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Nedbank Swaziland Limited

Integrated Report 2017

FOR THE YEAR ENDED 31 DECEMBER

see money differently

NEDBANK

A Member of the OLDMUTUAL Group

CONTENTS

We welcome feedback on this report.
Please address any questions, comments
or suggestions to helpdesk@nedbank.co.sz

View our Integrated Annual Report on
www.nedbank.co.sz

ABOUT THIS REPORT

This is the primary report of Nedbank (Swaziland) Limited to its stakeholders, and it outlines the issues, activities, relationships, interactions and performance of the company within its operating and marketing context between 1 January 2017 and 31 December 2017. The aim of the report is to provide all our stakeholders with a balanced and integrated insight into the ability of Nedbank Swaziland to create value in the short, medium and long term.

While the scope and boundary of the report remain unchanged from those of the prior year, the material issues have been identified and reported upon with reference to the six capitals – financial, manufactured, intellectual, human, social and relationship, and natural – as outlined in the International Integrated Reporting Council (IIRC) framework. The report was also prepared with regard to the governance principles established by the King IV Code on Corporate Governance (King IV).

MATERIAL MATTERS

This report is founded on the material matters outlined on pages 14 and 15. We define material matters for reporting purposes as those issues that could substantially affect our ability to create and sustain value over the short, medium and long term. These material matters inform our strategy as well as our approach to risk, the opportunity for growth and our capacity to create sustainable value. (For more on materiality, strategy and risk, see Material Matters, Our Strategy, and Managing Risk, on pages 14, 25 and 16, respectively.)

Since our first integrated report, no significant changes have been made to the scope, boundary or measurement methods applied in this report. We also include strategic measures to be adopted in the short to medium term, up to the year 2020.

FORWARD-LOOKING STATEMENTS

Certain forward-looking statements are made in the report, particularly with regard to the impact of global and domestic economic conditions on our strategy, performance and operations. These forward-looking statements thus involve both known and as yet unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements.

INTEGRATED REPORTING

In this report, we have provided a more complete picture of strategy, governance and performance – and how they are linked in order to provide our stakeholders with a contextualised perspective on our ability to create value from the standpoint of our business, both as an autonomous franchise, and as a member of the Nedbank Group.

RESPONSIBILITY OF THE BOARD OF DIRECTORS (THE BOARD)

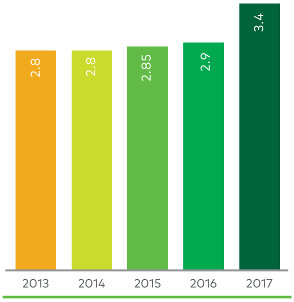
The Board is responsible for overseeing the integrity of this Integrated Report, and acknowledges its responsibility for ensuring its integrity. The Board has applied its collective mind in the presentation and preparation of this report, and believes it is a fair representation of the integrated performance of Nedbank (Swaziland) Limited.

WHO WE ARE

Nedbank (Swaziland) Limited (the Bank) 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.

LOANS AND ADVANCES

E3.5bn



HIGHLIGHTS

E110m
HEADLINE EARNINGS

E142.7m
NET INTEREST REVENUE

E266.3m
NET INTEREST INCOME

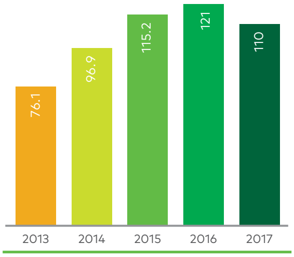
E409m
OPERATING INCOME

0.61%
CREDIT LOSS RATIO

57.1%
EFFICIENCY RATIO

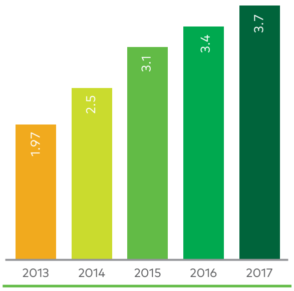
HEADLINE EARNINGS

E110m



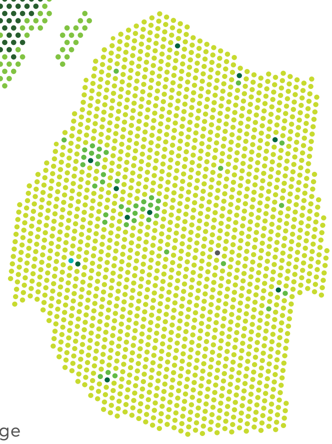
DEPOSITS

E3.7bn



WHERE WE OPERATE

- Nedbank's existing presence
- Expansion opportunities



- 10 Nedbank Branches
- 45 Nedbank ATMs
- 1 Nedbank Agent
- 1 Nedbank Bureau de Change

> In building Swaziland's most admired bank by our staff, clients, shareholders, regulators and communities, we want to be most admired by all our stakeholders.

Our passionate and motivated people help us attract and retain clients who are central to our ability to deliver sustainable profits. We operate in a highly regulated environment and we aim to be admired by our regulators.

As a 'green and caring bank', we are a strong advocate and influencer on social and environmental matters.

OUR PURPOSE

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

OUR VISION

To be the most admired financial services provider in Africa by our staff, clients, shareholders, regulators and communities.

OUR MISSION

To be a great bank at providing customised solutions to sustainable and profitable high-value segments in Wholesale, Business and Retail banking.

LIVING OUR VALUES

Integrity | Respect | Accountability | Client-driven | People-centred

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

CREATING VALUE

The Board has full confidence that the Bank is in capable hands and that through the dedication of our staff, we will continue to make a difference to our clients by using our financial expertise to do good for individuals, families, businesses and society.

MESSAGE FROM THE CHAIRMAN

E409m
OPERATING INCOME

Barnabas Mhlongo
Chairman

> As a business that is cognisant of the context in which we operate, we continually examined this environment, which comprises not only the external financial, political and social landscape, but our internal structures and functions as well during the year under review.

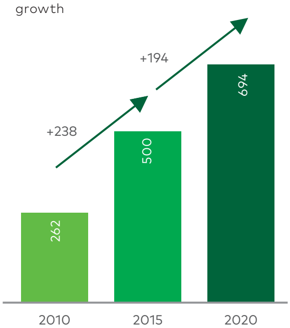
OUR EXTERNAL ENVIRONMENT

The year under review was one in which the economy of Swaziland continued to display the subdued growth evident over past years. Government spending continued to be moderate, with GDP showing lower values, having averaged 2.9% between 2011 and 2015, and projected to average just 1.1% between 2016 and 2020. We thus felt the impact of government liquidity concerns, with related matters such as increasing poverty levels and high unemployment driving demand down.

On the back of greatly improved climatic conditions, there is an expectation that the agricultural sector will show growth, with associated growth in manufacturing, construction and the public sectors. We have identified these sectors to increase our market share.

Market profit pool

(–) Slower GDP growth (average 2011 – 2015: 2.9%, 2016 – 2020: 1.1%
(–) Rising unemployment and government liquidity concerns
(+) Public sector and agriculture to drive growth

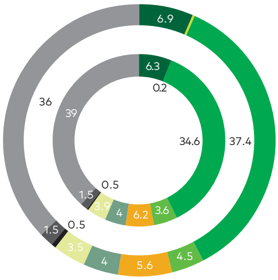


Source: Business Monitor International (BMI)

KEY SECTOR CONTRIBUTIONS AND GROWTH RATES

GDP Sector contribution (2016 – 2019)

%



- Agriculture, Sugar & Forestry
- Mining and Quarrying (P)
- Manufacturing (including Sugar)
- Construction (T)
- Real Estate (T)
- Communication and Transport
- Other Financial Corporations

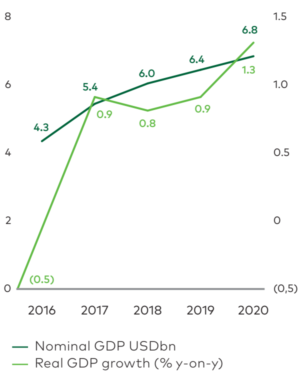
Source: Business Monitor International (BMI)

GDP Sector expected growth percentages

SECTORS	2016 – 2020 %
Agriculture, Sugar & Forestry (P)	23
Mining & Quarrying (P)	10
Manufacturing (S)	18
Construction (S)	39
Real Estate (T)	1
Communication & Transport (T)	12
Other Financial Corporations (T)	3
Social, Human Health & Personal Services (T)	10
Hotel & Restaurants (including Tourism & Distribution (T)	6
Other	8

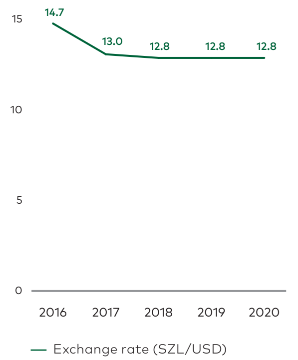
Source: Business Monitor International (BMI)

GDP Sector contribution (2016 – 2020)



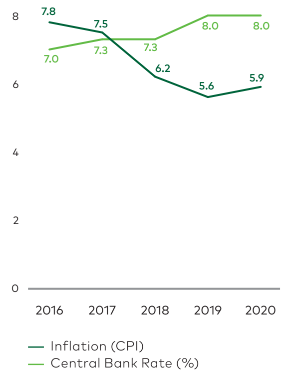
Source: Business Monitor International (BMI)

GDP Sector expected growth percentages



Source: Business Monitor International (BMI)

Average inflation and bank rate



Source: Business Monitor International (BMI)

Average inflation remained at 6.2% during FY2017. The likelihood is that inflation will increase with fiscal challenges, with a potential impact on growth, should an upward trend persist. This also constitutes a market risk for us, along with other variables such as continuing government cash flow challenges, the exchange rate and emerging competition from non-bank financial services and pension funds, with the latter factor one of a whole set of developing challenges arising in our external environment.

NON-BANK FINANCIAL SERVICES

There has been a rise in Financial Technology Companies (Fintechs) offering clients banking products that were traditionally available solely through the banking sector and in some instances even partnering with banks.

The Bank is making strides towards embracing the digital era through the roll-out of our digital strategy. The Financial Services Regulatory Authority issued new regulations requiring pension and retirement funds to invest 50% of their assets in the local market, an increase of 20%.

CHAIRMAN'S REPORT (continued)

In pursuit of better yields, pension and retirement funds have historically invested offshore. However, with the new requirement to invest funds locally, a new liquidity has been injected into the domestic market. This is expected to introduce further competition complexities as the pension and retirement funds will be seeking investment vehicles that have previously been the domain of the banking sector. In addition, the excess funds will increase the cost of capital as the pension funds will seek to attract higher yields with their placements, resulting in price wars between banks and retirement funds.

THE REGULATORY UNIVERSE

There has been significant change in the regulatory environment, with a stricter approach on the part of the regulating authorities as well as a new regulatory body having a noticeable impact on the way we do business. This development has increased the profile of an issue which has been present for some years – the unevenness of the way in which regulations were imposed and required. It is worth noting that a more relaxed regime is in place for the Mobile Network Operators (MNOs) and that they are not regulated by the Financial Services Regulatory Authority (FSRA), as is the case with banks and retirement funds.

The Swaziland Financial Intelligence Unit (FIU) was established to have oversight over the issue of money laundering. While this function used to be housed within the Central Bank, it has now been established as an independent regulatory authority. There, however, remain challenges in this sphere as the primary regulator still exercises direct supervision on Anti-Money Laundering (AML) issues which results in overlapping accountabilities. In our view, there is work still to be done to harmonise the AML regulatory environment.

With increased competition from the MNOs, pension funds and the building society – which was granted a banking licence – and the proliferating regulatory challenges, the external environment has proven to be one in which resourcefulness, dynamism and adaptability are key to our ongoing ability to create value for all our stakeholders which we are convinced we can achieve to help strengthen the implementation of our strategy in the years leading up to 2020.

OUR INTERNAL ENVIRONMENT

During the year under review, the Bank experienced industrial action which had a notable impact on the momentum of the business. The industrial action took place over a period of five weeks from 24 July to 25 August 2017. This emanated from a disagreement with the employee representative Union regarding the implementation of a Job Evaluation and cost of living adjustment.

The industrial action resulted in relations between the union and the Bank being adversely affected, with some of the distrust caused by the excessive length of time it took to implement the Job Evaluation. Up to now, the unfulfilled expectations remain. We have started and continue to work to restore the trust that was, to some extent, eroded. We also viewed the issue of industrial action as a short-term risk, and we are implementing supplementary interventions that seek to address people risk issues holistically. (For more on our people and on risk, see under Human Resources and Managing Risk on pages 41 and 16 respectively.)

Another internal factor that had an effect during the year under review was a change in our approach to managing risk.

RISK MANAGEMENT

As we evolved from our initial competitive position which we defined as "Invest and build" into the growth phase "Grow and innovate", we have recognised the need to create a sustainable risk environment.

From an organisation that has traditionally been conservative in our approach to risk, it became evident in 2017 that in order to implement and embed our strategy and regain competitiveness, we need to progress from being an organisation with a limited risk appetite. We, therefore, conducted an exercise towards the end of FY2017 from which we identified spaces where we could somewhat relax our risk appetite or better use it as an enabler within the business.

I am gratified to be able to say that with all these factors coming to the fore in our operating environment, we have a strong business strategy in place. As we continue to apply our strategic and operational resources to meet the challenges we identify, we are confident that we will continue to deliver value in the short, medium and long term.

APPRECIATION

It remains for me to commend the Board and its committees for the value they add to the ongoing success of the Bank, and to the executive team led by Ms. Fikile Nkosi and the entire staff of Nedbank Swaziland. I wish to express sincere gratitude for their unwavering commitment to serving our clients diligently. The Board has full confidence that the Bank is in capable hands and that through the dedication of our staff, we will continue to make a difference to our clients by using our financial expertise to do good for individuals, families, businesses and society.

Barnabas Mhlongo
Chairman

OUR VALUE-CREATING BUSINESS MODEL

OUR CAPITALS (INPUTS)	ENABLE VALUE-ADDING ACTIVITIES (OUTPUTS)
FINANCIAL CAPITAL TOTAL EQUITY **E733.2m** DEPOSITS **E3.7bn**	We facilitate savings and investments for our clients We manage shareholder investments and debtors liabilities We provide credit in alignment with risk management and profiling requirements Our risk appetite is aligned with our credit philosophy
INTELLECTUAL CAPITAL Market leader in wholesale banking, agri-business and franchising Leader in advisory services and financial expertise	Our shareholder funds generate above average returns and value Safeguarding our clients' deposits whilst at the same time driving growth in returns Credit enablement provides growth in economic development generating interest revenue
HUMAN CAPITAL **275** EMPLOYEES Customer centric Culture Highly experienced staff	We invest in our people's development and growth Our specialised experts provided advisory services to our clients in growing their interests We provide innovative solutions offering electronic banking, investments and wealth management products to our clients Asset-based financing and leasing that exceeds our client needs
MANUFACTURED CAPITAL **45** ATMS Core Systems Innovative Digital Channels	Offering our clients simplicity and convenience through our digital platforms We optimise our investments such as our marketing, technology and branch networks to improve client experience
SOCIAL AND RELATIONSHIP CAPITAL Committed to sustainable social responsibility in our communities Doing good in our communities	Using our sustainable approach, we empower communities to develop and grow
NATURAL CAPITAL We are leaders in nature conservation	Our partnerships in nature and conversation initiatives have enabled us to impact communities

WHILE MANAGING KEY RISKS

Credit Risk – Credit loss ratio remains within our target ratio
Target: 0.8%
Budget: 0.6%

Interest rate risk was managed within prescribed limits of 3.5% of ordinary shareholder's equity

Primary risk metrics

100bps shift in interest rates ↓

Liquidity and Funding risk managed within acceptable capital risk

Market risk

Regulatory and compliance risk

Strategic execution risk

TO DELIVER FINANCIAL OUTCOMES FOR NEDBANK SWAZILAND AND VALUE FOR OUR STAKEHOLDERS

STAFF

Training and development conducted in the following areas:

- Transformation training – 275
- Executive Development Programme
- Business writing skills
- Group Induction Programme
- Performance Management
- Social and Financial Wellness
- Mobile Banking training
- Coaching for growth

CLIENTS

- E916m in new loans to Wholesale and Business Banking clients
- Recorded over E328m in infrastructure financing
- Launched various innovative channels such as Mobile Banking App to enhance client experience
- Rolled out innovative solutions such as the "Student Current account" which is an account for life
- Maintained uptime at industry competitive levels
- Maintained competitive pricing

SHAREHOLDERS

- Experienced good voting outcomes at 42nd AGM, where all resolutions were passed by more than 90% vote
- Maintained transparent, timeous, and relevant investor communication and reporting
- Posted headline earnings of E110m
- Declared dividend at 135 cents per share

REGULATORS

- Complied with regulation to mitigate against systemic risk
- Adhered to sustainable practices to protect our clients
- Invested in government treasury bills to support funding needs of government

COMMUNITIES

- Spent over E1.5m on socio-economic causes
- Empowered 550 people through entrepreneurship education

OUR BUSINESS STRUCTURE

Our business is structured as follows:

WHOLESALE AND BUSINESS BANKING

WHOLESALE:

Clients with an annual turnover of more than

E100m

BUSINESS BANKING:

Clients with an annual turnover of more than

E5m

RETAIL

Retail is divided into three segments:

PERSONAL BANKING:

This segment comprises individual clients who are serviced through our branches.

PRIVATE BANKING:

This segment provides services to high-net-worth individuals or to people who hold positions of influence in companies or young professionals.

SME AND INSTITUTIONAL BANKING:

This segment provides services to businesses with an annual turnover of up to E5 million. Institutions comprise schools, non-governmental organisations (NGOs) and cooperatives.

OUR STAKEHOLDERS

We regularly engage with our stakeholders, and our activities in this regard are outlined in the following illustration:

STAKEHOLDER	WHAT WE DO FOR STAKEHOLDERS
SHAREHOLDERS • Government of Swaziland • Nedbank Group • Individual shareholders	• We deliver growth to the business for the shareholder • We grow the annual dividend
BOARD OF DIRECTORS	• Keep the Board informed and updated on developments in the business • Training on new Regulatory issues and new accounting and industry standards • Ensure that key challenges in the business are addressed timeously
REST OF AFRICA	• Work to ensure appropriate representation of the brand in country • Collaborate to ensure that projects delivered on time and within budget
REGULATORY AUTHORITIES • Central Bank of Swaziland • South African Reserve bank • Financial Services Regulatory Authority • Financial Intelligence Unit	• Adhere to regulatory requirements • Ensure that risk is managed within required parameters
GOVERNMENT	• Ensure all legislation is complied with • Participate in purchase of short term government bonds • Participate in national events • Ensure financial inclusion of the public
CLIENTS	• We create innovative products • Train our clients • Worked to ensure we created a delightful banking experience for our clients • Client engagements
EMPLOYEES	• Training of staff • Engagement with staff • Resolution of outstanding IR related issues • Make Nedbank a Great Place to work by regularly doing team building activities and participation in events such as races, marathons and other social initiatives • Acknowledge top performers through our recognition process
COMMUNITY	• Doing good in our communities (being a good corporate citizen) – sponsorships. We sponsor activities in nature conservation, community development, education, entrepreneurship and sport
MEDIA	• Engage media partners quarterly • Keep the media informed about our performance and activities • Partner with the media on key sponsorships such as the Sibebe Survivor Challenge and King's Golf Cup

OUR MATERIAL MATTERS

Our material matters are those issues that we view as having the greatest potential to impact our ability to create value. We recognise that these issues can change in nature and importance as new developments shape both the internal and external environments in which we operate and as our stakeholders' needs evolve. We determine our material matters through the following process:

IDENTIFY

As a subsidiary of the Nedbank Group, for us the process of identifying material matters takes cognisance of input from all business units and divisions of the Group, and from our stakeholders. Issues from which potential impact may arise include those of a financial, environmental, social, strategic, competitive, legislative, reputational and regulatory nature.

RANK

We rank the issues that we identify according to relevance and their potential to impact significantly on our business and relationships with stakeholders. While this is undertaken by Nedbank Swaziland, cognisance is taken of those material matters identified and ranked by Nedbank Group.

