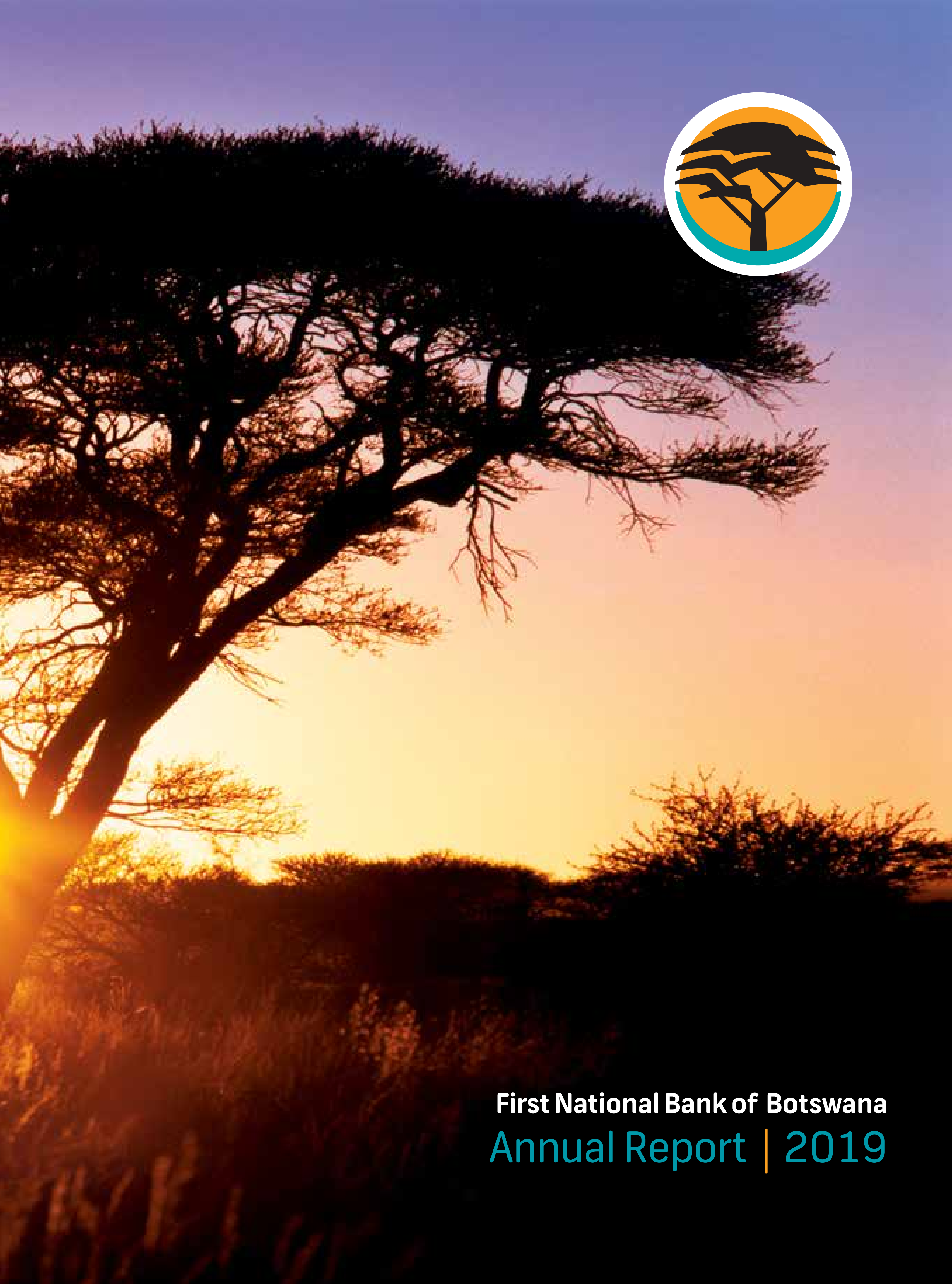


First National Bank of Botswana

Annual Report | 2019

WELCOME
to the FNB Botswana 2019 Annual Report

We are proud to present our Annual Report that speaks to our commitment to creating value for our customers and the community in which we operate.

The Annual Report covers the financial year 1 July 2018 to 30 June 2019 and illustrates how the Bank's continued dedication to customer centricity, innovation and service excellence enriches the customers' banking experience while maintaining the highest standards of corporate governance and capital management. FNB Botswana is a profitable organisation, a sound investment and an exemplary corporate citizen, and will continue to grow in stature as the country's leading Bank.

"How can we help you?" is not a rhetorical question. It is the very essence of why we exist. We will continue to innovate, to excel, and to deliver on our promise by offering our customers meaningful solutions that fulfil their unique needs.

contents

Our Theme

Creating Customer Value **through** Operational Efficiencies

THEME RATIONALE

In our ongoing mission to offer FNB Botswana customers the best possible value, our strategy is to fully utilise digitisation and automation to make banking ever more convenient, efficient, swift, secure and user-friendly, continuously enhancing customer experience.

The Bank is focused on extraction of value from our current assets, capabilities and systems by creating greater efficiencies through process enhancement and automation in order to increase accuracy and reduce process turnaround times for the benefit of our customers.

Bank **when** and **where** you **choose** with the **FNB App**

FNB App

T's & C's apply.

Financial Highlights

+13%

PROFIT AFTER TAX

16t

DIVIDEND PER SHARE

49.6

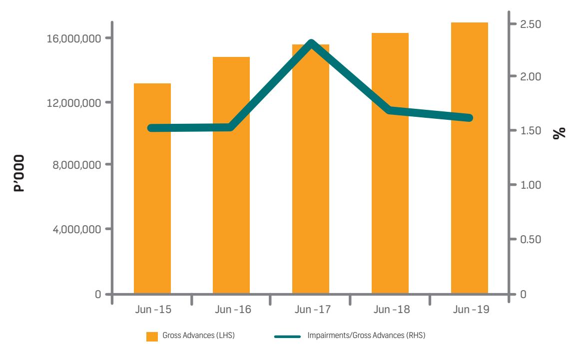
COST TO INCOME RATIO

22.7%

RETURN ON EQUITY

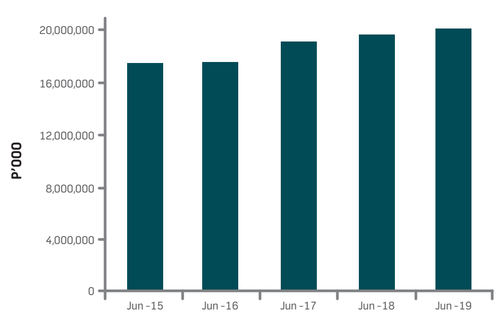
Graphs

Gross Advances vs Impairments to Gross Advances

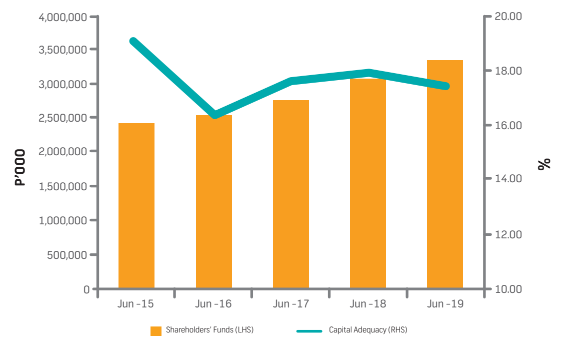


Gross Advances vs NPLs to Gross Advances

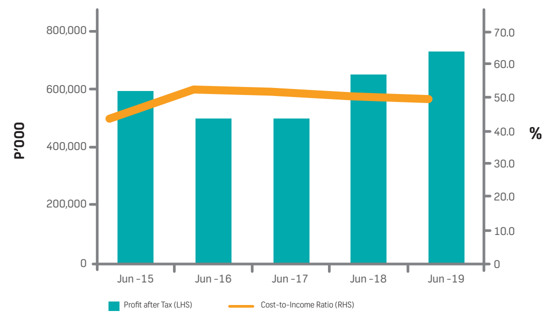
Deposits



Shareholders' Funds vs Capital Adequacy



Profit After Tax vs Cost-To-Income Ratio



Non-Interest Revenue vs Non-Interest Expenses

About FNB Botswana

First National Bank of Botswana (FNBB) was registered in 1991 as a wholly owned subsidiary of First National Bank Holdings (Botswana). Various acquisitions led to the Bank becoming a listed entity on the Botswana Stock Exchange in 1993.

28% balance sheet market share

1 600 employees

168 ATMs

68 ATMs with Deposit

1% of profits after tax to the Foundation

+500k customers across Botswana

2 Premium Suites

24 branches

P50M invested in communities

The Bank continues to raise the bar in terms of Innovative Customer Solutions, Digital Banking, Risk Management and Corporate Social Responsibility and its overall strategy of being a Customer Centric Bank. As at June 2019, FNB Botswana was the largest company on the Botswana Stock Exchange by capitalisation. The Bank has the largest balance sheet of all banks in Botswana, totalling P26 billion, and the largest advances book with over P17 billion. In its 28 years of operation, FNB Botswana has become the most profitable bank in Botswana and is structured to achieve sustainable profits.

Employing about 1600 people, FNB Botswana services more than 500,000 customers across the country through a network of 168 ATMs, 68 ATMs with Deposit, 24 branches and 2 Premium Suites as well as Cash Plus Agents countrywide.

Living up to its name, FNB Botswana is synonymous for a lot of **FIRSTS** in the banking industry in Botswana: **First** to introduce a Pula based credit card; **First** to provide internet banking; **First** to offer inContact - real time transaction based SMS/email messaging; **First** bank in Botswana to establish a charitable Foundation; **First** to introduce Cellphone Banking; **First** to introduce an instant accounting solution for SMMEs; **First** to introduce Mobile ATM; **First** to introduce a one stop payment solution, FirstPay Portal; **First** to introduce eWallet, **First** to introduce ATM with Deposit; **First** to introduce eWallet Bulk Send for business and **First** to introduce FNB Botswana withdraw with PayPal.

FNB Botswana established the FNB Foundation in 2001 to execute the Bank's corporate social responsibility policy and has to date committed P50 million towards uplifting the lives of many less privileged members of our society and enriching their lives.

Looking into the future, the Foundation will dedicate more resources towards empowering the youth through skills development to help them become employable or start income generating activities. The Foundation also runs a Staff Volunteer Programme that affords employees an opportunity to identify a project of their choice in their respective communities and donates funds to support such projects. The Bank contributes up to **1%** of profits after tax to the Foundation.

VISION

The Bank of choice delivering innovative solutions and a superior customer experience

FNB

WesBank

RMB

PURPOSE

We are a Bank of Excellence with an exceptional team, outperforming our competitors by offering innovative financial services and solutions with the goal of exceeding our stakeholder's expectations.

WesBank

WesBank is a division of First National Bank of Botswana Limited. WesBank partners with various motor dealers and supplier stakeholders to deliver its major product, which is vehicle and asset finance. Its entire spectrum of asset finance includes passenger and commercial vehicles, plant and machinery, agricultural equipment, aircraft, leisure (boats and motorbikes) and earth moving equipment.

RMB

Rand Merchant Bank Botswana (RMB) is the corporate and investment banking division of FNB Botswana. RMB offers clients access to a comprehensive suite of investment banking products and services including: advisory; corporate finance; trade solutions; infrastructure and project finance; structured trade and commodity finance; fixed income; currency and commodity services; and investment opportunities.

Our Milestones

1991
September – FNB registered in Botswana as a subsidiary of the FirstRand Group

1993
Listing on the Botswana Stock Exchange

2001
First Bank to introduce a charitable Foundation in Botswana

2013
Launched ***174#** Mobile Transact to purchase pre-paid electricity and make real-time payments to Multichoice

2013
Launched the FNB Banking App

2016
Launched eWallet Bulk Send for business account holders to pay single or multiple eWallets at a go through Online Banking Enterprise Platform

2017
Introduced Mogwebi Business Insurance, underwritten by Old Mutual

2018
Introduced Bank on Wheels, a mobile bank which gives banking access to areas where the Bank does not have a physical structure

2004
Launched Internet Banking

2010
Introduced eWallet; a card-less money transfer service that allows customers to instantly send money to anyone in Botswana with an active cell number

2013
Rebranded the corporate and investment banking segment to RMB

2015
First to launch ATM Deposit taking machines

2018
Launched Cashback Rewards where customers get cash paid into their Savings Pocket every month

2018
Unveiled a P3 million sponsorship with BOTESSA and BFA respectively to support grassroots sports development for a period of 3 years

2019
Launched Cash Plus, a service through which customers can make banking transactions at Saverite and Yash Cell stores

First National Bank of Botswana awards

We are honoured and privileged by the accolades that we continue to receive, demonstrating our strengths as a Bank. Over the years the Bank has received awards and recognition from reputable international institutions and publications. This is made possible by our customers' and stakeholders' patronage as well as the passion and hard work by our staff members.

The following is a summary of the Bank's awards, recognitions and achievements.

1. **2010, 2017, 2018 and 2019:** FNB Botswana won "Best Bank in Botswana" Award by Euromoney Awards For Excellence. The Euromoney Awards for Excellence have been running for a quarter of a century and represent the ultimate accolade of success. Only those institutions that bring the highest levels of service, innovation and expertise to their customers are honoured by these prestigious awards.

2. **2013:** FNB Botswana was awarded the Best Local Trade Finance Bank in Botswana by the Global Trade Review (GTR). The Best Local Trade Finance award is given to a bank that provides effective trade finance solutions to the demands of the local market. The award considers innovation, service, consistency, flexibility and pricing of the solutions.

2. **2013:** FNB Botswana received the Leader Award for the Top Acquirer in Sub Saharan Africa at the 2013 Visa Security Summit. The annual Leader Award recognises the exceptional efforts taken by risk management functions of selected Visa clients in effectively combating fraud risks.

3. **2014:** FNB Botswana was voted the "Most Innovative Bank in Botswana" by the Global Banking & Finance Review 2014. Global Banking and Finance Review awards were created to honour companies of all sizes that stand out in areas of expertise within the banking and finance industry. The awards recognise innovative banking, investment strategies, achievements, progressive and inspirational changes within the financial sector.

4. **2015:** FNB Botswana was awarded the Diamond Arrow Award in the Business Banking Sector, the Diamond Arrow Award in Credit Cards Services in Botswana, and the Diamond Arrow Award in Personal Banking Services in Botswana by the PMR Africa awards 2015.

5. **2016 and 2019:** RMB Botswana was awarded the Best Trade Finance Bank in Botswana title for 2015 by Global Trade Review (GTR). GTR is a world-class independent publishing and events company, offering a one stop source of news, events and services for companies and individuals involved in global trade. The GTR award considers the performances of financial institutions in areas including turnaround time, reliability, service delivery and in-depth knowledge of their local market.

6. **2016, 2017, 2018 and 2019:** FNB Botswana awarded Best Foreign Exchange provider in Botswana by Global Finance 2016. Criteria for choosing the winner include transaction volume, market share, scope of global coverage, customer service, competitive pricing and innovative technologies. Global Finance also considered input from a panel of experts and feedback from industry analysts, corporate executives and technology specialists.

7. **2016:** FNB Botswana named the 2016 Best Commercial Bank in Botswana by the International Finance Magazine (IFM) Awards. The IFM Awards recognise and honour outstanding performance, best-in-class services and excellence in the financial services industry.

8. **2019:** RMB Custody was named the best-rated Custodian in the 2018 Alexander Forbes survey. The purpose of the survey is to highlight the areas of expertise within each custodian.

First National Bank of Botswana Awards in pictures

The Banker
Bank of the Year 2017
BOTSWANA

2017-2018
Global Finance
Best
Foreign Exchange
Provider
in Botswana

Does your bank help **you pay multiple people without bank accounts?**

FNB does with eWallet Bulk Send.

eWallet Bulk Send is secure and easy to use, allowing you to pay single or multiple employees without bank accounts. Funds paid reflect immediately to the recipients, through instant notification of payment via SMS.

FNB Business

business to 16363

Message from the Chairman

We understand the power of digital to create value through operational efficiencies, specifically to provide customers with ease of access to all products and services to meet their transactional needs in today's modern world.

Message from the Chairman

Back to Basics

Our priority as a Bank is to create shared value. We measure the success of our business in the way we treat our customers and the value we give them. We also measure our success in the way we impact the lives of people in our communities and how we empower our employees. This is in line with the mandate we gave to FNB Botswana Management. The Bank's strategic focus for this year was therefore informed by our thirst to create shared value. Our aim is to return to the simple and important things that really matter, to create value for our customers, our employees and the community within which we operate.

In its mission to achieve value creation for the customer, the Bank channelled all its efforts towards improving operational efficiencies, specifically through process optimisation and further digitisation. Digitisation in this instance refers to the adoption of technology to innovate as well as to provide new services that are customer focused for both the banked and unbanked.

We strongly believe in the power of digitisation as the future of banking. To us, digitisation is a modern revolution that facilitates the provision of seamless and quick delivery of financial services that customers require, which is why FNB Botswana continues to lead in digitisation. The Bank is relentless in its ambition to offer customers technologically advanced services, and we are optimistic that our drive towards digitisation will provide customers with an even broader range of practical, relevant and convenient services. In an age where convenience is a key differentiator, customers now have the ease of accessing all their banking services at their fingertips on their mobile phones, anytime anywhere, with just a few "clicks".

Digitisation has brought ample possibilities for both the Bank and customers, which are greatly transforming and enabling access, efficiencies and convenience. Digitisation allows us to give more to our customers for less.

It is pleasing to report that the Bank has been able to leverage on this digital phenomenal to bring convenient services that promote financial inclusion, wider access and add more value to our customers. Some of the game changing services we have introduced include

- **Cash@Till** allows customers to withdraw cash at contracted retailers through swiping their FNB Botswana cards on Point of Sale machines.
- **Cash Plus**, another value add, promotes financial inclusion and easy access through partnering with retail stores to service our customers, affording both the banked and unbanked an opportunity to do cash withdrawals, deposits and free purchase of electricity and airtime close to their homes.

Our aim is to reduce the need for customers to go into branches and make our service more efficient as our customers migrate to our digital platforms. Whether travelling or working away from home, we want our customers to still have banking at their fingertips for anything, from everyday transactions to foreign exchange, insurance, automated regular payments and transfers, ensuring them a hassle-free experience in their busy lives.

The Bank’s staff members remain central in achieving digitisation and a full suite of innovative solutions that we continue to deliver to the market. They are the very people who ensure that customers are satisfied. We have therefore committed to supporting management in the creation and execution of a solid employee value proposition that will leave all 1600 of our staff members fulfilled. Great emphasis has been placed on creating a more conducive environment for staff members to thrive. This has been primarily done through the Human Capital Pillar, one of the strategic pillars encapsulated in the Bank’s 3-year customer centricity strategy Vision of 2020.

Finally, management, through the Bank’s corporate social investment arm, FNB Botswana Foundation, have re-aligned their strategic focus to respond to the needs of the youth, in view of the alarming poverty and unemployment challenges they are facing. The Foundation will now dedicate more resources towards youth empowerment by imparting skills for employability and business start-up creation.

Performance

During this financial year, concerted effort was placed on improving credit discipline with a clear focus on the distressed debt portfolio. Priority was also given to our customer-centric strategy through continued investment in infrastructure and digital customer solutions, focusing on the management of risk and liquidity. The Bank improved its efficient deployment of cash and short-term funds and increased its investment portfolio.

As we indicated in last year's report, the bank's turnaround after three years of declining profitability was evident following our optimisation and our on-going focus on customer centricity. Non perfoming loans (NPLs) are under control, remaining flat at P1.14bn, which is a significant improvement on the P1.3bn disclosed in the December 2018 results and indicating some success of our credit discipline and accelerated collection processes. This improving trend bore results as we saw profit before tax increasing by 13% to P945.345 million and profit after tax also growing by 13% to P732.536 million. In line with these results, our dividend for the year increased by 14,3% to 16 thebe per share.

Economy

The Botswana GDP forecast at 3,7% for 2020 is sound compared to some of the southern African countries and sub-Saharan Africa in general. We see stability in the Pula exchange rate and a steady increase in business confidence going forward. The focus of Vision 2036 and the key drivers of NDP 11 are to tackle poverty, strive for inclusive growth, make doing business easier and to create jobs. FNB Botswana looks forward to playing an active role in achieving this.

Inflation remains under control at around 3% and the ongoing consultations by Bank of Botswana on structural reforms should assist in refining the monetary transmission framework, a development which will enhance financial stability and facilitate the development of the local capital market.

The weighting of the Pula basket of currencies continues to reduce sensitivity to any volatility of the Rand, and the Pula outlook remains reasonably stable albeit with rangebound volatility expected against the US dollar and Euro over the short- to medium-term. This scenario may help in attracting capital inflows to support Botswana's diversification initiative.

Integrated Reporting

In line with Botswana Stock Exchange (BSE) guidelines on Environmental, Social and Corporate Governance Reporting (ESG) the Bank will be releasing its first report to society on environmental and social governance matters by December 2019. In addition, the Bank has adopted an integrated reporting approach in accordance with King IV and the first report will be published in the financial year 2020. Our integrated reporting provides communication to our stakeholders, both customers and shareholders, about how our organisation's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term.

Acknowledgements

I wish to commend the management and staff on achieving the growth in profitability, and the excellent support and guidance of a diverse and professional board. This augurs well for the Bank's future.

The Board had to bid farewell to Ms Masekgoa Masire-Mwamba, who was called to higher service for the country as Botswana's Ambassador to the Federal Republic of Germany and we have no doubt she will be very successful in this role. Thank you to my fellow directors, the management and staff as well as various stakeholders in the banking industry for the support you have given me, and for the enthusiasm and tireless work that you have done for the Bank.

John K Macaskill
Chairman

Chief Executive Officer's Report

FNB Botswana enjoys the service of dynamic, agile and innovative staff members who continue to make it possible for the Bank to remain competitive and to keep growing. We continue to introduce various programmes to stimulate their talent, meet their needs and make FNB Botswana an enjoyable place at which to work.

Chief Executive Officer's Report

Introduction

This year the Bank's primary emphasis was on driving operational efficiencies. For much of the year we focused on ensuring that we are operating on a solid and stable platform through centralisation, process improvement and automation. We leveraged on our current capabilities, systems, infrastucture and innovation DNA to significantly improve efficiencies as well as enrich customer experience and value proposition.

The Bank focused on optimising services to existing customers. We sought to better understand customer banking needs, trends and behaviour, thereby allowing us to propose and offer products and services that speak precisely to their needs. This is evident from our improved vertical sales index (VSI), which shows that customers are taking up more products which meet their requirements and lifestyle.

FNB Botswana enjoys the service of dynamic, agile and innovative staff members who continue to make it possible for the Bank to remain competitive and grow. We continue to introduce various programmes to stimulate their talent, meet their needs and make FNB Botswana an enjoyable place at which to work. This is underpinned by our human capital strategy which focuses on talent management, employee wellness, promoting progressive thinking and achieving a work-life balance.

The Bank continues to leave footprints across the nation through our citizen economic empowerment strategy that aims to procure most products and services from citizen owned businesses, as well as the support we give to the youth through the FNB Botswana Foundation, which has re-aligned its mandate to focus on youth empowerment and skills development.

*The International Monetary Fund has cut its global growth forecast for 2019 to **3.2%** (3.6% in 2018), the lowest level since the financial crisis.*

Global Economy

Negative pressures on the global economy continue to emanate from trade tensions between the USA and China, the increasing risk of a "no-deal" Brexit, mounting sovereign debt levels and rising income inequality. The International Monetary Fund (IMF) has cut its global growth forecast for 2019 to 3.2% (3.6% in 2018), the lowest level since the financial crisis. Eurozone growth is expected to remain subdued while forecasts indicate slower US growth as the impact of fiscal stimulus dissipates and previous interest rate hikes weigh on demand. The current trade tensions are likely to constrain prospects of a recovery fuelled by China's fiscal stimulus feeding into emerging market economies.

Developed market inflation, most notably in the USA, remains low. Accordingly, when combining this with risks to the growth outlook, the US Federal Reserve has signalled a policy of supporting the economy with low interest rates. The same conditions have also prompted other central banks in developed markets to defer any plans for tightening of monetary policies, with a resultant increase in US Dollar strength.

Regional Economy

The IMF forecasts that growth in sub-Saharan Africa (SSA) will rise marginally from 3% in 2018 to 3.5% in 2019. This growth should be supported by higher investment spending which could partially offset relatively low industrial commodity prices. The expansion rates of the South African and Nigerian markets remain well below their long-term averages, constraining SSA growth. The Nigerian economy is expected to grow below 3% over the next two years, and the South African economy, which contracted 3.2% quarter-on-quarter in the first quarter of 2019, is expected to grow by no more than 1% in 2019, specifically with the drag of the large state owned enterprises (SOEs). With both Nigeria and South Africa having recently cut their repo rates, several other SSA economies are expected to follow suit, which in turn should encourage investment in sustainable opportunities and developmental projects.

Botswana Economy

The domestic economy is expected to register growth of 3.9% in 2019 and 3.7% in 2020, underpinned by the services sector contributing over 40% of the growth, led primarily by investments in transport and communications, trade and finance, and business services. However, this growth is likely to be constrained by limited output and export-oriented activities in view of the lack of robust private sector investments needed for economic diversification to reduce dependence on diamond revenues.

At 17% of GDP, mining remains the second highest contributor to growth and is expected to contribute an average of 30% of fiscal revenue over the next three years. This continued reliance on mineral exports, and on diamonds in particular, poses a risk to the country's economy, especially during subdued global growth and plateauing commodity prices. The manufacturing and agriculture sectors continue to underperform with a combined contribution of around 7%. Any unfavourable climatic conditions in the context of global warming will further weigh on agricultural output, and as yet the opportunities for sustainable manufacturing remain largely unidentified.

Household expenditure makes up almost half of the country's GDP and is expected to increase slightly above GDP growth levels in the forecast horizon. While the recent government salary adjustments will support growth, it may not be sufficient to fully compensate for pressures on household disposable income arising from a lack of employment opportunities.

Financial Performance

Performance for the year was steady with a 13% improvement in profit before taxation (PBT). The balance sheet improved by 5% year-on-year to P26.3bn.

Credit Extension

The Retail book improved by 7% year-on-year, despite the consumer still being under considerable pressure and our consequent cautious approach to consumer lending. We have also seen pressure on the Commercial book which declined by 7%. The Corporate book saw good opportunities in the retailer space as well as in financial institutions, resulting in advances growth of 9%.

The WesBank book grew by 9% against market growth of between 4% and 5%. This growth was driven by an 11% growth in the Retail book and 6% in the Commercial book.

The Bank has restructured the WesBank operating model and in the new financial year, the business activities will be reported under the Retail and Commercial segments.

While we believe that the market is recovering to some extent, we have certainly seen a shift in the credit extension space from retail to business. This highlights the fact that business confidence in Botswana is improving and businesses are finding growth opportunities, which is likely to have a positive impact on employment going forward.

Chief Executive Officer's Report [CONTINUED]

Liquidity

There was continued stability in the banking sector and as a result the sector has enough liquidity to meet customers' borrowing needs.

The cost of funds remained flat during the period, and the Bank focused on activities that improve the balances of call and current accounts.

Risks

During the year under review we did not experience any substantive operational risks. As part of our efficiencies strategic focus, we reviewed our credit processes, structures and systems. This resulted in improved collections and reduced NPLs throughout the business, particularly in the Retail Segment and lower Commercial Segments. The Bank will continue with its prudent approaches to lending.

Regulatory

There were some changes to the regulatory environment during the year, and the vigilance around Know Your Customer (KYC), anti-money laundering and terrorism financing remained a focus for all regulators. The biggest risks are in cash transactions as the source of funds is more difficult to trace. FNB Botswana continues to lead the drive towards a totally digital banking environment that would obviate the risks associated with cash deposits.

Our Customers

Our customers remain at the centre of the solutions we provide. We have been deliberate in our ongoing commitment to continually improve customer service by availing additional channels that are relevant to our customers' day-to-day activities and which provide digital solutions that reduce the need for customers to visit the branch. Several products that are geared towards further simplifying and streamlining the customer experience were launched in the 2018-19 financial year, including

- A simplified **Cashback Rewards** programme which converts eBucks rewards to Cashback Rewards, encouraging customers to adopt banking behaviours aligned to the digital migration strategy. The programme replaced eBucks and allows customers to convert their rewards to cash

- FNB Botswana set up **WiFi at all branches** which is accessible for free to all customers, making it easier for customers to migrate to our digital platforms

- FNB Insurance Agency (FNIA) launched a **Retrenchment Cover** policy for personal loans, mortgage loans and WesBank auto loans, cushioning customers against losing their assets in the case of retrenchment.

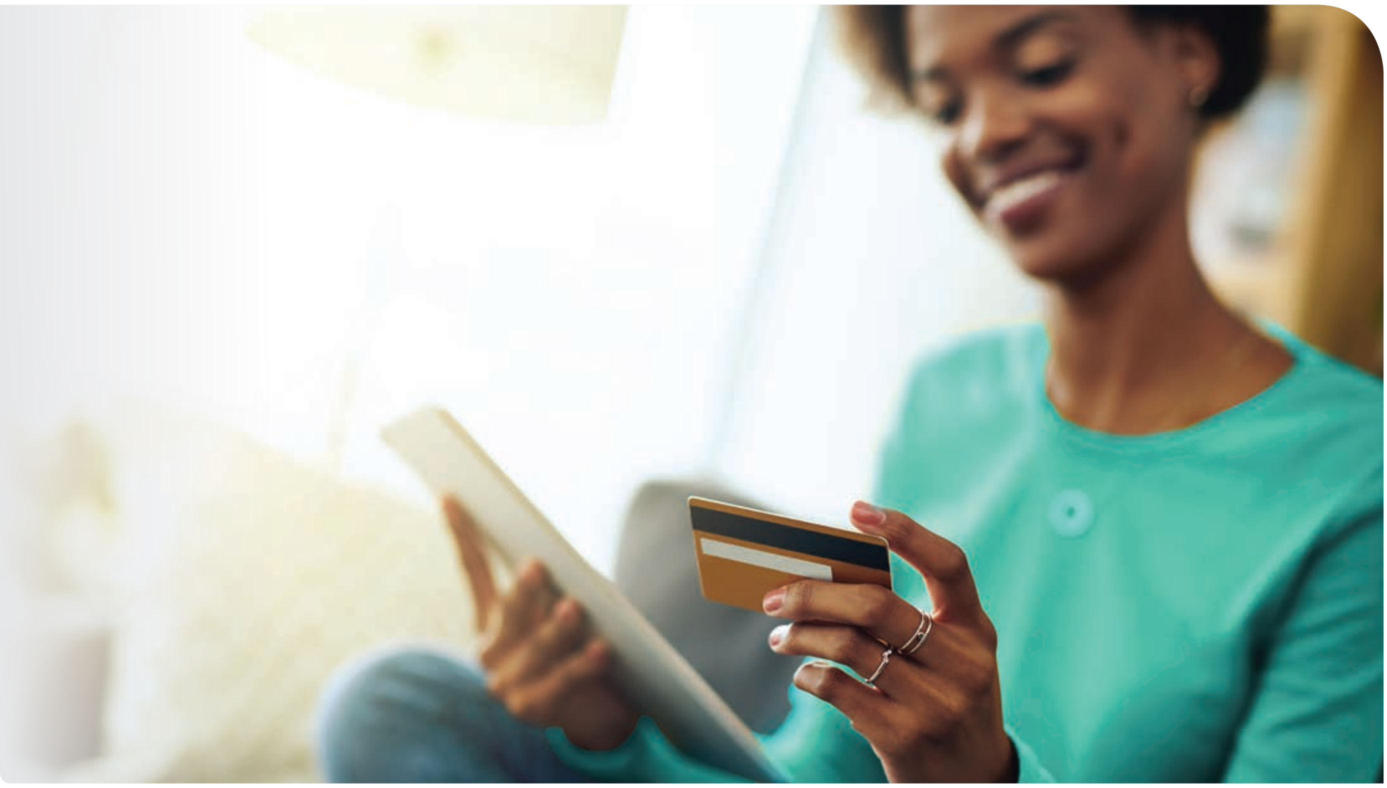
There has been a marked increase in uptake of digital solutions, particularly online banking, and this demonstrates the success of our digital migration strategy.

Looking Ahead

Current activities at Orapa and Jwaneng mines present opportunities in the mining and related industries and we will continue to monitor developments in the diamond market. The economy continues to diversify, and we believe that there are encouraging signs of growth in the tourism sector as well as opportunities arising from Special Economic Zones, set aside by government to promote economic diversification.

From a consumer perspective, the recent government salary increase is expected to reduce pressure on disposable income. We will continue to implement our 3-year customer centric strategy, termed Vision 2020, which we developed in 2017, with the primary objective of focussing on initiatives that put our customers at the heart of all that we do.

As we rapidly approach the end of the strategy, we will reflect and take stock to ensure that all the initiatives of the last 3 years have had a positive impact on our customers' banking experience and that we have stabilised our banking platforms in preparation for the future.



Acknowledgements

I express my deep gratitude to all staff members and say thank you for a year of continued hard work, dedication and commitment to serving our customers. FNB Botswana would also like to sincerely thank our customers. We appreciate your continued loyalty and trust.

I would also like to thank the Chairman and the Board of Directors for their strategic leadership and the FNB Botswana Executive Management team for their tenacity and support.

Last, but not least, I would like to thank you, the Shareholders, for your continued confidence in FNB Botswana. I am confident that the Bank will continue to provide you with a reliable and profitable return on your investment and look forward to robust financial performance going forward.

Steven Lefentse Bogatsu
Chief Executive Officer

Chief Financial Officer's Report

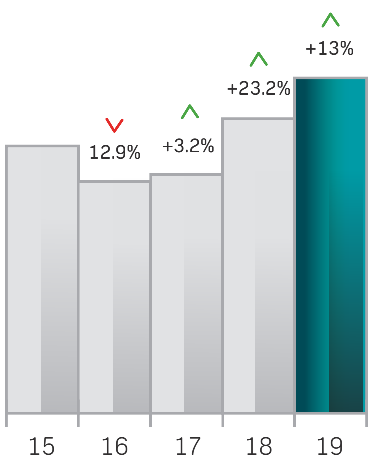
INTRODUCTION

During this financial year, the Bank's priority area has been on improving credit discipline with concentrated efforts on the distressed debt portfolio. The Bank continued to execute on its customer centric strategy through sustained investment in infrastructure and digital customer solutions coupled with appropriate risk management practices, including maintaining sound liquidity ratios.

Chief Financial Officer's Report

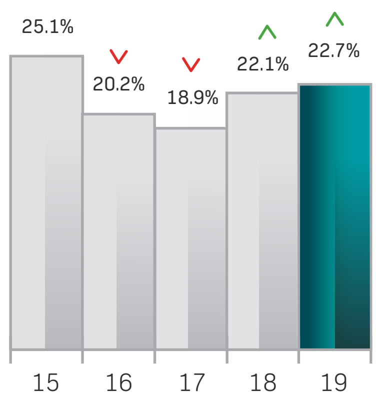
The Bank continued its track record of growth in earnings and superior returns, as reflected below:

Profit before Tax (P 'million)



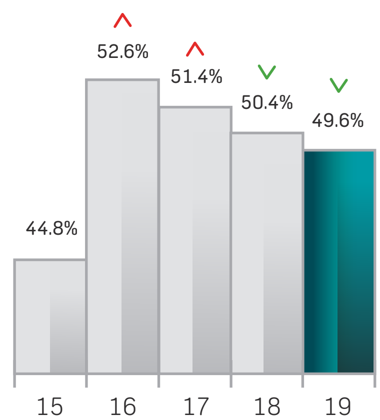
PBT growth is a culmination of a reduction in the impairment charge, strong NIR growth and a minimal increase in the cost base.

Return on Equity



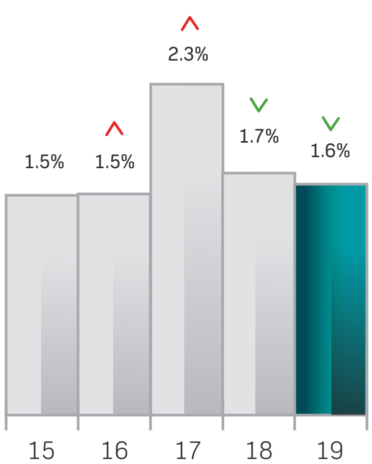
Return on average Equity closed the year above the Bank's internal target range of 18% to 22%.

Cost to Income



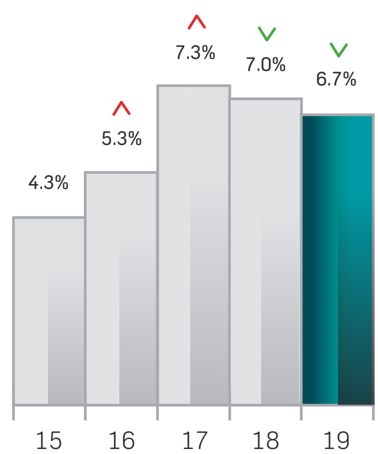
The Bank monitors efficiency through the Cost-to-Income (CTI) measure. Whilst the Bank views the CTI ratio as an outcome rather than a target, it recognises that balancing revenue growth and cost growth is key to value creation. The Bank carefully managed operational expenditure throughout the year, reporting an annual growth of 5%.

Credit Loss Ratio



The Bank significantly reduced portfolio provisions by way of transfers to specific provisions and write-offs, resulting in a marginal decrease in the overall impairment charge of 3%. The Bank has continued to price appropriately for credit risk to produce sustainable returns.

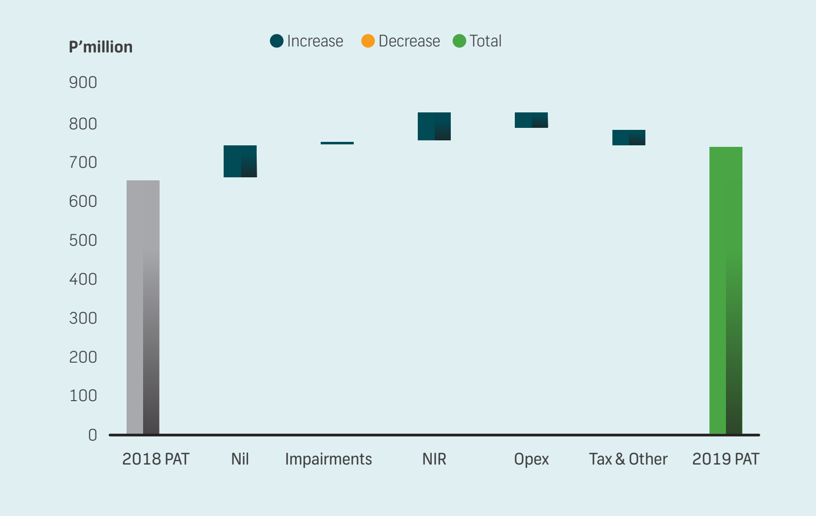
NPL as a % of Gross Advances



The reduction in the Non-Performing Loans (NPL) to Gross Advances ratio is due to the focus on credit discipline and accelerated collection processes.

Income Statement

The graph below unpacks the major income statement components of the Bank's performance which was underpinned by high quality revenue growth of just over 10%, demonstrating the strength and quality of the operating segments.



Both profit before tax and profit after tax rose by 13% due to efficient management of all the key income and expense drivers resulting in an improved return on equity of 22.7% (22.1% in 2018).

Gross interest income increased 7% against gross advances growth of 5%. Net interest income benefitted from a reclassification of interest in suspense between interest income and impairments in accordance with IFRS 9. Interest earned on investments followed the increase in the investment portfolio. The benefits were partially offset by reduced average client rates driven by a change in the portfolio mix and compressed margins.

Notwithstanding the rollover effect of the liquidity pressures experienced in the prior year, the interest expense increased marginally by 7%, largely driven by a reduction in professional funding and by strong growth in the call and current deposits.

The Bank continued to focus on the prudent management of the distressed advances portfolio. The impairment charge for the year showed a reduction of 3% against the prior year, following prudent credit extension and focus on the management of distressed advances. The stage 1 and stage 2 impairment charge of P42m reduced by 68% compared to the P110m prior year portfolio impairment charge, largely due to the prior year charge including significant downward revisions to the key provisioning assumptions. The stage 3 impairment charge increased by 17% following reductions in the expected realisable value of the collateral supporting the Home Loans, WesBank and Commercial portfolios.

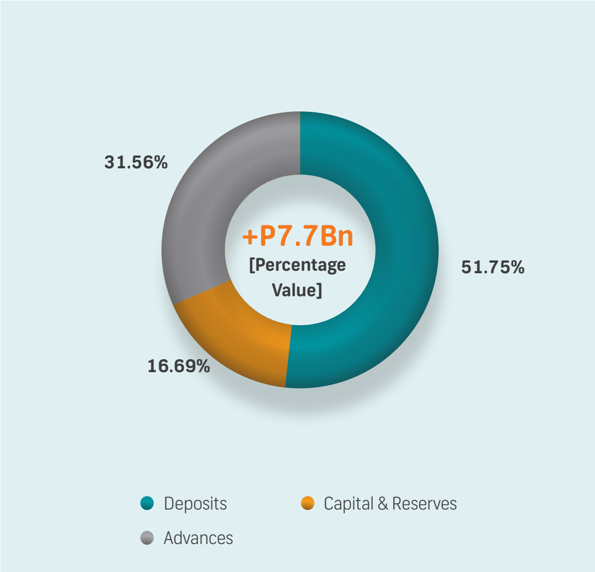
Non-interest revenue grew by 7% in the year. This follows a 7% increase in the customer base and a successful roll-out of new products such as the Savings Pocket. The improved connectivity in the Point-of-Sale machines and an increase in the number of machines in use, combined with the swipe-and-win campaign, resulted in an 18% growth in card and merchant commissions. Revenue from foreign exchange grew by 15%, partly from volatility in the South African rand.

An improvement in the cost-to-income ratio reflects continued cost management initiatives, with several expenditure items remaining flat year-on-year. Increasing resources in the collections department together with the overall annual salary review resulted in staff costs rising 7%, whilst other costs were well maintained at a 4% increase.

Chief Financial Officer's Report [CONTINUED]

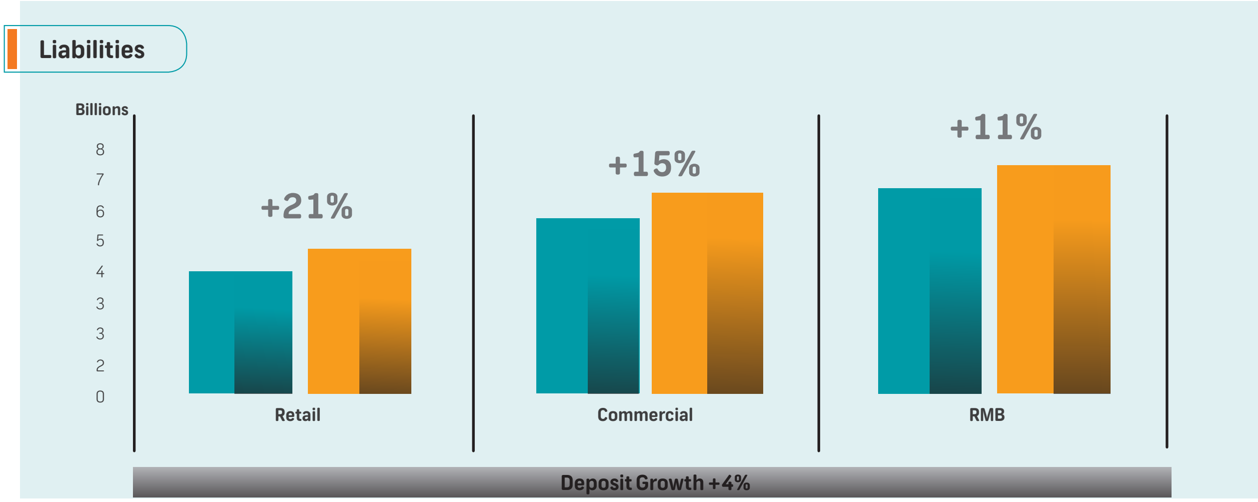
Balance Sheet Growth

The following charts demonstrate the execution of sustainable balance sheet strategies over the past 5 years. The funding of assets has predominantly been via the strong deposit franchise.



CORE Deposit Growth

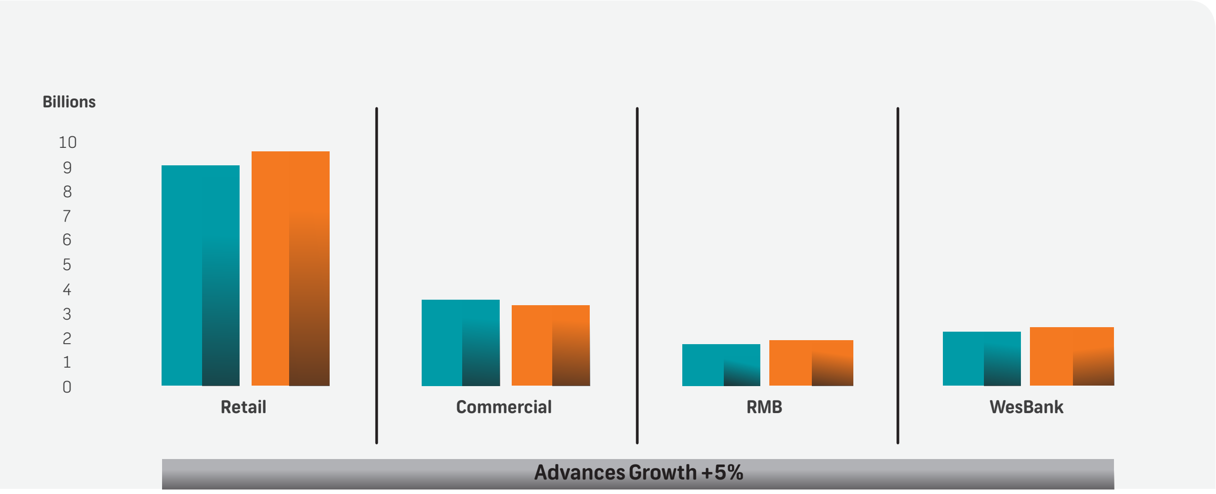
The customer deposit franchise recorded growth of 4% overall, driving growth in excess of 10% across all franchises.



Advances Segment Growth

The Bank maintained an appropriate origination strategy with gross advances growing by 5% year-on-year, compared to the market credit growth of 5% as at May 2019.

The advances increase of 5% was largely driven by term loans and vehicle asset finance through FNB Botswana Retail and WesBank respectively, on the back of the government wage increase which improved consumer affordability. The FNB Botswana Commercial Banking portfolio decreased materially due to limited market growth (0.4% as at May 2019), high amortisation in the portfolio and significant settlements on high risk accounts. RMB Corporate advances grew by 9% year-on year due to significant growth in Commercial Property Finance.



Liquidity Position

The Bank's objective is to optimise its funding profile within structural and regulatory constraints to enable its businesses to operate in an efficient and sustainable manner. Liquidity buffers are actively managed via high quality liquid assets (HQLA) that are available as protection against unexpected events.

Capital Position

The Bank's capital management strategy is to ensure an optimal level and composition of capital, effective allocation of financial resources, including capital and risk capacity, resulting in a sound return on equity and a sustainable dividend distribution to shareholders. The capital planning process for the Bank is conducted on a forward-looking basis and considers, inter alia, the organic growth requirements, safety margin for unexpected fluctuations in business plans and earnings volatility. Through this approach, compliance with both the internal and regulatory capital adequacy requirements can be ascertained, shareholders' returns can be safeguarded, and the Bank can maintain the ability to continue as a going concern even under severe stress conditions.

The Bank continues to actively manage its capital composition effectively. This ensures sustainable support for ongoing growth initiatives while protecting customer deposits.

Chief Financial Officer's Report [CONTINUED]

	CAR 2015	CAR 2016	CAR 2017	CAR 2018	CAR 2019
Regulatory Minimum	15,00	15.00	15.00	15.00	15.00
Internal Target	17.50	17.50	17.25	17.25	17.25
Actual	18.99	16.38	17.67	17.94	17.42

Looking Ahead

The Bank has delivered a resilient performance within a benign macroeconomic context. Investment in credit collections focus areas have shown early signs of positive returns and further investment is underway. Given the continued stress experienced in the credit portfolios, the Bank will continue to adopt a cautious credit appetite and selectively extend credit to portfolios that deliver sustainable returns for its shareholders.

The Bank will further invest in enhancing its digital capabilities to ensure a continuously improving customer experience. This is being coupled with back office automation to provide seamless solutions to clients. The project to refurbish and modernise the branch network will continue, although the Bank will primarily aim to migrate customers to its digital banking solutions. Achieving these goals is underpinned by the Bank's success in attracting, training and retaining the top talent in the market.

The Bank intends to maintain its position in the market by continuing to be the "first in mind" for customers.

