR VISION

**Building Swaziland's most admired bank by our staff, clients, shareholders, regulators and communities.**

**We want to be most admired by all our stakeholders.**

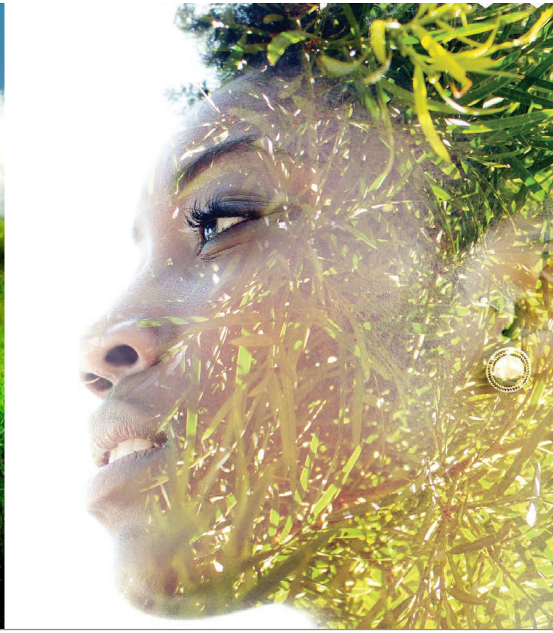
- Passionate and motivated staff help us attract and retain clients who are key to the delivery of sustainable profits
- We operate in a highly regulated environment and we aim to be admired by our regulators
- As 'the green and caring bank', we are a strong advocate and influencer on social and environmental matters

## OUR MISSION

To be a great bank at providing customised solutions to sustainable and profitable high value segments in wholesale, business banking and retail banking.

## OUR PURPOSE

To use our financial expertise to do good for individuals, families, businesses and society.



# OUR VALUES

- ## Integrity

  Be honest, trustworthy, consistent and transparent in all our actions and decisions.

- ## Respect

  Recognise the inherent worth of every individual and treating everyone with dignity.

- ## Accountability

  Being prepared to take ownership of and be held accountable for our commitments and actions.

- ## Client-driven

  Creating value and delightful experiences for our clients that exceed their expectations.

- ## People-centred

  Invest in people and creating an environment that empowers our people to perform distinctively and to excel.

# Chairman's Report

"Nedbank recognises that it must conduct business in a responsible manner that encourages inclusive economic growth. The bank is cautious therefore that in its pursuit of its business objectives, it must also take interest in the wider economy and to this end, it will continue to collaborate with key social partners to promote economic development in the country"

**Barnabas Mhlongo**
Chairman

The year 2016 was an interesting year globally, as it was punctuated with rapid changes that dynamically impacted the business operating environment. These changes made it more challenging for investors to predict or forecast, with reasonable certainty, the socio-economic dynamics that could influence the operating environment. These include the now famous Brexit, the election results in the USA and much closer home, the political landscape in South Africa. Recent socio-political developments in our largest trading partner, South Africa, have had a direct bearing on the Swaziland economy as our currency is pegged to the Rand currency.

Foreign exchange gains that had been experienced in 2016 have since been nullified by the negative market reaction to the South Africa cabinet reshuffle. The subsequent sovereign downgrades by credit ratings agencies is expected to have some spillover effects to the Swaziland economy.

The economic performance of Swaziland remained under pressure in 2016 due to the unfavourable global conditions, fiscal challenges and the adverse effects of recent climatic conditions that resulted in severe

> "Nedbank remains committed to being a key player in the economic landscape of the country. The bank will remain responsive to the economic environment to ensure that it is positioned appropriately to meet its client's service expectations and delivery. We believe that by extending appropriate financial solutions and services to our clients the bank will be supporting the creation of an enabling environment that will promote economic activity that will result in the much needed economic growth"

drought and subsequently, cyclones. The drought experienced over the last two years has had a significant impact on key sectors of the economy and the affected industries performed much lower than usual. The real GDP for 2016 is forecasted to be at negative 0.6% down, from 1.6% recorded in 2015. The decline is largely attributed to the overall decline in agricultural production as a result of the drought. The secondary industry was also affected, as it imported the low levels of production and activity in the primary sector, owing to the drought conditions.

It is comforting that despite the challenges, Swaziland continues to strive towards attaining vision 2022 status and also remain an active player in regional and continental affairs. During the year, the country successfully hosted the 36$^{th}$ SADC Summit which also saw the country assuming the Chairmanship of SADC. The country continues to play a significant role in the SADC agenda which has seen several ministerial summits and most recently the SADC Extra Ordinary Summit of Heads of States being hosted by the country. One of the significant outcomes of the summit was the approval of the Costed Plan for SADC Industrialisation Strategy. We are excited about these developments as we believe that such initiatives will bide well, not only for the development of the region, but for the country and its sovereignty.

### Economy and Banking Environment

The banking sector remains a key player in the economy and continues to experience an evolving landscape. The evolution and changes demand that banks adapt to the changes at a relatively high pace in order to remain relevant. The rapid technological advancement in the financial sector has meant that Nedbank has to rapidly innovate in order to provide relevant banking solutions to its clients. It was appropriate, therefore, that in the year, that the bank deploy a more flexible core banking system that will enable it to expand its ability to offer innovative solutions with agility. We are excited about this development as we believe that it will enable our clients to derive more value from the newly installed Flexcube system.

Nedbank remains committed to being a key player in the economic landscape of the country. The bank will remain responsive to the economic environment to ensure that it is positioned appropriately to meet its client's service expectations and delivery. We believe that by extending appropriate financial solutions and services to our clients, the bank will be supporting the creation of an enabling environment to promote economic activity that will result in the much needed economic growth. Nedbank recognises the need to conduct business in a responsible manner that encourages inclusive economic growth. The bank is cautious, therefore, that in its pursuit of its business objectives, it must also take interest in the wider economy and to this end, it will continue to collaborate with key social partners to promote economic development in the country.

The bank continues to look to the Central Bank of Swaziland for direction with regard to the regulatory environment. The bank actively seeks to partner with regulators in ensuring that Swaziland maintains a reputable and sound banking industry. We welcome the various initiatives by the Central Bank of Swaziland, through regulations, that seek to strengthen the banking sector and we are excited by the announcement of the implementation of Basel II with effect from 1 January 2018.

### Board of Directors

The Board is happy to welcome two directors to the Board that we believe will enhance the Board's commitment to ensuring that, the Board as a collective, has the necessary experience and skill to lead the bank. These appointments were informed by feedback derived from our Board evaluation practices and carried out in terms of the Board Charter. I am pleased to welcome to the Board Mr. Mduduzi D. Mthembu and Mrs. Vinah N. Nkambule, and we look forward to their invaluable insights and contributions to the Board.

### Appreciation

To the executive team led by Ms. Fikile Nkosi and the entire Nedbank staff, I wish to express sincere gratitude for their unwavering commitment to serving our clients diligently. The Board has confidence that the bank is in capable hands and through the staff, will continue to make a difference to our clients.

**Mr. B.C.F. Mhlongo**
Chairman

# Board of Directors

BARNABAS C.F. MHLONGO[71]

Board of Directors. The Nedbank Board is diverse in skills and experience, and consists of independent non-executive directors, and executive directors.

**FIKILE NKOSI[48]**
Managing Director

**STANLEY BEYERS[64]**

**ASHLEY SUTTON-PRYCE[63]**

**PAPA SEKYIAMAH[43]**

**MHAWU MAZIYA[52]**

**MDUDUZI MTHEMBU[40]**

**VINAH NKAMBULE[68]**

**PANUEL GWEBU[43]**

# Board of Directors

### BARNABAS C.F. MHLONGO

**Qualifications:**
ACIS – Southern Africa Institute of Chartered Secretaries and Administrators, FICBM – Chartered Institute of Business Management, Diploma in Criminal Justice and Forensic Investigations – University of Johannesburg, Diploma in Business Studies – University of Boleswa

Barnabas is the present Executive Director of the Swaziland Institute of Accountants (SIA), a statutory body created to regulate the profession of Accountants. He has previously worked as Company Secretary and later Head of Procurement for Johannesburg Fresh Produce Market, and Company Secretary at Swaziland United Bakeries (Pty) Ltd.

Barnabas has been involved, at executive level, in various professional bodies, including the Federation of Swaziland Employers and Chamber of Commerce (Board Member), and Swaziland Competitions Commission (Director).
**Committees:** Directors Affairs & Remuneration Committee

### FIKILE NKOSI

**Qualifications:**
SMP (GIBS)
BCompt (Hons) (UNISA), MAP (Wits),
BCom (UNISWA)
Dip Acc Bus Admin (UNISWA)

Fikile is the Managing Director for Nedbank (Swaziland) Limited. Prior to her appointment as Managing Director, she held the position of Chief Financial Officer. She has also served in the organisation as the Head of Internal Audit. She joined Nedbank (Swaziland) Limited in 2001, having worked for an international audit firm. Outside Nedbank, she sits on the Board of AON Swaziland (Pty) Ltd as a non-executive director.

She is the Vice-President of the FSE/SCC and represents the Bank in various boards.

### STANLEY BEYERS

**Qualifications:**
FIBSA, Higher Diploma-Advanced Banking.
Stanley has worked for Nedbank Limited for over 30 years in various Divisions.

**Committees:** Audit Committee, Risk Compliance & Loan Review, Directors Affairs and Remunerations Committee.

### ASHLEY SUTTON-PRYCE

**Qualifications:**
Bachelor of Arts (University of Natal)
Diploma I (Institute of Bankers)

Ashley is a former Executive Head: HR and Communication, Nedbank Retail & Business Banking. He also served as Executive Head of Nedbank Corporate Human Resources and Communications. Prior to this position, Ashley served in various managerial positions within Nedbank Group. Ashley has also worked for Rhodesian Banking Corporation in various financial positions.

Committees: Audit Committee, Directors Affairs and Remuneration Committee (Chairman).

### PAPA SEKYIAMAH

**Qualifications:**
CA (South Africa)
MBA (Tuck School of Business, USA)
CA (Zimbabwe)
Post-Graduate Certificate in Accounting (UNISA)
BCom Hons. in Accounting (National University of Science & Technology (Bulawayo, Zimbabwe)

Papa is currently the Executive Head of Strategy, Project Management, Marketing and Communications in Rest of Africa.

He is an accomplished international manager, financial and consulting professional with 15 years experience, including 9 years of senior management. He has Board experience in both domestic and international markets.

### MHAWU MAZIYA

**Qualifications:**
LLM, LLB, BA Law, Dip. Journalism, Dip. Industrial Relations, Advocate

Advocate Muhawu Maziya, a Fulbright Alumnus. He is the General Manager – Commercial at the Royal Swaziland Sugar Corporation (RSSC). Before joining RSSC, he was Head of Law, Faculty of Social Sciences, at the University of Swaziland and subsequently, Deputy Executive Director of the Swaziland Federation of Employers/ Chamber of Commerce. He has also served as Chairman of the Swaziland Financial Services Regulatory Authority Board, Non-Executive Chairman of Newera Partners Limited Board, Non- Executive Chairman of National Maize Corporation Board and Non-Executive Chairman of the Swaziland Insurance and Retirement Funds Board. He has also served in the Labour Advisory Board and was Deputy Chairman of the Industrial Relations Act 2000 drafting Committee.

**Committees:** Audit Committee, Directors Affairs and Remunerations Committee.

## VINAH NKAMBULE

**Qualifications:**
MBA (Ashland University, Ohio, USA)
BCom (Uniswa)
Diploma in Accounting & Business Studies

With a rich history in the banking industry, Vinah Nomusa Nkambule started working for Barclays Bank of Swaziland before 1975. She then took the position of Assistant Manager Banking at the Central Bank of Swaziland (CBS) in 1976 and worked her way up to being appointed Senior Director Operations of the CBS. She is a lecturer in the Faculty of Commerce - Department of Business Administration & Institute of Distant Education, a position she holds to date.

Nkambule has served in a number of Boards and bestowed with a number of accolades over the years.

## DR. MDUDUZI DIFFER MTHEMBU

**Qualifications:**
Doctor of Philosophy, Economics (University of Cape Town)
Master of Arts, Economics (University of Botswana)
Bachelor of Arts in Social Science (UNISWA)

Mduduzi Mthembu lives and breathes Economics and has vast experience in this field. Having started working at Swaziland Fruit Canners as a Canning Superintendent Production Shift Leader in 2003, Mthembu went on to become a Financial Markets Trainee for a UK company known as Shields Consulting (PTY) Ltd. After this, he became a Teaching Assistant in the department of Economics at UNISWA but eventually left to further his academic studies. He then became a Graduate Teaching Assistant at the University of Cape Town whilst pursuing is PhD studies. He is currently a lecturer in the Department of Economics at UNISWA.

## PANUEL GWEBU

**Qualifications:**
BA Law, LLB (UNISWA), Post Graduate Diploma in Compliance (UJ), Management, MDP (GIBS)

Panuel Gwebu holds the position of Company Secretary/Chief Compliance Officer at Nedbank Swaziland. He was admitted as an Attorney of the High Court of Swaziland in 2001. Panuel practised as a litigation attorney with S.A. Nkosi & Company. He later took employment with P.M. Shilubane & Associates, also as a litigation attorney prior to his appointment to Nedbank Swaziland as a Compliance Officer.

Mr. Gwebu has also been engaged by the Institute of Distance Education in the University of Swaziland as a part time tutor in the Faculty of Law.

# Management Committee

**FIKILE NKOSI**[48]
Managing Director

Qualifications:
SMP (GIBS)
BCompt (Hons) (UNISA),
MAP (Wits),
BCom (UNISWA),
Dip Acc Bus Admin
(UNISWA)

**PHESHEYA NKAMBULE**[38]
Chief Financial Officer

Qualifications:
CA (Swaziland)
ACCA
BCom (UNISWA)

**LOMKHOSI DLAMINI**[39]
Head: Strategy, Marketing, & Corporate Affairs

Qualifications:
MBA (University of Akron, USA)
Fullbright Scholar
BA (UNISWA)

**MONGI DLAMINI**[36]
Head: Credit

Qualifications:
Post-Graduate Certificate in Accounting (UKZN)
BCom (UNISWA)

**MUZIWANDILE MAGAGULA**[44]
Head: Human Resources

Qualifications:

BCom Management (UNISWA),
Management Development Programme (University of Stellenbosch)

**LINDIWE MLAMBO**[29]
Head: Internal Audit

Qualifications:
BCompt (Accounting Sciences) (UNISA)

**THEMBA MANANA**[47]
Head: Shares Services

Qualifications:
MBA (University of Hall),
BCom (Uniswa),
Management Development Programme (GIBS, University of Pretoria)

**DEAN ADAMS**[61]
Head: Wholesale Banking

Qualifications:
LDP (Standard Bank Global Leadership Centre), EDP (GIBS), SMDP (GIMT), Bankers Diploma (CAIB), BA (Economics & Accounting) (UBLS)

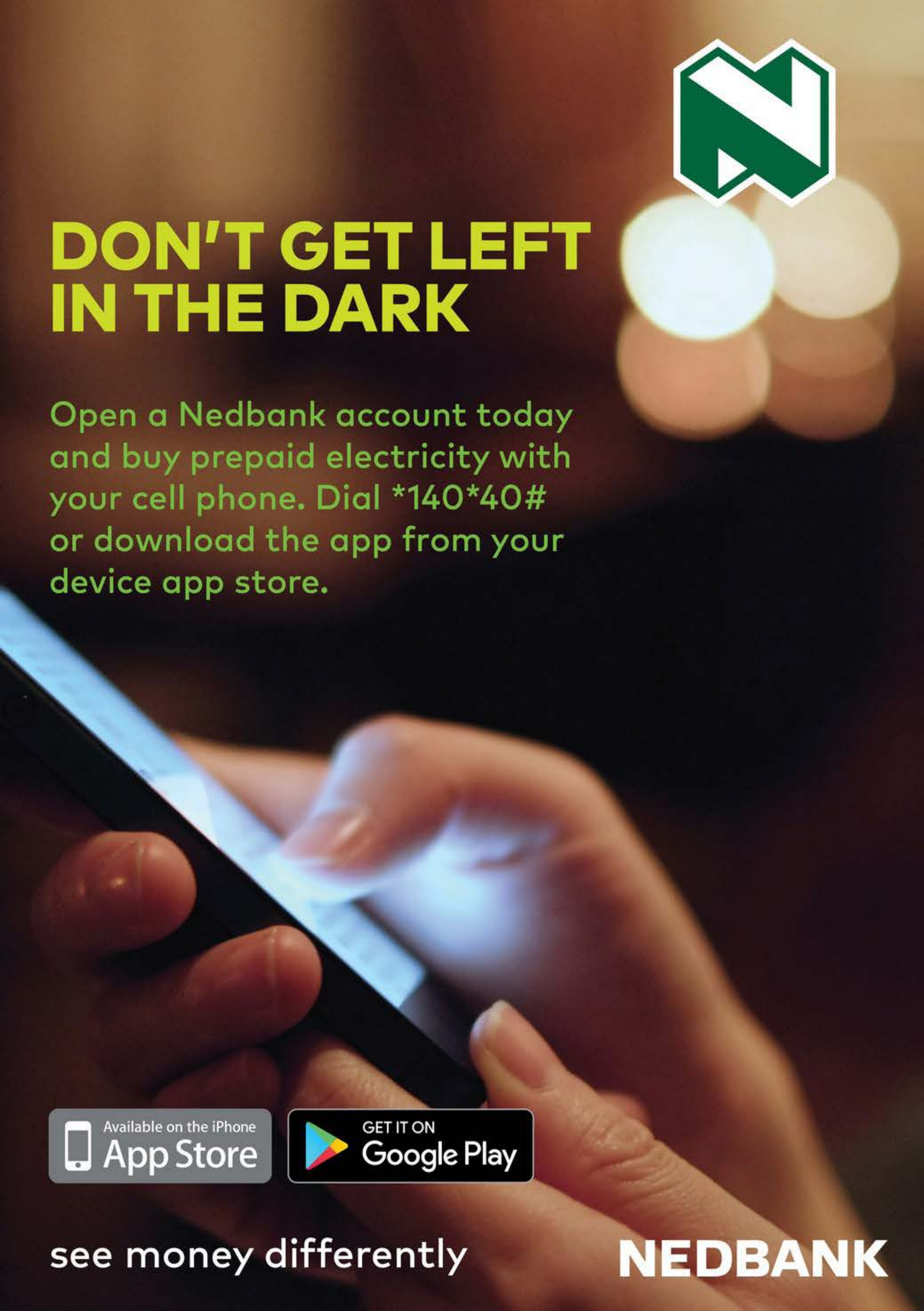
**LEONARD DLAMINI**[41]
Chief Risk Officer

Qualifications:
CA (Swaziland)
ACCA,
BCom Accounting (UNISWA)

The Management Committee comprises the Managing Director, Chief Financial Officer, Company Secretary and 7 other members of senior managers boasting lots of experience in their fields

**PANUEL GWEBU**[42]
Chief Compliance Officer,
Company Secretary & Legal Advisor

Qualifications:
BA Law, LLB (Uniswa) MPD (GIBS)
PostGrad Compliance (UJ)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# Managing Director's Report

"The operating landscape continued to be a challenging environment, coupled with our major system change within the business. 2016 saw our business adopting an inward focus in a bid to improve efficiencies and introduce new products in the market"

**Ms. Fikile Nkosi**
Managing Director

## 2016 Highlights

**18.4%** Return on investment

**E121 Million**
Profit for the year

**▲ 8%** Dividend per share

The past year was a year in which we experienced major changes in our business. As a business, we embarked on a number of initiatives that, looking into the future, will create increased efficiencies and drive us to deliver greater value to our clients.

Increased regulatory requirements and developments around compliance and governance set the tone for the operating landscape. The macro-economic environment continued to be conservative in terms of economic growth, with a continued decline in growth in developed and emerging economies, directly impacting the local operating environment. Policy uncertainty continued within the emerging markets, with ongoing currency and market volatility which exacerbated the slow growth within the Swazi economy. Notwithstanding the challenging environment, we stay positive on an improved outlook, going forward, despite the recent downgrade to junk status of the South African sovereign rating.

The operating landscape continued to be challenging and this was coupled with our major system change within the business. The year 2016 saw our business adopting an inward focus in a bid to improve efficiencies and introduce new products in the market. Albeit the tough environment,

> "In a bid to remain Swaziland's most admired financial services provider, Nedbank Swaziland continued to grow return on equity, achieving 18.4% ROE in 2016 despite the: (a) continued challenging landscape, (b) heightened regulatory environment and (c) highly competitive local industry"

our team continued to embrace the changes in the market and identified solutions to meet our clients' needs.

In 2016, we continued with our bid to be the most admired financial services provider in Swaziland, amidst the challenging credit extension environment, and we continued to identify strategic growth areas which grew our lending book.

### Our Business Model

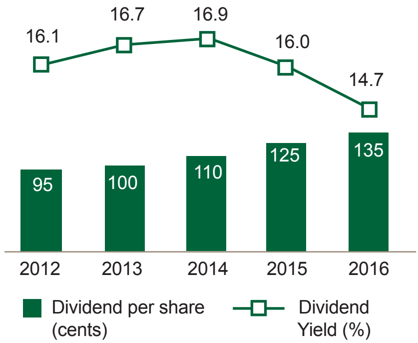
Our business embarked on a tranformation journey, early in 2013, with the Genesis Strategy, which sought to improve how we do business. This looked at the business model and focused on initiatives such as enhanced sales effectiveness among our sales teams. These initiatives have ensured that our sales teams achieve increased client acquisition and continued focus on the clients' needs. The introduction of the new core banking system has been a revolutionary transformation for the business model and still forms part of the Genesis journey, equipping us in our journey to become Swaziland's most admired financial services provider. The new system was implemented in May 2016 and over time, this system will enable the bank to create greater value for the client.

In November 2016, as a result of the system upgrade, we were able to achieve one of the most awaited developments for our clients; the introduction of the Mobile App and USSD mobile banking applications. We continue to enhance these products to create greater value for our clients.

We aligned our business model to increase profitability through our sales effectiveness strategy. We streamlined our sales operating models. We simplified solutions offered to our Wholesale and Business Banking clients to offer transactional products that provide real solutions to the challenges businesses face on a daily basis.

### Our performance

Delivering value to our primary stakeholders remained a key business objective.




In a bid to remain Swaziland's most admired financial services provider, Nedbank Swaziland continued to grow return on equity (ROE)-+, achieving 18.4% ROE in 2016 despite the (a) continued challenging landscape, (b) heightened regulatory environment and (c) highly competitive local industry.

### Value creation through our Strategy

As a business, we are looking at enhancing our product offerings to ensure that we continue to align our business with growth sector needs.

Our strength in relationship banking has enabled us to gather insight, which equips us to understand the financial needs of our clients and identify emerging growth sectors. The emerging growth sectors ensure that we create customised solutions for our clients.

The bank has embarked on a number of strategies focusing on client retention and growing our client base through offering innovative products such as our Mobile Banking application and other electronic banking solutions. We remain committed to our clients through providing lasting solutions to their banking needs.

The banking landscape in Swaziland continued to evolve with a focus on compliance and regulatory issues. The bank embraces the changes in the regulatory environment and continuously adapts to ensure that it achieves for compliance with the evolving regulatory changes. The increased focus on full compliance with regulations is enabling us to shape our business accordingly and ensure that appropriate risk management structures are in place. Continued efforts by Business Banking and Wholesale divisions to attract new clients and grow transactional volumes produced positive results, with customised solutions and increased "cross sel" l to our clients. The team navigated the challenging terrain to stay in the game and delivered relevant solutions to our clients. Likewise, the retail team grew in growing transactional account acquisition and positioned the bank as a bank for all.

Looking ahead, the launch of the new brand positioning strategy will ensure that we work to transform our culture and "see money differently." We endeavour to enhance our digital banking offering and offer a unique client experience. The bank continues to focus on heightened client acquisition strategies to win in 2020.

**Ms. Fikile Nkosi**
Managing Director

# Chief Financial Officer's Review

"The bank is geared to improve on financial performance, mainly average interest-earning banking assets, ahead of nominal GDP growth. New products in the digital arena will be introduced and focus will be on customer service"

**Phesheya Nkambule**
Chief Financial Officer

## 2016 Highlights

| | |
|---|---|
| ▲ 5% | Headline earnings growth |
| ▲ 21% | Strong NII growth |
| ▲ 5% | NIR growth |
| ▲ 10% | Deposit growth |
| 24% | Deposits Market share |

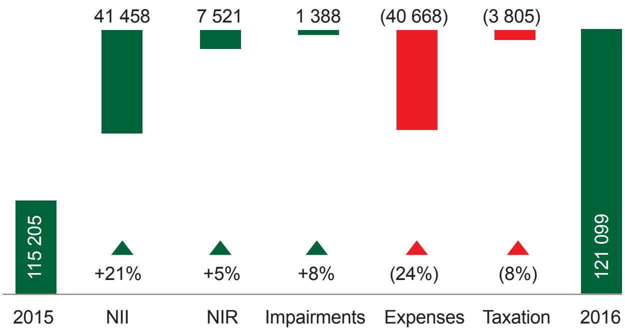
Despite the challenging operating environment, Nedbank produced improved performance for the year ended 31 December 2016, driven by net interest income (NII) and non-interest revenue (NIR) marginal growth. Quality loan origination and focused credit risk management enabled the bank to maintain its credit loss ratio (CLR) within the set target range of ≤1%. Headline earnings grew by 5% to E121.1 million (2015: E115.2 million).