APPLY

We apply our analysis of material matters to inform our long-term business strategies and targets as well as short-term business plans and our approach to risk.

ASSESS

We continuously assess our material matters to ensure that our strategy remains relevant.

RANKING MATERIAL MATTERS

In ranking our material matters, we use the following methodological steps to determine if there is:

- Significant impact on financial performance of the Bank which may result in the non-achievement of budget or the exceeding of budget by a higher margin
- An impact on reputation of the Bank
- A regulatory impact such as may result in non-compliance
- A required amendment of the Bank's policies
- An impact on listing requirements

MATERIAL MATTERS	THE OPPORTUNITIES FOR VALUE CREATION
01 **Stagnant economic growth**	• **GDP Growth –** There is low GDP growth in Swaziland with forecasts for improvement in the medium term. This will limit consumer spending and growth in incomes and thus retail banking. Opportunities do, however, exist in certain growth sectors, including the informal sector. • **Inflation –** The weakening Lilangeni against major currencies and the effect of increased food prices impacted consumer disposable income. • **Government fiscal challenges –** These pose challenges for small and medium enterprises (SMEs) which are largely dependent on government for business and also reduced capital expenditure which adversely impacts economic activity.
02 **Increased Competition from Mobile Network Operators (MNOs)**	• **Disruptive technologies –** There are new services being offered in the market which impacted on the banking sector with banking clients able to transact through MNOs and unbanked people able to access finance through their cellphones. • **Multi-banked clients –** This segment remains a reality for banks with clients more sensitive to price and willing to negotiate for lower rates. • **Unemployment –** This aspect of our socio-economic environment shrinks the already low bankable population of ±350 000 people with all financial institutions having to compete to create value for their stakeholders and customers. • **Digitisation –** This capacity and the processing of big data to capture the market represent an opportunity.
03 **Change to the risk management and compliance environment**	• **Regulation and compliance –** The ever-increasing requirements associated with these aspects of our industry may result in non-compliance therefore rigorous risk management.
04 **Scarce and evolving skills**	• As it becomes increasingly difficult to recruit and retain highly talented staff, the Bank is in the process of embedding its Talent Management Framework to attract and retain top talent.
05 **Changing relationships between business, government, labour and civil society**	• With the management of relationships remaining a focal area for the business, the Bank has embarked on a journey to re-energise staff and rebuild relations after the industrial strike action by employees of the Bank within the bargaining unit during the year under review.
06 **Accelerated Change**	• Changes in the banking environment continue to outpace the Bank's ability to match ever-changing client requirements.

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. As we endeavour to earn sustainable shareholder returns, we must carefully balance performance, growth and risk.

RISK MANAGEMENT STRATEGIES

In pursuit of the Bank's strategic goals, we are exposed to various types of risk, with the most significant being in the following areas:

- Regulatory
- Credit
- Governance and compliance
- Business and strategic
- Financial crime
- Liquidity and funding
- People
- Market
- Concentration
- Accounting, financial and taxation
- Information technology
- Capital
- Reputational
- Operational
- Transformation, social and environmental
- Insurance
- Conduct

We maintain a risk management framework that enables our employees to identify and manage risks so that they remain within acceptable 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:

DEFENCE	LINE OF DEFENCE	RESPONSIBILITIES
First line of defence	• Main Board, • Remunerations Committee, • Risk, Compliance and Loans Review Committee • Management Committee • Credit committee • HR Committee • 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 • Risk management function and Enterprise Risk Committee • Legal function • Governance and assurance function	• Supports the governance framework • Provides independent oversight of the first line of defense • Reports to management and board governance structures
Third line of defence	• Internal Audit function • External Audit • Other external assurance providers	• Supports the governance framework • Provides independent assessment of first and second lines of defense • Reports to Audit Committee

OUR ACHIEVEMENTS IN FY2017

Our target for the year under review was to embrace the culture of risk management by developing risk management structures within our various business units. This was achieved by developing Business Unit Enterprise Risk Management Committees (ERCOs). These committees, together with their charters, were established during the year, and using the Risk Control Self-Assessment (RCSA) tool to accomplish their task. This tool helps the business units in identifying risks that are inherent in the operations of the department and in formulating policies and processes, and designing controls that will ensure effective management of those risks.

OUTLOOK

In order to further embrace our risk management culture and improve our effectiveness in risk management processes, we have adopted the following initiatives for 2018:

- Continuous alignment of the risk function throughout the different business units in the Bank
- Continuous evaluation of the effectiveness of our risk management strategies and ensuring that the control environment has been enhanced so that risk is adequately mitigated by our processes and policies
- The development of structures and strategies for 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.

TOP TEN RISKS

RISK TYPE	2017 FOCUS	2018 FOCUS
1. Regulatory and compliance risk		
Regulatory and compliance requirements applicable to banks are on the rise and are becoming more complex. In addition, the new Consumer Credit Act is further exacerbating this risk.	The focus in 2017 was on improving the effectiveness of the AML/CFT and Sanctions risk management processes, and the following milestones were achieved: • A detailed AML/CFT and Sanctions risk assessment was performed and a remediation plan was developed to rectify the gaps that were identified on the 7 pillars of AML/CFT and Sanctions risk management.	The focus in 2018 will be on the following arears: • Remediation – The Bank intends to work on developing a structured approach in remediating the weaknesses that were identified in the AML/CFT risk assessment • Compliance with the new Consumer Credit Act will be another focus area for 2018.
2. Credit risk management		
The subdued economic growth together with government's fiscal challenges suggested that there could be a high risk of clients failure to service their facilities	The main areas of focus on Credit risk for 2017 were as follows: • Risk Appetite – the Bank decided on the level of credit risk that it was willing to take for the year. Despite the subdued economic outlook, the Bank identified pockets of excellence that it had to tap into • IFRS 9 – the Bank had to develop models that will enable it to comply with the new provisioning standard (IFRS 9). The models were developed and tested during the year and were used parallel with the existing IAS 39 model.	The focus for 2018 will be as follows: • The risk appetite will be aligned with the Bank's strategy for 2018 • Continued focus on embedding IFRS 9 models within the Bank. • Another focus area will be to ensure that the Bank's credit practices are aligned with the requirements of the new Consumer Credit Act.

ENTERPRISE-WIDE RISK MANAGEMENT (continued)

RISK TYPE	2017 FOCUS	2018 FOCUS
3. People risk		
• The Bank's Compass survey suggested that interventions are required to improve the Bank's culture • The protracted industrial action suggested that there were issues that had to be addressed in order to improve industrial relations.	• Culture shift – a number of engagements with staff members were made to drive a change in culture to ensure that they address the culture and manage relations within the business • Employee Engagement – following the protracted strike action, the Bank conducted a survey to understand the issues that led to the staff members embarking on a strike action.	• Employee satisfaction – the Bank will be working on resolving the issues that were identified following employee engagement to address employee pain points • Performance measurement – to optimize employee performance, the Bank will be focusing on ensuring that employee performance is measured on a continuous basis and is designed to support the bank-wide strategy.
4. Strategic and execution risks		
• Rapid changes in the financial services landscape necessitate that banks become more innovative, quick to execute and flexible. With the rise of Fintechs within the market, there is need to develop solutions to match or partner with the Fintechs.	• The focus in 2017 was in engaging a wider spectrum of the leadership of the Bank to be able to foster an innovative culture and buy in to the Bank's strategy.	• To drive strategy execution by ensuring alignment to the overall Bank strategy • Matching staff performance measures to the Bank's strategy.
5. Market risk		
• Market factors present unfavourable variables such as government cash flow challenges, inflation, exchange rate and stiff competition from financial institutions and non-financial services providers.	• The focus in 2017 was to use market intelligence to better understand the Bank's competitive landscape. The Bank has designed client value propositions meant to make the Bank relevant and also give it a competitive edge over its competitors.	• Adopt aggressive sales culture • Sales-effectiveness model to be reviewed • Cost management • Align product parameters to the market.
6. Operational risk		
• The implementation of a new banking system increased the risk of failure to follow processes per the new system • The system was not considered stable as there were still teething problems that needed to be addressed.	• The Bank focused on processes affecting the on boarding of clients to ensure that there were improvements in client experience.	• Focus will be on improving the credit process to further improve client experience • Other key processes will be looked at to ensure that efficiencies are derived in the process of servicing clients and costs of providing the services are minimised.

RISK TYPE	2017 FOCUS	2018 FOCUS
7. Financial crime risk		
• There has been an increase in incidents of cyber-attacks reported • A number of card swopping incidences have been reported in the country and in neighbouring South Africa, which suggested that the risk of cyber crime is increasing.	• The Bank successfully partnered with government and the Swaziland Bankers Association, adopting initiatives around fraud awareness in collaboration with the police and ICT • The Bank adopted a number of initiatives that were rolled out by Group to improve its cyber resilience.	• In 2018 the Bank will continue to adopt further initiatives that will be rolled out by Group to improve cyber security.
8. Liquidity and funding		
• The risk that the Bank may fail to honour its financial obligations or provide lending facilities due to shortage of funds necessitate continuous monitoring of the levels of liquid assets available.	• The Bank's liquidity and funding risk is stable. The main focus in 2017 was to ensure that the Bank's reserve requirements were aligned with Basel II and the Central Bank's capital reserve requirements.	• The Bank will continue to monitor its liquidity position and derive strategies of ensuring that it always meets its short-term financial obligations. Strategies to drive cheaper liabilities to influence the Bank's average funding rate downwards will be explored by both the Retail and Wholesale departments.
9. Accounting, finance and taxation risk		
• The introduction of IFRS 9 led to an increase in the risk of failure to comply with the new standard when it becomes effective in January 2018.	• The main focus in 2017 was on ensuring that the Bank is ready to adopt the IFRS 9 reporting requirements. The IFRS 9 model was developed and ran parallel with the IAS 39 model.	• The focus is to ensure that the Bank continuously complies with IFRS 9 throughout the year.
10. Reputational risk		
• During the industrial action, the Bank experienced a high level of publicity which increased the reputational risk.	• Stakeholder engagement was the main focus area in 2017 and this was done through proactive engagement of partners to develop stronger collaboration with stakeholders.	• The focus for 2018 is to manage and strengthen the Nedbank brand, rebuild trust among all stakeholders and proactively manage the reputational risk.

DELIVERING VALUE

We instituted a strategic transformation towards increasing our numbers and embracing people, systems and processes within Swaziland's economic and social conditions. The strategic aim is to concentrate on improving our product offering and culture.

MESSAGE FROM THE MANAGING DIRECTOR

Ms. Fikile Nkosi
Managing Director

In a year in which we saw the continuation of a subdued economic environment in Swaziland with GDP displaying ongoing slow growth, there have nevertheless been pockets within the economy in which positive signs can be discerned.

Construction, energy and agriculture – specifically forestry – are cases in point, and represent areas in which we see opportunities for our business. The retail market, in particular the unsecured lending and informal small business sectors, also opens up prospects on which our business can capitalise.

In order to be fully able to take advantage of these opportunities, it is clear that we will need to adjust our risk appetite. This requires careful strategic thought, and during the year under review, we engaged on a diligent and thorough analysis, not only of our current strategy, but the strategic way forward in the short-term to 2020 as well.

STRATEGIC FOCUS

Although Nedbank Swaziland, as a franchise of the Nedbank Group, is responsible for crafting its own strategy, we nevertheless rely on certain pillars of the Group strategy. One of these is the emphasis on innovation through a move towards digitisation. With this strategic impetus underlying our approach during the year under review, we worked with a clearly-defined strategic focus centred on:

- Delivering innovative market-leading client experiences
- Growing our transactional banking franchise faster than the market
- Striving to become operationally excellent at what we do
- Managing scarce resources to optimise economic outcomes
- Providing our clients with the best financial services network in Africa

This strategy perspective evolved in line with a change in our material matters, with a matter that we defined as 'Changing relationships between business, government, labour and civil society' taking on a high correlation with our strategic responses in 2017 – particularly because the Bank's performance is strongly linked to maintaining relationships with all stakeholders.

NEW STRUCTURES

Our starting point was the sales-driven strategy developed in the Group in 2014 for the Rest of Africa subsidiaries. This was aimed at embedding a sales culture within both Retail and Wholesale banking. With weekly sessions in which individual salespersons would present results to our client-service teams (CSTs) in order to reach their targets, our Credit and Wholesale divisions worked as teams in a single area.

This three-year strategy was successfully completed during the year under review, with the added component of an investment strategy into the business on the part of the shareholder. A well-functioning structure is in place, which with due regard to the Group's customer-centric approach, also supports the experience of our clients in both the Business and Wholesale banking spaces.

A NEW PHASE

In establishing the strategy to take us forward towards our goal of Winning in 2020, we took into consideration the following various aspects of both our country and our industry:

- Politics
- Economics
- Banking industry developments
- Regulatory developments

We then defined a new strategic phase focused on growth, with particular reference to Nedbank Swaziland. We instituted a strategic transformation towards increasing our numbers and embracing people, systems and processes within Swaziland's economic and social conditions. The strategic aim is to concentrate on improving our product offering and culture.

This goal correlates to our focus areas of delivering innovative market-leading client experiences, growing our transactional banking franchise faster than the market, striving to become operationally excellent at what we do, and working to provide our clients with the best financial services network in Africa. It is also a function of our financial and manufactured capitals, and through our business model, is aimed at creating value through growth.

OUR STRATEGIC DIFFERENTIATORS

Our franchise model allows for opportunity-driven empowerment with accountability, and minimum standardisation that makes for efficiency and flexibility in responding to the market. In this regard, there are a number of important aspects to our strategy that we view as differentiators that either determine our leadership in the market, or match the market in which we operate:

- Leadership in client experience
- Leadership in digitisation
- Proactive client-led insights
- Matching credit risk-appetite practices
- A fit-for-purpose operating model

With these strategic goals underpinning our efforts during the year under review, we defined two main strategic choices:

- Great client experience through customer satisfaction
- Opportunity-relevant credit-risk appetite and practice, in preference to a generic approach.

These, in turn, generated what we refer to as sub-choices, and in FY2017 these were categorised as follows:

STRATEGIC FOCUS	ACTION REQUIRED
Digital over traditional	• Leverage Retail and Business Banking (RBB) digital capabilities and pay marginal cost of solutions • Acquire Entry Level Banking (ELB) and increase share-of-wallet (SOW) of middle-to-affluent market through digital offerings
Fit-for-purpose operating and business model	• Traditional full-service branch network • Limited leverage of RBB operations
Proactive, client-led insight	• Build a data-driven business in the short-term

MESSAGE FROM THE MANAGING DIRECTOR (continued)

STRATEGIC OUTLOOK

We believe that with our new offerings representing our financial, intellectual, manufactured capitals, such as our Mobile Banking App, our ATM channel expansion, and branch refurbishment, there are promising pockets within the economy within which we can harvest business. Indeed, we made pleasing strides during the year under review in all of these areas. (For more on our product offerings, see under Our Performance against Strategy on page 25.)

Opportunities were identified in the manufacturing and agriculture sectors where we formed synergies with different companies.

STRATEGY IN PRACTICE

The competitive landscape continues to change at a fast pace. The bankable population according to a survey conducted by Finmark Trust, remains at around 350 000, a figure indicating that no significant new business is coming through into the market. The reality we face is that in order to compete, our strategy has to be one of conversion to attractive and competitive services. The services and products we offer are now almost at par with competitors and that means we will have to clearly differentiate the social and relationship capital of the experience of our clients when they utilise our services.

As part of the Nedbank Group, the intellectual capital of our digital roadmap has to mirror our Deep Green Aspirations as well as the Group-wide impetus to digitisation. We know that our clients seek simplicity, convenience and the ability to access our services remotely. Over and above that, we understand that they still require the personal touch and care as they come in contact with our brand.

We understand that our relationship-banking model has to be refined with service and that client experience needs to be what every Nedbank employee works towards creating for the benefit of our clients and for society in general. In short – we accept the challenge of, and continue to build on and live up to, the promise of our brand: We're money experts who do good.

Fikile Nkosi
Managing Director

PERFORMANCE AGAINST STRATEGY

OVERVIEW

In alignment with our overall strategy of prioritising a move to digitisation in tandem with our core strategic imperative of customer-centricity, we successfully implemented a number of operational enhancements during the year under review.

MOBILE BANKING APPLICATION (MOBILE APP)

We officially launched our Mobile App at the end of 2016 and enhanced the offering in 2017, an important element of our intellectual capital. The launch was underpinned by a mobile banking campaign intended to propagate its use. The Mobile App comes with value-added services (VAS) mainly in facilitating utility and airtime purchases. The mobile campaign has been received positively in the market with our Call Centre inundated with enquiries after the first SMS burst that informed our existing clients about the new product. The marketing approach for this product is two-pronged:

- The product is marketed and sold to existing clients to promote the use of electronic banking channels and ensure the retention of clients who have always been concerned that we do not have products that can create convenience for them.
- It is also used as a strategy to attract new clients to the Bank.

With the introduction of the Mobile App, we continue to work to make the product accessible and ensure we proliferate it in the market to improve our client experience and drive the Bank's digital strategy.

BRAND REPOSITIONING

We initiated a Brand repositioning process in the first half of the year with various activities that were targeted at different segments of our stakeholders. These activities included staff and client interventions to create awareness around the re-launch of the Nedbank Brand. Our new tagline, "see money differently", challenges and inspires our staff, clients and the public to view money in a different manner. This is based on the insight that money well managed can make a positive difference to individuals, businesses and communities. This inspiration is consistent with Nedbank's purpose of using our financial expertise to do good. The Brand re-positioning is a journey for the Bank and necessitates a staggered approach in embedding the brand and managing external expectations.

The official brand launch took place on 17 March 2017 with a reveal of the brand to the market, and included the first mention of "see money differently" in Swaziland.

PERFORMANCE AGAINST STRATEGY (continued)

ACHIEVEMENTS

In establishing our performance against strategy, and the degree to which we are creating value for our stakeholders, we took into account the following achievements during the year under review:

- Enhanced ATM Functionality
- The introduction of competitive Customer Value Propositions (CVPs) including the Student Account and the development of the Middle Market value proposition
- The enhancement of our Mobile App
- Client onboarding process streamlined to enhance client experience
- The brand re-positioning
- Our brand repositioning was focused on making our brand to be associated with:
  - First in mind in the market
  - Best-in-class financial expertise
  - Value-adding partnership
  - Client-centred innovations
  - Seamless, simple, accessible financial services
  - Impactful outcomes, and a commitment to make a sustainable difference to our clients
- Enhanced website development
- Perfected our Client Service Team model within the Wholesale business

We continued to drive value for clients through appropriate risk management processes.

Our performance during the year under review was driven mainly by the Retail book, with Net Interest Income (NII) significantly ahead of target.

KEY PERFORMANCE INDICATORS (KPIS)

BUSINESS PERFORMANCE	INDICATORS
Headline earnings (HE) (Mn)	110
Average advances (Mn)	3 455
Average deposits (Mn)	3 732
Non-Interest Revenue (NIR) (Mn)	142.7
Net Interest Income (NII) (Mn)	266
Expenses (Mn)	234
No of clients	57 839
No of branches (Note: 10 branches, 1 Bureau de Change, 1 Agency)	12
No of Automated Teller Machines (ATMs)	45
No of Alternative distribution	–
Headcount	275
Our Market share during the year under review	
Advances:	17%
Deposits:	23%

CHIEF FINANCIAL OFFICER'S REVIEW

During the year under review, we were confronted by a sluggish economy in which all its sectors, particularly the Wholesale and Retail trade, were negatively impacted by the declining demand for Swaziland's main exports.

As a result of ongoing fiscal challenges, the financial services sector saw the same trend, and the Bank's headline earnings deteriorated by 9% to E110.0 million (2016: E121.1 million). As such, basic and diluted earnings per share (EPS) decreased by 9% to 447 cents (2016: 491 cents). Amidst the challenging economy, a return on equity (RoE) of 15.0% (2016: 18.4%) was achieved.

The bank's operating income increased marginally by 3% to E409.0 million (2016: E399.0 million), an indication of tougher economic conditions.