Luke Woodford
Chief Financial Officer

Executive Team

LUKE WOODFORD
Chief Financial Officer

PEO POROGO
Acting Director, Marketing & Communications

MATSHIDISO KERETELETSWE
Chief Operating Officer

GRANT LITSTER
Director, Commercial Segment

KGOPODISO JUSTINE BASIAMI
Director, WesBank

BOITUMELO MOGOPA
Director, Retail Segment

SEAN PUGH
Director, Credit

LOLO MOLOSI
Treasurer


NGONI CHIKORE
Chief Information Officer
CHANA SEKGOROROANE
Director, Channels
LESEGO THUPAYAGALE
Chief Risk Officer
STEVEN LEFENTSE BOGATSU
Chief Executive Officer
GAONE MACHOLO
Director, Human Resources
OLEBILE MAKHUPE
Director, RMB

Executive Team Profiles

LUKE WOODFORD
Chief Financial Officer

Luke Woodford has been the of CFO of FNB Botswana for the past 18 months. He has worked for the FirstRand Group for over 10 years in various roles including those of CFO of FNB Tanzania and CFO of FirstRand India. He is a qualified Charted Accountant, a Fellow Chartered Management Accountant, and has completed an Accelerated Development Program through the Wharton Business School. Having lived in six countries to date, Luke is an avid traveller and loves exploring the world. In his spare time; he reads and participates in sports and social upliftment programs.

MATSHIDISO KERETELETSWE
Chief Operating Officer

As Chief Operating Officer for FNB Botswana, Matshidiso Kereteletswe is responsible for the implementation and execution of the Bank's strategy. Matshidiso joined FNB Botswana in May 2018. Prior to that she held several senior positions with Barclays Bank and Stanbic Bank and has more than a decade's experience in the banking industry.

Matshidiso has a MBA from De Montfort University, UK, a Certificate in Banking from the Botswana Institute of Bankers (BIOB) and a BSc in Computer Science from the Technical University of Nova Scotia, Canada. She also has a Leading with Finance qualification from Harvard Business School, and Corporate Governance from Stretch Training (Pty) Ltd, South Africa.

PEO POROGO
Acting Director, Marketing & Communications

Peo Porogo oversees brand and marketing strategies for FNB Botswana, RMB and WesBank with the mandate to position the FNB Botswana brand to effectively compete in a highly competitive and mature banking industry.

Peo has over 12 years' experience as a Marketing & Communications professional and has held various positions in the telecommunications, fast moving consumer goods (FMCG) and banking fields.

Peo holds a BA in Business Administration – Marketing from the University of Botswana and completed the Management Development Programme (MDP) with the University of Cape Town and University of Stellenbosch.

OLEBILE MAKHUPE
Director, Rand Merchant Bank

Olebile Makhupe heads RMB, the Corporate and Investment Banking division of FNB Botswana, and is in charge of the Bank's Merchant Services business. Her extensive banking experience includes roles in several countries across various banking disciplines. In 2012, Olebile was named the Young Global Leader by the World Economic Forum in recognition of her efforts to improve financial inclusion through literacy initiatives, as well as her role in the optimisation of intra-Africa trade corridors.

NGONI CHIKORE
Chief Information Officer

Ngoni Chikore is an Information Technology practitioner with over 15 years' experience in the field. He has worked in various industries ranging from mining, parastatals, services and banking. After 13 years as Group IT Infrastructure Manager at Debswana, Ngoni joined the Botswana Innovation Hub as Head of IT Programmes. Prior to joining FNB Botswana as the Chief Information Officer, Ngoni was Head of IT at Bank Gaborone.

Ngoni has a BSc in Computer Engineering from the University of Arkansas, USA. He is a Certified Data Centre Professional (CDCP) and is COBIT 5 certified.

BOITUMELO MOGOPA
Director, Retail

Boitumelo Mogopa is the Director of the Retail Segment at FNB Botswana. She has had an outstanding career in Banking and Finance over the past 17 years, during which she has developed a firm understanding of strategy and implementation in financial services. Prior to heading the Retail Segment, she was CFO and saw FNB Botswana claim its position as Botswana's largest bank.

Boitumelo holds a BCom in Accounting and Business from the University of Botswana and is a fellow member of the Association of Chartered Certified Accountants (UK) and BICA.

She also holds a Senior Executive Leadership Certificate from the Harvard Business School.

KGOPODISO JUSTINE BASIAMI
Director, WesBank

Justine Basiami has been with FNB Botswana since 1998 when she joined the Bank as Graduate Trainee. She has held several positions within the Bank including Corporate Manager WesBank, Head of Private Clients, Deputy Director WesBank and Director of WesBank. She is currently transitioning to overseeing the Bank's Commercial portfolio.

Justine holds a BA from the University of Botswana and an Executive Development Programme with the University of Cape Town. She is an associate member of the Botswana Institute of Bankers (BIOB).

LOLO MOLOSI
Treasurer

Lolo Molosi is FNB Botswana's Treasurer and provides leadership and strategic balance sheet management direction for the Bank. In her 10 years with the Bank, Lolo has held several positions including Deputy Treasurer, Head of Sales - Global Markets and Client Portfolio Executive for the Corporate Segment. Prior to that she worked for Barclays Bank and Bank of Botswana.

Lolo is a honouree of the UCT/FirstRand ADP Personality Award 2017 and the University of Botswana prestigious award for academic performance excellence. She holds an Economics and Environmental Science degree from the University of Botswana and an MSc in Financial Economics from the University of Exeter, UK.

LERATO CHANA SEKGOROROANE
Director, Channels

Chana Sekgororoane joined FNB Botswana in 2014 after 22 years' experience in the banking industry and has been the Director of Channels for the past 4 years. She is responsible for managing all 24 branches across the country, the Self-Service Delivery Department encompassing all FNB Botswana ATM/ADT devices pan-bank, the Digital Banking Department (which focuses on the FNB Botswana electronic banking platforms) and the newly introduced FNB Botswana Alternative Channels (Cash Plus & FNB Botswana Bank on Wheels). Her team of 540 employees is responsible for serving 478,800 customers across the country as well as international customers seeking banking services in Botswana. Chana holds a BA in Social Sciences from the University of Botswana.

GAONE MACHOLO
Director, Human Resources

Gaone Macholo is a seasoned human capital executive with professional experience spanning 25 years in the health, telecommunications, mining and financial services sectors, and has previously held a variety of executive positions, including at Debswana and BCL. Gaone is a strong believer in the alignment of people strategies to employees' productivity, age and professional experience and prioritises maintaining cordial and constructive relations with the Union.

She holds a BA in in Social Sciences from the University of Botswana and a Masters from the University of Massachusetts, USA. She has also attended a myriad of leadership, business management and technical courses.

LESEGO THUPAYAGALE
Chief Risk Officer

Lesego Thupayagale has 19 years' experience in the banking sector covering treasury, balance sheet management, risk and compliance. As the Chief Risk Officer, she is responsible for legal, fraud, operational and anti-money laundering (AML) risk management. Under her leadership, FNB Botswana has been able to achieve compliance with necessary AML legislation. She currently heads the Investing in Human Capital Strategic Stream and has also chaired the Bankers Association of Botswana with a focus on industry challenges with the Financial Intelligence Agency AML requirements.

Lesego holds a BA from the University of Botswana and has completed the Senior Management Development Programme through the University of Stellenbosch.

SEAN PUGH
Director, Credit

Sean Pugh is a seasoned credit professional with a career spanning 32 years in different leadership capacities within the FirstRand Group. He is responsible for monitoring and implementing the FNB Botswana Credit Risk Management Policy by achieving set performance standards and compliance to the credit regulatory requirements.

Sean heads a portfolio that spans across credit origination, ongoing risk, collections and credit risk portfolio management. He holds a Bachelor of Management from the University of Natal - Business School of Technology and has attended a myriad of leadership and management courses.

GRANT W. LITSTER
Director, Business

Grant has over 31 years' banking experience with the FirstRand Group in both Commercial and Corporate banking across two continents and six countries. For the last 22 years, he has been in 4 African subsidiaries in various leadership and senior management positions, across the two segments.

He holds a BA in psychology and CAIB SA diploma.

Human Resources Report

STRATEGIC HIGHLIGHTS

As the Bank continues to develop strategies to grow and renew itself, the Human Capital function continually looks for opportunities to support and enable these strategies through various innovative processes and systems that allow the Bank to realise its vision.

Human Resources Report

Focus areas

Some of the key areas of the Bank's focus have been productivity improvement through business process re-engineering, focus on deepening the leadership skills, more aggressive response and attention given to employee engagement, enhancement of the performance management processes and employee wellness.

Productivity at Work

In its endeavour to continue improving employee productivity through reviewed processes the Bank continued its journey of business process re-engineering which was launched in four areas being Retail-Contact Centre, Credit-Centralised Securities, WesBank and RMB. The first three have already completed the skills placement process which is the final phase of the key process steps. The ongoing re-engineering exercise is meant to facilitate the Bank's quest to remain technologically relevant to customer needs and continuously changing business imperatives.

In our response to customer needs, the design principles at the Contact Centre focused on improving inbound calls, from service based to both sales and service, with dedicated resources for Commercial and Retail respectively. It has also seen the migration of inbound service calls from branches to the Contact Centre.

The new WesBank structure ushered in changes in skills requirement upgrades, thus lifting the competency standard requirements for key service positions. The WesBank function has decentralised sales and service offerings which will be done in the respective segments.

The Centralised Securities function sought to improve turnaround times, and as such the roles of custodians were re defined to free the from non-custodian duties. As a result, 20% of their time was freed, thus improving focus and operational efficiencies.

Remaining relevant in an evolving workspace

Human capital is key to the success of any business. As such FNB Botswana recognises the importance of retaining and harnessing the potential of its resources to ensure that future leadership is not only developed, but also retained and kept growing and fulfilled. Retaining talent is one of the Bank's key measures of the Human Capital investment pillar. FNB Botswana is a very youthful organisation comprising 74% Millennials and Gen Zs. Though their disruptive expectations pose some managerial challenges, this keeps leadership on their toes to ensure continuous review and renewal of some outdated policies, processes and systems.

Management has capitalised on their youthful energy and zeal by including them in various innovative projects which facilitate the realisation of their potential as well as enriching the thought engines of the business. The human capital value proposition has seen itself transform into action-packed business activities engineered by this youthful community in the Bank and team building events which are generally structured to allow for fun in a highly productive environment. These include the annual "Talent in You" competitions and Christmas parties. The Leadership Conference continues to be the highlight of the year, where employees share their understanding of the Bank's strategy. This has worked as a reliable change management strategy which has not only increased knowledge but also buy-in and measurement. Other fun but meaningful activities are kgotla sessions where we take a leaf from the Setswana tradition of consultation at a formal gathering place called a kgotla. Other events involve both business and fun such as performance awards and leadership conferences.

In response to the evolving needs of employees, we introduced a variety of learning and development initiatives. These include coaching programmes at managerial and supervisory levels, The 15 Invaluable Laws of Leadership Growth by John Maxwell, and Talent Multipliers. Various talent pools have also been established such as emerging leaders in the business units and segments and Junior EXCO, and lately the "Counsel of Elders" which is a platform meant to ensure inclusion of more mature employees. These have created platforms for younger as well as experienced employees to exert influence and use their creativity and innovative ideas to catapult the business structures to higher levels.

Our talent is retained within the business leadership

The Bank has realised some benefits from the leadership development projects through improved team engagement levels and leaders aiming at modelling and encouraging the right behaviours and retaining FNB Botswana's much-valued talent.

A challenge that management has needed to address is that of succession planning and career management. Some millennials expected that tenure would be a key consideration for progression. To mitigate this growing concern, management formed fora which involved them in the crafting of procedures for career management.

As part of the Bank's quest to maintain its technological DNA tendencies, a social platform for communication called Yammer was introduced, which is used for internal informal updates and for team communication for both social and business matters. Some learning platforms for self-study, and the introduction of self-paced modules via Udemy and access to an online business library have also been enhanced.

The Bank recently launched pilot flexi-hour work schedules in one of the business units. This is one of the initiatives introduced as a response to the Millennial expectations in the workplace. Decisions will be made at the end of the pilot to determine whether the process will be rolled out for full implementation.

Employee Wellness

The Bank continues to regard employee wellness as a critical strategic issue that has clearly defined key deliverables to ensure the Bank's vital resources (people) are well taken care of through various programmes and structures.

The introduction of a lifestyle modification programme has seen many employees embarking on a lifestyle change which involves altering long-term habits and behaviours, typically involving changes in diet, physical activity, smoking, alcohol consumption, etc. This has been used to treat a range of health conditions specifically those prevalent in the workplace.

Human Resources Report [CONTINUED]

Graduate Development Programme

Every year for the last four years, the Bank has been running an International Graduate Trainee Programme. This programme is aimed at identifying highly driven, passionate young talent who are taken through rigorous training here at home and in South Africa, for them to become future leaders of the Bank.

Through the programme, the Bank has been able to produce highly driven individuals in the areas of Business Process Improvement & Analytics, Pricing Analytics, Digital Marketing and Business Intelligence, and has ensured that the Bank is ready to meet the demands of future skills in line with the 4th Industrial Revolution.

Upon their return from South Africa where they are exposed to specialised technical as well as soft skills within the FirstRand Group, the graduate trainees are placed within the business to support the current strategy and are highly involved in the Bank's innovative and strategic initiatives in order to come up with innovative solutions for the Bank as well as to develop into the current and future leadership pipeline.

Employee Engagement

FNB Botswana prides itself in its robust engagement initiatives which position the organisation to have a competitive edge in sales growth, higher market share, better shareholder value as well as much better profitability. It is through an engaged workforce that the Bank can yield outstanding performance in the areas highlighted. Worth noting is that the Bank recognises the positive impact that engagement has on the workforce. This includes alignment, passion, reduced absenteeism and increased commitment.

The Group Engagement Survey (GES) is conducted every two years and is used to provide management with feedback on various strategically important dimensions. In order to ensure ongoing engagement, a quarterly survey was

recently introduced which is intended to support the GES as well as to provide continuous feedback during the entire two-year period. This tool, "the Pulse", a very short qualitative survey, focuses on the unsatisfactory feedback received from the GES, and teams are later given information on the concerns raised. The different engagement accountabilities and campaigns are communicated on various platforms and include denoting engagement as a Key Result Area and holding the managers accountable to their individual performance contracts.

Retail Report

KEY PERFORMANCE FIGURES

27%	advances market share
30%	deposit market share
12%	growth in customer base
7%	increase in advances
19%	growth in deposits

Retail Report

Retail Banking is a division of FNB Botswana responsible for providing banking services and solutions to individual customers. The Retail Banking value proposition seeks to offer products and services that provide solutions to dynamic and ever evolving customer needs. Not only do we service the client looking to diversify their offshore investment portfolio, but we also serve the everyday needs of a Motswana looking to send money to a loved one across the country.

Retail's suite covers the full range of financial services: investments, transactional banking, savings, borrowing and insurance; proudly affording the Retail division the designation of being a "one-stop-shop" to fulfil customers' needs.

The Bank has 24 physical branches conveniently located countrywide for customers requiring that personalised service, supported by a Contact Centre and world class digital platforms designed to give customers efficiency by "doing it themselves", through ATMs, deposit taking ATMs (ADTs), Cell-phone Banking, Online Banking or the FNB Banking App.

The Segment is supported by centres of excellence in Credit, Marketing, Risk, Human Resources, Finance and Operations, all with the goal of optimising output to deliver an exceptional customer experience for all our customers.

Creating Service Value

They say necessity is the mother of invention. This has certainly been the case in the retail banking industry, as the homogeneous nature of banking products has forced the Bank to look at creating competitive advantages that can be less easily duplicated. Service has always stood out as one key area to create such an advantage, and customer centricity is a logical step in the evolution of the development of that competitive advantage.

Being customer centric to us means first listening to the needs of our customers and then developing a solution for those needs. Having understood that not all customers live in densely populated urban areas where branches are easily accessible, the Bank responded by introducing a Bank on Wheels that roams all corners of the country to meet the needs of retail banking customers.

Taking a more innovative approach towards access to services, the avenues customers now have available to transact on their accounts have evolved, while our world-class digital channels remain available (Online Banking, FNB Banking App and Cell-phone Banking), new channels now exist through WesBank Online, Bank on Wheels, Cash Plus, Home Loans and WesBank decentralisation, to name a few.

WesBank online: Applying for a WesBank facility has never been easier with this 24-hour online service through the FNB Botswana website, from the comfort of your home.

Bank on Wheels is a fully equipped mobile branch that travels around the country to key remote areas that do not currently have an FNB branch nearby, bringing banking closer to all our communities.

Cash Plus: Through strategic partnerships with key merchants across the country, customers are now able to make deposits and withdrawals from their FNB Botswana accounts at any SaveRite or Yash Cell outlet. Launched in May 2019, this service seeks to reach more customers through their local retail store, rather than a branch.

Home Loans and WesBank decentralisation: In recognition of the "one-stop-shop" title customers associate with Retail banking, both Home Loans and WesBank are now fully accessible at some branches. Customers no longer need to visit a single location to access these services, and operational efficiencies are realised through shared use of touchpoints.

Contact Centre: Retail continues to offer customers access to their bank accounts through our world-class Contact Centre, manned by skilled agents who are trained to assist customers with their everyday banking needs over the telephone. Advances such as e-Contracting have enhanced the Contact Centre's breadth of capabilities, enhancing the quality and value of conversations with customers thus removing the need to frequent physical banking infrastructure.

Workplace Banking: The previous year has also seen process innovation to ensure better collaboration between Commercial and RMB through a proposition called "Work Place Banking" that seeks to meet customers at their places of work and offer them a selection of banking services without them having to visit a branch, thereby bringing the Bank closer to our customers, wherever they are.

Innovation

During the 2018-19 financial year, FNB Botswana continued to innovate products and award-winning digital platforms that empower customers to bank wherever they are, whenever they want and however they choose. Most notably the following innovations were introduced as part of our digital arsenal:

eBucks to Cashback: In response to customers' needs to do more with their rewards, FNB Botswana migrated from rewarding customers in eBucks to rewarding them in cash. Since the launch in October 2018, P12 million has been paid into customers' accounts as Cashback Rewards.

Customer Value Management: By taking advantage of Big Data and the Bank's superior digital platforms, Customer Value Management has leveraged legislative advancements such as e-Contracting to offer more customers the opportunity to make use of banking products from the comfort of their homes through our superior Contact Centre.

Forex Online as a functionality of the online banking platform enables customers to make instant cross-border payments at their convenience.

ATMs and ATMs with Deposit (ADTs): During the year 11 ATMs and 8 deposit taking machines were added across the country, a notable addition being in Rakops to serve customers in that region. In total, FNB now has 168 ATMs and 66 ADTs in Botswana.

Cash@Till is enabled at selected merchants, where customers can now withdraw and deposit cash from their FNB account along with their point-of-sale payment of their goods and services at these merchants.

Retrenchment Cover: In July 2019, the Bank introduced embedded retrenchment cover to all Premium current accounts, affording customers an extra level of assurance in the event of loss of employment.

Retail Report [CONTINUED]

PERFORMANCE

- **27%** advances market share
- **30%** deposit market share
- **12%** growth in customer base
- **7%** increase in advances
- **19%** growth in deposits

Retail banking saw a 12% year-on-year growth in customer numbers, a 5% increase from last year, coupled with a 24% increase in core product uptake, a testament to the ever-growing success of FNB Botswana's technology enhancements and acceptance thereof by customers.

During the 2018-19 financial year the Bank implemented a Customer Value Management approach which seeks to engage our customers across their life cycle. This saw the Bank innovate communication by way of customisation and personalisation; from the messages customers receive, to the medium on which they receive it. The objective is to enhance the customers' experience with the Bank, from onboarding to product uptake and beyond. Customer Value Management will continue to be a significant value driver for both the customer and the Bank in the coming financial year.

Overall, Retail segment advances grew by 7% to achieve a 27% market share, despite the aggressive competitive environment and a tightened appetite in more profitable asset product lines, which is evidenced by the negative growth in interest income of -1% against an 8% increase in assets.

Retail deposits have also performed well with an 18.7% year-on-year increase showing growth in all the right areas, particularly Premium investment accounts, and more importantly, customer current accounts, demonstrating that more and more customers continue to identify FNB as their bank of choice for their everyday banking. Our flagship deposit product, Flexi-Fixed, chosen by customers because of its flexibility and great overall returns, contributed significantly to 27% year-on-year growth in deposits.

Operational Efficiencies

Improved collection efforts have also contributed to the Segment's impressive performance thanks largely to a reduction of write-offs and significantly improved collection efforts in the second half of the financial year. Most notably, the Segment PBT grew by 7% year-on-year closing the year at a healthy P423 million.

Given the drive for a digital society, FNB Botswana is committed to advancing customers' use of the Bank's digital platforms. This is evident in the maintenance and refurbishment of existing branches, but more particularly in a broader focus on the introduction of newer, easier and more convenient banking channels.

Main Branch: The Bank has invested in upgrading the Main Branch building and branch. The building, one of the oldest in Gaborone, is currently undergoing full refurbishments and updates to the upper floors, and upgrades to the banking hall are due to start early in the next financial year. The Bank is working towards constructing a state-of-the-art Contact Centre and upgrading the training centre to world-class standards to ensure optimised engagements with staff.

Palapye Branch: In recognition of the growing economic development of Palapye, the Bank has invested in a new branch and relocated to the newly constructed Lotsane Junction Mall, upsizing the branch to accommodate more customers for their greater convenience.

Acacia Premium Suite: As the Bank continues to listen to customers and respond to their specific needs, the introduction of a Premium Suite at the newly opened Acacia Mall in Phakalane is targeted at servicing the Premium Sub-Segment in and around the up-market residential area.

Our People

The Bank's strategy is focused on delivering exceptional customer experience, and the Retail Segment is committed to supporting all staff to ensure that the Bank's service promise is above par. We offer our people robust product training and leadership programs such as the Retail Leadership Academy, a mentorship program to empower potential future leaders within the Retail Segment through coaching and participation in strategy development, cascading and implementation. We endeavour to offer a unique view of the potential of our human capital, different from that of conventional leadership collectives. The vision of this Academy is to help steer the business in a direction that better speaks to customers' needs and their expectations of world-class retail banking.

We continue to engage with external service providers to develop our people through on-the-job mentorship and coaching as well as programmes such as Investment in Excellence, Leadership Gold, 15 Laws of Invaluable Growth and various other leadership development courses; and look to our periodic Group Engagement Survey to continuously measure and track the success of our initiatives.

Retail Report [CONTINUED]

Market Overview

While remaining positive, the growth profile faces downside risks emanating from limited output and export-oriented growth as well as the likelihood of a dent in competitiveness as Botswana remains on Financial Action Task Force (FATF) grey-listing and as the country continues on a largely undiversified growth trajectory – one where growth is largely not supported by robust private sector investment.

Household expenditure makes up almost half of the country's GDP and is expected to grow at a slightly higher rate than GDP. While the April 2019 government salary adjustments will support this growth, it might not be sufficient to fully compensate for broad-based household pressures as employment challenges persist and disposable income levels remain under pressure.

Household advances: The Bank foresees overall extension of advances to remain below 8% through to 2020 as the industry continues to focus on collections and containing NPL's. Extension of these advances will be supported by improvements in banking business confidence on the back of improved NPL performance, while household credit extension will remain constrained by pressures on disposable household income. Lending to households is anticipated to average a 6.7% total increase in the next two years, mostly on short-term unsecured lending, that the Bank will continue to extend in line with regulatory, Treat the Customer Fairly (TCF) and bank credit principles.

Household deposits: The limited upside to real wages growth will mean narrow impact on growth in deposits; we expect an average 2.8% growth in household deposit levels, especially since over 70% of average household spend goes towards essential spending, limiting non-essential spending and savings levels. It is in this arena the Bank's Flexi-Fixed product will continue to serve customers well, allowing for flexibility and favourable interest.

The Bank will as always continue to execute responsible lending practices that are in line with TCF principles, ensuring that customers' income is not over committed so as to afford them a dignified quality of life. Looking forward, the Segment will focus a lot more on customer education to encourage a savings culture for Batswana.

Future Prospects

Bill Gates is famously quoted to have said: *"Never before in history has innovation offered the promise of so much to so many in so short a time".*

With competition constantly evolving, never has the market required so much from financial services so quickly, and FNB Botswana is poised to take up the call and step up to deliver.

We are committed to active management of client experiences throughout and across all our customer lifecycles. We are committed to offering guided assistance to our first-time banking users through a robust Youth Banking proposition and offering experienced investment and transactional banking solutions to our seniors within the Retail Segment. These endeavours are all underpinned by a firm focus on delivering exceptional service with a targeted External Customer Satisfaction Index (ECSI) of 90%.

The coming year will see renewed focus on excellent service delivery and a continued emphasis on customer value management. The Bank's digital platforms and newly introduced alternative channels lead the industry in enabling customers to conduct all their banking from the comfort of their homes.

Risk Management

During the 2018-19 financial year, the Retail Segment faced challenges and risks including market, regulatory, forensic risks, all of which challenged the Segment to advance its risk maturity levels and enhance its risk management capability.

Market Risk: With continued pressure on margins from monetary policy changes such as the October 2018 bank rate cut, the Bank reacted well to protect shareholder value, while also continuing to lend responsibly to customers. All rate cut benefits are duly passed on to the customer, and the Bank also engages customers to save additional funds, ultimately reducing their overall loan term debt.

Regulatory Risk: In the commitment to ensure compliance to regulatory requirements by new banking products, the Bank has sought to establish a "new product approval committee" that ensures a structured and fully managed approach to new product introductions is adopted that covers all regulatory requirements.

Forensic Risk: As the Bank with the largest ATM network in the country, FNB Botswana is most susceptible to ATM fraud. This was the case when a syndicate was identified to have infiltrated several FNB ATMs across the country. Swift responses from the Forensics and Cards teams protected customers from further losses and reimbursed affected clients. As these methods of fraud continue to evolve, so do the Bank's forensic assessment techniques with continuous training and upskilling in identifying these new methods.

Credit Risk: As Bank of Botswana continues to look to the banking industry to responsibly grant financial assistance to customers, FNB Botswana has boldly taken up the call and maintained its stance on lending through the First Funding book, using responsible debt service ratios that seek to not over indebt customers, despite the pressure this places on the Bank's margins on a lending book that has historically been much higher.

Commercial Report

KEY PERFORMANCE FIGURES

15% growth in customer base

10% growth in non-interest income

7% decline in advances

15% growth in deposits

15% of advances market share

Commercial Report [CONTINUED]

Introduction

The Commercial Segment comprises Mid Corporate, High Touch, Mid Touch, SME and Public Sector sub-segments. The Segment also hosts three product houses, **Agriculture & Tourism, Commercial Property Finance** and **Islamic Banking.** This segmentation model has enabled the Commercial Segment to develop a sub-segment specific and client centric strategy to enhance customer service and improve turnaround times through enhanced process efficiencies.

The Segment has consistently led the market in innovation, steadily enhancing its understanding of its customers' needs and responding with customer focussed solutions.

Mid Corporate Sub-segment: This segment consists of clients that have complex needs and require specialised banking solutions. In order to service these clients accordingly, they have been categorised into distinct sectors, each with dedicated Account Executives. The service model assists the Mid Corporate customer to understand banking better, while at the same time allowing the Bank to proactively cater for evolving customer needs.

The High Touch Sub-segment: The High Touch Sub-segment serves companies in their growth phase, offering a range of industry-specific corporate banking solutions such as the Platinum Transact Account and Lending. Today's high touch clients are serviced by dedicated Client Portfolio Executives who focus on clients' unique service needs and ensure that High Touch clients experience seamless, hassle-free, customised service.

Mid Touch Sub-segment: The Mid Touch sub-segment serves customers who have grown out of the SME stage and whose banking needs have evolved. They have dedicated Client Portfolio Executives to offer an array of solutions fit for their business model.

The SME Sub-segment: This sub-segment looks after emerging, small- to medium-sized businesses that have an annual turnover below P10 million. Through constant innovation and an improved understanding of customers' needs and expectations, and the creation of appropriate solutions, SME clients are assured continual enhancement of their banking experience.

Public Sector Sub-segment: This sub segment was created to cater to the needs of public sector customers with a specific focus on public sector banking requirements. This sub-segment understands the unique challenges of this sector and by using the power of technology and the Bank's innovative platforms, provides tailor-made solutions to facilitate a more efficient model of doing business.

Creating Customer Value

The introduction of the payment gateway and integration into the customers' systems have solved the customers' reconciliation and receipting challenges. The establishment of Tourism as a specialised business unit offers an invaluable contribution to our clients through its unique positioning, and to the tourism industry, a significant GDP contributor.

A number of self-service channels improvements have been undertaken, including enhancement of the Online Banking platform to include Forex Online which has provided customers with the ability to conclude forex transactions end-to-end on their own, at their convenience. This innovation has facilitated customers to be able to conduct their banking 24/7 from wherever they are.

Other channels are continuously being enhanced to improve customer experience and convenience. These include eCommerce solutions, which allow for customers to receive payments online and have provided a value add for clients by digitising their payment collection points.

In the continued effort to improve the customer banking experience the Commercial Segment, in conjunction with the Local Enterprise Authority, facilitated a training programme to impart entrepreneurial skills to recipients of the Youth Development Fund. The Segment has also hosted a variety of customer education workshops like the risk workshop to educate clients on latest trends and risks in doing business.

New Products and Services

The Segment has re-aligned portfolios to provide specialised banking services as a way of achieving client centricity. New products and services to enhance our service offering to clients include:

eCommerce Solutions: The global proliferation of online card payment and acceptance has facilitated a wider geographic reach for customers. Botswana has not been an exception to this phenomenon. Through the eCommerce payment gateway solution, FNB Botswana clients can now offer online student registration and online business registration. This has in turn delivered for our clients an efficient collections platform, ease of reconciliation and reduction of long queues at customers' cash offices as well as other inconveniences typically experienced in brick and mortar service delivery touchpoints.

Point of Sale Integration: The growth of our clients' business mandates requires that we deliver efficiencies to their complex business processes. To this end, through the Point of Sale Integration, FNB Botswana has delivered the ability for retail clients to process large transaction volumes with speed and efficiency, and also to facilitate automated reconciliations.

The implementation of the SME Credit Hub has significantly improved standardisation and process efficiencies which are critical in the SME sub-segment.

Commercial Report [CONTINUED]

People empowerment

Our strategic pillars are underpinned by motivated human capital that is constantly upskilled and empowered to run with initiatives. The Commercial Segment appointed a Junior EXCO team that is charged with exploring a variety of Segment initiatives, not limited only to those in the strategy, but also initiatives that improve efficiency and any deliverables that augment the strategy.

Training programmes for Segment employees included secondments to South Africa, particularly with respect to Credit Origination, with the objective of improving the quality of credit applications.

Market overview

There continues to be competition around various solutions offered in the market, particularly regarding Liabilities/Deposits, Point of Sale commissions and forex transactions.

Foreign Exchange Transactions: There has been increased competition around foreign exchange transactions from both commercial banks and bureaux de change.

Future Prospects

A number of significant opportunities for growth in the economy, particularly in the mining and tourism sectors are likely to impact favourably on the Segment's performance going forward.

Downstream Mining: The Debswana Orapa Cut 3 and Jwaneng Cut 9 projects will provide business opportunities for clients in the construction and business services sectors.

Tourism: The tourism sector is a significant contributor to national GDP and the Segment is building capacity and positioning itself to be a key player in the industry.

Client Retention Strategies

The Bank is committed to gaining a deeper understanding of its clients by providing integration of solutions into client systems. This increases efficiencies by seamlessly providing payment reconciliations and referencing. Through its customer value management (CVM) strategy, the Segment has employed analytics to better understand customer behaviour and to be able to offer relevant solutions for specific customer needs.

WesBank Report

KEY PERFORMANCE FIGURES

9% increase in advances book

5% increase in total revenue year-on-year

8% increase in operating income before impairments

WesBank Report

Introduction – Segment Background

WesBank - a division of First National Bank Botswana Limited, aspires to be the country's number one solution provider for vehicle and asset finance. Assets financed include passenger and commercial vehicles; plant and machinery; agricultural equipment; aircraft; generators; materials handling; earthmoving equipment and leisure assets (boats, caravans, bicycles and motorcycles).

In partnership with various motor dealers and equipment suppliers, WesBank provides a wide range of customer focused vehicle and asset finance solutions. This partnership strategy is central to WesBank's operation as the business works very closely with its partners to offer tailor-made and affordable solutions that meet customers' unique vehicle and asset finance needs.

WesBank's product offering includes vehicle and asset finance solutions for both local and imported assets. Solutions range from instalment sale and finance leases to rental solutions. Structured deals with no deposit and deals with residual values to accommodate the customer`s cash flow requirements are additional benefits offered. The division's target market ranges from private individuals to businesses in all sectors of the economy.

WesBank operates countrywide to finance customers' choice of vehicle or asset from approved dealerships or equipment suppliers as well as private to private purchases and is represented through the FNB Botswana branch footprint. WesBank's main sales channels are Point of Sale at the dealerships, walk in clients at FNB Botswana branches and leads from RMB and equipment suppliers. The nationwide FNB footprint will continue to enable WesBank to offer its superior value proposition to its broad client base.

Customer Driven Solutions

WesBank's customer centric approach has resulted in the alignment of the business model which has seen the business extend its services to the branches.

Automation remains central to our ability to deliver our solutions and engage clients throughout the entire contract life cycle. The business continues to streamline and automate processes, and partner with all stakeholders to improve the client experience.

Adding Value

We continue to develop our human resources and empower our people. There is a clear strategy in place and appropriate plans are being implemented for continuous human capital development, and the relevant key resources have been identified.

Market overview

Operating environment

For the year under review the improved economic conditions supported credit growth and consumers benefitted from the relatively low inflation. For the year ended June 2019, total units available in the market within the franchised dealer space were 550, a 3% year-on-year increase from 532 in 2018. The new vehicle component grew by 7% to 422 units in 2018 from 390 units in 2018. The new car market showed an improvement during the year. Vehicle and assets purchased by cash decreased by 3% year-on-year to 45% of market share.

Challenges

The business experienced a significant growth in impairments, which had a negative impact on profitability. Although the business posted a 5% decline in costs, the change in the business model resulted in some significant cost savings for the benefit of the business.

Remedies

In response to the challenges, WesBank has refined its collections strategy to be more efficient and effective. We continue to entrench the customer centric service model across all channels and focus on cementing our partnerships and growing our Point of Sale dominance.

Future Prospects

New markets

Used vehicle imports continue to dominate the automotive market in Botswana. Opportunity for financing exists in this area and WesBank has aligned its credit decision making across all channels to support this market.

Innovations in Service and Processes

Client Retention

Our one-stop-shop offering which includes insurance and value-adds at point of sale creates more convenience for clients.

Adoption of Technological Devices and Applications

Automation remains the very core of our ability to deliver our solutions and engage clients throughout the entire contract life cycle. Our continuous innovation in the sourcing of customers, delivery of product and effective client engagement throughout the contract life cycle is critical to the continued success of the business.

Looking forward

Botswana remains one of the top three most attractive auto markets for vehicle sales in the region. The country has a developed auto market with a high consumer purchasing power and good quality road infrastructure. The ongoing road and infrastructure improvement projects should continue to support vehicle ownership. Growth is also expected in the commercial vehicle segment, mainly supported by the government as it implements its 11th National Development Plan.

RMB Report

KEY PERFORMANCE FIGURES

17% increase in operating income before impairments

14% increase in non-interest income

9% increase in advances book

RMB Report

Introduction

Rand Merchant Bank (RMB) is the corporate investment banking division of FNB Botswana. As part of RMB's international network, the Bank has the capacity to be market makers, offering innovative solutions, advisory, financing, investing and risk management solutions across multiple currencies and jurisdictions. RMB remains the investment bank of choice, both for its clients and personnel, because of its focus on continuous innovation and solutionist thinking.

RMB is made up of collaborative teams with the ability to think differently, and their unrelenting focus on clients underpins the way RMB conducts its business. This is testament to its long-established traditional values of ensuring that clients' banking experience is first-rate and tailor-made to address their specific needs.

The corporate investment banking division team are passionate solutionists who believe in nurturing mutually rewarding relationships with clients that enable them to develop innovative and bespoke solutions spanning across different aspects of the clients' business lifecycle.

Market Overview

Operating Environment

Botswana's GDP growth increased to more than 4% with all sectors of the economy registering positive growth rates. Business confidence and the operating environment also benefitted from the continued stability in the supply of water and electricity, backed by substantial improvements in the distribution of electricity in 2018 as well as minimal breakdowns of the North-South Carrier water pipeline. Exchange rate volatility resulted in a weaker South African Rand for most of the year, creating profit making opportunities for our forex business.

Operational Efficiencies

RMB has made strides in taking advantage of the ever-evolving technological landscape in the corporate investment banking industry. The business deployed various technologies that eliminated inefficiencies within its processes, offering banking that is secure, swift, convenient and user friendly while at the same time delivering products and services in a cost-effective manner.

Driving utilisation of e-platforms

RMB has made huge investments in its electronic channels on which the business leveraged to embark on a drive to migrate clients to digital platforms. This drive was aimed at ensuring efficiencies on the client's side while contributing positively to the Bank's drive to reduce all non-electronic interactions with the customer. Various processes were automated, eliminating manual interventions, thereby improving accuracy of transactions.

Platform enhancements

In the ever-advancing market in which RMB operates, the business ensured that the demands of our clients are met through offering enhancements on our existing platforms, which will ensure an improved customer experience. These enhancements were informed by market research and in-depth client needs analysis.

Creating Customer Value

RMB embodies a 'can-do' mindset that constantly challenges the conventional and embraces the power of collective thinking to unlock unique opportunities for clients. This has led to the delivery of client centric solutions that are tailored to clients' needs.

The increased uptake and penetration of our product offerings is testament to the value of the broad range of solutions we offer. We are able to integrate into our clients' core business systems for optimal transaction processing and reconciliation and to offer solutions that improve efficiencies for our clients by enabling them to streamline their business activities, offer instant access to their services, and manage risks, thereby improving their cashflows.

We have a deep understanding of the markets in which we operate and thus continue to share this expertise and knowledge with our clients, enabling them to reach new and wider markets, thus create more value for their shareholders.

RMB does more than just create value for clients through the solutions it offers, but also ensures a seamless banking experience characterised by proactiveness, effectiveness and efficiency. This is achieved through recognising the importance of placing the client at the centre of all our operations; a view that is consistent with the Bank's philosophy on client centricity.

Client Retention Strategies

The foundation of our client retention strategy is living our service philosophy. This is premised on four pillars

- offering our clients, a seamless banking experience at their **convenience**
- continuing to create **innovative and bespoke solutions** that meet clients' needs
- offering them **value for money**
- banking and integrating to **clients' ecosystems.**

Therefore our solutionist approach to structuring bespoke services for clients is dependent on a thorough understanding of their requirements and expectations, and this is only achieved through continuous engagement.

Our People

At RMB, our most valuable resource is our people. We attract the best talent in the market and provide an enabling environment for them to achieve professional success and fulfilling careers. To build first rate talent, we expose our people to various markets within Africa.

In line with our human capital vision to build a world class people capability that will enable RMB into the future, we are investing in talent development through multiple initiatives. This year, we continued to grow our people capabilities and took some employees through a leadership development program that prepares them to be future leaders by building their leadership competencies. A number of online learning platforms were introduced to create capacity for more of our people to enhance their skills and develop expertise.

To enhance a high-performance culture, the business introduced flexible working arrangements with objective to improve productivity and work-life balance.

RMB Report [CONTINUED]

Awards and Recognition

For the third year in a row, RMB received the Global Finance award for Best GFX Provider in Botswana. Global Finance also named RMB as Best Trade Finance Provider in Botswana. During the Year, RMB was also rated number one Custodian Service Provider through the highly respected industry survey conducted by Alexander Forbes.

Future Prospects

The business will continue to employ robotics to streamline and automate processes, improving efficiencies and thus create more value for its clients. Our digital strategy also encompasses continuous enhancements and upgrades of systems, devices and applications to cater for clients' evolving needs and improve their banking experience.

Opportunities exist for the business to diversify its revenue streams by establishing new revenue channels, broadening its products offerings, and positioning itself in markets and sectors it hasn't previously fully explored.

The business will also embark on various initiatives that create more value for the communities in which it operates.

Service Report

CLIENT SERVICES

The Client Services office facilitates the delivery of customer driven solutions through a customer focussed service strategy, enabling the provision of a consistent and trusted brand experience. This involves identifying customer needs and expectations in order to proactively coordinate business activities and innovations that deliver on the brand promise: **How can we help you?**

Service Report

Customer Experience

The Bank continues on its drive for service excellence through a focus on the pillars of effective relationship management, process efficiencies, creating an enabling environment and cultivation of a culture that supports customer centricity. With deliberate efforts we have progressed towards achieving the objectives set out in the Bank's service strategy, and we have seen significant strides made in the last financial year. Results from customer surveys conducted during the year point towards evidence of improvement of the Bank's customer experience across all touchpoints, including non-traditional channels such as Digital Banking.

Further cementing the Bank's commitment to customer centricity and a culture of excellence in service, customer feedback and insights continue to be key drivers in strategic decisions and enhancements of value propositions across segments.

Service Enhancements

During the year, the Bank conducted a number of targeted service improvement interventions to align solutions with customer needs, as well as further aligning management's customer strategies with actual delivery of solutions at customer interface level.

Some of these are briefly summarised below

- **Customer Experience Executive Masterclass** was conducted with FNB Botswana EXCO and the Bank's service leadership in partnership with the region's leading customer experience management consultancy
- **Customer journey mapping** has commenced with the objective of identifying and managing top customer experience satisfaction drivers in the customer journey across products, services and segments
- **FNB Botswana Commercial Segment** underwent a productivity improvement exercise with the service structures, where the mandate and operations of the unit were re-engineered for optimisation

- the Bank's **culture transformation** drive progressed throughout the year and included collaborations with Human Resources aimed at positively influencing the Bank's market position and brand through service excellence
- the annual External **Customer Satisfaction** survey was conducted with focus on all aspects of the customer experience. Key constructs measured were brand, communication, expectation, experience, service quality, product quality and perceived value.

Touchpoint Service Experience

Commitment to continuous enhancement of customer touchpoints remains topmost on the Client Services unit's mandate, appreciating that the Bank's service is experienced in the various frontline platforms. Successes during the year included the following

- a **Service Quality Audit** established improvements in the touchpoint experience at the Bank's branches, service suites, ATMs and ATMs with Deposit
- the **Contact Centre** concluded a productivity improvement and optimisation exercise; which recommended enhanced capacity, smarter customer relationship management technology, expanded mandates for the unit and a more robust structure for executional excellence
- the **Channels** service structure was reviewed for greater management of emergent customer dynamics and optimal operations at all customer touchpoints
- the Bank invested in a real-time customer feedback and queue management system, which also assists branch management structures with critical intelligence to influence proactive management of customer experience indicators per branch - all the way to individual employee level.


Self Service Banking
FNB
First National Bank
ATM
ATM DEPOSITS
ATM DEPOSITS

Service Report [CONTINUED]

Process Enhancements

The Bank empowers its staff members to make service delivery decisions through targeted customer service training, so as to be able to consistently deliver the ultimate customer experience. Frontline staff have undergone a mandate review and expansion exercise to enable a one-stop shop approach to customer delivery at every contact.

We continue to maintain a focus on internal efficiencies and driving an internal service ethic that supports the external service excellence we seek. Strong business partnerships remain an integral part of the enhancements we continue to make within the organisation, with structured mechanisms to monitor the effectiveness of our internal processes and the efficiency of their application.

Addressing Service Gaps

In the previous year, pertinent service gaps were established in the various categories of customer service breakdowns reported to the Bank. Key service gaps included breakdowns in our ATMs and ATMs with Deposits, prepaid products, empty teller terminals and long branch queues as well as eWallet queries where clients send funds to wrong numbers.

Mitigating against our customers' dissatisfaction with service breakdowns associated with these gaps is a priority for the Bank, as seen in the remedial actions applied to the root causes of these breakdowns. Commitments such as proactive scheduling of ATM and ATMs with Deposit infrastructure maintenance, review of partner SLAs to align to the Bank's complaints management policy, a queueing system and branch refurbishments have been applied. The Bank has also initiated a project to allow for customer self-service eWallet reversals, which we anticipate will give the customer greater control and lead to improved convenience.

Highlights

The Bank's External Customer Satisfaction Index (ECSI) score remained steady at 79% in 2019, registering only a marginal improvement of 0.02%. An accelerated drive towards addressing key customer dissatisfiers from our customers' perspective, will be applied in the new year leading to our goal of customer centricity by 2020.

Internal Service Level Agreement (SLA) performance also improved from 85% in 2018 to 91% in 2019, and problem resolution, closure of queries and turnaround time all improved significantly over the period. The Bank was able to achieve record performance in complaints resolution turnaround time at the end of the 2018-19 financial year.

In 2018, the FNB Botswana winner of the Diamond Service Award was a staff member from our Credit Recoveries function: Mr Collen Tshebo. This fact implies that our back-office resources have adopted principles of customer centricity and treating customers fairly as strongly as our frontline has done. Collen returned from Japan with a number of service and culture improvement projects which he continues to advance for impact. These projects give the Bank value in various ways including exposure to best practice in customer experience internationally, recognition of the influences of culture in driving customer behaviour and perception, as well as enabling delivery of projects to differentiate our service experiences through knowledge sharing.

The Road Ahead

Looking ahead, Client Services will drive the Bank's development of needs-based solutions to the various customer segments and profiles. The function will ensure robust, rich and accountability-based customer journey maps for application of consistent customer experiences across the Bank's touchpoints. This will be done in partnership with the segments and product houses, ensuring enabler contributions are monitored and informed by perspectives gained from the customer engagement mechanisms employed.

First National Bank of Botswana Limited

ANNUAL REPORT | 2019

Foundation Report

Someone is sitting in the shade today because someone planted a tree a long time ago.

– WARREN BUFFETT

Foundation Report

Background

The FNB Botswana Foundation seeks to remain relevant and provide for the evolving needs of local communities. In 2018, the Foundation therefore reviewed its strategy and focus areas to embody the global priorities underpinned in the Sustainable Development Goals (SDGs) as well as the national priorities as outlined in NDP11.

Although there are several priorities to be addressed, FNB Botswana Foundation has selected Youth Unemployment as a main priority. The focus on Youth Development will augment the Foundation's existing five focal areas:

1. Environmental sustainability
2. Sports and recreation
3. Arts and culture
4. Education
5. Social welfare

The Foundation executes its mandates either through external Foundation programme or through the Staff Volunteer Programme.

In the light of high levels of unemployment amongst the youth, the Foundation is embarking on a Youth Empowerment Programme to offer entrepreneurial and work readiness skills. The objective of the project is to stimulate the creation of income generating activities among the youth and empower them to find and keep employment. The Youth Empowerment Programme is expected to be launched before the end of the 2020 financial year.

Staff Volunteer Programme

The FNB Botswana Foundation Staff Volunteer Programme seeks to motivate and enable employees to effectively serve community needs with the support of the Bank. The Staff Volunteer Programme offers a tangible way for the Bank's staff to become more personally invested in tackling social problems, strengthening employee skills, boosting morale and cultivating a more positive and productive environment. The strategy also encourages ongoing staff engagement with the community as opposed to once-off donations.

The Staff Volunteer Programme is categorised as follows

Team Projects

- Each branch or division is given an annual budget of P50 000
- Random Acts of Kindness: an bi-annual event in which members of staff are encouraged to do acts of kindness of their choice.

Common Interest Groups

FNB clubs such as runners club, cycling club, aerobics team and Toastmasters are eligible to do community projects and apply for funding. The requirement is that the groups should have a minimum of 10 members to qualify for funding. The groups usually consist of staff members representing different divisions or groups which enhances business partnerships and consequently improves service delivery.

FNB Botswana Foundation 2018-2019 at a Glance

Staff Volunteer Projects

July 2018
Volunteer Champion Training Jwaneng Bush Walk

Aug 2018
Staff Volunteer Programme Launch

Sept 2018
• Leadership Conference Volunteer Awards
• Tsodilo Walk

Oct 2018
Stiletto Walk

Mar 2019
Random Acts of Kindness

Apr 2019
• Cyclone Idai Staff contributions
• Inception of the new Staff Volunteer Projects

Foundation Direct Projects

Oct 2018
Solar Bag Launch
•1113 bags
• 15 primary schools

Sept 2018
FNBB Foundation and BPC MoU signing ceremony

Foundation Report [CONTINUED]

'We Care'

On a dedicated day and time, all members of staff across the country engage in the same activity collectively that brings change to the communities they live in. This encourages the spirit of oneness amongst the staff and motivates them to do good and bring about positive change.

'I Care'

Staff members are given the opportunity to select an activity they want to participate in and the Foundation assists them with either purchasing tickets and/or other donations towards the chosen cause. Some of the activities in which staff have participated include the Desert Bush Walk, Shavathons, the Annual Stiletto Walk and Cyclone Idai staff contributions.

This initiative allows each employee specified number of hours to do any community service of their choice. This encourages volunteerism on an individual level. Employees can either chose to assist at an orphanage, old age home or use their skills to empower others.