Basic and diluted headline earnings per share increased by 5% to 491 cents (2015: 468 cents). The bank was able to deliver a return on average ordinary shareholders' equity (ROE) of 18.4% (2015: 20.2%), amidst a challenging environment. Loans and advances reflect a marginal growth of 1% at E2 901 million (2015: E2 865 million), a direct result of the level of credit extension within a supressed economic environment. Customer deposits increased by 10% to E3 407 million (2015: E3 107 million). This has been achieved through growth in primary banked clients.

**KEY PERFORMANCE INDICATORS**

| | **2016** | 2015 |
|---|---|---|
| Headline earnings (E'000) | **121 099** | 115 205 |
| Return on equity | **18.4%** | 20.2% |
| Net interest margin | **5.5%** | 5.6% |
| Credit loss ratio | **0.63%** | 0.75% |
| Efficiency ratio | **53.1%** | 48.9% |
| NIR-to-expenses ratio | **76.5%** | 90.3% |
| Capital adequacy | **21.7%** | 20.7 |
| Dividend per share (cents) | **135** | 125 |

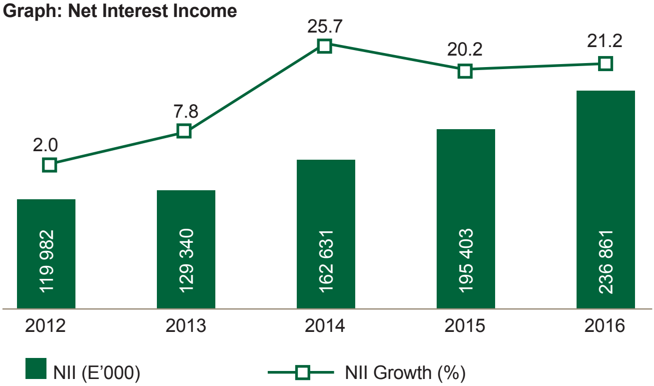
**Graph: Analysis of Headline Earnings Growth** (E'000)




## Net Interest Income

Strong NII growth of 21% to E236.9 million (2015: E195.4 million), was underpinned by growth in average interest-earning banking assets and net interest margin (NIM) of 5.5% (2015: 5.6%). The margin benefited from endowment income, following the cumulative 125 basis points increase in interest rates in 2016 and the resulting asset pricing and portfolio tilt changes. This benefit was partially offset by increased cost of liquidity and funding initiatives.

**Graph: Net Interest Income**

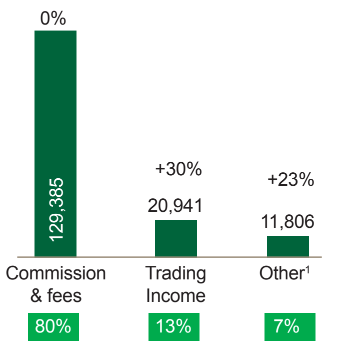



## Non- Interest Revenue

NIR grew by 5% to E162.1 million (2015: E154.6 million), primarily driven by:

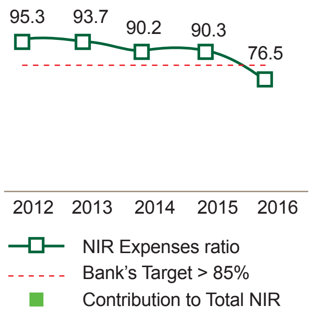
- Commission and fee income flat at E129.4 million (2015: E128.9 million)
- Trading income increasing by 30% to E20.9 million (2015: E16.1 million) from higher market volatility, increased volumes and client penetration.
- Other income grew by 23%, driven by an increase in administration fees as more loans and advances were granted.

**Graph: Non- Interest Revenue (E'000)**




[1] *Represents sundry income and administration fees*

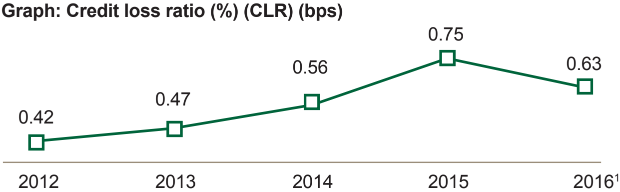
**Graph: NIR-to-Expenses ratio (%)**




## Impairments charge on loans and advances

Impairments decreased by 8% to E15.4 million (2015: E16.8 million) and the CLR improved to 0,63% (2015: 0,75%), supported by the quality of the loan book. Total defaulted advances increased to E83.4 million (2015: E51.4 million), representing 2,8% of advances (2015: 1.9%). The increase was largely due to some sectors taking strain in light of operating challenges and the bank holds adequate realisable security against stressed facilities.

**Graph: Credit loss ratio (%) (CLR) (bps)**



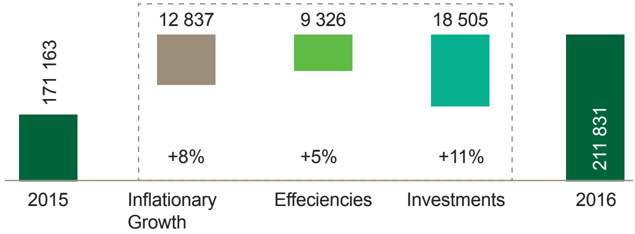

[1] *Throughout the cycle, the bank has been within the target of ≤100 bps.*

## Expenses

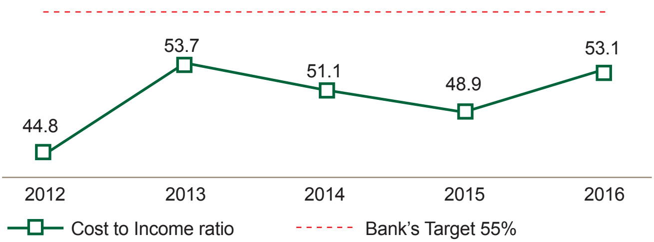
Expenses increased by 24% to E211.8 million (2015: E171.2), due to inflation and mainly, as a result of:

- Staff-related costs increasing by 22%, consisting of growth in remuneration and other staff costs, driven by an 8% average annual salary increase, implementation of the salary review results and additional staff hires, mainly for banking platform system change.
- Operating lease costs which increased by 15%, driven by growth in foot print and maintenance of branches.
- Fees and insurance costs having grown by 61%, due to business expansion and lease costs for the new core banking system.

**Graph: Expenses** (E'000)



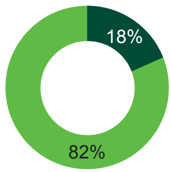

## Cost to Income (%)



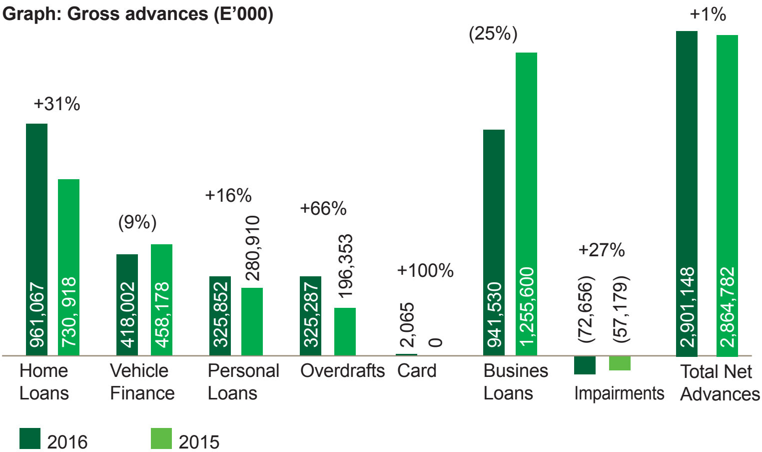

## Loans and advances

Loans and advances increased by 1% to E2 901 million (2015: E2 865 million). Advances growth continued to be led by residential mortgages and personal loans. Our lending market share of 18% (2015: 20%) was underpinned by lower growth in the wholesale banking.

Market Share



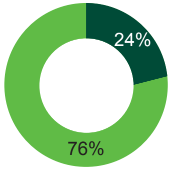

**Graph: Gross advances (E'000)**



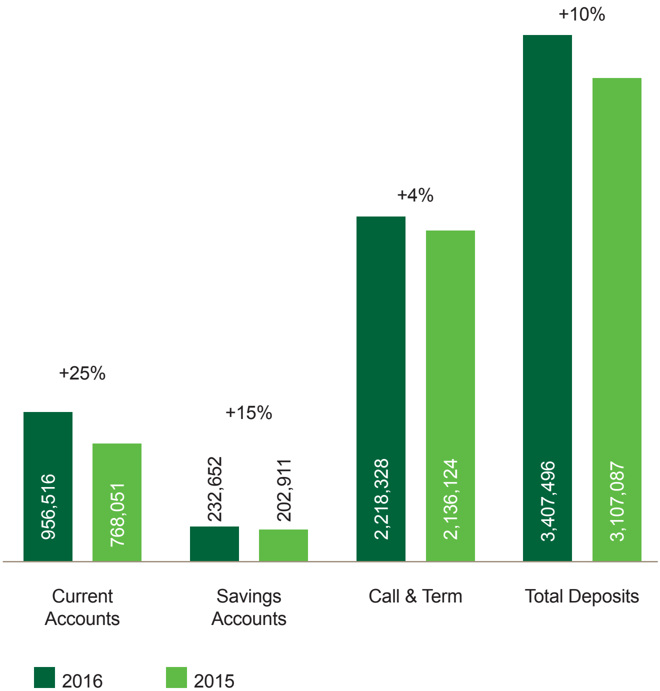
## Deposits

Deposits grew by 10% to E3 407 million (2015: E3 107). The bank continues to actively enhance its deposits through competitive products and yields. Significant progress has been made on our funding strategy as the loan-to-deposit ratio improved to 85% (2015: 92%) and funding market share grew to 24% (2015: 19%).

Market Share



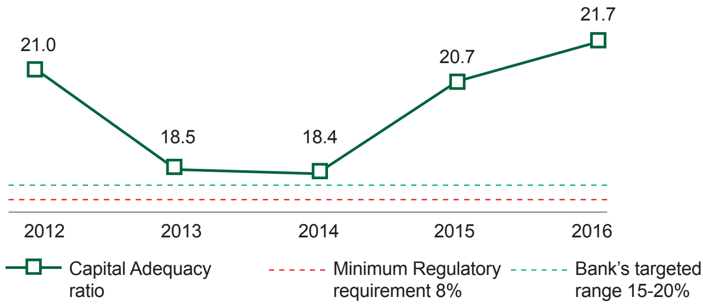

**Graph: Deposits** (E'000)




## Capital

The Bank continued to strengthen its capital position and we operated well within and/or above our internal and regulatory capital adequacy targets. Capital adequacy ratio was 21.7% as at 31 December 2016 against 20.7% in 2015. Capital and reserves totaled E659.2 million (2015: E567.6 million).

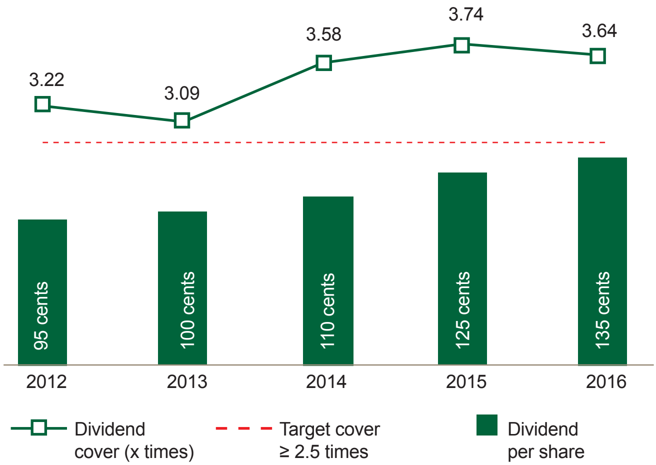
**Graph: Capital (%)**




### Dividend

Dividend declared grew by 8% to 135 cents (2015: 125 cents), resulting in a dividend cover of 3.64 (2015: 3.74) times in line with the Bank's approved target range.

**Graph: Dividend**




### Outlook

- The bank is geared to improve on financial performance, mainly average interest-earning banking assets ahead of nominal GDP growth, NIM to be slightly above the 2016 base and expenses to increase by single digits.
- Cost discipline remains an imperative as the bank strives for co-location of related functions through acquiring property to house such and enjoy economies of scale.

- The bank continues to empower local businesses by sourcing more than 80% of its supplies and services locally and thus saving on import duties, at the same time contributing towards stimulating economic growth.
- There are ongoing initiatives for stabilisation of the core banking systems to improve efficiencies, automate reports and other reporting requirements, improve data integrity and facilitate quicker decision making through ease of performing analytics.
- New products in the digital arena will be introduced and focus will be on customer service.
- The bank is gearing itself in readiness for implementation of the revised IFRS 9 Financial Instruments standard which is effective for annual periods beginning 1 January 2018. This standard is expected to bring a significant change in the way our loans and advances impairments are calculated.
- We are working together with the Central Bank of Swaziland (CBS) to roll out Basel II standardised methodology reporting. The CBS is working towards full reporting for all banks effective 01 January 2018.

**PHESHEYA NKAMBULE**
Chief Financial Officer

# Wholesale Banking Review

> "We continue to leverage value from the Wholesale Model which has enabled us to focus on the redeployment of Business Managers to guarantee a high level of service to clients and offer innovative solutions to clients' needs"

### Economic Review

Despite the subdued economic climate, the Wholesale department continued to deliver an enhanced service to its customers by becoming a one stop service centre to clients. The division posted a strong performance during the year following entry into new markets which were previously less explored through limited representation in the country.

### Product Offering

Through our centres of excellence in agriculture, mining, energy, telecommunications, property development, project finance and infrastructural development, we are committed to partner with business to provide customised solutions to enhance banking processes.

### Customer Service

We continue to leverage value from the Wholesale Model which has enabled us to focus on the redeployment of Business Managers to guarantee a high level of service to clients and offer innovative solutions to client's needs. The core of our strategy is to further consolidate the model through targeted training to upgrade skills in the department and deliver the right service in the respective portfolios. The segmentation and right-sizing of portfolios is an enabler to capturing opportunities in the market and in targeting profitable sectors of the economy to provide diversity to the asset book.

The close involvement of stakeholders especially the collaboration with specialist units within the Nedbank Group has yielded a number of opportunities in new growing sectors of the market with the potential of offering a variety of products aimed at increasing the share of wallet through cross sell opportunities.

### People

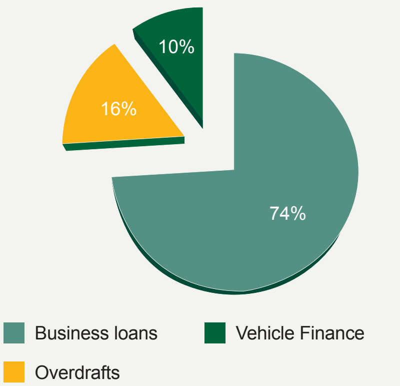
The division consists of qualified personnel with expertise in credit, agriculture, I.T, franchise business, query resolution and relationship management. The focus of all staff in the division is to be customer centric and act as a central point of contact for all clients. The recent expansion of the department's premises in Matsapha has allowed for the recruitment of additional skills to drive business expansion into the future.

### Financial Performance

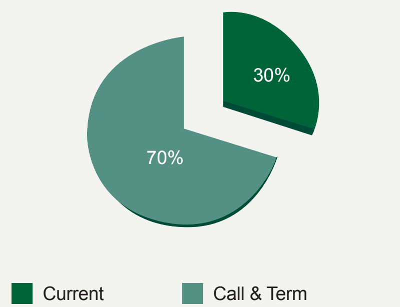
Utilisation of marked facilities in the agricultural sector was subdued on account of the protracted drought. Nevertheless growth in Business Banking was substantial with inroads in franchising, commercial property sectors and working capital requirements to meet the needs of business.

We have achieved a 24% growth in primary banking clients and a growth of 20% in our POS proliferation strategy on the back of an enhanced platform.

**Pie chat: Loans and advances (% contribution)**




**Deposits (% contribution)**




## Deposits

Positive growth in liabilities was seen during the year in line with the growth in primary banking clients. We continue to focus on growth areas such as aviation, telecommunications, energy and infrastructural development.

## Prospects

Although the 2017 growth focus in the country remains low, we will continue to exploit opportunities in the market by targeting growth sectors and increasing our share of wallet through a dedicated customer approach in line with our operating model. The wholesale model will enable us to leverage further opportunities in the market by staying close to all stakeholders. This will enable us to continue adding value to existing client base and exploring opportunities available from growth areas such as infrastructural development, property development and agriculture. The main enabler of this growth will be the enhancement in the new banking platform which will enable the division to offer innovative products to the business sector.

**DEAN ADAMS**
Head: Wholesale Banking

> "The wholesale model will enable us to leverage further opportunities in the market by staying close to all stakeholders. This will enable us to continue adding value to existing client base and exploring opportunities available from growth areas such as infrastructural development, property development and agriculture"

# **Retail Review:** Personal & SME Banking

> "We will continue to focus on achieving deeper client penetration through enhanced synergies across Wholesale and Business Banking to deliver impactful solutions"

Our retail function consists of two distinct divisions namely Personal and SME. The personal division is further segmented based on the level of earnings per client. This category included all individual, private banking clients, who have a dedicated relationship banker and are also serviced in this segment. Given the importance of the role of the dedicated relationship banker in the overall client experience, emphasis is placed on equipping and enabling our staff to deliver on this promise. SME serves small businesses with an annual turnover of E10m and below.

### Customer Service

Every client is assigned a dedicated Banker at account opening stage, who is responsible for servicing the client and is a point of contact. Customers are serviced through our widely spread branch network consisting of 10 branches, 1 agency and 1 Bureau de Change. Cash withdrawals and balance enquiry are performed on our ATMs which are spread throughout the country. Our electronic platforms, i.e. internet banking and mobile banking app, allow for execution of transactions without any physical interaction with the bank.

### People

The division consists of dedicated and experienced staff compliment of 170 (Personal: 162 and SME: 8). Focus is on client-facing-staff hence the ratio is 70:30 (Front line: Back office).

### Transformation

As a bank, we ultimately want to achieve full digitalisation in terms of service channels.
We also aim at outbound calling, that is, to offer services and cross-selling as an onboarding package.

### Foot print expansion

To meet our objective of creating convenient, cost-effective channels of choice for our clients we installed 4 new ATMs (2015: 5), increasing our overall ATM footprint to 42. Our aim is to add 5 new ATMs in the 2017 financial year.

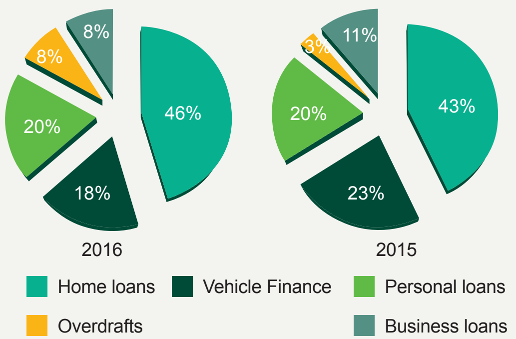
Due to the high ICT costs we have deployed 5 internet kiosks across our branch network. These kiosks allow clients to access a range of services, such as making payments and balance enquiry without incurring any data costs. This is done in a bid to grow transactions and NIR. Investment in new distribution continues as two new branches are scheduled to be opened in 2017.

## Financial Performance

Retail loans and advances increased 16% to E1 657 million (2015: E1 423 million), with new-loan payouts decreasing by 1% to E753 million (2015: E760 million) due to a slowdown in SME, offset by higher Personal payouts of E715 million (2015: E579 million). Asset market share remained flat at 17%. (2015: 17%). Retail deposits increased 1% to E908 million from E899 million in 2015, resulting in loss of market share as it regressed to 21% (2015: 26%), as the market grew at a faster rate than Nedbank.

More individuals continued to own houses as home loans constitute 46% of the total retail loan book (2015: 43%). Savings accounts form 25% (2015: 22%) of retail deposits, this growth has been achieved through the introduction of products which allow saving in groups. Such an initiative helps to entrench the culture of saving as it is a key pillar for sustainability.

**Pie chat: Loans and advances (% contribution)**



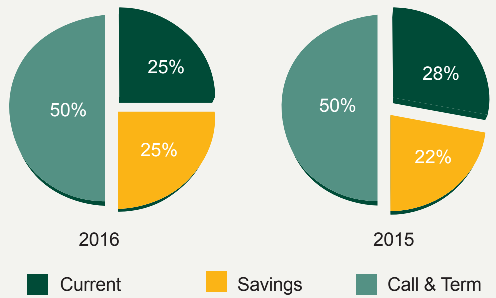

12
BRANCHES

42
ATMS

17%
Retail
Market Share

> "Good progress in quality-client acquisition and improved client retention was reflected as main banked clients increased by 15%"

**Deposits (% contribution)**



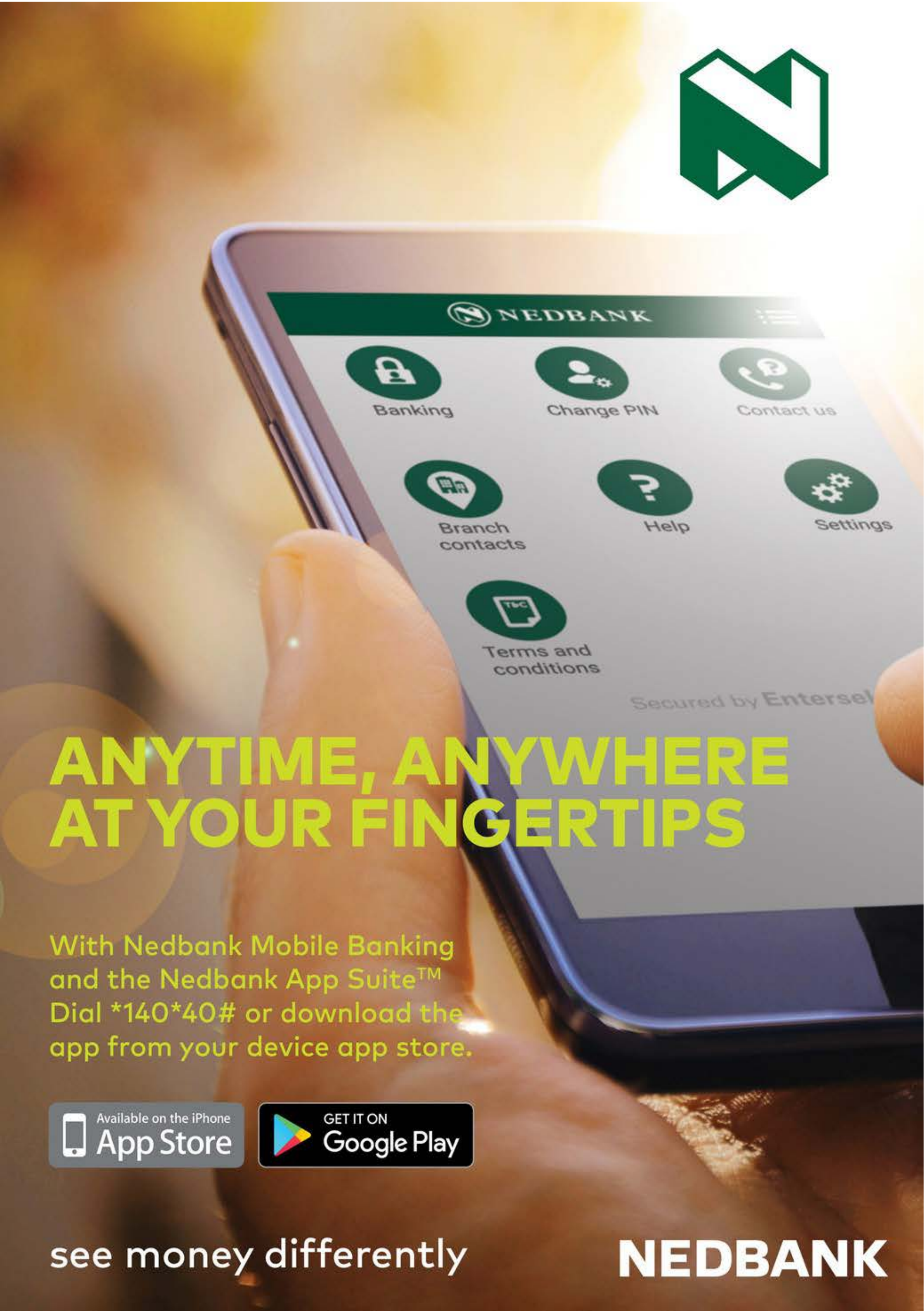

**6 356**
New Individual & SME Customers

Good progress in quality-client acquisition and improved client retention was reflected as main banked clients (both individuals and SMEs) increased by 15%, with 6 356 individuals and small and medium enterprises (SMEs) clients choosing to bank with Nedbank in the current year. In 2016 the bank introduced a Visa Credit Card, which is widely accepted throughout the world. We believe that this product will give the bank a competitive edge in the market.

## Outlook

- Building a sustainable and profitable function through continued selective origination of loans and advances and by growing transactional clients faster than the market through acquisition, retention and cross-selling which will be enabled by:
  - full digitalisation in terms of service channels
  - Relevant Client Value Propositions (CVPs)
  - sales and service excellence
- We will continue to focus on achieving deeper client penetration through enhanced synergies across Wholesale and Business Banking to deliver impactful solutions.
- Deposits remain essential to our business strategy.
- Proactive risk management remains at the heart of our operation and ensuring compliance, especially with regulatory requirements.
- We will leverage on the new core banking platform by plugging in enhanced products and channels.