We achieved solid growth in loans and advances, reflecting a 19% growth at E3 455 million (2016: E2 901 million), mainly driven by facilities extended to the sugar industry. Customer deposits also showed a considerable increase of 10% to E3 732 million (2016: E3 407), with this growth skewed towards Wholesale clients.

KEY PERFORMANCE INDICATORS

HEADLINE EARNINGS
E110m
2016: E121m

RETURN ON EQUITY
15.0%
2016: 18.4%

NET INTEREST MARGIN
5.4%
2016: 5.5%

CREDIT LOSS RATIO
0.61%
2016: 0.63%

EFFICIENCY RATIO
57.1%
2016: 53.1%

NIR-TO-EXPENSES RATIO
61.1%
2016: 76.5%

CAPITAL ADEQUACY
24.0%
2016: 21.7%

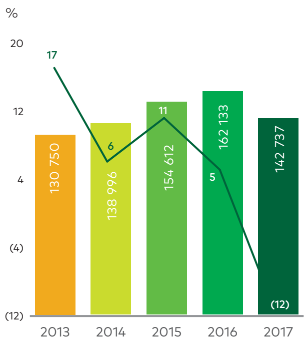
DIVIDEND PER SHARE (CENTS)
135
2016: 135

CHIEF FINANCIAL OFFICER'S REVIEW (continued)

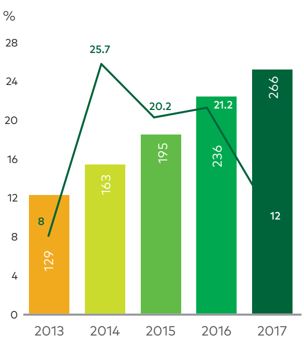
NET INTEREST INCOME

A commendable NII growth of 12% to E266.3 million (2016: E236.9 million) was achieved resulting from growth in assets and the pricing mix. The net interest margin (NIM) declined to 5.4% (2016: 5.5%), due to the Bank's mobilisation of deposits strategy to stabilise our liquidity position. Mortgage loans and medium-term loans are the main drivers of the positive performance compared with the prior year.

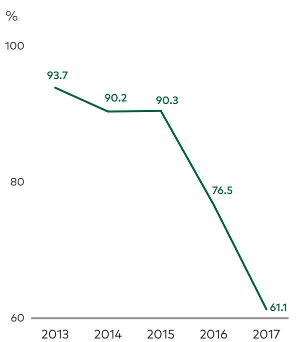
NIR



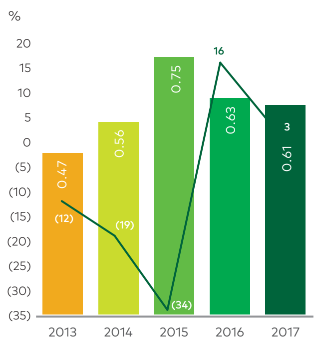
NII



Ratio of NIR to expenses



Credit-loss ratio



NON-INTEREST REVENUE (NIR)

NIR declined by 12% to E142.7 million (2016: E162.1 million), predominantly driven by foreign exchange transaction income performing adversely by 56% to E9.3 million (2016: E20.9 million). Commission and fees, and other income also decreased by 4% to E124.5 million (2016: E129.4 million) and 24% to E9.0 million (2016: E11.8 million), due to lower transactional volumes.

The decline in NIR has also led to the NIR to expenses ratio declining to 61.1% (2016: 76.5%).

IMPAIRMENT OF LOANS AND ADVANCES

The level of impairments charged increased by 45% to E22.2 million (2016: E15.4 million), attributable to the tougher economic conditions prevailing in the market. As a result of more vigorous credit risk management, the credit-loss ratio improved to 0.61% (2016: 0.63%), with an increase in the non-performing loans book to E150.2 million (2016: E95.8 million), an indication of certain sectors of the economy taking strain.

Effective from 1 January 2018, impairments will be raised in line with the new IFRS 9 impairment model, an 'expected credit loss' model, and this is expected to increase the Bank's level of impairment loans and advances. (*Refer to table on page 84).

OPERATING EXPENSES

During the year under review, the efficiency ratio declined to 57.1% (2016: 53.1%). This decline was anticipated in line with planned activities of the Bank in fulfilment of the Bank's strategy and partly impacted by less than expected NIR.

Total expenses increased by 10% to E233.7 million (2016: E211.8 million), chiefly attributable to inflationary adjustments and channel enhancements expenditure and mainly driven by:

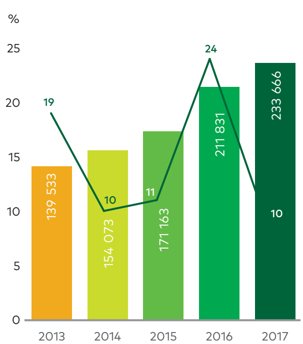
- Lease costs for the new core banking system increased by 46% to E27.0 million (2016: E18.5 million), covering a 12 month period against 7 months in FY2016.
- Management fees were up 19% from 2016 at E28.5 million (2016:E23.9 million), resulting from a number of initiatives on improving client experience.

LOANS AND ADVANCES

Client assets, i.e. loans and advances, reflected an improvement of 19% to E3 455 million (2016: E2 901 million), mainly driven by medium-term loans of >100% against the normal expectation.

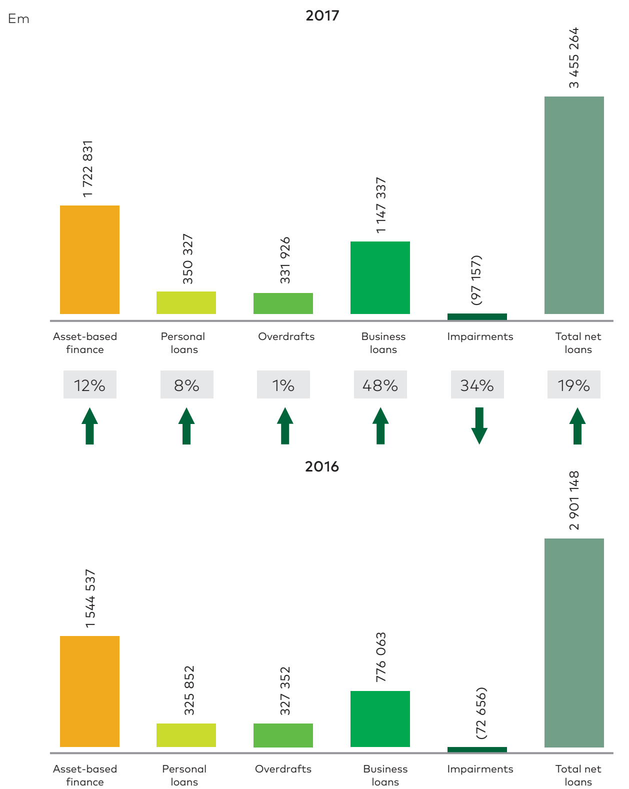
Micro and personal loans, together with mortgages also contributed to this improvement with an increase of 8% and 18% respectively. Our asset market share rose to 21% (2016: 18%) as evidenced by the 19% increase in the loan book.

Operating expenses



Efficiency ratio

Loans and advances

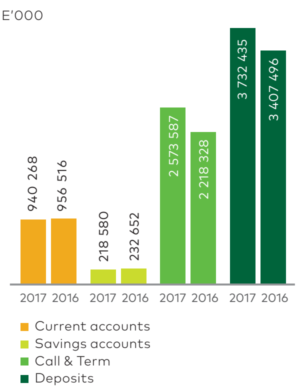


CHIEF FINANCIAL OFFICER'S REVIEW (continued)

Loans and advances market share 2017

Customer deposits: comparative 2017

Customer deposits 2017 & 2016



DEPOSITS

Client liabilities i.e. customer deposits, increased by 10% to E3 732 million (2016: E3 407 million), skewed towards Wholesale clients. The growth in deposits is supporting our strategy of growing and diversifying funding, and ensuring a healthy loan-to-deposit ratio (LDR) of 93% (2016: 85%), even though it worsened in comparison to prior year. On pushing the funding strategy, we have managed to increase our market share to 25% (2016: 24%).

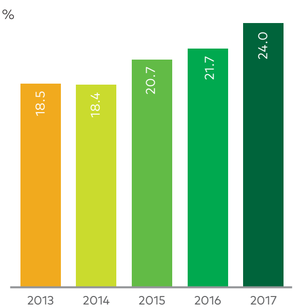
CAPITAL

We maintained a strong capital position base and functioned within and/or above the internal and regulatory prescribed limits on capital holdings. We achieved a capital adequacy ratio of 24.0% (2016: 21.7%), above the regulatory requirement of 8%. Capital and reserves totalled E733.2 million (2016: E659.2 million).

Our reporting is in line with Basel II using the standardised methodology adopted for all Nedbank Group's African subsidiaries.

The Board of Directors is satisfied that the Bank's capital meets regulatory requirements.

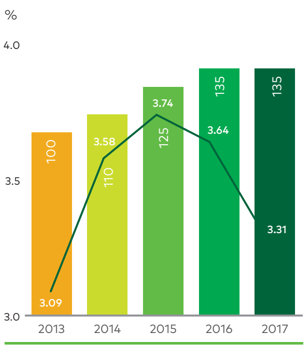
Capital adequacy



DIVIDEND

The Dividend declared was flat at 135 cents (2016: 135 cents), resulting in dividend cover of 3.31 times (2016: 3.64) in line with the Bank's approved target range.

Dividends



OUTLOOK

We have identified possible growth prospects in energy, manufacturing, construction and agriculture sectors. The return of the African Growth and Opportunity Act (AGOA) suggests probable growth in the exporting industry, which itself opens the prospect of possible spin-offs on the foreign exchange market. The focus in 2018 will be on improving operational efficiencies and ensuring capacity building for branch staff in order to realise sustainable solutions for the Bank. We see the implementation of appropriate strategies to ensure continuity in the improvement of shareholder wealth as remaining critical to our business.

WHOLESALE BANKING

OVERVIEW

OUR STRATEGIC APPROACH

During FY2017, the aim within our Wholesale operations was to leverage world-class digital solutions and client experience to make transactional gains in the market. The Bank's strategic approach included:

- Increasing primary-banked clients to amplify our share of wallet
- Embedding electronic banking applications at the account-opening stage
- Improving the penetration rate of electronic products from 70% in FY2016 to 80% in FY2017

In addition, with the goal of matching the market in credit risk-appetite and practices, we:

- Reintroduced Revolving Credit Line products for blue-chip clients
- Increased our agility and navigated legal barriers
- Targeted growth opportunities and devised suitable products for the forestry and construction sectors.

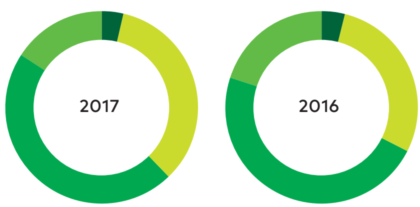
Internally, we focused on increasing the effectiveness of our people and creating an agile culture by means of:

- Efficiencies to improve Client Service Teams (CST) turnaround times
- Developing a multi-skilled and aggressive sales force with the ability to sell global trade including letters of credit and all electronic products effectively.

OUR PERFORMANCE

Balance sheet

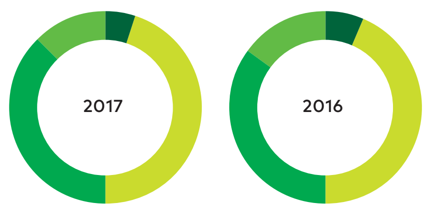
Em



- Asset-based finance 163 041 238 (2016: 148 100 917)
- Business loans 1 476 057 327 (2016: 1 031 920)
- Term deposits 2 001 796 645 (2016: 1 719 198 769)
- Current 672 908 005 (2016: 720 662 443)

Percentage of total

%



- Asset-based finance 10 (2016: 13)
- Business loans 90 (2016: 87)
- Term deposits 75 (2016: 70)
- Current 25 (2016: 30)

PEOPLE

The Wholesale division consists of diverse specialised skills with dedicated resources touching on all sectors. We were able to create value for our clients through our relationship-based model in providing tailored solutions to our client needs.

With our model enabling us to drive growth in 2017, our unique structure allowed us to identify opportunities in various sectors such as agriculture, franchising, property development and manufacturing.

As a business, we continued to invest in our people by offering extensive development and growth opportunities, enabling our relationship managers to remain relevant in their areas of expertise.

ELECTRONIC BANKING PRODUCTS

The key objective of our electronic banking strategy during the year under review was to accomplish the migration of all Wholesale clients to our new electronic platform in order to increase the speed of processing transactions. The objective is to achieve zero manual intervention and to drive down the cost of transaction. Preparations are in place to upgrade clients to the new core banking system, a revolutionary platform with greater functionality and added benefits which enable us to create better efficiencies and more convenience for our clients.

The migration will be accomplished in stages to achieve targeted business solutions for each client.

ELECTRONIC PROCESSING SYSTEM (EPS)

During the year under review, we successfully migrated a majority of our Wholesale clients from Nedpayments to the EPS platform which is compatible with the core systems we are currently using. Security of data is an added advantage of this system, and it provides the ability to make collections, among other options.

While a majority of clients did migrate to this platform, there was a slower uptake at the low end of the Business Banking sector due to incompatible systems.

The target for FY2018 is to switch those Business Banking clients who still use manual systems in order to reduce traffic to branches and reduce costs of transactions.

POINT OF SALE (POS)

We continue to post strong growth in the number of devices as well as in turnover. Our strategy for FY2018 is to continue to work towards the proliferation of our devices in the market and the improvement of our turnaround times.

In certain instances, due to a few connectivity issues, we endeavoured to stabilise our POS system and resolved issues timeously.

We are working on more reliable and cost effective offerings to provide our clients going forward.

CUSTOMER SERVICE

> Our vision is to be the Bank of choice by providing unique client-centred solutions for Business Banking and Wholesale clients in order to attract and retain trusted relationships with the high-value segment of the Bank.

Our main objectives are to:

- Deliver a dedicated and enhanced service to clients by providing customised solutions
- Increase share-of-wallet through focused account growth in line with the Wholesale model
- Offer a one-stop centre of excellence by drawing on expertise from the Nedbank Group centre of excellence
- Deploy an agile and highly experienced team of relationship managers that is able to identify and extract value from opportunities in the market
- Target growth sectors of the market by delivering distinctive Customer Value Propositions (CVPs) via appropriate segmentation in order to improve turnaround times
- Remain a profitable business unit through the use of risk-based tools to increase NIR and NII.

RETAIL BANKING

OVERVIEW

The Retail focus for 2017 has been to grow primary-banked clients through acquisition, tapping into the unbanked (entry level) market and banking the youth, especially tertiary students. The division experienced growth in both asset and liabilities market share at the core. This was achieved through cross-selling to our existing customer base and the acquisition of new clients. Enablement of customers on our digital platforms was also a key focus area.

OUR STRATEGIC GOALS

In the context of the bank-wide strategy, the key goals within Retail to ensure the realisation of the strategy are framed as follows:

SHORT-TERM GOALS

In the short term, we will:

- Grow the Bank's margins through pricing for risk
- Review our product parameters so that we remain competitive
- Drive digital enablement for our clients in order to reduce costs of servicing customers
- Optimise risk management
- Ensure compliance to AML/CFT requirements.

MEDIUM-TERM GOALS

In the medium term, we will:

- Improve on client experience in all our channels
- Grow our product cross-sell ratio
- Provide tailor-made solutions for our customers
- Improve on MIS capability to enable the identification of opportunities
- Reduce the attrition rate of primary client base
- Fully embed the relationship-banking model across all segments
- Identify new streams of revenue and close any leakages.

LONG-TERM GOALS

In the long term, we will:

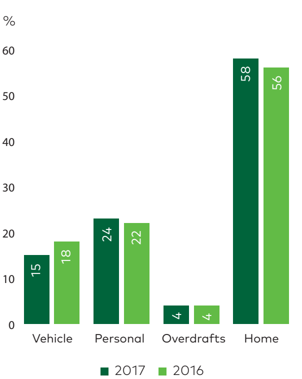
- Upskill personnel to be world-class in maximising the client experience
- Effectively engage with clients by getting things right the first time
- Reduce operating costs through simpler processes, advanced technology and improving productivity
- Providing clients with a one-stop solution.

PERSONAL BANKING

The salient points within Personal Banking during the year under review were:

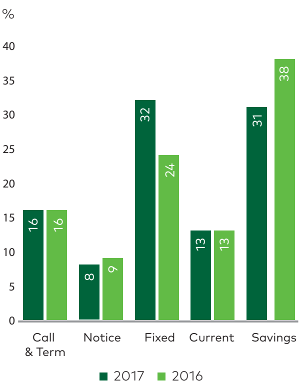
- Loans and advances increased to E1.5 billion (2016: E1.4 billion) but growth fell short against a budget of E1.6 billion. Home and personal loans, which constitute 58% and 23% of the personal loan book, respectively, were the major contributors of the year-on-year growth.

Loans and advances



- Deposits increased to E632m (2016: E548m) and were above the budgeted E570m, as a result of new funds sourced from high net-worth individuals. These are classified under fixed deposits which make up 32% of the total personal deposits.

Deposits

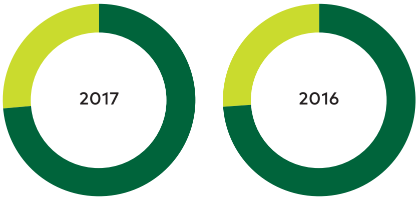


- The bank paid out E550m in new loans to personal clients, 10% lower than during the prior year, due to pressures exerted on consumers by the tough economic conditions.
- We received E186m as new money from customers in the form of deposits, resulting in a 71% growth year-on-year, 69% above target. We have seen customers holding back on capital expenditure, retaining their investments and assessing the forecast growth prospects.
- 7 623 new clients chose to be primary-banked with Nedbank in the year under review, a 28% increase from prior year growth (2016: 5 950).
- Digital enablement saw 5 485 clients using our Internet Banking, with 1 571 enjoying the Mobile Banking Application.

LOANS AND ADVANCES

Balance sheet

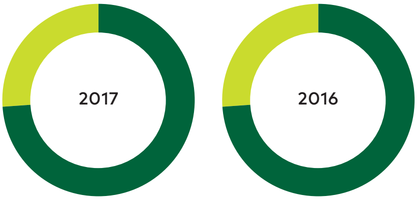
Em



■ Asset-based finance 1 087 905 020 (2016: 1 027 006 702)
■ Personal loans 387 407 813 (2016: 362 746 868)

Percentage of total

%

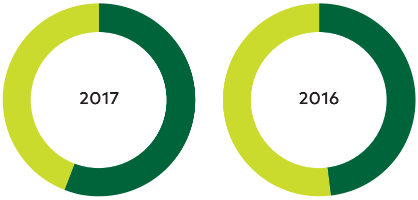


■ Asset-based finance 74 (2016: 74)
■ Personal loans 26 (2016: 26)

DEPOSITS

Balance sheet

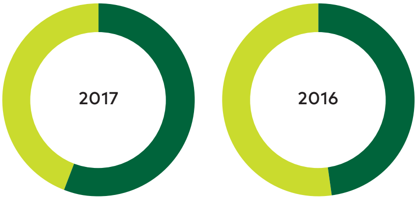
Em



■ Term deposits 354 552 990 (2016: 263 347 853)
■ Current & savings 277 757 651 (2016: 284 265 774)

Percentage of total

%



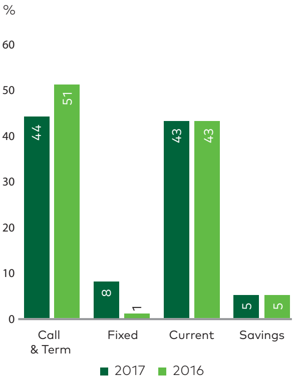
■ Term deposits 56 (2016: 48)
■ Current & savings 44 (2016: 52)

SME BANKING

The salient points within SME Banking during the year under review were:

- Loans and advances were increased to E285m (2016: E268m). Major growth was realised on overdrafts, which is a facility for working-capital purposes that makes up 31% of SME loans.
- Deposits increased to E413m (2016: E360m) and were short of the budgeted E460m – a reflection of the sluggish economy.
- E181m in new loans were utilised by our SME clients, 1% higher than the prior year.
- E25m was received as new funds in the form of deposits, flat on the prior year and 38% below the targeted levels.
- We acquired 418 new clients to be primary-banked with us, a 3% increase from the number acquired in FY2016.