FNB Botswana Foundation is administered by a team that reports to a Board of Trustees which comprises both directors of the Bank and independent members:

Mr Steven Lefentse Bogatsu
FNB Botswana CEO and FNB Foundation Chairman

Ms Dorcas Ana Kgosietsile
Independent Trustee

Ms Myra Tshephoyame Sekgororoane
Independent Trustee

Ms Reginah Dumilano Sikalesele
Independent Trustee

Dr Lesedinyana Edwin Odiseng
Independent Trustee

Ms Peo Porogo
Acting Director, Marketing and Communications

Staff Volunteerism Principles

Staff volunteerism projects are undertaken based on the following principles

- **Staff engagement:** Staff are to embark on activities that are not once-off interventions but rather those that promote enhanced and ongoing interaction between the volunteer and the beneficiary
- **Sustainability:** Staff are to engage in activities that will foster sustainability of resources, for example, natural resources and income generation
- **Inclusivity:** Staff will engage the beneficiaries in all relevant decision-making platforms
- **Impact:** Staff members will embark on initiatives that will have a positive impact on the beneficiaries
- **Skills based:** This typically talks to staff members matching their skills, talents and experience to the needs of the beneficiary. Volunteering can take on a multiplicity of forms, for example, mentoring or coaching and pro-bono services.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NEWS
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Foundation Report [CONTINUED]

2018-2019 Projects

The following projects were undertaken during the year under review.

Education

FOUNDATION EXTERNAL PROJECTS

Solar Bag Drive

In October 2018, the Foundation launched the Solar Bag Drive. The Solar Bag is a school backpack, but over and above carrying books, the bag has an integral solar panel and comes with a side lamp. The solar panel charges the battery as the child walks to and from school. In the evening the solar lamp lights up to enable the learner to read to up to eight hours on a single charge. The initiative is an innovation that was motivated by the desire for the Foundation to contribute to achieving SDG number 7 that aims for affordable and clean energy.

When the Solar Bag drive started in 2018, the Foundation donated a total of 1113 bags to 15 primary schools across the country including Veremillium, Metsibotlhoko, Ncaang, Ngwatle, Mowana, Mababe, Ghani, Ngarange, Mokoswana, Poloka, Majwanaadipitse, Mahotshwane, Thankane, Dikhukhung and Kavimba.

In August 2019, the Foundation handed over an additional 1887 solar bags to 14 primary schools across the country. Upper primary students (standard 4 to standard 7) received bags while the lower primary (reception to standard 3) students received stationery. The beneficiaries this year were Ramonaka, Olifants Drift, Khudumelapye, Sekhutlane, Sedibeng, Ntswelemoriti, Khwee, Matsitama, Nxaraga, Parakarungu, Kolonkwaneng and Senyawe.

To roll out the Solar Bag drive, the Foundation partnered with Botswana Power Corporation whose mandate is to provide electricity to Batswana countrywide. BPC was a befitting partner because of the common goal that the company has with the Foundation of ensuring that they bring light to remote areas and in turn help children excel in their studies.

To date, a total of 3000 primary pupils and 29 primary schools have benefitted from the solar bags.

Social welfare

STAFF VOLUNTEER PROJECTS

Jwaneng Bush Walk – July 2018

As part of the introduction of the 'I Care' initiative, the Foundation sponsored the Jwaneng branch to participate in raising funds for the underprivileged by participating in the annual Jwaneng Bush Walk. The walk brought together 2700 participants from Botswana, South Africa, Namibia, Zimbabwe, Lesotho, Australia and Germany who walked to raise funds for education related causes in remote villages around Jwaneng.

Cyclone Idai – April 2019

The Foundation also extended a helping hand to the survivors of Cyclone Idai which seriously affected large parts of Mozambique and Zimbabwe. Staff members participated countrywide by donating non-perishable foodstuffs and toiletries which were handed over to the Botswana Red Cross Society, which in turn passed the goods to the Zimbabwe Red Cross Society which would reach the intended beneficiaries.

Stiletto Walk - October 2018

Staff members showed a lot of enthusiasm in volunteering at an individual level, and this was illustrated by the good uptake of the 'I Care' initiative. Staff members participated to raise funds for cancer awareness and walked a total of six kilometres on stilettos to show empathy for those who experience cancer, and to show how devastating cancer is. The Stiletto Walk message puts emphasis on early cancer detection to avoid one going through the anxiety of facing the disease.

Jwaneng Branch Team

FNB Foundation 'Mantra'

Foundation Report [CONTINUED]

Environmental Sustainability

STAFF VOLUNTEER PROJECTS

Tsodilo Hills Heritage Challenge 2018 (Maun branch)

The Maun branch participated in the Tsodilo Hills Heritage Challenge 2018 as part of the 'I Care' initiative for the Tsodilo Hills World Heritage Site in Ngamiland. The event was jointly organised by the Tsodilo Community Development Trust (TCDT), the Department of National Museum and Monuments, the Desert Bush Walk, and the Ngamiland Sustainable Land Management Project (NSLMP), a UNDP/GEF funded project.

The main objective of the event was to enhance the socio-economic development of the Tsodilo Enclave area and as such the tag line for the event was "Walk for Rural Development". This was an opportunity for FNBers to show their support to the Okavango area.Supporting the event gave employees the opportunity to have their presence felt in the community.

Our People

Best Volunteer Award

In September 2018, the Foundation introduced the Best Volunteer Award during the Bank's Leadership Conference. The awards encourage participation of staff in volunteer work and outstanding volunteers will be recognised annually. The Best Volunteer Award for 2018 was scooped by Ms Connie Gosegomang Babareki of the Industrial branch.

Volunteer Champion Training

To encourage employee participation and community engagement, the Foundation started a "Volunteer Champion" initiative, where each FNB Botswana business unit nominates a representative who will lead all volunteering activities of the respective business units. The role of the Champions is to drive corporate citizenship within the various business units. The Foundation hosted the Volunteer Champions to cascade the strategy on 31st July 2018 at Tlotlo Conference Centre.

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Board of Directors

EPHRAIM DICHOPASE LETEBELE
Independent Non-Executive Director

JOHN KIENZLEY MACASKILL
Independent Non-Executive Director (Chairman)

SIFELANI THAPELO
Independent Non-Executive Director (Deputy Chairman)

DORCAS ANA KGOSIETSILE
Independent Non-Executive Director

MARKOS GEORGE DAVIAS
Non-Executive Director

Directors' Profiles

JOHN KIENZLEY MACASKILL (69)
INDEPENDENT NON-EXECUTIVE DIRECTOR
(CHAIRMAN)

John has been with the FirstRand Group since 1972. Formerly CEO of FNB Botswana (1996-2003), he has held various senior positions within the FirstRand Group including in South Africa, London and Hong Kong. His career in financial services spans across human resources, international corporate and retail banking. John serves on the boards of FNB's operations in Mozambique and Zambia. He is a graduate of the University of Pretoria and UNISA. He joined the FNB Botswana Board on 4th March 2014 and was re-elected as Chairman in January 2018 for one year.

SIFELANI THAPELO (54)
INDEPENDENT NON-EXECUTIVE DIRECTOR
(DEPUTY CHAIRMAN)

Sifelani holds a Master of Laws from the University of Cambridge, with majors in corporate law and finance, and securities regulations. He has extensive litigation experience and currently holds the position of Senior Partner in his law firm based in Francistown. Sifelani has been a member of the FNB Botswana Board since November 2002. He presently chairs the Board's Directors' Affairs and Governance Committee. Sifelani is a member of the Cambridge Commonwealth Society, Alumni of the International Development Law Organisation as well as a member of several other boards. Sifelani was re-elected Deputy Chairman in January 2018 for one year.

MICHAEL WILLIAM WARD (65)
INDEPENDENT NON-EXECUTIVE DIRECTOR

Mike, a graduate in hotel management, has over 30 years' experience in business in Botswana, mainly in the field of commercial security. He is credited with creating one of Botswana's first home-grown public companies, Inco Holdings, and was CEO of that company until a controlling interest was acquired in 2003 by an international group to become G4S, which is now one of Botswana's largest employers. Since 2003, Mike was employed as Regional Director responsible for developing businesses in many countries in Africa, firstly with the G4S group until 2008 and then with ADT. He is currently a director and shareholder of a Botswana based private equity company. Mike was first appointed to the FNB Botswana Board in August 2009, and chairs the Board's Risk, Capital Management & Compliance Committee and Credit Risk Committee.

DORCAS ANA KGOSIETSILE (60)
INDEPENDENT NON-EXECUTIVE DIRECTOR

Dorcas holds a BA in Social Sciences majoring in accounting, economics, and statistics and an MSc in management. She started her professional career at the Auditor General's Office and joined the Botswana Development Corporation (BDC) soon thereafter, where she gained extensive managerial experience in business and entrepreneurship over a 16-year period. In 2005 Dorcas joined the diplomatic corps, notably being appointed Botswana's first High Commissioner to India. She continues to play an important role in charity and social responsibility initiatives countrywide, and was a recipient of the 2007 Indira Gandhi Priyadarshini Award in recognition of her positive impact as a woman leader. Dorcas re-joined the FNB Botswana Board in November 2012 and is a member of the Board Audit Committee. She is currently a Trustee of the FNB Botswana Foundation.

JABULANI RICHARD KHETHE (56)
NON-EXECUTIVE DIRECTOR

Jabu holds a BCom in banking from the University of Pretoria, South Africa. He also holds an MBA from Bond University, a Marketing Management Diploma and has completed an Executive Management Development Programme with GIBS Management College, South Africa and INSEAD. Jabu retired in April 2017 as CEO of FNB Botswana International Africa and has extensive banking, insurance and leadership experience with financial institutions in South Africa. He sits on the boards of a number of the FirstRand Group's African subsidiaries in Namibia, Mozambique, and Nigeria. Jabu has been on the FNB Botswana Board since September 2005 and is a member of the Directors' Affairs and Governance Committee and Remuneration Committee. He is also the Chair of the Audit Committee.

STEVEN LEFENTSE BOGATSU (47)
FNBB CEO, EXECUTIVE DIRECTOR

Steven became CEO of FNB Botswana, a Bank he has worked for in a number of senior leadership roles, in April 2015. This followed two years as CEO of FNB Swaziland; and previously he had held the position of CFO and Director of Product Houses at FNB Botswana, responsible for Property Finance, WesBank, Credit Card, International Trade and Custody. Prior to joining the FNB, Steven trained at Ernst & Young and worked at Kgalagadi Breweries as Group Internal Auditor, Management Accountant and Project Accountant; at Barclays Africa Finance as a Financial & Business Analyst and at Stanbic Bank Botswana as CFO.

Alongside his Banking career, Steven has held directorships on several boards including the Local Enterprise Authority as well as Botswana Medical Aid and Med Rescue International. Steven is a Certified Chartered Accountant and holds an MSc in strategic management from the University of Derby.

NELSON MOKGETHI (70)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Nelson is currently the Director of Dikarabo Event Ventures where he consults for the African Development Bank to produce infrastructure data reports and train infrastructure data collectors from African countries' statistics offices under the African Infrastructure Knowledge Programme.

Nelson has a BA in economics from the University of Botswana and Swaziland and a Masters' in Development Economics from Williams College in the USA. After obtaining his first degree, Nelson worked his way through the Division of Economic Affairs, eventually rising to become its Deputy Secretary. In 1992, he transferred to the Division of Budget Administration to head the Division as Secretary for Budget Administration until his retirement from the public service in 2004.

Nelson has been a director of a number of organisations including Botswana Accountancy College, Botswana Railways, Air Botswana, Botswana Public Officers Pension Fund, Public Procurement and Asset Disposal Board, Bank of Baroda, MVA Fund and CEDA. He currently serves as Chairman of BPOMAS Property Holdings (Pty) Ltd.

DOREEN NCUBE (60)

INDEPENDENT NON – EXECUTIVE DIRECTOR

Doreen has worked in the banking sector for 22 years and has extensive experience in financial planning, risk management and compliance. She began her career with the Ministry of Commerce and Industry in 1990 where she rose to Senior Industrial Officer and sat on the Central Tender Board. After a brief spell with Shell Oil Botswana as an Assistant Marketing Manager, she joined Bank of Botswana in 1991 where she occupied a number of positions including Senior Bank Examiner within the Financial Institutions Department and Deputy Director of the Banking Supervision Department, before being appointed Head of Compliance at Barclays Bank Botswana Ltd in 2002. She served as Head of Risk Advisory Services and Regional Head of Compliance for Southern Africa Barclays Businesses before her retirement in 2012.

Doreen holds a BA in Administration and Accountancy from UBLS Botswana and an MSc in Management from the Arthur D Little Management Education Institute in the USA. She was appointed to the FNB Botswana Board in July 2015 and was formerly on the board of the Botswana Medical Aid Society where she chaired the Board's Finance Committee.

MARKOS DAVIAS (38)

INDEPENDENT NON – EXECUTIVE DIRECTOR

Markos was appointed to the Board of FNB Botswana as a Non-Executive Director effective December 2017. He began his career 15 years ago as a Trainee Accountant at Deloitte and joined Rand Merchant Bank as Head of Finance - Global Markets. He is currently the Chief Financial Officer at Rand Merchant Bank (RMB), Johannesburg, South Africa, where he is responsible for the full strategic and operational finance function for RMB in South Africa and the rest of Africa. Markos brings to the Board his considerable skill in corporate and investment banking, business strategy, statutory, regulatory and managerial finance, and risk management.
He holds a Bachelor of Commerce (BCom), Accounting and Finance from the University of Johannesburg, and is a qualified Chartered Accountant (SA).

EPHRAIM DICHOPASE LETEBELE (59)

INDEPENDENT NON – EXECUTIVE DIRECTOR

Ephraim is a Chartered Secretary and holds an MSc in Strategic Management from the University of Derby and a BCom from the University of Botswana. He is an Accounting Technician of the Botswana Institute of Chartered Accountants and an Associate of the Southern Institute of Chartered Secretaries and Administrators. His career began in the public service in 1979 where he served in various capacities for a period spanning 26 years with his last tour of service being as Accountant General in the Ministry of Finance and Development Planning. In 2005 he was appointed the first Chief Executive Officer of the Botswana Public Officers' Pension Fund (BPOPF) where he served for 8 years. Ephraim has previously served on the boards of Mascom Wireless, Botswana Accountancy College, Botswana Public Officers' Pension Fund and Bank of India (Botswana). He currently sits on the boards of Ramokoraga (Pty) Ltd, Prescient Holdings (Botswana) (Pty) Ltd, Prescient Fund Services (Botswana) (Pty) Ltd and Prescient Management Company (Botswana) (Pty) Ltd. Ephraim was appointed to the FNB Botswana Board as an Independent Non- Executive Director in December 2017.

BALISI MOHUMI BONYONGO (51)

INDEPENDENT NON – EXECUTIVE DIRECTOR

Balisi Mohumi Bonyongo is the former Managing Director of Debswana Diamond Company, which is identified as the world's leading diamond producer by value and volume.

During his distinguished 26-year career with Debswana, Bailisi held various senior management and executive roles, including Corporate Strategy Manager, Jwaneng Mine General Manager and Debswana Chief Operations Officer.

He holds a Bachelor of Engineering (Hons) in Mineral Engineering from the University of Leeds, an MBA from the University of Cape Town in South Africa and is a graduate of the Senior Executive Programme with the London Business School.

Balisi was previously a board member at Botswana Power Corporation and Chamber of Mines. He is currently a board member of PEO Venture Capital and Chairman of the Board of Trustees at Tlhokomela, Botswana Endangered Wildlife Species.

He joined the FNB Botswana Board as a Non-Executive Director in February 2019.

Corporate Governance Report

INTRODUCTION

The First National Bank of Botswana Board believes that excellent corporate governance is fundamental to ensuring a sustainable and successful business. To the Board, corporate governance means more than a set of frameworks, principles and rules. It means abiding by values and structures that enable the Bank to facilitate and foster good relationships between the Board, customers, employees, shareholders and all stakeholders.

Corporate Governance Report

The Board is committed to a policy of fair, transparent dealing and integrity and expects Management and employees to share this commitment. The Board positions the Bank as a responsible corporate citizen and considers the financial performance of the business together with the impact of its operations on the society within which it operates.

King IV Report

The Bank has over the years always committed itself to aligning and adopting the recommendations of the King Code on Corporate Governance. Having adopted the recommendations of King IV in 2017, the Board developed a programme for implementation of those of its principles that were practical for implementation in our business environment. As at June 2019, most of the principles were being applied, save for those where we had achieved partial application. A full evaluation of the principles was conducted by both the Bank and the Botswana Accountancy Oversight Authority during its statutory review of the Bank in line with its mandate. The review was highly regarded by the Board as it provided assurance on the Bank's governance controls. The review identified the principles that had been fully applied and those that had been partially or not yet applied.

Almost all the principles had been applied, and the principles that were determined to have not been applied were

- The Chairman of the Audit Committee not yet classified as independent
- Composition of the Board lacked a Director with skills in Information Technology
- The Chief Executive Officer is the only Executive Director in the Board.

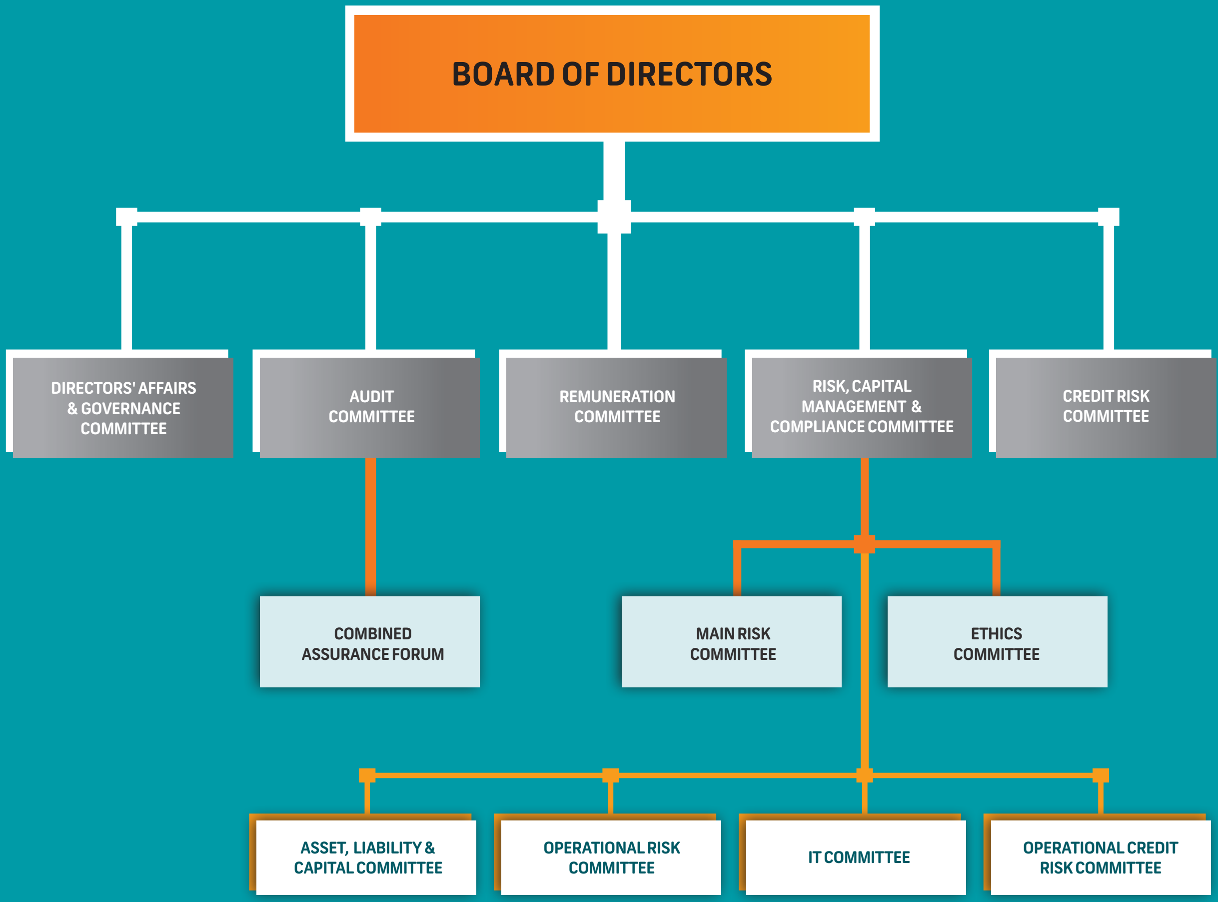
During the review, it was acknowledged that the Board had already put a plan in place for application of these principles as far as it was reasonably practical given the Bank's current operating environment.

Strategy, Performance and Reporting

The Board takes overall responsibility and accountability for the success and sustainability of the Bank. Its role is focused primarily on exercising sound leadership and independent judgment when considering the Bank's strategic direction and overall performance, while always considering the best interests of all stakeholders.

As part of its duties, the Board is responsible for establishing strategic objectives, goals and key policies, identifying and monitoring key risk areas and key performance indicators of the business, approving strategy and budgets and regularly reviewing progress against strategic objectives as well as reports for external publication.

GOVERNING STRUCTURES AND DELEGATION



Corporate Governance Report [CONTINUED]

Governing Structures and Delegation

The Board has established a delegation of authority policy which sets out matters specifically reserved for determination by the Board and those matters delegated to its Committees and to Management. The functions exercised by the Board and those that are delegated are subject to ongoing review to ensure that the division of functions remains appropriate.

Each Board and each Management Committee act within agreed written terms of reference (Charters) that are reviewed and updated annually. The Chairman of each Board Committee reports back to the Board on the deliberations of Committee meetings at every Board meeting. Furthermore, the Chairman of each Committee is required to attend the Annual General Meeting to answer questions raised by shareholders.

The Board is of the view that these Committees have effectively discharged their responsibilities as reflected in their various Charters during the financial year under review. The delegation of authority to Committees does not absolve nor transfer any of the responsibilities of the Board to the respective Committees, and the Board remains ultimately accountable to the shareholders.

Focus of the Board Committees for the period under review

Credit Risk Committee

During the period under review the Committee

- approved large exposures and monitored them on an on-going basis
- ensured that all the credit activities relating to large exposures were conducted within the risk strategy, policies and tolerance levels approved by the Board.

Audit Committee

The Audit Committee ensured that

- it reviewed and monitored capital and ascertained that expenditure was adequately budgeted for, controlled and monitored
- it reviewed a documented assessment, including key assumptions prepared by management of the going concern status of the bank and has accordingly confirmed that the Bank will be a going concern for the foreseeable future
- the financial statements of the Bank accurately reflect the financial position and records of the Bank effective accounting practices and policies had been maintained
- the skills and resources of the Internal Audit and Finance functions are adequate, and all requirements had been met
- internal controls of the Bank had been effective in all material respects during the year under review
- monitored tax risk, planning and compliance
- the skills, experience and overall performance of the external auditors was acceptable and that they met all their obligations in all material respects. The Committee recommends to shareholders that Deloitte & Touche be re-appointed as external auditors for the 2019-2020 financial year.

Risk, Capital Management and Compliance Committee (RCCC)

The Committee ensured that

- it had received and reviewed the reports of the Chief Risk Officer, which highlight key risks of the Bank, including Legal, Compliance, Information Technology and cyber security risks
- the risk assessments, risk monitoring reports and management responses had been reviewed, and the effectiveness thereof was thoroughly challenged
- risk appetite and compliance monitoring was appropriate and effective

- sufficient resources and systems were in place to identify and monitor risk
- there was effective management of credit and concentration risk
- the Internal Capital Adequacy Assessment Process (ICAAP) was undertaken and that the assumptions and stress tests were appropriate, and the benchmarks maintained
- all risk factors in the internal and external environment were properly assessed with appropriate tolerance levels.

Remuneration Committee (REMCO)

The Remuneration Committee focused on

- evaluation of the adequacy, effectiveness and appropriateness of the Bank's reward and remuneration policies and ensured their alignment to best practice
- review of succession plans for CEO and Executive Management
- advising the Board on various aspects of the Bank's human resource strategy, including remuneration of Executive Directors, and made recommendations of Non-Executive Directors' fees to be approved at the November 2019 Annual General meeting
- considered and approved implementation of job evaluation results.

CEO Contract and Succession Plan

The Executive Director is employed on a standard employment contract similar to the terms of all other employees. Remuneration is paid in terms of the Bank's remuneration policy as approved by the Board. The Board has approved a succession plan for the CEO role, which identified candidates on the basis of their readiness to take over the role. The principles considered were:

a) emergency/ready now candidate

b) medium term (ready in 1-3 years)

c) long term (ready in 3-5 years).

Corporate Governance Report [CONTINUED]

Non-Executive Director's Fees

Non-Executive Directors receive fees for services as Directors and for services provided as members of the Board and its Committees. These fees are paid on a retainer as well as attendance basis. The fees vary depending on the role of the Committee, are based on market comparisons, and are reviewed annually in line with the Bank's remuneration philosophy that advocates fair and responsible remuneration.

Non-Executive Directors who work within the FirstRand Group as Executives do not receive directors' fees. The fees are reviewed by the Remuneration Committee and are approved, in advance, by Shareholders at the Annual General Meeting. Below is a report on total fees paid to both Executive and Non-Executive Directors during the period under review:

John Macaskill (P0.7m), Sifelani Thapelo (P0.2m), Michael Ward (P0.8m), Dorcas Kgosietsile (P0.2m), Mmasekgoa Masire-Mwaba (P0.1m), Balisi Bonyongo (P0.1m), Nelson Mokgethi (P0.3m), Doreen Ncube (P0.6m), Ephraim Letebele (P0.5m), Jabu Khethe (P0.5m), Steven Bogatsu (P5.5m) and Markos Davias (P0.0m).

Directors' Affairs and Governance Committee (DAGC)

During the year under review the Committee

- reviewed succession planning and skills of the Board, the Chairman and the Chief Executive Officer
- considered Board evaluation reports and recommendations
- reviewed and revised the composition of Board Committees
- made recommendations on appointment of new directors
- was responsible for the recruitment of the desired additional skills in the Board
- assessed the adequacy, effectiveness and appropriateness of the corporate governance structures of the Bank and assessed their alignment with best practice
- monitored the implementation of the Code of Ethics.

Board Committee Composition

Audit Committee

J R Khethe – Chairman
(Non-Executive Director)

M Davias – member
(Non-Executive Director)

E Letebele – member
(Independent Non-Executive Director)

B Bonyongo – member
(Independent Non-Executive Director)

M Ward – in his capacity as Chairman of RCCC *(Independent Non-Executive Director)*

Credit Risk Committee

M Ward – Chairman
(Independent Non-Executive Director)

D Ncube – member
(Independent Non-Executive Director)

E Letebele- member
(Independent Non-Executive Director)

S L Bogatsu – member
(Executive Director)

Risk, Capital Management and Compliance Committee

M Ward – Chairman
(Independent Non-Executive Director)

J K Macaskill – member
(Independent Non-Executive Director)

D Ncube – member
(Independent Non-Executive Director)

M Davis – member
(Non-Executive Director)

Remunerations Committee

J Khethe– Chairperson (Independent *Non-executive Director - appointed February 2019)*

S Thapelo – member (Independent *Non-Executive Director)*

D Kgosietsile – member
(Independent Non-Executive Director)

Directors' Affairs and Governance Committee

S Thapelo – Chairman
(Independent Non-Executive Director)

J R Khethe – member
(Non-Executive Director)

J K Macaskill – member
(Independent Non-Executive Director)

N Mokgethi – member
(Independent Non-Executive Director)

The Board Structure and composition

The Constitution of the Bank provides for a maximum of 13 Directors and a minimum of 4 Directors. As at 30 June 2019, the Board of Directors consisted of 10 Non-Executive Directors and 1 Executive Director.

The Board has a unitary structure comprising a majority of Non-Executive Directors who are independent. Independent Non-Executive Directors are those Directors who are not employed by the Bank or any of the companies in the FirstRand Group and have not been so employed in the previous three years. The Board is therefore duly satisfied that its composition ensures a balance and precludes any one director from exercising undue pressure on the decision-making process. It is further satisfied that the possibility of conflict of interest is significantly low and that there is independence and objectivity in its decision making.

Changes to the Board during the Financial Period

In October 2018, Mrs Mmasekgoa Masire-Mwamba was appointed Botswana's Ambassador to the Federal Republic of Germany and therefore had to resign from her service as a Board Member. A new Board member Mr Balisi Bonyongo was appointed in January 2019, re-strengthening the Board's experience and expertise. He was added to the Audit Committee after familiarising himself with the business. As a matter of practice, he was informed of his duties and responsibilities and taken through the current business strategy and the Bank's operations through an induction programme run by the Company Secretary.

The Chairman of the Board

In terms of the Constitution of the Bank, election of Chairman and/or Deputy Chairman is conducted on an annual basis. During the period under review, Messrs J K Macaskill and S Thapelo were elected Chairman and Deputy Chairman of the Board respectively.

The Chairman of the Board is responsible for setting the ethical tone for the Board and providing overall leadership without limiting the principle of collective responsibility for Board decisions. The Deputy Chairman's role is to assume the function of the Chairman, should the Chairman be indisposed. The role of Board Chairman is held by an Independent Non-Executive Director, Mr J K Macaskill, and is therefore separate from that of the Chief Executive Officer. This separation ensures that there is a proper balance of authority and power. This promotes responsibility, accountability and transparency as there is no one individual in whom unlimited decision-making powers are vested.

Board Meetings

The Board met four times over the year in accordance with the Board Charter. The Board is satisfied that the number of meetings was adequate to meet with the demands of the business by getting feedback from its Committees, as well as considering a number of key performance indicators, variance reports and industry trends. A summary of meetings held and attended is presented below:

Corporate Governance Report [CONTINUED]

2018-2019 Board Attendance

	August 2018	November 2018	February 2019	April 2019
JK Macaskill ** - Chairman	√	√	√	√
SL Bogatsu* - CEO	√	√	√	√
DA Kgosietsile**	√	√	√	√
JR Khethe***	√	√	√	√
S Thapelo**	√	√	√	√
MW Ward**	√	√	√	√
D Ncube**	√	√	√	√
M Masire-Mwamba**	√	√	-	-
DN Mokgethi**	√	√	√	√
MG Davias***	√	√	√	√
ED Letebele**	√	√	√	√
B Bonyongo**	-	-	√	√

** Executive Director | ** Independent Non-Executive Director | *** Non-Executive Director*
***** Alternate Executive Director*

2018 - 2019 Board Committee Attendance

	Audit Committee	RCCC	Credit Committee	DAGC	REMCO
JK Macaskill - Chairman	4/4 (i)	4/4		3/3	1/2
SL Bogatsu* - CEO	4/4	4/4	6/16	3/3	2/2
DA Kgosietsile**	2/4	-	-	-	1/2
JR Khethe***	3/4	3/4	-	3/3	2/2
S Thapelo**	-	-	-	3/3	2/2
MW Ward**	4/4	4/4	16/16	-	-
D Ncube**	-	3/4	15/16	-	-
M Masire-Mwamba**	-	2/4		-	1/2
DN Mokgethi**	2/4	-	-	1/3	-
B Bonyongo**	1/1	-		-	-
MG Davias	4/4	4/4			
ED Letebele	4/4	-	12/12	-	-

Board Meetings [continued]

The Board Committee meetings listed above were held in line with the respective terms of reference, and the Board can confirm that the Board committees have satisfied their responsibilities in terms of their Charters.

The Bank continues to strive to improve the effectiveness and quality of its governance structures by reviewing the composition of its Committees where necessary.

Rotation and re-election of Directors in terms of the FNB Botswana Constitution

All Non-Executive Directors are subject to retirement by rotation and re-election by Shareholders on an annual basis. The Constitution provides for a third of the Directors to retire, and if eligible, offer themselves for re-election at every Annual General Meeting. This re-election is not automatic. It is subject to set performance and eligibility criteria. The Constitution ensures a staggered rotation of Non-Executive Directors with a view to retaining valuable skills and maintaining continuity of knowledge and experience in the Board.

At the November 2019 Annual General Meeting, the following Directors shall retire by rotation and being eligible, offer themselves for re-election:

J K Macaskill *(Independent Non-Executive Director)*

M W Ward *(Independent Non-Executive Director)*

The following Director shall retire and not offer herself for re-election:

D Kgosietsile
(Independent Non-Executive Director)

Board Skills and Experience

The Board is composed of a total of eleven Directors who are individuals of a high calibre and credibility with the necessary skills and experience.

Board Training

The Board has a comprehensive development programme. The annual plan for on-going training focuses on the governance of risk and the needs identified during the annual assessment process. The training programme has been designed in such a way that the training is facilitated by in-house experts on the various areas of the business, coupled by training provided by external service providers.

The implementation of the King IV Code of Corporate Governance Principles is on-going and as a result the Board has opted to report in accordance with the International Integrated Reporting Framework as recommended by King IV. Initiatives on the integrated reporting journey are fully underway and the Board is looking forward to communicating with all stakeholders on the value created by the Bank over the short, medium and long term.

Board Nomination and Succession Planning

The Board has a formalised process for recruitment of Directors that takes cognisance of the skills and experience of the current and prospective Directors. The appointment process is formal and a matter for the Board as a whole through the assistance of the Directors' Affairs and Governance Committee (DAGC). In its role of overseeing the nomination process and recommending potential candidates to the Board, the DAGC ensures that it takes cognisance of independence, demographics and diversity, which apply, inter alia, to academic qualifications, technical expertise, relevant industry knowledge, age, race, nationality and gender diversity at Board level.

Charters

The Board and its Committees operate in terms of formal Charters which are reviewed and adopted annually. The purpose of these Charters is to regulate the conduct of the Board's business in accordance with sound corporate governance principles. The objectives of each Charter are to ensure that all Directors are aware of their duties and responsibilities and the legislation and regulations affecting their conduct.

Corporate Governance Report [CONTINUED]

The Bank, through the Charters, seeks to ensure that sound corporate governance principles are applied in all dealings by Directors in respect of the Bank and on its behalf. The Charters set out the specific responsibilities to be discharged by the Directors collectively and individually.

In line with King IV the Bank reviews the Charters for all its Committees on an annual basis. For the period under review, the Board Charter and the Charters of the Audit Committee, the Risk and Compliance Committee, Remuneration Committee, Directors' Affairs and Governance Committee were reviewed, and amendments approved by the Board.

Board Evaluations

The Directors' Affairs and Governance Committee with the assistance of the Company Secretary is responsible for ensuring that the assessment of the performance and effectiveness of the Board, the Committees and individual Directors is conducted on an annual basis. During the year, Directors conducted self-assessments as part of the appraisal process. The outcomes are deliberated at a Board meeting and the Chairman discusses the outcome of Director assessments with each individual Director. Overall, the performance of the Board and its Committees is satisfactory, with improvement specifically noted in Board succession planning.

Internal Controls

The Board confirms that the Bank has established and maintained an appropriate and effective internal control structure in order to monitor the Bank's continued compliance with internal policies and procedures. The Bank's internal controls are based on established policies and procedures and are implemented by skilled individuals. Adherence to implemented controls is continuously monitored and there is appropriate involvement with internal and external audit from an internal review perspective.

Internal Audit regularly reports to both the Board and Senior Management on the status of internal controls and presents the audit plan to the Board annually for approval. Internal Audit has a robust process in place to follow up responses that relate to audit findings and the implementation of recommendations with a view to ensuring that the concerns raised have been appropriately and adequately addressed.

Internal Audit

An independent Internal Audit function is in place within the Bank that assists Executive Management and the Audit Committee to improve the effectiveness of the Bank's risk management, control and governance processes. The Internal Audit has adopted an integrated risk-based approach to planning, incorporating combined assurance, leveraging management's assessment and external auditors' evaluation of the risk environment. This enables a common view of risks that underpins the audit planning process. The audit planning process is flexible and is reviewed on a quarterly basis as the organisation's risk, governance and control processes evolve.

The Board assures its stakeholders that the internal audit team conducts audit work in accordance with the internal auditing standards set by the Institute of Internal Auditing (IIA). The Head of Internal Audit has direct and unrestricted access to the Board Chairperson, Chairperson of the Audit Committee and the Chief Executive Officer. He is a permanent invitee of the Audit Committee and the Risk and Compliance Committee.

Company Secretary and Professional Advice

We confirm that Ms Sethunya Thongbotho Molodi has been appointed as the Company Secretary of the Bank; she is appropriately skilled and empowered to fulfil this role. All Directors have unrestricted access to the advice and services of Ms Molodi who is accountable to the Board for ensuring that sound corporate governance and ethical principles are adhered to as well as compliance with prescribed procedures.

The Company Secretary is also responsible for facilitating the sourcing of independent professional advice at the request of any Director who requires advice in the discharge of his or her responsibilities.

External Audit

The external auditors provide an independent assessment of the Bank's systems of internal financial control and express an independent opinion on the Annual Financial Statements. The external audit function provides reasonable but not absolute assurance on the accuracy of the financial disclosures within disclosed thresholds of materiality. There is close cooperation between the internal and external auditors to ensure that there is adequate coverage of all material areas of FNB Botswana's business, sharing of information and minimisation of duplicated effort. The external auditor's plan is reviewed by the Audit Committee to ensure that significant areas of concern are covered, without infringing on the external auditor's independence and right to the audit.

Dispute Resolution

The Banking Adjudicator's office is in place for stakeholder and customer related disputes and a formalised process is in place for resolving issues tabled at the Adjudicator's office.

A formal dispute resolution policy and process is in place for disputes related to stakeholders for both internal and external disputes and ensures the effective, efficient and expeditious resolution of issues.

The Board has also approved a panel of entities or people that represent the Bank in the event of alternate dispute resolution for staff related matters.

King IV and Companies Act Requirements

We confirm that the Board has provided effective leadership based on an ethical foundation. The group-wide Ethics Code has been adopted and Ethics has been assigned to the Directors' Affairs and Governance Committee (DAGC) for monitoring. The Bank is currently reviewing all its business conduct policies including the Code of Ethics and the Directors will sign a pledge on the reviewed directors' Code of Ethics once the review is completed.

Corporate Governance Report [CONTINUED]

RISK MANAGEMENT REPORT

Risk Reporting

The Bank's robust and transparent risk reporting process enables key stakeholders (including the Board and risk committees) to

- get an accurate, complete and reliable view of the Bank's risk profile
- make appropriate strategic and business decisions
- evaluate and understand the level and trend of material risk exposures and their impact on the bank.

The Bank has accomplished this by establishing clear risk ownership at business unit level, and creating effective combined assurance partnerships between business, risk management, compliance, internal audit and external audit functions, thereby ensuring the shareholders' interest is assured. This is done by ensuring a risk focused culture through

- a market and business conduct program supported by effective governance structures
- a combined assurance process to integrate, coordinate and align risk management across the three lines of defence, including external audit
- robust risk management policies, frameworks and processes.

Approach to Risk Management

The Bank's approach to risk management comprises three lines of defence as illustrated below:

RESPONSIBILITIES OF THE THREE LINES OF DEFENCE	
FIRST LINE OF DEFENCE	The Management of FNB Botswana are responsible for the management of risk and the implementation of risk strategy.
SECOND LINE OF DEFENCE	The Risk Management functions (including Compliance) set policies across the Bank and conduct monitoring to ensure that the implementation of risk principles complies with regulations and legislation.
THIRD LINE OF DEFENCE	The Board, Internal Audit and External Audit provide additional assurance on the effectiveness of risk management in the organisation.

This approach ensures that risk competencies are integrated into all management functions, business areas and risk-type levels across the Bank to support business by providing checks and balances to ensure sustainability, performance, achievement of desired objectives, and avoidance of adverse outcomes and reputational damage. The Bank's aim is not to eliminate risk entirely, but to minimise risk where possible.

Risk Culture

The Bank recognises that effective risk management requires the maintenance of an appropriate risk culture underpinned by

- setting the tone at the top - leadership that is ethical and "fit & proper" setting strategy, risk appetite and implementation of appropriate risk practices
- appropriate risk and compliance governance structures for the implementation of policies and frameworks
- embedding of Process Risk Control Identification and Assessment (PRCIA) tools
- embedding of Basel Committee of Banking Supervision Principle 239 (BCBS239) to ensure optimal risk reporting
- a culture that supports risk maturity.

Risk Appetite

Risk appetite is set by the Board. The Bank's risk return framework informs organisational decision-making and is integrated with its strategic objectives. Business and strategic decisions are aligned to risk appetite. At a business unit level, strategy and execution are influenced by the availability and price of financial resources and required hurdle rates and targets.

Risk Management Framework

The Bank has aligned its risk management structure in line with the Bank's business performance and risk management framework with the objective of ensuring a single view of risk across the Bank. Risk management policies and frameworks ensure a consistent approach to risk management across the Bank.

Regulatory Risk

As a responsible corporate citizen, the Bank recognises its responsibilities and accountabilities in ensuring compliance with the relevant laws and regulations. This past year there were multiple regulations reviewed, among them being the anti-money laundering (AML) legislation. The Bank has invested in systems and staff training programs to ensure compliance.

Corporate Governance Report [CONTINUED]

Risk Universe

1. Capital Management

Risk Description	Opportunities of managing the risk
The overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the Banks' solvency and quality of capital during calm and turbulent periods in the economy and financial markets.	Introduction of Financial Resource Management principle to actively manage the scarce resources in a more profitable and efficient manner.
Key Developments in 2018/2019	**Outlook**
The first submission of the Internal Capital Adequacy Assessment Process (ICAAP) document to Bank of Botswana.	Continued sound management of capital through the embedding the ICAAP process and Financial Resource Management.

2. Credit Risk

Risk Description	Opportunities of managing the risk
Credit risk is the risk of loss due to non-performance of a counterparty in respect of any financial or other obligation.	Managing credit risk and having a robust collections process ensures that the Bank does not suffer financial loss due to non-performance of facilities extended to the Bank's customers.
Key Developments in 2018/2019	**Outlook**
•– Credit Risk remains high due to a macro economic environment characterised mainly by low economic growth and high structural employment rate •– Strategic focus on reduction of Non-Performing Loans (NPL's).	•– The Bank will continue to proactively monitor the credit risk appetite and ensure lending is done within the parameters of the Risk Appetite •– Ongoing review of credit origination strategies and – recoveries Strategies •– Introduction of new monitoring systems.

3. Traded Market Risk

Risk Description	Opportunities of managing the risk
The risk of adverse revaluation of any financial instrument as a consequence of changes in market prices or rates.	The Bank actively manages the trading book market risk in line with regulations and international best practices.
Key Developments in 2018/2019	**Outlook**
• Implementation of an enhanced trading risk integration system • There were no significant issues in the portfolio over the past year.	Introduction of innovative structured products could potentially reduce concentration on the foreign exchange asset class.

4. Foreign Exchange Risk

Risk Description	Opportunities of managing the risk
Foreign exchange risk is the risk of an adverse impact on the Bank's financial position and earnings as a result of movement in foreign exchange rates impacting balance sheet exposures.	The Bank actively manages the foreign currency balance sheet and monitors the net open forward position in foreign exchange against limits.
Key Developments in 2018/2019	**Outlook**
No significant developments.	Management will continue to enhance strategy for foreign exchange risk.

5. Funding and Liquidity Risk

Risk Description	Opportunities of managing the risk
Funding and liquidity risk is the risk that a bank will not be able to meet current and future cashflow and collateral requirements (expected and unexpected) without negatively affecting its reputation, daily operations and/or financial position. Market liquidity risk is the risk that market disruptions or lack of market liquidity will cause the Bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly.	The Bank continues to focus on growing its deposit franchise through innovative products and improving the risk profile of institutional funding.
Key Developments in 2018/2019	**Outlook**
Adoption of Basel III Liquidity Standards in 2017.	Management will continue to manage funding and liquidity risk in-line with regulatory standards and Board set appetite.

Corporate Governance Report [CONTINUED]

Risk Universe [continued]

6. Interest Rate Risk in the Banking Book (IRRBB)

Risk Description	Opportunities of managing the risk
IRRBB is the sensitivity of a Bank's financial position and earnings to unexpected, adverse movements in interest rates	The Bank actively manages the endowment book, to reduce the inherent risk from low-rate liabilities.
Key Developments in 2018/2019	**Outlook**
No significant developments.	The Bank continues to position the balance sheet for changes in interest rates in order to retain shareholder value.

7. Operational Risk

Risk Description	Opportunities of managing the risk
Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems or from external events and human error. It includes fraud and criminal activity (internal and external), project risk, legal risk, business continuity, information and IT risk, process and human resources risk. Strategic, business and reputational risks are excluded from the definition.	•– Introduction of new operational risk monitoring tools to enhance the control environment •– Increased collaboration with internal audit and business units to identify and address control breakdowns •– Information security training programmes in place.
Key Developments in 2018/2019	**Outlook**
Focus on continuous embedding of risk management tools & principles	The impact of external factors on business operations, such as power outages, poses a risk to operations and requires management to continuously review contingency plans to ensure minimal business disruption. •– Increased information security training and IT risk assessments to support business digitisation (including robotics and systems interfacing) •– Continue to improve risk data management, aggregation and reporting.

8. Regulatory Risk

Risk Description	Opportunities of managing the risk
Regulatory risk is the risk of statutory or regulatory sanction and material financial loss or reputational damage as a result of a failure to comply with any applicable laws, regulations or supervisory requirements.	The Bank's objective is to drive a strong sustainable business environment. Statute is a key consideration in advising and influencing business activities.
Key Developments in 2018/2019	**Outlook**
There have been considerable revisions to existing legislation and promulgation of new statutes.	Regulatory risk management is at the core of all activities of the Bank and will remain foremost in the list of considerations when devising and implementing strategy.

9. Reputational Risk

Risk Description	Opportunities of managing the risk
Reputational risk is the risk caused by damage to an organisation's reputation, name or brand, which may impair its ability to retain and generate business.	Successful management of this risk can inspire stakeholder and customer confidence.
Key Developments in 2018/2019	**Outlook**
A stakeholder management policy was developed to provide guidelines to managing stakeholder and customer relationships and expectations through open and timeous communication and continuous engagement.	Stakeholder management will be embedded in the Bank's operations to continuously establish and maintain mutually beneficial relationships with various Bank stakeholders and meet customer needs to enhance good corporate image and create shared value.

Consolidated and Separate Financial Statements

for the year ended 30 June 2019

Contents

Report of the Audit Committee

for the year ended 30 June 2019

The Group's Audit Committee comprises mainly of non-executive Directors, in conformity with Section 23 of the Banking Act (Cap 46:04). The external and internal auditors attend Audit Committee meetings by invitation. The Committee meets at least four times a year and assists the Board in discharging its responsibilities for ensuring that the Group's financial and accounting systems provide accurate and up-to-date information on its current financial position, and that the Group's and Company's published financial statements present a fair reflection of this position.

It also ensures that appropriate accounting policies, control and compliance procedures are in place.
The objectives of the Committee are:

- To assist the Board of Directors in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied in the day-to-day management of the business;
- To provide a forum for communication between the Board of Directors, Management and the internal and external auditors; and
- To introduce such measures as, in the opinion of the Committee, may serve to enhance the credibility and objectivity of the financial statements and affairs of the Group and Company.

The Committee has met its objectives and has found no material weaknesses in internal controls. The Committee is satisfied that the consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards and in compliance with the Companies Act of Botswana (Cap42:01), the Non- Bank Financial Institutions Regulatory Authority Act (Cap 46:08) and the Banking Act (Cap 46:04).

Jabulani R. Khethe
Chairman

Monday, 19 August 2019

Directors' Responsibility Statement

for the year ended 30 June 2019

The Directors of First National Bank of Botswana Limited (the Bank or the Company) and its subsidiaries (the Group) are responsible for the preparation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards (IFRSs) and in compliance with the Companies Act of Botswana (Cap 42:01), the Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08) and the Banking Act (Cap 46:04).

The consolidated and separate financial statements have been audited by the independent auditors, Deloitte & Touche, who were given unrestricted access to all financial records and related data, including minutes of the meetings of the Board of Directors and committees of the Board. The Directors believe that all representations made to the independent auditors during their audit are valid and appropriate. The independent auditor's report is presented on pages 128 to 134.

After making enquiries the Directors have no reason to believe that the Group and the Company will not be a going concern in the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the consolidated and separate financial statements.

The Directors are also responsible for the Group and Company's system of internal financial controls. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the consolidated and separate financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

Against this background, the Directors accept responsibility for the consolidated and separate financial statements and supplementary statements presented on pages 135 to 246, which were approved on 19 August 2019 and are signed on their behalf by:

John K. Macaskill
Chairman

Steven L. Bogatsu
Chief Executive Officer

Dorcas A. Kgosietsile
Director

Directors' Report
for the year ended 30 June 2019

The Directors have pleasure in submitting their report together with the consolidated and separate financial statements of First National Bank of Botswana Limited (the Bank or the Company), and the consolidated financial statements of the Company and its subsidiaries (the Group) for the year ended 30 June 2019.

The consolidated and separate financial statements are prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Botswana (Cap 42:01), the Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08), and the Banking Act (Cap 46:04).