**Head: Retail**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Help
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# Shared Services Review

> "Following the implementation of our new core banking system, focus is on aligning our processes to deliver our products and services in 2017. A good foundation has been laid for the business to support the expected growth and challenges"

The business landscape is always changing and as a bank, we have to continuously adapt to ensure that we remain competitive. In 2016, the main focus has been the implementation and stabilisation of the new core banking system (Flexcube), keeping costs low and working closely with other business units to ensure that we all serve the needs of our customers and clients. In 2017, our focus will be on identifying and implementing value added services to help our customers benefit from the investment on the new system. As Operations and Information Technology (IT), we will also be focusing on streamlining business processes, while making sure that we contain costs to accommodate the focused business growth. Accomplishing these targets will be achievable as we have put in place the infrastructure and adopted robust plans that will enable the business to continuously grow and remain competitive.

## Overview

Information Technology and Operations form part of the enabling functions that support the business to achieve their objectives. This is achieved by providing robust systems, smart and cost effective processes to enable service delivery to our customers and clients.

Following the implementation of our new core banking system, focus is on aligning our processes to deliver our products and services in 2017. A good foundation has been laid for the business to support the expected growth and challenges. This will be achieved by identifying opportunities and implementing initiatives that will enhance customer experience, to take advantage of the capabilities of the new infrastructure. A deliberate focus will be made at creating efficiencies to derive more value from the infrastructure investment.

The bank will focus on improving the IT and Operation Governance processes to ensure that we achieve optimal risk and compliance. Our goal will be to identify and simplify those processes that will enhance the control environment. Several initiatives, like the back-scanning of customer mandate and security documents, will be a focus for 2017.

## Information Technology

In the banking industry, IT is one of the biggest enablers of any business. In 2016, we implemented an advanced new core banking system, the second implementation in the Nedbank Group Rest of Africa subsidiaries. The implementation of the system was necessary to support, sustain and enable growth and operational excellence. Through robust IT governance processes, the business successfully operationalised the system in May 2016. Teething problems were experienced in the implementation journey, but these have since been adequately resolved. The new infrastructure enabled us to implement the first Mobile Banking Application which came in two platforms; the App and the USSD in November 2016.

This has enabled us to broaden our self-service channels that we offer to our clients, which speaks to our digitilisation strategy. In 2017, we will be adding more capability into the Mobile Banking platform with the implemention of value added services (pre-paid electricity and airtime).

Our IT costs grew significantly in the year under review, which is largely attributable to the new core banking system. However, these costs are an investment in the long-term, as they will afford the business competitive advantage in the market.

To further improve business continuity and reduce IT risk in the operation of the system, an infrastructure project will be implemented in 2017, using the latest technologies in the IT field. The business will utilise robust project governance processes to ensure minimal impact.

In addition to these planned initiatives, other initiatives that seek to strengthen operational excellence and improve our competitive advantage are in the pipeline. These include the upgrading of the hardware, in all of our points of representation, upgrading of other peripheral systems to ensure effectiveness and integration of our processes. These will facilitate continuous improvement in our Service Delivery processes.

Of paramount importance is the development of a Call Centre to complement the deployment of electronic products and to support the business in achieving customer acquisition goals. The Call Centre will be supported by a centralised Switchboard that is targeted for implementation by the end of the first quarter of 2017, which will assist us to have capacity to; absorb customer calls, deliver a seamless service to our clients and also improve the governance of our calls.

## IT Governance

In the IT space, we ensure strong and effective governance, through certain key committees that involve all business stakeholders at the right levels. We have an IT Steering Committee that prioritises, tracks progress and deliberates on project risks and issues. We also have the Joint Operation Forums (JOF), which meet weekly and monthly. The focus is on the progress and prioritisation of IT Incidents and Requirements. The department's Enterprise Risk Committee (ERCO) also meets regularly to review risk management processes and ensures resolution of identified risks.

## Operations

Our Operations function includes; Central Process-ing of all our Payments, Cheque Processing, Reconciliation and Global Trade processing across the business. The main goals of the Operation areas are to:

- implement continuous improvement initiatives in order to ensure excellent delivery of services to our clients
- ensure that control processes are effectively embedded to mitigate any losses
- upskill and ensure that all our teams are empowered

In 2016, the Operations environment focused on stabilising the effect of the changes that came with the new core banking system, and processing efficiencies. These have been implemented to improve turn-around times in transaction processes. Certain functions have also been streamlined to further enhance efficiencies and to improve client experience.

In 2017, our focus will be on identifying continuous improvement, opportunities to optimise efficiencies and further reduce our operational costs, while ensuring that the control environment is effective. A scanning project will be implemented to improve our document management processes.

## Projects

The Shared Services space is also responsible for the delivery of approved projects. There is a robust approval process within the business, which ensures that only projects that will improve efficiencies and support business growth strategies are implemented.

In 2016, the construction of the Tshaneni branch in the eastern part of the country was completed. There arose a need to capture the pipeline coming from that part of the country, hence the construction of that branch.

Several other face-lift projects were done in our main Manzini branch. We have also deployed a number of ATMs in areas, like Nkonyeni, Nhlangano, Buhleni and Tshaneni.

**Projects targeted for 2017 include:**

- The conversion of our Mankayane Agency to a fully-fledged branch
- Deployment of more ATMs
- Deployment of mobile ATMs
- Refurbishment of prioritised branches

> "The goal is to improve efficiencies, manage costs and prioritise initiatives that will drive growth of the business and experience of our customers"

## Outlook

As the business environment keeps changing, our commitment is to continuously adapt systems and processes to remain competitive. The goal is to improve efficiencies, manage costs and prioritise initiatives that will drive growth of the business and experience of our customers.

Carefully selected initiatives have been planned to take advantage of the established system backbone. These initiatives have been strategically mapped to ensure sustainability and enhancement of competitiveness.

**THEMBA MANANA**
Head: Shared Services

# Credit Review

"To support our clients in managing their money well, the Credit team has been resourced upwards to ensure a closer interaction with clients through relationship managers"

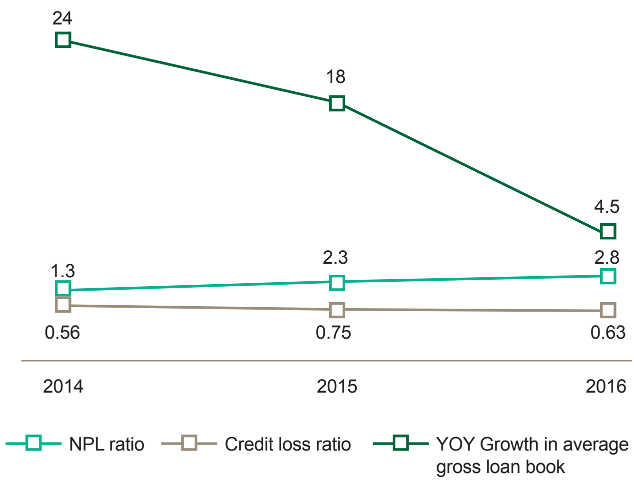
## 2016 Highlights

4.5% — Average loans and advances growth

0.6% — Credit loss ratio

2.8% — NPL to total book ratio growth

**NPL and Credit loss ratio versus loan book growth (%)**




### Lending Book Growth

Despite the unfavourable economic environment which culminated in an estimated negative GDP growth of 0.6%, Nedbank's new loans and advances amounted to E454m (2015: E650m). This was mainly driven by increased utilisation on client overdraft limits, increased home loan book and unsecured personal loans. Due to increased demand for Swazi sugar in the regional markets, a reduced utilisation of facilities from sugar related entities was noted, hence the slowdown in Wholesale loans growth.

Furthermore, due to inflationary and interest rate pressures, and the continued growth of the Import second hand vehicle market, the bank remains challenged in growing the Asset Based Finance (ABF) book. As a result, the ABF book contracted by 4.1% in the year under review.

### Asset Quality, Provisioning and defaulted advances

Nedbank has a well-established, prudent and conservative provisioning policy across all its portfolio to ensure that earnings are not overstated. Nedbank raises full provisions for non-performing loans (NPL) which have a negative security coverage for which the ability to recover on the security is deemed doubtful.

The bank's NPL book grew by 53.4% year on year, and the NPL to total book ratio increased to 2.8% (2015: 2.2%) on the back of an unprecedented drought which has been termed "once in a lifetime", and an increasing interest rate cycle.

The growth in the NPL book is largely concentrated within the Small Medium Enterprises (SME) section of the book. This is largely as a result of SME clients being affected by delayed payments from their debtors. This, in part, is due to the decline in SACU receipts in the fiscal year 2016/2017. Despite the growth in the NPL book, it has not come at a negative cost to the shareholder, as the credit loss ratio (CLR) reduced to 63 bps (2015: 75 bps).

### Regulatory Issues

Nedbank has continued to operate in a well regulated industry and has remained committed to operating within the ambit of legislation. Management has continued to manage professional dialogue with the regulators.

### Consumer Credit Act of 2016

The Consumer Credit Act of 2016 has been passed into law and is due for implementation in 2017. The bank has comprehensively reviewed the Act and is of the view that upon promulgation of the Act, it will not have an impact on the bank's lending practices. The bank reiterates its commitment to comply with all relevant legislation.

### Outlook

The economic climate, as a result of good rains, and budgeted improvement in government revenues coupled with contained expenditure, bodes well for an improved operating environment. Whilst it is still believed that the upward trend in the interest cycle is not over, the improved government fiscus should result in an improved cash flow position for the bank's clients and therefore increased lending opportunities.

An increased effort is targeted to either recover from or rehabilitate clients in the bank's NPL book. To support our clients in managing their money well, the Credit team has been resourced upward to ensure a closer interaction with clients through relationship managers. In these trading conditions, it is even more crucial for the Credit team to be more agile, in order to gain greater first-hand insights into client operations, in an attempt to better serve and guide clients.

With the bank having changed the banking platform, the focus is on leveraging the additional capability through product roll-out. Furthermore, the department will embark on process remapping exercise, in a bid to ensure that maximum operational efficiencies are derived from the bank's new banking platform.

Initiatives to grow high value products such as ABFs and personal loans continue to be the focus in order to ensure that we drive the strategic portfolio tilt process.

In line with the bank's new brand promise of being Money Experts Who Do Good, the need for a paradigm shift in how we see and manage credit risk has become even more apparent. As a result, management has embarked on credit policy reviews to allow the bank to live up to the brand promise.

**MONGI DLAMINI**
Head: Credit

> "In these trading conditions, it is even more crucial for the Credit team to be more agile in order to gain greater first hand insights into client operations in an attempt to better serve and guide clients"

# Human Resources Review

'The focus this year was on the implementation of Flexcube, therefore Learning and Development efforts were focused on equipping our staff to operate the new core banking platform."

### Enabling a Unique and Innovative Staff Culture

The business focus for 2016 has been investing and building to position the business for growth in the future. The implementation of a new core banking platform, Flexcube, was a key focus area, which stretched our people. Our teams were involved in training on respective areas of the system and also in testing the system. Despite this, business had to continue and our teams were able to post a decent performance under trying circumstances. The commitment shown by our people during the implementation of Flexcube was unparalleled as it involved working long hours whilst maintaining client relationships under difficult conditions.

### Values Assessment Barrett Survey

The Barrett Survey measures the culture of an organisation or any group of individuals, as culture is a reflection of the values, beliefs and behaviours of leaders of the group. As expected, our cultural entropy score declined from 9% (2015) to 13% (2016). Whilst this figure is still within healthy entropy levels, it is a statistically significant change that warrants close attention. Employee engagement levels indicate two matches between personal values and current culture, which indicates that our staff is still engaged and productive. Four value matches between current and desired culture still show that the bank is on the right track. There were no potentially limiting values recorded this year once again.

### Organisational Climate - NSS Survey

The Nedbank Staff Satisfaction Survey (NSS) is intended to gain an understanding of the overall corporate climate and working environment within Nedbank. It is designed to measure staff perceptions and organisational performance on various HR, organisational development and transformational levels.

A business decision was taken not to run the Nedbank Staff Satisfaction survey this year as there are developments underway to replace the survey with a new one in line with the bank's brand essence. The new survey is called the Nedbank Compass and it will run in May 2017.

### Investing in our People

The focus this year was on the implementation of Flexcube, therefore Learning and Development efforts were focused on equipping our staff to operate the new core banking platform. Coupled with this, product knowledge training for frontline staff was delivered to ensure alignment with the new system. Relevant staff members were also trained on the new Credit Card offering.

Investment in building leadership capability continues through the following training and development programmes:

- Business Education Programmes (BEPs)
- Executive Education Programmes (EDPs)

- Graduate Development Programme
- Internal study loans through the Education Policy
- Coaching

The bank's offering in this regard is currently under review, with a view to incorporating more on-the-job learning experiences. This approach is preferred as a way to create a culture of continuous learning by enabling the application of knowledge through experiential learning. The bank remains committed to investing in the growth of our people in order to derive value for the business and our staff members.

### Effective Talent Management

Due to the focus of the business being on the roll-out of Flexcube, the implementation of a talent management framework has been deferred to the 2017 financial year.

### Rewarding for Performance

The Balanced Scorecard is still the bank's preferred approach to managing performance and to continuously improve our business. This year saw the introduction of an additional perspective on Innovation and Transformation to this end. Sales effectiveness methodologies in our Retail and Wholesale Banking divisions and the effective measurement thereof, continue to drive performance.

The Total Reward principles that underpin our Remuneration philosophy remain comprehensive, with our Employee Share Ownership Scheme members continuing to benefit from the vesting of shares on the Scheme. The other components remain unchanged and include Base Pay, a Short Term Incentive (Bonus Pay), subsidised staff loans and merit pay.

### Sustainability Through Employee Well-being

The bank has continued to provide employee wellness facilities through ICAS and other service providers. This includes counselling, Voluntary Counselling and Testing and other wellness checks.

### Ensuring harmonious relationships

The industrial relations climate was particularly difficult during the financial year, due to protracted salary negotiations and the implementation of a job evaluation and salary review exercise.

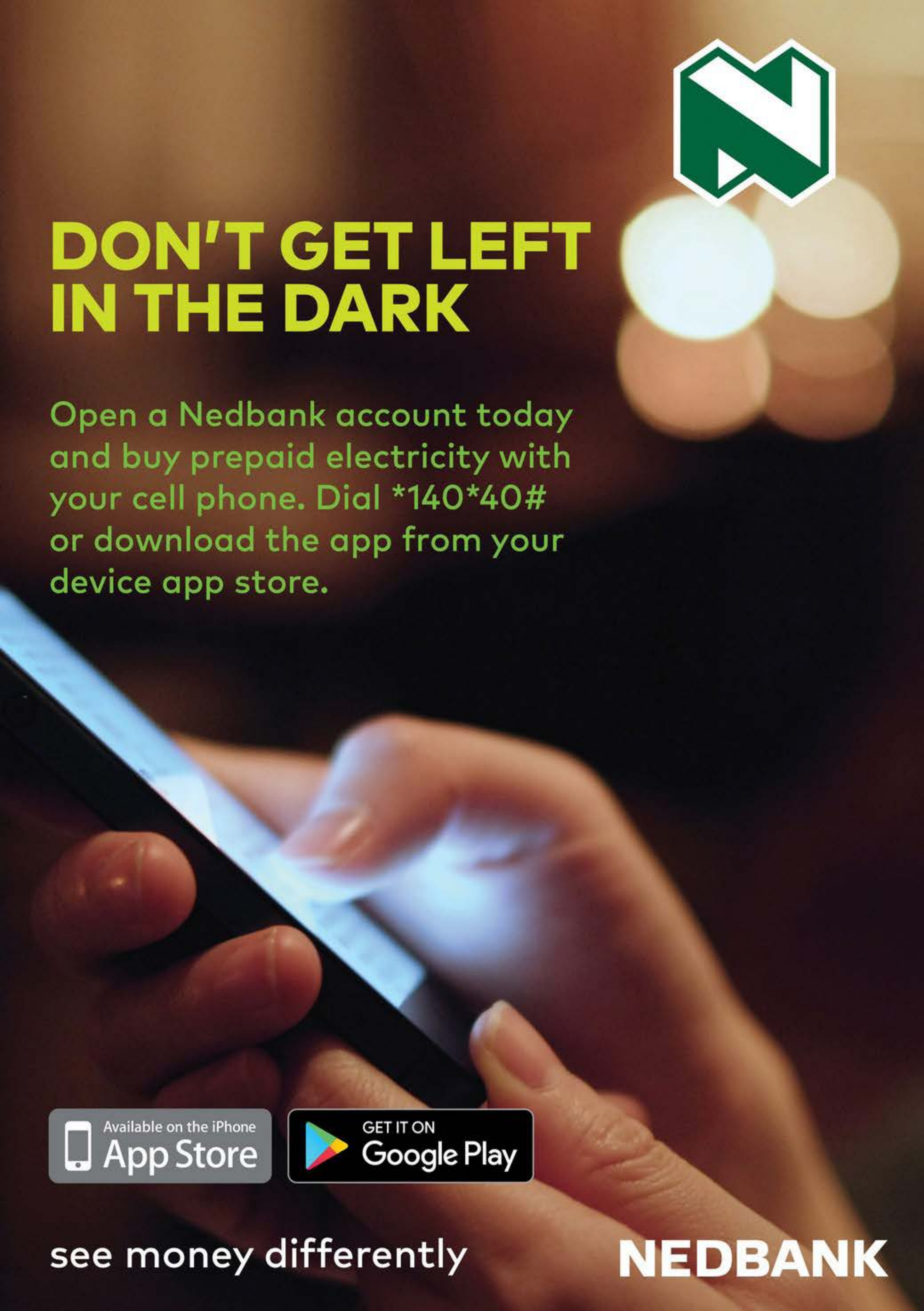
Over the financial year internal and external dispute resolution processes have been used to address disputes and to handle employee disciplinary matters. The MD has also embarked on Roadshows to engage the business on performance and other topical issues. A roadshow was also conducted to educate our staff on the operations of the bank's pension fund. MANCO members also individually participate in a branch visitation programme to engage staff members as adoptive "parents" of the branch.

## 2016 Focus Areas

Leadership transformation is a key focus area of the business going forward, with a view to creating awareness in our leaders of the behavioural changes required to change our culture to the desired state. As such the following initiatives will be our focus from a people perspective:

- A change leadership programme
- Performance management training for managers
- Educating management on the Nedbank Remuneration Philosophy

**MUZIWANDILE MAGAGULA**
Head: Human Resources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# Governance, Risk & Assurance Review

"Following the implementation of our new core banking system, focus is on aligning our processes to deliver our products and services in 2017. A good foundation has been laid for the business to support the expected growth and challenges"

The operating environment is increasingly evolving through continuous introduction of new regulatory standards by regulators. The bank values regulatory standards as an integral component of its business activities and believes that adherence to regulatory requirements also affords the bank with an opportunity to enhance value creation.

The ever-changing regulatory environment has made it necessary for the bank to develop robust processes to facilitate rapid response to regulatory changes. This has enabled the bank to develop and strengthen its risk management practices and support a high performance culture.

## King III

The bank has over the years committed itself to aligning with recommendations outlined in the King Code Governance Principles (King III). In November 2016 King IV was published and expected to be effective on 1 April 2017. Substantial progress has been achieved with regards to applying those principles that were practical for implementation in our business environment. With effect from 2017 year end the bank will be making its disclosures in alignment with King IV and the bank will develop a programme for transition from King III.

As at the reporting period most of the principles in King III were being applied save for some principles where the bank was only able to achieve partial application. A full evaluation of the principles was conducted and the evaluation identified the principles that the bank was implementing fully and those not yet applied.

**The principles that have been determined to be currently not in application are that:**

- The chairman is a non-executive director but not an independent director. The chairman is appointed to Board in accordance with the shareholder's agreement.
- Not all members of the Directors Affairs and Remuneration Committee are independent non-executive directors.
- The chairman of the Directors Affairs and Remuneration Committee is a non-executive director.

## Governance and Compliance Culture

The bank's Governance & Compliance function has the overall responsibility for ensuring that the bank operates in conformity with regulatory standards applicable to the operating environment. This is achieved through a programme of compliance that:

- Promotes a culture that brings about an awareness and recognition of the value of compliance risk, identification, measurement, monitoring and reporting as part of daily business activities.
- Ensures ongoing compliance with legislation, regulations, codes and applicable policies.
- Effective independent compliance monitoring.
- Enhances effective management of relationships with all regulatory authorities.
- Encourages compliance with corporate governance standards.

### Corporate Governance Strategy

The board periodically holds strategy sessions with management develop the corporate strategy plan using a rolling approach. The joint sessions ensures that there is adequate alignment between the board objectives and management approach to implementing the corporate strategy objectives. The board is able to periodically review the performance of the bank against the set strategic objectives to ensure that the business achieves the identified goals. The periodic review takes place on a quarterly basis whilst management tracks progress on a monthly basis. The Board is satisfied that the process of crafting the strategy was thorough and sufficiently broad to embraced both financial and non-financial targets.

### Board of Directors

The composition of the board complies with the minimum requirements that are stipulated in the Financial Institutions Act, 2005 that require that the Board should be composed of not less than 5 members and not more than 15 members of which 50% should be Swazi citizens. The board has also embraced the principles of King III and it seeks to apply best practice standard. In this regard it has continuously evaluated the composition of the board to align with the corporate governance principles.

There was an increase in the number of non-executive directors as these now form 75% of the Board compared to 66% in 2015. Independent non-executive comprise 50% on the non-executive directors and the Board has identified this as an area of improvement. King III recommends that independent non-executive directors should be a majority of the non-executive directors.

### Board appointments and evaluation

The Board implemented some changes in 2016 through the appointment of two directors to replace retired directors. These appointments were informed by feedback received from ongoing Board evaluation and assessments to ensure that the Board has balanced skills and experience.

The banks statutory documents and existing governance documents inform the process of Board appointments. The Board, in fulfilling the role of appointing directors to the Board, considers other relevant governance related instruments such as the shareholders agreements. The Board appointments are conducted by the Board with the assistance of the Directors Affairs and Nominations Committee. Whilst the chairman of the Board is nominated for appointment by the Swaziland Government by virtue of the shareholder's agreement, the Board is satisfied that the eventual appointment is sufficiently transparent and takes into account the need to balance the knowledge and expertise in the Board.

The Board periodically carries out self-assessments to evaluate the effectiveness of the Board as a collective. The issues that were identified for improvement were monitored on an ongoing basis and kept as part of the Board agenda.

The Board has identified challenges of skills shortage with regards to executive appointments and revised its succession plan. The skills shortage contributed to the delays in the appointment of the chief risk officer and other positions.

### Board Committees

The Board committee structure has been put in place to ensure that the Board is adequately assisted in carrying out its duties and obligations. The committees operate within set governance frameworks and each have a charter that is reviewed on an annual basis for adequacy. The boards currently in place include:

- Audit Committee;
- Directors Affairs and Remunerations Committee; and
- Risk, Compliance and Loan Review Committee.

> "Following the implementation of our new core banking system, focus is on aligning our processes to deliver our products and services in 2017. A good foundation has been laid for the business to support the expected growth and challenges"

There are in place technical committees that exist within the executive committee structure that are mandated to implement the corporate strategy in a responsible manner. The committees include:

- The Asset and Liability Committee;
- Enterprise Risk Committee;
- Information Technology Steering Committee;
- Credit Committee; and
- Strategy Committee.

### Chairman and the Managing Director

The Board is chaired by a non-executive director that was appointed in accordance with the Board of Directors' Charter. The Chairman has a distinct role from the executive function that is discharged by the Managing Director. The Director's Charter provides for the roles to be separate in accordance with the requirements of the Financial Institutions Act, 2005 and King III. The separation of the roles ensure that there is a proper balance of authority and power. This promotes responsibility, accountability and transparency as there is no one individual that that has unlimited decision making powers. The demarcation on the roles however does not prohibit the interaction between the Board and Executive Management. This is to ensure that the two sufficiently work in collaboration for the attainment of the bank strategic objective.

### Company Secretary and Director Development

The introduction of the Flexcube core-banking system brought about implementation challenges that necessitated the Board to be regularly provided with technical information on the system. Targeted awareness sessions were arranged to create the necessary appreciation of the system. The evolving environment presents new challenges and targeted training to address these gaps were implemented. Areas of focus in the year included anti-money laundering, risk management, technology and remuneration practices. The Board has identified issues for focus in the ensuing year as being cyber security training, remuneration practices, corporate governance and risk management.

All new non-executive Directors are informed of their duties and responsibilities through an induction programme run by the Company Secretary. The induction programme was revised to ensure that it addresses the expectation of the new non-executive Directors. The induction programme has been expanded and spans across several weeks. In the course of the induction the new directors interact with senior management wherein they are also informed of the bank's strategies.

### Board Meetings

The Board met 4 times over the year in accordance with the Board Charter. The Board is satisfied that the number of meetings held were adequate to meet with the demands of the business. The number of meetings met the minimum number of meetings prescribed by the Financial Institutions Act, 2005.

### Code of Ethics

The bank is a value driven organisation that firmly believes in conducting all its business dealings with honesty and integrity. The bank has developed organisational values that provide a framework on which the culture of the organisation is built. The bank's code of ethics, which is binding to the Board and to all employees, seeks to provide for a framework that addresses issues such as conflict of interest, outside/external involvement, gifts and insider trading.