Deposits



RETAIL BANKING (continued)

LOANS AND ADVANCES

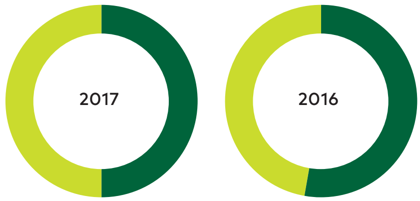
Balance sheet

Em

- Asset-based finance 143 205 598 (2016: 140 613 040)
- Business loans 141 478 655 (2016: 126 983 196)

Percentage of total

%



- Asset-based finance 50 (2016: 53)
- Business loans 50 (2016: 47)

DEPOSITS

Balance sheet

Em

- Current & savings 198 178 717 (2016: 171 594 527)
- Term deposits 214 904 065 (2016: 189 025 764)

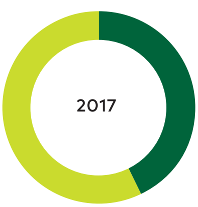
Percentage of total

%

- Current & savings 48 (2016: 48)
- Term deposits 52 (2016: 52)

Market share

%



- Total retail asset market share at 18% (2016: 17%)
- Deposit market share at 24% (2016: 21%)

During the year under review, we achieved our desired level on deposits but are still trailing on a target of 20% on assets.

SHARED SERVICES

OVERVIEW

Nedbank's drive during FY2017 has been to create greater efficiencies and convenience through our channels and implementing value-added services to leverage and optimise the benefits of the new core banking system.
As a support function, our main objective was to focus on effective support processes to drive down costs and to improve the experience of customers whenever they interact through any of our channels.

ELECTRONIC CHANNELS

In our drive to improve banking service accessibility, the Bank increased our electronic channels.

The Mobile Banking App, which was implemented at the end of 2016 has enabled more services to be available, such as the payment of utilities, airtime and data bundles, pay channel subscriptions, as well as TV licences. A total of 1 591 customers signed onto the new channel as at the end of December 2017. The number of transactions processed on the Mobile App stood at 6 500 at the end of the year and we are focusing on a continued increase over the coming year.

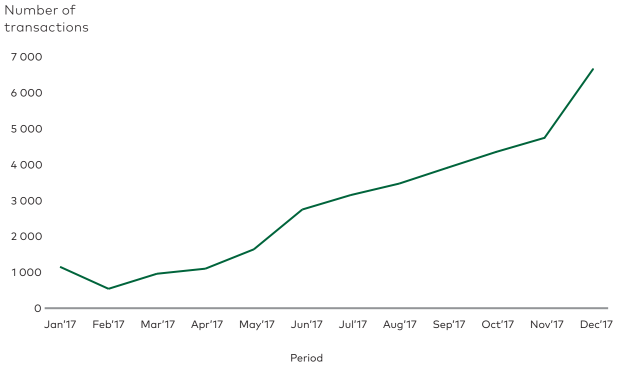
We saw a net growth of 35% in the number of POS devices deployed among our Wholesale and Small and Medium Enterprises (SMEs) clients.

The Bank's focus in FY2017 was to improve customer confidence in our devices by enhancing stability and instant support when required. Several initiatives have undertaken to ensure the reliability of this platform, with a continued effort to further improve the reliability, security and speed of processing of these devices. Usage volumes on the POS devices have increased.

During the year under review, two Internet Banking platforms were offered – one for personal banking and the other for Wholesale and SME clients. While the latter has been presented with certain challenges, we will be deploying an enhanced offering in the second quarter of 2018.
The Bank experienced growth of 41% in customer uptake, and usage volumes have increased by 26% during the year.

Three additional ATMs were installed at Southgate shopping complex in Manzini, Woodlands shopping complex in Mbabane and an in-store ATM at the Galp filling station in Ezulwini.

Transaction volumes on Mobile App



INFORMATION TECHNOLOGY

The management of IT risk is at the top of our agenda. We follow world-class governance processes to ensure the elimination of risk in our environment.

IT continues to be the key enabler for the business. Our core banking system, which was implemented in May 2016, was stabilised during the year under review and has created more opportunities for the business to grow and sustain itself. In 2017, we saw the number of incidents and requirements declining. This is an indication of a system that is stabilising and aligning with the business processes. To further improve efficiencies, we upgraded our hardware infrastructure to the latest reliable technologies.

A more efficient telephone management system was implemented in the first quarter of 2017, reducing communication costs by more than 60% per annum.

SHARED SERVICES (continued)

OPERATIONS

The Bank's Operations area, which is made up of Reconciliations, Payments (local and international), Processing (cheque payments) and the Accounts Management Centre (AMC), has been working diligently to ensure that customer transactions are processed promptly and in compliance with local and international regulations.

The year under review has also been a challenging one particularly in the regulatory space, where we saw a number of regulatory bodies sharpening their monitoring tools. We have been focusing on the training of users to ensure alignment and compliance. The core banking system has come with a lot of capabilities which enable the seamless processing of payments and also better integration with other peripheral systems.

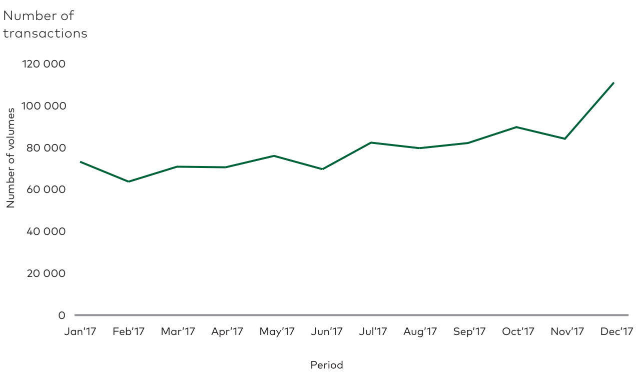
OUTLOOK

Our focus in 2018 will be to explore all opportunities for improvement in order to enhance our processing speed and eliminate any unnecessary costs – all undertaken to improve the experience of our customers. The plan is to automate the reconciliation process before the end of FY2018, in order to improve our ability to be pro-active in addressing any anomalies.

OUR STRATEGIC GOALS

Within Shared Services, a series of goals were identified and defined with regard to the Bank's strategy.

Transaction volumes on POS



SHORT-TERM GOALS

In the short term, our aim is to:

- Optimise the new core-banking system,
- Effectively align the business processes to the new system and ensure that they are robust enough to support the strategy of the Bank,
- Identify and implement initiatives to reduce operational and processing costs for the Bank.

MEDIUM-TERM GOALS

In the medium term, our aim is to:

- Facilitate the implementation of electronic channels, in line with Group strategies,
- Align the Bank's culture towards a continuous improvement-sensitive environment,
- Create an environment that will enable all the Bank's projects to be implemented efficiently,
- Create tools to manage risks effectively through exceptional processes.

LONG-TERM GOALS

In the long term, our aim is to:

- Create competitive advantage through people, processes and technology,
- Identify automation opportunities that are cost-effective and which will utilise existing capabilities,
- Create seamless processing capabilities of payments and improve processing speed and customer experience.

CREDIT

MATERIAL MATTERS

The material matters for the Credit department during the year under review were:

- Compliance with the Consumer Credit Act;
- Economic growth and government's fiscus challenges;
- Scarce credit skills in the local market.

(For more on material matters, see under Our material matters, page 14).

BOOK GROWTH

As a result of the sluggish economic environment, the low inflation rate and high exchange rates, the Bank faced challenges in growing its asset-based finance (ABF) book. This was mainly due to the disposable income of individuals showing no significant increase, as the cost-of-living adjustments aligned to the low inflation rates. As a result, there was also a decline in replacements of motor vehicle fleets by large corporates and construction companies which felt that in view of the reduced opportunities, they could not invest in new assets. Consequently, the ABF book decreased by 8% to E383m (2016:E418m).

OVERVIEW

Although the country has been faced with an unfavourable economic environment with subdued economic growth and government fiscus challenges, our loans and advances grew by 19% to E3.455bn (2016: E2.910bn). This growth was driven in the main by increased utilisation of overdrafts and the overnight limit in the agriculture sector. The strategy to further mine the client's portfolio yielded good results as an increase was also seen on home loans, overdrafts and unsecured personal loans.

CREDIT PERFORMANCE

	2016	2017	Percentage growth
Book Growth	E2.910bn	**E3.455bn**	18.7%
NPL Growth	E95.8m	**E150.2m**	56.78%
Credit Loss Ratio	0.63%	**0.61%**	28.57%

ASSETS QUALITY, PROVISIONING AND DEFAULTED ADVANCES

During the year under review, we experienced a number of issues emanating from the implementation of the new banking platform which affected the Bank's credit portfolio management processes.

This, coupled with the government's fiscus challenges, resulted in a significant increase in non-performing loans (NPLs) by 57.6% to E150.2m (2016: E95.8m).

The Bank applied a conservative approach in raising provisions by adopting the most stringent requirement between IAS 39 and the Central Bank requirements. In this respect, we also conducted a careful analysis on the recoverability of underlying securities in order to ensure that adequate provisions were raised even for the secured loans.

We continued to ensure our compliance with both the CBS Circular No. 8 and IAS 39 by always using the most stringent provisioning requirement. In preparation for the implementation of IFRS 9, effective as at 1 January 2018, we developed models, collected data and ran the IFRS 9 model in tandem with the IAS 39 model. We are, therefore, confident that we will comply with the requirements of IFRS 9.

The NPL book is largely concentrated in the SME sector. This sector was mainly affected by delays in government payments which were either payments direct to SMEs or payments from large corporates. As a result of the increase in the book, there was a decrease to 0.61% in the credit-loss ratio (2016: 0.63%).

CREDIT (continued)

REGULATORY ISSUES

The Bank strives to comply with the country's regulations. During the year under review, we engaged in sensitising our staff about the new Consumer Credit Act to ensure that we comply with its requirements when it comes into effect in March 2018. Nedbank worked closely with the Central Bank of Swaziland (CBS) to ensure compliance with both Basel II and IFRS 9 requirements through a number of forums that were arranged by the regulator. (For more on compliance, see under Chief Financial Officer's review on page 27).

OUTLOOK

The focus for FY2018 will be to continue with the portfolio tilt per client and to further identify pockets of excellence in other industries such as agriculture, construction and manufacturing to further ensure that the lending portfolio is well diversified. (For more on diversification and strategy, see under Message from the Managing Director, and our Performance Against Strategy on pages 22 and 25, respectively.)

Another focus area will be on the high NPLs which are mainly deemed to be technical in nature and therefore presenting a high probability of client rehabilitation. Engagement with clients will be undertaken by both Credit staff and relationship managers in order to find solutions on how clients can be assisted in normalising their accounts.

In terms of the Consumer Credit Act, a gap analysis will be done to identify gaps between current practice and the requirements of the Act.

Compliance with the provisioning requirements per IFRS 9 will be an additional area of focus. After our parallel run during FY2017, our main attention in 2018 will be on ensuring that the data that will be used for the new model is complete and accurate. External auditors will also be engaged to validate the parameters used in the model and its calculations.

In support of our strategy to further mine the individual client's portfolio, the Credit department will be optimising its resources so as to provide quicker turnaround times and improve the effectiveness of managing the portfolio as we get exposed to greater risk.

HUMAN RESOURCES (HR)

OVERVIEW

The year under review has been a challenging one for the Swaziland economy in general, and for the financial services industry in particular, which experienced a harsh operating environment. Like most global companies, Nedbank recognises that talent management is essential to business success, and managing the demands of talent investment in the context of the difficult climate and long-term objectives is absolutely critical. We thus continued with our strong focus on our people, and the culture and climate in which they operate.

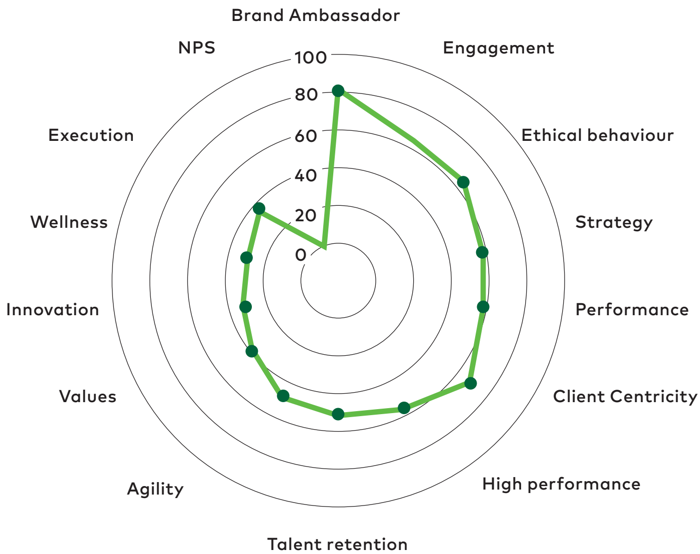
CULTURE, ENGAGEMENT, AND BEYOND

In alignment with the Nedbank Brand essence, the Bank participated in the new Compass survey, with the following areas researched:

Brand Ambassador	Identification with the brand and desire to deliver on the brand promise
Alignment	The clarity of the link between actions of individuals/teams/ leaders and Nedbank's goals
Engagement	Pride in Nedbank, deriving energy from work, and optimism about Nedbank's future
Ethical Behaviour	Acting in ways that are consistent with integrity
Strategy	The understanding of, and belief in Nedbank's Winning in 2020 strategy
Performance Management	The application of a rigorous, transparent and performance management process based on merit
Client Centricity	A fundamental orientation towards clients across every function, level, process, and decision in the organisation
High Performance	The management of the "Clan culture – which is structured like a family unit" so as to build a high performing, competitive environment at individual, team and leadership levels
Talent Retention	The intent to stay with Nedbank as an employer
Agility	The ability not just to weather change, but to anticipate and lead it
Values	The commitment to respect diversity and open communication
Innovation	The implementation of new technologies, services, or solutions with sustainable commercial impact
Wellness	A proactive and preventative approach to sustain behaviours that reduce health risks, improve quality of life, and enhance personal effectiveness at work
Execution	The efficiency of our resources, processes and decision-making
Net Promoter Score	The willingness of employees to recommend Nedbank as a great place to work and bank

HUMAN RESOURCES (HR) (continued)

2017 COMPASS SURVEY RESULTS



The results show that the highest favourable scores relate to Brand Ambassador (82%) and Client (71%). The lowest are the Net Promoter Score (19%), Wellness (40%), Innovation (43%) and Execution (46%).

The executive team has made real progress in developing plans to action the results of both surveys during the coming year.

PERFORMANCE MANAGEMENT

> In today's workplace, performance improvement and the role of performance management is an increasingly important tool. Business pressures are ever-increasing and organisations are required to become even more effective and efficient in order to execute better on business strategy, and to do more with less to remain competitive.

The success of our performance management practice lies in the ability to equip our people with the skills and imperative tools to take charge of their work responsibilities, development and future careers. Effective performance management is fundamental to achieving our successful future, and is not a fixed sequence of events, but a continuous process that constantly adapts to the needs of the team. The year-end assessments impact on the following human resources processes:

- Short-term incentives
- Salary increases
- Recognition
- Individual development plans

REMUNERATION, RECOGNITION AND REWARDS

> Remuneration plays a critical role in attracting, motivating and retaining high performing and talented individuals. Our guaranteed remuneration reflects the dynamics of the external market and our variable remuneration encourages and rewards performance. Remuneration management within Nedbank is integrated into other management processes such as the performance management and talent management processes within the ambit of the overall Nedbank Human Resources Policy.

The structure and quantum of all components of remuneration is benchmarked externally on the basis of job profiles and job evaluations performed on the JE Manager system.

Market data is used to design pay scales which govern guaranteed remuneration.

The benchmark for guaranteed remuneration is the median as benchmarked against external market surveys. Distribution of guaranteed remuneration is around the median for the job, in a bell curve, taking factors such as performance, supply and demand of skills in the labour market, overall competence and potential into consideration. The Group Remuneration Services Department, together with Nedbank HR: Rest of Africa, is responsible for annually validating the quality of the data used.

During the year under review, the Bank engaged PricewaterhouseCoopers (PwC) to conduct a market positioning analysis by position and by grade. It is through this analysis that we were be able to determine how our total guaranteed package, basic cash and short-term incentives compare to the Swaziland national market.

The general finding of the salary benchmarking was that remuneration practices of Nedbank compare slightly lower with those of the Swaziland national market. The survey provided analytical information to address this highlighted inequality through the proper internal remuneration channels.

INVESTING IN OUR PEOPLE

We believe that the opportunity for development is key to attracting and retaining the right people, and we don't just 'throw' education and training at our people in a random fashion. Instead, we organise and outline our training in such a way that it makes sense for both the organisation and our people. For example, the Education Policy saw employees being granted study bursaries to further their academic study towards bank-related qualifications.

EMPLOYEE RELATIONS

The relationship between employees and their direct superiors is central to employee satisfaction within the context of business requirements. Exceptional employee performance and behaviour is essential to Nedbank's success and growth. In recognising this, we are committed to developing, within the constraints of business profitability and survival, a fair and equitable system of employment practice that embraces equal opportunity and non-discrimination and which also acknowledges the rights of employees to representation, freedom of association and collective bargaining.

During the year under review, the Bank conducted protracted salary increase negotiations in which the parties could not reach consensus. The stalemate resulted in the Union embarking on a protected strike for a duration of five weeks.

HUMAN RESOURCES (HR) (continued)

COMPARATIVE HEAD-COUNT ANALYSIS (FY2016-FY2017)

Complement	2016	2017
Managing directorate	2	3
Wholesale	13	13
Retail	149	133
Treasury	3	3
Finance	7	6
Credit	42	37
Risk functions	6	7
Shared services	64	63
Marketing and Communications	4	3
Strategy	0	1
HR	4	3
Legal	3	3

COMPARATIVE EXPENSES (FY2016-FY2017)

FRONT OFFICE

E39.6m

2016: E35.4m

BACK OFFICE

E35.3m

2016: E32.2m

CORPORATE SOCIAL INVESTMENT (CSI)

Nedbank 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 in order to deliver a positive impact. By seeing money differently in this way, we are confident that we will achieve our vision to be Africa's most admired financial services provider.

As part of Nedbank's response to contributing to a thriving society, our strategy is to integrate sustainability across our business activities.

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.

In delivering on our purpose, the Nedbank Sponsorship Committee explores opportunities and areas of mutual interest which align to our new brand repositioning as well as our core pillars when selecting projects and/initiatives with which to align our CSI.

In the year under review, we worked with:

- Various non-governmental organizations (NGOs), particularly in the Health, Agriculture and Education sectors.
- Special interest groups and/or relevant industry bodies, where we explored areas of mutual interest and collaborated in order to use our core business of financial services in a manner that creates long-term value for the Bank and our stakeholders.

Major initiatives achieved in the year include:

- **Nedbank (Swaziland) Limited Scholarship Fund Programme**
  The Bank established the programme in collaboration with the University of Swaziland (UNISWA) in order to avail full scholarship funding to academically capable but economically disadvantaged Swazi young people who are enrolled at the university for their first degree programme. In 2017, the Bank continued paying fees for two students which included tuition, book and personal allowances. This initiative aligns well with our Education pillar, 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 nine years now. This programme assists tertiary students gain practical understanding of entrepreneurship while developing a culture of ethical business conduct through various projects initiated by the groups of students. Our annual sponsorship helps train hundreds of students to develop effective community outreach projects that focus on market economics, entrepreneurship and financial literacy.