The Bank maintains systems of internal control which are designed to provide reasonable assurance that the records accurately reflect its transactions and to provide protection against serious misuse or loss of the Bank's assets and those of its subsidiaries. The Directors are also responsible for the design, implementation, maintenance and monitoring of these systems of internal financial control. Nothing has come to the attention of the Directors to indicate that any significant breakdown in the functioning of these systems has occurred during the year under review.

The going concern basis has been adopted in preparing the consolidated and separate financial statements. The Directors have no reason to believe that the Group and Company will not be a going concern in the foreseeable future based on forecasts and available cash resources.

Nature of business

The Bank is a licensed financial institution which offers a wide range of banking and related services through its branches, divisions, automated teller machines, electronic banking and point of sale machines in Botswana. The Bank has four subsidiary companies. The operating subsidiaries comprise of a property owning company and an insurance agency. The property owned by the subsidiary is used primarily for branch and office accommodation.

Trading results

The consolidated income after tax attributable to ordinary shareholders of P733 million (2018: P648 million) increased by 13,0% compared to the results for the year ended 30 June 2018. The company income after tax of P733 million (2018: P608 million) increased by 21%, compared to the results for the year ended 30 June 2018. Interest income was derived mainly from advances and investment securities.

Stated capital

The Company's stated capital consists of 2 543 700 000 (2018: 2 543 700 000) ordinary shares, of which First National Bank Holdings (Botswana) Limited holds 1 780 590 000 (2018: 1 780 590 000) ordinary shares (70,00%) (2018: 70,00%), and the balance is traded on the Botswana Stock Exchange.

Directors' interests

The aggregate number of First National Bank of Botswana Limited shares held directly or indirectly by Directors of the Company amounts to 30 384 (2018: 121 930), which represents approximately 0,0012% (2018: 0,0048%) of the stated capital of the Company.

Dividends

An interim dividend of 6,00 thebe per share (2018: 5,00 thebe) for the year ended 30 June 2019 has been paid to holders of ordinary shares. The Directors propose a final dividend of 10,00 thebe per share (2018: 9,00 thebe).

Directorate

The composition of the Board as at 30 June 2019 was as follows:

Directors	Office	Nationality	Appointed during the year
John K. Macaskill	Chairperson	South African	
Sifelani Thapelo	Independent Non-Executive Director	Motswana	
Steven L. Bogatsu	Chief Executive Officer	Motswana	
Markos Davias	Non-Executive Director	South African	
Jabulani R. Khethe	Non-Executive Director	South African	
Dorcas A. Kgosietsile	Independent Non-Executive Director	Motswana	
Balisi Bonyongo	Independent Non-Executive Director	Motswana	2019/01/04
Nelson D. Mokgethi	Independent Non-Executive Director	Motswana	
Doreen Ncube	Independent Non-Executive Director	Motswana	
Michael W. Ward	Independent Non-Executive Director	British	
Ephraim Letebele	Independent Non-Executive Director	Motswana	

Transfer Secretaries

Business address	PricewaterhouseCoopers Plot 50371 Fairgrounds
Postal address	P. O. Box 294 Gaborone

Auditors

Postal address	Deloitte & Touche P. O. Box 778 Gaborone
Business address	Deloitte & Touche House Plot 64518 Fairgrounds

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INDEPENDENT AUDITOR'S REPORT

to the members of First National Bank of Bostwana Limited

Opinion

We have audited the Consolidated and Separate Financial Statements ('the financial statements') of First National Bank of Botswana Limited ('the Company') and its subsidiaries ('the Group'), set out on pages 135 to 246, which comprise the consolidated and separate statements of financial position as at 30 June 2019, and the consolidated and separate income statements, consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and the notes to the Consolidated and Separate Financial Statements, including a summary of significant accounting policies.

In our opinion, the Consolidated and Separate Financial Statements give a true and fair view of the consolidated and separate financial position of the Group and the Company as at 30 June 2019, and their consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Part 4A and 4B), together with other ethical requirements that are relevant to our audit of the Consolidated and Separate Financial Statements in Botswana, and we have fulfilled our other responsibilities in accordance with these requirements applicable to performing audits in Botswana. 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 Consolidated and Separate Financial Statements of the current period. These matters were addressed in the context of our audit of the Consolidated and Separate Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in the audit
Impairment of Advances (Consolidated and Separate)	

The Group and Company adopted IFRS 9, *Financial Instruments* ('IFRS 9'), from 1 July 2018. IFRS 9 requires impairment losses to be evaluated on an expected credit loss ('ECL') basis instead of the incurred loss basis under International Accounting Standard 39: *Recognition and measurement* ('IAS39').

Determining ECL estimates is complex and highly judgmental because it involves a high degree of estimation uncertainty. In this respect, IFRS 9 requires management to estimate ECL for the Group and Company using probability weighted forward looking information. These ECLs impact the carrying amount of the Group's and Company's portfolio of financial assets, recognised at amortised cost.

ECLs are determined on a collective basis for large homogeneous portfolios, typically retail and commercial exposures. This requires the use of statistical models incorporating data and assumptions which are not always necessarily observable. Management applies professional judgement in developing the models, analysing data and determining the most appropriate assumptions and estimates.

Corporate advances are typically individually significant and the ECL calculation of impairments is largely individually assessed and inherently judgemental in nature.

The ECLs that are significant to the Consolidated and Separate Financial Statements are:
- Collectively assessed ECL for retail and commercial advances;
- Individually assessed Corporate advances

Due to the considerable judgement required to estimate the ECL, we have considered this matter to be of most significance to the audit. The impact of macro-economic events, including negative economic sentiment and volatility in global markets result in a challenging operating environment and may have an impact on the credit risk of underlying counterparties, which has an impact on the probability weighted ECLs as part of the consideration of forward looking information.

Our audit of the impairment of advances included, inter alia, the following audit procedures performed with the assistance of our credit and actuarial specialists:

- Across all significant portfolios we assessed the advances impairment practices applied by management against the requirements of IFRS 9. In addition, we tested the design, implementation and, where appropriate, operating effectiveness of relevant controls over the processes used to calculate impairments, including controls relating to data and models; and
- We assessed First National Bank of Botswana Limited's probability-weighted macroeconomic scenario reports and analysed the outlined methodology, scenario views and associated probabilities in terms of the principles of the IFRS 9 standard, including the review of the approval of these scenario reports through the appropriate governance structures.

We performed the following specific procedures for the portfolios in scope:

Retail and commercial advances

The following procedures addressed the key areas of estimation and significant judgement in determining ECL for retail and commercial advances:

Calibrating of ECL risk parameters (PD, EAD, LGD)

- We tested the design, implementation and, where appropriate, operating effectiveness of relevant controls over the processes used to calculate impairments, including controls relating to data and models which included the re-performance of the ECL model.
- We obtained an understanding of the methodologies and assumptions used by management in the various ECL model components and how these were calibrated to use historical information to estimate future cash flows.

Deloitte.

Key Audit Matter	How the matter was addressed in the audit

Impairment of Advances [continued]

The specific areas of significant management judgement within the ECL calculations include:

- The assumptions and methodologies applied to estimate the probability of default ('PD'), exposure at default ('EAD') and loss given default ('LGD');
- The assessment of whether there has been a Significant Increase in Credit Risk ('SICR') since origination date of the exposure to the reporting date (i.e. a trigger event that will cause a deterioration in credit risk and result in migration of the advances from Stage 1 to Stage 2);
- The incorporation of forward looking information;
- The assumptions used for estimating the recoverable amounts (including collateral) and timing of future cash flows, particularly for credit impaired advances; and
- Management, in certain circumstances apply judgement, recognise additional ECL (in the form of post model adjustments) where there is uncertainty in respect of the models' ability to address specific trends or conditions due to inherent limitations of modelling based on past performance, the maturity of the models, the timing of model updates and macro-economic events which could impact corporate, retail and commercial consumers.

Related disclosures in the Consolidated and Separate Financial statements:

- Note 1.4 -Accounting policy for financial instruments;
- Note 1. 9 -significant judgements and sources of estimation uncertainty;
- Note 13 -Advances to customers;
- Note 14 -Impairment of advances; and
- Note 39 -Financial risk management.

<u>Assessment of SICR</u>

- Through applying the assumptions and data included in management's model, including the performance of rehabilitated accounts, we recalculated the impact of SICR.
- We tested the performance of SICR thresholds applied and the resultant transfer rate into stage 2 for SICR. This included benchmarking of the volume of up to date accounts transferred to stage 2 based on history.
- To determine the impact of change in SICR thresholds on the ECL recognised, we performed a sensitivity analysis of SICR.
- We evaluated management's supporting documentation for the performance of behavioural scores, granting scores and the correlation of these to default rates.

<u>The incorporation of forward looking information and macro-economic variables</u>

- We considered the assumptions used in the forward looking economic model, the macroeconomic variables considered as well as the macro-economic outlook. We compared these to our own actuarial statistics and independent market data.
- We tested the performance and sensitivity of the forward looking model in order to evaluate whether the chosen macro economic factors and model fit provide a reasonable representation of the impact of macro-economic changes on the ECL results.

<u>Assumptions for determining recoverable amount</u>

- We inspected a sample of legal agreements and supporting documentation to assess the valuation, legal right to and existence of collateral.

<u>Determination of write-off point</u>

- For the term lending portfolio, we evaluated management's assessment of historical post write-off recoveries, to determine the point at which there was no reasonable expectation of further recovery.

Key Audit Matter	How the matter was addressed in the audit
	Corporate advances The following procedures addressed the key areas of estimation and significant judgement in determining ECL for corporate advances: •– Inputs which are subject to significant judgement, including the timing and quantum of expected future cash flows, were identified and assessed for reasonableness for individually significant advances. We assessed, against actual experience and industry practice, the appropriateness of assumptions made by management in determining the level of impairment, including the probability of default and valuation of collateral and the incorporation of the macro-economic variables. • We tested the performance and sensitivity of the forward looking model in order to evaluate whether the chosen macro economic factors and model fit provide a reasonable representation of the impact of macro-economic changes on the ECL results. • We performed independent calculations to assess the reasonability of the credit risk parameters calculated by management. • We inspected a sample of legal agreements and supporting documentation to assess the valuation, legal right to and existence of collateral. • We selected advances with no indicators of significant increase in credit risk and determined if this was reasonable by forming an independent view on whether there was a significant increase in credit risk. **Post model adjustments** We considered the potential for ECL to be affected by events which were not captured by the model assumptions due to timing or other inherent limitations (such as changes in economic conditions). We assessed the reasonableness of event driven adjustments raised by management, based on our understanding of the industry, emerging risks and regulatory changes.

Key Audit Matter	How the matter was addressed in the audit
	Furthermore, based on the assessment of the ECL models apparent in the Group and Company, we considered effects already taken into account by the ECL models to determine whether the impact of the post model adjustments was not double counted. In conclusion, we determined the impairment of allowances to be adequate and related disclosures to be appropriate.

Other Information

The Directors are responsible for the other information. The other information comprises the Directors' Responsibility Statement, Directors' Report, Report of the Audit Committee, Value Added Statements and Five Year Financial Summary, which we obtained prior to the date of this auditor's report and the Annual Report which will be made available after the date of our independent auditor's report. The other information does not include the Consolidated and Separate Financial Statements and our auditor's report thereon. Our opinion on the Consolidated and Separate Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our opinion on the Consolidated and Separate Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Consolidated and Separate Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated and Separate 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 Consolidated and Separate Financial Statements

The Directors are responsible for the preparation and fair presentation of the Consolidated and Separate Financial Statements in accordance with International Financial Reporting Standards and for such internal control as the Directors determine is necessary to enable the preparation of Consolidated and Separate Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated and Separate Financial Statements, the Directors are responsible for assessing the Group's and Company'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 Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Groups' and Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated and Separate 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 Consolidated and Separate 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 Consolidated and Separate 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 Group's and the Company'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 Group's and Company'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 Consolidated and Separate 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 Group and Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated and Separate Financial Statements, including the disclosures, and whether the Consolidated and Separate Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Deloitte.

We communicate with the Audit Committee 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 Audit Committee 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 Audit Committee, we determine those matters that were of most significance in the audit of the Consolidated and Separate 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.

Deloitte & Touche

Deloitte & Touche
Certified Auditors
Practicing Member: Pragnaben Naik (CAP 007 2019)

Gaborone
19 August 2019

1. INTRODUCTION

The Group's consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including interpretations issued by the IFRS Interpretations Committee, the Companies Act of Botswana (Cap 42:01), the Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08) and the Banking Act (Cap 46:04). The accounting policies are consistent with those applied in the prior year except for the effects of IFRS 9: Financial instruments and IFRS 15: Revenue from contracts with customers.

These financial statements comprise the statements of financial position (also referred to as the balance sheet) as at 30 June 2019, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory notes.

The Group has adopted the following significant accounting policies in preparing its financial statements, and, except for the policies related to the adoption of IFRS 9 and IFRS 15 which were adopted during the year, these policies have been consistently applied to all years presented.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES				
1.2	**Subsidiaries, associates and joint arrangements**	Consolidation and equity accounting	Related party transactions	
1.3	**Income, expenses and taxation**	Income and expenses	Income tax expenses	
1.4	**Financial instruments IFRS 9**	Classification	Measurement	Impairment of financial assets
		Transfers and derecognition	Offseting of financial instruments and collateral	Derivative financial instruments and hedge accounting
1.5	**Financial instruments IAS 39**	Classification	Measurement	Impairment of financial assetss
		Transfers and derecognition	Offseting of financial instruments and collateral	Derivative financial instruments and hedge accounting
1.6	**Other assets and liabilities**	Property and equipment	Other reserves	
1.7	**Share capital and equity**	Share capital and treasury shares	Dividends and non-cash distributions	Other reserves
1.8	**Transactions with employees**	Employee benefits employees	Share-based payment transactions	

Significant Accounting Policies [continued]

for the year ended 30 June 2019

1.1 BASIS OF PREPARATION

The consolidated and separate financial statements have been prepared on the historical cost basis except for properties and financial instruments that are measured at revalued amounts or fair values.

The group prepares consolidated financial statements which include the assets, liabilities and results of the operations of First National Bank of Botswana Limited and its subsidiaries. To compile the consolidated financial statements the following information is used:

- audited information about the financial position and results of operations at 30 June each year for all significant subsidiaries in the group.

Accounting policies of subsidiaries, have been changed at acquisition, where necessary, to ensure consistency with the accounting policies adopted by the group.

The segmental analysis included in the segment report is based on the information reported to the chief operating decision maker for the respective segments under the current franchise management structures. The information is prepared in terms of IFRS and certain adjustments are made to the segment results in order to eliminate the effect of non-taxable income and other segment specific items that impact certain key ratios reviewed by the chief operating decision maker when assessing the operating segments' performance.

Use of judgements and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are outlined in policy 1.9.

Presentation of financial statements, functional and foreign currency

Items included in the financial statements of the Group and Company are measured using the currency of the primary economic environment in which the Group and Company operates (the functional currency).

Presentation

The Group presents its statement of financial position in order of liquidity.

Where permitted or required under IFRS, the Group offsets assets and liabilities or income and expenses and presents the net amount in the statement of financial position or in the statement of other comprehensive income.

IFRS disclosure is only applicable to material items. Management applies judgement and considers both qualitative and quantitative factors in determining materiality applied in preparing these financial statements.

The functional and presentation currency of the Group is the Botswana Pula (P) and all amounts are presented in thousands of Pula.

The Group has a policy of rounding in increments of P500. Amounts less than P500 will therefore round down to P nil and are presented as a dash.

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

Balances are translated at the relevant exchange rates, depending on whether they are monetary items (in which case the closing spot rate is applied) or non-monetary items. For non-monetary items measured at cost the rate applied is the transaction date rate. For non-monetary items measured at fair value the rate at the date the fair value is determined (reporting date) is applied.

Foreign exchange gains or losses are recognised in profit or loss in fair value gains or losses.

To the extent that foreign exchange gains or losses relate to financial assets held at fair value through other comprehensive income (FVOC)I (2018 :Available for sale) the following applies:

- equity instruments are recognised in other comprehensive income as part of the fair value movement; and
- debt instruments are allocated between profit or loss (those that relate to changes in amortised cost) and other comprehensive income (those that relate to changes in the fair value).

1.2 SUBSIDIARIES

Basis of consolidation

The consolidated and separate financial statements incorporate the consolidated and separate financial statements of the company and all subsidiaries. Subsidiaries are entities (including structured entities) which are controlled by the group. Typical shareholding in the assessment of entities that are not structured entities is based on a shareholding of 50% and above.

The nature of the relationship between the Group and the investee entities over which the Group has control and consolidates is as defined in IFRS 10: Consolidated Financial Statements. The Group measures investments in these entities in its separate financial statements at cost less impairment (in terms of IAS 36).

Consolidated financial statements

Initial recognition in the consolidated financial statements;

Subsidiaries acquired are accounted for by applying the acquisition method of accounting to business combinations.

The excess/(deficit) of the sum of the consideration transferred, the value of non-controlling interest, the fair value of any existing interest, and the fair value of identifiable net assets, is recognised as goodwill or a gain on bargain purchase, as is set out further below.

Transaction costs are included in operating expenses within profit or loss when incurred.

Intercompany transactions and balances

Intercompany transactions are all eliminated on consolidation, including unrealised gains. Unrealised losses on transactions between Group entities are also eliminated unless the transaction provides evidence of impairment of the transferred asset, in which case the transferred asset will be tested for impairment in accordance with the Group's impairment policies.

Common control transaction

There is currently no guidance under IFRS for the accounting treatment of business combinations undertaken under common control. In terms of IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, the group has developed an accounting policy that requires that business combinations under common control uses the predecessor values of the acquiree by the acquirer without the restatement of comparatives. Therefore, any difference between the net asset value and the amount paid (i.e. the purchase consideration) is recorded directly in the restructuring reserve in equity.

Impairment

In the consolidated financial statements either the cash generating unit (CGU) is tested i.e. a grouping of assets no higher than an operating segment of the Group; or if the entity is not part of a CGU, the individual assets of the subsidiary and goodwill are tested for impairment in terms of IAS 36.

Goodwill

Goodwill on the acquisition of businesses and subsidiaries represents excess consideration transferred, and is recognised as an intangible asset at cost less accumulated impairment losses.

If this amount is negative, as in the case of a bargain purchase, the difference is immediately recognised in gains less losses from investing activities within non-interest revenue.

Goodwill is tested annually for impairment by the Group in March or earlier if there are objective indicators of impairment. For subsidiaries acquired between March and June a goodwill impairment test is performed in June in the year of acquisition and thereafter annually in March. For testing purposes, goodwill is allocated to a suitable CGU.

Impairment losses in respect of goodwill are not subsequently reversed.

Disposals

In a disposal transaction where the Group loses control of the subsidiary and the Group retains an interest in the entity after disposal, for example an investment in associate or investment security, the Group measures any retained investment in the entity at fair value at the time of the disposal. Thereafter the remaining investment is accounted for in accordance with the relevant accounting requirements.

Gains or losses on all other disposals are recognised in gains less losses from investing activities in non-interest revenue.

Significant Accounting Policies [continued]

for the year ended 30 June 2019

1.2 SUBSIDIARIES [CONTINUED]

Consolidated financial statements [Continued]

Disposals [continued]

The Group may lose control of a subsidiary in a transaction where an interest in the investee is retained through an associate or joint venture. The Group eliminates the Group share of profits on these transactions in accordance with IAS 28.

Related party transactions

Related parties of the Group, as defined, include:

- Entities that have significant influence over the Group, and subsidiaries of these entities,
- Key management personnel (KMP) and close family members of key management personnel.

The principal shareholder of the First National Bank of Botswana Limited Group is First National Bank Holdings Limited, incorporated in Botswana. The ultimate parent of the company is FirstRand Limited, incorporated in South Africa.

Key management personnel of the Group are the First National Bank of Botswana board of directors and prescribed officers, including any entities which provide key management personnel services to the Group.Their close family members include spouse/domestic partner and children, domestic partner's children and any other dependants of the individual or their domestic partner..

1.3 INCOME, EXPENSES AND TAXATION

Income and expenses

Interest income includes:interest on financial instruments measured at amortised cost and debt instruments measured at fair value through profit or loss.

Interest income is calculated using the effective interest rate which includes fees and transaction costs that form an integral part of generating an involvement with the resulting financial instrument The effective interest rate is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument. This is applied to:

- the gross carrying amount of financial assets which are not credit-impaired; and
- the amortised cost of financial assets from the month after the assets become credit-impaired (refer to policy 1.5 on the impairment of financial assets).
- Modified advances (derecognition not achieved) - the unamortised portion of origination fees and capitalised transaction costs on financial assets are included as part of interest income. The interest income on the modified financial asset (refer to policy 1.5) is calculated by applying the original effective interest rate to the asset's modified gross carrying amount.
- Modified advances (derecognition is achieved) - the unamortised portion of origination fees and capitalised transaction costs on financial assets are included as part of interest income. New fees or costs charged on the new advance which are integral to the new asset recognised are capitalised to the new loan.

Interest expense includes:

- interest on debt instruments measured at fair value through profit or loss that are held by and managed as part of the group's insurance or funding operations;
- the interest portion of the net gains or losses on derivatives that are used to economically hedge interest rate risk; and the difference between the purchase and resale price in repurchase and reverse repurchase agreements where the related advances or deposit is measured at amortised cost, because the amount is in substance interest.

The total interest expense is reduced by the amount of interest incurred in respect of liabilities used to fund the group's fair value activities. This amount is reported in fair value income within non-interest revenue.

Non-interest revenue recognised in profit or loss

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Under IFRS 15, where a five-step analysis is required to determine the amount and timing of revenue recognition, the group assesses contracts and determines whether the fees identified in the contract relate to revenue as defined in IFRS 15. The revenue is recognised only if the group can identify the contract; the performance obligation (i.e. the different services) and can determine the transaction price which is allocated to the identifiable performance obligations. The revenue is then recognised as and when the performance obligation is satisfied, which may be over time or at a point in time.

Fee and commission income

Fees and commissions that form an integral part of the effective interest rate is excluded from fees and commissions from customers and are recognised as set out in the accounting policies (refer to policy 1.3).

Fee and commission income is earned by the group by providing customers with a range of services and products, consists of the following main categories:

- Banking fees and commission income;
- Knowledge-based fee and commission income;
- Management, trust and fiduciary fees;
- Fees and commission income from service providers; and
- Other non-banking fees and commission income.

Fees and commission income is earned on the execution of a significant performance obligation, which may be over time as the performance obligation is fulfilled (over time) or when the significant performance obligation has been performed (point in time).

Fees earned on the execution of a significant act, typically include transactional banking fees, such as bank charges, interchange fees, point-of-sale fees, exchange commissions, cash deposit fees and knowledge-based fee and commission income.

Where the performance obligation is satisfied over a period of time, the fees are recognised as follows:

- fees for services rendered are recognised on an accrual basis as the service is rendered and the group's performance obligation is satisfied, e.g. annual card fees and asset management and related fees; and
- commission income on bills and promissory notes endorsed is credited to profit or loss over the life of the relevant instrument on a time apportionment basis

Commitment fees for unutilised funds made available to customers in the past, are recognised as revenue at the end of the contract period. Commitment fees paid upfront for a future facility, where it is not probable that a specific lending arrangement will be entered into by the group, are recognised as revenue on a straight-line basis over the period for which the funds are promised to be kept available.

Other non-banking fee and commission income relates to fees and commissions earned for rendering services to customers other than those related to the banking, insurance and asset management operations. This includes fee and commission income earned from providing services on behalf of third-party service providers, in effect acting as an agent, this includes commission earned at the point when sale has been executed from the sale of prepaid airtime, data vouchers, electricity and traffic fines paid through FNB Botswana channels as well insurance commission.

The group operates a customer loyalty programme, eBucks, in terms of which it undertakes to provide reward credits to certain customers to buy goods and services. The group defers an amount of revenue as a result of providing these reward credits to customers. The amount deferred is equal to the maximum cash flow that could be required in order to settle the liability with the customer. The deferred revenue in respect of which the eBucks liability is raised is recognised as revenue in the period in which the customer utilises their reward credits.

Significant Accounting Policies [continued]

for the year ended 30 June 2019

1.3 INCOME, EXPENSES AND TAXATION [CONTINUED]

Fee and commission expenses

Customer loyalty programmes -The group operates a customer loyalty programme, eBucks, in terms of which it undertakes to provide reward credits to certain customers to buy goods and services. Expenses relating to the provision of the reward credits are recognised as fee and commission expenses as incurred. The suppliers of the goods or services to be acquired by customers can either be FNB Botswana or an external third party.

Insurance income – non-risk related

Where the group is acting as an agent, commissions and brokerage earned on the sale of insurance products to customers of the group on behalf of an insurer, is recognised at the point that the significant obligation has been fulfilled.

Income arising from third-party insurance cell captives and profit share agreements where there is not a significant transfer of insurance risk are executory contracts and revenue is recognised when both parties have fulfilled their obligations

Fair value gains or losses

Fair value gains or losses of the Group recognised in non-interest revenue includes the following:

- fair value adjustments and interest on trading financial instruments including derivative instruments that do not qualify for hedge accounting and adjustments relating to non-recourse investments and deposits (except where the Group owns the commercial paper issued by the conduits);
- fair value adjustments that are not related to credit risk on advances designated at fair value through profit or loss;
- a component of interest expense that relates to interest paid on liabilities which fund the Group's fair value operations.
- The interest expense is reduced by the amount that is included in fair value income;
- fair value adjustments on financial instruments designated at fair value through profit or loss in order to eliminate an accounting mismatch, except for such instruments relating to the Group's funding operations for which the interest component is recognised in interest income; The change in the fair value of a financial liability designated at fair value through profit or loss attributable to changes in its credit risk are presented in other comprehensive income unless this would cause or enlarge an accounting mismatch in profit or loss. The total fair value adjustment on policyholder liabilities and non-recourse liabilities (including movements due to changes in credit risk) is included in profit or loss since the fair value movements on these liabilities are directly linked to fair value movements on the underlying assets;
- ordinary and preference dividends on equity instruments designated at fair value through profit or loss or held for trading; and
- any difference between the carrying amount of the liability and the consideration paid, when the Group repurchases debt instruments that it has issued.

Gains less losses from investing activities

The following items are included in gains less losses from investing activities;

- any gains or losses on disposals of investments in subsidiaries, associates and joint ventures. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests;
- any gains or losses on the sale of financial assets measured at amortised cost;
- impairments and reversal of impairments of investment securities measured at amortised cost and debt instruments measured at fair value through other comprehensive income; any amounts recycled from other comprehensive income on disposal or impairment of available-for-sale financial assets; and
- dividend income on any equity instruments that are considered long term investments of the Group, including dividends from subsidiaries, associates and joint ventures. Income is recognised when the Group's right to receive payment is established.

Dividend income

The Group recognises dividend income when the Group's right to receive payment is established. This is the last day to trade for listed shares and on the date of declaration for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares, except to the extent that the scrip dividend is viewed as a bonus issue with no cash alternative and the transaction lacks economic significance.

Expenses

Expenses of the Group, apart from certain fee and commission expenses included in net fee and commission income, are recognised and measured in terms of the accrual principle and presented as operating expenses in profit or loss.

Indirect tax expense

Indirect tax includes other taxes paid to central and local governments including value added tax. Indirect tax is disclosed separately from income tax and operating expenses in the income statement.

Income tax expenses

The current income tax expense is calculated by adjusting the net profit for the year for items that are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the reporting date, in Botswana.

Deferred income tax

Recognition

Deferred tax is recognised on temporary differences arising between the tax base of assets and liabilities and their carrying amount in the financial statements.

Typical temporary differences in the Group for which deferred tax is provided include:

- – Depreciation of property and equipment;
- – Revaluation (including ECL movements) of certain financial assets and liabilities, including derivative contracts;
- – Provisions for pensions and other post-retirement benefits;
- – Tax losses carried forward; and
- – Investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes are charged or credited to income statement or directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity using the liability method under IAS 12 and applying tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

For temporary differences arising from the fair value adjustments on investment properties, deferred income tax is provided at the rate that would apply on the sale of the property i.e. the capital gains tax rate.

Presentation

Deferred income tax is presented in profit or loss unless it relates to items recognised directly in equity or other comprehensive income.

Items recognised directly in equity or other comprehensive income relate to:

- the issue or buy back of share capital;
- fair value re-measurement of financial assets measured at fair value through other comprehensive income;
- re-measurements of defined benefit post-employment plans;
- – derivatives designated as hedging instruments in effective cash flow hedges; and
- – revaluation of properties.

Tax in respect of share transactions is recognised directly in equity. Tax in respect of the other items is recognised directly inother comprehensive income and subsequently reclassified to profit or loss (where applicable) at the same time as the related gain or loss.

Significant Accounting Policies [continued]

for the year ended 30 June 2019

1.3 INCOME, EXPENSES AND TAXATION [CONTINUED]

Deferred income tax [Continued]

Deferred tax assets

The Group recognises deferred income tax assets only if it is probable that future taxable income will be available against which the unused tax losses can be utilised, based on management's review of the Group's budget and forecast information.

The Group reviews the carrying amount of deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

1.4 FINANCIAL INSTRUMENTS – IFRS 9

Financial instruments held by the group are classified in accordance with the provisions of IFRS 9 Financial Instruments. Broadly, the classification possibilities, which are adopted by the group, as applicable, are as follows:

Financial assets which are equity instruments:

- Mandatorily at fair value through profit or loss; or
- Designated as at fair value through other comprehensive income. (This designation is not available to equity instruments which are held for trading or which are contingent consideration in a business combination).

Financial assets which are debt instruments:

- Amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows); or

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- Fair value through other comprehensive income. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is achieved by both collecting contractual cash flows and selling the instruments); or
- Mandatorily at fair value through profit or loss. (This classification automatically applies to all debt instruments which do not qualify as at amortised cost or at fair value through other comprehensive income); or

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- Designated at fair value through profit or loss. (This classification option can only be applied when it eliminates or significantly reduces an accounting mismatch).

Derivatives which are not part of a hedging relationship:

- Mandatorily at fair value through profit or loss.

Financial liabilities:

- Amortised cost; or
- Mandatorily at fair value through profit or loss. (This applies to contingent consideration in a business combination or to liabilities which are held for trading); or
- Designated at fair value through profit or loss. (This classification option can be applied when it eliminates or significantly reduces an accounting mismatch; the liability forms part of a group of financial instruments managed on a fair value basis; or it forms part of a contract containing an embedded derivative and the entire contract is designated as at fair value through profit or loss).

Note: Financial instruments and risk management presents the financial instruments held by the group based on their specific classifications.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the group are presented below

Initial recognition and measurement

All financial instruments are initially measured at fair value including transaction costs, except for those classified as fair value through profit or loss in which case the transaction costs are expensed upfront in profit or loss, usually as part of operating expenses. Any upfront income earned on financial instruments is recognised as is detailed under policy 1.3, depending on the underlying nature of the income.

Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for newly originated financial assets measured at amortised cost, and debt instruments measured at fair value through other comprehensive income.

Subsequent measurement

Management determines the classification of its financial assets at initial recognition, based on:

- the Group's business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial asset.

Business model

The Group distinguishes three main business models for managing financial assets:

- holding financial assets to collect contractual cash flows;
- managing financial assets and liabilities on a fair value basis or selling financial assets; and
- a mixed business model of collecting contractual cash flows and selling financial assets.

The business model assessment is not performed on an instrument by instrument basis, but at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment is done for each legal reporting entity at least at a business level, although businesses could perform the assessment on a portfolio or sub-portfolio level depending on the manner in which groups of financial assets are managed.

The main consideration in determining the different business models is whether the objectives of the business model are met primarily through holding the financial assets to collect contractual cash flows, through the sale of these financial assets, by managing assets and liabilities on a fair value basis, or through a combination of these activities.

In considering whether the business objective of holding a group of financial assets is achieved primarily through collecting contractual cash flows, amongst other considerations, management monitors the frequency and significance of sales of financial assets out of these portfolios for purposes other than managing credit risk. For the purposes of performing the business model assessment, the group only considers a transaction a sale if the asset is derecognised for accounting purposes. For example, a repo transaction where a financial asset is sold with the commitment to buy back the asset at a fixed price at a future date is not considered a sale transaction as substantially all the risks and rewards relating to the ownership of the asset have not been transferred and the asset is not derecognised from an accounting perspective.

If sales of financial assets are frequent, the significance of these sales is determined by comparing the carrying amounts of assets sold during the period and cumulatively to the total carrying amount of assets held in the business model. If sales are either infrequent or insignificant, these will not impact the conclusion that the business model is to collect contractual cash flows.

Determining whether sales are not significant or frequent requires management to use their judgement. The significance and frequency of sales is assessed on a case-by-case basis at the business model level. The frequency is assessed on an annual basis and sales of assets that take place once or less per annum is considered to be infrequent. If sales take place more than once per annum it doesn't mean that the business models are not to collect contractual cash flows but rather the reasons for the sales need to be more carefully considered. Management will consider both the volume and amount of sales relative to the total assets in the business model to determine whether it is significant,

A change in one or more business models of the Bank only occurs on the rare occasion when the Bank genuinely changes the way in which it manages a financial asset. Any changes in business model would result in a reclassification of the relevant financial assets from the beginning of the next reporting period.

Significant Accounting Policies [continued]

for the year ended 30 June 2019

1.4 FINANCIAL INSTRUMENTS – IFRS 9 [CONTINUED]

Cash flow characteristics

In order for a debt instrument to be measured at amortised cost or FVOCI, the cash flows on the asset have to be SPPI (solely payments of principal and interest), consistent with those of a basic lending agreement.

The SPPI test is applied on a portfolio basis for retail advances, as the cash flow characteristics of these assets are standardised. This includes the consideration of any pre-payment penalties that are limited by consumer credit regulation and can therefore be considered reasonable compensation which would not cause these assets to fail the SPPI test.

For wholesale advances, the SPPI test is applied to individual advances at initial recognition, based on the cash flow characteristics of the asset. Wholesale advances that do not pass the SPPI test and that have to be measured at FVTPL include advances with equity participation features, convertible bonds and payments linked to commodity or other prices. If the contract contains prepayment penalties, the amount of the prepayment penalty is compared to the present value of the margin that would be earned if the loan is not prepaid. If the amount of the prepayment penalty is lower than or equal to the margin lost due to prepayment, this is considered reasonable compensation and the loan passes the SPPI test.

Amortised cost

Financial assets are measured at amortised cost using the effective interest method, when they are held to collect contractual cash flows which are solely payments of principle and interest, and sales of such assets are not significant or frequent.

These include the majority of the retail, corporate and commercial advances of the group as well as certain investment securities utilised for liquidity risk management of the group. For purchased or originated credit-impaired financial assets, the group applies the credit-adjusted effective interest rate. This interest rate is determined based on the amortised cost and not the gross carrying amount of the financial asset, and incorporates the impact of expected credit losses in the estimated future cash flows of the financial asset. The effective interest rate method is the calculation of the amortised cost of a debt instrument and the allocating of interest income over the relevant period.

Retail advances

The FNB Botswana and WesBank franchises hold retail advances to collect contractual cash flows. Their business models focus on growing these advances within acceptable credit appetite limits and maintaining strong collection practices. The products included under this business models include:

- residential mortgages;
- vehicle and asset finance; and
- personal loans, credit card and other retail products such as overdrafts.

The key risk in these business models is credit risk.

The cash flows on retail advances are solely payments of principal and interest. Interest charged to customers compensates the group for the time value of money, credit risk and administrative costs (including a profit margin). Penalties on the prepayment of advances are limited to reasonable compensation for early termination of the contract.

Corporate and commercial advances

The business models of FNB Botswana Commercial, WesBank Corporate and RMB Corporate are also focused on collecting contractual cash flows on advances and growing these advances within acceptable credit appetite limits. The products included under this business model include:

- trade and working capital finance;
- specialised finance;
- commercial property finance; and
- asset-backed finance.

These advances are held primarily to realise the related contractual cash flows over the life of the instruments and earn a lending margin in return. Although the intention is to collect cash flows, not all of the instruments are held to maturity as some financial assets are sold under securitisation transactions. These sales are however insignificant in value in relation to the value of advances held to collect cash flows, and are usually also infrequent, and therefore the held to collect business model is still appropriate.

The cash flows on these corporate and commercial advances are solely payments of principal and interest. Interest charged to customers compensates the group for the time value of money, credit risk and administrative costs (including a profit margin).

Penalties on the prepayment of advances are limited to reasonable compensation for early termination of the contract.

Investment securities

Treasury holds investment securities with lower credit risk (typically with counterparties such as the government) that are convertible into cash within a short time period as and when required for liquidity risk management purposes. The types of instruments used for liquidity risk management purposes are generally government bonds and treasury bills.These investment securities are held to collect contractual cash flows, but are also available to be pledged as collateral or sold if required for liquidity management purposes. Sales are often in the form of a repurchase agreement transaction. If the accounting requirements for derecognition are not met, the transaction does not constitute a sale for IFRS 9 business model assessment purposes. For accounting purposes, repurchase agreement transactions are treated as a secured funding transaction rather than a sale, and the group continues to recognise the asset and collect the contractual cash flows. These investment securities are only sold before maturity to meet liquidity needs in a stress scenario, which is consistent with a business model to collect contractual cash flows.

The cash flows on these investment securities are solely payments of principal and interest.

The cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. These assets are held to collect contractual cash flows.

The cash flows on these assets are solely payments of principal and interest.

Accounts receivable

Financial accounts receivable are short-term financial assets that are held to collect contractual cash flows.

The cash flows on these assets are solely payments of principal and interest.

Investment securities

All equity investments of the group are managed on a fair value basis, either through FVTPL or designated at fair value through other comprehensive income.

Derivative assets

Derivatives are either held for trading or to hedge risk. These instruments are managed on a fair value basis.

Debt instruments at fair value through other comprehensive income

Investment securities

Certain treasury divisions of the group hold investment securities for liquidity management purposes. The local regulator requires that the branch prove liquidity of their assets by way of periodic outright sales. Therefore the business model for these investment securities is both by collecting contractual cash flows and selling these financial assets.

The cash flows on these investment securities are solely payments of principal and interest.

Equity investments at fair value through other comprehensive income

Investment securities

The group has elected to designate certain equity investments not held for trading to be measured at fair value through other comprehensive income.

Classification and subsequent measurement of financial liabilities and compound instruments

The group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Tier 2 instruments which have write down or conversion features are classified based on the nature of the instrument and the definitions. Tier 2 and other funding liabilities are presented in separate lines on the statement of financial position of the group.

Compound instruments are those financial instruments that have components of both financial liabilities and equity such as issued convertible bonds. At initial recognition the instrument and the related transaction costs are split into their separate components and accounted for as a financial liability or equity in terms of the definitions and criteria of IAS: 32 Financial Instruments: Presentation.

Significant Accounting Policies [continued]

for the year ended 30 June 2019

1.4 FINANCIAL INSTRUMENTS - IFRS 9 [CONTINUED]

Classification and subsequent measurement of financial liabilities and compound instruments [Continued]

Financial liabilities measured at amortised cost

The following liabilities are measured at amortised cost using the effective interest rate method, unless they have been designated as measured at fair value through profit or loss:

- deposits;
- creditors;
- tier 2 liabilities; and
- other funding liabilities.

Financial liabilities measured mandatory at fair value through profit or loss

The following held for trading liabilities are measured at fair value through profit or loss:

- deriative liabilities; and
- short trading positions.

These assets and liabilities are measured at fair value at reporting date as determined under IFRS 13: Fair Value Measurement, with fair value gains or losses recognised in profit or loss.

Financial liabilities designated at fair value through profit or loss

A financial liability other than a financial liabilty held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

The liabilities that group is designating at fair value through profit or loss are the following:

- deposits; and
- other funding liabilities

Both types of liabilities satisfied the abovementioned conditions detailed in IFRS 9 for such designation.

These financial liabilities are measured at fair value at reporting date as determined under IFRS 13 , with any gains/losses arising on re-measurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Impairment of financial assets

This policy applies to:

- financial assets, measured at amortised cost including financial accounts receivable and cash;
- debt instruments measured at FVOCI;
- loan commitments;
- financial guarantees; and
- finance lease debtors where the Bank is the lessor

This policy applies to:

- financial assets, measured at amortised cost including financial accounts receivable and cash;
- debt instruments measured at FVOCI;
- loan commitments;
- financial guarantees; and
- finance lease debtors where the Bank is the lessor

IFRS 9 establishes a three-stage approach for the impairment of financial assets:

Stage 1
At initial recognition of a financial asset, the asset is classified as stage 1 and 12-month expected credit losses are recognised, which are credit losses related to default events expected to occur within the next 12 months.

Stage 2
Where credit risk has increased significantly since initial recognition but the asset is not credit impaired.

Stage 3
Non-performing assets are classified as stage 3, with expected credit losses measured and recognised on a lifetime basis.

Definitions

Advances

Significant increase in credit risk since initial recognition (SICR)

In order to determine whether an advance has experienced a significant increase in credit risk, the probability of default (PD) of the asset calculated at the origination date is compared to that calculated at the reporting date. The origination date is defined to be the most recent date at which the group re-prices an advance/facility. A change in terms result in derecognition of the original advance/facility and recognition of a new advance/facility.SICR test thresholds are re-assessed and, if necessary, updated, on at least an annual basis.

Any facility that is more than 30 days past due, or in the case of instalment-based products one instalment past due, is automatically considered to have experienced a significant increase in credit risk.

In addition to the quantitative assessment based on PDs, qualitative considerations are applied when determining whether individual exposures have experienced a SICR. One such qualitative consideration is the appearance of wholesale and commercial SME facilities on a credit watch list.

Any up-to-date facility that has undergone a distressed restructure (i.e modification of contractual cash flows to prevent a client from going into arrears) will be considered to have experienced a SICR. The credit risk on an exposure is no longer considered to be significantly higher than at origination if no qualitative indicators of a significant increase in credit risk are triggered, and if comparison of the reporting date PD to the origination date PD no longer indicates that a significant increase in credit risk has occurred. No minimum period for transition from stage 2 back to stage 1 is applied, with the exception of distressed restructured exposures that are required to remain in stage 2 for a minimum period of 6 months before re-entering stage 1.

Low credit risk

The Group does not use the low credit risk assumption for advances.

Credit-impaired financial assets

Advances are considered credit impaired if they meet the definition of default.

The group's definition of default applied for calculating provisions under IFRS 9 has been aligned to the definition applied for regulatory capital calculations across all portfolios, as well as those applied in operational management of credit and for internal risk management purposes.

Exposures are considered to be in default when they are more than 90 days past due or, in the case of amortising products, have more than three unpaid instalments. In addition, an exposure is considered to have defaulted when there are qualitative indicators that the borrower is unlikely to pay their credit obligations in full without any recourse by the Bank to actions such as the realisation of security. Indicators of the unlikeliness to pay include examples such as the application for bankruptcy or obligor insolvency.

Any distressed restructures of accounts that have experienced a SICR since initial recognition are defined as default events. Accounts are considered to no longer be in default if they meet the stringent cure definition which has been determined at a portfolio level based on an analysis of re-defined rates.

Significant Accounting Policies [continued]

for the year ended 30 June 2019

1.4 FINANCIAL INSTRUMENTS – IFRS 9 [CONTINUED]

Definitions [Continued]

Purchased or originated credit-impaired

Financial assets that meet the above mentioned definition of credit-impaired at initial recognition.

Write-offs

Write-off must occur when it is not economical to pursue further recoveries i.e. there is no reasonable expectation of recovering the carrying amount of the asset (gross amount less specific impairments raised):

- By implication, in both retail and wholesale, for secured as well as unsecured exposures, write-offs cannot occur if there is evidence of recent payment behaviour. Each credit portfolio has articulated a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account. Within retail portfolios, write-off definitions have been determined with reference to analysis of the materiality of post write-off recoveries.
- Within wholesale exposures, a judgemental approach to write off is followed based on a case-by-case assessment by a credit committee.

Partial write-offs are not performed within credit portfolios. Where required, additional provisions against irrecoverable assets will be raised until such a time as final write-off can occur.

Other financial assets

Cash and cash equivalents

All physical cash is classified as stage 1. Other exposures are classified as stage 1 unless specific evidence of impairment exists, in which case due to the nature of these assets are classified immediately as stage 3. ECL for physical cash is zero. ECL for cash equivalents is calculated using the loss rate approach.

In applying the loss rate approach, loss-rate statistics on the basis of the amount written off over the life of the financial assets rather than using separate probability of default and loss given default statistics is calculated. The group then adjusts these historical credit loss statistics to reflect current conditions and expectations about the future.

Accounts receivable and contract assets ECL for accounts receivable and where applicable, contract assets, are calculated using the simplified approach. This results in a lifetime ECL being recognised.

Investment securities

Impairment parameters for investment securities (PDs, LGDs and EADs) are determined using appropriate models, with the models to be applied determined with reference to the issuer of the security and the nature of the debt instrument.

The tests for a significant increase in credit risk and default definitions are then applied and the ECL calculated in the same way as for advances. The significant increase in credit risk thresholds applied for investment securities are the same as those applied within the wholesale credit portfolio to ensure consistency in the way that a significant increase in credit risk is identified for a particular counterparty and for similar exposures.

The group does not use the low credit risk assumption for investment securities, including government bonds.

Intercompany balances

Expected credit losses are calculated using PD, LGD and EAD parameters that are determined through application of expert credit judgement and approved through appropriate governance structures. All intercompany balances are classified as stage 1, unless there is evidence of impairment, in which case exposures are moved directly to stage 3.

Transfers, modifications and derecognition (IAS 39 & IFRS 9)

Financial instruments are derecognised when:

- the contractual rights and obligations expire or are extinguished, discharged or cancelled, for example an outright sale or settlement;
- they are transferred and the derecognition criteria of IFRS 9 are met; or
- the contractual terms of the instrument are substantially modified and the derecognition criteria of IFRS 9 are met.

Financial assets are derecognised when the group has either transferred the contractual right to receive cash flows from the asset or it has assumed an obligation to pay over all the cash flows from the asset to another entity (i.e. pass through arrangement under IFRS 9).

If the contractual cash flows of a financial asset measured at amortised cost are modified (changed or restructured, including distressed restructures), the group determines whether this is a substantial modification, following which, results in the derecognition of the existing asset, and the recognition of a new asset, or whether the change is simply a non-substantial modification of the existing terms which does not result in derecognition.

A modification of a financial asset is substantial, and will thus result in derecognition of the original financial asset, where the modified contractual terms are priced to reflect current conditions on the date of modification, and are not merely an attempt to recover outstanding amounts. Where the modification does not result in an accounting derecognition the original asset continues to be recognised.

Derecognition of financial liabilities includes when there is a substantial modification to the terms and conditions of an existing financial liability. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent (based on management best estimate) different from the discounted present value of the remaining cash flows of the original financial liability.

The following transactions are entered into by the group in the normal course of business in terms of which it transfers financial assets directly to third parties or structured entities, or modifies the contractual terms of the asset and either achieves derecognition or continues to recognise the asset:

Transfers without derecognition

Repurchase agreements and Securities lending and reverse repurchase agreements

Investment securities and advances are sold to an external counterparty in exchange for cash and the group agrees to repurchase the assets at a specified price at a specified future date.

The counterparty's only recourse is to the transferred investment securities and advances that are subject to the repurchase agreement. The group remains exposed to all the underlying risks on the assets including counterparty, interest rate, currency, prepayment and other price risks.

Securities lending and reverse repurchase agreements

Investment securities are lent to external counterparties in exchange for cash collateral as security for the return of the securities.

The group's only recourse in respect of the return of the securities it has lent is to the cash collateral held and as such, the group generally requires cash collateral in excess of the fair value of the securities lent.

The underlying securities purchased under agreements to resell (reverse repos) are not recognised on the statement of financial position. The group does not recognise securities borrowed in the financial statements, unless these have been on sold to third parties, in which case the obligation to return these securities is recognised as a financial liability measured at fair value with any gains or losses included in fair value gains or losses within non-interest revenue.

As these transactions do not result in the derecognition of assets from an accounting perspective, these transactions are not inconsistent with a business model whose objective is met by collecting contractual cash flows.

Modifications without derecognition

Modification of contractual cash flows

Modified contractual terms are not priced to reflect current conditions and are thus not substantial. For retail advances, this includes debt restructuring accounts where the new terms of the contract (such as a lower interest rate) is mandated by law and do not have the same commercial terms as a new product that the group would be willing to offer a customer with a similar risk profile. The same principle is applied for wholesale advances on a case-by-case basis.

Existing asset is not derecognised. The gross carrying amount of the financial asset is recalculated as the present value of the estimated future cash receipts through the expected life of the renegotiated or modified financial asset, discounted at the financial asset's original effective interest rate. Distressed modifications are included in ECL.

Other non-distressed modifications are financially inconsequential and therefore included in ECL as well.

Significant Accounting Policies [continued]

for the year ended 30 June 2019

1.4 FINANCIAL INSTRUMENTS - IFRS 9 [CONTINUED]

Impairment of financial assets [Continued]

Transfers with derecognition

Where the group purchases its own debt

The debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in fair value gains or losses within non-interest revenue.