Adherence to the code of ethics is continuously monitored through the various risk functions including Operational Risk, Internal Audit and Compliance. A confidential reporting system has been provided to all employees in order to encourage the reporting of unethical behavior. There were no reported instances of breach of the code of ethics during the year. The bank seeks to promote observance of the code of ethics through periodic awareness sessions and by requiring employees to commit to the code of ethics on an annual basis.

The Board of Directors reviewed and signed the Board ethics statement. The Board undertook to be bound by the ethics statement on an individual and collective basis.

## RISK

> "The close involvement of stakeholders, especially the collaboration with specialist units within the group, has yielded a number of opportunities in new growing sectors"

### Enterprise Wide Risk Management

The role of the risk management function is to identify, assess, measure and manage those risks that arise in the pursuit of the bank's strategic goals. In pursuit of earning sustainable shareholder returns, we must carefully balance performance, growth and risk.

Nedbank Swaziland has adopted the Enterprise-wide risk management approach that aligns the bank's strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the opportunities, uncertainties and threats the bank faces. It involves integrating risk management effectively, across the bank's risk universe and business units. The risk strategy in place is there to align and assist business unit's achieve strategic and business objectives.

Risk management is an integral part of our business. We do not seek to avoid risk but to understand it properly, manage it effectively, and evaluate it in the context of the reward that is being earned. Our emphasis is on producing high quality earnings which are sustainable and will ultimately attract a premium rating for the Nedbank Group Limited, and protect the interests of shareholders, depositors and all other stakeholders.

### Risk management strategies

In pursuit of the bank's strategic goals the bank is exposed to various types of risks and the following are the significant risks types that the bank faces ***(see illustration 1 on page 00).***

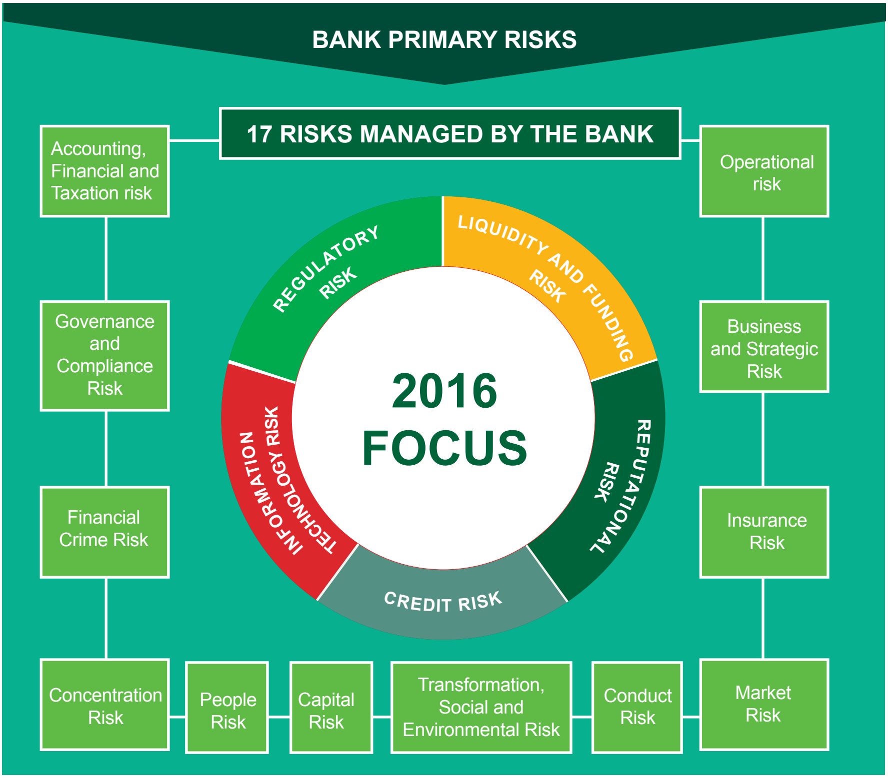


***Illustration 1***

The risk universe is composite of 17 risk types and categories, across all business units, functions and geographical locations in which the bank operates, with the aim of supporting business objectives while safeguarding against inherent risk. These risks are a coverage of the 26 risk types described in Regulation 39 of the Banks Act) (ERMF risks).

The bank manages these risks through a risk framework that enables management to identify and manage risks within board – approved risk appetite and set risk tolerance levels. This risk management framework comprises:

- Risk governance committees at board and managerial level
- A management organisation structure to support the three lines of defense model
- Governance standards for each risk type, detailing risk principles and minimum control requirements
- Policies and procedures to support the governance standards

| Type of Risk | What happened in 2016? | Looking ahead |
|---|---|---|
| **Funding and liquidity** | ■ The bank's long-term funding ratio improved to 7% (2015: 6%), against a target of ≥ 5%. supported by growth in Wholesale funds.<br>■ The bank's Loan to Deposit Ratio (LDR) is 85% (2015: 92%), which is in line with the set target, the bank maintained appropriate operational buffers to absorb seasonal and funding requirements.<br>■ Quick-liquidity sources portfolio amounted to E1.2 billion (2015: E859 million) representing 36% (2015: 28%) of total deposits.<br>■ The minimum liquidity reserve regulatory requirement increased from 20% to 25% in 2016 and the bank was compliant as we were holding 33% liquid assets against total deposits.<br>■ The top 10 depositors formed 34% (2015: 35%) of total deposits, which is within the bank's set limit. | ■ Our aim is to maintain a strong liquidity position by optimising the funding profile.<br>■ The bank is positioning itself to maintain LDR within its own internal set threshold.<br>■ Lengthening of the maturity profile of our deposits remains a key focus area. This is in line with the bank's strategy of im-proving the funding mismatch. |
| **Reputational Risk** | ■ In 2016, there were a few events that nece-ssitated that we adopted a heightened focus on the business. The changing of the core banking system came with teething challenges that posed a tangible threat to our business and it became key that we managed the risk from the transition to the new system. The Flexcube team was consistently available to address system issues to ensure that our clients concerns were attended to within the shortest timeframes.<br>■ The brand change was also a risk that the business started monitoring in 2016 in terms of finding ways to mitigate the transition into the new brand in 2017. The brand risk continues to be monitored as the brand transition is a journey for the business and requires continuous client interventions to ensure client issues are managed to deliver compelling value propositions to our clients. | ■ The bank continues to focus on addressing client issues resulting from the change of the core banking system and embracing the transformation journey that has begun with the brand change.<br>■ The brand change is a major change for the business as this will inform the operating model going forward.<br>■ Reputational risk remains high in our risk management strategy and will continue to be managed effectively to deliver value to our clients. |
| **Information Technology Risk** | ■ The year 2016 was critical for the Bank, as it implemented a new core banking system. Through the use of audit, the readiness of the environment was tested before, during and after the core banking system's implementation.<br>■ In addition, a new mobile application was launched in November 2016, which was a good test for the processes that have been embedded in the operations to manage IT risk.<br>■ Overall, we managed to achieve approximately 98% availability for all client facing systems during the year. | ■ In 2017, we will be refreshing some of our infrastructure to improve assurance and reliability.<br>■ Most of the legacy systems will be replaced with newer and improved systems in the Processing Centre and also at the Disaster and Recovery site. |

| Type of Risk | What happened in 2016? | Looking ahead |
|---|---|---|
| **Credit Risk Management** | ■ Despite the challenging economic environment and the fact that the bank changed its banking platform during the year, the bank was able to effectively manage its credit loss ratio within the acceptable levels and also achieved a decline in the impairments charge compared to previous year while achieving a marginal growth in its lending book.<br>■ To capacitate the credit department as an enabler, the bank reviewed its credit committee mandate and creit managers' lending mandates.<br>■ The bank also embraced its initiative of obtaining more understanding of its clients' needs and ensuring fast tracking deal applications by combining credit personnel's with relationship managers. | ■ The credit department will be engaging with business to formulate a credit strategy that will further improve the credit departments' effectiveness in assisting the bank to achieve its strategic objectives.<br>■ Amongst the credit strategy initiatives will be to relook at the banks products offerings, defining the bank's credit risk appetite and a holistic review of the credit department's structure.<br>■ Knowledge sharing between credit and business will also be adopted as a practice that will improve efficiencies end ensure better service and effective credit risk management. |
| **Regulatory and Compliance** | ■ The bank continued to capacitate the compliance function by adopting a compliance structure that is fully dedicated on compliance and AML, CFT and Sanctions risks.<br>■ The banks staff was trained and further sensitised on managing the AML, CFT and Sanctions risks as well as monitoring and reporting suspicious transactions.<br>■ The bank was assisted by Group to deploy a number of automated tools that assist in identifying suspicious transactions and raise alerts for further investigation.<br>■ Initiatives for improving client's knowledge through KYC remediation and enhancement of the banks clients' records maintenance and retrieval process were undertaken. | ■ The bank is moving towards ensuring effectiveness of its controls in managing AML, CFT and Sanctions risks and it is looking at developing a flight plan that will have key initiatives to be implemented during the 2017 financial year.<br>■ Automated solutions that will improve the bank's ability to rate both its existing and new clients have been identified.<br>■ A committee that will be dedicated to manage the AML, CFT and Sanctions risks will be developed as well as a High Risk Client Committee.<br>■ There will be a huge focus on ensuring that training on AML, CFT and Sanctions is done by all employees and the culture of managing these risks is fully embedded in all employees. |

The bank uses the industry standard's three lines of defence model which is structured as follows:

| Defence | Line of Defence | Responsibilities |
|---|---|---|
| First line of defence | ▪ Main Board<br>▪ Remunerations Committee<br>▪ Risk, Compliance and Loans Review Committee<br>▪ Management Committee<br>▪ Credit committee<br>▪ HR Committee<br>▪ Heads of Business Units | ▪ Measures, assesses and controls risks through the day-to-day activities of the business within the governance framework. |
| Second line of defence | ▪ Finance function - ALCO<br>▪ Risk management function and Enterprise Risk Committee<br>▪ Legal function<br>▪ Governance and assurance function | ▪ Supports the governance framework<br>▪ Provides independent oversight of the first line of defence<br>▪ Reports to management and board governance structures |
| Third line of defence | ▪ Internal Audit function<br>▪ External Audit<br>▪ Other external assurance providers | ▪ Supports the governance framework<br>▪ Provides independent assessment of first and second lines of defence<br>▪ Reports to Audit Committee |

Nedbank Swaziland manages these risks through a risk framework that enables management to identify and manage risks within board – approved risk appetite and set risk tolerance levels. This risk management framework comprises:

- risk governance committees at board and managerial level
- a management organisation structure to support the three lines of defence model
- governance standards for each risk type, detailing risk principles and minimum control requirements
- policies and procedures to support the governance standards

The bank uses the industry standard's three lines of defence model which is structured as follows:

### Achieved in 2016

The bank has embraced the view to make Risk an Enabler. This means that our risk strategies, policies and structures are geared to support business meet its strategic and operational objectives, without encumbering it with unmanageable and taxing processes.

The bank's target for 2016 was to embrace the culture of risk management through developing risk management structures within its different business units. This was achieved by developing Business Unit Enterprise Risk Management Committees (ERCOs). These committees were established during the year together with their charters. The main tool that is used by these committees is the Risk Control Self-Assessment (RCSA) tool. This tool helps the business units in identifying risks that are inherent to the operations of the department and formulating policies and processes and designing controls that will result in effective management of those identified risks.

Value adding initiatives and enhancements to the audit methodology maintained sustainable value creation to business and ultimately to the bank's clients with the roll out of Root Cause Framework. This helps management focus resources to the right areas that will contribute towards finding permanent solutions.

The Audit function has also implemented the Risk and Control Culture Assessment (RCCA) which provides management with a view on how the audit business unit responds and embraces risks in their day to day operations. This has created value for management to proactively manage the organisational culture, which has been identified as a root cause to many recent financial scandals that have contributed to great loss in the banking industry.

In line with the principles of King III, Internal audit provide a written assessment of the effectiveness of the company's systems of internal controls and risk management. This is done annually, presented at the Audit Committee, and is based on work performed throughout the year on the Bank's various business units. During the period under review, nothing has come to the attention of Internal Audit that adversely affects the adequacy and effectiveness of the Bank's systems of internal control. The risk and control culture within the bank has been rated as "Good".

### Assurance Outlook

- With the implementation of the new core banking system, there is an anticipation of an improving control environment, with the system bringing in efficiencies through automated controls.
- The audit methodology is being reviewed for better efficiencies and corporate changes brought about by the Institute of Internal Auditors and recommend best practices.
- The Combined Assurance Framework is currently being developed and will be rolled out to Business in 2017.

### Risk Outlook

To further embrace the risk management culture and improve effectiveness in risk management the bank has introduced the following initiatives for 2017.

- Continuous alignment of the risk function throughout the different business units in the bank.
- Continuously evaluate the effectiveness of the bank's risk management strategies and ensuring that the control environment has been enhanced.
- Develop structures and strategies of managing the rapidly growing cyber risk that emanates from the banking platforms and channels.
- Ensuring that all the required policies and procedures are aligned with what has to be done to manage the identified risks.

**LEONARD DLAMINI**
Chief Risk Officer

# Corporate Social Investment Review

The bank recognises that it has a responsibility not only to be good with money, but more importantly to do good with it. Our core purpose as a bank is, therefore, to use our financial expertise and leverage our lending capabilities to do good for individuals, businesses and society throughout Swaziland, where we can deliver a positive impact. For Nedbank Swaziland, Corporate Social Investment (CSI) represents our multi-faceted approach to the responsibilities we have to the communities in which we operate. For this reason, we consider it one of our primary responsibilities to demonstrate our commitment to, and effectiveness in, responding appropriately to the sustainability challenges of our communities.

Overall, Nedbank Swaziland contributed more than E1.6 million to various organisations and companies through its CSI programme during the year under review.

**Major initiatives include the following:**

- **Nedbank (Swaziland) Limited Scholarship Fund Programme** - The bank established the programme in order to avail full scholarship funding to academically capable but economically disadvantaged Swazi citizens who are enrolled at the University of Swaziland in the Faculty of Commerce. In 2016, two students were selected to complete their first degree with the University of Swaziland. This aligns with our goal of Education, as we understand that no country can achieve sustainable economic development without substantial investment in human capital.

- **ENACTUS** – The bank has been investing in the ENACTUS Swaziland programme for the past 8 years. This programme helps tertiary students gain practical understanding of economics and entrepreneurship while developing a culture of ethical business conduct. Our annual investment helped train hundreds of students to develop effective community outreach projects that focus on market economics, entrepreneurship and financial literacy, among others.

- **Woman Farmer of the Year Competition** – As a caring organisation that is deeply committed to improving the lives of people in communities in Swaziland, the bank is very pleased to have partnered with the Woman Farmer Foundation in hosting the Woman Farmer of the Year Competition which has been an annual event since 2007. The Woman Farmer Foundation empowers women through expanding their knowledge base, information dissemination, training and education in agriculture and farming.

- **Sibebe Challenge** - Hosted in partnership with the Mbabane/Mbuluzi Rotary, this long-standing relationship dates back to over a decade ago. The partnership has yielded a synergy in the efforts of both organisations towards making a positive contribution and impact in various communities. The proceeds from the challenge benefit the Sibebe Community Trust Projects and beneficiaries include the club-foot projects at Mbabane Government Hospital, schools and the surrounding communities.

- In the Health sector, our CSI programme has assisted various organisations towards the building of healthy communities. Beneficiaries include the Swaziland Breast Cancer Network, Swaziland Hospice at Home, Cheshire Homes of Swaziland, Hope House, SOS Children Village, Emmanuel Khayalethu Foundation.

- In order to promote the development of Sport in the country, Nedbank partnered with various institutions to create positive upliftment through Sport. These include the King's Golf Cup, Nedbank Corporate Golf Day, Swaziland Golf Union, Nedbank Swaziland's Imvelo MTB Classic, Swaziland Swimming Association and major running events such as Tuff One Race and Trelawney Park KwaMagogo Marathon, among many others.


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Banking
Change PIN
Contact us
Branch contacts
Help
Settings
Terms and conditions
Secured by Entersekt
ANYTIME, ANYWHERE
AT YOUR FINGERTIPS
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and the Nedbank App Suite™
Dial *140*40# or download the
app from your device app store.
Available on the iPhone
App Store
GET IT ON
Google Play
see money differently
NEDBANK


Annual
Financial
Statements
for the year ended 31 December 2016

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# Directors' Responsibility Statement
for the year ended 31 December 2016

The directors are responsible for the preparation and fair presentation of the financial statements of Nedbank (Swaziland) Limited, comprising: the statement of financial position at 31 December 2016, statement of comprehensive income, statement of changes in equity, statement of 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 the manner required by the Swaziland Companies Act.

The directors are also responsible for such internal control as the directors determine what 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 company 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 or not the financial statements are fairly presented in accordance with the applicable financial reporting framework.

## Approval of financial statements

The financial statements of Nedbank (Swaziland) Limited, as identified in the first paragraph, were approved by the board of directors on 9 March 2017 and signed on its behalf by:

**B C F Mhlongo**
*Chairman*

**F M Nkosi**
*Managing Director*

# Independent Auditors’ Report To the Shareholders of Nedbank (Swaziland) Limited

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Nedbank (Swaziland) Limited (the bank) set out on pages 4 to 69, which comprise the statements of financial position as at 31 December 2016, and the statements of 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 the directors report.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the bank as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Swaziland Companies Act.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the bank in accordance with the Swaziland Institute of Accountants Code of Professional Conduct (SIA Code) and other independence requirements applicable to performing audits of financial statements in Swaziland. We have fulfilled our other ethical responsibilities in accordance with the SIA Code and in accordance with other ethical requirements applicable to performing audits in Swaziland. The SIA 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.

.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| **IMPAIRMENT OF LOANS AND ADVANCES TO CUSTOMERS** | |
| Refer to note 2.1 to the financial statements<br><br>The provision for the non-recoverability of the non-performing loans originally advanced by the bank to its customers is a critical area of judgement and estimation in the preparation of the accounting records of the bank. The bank monitors the performance of its loans and advances through monthly meetings. The provision is determined by management based on their view of the non-recoverability of the loans and advances. The provision is also checked to ensure that it has been calculated in terms of the Central Bank of Swaziland circular number 8. | As part of the audit we have performed control testing surrounding the management of the loans and advances. The audit team further tested a sample of non-performing loans to establish that the provision in respect of the non-recoverability of the non-performing loans had been adequately calculated and raised as a provision. |

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| **SUSPENSE ACCOUNTS** | |
| Suspense accounts are used by the Bank in the processing of its day-to-day transactions. Suspense accounts are a risk to the bank as any error, intentional or unintentional, could be carried in a suspense account. Management reconcile these suspense accounts on a monthly basis. | As part of our audit we audited the year end reconciliation and followed through items appearing on the reconciliation to their subsequent reversal in the new accounting year. We assessed the time that the items appearing in the suspense account took to clear for reasonableness. Any remaining items were investigated. |

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| **IMPLEMENTATION OF FLEXCUBE OPERATING SYSTEM** | |
| The Bank in the current financial year implemented a new operating system Flexcube to replace the old Globus system. The implementation of the new system had an impact on the way the bank processes it's back room transactions. This affects the calculation of revenue, interest expense, impairment of loans and management and monitoring of suspense accounts. | The Nedbank Internal Audit team performed procedures in the 2016 financial year to test the migration of information taken onto the Flexcube operating system. The KPMG audit team reviewed these reports and investigated any variances. |

***Other Information***

The directors are responsible for the other information. The other information comprises the Annual Report, which is expected to be made available to us after the audit sign off date. Other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information 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 auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of the Directors for the Financial Statements***

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

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**VM Nkabindze**
Partner

The Directors have pleasure in submitting their report together with the financial statements of the bank for the financial year ended 31 December 2016.

**State of affairs**

The company, which is incorporated in the Kingdom of Swaziland, is a bank operating commercial branches and agencies throughout the Kingdom.

The state of affairs of the bank at 31 December 2016 and the results of its operations for the year then ended are fully set out in the financial statements.

**Share capital**

The authorised and issued share capital is 26 650 000 (2015: 26 650 000) and 24 640 134 (2015: 24 640 134) ordinary shares of 50c each respectively. The paid up value of the issued share capital increased to E12 305 277.

In terms of Section 20(1)(a)(iii) of the Financial Institutions Act 2005 ("the Act"), which came into operation on 26 October 2005, the sum of capital and reserves shall not be less than eight per cent of the sum of the bank's risk weighted assets computed in the manner prescribed by the Central Bank of Swaziland from time to time by notice in the Gazette.

As at 31 December 2016 the bank's risk weighted assets totalled E3 262 million (2015: E2 859 million) requiring a minimum capital of E260.9 million (2015: E228.7 million). This requirement has been met as the bank's regulatory capital and reserves totalled E706.5 million (2015: E590.6 million) providing a capital adequacy ratio of 21.7% (2015: 20.7%).

A further requirement under Section 20(1)(a)(i) of the Act is that a financial institution is required to maintain capital of at least five per cent of its liabilities to the public in terms of the most recent statement of financial position prepared in accordance with Section 35. As at 31 December 2016 the bank's total liabilities for which liquidity is required totalled E3 303.7 million (2015: E3 069.6 million) requiring a minimum capital of E165.2 million (2015: E153.5 million). This requirement has been met as the issued capital and reserves of E659.2 million (2015: E567.6 million) are enough to cover both the and the Section 20(1)(a)(i) requirements providing a ratio of 21.4% (2015: 19.2%).

**Results of operations**

The bank recognised a profit after tax for the year under review of E121 098 883 (2015: E115 204 732).

**Transfer to statutory reserve**

In terms of Section 20(1)(a)(ii) of the Act, the bank is required to transfer not less than 10% of its net profit to a statutory reserve account until the balance in this reserve account is equal to its minimum required capital. Accordingly an amount of E12 109 888 (2015: E11 520 473) is transferred to the Statutory Reserve.

**Board of Directors**

The directors who served during the year under review were:

| Name | Position as Director | Date Appointed as Director | Date resigned/retired as director (where applicable) |
|---|---|---|---|
| Mr B C F Mhlongo | (Chairman) | January 2012 | |
| Mr S Beyers | Non Executive Director | February 2008 | |
| Ms N R Hlatshwayo | Non Executive Director | | March 2016 |
| Ms F Nkosi | Managing Director | November 2010 | |
| Mr A Sutton-Pryce | Executive Director | May 2014 | |
| Mr P Sekyiamah | Executive Director | May 2015 | |
| Mr M Maziya | Non Executive Director | August 2015 | |
| Ms V N Nkambule | Non Executive Director | August 2016 | |
| Mr M D Mthembu | Non Executive Director | August 2016 | |
| Mr P Gwebu | Company Secretary | May 2008 | |

**Committees of the Board**

**Audit Committee**

Mr M Maziya (Chairman)
Mr S Beyers
Mr A Sutton-Pryce

**Risk, Compliance and Loan Review Committee**

Mr S Beyers (Chairman)
Mr M Maziya
Mr P Sekyiamah

**Directors Affairs and Remuneration Committee (incorporating nominations)**

Mr A Sutton-Pryce (Chairman)
Mr S Beyers
Mr M Maziya

The addresses of the Company Secretary and registered office are as follows:

| Registered Address | Business Address | Postal Address |
|---|---|---|
| NedCentre Building<br>Corner Dr. Sishayi & Sozisa Roads<br>Mbabane H100<br>Swaziland | NedCentre Building<br>Corner Dr. Sishayi & Sozisa Roads<br>Mbabane H100<br>Swaziland | PO Box 68<br>Mbabane<br>Swaziland |

**Holding company**

The bank's immediate holding company is Nedbank Limited, registered in the Republic of South Africa and a wholly-owned subsidiary of Nedbank Group Limited. The ultimate holding company is Old Mutual Plc., registered in the United Kingdom and listed on the London, Johannesburg, Malawi, Namibia, New York and Zimbabwe Stock Exchanges.

**Independent auditors**

At the annual general meeting, the shareholders will be asked to determine the remuneration of the auditors, KPMG, in respect of the past audit and to appoint auditors until the conclusion of the next annual general meeting.

**Dividends**

Details of dividends appear in note 4.2 to the financial statements.

**Events after the reporting date**

No material events have occurred between the reporting date and the date of this report.

**Investment in associate**

For the investment in Swaziland Automated Electronic Clearing House Limited (SAECH) refer to note 11.