- **Woman Farmer of the Year Competition**
  Through the three-year partnership with the Woman Farmer Foundation (WFF), Nedbank is substantially investing in hosting the annual Woman Farmer of Year competition. The competition empowers hundreds of women, particularly in rural communities throughout the country, by expanding their knowledge base through information dissemination, training and education in agriculture and farming in order for them to move from subsistence to commercial farming.

- **Sibebe Survivor Challenge**
  As the anchor sponsor of the annual challenge hosted by the Mbabane-Mbuluzi Rotary Club, Nedbank positively contributes to several communities through proceeds from the challenge that attracts thousands of people from Swaziland and beyond. The partnership has achieved synergy in the efforts of both organisations towards making a positive contribution and impact in various communities, not only in the Mbuluzi and surrounding areas, but also throughout the country. Proceeds from the Sibebe Community Trust benefited several communities such as hospitals, schools and community projects.

- **Development of Sport**
  In order to promote the development of Sport in the country, Nedbank partnered with various institutions to create positive upliftment through Sport with initiatives in soccer, golf, swimming, and other fitness activities. These included the King's Golf Cup, Nedbank MTB Imvelo Classic, Swaziland Swimming Association Gala, Tuff One Challenge, Trelawney Park KwaMagogo Marathon, Orange CAF Champions League, and Swazi Warrior Challenge, to mention just a few.

- **Health sector development**
  Beneficiaries under the Health pillar included Swaziland Breast Cancer Network, Swaziland Hospice at Home, Cheshire Homes of Swaziland, Hope House, SOS Children's Village, Emmanuel Khayalethu, Diabetes Swaziland, as well as the Swaziland Epilepsy Association.

During FY2017 our CSI policy was reviewed to align it with the Group, where changes are being made that will inform our process. The review included the need for sponsorship initiatives to embrace our new brand positioning: Money experts who do good.

ENSURING VALUE

Our vision is to be the Bank of choice by providing unique client-centred solutions.

OUR GOVERNANCE

OUR BOARD OF DIRECTORS (THE BOARD)

BARNABAS C.F. MHLONGO (72)

Chairman

Qualifications:
ACIS – SAICA; FICBM, Chartered Institute of Business Management; Diploma in Criminal Justice and Forensic Investigations, UJ; Dip 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 accounting profession. He has previously worked as Company Secretary and later Head of Procurement for Johannesburg Fresh Produce Market, and as 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 as a Board member at the Chamber of Commerce, and the Swaziland Competitions Commission as Director.

MDUDUZI MTHEMBU (41)

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, Mduduzi went on to become a Financial Markets Trainee for UK company Shields Consulting (Pty) Ltd. He subsequently became a Teaching Assistant in the Department of Economics at UNISWA which he left after some time in order to further his academic studies. He then became a Graduate Teaching Assistant at the University of Cape Town (UCT) whilst pursuing his PhD studies. He is currently a lecturer in the Department of Economics at UNISWA.

ASHLEY SUTTON-PRYCE (64)

Qualifications:
BA (University of Natal); Diploma I (Institute of Bankers)

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

STANLEY BEYERS (65)

Qualifications:
CAIB (SA), FIBSA, Higher Diploma-Advanced Banking

Stanley has worked for Nedbank Limited for over 30 years in various Divisions where he joined the Bank in 1980. He is formally the Chief Operations Officer of Nedbank Africa. Stanley is an example of a true Nedbanker and has vast experience in the financial services industry as he has worked his way up from several divisions within the Bank.

PANUEL GWEBU (44)

Chief Compliance Officer, Company Secretary & Legal Advisor

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

Panuel Gwebu holds the position of Company Secretary/Head of Legal 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. He has previously served as part time tutor at Institute of Distance Education (UNISWA) in the Faculty of Law. He has also served as board member to Swaziland National Sport Council, NIDCS and member of the Technical Committee of the National Anti-Money Laundering Task Force.

COMMITTEE

- Directors affairs
- Remuneration Committee
- Audit Committee
- Risk Compliance & Loan Review

CONFLICT OF INTEREST

The Board complied with the Conflict of Interest Policy

For further information visit our website: www.nedbank.co.sz

BOARD ATTENDANCE

90%

ATTENDANCE FOR 2017

It was in line with our high standards of governance. Details of the attendance of board committee meetings are shown for each committee from page 55 onwards.

BOARD SKILLS & EXPERIENCE

Banking

Financial services

HR/Strategic planning/

Accounting and auditing

Large corporate/Industrial

Doing business in Africa Economics/Public policy/IT

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

MHAWU MAZIYA (53)

Qualifications:
Master of Law (University of Virginia); BA Law, LLB (UNISWA); Diploma in Journalism & Professional Writing (Trans-World Tutorial College)

Advocate Maziya is 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, as Non-Executive Chairman of the Newera Partners Limited board, Non-Executive Chairman of the National Maize Corporation board and Non-Executive Chairman of the Swaziland Insurance and Retirement Funds board. He has also served on the Labour Advisory Board and was Deputy Chairman of the Industrial Relations Act 2000 drafting Committee.

VINAH NKAMBULE (69)

Qualifications:
MBA (Ashland University – USA); BCom (UNISWA); Dip in Accounting and Business Studies (UNISWA)

With a rich history in the banking industry, Vinah 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 and at the Institute of Distance Education. Vinah has served on a number of boards and has been honoured with a number of accolades over the years.

FIKILE NKOSI (49)

Qualifications:
MAP (Wits); B-Compt (Hons) (UNISA); BCom (UNISWA); Dip. in Accounting and Business Studies (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 KPMG. 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 on various boards.

PAPA SEKYIAMAH (44)

Qualifications:
BCom Accounting Honours; (National University of Science & Technology, Zimbabwe) Chartered Accountant Zimbabwe; MBA (Tuck School of Business – USA); Chartered Accountant, South Africa

Papa is currently the Executive Head of Strategy, Project Management, Marketing and Communications at Nedbank Rest of Africa. He is an accomplished international manager and financial and consulting professional with 15 years' experience, including nine years of senior management. He has board experience in both domestic and international markets.

KANDIS SWANEPOEL (52)

Qualifications:
Chartered Accountant (SAICA/PAAB), BComm Accounting Cum Laude, BComm Accounting Hons, Certificate in the Theory of Accountancy, (University of Pretoria), Certificate in Mathematical Modelling of Derivatives (UNISA), MBA Cum Laude (University of Wales and Manchester Business School), Advanced Management Programme (INSEAD), Executive Management Programme (Duke).

Kandis Swanepoel is a committed Nedbanker and has worked in various roles at Nedbank since 1996. She has previously worked for the South African Reserve Bank as a Senior Analyst Specialist Projects and Deloitte and Touché as Audit Manager and Senior Audit Manager. She is currently the Chief Operating Officer at Nedbank Rest of Africa office.

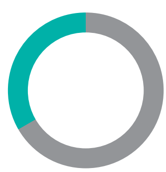
DIRECTOR CLASSIFICATION

3 Independent non-executive

3 Non-executive

3 Executive

GENDER DIVERSITY



33% Female

67% Male

DIRECTOR TENURE

OUR BOARD OF DIRECTORS (THE BOARD) (continued)

OUR MANAGEMENT COMMITTEE

Our Management Committee comprises the Managing Director, Chief Financial Officer, Chief Operating Officer and seven other senior managers, all with wide experience in their respective fields

Fikile Nkosi
(See page 51 for biographical details)
MD

James Matthews
MBA (2013), Milpark Business School, Degree – B.Mil (1992), Stellenbosch University
Chief Operations Officer

Zithulele Mabuza
CA (Swaziland); ACCA ; BCom (UNISWA)
Acting Chief Financial Officer

Phesheya Nkambule
CA (Swaziland); ACCA ; BCom (UNISWA)
Head of Retail

Lomkhosi Dlamini
MBA (University of Akron) ; Fulbright Scholar; BA (UNISWA)
Head: Strategy, Marketing and Corporate Affairs

Lindiwe Mlambo
BCompt, Accounting Sciences (UNISA)
Head: Internal Audit

Themba Manana
MBA (University of Hull); BCom (UNISWA); Management Development Programme (GIBS, University of Pretoria)
Head: Shared Services

Dean Adams
Leadership Centre; EDP (GIBS); SMDP (GIMT); Bankers Diploma (CAIB); BA Economics and Accounting, (UBLS)
Head of Wholesale

Leonard Dlamini
CA (Swaziland); ACCA; BCom (UNISWA)
Chief Risk Officer

Panuel Gwebu
BA Law, LLB (UNISWA); MPD (GIBS); PostGrad Compliance (UJ)
Chief Compliance Officer, company secretary and Legal Advisor

GOVERNANCE OVERVIEW

Our operating environment is increasingly evolving through the continuous introduction of new regulatory standards. We value these regulatory standards as an integral component of our business activities and believe that adherence to regulatory requirements also affords us an opportunity to enhance value creation.

This fluidity in the regulatory environment has made it necessary for us to develop robust processes to facilitate a rapid response to changes in the regulations that govern our activities as a bank. This has also enabled us to strengthen our risk management practices and to support the high-performance culture that is one of our strategic goals.

KING IV REPORT

The Bank has over the years committed itself to aligning with recommendations outlined in the King Code of Governance Principles (King III). In November 2016, with the publication of the King IV Report on Corporate Governance (King IV), substantial progress has been achieved in applying those of its principles that were practical for implementation in our business environment. Having developed a programme for transition from King III, we are thus making our disclosures in alignment with King IV in this report.

As at 31 December 2017, most of the principles in King IV were being applied, save for some where we were 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:

- The chairman is a non-executive director but not an independent director. The chairman is appointed to the 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

Our Governance and 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
- Facilitates 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 in order to develop the corporate strategy plan using a rolling approach. These joint sessions ensure that there is adequate alignment between the Board's objectives and the 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.

THE BOARD

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 five members and not more than 15 members of whom 50% should be Swazi citizens. In embracing the principles of King IV the Board also seeks to apply best-practice standards, and evaluates the composition of the Board in order to align it with these principles.

Six of our directors are non-executive, three of which are independent. Independent non-executive directors thus comprise 50% of the non-executive directors and the Board has identified this as an area for improvement. This determination is in line with the King IV recommendation that independent non-executive directors should be a majority of the non-executive directors.

BOARD APPOINTMENTS AND EVALUATION

The Bank's 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 shareholder's 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 its effectiveness as a collective. The issues that were identified for improvement during the year under review were monitored on an ongoing basis and kept as part of the Board agenda.

The Board has identified a skills shortage with regard to executive appointments and has revised its succession plan.

CHAIRMAN AND THE MANAGING DIRECTOR

In accordance with the requirements of the Financial Institutions Act, 2005 and King IV, the Director's Charter provides for these two roles to be separate. The Board is chaired by a non-executive director who 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, and this separation of roles ensures that there is a proper balance of

OUR BOARD OF DIRECTORS (THE BOARD) (continued)

authority and power. This promotes responsibility, accountability and transparency as there is no one individual in whom unlimited decision-making powers are vested. The demarcation of the roles however does not prohibit the interaction between the Board and executive management. This is to ensure that the two leadership groups work in sufficient collaboration for the attainment of the Bank's strategic objectives.

COMPANY SECRETARY AND DIRECTOR DEVELOPMENT

The introduction during the prior year of the core-banking system brought about implementation challenges that necessitated that the Board be regularly provided with technical information on the system. Targeted awareness sessions continued to be arranged during the year under review in order to establish the necessary appreciation of the system.

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 several weeks. In the course of the induction the new directors interact with senior management when they are also informed of the Bank's strategies.

BOARD MEETINGS

The Board met five 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.

NEDBANK SWAZILAND BOARD COMPOSITION

NAME AND DATE OF APPOINTMENT	SWAZI CITIZEN	DESIGNATION	STATUS	DATE THE 9-YEAR TERM IS REACHED	DATE DIRECTOR REACHES AGE 70
BC Mhlongo 01.01.12	Yes	Chairman	NE	Jan 2021	Nov 2017
MD Mthembu 26.08.16	Yes	Non-executive director	NE	Aug 2025	Aug 2047
A Sutton-Pryce 24.05.14	No	Chair: Directors' Affairs and Remuneration Committee	NE	May 2023	Dec 2023
SH Beyers 28.05.08	No	Chair: Risk and Compliance Committee	INE	May 2017	Mar 2021
M Maziya 25.11.10	Yes	Chair : Audit Committee	INE	May 2024	May 2034
VN Nkambule 26.08.16	Yes	Independent non-executive director	INE	Aug 2025	Nov 2018
F Nkosi 01.11.10	Yes	Managing Director	Exec		
P Sekyiamah 11.03.15	No	Head of Strategy et al: ROA – Subsidiaries	Exec		
Kandis Swanepoel 30.05.17	No	Chief Operating Officer – Nedbank ROA	Exec		

*According to the Financial Institutions Act, 2005 at least 50% of the board must comprise Swazi nationals

- 5 of 9 Directors are Swazi Citizens
- 3 of 9 Directors are Females
- 6 Directors are non-executive, 3 of which are independent.

The areas of focus for the Board in the year under review 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.

BOARD COMMITTEES

The Board has established three Board committees to which it delegates the direction of specific responsibilities to ensure that the Board is adequately assisted in carrying out its duties and obligations:

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

In addition, five technical committees have been established within the executive committee structure, and are mandated to implement the corporate strategy in a responsible manner:

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

NEDBANK SWAZILAND BOARD COMPOSITION (continued)

The committees operate within set governance frameworks and each has a charter that is reviewed for adequacy on an annual basis.

- **Audit Committee**
  Chairperson:
  M Maziya

  Members:
  A Sutton-Pryce
  V Nkambule
  M Mthembu
  S Beyers

Focus
During the year under review, the Audit Committee:
- Considered the adequacy and effectiveness of internal controls
- Reviewed and considered the audited annual financial statements
- Reviewed the management accounts and the interim financial statements
- Assessed the performance of internal audit functions and the independence of the function
- Reviewed and monitored capital and ascertained that expenditure was adequately budgeted for, controlled and monitored
- Monitored tax risk, planning and compliance

- **Directors Affairs and Remunerations Committee**
  Chairperson:
  A Sutton-Pryce

  Members:
  S Beyers
  M Maziya
  V Nkambule

Focus
During the year under review, the Directors Affairs and Remunerations Committee:
- Reviewed succession planning and skills
- Approved remuneration increases for staff
- Reviewed Board fees
- Considered Board evaluation reports and recommendations
- Reviewed and revised the composition of board committees
- Considered and approved the implementation of job evaluation results
- Reviewed and monitored the creation of a defined contribution scheme
- Approved the performance agreement of the managing directors
- Reviewed and approved Human Resources policies including remuneration, recruitment and selection and succession planning

- **Risk, Compliance and Loan Review Committee**
  Chairperson:
  SH Beyers

  Members:
  M Mthembu
  K Swanepoel
  P Sekyiamah

Focus
During the year under review, the Risk, Compliance and Loan Review Committee:
- Evaluated the adequacy and efficiency of the risk policies, procedures, practices and controls
- Monitored the implementation and ongoing maintenance of the Enterprise-wide Risk Management Framework
- Reviewed and approved credit risk policies and credit strategy
- Reviewed credit mandate levels and the adequacy of risk management processes
- Considered external audit reports on credit risk management
- Monitored and evaluated the adequacy of capital and liquidity management
- Assessed the non-performing loan book and effectiveness of management practices

BOARD AND BOARD COMMITTEE MEETING ATTENDANCE

The table below indicates the attendance of the directors at Board and committee meetings for the period 1 January to 31 December 2017

		BOARD	AUDIT COMMITTEE	RISK COMPLIANCE AND LOAN REVIEW COMMITTEE	DIRECTORS AFFAIRS AND REMUNERATION COMMITTEE
Number of Meetings for period		5	4	4	4
Directors	**Status**				
M Maziya	^	4	3	N/A	3
VN Nkambule	^	5	3	N/A	3
BC Mhlongo	#	4	N/A	N/A	N/A
A Sutton-Pryce	#	4	4	N/A	4
SH Beyers	^	5	4	4	4
MD Mthembu	#	4	4	4	N/A
F Nkosi	*	5	N/A	N/A	N/A
K Swanepoel	*	3	N/A	N/A	N/A
P Sekyiamah	*	4	N/A	3	N/A

* Executive director
^ Independent non-executive director
# Non-executive director

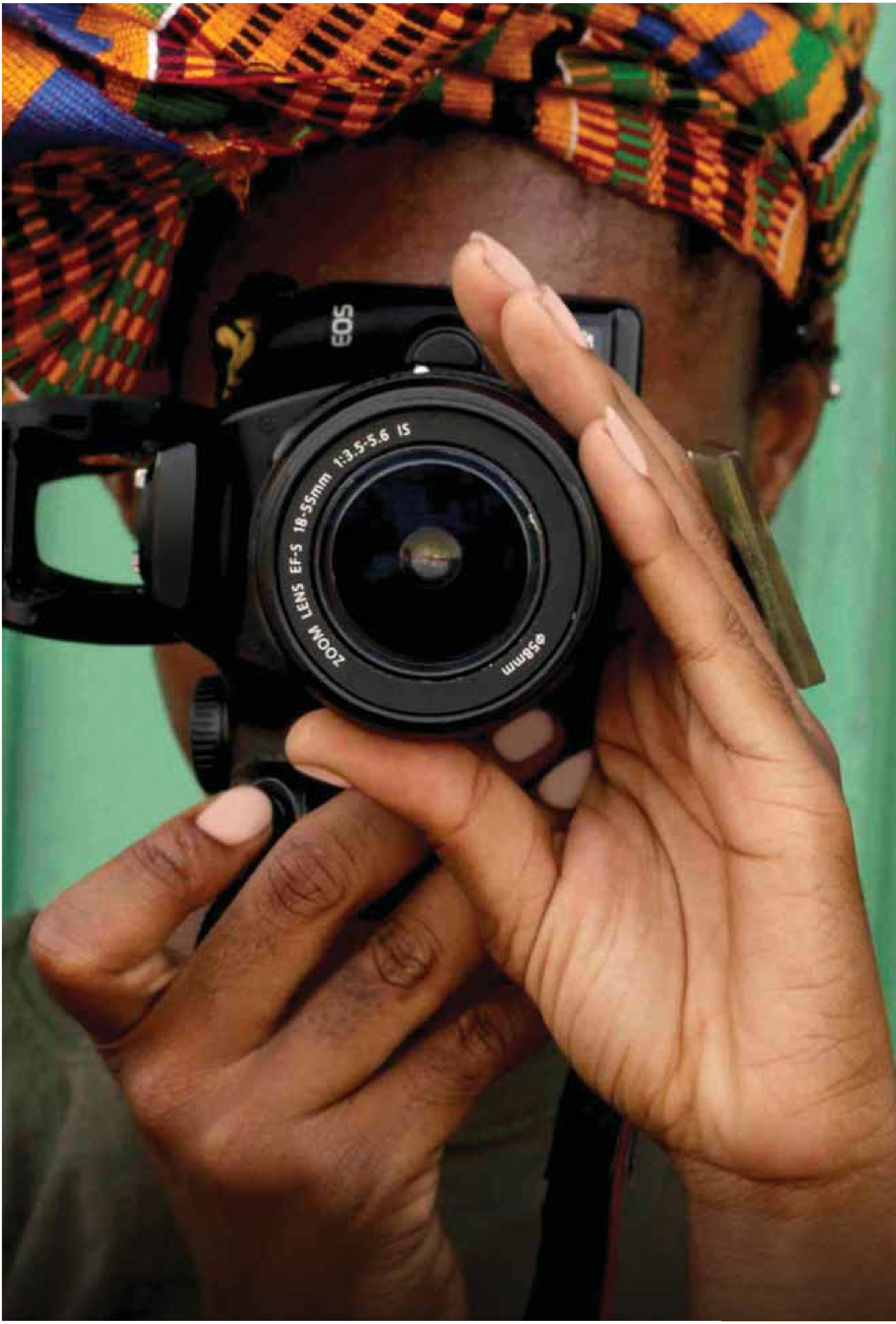
CODE OF ETHICS

The Bank is a value-driven organisation which firmly believes in conducting all its business dealings with honesty and integrity. We have accordingly developed organisational values that provide a foundation on which the culture of the organisation is built. Our Code of Ethics, which is binding on the Board and on all employees, seeks to provide a framework that addresses issues such as conflict of interest, outside/external involvement, gifts and insider trading. We seek to promote observance of the Code of Ethics through periodic awareness sessions and by requiring employees to commit to its precepts on an annual basis.