Offsetting of financial instruments and collateral

Where the requirements of IFRS are met, the group offsets financial assets and financial liabilities and presents the net amount. Financial assets and financial liabilities subject to master netting arrangements (MNA) or similar agreements are not offset, if the right of set-off under these agreements is only enforceable in the event of default, insolvency and bankruptcy.

Details of the offsetting and collateral arrangements of the group are set out below:

Derivative financial instruments

The group's derivative transactions that are not transacted on an exchange are entered into under International Derivatives Swaps and Dealers Association (ISDA) MNA. Generally, under such agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, e.g. when a credit event such as default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions (close-out netting). Financial collateral (mostly cash) is also obtained, often daily, for the net exposure between counterparties to mitigate credit risk.

Repurchase and reverse repurchase agreements, and securities lending and borrowing transactions

These transactions by the group are covered by master agreements with netting terms similar to those of the ISDA MNA.

Where the group has entered into a repurchase and reverse repurchase or securities borrowing and lending transaction, with the same counterparty, the advance and liability balances are set-off in the statement of financial position only if they are due on a single day, denominated in the same currency and the group has the intention to settle these amounts on a net basis. The Group receives and accepts collateral for these transaction in the form of cash and other investments & securities.

Other advances and deposits

The advances and deposits that are offset relate to transactions where the group has a legally enforceable right to offset the amounts and the group has the intention to settle the net amount.

It is the group's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a transaction, either through physical inspection or indexation methods, as appropriate. For wholesale and commercial portfolios, the value of collateral is reviewed as part of the annual facility review. For mortgage portfolios, collateral valuations are updated on an ongoing basis through statistical indexation models. However, in the event of default, more detailed reviews and valuations of collateral are performed, which yields a more accurate financial effect. For asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossession has not yet occurred, the realisation value of the vehicle is estimated using internal models and is included as part of total recoveries.

1.5 FINANCIAL INSTRUMENTS - IAS 39

Classification

Management determines the classification of its financial instruments at initial recognition. The different classes of financial instruments of the Group are detailed below;

Derivatives

Derivatives are either designated as hedging instruments in effective hedging relationships or are classified as held for trading and measured at fair value through profit or loss.

Cash and cash equivalents and accounts receivable

Cash and cash equivalents comprise coins and bank notes, money at call and short notice and balances with central banks. All balances included in cash and cash equivalents have a maturity date of less than three months from the date of acquisition.

Money at short notice constitutes amounts withdrawable in 32 days or less. Cash and cash equivalents and accounts receivable are measured at amortised cost in accordance with IAS 39.

Advances

Advances that are not designated at fair value through profit or loss are measured at amortised cost in accordance with IAS 39.

These include retail, commercial and corporate bank advances:

Investment securities

The majority of investment securities of the Group are either designated at fair value because they are managed on a fair value basis or are classified as available-for-sale.

There is a portfolio of debt investment securities measured at amortised cost as well as held for trading.

Investment securities that represent an interest in the residual value of the investee are classified as equities within investment securities.

Financial liabilities and compound financial instruments

The Group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Tier 2 instruments which have write down or conversion features are classified based on the nature of the instrument and the definitions of debt and equity.

Compound instruments are those financial instruments that have components of both financial liabilities and equity such as issued convertible bonds. At initial recognition the instrument and the related transaction costs are split into their separate components in terms of the definitions and criteria of IAS 32 and are subsequently accounted for as a financial liability or equity

Deposits and other funding liabilities

Liabilities are generally measured at amortised cost but may be measured at fair value through profit or loss if they are managed on a fair value basis or the fair value designation reduces or eliminates an accounting mismatch. Other funding liabilities are presented in separate lines on the statement of financial position of the Group.

Initial recognition and measurement

All financial instruments are initially measured at fair value including transaction costs, except for those classified as fair value through profit or loss in which case the transaction costs are expensed upfront in profit or loss, usually as part of operating expenses. Any upfront income earned on financial instruments is recognised as is detailed under policy 3.1, depending on the underlying nature of the income.

Subsequent measurement

Amortised cost items are measured using the effective interest method, less any impairment losses. This includes available-forsale debt instruments.

Fair value items are measured at fair value at reporting date as determined under IFRS 13. The fair value gains or loss are either recognised in profit or loss (held for trading or designated at fair value through profit or loss) or in other comprehensive income (available-for-sale financial assets) until the items are disposed of or impaired.

The Group recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset is delivered or received.

Impairment of financial assets

General

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment and its carrying amount is greater than its estimated recoverable amount. Included in impairments of loans and advances are the fair value of credit moves recognised in respect of advances designated at fair value through profit or loss.

Significant Accounting Policies [continued]

for the year ended 30 June 2019

1.5 FINANCIAL INSTRUMENTS - IAS 39 [CONTINUED]

Impairment of financial assets [continued]

Scope

This policy applies to:

- advances measured at amortised cost; investment securities at amortised cost;
- advances and debt instruments
- classified as available-for-sale; and
- accounts receivable.

Objective evidence of impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or Group of financial assets is impaired.

The following factors are considered when determining whether there is objective evidence that the asset has been impaired:

- breaches of loan covenants and conditions;
- time period of overdue contractual payments;
- actuarial credit models;
- loss of employment or death of the borrower; and
- probability of liquidation of the customer.

Where objective evidence of impairment exists, impairment testing is performed based on loss given default (LGD), probability of default (PD) and exposure at default (EAD).

For available-for-sale equity instruments objective evidence of impairment includes information about significant changes with an adverse effect on the environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be recovered and a significant or prolonged decline in the fair value of the security below its cost.

Assessment of objective evidence of impairment

An assessment of impairment is first performed individually for financial assets that are individually significant and then individually or collectively for financial assets that are not individually significant.

If the Group 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 performs a collective assessment for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Collective assessment

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics; i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such financial assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the financial assets being evaluated.

Recognition of impairment loss

If there is objective evidence of impairment, an impairment loss is recognised in a separate line in profit or loss. The amount of the loss is measured as the difference between the financial 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. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For available-for-sale financial assets which are impaired the cumulative loss is reclassified from other comprehensive income to profit or loss.

Reversal of impairment loss

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 recognised by adjusting the allowance account (where applicable) and the amount of the reversal is recognised in profit or loss; and

- – impairment losses recognised on available-for-sale equity instruments are not subsequently reversed through profit or loss, but are recognised directly in other comprehensive income.

Impairment of advances

The adequacy of impairments of advances is assessed through the ongoing review of the quality of credit exposures. For amortised cost advances, impairments are recognised through the use of the allowance account method and an impairment charge in the income statement. For fair value advances, the credit valuation adjustment is charged to the income statement through fair value gains or losses and recognised as a change to the carrying value of the assets.

The following sets out the Group policy on the ageing of advances (i.e. when an advance is considered past due or non performing)and the accounting treatment of past due, impaired and written off advances:

Past due advances

The past due analysis is only performed for advances with specific expiry or instalment repayment dates or demand loans for which payment has been demanded. The analysis is not applicable to overdraft products or products where no specific due date is determined. The level of risk on these types of products is assessed with reference to the counterparty ratings of the exposures and reported as such.

Loans with a specific expiry date (e.g. term loans etc.) and consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans) are treated as overdue where one full instalment is in arrears for one day or more and remains unpaid as at the reporting date. Advances on which partial payments have been made are included in neither past due nor impaired until such time as the sum of the unpaid amounts equal a full instalment, at which point it is reflected as past due.

Loans payable on demand (e.g. overdrafts) are treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction. The full outstanding amount is reported as past due even if part of the balance is not yet due.

Non-performing loans

Retail loans are individually impaired if three or more instalments are due or unpaid or if there is evidence before this that the customer is unlikely to repay the obligations in full. Debt-review accounts are not reclassified and remain in non-performing loans until fully cured.

Commercial and wholesale loans are analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Renegotiated advances

Advances that would otherwise be past due that have been renegotiated i.e. advances where, due to deterioration in the counterparty's financial condition, the Group granted a concession where the original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance.

Excludes advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original.

Separately classified as neither past due nor impaired assets and remain classified as such until the terms of the renegotiated contract expire.

Non-performing advances cannot be reclassified as renegotiated but current unless the arrears balance has been repaid.

Renegotiated advances are considered as part of the collective evaluation of impairment where advances are grouped on the basis of similar credit risk characteristics. The adherence to the new terms and conditions is closely monitored.

Impairments

Specific impairements are created for non-performing loans where there is objective evidence that an incurred loss event will have an adverse impact on the estimated future cash flows from the advance.

Potential recoveries from guarantees and collateral are incorporated into the calculation of impairment figures.

Portfolio impairements are created with reference to performing advances. The impairment provision on the performing portfolio is split into two parts:

Significant Accounting Policies [continued]

for the year ended 30 June 2019

1.5 FINANCIAL INSTRUMENTS – IAS 39 [CONTINUED]

Impairment of financial assets [continued]

- – an incurred but not reported (IBNR) provision i.e. the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified; and –
- the portfolio specific impairment (PSI) which reflects the decrease in estimated future cash flows for the sub-segment of the performing portfolio where there is objective evidence of impairment.

Write offs

When an advance is uncollectible, it is written off against the related allowance account. Such advances are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment of advances in profit or loss.

Transfers and de-recognition

Financial instruments are derecognised when the contractual rights or obligations expire or are extinguished, discharged or cancelled for example an outright sale or settlement.

For financial assets this includes assets transferred that meet the de-recognition criteria. Financial assets are transferred when the Group has either transferred the contractual right to receive cash flows from the asset or it has assumed an obligation to pay over all the cash flows from the asset to another entity (i.e. pass through arrangement under IAS 39).

For financial liabilities this includes when there is a substantial modification to the terms and conditions of an existing financial liability. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability.

The following transactions are entered into by the Group in the normal course of business in terms of which it transfers financial assets directly to third parties or structured entities, and either achieves de-recognition or continues to recognise the asset: Transaction type Description Accounting treatment

Transfers without derecognition

Repurchase agreements and Securities lending and reverse repurchase agreements

Investment securities and advances are sold to an external counterparty in exchange for cash and the Group agrees to repurchase the assets at a specified price at a specified future date.

The counterparty's only recourse is to the transferred investment securities and advances that are subject to the repurchase agreement. The Group remains exposed to all the underlying risks on the assets including counterparty, interest rate, currency, prepayment and other price risks.

Investment securities are lent to external counterparties in exchange for cash collateral as security for the return of the securities.

The group's only recourse in respect of the return of the securities it has lent is to the cash collateral held and as such, the group generally requires cash collateral in excess of the fair value of the securities lent.

The underlying securities purchased under agreements to resell are not recognised on the statement of financial position. The Group does not recognise securities borrowed in the financial statements, unless these have been on sold to third parties, in which case the obligation to return these securities is recognised as a financial liability measured at amortised cost or fair value.

Transfers with derecognition

Where the Group purchases its own debt the debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in fair value gains or losses within noninterest revenue.

Offsetting of financial instruments and collateral

Where the requirements of IFRS are met, the Group offsets financial assets and financial liabilities and presents the net amount. Financial assets and financial liabilities subject to master netting arrangements (MNA) or similar agreements are not offset, if the right of set-off under these agreements is only enforceable in the event of default, insolvency and bankruptcy.

Details of the offsetting and collateral arrangements of the Group are set out in the following table:

Derivative financial instruments

The Group's derivative transactions that are not transacted on an exchange are entered into under International Derivatives Swaps and Dealers Association (ISDA) MNA. Generally, under such agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, e.g. when a credit event such as default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions (close-out netting).

Financial collateral (mostly cash) is also obtained, often daily, for the net exposure between counterparties to mitigate credit risk.

Repurchase and reverse repurchase agreements, and securities lending and borrowing transactions

These transactions by the Group are covered by master agreements with netting terms similar to those of the ISDA MNA. Where the Group has entered into a repurchase and reverse repurchase or securities borrowing and lending transaction, with the same counterparty, the advance and liability balances are set-off in the statement of financial position only if they are due on a single day, denominated in the same currency and the Group has the intention to settle these amounts on a net basis.

The Group receives and accepts collateral for these transactions in the form of cash and other investment securities.

Other advances and deposits

The advances and deposits that are offset relate to transactions where the Group has a legally enforceable right to offset the amounts and the Group has the intention to settle the net amount.

It is the Group's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a transaction, either through physical inspection or indexation methods, as appropriate. For wholesale and commercial portfolios, the value of collateral is reviewed as part of the annual facility review. For mortgage portfolios, collateral valuations are updated on an ongoing basis through statistical indexation models. However, in the event of default, more detailed reviews and valuations of collateral are performed, which yields a more accurate financial effect.

1.6 OTHER ASSETS AND LIABILITIES

Classification and measurement

Property and equipment

Property and equipment of the Group includes:

- assets utilised by the Group in the normal course of operations to provide services including freehold property and leasehold premises and leasehold improvements (owner occupied);
- other assets utilised in the normal course of operations including computer and office equipment, motor vehicles and furniture and fittings.

Property and equipment is measured at fair value and/or historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated.

Depreciation is on a straight line basis over the useful life of the assets, except for assets capitalised under finance leases where the Group is the lessee, in which case depreciation is over the life of the lease. The useful lives of the Group and Company's assets are disclosed in section 1.9.

Land and buildings held for use in the supply of services, or for administrative purposes, are stated in the statements of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated impairment losses.

Significant Accounting Policies [continued]

for the year ended 30 June 2019

1.6 OTHER ASSETS AND LIABILITIES [CONTINUED]

Classification and measurement [continued]

Revaluations are performed every three years such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such land and buildings is credited in other comprehensive income to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit and loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged.

Intangible assets

Goodwill arising from business combinations is recognised as an intangible asset. For measurement of goodwill refer to policy 1.2

Provisions

The Group will only recognise a provision measured in terms of IAS 37 when there is uncertainty around the amount or timing of payment. Where there is no uncertainty the Group will recognise the amount as an accrual.

The most significant provisions related to litigation and claims, as well as provisions for intellectual property fees that arise because of the use of dealer platforms, databases, systems, brands and trademarks when marketing and promoting motor warranty products as part of the motor value added products and services business. The group recognises a provision when a reliable estimate of the outflow required can be made and the outflow is more reliable than not.

Other assets that are subject to depreciation and intangible assets, other than goodwill (refer to policy 1.2), are reviewed for impairment whenever objective evidence of impairment exists. Impairment losses are recognised in profit or loss as part of operating expenses.

Other assets are derecognised when they are disposed of or, in the case of intangible assets, when no future economic benefits are expected from its use. Gains or losses arising on derecognition are determined as the difference between the carrying amount of the asset and the net proceeds received, and are recorded in profit or loss as part of non-interest revenue.

Leases

The Group classifies leases of property and equipment where the lessee assumes substantially all the risks and rewards of ownership as finance leases. The Group classifies leases as operating leases if the lessor effectively retains the risks and rewards of ownership of the leased asset.

Finance leases

Group company is the lessee

At inception the lease is capitalised as assets and a corresponding lease liability for future lease payments is recognised. Over the life of the lease, the asset is depreciated – refer to policy 5.1.

Group company is the lessor

At inception recognise assets sold under a finance lease as advances and impair as required, in line with policy 4.3.

Over the life of the lease, the unearned finance income is recognised as interest income over the term of the lease using the effective interest method.

Operating leases

Group company is the lessee

Operating leases are recognised as an operating expense in profit or loss on a straight line basis over the period of the lease.

Any difference between the actual lease amount payable and the straight-lined amount calculated is recognised as a liability of the Group in creditors and accruals.

Group company is the lessor

Operating leases are assets held under operating leases are recognised as a separate category of property and equipment (assets held under leasing arrangements) and depreciated - refer to policy 5.1.

Rental income is recognised as other non-interest revenue on a straight line basis over the lease term.

Instalment credit sale agreements where the Group is the lessor

The Group regards instalment credit sale agreements as financing transactions and includes the total rentals and instalments receivable, less unearned finance charges, in advances. The Group calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to interest revenue in proportion to capital balances outstanding.

1.7 STATED CAPITAL AND EQUITY

Shares issued and issue costs.

Preference shares issued by the Group that meet the definition of liabilities are classified as liabilities.

Preference shares which qualify as Tier 2 capital have been included in Tier 2 liabilities.

Other preference share liabilities have been included in other liabilities as appropriate.

Ordinary shares and any preference shares which meet the definition of equity including non-cumulative nonredeemable (NCNR) preference shares issued by the Group are recognised as equity. Any incremental costs directly related to the issue of new shares or options, net of any related tax benefit, are deducted from the issue price.

Dividends paid/declared

Dividends declared are recognised as interest expense on the underlying liability.

Dividends on ordinary shares and NCNR preference shares are recognised against equity.

A corresponding liability is recognised when the dividends have been approved by the company's shareholders and distribution is no longer at the discretion of the entity. A dividend reserve is maintained as at year end for dividends that will be paid out of retained earnings as at the reporting date but pending approval by the Board of Directors.

Distribution of non-cash assets to owners

The liability to distribute non-cash assets is recognised as a dividend to owners at the fair value of the asset to be distributed. The difference between the carrying amount of the assets distributed and the fair value of the assets on the date of distribution is recognised as noninterest revenue in profit or loss for the period.

The carrying amount of the dividend payable is remeasured at the end of each reporting period and on settlement date. The initial carrying amount and any subsequent changes are recognised in equity.

Treasury shares i.e. where the Group purchases its own equity share capital

If the Group re-acquires its own equity instruments, those instruments are deducted from the Group's equity.

The consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity as treasury shares until they are re-issued or sold.

Where the shares are subsequently sold or re-issued, any consideration received net of any directly attributable incremental costs, is included in shareholders' equity.

Other reserves Other reserves recognised by the Group include reserves arising from revaluation of owned properties.

Significant Accounting Policies [continued]

for the year ended 30 June 2019

1.8 TRANSACTIONS WITH EMPLOYEES

Employee benefits

The Group operates a defined contribution scheme, the assets of which are held in separate trustee administered funds.

These funds are registered in terms of the Retirement Funds Act, and membership of the pension fund is compulsory for all Group employees.

Defined contribution plans

Contributions are recognised as an expense to the Bank, included in staff costs, as membership to the pension fund is a condition of employment.

The member's entitlement upon retirement is a factor of the member's total contributions and the interest earned during their period of active employment, otherwise known as the member's fund credit. A portion of the member's fund credit is used to purchase an annuity with a registered insurance provider. The annuity is determined by the purchasing member's demographic details (fund credit at retirement, age, gender, age of spouse), the pension structure (guarantee period, and pension increase target) and the annuity rates available as at the time of purchase. A benefit on withdrawal (dismissal or resignation) and retrenchment are determined in terms of the prevailing legislation and is equivalent to a portion of the member's fund credit accrued during their employment period (25% of fund credit for resignation and dismissal and 33% of fund credit for retrenchment.

Termination benefits

The Group recognises termination benefits as a liability in the statement of financial position and as an expense, included in staff costs, in profit or loss when it has a present obligation relating to termination. The Group has a present obligation at the earlier of when the Group can no longer withdraw the offer of the termination benefit or when the Group recognises any related restructuring costs.

Liability for short term employee benefits

Leave pay

The Group recognises a liability for the employees' rights to annual leave in respect of past service. The amount recognised by the Group is based on current salary of employees and the contractual terms between the employee and the Group. The expense is included in staff costs.

Bonuses

The Group recognises a liability and an expense for management and staff bonuses when it is probable that the economic benefits will be paid and the amount can be reliably measured. The expense is included in staff costs.

Share-based payment transactions

The Group operates cash settled share-based compensation plans for employees. s granted under cash settled plans result in a liability being recognised and measured at fair value until settlement. An expense is recognised in profit or loss for employee services received over the vesting period of the plans.

1.9 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

Introduction

In preparing the financial statements, the Directors makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior year. Included below are all the critical accounting estimates, assumptions and judgements made by the Group, except those related to fair value measurement.

Impairment of goodwill

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. For impairment testing purposes, goodwill is allocated to cash generating units (CGUs) at the lowest level of operating activity to which it relates, and is therefore not combined at group level.

The recoverable amount of the CGU is determined as the higher of the value in use or fair value less costs to sell.

Fair value less costs to sell

The fair value less costs to sell is determined as the current market value of the CGU less any costs related to the realisation of the CGU.

Value in use

The value in use is calculated as the net present value of the discounted cash flows of the CGU.This is determined by discounting the estimated future pre-tax cash flows to its present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the CGU. The future cash flows are based on financial budgets approved by management covering a one year period. Cash flows beyond one year are extrapolated using the estimated growth rate for the CGU.

The key assumptions in determining the value in use of the CGU are therefore the discount rate and the real growth rate. The table below shows the discount rate and the growth rate used in calculating the value in use for the CGUs.

	2019	2018
Discount rates (%)	12,30	12,30
Growth rates (%)	(2,00)	3,00

The discount rate used is the weighted average cost of capital for the specific segment or entity, adjusted for specific risks relating to the segment or entity. Some of the other assumptions include investment returns, expense inflation rates, tax rates and new business growth.

The period over which management has projected cash flows is 4 years (2018: 4 years). The cash flows from the final cash flow period are extrapolated into perpetuity to reflect the long-term plans of the Group. The growth rate does not exceed the long-term average past growth rate for the business in which the CGU operates.

A reasonably possible change in the discount rate or growth rate of the above mentioned CGUs would not result in their recoverable amounts exceeding the carrying values. A change in the discount rates or growth rate applied and other reasonably possible change in the key assumptions would not result in additional impairment losses being recognised for goodwill in any of the CGU's. The recoverable amount is sufficiently in excess of the carrying amount that changes to the assumptions don't change the final outcome of the test.

Taxation

The Group recognises liabilities based on objective estimates of the amount of tax that may be due. In determining whether an interpretation and/or application of the various tax rules may result in a dispute of which the outcome may not be favourable to the group, the group seeks, where relevant, expert advice to determine whether the unfavourable outcome is probable or possible. Where payment is determined to be possible but not probable the tax exposure is disclosed as a contingent liability.

The group recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, the difference will impact the income tax and deferred income tax provisions in the period in which such determination is made. Significant judgement is applied in the application and interpretation of tax regulation and these judgements as well as judgements resulting from the consideration of the impact of tax audits performed by the tax authorities may have significant impact on the consolidated and separate financial statements.

Impairment of financial assets

In determining whether an impairment loss should be recognised, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

General

Collective impairment assessments of Groups of financial assets Future cash flows in a Group of financial assets are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for Groups of financial assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are regularly reviewed by the Group to reduce any differences between loss estimates and actual loss experience.

Significant Accounting Policies [continued]

for the year ended 30 June 2019

1.9 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY [CONTINUED]

General [continued]

Impairment assessment of collateralised financial assets

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure.

Advances

The Group continuously assesses its credit portfolios for impairment. Significant advances are monitored by the credit committee and impaired according to the Group's impairment policy when an indication of impairment is observed.

The objective of the measurement of an impairment loss is to produce a quantitative measure of the Group's credit risk exposure.

Parameters are calibrated for the calculation of 12-month and lifetime ECL using term structures that consider borrower risk, account age, historical behaviour, transaction characteristics and correlations between parameters. Term structures have been developed over the entire remaining contractual lifetime of an instrument. The remaining lifetime is limited to the contractual term of instruments in the portfolio, except for instruments with an undrawn commitment such as credit cards, where no limit is placed on the length of the remaining lifetime. Expected credit losses on open accounts are discounted from the expected date of default to the reporting date using the asset's original effective interest rate or a reasonable approximation thereof.

In determining the measurement of the 12 month and lifetime ECL; the following key variables are considered:

- The probability of default (PD) which is the measure of the expectation of how likely the customer is to default; and
- The exposure at default (EAD) which is the expected amount outstanding at the point of default; and
- The loss given default (LGD) which is the expected loss that will be realised at default.

These variables are considered across the portfolios as follows;

For Retail, parameters are determined on a pooled basis, with exposures pooled on a portfolio level at a minimum. Where appropriate, more granular pooling is applied. The inputs used to determine parameter values include historically observed behaviour, as well as behavioural and demographic information related to individual exposures currently on book.

- PD parameters are determined through assessment of the influence that various risk drivers have had on historical default rates.
- EAD parameter estimates are based on product characteristics and historical draw-down and payment behaviour.
- LGDs are determined by estimating expected future cash flows. These cash flows include direct costs and proceeds from the sale of collateral. Collateral recovery rates are based on historically observed outcomes.

The statistical models applied implicitly assume that risk drivers that influence default risk, payment behaviour and recovery expectations within the historical data will continue to be relevant in the future.

For Wholesale, Commercial and SME, parameters are determined based on the application of statistical models that produce estimates based on counterparty-specific financial information and transaction characteristics. These characteristics include the nature of available collateral. Due to the specialised nature of these exposures, parameters produced by models are taken through a robust review and challenge process before being applied to calculate expected credit losses, and are required to be signed off by a committee of wholesale and commercial credit experts who can motivate adjustments to modelled parameters.

Performing loans

The assessment of whether objective evidence of impairment exists requires judgement and depends on the class of the financial asset. In the retail portfolios the account status, namely arrears versus non-arrears status, is taken as a primary indicator of an impairment event. In the commercial portfolios, other indicators such as the existence of high-risk accounts, based on internally assigned risk ratings and management judgements are used, while the wholesale portfolio assessment (which includes RMB investment banking and RMB corporate banking) includes a judgemental review of individual industries for objective signs of distress.

Forward-looking information

Forward-looking macro-economic information has been incorporated into expected loss estimates through the application of quantitative modelling and expert-judgement-based adjustments. Quantitative techniques applied estimate the impact of forecasted macro-economic factors on expected credit losses using regression techniques.

Macro-economic factors are forecast by a forum of in-house economists who are independent from the bank's credit and modelling functions. Separate economic forecasts are performed for the each of the countries in which the group operates, incorporating internal and external economic research as well as the views of First National Bank of Botswana Limited senior management.

Economic variables are forecasted for different scenarios (namely downside, upside and core) and a probability is assigned to each scenario. The scenarios and associated probabilities are then recomended for Board's approval before being provided to the credit modelling teams for incorporation into quantitative models.

The forecast horizon incorporated into models is 3 years, since the accuracy of macro-economic forecasts beyond this point is not considered sufficient for their inclusion in impairment estimates. For portfolios with remaining lifetimes of longer than 3 years, mean reversion is assumed beyond this point.

For material portfolios where expected credit losses (ECL) are influenced by economic cycles, the estimated impact of multiple macro-economic scenarios and their probabilities is considered. ECL is calculated for the core (best-estimate) scenario, an upside scenario and a downside scenario. The probability-weighted average of the ECL figures calculated under each of these scenarios is the final ECL figure for the portfolio. Calculation of a probability-weighted ECL estimate across multiple macroeconomic scenarios ensures appropriate treatment of non-linear macro-economic impacts.

The stage classification of an account for disclosure purposes is determined by calculating the probability-weighted forwardlooking reporting date PD for that exposure and using this PD to determine whether an account has experienced a significant increase in credit risk and should therefore be moved into Stage 2. Accounts that have not experienced a significant increase in credit risk will remain in Stage 1. For portfolios that are not material and portfolios where it can be proven that credit losses are not influenced by macro-economic factors, expected credit losses are calculated and stage allocation determined only for the core scenario.

Where credit experts have determined that the three macro-economic scenarios catered for through the quantitative modelling process are not adequately reflective of potential macro-economic event risk, expert judgement-based adjustments are made to staging and/or ECL estimates to better reflect potential portfolio-specific impacts.

In addition to forward-looking macro-economic information, other types of forward-looking information, such as specific event risk, taken into account in ECL estimates when required through the application of out-of-model adjustments. Measurement of the 12-month and Life-time expected credit loss (LECL) Retail and retail SME parameters are determined on a pooled basis, with exposures pooled on a portfolio level at a minimum.

Where appropriate, more granular pooling is applied. The inputs used to determine parameter values include historically observed behaviour as well as behavioural and demographic information related to individual exposures currently on book.

PD parameters are determined through assessment of the influence that various risk drivers have had on historical default rates.

EAD parameters are estimated based on product characteristics and historical draw-down and payment behaviour.

LGDs are determined by estimating expected future cash flows, including costs and proceeds from sale of collateral, based on historically observed outcomes.

The statistical models applied implicitly assume that risk drivers that influence default risk, payment behaviour and recovery expectations within the historical data will continue to be relevant in the future.

Significant Accounting Policies [continued]

for the year ended 30 June 2019

1.9 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY [CONTINUED]

Forward-looking information [continued]

Wholesale and commercial small to meduim sized enterprises (SME) parameters are determined based on the application of statistical models that produce estimates on the basis of counterparty-specific financial information and transaction characteristics including the nature of available collateral. Due to the specialised nature of these exposures, parameters produced by models are taken through a robust review and challenge process before being applied to calculate expected credit losses, and are required to be signed off by a committee of Wholesale credit experts who can motivate adjustments to modelled parameters.

Parameters are calibrated for the calculation of 12-month and life-time expected credit loss (LECL) using term structures that consider account age, historical behaviour, transaction characteristics and correlations between parameters.

Term structures have been developed over the entire remaining lifetime of an instrument. The remaining lifetime is limited to the contractual term of instruments in the portfolio, with the exception of instruments with an undrawn commitment such as credit cards, where no limit is placed on the length of the remaining lifetime.

Expected credit losses on open accounts are discounted from the expected date of default to the reporting date using the asset's original effective interest rate or a reasonable approximation thereof.

Determination of whether the credit risk of financial instruments have increased significantly since initial recognition

Quantitative and qualitative factors are considered when determining whether there has been a significant increase in credit risk.

Quantitative test:

The PDs used to perform the test for a significant increase in credit risk are calculated by applying the PD model in force as at the reporting date. This model is retro-applied using data as at the origination date to determine origination date PDs.

Qualitative test:

Furthermore, a qualitative assessment is performed in order to assess if additional exposures should be migrated from Stage 1 to Stage 2. This assessment would consider, at a minimum, forward-looking information not taken into account in the quantitative assessment.

Origination date PDs are measured at initial recognition of an instrument, unless there has been a subsequent risk-based repricing or a change in terms have taken place which requires the derecognition of the initial advance and recognition of a new advance. Where the models used to determine PDs cannot discriminate good credit risks from bad credit risks effectively at initial recognition due to a lack of behavioural information, proxy origination dates of up to 6 months post initial recognition are applied. Where proxy origination dates are applied, early qualitative indicators of significant increase in credit risk, such as fraudulent account activity or partial arrears, are applied to trigger movement into Stage 2.

Reporting date PDs are calculated on a forward-looking basis, with PDs adjusted where appropriate to incorporate the impacts of multiple forward-looking macro-economic scenarios.

Determination of whether a financial asset is a credit-impaired financial asset

The definition of default applied to determine whether an exposure must be classified into Stage 3 has been fully aligned with the regulatory definition of default. Accounts are therefore considered to be credit impaired if they are 90 days or more past due (for revolving products with minimum monthly instalments), 90 days in excess (for revolving products with no minimum monthly instalments) or 3 instalments or more in arrears (for amortising products).

In addition, exposures are classified in Stage 3 if there are qualitative indicators that the obligor is unlikely to pay his/her/its credit obligations in full without any recourse by the group to action such as the realisation of security.

Distressed restructures of accounts in Stage 2 are also considered to be default events.

For a retail account to cure from Stage 3 back to either Stage 2 or Stage 1, the account needs to meet a stringent cure definition. Cure definitions are determined on a portfolio level with reference to suitable analysis and are set such that the probability of a previously cured account re-defaulting is equivalent to the probability of default for an account that has not defaulted in the past.

For wholesale exposures, cures are assessed on a case by case basis, subsequent to an analysis by the relevant debt restructuring credit committee.

A default event is considered to be a separate default event only if an account has met the portfolio-specific cure definition prior to the second or subsequent default. Default events that are not separate are treated as a single default event when developing LGD term structures.

Fair value movement due the credit risk of financial liabilities

The portion of the fair value movement on financial liabilities designated at fair value through profit or loss that is attributable to changes in the credit risk of the liability and accounted for in other comprehensive income is determined by Rand Merchant Bank (RMB) Market Risk. If this fair value movement is due to changes in credit risk, which is offset by a corresponding movement in the fair value of a linked asset measured at fair value, this movement is included in profit or loss rather than other comprehensive income.

Other assets and liabilities

Property and equipment

The useful life of each asset is assessed individually. The directors have applied their judgements based on prior experience on the life of assets in setting the benchmarks used when assessing the useful life of the individual assets set out below.

Leasehold improvements	Straight line	Shorter of estimated life or period of lease
Freehold building and leasehold land and buildings	Straight line	50 years
Furniture and equipment	Straight line	Various between 3 - 10 years
Motor vehicles	Straight line	5 years

The directors have assumed that all assets have nil residual value. It is the Group's policy to fully depreciate assets under P7000 within the first month of use.

Significant Accounting Policies [continued]

for the year ended 30 June 2019

1.9 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY [CONTINUED]

Provision

Provisions for litigation

The group has a policy and process in place to determine when to recognise provisions for potential litigation and claims. The recognition of such provisions is linked to the ranking of legal risk of potential litigation on the group's litigation database.

The Group utilises the following in order to determine when to recognise provisions for potential litigation and claims:

- expert and in-house advice; and
- consideration of the likelihood and probable outcome of the event so as to arrive at the best possible estimate.

Transactions with employees

Determination of fair value

The liability is determined using a Black-Scholes option pricing model with a zero strike price. The following estimates are included in the model to determine the value:

- management's estimate of future dividends;
- historical volatility is used as a proxy for future volatility;
- the risk free interest rate is used; and
- staff turnover and historical forfeiture rates are used as indicators of future conditions.

Income Statements

for the year ended 30 June 2019

		Group		Company	
	Note(s)	2019 P '000	2018 P '000	2019 P '000	2018 P '000
Interest and similar income	2	1 617 445	1 507 520	1 617 445	1 507 520
Interest and similar expenses	3	(359 916)	(335 721)	(356 440)	(333 877)
Net interest income before impairment of advances		1 257 529	1 171 799	1 261 005	1 173 643
Impairment of advances	14	(264 912)	(274 168)	(264 912)	(274 168)
Net interest income after impairment of advances		992 617	897 631	996 093	899 475
Non-interest income	4	1 142 315	1 069 648	1 139 583	1 014 201
Income from operations		2 134 932	1 967 279	2 135 676	1 913 676
Operating expenses	5	(597 052)	(574 492)	(599 418)	(573 239)
Employee benefits expenses	6	(575 549)	(538 858)	(573 572)	(536 400)
Income before taxation		962 331	853 929	962 686	804 037
Indirect taxation	7	(16 984)	(15 720)	(16 977)	(15 689)
Profit before direct taxation		945 347	838 209	945 709	788 348
Direct taxation	7	(212 811)	(190 154)	(212 411)	(179 995)
Profit for the year		732 536	648 055	733 298	608 353

Earnings per share

Per share information			
Basic and diluted earnings per share (thebe)	9	28,80	25,48

Statements of Comprehensive Income

for the year ended 30 June 2019

		Group		Company	
	Note(s)	2019 P '000	2018 P '000	2019 P '000	2018 P '000
Profit for the year		**732 536**	**648 055**	**733 298**	**608 353**
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Losses on property revaluation		(11 196)	-	(11 196)	-
Deferred income tax on property revaluation		2 463	-	2 463	-
Total items that will not be reclassified to profit or loss		(8 733)	-	(8 733)	-
Items that may be reclassified to profit or loss: FVOCI debt reserve/available-for-sale financial assets					
Net fair value loss for the year		-	(1 153)	-	(1 153)
Other comprehensive loss for the year net of taxation		(8 733)	(1 153)	(8 733)	(1 153)
Total comprehensive income for the year attributable to owners of the parent		723 803	646 902	724 565	607 200

Statements of Financial Position

as at 30 June 2019

		GROUP		COMPANY	
	Note(s)	2019 P '000	2018 P '000	2019 P '000	2018 P '000
ASSETS					
Cash and short term funds	11	4 411 739	4 356 895	4 411 739	4 356 895
Derivative financial instruments	12	49 606	55 181	49 606	55 181
Advances to banks		789 903	650 912	789 903	650 912
Advances to customers	13	15 939 047	15 478 937	15 939 047	15 478 937
Investment securities	15	4 135 220	3 360 091	4 135 220	3 360 091
Current taxation	32	106 768	65 267	104 224	65 267
Deferred taxation	8	7 054	-	-	-
Due from related parties	16	6 388	9 465	6 388	9 465
Accounts receivable	17	317 627	357 133	209 339	276 948
Investments in subsidiaries	18	-	-	13 540	13 540
Property and equipment	19	481 307	507 584	439 678	476 698
Goodwill	20	26 963	26 963	26 589	26 589
Total assets		26 271 622	24 868 428	26 125 273	24 770 523
EQUITY AND LIABILITIES					
Liabilities					
Deposits from banks	22	581 243	730 109	581 243	730 109
Deposits from customers	21	19 591 409	18 834 336	19 591 409	18 834 336
Accrued interest payable		63 566	51 893	63 566	51 893
Derivative financial instruments	12	14 844	20 315	14 844	20 315
Due to related parties	16	32 898	73 861	120 870	174 979
Creditors and accruals	24	863 734	459 948	809 565	450 010
Employee benefits liabilities	25	85 894	82 800	85 867	82 865
Borrowings	23	1 502 642	1 288 927	1 502 642	1 288 927
Current taxation	32	-	7 699	-	-
Deferred taxation		200 623	200 780	196 870	196 464
Total liabilities		22 936 853	21 750 668	22 966 876	21 829 898
Capital and reserves attributable to ordinary equity holders					
Stated capital	28	51 088	51 088	51 088	51 088
Reserves	29	3 029 311	2 837 739	2 852 939	2 660 604
Dividend reserve		254 370	228 933	254 370	228 933
Total equity		3 334 769	3 117 760	3 158 397	2 940 625
Total Equity and Liabilities		26 271 622	24 868 428	26 125 273	24 770 523

Statements of Changes in Equity

for the year ended 30 June 2019

	Stated capital P '000	FVOCI reserve/Available for-sale reserve P '000	Other non-distributable reserves P '000	Dividend reserve P '000	Retained income P '000	Total equity P '000
Group						
Balance at 01 July 2017	51 088	-	44 322	153 822	2 503 633	2 752 865
Reclassification between reserves (note 29)	-	-	30 000	-	(30 000)	-
Balance at 01 July 2017 - as restated	51 088	-	74 322	153 822	2 473 633	2 752 865
Profit for the year	-	-	-	-	648 055	648 055
Other comprehensive loss	-	(1 153)	-	-	-	(1 153)
Total comprehensive loss for the year	-	(1 153)	-	-	648 055	646 902
Transfer from revaluation reserve - revaluation portion of depreciation	-	-	(2 645)	-	2 645	-
2017 Final Dividends paid	-	-	-	(153 822)	-	(153 822)
2018 Interim Dividends paid	-	-	-	-	(128 185)	(128 185)
2018 Final Dividends proposed	-	-	-	228 933	(228 933)	-
Total contributions by and distributions to owners of the group recognised directly in equity	-	-	(2 645)	75 111	(354 473)	(282 007)
Balance at 01 July 2018 - restated (before IFRS 9 adjustments)	51 088	(1 153)	71 677	228 933	2 767 215	3 117 760
Effects on IFRS 9 adjustments on advances (note 14)	-	-	-	-	(126 392)	(126 392)
Effect of IFRS 9 implementation on FVOCI reserve/Available-for-sale reserve	-	1 153	-	-	-	1 153
Balance as at 1st July 2018 - as restated	51 088	-	71 677	228 933	2 640 823	2 992 521
Profit for the year	-	-	-	-	732 536	732 536
Other comprehensive loss	-	-	(8 733)	-	-	(8 733)
Total comprehensive loss for the year	-	-	(8 733)	-	732 536	723 803
Transfer from revaluation reserve - revaluation portion of depreciation	-	-	(1 514)	-	1 514	-
2018 Final Dividends paid	-	-	-	(228 933)	-	(228 933)
2019 Interim Dividends paid	-	-	-	-	(152 622)	(152 622)
2019 Final Dividends proposed	-	-	-	254 370	(254 370)	-
Total contributions by and distributions to owners of the group recognised directly in equity	-	-	(1 514)	25 437	(405 478)	(381 555)
Balance at 30 June 2019	51 088	-	61 430	254 370	2 967 881	3 334 769
Note		29		29		

Statements of Changes in Equity [continued]

for the year ended 30 June 2019

	Stated capital P '000	FVOCI reserve/Available for-sale reserve P '000	Other non-distributable reserves P '000	Dividend reserve P '000	Retained income P '000	Total equity P '000
Company						
Balance at 01 July 2017 – as previously stated	58 088	–	28 581	153 822	2 378 436	2 618 927
Reclassification between reserves (note 29)	–	–	30 000	–	(30 000)	–
Balance at 01 July 2017 – as restated	58 088	–	58 581	153 822	2 348 436	2 618 927
Profit for the year	–	–	–	–	608 353	608 353
Other comprehensive loss	–	(1 153)	–	–	–	(1 153)
Total comprehensive loss for the year	–	(1 153)	–	–	608 353	607 200
Transfer from revaluation reserve						
– revaluation portion of depreciation	–	–	(2 169)	–	2 169	–
Repurchase of shares	(7 000)	–	–	–	(39 600)	(46 600)
2018 Wind-up distribution	–	–	–	–	43 105	43 105
2017 Final Dividends paid	–	–	–	(153 822)	–	(153 822)
2018 Interim Dividends paid	–	–	–	–	(128 185)	(128 185)
2018 Final Dividends proposed	–	–	–	228 933	(228 933)	–
Total contributions by and distributions to owners of company recognised directly in equity	(7 000)	–	(2 169)	75 111	(351 444)	(285 502)
Balance at 01 July 2018 – restated (before IFRS 9 adjustments)	51 088	(1 153)	56 412	228 933	2 605 345	2 940 625
Effects of IFRS 9 adjustments on advances (note 14)	–	–	–	–	(126 392)	(126 392)
Effect of IFRS 9 implementation on FVOCI reserve/Available-for-sale reserve	–	1 153	–	–	–	1 153
Balance at 01 July 2018 – as restated	51 088	–	56 412	228 933	2 478 953	2 815 386
Profit for the year	–	–	–	–	733 298	733 298
Other comprehensive loss	–	–	(8 733)	–	–	(8 733)
Total comprehensive loss for the year	–	–	(8 733)	–	733 298	724 565
Transfer from revaluation reserve						
– revaluation portion of depreciation	–	–	(913)	–	913	–
2018 Final Dividends paid	–	–	–	(228 933)	–	(228 933)
2019 Interim Dividends paid	–	–	–	–	(152 622)	(152 622)
2019 Final Dividends proposed	–	–	–	254 370	(254 370)	–
Total contributions by and distributions to owners of company recognised directly in equity	–	–	(913)	25 437	(406 078)	(381 554)
Balance at 30 June 2019	51 088	–	46 766	254 370	2 806 173	3 158 397
Note		29		29		

Statements of Cash Flows

for the year ended 30 June 2019

		GROUP		COMPANY	
	Note(s)	2019 P '000	2018 P '000	2019 P '000	2018 P '000
Cash flows from operating activities					
Cash generated from operations before taxation and working capital changes	30	42 772	10 704	37 714	(41 708)
Interest and similar income		1 617 445	1 507 520	1 617 445	1 507 520
Interest and similar expense		(359 916)	(335 721)	(356 440)	(333 877)
Taxation paid	31	(266 755)	(247 076)	(248 499)	(242 514)
Cash from operating activities		1 033 546	935 427	1 050 220	889 421
Decrease in amounts due to other banks		(148 866)	(667 576)	(148 866)	(667 576)
Increase in deposits and current accounts	33	757 073	1 266 865	757 073	1 266 865
(Decrease)/increase in amounts due to related companies		(40 963)	37 686	(54 109)	26 569
Increase in accrued interest payable		11 673	5 832	11 673	5 832
Increase/(decrease) in creditors and accruals		396 176	(150)	351 953	(1 407)
Increase in employee benefits liabilities		3 094	11 194	3 002	11 397
Increase in investments - FV through profit or loss		(40 016)	(14 098)	(40 016)	(14 098)
Increase in investments - amortised cost		(235 295)	(604 867)	(235 295)	(604 867)
Increase in advances to customers	34	(851 405)	(748 742)	(851 405)	(748 742)
Increase in advances to banks		(138 991)	(650 912)	(138 991)	(650 912)
Increase/(decrease) in accounts receivable		39 506	(68 302)	67 609	(6 630)
Decrease/(increase) in amounts due from related companies		3 077	(17)	3 077	(17)
Cash generated/(utilised in) from operating activities		788 609	(497 660)	775 925	(494 165)
Cash flows from investing activities					
Acquisition of property, plant and equipment	19	(54 539)	(57 147)	(41 855)	(57 147)
Proceeds on disposal of property and equipment		-	182	-	182
Cash utilised in investing activities		(54 539)	(56 965)	(41 855)	(56 965)
Cash flows from financing activities					
Borrowings raised		334 563	126 350	334 563	126 350
Repayment of borrowings		(132 416)	97 724	(132 416)	97 724
Dividends paid	35	(381 555)	(282 007)	(381 555)	(285 502)
Cash utilised in financing activities		(179 408)	(57 933)	(179 408)	(61 428)
Cash movement for the year		554 662	(612 558)	554 662	(612 558)
Cash and cash equivalents at the beginning of the year		5 455 384	6 067 942	5 455 384	6 067 942
Total cash and cash equivalents at end of the year	36	6 010 046	5 455 384	6 010 046	5 455 384

	Note	Group 2019 P '000	Group 2018 P '000	Company 2019 P '000	Company 2018 P '000
2. INTEREST AND SIMILAR INCOME					
Instruments at amortised cost					
Advances		1 415 463	1 355 750	1 415 463	1 355 750
Cash and short term funds		28 602	28 403	28 602	28 403
Related parties	16	68 759	32 504	68 759	32 504
Unwinding of discounted present value of off-market staff loans		1 093	(576)	1 093	(576)
Instruments at fair value through profit and loss					
Investment securities		24 810	24 277	24 810	24 277
Instruments at amortised cost					
Investment securities		78 718	67 162	78 718	67 162
		1 617 445	1 507 520	1 617 445	1 507 520
3. INTEREST AND SIMILAR EXPENSES					
Financial liabilities at amortised cost					
Term deposits		217 000	191 117	213 524	189 273
Current and call accounts		69 038	42 575	69 038	42 575
Savings deposits		5 380	6 697	5 380	6 697
Deposits from banks and other financial institutions		4 726	20 485	4 726	20 485
Related parties	16	14 530	5 804	14 530	5 804
Borrowings		49 242	69 043	49 242	69 043
		359 916	335 721	356 440	333 877
4. NON-INTEREST INCOME					
Fee and commission income (amortised cost):					
Card commissions		272 571	229 545	272 571	229 545
Insurance commissions		3 645	28 276	547	7 525
Facility fees		41 874	32 268	41 874	32 268
Commissions - guarantees and letters of credit		6 816	9 351	6 816	9 351
Cash deposit fees		44 877	44 743	44 877	44 743
Commissions - bills, drafts and cheques		88 527	94 121	88 527	94 121
Service fees		341 034	282 319	339 400	281 311
Commissions - customer services		105 434	93 194	105 432	93 193
Net fee and commission income		904 778	813 817	900 044	792 057
Fair value gains or losses:					
Gain on bond trading		7 328	5 774	7 328	5 774
Net loss arising on financial liabilities at fair value		(5 112)	(1 533)	(5 112)	(1 533)
Foreign exchange trading income		266 984	231 919	266 984	231 919
Fair value gains or losses		269 200	236 160	269 200	236 160

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

	Group		Company	
	2019 P '000	2018 P '000	2019 P '000	2018 P '000
4. NON-INTEREST INCOME [CONTINUED]				
Other non-interest income				
Non-financial assets and liabilities				
(Loss)/profit on sale of property and equipment	(48)	139	(48)	139
Other non-interest (losses)/income	(31 615)	19 532	(29 613)	(14 155)
Other non-interest (losses)/ income	(31 663)	19 671	(29 661)	(14 016)
Total non-interest income	1 142 315	1 069 648	1 139 583	1 014 201
5. OPERATING EXPENSES				
Audit fees				
Current year	6 332	4 706	6 332	4 706
Prior years	2 110	87	2 110	87
IFRS 9 day 1 adjustment fees	1 811	-	1 811	-
	10 253	4 793	10 253	4 793
Depreciation				
Buildings	21 426	20 313	19 523	19 690
Motor vehicles	904	494	904	494
Furniture and equipment	47 242	34 198	47 204	34 131
	69 572	55 005	67 631	54 315
Directors' remuneration				
For services as non-executive directors	4 163	3 253	4 163	3 253
For services as executive directors	5 514	4 989	5 514	4 989
	9 677	8 242	9 677	8 242
Operating lease charges				
Premises				
•– Contractual amounts	24 997	23 785	26 638	24 404
•– Straight line lease rental adjustments	(195)	447	(195)	447
Equipment				
•– Contractual amounts	(1 057)	(2 046)	(1 057)	(2 046)
Operating lease charges	23 745	22 186	25 386	22 805
Service fee paid to related company				
- Systems	109 854	95 688	109 854	95 688
- Services	61 715	73 343	61 715	73 343
- Products	20 985	26 580	20 028	26 580
	192 554	195 611	191 597	195 611
Profit on exchange differences	(1 776)	(1 144)	(1 776)	(1 144)
Professional fees	16 326	23 067	16 233	22 970

	GROUP		COMPANY	
	2019 P '000	2018 P '000	2019 P '000	2018 P '000
5. OPERATING EXPENSES [CONTINUED]				
Other operating expenses				
Advertising and marketing	32 793	45 912	32 793	45 912
Communication	27 085	32 208	27 025	32 093
Computer expenditure	15 622	15 756	15 622	15 702
Property maintenance	52 948	46 078	52 238	45 906
Stationery, storage and postage	21 704	24 790	21 619	24 679
Service fees	66 051	55 619	66 051	55 616
Other	60 498	46 369	65 069	45 739
Other operating costs	276 701	266 732	280 417	265 647
Total operating expenses	597 052	574 492	599 418	573 239
6. EMPLOYEE BENEFIT EXPENSES				
Direct employee costs				
Salaries, wages, and allowances	452 985	427 702	451 432	425 728
Defined contribution schemes: medical and other staff funds	72 103	64 871	71 775	64 501
Share based payments expense - cash settled	7 799	16 123	7 799	16 123
Leave pay	11 328	11 471	11 254	11 395
Other	31 334	18 691	31 312	18 653
	575 549	538 858	573 572	536 400

Details of the post retirement benefits are provided separately in note 27

	GROUP 2019 P '000	GROUP 2018 P '000	COMPANY 2019 P '000	COMPANY 2018 P '000
7. TAXATION				
Indirect taxation				
Value added tax	16 984	15 720	16 977	15 689
Direct taxation				
Current taxation				
Local income tax - current period	217 555	196 941	209 542	185 888
Deferred taxation				
Originating and reversing temporary differences	(4 744)	(6 787)	2 869	(5 893)
Total direct taxation expense per income statements	212 811	190 154	212 411	179 995
Deferred tax arising on revaluation of property	2 463	-	2 463	-

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

	GROUP		COMPANY	
	2019 P '000	2018 P '000	2019 P '000	2018 P '000
7. TAXATION [CONTINUED]				
Reconciliation of the taxation charge				
Reconciliation between accounting profit and tax expense.				
Profit before direct taxation	945 347	838 209	945 709	788 348
Tax at the applicable tax rate of 22% (2018: 22%)	207 976	184 406	208 056	173 437
Tax effect of adjustments on taxable income				
Section 41 disallowable expenses	2 144	6 543	2 144	6 543
Donations	1 437	1 103	1 437	1 103
Other	1 254	(1 898)	774	(1 088)
Total tax expense per statements of income	212 811	190 154	212 411	179 995
Effective tax rate	22,51 %	22,69 %	22,46 %	22,83 %
8. DEFERRED TAXATION				
Deferred tax liability				
Deferred tax liability	(200 623)	(200 780)	(196 870)	(196 464)
Deferred tax asset				
Deferred tax asset	7 054	-	-	-
Deferred tax liability	(200 623)	(200 780)	(196 870)	(196 464)
Deferred tax asset	7 054	-	-	-
Total net deferred tax liability	(193 569)	(200 780)	(196 870)	(196 464)

A deferred tax asset of P 7 054 000 has been recognised as the directors considered it probable that there will be future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. This is based on management's forecast of future financial performance, position and cashflows of the Group.