# Statement of Comprehensive Income

for the year ended 31 December 2016

| | Note | 2016<br>E | 2015<br>E |
|---|---|---|---|
| Interest income | 2 | **354 786 208** | 283 888 827 |
| Interest expense | 2 | **(117 925 474)** | (88 485 768) |
| **Net interest income** | | **236 860 734** | 195 403 059 |
| Impairment charge on loans and advances | 2.1 | **(15 364 916)** | (16 753 903) |
| **Income from lending activities** | | **221 495 818** | 178 649 156 |
| Fees and other commission income | 2.2 | **129 385 474** | 128 938 097 |
| Other income | | **11 806 255** | 9 582 705 |
| Foreign exchange trading and dealing gains | | **20 940 960** | 16 091 125 |
| **Income after impairment of advances & interest expense** | | **383 628 507** | 333 261 083 |
| Operating expenses | 2.3 | **(211 830 950)** | (171 163 044) |
| **Profit before taxation** | | **171 797 557** | 162 098 039 |
| Income tax expense | 3.1 | **(50 698 674)** | (46 893 307) |
| **Profit for the year** | | **121 098 883** | 115 204 732 |
| **Other comprehensive income** | | | |
| Items that will not be reclassified to profit or loss | | | |
| Re-measurements of defined benefit liability | | **(1 721 000)** | 6 978 000 |
| Related tax | | **473 275** | (1 918 950) |
| **Total other comprehensive income** | | **(1 247 725)** | 5 059 050 |
| **Total comprehensive income** | | **119 851 158** | 120 263 782 |
| Basic earnings per share (cents) | 4.1 | **491** | 468 |

## Statement of Changes in Equity
for the year ended 31 December 2016

| | Share capital E | Share premium E | Revaluation reserve E | Statutory reserve E | General risk reserve E | Retained income E | Total E |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | | | | | | | |
| *Total comprehensive income for the year* | 11 930 554 | 7 952 360 | 1 366 260 | 70 512 864 | 8 014 457 | 374 674 474 | 474 450 969 |
| Profit for the year | - | - | - | - | - | 115 204 732 | 115 204 732 |
| Re measurement of defined benefit liability | - | - | - | - | - | 5 059 050 | 5 059 050 |
| *Regulatory compliance* | - | - | - | 11 520 473 | - | (11 520 473) | - |
| Transfer to statutory reserve | - | - | - | - | - | - | - |
| *Transactions with owners and recorded directly in equity* | | | | | | | |
| Treasury shares | 24 345 | - | - | - | - | - | 24 345 |
| Dividend paid to shareholders | | - | - | - | - | (27 104 148) | (27 104 148) |
| Reversal of shares issued to Employee Trust | (24 345) | - | - | - | - | - | (24 345) |
| **Balance at 31 December 2015** | 11 930 554 | 7 952 360 | 1 366 260 | 82 033 337 | 8 014 457 | 456 313 635 | 567 610 603 |
| **Balance at 1 January 2016** | | | | | | | |
| *Total comprehensive income for the year* | 11 930 554 | 7 952 360 | 1 366 260 | 82 033 337 | 8 014 457 | 456 313 635 | 567 610 603 |
| Profit for the year | - | - | - | - | - | 121 098 883 | 121 098 883 |
| Re measurement of defined benefit liability | - | - | - | - | - | (1 247 725) | (1 247 725) |
| *Regulatory compliance* | | | | | | | |
| Transfer to statutory reserve | - | - | - | 12 109 888 | - | (12 109 888) | - |
| *Transactions with owners and recorded directly in equity* | | | | | | | |
| Treasury shares | 14 790 | - | - | - | - | - | 14 790 |
| Dividend paid to shareholders | - | - | - | - | - | (30 800 168) | (30 800 168) |
| Reversal of shares issued to Employee Trust | (14 790) | - | - | - | - | - | (14 790) |
| Shares issued fully paid | 374 723 | 2 117 710 | - | - | - | - | 2 492 433 |
| **Balance at 31 December 2016** | **12 305 277** | **10 070 070** | **1 366 260** | **94 143 225** | **8 014 457** | **533 254 737** | **659 154 026** |

| | **Note** | **2016** | **2015** |
|---|---|---|---|
| Dividends per share paid out of previous year's profits (cents) | 4.2 | 125.0 | 110.0 |
| Dividends per share proposed in respect of current year's profits (cents) | 4.2 | 135.0 | 125.0 |

## Statement of Financial Position
as at 31 December 2016

| | Note | 2016<br>E | 2015<br>E |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 5 | **662 923 437** | 474 093 714 |
| Government and public sector securities | 6 | **562 011 010** | 386 509 168 |
| Amounts due from other banks | 7 | **4 484 281** | 2 098 517 |
| Derivative assets | 25.8 | **29 659 904** | 73 581 355 |
| Loans and advances to customers | 8 | **2 901 147 925** | 2 864 781 619 |
| Other receivables | 10 | **19 862 977** | 24 066 309 |
| Investments | 11 | **2 593 986** | 2 435 846 |
| Property and equipment | 12 | **25 431 712** | 23 210 751 |
| Deferred tax assets | 13.1 | **26 718 794** | 22 175 803 |
| Intangible assets | 14 | **66 330** | 955 853 |
| Total assets | | **4 234 900 356** | 3 873 908 935 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 15 | **12 305 277** | 11 930 554 |
| Share premium and reserves | | **646 848 749** | 555 680 049 |
| Total equity and reserves attributable to equity holders of the bank | | **659 154 026** | 567 610 603 |
| Liabilities | | | |
| Deposits from customers | 16 | **3 407 495 590** | 3 107 086 891 |
| Deposits from banks | 17 | **5 219 406** | 6 622 606 |
| Current tax liabilities | 18 | **2 044 729** | 4 844 814 |
| Trade and other payables | 20.1 | **92 509 471** | 74 108 391 |
| Payables for staff costs | 20.2 | **6 870 299** | 11 357 401 |
| Derivative liabilities | 25.8 | **14 766 561** | 70 156 810 |
| Deferred tax liabilities | 13.2 | **2 876 653** | 798 494 |
| Funding from other banks | 5 | **43 963 621** | 31 322 925 |
| **Total equity and liabilities** | | **4 234 900 356** | 3 873 908 935 |
| Guarantees and letters of credit on behalf of customers, excluded from liabilities | 21 | **174 610 655** | 214 510 318 |

## Statement of Cash Flows
for the year ended 31 December 2016

| | Note | 2016 E | 2015 E |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash received from customers | 23.1 | **150 873 432** | 152 750 484 |
| Cash paid to customers, staff and suppliers | 23.2 | **(203 654 762)** | (163 373 914) |
| Interest received | 2 | **354 786 208** | 283 888 827 |
| Interest paid | 2 | **(117 925 474)** | (88 485 768) |
| *Cash generated by operating activities* | 23.3 | **184 079 404** | 184 779 629 |
| Change in working funds | | | |
| Increase in operating assets | 23.4 | **(215 364 097)** | (81 510 669) |
| Increase in operating liabilities | 23.5 | **303 271 829** | 588 036 505 |
| *Net increase in working funds* | | **87 907 732** | 506 525 836 |
| Taxation paid | 18 | **(55 490 316)** | (54 407 580) |
| **Net cash generated by operating activities** | | **216 496 820** | 636 897 885 |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | 12 | **(9 507 625)** | (8 837 135) |
| **Net cash used in investing activities** | | **(9 507 625)** | (8 837 135) |
| **Cash flows from financing activities** | | | |
| Dividends paid to shareholders | 23.6 | **(30 800 168)** | (27 104 147) |
| **Net cash used in financing activities** | | **(30 800 168)** | (27 104 147) |
| **Net increase in cash and cash equivalents** | | **176 189 027** | 600 956 603 |
| **Cash and cash equivalents at beginning of year** | | **442 770 789** | (158 185 814) |
| **Cash and cash equivalents at end of year** | 23.7 | **618 959 816** | 442 770 789 |

## Reporting entity

Nedbank (Swaziland) Limited ("the bank") is a company domiciled in Swaziland. The bank's holding company is Nedbank Limited, a wholly-owned subsidiary of Nedbank Group Limited which is incorporated in South Africa. The bank operates as a commercial bank, primarily involved in retail and wholesale banking.

## Basis of preparation

**i) Statement of compliance**

The financial statements of Nedbank (Swaziland) Limited have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Swaziland Companies Act.

These financial statements were approved and authorised for issue by the Board of Directors on 9 March 2017.

**ii) Basis of measurement**

The financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value
- Land and buildings are measured at revalued amounts
- Employee benefit obligations are measured at fair value of plan assets less the present value of the defined benefit obligation

**iii) Functional and presentation currency**

These financial statements are presented in Swaziland Lilangeni, which is the bank's functional currency. Except as otherwise indicated, financial information presented in Swaziland Lilangeni is rounded off to the nearest Lilangeni.

**iv) Use of estimates and judgement**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of 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 accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There were no critical accounting estimates that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year. Accounting estimates mostly were in relation to loans and advances impairments, employee benefits obligations, assessment of deferred taxes and depreciation.

## 1. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### *1.1 Financial instruments*

Financial instruments as reflected in the statement of financial position include all financial assets and financial liabilities, including derivative instruments. The bank does not apply hedge accounting.

#### *1.1.1 Recognition*

Financial instruments are recognised in the statement of financial position when the bank becomes a party to the contractual provisions of a financial instrument. All purchases of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases) are recognised at trade date, which is the date that the bank commits to purchase the asset. Contracts that require or permit net settlement of the change in the value of the contract are not considered 'regular way' and are treated as derivatives between the trade and settlement of the contract.

#### *1.1.2 Initial measurement*

Financial instruments are initially measured at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument.

## 1. Significant accounting policies (continued)

*1.1.3 Subsequent measurement*

Subsequent to initial measurement, financial instruments are either measured at fair value or amortised cost, depending on their classification.

*Financial assets and financial liabilities at fair value through profit or loss*

Financial instruments at fair value through profit or loss comprise trading instruments (which include Government and Public Sector securities) and instruments where the bank has elected, on initial recognition date, to designate as at fair value through profit or loss.

Trading instruments are financial assets or financial liabilities that were acquired or incurred principally for the purpose of sale or repurchase in the near term, form part of a portfolio with a recent actual pattern of short-term profit-taking or are derivatives. The bank's derivative transactions include foreign exchange contracts.

Financial assets and financial liabilities that the bank has elected, on initial recognition date, to designate as at fair value through profit or loss are those that meet any one of the following criteria:

- Where the fair value through profit or loss designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from using different bases to measure or recognise the gains and losses on financial assets and financial liabilities; or
- The instrument forms part of a group of financial instruments that is managed, evaluated and reported using a fair value basis, in accordance with a documented risk management or investment strategy and information is provided to key management personnel on this basis; or
- The financial instrument contains an embedded derivative, which significantly modifies the cash flows of the host contract or where the embedded derivative clearly requires separation.

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, with fair value gains and losses (excluding interest income and interest expense calculated on the amortised cost basis relating to those interest-bearing instruments that have been designated as fair value through profit or loss) reported in foreign exchange trading and dealing gains and losses in the statement of comprehensive income as they arise.

*Non-trading financial liabilities*

All financial liabilities, other than those at fair value through profit or loss, are classified as non-trading financial liabilities and are measured at amortised cost, using the effective interest method.

## 1. Significant accounting policies (continued)

### *1.1.3 Subsequent measurement (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, other than those classified by the bank as at fair value through profit or loss. Financial assets classified as loans and receivables are measured at amortised cost using the effective interest method, with interest income recognised in profit or loss. The bank's advances, cash and cash equivalents and amounts due from other banks are included in the loans and receivables category.

### *1.1.4 Measurement basis of financial instruments*

*Amortised cost*

The amortised cost of a financial asset and 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 that initial amount recognised and the maturity amount, less any cumulative impairment losses (in the case of financial assets).

If the bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to the ownership of the asset to the lessee, then the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

*Fair value*

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.

Direct and incremental transaction costs are included in the initial carrying amount and added to the initial fair value of financial assets and financial liabilities, other than those at fair value through profit or loss. The best evidence of the fair value of a financial asset or financial liability at initial recognition is the transaction price, unless the fair value of the instrument is evidenced by comparison with other current observable market transactions in the same instrument or based on a valuation technique whose variables include only market observable data.

Where quoted market prices in an active market are available, such market data is used to determine the fair value of financial assets and financial liabilities that are measured at fair value. The bid price is used to measure financial assets held and the offer price is used to measure the fair value of financial liabilities. Mid-market prices are used to measure fair value only to the extent that the bank has assets and liabilities with offsetting risk positions.

## 1. Significant accounting policies (continued)

### *1.1.4 Measurement basis of financial instruments (continued)*

*Fair value (continued)*

If quoted bid prices are unavailable, the fair value of financial assets and financial liabilities is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the reporting date.

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

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are not measured at fair value but at cost. Fair value is considered reliably measurable if:

- The variability in the range of reasonable fair value estimates is not significant for that instrument; or
- The probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

### *1.1.5 Derecognition*

The bank derecognises a financial asset (or group of financial assets) when and only when:

- The contractual rights to the cash flows arising from the financial assets have expired; or
- It transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred; or
- It transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retains control of the asset.

## 1. Significant accounting policies (continued)

### *1.1.5 Derecognition (continued)*

A financial liability (or part of a financial liability) is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or has expired.

The difference between the carrying amount of a financial asset or financial liability (or part thereof) that is derecognised and the consideration paid or received, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss for the period.

### *1.1.6 Impairment of financial assets*

The bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the bank about the following loss events:

- 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 bank would not otherwise consider;
- It becoming 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 group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    - Adverse changes in the payment status of borrowers in the group;
    - National or local economic conditions that correlate with defaults on the assets in the group;
    - Adverse prolonged changes in the market value of a financial asset.

## 1. Significant accounting policies (continued)

### *1.1.6 Impairment of financial assets (continued)*

*Financial assets measured at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables measured 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 through the use of an allowance account and the amount of the loss is recognised in profit or loss.

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.

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 reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

Statutory reserve requirements that exceed the allowance for impairment losses are recognised in the reserves by a transfer directly from retained earnings to a separate category of equity.

*Financial assets measured at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

## 1. Significant accounting policies (continued)

### *1.1.7 Offset*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to set off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as the bank's trading activities.

### ***1.2 Interest***

Interest income and expense is recognised in profit or loss using the effective interest method taking into account the expected timing and amount of cash flows. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

Interest income and interest expense are calculated on the amortised cost basis for interest bearing instruments that have been designated at fair value through profit or loss and are included in the interest income and interest expense line items and not as part of non-interest income.

### ***1.3 Non-interest income***

*Fees and other commission income and expense*

The bank earns fees and commissions from a range of services it provides to customers.

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

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

## 1. Significant accounting policies (continued)

### *1.3 Non-interest income (continued)*

*Foreign exchange trading and dealing gains and losses*

Foreign exchange trading and dealing gains and losses comprise all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, all realised gains and losses for trading, together with the related interest income, interest expense and dividend income.

*Other*

Revenue other than interest, fees and commission, foreign exchange trading and dealing gains is recognised in profit or loss when the amount of revenue from the transaction or service can be measured reliably, it is probable that the economic benefits of the transaction or service will flow to the bank and the costs associated with the transaction or service can be measured reliably.

Fair value gains or losses on financial instruments designated at fair value through profit or loss, are included in other income. These fair value gains or losses are determined after deducting the interest component, which is recognised separately in interest income.

Gains or losses on derecognition of any financial assets or financial liabilities are included in other income.

### *1.4 Cash and cash equivalents*

Cash and cash equivalents comprise notes and coins on hand, unrestricted and restricted balances held with central banks, short-term funds with maturities of less than 3 months and call and current account balances with group companies and other banks.

Cash and cash equivalents are measured at amortised cost in the statement of financial position. Funding from other banks has been offset for the purposes of the statement of cash flows.

### *1.5 Leases*

*The bank as lessee – Operating leases*

Leases in respect of which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the term of the lease. When another systematic basis is more representative of the time pattern of the user’s benefit, then that method is used.

*The bank as lessor – Finance leases*

Where assets are leased out under a finance lease arrangement, the receivable to be recognised equals the “gross investment” in the lease discounted at the rate implicit in the lease to obtain a “net investment” figure. The difference between the gross receivable and unearned finance income is presented in the statement of financial position. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the bank’s net investment outstanding in respect of the leases.

## 1. Significant accounting policies (continued)

### *1.6 Provisions*

Provisions are recognised when the bank has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material, provisions are discounted and the discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of discount is recognised as a finance cost.

### *1.7 Property and equipment*

Items of property and equipment, excluding land and buildings, are measured at cost less accumulated depreciation and accumulated impairment losses.

Items of property and equipment are initially recognised at cost if it is probable that any future economic benefits associated with the items will flow to the bank and it has a cost that can be measured reliably. Subsequent expenditure is recognised in the carrying amount of items of property and equipment if it is probable that future economic benefits associated with the expenditure will flow to the bank and its cost can be measured reliably. All other expenses are recognised in profit or loss as an expense when incurred.

Land and buildings, whose fair values can be reliably measured, are measured at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation gains are credited directly to other comprehensive income and presented in equity under the heading “revaluation reserve”. However, revaluation gains are recognised in profit or loss to the extent that they reverse a revaluation loss of the same asset previously recognised in profit or loss. Revaluation losses are recognised in profit or loss. However, revaluation losses are debited directly to other comprehensive income to the extent of any credit balances existing in the revaluation reserve in respect of the same asset.

## 1. Significant accounting policies (continued)

### *1.7 Property and equipment (continued)*

*Depreciation*

Each component of property and equipment with a cost that is significant in relation to the total cost of the item, or has a different useful life is depreciated separately. Items of property and equipment that are classified as held for sale under IFRS 5 are not depreciated. The depreciable amounts of property and equipment are recognised in profit or loss on a straight-line basis over the estimated useful lives of the items of property and equipment, unless they are included in the carrying amount of another asset. Useful lives, residual values and depreciation methods are assessed on an annual basis at each reporting date. Land is not depreciated.

On revaluation, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the item concerned and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount.

The estimated useful lives for the current and comparative periods are as follows:

- Computer equipment 3 - 6 years
- Vehicles 4 - 6 years
- Furniture and other equipment 4 - 10 years
- Buildings 50 years

*Derecognition*

Items of property and equipment are derecognised on disposal or when no future economic benefits are expected from their use. The gain or loss on derecognition is recognised in profit or loss and is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. On derecognition any surplus in the revaluation reserve in respect of individual items of property and equipment is transferred directly to retained earnings. Compensation from third parties for items of property and equipment that were impaired, lost or given up is included in profit or loss when the compensation becomes receivable.

### *1.8 Taxation*

Taxation expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity, or other comprehensive income.

*Current taxation*

Current tax is the expected taxation payable on the taxable income for the year using the tax rates enacted or substantively enacted at the reporting date, and any adjustment of tax payable in respect of previous years.

## 1. Significant accounting policies (continued)

### *1.8 Taxation (continued)*

*Deferred taxation*

Deferred taxation is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities and is measured at the taxation rates that are expected to be applied to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date.

The effect on deferred taxation of any changes in tax rates is recognised in profit or loss, except to the extent that it relates to items previously recognised directly in other comprehensive income or equity. Deferred taxation is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and temporary differences relating to investments to the extent that it is probable that they will not reverse in the foreseeable future.

A deferred tax asset is recognised to the extent that it is probable that future taxable income will be available, against which the unutilised taxation losses and deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related taxation benefits will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different entities but they intend to settle on a net basis or their tax assets and liabilities will be realised simultaneously.

### *1.9 Foreign currency transactions*

Transactions in foreign currencies are translated into the functional currency of the bank at the date of such transactions by applying to the foreign currency the spot exchange rate ruling at the transaction date.

Monetary assets and liabilities denominated in foreign currencies at reporting date are translated into the functional currency at the spot exchange rate on the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the spot rate at the date that the fair value was determined. Non-monetary assets and liabilities in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

## 1. Significant accounting policies (continued)

### *1.9 Foreign currency transactions (continued)*

Exchange differences that arise on the settlement and translation of monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period they arise.

### *1.10 Associate companies*

An associate is an entity over which the bank has the ability to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee (and that is neither a subsidiary nor an investment in a joint venture).

The investments in associates are incorporated in these financial statements at cost and are included in the investments line in the statement of financial position. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

### *1.11 Employee benefits*

*Post-employment defined benefit plans*

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using yields for government bonds that have maturity dates approximating the terms of the group's obligations.

Gains or losses resulting from re-measurements are recognised immediately in other comprehensive income. Re-measurements include actuarial gains and losses, return on plan assets (excluding amounts included in net interest on the net defined benefit liability/asset) and any changes in the effect of the asset ceiling (excluding amounts included in net interest on net defined benefit liability/asset).

Current service costs are recognised immediately as an expense in profit or loss. Past service costs are recognised as an expense at the earliest of the date when the plan amendment or curtailment occurs and when the entity recognises related restructuring costs or termination benefits. Changes in actuarial assumptions and plan amendments are recognised in profit or loss over the expected remaining working lives of employees. Experience adjustments are recognised in Other Comprehensive Income. The costs are expensed immediately in the case of retired employees.

Plan assets are only offset against plan liabilities where they are assets held by long-term employee benefit funds or qualifying insurance policies.

## 1. Significant accounting policies (continued)

### *1.11 Employee benefits (continued)*

*Short-term benefits*

Short-term employee benefits are defined as employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the reporting period in which the employees render the related service. Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

*Share based payment transactions*

*Equity share –based payments*

The grant-date fair value of share-based payment awards – i.e. stock options – granted to employees is recognised as personnel expenses, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no reconciliation for differences between expected and actual outcomes.

*Cash – settled share-based payments*

The fair value of the amount payable to employees in respect of share awards that are settled in cash is recognised as an expense with a corresponding increase in liabilities over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the share awards. Any changes in the liability are recognised as personnel expenses in profit or loss.

*Measurement of fair value of equity instruments granted*

The equity instruments granted by Nedbank are measured at fair value at measurement date using standard option pricing valuation models and the liability is re-measured annually to its fair value until settlement, with any difference being recognised in profit or loss. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments. Service and non-market performance conditions are not taken into account in determining fair value. Vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount.

## 1. Significant accounting policies (continued)

### *1.12 Share capital*

Share capital issued by the bank is measured at the proceeds received, net of direct issue cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the bank's share capital and preference shares that are classified as equity.

Ordinary and preference share capital is classified as equity if it is non-redeemable by the shareholder, dividends are discretionary and if it represents a residual interest in the assets of the bank after deducting all of its liabilities.

Dividends are recognised as distributions within equity in the period in which they are approved by the shareholders. Dividends for the year that are declared after the reporting date are disclosed in the notes.

### *1.13 Intangible assets*

*Computer software and capitalised development costs*

Software acquired by the bank is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to six years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

## 1. Significant accounting policies (continued)

### *1.14 Impairment of non-financial assets*

The bank assesses all non-financial assets (excluding deferred tax assets) for indications of impairment or the reversal of a previously recognised impairment at each reporting date. Should there be indications of impairment; the assets' recoverable amounts are estimated.

Intangible assets not yet available for use are tested annually for impairment and when there is an indication of impairment, the impairment is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. The fair value less cost to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset.

In assessing value-in-use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is allocated pro–rata to all assets in a cash - generating unit.

A previously recognised impairment loss will be reversed if the recoverable amount increases as a result of a change in the estimates used previously to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior periods.

### *1.15 Earnings per share*

The bank presents earnings per share for its ordinary shares, calculated by dividing the profit or loss attributable to ordinary shareholders of the bank by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

### *1.16 Financial guarantees*

Financial guarantees are contracts that require the bank to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The liability arising from a financial guarantee is recognised initially at the fair value, and the initial fair value is amortised over the life of the financial guarantee. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included only when payment under the guarantee is certain within trade and other payables.

## 1. Significant accounting policies (continued)

### *1.17 New standards and interpretations issued but not yet effective*

At the date of authorisation of the financial statements of the bank for the year ended 31 December 2016 the following Standards and Interpretations were in issue but not yet effective.

**Effective for the financial year commencing 1 January 2017**

- *Disclosure Initiative (Amendments to IAS 7)*
- *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12).*

**Effective for the financial year commencing 1 January 2018**

- *IFRS 15 Revenue from Contracts with Customers*
- *IFRS 9 Financial Instruments*
- *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*
- *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4).*

**Effective for the financial year commencing I January 2019**

- IFRS 16 *Leases*

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

**IFRS 9 *Financial Instruments***

On 24 July 2014, the IASB issued the final IFRS 9 *Financial Instruments* Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement.*

This standard will have an impact on the bank, which might include changes in the measurement bases of the bank's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for impaired loans and advances recognised in the bank.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application. Early adoption is permitted.

**IFRS 15 *Revenue from contracts with customers***

This standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue,* IFRIC 13 *Customer Loyalty Programmes,* IFRIC 15 *Agreements for the Construction of Real Estate,* IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter of Transactions Involving Advertising Services.*

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

## 1. Significant accounting policies (continued)

### *1.17 New standards and interpretations issued but not yet effective (continued)*

***IFRS 15 Revenue from contracts with customers (continued)***

This new standard will most likely have an impact on the bank, which might include a possible change in the timing of when revenue is recognised and the amount of revenue recognised.

The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

***Disclosure Initiative* (Amendments to IAS 7)**

The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances for liabilities arising from financing activities.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

***Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)***

The amendments provide additional guidance on the existence of deductible temporary differences, which depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognised.

Guidance is provided where an entity may assume that it will recover an asset for more than its carrying amount, provided that there is sufficient evidence that it is probable that the entity will achieve this.

Guidance is provided for deductible temporary differences related to unrealised losses are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income of a specific type.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

## 1. Significant accounting policies (continued)

### *1.17 New standards and interpretations issued but not yet effective (continued)*

***IFRS 16 Leases***

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the Statement of Financial position. No significant changes have been included for lessors.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors.