Adherence to our 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 behaviour.

During the year under review there were no reported instances of breaches of the Code of Ethics.

During the year under review, the Board of Directors also reviewed and signed the Board Ethics Statement. The Board undertook to be bound by the Ethics Statement on an individual and collective basis.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ANNUAL FINANCIAL STATEMENTS

CONTENTS

Directors' responsibility statement for the financial statements

for the year ended 31 December 2017

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 2017, statements 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 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 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 7 March 2018 and signed on its behalf by:

BCF Mhlongo
Chairman

FM Nkosi
Managing Director

Independent Auditors' report

TO THE SHAREHOLDERS OF NEDBANK (SWAZILAND) LIMITED

OPINION

We have audited the financial statements of Nedbank (Swaziland) Limited, (the bank), set out on pages 66 to 120, which comprise the statement of financial position at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the report of the directors.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nedbank (Swaziland) Limited at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the 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 *Auditors' 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.

IMPAIRMENT OF LOANS AND ADVANCES TO CUSTOMERS

Refer to note 2.1, note 9 and note 25.2 of the financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Loans and advances which represent 73 % of total assets, and the associated impairment provisions are significant to Bank. The Bank lends to various clients across all sectors of the economy from individuals to large businesses. Each category of loans are grouped in homogeneous portfolios for monitoring and general impairment assessment.	Our audit included identifying relevant controls that address the impairment risks identified and evaluating the design and implementation, and where relevant the operating effectiveness, of these controls. We focused on controls over the identification of impairment losses; the governance processes in place for credit models, inputs and overlays; the credit forums where key judgements are considered; and how the Directors ensure they have appropriate oversight over provisions for loan impairments and other credit risk provisions.

Independent Auditors' report (continued)

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Provisions for loan impairments and other credit risk provisions represent management's estimate of credit losses incurred in loan portfolios at the reporting date. General impairment models are used in the calculation of the general impairment provision. Judgement and knowledge is needed in selecting the various loss given default ratios used in the models to make these estimates. The estimation of these credit losses is inherently uncertain. In addition, adjustments may be applied to model inputs to cater for additional factors, and the valuation of these adjustments can be subjective. Specific impairment is also calculated for individually significant loans with larger exposure where there is evidence that an impairment event has occurred. Both the identification of an impairment event, and the subsequent valuation of an impairment allowance, requires judgement Advances that are individually significant are individually assessed for impairment. The assessment process requires detailed knowledge of the borrower and requires credit officers to use judgement to determine whether a loss event has occurred and the amount of the resulting loss. For specific impairments, judgement is required to determine when an impairment event has occurred and then to estimate the expected future cash flows related to that loan and advance. The impairment provision has also certain regulatory compliance requirements from the Central Bank of Swaziland. Given the combination of inherent subjectivity and judgement involved in estimating credit losses and the material nature of the balance, we consider the impairment of loans and advances to be a key audit matter in our audit of the financial statements. **Suspense accounts** Refer to report of the directors	In the Bank the impairment provisions are model driven and we therefore focused on the data used to generate impairment provisions, as well as the appropriateness of key models used, by: • Testing the historical accuracy of models by assessing the historical projections compared to actual credit losses. • Focusing on the most significant model assumptions and we performed detailed procedures on the completeness and accuracy of the data used. We compared internal data and assumptions to those used more widely in the market. • We assessed the appropriateness of the models used for each significant product type, and independently recalculated the impairment allowance for selected portfolios. • Challenging the appropriateness of post-model adjustments made by management by assessing evidence to support the overlays. • For specific provisions, the appropriateness of provisioning methodologies and policies was independently assessed for a sample of loans across the portfolio selected applying risk criteria. An independent view was formed on the specific provisions raised based on our review of the detailed loan and counterparty information. • We selected a sample of performing loans and advances and performed a detailed independent assessment of the credit losses identified, focusing on whether there is evidence of an incurred loss. • In order to focus our procedures on the areas where there is a higher risk, we performed detailed credit loss assessments of loans and advances with higher risk credit grades • When performing work on the valuation of provisions, we considered any collateral held by the Bank. • We further checked to ensure that the provision had been calculated in terms of the Central Bank of Swaziland circular number 8. • We considered the adequacy of the disclosures in the financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Suspense accounts are used by the Bank in the processing of its day-to-day transactions. Due to the potential pervasive impact of the suspense accounts on the operations of the Bank, errors or fraud could occur. The control surrounding the use of and monthly reconciliation of suspense accounts is therefore a focus area of management at the Bank arising from the risks of error inherent in suspense accounts. Due to the focus placed on suspense accounts by management and the potential of significant errors in the financial statements and the audit effort thereon these suspense accounts are considered a Key Audit Matter.	Our procedures in respect of the suspense accounts included; • We obtained the year end reconciliations for all suspense accounts and performed the following: – We 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 reconciliation took to clear for reasonableness. – Any remaining items were investigated. • We assessed the completeness of the population of suspense accounts by agreeing each reconciliation to the year-end trial balance and following up on any suspense accounts for which no reconciliation had been prepared.
Implementation of Flexcube operating system Refer to report of the directors The Bank in the previous financial year implemented a new operating system, Flexcube. The implementation of the new system had an impact on the way the bank processes transactions. This had a pervasive effect on the way the bank operates. Certain teething problems were experienced with the implementation of the new system, and management were required to develop manual fixes until software patches could be developed to address these problems. Due to the pervasive nature this is considered a Key Audit Matter.	The Group Internal Audit team performed certain procedures in relation to the Flexcube operating system throughout the year. The KPMG IT Team Member reviewed the reports produced by the Group Internal Audit Team and performed additional follow up testing where necessary. The KPMG audit team further increased their substantive testing especially through re-performance in most areas of the bank's operations that were identified to be problematic where manual fixes had been used. Such additional testing included the following: • Re-performance of any manual fixes required to correct teething problems. • Ensuring that all suspense accounts, as identified in the previous key audit matter, are reconciled by taking the trial balance and tracing all suspense accounts reflected on the trial balance to reconciliations.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the directors' responsibility statement, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that 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.

Independent Auditors' report (continued)

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 in the manner required by 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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.

KPMG

KPMG Chartered Accountants (Swaziland)
Per VN Nkabindze
Chartered Accountant (SD)
Partner

27 March 2018

Report of the Directors

for the year ended 31 December 2017

The Directors have pleasure in submitting their report together with the financial statements of the bank for the financial year ended 31 December 2017.

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 2017 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 (2016: 26 650 000) and 24 640 134 (2016: 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 2017 the bank's risk weighted assets totalled E3 219 million (2016: E3 262 million) requiring a minimum capital of E257.5 million (2016: E260.9 million). This requirement has been met as the bank's regulatory capital and reserves totalled E771.7 million (2016: E706 million) providing a capital adequacy ratio of 24.0% (2016: 21.7%).

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 2017 the bank's total liabilities for which liquidity is required totalled E3 609.7 million (2016: E3 303.7 million) requiring a minimum capital of E180.5 million (2016: E165.2 million). This requirement has been met as the issued capital and reserves of E733.2 million (2016: E659.2 million) are enough to cover both the Section 20(1)(a)(iii) and the Section 20(1)(a)(i) requirements providing a ratio of 21.4% (2016: 21.4%).

RESULTS OF OPERATIONS

The bank recognised a profit after tax for the year under review of E110 044 598 (2016: E121 098 883).

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 E11 004 460 (2016: E12 109 888) is transferred to the Statutory Reserve.

BOARD OF DIRECTORS

The directors who served during the year under review were:

Mr BCF Mhlongo	(Chairman)
Mr S Beyers	
Ms F Nkosi	(Managing Director)
Mr A Sutton-Pryce	
Mr P Sekyiamah	
Mr M Maziya	
Ms VN Nkambule	
Mr MD Mthembu	
Ms K Swanepoel	(appointed May 2017)

SECRETARY
Mr P Gwebu

COMMITTEES OF THE BOARD:

AUDIT COMMITTEE

Mr M Maziya (Chairman)
Mr S Beyers
Mr A Sutton-Pryce
Ms VN Nkambule
Mr MD Mthembu

RISK, COMPLIANCE AND LOAN REVIEW COMMITTEE

Mr S Beyers (Chairman)
Mr MD Mthembu
Mr P Sekyiamah
Ms K Swanepoel

DIRECTORS AFFAIRS AND REMUNERATION COMMITTEE (INCORPORATING NOMINATIONS)

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

REGISTERED OFFICE
Third Floor
Nedbank Centre
Swazi Plaza, Mbabane
P O Box 68
Mbabane

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.

Report of the Directors (continued)

for the year ended 31 December 2017

FLEXCUBE CORE BANKING OPERATING SYSTEM

Flexcube was implemented as the new core banking operating system for Nedbank Swaziland in May 2016 to replace the previous Globus operating system. The implementation of the new core banking operating system had an impact on the way the Bank processes transactions, which had a pervasive effect on the way the Bank operates.

Certain teething problems were experienced with the implementation of the new system. Management and staff at Nedbank have been working tirelessly to identify, remedy and implement working manual fixes to address all the teething problems being identified until such time as the software developers devise patches to fix the issues identified. This has been done so that the valued customers of Nedbank experience the same high quality of customer service that they are used to.

One of the area of focus for Management of the Bank has been the use of suspense accounts by Flexcube. Additional senior management time has been focused on identifying new suspense accounts automatically generated by the Flexcube system on a monthly basis and ensuring that these new suspense accounts are properly investigated, reconciled and the necessary corrective action is taken. This has been over and above the traditional suspense accounts used by Nedbank for the processing of transactions.

SUSPENSE ACCOUNTS

Suspense accounts are used by the Bank in the processing of its day-to-day transactions. Suspense accounts are considered a risk to the Bank as any error, intentional or unintentional, could be carried or concealed in a suspense account and this could have a significant impact on the financial statements. The controls surrounding the use of and reconciliation of suspense accounts is therefore a focus area of management. Management reconcile these suspense accounts on a monthly basis.

Statement of comprehensive income

for the year ended 31 December 2017

	Note	2017 E	2016 E
Interest income	2	**418 112 278**	354 786 208
Interest expense	2	**(151 822 206)**	(117 925 474)
Net interest income		**266 290 072**	236 860 734
Impairment charge on loans and advances	2.1	**(22 202 629)**	(15 364 916)
Income from lending activities		**244 087 443**	221 495 818
Fees and other commission income	2.2	**124 487 870**	129 385 474
Other income		**8 977 685**	11 806 255
Foreign exchange trading and dealing gains		**9 271 813**	20 940 960
Income after impairment of advances & interest expense		**386 824 811**	383 628 507
Operating expenses	2.3	**(233 665 898)**	(211 830 950)
Profit before taxation		**153 158 913**	171 797 557
Income tax expense	3.1	**(43 114 315)**	(50 698 674)
Profit for the year		**110 044 598**	121 098 883
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Re-measurements of defined benefit liability		**(3 765 000)**	(1 721 000)
Related tax		**1 035 375**	473 275
Total other comprehensive income		**(2 729 625)**	(1 247 725)
Total comprehensive income		**107 314 973**	119 851 158
Basic earnings per share (cents)	4.1	**447**	491

Statement of changes in equity

for the year ended 31 December 2017

	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 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 declared to shareholders	-	-	-	-	-	(30 800 168)	(30 800 168)
Shares issued fully paid	374 723	2 117 710	-	-	-	-	2 492 433
Reversal of shares issued to Employee Trust	(14 790)	-	-	-	-	-	(14 790)
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
Balance at 1 January 2017							
Total comprehensive income for the year	**12 305 277**	**10 070 070**	**1 366 260**	**94 143 225**	**8 014 457**	**533 254 737**	**659 154 026**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**110 044 598**	**110 044 598**
Re measurement of defined benefit liability	**-**	**-**	**-**	**-**	**-**	**(2 729 625)**	**(2 729 625)**
Regulatory compliance							
Transfer to statutory reserve	**-**	**-**	**-**	**11 004 460**	**-**	**(11 004 460)**	**-**
Transactions with owners and recorded directly in equity							
Treasury shares	**14 790**	**-**	**-**	**-**	**-**	**-**	**14 790**
Dividend declared to shareholders	**-**	**-**	**-**	**-**	**-**	**(33 264 181)**	**(33 264 181)**
Reversal of shares issued to Employee Trust	**(14 790)**	**-**	**-**	**-**	**-**	**-**	**(14 790)**
Balance at 31 December 2017	**12 305 277**	**10 070 070**	**1 366 260**	**105 147 685**	**8 014 457**	**596 301 069**	**733 204 818**

	Note	2017	2016
Dividends per share paid out of previous year's profits (cents)	4.2	**135.0**	125.0
Dividends per share proposed in respect of current year's profits (cents)	4.2	**135.0**	135.0

Statement of financial position

as at 31 December 2017

	Note	2017 E	2016 E
ASSETS			
Cash and cash equivalents	5	**569 742 532**	662 923 437
Government and public sector securities	6	**591 727 427**	562 011 010
Amounts due from other banks	7	**8 934 356**	4 484 281
Derivative assets	25.8	**18 564 313**	29 659 904
Loans and advances to customers	8	**3 455 264 325**	2 901 147 925
Other receivables	10	**32 046 092**	19 862 977
Investments	11	**2 772 230**	2 593 986
Property and equipment	12	**44 168 172**	25 431 712
Deferred tax assets	13.1	**35 536 323**	26 718 794
Intangible assets	14	**65 918**	66 330
Total assets		**4 758 821 688**	4 234 900 356
EQUITY AND LIABILITIES			
Equity			
Share capital	15	**12 305 277**	12 305 277
Share premium and reserves		**720 899 541**	646 848 749
Total equity and reserves attributable to equity holders of the bank		**733 204 818**	659 154 026
Liabilities			
Deposits from customers	16	**3 732 435 277**	3 407 495 590
Deposits from banks	17	**1 366 012**	5 219 406
Current tax liabilities	18	**3 222 178**	2 044 729
Trade and other payables	20.1	**118 858 409**	92 509 471
Provision for staff costs	20.2	**9 288 239**	6 870 299
Derivative liabilities	25.8	**1 395 367**	14 766 561
Deferred tax liabilities	13.2	**828 473**	2 876 653
Funding from other banks	5	**158 222 915**	43 963 621
Total equity and liabilities		**4 758 821 688**	4 234 900 356
Guarantees and letters of credit on behalf of customers, excluded from liabilities	21	**266 661 521**	174 610 655

Statement of cash flows

for the year ended 31 December 2017

	Note	2017 E	2016 E
Cash flows from operating activities			
Cash received from customers	23.1	**141 399 056**	150 873 432
Cash paid to customers, staff and suppliers	23.2	**(224 599 134)**	(203 654 762)
Interest received	2	**418 112 278**	354 786 208
Interest paid	2	**(151 822 206)**	(117 925 474)
Cash generated by operating activities	23.3	**183 089 994**	184 079 404
Change in working funds			
Increase in operating assets	23.4	**(622 170 138)**	(215 364 097)
Increase in operating liabilities	23.5	**344 480 147**	303 271 829
Net (decrease)/increase in working funds		**(277 689 991)**	87 907 732
Taxation paid	18	**(51 767 201)**	(55 490 316)
Net cash (used)/generated by operating activities		**(146 367 198)**	216 496 820
Cash flows from investing activities			
Purchase of property and equipment	12	**(27 719 531)**	(9 507 625)
Purchase of computer software	14	**(89 289)**	–
Net cash used in investing activities		**(27 808 820)**	(9 507 625)
Cash flows from financing activities			
Dividends paid to shareholders	23.6	**(33 264 181)**	(30 800 168)
Net cash used in financing activities		**(33 264 181)**	(30 800 168)
Net (decrease)/increase in cash and cash equivalents		**(207 440 199)**	176 189 027
Cash and cash equivalents at beginning of year		**618 959 816**	442 770 789
Cash and cash equivalents at end of year	23.7	**411 519 617**	618 959 816

Notes to the financial statements

for the year ended 31 December 2017

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.

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 were in relation to loans and advances impairments. Other significant estimates are in relation to employee benefits obligations and assessment of deferred taxes.

When assessing the impairment of loans and advances management make use of models to calculate the general impairment provision required. Certain adjustments are made to the information input into the model to take account of any corrections required to be made to the information extracted from the Flexcube system. Loss Given Default ratios are input into the model based on the Banks past experience with credit losses and the local economic conditions.

The specific impairment is assessed in respect of loss incidences that have been identified with specific customers, which is based on credit officer's experience and knowledge of the customers.

When calculating the Bank's exposure for credit losses, the value of any collateral held by the bank which would result in future cash flows for the Bank, is incorporated into the calculation to arrive at the Bank's exposure to credit losses.

Once the provision for impairment, has been calculated in terms of International Financial Reporting Standards, the impairment provision is then compared to the provisioning levels required by the Central Bank of Swaziland, as detailed in the Central Bank Circular No 8.

Notes to the financial statements (continued)

for the year ended 31 December 2017

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.

1.1.3 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.

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.

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.

Notes to the financial statements (continued)

for the year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.1 FINANCIAL INSTRUMENTS (continued)

1.1.4 Measurement basis of financial instruments (continued)

Fair value (continued)

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.

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.

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.

1.2 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.

Notes to the financial statements (continued)

for the year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 NON-INTEREST INCOME AND EXPENSES

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.

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.

Loan administration fees and income from disposals 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.

1.6 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.

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.

Notes to the financial statements (continued)

for the year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.7 PROPERTY AND EQUIPMENT (continued)

Depreciation (continued)

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.

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.

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.

Notes to the financial statements (continued)

for the year ended 31 December 2017

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.

1.12 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.

1.14 IMPAIRMENT OF NON-FINANCIAL ASSETS

The bank assesses all non-financial assets (excluding deferred tax assets) for indications of impairment such as the passage of time, changes with an adverse effect or increases in interest rate 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.

Notes to the financial statements (continued)

for the year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

1.17 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 2017 the following Standards and Interpretations were in issue but not yet effective.

Effective for the financial year commencing 1 January 2018

- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments

Effective for the financial year commencing 1 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.

The monetary effect of the adoption of IFRS 9 in comparison to IAS 39 is as follows:

IFRS 9	E	IAS 39	E
Stage 1 ECL Allowance	**41 029 618**		
Stage 2 ECL Allowance	**27 029 318**		
Stage 3 ECL Allowance	**58 363 804**	Specific provision	**58 615 483**
Impairment of off balance sheet items	**1 166 348**	General provision	**38 541 047**
	127 589 088		**97 156 530**

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

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.

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.

Management has completed an initial assessment, but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions and composition of lease portfolio at that date.

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.

Notes to the financial statements (continued)

for the year ended 31 December 2017

		2017 E	2016 E
2.	**INCOME AND EXPENSES**		
	Interest income		
	Cash and cash equivalents	**26 221 041**	15 668 426
	Loans and advances to customers	**344 666 688**	308 323 883
	Government and public sector securities	**47 224 549**	30 793 899
		418 112 278	354 786 208
	Interest expense		
	Deposits from customers	**151 341 972**	116 015 587
	Other	**480 234**	1 909 887
	Interest expense	**151 822 206**	117 925 474
	Net interest income	**266 290 072**	236 860 734
	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 E344 666 688 (2016: E308 323 883) and E151 341 972 (2016: E116 015 587) respectively.		
2.1	IMPAIRMENT OF ADVANCES		
	Specific impairments recognised	**12 947 629**	10 764 916
	Portfolio impairments recognised	**9 255 000**	4 600 000
		22 202 629	15 364 916
2.2	FEES AND OTHER COMMISSION INCOME		
	Retail banking customer fees	**91 906 445**	78 471 544
	Corporate banking customer fees	**32 581 425**	50 913 930
	Total fees and other commission income	**124 487 870**	129 385 474
2.3	OPERATING EXPENSES		
	Auditors' remuneration:		
	– Audit fees: – fee for the audit	**1 637 370**	1 525 050
	– other services	**283 498**	162 225
	– expenses	**58 057**	32 301
	Depreciation and amortisation		
	– Computer equipment	**3 091 592**	3 122 235
	– Furniture and other equipment	**4 966 439**	3 872 831
	– Vehicles	**140 386**	129 203
	– Buildings	**778 645**	162 395
	– Computer software	**89 702**	889 523
	Staff costs	**99 534 482**	95 338 785
	Operating lease expenses	**10 725 406**	10 129 888
	Management fees	**28 500 000**	23 855 330
	Flexcube expenses	**26 985 509**	18 504 807
	Other operating expenses	**56 874 812**	54 106 377
		233 665 898	211 830 950

Directors' emoluments are disclosed in note 26.