	GROUP 2019 P '000	GROUP 2018 P '000	COMPANY 2019 P '000	COMPANY 2018 P '000
Deferred taxation				
Balance at beginning of year	200 780	207 566	196 464	202 357
Temporary differences for the year	(4 744)	(6 787)	2 869	(5 893)
Arising on revaluation of property	(2 463)	-	(2 463)	-
Balance at the end of the year	193 569	200 780	196 870	196 464
The balance comprises				
Accelerated capital allowances	197 506	197 270	195 903	195 667
Arising from revaluation of property	10 393	12 856	6 787	9 250
Other temporary differences	(14 330)	(9 346)	(5 820)	(8 453)
	193 569	200 780	196 870	196 464

9. EARNINGS PER SHARE

Basic earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year, excluding the number of ordinary shares purchased by the Company and held as treasury shares.

Basic earnings per share

	GROUP 2019 P '000	GROUP 2018 P '000
Earnings attributable to ordinary equity holders	732 536	648 055
Number of ordinary shares in issue at beginning and end of year (thousands)	2 543 700	2 543 700
Diluted weighted average number of shares in issue (thousands)	2 543 700	2 543 700
Basic and diluted earnings per share (thebe)	28,80	25,48

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue by the share options in force assuming conversion of all dilutable potential ordinary shares.

10. ANALYSIS OF ASSETS AND LIABILITIES BY CATEGORY

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies on pages 135 to 164 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the statements of financial position per category of financial instrument to which they are assigned and therefore by measurement basis:

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

GROUP – 2019 IFRS 9		At fair value through profit or loss		At fair value through other comprehensive income
	Amortised cost	Mandatory	Designated	Debt
ASSETS				
Cash and short term funds	4 411 739	–	–	–
Advances to banks	789 903	–	–	–
Advances to customers	15 939 047	–	–	–
Due from related parties	6 388	–	–	–
Trade and other receivables	211 214	–	–	–
Investment securities	4 000 459	134 761	–	–
Derivative financial instruments	–	49 606	–	–
Current taxation	–	–	–	–
Deferred taxation	–	–	–	–
Property and equipment	–	–	–	–
Goodwill	–	–	–	–
Total assets	25 358 750	184 367	–	–
LIABILITIES				
Deposits from banks	581 243	–	–	–
Deposits from customers	19 591 409	–	–	–
Borrowings	1 363 089	139 553	–	–
Accrued interest payable	63 566	–	–	–
Due to related parties	32 898	–	–	–
Employee benefits liabilities	–	–	–	–
Creditors and accruals	451 294	–	–	–
Derivatives financial instruments	–	14 844	–	–
Deferred taxation	–	–	–	–
Total liabilities	22 083 499	154 397	–	–

Equity	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
–	–	–	4 411 739	4 411 739	–
–	–	–	789 903	789 903	–
–	–	–	15 939 047	1 733 954	14 205 093
–	–	–	6 388	–	6 388
–	–	106 413	317 627	317 627	–
–	–	–	4 135 220	4 135 220	–
–	–	–	49 606	49 606	–
–	–	106 768	106 768	106 768	–
–	–	7 054	7 054	7 054	–
–	–	481 307	481 307	–	481 307
–	–	26 963	26 963	–	26 963
–	–	728 505	26 271 622	11 551 871	14 719 751
–	–	–	581 243	581 243	–
–	–	–	19 591 409	18 807 275	784 134
–	–	–	1 502 642	178 918	1 323 724
–	–	–	63 566	63 566	–
–	–	–	32 898	–	32 898
–	–	85 894	85 894	85 894	–
–	–	412 440	863 734	863 734	–
–	–	–	14 844	14 844	–
–	–	200 623	200 623	–	200 623
–	–	698 957	22 936 853	20 595 474	2 341 379

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

COMPANY – 2019 IFRS 9		At fair value through profit or loss		At fair value through other comprehensive income
	Amortised cost	Mandatory	Designated	Debt
ASSETS				
Cash and short term funds	4 411 739	–	–	–
Advances to banks	789 903	–	–	–
Advances to customers	15 939 047	–	–	–
Due from related parties	6 388	–	–	–
Trade and other receivables	102 926	–	–	–
Investment securities	4 000 459	134 761	–	–
Derivative financial instruments	–	49 606	–	–
Current taxation	–	–	–	–
Investments in subsidiaries	–	–	–	–
Property and equipment	–	–	–	–
Goodwill	–	–	–	–
Total assets	25 250 462	184 367	–	–
LIABILITIES				
Deposits from banks	581 243	–	–	–
Deposits from customers	19 591 409	–	–	–
Borrowings	1 363 089	139 553	–	–
Accrued interest payable	63 566	–	–	–
Due to related parties	120 870	–	–	–
Employee benefits liabilities	–	–	–	–
Creditors and accruals	397 125	–	–	–
Derivatives financial instruments	–	14 844	–	–
Deferred taxation	–	–	–	–
Total liabilities	22 117 302	154 397	–	–

Equity	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
–	–	–	4 411 739	4 411 739	–
–	–	–	789 903	789 903	–
–	–	–	15 939 047	1 733 954	14 205 093
–	–	–	6 388	–	6 388
–	–	106 413	209 339	209 339	–
–	–	–	4 135 220	4 135 220	–
–	–	–	49 606	49 606	–
–	–	104 224	104 224	104 224	–
–	–	13 540	13 540	–	13 540
–	–	439 678	439 678	–	439 678
–	–	26 589	26 589	–	26 589
–	–	690 444	26 125 273	11 433 985	14 691 288
–	–	–	581 243	581 243	–
–	–	–	19 591 409	18 807 275	784 134
–	–	–	1 502 642	178 918	1 323 724
–	–	–	63 566	63 566	–
–	–	–	120 870	–	120 870
–	–	85 867	85 867	85 867	–
–	–	412 440	809 565	809 565	–
–	–	–	14 844	14 844	–
–	–	196 870	196 870	–	196 870
–	–	695 177	22 966 876	20 541 278	2 425 598

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

GROUP - 2018 IAS 39	Held for Trading	Designated as fair value through profit and loss	Held to maturity	Loans and and receivables	Available for sale financial assets
ASSETS					
Cash and short term funds	-	-	-	4 356 895	-
Advances to banks	-	-	-	650 912	-
Advances to customers	-	-	-	15 478 937	-
Dues from related parties	-	-	-	9 465	-
Trade and other receivables	-	-	-	159 061	-
Investment securities	94 745	-	2 166 857	-	1 098 489
Derivative financial instruments	-	55 181	-	-	-
Current taxation	-	-	-	-	-
Property and equipment	-	-	-	-	-
Goodwill	-	-	-	-	-
Total assets	94 745	55 181	2 166 857	20 655 270	1 098 489
LIABILITIES					
Deposits from banks	-	-	-	-	-
Deposits from customers	-	-	-	-	-
Borrowings	-	127 985	-	-	-
Accrued interest payable	-	-	-	-	-
Due to related parties	-	-	-	-	-
Employee benefits liabilities	-	-	-	-	-
Creditors and accruals	-	-	-	-	-
Derivatives financial instruments	-	20 315	-	-	-
Current tax payable	-	-	-	-	-
Deferred taxation	-	-	-	-	-
Total liabilities	-	148 300	-	-	-

Derivatives designated as hedging instruments	Amortised cost	Non-financial instruments	Total carrying value	Current	Non-current
-	-	-	4 356 895	4 356 895	-
-	-	-	650 912	650 912	-
-	-	-	15 478 937	2 088 466	13 390 471
-	-	-	9 465	-	9 465
-	-	198 072	357 133	357 133	-
-	-	-	3 360 091	1 193 234	2 166 857
-	-	-	55 181	55 181	-
-	-	65 267	65 267	65 267	-
-	-	507 584	507 584	-	507 584
-	-	26 963	26 963	-	26 963
-	-	797 886	24 868 428	8 767 088	16 101 340
-	730 109	-	730 109	730 109	-
-	18 834 336	-	18 834 336	17 186 052	1 648 284
-	1 160 942	-	1 288 927	-	1 288 927
-	51 893	-	51 893	51 893	-
-	73 861	-	73 861	-	73 861
-	-	82 800	82 800	82 800	-
-	299 270	160 678	459 948	459 948	-
-	-	-	20 315	20 315	-
-	-	7 699	7 699	7 699	-
-	-	200 780	200 780	-	200 780
-	21 150 411	451 957	21 750 668	18 538 816	3 211 852

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

COMPANY – 2018 IAS 39	Held for Trading	Designated as fair value through profit and loss	Held to maturity	Loans and and receivables	Available for sale financial assets
ASSETS					
Cash and short term funds	–	–	–	4 356 895	–
Advances to banks	–	–	–	650 912	–
Advances to customers	–	–	–	15 478 937	–
Dues from related parties	–	–	–	9 465	–
Trade and other receivables	–	–	–	159 061	–
Investment securities	94 745	–	2 166 857	–	1 098 489
Derivative financial instruments	–	55 181	–	–	–
Current taxation	–	–	–	–	–
Investments in subsidiaries	–	–	–	–	–
Property and equipment	–	–	–	–	–
Goodwill	–	–	–	–	–
Total assets	94 745	55 181	2 166 857	20 655 270	1 098 489
LIABILITIES					
Deposits from banks	–	–	–	–	–
Deposits from customers	–	–	–	–	–
Borrowings	–	127 985	–	–	–
Accrued interest payable	–	–	–	–	–
Due to related parties	–	–	–	–	–
Employee benefits liabilities	–	–	–	–	–
Creditors and accruals	–	–	–	–	–
Derivatives financial instruments	–	20 315	–	–	–
Deferred taxation	–	–	–	–	–
Total liabilities	–	148 300	–	–	–

Derivatives designated as hedging instruments	Amortised cost	Non-financial instruments	Total carrying value	Current	Non-current
-	-	-	4 356 895	4 356 895	-
-	-	-	650 912	650 912	-
-	-	-	15 478 937	2 088 466	13 390 471
-	-	-	9 465	-	9 465
-	-	198 072	276 948	276 948	-
-	-	-	3 360 091	1 193 234	2 166 857
-	-	-	55 181	55 181	-
-	-	65 267	65 267	65 267	-
-	-	13 540	13 540	-	13 540
-	-	476 698	476 698	-	476 698
-	-	26 589	26 589	-	26 5893
-	-	780 166	24 770 523	8 686 903	16 083 60
-	730 109	-	730 109	730 109	-
-	18 834 336	-	18 834 336	17 186 052	1 648 284
-	1 160 942	-	1 288 927	-	1 288 927
-	51 893	-	51 893	51 893	-
-	174 979	-	174 979	-	174 979
-	-	82 865	82 865	82 865	-
-	289 332	160 678	450 010	450 010	-
-	-	-	20 315	20 315	-
-	-	196 464	196 464	-	196 464
-	21 241 591	440 007	21 829 898	18 521 244	3 308 6

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

		Group		Company	
	Notes	2019 P '000	2018 P '000	2019 P '000	2018 P '000
11. CASH AND SHORT TERM FUNDS					
Coins and bank notes		379 880	309 899	379 880	309 899
Money at call and short notice - related parties	16	48 831	-	48 831	-
Money at call and short notice - other banks		842 103	958 046	842 103	958 046
Balances with Bank of Botswana - Statutory reserve requirement		843 509	765 427	843 509	765 427
Balances with Bank of Botswana - Statutory account balance		21 487	35 171	21 487	35 171
Balances with other banks - related parties	16	2 275 925	1 977 724	2 275 925	1 977 724
Balances with other banks - other banks		4	310 628	4	310 628
		4 411 739	4 356 895	4 411 739	4 356 895
The carrying value of cash and short term funds approximates the fair value.					
Amounts denominated in foreign currencies included in above balances		2 922 054	2 858 469	2 922 054	2 858 469
Balances with Bank of Botswana - Statutory reserve requirement		843 509	765 427	843 509	765 427

Banks are required to deposit a minimum average balance, calculated monthly, with Bank of Botswana. These deposits bear no interest.

Money at short notice constitutes amounts withdrawable in 32 days or less.

12. DERIVATIVE FINANCIAL INSTRUMENTS

Group and company

Strategy in using derivatives:

The group transacts in derivatives for two purposes: to create risk management solutions for clients and to manage and hedge the group's own risk. The group's derivative activities give rise to open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels, with offsetting deals being utilised to achieve this where necessary.

Interest rate swaps

Interest rate derivatives comprising mainly of interest rate swaps and forward rate agreements are utilised for economic hedging purposes to eliminate uncertainity and reduce the risk that the Group faces due to volatile interest rates.

The Group accepts deposits at variable rates and uses fixed interest rate derivatives as economic hedges of future interest payments, effectively converting borrowings from floating to fixed rates. The Group also has assets at fixed rates and uses variable interest rate derivatives as economic hedges of future interest receipts.

The notional amounts of the derivative instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not present the Group's exposure to credit or pricing risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) based on changes in market interest rates. The aggregate notional amount of derivative financial instruments, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair value can fluctuate significantly, over time.

Forward rate agreements

Forward rate agreements are negotiated interest rate contracts that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount.

Currency options

The Group has written foreign currency option contracts that grant the holder the right, but not the obligation, to buy or sell currency at a specified exchange rate during a specified period of time. At the same time, the Group enters into a similar option with a related party in order to manage the risks associated with the options. These options are not designated as hedging instruments; consequently both options are recognised as derivative instruments in assets and liabilities in the statements of financial position. The fair value adjustments arising from valuation of both options are recognised in the profit or loss as part of fair value gains and losses. The premium on inception of the option is immediately recognised in the profit or loss.

Trading derivatives

The Group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities in derivatives are entered into principally for the purpose of generating profits from short term fluctuations in price or margin. Positions may be traded actively or be held over a period of time to benefit from expected changes in currency rates, interest rates or other market parameters. Trading includes market making and positioning activities. Market making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume; positioning entails managing market risk positions in the expectation of benefiting from favourable movements in prices, rates or indices. The trading derivatives relate to all spot and forward foreign exchange contracts which were unsettled as at year end. Further information pertaining to the risk management strategy of the Group is set out in note 39.

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

12. DERIVATIVE FINANCIAL INSTRUMENTS [CONTINUED]

Group and Company

2019 IFRS 9	Assets		Liabilities	
	Notional P '000	Fair value P '000	Notional P '000	Fair value P '000
Currency derivatives				
Currency options	70 438	1 791	70 438	1 791
Trading derivatives	284 561	1 189	306 207	1 875
Currency swaps	100 000	229	-	-
Interest rate derivatives				
Interest rate swaps	461 383	46 397	353 509	11 178
	916 382	49 606	730 154	14 844
Related party derivatives included in above balances				
Currency options	66 652	1 150	-	-
Trading derivatives	168 579	454	149 727	964
Interest rate swaps	327 800	43 412	133 583	2 985
	563 031	45 016	283 310	3 949
2018 IAS 39				
Currency derivatives				
Trading derivatives	796 341	5 630	859 832	6 691
Interest rate derivatives				
Interest rate swaps	461 383	49 551	353 509	13 624
	1 257 724	55 181	1 213 341	20 315
Related party derivatives included in above balances				
Trading derivatives	80 968	381	261 195	3 145
Interest rate swaps	327 800	41 116	133 583	8 435
	408 768	41 497	394778	11 580

	Note	Group 2019 P '000	Group 2018 P '000	Company 2019 P '000	Company 2018 P '000
13. ADVANCES TO CUSTOMERS					
Sector analysis		IFRS 9	IAS 39	IFRS 9	IAS 39
Agriculture		344 584	387 077	344 584	387 077
Building and property development		570 167	540 329	570 167	540 329
Business and trade		4 425 004	4 449 786	4 425 004	4 449 786
Individuals		10 826 495	9 995 180	10 826 495	9 995 180
Manufacturing		460 010	461 598	460 010	461 598
Mining		46 735	78 662	46 735	78 662
Transport and communications		311 624	380 864	311 624	380 864
Gross advances		16 984 619	16 293 496	16 984 619	16 293 496
Contractual interest suspended		-	(170 929)	-	(170 929)
Gross advances after contractual interest suspended		16 984 619	16 122 567	16 984 619	16 122 567
Less : loss allowance	14	(1 045 572)	(643 630)	(1 045 572)	(643 630)
Net advances		15 939 047	15 478 937	15 939 047	15 478 937
Category analysis					
Term loans		7 365 625	7 135 620	7 365 625	7 135 620
Suspensive sale debtors		1 451 641	1 331 280	1 451 641	1 331 280
Property loans		5 873 882	5 427 287	5 873 882	5 427 287
Overdrafts and managed accounts		1 239 638	1 422 393	1 239 638	1 422 393
Other		216 746	213 509	216 746	213 509
Lease payments receivable		837 087	763 407	837 087	763 407
Gross advances		16 984 619	16 293 496	16 984 619	16 293 496
Contractual interest suspended		-	(170 929)	-	(170 929)
Gross advances after contractual interest suspended		16 984 619	16 122 567	16 984 619	16 122 567
Less : loss allowance	14	(1 045 572)	(643 630)	(1 045 572)	(643 630)
Net advances		15 939 047	15 478 937	15 939 047	15 478 937
Maturity analysis					
Maturity within one year		1 943 790	2 205 982	1 943 790	2 205 982
Maturity between one and five years		3 817 562	5 872 379	3 817 562	5 872 379
Maturity more than five years		11 223 267	8 215 135	11 223 267	8 215 135
		16 984 619	16 293 496	16 984 619	16 293 496

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

13. ADVANCES TO CUSTOMERS [CONTINUED]

	IFRS 9 - 2019			IAS 39 - 2018		
Group and Company	**Suspensive sale debtors and lease payment receivable**	**Less: unearned finance charges**	**Net**	**Suspensive sale debtors and lease receivable**	**Less: unearned finance charges payment**	**Net**
- within one year	213 666	(32 888)	180 778	202 495	(33 978)	168 517
- between one and five years	2 448 688	(376 912)	2 071 776	1 892 192	(317 482)	1 574 710
	2 662 354	(409 800)	2 252 554	2 094 687	(351 460)	1 743 227

These loans have been made under normal commercial terms and conditions. The above advances only expose the Group to credit risk in Botswana.

Included in the above are advances to:						
- Directors and key management personnel			22 180	16 525	22 180	16 525

2019 IFRS 9	**Amortised cost**	**Fair value through profit or loss**	**Fair value through other comprehe-nsive income**	**Loss allowance**	**Total**
Term loans	7 365 625	-	-	(471 203)	6 894 422
Suspensive sale debtors and lease payments	2 288 728	-	-	(105 635)	2 183 093
Property loans	5 873 882	-	-	(242 821)	5 631 061
Overdraft and managed account	1 239 638	-	-	(206 512)	1 033 126
Other	216 746	-	-	(19 401)	197 345
Total	16 984 619	-	-	(1 045 572)	15 939 047
Retail	9 202 997	-	-	(404 816)	8 798 181
Business	3 252 785	-	-	(504 157)	2 748 628
RMB	1 866 483	-	-	(30 964)	1 835 519
WesBank	2 662 354	-	-	(105 635)	2 556 719
Total	16 984 619	-	-	(1 045 572)	15 939 047

13. ADVANCES TO CUSTOMERS [CONTINUED]

Reconciliation of the gross carrying amount of advances measured at amortised cost

	Stage 1	Stage 2	Stage 3	Total
Amount as at 30 June 2018 (IAS 39)	13 634 706	1 525 513	962 348	16 122 567
IFRS 9 adjustments - reclassification of contractual interest suspended from advances	-	-	170 929	170 929
Amount as at 1st July 2018 after reclassification of contractual interest suspended from advances	13 634 706	1 525 513	1 133 277	16 293 496
Transfers to stage	587 459	(575 903)	(11 556)	-
Transfers to stage 2	(523 681)	565 446	(41 765)	-
Transfers to stage 3	(356 913)	(231 476)	588 389	-
Bad debts written off	-	-	(244 284)	(244 284)
New business and changes in exposure	1 444 963	(231 217)	(278 339)	935 407
Amount as at 30 June 2019 (IFRS 9)	14 786 534	1 052 363	1 145 722	16 984 619

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

14. IMPAIRMENT OF ADVANCES

Significant loans and advances are monitored by the Director of the Credit Division and impaired according to the Group's impairment policy.

Reconciliation of the expected credit loss allowance on total advances (IFRS 9)

Group and Company	Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Total P'000
Amount as at 30 June 2018 (IAS 39)	126 489	117 132	400 009	643 630
IFRS 9 adjustment - day 1 resulting from estimation of expected credit loss (ECL)	61 310	69 721	(4 639)	126 392
Reallocation of contractual interest suspended from advances	-	-	170 929	170 929
Amount as at 1st July 2018 (IFRS 9)	187 799	186 853	566 299	940 951
Transfers to stage	35 936	(35 933)	(3)	-
Transfers to stage 2	(7 040)	10 914	(3 874)	-
Transfers to stage 3	(2 335)	(44 580)	46 915	-
Other	10 818	(10 818)	-	-
Interest suspended (ECL on amortised cost (AC))	-	-	42 152	42 152
Bad debts written off	-	-	(244 284)	(244 284)
Increase/(decrease) in impairment				
- Changes in models and risk parameters	4 818	(37 843)	66 158	33 133
- New business and changes in exposure	21 905	40 973	25 769	88 647
- Changes in economic forecasts	2 200	41 428	-	43 628
- Provision (released)/created due to transfers	(43 792)	44 443	140 694	141 345
Amount as at 30 June 2019	210 309	195 437	639 826	1 045 572
Term loans	107 835	55 776	307 592	471 203
Suspensive debtors sale and lease payments receivable	17 611	27 278	60 746	105 635
Property loans	36 344	56 724	149 753	242 821
Overdrafts and managed accounts	42 034	45 119	119 359	206 512
Other	6 485	10 540	2 376	19 401
Amount as at 30 June 2019	210 309	195 437	639 826	1 045 572
Retail	119 319	99 615	185 882	404 816
Commercial	65 224	45 735	393 197	504 156
RMB	8 155	22 809	-	30 964
WesBank	17 611	27 278	60 747	105 636
Amount as at 30 June 2019 (IFRS 9)	210 309	195 437	639 826	1 045 572
Provision (released)/created for the current reporting period (ECL on AC)	(14 869)	89 001	232 621	306 753
Post write-off recoveries (ECL on AC)	-	-	-	(41 841)
Impairment recognised in the income statement (ECL on AC)	(14 869)	89 001	232 621	264 912

14. IMPAIRMENT OF ADVANCES [CONTINUED]

Reconciliation of the gross carrying amount of advances measured at amortised cost

2018 IAS 39 **Group and company**	**Corporate & commercial P'000**	**Retail P'000**	**Total Impairment P'000**
Specific impairment			
At the beginning of the year	158 701	152 982	311 683
Amounts written off	(57 640)	(110 788)	(168 428)
	101 061	42 194	143 255
Impairment loss recognised in the income statement			
New and increased provision	170 590	248 041	418 631
Release of provision	(120 796)	(108 885)	(229 681)
	49 794	139 156	188 950
At the end of the year	150 855	181 350	332 205
Present valuation of security adjustment			
At the beginning of the year	21 764	59 721	81 485
Charge/(release) to the income statement	18 349	(32 279)	(13 930)
At the end of the year	40 113	27 442	67 555
Total specific impairment	190 968	208 792	399 760
Recoveries of bad debts previously written off	(4 658)	(6 618)	(11 276)
Portfolio impairment			
At the beginning of the year	16 270	42 436	58 706
Charge to the income statement	3 626	38 505	42 131
At the end of the year	19 896	80 941	100 837
Incurred but not recognised (IBNR) impairment			
At the beginning of the year	34 138	40 602	74 740
Charge to the income statement	22 701	45 592	68 293
At the end of the year	56 839	86 194	143 033
Total charge to the income statement	89 812	184 356	274 168
Total impairment at the end of the year	267 703	375 927	643 630

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

14. IMPAIRMENT OF ADVANCES [CONTINUED]

Group and Company	Security held P'000	Specific Impairment P'000	Total P'000
Non-performing advances - loans and receivables:			
Sector analysis - 2019			
Agriculture	51 756	45 750	97 506
Building and property development	133 491	128 483	261 974
Individuals	162 219	205 735	367 954
Manufacturing and commerce	127 557	202 412	329 969
Transport and communication	28 008	30 924	58 932
Other advances	2 879	26 522	29 401
Total non-performing advances - 30 June 2019	**505 910**	**639 826**	**1 145 736**
Sector analysis - 2018			
Agriculture	47 476	37 289	84 765
Building and property development	118 561	111 892	230 453
Individuals	197 505	226 019	423 524
Manufacturing and commerce	140 477	137 616	278 093
Transport and communication	19 844	19 230	39 074
Other advances	38 738	38 643	77 381
Total non-performing advances -30 June 2018	**562 601**	**570 689**	**1 133 290**
Category analysis - 2019			
Overdrafts and managed accounts	66 079	119 359	185 438
Term loans	129 314	307 592	436 906
Suspensive and instalment sale debtors	24 905	60 747	85 652
Property loans	285 612	149 753	435 365
Other advances	-	2 375	2 375
Total non-performing advances -30 June 2019	**505 910**	**639 826**	**1 145 736**
Category analysis - 2018			
Overdrafts and managed accounts	64 820	115 782	180 602
Term loans	157 755	282 997	440 752
Suspensive and instalment sale debtors	37 869	49 945	87 814
Property loans	302 157	119 818	421 975
Other advances	-	2 147	2 147
Total non-performing advances - 30 June 2018	**562 601**	**570 689**	**1 133 290**

Contractual interest suspended	Group and Company 2019 P '000
At the beginning of the year	170 929
Written-off during the year	(13 012)
Suspended during the year	38 154
At the end of the year	**196 071**

15. INVESTMENT SECURITIES

Reconciliation of the gross carrying amount of advances measured at amortised cost

Group and Company – 2019 IFRS 9	Fair value through profit or loss P'000	Amortised cost P'000	Total P'000
Bank of Botswana certificates	-	1 598 307	1 598 307
Government bonds	-	2 003 884	2 003 884
Government and parastatal bonds	134 761	-	134 761
Corporate bonds	-	100 257	100 257
Treasury bills	-	298 011	298 011
	134 761	4 000 459	4 135 220

Group and Company – 2018

IAS 39	Held for trading P '000	Held to maturity P '000	Available -for-sale P '000	Total P '000
Bank of Botswana certificates	-	-	1 098 489	1 098 489
Government bonds	-	2 018 675	-	2 018 675
Government and parastatal bonds	94 745	-	-	94 745
Treasury bills	-	148 182	-	148 182
	94 745	2 166 857	1 098 489	3 360 091

P1 598 307 000 (2018: P 1 098 489 000) of the Bank of Botswana Certificates form part of the Group's liquid assets portfolio in terms of section 16 (5) of the Banking Act (Cap 46:04).

The Bank of Botswana Certificates have maturities ranging from one to three months.

Repurchase and securities lending transactions

	Advances to banks		Associated liabilities recognised in deposits	
	2019 IFRS 9 P'000	2018 IAS 39 P'000	2019 IFRS 9 P'000	2018 IAS 39 P'000
Repurchase agreements	789 903	650 912	-	-

Both the transferred investments and related deposits under repurchase agreements are designated at fair value through profit or loss.

	2019 IFRS 9 P'000	2018 IAS 39 P'000
Loss allowance on investment securities	76	-
Total Investment securities		
Analysis of Investment securities		
Amortised cost	76	-
Total Investment securities	76	-

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

16. RELATED PARTIES

Relationships:	
Ultimate holding company	FirstRand Limited
Holding company	First National Bank Holdings (Botswana) Limited
Subsidiaries	Refer to note 18
Common management	FirstRand Limited - South Africa

The Group identifies a related party if an entity or individual:

- directly, or indirectly through one or more intermediaries, controls, is controlled by, or is for common control with, the entity (this includes parent companies, subsidiaries and fellow subsidiaries) (Refer to Note 18 for subsidiaries);
- – has an interest in the entity that gives it significant influence over the entity; has control over the entity;
- – is an associate company, joint venture, or is jointly controlled; or
- – is a member of key management personnel of the Group.

Key management personnel comprise Non-executive Directors, the Chief Executive Officer, the Chief Risk Officer, the Chief Operating Officer, the Chief Financial Officer, the Director of Human Resources, the Treasurer and the Director of Credit.

Related party balances

Due from related parties		2019 P'000	2018 P'000	2019 P'000	2018 P'000
FirstRand Limited - South Africa		2 324 756	1 977 724	2 324 756	1 977 724
First National Bank Holdings (Botswana) Limited		6 388	9 465	6 388	9 465
		2 331 144	1 987 189	2 331 144	1 987 189
Less money at call and short notice					
FirstRand Limited - South Africa - call balances	11	(48 831)	-	(48 831)	-
FirstRand Limited - South Africa - nostro balances	11	(2 275 925)	(1 977 724)	(2 275 925)	(1 977 724)
		6 388	9 465	6 388	9 465
Due to/(from) related companies- current liabilities					
Financial Services Company (Proprietary) Limited		-	-	8 972	7 228
Financial Services Properties (Proprietary) Limited		-	-	(47)	(47)
First National Insurance Agency (Proprietary) Limited		-	-	78 035	92 925
First Funding (Proprietary) Limited		-	-	1 000	1 000
Plot Four Nine Seven Two (Proprietary) Limited		-	-	12	12
FirstRand Limited - South Africa		32 898	73 861	32 898	73 861
Due to related companies - creditors and accruals		32 898	73 861	120 870	174 979

Refer to Note 21 for amounts included in deposits from customers and Note 22 for amounts included in deposits from banks.

	GROUP		COMPANY	
	2019 P '000	2018 P '000	2019 P '000	2018 P '000
16. RELATED PARTIES [CONTINUED]				
Related party transactions				
Transactions were carried out in the ordinary course of business, were not secured, and were supported as detailed below:				
Interest income				
FirstRand Limited - South Africa	68 759	32 504	68 759	32 504
Interest expenditure				
FirstRand Limited - South Africa	14 530	5 804	14 530	5 804
Operating expenses:				
Rent paid - Subsidiary companies	–	–	–	667
Service fees - FirstRand Limited (Note 5)	192 554	195 611	191 597	195 611
	192 554	195 611	191 597	196 278
Transactions with key management personnel:				
Compensation paid to key management personnel				
Share-based payments	3 204	2 572	3 204	2 572
Short term employee benefits	15 255	17 733	15 255	17 733
Total short term benefits	18 459	20 305	18 459	20 305
Post employment benefits				
Pension	746	590	746	590
Advances				
Personal loans	2 526	1 152	2 526	1 152
Overdrafts	73	99	73	99
Credit card	406	253	406	253
Vehicle finance	2 771	2 504	2 771	2 504
Property loans	16 404	12 517	16 404	12 517
Total advances	22 180	16 525	22 180	16 525

No impairments have been recognised in respect of the above advances (2018: P Nil). Interest rates are in line with staff rates in line with company policy. For all the above facilities, normal credit checks are performed.

Personal loans are repayable over 4 years. Property loans and instalment finance loans are repayable monthly over 20 years, and 5 years respectively. Property loans are collaterised by properties with a total fair value of P19 135 000 (2018: P 18 565 000).

Personal loans, overdrafts and credit card balances are unsecured.

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

	Group		Company	
	2019 P '000	2018 P '000	2019 P '000	2018 P '000
17. ACCOUNTS RECEIVABLE				
Suspense accounts	418	203 273	418	168 049
School debentures	188	409	188	409
Other sundry debtors	317 021	153 451	208 733	108 490
Total group carrying amount of accounts receivable	317 627	357 133	209 339	276 948

The above carrying value of accounts receivable approximates their fair value. These are neither past due nor impaired.

18. INVESTMENTS IN SUBSIDIARY COMPANIES

The following table lists the entities which are 100% controlled and owned by the group, either directly or indirectly through subsidiaries.

Company

Name of company	Nature of business	Carrying amount 2019	Carrying amount 2018
Financial Services Company of Botswana Limited	Property owning company	12 500	12 500
First Funding (Proprietary) Limited	Group loan scheme	1 000	1 000
Premium Credit Botswana (Proprietary) Limited	Insurance premium finance	10	10
First National Insurance Agency (Proprietary) Limited	Insurance agency	30	30
		13 540	13 540

19. PROPERTY AND EQUIPMENT

Group	2019			2018		
	Cost or valuation	Accumulated depreciation	Carrying value	Cost or valuation	Accumulated depreciation	Carrying value
Freehold and leasehold land and buildings	311 820	(2 455)	309 365	380 044	(48 196)	331 848
Leasehold improvements	146 449	(74 703)	71 746	124 996	(65 355)	59 641
Furniture and equipment	292 643	(207 750)	84 893	261 214	(164 037)	97 177
Motor vehicles	11 433	(8 844)	2 589	10 496	(7 940)	2 556
Capital - Work in progress	12 714	-	12 714	16 362	-	16 362
Total	775 059	(293 752)	481 307	793 112	(285 528)	507 584
Company						
Freehold and leasehold land and buildings	282 660	-	282 660	349 608	(46 368)	303 240
Leasehold improvements	144 105	(74 703)	69 402	122 652	(65 355)	57 297
Furniture and equipment	292 543	(207 546)	84 997	261 100	(163 857)	97 243
Motor vehicles	11 433	(8 844)	2 589	10 496	(7 940)	2 556
Capital - Work in progress	30	-	30	16 362	-	16 362
Total	730 771	(291 093)	439 678	760 218	(283 520)	476 698

19. PROPERTY AND EQUIPMENT [CONTINUED]

Reconciliation of property and equipment - Group - 2019

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Total
Freehold and leasehold land and buildings	331 848	-	-	792	(11 196)	(12 079)	309 365
Leasehold improvements	59 641	4 253	-	17 199	-	(9 347)	71 746
Furniture and equipment	97 177	19 111	(48)	15 895	-	(47 242)	84 893
Motor vehicles	2 556	171	-	766	-	(904)	2 589
Capital - Work in progress	16 362	31 004	-	(34 652)	-	-	12 714
	507 584	54 539	(48)	-	(11 196)	(69 572)	481 307

Reconciliation of property and equipment - Group - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Freehold and leasehold land and buildings	337 548	5 473	-	1 443	(12 616)	331 848
Leasehold improvements	60 359	6 979	-	-	(7 697)	59 641
Furniture and equipment	84 186	44 146	(36)	3 090	(34 198)	97 177
Motor vehicles	2 508	549	(7)	-	(494)	2 556
Capital - Work in progress	20 895	-	-	(4 533)	-	16 362
	505 496	57 147	(43)	-	(55 005)	507 584

Cost or valuation consists of:

	30 June 2019 P'000	30 June 2018 P'000
Freehold and leasehold land and buildings - cost	348 136	347 344
Freehold and leasehold land and buildings - valuation adjustment	(36 316)	32 430
Leasehold land improvements - cost	146 449	124 996
Capital work-in-progress	12 714	16 632
Motor vehicles - cost	11 433	10 496
Furniture and equipment - cost	292 643	261 214
	775 059	793 112

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

19. PROPERTY AND EQUIPMENT [CONTINUED]

Reconciliation of property and equipment - Company - 2019

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Total
Freehold and leasehold land and buildings	303 240	-	-	792	(11 196)	(10 176)	282 660
Leasehold improvements	57 297	4 253	-	17 199	-	(9 347)	69 402
Furniture and equipment	97 243	19 111	(48)	15 895	-	(47 204)	84 997
Motor vehicles	2 556	171	-	766	-	(904)	2 589
Capital - Work in progress	16 362	18 320	-	(34 652)	-	-	30
	476 698	41 855	(48)	-	(11 196)	(67 631)	439 678

Reconciliation of property and equipment - Company - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Freehold and leasehold land and buildings	308 317	5 473	-	1 443	(11 993)	303 240
Leasehold improvements	58 015	6 979	-	-	(7 697)	57 297
Furniture and equipment	84 175	44 146	(36)	3 090	(34 131)	97 243
Motor vehicles	2 508	549	(7)	-	(494)	2 556
Capital - Work in progress	20 895	-	-	(4 533)	-	16 362
	473 910	57 147	(43)	-	(54 315)	476 698

Cost or valuation consists of:

	30 June 2019 P'000	30 June 2018 P'000
Freehold and leasehold land and buildings - cost	328 779	327 987
Freehold and leasehold land and buildings - valuation adjustment	(46 119)	21 621
Leasehold land improvements - cost	144 105	122 652
Capital work-in-progress	30	16 362
Motor vehicles - cost	11 433	10 496
Furniture and equipment - cost	292 543	261 100
	730 771	760 218

19. PROPERTY AND EQUIPMENT [CONTINUED]

Revaluations

Group and company

Revaluation of property

Freehold and leasehold land and buildings consist of commercial and residential properties. The properties were valued by Stocker Fleetwood-Bird, Realreach (Pty) Ltd, Riberry, Kwena Property Services, Roscoe Bonna Valuers and Aheadprop Property Consultancy, professional, independent property valuers in June 2019, on the basis of open market values for existing use. Properties are revalued every three years.

Details of the Group's freehold and leasehold land and buildings and information about the fair value hierarchy as at the end of the reporting period are as follows

2019 financial year

Valuation technique

- Cost approach

Fair value hierarchy and sensitivity analysis

- Level 3.
- The sensitivity analysis applied a 5% increase/decrease to the market value per square metre of each property in the portfolio. The fair value of the property portfolio of P309 365 000 will therefore increase/decrease by P15 468 000 based on the 5% sensitivity.

Description of valuation technique

- The net income based on the rental for comparable properties is divided by the capitalisation rate.

Unobservable inputs

- Rental per square metre: P60 - P119
- Capitalisation rate: 8 - 10%

Description of valuation technique

- The cost approach is a method which surmises that the price a buyer should pay for a property should be the cost of erecting a similar building adjusted for depreciation.

The valuation techniques used were similar to the ones used in 2016 when a revaluation of the assets was last carried out.

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

20. GOODWILL

Group	2019			2018		
	Cost	Accumulated impairment	Carrying value	Cost o	Accumulated impairment	Carrying value
Goodwill	26 963	–	26 963	26 963	–	26 963
Company						
Goodwill	26 589	–	26 589	26 589	–	26 589

The P26,589,000 goodwill in the Company relates to the First Funding lending book. The balance has been allocated directly to First Funding a division of First National Bank of Botswana Limited. First Funding a division of First National Bank of Botswana Limited is the smallest identifiable group of assets that generates cash. The additional P374 000 goodwill at the Group relates to Premium Credit (Proprietary) Limited who's nature of business is insurance premium financing.

21. DEPOSITS FROM CUSTOMERS

Group and Company	P '000	P '000
Current and managed accounts	6 878 825	6 323 196
Savings accounts	1 204 175	1 117 642
Call and term deposits	11 508 409	11 393 498
	19 591 409	18 834 336

Included in the call and term deposits is a balance of P8 313 399 (2018: P 89 942 149) relating to First National Bank Holdings (Botswana) Limited.

Maturity analysis	P '000	P '000
Withdrawal on demand	15 519 507	13 446 241
Maturing within one year	3 782 432	5 041 436
Maturing two to five years	289 470	346 659
	19 591 409	18 834 336

The maturity analysis is based on the remaining months to maturity from the reporting date.

22. DEPOSIT FROM BANKS

Group and Company	P '000	P '000	P '000	P '000
Unsecured and payable on demand	581 243	730 109	581 243	730 109
	581 243	730 109	581 243	730 109

Included in this amount is a balance due to FirstRand Bank Limited of P10 589 000 (2018: P 47 000), First National Bank Zambia P- (2018: P 448 000), and First National Bank Swaziland P47 000 (2018: P 41 000), First National Bank Tanzania P25 000 (2018: P 27 000) and First National Bank South Africa P348 530 000 (2018: P 397 919 000).

	Group		Company	
	2019 P '000	2018 P '000	2019 P '000	2018 P '000
23. BORROWINGS				
Subordinated Unsecured Bonds (Qualifying as Tier 2 capital)				
Floating rate				
161,84 Medium Term Notes of P1 000 000 each	161 840	161 840	161 840	161 840
(2018:161,00 at P1 000 000 each) Fixed rate				
40,00 Medium Term Notes of P1 000 000 each	40 000	40 000	40 000	40 000
(2018:40,00 at P1 000 000 each)				
	201 840	201 840	201 840	201 840
Unsubordinated Unsecured Bonds				
Floating rate	364 060	364 060	364 060	364 060
36 406,00 Medium Term Notes of P10 000 each				
(2018:23 771,00 at P10 000 each)				
	565 900	565 900	565 900	565 900
Zero coupon deposits				
Botswana Life Insurance Limited (BLIL)	139 553	127 985	139 553	127 985
(Proprietary) Limited - 15 year zero coupon deposit				
Other zero coupons deposits	575 979	529 477	575 979	529 477
	715 532	657 462	715 532	657 462
Negotiable Certificates of deposit	221 210	65 565	221 210	65 565
Total borrowings	1 502 642	1 288 927	1 502 642	1 288 927

The Subordinated Unsecured Registered Bonds bear interest at fixed and floating rates of 7,48% and Bank rate plus 180 basis points per annum respectively and mature in December 2021. Interest is paid semi-annually on the fixed rate note and quarterly on the floating rate note.

Unsubordinated Unsecured bond notes rank after claims of senior creditors and claims of depositors and mature in December 2021. These bear interest at floating rates of between bank rate plus 75 basis points and bank rate plus 100 basis points.

The 15 year zero coupon deposit from BLIL bears interest at a fixed rate of 8,98% and matures In 2026. Repayments of P50 million will be made in 2023, 2024, 2025, and 2026 respectively. The deposit is carried at fair value.

The other zero coupon deposits are at fixed rates of interest ranging between 1.44% and 1.46%, with Fleming Asset Management Botswana maturing in January 2026 and Botswana Insurance Fund Management with maturities ranging from August 2020 to January 2026.

The negotiable certificate of deposits are from Botswana Insurance Fund Management (BIFM) for P65 million at a rate of 9% maturing in February 2027, Botswana Development Corporation (BDC) for P104 million at a rate of 5% maturing in September 2023, Botswana Public Officers Pension Fund (BPOPF - Allan Gray portfolio) for P50 million at a rate of 5% maturing in September 2023, Orange Botswana (Pty) Limited for P786 000 at a rate of 5% maturing in August 2028, and Ecsponent Asset Management for P455 000 at a rate of 5% maturing in May 2023.

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

	Group		Company	
	2019 P '000	2018 P '000	2019 P '000	2018 P '000
23. BORROWINGS [CONTINUED]				
Reconciliation of borrowings				
Opening balance	1 288 927	1 059 127	1 288 927	1 059 127
- Proceeds on the issue of liabilities	334 563	229 800	334 563	229 800
- Redemption of liabilities	(120 848)	-	(120 848)	-
Total other liabilities	1 502 642	1 288 927	1 502 642	1 288 927

Financial liabilities

Determined with reference to changes in the mark-to-market yields of own issued bonds. The change in fair value of financial liabilities due to changes in credit risk is immaterial.

Financial liabilities designated as at fair value through profit or loss

	2019 IFRS 9		2018 IAS 39	
	Fair value	Contractually payable at maturity	Fair value	Contractually payable at maturity
Zero coupon deposits	139 553	200 000	127 985	200 000

Total fair value income included in profit or loss for the year

	2019 IFRS 9	2018 IAS 39
Total fair value income for the year has been disclosed as:		
Fair value gains and losses included in non-interest revenue	(11 568)	(10 899)

24. CREDITORS AND ACCRUALS

	Group 2019	Group 2018	Company 2019	Company 2018
Accounts payable	5 942	2 261	6 614	2 540
Other creditors and accruals	441 060	225 209	386 320	214 992
Suspense accounts	394 416	200 656	394 315	200 656
Operating lease liability arising from straight lining of lease payments	3 130	3 325	3 130	3 325
Employee share participation schemes (conditional incentive plan)	14 894	25 684	14 894	25 684
Audit fees	4 292	2 813	4 292	2 813
Creditors and accruals	**863 734**	**459 948**	**809 565**	**450 010**

The directors believe the fair values of the creditors and accruals approximate their carrying amounts.

	Group		Company	
	2019 P'000	2018 P'000	2019 P'000	2018 P'000

25. EMPLOYEE BENEFITS LIABILITIES

	Group 2019 P'000	Group 2018 P'000	Company 2019 P'000	Company 2018 P'000
Leave pay				
At the beginning of the year	27 632	25 857	27 632	25 857
Additional accrual recognised	11 328	11 471	11 254	11 395
Utilised	(8 037)	(9 696)	(7 963)	(9 620)
At the end of the year	30 923	27 632	30 923	27 632
Bonus				
At the beginning of the year	55 168	45 749	55 233	45 611
Additional accrual recognised	60 020	68 045	59 775	67 609
Utilised	(60 217)	(58 626)	(60 064)	(57 987)
At the end of the year	54 971	55 168	54 944	55 233
Total at the end of the year	85 894	82 800	85 867	82 865

The bonus accruals are expected to be settled within the next twelve months.