### *1.18 Segmental reporting*

The bank only has a single reportable segment. The bank's business activities are not organised on the basis of differences in products and services or differences in geographic areas as all operations are based in Swaziland. All of the bank's revenue is obtained from external customers. The bank does not have a single customer on which it derives 10% or more of its revenue.

| | 2016<br>E | 2015<br>E |
|---|---|---|
| **2. Income and expenses** | | |
| **Interest income** | | |
| Cash and cash equivalents | **15 668 426** | 1 790 481 |
| Loans and advances to customers | **308 323 883** | 257 503 583 |
| Government and public sector securities | **30 793 899** | 24 594 763 |
| | **354 786 208** | 283 888 827 |
| **Interest expense** | | |
| Deposits from customers | **116 015 587** | 79 723 984 |
| Other | **1 909 887** | 8 761 784 |
| Interest expense | **117 925 474** | 88 485 768 |
| Net interest income | **236 860 734** | 195 403 059 |

Included in interest income is a total of ENil (2015: E2 840 388) accrued on impaired financial assets

Total interest income and expense calculated using the effective interest method reported above that relate to financial assets or financial liabilities not measured at fair value through profit or loss are E308 323 883 (2015: E257 503 584) and E116 015 587 (2015: E79 723 984) respectively.

| | 2016<br>E | 2015<br>E |
|---|---|---|
| **2.1 Impairment of advances** | | |
| Specific impairments recognised | **10 764 916** | 12 553 903 |
| Portfolio impairments recognised | **4 600 000** | 4 200 000 |
| | **15 364 916** | 16 753 903 |
| **2.2 Fees and other commission income** | | |
| Retail banking customer fees | **78 471 544** | 75 367 509 |
| Corporate banking customer fees | **50 913 930** | 53 570 588 |
| Total fees and other commission income | **129 385 474** | 128 938 097 |

| | | 2016 E | 2015 E |
|---|---|---|---|
| **2. Income and expenses (continued)** | | | |
| **2.3 Operating expenses** | | | |
| Auditors' remuneration: | | | |
| - Audit fees | - fee for the audit | **1 525 050** | 1 240 100 |
| | - other services | **162 225** | 132 213 |
| | - expenses | **32 301** | 27 872 |
| Depreciation and amortisation | | | |
| - Computer equipment | | **3 122 235** | 2 811 313 |
| - Furniture and other equipment | | **3 872 831** | 3 815 464 |
| - Vehicles | | **129 203** | 130 483 |
| - Buildings | | **162 395** | 142 045 |
| - Computer software | | **889 523** | 889 524 |
| Staff costs | | **95 338 785** | 77 990 579 |
| Operating lease expenses | | **10 129 888** | 9 245 759 |
| Management fees | | **23 855 330** | 29 783 839 |
| Flexcube expenses | | **18 504 807** | - |
| Other operating expenses | | **54 106 377** | 44 953 853 |
| | | **211 830 950** | 171 163 044 |

Directors' emoluments are disclosed in note 26.

| | 2016 E | 2015 E |
|---|---|---|
| **3. Income tax expense** | | |
| **3.1 Charge for the year** | | |
| Swaziland normal taxation: recognised in profit or loss; | | |
| Prior year: income tax | **2 967 759** | - |
| Current year | **49 722 472** | 48 647 243 |
| Deferred | | |
| - charge for the year | **(1 991 557)** | (1 753 936) |
| **Total taxation on income** | **50 698 674** | 46 893 307 |
| **3.2 Tax rate reconciliation** | | |
| Standard rate of Swaziland normal taxation | **27.50** | 27.50 |
| Effect of prior year understatement | **0.02** | - |
| The standard rate has been affected by: | | |
| Non-deductible expenses | **1.99** | 1.43 |
| Effective taxation rate | **29.51** | 28.93 |

| | 2016 E | 2015 E |
|---|---|---|

## 4. Earnings per share and dividends

### 4.1 Earnings per share

| | 2016 E | 2015 E |
|---|---|---|
| Profit for the year | **121 098 883** | 115 204 732 |
| Headline earnings | **121 098 883** | 115 204 732 |
| Weighted average number of shares for calculating basic and diluted EPS | **24 640 134** | 24 640 134 |
| Basic earnings per share (cents) | **491** | 468 |

Diluted earnings per share (diluted EPS) has not been calculated as there are no dilutive factors.

### 4.2 Dividends

Subsequent to the reporting date, the directors proposed a dividend of 135 cents (2015: 125 cents) per share; total E33 264 181 (2015: E30 800 168).

The dividend will have the following tax consequences:

- Local residents withholding tax amounting to 10% of dividend declared
- Non-resident withholding tax amounting to 15%
- Non-resident withholding tax amounting 12.5% if the shareholder is a company incorporated or registered as such in Botswana, Lesotho, Namibia or the Republic of South Africa and provided that it is neither a subsidiary nor a branch of a company incorporated or registered outside any of such countries.

## 5. Cash and cash equivalents

### 5.1 Analysis

| | 2016 E | 2015 E |
|---|---|---|
| Coins and bank notes | **111 405 888** | 110 413 624 |
| Money at call and short notice | **223 828 336** | 117 898 707 |
| Balance with Central Bank of Swaziland | **325 132 657** | 240 604 174 |
| Other short term deposits | **1 948 789** | 4 569 442 |
| Money market unit trust investments | **607 767** | 607 767 |
| Total cash and cash equivalents | **662 923 437** | 474 093 714 |
| Funding from other banks | **(43 963 621)** | (31 322 925) |
| Net cash and cash equivalents | **618 959 816** | 442 770 789 |

The balance with the Central Bank of Swaziland has a restriction arising from regulatory liquidity requirements. The Financial Institutions Act, 2005 prescribes that financial institutions shall maintain reserves equal to 6% of total liabilities to the public in Swaziland excluding any balances for which it is liable to any financial institution and such reserves may be maintained by way of deposits with the Central Bank of Swaziland which bear no interest. At 31 December 2016 E206 million (2015: E190 million) was under the restricted account.

| | 2016 E | 2015 E |
|---|---|---|
| **5. Cash and cash equivalents (continued)** | | |
| **5.2 Currency analysis** | | |
| Common Monetary Area currencies | **394 738 355** | 321 532 938 |
| Customer deposits in foreign currencies | **224 221 461** | 121 237 851 |
| | **618 959 816** | 442 770 789 |

Included in cash and cash equivalents is an amount of E344 524 537 (2015: E173 201 917) which is invested with other banks (including the Central Bank of Swaziland) and is interest bearing. The remainder is invested with the Central Bank of Swaziland and is not interest bearing.

| | 2016 E | 2015 E |
|---|---|---|
| **6. Government and public sector securities** | | |
| Government and public sector securities at fair value (through profit or loss) | **562 011 010** | 386 509 168 |
| Mature within one year | **462 011 010** | 386 509 168 |
| Mature in two years | **100 000 000** | - |
| **7. Amounts due from other banks** | | |
| Clearances with banks | **4 570 381** | 144 340 |
| Remittances in transit | **(86 100)** | 1 954 177 |
| | **4 484 281** | 2 098 517 |

These are client cheques not yet cleared with other banks and are expected to clear within 12 months.

| | 2016 E | 2015 E |
|---|---|---|
| **8. Loans and advances to customers (at amortised cost)** | | |
| **8.1 Category analysis** | | |
| Mortgage loans | | |
| Residential mortgages | **961 067 015** | 730 918 451 |
| Commercial mortgages | **165 467 494** | 423 242 587 |
| | **1 126 534 509** | 1 154 161 038 |
| Other loans and overdrafts | **1 429 266 933** | 1 309 317 334 |
| Finance leases and instalment debtors | **418 002 147** | 555 441 429 |
| Less: Unearned finance charges on finance lease and instalment debtors (refer note 8.5) | **-** | (97 262 932) |
| | **2 973 803 589** | 2 921 656 869 |
| Impairment of advances (refer note 9) | **(72 655 664)** | (56 875 250) |
| | **2 901 147 925** | 2 864 781 619 |

|  | 2016<br>E | 2015<br>E |
|---|---|---|
| **8. Loans and advances to customers (continued)** | | |
| **8.2 Sectoral analysis** | | |
| Individuals: | | |
| Home loans | **961 067 015** | 730 918 451 |
| Personal loans | **584 165 276** | 590 586 812 |
| Total loans to individuals | **1 545 232 291** | 1 321 505 263 |
| Manufacturing | **328 231 851** | 543 226 704 |
| Wholesale and trade | **9 013 095** | 15 521 289 |
| Retailers, catering and accommodation | **72 004 850** | 131 853 348 |
| Agriculture, hunting, forestry and fishing | **24 033 289** | 37 198 774 |
| Mining and quarrying | **26 642** | 1 255 905 |
| Building and property development | **277 226 071** | 195 439 634 |
| Transport, storage and communication | **164 207 175** | 186 223 348 |
| Government and public sector | **123 190 195** | 121 576 383 |
| Other | **430 638 130** | 367 856 221 |
|  | **2 973 803 589** | 2 921 656 869 |
| **8.3 Maturity structure** | | |
| Call | **327 613 249** | 762 140 418 |
| Less than 3 months | **519 356 590** | 104 022 402 |
| Between 3 months and 1 year | **527 420 692** | 441 140 079 |
| Between 1 year and 5 years | **1 305 326 471** | 1 268 397 536 |
| Greater than 5 years | **294 086 587** | 345 956 434 |
|  | **2 973 803 589** | 2 921 656 869 |

|  | Outstanding balance 2016<br>E | Security 2016<br>E | Specific impairments 2016<br>E |
|---|---|---|---|
| **8.4 Non-performing advances** | | | |
| **Sectoral analysis 2016** | | | |
| Personal loans | **41 243 478** | **20 442 597** | **24 567 438** |
| Manufacturing | **1 674 601** | **150 000** | **893 449** |
| Retailers, catering and accommodation | **23 258 724** | **18 486 031** | **9 821 563** |
| Building and property development | **8 052 179** | **7 857 495** | **1 774 739** |
| Transport, storage and communication | **10 647 508** | **8 713 313** | **3 078 298** |
| Other | **10 945 356** | **11 621 691** | **3 494 678** |
|  | **95 821 846** | **67 271 127** | **43 630 165** |

## 8. Loans and advances to customers (continued)

### 8.4 Non-performing advances (continued)

**Sectoral analysis 2015**

| | Outstanding balance 2015 E | Security 2015 E | Specific impairments 2015 E |
|---|---|---|---|
| Individuals: | | | |
| Other personal loans | 26 451 177 | 5 227 018 | 22 620 502 |
| Manufacturing | 673 584 | 1 500 000 | 252 371 |
| Retailers, catering and accommodation | 5 123 775 | 8 856 621 | 1 925 013 |
| Building and property development | 3 795 284 | 17 438 504 | 1 226 824 |
| Transport, storage and communication | 10 684 585 | 4 548 705 | 1 838 151 |
| Other | 4 656 579 | - | 4 656 579 |
| | 51 384 984 | 37 570 848 | 32 519 440 |

### 8.5 Finance lease receivables

Loans and advances to customers include the following finance lease receivables for leases of certain property and equipment where the bank is the lessor:

| | 2016 E | 2015 E |
|---|---|---|
| Gross investment in finance leases receivable: | | |
| Less than one year | **194 183 430** | 194 528 190 |
| Between one and five years | **223 818 718** | 358 283 675 |
| More than five years | **-** | 2 629 564 |
| | **418 002 148** | 555 441 429 |
| Unearned finance income (refer note 8.1) | **-** | (97 262 932) |
| Net investment in finance leases | **418 002 148** | 458 178 497 |
| Net investment in finance leases receivable: | | |
| Less than one year | **194 183 430** | 191 609 093 |
| Between one and five years | **223 818 718** | 266 559 460 |
| More than five years | **-** | 9 944 |
| | **418 002 148** | 458 178 497 |

| | 2016<br>E | 2015<br>E |
|---|---|---|
| **9. Allowance for impairment of advances** | | |
| **Specific- amortised cost** | | |
| Balance at beginning of year | 32 519 440 | 19 568 833 |
| Applied in respect of debts written off | (4 794 045) | (2 655 611) |
| Interest suspended during the year | 5 139 854 | 3 052 316 |
| | 32 865 249 | 19 965 538 |
| Impairment of advances charged | 10 764 916 | 12 553 902 |
| | 43 630 165 | 32 519 440 |
| **Portfolio- amortised cost** | | |
| Balance at beginning of year | 24 355 810 | 19 618 354 |
| Amounts raised/(written off) against impairments/other transfers | 69 689 | 537 456 |
| | 24 425 499 | 20 155 810 |
| Impairment of advances charged | 4 600 000 | 4 200 000 |
| | 29 025 499 | 24 355 810 |
| **Comprising:-** | | |
| Specific impairments and interest in suspense | 43 630 165 | 32 519 440 |
| Portfolio impairment | 29 025 499 | 24 355 810 |
| | 72 655 664 | 56 875 250 |

| | 2016 E | 2015 E |
|---|---|---|
| **10. Other receivables** | | |
| Sundry debtors and accrued interest earned on investments | **19 862 977** | 24 066 309 |
| The balance is made up as follows | | |
| Prepayments and suspense accounts | **13 785 973** | 10 938 453 |
| Other receivables | **6 077 004** | 13 127 856 |
| | **19 862 977** | 24 066 309 |
| All these amounts are receivable within 12 months. | | |
| **11. Investments** | | |
| Unlisted investments at cost : Associate company* | **20** | 20 |
| : Other** - shares | **375 000** | 375 000 |
| African Alliance Lilangeni Fund*** | **2 218 966** | 2 060 826 |
| | **2 593 986** | 2 435 846 |
| Directors' valuation : Associate company* | **20** | 20 |
| : Other** - shares | **375 000** | 375 000 |
| African Alliance Lilangeni Fund*** | **2 218 966** | 2 060 826 |
| | **2 593 986** | 2 435 846 |

| | Percentage holding 2016 | 2015 |
|---|---|---|
| * Swaziland Automated Electronic Clearing House Limited (SAECH) – refer note 25.8.3 | **20%** | 20% |
| ** Swaziland Industrial Development Company Limited – refer note 25.8.3 | **1.6%** | 1.6% |
| *** This is a unit trust investment held by the Employee | | |

## 12. Property and equipment

| | Freehold land and buildings E | Computer equipment E | Furniture and other equipment E | Vehicles E | Total E |
|---|---|---|---|---|---|
| **Cost/valuation** | | | | | |
| Balance at 1 January 2015 | 2 053 071 | 23 717 346 | 40 074 347 | 1 136 243 | 66 981 007 |
| Additions | 1 680 159 | 1 293 894 | 5 863 082 | - | 8 837 135 |
| Write off | - | (45 236) | - | - | (45 236) |
| Balance at 31 December 2015 | 3 733 230 | 24 966 004 | 45 937 429 | 1 136 243 | 75 772 906 |
| Balance at 1 January 2016 | **3 733 230** | **24 966 004** | **45 937 429** | **1 136 243** | **75 772 906** |
| Additions | **-** | **2 508 320** | **6 907 824** | **91 481** | **9 507 625** |
| Write off | **-** | **(210 090)** | **(1 930 848)** | **-** | **(2 140 938)** |
| Balance at 31 December 2016 | **3 733 230** | **27 264 234** | **50 914 405** | **1 227 724** | **83 139 593** |
| **Depreciation and impairment losses** | | | | | |
| Balance at 1 January 2015 | (640 346) | (17 551 904) | (26 770 750) | (710 091) | (45 673 091) |
| Depreciation for the year | (142 045) | (2 811 313) | (3 815 465) | (130 483) | (6 899 306) |
| Write off | - | 10 242 | - | - | 10 242 |
| Balance at 31 December 2015 | (782 391) | (20 352 975) | (30 586 215) | (840 574) | (52 562 155) |
| Balance at 1 January 2016 | **(782 391)** | **(20 352 975)** | **(30 586 215)** | **(840 574)** | **(52 562 155)** |
| Depreciation for the year | **(162 395)** | **(3 122 235)** | **(3 872 831)** | **(129 203)** | **(7 286 664)** |
| Write off | **-** | **210 090** | **1 930 848** | **-** | **2 140 938** |
| Balance at 31 December 2016 | **(944 786)** | **(23 265 120)** | **(32 528 198)** | **(969 777)** | **(57 707 881)** |

| | Freehold land and buildings E | Computer equipment E | Furniture and other equipment E | Vehicles E | Total E |
|---|---|---|---|---|---|
| **12. Property and equipment (continued)** | | | | | |
| **Carrying amounts** | | | | | |
| At 1 January 2015 | 1 412 725 | 6 165 442 | 13 303 597 | 426 152 | 21 307 916 |
| At 31 December 2015 | 2 950 839 | 4 613 029 | 15 351 214 | 295 669 | 23 210 751 |
| At 1 January 2016 | **2 950 839** | **4 613 029** | **15 351 214** | **295 669** | **23 210 751** |
| At 31 December 2016 | **2 788 444** | **3 999 114** | **18 386 207** | **257 947** | **25 431 712** |

Freehold land and buildings were valued by Meldane Property and Valuation Services CC, on 25 September 2012 on the basis of open market value in continuation of existing use at E1 100 000.

Details of properties owned are available for inspection at the registered office of the bank. All property and equipment is free of lien.

There were no capitalised borrowing costs relating to the acquisition of equipment during the year (2015: Nil). The initial cost of freehold land and buildings was E950 000 (2015: E950 000), and there were no improvements in 2016 (2015: E1 680 159).

| | **2016 E** | 2015 E |
|---|---|---|
| **13. Deferred taxation** | | |
| **13.1 Recognised deferred tax assets** | | |
| Property and equipment | **3 544 211** | 3 124 138 |
| Impairment of advances | **19 980 307** | 15 724 154 |
| Operating leases | **204 225** | 204 225 |
| Employee benefits obligations | **473 275** | - |
| Payable for staff costs | **2 516 776** | 3 123 286 |
| Deferred tax assets | **26 718 794** | 22 175 803 |
| **13.2 Recognised deferred tax liabilities** | | |
| Unrealised gains/(losses) on FECs | **2 604 844** | 608 853 |
| Prepayments | **271 809** | 189 641 |
| Deferred tax liabilities | **2 876 653** | 798 494 |
| **Net deferred tax asset** | **23 842 141** | 21 377 309 |

## 13. Deferred taxation (continued)

### 13.3 Deferred taxation movements:
**(In statement of comprehensive income)**

| | 2016 E | 2015 E |
|---|---|---|
| Net deferred tax balance - beginning of year | **21 377 309** | 19 623 373 |
| Movements arising from: | | |
| - Property and equipment | **420 074** | 354 098 |
| - Impairment of advances | **4 256 153** | 4 947 678 |
| - Unrealised gains on FECs | **(1 995 991)** | (1 828 100) |
| - Employee benefits obligations | **473 275** | (2 168 100) |
| - Payable for staff costs | **(606 511)** | 365 488 |
| - Prepayments | **(82 168)** | 82 872 |
| Deferred tax assets - end of year | **23 842 141** | 21 377 309 |
| Disclosed as: | | |
| Deferred tax assets | **26 718 794** | 22 175 803 |
| Deferred tax liabilities | **(2 876 653)** | (798 494) |
| | **23 842 141** | 21 377 309 |

There are no unrecognised deferred tax assets and liabilities at year end (2015: Nil). There was no deferred tax recognised directly in equity (2015: Nil).

## 14. Intangible assets

| | Computer software E |
|---|---|
| Cost | |
| Balance at 1 January 2015 | 18 210 879 |
| Additions | - |
| Balance at 31 December 2015 | 18 210 879 |
| Balance at 1 January 2016 | **18 210 879** |
| Additions | **-** |
| Balance at 31 December 2016 | **18 210 879** |

## 14. Intangible assets (continued)

| | Computer software E |
|---|---|
| **Amortisation and impairment losses** | |
| Balance at 1 January 2015 | (16 365 502) |
| Amortisation for the year | (889 524) |
| Balance at 31 December 2015 | (17 255 026) |
| Balance at 1 January 2016 | **(17 255 026)** |
| Amortisation for the year | **(889 523)** |
| Balance at 31 December 2016 | **(18 144 549)** |
| **Carrying amounts** | |
| At 1 January 2015 | 1 845 377 |
| At 31 December 2015 | 955 853 |
| At 1 January 2016 | **955 853** |
| At 31 December 2016 | **66 330** |

There were no capitalised borrowing costs related to the internal development of software during the year (2015: Nil). The bank does not have restricted or pledged intangible assets and there were no contractual commitments for acquisition of intangible assets at reporting date.

| | | 2016<br>E | 2015<br>E |
|---|---|---|---|
| **15.** | **Share capital and reserves** | | |
| **15.1** | **Share capital** | | |
| **15.1.1** | **Authorised share capital** | | |
| | 26 650 000 (2015: 26 650 000) ordinary shares of 50 cents each | **13 325 000** | 13 325 000 |
| **15.1.2** | **Issued and fully paid share capital** | | |
| | 24 640 134 (2015: 24 640 134) ordinary shares of 50 cents each | **12 320 067** | 12 320 067 |
| | 29 580 (2015: 779 026) treasury shares of 50 cents each | **(14 790)** | (389 513) |
| | | **12 305 277** | 11 930 554 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the bank. The unissued shares are under the control of the directors.

| | | 2016<br>E | 2015<br>E |
|---|---|---|---|
| **15.2** | **Share premium and reserves** | | |
| **15.2.1** | **Share premium** | | |
| | Share premium account | **10 070 070** | 7 952 360 |
| **15.2.2** | **Revaluation reserve** | | |
| | Gains on revaluation of commercial premises and residential property | **1 366 260** | 1 366 260 |

The property was last revalued in September 2012 in accordance with the bank's accounting policy, by Meldane Property and Valuation Services CC, independent property valuers.

| | | 2016<br>E | 2015<br>E |
|---|---|---|---|
| **15.2.3** | **Statutory reserve** | | |
| | In terms of Section 20(1)(a)(ii) of the Financial Institutions Act, 2005 | **94 143 225** | 82 033 337 |

The bank is required to transfer each year to its Reserve Account a sum equal to not less than ten per cent of its net profit until the balance in the Reserve Account is equal to its minimum required capital.

**15.2.4 General risk reserve**

This is a statutory general credit risk reserve, being the difference between credit reserves as required by the Central Bank of Swaziland and portfolio impairment losses on advances per the statement of financial position.

| | 2016<br>E | 2015<br>E |
|---|---|---|
| | **8 014 457** | 8 014 457 |

Movements on reserves are disclosed in the statement of changes in equity.

| | 2016 E | 2015 E |
|---|---|---|
| **16. Deposits from customers** | | |
| **16.1 Analysis** | | |
| Current accounts | **732 130 284** | 650 002 535 |
| Savings deposits | **232 651 797** | 202 911 223 |
| Other customer deposits and loan accounts | **2 218 327 588** | 2 138 375 601 |
| Foreign currency deposits | **224 385 921** | 115 797 532 |
| | **3 407 495 590** | 3 107 086 891 |
| **16.2 Sectoral analysis** | | |
| Individuals | **603 919 962** | 509 114 728 |
| Corporates and other | **2 803 575 628** | 2 597 972 163 |
| | **3 407 495 590** | 3 107 086 891 |

At 31 December 2016: E667 873 (2015: E703 281) of deposits from customers are expected to mature more than 12 months after the reporting date.

| | 2016 E | 2015 E |
|---|---|---|
| **17. Deposits from banks** | | |
| Current accounts | **5 219 406** | 6 622 606 |

The deposits are repayable on demand. These accounts do not earn interest.

| | 2016 E | 2015 E |
|---|---|---|
| **18. Current taxation liabilities** | | |
| Balance at beginning of the year | **4 844 814** | 10 605 151 |
| Under provision for prior years | **2 967 759** | - |
| Income tax expense in the year | **49 722 472** | 48 647 243 |
| Income tax paid during the year | **(55 490 316)** | (54 407 580) |
| | **2 044 729** | 4 844 814 |

## 19. Employee share ownership scheme

Share options over Nedbank (Swaziland) Limited shares and equity instruments in respect of Nedbank (Swaziland) Limited shares are granted to employees as part of their remuneration package as services are rendered as an incentive to retain business and develop growth within the bank.