		2017 E	2016 E
3.	**INCOME TAX EXPENSE**		
3.1	CHARGE FOR THE YEAR		
	Swaziland normal taxation: recognised in profit or loss;		
	Prior year: income tax under provision	**–**	2 967 759
	Current year income tax charge	**52 944 650**	49 722 472
	Deferred tax		
	– charge for the year	**(9 830 335)**	(1 991 557)
	Total taxation on income	**43 114 315**	50 698 674
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	**0.65**	1.99
	Effective taxation rate	**28.15**	29.51
4.	**EARNINGS PER SHARE AND DIVIDENDS**		
4.1	EARNINGS PER SHARE		
	Profit for the year	**110 044 598**	121 098 883
	Headline earnings	**110 044 598**	121 098 883
	Weighted average number of shares for calculating basic and diluted EPS	**24 640 134**	24 640 134
	Basic earnings per share (cents)	**447**	491

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 (2016: 135 cents) per share; total E33 264 181 (2016: E33 264 181).

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.

Notes to the financial statements (continued)

for the year ended 31 December 2017

		2017 E	2016 E
5.	**CASH AND CASH EQUIVALENTS**		
5.1	ANALYSIS		
	Coins and bank notes	**119 265 308**	111 405 888
	Money at call and short notice	**98 206 817**	223 828 336
	Balance with Central Bank of Swaziland	**350 749 907**	325 132 657
	Other short term deposits	**912 733**	1 948 789
	Money market unit trust investments	**607 767**	607 767
	Total cash and cash equivalents	**569 742 532**	662 923 437
	Funding from other banks	**(158 222 915)**	(43 963 621)
	Net cash and cash equivalents	**411 519 617**	618 959 816

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 2017 E236 million (2016: E206 million) was under the restricted account.

		2017 E	2016 E
5.2	CURRENCY ANALYSIS		
	Common Monetary Area currencies	**309 547 165**	394 738 355
	Customer deposits in foreign currencies	**101 972 452**	224 221 461
		411 519 617	618 959 816

Included in cash and cash equivalents is an amount of E214 238 907 (2016: E344 524 537) 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.

		2017 E	2016 E
6.	**GOVERNMENT AND PUBLIC SECTOR SECURITIES**		
	Government and public sector securities at fair value (through profit or loss)	**591 727 427**	562 011 010
	Mature within one year	**591 727 427**	462 011 010
	Mature in two years	**–**	100 000 000
7.	**AMOUNTS DUE FROM OTHER BANKS**		
	Clearances with banks	**5 619 621**	4 570 381
	Remittances in transit	**3 314 735**	(86 100)
		8 934 356	4 484 281

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

		2017 E	2016 E
8.	**LOANS AND ADVANCES TO CUSTOMERS (AT AMORTISED COST)**		
8.1	CATEGORY ANALYSIS		
	Mortgage loans		
	Residential mortgages	**993 474 750**	961 067 015
	Commercial mortgages	**339 299 334**	165 467 494
		1 332 774 084	1 126 534 509
	Other loans and overdrafts	**1 829 589 692**	1 429 266 933
	Finance leases and instalment debtors	**390 057 079**	418 002 147
		3 552 420 855	2 973 803 589
	Impairment of advances (refer note 9)	**(97 156 530)**	(72 655 664)
		3 455 264 325	2 901 147 925
8.2	SECTORAL ANALYSIS		
	Individuals:		
	Home loans	**993 474 750**	961 067 015
	Personal loans	**651 756 027**	584 165 276
	Total loans to individuals	**1 645 230 777**	1 545 232 291
	Manufacturing	**784 602 160**	328 231 851
	Wholesale and trade	**13 518 391**	9 013 095
	Retailers, catering and accommodation	**97 977 085**	72 004 850
	Agriculture, hunting, forestry and fishing	**33 660 952**	24 033 289
	Mining and quarrying	**–**	26 642
	Building and property development	**211 319 345**	277 226 071
	Transport, storage and communication	**110 035 959**	164 207 175
	Government and public sector	**111 455 010**	123 190 195
	Other	**544 621 176**	430 638 130
		3 552 420 855	2 973 803 589
8.3	MATURITY STRUCTURE		
	Call	**749 432 362**	327 613 249
	Less than 3 months	**478 570 330**	519 356 590
	Between 3 months and 1 year	**396 629 091**	527 420 692
	Between 1 year and 5 years	**1 281 655 630**	1 305 326 471
	Greater than 5 years	**646 133 442**	294 086 587
		3 552 420 855	2 973 803 589

Notes to the financial statements (continued)
for the year ended 31 December 2017

8. LOANS AND ADVANCES TO CUSTOMERS (AT AMORTISED COST) (continued)

8.4 NON-PERFORMING ADVANCES

	Outstanding balance 2017 E	Security 2017 E	Specific impairments 2017 E
Sectoral analysis 2017			
Personal loans	**78 555 300**	**44 743 959**	**44 187 557**
Manufacturing	**2 700 559**	**1 590 000**	**13 751**
Retailers, catering and accommodation	**44 197 601**	**33 190 673**	**4 955 592**
Building and property development	**11 340 630**	**10 220 107**	**266 136**
Transport, storage and communication	**4 196 175**	**3 847 595**	**88 207**
Other	**9 244 723**	**9 156 622**	**9 104 240**
	150 234 988	**102 748 956**	**58 615 483**

	2016 E	2016 E	2016 E
Sectoral analysis 2016			
Individuals:			
Other 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

8.5 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:

	2017 E	2016 E
Gross investment in finance leases receivable:		
Less than one year	**154 063 014**	194 183 430
Between one and five years	**235 994 064**	223 818 718
More than five years	**–**	–
Net investment in finance leases	**390 057 078**	418 002 148
Net investment in finance leases receivable:		
Less than one year	**154 063 014**	194 183 430
Between one and five years	**235 994 064**	223 818 718
More than five years	**–**	–
	390 057 078	418 002 148

	2017 E	2016 E
9. ALLOWANCE FOR IMPAIRMENT OF ADVANCES		
Specific-amortised cost		
Balance at beginning of year	**43 630 165**	32 519 440
Applied in respect of debts written off	**(6 912 190)**	(4 794 045)
Interest suspended during the year	**8 949 879**	5 139 854
	45 667 854	32 865 249
Impairment of advances charged	**12 947 629**	10 764 916
	58 615 483	43 630 165
Portfolio-amortised cost		
Balance at beginning of year	**29 025 499**	24 355 810
Amounts raised/(written off) against impairments/other transfers	**260 549**	69 689
	29 286 048	24 425 499
Impairment of advances charged	**9 254 999**	4 600 000
	38 541 047	29 025 499
Comprising: –		
Specific impairments and interest in suspense	**58 615 483**	43 630 165
Portfolio impairment	**38 541 047**	29 025 499
	97 156 530	72 655 664
10. OTHER RECEIVABLES		
Sundry debtors and accrued interest earned on investments	**32 046 092**	19 862 977
The balance is made up as follows		
Prepayments and suspense accounts	**7 089 704**	13 785 973
Other receivables	**24 956 388**	6 077 004
	32 046 092	19 862 977
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***	**2 397 210**	2 218 966
	2 772 230	2 593 986
Directors' valuation:		
Associate company*	**20**	20
Other** – shares	**375 000**	375 000
African Alliance Lilangeni Fund***	**2 397 210**	2 218 966
	2 772 230	2 593 986

Notes to the financial statements (continued)

for the year ended 31 December 2017

	Percentage holding 2017	Percentage holding 2016
11. INVESTMENTS (continued)		
* 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 Share Trust – refer note 25.8.3		

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 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
Balance at 1 January 2017	**3 733 230**	**27 264 234**	**50 914 405**	**1 227 724**	**83 139 593**
Additions	**17 000 000**	**3 484 488**	**7 086 943**	**148 100**	**27 719 531**
Write off	**–**	**(9 820)**	**(7 000)**	**–**	**(16 820)**
Balance at 31 December 2017	**20 733 230**	**30 738 902**	**57 994 348**	**1 375 824**	**110 842 304**
Depreciation and impairment losses					
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)
Balance at 1 January 2017	**(944 786)**	**(23 265 120)**	**(32 528 198)**	**(969 777)**	**(57 707 881)**
Depreciation for the year	**(778 645)**	**(3 091 592)**	**(4 966 439)**	**(140 386)**	**(8 977 062)**
Write off	**–**	**9 820**	**991**	**–**	**10 811**
Balance at 31 December 2017	**(1 723 431)**	**(26 346 892)**	**(37 493 646)**	**(1 110 163)**	**(66 674 132)**

	Freehold land and buildings E	Computer equipment E	Furniture and other equipment E	Vehicles E	Total E
Carrying amounts					
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
At 1 January 2017	**2 788 444**	**3 999 114**	**18 386 207**	**257 947**	**25 431 712**
At 31 December 2017	**19 009 799**	**4 392 010**	**20 500 702**	**265 661**	**44 168 172**

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 (2016: Nil). A new building situated in Manzini was purchased during the year at the value of E17 000 000. The initial cost of freehold land and buildings was E17 950 000 (2016: E950 000), and there were no improvements in 2017 (2016: ENIL).

	2017 E	2016 E
13. DEFERRED TAXATION		
13.1 RECOGNISED DEFERRED TAX ASSETS		
Property and equipment	**3 877 116**	3 544 211
Impairment of advances	**26 718 046**	19 980 307
Operating leases	**204 225**	204 225
Employee benefits obligations	**1 508 650**	473 275
Payable for staff costs	**3 228 286**	2 516 776
Deferred tax assets	**35 536 323**	26 718 794
13.2 RECOGNISED DEFERRED TAX LIABILITIES		
Unrealised gains/(losses) on FECs	**202 682**	2 604 844
Prepayments	**625 791**	271 809
Deferred tax liabilities	**828 473**	2 876 653
Net deferred tax asset	**34 707 850**	23 842 141

Notes to the financial statements (continued)

for the year ended 31 December 2017

13. DEFERRED TAXATION (continued)

13.3 DEFERRED TAXATION MOVEMENTS: (IN STATEMENT OF COMPREHENSIVE INCOME)

	2017 E	2016 E
Net deferred tax balance – beginning of year	**23 842 141**	21 377 309
Movements arising from:		
– Property and equipment	**332 905**	420 074
– Impairment of advances	**6 737 738**	4 256 153
– Unrealised gains on FECs	**1 979 054**	(1 995 991)
– Employee benefits obligations	**1 035 375**	473 275
– Payable for staff costs	**711 511**	(606 511)
– Prepayments	**69 126**	(82 168)
Deferred tax assets – end of year	**34 707 850**	23 842 141
Disclosed as:		
Deferred tax assets	**35 536 323**	26 718 794
Deferred tax liabilities	**(828 473)**	(2 876 653)
	34 707 850	23 842 141

There are no unrecognised deferred tax assets and liabilities at year end (2016: Nil). There was no deferred tax recognised directly in equity (2016: Nil).

14. INTANGIBLE ASSETS

	Computer software E
Cost	
Balance at 1 January 2016	18 210 879
Additions	–
Balance at 31 December 2016	18 210 879
Balance at 1 January 2017	**18 210 879**
Additions	**89 289**
Balance at 31 December 2017	**18 300 168**

	Computer software E
Amortisation and impairment losses	
Balance at 1 January 2016	(17 255 026)
Amortisation for the year	(889 523)
Balance at 31 December 2016	(18 144 549)
Balance at 1 January 2017	**(18 144 549)**
Amortisation for the year	**(89 701)**
Balance at 31 December 2017	**(18 234 250)**
Carrying amounts	
At 1 January 2016	955 853
At 31 December 2016	66 330
At 1 January 2017	**66 330**
At 31 December 2017	**65 918**

There were no capitalised borrowing costs related to the internal development of software during the year (2016: 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.

	2017 E	2016 E
15. SHARE CAPITAL AND RESERVES		
15.1 SHARE CAPITAL		
15.1.1 Authorised share capital		
26 650 000 (2016: 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 (2016: 24 640 134) ordinary shares of 50 cents each	**12 320 067**	12 320 067
29 580 (2016: 779 026) treasury shares of 50 cents each	**(14 790)**	(14 790)
	12 305 277	12 305 277
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.		
15.2 SHARE PREMIUM AND RESERVES		
15.2.1 Share premium		
Share premium account	**10 070 070**	10 070 070

Notes to the financial statements (continued)

for the year ended 31 December 2017

	2017 E	2016 E
15. SHARE CAPITAL AND RESERVES (continued)		
15.1 SHARE CAPITAL (continued)		
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.		
15.2.3 Statutory reserve		
In terms of Section 20(1)(a)(ii) of the Financial Institutions Act, 2005	**105 147 685**	94 143 225
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.	**8 014 457**	8 014 457

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

	2017 E	2016 E
16. DEPOSITS FROM CUSTOMERS		
16.1 ANALYSIS		
Current accounts	**845 279 792**	732 130 284
Savings deposits	**218 580 252**	232 651 797
Other customer deposits and loan accounts	**2 573 586 978**	2 218 327 588
Foreign currency deposits	**94 988 255**	224 385 921
	3 732 435 277	3 407 495 590
16.2 SECTORAL ANALYSIS		
Individuals	**643 352 235**	603 919 962
Corporates and SMEs	**3 089 083 042**	2 803 575 628
	3 732 435 277	3 407 495 590
At 31 December 2017: E20 270 283 (2016: E667 873) of deposits from customers are expected to mature more than 12 months after the reporting date.		

		2017 E	2016 E
17.	**DEPOSITS FROM BANKS**		
	Current accounts	**1 366 012**	5 219 406
	The deposits are repayable on demand. These accounts do not earn interest.		
18.	**CURRENT TAXATION LIABILITIES**		
	Balance at beginning of the year	**2 044 729**	4 844 814
	Under provision for prior years	**–**	2 967 759
	Income tax expense in the year	**52 944 650**	49 722 472
	Income tax paid during the year	**(51 767 201)**	(55 490 316)
		3 222 178	2 044 729

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

Notes to the financial statements (continued)

for the year ended 31 December 2017

19. EMPLOYEE SHARE OWNERSHIP SCHEME (continued)

Scheme	Trust/special-purpose vehicle (SPV)*	Description traditional employee schemes	Vesting requirements	Maximum term
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

*The employee share trust scheme is treated as an agent of the bank.

EFFECT ON PROFIT AND FINANCIAL POSITION

	2017	2016
Fair value of share options and assumptions		
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	
	2017 shares	2016 shares	2017 E	2016 E
Movement in number of instruments				
Share options				
Outstanding at the beginning of the year	**–**	433 370	**–**	–
Granted	**–**	(433 370)	**–**	–
Forfeited	**–**	–	**–**	–
Outstanding at the end of the year	**–**	–	**–**	–
Exercisable at the end of the year	**–**	–	**–**	–
Restricted shares				
Outstanding at the beginning of the year	**29 580**	354 889		
Granted	**–**	(325 309)	**10.16**	8.66
Forfeited	**–**	–	**–**	8.66
Outstanding at the end of the year	**29 580**	29 580	**10.16**	8.66
Exercisable at the end of the year	**29 580**	29 580	**10.16**	8.66

	2017 E	2016 E
20. ACCOUNTS PAYABLE		
20.1 TRADE AND OTHER PAYABLES		
Trade payables	**47 382 001**	41 205 920
Accrual for service fee	**55 917 088**	38 210 943
Creditors and accruals	**15 559 320**	13 092 608
	118 858 409	92 509 471
Trade payables relate to uncleared funds/cheques due to customers and other banks. These amounts are payable within 12 months.		
20.2 PROVISION FOR STAFF COSTS		
Bonus		
Balance at January 2017	**4 005 148**	2 945 911
Additional provision raised	**5 935 560**	4 005 148
	9 940 708	6 951 059
Utilised during the year	**(4 584 047)**	(2 945 911)
	5 356 661	4 005 148
Leave		
Balance at 1 January 207	**2 865 151**	2 865 151
Additional provision raised	**1 580 174**	–
	4 445 325	2 865 151
Utilised during the year	**(513 747)**	–
	3 931 578	2 865 151
21. CONTINGENT LIABILITIES		
Confirmed letters of credit and discounting transactions	**8 398 033**	833 163
Liabilities under guarantees	**258 263 488**	173 777 492
Unutilised facilities	**463 159 334**	706 766 569
	729 820 855	881 377 224

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.

Notes to the financial statements (continued)

for the year ended 31 December 2017

	2017 E	2016 E
22. COMMITMENTS		
Operating lease commitments		
Less than one year	**27 715 760**	30 793 787
Between one and five years	**68 007 399**	89 286 581
More than 5 years	**44 098 038**	44 098 038
	139 821 197	164 178 406

The bank leases 43 (2016: 37) 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 were no contractual commitments to acquire property and equipment (2016: 17 million for a building).

	2017 E	2016 E
23. CASH FLOW INFORMATION		
23.1 CASH RECEIVED FROM CUSTOMERS		
Commission and fees	**124 487 870**	129 385 474
Foreign exchange dealing gains	**9 271 813**	20 940 960
Net unrealised profit on foreign currency transactions (Note 25.8)	**(17 168 946)**	(14 893 343)
Foreign currency gains realised	**14 893 343**	3 424 544
Other income	**8 977 685**	11 806 255
Recoveries of debt previously written off	**937 291**	209 542
	141 399 056	150 873 432
23.2 CASH PAID TO CUSTOMERS, STAFF AND SUPPLIERS		
Staff costs	**(99 534 481)**	(95 338 785)
Payments to customers and suppliers	**(125 064 653)**	(108 315 977)
	(224 599 134)	(203 654 762)
23.3 CASH GENERATED BY OPERATING ACTIVITIES		
Net profit before taxation	**153 158 913**	171 797 557
Adjustment for:		
– Depreciation and amortisation	**9 066 764**	8 176 188
– Impairment of advances (net)	**22 202 629**	15 364 916
– Net unrealised profit on foreign currency transactions (Note 25.8)	**(17 168 946)**	(14 893 343)
– Prior year's net unrealised foreign currency gain now realised	**14 893 343**	3 424 544
– Recoveries of debt previously written off	**937 291**	209 542
	183 089 994	184 079 404

		2017 E	2016 E
23.4	INCREASE IN OPERATING ASSETS		
	Advances and other accounts	**(592 453 721)**	(39 862 255)
	Government and public sector securities	**(29 716 417)**	(175 501 842)
		(622 170 138)	(215 364 097)
23.5	INCREASE IN OPERATING LIABILITIES		
	Current and savings accounts	**194 066 218**	111 868 323
	Other deposits and foreign currency liabilities	**127 020 075**	187 137 175
	Trade and other payables	**23 393 854**	4 266 331
		344 480 147	303 271 829
23.6	DIVIDENDS PAID TO SHAREHOLDERS		
	Dividends declared and paid during the year	**(33 264 181)**	(30 800 168)
23.7	CASH AND CASH EQUIVALENTS		
	Cash and short-term funds	**470 015 215**	436 538 545
	Other short-term funds	**98 814 584**	224 436 103
	Deposits with banks within the group (refer to note 5)	**912 733**	1 948 789
		569 742 532	662 923 437
	Funding from other banks	**(158 222 915)**	(43 963 621)
		411 519 617	618 959 816
24.	**EMPLOYEE BENEFITS OBLIGATIONS**		
24.1	RECOGNISED LIABILITY OF DEFINED BENEFIT OBLIGATION		
	Estimated present value of plan obligations	**(115 814 000)**	(103 391 000)
	Fair value of plan assets	**125 153 000**	107 498 000
	Present value of unrecognised asset due to asset ceiling	**9 339 000**	4 107 000
	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 2017. Plan assets comprise collective investment schemes with African Alliance made up of equities 49.15% (2016: 55.97%), debt instruments 11.88% (2016: 26.99%) and cash at bank 38.97 % (2016: 17.04%). 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 2017 by independent external actuaries who estimate a surplus (2016: surplus) as reflected above.