26. CAPITAL ADEQUACY

Tier 1 - Core capital	Group 30 June 2019 P'000	Group 30 June 2018 P'000
Stated capital	51 088	51 088
Retained income - adjusted to revised operating capital by Bank of Botswana	3 045 411	2 778 785
	3 096 499	2 829 873
Goodwill	(26 963)	(26 963)
	3 069 536	2 802 910
Tier 2 - Supplementary capital		
Stage 1 and 2 provisioning	220 385	196 325
Subordinated Unsecured Bonds	23 201 840	201 840
	422 225	398 165
Total qualifying capital	3 491 761	3 201 075
Risk adjusted assets		
- Credit risk weighted assets (Simple Approach)	17 630 804	15 705 988
- Market risk weighted assets	156 305	66 572
- Operational risk weighted assets	2 252 715	2 071 764
	20 039 824	17 844 324
Capital adequacy ratios (%)	17,42	17,94
Core capital (%) (Basel Committee guide: minimum 4.5%)	15,32	15,71
Supplementary capital (%)	2,10	2,23
Total (%)	17,42	17,94
Bank of Botswana required minimum risk asset ratio (%)	15,00	15,00

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

	Group		Company	
	2019 P '000	2018 P '000	2019 P '000	2018 P '000

26. CAPITAL ADEQUACY [CONTINUED]

The Group largely consists of the Bank, which is a licenced financial institution and is subject to regulatory capital requirements. The capital base of the Group provides the foundation for lending, off-balance sheet transactions and other activities. The capital adequacy of the Group is measured in accordance with the requirements of the Banking Act (Cap 46:04) in terms of which the Bank must maintain a minimum level of capital based on its risk weighted assets and exposures not reflected on the statements of financial position.

27. POST-RETIREMENT FUND LIABILITIES

The Group operates a defined contribution scheme, the assets of which are held in a separate trustee-administered fund. The pension plan is funded by payments from employees and the Group, and the Retirement Funds Act (2014) governs its administration. The fund currently has a total contribution rate of 20% (2018: 20%) of pensionable salary towards retirement funding). This is made up of an employee contribution rate of 7,0% (2018: 7,0%) and an employer contribution rate of 13,0% (2018: 13,0%). The liability of the Group is limited to the contributions made during the employment of the employee.

The Group does not provide post-retirement health care benefits to its employees.

28. STATED CAPITAL

	Group 2019 P '000	Group 2018 P '000	Company 2019 P '000	Company 2018 P '000
Ordinary shares of no par value 2,543,700,000 (2018: 2,543,700,000)	51 088	51 088	51 088	51 088

29. RESERVES

	Group 2019 P '000	Group 2018 P '000	Company 2019 P '000	Company 2018 P '000
Other non-distributable reserves				
Balance at the beginning of the year - (2018: as previously stated)	71 677	44 322	56 412	28 581
Reclassification from retained earnings	-	30 000	-	30 000
Balance at the beginning of the year - (2018: as restated)	71 677	74 322	56 412	58 581
Transfer directly to equity - revaluation portion of depreciation	(1 514)	(2 645)	(913)	(2 169)
Arising on revaluation of properties	(11 196)	-	(11 196)	-
Deferred tax arising on revaluation of properties	2 463	-	2 463	-
Balance at the end of year	61 430	71 677	46 766	56 412
FVOCI debt reserve/available-for-sale reserve				
FVOCI/(Available-for-sale reserve)	(1 153)	-	(1 153)	-
Arising from revaluation	-	(1 153)	-	(1 153)
Transfer of FVOCI available-for-sale reserve to amortised cost of asset	1 153	-	1 153	-
Balance at the end of year	-	(1 153)	-	(1 153)

	Group		Company	
	2019 P '000	2018 P '000	2019 P '000	2018 P '000
29. RESERVES [CONTINUED]				
Retained earnings				
Opening balance - (2018: as previously stated)	2 767 215	2 503 633	2 605 346	2 378 436
Effects of IFRS 9 implementation(note 14)	(126 392)	-	(126 392)	-
Transfer to other non distributable reserves	-	(30 000)	-	(30 000)
Opening balance - (2018: as restated)	2 640 823	2 473 633	2 478 954	2 348 436
Transfers directly from revaluation reserves	1 514	2 645	913	2 169
Repurchase of shares	-	-	-	7 000
Profit for the year	732 536	648 055	733 298	608 353
Ordinary dividends	(152 622)	(128 185)	(152 622)	(128 185)
Special dividend paid	-	-	-	(46 600)
Special dividend received	-	-	-	43 105
Final dividend proposed	(254 370)	(228 933)	(254 370)	(228 933)
Balance at the end of the year	2 967 881	2 767 215	2 806 173	2 605 345
Total reserves (excluding dividend reserve)	3 029 311	2 837 739	2 852 939	2 660 604

PRIOR PERIOD ERROR

The loss arising on the revaluation of a property was offset against the gains on other properties and recognised net in other non-distributable reserves as opposed to being recognised in the income statement when the fixed properties were revalued on 30 June 2016. This has been retrospectively adjusted resulting in changes to the amounts previously recognised in other non-distributable reserves and the retained income, increasing other non-distributable reserves and reducing retained income by P30 million.

30. CASH GENERATED BY OPERATIONS BEFORE TAXATION AND WORKING CAPITAL CHANGES

	Group 2019	Group 2018	Company 2019	Company 2018
Profit before taxation	945 347	838 209	945 709	788 348
Adjustments for:				
Depreciation and amortisation	69 572	55 005	67 631	54 315
Loss/(profit) on sale of property and equipment	48	(139)	48	(139)
Impairment losses on loans and advances	264 912	274 168	264 912	274 168
Unrealised loss on derivative financial instruments	104	1 117	104	1 117
Straight line lease rental adjustments	(195)	447	(195)	447
Net (gain)/loss on financial instruments held at fair value through profit and loss	12 711	(2 427)	12 711	(2 445)
Share-based payment expense - cash settled	7 799	16 123	7 799	16 123
Interest and similar income	(1 617 445)	(1 507 520)	(1 617 445)	(1 507 520)
Interest and similar expenses	359 916	335 721	356 440	333 877
	42 772	10 704	37 714	(41 708)

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

	Group		Company	
	2019 P '000	2018 P '000	2019 P '000	2018 P '000
31. CURRENT INCOME TAX PAID				
Amounts overpaid at the beginning of the year	(65 267)	(8 641)	(65 267)	(8 641)
Amounts underpaid at the beginning of the year	7 699	1 208	-	-
Charged to the income statement	217 555	196 941	209 542	185 888
Amounts overpaid at the end of the year	106 768	65 267	104 224	65 267
Amounts owing at the end of the year	-	(7 699)	-	-
Cash amounts paid	266 755	247 076	248 499	242 514
32. CURRENT INCOME TAXATION LIABILITY/(ASSET)				
Opening liability	(7 699)	(1 208)	-	-
Opening asset	65 267	8 641	65 267	8 641
Charged to the income statement	(217 555)	(196 941)	(209 542)	(185 888)
Cash amounts paid	266 755	247 076	248 499	242 514
Closing net asset	106 768	57 568	104 224	65 267
Closing asset	106 768	65 267	104 224	65 267
Closing liability	-	(7 699)	-	-
	106 768	57 568	104 224	65 267
33. MOVEMENT IN DEPOSITS AND CURRENT ACCOUNTS				
Movement in current and managed account deposits	555 629	271 574	555 629	271 574
Movement in savings deposits	86 533	(60 838)	86 533	(60 838)
Movement in call and term deposits	114 911	1 056 129	114 911	1 056 129
	757 073	1 266 865	757 073	1 266 865
34. MOVEMENT IN ADVANCES TO CUSTOMERS				
Net amount outstanding at the beginning of the year	15 478 937	14 997 373	15 478 937	15 004 363
Impairment of advances	(264 912)	(274 168)	(264 912)	(274 168)
Net amount outstanding at the end of the year	(15 939 046)	(15 478 937)	(15 939 046)	(15 478 937)
Treasury shares adjustment - equity settled scheme	-	6 990	-	-
Effects of IFRS 9 implementation (note 14)	(126 384)	-	(126 384)	-
	(851 405)	(748 742)	(851 405)	(748 742)
35. DIVIDENDS PAID				
Previous year's final dividend paid during the year	228 933	153 822	228 933	153 822
Ordinary dividends	152 622	128 185	152 622	128 185
Special dividend paid	-	-	-	3 495
Total dividends paid to shareholders	381 555	282 007	381 555	285 502

		Group		Company	
		2019 P '000	2018 P '000	2019 P '000	2018 P '000
36. CASH AND CASH EQUIVALENTS					
	Notes				
Cash and short term funds	11	4 411 739	4 356 895	4 411 739	4 356 895
Bank of Botswana Certificates	15	1 598 307	1 098 489	1 598 307	1 098 489
		6 010 046	5 455 384	6 010 046	5 455 384
37. CONTINGENCIES AND COMMITMENTS					
Letters of credit		32 938	107 022	32 938	107 022
Guarantees - performance		490 983	766 314	490 983	766 314
Guarantees - other		137 297	47 740	137 297	47 740
		661 218	921 076	661 218	921 076
The above contingencies represent guarantees and letters of credit.					
Commitments					
Undrawn commitments to customers		2 247 847	2 141 858	2 247 847	2 141 858
Capital commitments					
Capital expenditure approved by the Directors					
- not yet contracted for		121 344	120 084	121 344	120 084

The above capital commitments are wholly in respect of property and equipment, and funds to meet these commitments will be provided from the Group's Internal resources.

	Group 2019 P '000	Group 2018 P '000	Company 2019 P '000	Company 2018 P '000
Operating lease commitments where the group is a lessee				
Payable within one year	21 872	17 778	21 872	17 778
Payable within two to five years	29 586	23 981	29 586	23 981
	51 458	41 759	51 458	41 759

The above lease commitments are in respect of property rentals of the various branch network channels, which are negotiated at market rates for a period of up to five years with an option to renew for a further similar period.

The group's significant operating leases relate to property rentals of office premises and the various branch network channels represented by full service branches, agencies, mini branches and ATM lobbies. The rentals have fixed monthly payments, often including a contingent rental based on a percentage contribution of the monthly operating costs of the premises. Escalation clauses are based on market related rates and vary between 5% and 12%.

The leases are usually for a period of one to five years. The leases are non-cancellable and certain of the leases have an option to renew for a further leasing period at the end of the original lease term.

Restrictions are more an exception than the norm and usually relate to the restricted use of the asset for the business purposes specified in the lease contract.

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

37. CONTINGENCIES AND COMMITMENTS [CONTINUED]

Other contingent liabilities

The Group will from time to time be involved in legal proceedings, including inquiries from or discussions with governmental authorities that are incidental to its operations. The Group is currently involved in legal proceedings with the tax authorities regarding the interpretation of tax regulations. The disputed tax matters principally relate to the judgement on whether withholding tax is applicable on certain payments to foreign service providers and the deductibility of wear and tear capital allowances in respect of lease liability assets written by the Bank. The opinions of legal counsel and other subject matter experts regarding the tax treatment of these items have been sought. In light of this the directors believe that the ultimate resolution of these matters will not materially impact the results of the Bank's operations, financial position or cash flows. The directors have assessed the probability of incurring the liability which is ultimately subject to the outcome of the court case, and believe the likelihood of an ultimate loss is remote.

38. TRUST ACTIVITIES

The Group acts as a trustee and in other fiduciary capacities that result in holding or placing of assets on behalf of customers.

At 30 June 2019 the Group acted as a custodian in respect of Botswana Government bonds amounting to P9 050 129 000 (2018: P8 748 274 000), money markets P35 704 000 (2018: P37 353 000) and equities amounting to P11 985 031 000 (2018: P12 342 133 000). These assets were held In a trust or in a fiduciary capacity and are not treated as assets of the Bank, Accordingly, they have not been included in the statements of financial position.

39. FINANCIAL RISK MANAGEMENT

The Group's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Group's risk management are to identify all key risks for the Group, measure these risks, manage the risk positions and determine capital allocations. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

Risk control policies and exposure limits for the key risk areas of the Group are approved by the Board, while operational policies and control procedures are approved by the relevant risk committees. Financial risk management disclosures are done at a Group level only as subsidairy amounts are considered immaterial.

The Group is principally exposed to credit risk, market risk, and liquidity risk. The exposures to these risks as at 30 June 2019 are set out below:

Credit risk management

Credit risk is the risk that a counterparty will be unable to repay amounts when they fall due. In general, the Group manages its credit risk exposure by placing limits on the acceptable risk exposure to individual borrowers or groups of borrowers, and within geographic and industry segments.

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

Credit risk arises primarily from the following instruments:
- Advances; and
- Certain investment securities.

Other sources of credit risk are:
- Cash and cash equivalents;
- Accounts receivable;
- Derivative balances; and
- Off-balance sheet exposures

Assessment and management

Credit risk is monitored on an ongoing basis and managed through the implementation of comprehensive policies, processes and controls to ensure a sound credit risk management environment with appropriate credit granting, administration, measurement, monitoring and reporting of credit risk exposure. Credit risk management across the group is split into three distinct portfolios: retail, commercial and corporate, and are aligned to customer profiles.

The assessment of credit risk across the group relies on internally-developed quantitative models for addressing regulatory and business needs. The models are used for the internal assessment of the three primary credit risk components:

- probability of default (PD);
- exposure at default (EAD); and
- loss given default (LGD).

Management of the credit portfolio is reliant on these three credit risk measures. PD, EAD and LGD are inputs into the portfolio and group-level credit risk assessment where the measures are combined with estimates of correlations between individual counterparties, industries and portfolios to reflect diversification benefits across the portfolio.

The group employs a granular, 100-point master rating scale, which has been mapped to the continuum of default probabilities, as illustrated in the following table. (FR)1 is the lowest PD and FR100 the highest. External ratings have also been mapped to the master rating scale for reporting purposes. These mappings are reviewed and updated on a regular basis.

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

Significant credit exposures at year end were:

Geographical distribution – Group	Assets	
	2019 – IFRS 9 P'000	2018 – IAS 39 P'000
Botswana	22 378 275	21 291 256
Southern Africa	2 648 849	2 107 072
North America	445 435	687 712
Europe	175 408	177 806
Rest of the world	1 563	4 768
	25 649 530	24 268 614
Distribution by sector – Group		
Banks including Bank of Botswana	3 283 919	2 821 962
Government and parastatal organisations	2 138 645	2 113 420
Individuals	10 826 495	9 995 180
Business/trading	4 425 004	4 449 786
Others	4 975 467	4 888 266
	25 649 530	24 268 614

Economic sector risk concentrations in respect of advances are set out in Note 13.

Collateral pledged

The Group pledges assets under the following terms and conditions:

Mandatory reserve deposits are held with the Bank of Botswana in accordance with statutory requirements. In addition, bonds are also pledged as collateral for any repurchase agreements with Bank of Botswana. These deposits are not available to finance the Group's day-to-day operations. Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options. All other pledges are conducted under terms which are usual and customary to lending arrangements.

Collateral held

The Group does not hold any collateral which it has the ability to sell or repledge in the absence of default. Collateral is an important mitigant of credit risk. In accordance with the Group's credit risk management strategy the following principal types of collateral are held as security for funds advanced by the Group:

- Vehicle finance: Vehicles subject to the finance agreement normally serve as collateral. In general, vehicles which make up the collateral can be sold when the customer has defaulted under the agreement and a notice of default has been issued. Where more than one third of all instalments have been paid, legal judgement has to be passed before vehicles can be repossessed. For some products, title over the vehicles is held by the Group. Title only passes to the customer once instalments are fully paid.
- Property finance: Collateral consists of first and second mortgage bonds over property, individuals' pension plans, employer and personal guarantees, loss insurance purchased by the client. The collateral can only be sold or exercised on default by the customer.
- Overdrafts and personal loans: These advances are secured by means of cession of debtors, equity portfolios and deposits, claims against individual's pension plans as well as bonds over fixed property and other moveable assets. Credit insurance is sold as an additional component of the loans.

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

When the Group takes possession of collateral which is not cash or not readily convertible into cash the Group determines a minimum sale amount ("pre-set sale amount") and auctions the asset for the pre-set sale amount. Where the Group is unable to obtain the pre-set sale amount in an auction, the Group will continue to hold the asset while actively marketing it to ensure an appropriate value is obtained.

The collateral is valued at inception of the credit agreement and subsequently in specific circumstances for example, when the advance becomes a non-performing loan or when the Group is to sell the asset on auction. No valuation is performed between these two dates for Small and Medium Entities (SME) and large corporate counterparties. The valuation at inception is based on physical inspection. Updated valuations are performed by revaluing security during the counterparty review process.

Collateral taken possession of and recognised in the statements of financial position

Collateral in the form of deposits amounted to P529 260 000 (2018: P 491 739 000).

When the group takes possession of collateral that is not cash or not readily convertible into cash, the group determines a minimum sale amount (pre-set sale amount) and auctions the asset for the pre-set sale amount. Where the group is unable to obtain the pre-set sale amount in an auction, the group will continue to hold the asset while actively marketing it to ensure an appropriate value is obtained.

Maximum exposure to credit risk

The table below presents the maximum exposures to credit risk before any loss allowance of financial instruments recognised on the statements of financial position and exposures not recognised in the statements of financial position, before taking account of any collateral held.

Group 2019 – IFRS 9	Retail P'000	Corporate & commercial P'000	Other P'000	Total exposure P'000	Year to date average exposure P'000
Exposures recognised in the statements of Financial Position					
– Money at call and short notice	–	–	48 831	48 831	24 416
– Balances with other banks	–	–	3 983 028	3 983 028	4 015 012
	–	–	4 031 859	4 031 859	4 039 428
Advances to banks	–	–	789 903	789 903	720 908
Advances to customers	10 548 501	6 436 118	–	16 984 619	16 553 357
Investment securities – debt	–	–	4 135 220	4 135 220	3 747 656
Accounts receivable	–	–	317 627	317 627	299 147
Derivatives	–	–	49 606	49 606	52 394
Related parties	–	–	6 388	6 388	7 927
Exposures not recognised in the statements of Financial Position					
Financial and other guarantees	19 288	641 930	–	661 218	774 678
Loan commitments not drawn	1 506 634	741 213	–	2 247 847	2 231 678
Total	12 074 423	7 819 261	9 330 603	29 224 287	28 427 173

Notes to the Consolidated and Separate Financial Statements [continued]

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39. FINANCIAL RISK MANAGEMENT [CONTINUED]

Group 2018 – IAS 39

Exposures recognised in the statements of Financial Position	Retail P'000	Corporate & commercial P'000	Other P'000	Total exposure P'000	Year to date average exposure P'000
– Money at call and short notice	–	–	–	–	20 701
– Balances with other banks	–	–	4 046 996	4 046 996	4 048 077
	–	–	4 046 996	4 046 996	4 068 778
Advances to banks	–	–	650 912	650 912	187 453
Advances to customers	9 928 071	6 194 496	–	16 122 567	15 819 002
Investment securities – debt	–	–	3 360 091	3 360 091	3 336 893
Accounts receivable	–	–	357 133	357 133	342 082
Derivatives	–	–	55 181	55 181	59 605
Related parties	–	–	9 465	9 465	9 457
Exposures not recognised in the statements of Financial Position					
Financial and other guarantees	26 868	894 208	–	921 076	1 087 036
Loan commitments not drawn	1 390 049	751 809	–	2 141 858	2 168 120
Total	11 344 988	7 840 513	8 479 778	27 665 279	27 078 426

Credit quality

Mapping of FR grades to rating agency scales	Midpoint PD	FNBB rating (based on S&P)
FR 1 - 14	0,06 %	AAA, AA+, AA, AA-, A+, A, A-
FR 15 - 25	0,29 %	BBB+, BBB(upper), BBB, BBB-(upper), BBB-, BB+(upper)
FR 26 - 32	0,77 %	BB+, BB(upper), BB, BB-(upper)
FR 33 - 39	1,44 %	BB-, B+(upper)
FR 40 - 53	2,52 %	B+
FR 54 - 83	6,18 %	B(upper), B, B-(upper)
FR 84 - 90	13,68 %	B-
91 - 99	59,11 %	CCC
FR 100	100 %	D (Defaulted)

2019 – IFRS 9

	Financial risk (FR) 1 – 25		Financial risk (FR) 26 – 90		Financial risk (FR) 91 –100	
Term loans	On balance sheet P'000	Off balance sheet P'000	On balance sheet P'000	Off balance sheet P'000	On balance sheet P'000	Off balance sheet P'000
Stage 1	–	–	6 729 255	–	10 060	–
Stage 2	–	–	159 916	–	29 488	–
Stage 3	–	–	–	–	436 906	–
	–	–	6 889 171	–	476 454	

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

2019 – IFRS 9 Suspensive sale debtors/lease payments receivable	Financial risk (FR) 1 – 25 On balance sheet P'000	Financial risk (FR) 1 – 25 Off balance sheet P'000	Financial risk (FR) 26 – 90 On balance sheet P'000	Financial risk (FR) 26 – 90 Off balance sheet P'000	Financial risk (FR) 91 – 100 On balance sheet P'000	Financial risk (FR) 91 – 100 Off balance sheet P'000
Stage 1	–	–	2 060 495	–	3 165	–
Stage 2	–	–	110 980	–	28 436	–
Stage 3	–	–	–	–	85 652	–
	–	–	2 171 475	–	117 253	–

2019 – IFRS 9 Property loans	Financial risk (FR) 1 – 25 On balance sheet P'000	Financial risk (FR) 1 – 25 Off balance sheet P'000	Financial risk (FR) 26 – 90 On balance sheet P'000	Financial risk (FR) 26 – 90 Off balance sheet P'000	Financial risk (FR) 91 – 100 On balance sheet P'000	Financial risk (FR) 91 – 100 Off balance sheet P'000
Stage 1	659	–	5 048 931	–	7 671	–
Stage 2	–	–	145 824	–	235 432	–
Stage 3	–	–	–	–	435 365	–
	659	–	5 194 755	–	678 468	–

2019 – IFRS 9 Overdrafts and managed accounts	Financial risk (FR) 1 – 25 On balance sheet P'000	Financial risk (FR) 1 – 25 Off balance sheet P'000	Financial risk (FR) 26 – 90 On balance sheet P'000	Financial risk (FR) 26 – 90 Off balance sheet P'000	Financial risk (FR) 91 – 100 On balance sheet P'000	Financial risk (FR) 91 – 100 Off balance sheet P'000
Stage 1	57 620	–	756 142	–	16 606	–
Stage 2	19 680	–	190 260	–	13 892	–
Stage 3	–	–	–	–	185 438	–
	77 300	–	946 402	–	215 936	–

Stage 3/NPLs by category	Analysis of impaired advances (stage 3/NPLs) Security held and expected recoveries P'000	Stage 3 impairment P'000	Total P'000
Term loans	129 314	307 592	436 906
Suspensive sale debtors/lease payments receivable	24 905	60 747	85 652
Property loans	285 612	149 753	435 365
Overdrafts and managed accounts	66 079	119 359	185 438
Other	–	2 375	2 375
	505 910	639 826	1 145 736

Notes to the Consolidated and Separate Financial Statements [continued]

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39. FINANCIAL RISK MANAGEMENT [CONTINUED]

The table below presents an analysis of the credit quality of neither past due nor impaired (i.e. performing) advances based on the Group's internal credit ratings:

Group 2018

	Investment grade P'000	Non-investment grade P'000	Total neither past due nor impaired P'000
Home loans	-	4 614 554	4 614 554
Credit Cards	-	201 418	201 418
Term loans	-	6 046 939	6 046 939
Overdrafts	1 470	515 078	516 548
WesBank	-	2 108 024	2 108 024
Total	1 470	13 486 013	13 487 483

	Quality of credit assets – non-advances		
2019 (IFRS 9)	**AAA to BB**	**BB+ TO B-**	**CCC**
Investment securities at amortised cost			
Stage 1	4 000 459	-	-
Investment securities at fair value through profit or loss			
Stage 1	134 761	-	-
Investment securities at fair value through comprehensive income			
Total investment securities	4 135 220	-	-

	Quality of credit assets – non-advances		
2019 (IFRS 9)	**AAA to BB**	**BB+ TO B-**	**CCC**
Accounts receivable			
Stage 1	-	211 214	-

	Quality of credit assets – non-advances		
2019 (IFRS 9)	**AAA to BB**	**BB+ TO B-**	**CCC**
Cash and cash equivalents			
Stage 1	1 487 082	2 544 612	166

Group 2019

	Derivatives P'000	Related parties P'000	Other Government P'000	Cash and short term & Government guaranteed stock P'000	Accounts receivable funds P'000
Investment Grade	-	-	4 135 220	4 411 739	-
Non-Investment Grade	49 606	6 388	-	-	317 627
	49 606	6 388	4 135 220	4 411 739	317 627
Group 2018					
Investment Grade	-	-	3 360 091	4 356 895	-
Non-Investment Grade	55 181	9 465	-	-	357 133
	55 181	9 465	3 360 091	4 356 895	357 133

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

Investment grade are those financial assets rated in one of the four highest rating categories in line with international rating agencies. Non-investment grade assets are those rated in the rest of the rating categories in line with international rating agencies.

Company financial risk management disclosures

Management has opted to disclose only consolidated figures due to the fact that in their opinion there is no material difference between the consolidated and Company financial risk management disclosures. The related disclosures include:

- credit risk management;
- liquidity risk management; and
- fair value of financial instruments.

The consolidated disclosures are reflective of the Group in all material respects.

The table below sets out the maximum exposure to credit risk for financial assets before any loss allowance, at amortised cost and fair value through profit or loss, and fair value through other comprehensive income debt instruments.

2019 (IFRS 9)	Gross carrying amount P'000	Off balance sheet exposure P'000	Maximum exposure to credit risk P'000	Netting and financial collateral P'000	Total exposure to credit risk P'000
Term loans	7 365 625	147 244	7 512 869	(129 314)	7 383 555
Suspensive sale debtors/lease payments receivable	2 288 728	–	2 288 728	(24 905)	2 263 823
Property loans	5 873 882	228 674	6 102 556	(285 612)	5 816 944
Overdraft and managed accounts	1 239 638	1 600 983	2 840 621	(66 079)	2 774 542
Other	216 746	270 946	487 692	–	487 692
Total advances	16 984 619	2 247 847	19 232 466	(505 910)	18 726 556
Investment securities	4 135 220	–	4 135 220	–	4 135 220
Cash and cash equivalents	4 411 739	–	4 411 739	–	4 411 739
Accounts receivable	317 627	–	317 627	–	317 627
Derivatives	49 606	–	49 606	–	49 606

The table below indicates where the net exposure to credit risk is secured or unsecured for financial assets at amortised cost and fair value through profit or loss, and fair value through other comprehensive income debt instruments.

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

The table below indicates where the net exposure to credit risk is secured or unsecured for financial assets at amortised cost and fair value through profit or loss, and fair value through other comprehensive income debt instruments.

2019 (IFRS 9)	Net exposure to credit risk P'000	Net unsecured P'000	Net secured by collateral P'000	Net secured by other credi enhan -cements P'000
Term loans	7 383 555	7 383 555	(129 314)	-
Suspensive sale debtors/lease payments receivable	2 263 823	2 263 823	(24 905)	-
Property loans	5 816 944	5 816 944	(285 612)	-
Overdraft and managed accounts	2 772 542	2 772 542	(66 079)	-
Other	561 343	561 343	-	-
Total advances	18 798 207	18 798 207	(505 910)	-
Investment securities	4 135 220	4 135 220	-	-
Cash and cash equivalents	4 411 739	4 411 739	-	-
Accounts receivable	241 163	241 163	-	-
Derivatives	49 606	49 606	-	-

The table below sets out an analysis of credit-impaired advances at amortised cost.

2019 (IFRS 9)	Gross carrying amount P'000	Expected recoveries from collateral P'000	Other expected recoveries P'000	Loss allowance P'000
Term loans	436 906	(129 314)	-	307 592
Suspensive sale debtors/lease payments receivable	85 652	(24 905)	-	60 747
Property loans	435 365	(285 613)	-	149 752
Overdraft and managed accounts	185 438	(66 079)	-	119 359
Other	2 375	-	-	2 375
Total	1 145 736	(505 911)	-	639 825
Retail	339 872	(154 080)	-	185 792
Business	720 209	(327 012)	-	393 187
WesBank	85 655	(24 819)	-	60 836
Total	1 145 736	(505 911)	-	639 815

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

2018 IAS 39	Gross carrying amount P'000	Expected recoveries from collateral P'000	Other expected recoveries P'000	Loss allowance P'000
Term loans	440 492	(157 495)	-	282 997
Suspensive sale debtors/lease payments receivable	87 813	(37 870)	-	49 943
Property loans	421 974	(302 155)	-	119 819
Overdraft and managed accounts	180 602	(64 820)	-	115 782
Other	2 409	-	-	2 409
Total	1 133 290	(562 340)	-	570 950
Retail	383 708	(197 505)	-	186 203
Business	661 768	(326 965)	-	334 803
WesBank	87 814	(37 870)	-	49 944
Total	1 133 290	(562 340)	-	570 950

Market risk

The Group's activities expose it to market risk. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The primary risk control mechanism used for risk control purposes are stress loss tests and limits.

Foreign exchange risk management

The Group, through Treasury, manages foreign currency risk in accordance with broad market risk guidelines set by the Board and FirstRand Bank Limited. Foreign currency risk arises as a result of fluctuations in exchange rates and the resultant impact on the Group's position, which is established during normal day-to-day trading. Even though Treasury may take positions on any major currency, these are consolidated and reported in USD. During the financial year under review, the Bank's authorised market risk limit was USD35 million (2018: USD35 million) for all asset classes (foreign currency and interest rate risk). The Group takes positions to mitigate the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Consequently the Group strives to match its foreign currency assets and liabilities. The Group manages foreign currency exposures in terms of approved limits. The table below sets out the currency position as at the year-end.

Group and Company	Assets		Liabilities	
Distribution by currency	30 June 2019 P'000	30 June 2018 P'000	30 June 2019 P'000	30 June 2018 P'000
Botswana Pula	23 197 505	21 696 681	20 350 688	19 110 202
South African Rand	382 856	270 466	445 946	297 085
United States Dollar	1 879 187	2 106 769	1 681 716	1 949 417
British Pound	70 684	85 945	63 596	80 647
Euro	101 832	91 304	97 364	86 344
Others	17 466	17 449	11 026	10 810
	25 649 530	24 268 614	22 650 336	21 534 505

The Group is mainly exposed to foreign currency risk on its USD and ZAR denominated assets and liabilities. The following table details the gains or losses in response to a 10% increase and decrease in the Pula (BWP) against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

Notes to the Consolidated and Separate Financial Statements [continued]

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39. FINANCIAL RISK MANAGEMENT [CONTINUED]

	30 June 2019 P'000	30 June 2018 P'000
Loss arising from a 10% decrease		
South African Rand	6 309	2 662
United States Dollar	(19 747)	(15 735)
	(13 438)	(13 073)
Gain arising from a 10% increase		
South African Rand	(6 309)	(2 662)
United States Dollar	19 747	15 735
	13 438	13 073

The above gain/(loss) would affect the statements of income.

Interest rate risk management

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effect of fluctuations in the prevailling levels of market interest rates on both its fair value and cash flow risks.

The table below summaries the Group's exposure to interest rate risk. Included in the table are the Group's assets and liabilities at carrying amounts, catergorised by the earlier of repricing or maturity dates.

The table below summarises the Banking Group's exposure to interest rate risk, categorised by contractual maturity date.

2019 IFRS 9	Carrying amount P '000	Consolidated – Term to repricing Demand P '000	1 - 3 months P '000	3 - 12 months P '000	1 - 5 years P '000	Over 5 years P '000	Equity and non financial assets/ liabilities P '000
Total assets	26 271 622	6 780 737	15 436 957	321 094	2 208 759	148 481	1 375 594
Total liabilities and equity	(26 271 622)	(16 996 315)	(1 033 007)	(2 058 296)	(609 805)	(977 871)	(4 596 328)
Net interest sensitivity gap	-	(10 215 578)	14 403 950	(1 737 202)	1 598 954	(829 390)	(3 220 734)
Total assets	24 868 428	3 352 425	17 701 939	718 498	1 623 295	140 780	1 331 491
Total liabilities and equity	(24 868 428)	(14 763 524)	(1 364 370)	(1 185 237)	(2 305 473)	(1 234 768)	(4 015 056)
Net interest sensitivity gap	-	(11 411 099)	16 337 569	(466 739)	(682 178)	(1 093 988)	(2 683 565)

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

Interest rate sensitivity tests are performed on the Group's statements of financial position and reviewed by the Asset, Liability, and Capital Committee (ALCCO). The table below presents the potential gains or losses that could arise if interest rates rise or fall by 100 basis points and 200 basis points:

Group and Company	30 June 2019 P '000	30 June 2018 P '000
100 basis points parallel increase - gains	70 815	43 910
100 basis points parallel decrease - losses	(92 820)	(87 830)

Group and Company	30 June 2019 P '000	30 June 2018 P '000
200 basis points parallel increase - gains	141 630	87 830
200 basis points parallel decrease - losses	(185 640)	(205 060)

Liquidity risk management

The Group is exposed to daily liquidity requirements from overnight deposits, current accounts, maturing deposits, loan draw-downs and other cash requirements. The Group manages its cash resources based on historical experience to meet all liquidity requirements.

The matching and controlled mismatching of maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched since business transactions are often of uncertain terms and of different types. An unmatched position potentially enhance profitability, but may also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Liquidity risk management process

The Group's liquidity managment process, as carried out within the Group and monitored by a separate Group Treasury, includes:

- – Day-to-day funding, mananged by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global markets to enable this to happen;
- – Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- – Monitoring the liquidity ratios of the consolidated statements of financial position against and internal and regulatory requirements; and
- – Managing the concentration and profile of debt maturities.

The table below sets out the discounted maturity analysis of the Group's statements of financial position based on the remaining period from year-end to contractual maturity. Demand denotes assets or liabilities with a contractual maturity of 32 days or less.

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

			Group – Term to maturity				
2019	**Carrying amount P '000**	**Demand P '000**	**1 – 3 months P '000**	**3 – 12 months P '000**	**1 – 5 years P '000**	**Over 5 years P '000**	**Non – sensitive P '000**
Total assets	26 271 622	7 890 702	1 813 997	2 281 713	9 505 956	2 748 166	2 031 088
Total liabilities and equity	(26 271 622)	(15 158 275)	(2 871 047)	(2 058 296)	(609 805)	(977 871)	(4 596 328)
Net liquidity gap	–	(7 267 573)	(1 057 050)	223 417	8 896 151	1 770 295	(2 565 240)
2018							
Total assets	24 868 428	4 205 401	4 931 863	2 224 528	8 770 211	3 724 297	1 012 128
Total liabilities and equity	(24 868 428)	(13 609 861)	(2 994 825)	(1 185 236)	(1 828 681)	(1 234 768)	(4 015 057)
Net liquidity gap	–	(9 404 460)	1 937 038	1 039 292	6 941 530	2 489 529	(3 002 929)

Although negatively gapped in the short term, the balance sheet comprises of behaviouraly core deposits, while assets are primarily liquid assets (Bank of Botswana Certificates) which can be liquidated in times of stress to ensure the Bank is sufficiently able to meet its short term commitments.

Group

The table below has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to settle.

2019	**Call P '000**	**1 – 3 months P '000**	**4 – 12 months P '000**	**1 – 5 years P '000**	**Over 5 years P '000**	**Total P '000**
Amounts due to other banks	581 243	–	–	–	–	581 243
Deposit and current accounts	15 675 637	1 943 306	1 830 626	1 091 907	935 810	21 477 286
Borrowings	–	8 096	27 271	1 014 106	378 460	1 427 933
Due to related companies	32 898	–	–	–	–	32 898
Creditors and accruals	–	76 038	332 279	–	–	408 317
Employee liabilities	–	–	85 894	–	–	85 894
	16 289 778	2 027 440	2 276 070	2 106 013	1 314 270	24 013 571
2018						
Amounts due to other banks	730 109	–	–	–	–	730 109
Deposit and current accounts	13 446 238	2 433 910	2 632 533	981 126	257 127	19 750 934
Borrowings	–	8 096	24 287	461 098	1 076 639	1 570 120
Due to related companies	73 861	–	–	–	–	73 861
Creditors and accruals	88 472	14 965	418 254	–	–	521 691
Employee liabilities	–	–	82 800	–	–	82 800
	14 338 680	2 456 971	3 157 874	1 442 224	1 333 766	22 729 515

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

Fair value financial instruments

Fair value hierarchy and measurements

The Group classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item. If this information is not available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. The valuation techniques employed by the Group include, inter alia, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option-pricing models, and discounted cash flow techniques. The details per type of asset or liability are set out in the tables below.

Where a valuation model is applied and the Group cannot mark-to-market, it applies a mark-to-model approach, subject to prudent valuation adjustments. Mark-to-model is defined as any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input. When applying mark-to-model, an extra degree of conservatism is applied. The Group will consider the following in assessing whether a mark-to-model valuation is prudent:

- As far as possible, market inputs are sourced in line with market prices;
- Generally accepted valuation methodologies are consistently used for particular products unless deemed inappropriate by the relevant governance forums;
- Where a model has been developed in-house, it is based on appropriate assumptions, which have been assessed and challenged by suitably qualified parties independent of the development process;
- Formal change control procedures are in place;
- Awareness of the weaknesses of the models used and appropriate reflection in the valuation output where relevant;
- The model is subject to periodic review to determine the accuracy of its performance; and
- Valuation adjustments are only made when appropriate, for example, to cover the uncertainty of the model valuation.

Valuations based on observable inputs include:

Level 1

Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities where this is readily available and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. This category includes listed bonds and equity, exchange-traded derivatives, exchange-traded commodities and short trading positions.

Level 2

Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly such as quoted prices for similar items in an active market or for an identical item in an inactive market, or valuation models using observable inputs or inputs derived from observable market data. This category includes loans and advances to customers, equities listed in an inactive market, debt instruments, private equity investments, non-recourse investments and deposits, over the counter derivatives, deposits, other liabilities, long- term borrowings, commodities which are not exchange-traded.

Level 3

Fair value is determined using a valuation technique and significant inputs that are not based on observable market data (i.e. unobservable inputs) such as an entity's own assumptions about what market participants would assume in pricing assets and liabilities. The assumptions applied by the Group are set out in the table below. This category includes certain loans and advances to customers, certain over-the-counter derivatives such as equity options, investments in debt instruments, private equity investments, and certain deposits such as credit linked notes.

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobserv-able inputs of Level 3 items
Derivative financial instruments					
- Option contracts	Level 2	Option pricing model	The Black Scholes model is used.	Strike price of the option; market related discount rate; forward rate and cap and floor volatility.	Not applicable
- Futures contract	Level 2	Discounted cash flows	The future cashflows are discounted using a market related interest rate. Projected cashflows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Market interest rates and curves	Not applicable
- Swaps	Level 2	Discounted cash flows	The future cashflows are projected using a forward curve and then discounted using a market related discount curve over the contractual period.There set date of each swaplet is determined in terms of legal documents pertaining to the swap.	Market interest rates and curves	Not applicable
- Forward rate agreements	Level 2	Discounted cash flows	The future cashflows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest artes and curves	Not applicable
- Forward contracts	Level 2	Discounted cash flows	The future cashflows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. Projected cashflows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Market interest rate and curves	Not applicable
- Credit derivatives	Level 2 and 3	Discounted cash flows	The future cashflows are discounted us-ing a market related interest rate. Where prices are obtainable from the market, individual credit spreads are used.	Market interest rates and curves	Credit inputs

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observ-able inputs	Significant unobserv-able inputs of Level 3 items
Loans and advances to customers					
- RMB investment banking book held at fair value	Level 3	Discounted cash flows	The future cashflows are discounted using a market related interest rate. To calculate the fair value of loan book the Group uses a valuation methodology based on the credit spread matrix, which considers loss given default, ten or and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance.	Markets interest rates and curves	Credit inputs
- Other loans and advances	Level 2 and 3	Discounted cash flows	The future cashflows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period.	Market interest rates and curves	Credit inputs
Investment securities and other investments					
- Equities/ bonds listed in an inactive market	Level 2	Discounted cash flows	For listed equities and bonds, the listed price is used where the market is active (i.e.Level1). However if the market is not active and the listed price is not representative of fair value these are classified as Level 2 and a valuation technique is used, for example the discounted cashflow is used for listed bonds. This will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. The future cashflows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
- Unlisted bonds	Level 3	Discounted cash flows	Unlisted bonds are valued similarly to advances measured at fair value. The future cashflows are discounted using a market related interest rate adjusted for credit in puts, over the contractual period.	Market interest rates and curves	Credit inputs

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobserv-able inputs of Level 3 items
Investment securities and other investments [continued]					
-Negotiable certificates of deposit	Level 2	Discounted cash flows	The future cashflows are discounted using a market related interest rate. Inputs to these models include information that is consistent with similar market quoted instruments, where available.	Market interest rates and curves	Not applicable
- Treasury Bills	Level 2	Bank of Botswana quoted prices	Bank of Botswana quoted prices.	Market interest rates and curves	Not applicable
Deposits					
- Call and non- term deposits	Level 2	None - the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand i.e. the undiscounted amount of the deposit.	None - the undidscounted amounts approximates fair value and no valuation is performed	Not applicable
- Other deposits	Level 2 and 3	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves	Credit Inputs
Other liabilities and Tier 2 liabilities	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Level 2 and 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate and curves adjusted for credit inputs.	Market interest rates and curves	Credit Inputs

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

(i) Financial instruments not measured at fair value.

The following represents the fair values of financial instruments carried at amortised cost on the statements of financial position.

Group 2019	Level 1 P'000	Level 2 P'000	Level 3 P'000	Fair value P'000	Gross less non-performing P'000
Assets					
Advances					
Home loans	-	-	5 649 777	5 649 777	5 438 515
Credit card	-	214 599	-	214 599	214 373
Term loans	-	-	7 069 550	7 069 550	6 928 719
Overdraft	-	1 059 036	-	1 059 036	1 054 200
WesBank asset finance	-	-	2 247 092	2 247 092	2 203 077
Due from related parties	-	-	6 388	6 388	6 388
Total advances at amortised cost	-	1 273 635	14 972 807	16 246 442	15 845 272
Accounts receivable	-	-	317 627	317 627	317 627
Total financial assets at amortised cost	-	1 273 635	15 290 434	16 564 069	16 162 899
Liabilities					
Deposits and current accounts					
Current and managed accounts	-	6 878 825	-	6 878 825	6 878 825
Balances from customers (term)	-	5 373 808	-	5 373 808	5 363 725
Other deposits (call and savings)	-	7 348 859	-	7 348 859	7 348 859
Due to related parties	-	-	32 898	32 898	32 898
Total deposits and current accounts	-	19 601 492	32 898	19 634 390	19 624 307
Long-term borrowings	-	1 365 651	-	1 365 651	1 363 089
Creditors and accruals	-	863 734	-	863 734	863 734
Total financial liabilities at amortised cost	-	21 830 877	32 898	21 863 775	21 851 130

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

(i) Financial instruments not measured at fair value [Continued]

The following represents the fair values of financial instruments carried at amortised cost on the statements of financial position.

Group 2018	Level 1 P'000	Level 2 P'000	Level 3 P'000	Fair value P'000	Gross less non-performing P'000
Assets					
Home loans	–	–	5 092 603	5 092 603	5 052 178
Credit card	–	224 942	–	224 942	224 942
Term loans	–	–	6 207 607	6 207 607	6 286 697
Overdraft	–	1 226 579	–	1 226 579	1 226 579
WesBank asset finance	–	–	2 365 480	2 365 480	2 369 810
Total advances at amortised cost	–	1 451 521	13 665 690	15 117 211	15 160 206
Accounts receivable	–	–	357 133	357 133	357 133
Total financial assets at amortised cost	–	1 451 521	14 022 823	15 474 344	15 517 339
Liabilities					
Deposits and current accounts					
Current and managed accounts	–	7 391 325	–	7 391 325	6 323 196
Balances from customers (term)	–	5 699 405	–	5 699 405	6 466 061
Other deposits (call and savings)	–	5 926 812	–	5 926 812	6 045 079
Total deposits and current accounts	–	19 017 542	–	19 017 542	18 834 336
Long-term borrowings	–	1 003 621	–	1 003 621	997 542
Creditors and accruals	–	459 949	–	459 949	459 949
Total financial liabilities at amortised cost	–	20 481 112	–	20 481 112	20 291 827

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

(ii) Fair value heirachy

Assets and liabilities measured at fair value.

Group 2019	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
Mandatory at fair value through profit or loss				
- Investments securities	-	134 761	-	134 761
- Derivative financial instruments	-	49 606	-	49 606
Non-financial assets				
- Freehold and leasehold land and buildings	-	309 365	-	309 365
Total assets	-	493 732	-	493 732
Financial liabilities held for trading				
- Derivative financial instruments	-	14 844	-	14 844
Mandatory at fair value through profit or loss				
- Zero coupon deposit	-	-	139 553	139 553
Total liabilities	-	14 844	139 553	154 397
Group - 2018				
Financial assets held for trading				
- Investment securities	-	94 745	-	94 745
- Derivative financial instruments	-	55 181	-	55 181
Available for sale financial assets				
- Investment securities	-	1 098 489	-	1 098 489
Non-financial assets				
- Freehold and leasehold land and buildings	-	331 848	-	331 848
Total assets	-	1 580 263	-	1 580 263
Financial liabilities held for trading				
- Derivative financial instruments	-	20 315	-	20 315
Mandatory at fair value through profit or loss				
- Zero coupon deposit	-	-	127 985	127 985
Total liabilities	-	20 315	127 985	148 300

Reconciliation of level 3 fair value measurements

Designated at fair value through profit or loss (liabilities)

Group - Deposit	2019 P '000	2018 P '000
Balance at the beginning of the year	127 985	117 086
- Amounts recognised in profit or loss for the year	11 548	10 899
Balance at the end of the year	139 533	127 985

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

Asset/ Liability	Significant unobservable inputs	Reasonably possible changes to significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Derivative financial instruments	Volatilities	Volatilities	Increased and decreased by 10
Advances	Credit	Scenario analysis	A range of scenarios are run as part of the group's credit risk management process for advances measured at fair value through profit or loss to determine credit losses and change in credit spreads in various economic conditions. The probability of default is adjusted either upwards or downwards versus the base case.
Investment securities and other investments	Credit, growth rates and P/E ratios of unlisted	Credit, growth rates or P/E ratios of unlisted investments	Increased and decreased by 10%.
Deposits	Credit risk of the cash collateral leg of credit linked notes	Credit migration matrix	The deposits included in level 3 of the hierarchy represent the collateral leg of credit linked notes. The most significant unobservable input in determining the fair value of the credit linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances using the credit migration matrix with the deposit representing the cash collateral component thereof.
Other liabilities	Performance on the underlying contracts	Profits on the underlying contracts	Increased and decreased by 10%.

Capital risk management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the consolidated statements of financial position, are:

- To comply with the capital requirements set by the central bank (Bank of Botswana);
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Basel, as implemented by Bank of Botswana for supervisory purposes. The required information is filed with the central bank on a monthly basis.

39. FINANCIAL RISK MANAGEMENT [CONTINUED]

The Group maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with the central bank which takes into account the risk profile of the Group.

The Group's regulatory capital is managed by the Finance Department and comprises two tiers:

- Tier 1 capital: stated capital (net of any book values of the treasury shares) non-controlling interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 Capital.
- Tier 2 capital: qualifying subordinated loan capital and collective impairment allowances.

40. SEGMENTAL REPORTING

Operating segments are reported in accordance with the internal reporting provided to the Chief Executive Officer (the Chief Operating Decision-Maker), who is responsible for allocating resources to the reportable segments and assesses its performance. Operating segements whose total revenue, absolute profit or loss for the period or total assets are 10% or more of all segements' revenue, profit or loss are reported separately. Therefore all operating segments used by the Group meet the definition of a reportable segment.

The Group has five main business segments:

- FNB Retail – comprising advances and deposits and the revenue flowing from individual customers;
- FNB Commercial – comprising advances and deposits and the revenue flowing from business customers;
- RMB Corporate (Rand Merchant Bank) – comprising advances and deposits and the revenue flowing from RMB customers;
- WesBank – comprising vehicle and asset financing; and
- Treasury – manages the Group's liquidity and funding.

The revenue from external parties reported to the Chief Executive Officer is measured in a manner consistent with that in the income statement.

The Group presents interest income after the cost of funding and interest expenditure after the benefit of funding for each reportable segment. These are the amounts that are presented to the Chief Executive Officer for management reporting purposes when assessing performance and allocating resources. This presentation is in line with the management approach of presenting segment information.

The information provided about each segment is based on the internal reports about segment performance, assets and liabilities, which are regularly reviewed by the Chief Executive Officer.

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

40. SEGMENTAL REPORTING [CONTINUED]

2019 Income statements	Retail P'000	Business P'000	RMB P'000	WesBank P'000	Treasury P'000	Total P'000
Interest and similar income	536 905	102 639	31 730	103 715	842 456	1 617 445
Non-interest income	471 275	407 762	257 807	24 411	(18 940)	1 142 315
Total segment revenue	1 008 180	510 401	289 537	128 126	823 516	2 759 760
Interest and similar expenses	92 474	186 517	146 692	4 931	(790 530)	(359 916)
Segment operating income before impairments	1 100 654	696 918	436 229	133 057	32 986	2 399 844
Impairment of advances	(120 337)	(102 524)	(7 891)	(34 636)	476	(264 912)
Net interest income after impairment of advances	980 317	594 394	428 338	98 421	33 462	2 134 932
Total expenditure						(1 172 601)
Profit before indirect taxation						962 331
Indirect taxation						(16 984)
Profit before direct taxation						945 347
Direct taxation						(212 811)
Profit for the year						732 536
Statement of financial position:						
Gross advances	9 501 885	3 252 785	1 866 649	2 363 300	-	16 984 619
Impairments	(404 816)	(504 156)	(30 964)	(105 636)	-	(1 045 572)
Net advances	9 097 069	2 748 629	1 835 685	2 257 664	-	15 939 047
Deposits	4 734 194	6 548 469	7 383 251	-	925 495	19 591 409

Geographical segments

No segmental reporting for the geographical segment are presented as no significant income is generated outside Botswana. The geographical distribution of assets and liabilities is provided in Note 39.