As the bank cannot estimate reliably the fair value of services received nor the value of additional business received, the bank rebuts the presumption that such services and business can be measured reliably. The bank therefore measures their fair value by reference to the fair value of the shares, share options or equity instruments granted, in line with the bank's accounting policy. The fair value of such shares, share options and equity instruments is measured at the grant date utilising the directors simplified fair valuation model. Both schemes are cash settled as the shares will ultimately be settled by the bank. The following are the share and share option schemes that have been in place during the year.

| Scheme | Trust/special-purpose vehicle (SPV)* | Description Traditional employee schemes | Vesting requirements | Maximum Term |
|---|---|---|---|---|
| Nedbank (Swaziland) Limited Share Option Scheme and restricted share scheme. | Nedbank Employee Share Trust (Sinakekelwe Management Scheme) | Share options and restricted shares were granted to key personnel to motivate senior employees to remain with the group. The granting of share options was based on job level, merit and performance, and was entirely at the discretion of the trustees acting on recommendations of executive management. | Share options granted on appointment are time-based, of which 33% vest after three years, an additional 33% after the fourth year and the remaining 34% after the fifth year. | 5 years |
| Nedbank (Swaziland) Limited employee share scheme. | Nedbank Employee Share Trust (Sinakekelwe Broad-Based Scheme) | Restricted shares were granted to all other employees who do not qualify for any other share scheme within the bank. | Share options granted on appointment are time-based, of which 33% vest after three years, an additional 33% after the fourth year and the remaining 34% after the fifth year. | 5 years |

## 19. Employee share ownership scheme (continued)

**Effect on profit and financial position**

| | Share-based expense | | Share-based payments liability | |
|---|---|---|---|---|
| | 2016 E | 2015 E | 2016 E | 2015 E |
| Sinakekelwe broad-based scheme | - | 788 898 | - | 3 585 441 |
| Sinakekelwe Management scheme (options) | - | 382 986 | - | 4 560 838 |
| | - | 1 171 884 | - | 8 146 279 |

| Fair value of share options and assumptions | 2016 | 2015 |
|---|---|---|
| Fair value at grant date | 4.25 | 4.25 |
| Share price at grant date | 4.25 | 4.25 |
| Exercise price | 4.25 | 4.25 |
| Expected volatility | 96% | 96% |
| Option life | - | - |
| Risk free interest rate | 5.5% | 5.5% |

| | Number of instruments | | Weighted average price per unit | |
|---|---|---|---|---|
| | 2016 Shares | 2015 shares | 2016 E | 2015 E |
| **Movement in number of instruments** | | | | |
| *Share options* | | | | |
| Outstanding at the beginning of the year | 433 370 | 433 370 | - | - |
| Granted | (433 370) | - | - | 7.02 |
| Forfeited | - | - | - | 7.02 |
| Outstanding at the end of the year | - | 433 370 | - | 7.02 |
| Exercisable at the end of the year | - | 433 370 | - | - |
| *Restricted shares* | | | | |
| Outstanding at the beginning of the year | 354 889 | 354 889 | | |
| Granted | (325 309) | - | 8.66 | 7.02 |
| Forfeited | - | - | 8.66 | 7.02 |
| Outstanding at the end of the year | 29 580 | 354 889 | 8.66 | 7.02 |
| Exercisable at the end of the year | 29 580 | 354 889 | 8.66 | - |

| | 2016 E | 2015 E |
|---|---|---|
| **20. Accounts payable** | | |
| **20.1 Trade and other payables** | | |
| Trade payables | **41 205 920** | 42 567 302 |
| Accrual for service fee | **38 210 943** | 25 521 297 |
| Creditors and accruals | **13 092 608** | 6 019 792 |
| | **92 509 471** | 74 108 391 |

Trade payables relate to uncleared funds/cheques due to customers and other banks. These amounts are payable within 12 months.

| | 2016 E | 2015 E |
|---|---|---|
| **20.2 Payables for staff costs** | | |
| Share based payment liability | **-** | 4 346 339 |
| Leave accrual | **2 865 151** | 2 865 151 |
| Bonus accrual | **4 005 148** | 2 945 911 |
| Accrual for severance pay | **-** | 1 200 000 |
| | **6 870 299** | 11 357 401 |

## 21. Contingent liabilities

| | 2016 E | 2015 E |
|---|---|---|
| Confirmed letters of credit and discounting transactions | **833 163** | 27 918 607 |
| Liabilities under guarantees | **173 777 492** | 186 591 711 |
| Other : Commitments to sell foreign currency under forward exchange contracts | **-** | 468 238 595 |
| Unutilised facilities | **706 766 569** | 544 852 998 |
| | **881 377 224** | 1 227 601 911 |

Letters of credit and liabilities under guarantees are those issued by the bank to its customers to present to third parties. These have been stated at nominal value of the guarantees given.

## 22. Commitments

| | 2016 E | 2015 E |
|---|---|---|
| Operating lease commitments | | |
| Less than one year | **30 793 787** | 8 151 851 |
| Between one and five years | **89 286 581** | 12 224 497 |
| More than 5 years | **44 098 038** | - |
| | **164 178 406** | 20 376 348 |

The bank leases 37 (2015: 36) properties. The leases typically run for an initial period of a maximum of three years, with an option to renew the lease after that date. Lease payments increase annually by a fixed amount to reflect market rentals. There was a E17 million contractual commitments to acquire a building in Manzini (2015: Nil).

| | 2016 E | 2015 E |
|---|---|---|
| **23. Cash flow information** | | |
| **23.1 Cash received from customers** | | |
| Commission and fees | **129 385 474** | 128 938 097 |
| Foreign exchange dealing gains | **20 940 960** | 16 091 125 |
| Net unrealised profit on foreign currency transactions (Note 25.8) | **(14 893 343)** | (3 424 544) |
| Foreign currency gains realised | **3 424 544** | 973 327 |
| Other income | **11 806 255** | 9 582 705 |
| Recoveries of debt previously written off | **209 542** | 589 774 |
| | **150 873 432** | 152 750 484 |
| **23.2 Cash paid to customers, staff and suppliers** | | |
| Staff costs | **(95 338 785)** | (77 990 579) |
| Payments to customers and suppliers | **(108 315 977)** | (85 383 335) |
| | **(203 654 762)** | (163 373 914) |
| **23.3 Cash generated by operating activities** | | |
| Net profit before taxation | **171 797 557** | 162 098 039 |
| Adjustment for: | | |
| - Depreciation and amortisation | **8 176 188** | 7 788 830 |
| - Impairment of advances (net) | **15 364 916** | 16 753 903 |
| - Net unrealised profit on foreign currency transactions (Note 25.8) | **(14 893 343)** | (3 424 544) |
| - Prior year's net unrealised foreign currencygain now realised | **3 424 544** | 973 327 |
| - Recoveries of debt previously written off | **209 542** | 590 074 |
| | **184 079 404** | 184 779 629 |
| **23.4 Increase in operating assets** | | |
| Advances and other accounts | **(39 862 255)** | (59 774 972) |
| Government and public sector securities | **(175 501 842)** | (21 735 697) |
| | **(215 364 097)** | (81 510 669) |

| | 2016 E | 2015 E |
|---|---|---|
| **23. Cash flow information (continued)** | | |
| **23.5 Increase in operating liabilities** | | |
| Current and savings accounts | **111 868 323** | 75 304 572 |
| Other deposits and foreign currency liabilities | **187 137 175** | 529 855 670 |
| Trade and other payables | **4 266 331** | (17 123 737) |
| | **303 271 829** | 588 036 505 |
| **23.6 Dividends paid to shareholders** | | |
| Dividends declared and paid during the year | **(30 800 168)** | (27 104 147) |
| **23.7 Cash and cash equivalents** | | |
| Cash and short-term funds | **436 538 545** | 351 017 798 |
| Other short-term funds | **224 436 103** | 120 529 307 |
| Deposits with banks within the group (refer to note 5) | **1 948 789** | 2 546 609 |
| | **662 923 437** | 474 093 714 |
| Funding from other banks | **(43 963 621)** | (31 322 925) |
| | **618 959 816** | 442 770 789 |

| | 2016 E | 2015 E |
|---|---|---|
| **24. Employee benefits obligations** | | |
| **24.1 Recognised liability of defined benefit obligation** | | |
| Estimated present value of plan obligations | **(103 391 000)** | (94 143 000) |
| Fair value of plan assets | **107 498 000** | 102 842 000 |
| Present value of unrecognised asset due to asset ceiling | **4 107 000** | 8 699 000 |
| Recognised liability for defined benefit obligations | **-** | - |

The bank makes contributions to a defined benefit plan, the Nedbank Swaziland Pension Fund, which provides pension benefits for employees upon retirement. The defined benefit plan exposes the entity to credit risk due to the investments in plan assets. All permanent employees are members of the fund. In accordance with the rules of the fund the financial position of the fund is examined and reported upon by the actuary at intervals not exceeding three years. The latest available actuarial valuation was at 31 December 2016. Plan assets comprise collective investment schemes with African Alliance made up of equities 55.97% (2015: 41.82%), debt instruments 26.99% (2015: 25.75%) and cash at bank 17.04 % (2015: 32.43%). The Bank's fund administrators are AON Swaziland Limited and the actuarial valuator is Alexander Forbes.

A valuation of the fund for IAS 19 purposes was performed as at 31 December 2016 by independent external actuaries who estimate a surplus (2015: surplus) as reflected above.

| | 2016 E | 2015 E |
|---|---|---|
| **24.2 Expense recognised in profit or loss** | | |
| Service costs | **4 123 000** | 3 929 000 |
| Net interest cost | **152 000** | 773 000 |
| | **4 275 000** | 4 702 000 |
| **Recognised in other comprehensive income** | | |
| Actuarial gains/(losses) | **7 025 000** | (3 841 000) |
| Fair value adjustments on plan assets | **(5 304 000)** | (3 137 000) |
| | **1 721 000** | (6 978 000) |

The expected return on plan assets is based on market yields on high quality corporate bonds at reporting date.

| | 2016 E | 2015 E |
|---|---|---|

## 24. Employee benefits obligations (continued)

### 24.3 Movement in plan assets

| | 2016 E | 2015 E |
|---|---|---|
| Fair value of plan assets at 1 January | **102 842 000** | 90 158 000 |
| Contribution paid into the plan | **9 156 000** | 8 548 000 |
| Benefits paid by the plan | **(5 513 000)** | (4 509 000) |
| Actuarial (losses)/gains | **(7 025 000)** | 3 137 000 |
| Expected return on plan assets | **10 449 000** | 7 390 000 |
| Risk and administration fees | **(2 411 000)** | (1 882 000) |
| Fair value of plan assets at year end | **107 498 000** | 102 842 000 |

### 24.4 Movement in the present value of defined benefit obligation

| | 2016 E | 2015 E |
|---|---|---|
| Liability for defined benefit obligation at 1 January | **94 143 000** | 98 042 000 |
| Actuarial gains/(losses) | **167 000** | (12 540 000) |
| Benefits paid by the plan | **(5 513 000)** | (4 509 000) |
| Current service costs and interest | **14 594 000** | 13 150 000 |
| Liability for defined benefit obligations at year end | **103 391 000** | 94 143 000 |

### 24.5 Actuarial assumptions for defined benefit obligations

| | 2016 E | 2015 E |
|---|---|---|
| Principal actuarial assumption at the date of the last provisional actuarial valuation (expressed as weighted averages): | | |
| Discount rate at 31 December | **9.3%** | 10.1% |
| Expected return on plan assets at 31 December | **9.3%** | 10.1% |
| Future pension increases | **2.4%** | 2.7% |
| Inflation | **6.7%** | 7.7% |
| Salary increases | **7.7%** | 8.7% |

Expected contributions by members and employer for 2016 are E8 997 074 (2015: E9 292 000).

### 24.6 Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the actuarial assumption holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

| | 31 December 2016 ('000) | | 31 December 2015 ('000) | |
|---|---|---|---|---|
| | Increase(E) | Decrease (E) | Increase (E) | Decrease (E) |
| Discount rate (1% movement) | **(87 362)** | **(121 612)** | 17 510 | (13 840) |
| General inflation (1% movement) | **(114 780)** | **(92 007)** | 11 391 | 12 457 |

## 25. Financial risk management

The bank's financial instruments arise directly from its operations and comprise coin and bank notes, balances with central and other banks, Government and public sector securities, investments, loans, overdrafts, finance lease receivables, savings accounts, deposit and loan accounts, accrued interest and other creditors, remittances in transit, and indebtedness by and to the holding company and fellow subsidiaries. The main purpose of these financial instruments is to earn income from banking operations. The bank also enters into derivative contracts principally forward foreign currency contracts on behalf of customers.

The bank has exposure to the following risks from financial instruments:

- Market risk
- Credit risk
- Liquidity risk

### Risk management framework

The Board together with Nedbank Africa (a division of Nedbank Limited), the Credit Committee and the Assets and Liabilities Committee (ALCO) assess and monitor risks based on policies formulated in conjunction with the holding company and approved by the Board of Directors.

The bank's risk management policies are established to identify and analyse the risks faced by the bank, to set appropriate risks limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Risk Committee is responsible for monitoring compliance with the bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the bank. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures.

The methods for assessing and monitoring used in the current year are consistent with prior years. There were no financial assets and financial liabilities reclassified in the current period (2015: Nil).

### 25.1 Market risk

Market risk is the risk of a decrease in the value of a portfolio as a result of an adverse move in market variables and future cash flows of a financial instrument will fluctuate because of changes in market prices. This exists where the bank has a trading position or financial instrument denoted in foreign currencies. The bank's major exposure from trading operations and financial instruments denoted in foreign currencies is undertaken in terms of general authority granted to ALCO by the Board of Directors and is controlled within the treasury operations. Trading limits are pre-determined and exposure to market risk is limited as counterparty hedging positions are taken with the holding company for all material trades of forward foreign currency contracts. The bank's market risk comprises of interest rate risk and currency risk. The principal tool used to measure and control market risk is back to back hedging for foreign currency risk and repricing and gap analysis for interest rate risk.

## 25. Financial risk management (continued)

### 25.2 Credit risk

Credit risk is the risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Direct credit risk arises as a result of traditional lending and dealing with others. Indirect credit risk arises as a result of issuing guarantees and similar undertakings. Generally lending decisions are made in accordance with credit management parameters laid down by AFCRAM (Africa Credit Risk Management Committee). There are reporting requirements designed to identify unsatisfactory accounts at an early stage. Distinction is drawn between the fundamental credit characteristics of corporate customers and smaller individual advances. Policies are in place to ensure that the bank is not overexposed to particular concentrations of credit. Lending decisions are made by credit managers or in the case of large exposures by the appropriate Credit Committee. Any facility requests in excess of the Credit Committee's lending limit are referred to the Africa Credit Risk Management Committee at Nedbank Limited. All facilities are risk rated against a standard rating scale and are reviewed at least annually.

*Exposure to credit risk*

| | Note | 2016<br>E | 2015<br>E |
|---|---|---|---|
| *Loans and receivables at amortised cost* | | | |
| Loans and advances | 8 | **2 901 147 925** | 2 864 781 619 |
| Cash and cash equivalents | 5 | **662 923 437** | 474 093 714 |
| Amounts due from banks | 7 | **4 484 281** | 2 098 517 |
| | | **3 568 555 643** | 3 340 973 850 |
| *At fair value through profit or loss* | | | |
| Government and public sector securities* | 6 | **562 011 010** | 386 509 168 |
| Derivative assets held for risk management** | 25.8 | **29 659 904** | 73 581 355 |
| Investments – at cost | 11 | **2 593 986** | 2 435 846 |
| | | **594 264 900** | 462 526 369 |
| | | **4 162 820 543** | 3 803 500 219 |

* Treasury bills with the Central Bank of Swaziland

** Derivative assets are with related counterparties

## 25. Financial risk management (continued)

### 25.2 Credit risk

**Impaired loans and advances**

For individually assessed accounts, loans are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred. The criteria used by the bank to determine that there is such objective evidence includes, inter alia:

- Known cash flow difficulties experienced by the borrower;
- Overdue contractual payments of either principal or interest;
- Breach of loan covenants or conditions;
- The probability that the borrower will enter bankruptcy or other financial realisation; and
- A significant downgrading in credit rating by an external credit rating agency.

The IAS 39 impairment allowance is calculated based on the difference between the outstanding advances balances and the present value of expected future cash flows.

The Central Bank of Swaziland impairments are divided into two categories; namely Specific impairments which are based on 100% of the loss position (Outstanding advances balance less the market value of collateral) and General impairments which are based on a certain percentage of performing advances book (based on the historical performance of the advances book).

The difference between IFRS impairments and Central Bank of Swaziland impairments is credited to the general risk reserve.

#### 25.2.1 Credit commitments and guarantees

The bank has outstanding, at any point in time, a significant number of commitments to extend credit. To accommodate major customers the bank also provides financial guarantees to third parties. These arrangements are subject to strict credit assessments. Guarantees specify limits to the bank's obligations as set out in note 21. The bank has entered into contracts (guarantees) that require it to make specified payments to reimburse the holder for a loss it makes if a debtor fails to make payments when it falls due in accordance with the debt instrument in place. Because most commitments and almost all guarantees expire without being funded in whole or in part, the contract amounts are not estimates of future cash flows. Loan commitments, letters of credit and guarantees have off balance sheet credit risk amounts equal to the contractual amounts.

## 25. Financial risk management (continued)

### 25.2 Credit risk (continued)

#### 25.2.2 Concentrations 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 contractual obligations to be similarly affected by the changes in economic and other conditions. The bank has exposure to major concentrations of credit risk which arise by customer type in relation to loans and credit commitments to specific industries (refer note 8.2 for sectoral analysis).

The bank monitors concentrations of credit risk by sector. An analysis of significant concentrations of credit risk from loans and advances at reporting date is as follows:-

| | | |
|---|---|---|
| - sugar manufacturing | E21.4 million | (2015: E26.4 million) |
| - sugar wholesaling | E252.4 million | (2015: E433.6 million) |
| - public sector | E123.2 million | (2015: E121.6 million) |
| - construction | E41.9 million | (2015: E195.4 million) |
| - manufacturing | E306.8 million | (2015: E516.8 million) |

The facilities that are above 25% of the bank's capital and reserves at the end of the previous year are subject to a risk participation agreement between the bank and Nedbank Limited. The effect of this agreement is to limit the bank's exposure for each of these facilities to 25% of capital and reserves. The bank's published capital and reserves at the end of the year were E659.2 million (2015: E567.6 million).

#### 25.2.3 Collateral and other credit enhancements

Collateral and other credit enhancement held by the bank at year end are disclosed in note 8.4 for non-performing loans and advances. The value of all collateral that the bank is permitted to sell or re-pledge on default by the owner held at year end was E1 178 316 961 (2015: E1 077 485 706).

The bank holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities and guarantees. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral are as follows:

- For commercial lending, charges over real estate properties, inventory, call and fixed deposits and trade receivables;
- For retail lending, mortgages over residential properties and lien over call and fixed deposits; and
- For non-performing advances, collateral consists of cash, funds on security realisation accounts, intrinsic value of underlying asset, guarantees by Central Bank of Swaziland and mortgage bonds.

At year end, the fair value of financial assets accepted as collateral that have been sold was E8 014 838 (2015: E8 835 463). These transactions are conducted under terms that are usual and customary to standard lending transactions.

## 25. Financial risk management (continued)

### 25.2 Credit risk (continued)

#### 25.2.4 Financial assets that are either past due or impaired

Past due but not impaired loans and advances are those for which contractual interest or principal payments are past due, but the bank believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the bank.

Financial assets of the bank which were neither past due nor impaired at year end amount to E2 836 million (2015: E2 859 million).

Financial assets of the bank which were past due and impaired at year end are disclosed in note 8.4 (for those impaired) and those that are past due but not impaired are disclosed below. Factors considered in determining impairment are disclosed in note 25.2.

Financial assets of the bank which were past due but not impaired are as follows:

| **2016**<br>**Class** | Total<br>E | 0 – 30 days<br>E | 30 – 60 days<br>E | 60 – 90 days<br>E | +90 days<br>E |
|---|---|---|---|---|---|
| Mortgage loans | **12 100 969** | **7 175 120** | **2 664 513** | **880 700** | **1 380 636** |
| Leases | **6 835 046** | **4 294 777** | **1 043 870** | **537 981** | **958 418** |
| Personal loans | **14 546 174** | **8 644 509** | **2 521 414** | **1 261 301** | **2 118 950** |
| Other loans | **3 389 291** | **2 066 503** | **404 281** | **294 004** | **624 503** |
| | **36 871 480** | **22 180 909** | **6 634 078** | **2 973 986** | **5 082 507** |

| **Class**<br>**2015** | | | | | |
|---|---|---|---|---|---|
| | 2 587 999 | 2 177 830 | 277 890 | 89 937 | 42 341 |
| Leases | 4 039 739 | 3 483 873 | 364 518 | 84 342 | 107 006 |
| Personal loans | 2 167 305 | 1 798 885 | 320 893 | 41 332 | 6 195 |
| Other loans | 2 562 842 | 1 736 612 | 370 921 | 199 348 | 255 961 |
| | 11 357 885 | 9 197 200 | 1 334 222 | 414 959 | 411 503 |

## 25. Financial risk management (continued)

### 25.2.5 Loans with re-negotiated terms

Loans with re-negotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the bank has made concessions that it would not otherwise consider. Re-negotiated loans at year end are as follows:

| Class | 2016<br>E | 2015<br>E |
|---|---|---|
| Mortgage loans | - | 1 616 284 |
| Leases | 115 173 | 1 236 072 |
| Personal loans | 262 020 | 289 930 |
| Other loans | - | 180 722 |
| | 377 193 | 3 323 008 |

There were no properties in possession at year end (2015: Nil).

### 25.2.6 Write off policy

The bank writes off a loan and any related allowance for impairment losses when it is determined that the loan or security is uncollectible. This determination is made after consideration of information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

### 25.3 Liquidity risk

Liquidity risk is the risk that the bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. This risk arises mainly in the treasury operations. ALCO is responsible for ensuring that the bank meets its planned commitments as they fall due.

The 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 daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The bank relies on deposits from customers and banks, and from group borrowings as its primary sources of funding. While the bank's debt securities and subordinated liabilities have maturities of over one year, deposits from customers and banks generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the bank liquidity risk and the bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

**Exposure to liquidity risk**

The key measures used by the bank for managing liquidity risk include the ratio of loans and advances to deposits; sources of quick liquidity to liabilities to the public; and checking of key sources of quick liquidity cover over the bank's top ten depositors.

Disclosure of a maturity analysis of financial liabilities is as follows:

## 25. Financial risk management (continued)

### 25.3 Liquidity risk (continued)

**Exposure to liquidity risk (continued)**

| | Note | Carrying amount E'000 | Gross nominal outflow E'000 | Less than 1 month E'000 | 1-3 months E'000 | 3 months to 1 year E'000 | 1-5 years E'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2016** | | | | | | | |
| *Non-derivative liabilities* | | | | | | | |
| Trade payables | **20** | **92 509 471** | **92 509 471** | **92 509 471** | **-** | **-** | **-** |
| Deposits from banks | **17** | **5 219 406** | **5 219 406** | **5 219 406** | **-** | **-** | **-** |
| Deposits from customers | **16** | **3 407 495 590** | **3 423 697 492** | **2 767 404 778** | **208 326 553** | **447 283 262** | **682 900** |
| Funding from other banks | **5** | **43 963 621** | **43 963 621** | **43 963 621** | **-** | **-** | **-** |
| | | **3 549 188 088** | **3 565 389 990** | **2 909 097 276** | **208 326 553** | **447 283 262** | **682 900** |
| *Derivative liabilities* | | | | | | | |
| Forward exchange contracts | 25.8 | 14 766 561 | 14 766 561 | 14 766 561 | - | - | - |
| Financial guarantee contracts | 21 | 173 777 492 | 173 777 492 | 173 777 492 | - | - | - |
| **31 December 2015** | | | | | | | |
| Non-derivative liabilities | | | | | | | |
| Trade payables | 20 | 74 108 391 | 74 108 391 | 74 108 391 | - | - | - |
| Deposits from banks | 17 | 6 622 606 | 6 622 606 | 6 622 606 | - | - | - |
| Deposits from customers | 16 | 3 107 086 891 | 3 121 023 645 | 2 340 143 539 | 464 677 399 | 315 483 603 | 719 104 |
| Funding from other banks | 5 | 31 322 925 | 31 322 925 | 31 322 925 | - | - | - |
| | | 3 219 140 813 | 3 233 077 567 | 2 452 197 461 | 464 677 399 | 315 483 603 | 719 104 |
| *Derivative liabilities* | | | | | | | |
| Forward exchange contract | 25.8 | 70 156 810 | 70 156 810 | 70 156 810 | - | - | - |
| Financial guarantee contracts | 21 | 186 591 711 | 186 591 711 | 186 591 711 | - | - | - |

## 25. Financial risk management (continued)

### 25.4 Interest rate sensitivity analysis

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Part of the bank's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The ALCO is also responsible for management of the interest rate sensitivity gap using the re-pricing analysis of assets and liabilities as disclosed below. The concentration of interest rate risk is disclosed below.