Notes to the financial statements (continued)

for the year ended 31 December 2017

		2017 E	2016 E
24.	**EMPLOYEE BENEFITS OBLIGATIONS (continued)**		
24.2	EXPENSE RECOGNISED IN PROFIT OR LOSS		
	Service costs	**3 748 000**	4 123 000
	Net interest cost	**55 000**	152 000
		3 803 000	4 275 000
	Recognised in other comprehensive income		
	Actuarial gains	**3 144 000**	7 025 000
	Fair value adjustments on plan assets	**621 000**	(5 304 000)
		3 765 000	1 721 000
	The expected return on plan assets is based on market yields on high quality corporate bonds at reporting date.		
24.3	MOVEMENT IN PLAN ASSETS		
	Fair value of plan assets at 1 January	**107 498 000**	102 842 000
	Contribution paid into the plan	**11 554 000**	9 156 000
	Benefits paid by the plan	**(4 501 000)**	(5 513 000)
	Actuarial gains/(losses)	**3 144 000**	(7 025 000)
	Expected return on plan assets	**10 198 000**	10 449 000
	Risk and administration fees	**(2 740 000)**	(2 411 000)
	Fair value of plan assets at year end	**125 153 000**	107 498 000
24.4	MOVEMENT IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATION		
	Liability for defined benefit obligation at 1 January	**103 391 000**	94 143 000
	Actuarial gains/(losses)	**2 059 000**	167 000
	Benefits paid by the plan	**(4 501 000)**	(5 513 000)
	Current service costs and interest	**14 865 000**	14 594 000
	Liability for defined benefit obligations at year end	**115 814 000**	103 391 000

		2017 %	2016 %
24.5	ACTUARIAL ASSUMPTIONS FOR DEFINED BENEFIT OBLIGATIONS		
	Principal actuarial assumption at the date of the last provisional actuarial valuation (expressed as weighted averages):		
	Discount rate at 31 December	**9.30**	8.8
	Expected return on plan assets at 31 December	**9.30**	8.8
	Future pension increases	**2.35**	2.0
	Inflation	**6.70**	5.8
	Salary increases	**7.70**	6.8

Expected contributions by members and employer for 2018 are E10 665 945 (2017: E8 997 074).

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 2017 ('000)		31 December 2016 ('000)	
	Increase (E)	Decrease (E)	Increase (E)	Decrease (E)
Discount rate (1% movement)	**(98 738)**	**(137 509)**	(87 362)	(121 612)
General inflation (1% movement)	**(129 794)**	**(104 003)**	(114 780)	(92 007)

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 (2016: Nil).

Notes to the financial statements (continued)

for the year ended 31 December 2017

25. FINANCIAL RISK MANAGEMENT (continued)

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.

25.2 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	2017 E	2016 E
Loans and receivables at amortised cost			
Loans and advances	8	**3 455 264 325**	2 901 147 925
Cash and cash equivalents	5	**569 742 532**	662 923 437
Amounts due from banks	7	**8 934 356**	4 484 281
		4 033 941 213	3 568 555 643
At fair value through profit or loss			
Government and public sector securities*	6	**591 727 427**	562 011 010
Derivative assets held for risk management**	25.8	**18 564 313**	29 659 904
Investments – at cost	11	**2 772 230**	2 593 986
		613 063 970	594 264 900
		4 647 005 183	4 162 820 543

* Treasury bills with the Central Bank of Swaziland
** Derivative assets are with related counterparties

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.

25.2.2 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	ENil million	(2016: E21.4 million)
– sugar wholesaling	E739.4 million	(2016: E252.4 million)
– public sector	E111.5 million	(2016: E123.2 million)
– construction	E211.3 million	(2016: E277.2 million)
– manufacturing	E45.2 million	(2016: E54.4 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).

Notes to the financial statements (continued)

for the year ended 31 December 2017

25. FINANCIAL RISK MANAGEMENT (continued)

25.2 CREDIT RISK (continued)

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 246 694 996 (2016: E1 178 316 961).

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 E15 408 861 (2016: E8 014 838). These transactions are conducted under terms that are usual and customary to standard lending transactions.

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 E3 395 million (2016: E2 836 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:

Class	Total E	0 – 30 days E	30 – 60 days E	60 – 90 days E	+90 days E
2017					
Mortgage loans	**1 739 427**	**1 134 227**	**517 800**	**87 304**	**96**
Leases	**1 541 725**	**986 801**	**475 606**	**63 381**	**15 937**
Personal loans	**129 835**	**88 899**	**31 988**	**8 904**	**44**
Other loans	**3 320 632**	**1 921 415**	**894 122**	**337 572**	**167 523**
	6 731 619	**4 131 342**	**1 919 516**	**497 161**	**183 600**
2016					
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

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	2017 E	2016 E
Mortgage loans	**4 869 997**	–
Leases	**–**	115 173
Personal loans	**2 179 509**	262 020
	7 049 506	377 193

There were no properties in possession at year end (2016: Nil).

Notes to the financial statements (continued)

for the year ended 31 December 2017

25. FINANCIAL RISK MANAGEMENT (continued)

25.2 CREDIT RISK (continued)

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 uncollectable. 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:

	Note	Carrying amount E	Gross nominal outflow E	Less than 1 month E	1 – 3 months E	3 months to 1 year E	1 – 5 years E
31 December 2017							
Non-derivative liabilities							
Trade payables	20	**118 858 409**	**118 858 409**	**118 858 409**	–	–	–
Deposits from banks	17	**1 366 012**	**1 366 012**	**1 366 012**	–	–	–
Deposits from customers	16	**3 732 435 277**	**3 755 071 511**	**2 767 789 538**	**260 105 926**	**706 449 682**	**20 726 364**
Funding from other banks	5	**158 222 915**	**158 222 915**	**158 222 915**	–	–	–
		4 010 882 613	**4 033 518 847**	**3 046 236 874**	**260 105 926**	**706 449 682**	**20 726 364**
Derivative liabilities							
Forward exchange contracts	25.8	**1 395 367**	**1 395 367**	**1 395 367**	–	–	–
Financial guarantee contracts and letters of credit	21	**266 661 521**	**266 661 521**	**266 661 521**	–	–	–
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 contract	25.8	14 766 561	14 766 561	14 766 561	–	–	–
Financial guarantee contracts and letters of credit	21	173 777 492	173 777 492	173 777 492	–	–	–

Notes to the financial statements (continued)

for the year ended 31 December 2017

25. FINANCIAL RISK MANAGEMENT (continued)

25.4 INTEREST RATE SENSITIVITY ANALYSIS

25.4.1 Repricing analysis of assets and liabilities

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 overleaf. 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.

	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
2017									
ASSETS									
Cash and short term funds	212 809	–	–	–	–	–	–	356 021	568 830
Other short-term funds	–	–	–	–	–	–	–	76 517	76 517
Government and public sector securities	143 964	119 746	94 220	220 984	17 250	2 180	–	(6 616)	591 728
Advances and other accounts									
– overdrafts	323 166	–	–	–	–	–	–	–	323 166
– mortgages	1 256 472	270	301	831	841	855	68 739	4 465	1 332 774
– other	1 890 920	–	–	–	–	–	–	(91 596)	1 799 324
Group companies	–	–	–	–	–	–	–	913	913
Investments	–	–	–	–	–	–	–	2 772	2 772
Property and equipment	–	–	–	–	–	–	–	44 234	44 234
Derivative asset	–	–	–	–	–	–	–	18 564	18 564
Total assets	3 827 331	120 016	94 521	221 815	18 091	3 035	68 739	405 274	4 758 822
Liabilities and shareholders' funds									
Current accounts	13 537	–	–	–	–	–	–	831 742	845 279
Call and demand deposit accounts	1 389 850	–	–	–	–	–	–	–	1 389 850
Savings deposits	218 580	–	–	–	–	–	–	–	218 580
Group companies	158 154	–	–	–	–	–	–	69	158 223
Other deposits and liabilities	213 911	121 871	136 780	351 535	247 037	92 333	20 270	228 553	1 412 290
Derivative liabilities	–	–	–	–	–	–	–	1 395	1 395
Shareholders' funds	–	–	–	–	–	–	–	733 205	733 205
Total liabilities and shareholders' funds	1 994 032	121 871	136 780	351 535	247 037	92 333	20 270	1 794 964	4 758 822
Interest rate sensitivity gap	1 833 299	(1 855)	(42 259)	(129 720)	(228 946)	(89 298)	48 469	(1 389 690)	–
Cumulative gap	1 833 299	1 831 444	1 789 185	1 659 465	1 430 519	1 341 221	1 389 690	–	–

Notes to the financial statements (continued)

for the year ended 31 December 2017

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.4 INTEREST RATE SENSITIVITY ANALYSIS (CONTINUED)

25.4.1 Repricing analysis of assets and liabilities (continued)

	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
2016									
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	–

25.5 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:

	2017		2016	
	Foreign currency 000	**Local currency E'000**	Foreign currency 000	Local currency E'000
British Pounds	**19**	**324**	62	1 051
United States Dollars	**394**	**4 880**	137	1 880
Canadian Dollars	**3**	**33**	(1)	(13)
Euros	**321**	**4 749**	43	626
Botswana Pula	**181**	**227**	54	69
Other	**48**	**532**	117	1 159
		10 745		4 772

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.

Notes to the financial statements (continued)
for the year ended 31 December 2017

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 2017 E'000	After 1 year but within 5 years 2017 E'000	After 5 years 2017 E'000	Net fair value 2017 E'000	Fair value of assets 2017 E'000	Fair value of liabilities 2017 E'000	Net contract/ notional amount 2017 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
Maturity analysis of net fair value											
Foreign exchange derivatives	**17 169**	**–**	**–**	**17 169**	**18 564**	**(1 395)**	**4 261**	14 893	29 660	(14 767)	2 012
Total derivative assets/(liabilities) held for trading	**17 169**	**–**	**–**	**17 169**	**18 564**	**(1 395)**	**4 261**	14 893	29 660	(14 767)	2 012

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 2017. 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 2017. 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 2017. 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 2017 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 2017. 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.

Notes to the financial statements (continued)

for the year ended 31 December 2017

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.8 DERIVATIVE FINANCIAL INSTRUMENTS (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 E	Level 2 E	Level 3 E	Total E
31 December 2017				
Derivative assets held for risk management – foreign exchange	–	18 564 313	–	18 564 313
Investment securities				
Unlisted equities	–	–	375 020	375 020
Government securities	–	591 727 427	–	591 727 427
African Alliance unit trust	–	2 397 230	–	2 397 230
Hlomendlini unit trust	–	607 787	–	607 787
	–	613 296 757	375 020	613 671 777
Trading liabilities				
Derivative liabilities held for risk management-foreign exchange	–	1 395 367	–	1 395 367
	–	1 395 367	–	1 395 367

	Level 1 E	Level 2 E	Level 3 E	Total 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
Hlomendlini unit trust	–	607 787	–	607 787
	–	594 497 667	375 020	594 872 687
Trading liabilities				
Derivative liabilities held for risk management	–	14 766 561	–	14 766 561
	–	14 766 561	–	14 766 561

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.

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.

Notes to the financial statements (continued)

for the year ended 31 December 2017

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.8 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

25.8.5 Capital management (continued)

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

	2017 E'000	2016 E'000
Tier I Capital		
Ordinary share capital	**12 305**	12 305
Share premium	**10 070**	10 070
Statutory reserves	**105 148**	94 143
Retained earnings	**487 600**	426 856
Profit for the year	**110 045**	121 099
	725 168	664 473
Tier II Capital		
General debt provision	**45 922**	41 406
Revaluation reserves	**615**	615
	46 537	42 021
Total regulatory capital	**771 705**	706 494
Risk-weighted assets		
CBS calculated total	**3 218 694**	3 261 873
Capital ratios		
Total capital as % of total risk-weighted assets CBS	**24.0%**	21.7%
Total tier 1 as % of risk-weighted assets CBS	**22.5%**	20.4%

26. RELATED PARTIES

Related parties comprise the Nedbank Group Limited group of companies.

26.1 AMOUNTS DUE TO/BY HOLDING COMPANY AND FELLOW SUBSIDIARIES

	2017 E'000	2016 E'000
Amounts due by holding company and fellow subsidiaries		
Nedbank Lesotho Limited (fellow subsidiary)	**913**	1 100
Nedbank Limited (parent – included in Note 5)	**–**	849
	913	1 949
Amounts due to holding company and fellow subsidiaries		
Nedbank London Limited (fellow subsidiary)	**69**	82
Nedbank Limited (parent)	**158 154**	43 882
	158 223	43 964

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:

	2017 E'000	2016 E'000
Interest received – Nedbank Limited (parent)	**(14 132)**	(10 361)
Service charge – Nedbank Lesotho Limited (fellow subsidiary)	**–**	3
Interest paid – Nedbank Limited (parent)	**136**	1 811
Included in other operating expenses are the following amounts paid to the parent company.		
Management fees paid	**28 500**	23 855
Computer support (includes Flexcube costs)	**28 700**	20 725
Risk participating fee	**1 047**	1 160

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

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
2017			
Directors' fees	**669 202**	**–**	**669 202**
Remuneration	**1 771 878**	**9 146 609**	**10 918 487**
Short term employee benefits	**1 538 203**	**8 214 475**	**9 752 678**
Post-employment benefits	**233 675**	**932 134**	**1 165 809**
	2 441 080	**9 146 609**	**11 587 689**
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

Notes to the financial statements (continued)

for the year ended 31 December 2017

26. RELATED PARTIES (CONTINUED)

26.3 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL (CONTINUED)

Number of restricted shares and share options

	2017	2016
Restricted Shares		
Outstanding at the beginning of the year	–	41 177
Granted	–	(41 177)
Outstanding at year end	–	–
Share Options		
Outstanding at the beginning of the year	–	164 706
Granted	–	(164 706)
Outstanding at year end	–	–
Loans to key personnel		
Mortgage lending and other secured loans	10 025	11 255
Other loans	1 348	2 077
	11 373	13 332

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 collateralised by the properties that were financed. Mortgages are at 5% and all other loans are at 80% of prime.

26.4 RELATED PARTY CONTINGENT LIABILITIES AND COMMITMENTS

There were no guarantees issued in favour of the holding company (2016: 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 43rd Annual General Meeting of the members of Nedbank (Swaziland) Limited will be held on Tuesday 22 May, 2018 in the Libandla Room at Royal Swazi Sun, Old Mbabane/ Manzini Main Road, Ezulwini at 1400 hours to transact the following business:

1. To approve the Minutes of the Annual General Meeting held on 31 May 2017.
2. To receive, consider and adopt the Annual financial Statements for the year ended 31 December 2017, 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), E11 million 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 2017, declared on 8 March 2018, paid to members on 22 May 2018.
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 terms of Article 97 of the Company's Articles of Association, Messrs B. Mhlongo, A Sutton-Pryce and M. Maziya retire as directors and being willing and eligible, offer themselves for re-election.
7. In accordance with Article 100 of the Articles of Association, Ms K Swanepoel retires as a Director and being willing and eligible, offers herself for re-election.
8. 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 this 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 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 upon timeously, while solvency is never threatened.

CASH FLOW
Financing activities that result in changes to the capital and liability structure of the bank. Investment activities relating to the acquisition, holding and disposal of subsidiaries, property and equipment and long-term investments.

COMPLIANCE RISK
The risk to earnings and capital arising from violations of or non-compliance to 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 portfolios.

DEFERRED TAXATION ASSETS
These 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
These 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/capitalization award issued and the final dividend/capitalization 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 divided by the weighted average number of shares in issue (net 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
Enterprise-wide Risk Committee

ERMF
Enterprise-wide Risk Management Framework

EXPENSES TO AVERAGE ASSETS
Operating expenses for the year divided by average total assets.

FLEXCUBE
The core banking system.

GROSS DOMESTIC PRODUCT (GDP)
The total market value of 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 Circular No. 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's consolidated financial statements are prepared in accordance with IFRS.

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

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.

Definition of acronyms and terms used in this report (continued)

OPERATIONAL RISK
The risk of loss resulting from inadequate or failed internal processes and systems, incompetent people or external events. This definition includes legal risk.

ORDINARY SHAREHOLDERS' FUNDS
Total equity attributable to equity holders of the parent.

POINT OF SALE (POS)
A device which allows clients who have a bank 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.

RISK AND CONTROL CULTURE ASSESSMENT (RCCA)
Assessment tool to evaluate risk culture; risk culture being a term describing the values, beliefs, knowledge and understanding of risk shared by a group of people that share a common purpose.

Where to find Nedbank (Swaziland) Limited

HEAD OFFICE
3rd Floor NedCentre Building,
Corner Sozisa and Dr. Sishayi
Road,Mbabane, Swaziland
PO Box 68, Mbabane, H100
Tel: +268 2408 1000
Fax: +268 2404 6040
Website: www.nedbank.co.sz

MBABANE BRANCH
Corporate Place, Swazi Plaza
Mbabane
PO Box 70, Mbabane, H100
Tel: +268 2408 1000
Fax: +268 2404 3069
Branch code: 360164

GWAMILE BRANCH
21 Gwamile Street,
Mbabane
PO Box 70, Mbabane, H100
Tel: +268 2408 1000/2404 8249
Fax: +268 2404 9132
Branch code: 360764

THE GABLES BRANCH
The Gables Shopping Centre,
Ezulwini
PO Box 70, Mbabane, H100
Tel: +268 2408 1000/2416 3458
Fax: +268 2416 3476
Branch code: 360464

MATSAPHA BRANCH
Big Tree Shopping Centre,
Matsapha
PO Box 325, Matsapha, M202
Tel: +268 2408 1000/2518 5554
Fax: +268 2518 5727
Branch code: 360364

MANZINI BRANCH
Corner Nkoseluhlaza & Louw
Streets,
Manzini
PO Box 11, Manzini, M200
Tel: +268 2408 1000/2505 2441
Fax: +268 2505 2059
Branch code: 360264

RIVERSTONE BRANCH
Shop No. 1.1 Riverstone Mall,
Manzini
PO Box 11, Manzini, M200
Tel: +268 2408 1000/2505 3166
Fax: +268 2505 2059
Branch code: 360064

SIMUNYE BRANCH
Simunye Plaza,
Simunye
PO Box 325, Matsapha, M202
Tel: +268 2408 1000/2383 8361
Fax: +268 2383 8361/2
Branch code: 360664

BIG BEND BRANCH
Plot 1, Schiolla Complex,
Big Bend
PO Box 45, Big Bend, L311
Tel: +268 2408 1000/2363 6994
Fax: +268 2363 6993
Branch code: 360964

NHLANGANO BRANCH
SNPF Building, Skonkwane
Street,
Nhlangano
PO Box 1352, Nhlangano, S400
Tel: +268 2408 1000/2207 7733
Fax: +268 2207 7758
Branch code: 360864

TSHANENI BRANCH
Shop No.8, Inyoni
Plaza
Tshaneni
PO Box 325, Matsapha, M202
Tel: +268 2408 1000/2323 2052
Branch code: 360001

KM III BUREAU DE CHANGE
King Mswati III International
Airport, Sikhuphe
PO Box 325, Matsapha, M202
Tel: +268 2408 1000/2335 0137
Fax: +268 2335 0141
Branch code: 360065

MANKAYANE AGENCY
Thuthuka Shopping Centre
Mankayane
PO Box 11, Manzini, M200
Tel: +268 2408 1000/2538 8209
Branch code: 360564

www.nedbank.co.sz