Major customers

In terms of IFRS 8, a customer is regarded as a major customer if the revenue from transactions with this customer exceeds 10% or more of the entity`s revenue. The Group has no major customers as defined and is, therefore, not reliant on the revenue from one or more major customers.

40. SEGMENTAL REPORTING [CONTINUED]

2018 Income statements	Retail P'000	Business P'000	RMB P'000	WesBank P'000	Treasury P'000	Total P'000
Interest and similar income	519 172	111 766	23 581	110 745	742 256	1 507 520
Non-interest income	448 924	368 696	226 215	17 623	8 190	1 069 648
Total segment revenue	968 096	480 462	249 796	128 368	750 446	2 577 168
Interest and similar expenses	67 950	167 540	121 623	(2 160)	(690 674)	(335 721)
Segment operating income before impairments	1 036 046	648 002	371 419	126 208	59 772	2 241 447
Impairment of advances	(117 688)	(115 836)	(9 153)	(30 917)	(574)	(274 168)
Net interest income after impairment of advances	918 358	532 166	362 266	95 291	59 198	1 967 279
Total expenditure						(1 113 350)
Profit before indirect taxation						853 929
Indirect taxation						(15 720)
Profit before direct taxation						838 209
Direct taxation						(190 154)
Profit for the year						648 055
Statement of financial position:						
Gross advances	8 916 912	3 489 517	1 718 125	2 168 942	-	16 293 496
Impairments	(323 047)	(394 819)	(18 636)	(78 057)	-	(814 559)
Net advances	8 593 865	3 094 698	1 699 489	2 090 885	-	15 478 937
Deposits	3 906 559	5 694 373	6 679 559	-	2 553 845	18 834 336

Secondary segments

No segmental reporting for the secondary segments (geographical) as no significant income is generated outside Botswana. The geographical distribution of assets and liabilities is provided in Note 39.

Major customers

In terms of IFRS 8, a customer is regarded as a major customer if the revenue from transactions with this customer exceeds 10% or more of the entity`s revenue. The Group has no major customers as defined and is, therefore, not reliant on the revenue from one or more major customers.

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

41. EMPLOYEE SHARE PARTICIPATION SCHEMES

The Group has employees who participate in the share options of FirstRand Limited (The Group's ultimate holding company, a company registered in the Republic of South Africa). The schemes are described below:

FirstRand conditional share plan (assumption of liability scheme)

First National Bank Botswana (FNBB) has entered into an agreement with Rand Merchant Bank Morgan Stanley (RMBMS) whereby at each award date FNB Botswana will pay RMBMS an amount in cash (South African Rand) equal to the market value of the shares awarded, and in consideration therefor, RMBMS shall assume FNBB's liability in terms of the scheme to the employees. The purpose of this scheme is to lock in the exchange rate at vesting date, thus hedging against future volatility of the Botswana Pula against the South African Rand.

FirstRand conditional share plan

The conditional award comprises a number of full free shares that will vest conditionally over a period of three years. The number of shares that vest is determined by the extent to which the performance conditions are met. Conditional awards will be made annually and vesting will be subject to specified financial

41. EMPLOYEE SHARE PARTICIPATION SCHEMES [CONTINUED]

Share option detail – 2019	FirstRand Conditional share plan
Number of options in force at the beginning of the year	1 008 540
Granted at prices ranging between (P)	-
Weighted average (thebe)	-
Number of options granted/transferred in during the year	270 000
Granted at a price of (P)	-
Weighted average (P)	-
Number of options transferred within the Group during the year	(45 000)
Granted at a price of P3.00	-
Weighted average (P)	-
Number of options exercised / released during the year	(322 000)
Market value range at date of exercise / release (P)	66,62 - 66,62
Weighted average share price at date of exercise (P)	66,62
Number of options cancelled / lapsed during the year	(26 000)
Granted at prices ranging between (P)	-
Weighted average (P)	-
Number of options in force at the end of the year	885 540
Weighted average remaining contractual life for the share options outstanding at the end of the period (years)	
Financial year 2019/2020	0,32
Financial year 2020/2021	1,30
Financial year 2021/2022	2,30
Options outstanding (by expiry date)	
Financial year 2019/2020	320 000
Financial year 2020/2021	299 000
Financial year 2021/2022	266 540
	885 540
Total options outstanding - in the money	885 540
Total options outstanding - out of the money	-
	885 540
Number of participants	73

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

41. EMPLOYEE SHARE PARTICIPATION SCHEMES [CONTINUED]

Share option detail – 2018

	FirstRand Conditional share plan
NNumber of options in force at the beginning of the year	902 540
Granted at prices ranging between (P)	-
Weighted average (thebe)	-
Number of options granted/transferred in during the year	299 000
Granted at a price of (P)	-
Weighted average (P)	-
Number of options transferred within the Group during the year	91 000
Granted at a price of P3.00	-
Weighted average (P)	-
Number of options exercised / released during the year	(229 000)
Market value range at date of exercise / release (P)	29.68 - 55.00
Weighted average share price at the date of exercise (P)	41.87
Number of options cancelled / lapsed during the year	(55 000)
Granted at prices ranging between (P)	-
Weighted average (P)	-
Number of options in force at the end of the year	1 008 540
Weighted average remaining contractual life for the share options outstanding at the end of the period (years)	
Financial year 2018/2019	0,31
Financial year 2019/2020	1,31
Financial year 2020/2021	2,30
Options outstanding (by expiry date)	
Financial year 2017/2018	343 000
Financial year 2018/2019	366 540
Financial year 2019/2020	299 000
	1 008 540
Total options outstanding - in the money	1 008 540
Total options outstanding - out of the money	-
	1 008 540
Number of participants	69

41. EMPLOYEE SHARE PARTICIPATION SCHEMES [CONTINUED]

The income statement charge for all cash settled share based payments is as follows:	Group and Company 30 June 2019	30 June 2018
Conditional share plan	7 799	16 123
Conditional share plan (assumption of liability)	7 973	3 483
Total cash settled share option scheme charge to income statement	15 772	19 606

At year end, the liability for cash-settled share schemes amounted to P14 894 000 (2018: P 25 684 000) and has been included in creditors and accruals.

42. NEW STANDARDS AND INTERPRETATIONS

42.1 Standards and interpretations effective and adopted in the current year

In the current year, the group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Amendments to IAS 28: Annual Improvements to IFRS 2014 – 2016 cycle

An entity such as a venture capital organisation, mutual fund or similar institution may elect to measure investments in associates or joint ventures at fair value through profit or loss in accordance with IFRS 9 rather than by applying the equity method. The amendment to IAS 28 Investments in Associates and Joint Ventures now specifies that the election must be made separately per associate or joint venture and at the time of initial recognition of such investment.

Further, if an entity is not an investment entity, but has interests in an associate or joint venture which is an investment entity, then the entity may retain the fair value measurement of the associate or joint venture. The amendment now provides that such election must be made separately for each investment entity associate or joint venture.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The group has adopted the amendment for the first time in the 2019 consolidated and separate financial statements.

Amendments to IFRS 1: Annual Improvements to IFRS 2014 – 2016 cycle

The amendment to IFRS 1 First Time Adoption of International Financial Reporting Standards deleted certain short term exemptions concerning disclosures of financial assets, employee benefits and investment entities from IFRS 1.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The group has adopted the amendment for the first time in the 2019 consolidated and separate financial statements.

Amendments to IAS 40: Transfers of Investment Property

The amendment deals specifically with circumstances under which property must be transferred to or from investment property. The amendment now requires that a change in use of property only occurs when the property first meets, or ceases to meet, the definition of investment property and that there is evidence of a change in use. The amendment specifies that a change in management's intentions for use of the property, do not, in isolation, provide evidence of a change in use.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The group has adopted the amendment for the first time in the 2019 consolidated and separate financial statements.

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

42. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

IFRIC 22: Foreign Currency Transactions and Advance Consideration

The interpretation applies to circumstances when an entity has either paid or received an amount of consideration in advance and in a foreign currency, resulting in a non-monetary asset or liability being recognised. The specific issue addressed by the interpretation is how to determine the date of the transaction for the purposes of determining the exchange rate to use on the initial recognition of the related asset, expense or income when the non-monetary asset or liability is derecognised. The interpretation specifies that the date of the transaction, for purposes of determining the exchange rate to apply, is the date on which the entity initially recognises the non-monetary asset or liability.

The effective date of the interpretation is for years beginning on or after 01 January 2018.

The group has adopted the interpretation for the first time in the 2019 consolidated and separate financial statements.

Amendments to IFRS 4: Insurance Contracts

The amendment provides a temporary exemption that permits, but does not require, insurers, under specified criteria, to apply IAS 39 Financial Instruments: Recognition and Measurement, rather than IFRS 9 Financial Instruments for annual periods beginning before 1 January 2021. The exemption is only available provided the insurer has not previously applied any version of IFRS 9 (with some exceptions) and that the activities are predominantly connected with insurance.

A further exemption has been provided from IAS 28 Investments in Associates and Joint Ventures. In terms of the exemption, an insurer is exempt from applying uniform accounting policies when applying the equity method, insofar as the IAS 39/IFRS 9 exemption is applied. Thus, the relevant accounting policies of the associate or joint venture are retained if the entity applies the IFRS9/IAS 39 exemption and the associate or joint venture does not apply the exemption, or visa versa.

The amendment further permits, but does not require, insurers to apply the "overlay approach" to designated financial assets when it first applies IFRS 9. The overlay approach requires the entity to reclassify between profit or loss and other comprehensive income, an amount which results in the profit or loss of the designated financial assets at the end of the reporting period being equal to what it would have been had IAS 39 been applied to the designated financial assets.

Additional disclosures are required as a result of the amendment.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The group has adopted the amendment for the first time in the 2019 consolidated and separate financial statements.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendment to IFRS 4 provides a temporary exemption, allowing insurers to apply IAS 39 rather than IFRS 9. The exemption only applies in certain circumstances and only for annual periods beginning before 1 January 2021.

The exemption also introduces an "overlay approach" in specific circumstances. This approach requires the insurer to reclassify an amount between other comprehensive income and profit or loss. This results in the profit or loss for designated financial assets being the same as if the insurer had applied IAS 39 rather than IFRS 9.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The group has adopted the amendment for the first time in the 2019 consolidated and separate financial statements.

42. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

The amendment now specifies the treatment of vesting and non-vesting conditions with regards to cash-settled share-based payment transactions. The treatment is essentially similar to the treatment of such conditions for equity-settled share-based payment transactions. That is, non-market vesting conditions are taken into consideration when estimating the number of awards which are expected to vest (and which ultimately vest), while market conditions and other non-vesting conditions are taken into consideration when determining the fair value of the share based payment liability, both initially and subsequently.

The amendment also provides for share-based payment transactions with a net settlement feature for withholding tax obligations. Essentially, where the entity is required to withhold part of the equity instruments equal to the tax obligation, the entity is required to account for the payment to tax authorities as a reduction in equity, except to the extent that the payment exceeds the fair value of the equity instruments withheld at net settlement date. The entity should also disclose the amount that it expects to transfer to tax authorities in terms of such transactions.

The amendment further provides guidance in terms of modifications which convert cash-settled share-based payment transactions to equity -settled share-based payment transactions. For such modifications, the equity-settled share based payment transaction is measured by reference to the fair value of the equity instruments granted at modification date, to the extent to which goods or services have been received. The liability for cash-settled share based payment transactions is derecognised on the modification date. Any difference between the two is recognised immediately in profit or loss.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The group has adopted the amendment for the first time in the 2019 consolidated and separate financial statements.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a)impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income” (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.

42. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

IFRS 9 Financial Instruments [continued]

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after 01 January 2018.

The group has adopted the standard for the first time in the 2019 consolidated and separate financial statements.

IMPACT OF ADOPTING REVISED ACCOUNTING STANDARDS

The Group adopted IFRS 9 during the current period. The Group, as permitted by this standard, elected not to restate any comparative information. Accordingly, the impact of adopting the revised requirements of IFRS 9 has been applied retrospectively with an adjustment to the bank's 1 July 2018 opening reserves. Reported information in terms of the financial year ending 30 June 2018 and all previous financial years were unaffected by the application of IFRS 9.

42. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

Requirement	Description of change	Impact on the Group
Classification and measurement	IFRS 9 introduced a principle-based approach for classifying financial assets, based on the entity's business model (for example how an entity manages its financial assets to generate cash flows) and the nature of its cash flows. Financial assets held to collect contractual cash flows, which relate SPPI, are classified at amortised cost. Financial assets held in a mixed business model (for example, held to collect contractual cash flows which meet the SPPI test and held for sale) are classified at fair value through other comprehensive income (FVOCI). All other financial assets held under a different business model or cash flows that do not meet the SPPI test are classified at fair value through profit or loss (FVTPL). The classification of financial liabilities remains relatively unchanged, with the exception of financial liabilities designated at fair value.	The Group's approach was to first reclassify the items, as indicated in the reclassification column, and then to remeasure the item included in the remeasurement column. Based on the business model assessments performed, the following were the significant reclassifications and re-measurements: P 1.1billion of investment securities held in the Group's liquid asset portfolio were reclassified from available-for-sale to am-ortised cost because they are held to collect contractual cash flows that meet the SPPI test. This resulted in a P 1.15 million release of available-for-sale reserve.
ECL impairment	IFRS 9 introduced an ECL model which includes the incorporation of forward-looking information (FLI) for the recognition of impairments on financial assets. It is no longer required that a credit event occurs before credit losses are recognised. This applies to financial assets classified at amortised cost and FVOCI, lease receivables and trade receivables. It also applies to loan commitments, unutilised facilities and financial guarantee contracts not designated at FVTPL, referred to collectively as offbalance sheet expo-sures. The level of ECL to be recognised is determined with reference to the credit risk of the asset at reporting date in relation to its credit risk at origination. Where the credit risk has not increased significantly since origination, impairment is calculated based on a 12- month ECL. If there has been a significant increase in credit risk (SICR), impairment is based on LECL	The revised impairment requirements increased impairments by P 126 million, excluding ISP, due to earlier recognition of ECL, incorporating FLI, the inclusion of off-balance sheet exposures and the extension of the measurement period.

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

42. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

Requirement	Description of change	Impact on the Group
Hedge accounting	IFRS 9 more closely aligns hedge accounting with the entity's risk management policies and permits the use of internally produced risk management information as a basis for hedge accounting, thereby widening the range of items that can be hedge accounted.	The Group does not apply hedge accounting
ISP	In terms of IAS 39 ISP was not capitalised to advances and interest suspended was tracked and managed separately off-balance sheet. Under IFRS 9, interest revenue is calculated by applying the effective interest rate to the amortised cost of financial assets classified in stage 3. The difference between the contractual interest and the interest recognised in line with IFRS 9 is therefore suspended. This suspended interest is capitalised to the advance and immediately impaired.	ISP is recognised against the ECL allowance, reflecting the fact that it is unrecoverable and therefore impaired. To the extent that the impairment coverage ratio under IAS 39 is identical to that under IFRS 9, the impact of ISP on transition to IFRS 9 is a gross-up of the advance and loss allowance by the amount of the suspended interest, with no impact on retained earnings. The amount of ISP under IAS 39 was P 171 million and resulted in a gross-up of advances. It had no impact on retained earnings.

Capital risk management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the consolidated statements of financial position, are:

- To comply with the capital requirements set by the central bank (Bank of Botswana);
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Basel, as implemented by Bank of Botswana for supervisory purposes. The required information is filed with the central bank on a monthly basis.

42. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

The impact of the standard is set out below

Group

	IAS 39 classification	IFRS 9 classification	30 June 2018 Balances before	Reclass-ification from IAS 39 to IFRS 9 P'000	To amortised cost P'000	Recognition of increase of ECL P'000	Interest in suspense (ISP) P'000	30 June 2018 Balances after restatement P'000
Deposits from banks	Amortised cost	Amortised cost	730 109	-	-	-	-	730 109
Deposits from customers	Amortised cost	Amortised cost	18 834 336	-	-	-	-	18 834 336
Accrued interest payable	Amortised cost	Amortised cost	51 893	-	-	-	-	51 893
Derivatives financial instruments	Helding for trading	Mandatory FVTPL	20 315	-	-	-	-	20 315
Creditors and accruals	Amortised cost	Amortised cost	434 266	-	-	-	-	434 266
Borrowings	Amortised cost	Amortised cost	1 160 942	-	-	-	-	1 160 942
Borrowings	Mandatory FVTPL	Mandatory FVTPL	127 985	-	-	-	-	127 985
Due to related parties	Loans and receivables	Amortised cost	73 861	-	-	-	-	73 861
Other liabilities	Non-financial instruments	Non-financial instruments	316 961	-	-	-	-	316 961
Total liabilities			21 750 668	-	-	-	-	21 750 668
Stated capital			51 088	-	-	-	-	51 088
Retained earnings			2 767 215	-	-	(126 392)	-	2 640 823
Available-for-sale-reserve			(1 153)	-	1 153	-	-	-
Other non-distributable reserves			71 677	-	-	-	-	71 677
Dividend reserve			228 933	-	-	-	-	228 933
Total equity and reserves			3 117 760	-	1 153	(126 392)	-	2 992 521
Total liabilities and shareholder funds			24 868 428	-	-	-	-	24 868 428

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

42. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

The impact of the standard is set out below

Group

	IAS 39 classification	IFRS 9 classification	30 June 2018 Balances before	Reclass-ification from IAS 39 to IFRS 9 P'000	To amortised cost P'000	Recognition of increase of ECL P'000	Interest in suspense (ISP) P'000	30 June 2018 Balances after restatement P'000
Cash and short term funds	Loans and receivables	Amortised cost	4 356 895	–	–	–	–	4 356 895
Derivatives financial instruments	Helding for trading	Mandatory FVTPL	55 181	–	–	–	–	55 181
Advances to banks	Loans and receivables	Amortised cost	650 912	–	–	–	–	650 912
Advances to customers	Loans and receivables	Amortised cost	16 122 567	–	–	–	170 929	16 293 496
Impairment of advances	Loans and receivables	Mandatory FVTPL	(643 630)	–	–	(126 392)	(170 929)	(940 951)
Investment securities	Held for trading	Amortised cost	94 745	–	–	–	–	94 745
Investment securities	Available-for-sale	Amortised cost	1 098 489	(1 098 489)	–	–	–	–
Investment securities	Held to maturity	Amortised cost	2 166 857	1 098 489	1 153	–	–	3 266 499
Accounts receivable	Amortised cost	Amortised cost	357 133	–	–	–	–	357 133
Current taxation	Non-financial instruments	Non-financial instruments	65 267	–	–	–	–	65 267
Due to related parties	Loans and receivables	Amortised cost	9 465	–	–	–	–	9 465
Property and equipment	Non-financial instruments	Non-financial instruments	507 584	–	–	–	–	507 584
Goodwill	Non-financial instruments	Non-financial instruments	26 963	–	–	–	–	26 963
Total assets			24 868 428	–	1 153	(126 392)	–	24 743 189

42. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after 01 January 2018.

The group has adopted the standard for the first time in the 2019 consolidated and separate financial statements.

42.2 Standards and interpretations not yet effective

The group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the group's accounting periods beginning on or after 01 July 2019 or later periods:

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

If a parent loses control of a subsidiary which does not contain a business, as a result of a transaction with an associate or joint venture, then the gain or loss on the loss of control is recognised in the parents' profit or loss only to the extent of the unrelated investors' interest in the associate or joint venture. The remaining gain or loss is eliminated against the carrying amount of the investment in the associate or joint venture. The same treatment is followed for the measurement to fair value of any remaining investment which is itself an associate or joint venture. If the remaining investment is accounted for in terms of IFRS 9, then the measurement to fair value of that interest is recognised in full in the parents' profit or loss.

The effective date of the amendment is to be determined by the IASB.

It is unlikely that the amendment will have a material impact on the group's consolidated and separate financial statements.

IFRS 17 Insurance Contracts

The IFRS establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued.

The effective date of the standard is for years beginning on or after 01 January 2021.

The group has adopted the standard for the first time in the 2022 consolidated and separate financial statements.

It is unlikely that the standard will have a material impact on the group's consolidated and separate financial statements.

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

42. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

42.2 Standards and interpretations not yet effective [continued]

Prepayment Features with Negative Compensation – Amendment to IFRS 9

The amendment to Appendix B of IFRS 9 specifies that for the purpose of applying paragraphs B4.1.11(b) and B4.1.12(b), irrespective of the event or circumstance that causes the early termination of the contract, a party may pay or receive reasonable compensation for that early termination.

The effective date of the amendment is for years beginning on or after 01 January 2019.

It is unlikely that the amendment will have a material impact on the group's consolidated and separate financial statements.

Amendments to IFRS 3 Business Combinations: Annual Improvements to IFRS 2015 – 2017 cycle

The amendment clarifies that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. The acquirer shall therefore apply the requirements for a business combination achieved in stages.

The effective date of the amendment is for years beginning on or after 01 January 2019.

It is unlikely that the amendment will have a material impact on the group's consolidated and separate financial statements.

Amendments to IFRS 11 Joint Arrangements: Annual Improvements to IFRS 2015 – 2017 cycle

The amendment clarifies that if a party participates in, but does not have joint control of, a joint operation and subsequently obtains joint control of the joint operation (which constitutes a business as defined in IFRS 3) that, in such cases, previously held interests in the joint operation are not remeasured.

The effective date of the amendment is for years beginning on or after 01 January 2019.

It is unlikely that the amendment will have a material impact on the group's consolidated and separate financial statements.

Amendments to IAS 12 Income Taxes: Annual Improvements to IFRS 2015 – 2017 cycle

The amendment specifies that the income tax consequences on dividends are recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the events or transactions which generated the distributable reserves.

The effective date of the amendment is for years beginning on or after 01 January 2019.

It is unlikely that the amendment will have a material impact on the group's consolidated and separate financial statements.

Amendments to IAS 23 Borrowing Costs: Annual Improvements to IFRS 2015 – 2017 cycle

The amendment specifies that when determining the weighted average borrowing rate for purposes of capitalising borrowing costs, the calculation excludes borrowings which have been made specifically for the purposes of obtaining a qualifying asset, but only until substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

The effective date of the amendment is for years beginning on or after 01 January 2019.

It is unlikely that the amendment will have a material impact on the group's consolidated and separate financial statements.

42. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

42.2 Standards and interpretations not yet effective [continued]

Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Specifically, if it is probable that the tax authorities will accept the uncertain tax treatment, then all tax related items are measured according to the planned tax treatment. If it is not probable that the tax authorities will accept the uncertain tax treatment, then the tax related items are measured on the basis of probabilities to reflect the uncertainty. Changes in facts and circumstances are required to be treated as changes in estimates and applied prospectively.

The effective date of the interpretation is for years beginning on or after 01 January 2019.

IFRS 16 Leases

IFRS 16 Leases is a new standard which replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the group are as follows:

Group as lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short term leases or leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee re-measures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

Notes to the Consolidated and Separate Financial Statements [continued]

for the year ended 30 June 2019

42. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

42.2 Standards and interpretations not yet effective [continued]

IFRS 16 Leases

Group as lessor:

- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.
- A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets; and the increase in consideration is commensurate to the stand alone price of the increase in scope.
- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.
- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

Sale and leaseback transactions:

- In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer of the asset is accounted for as the sale of an asset.
- If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-ofuse asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16.
- If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

The effective date of the standard is for years beginning on or after 01 January 2019.

The Bank will implement IFRS 16 Leases on 1 July 2019. The adoption of IFRS 16 mainly impacts the Bank's operating leases, mainly buildings and off-site auto teller machines (ATM's) (IAS 17 Leases). Under IFRS 16, lessees will need to recognise a right-of-use asset and a lease liability on balance sheet for all operating lease, resulting in a gross up of assets and liabilities amounting to P124 million, with P27 million attributable to ATM's and P97 million to buildings. There will be no impact on retained earnings.

The Bank has made the policy choice to use the modified retrospective approach that does not require a restatement for prior years. However, this approach does require that the Bank prepare a transition reconciliation note that reconciles the amounts disclosed under IAS 17 to the amounts recognised on balance sheet under IFRS 16. The Bank has assessed the opening balance adjustment required and will make the relevant disclosures on an IFRS 16 basis for the year ended June 2020.

Value Added Statements

for the year ended 30 June 2019

Value added is the wealth the Group has been able to create by providing clients with a quality value added service.

	Consolidated		Company	
	30June 2019	30 June 2018	30 June 2019	30 June 2018
	P '000	P '000	P '000	P '000
Income earned by providing banking services	2 759 760	2 577 168	2 757 028	2 521 721
Cost of services	(1 747 799)	(1 654 945)	(1 744 287)	(1 639 200)
Value added banking services	1 011 961	922 223	1 012 741	882 521
Non-operating and other income and expenditure	601 005	530 558	596 662	517 220
Value added	1 612 966	1 452 781	1 609 403	1 399 741
Value allocated				
To employees				
Salaries, wages and other benefits	581 063	543 847	579 086	541 389
To providers of capital				
Dividends to shareholders	406 992	357 118	406 992	353 613
To Government				
Taxation	229 795	205 874	229 388	195 684
To expansion and growth				
Retained earnings	325 544	290 937	326 306	254 740
Depreciation - Owned	69 572	55 005	67 631	54 315
	1 612 966	1 452 781	1 609 403	1 399 741
Employee statistics				
Employees	36,0	37,4	35,0	38,7
Providers of capital	25,2	24,7	25,3	25,4
Government	14,3	14,2	14,2	14,0
Expansion growth	24,5	23,7	25,5	21,9
	100,0	100,0	100,0	100,0

Five-year Financial Summary

	2019 P '000	2018 P '000	2017 P '000	2016 P '000	2015 P '000
Statements of Financial Position					
Assets					
Cash and short term funds	4 411 739	4 356 895	4 396 885	3 651 793	4 371 324
Derivative financial instruments	49 606	55 181	64 028	76 646	26 716
Advances to banks	789 903	650 912	-	324 960	640 000
Advances to customers	15 939 047	15 478 937	14 997 373	14 386 819	12 846 481
Investment securities	4 135 220	3 360 091	3 313 694	2 447 230	2 256 337
Current taxation	106 768	65 267	8 641	99 966	46 832
Deferred tax asset	7 054	-	-	-	-
Due from related companies	6 388	9 465	9 448	6 324	6 319
Accounts receivable	317 627	357 133	288 831	376 245	211 080
Property and equipment	481 307	507 584	505 496	495 692	540 393
Goodwill	26 963	26 963	26 963	26 963	26 963
Total assets	26 271 622	24 868 428	23 611 359	21 892 638	20 972 445
Liabilities and Equity					
Liabilities					
Deposits from banks	581 243	730 109	1 397 685	300 166	199 334
Deposits from customers	19 591 409	18 834 336	17 567 471	17 063 756	17 233 721
Accrued interest payable	63 566	51 893	46 061	30 553	88 895
Derivative financial instruments	14 844	20 315	28 065	42 631	13 796
Current taxation	-	7 699	1 208	898	650
Due to related companies	32 898	73 861	36 175	124 726	11 673
Creditors and accruals	773 482	459 948	443 530	429 680	360 109
Employee benefits liabilities	85 894	82 800	71 606	68 127	61 949
Borrowings	1 502 642	1 288 927	1 059 127	1 094 239	395 376
Deferred taxation	200 623	200 780	207 566	203 509	160 956
Total liabilities	22 846 601	21 750 668	20 858 494	19 358 285	18 526 459
Capital and reserves attributable to ordinary equity holders					
Stated capital	51 088	51 088	51 088	51 088	51 088
Reserves	3 029 311	2 837 739	2 547 955	2 329 443	2 112 888
Dividend reserve	254 370	228 933	153 822	153 822	282 010
Total equity	3 334 769	3 117 760	2 752 865	2 534 353	2 445 986
Total equity and liabilities	26 181 370	24 868 428	23 611 359	21 892 638	20 972 445

	2019 P '000	2018 P '000	2017 P '000	2016 P '000	2015 P '000
Income Statements					
Interest and similar income	1 617 445	1 507 520	1 429 248	1 308 394	1 288 434
Interest expense and similar charges	(359 916)	(335 721)	(265 128)	(363 565)	(415 321)
Net interest income before impairment of advances	1 257 529	1 171 799	1 164 120	944 829	873 113
Impairment losses on loans and advances	(264 912)	(274 168)	(361 219)	(228 570)	(201 068)
Net interest income after impairment of advances	992 617	897 631	802 901	716 259	672 045
Non-interest income	1 142 315	1 069 648	978 155	926 948	862 385
Income from operations	2 134 932	1 967 279	1 781 056	1 643 207	1 534 430
Operating expenses	(1 189 585)	(1 129 070)	(1 100 731)	(984 196)	(777 924)
Income before tax	945 347	838 209	680 325	659 011	756 506
Direct tax	(212 811)	(190 154)	(179 804)	(155 121)	(165 020)
Income after taxation	732 536	648 055	500 521	503 890	591 486
Earnings attributable to outside shareholders	-	-	-	-	-
Earnings attributable to prdinary shareholders	732 536	648 055	500 521	503 890	591 486
Appropriations					
Dividends declared and proposed	(406 992)	(357 118)	(282 007)	(282 007)	(410 192)
Retained income for the year	325 544	290 937	218 514	221 883	181 294

Ten-year Consolidated Income Statements

	30 JUNE 2019 P '000	30 JUNE 2018 P '000	30 JUNE 2017 P '000	30 JUNE 2016 P '000
Interest and similar income	1,617,445	1,507,520	1,429,248	1,308,394
Interest expense and similar charges	(359,916)	(335,721)	(265,128)	(363,565)
Net interest income before impairment of advances	1,257,529	1,171,799	1,164,120	944,829
Impairments losses on loans and advances	(264,912)	(274,168)	(361,219)	(228,570)
Net interest income after impairment of advances	992,617	897,631	802,901	716,259
Non interest income	1,142,315	1,069,648	978,155	926,948
Income from operations	2,134,932	1,967,279	1,781,056	1,643,207
Operating expenses	(1 189 585)	(1,129,070)	(1,100,733)	(984,196)
Income before taxation	945 347	838,209	680,323	659,011
Taxation	(212 811)	(190,154)	(179,804)	(155,121)
Income after taxation	732,536	648,055	500,519	503,890
Dividends paid and proposed	(406,992)	(357,118)	(282,007)	(282,007)
Retained income for the year	325,544	290,937	218,512	221,883

30 JUNE 2015 P '000	30 JUNE 2014 P '000	30 JUNE 2013 P '000	30 JUNE 2012 P '000	30 JUNE 2011 P '000	30 JUNE 2010 P '000
1,288,434	1,244,817	1,210,031	1,111,862	1,094,078	1,062,618
(415,321)	(290,200)	(312,629)	(342,799)	(432,327)	(518,978)
873,113	954,617	897,402	769,063	661,751	543,640
(201,068)	(122,510)	(120,673)	(132,714)	(59,211)	(43,420)
672,045	832,107	776,729	636,349	602,540	500,220
862,385	794,557	743,042	629,108	505,793	410,610
1,534,430	1,626,664	1,519,771	1,265,457	1,108,333	910,830
(777,924)	(704,425)	(614,373)	(535,496)	(470,596)	(378,858)
756,506	922,239	905,398	729,961	637,737	531,972
(165,020)	(202,578)	(204,446)	(161,168)	(63,897)	(95,922)
591,486	719,661	700,952	568,793	573,840	436,050
(410,192)	(384,555)	(333,281)	(179,458)	(589,651)	(230,734)
181,294	335,106	367,671	389,335	(15,812)	205,316

Ten-year Consolidated Statements of Financial Position

	30 JUNE 2019 P '000	30 JUNE 2018 P '000	30 JUNE 2017 P '000	30 JUNE 2016 P '000
ASSETS				
Cash and short term funds	4,411,739	4,356,895	4,396,885	3,651,793
Derivative financial instruments	49,606	55,181	64,028	76,646
Advances to banks	789,903	650,912	-	324,960
Advances to customers	15,939,047	15,478,937	14,997,373	14,386,819
Investment securities	4,135,220	3,360,091	3,313,694	2,447,230
Current taxation	106,768	65,267	8,641	99,966
Deferred taxation	7,054	-	-	-
Due from related companies	6,388	9,465	9,448	6,324
Accounts receivable	317,627	357,133	288,831	376,245
Non-current assets held for sale	-	-	-	-
Investment in associated company	-	-	-	-
Property and equipment	481,307	507,584	505,496	495,692
Goodwill	26,963	26,963	26,963	26,963
Total assets	26,271,622	24,868,428	23,611,359	21,892,638
LIABILITIES				
Deposits from banks	581,243	730,109	1,397,685	300,166
Deposits from customers	19,591,409	18,834,336	17,567,471	17,063,756
Accrued interest payable	63,566	51,893	46,061	30,553
Derivative financial instruments	14,844	20,315	28,065	42,631
Current taxation	-	7,699	1,208	898
Due to related companies	32,898	73,861	36,175	124,726
Creditors and accruals	773 482	459,948	443,530	429,680
Employee liabilities	85,894	82,800	71,606	68,127
Borrowings	1,502,642	1,288,927	1,059,127	1,094,239
Deferred taxation	200,623	200,779	207,566	203,509
Total liabilities	22,936,853	21,750,668	20,858,494	19,358,285
EQUITY				
Stated capital	51,088	51,088	51,088	51,088
Reserves	3,029,311	2,837,739	2,547,955	2,329,443
Dividend reserve	254,370	228,933	153,822	153,822
Total ordinary equity holder's funds	3,334,769	3,117,760	2,752,865	2,534,353
Total equity and liabilities	26,271,622	24,868,428	23,611,359	21,892,638

	30 JUNE 2015 P '000	30 JUNE 2014 P '000	30 JUNE 2013 P '000	30 JUNE 2012 P '000	30 JUNE 2011 P '000	30 JUNE 2010 P '000
	4,371,324	2,721,384	2,288,285	2,557,842	1,706,573	1,201,491
	26,716	24,922	10,138	7,861	2,996	758
	640,000	461,921	51,975	-	361,178	-
	12,846,481	12,131,415	10,369,937	8,420,553	7,170,842	5,803,009
	2,256,337	1,536,828	2,290,494	2,699,551	3,496,862	4,946,059
	46,832	12,895	2,117	-	4,622	1,041
	-	-	-	-	-	-
	6,319	6,272	6,138	7,839	13,133	5,075
	211,080	196,112	251,474	170,800	170,502	57,719
	-	-	7,101	5,511	-	-
	-	-	-	-	3,058	3,151
	540,393	520,694	502,086	317,559	202,200	187,306
	26,963	26,963	26,963	26,963	26,963	26,963
	20,972,445	17,639,406	15,806,708	14,214,479	13,158,929	12,232,572
	199,334	12,157	53,903	166,900	215,186	4,000
	17,233,721	14,328,142	12,932,767	11,448,851	10,597,398	10,304,632
	88,895	39,027	34,767	45,179	36,696	45,661
	13,796	18,079	16,964	32,912	18,794	559
	650	3,870	-	461	-	-
	11,673	30,499	19,597	57,883	140,031	50,209
	360,109	274,596	225,215	275,972	616,691	336,647
	61,949	60,588	62,076	52,252	42,646	23,830
	395,376	489,495	422,791	519,047	244,971	207,827
	160,956	118,973	110,360	82,296	98,350	100,648
	18,526,459	15,375,426	13,878,440	12,681,753	12,010,763	11,074,013
	51,088	51,088	51,088	51,088	51,088	51,088
	2,112,891	1,930,885	1,620,810	1,276,542	1,045,804	979,286
	282,007	282,007	256,370	205,096	51,274	128,185
	2,445,986	2,263,980	1,928,268	1,532,726	1,148,166	1,158,559
	20,972,445	17,639,406	15,806,708	14,214,479	13,158,929	12,232,572

FNB BOTSWANA ANNUAL REPORT 2019

Shareholder Information

Shareholder's Diary

Declaration of dividend and announcement of results	August 2019
Publication of Annual Financial Statements	September 2019
Payment of final dividend	October 2019
Annual General Meeting	November 2019
Publication of half-year interim report and dividend announcement	February 2020
Payment of interim dividend	March 2020
Next financial year end	30 June 2020

List of major shareholders

Share Analysis – Ordinary Shareholders

	Shareholders Number of holders	**% of holders**	Shares held	**Shares held** % of Issued shares
1- 5,000	3,957	79.06%	3,518,103	0.1%
5,001-10,000	356	7.11%	2,990,012	0.1%
10,001- 50,000	408	8.15%	10,114,582	0.4%
50,001-100,000	103	2.06%	8,238,386	0.3%
100,001- 500,000	103	2.06%	22,353,607	0.9%
500,001 - 1,000,000	27	0.54%	18,915,423	0.7%
OVER 1,000,000	51	1.02%	2,477,569,887	97.4%
Total	**5,005**	**100.00%**	**2,543,700,000**	**100.00%**

Top ten shareholders

INVESTEC RE DPF	DEBSWANA PENSION FUND	23,163,879	0.91%
DEBSWANA PENSION FUND	ALLAN GRAY RE DEBSWANA PENSION FUND	23,568,507	0.93%
BOTSWANA INSURANCE FUND MANAGEMENT	STANBIC NOMINEES RE: BIFM	35,803,071	1.41%
MOTOR VEHICLE ACCIDENT FUND	MOTOR VEHICLE ACCIDENT FUND	40,993,910	1.61%
FNB BOTSWANA NOMS BW (PTY) LTD RE: BPOPF EQUITY PORTFOLIO C	FNB BOTSWANA NOMS BW (PTY) LTD RE: BPOPF EQUITY PORTFOLIO C - ALLAN GRAY	48,169,269	1.89%
FNB BOTSWANA NOMINEES (PTY) LTD RE: BIFM BPOPF-EQU	BIFM BPOPF-EQUITY	57,422,338	2.26%
FNB BOTSWANA BW NOMS(PTY) LTD RE: IAM BPOPFP 10001031	IAM BPOPF EQUITY	61,741,313	2.43%
FNB BOTSWANA NOMINEES (PTY) LTD RE: AG BPOPF EQUITY PORT B	FNB BOTSWANA NOMINEES (PTY) LTD RE: ALLANGRAY BPOPF EQUITY PORTFOLIO B	115,620,602	4.55%
FNB BOTSWANA NOMINEES (PTY) LTD RE: AA BPOPF EQUITY	AA BPOPF EQUITY	119,544,015	4.70%
FNBB HOLDINGS BOTSWANA LIMITED	FNBB HOLDINGS BOTSWANA LIMITED	1,780,590,000	70.00%
OTHERS		237,083,096	9.32%
		2,543,700,000	**100.00%**

	Shareholders Number	%	Shares held Number	%
Category				
Corporate bodies	242	4.66%	1,786,236,040	70.22%
Nominees companies	97	1.87%	639,042,366	25.12%
Trust accounts	6	0.12%	1,817,618	0.07%
Private individuals	4,849	93.35%	116,603,976	4.59%
	5,194	100.00%	2,543,700,000	100.00%

	Shareholders Number	%	Shares held Number	%
Geographic Ownership				
Botswana	5,134	98.84%	2,542,247,487	99.94%
Africa	36	0.69%	1,106,227	0.05%
International	24	0.47%	346,286	0.01%
	5,194	100.00%	2,543,700,000	100.00%

Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in doubt as to the action you should take in relation to this document, please consult your stockbroker, banker, legal advisor or other professional advisor immediately.

Action required:

1. If you have disposed of all of your shares in First National Bank Botswana Limited, this circular should be sent to the agent through whom you have disposed of such shares, for onward delivery to the purchaser of those shares.

2. A notice convening an Annual General Meeting of Shareholders of First National Bank Botswana ("AGM"), to be held at 13h00 on Wednesday 6 November 2019 at the Hilton Hotel, Gaborone is attached hereto, which notice forms an integral part of this Circular. The relevant form of proxy is also attached. Shareholders who are unable to attend the AGM should complete the attached form of proxy and return it to the Transfer Secretaries of the Company so as to be received by no later than 12h00 on Monday 4 November 2019. Submission of a form of proxy will not preclude shareholders from attending and voting in person at the AGM, should they so desire.

Salient Dates and Times (Year 2019)		
Forms of proxy to be received by 12h00	Monday	4 November
Annual General Meeting at 13h00	Wednesday	6 November

The above dates and times are subject to change. Any amendment will be published in the press.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Shareholders of the Company will be held at the Hilton Hotel, Gaborone, at 13h00 on Wednesday 6 November 2019, for the purpose of transacting the following business and considering and if deemed fit, passing, with or without modification, the following resolutions:

Agenda

Ordinary Business

1. To read the notice and ascertain the presence of a quorum required in terms of the Constitution.

2. Ordinary Resolution 1:
   RESOLVED THAT, the Audited Annual Financial Statements for the Year Ended 30 June 2019 together with Directors' and Auditor's Reports thereon be adopted.

3. Ordinary Resolution 2:
   RESOLVED THAT dividends of 6 thebe per ordinary share declared on 6 February 2019 and 10 thebe per ordinary share declared on 16 August 2019, for the Financial Year Ended 30 June 2019 be approved as recommended by the Directors and the distribution thereof be ratified.

4. Ordinary Resolutions 3 and 4
   RESOLVED THAT the following Directors of the Company who retire by rotation in terms of the Company's Constitution and being eligible, offer themselves for re-election be re-elected by way of separate resolutions:

   Mr. J K Macaskill (Independent Non-Executive Director)
   Mr. M W Ward (Independent Non-Executive Director)

   It is recorded that Mrs. D A Kgosietsile retires as an Independent Non-Executive Director of the Company in terms of the Constitution and does not offer herself for re-election and will retire as a Director of the Company at the Annual General Meeting.

Biographical information of the directors to be re-elected is set out on pages 98 of the Annual Report. The Board recommends the re-election of these Directors.

5. Ordinary Resolutions 5 and 6:
   To ratify the appointment of the following Directors of the Company:

   Mr. B M Bonyongo
   Mrs N B Lahri

   Biographical information of the directors to be re-elected is set out on pages 98 of the Annual Report

6. Ordinary Resolution 7:

RESOLVED THAT the annual fees of the Non-Executive Directors, as reflected below be approved for 2020:	**Proposed 2020 fees (BWP)**
First National Bank Botswana Board	
Member	112 840
Chairperson	225 680
Audit committee	
Member	64 480
Chairperson	128 960
Risk Capital and Compliance Committee	
Member	64 480
Chairperson	128 960
Remuneration Committee	
Member	18 138
Chairperson	27 203
Directors' Affairs and Governance Committee	
Member	36 276
Chairperson	54 414
Credit Risk Committee	
Member	225 680
Chairperson	257 920
Policies & Frameworks Committee	
Member	51 584
Chairperson	51 584
Strategy	28 210
Training	48 360

1. Executive directors and directors employed by the FirstRand Group do not receive fees as members of the Board.
2. Fees are based on an hourly rate and are reviewed annually in line with market norms and take into account the increased legislation and compliance requirements and increased workload.
3. Additional meetings called are paid at the rates agreed for the Board/Committees.
4. A contingent retainer of 50% of Board and Committee member fees are paid if a director is unable to attend a Board or Committee meeting through valid cause beyond control.

Notice of Annual General Meeting [continued]

7. Ordinary Resolution 8:
   RESOLVED THAT Deloitte & Touche be re-appointed as auditors of the company and authorise the Directors to determine their remuneration.

8. To transact any other business which maybe transacted at an Annual General Meeting.

Voting and proxies

All holders of Ordinary Shares entitled to vote will be entitled to attend and vote at the Annual General Meeting.

A holder of shares who is present in person, or by authorised representative or by proxy shall have one vote on a show of hands and have one vote for every ordinary share held on a poll.

Each Shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies (none of whom need be a Shareholder of the Company) to attend, speak and subject to the Constitution of the Company, vote in his/her/its stead.

The Annual Report and the form of proxy which sets out the relevant instructions for its completion can be found on the FNB Botswana website www.fnbbotswana.co.bw

To be effective, a duly completed form of proxy must be received at the Transfer Secretaries, PricewaterhouseCoopers (Pty) Ltd, Plot 50371, Fairgrounds Office Park, and P O Box 294, Gaborone by not later than 12h00 on Monday 4 November 2019.

By Order of the Board

Sethunya T. Molodi
COMPANY SECRETARY

Form of Proxy

For completion by holders of Ordinary Shares

PLEASE READ THE NOTES OVERLEAF BEFORE COMPLETING THIS FORM.

EXPRESSIONS USED IN THIS FORM SHALL, UNLESS THE CONTEXT REQUIRES OTHERWISE, BEAR THE SAME MEANINGS AS IN THE NOTICE TO SHAREHOLDERS OF FNB Botswana ISSUED ON 16 OCTOBER 2019.

For use at the Annual General Meeting of Shareholders of the Company to be held at the Hilton Hotel, Gaborone at 13h00 on Wednesday 6 November 2019.

I/We ____

(Name/s in block letters)

Of ____

(Address) ____

Appoint (see note 2): ____

1. ____ of failing him/her,

2. ____ of failing him/her,

3. ☐ the Chairman of the Meeting,

as my/our proxy to act for me/us at the General Meeting which will be held, in addition to considering the ordinary business, for the purpose of considering and if deemed fit, passing with or without modification, the resolutions to be proposed under the special business vote thereat and at each adjournment thereof, and to vote for or against the resolutions and/or abstain from voting in respect of the Ordinary Shares registered in my/our name in accordance with the following instructions (see note 2):

	NUMBER OF ORDINARY SHARES		
	For	**Against**	**Abstain**
1. Ordinary Resolution 1			
2. Ordinary Resolution 2			
3. Ordinary Resolution 3			
4. Ordinary Resolution 4			
5. Ordinary Resolution 5			
6. Ordinary Resolution 6			
7. Ordinary Resolution 7			
8. Ordinary Resolution 8			

Signed at:______________________on: ______________2019 Signature:______________________

Assisted by (where applicable)

Each Shareholder is entitled to appoint one or more proxies (who need not be Member/s of the Company) to attend, speak and vote in place of that Shareholder at the General Meeting.

Please read the notes on the reverse side thereof.

Notes

1. A Shareholder must insert the names of two alternative proxies of the Shareholder's choice in the space provided, with or without deleting "Chairman of the Annual General Meeting". The person whose name appears first on the form of proxy, and whose name has not been deleted will be entitled to act as proxy to the exclusion of those whose names follow.

2. A Shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by the Shareholder in the appropriate space provided. Failure to comply herewith will be deemed to authorise the proxy to vote at the General Meeting as he/she deems fit in respect of the Shareholder's votes exercisable thereat, but where the proxy is the Chairman, failure to comply will be deemed to authorise the proxy to vote in favour of the resolution. A Shareholder or his/her proxy is obliged to use all the votes exercisable by the Shareholder or by his/her proxy.

3. Forms of proxy must be lodged at or posted to the Transfer Secretaries of the Company, PricewaterhouseCoopers (Pty) Ltd, Plot 50371, Fairgrounds Office Park, P O Box 294, Gaborone to be received not later than 24 hours before the General Meeting before 12h00 on 4 November 2019.

4. The completion and lodging of this form will not preclude the relevant Shareholder from attending the General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such Shareholder wish to do so.

5. The Chairman of the General Meeting may reject or accept any form of proxy not completed and/or received other than in accordance with these notes provided that he is satisfied as to the manner in which the Shareholder concerned wishes to vote.

6. An instrument of proxy shall be valid for the General Meeting as well as for any adjournment thereof, unless the contrary is stated thereon.

7. A vote given in accordance with the terms of a proxy shall be valid, notwithstanding the previous death or insanity of the Shareholder, or revocation of the proxy, or of the authority under which the proxy was executed, or the transfer of the Ordinary Shares in respect of which the proxy is given, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company not less than one hour before the commencement of the General Meeting or adjourned General Meeting at which the proxy is to be used.

8. The authority of a person signing the form of proxy under a power of attorney or on behalf of a company must be attached to the form of proxy, unless the authority or full power of attorney has already been registered by the Company or the Transfer Secretaries.

9. Where Ordinary Shares are held jointly, all joint Shareholders must sign.

10. A minor must be assisted by his/her guardian, unless relevant documents establishing his/her legal capacity are produced or have been registered by the Company.

First National Bank of Botswana Limited

Plot 54362 • First Place • Central Business District • P O Box 1552 • Gaborone • Botswana

Telephone: +267 370 6000 • Fascimile: +267 390 6679 • Website: www.fnbbotswana.co.bw

Registered Bank • Registration Number 1119 • S.W.I.F.T. • FIRNBWGX

Share Transfer Secretaries • PriceWaterHouseCoopers • Plot 50371 • Fairgrounds Office Park • Gaborone