To measure interest rate risk, the bank measures the responsiveness of the different portfolios to changes in interest rate. From the use of the Basel stress scenario based on a 1st and 99th percentile of observed interest rate changes using a one year holding period and a minimum of five years of observation, the bank calculated 5% and 2.5% respectively. The bank uses this margin to shock its assets and liabilities to ascertain the impact of the interest rate changes in profit or loss. The effect of the sensitivity analysis on profit or loss is calculated as follows:

| | **2016 E'000** | 2015 E'000 |
|---|---|---|
| 500 bp instantaneous parallel decline in interest rates | **(69 170)** | (56 045) |
| 250 bp instantaneous parallel increase in interest rates | **34 585** | 28 022 |

## 25. Financial risk management (continued)

### 25.4 Interest rate sensitivity analysis (continued)

### 25.4.1 Repricing analysis of assets and liabilities

| 2016 | Call and 1 month E'000 | 2 months E'000 | 3 months E'000 | 4 - 6 months E'000 | 7 - 9 months E'000 | 10 - 12 months E'000 | Over 12 months E'000 | Non-rate sensitive E'000 | Total E'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Cash and short term funds | 342 576 | - | - | - | - | - | - | 318 399 | 660 975 |
| Other short-term funds | - | - | - | - | - | - | - | 51 066 | 51 066 |
| Government and public sector securities | 165 920 | 105 000 | 130 000 | 64 970 | - | - | 100 000 | (3 879) | 562 011 |
| Advances and other accounts | | | | | | | | | |
| - overdrafts | 325 287 | - | - | - | - | - | - | - | 325 287 |
| - mortgages | 1 052 103 | - | - | - | - | - | 68 847 | 2 792 | 1 123 742 |
| - other | 1 516 905 | - | - | - | - | - | - | (64 787) | 1 452 118 |
| Group companies | - | - | - | - | - | - | - | 1 949 | 1 949 |
| Investments | - | - | - | - | - | - | - | 2 594 | 2 594 |
| Property and equipment | - | - | - | - | - | - | - | 25 498 | 25 498 |
| Derivative asset | - | - | - | - | - | - | - | 29 660 | 29 660 |
| Total assets | 3 402 791 | 105 000 | 130 000 | 64 970 | - | - | 168 847 | 363 292 | 4 234 900 |
| **Liabilities and shareholders' funds** | | | | | | | | | |
| Current accounts | 32 655 | - | - | - | - | - | - | 699 476 | 732 131 |
| Call and demand deposit accounts | 1 361 295 | - | - | - | - | - | - | - | 1 361 295 |
| Savings deposits | 232 652 | - | - | - | - | - | - | - | 232 652 |
| Group companies | 43 882 | - | - | - | - | - | - | 82 | 43 964 |
| Other deposits and liabilities | 190 569 | 52 838 | 154 323 | 210 941 | 172 072 | 54 428 | 668 | 355 098 | 1 190 937 |
| Derivative liabilities | - | - | - | - | - | - | - | 14 767 | 14 767 |
| Shareholders' funds | - | - | - | - | - | - | - | 659 154 | 659 154 |
| Total liabilities and shareholders' funds | 1 861 053 | 52 838 | 154 323 | 210 941 | 172 072 | 54 428 | 668 | 1 728 577 | 4 232 900 |
| Interest rate sensitivity gap | 1 536 411 | 52 162 | (24 323) | (145 971) | (172 072) | (54 428) | 168 179 | (1 359 958) | - |
| Cumulative gap | 1 536 411 | 1 588 573 | 1 544 250 | 1 418 279 | 1 564 250 | 1 418 279 | 1 191 779 | 1 359 958 | - |

## 25. Financial risk management (continued)

### 25.4 Interest rate sensitivity analysis (continued)

### 25.4.1 Repricing analysis of assets and liabilities (continued)

| 2015 | Call and 1 month E'000 | 2 months E'000 | 3 months E'000 | 4 - 6 months E'000 | 7 - 9 months E'000 | 10 - 12 months E'000 | Over 12 months E'000 | Non-rate sensitive E'000 | Total E'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Cash and short term funds | 170 800 | - | - | - | - | - | - | 300 747 | 471 547 |
| Other short-term funds | - | - | - | - | - | - | - | 48 340 | 48 340 |
| Government and public sector securities | - | 7 701 | 88 809 | 251 786 | 37 977 | 236 | - | - | 386 509 |
| Advances and other accounts | | | | | | | | | |
| - overdrafts | 196 353 | - | - | - | - | - | - | - | 196 353 |
| - mortgages | 1 091 554 | 31 | - | 25 | 496 | - | 62 055 | - | 1 154 161 |
| - other | 1 571 143 | - | - | - | - | - | - | (56 875) | 1 514 268 |
| Group companies | - | - | - | - | - | - | - | 2 547 | 2 547 |
| Investments | - | - | - | - | - | - | - | 2 436 | 2 436 |
| Property and equipment | - | - | - | - | - | - | - | 24 167 | 24 167 |
| Derivative asset | - | - | - | - | - | - | - | 73 581 | 73 581 |
| Total assets | 3 029 850 | 7 732 | 88 809 | 251 811 | 38 473 | 236 | 62 055 | 394 943 | 3 873 909 |
| **Liabilities and shareholders' funds** | | | | | | | | | |
| Current accounts | 29 812 | - | - | - | - | - | - | 620 191 | 650 003 |
| Call and demand deposit accounts | 1 288 770 | - | - | - | - | - | - | - | 1 288 770 |
| Savings deposits | 202 911 | - | - | - | - | - | - | - | 202 911 |
| Group companies | 31 228 | - | - | - | - | - | - | 95 | 31 323 |
| Other deposits and liabilities | 125 193 | 231 646 | 181 271 | 117 043 | 107 935 | 83 563 | 703 | 215 780 | 1 063 134 |
| Derivative liabilities | - | - | - | - | - | - | - | 70 157 | 70 157 |
| Shareholders' funds | - | - | - | - | - | - | - | 567 611 | 567 611 |
| Total liabilities and shareholders' funds | 1 677 914 | 231 646 | 181 271 | 117 043 | 107 935 | 83 563 | 703 | 1 473 834 | 3 873 909 |
| Interest rate sensitivity gap | 1 351 936 | (223 914) | (92 462) | 134 768 | (69 462) | (83 327) | 61 352 | (1 078 891) | - |
| Cumulative gap | 1 351 936 | 1 128 022 | 1 035 560 | 1 170 328 | 1 100 866 | 1 017 539 | 1 078 891 | - | - |

## 25. Financial risk management (continued)

### 25.5 Operational risk

Operational risk is the risk of a loss arising from fraud, transactional or control error or system flaw. Exposures to operational risks are managed by an Enterprise-wide Risk Committee (ERCO) which was established in January 2006, through an on-going review of transactional data and reconciling items, evaluation and adoption of international best practice and management of information technology resources.

### 25.6 Commercial risk

This is the risk of the adverse effect of initiating or suffering change in the scope or extent of business activities. The bank and the holding company constantly monitor trends and events and carry out appropriate research with a view to anticipating and avoiding adverse effects.

### 25.7 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The following net foreign exchange assets recognised in the statement of financial position are not covered by forward exchange contracts:

| | **2016 Foreign currency 000** | **2016 Local currency E'000** | 2015 Foreign currency 000 | 2015 Local currency E'000 |
|---|---|---|---|---|
| British Pounds | **62** | **1 051** | 13 | 292 |
| United States Dollars | **137** | **1 880** | 173 | 2 683 |
| Canadian Dollars | **(1)** | **(13)** | 1 | 12 |
| Euros | **43** | **626** | 27 | 450 |
| Botswana Pula | **54** | **69** | 55 | 76 |
| Other | **117** | **1 159** | 16 | 198 |
| | | **4 772** | | 3 711 |

These assets make up less than 5% of the bank's total assets. These funds are held by the bank on behalf of clients and any foreign exchange risk is borne directly by the client. As such, a sensitivity analysis is not included.

Forward foreign exchange contracts are denominated mainly in British Pounds, United States Dollars and Euros and constitute of fully covered positions. When entering into forward foreign exchange contracts, credit risk is assessed with reference to customers' available facilities.

## 25. Financial risk management (continued)

### 25.8 Derivative financial instruments

The following tables summarise the effect of trading forward exchange contracts entered into by the bank at the reporting date:-

| | Within 1 year 2016 E'000 | After 1 year but within 5 years 2016 E'000 | After 5 years 2016 E'000 | Net fair value 2016 E'000 | Fair value of assets 2016 E'000 | Fair value of liabilities 2016 E'000 | Net contract/ Notional amount 2016 E'000 | Net fair value 2015 E'000 | Fair value of assets 2015 E'000 | Fair value of liabilities 2015 E'000 | Net contract/ notional amount 2015 E'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *Maturity analysis of net fair value* | | | | | | | | | | | |
| Foreign exchange derivatives | **14 893** | **-** | **-** | **14 893** | **29 660** | **(14 767)** | **2 012** | 3 425 | 73 581 | (70 157) | 594 |
| Total derivative assets/ (liabilities) held for trading | **14 893** | **-** | **-** | **14 893** | **29 660** | **(14 767)** | **2 012** | 3 425 | 73 581 | (70 157) | 594 |

## 25. Financial risk management (continued)

### 25.8 Derivative financial instruments (continued)

These transactions have been entered into in the normal course of business and no material losses are anticipated other than those for which provision has been recognised in profit or loss. There are no commitments or contingent commitments under derivative financial instruments that are settled other than in cash.

### 25.8.1 Notional principal

Notional principal represents the gross value of all outstanding contracts as at 31 December 2016. This gross notional value is the sum of the absolute value of all purchases and sales of derivative instruments. This amount reflects the amount receivable or payable under a derivative contract. The notional amount represents only the measure of involvement by the bank in derivative contracts and not its exposure to market or credit risks arising from these contracts.

### 25.8.2 Fair value of financial instruments

The amounts disclosed represent the fair value of all derivative financial instruments held as at 31 December 2016. The fair value of a financial instrument 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. The fair value of a derivative financial instrument represents the market value if the rights and obligations arising from that instrument were closed out by the bank in normal trading conditions as at 31 December 2016. Fair values are obtained from quoted market prices, discounted cash flow models, and market-accepted pricing models. All derivative financial instruments mature in less than 12 months.

At 31 December 2016 the carrying amount of unlisted assets approximated their fair values. Management's valuation of unlisted investments is equal to the carrying value. All unlisted investments were valued at cost at 31 December 2016. Disclosure of fair value is not provided because their fair value cannot be reliably measured. The SAECH investment is an investment in a mutual breakeven entity that provides transaction processing and settlement services to all the banks in Swaziland. The bank does not have a significant influence over this investment as this is a shared service entity under the control of the Central Bank of Swaziland, the administrator. The investment in SIDC is in an entity that plays the role of a facilitator for private sector investments in Swaziland, in line with government's policy of supporting private sector development as a key factor for economic growth and employment creation. The bank is not considering disposing of these two investments due to their nature and the unavailability of markets. The Lilangeni Fund is a unit trust investment through African Alliance. The bank does not hold significant percentages nor have control of this investment. The bank does not intend to dispose of these investments.

There have been no changes in valuation techniques during the year under review.

## 25. Financial risk management (continued)

### 25.8.3 Fair value of financial assets and liabilities

**Fair Value Hierarchy of financial instruments measured at fair value**

The bank measures fair values using the following fair value 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 not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the bank determines fair values using valuation techniques.

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level in the fair value hierarchy in to which the fair value measurement is categorised.

| | Level 1<br>E | Level 2<br>E | Level 3<br>E | Total<br>E |
|---|---|---|---|---|
| **31 December 2016** | | | | |
| Derivative assets held for risk management – foreign exchange | - | 29 659 904 | - | 29 659 904 |
| *Investment securities* | | | | |
| Unlisted equities | - | - | 375 020 | 375 020 |
| Government securities | - | 562 011 010 | - | 562 011 010 |
| African Alliance unit trust | - | 2 218 966 | - | 2 218 966 |
| Nedbank Group unit trust | - | 607 787 | - | 607 787 |
| | - | 594 497 667 | 375 020 | 594 872 687 |
| *Trading liabilities* | | | | |
| Derivative liabilities held for risk management- foreign exchange | - | 14 766 561 | - | 14 766 561 |
| | - | 14 766 561 | - | 14 766 561 |

## 25. Financial risk management (continued)

### 25.8.3 Fair value of financial assets and liabilities (continued)

| | Level 1 E | Level 2 E | Level 3 E | Total E |
|---|---|---|---|---|
| **31 December 2015** | | | | |
| Derivative assets held for risk management | | | | |
| – foreign exchange | - | 73 581 355 | - | 73 581 355 |
| Investment securities | | | | |
| Unlisted equities | - | - | 375 000 | 375 000 |
| Government securities | - | 386 509 168 | - | 386 509 168 |
| African Alliance unit trust | - | 2 060 846 | - | 2 060 846 |
| Nedbank Group unit trust | - | 607 787 | - | 607 787 |
| | - | 462 759 156 | 375 000 | 463 134 156 |
| *Trading liabilities* | | | | |
| Derivative liabilities held for risk management | - | 70 156 810 | - | 70 156 810 |
| | - | 70 156 810 | - | 70 156 810 |

There were no movements (transfers) in Level 3 and as such a reconciliation has not been included.

*Financial instruments not measured at fair value*

The carrying amount of financial instruments not measured at fair value approximates fair value.

**25.8.4** Details of the bank's risk management structure, policies and methods are set out in note 25 and the interest rate risk analysis is detailed in notes 25.4 and 25.9.

### 25.8.5 Capital 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 Swaziland ("CBS") which monitor the banks' capital requirements.

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, share premium, retained earnings and other regulatory adjustments.
- Tier II capital, which includes qualifying subordinated liabilities.

## 25. Financial risk management (continued)

### 25.8.5 Capital management (continued)

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

| | 2016 E'000 | 2015 E'000 |
|---|---|---|
| **Tier I Capital** | | |
| Ordinary share capital | 12 305 | 11 931 |
| Share premium | 10 070 | 7 952 |
| Statutory reserves | 94 143 | 82 033 |
| Retained earnings | 426 856 | 341 109 |
| Profit for the year | 121 099 | 115 205 |
| | 664 473 | 558 230 |
| **Tier II Capital** | | |
| General debt provision | 41 406 | 31 738 |
| Revaluation reserves | 615 | 615 |
| | 42 021 | 32 353 |
| **Total regulatory capital** | 706 494 | 590 583 |
| ***Risk-weighted assets*** | | |
| CBS calculated total | 3 261 873 | 2 859 192 |
| ***Capital ratios*** | | |
| Total capital as % of total risk-weighted assets | | |
| CBS | 21.7% | 20.7% |
| Total tier 1 as % of risk-weighted assets | | |
| CBS | 20.4% | 19.5% |

## 26. Related parties (continued)

Related parties comprise the Nedbank Group Limited group of companies.

### 26.1 Amounts due to/by holding company and fellow subsidiaries

| | 2016 E'000 | 2015 E'000 |
|---|---|---|
| **Amounts due by holding company and fellow subsidiaries** | | |
| Nedbank Lesotho Limited (fellow subsidiary) | **1 100** | 1 698 |
| Nedbank Limited (parent - included in Note 5) | **849** | 849 |
| | **1 949** | 2 547 |
| **Amounts due to holding company and fellow subsidiaries** | | |
| Nedbank London Limited (fellow subsidiary) | **82** | 95 |
| Nedbank Limited (parent) | **43 882** | 31 228 |
| | **43 964** | 31 323 |

Transactions with related companies are on the basis and the terms and conditions reflected in the relevant note.

### 26.2 Related party transactions

Funds are invested with and by correspondent banks (within the group) and interest at commercial rates has been (received) and paid as follows:

| | 2016 E'000 | 2015 E'000 |
|---|---|---|
| Interest received – Nedbank Limited (parent) | **(10 361)** | (159) |
| Service charge – Nedbank Lesotho Limited (fellow subsidiary) | **3** | 8 |
| Interest paid – Nedbank Limited (parent) | **1 811** | 8 737 |

Included in other operating expenses are the following amounts paid to the parent company

| | 2016 E'000 | 2015 E'000 |
|---|---|---|
| Management fees paid | **23 855** | 29 784 |
| Computer support (includes Flexcube costs) | **20 725** | 1 548 |
| Risk participating fee | **1 160** | 4 377 |

No impairments have been recognised for loans granted to fellow related entities.

## 26. Related parties (continued)

### 26.3 Transactions with key management personnel

Key management personnel are those who have authority and responsibility for planning, directing and controlling the activities of the bank, directly or indirectly, including all directors of the company as well as close members of the family of any of these individuals.

Transactions with key management personnel include salaries, bonuses and loans.

Compensation paid to the board of directors and compensation paid to other key management personnel, as well as shared-based payment transactions, is shown below:

***Compensation***

| | **Directors E** | **Key management personnel E** | **Total E** |
|---|---|---|---|
| **2016** | | | |
| Directors' fees | **480 743** | **-** | **480 743** |
| Remuneration | **1 655 655** | **7 294 783** | **8 950 438** |
| Short term employee benefits | **1 437 307** | **6 564 666** | **8 001 973** |
| Post-employment benefits | **218 348** | **730 117** | **948 465** |
| | **2 136 398** | **7 294 783** | **9 431 181** |

| | Directors E | Key management personnel E | Total E |
|---|---|---|---|
| **2015** | | | |
| Directors' fees | 417 642 | - | 417 642 |
| Remuneration | 1 567 564 | 7 630 085 | 9 197 649 |
| Short term employee benefits | 1 360 834 | 6 623 829 | 7 984 663 |
| Post-employment benefits | 206 730 | 1 006 256 | 1 212 986 |
| | 1 985 206 | 7 630 085 | 9 615 291 |

## 26. Related parties (continued)

### 26.3 Transactions with key management personnel (continued)

***Number of restricted shares and share options***

| | 2016 | 2015 |
|---|---|---|
| **Restricted Shares** | | |
| Outstanding at the beginning of the year | **41 177** | 41 177 |
| Granted | **(41 177)** | - |
| Outstanding at year end | **-** | 41 177 |
| **Share Options** | | |
| Outstanding at the beginning of the year | **164 706** | 164 706 |
| Granted | **(164 706)** | - |
| Outstanding at year end | **-** | 164 706 |
| **Loans to key personnel** | | |
| Mortgage lending and other secured loans | **11 255** | 5 699 |
| Other loans | **2 077** | 1 393 |
| | **13 332** | 7 092 |

No impairments has been recognised for loans granted to key management. These loans are repayable monthly over a period of 20 years for mortgages and these loans are collaterised by the properties that were financed.

### 26.4 Related party contingent liabilities and commitments

There were no guarantees issued in favour of the holding company (2015: Nil). Forward foreign currency exchange contracts are entered into with the holding company – refer note 25.8.

## 27. Operating segments

The directors of the bank have determined that they operate the bank and report as only one segment, both in terms of business and geography after taking into consideration the internal organisational and management structure, the system of internal financial reporting, the services/products offered, the markets and customers. As such, no segment reporting is necessary.

All revenues are from numerous customers that are not significant when considered individually and who are based in Swaziland. All non-current assets of the bank are in Swaziland.

# Annual General Meeting

## NOTICE TO SHAREHOLDERS

Notice is hereby given that the 42nd Annual General Meeting of the members of Nedbank (Swaziland) Limited will be held on Wednesday 31 May, 2017 in the Libandla Room at Royal Swazi Sun, Old Mbabane/Manzini Main Road, Ezulwini at 13h30 hours to transact the following business:-

1. To approve the Minutes of the Annual General Meeting held on 24 May 2016.

2. To receive, consider and adopt the Annual financial Statements for the year ended 31 December 2016, together with the Reports of the Directors and Auditors thereon.

3. In order to comply with Section 20(1) of the Financial Institutions Act, 2005 SZL 12 109 883 to be transferred to a Statutory Reserve Account being an amount not less than 10% of the net profit for the period.

4. To note and confirm the final dividend of 135 cents per share for the year ended 31 December 2016, declared on 8 March 2017, paid to members on 25 May 2017.

5. To appoint Independent Auditors for the ensuing year and to authorise directors to determine the remuneration of the company's auditors and fix the remuneration of the Auditors for the past year.

6. In accordance with Article 100 of the Articles of Association, Messrs. M.D. Mthembu and V.N. Nkambule retire as a Directors and being willing and eligible offer themselves for re-election

7. To note and confirm the remuneration paid to Directors for the past financial year.

By Order of the Board

**P. GWEBU**
COMPANY SECRETARY

# Definition of Acronyms and Terms Used in our Report

**ATM**

Automated Teller Machine. A cash machine or free-standing device dispensing cash, which may also provide other information or services to clients who have a card and a personal identification number, password or other personal identification.

**BASEL CAPITAL ACCORD (BASEL II)**

The new Basel Capital Accord (Basel II) of the Bank for International Settlements is an improved capital adequacy framework accomplished by closely aligning banks' capital requirements with improved modern risk management practices and sophisticated risk assessment capabilities. It further ensures the risk sensitivity of the minimum capital requirements by including supervisory reviews and market discipline through enhanced disclosure.

**CAPITAL ADEQUECY RATIO (CAR)**

The capital adequacy of South African banks is measured in terms of the South African Banks Act requirements. The ratio is calculated by dividing the primary (Tier 1), secondary (Tier 2) and tertiary (Tier 3) capital by the risk-weighted assets.

**CAPITAL RISK**

The risk that the group will become unable to absorb losses, maintain public confidence and support the competitive growth of the business. This entails ensuring that opportunities can be acted on timeously, while solvency is never threatened.

**CASHFLOW**

Financing activities Activities that result in changes to the capital and liability structure of the bank. Investment activities Activities relating to the acquisition, holding and disposal of subsidiaries, property and equipment and long- term investments. Operating activities Activities that are not fi nancing or investing activities and that arise from the operations conducted by the bank.

**COMPLIANCE RISK**

The risk to earnings and capital arising from violations of or non-compliance with laws, rules and regulations, as well as internal bank policies and authority levels, prescribed practices and ethical standards.

**CREDIT LOSS RATIO (CLR)**

The total specific impairments charge on income statement over the total loans and advances.

**CREDIT RISK**

The risk to earnings and capital arising from the probability of borrowers and counterparties failing to meet their repayment commitments, (including accrued interest). Credit concentration risk arises on a portfolio basis where the bank has significant aggregated exposures to particular credit segments, sectors of industry or other portfolio.

### DEFERRED TAXATION ASSETS

Deferred taxation assets are the amounts of income taxation recoverable in future years in respect of:

- Deductible temporary differences arising from differences between the taxation and accounting treatment of transactions; and
- the carry-forward of unused taxation transactions.

### DEFERRED TAXATION LIABILITIES

Deferred taxation liabilities are the amounts of income taxation payable in future years as a result of differences between the taxation and accounting treatment of transactions.

### DIVIDEND DECLARED PER SHARE

Dividend per share is the actual interim dividend paid/capitalisation award issued and the final dividend/capitalisation award declared for the year under consideration, expressed in cents.

### EARNINGS PER SHARE (EPS)

Basic earnings basis Income attributable to equity holders for the year divided by the weighted average number of ordinary shares in issue (net of shares held by bank entities) during the year. Headline earnings basis Headline earnings divided by the weighted average number of shares in issue (net of shares held by bank entities) during the year.

### EFFICIENCY RATIO (COST-TO-INCOME RATIO)

Total operating expenses (excluding indirect taxation) as a percentage of total income from normal operations (net interest income plus non-interest revenue).

### ENTERPRISE-WIDE RISK

All risk types and categories across all business lines, functions, geographical locations and legal entities of the bank collectively known as its 'risk universe'.

### ERCO

Enterprisewide Risk Committee.

### ERMF

Enterprisewide Risk Management Framework.

### EXPENSES TO AVERAGE ASSETS

Operating expenses for the year divided by average total assets.

### FLEXCUBE

The Core Banking System.

**FOREIGN ACCOUNT TAX COMPLIANCE ACT (FATCA)**

The United States of America act for reporting foreign financial assets of those living outside the USA.

**GROSS DOMESTIC PRODUCT (GDP)**

The total market value of the goods and services produced by a country's economy during a specific period of time.

**HEADLINE EARNINGS (HE)**

Headline earnings do not measure maintainable earnings. For purposes of definition and calculation the guidance given on headline earnings, as issued by the South African Institute of Chartered Accountants in circular 07/02 of December 2002, has been used. Headline earnings consist of the earnings attributable to ordinary shareholders, excluding non-trading and capital items.

**HEDGE**

A risk management technique used to insulate financial results from market, interest rate of foreign currency exchange risk (exposure) arising from normal banking operations. The elimination or deduction of such exposure is accomplished by establishing offsetting positions. For example, assets denominated in foreign currencies can be offset against liabilities in the same currencies or through the use of foreign exchange hedging instruments such as futures, options or foreign exchange contracts.

**IFRS**

International Financial Reporting Standards, as adopted by the International Accounting Standards Board, (IASB), and interpretations issued by the International Reporting Interpretations Committee (IFRIC) of the IASB. Nedbank Group's consolidated financial statements are prepared in accordance with (IFRS).

**IMPAIREMENT OF LOANS AND ADVANCES**

Impairment of loans and advances arises where there is objective evidence that the bannk will not be able to collect an amount due. The impairment is the difference between the carrying amount and the estimated recoverable amount.

**INTEREST RATE RISK**

Interest rate risk in the banking book is the risk that a bank's earnings or economic value will decline as a result of changes of bank assets, liabilities and off-balance-sheet positions;

- basis risk-imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics;
- yield curve risk changes in the shape and slope of the yield curve; and
- embedded-options risk – pertaining to interest-related options embedded in bank products.

**KING III (THE CODE)**

The King Report on Corporate Governance 2002, which sets out principles of good corporate governance for companies and organisations.

**MARKET RISK**

Market risk is the potential impact on earnings of unfavourable changes in foreign exchange rates, interest rates, prices, market volatilities and liquidity. Market risk includes trading risk and, in terms of the banking book, derivative instruments used for hedging risk in non-trading portfolios, investment risk, translation risk and interest rate risk. Investment risk arises from changes in the fair value of investments and includes private equity and property as well as strategic investments.

**NET INTEREST MARGIN (NIM)**

Interest spread between yield from loans and advances and interest paid on deposits.

**NON-INTEREST REVENUE TO TOTAL INCOME**

Income from normal operations, excluding net interest, as a percentage of total income from normal operations.

**OPERATIONAL RISK**

The risk loss resulting from inadequate or failed internal processes and systems, incompetent people or external events. This defi nition includes legal risk.

**ORDINARY SHAREHOLDERS' FUNDS**

Total equity attributable to equity holders of the parent.

**PERFORMING ADVANCES**

Loans and advances on which all instalments have been paid to date.

**POINT OF SALE (POS)**

A device which allows clients who have a card to make purchases without the use of cash.

**RETURN ON TOTAL ASSETS**

Headline earnings expressed as a percentage of average total assets.

**RETURN ON ORDINARY SHAREHOLDERS' EQUITY (ROE)**

Headline earnings expressed as a percentage of average equity attributable to equity holders of the parent.

**STRATEGIC RISK**

Strategic risk relates to the consequences that arise when the environment in which decisions that are hard to implement quickly and to reverse has an unattractive or adverse impact. Strategic risk ultimately has two elements; doing the right thing at the right time; and doing it well.

## NOTES

# COMPANY DETAILS

## HEAD OFFICE

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### RIVERSTONE BRANCH
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+268-2335 0141
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