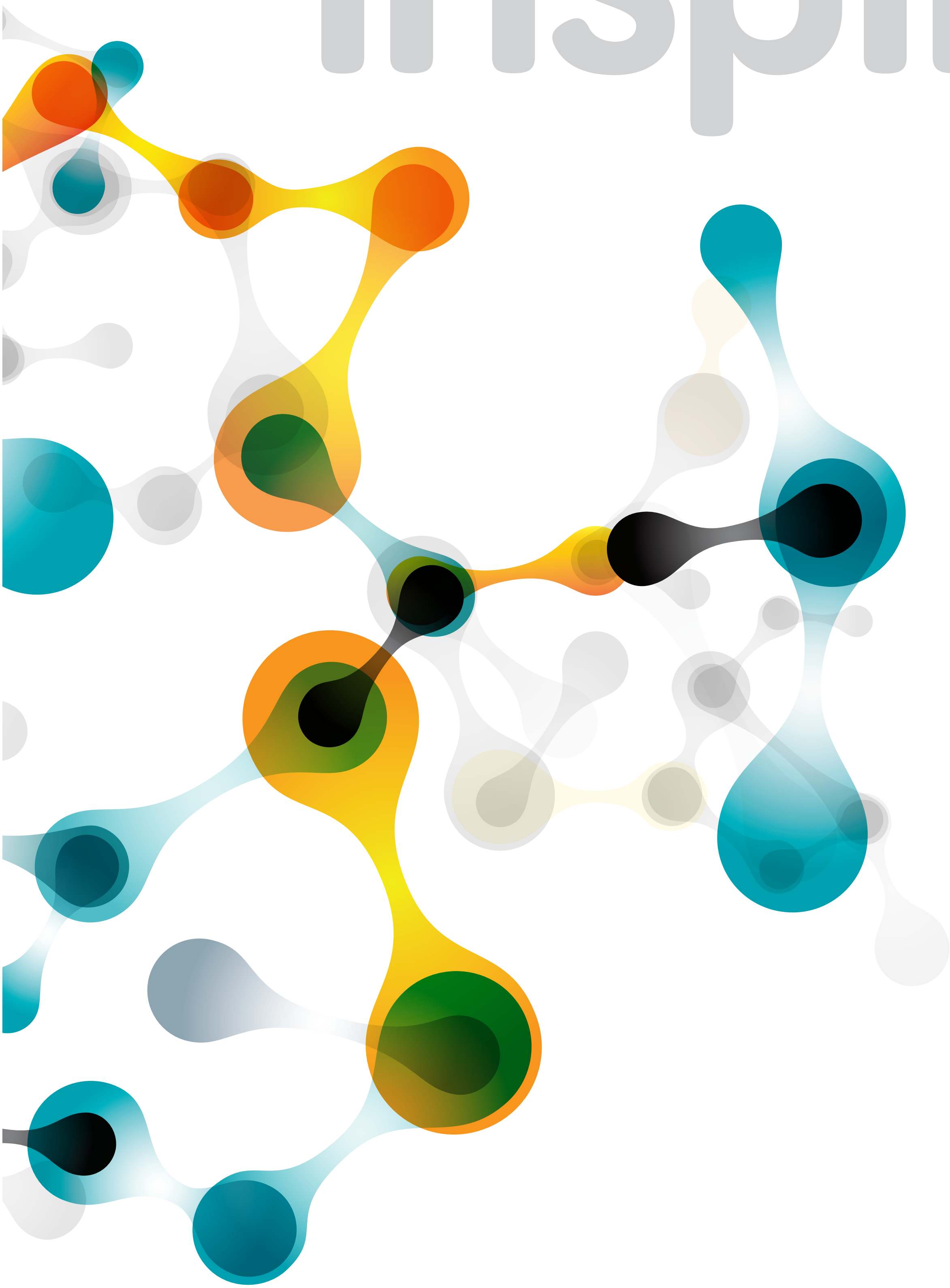
# inspired to innovate

First National Bank of Botswana | Annual Report 2013

FNB
First National Bank
how can we help you?

# inspired



# to innovate

## 22 YEARS OF INDUSTRY LEADERSHIP THROUGH UNIQUE FINANCE AND LIFESTYLE SOLUTIONS, SERVED WITH EXCELLENCE.

FNB Botswana reaffirms its position as the country's most innovative bank in the wake of global recognition of the FNB brand as the world's most innovative bank.

**The theme of our 2013 annual report is a celebration of the FNB brand and the core values it stands for.**

Inspired to Innovate speaks to our passion for doing things differently, quicker, smarter and more cost effectively as we find ways to help our customers, shareholders and stakeholders. In 2012, leading minds within the global economy stood up to recognise the power of our ideas, and presented an award that recognised FNB as the most innovative Bank in the world. We are very excited about the future, thank you for being with FNB.

With so many
INNOVATIVE
products and services
to choose from, the FNB
banking experience is
second to none.

# CONTENTS



# First Place for FNB Botswana

- **2136m²**
- **5 Floors**

First Place is a state of the art building comprising of a branch, a bulk cash facility, double basement parking, customer designated parking areas, staff gym and cafeteria, modern fittings and superior building management services. The building houses all divisions of the Bank, enabling customers to be assisted in one place for all their banking needs.


FNB
WesBank

# FIRST PLACE FOR FNB BOTSWANA *(continued)*

On the 5th of August 2013, Mrs Lorato Boagkomo Ntakhwana, FNB CEO proudly hosted an official tour of FNB's new flagship branch and nerve centre for innovation, First Place. The glittering event was graced by a cross section of captains of industry and commerce, as well as a high level delegation of Government officials, including the guest of honour, Vice President of Botswana, Honourable P.H.K. Kedikilwe.

With the official ribbon cutting and unveiling of the plaque, the Vice President signalled the dawn of a new era of inspired service to Batswana.

The new building is a one stop shop, offering solutions for all conceivable banking needs. In addition to accommodating all the Bank's divisions, First Place pays homage to the FNB brand's core values of being helpful through a host of innovative approaches to it's structural design, ergonomics, function, finishings and aesthetic appointments.

Large windows and generous expanses of intelligently crafted open space collaborate with natural light to create a clean, comfortable and easily accessible office environment.

Staff welfare is designed right into the heart of the new building, with pause areas crafted into every floor, complete with tasteful furnishings arranged in the style of a cafe´. During their well deserved breaks, staff can enjoy DStv programmes on widescreen television sets, while vending machines offer a variety of refreshing cold and hot beverages.

A fully equipped staff gymnasium caters for staff health and fitness, while a well stocked canteen serves up mouth watering meals for all tastes.

By design, First Place helps FNBers to enjoy coming to work every day, and offers a creative and conducive environment for them to do what they do best, letting customers enjoy the most innovative banking services from a motivated team, in an inviting and relaxing environment.


FNB
First Place
PLOT 54362

Inspired to innovate

# First Pay

**"My favourite innovation from FNB is First Pay. I am a busy woman, with so many things to do at home and at work. So when I found out about First Pay from FNB, I realised it was the perfect payment solution for me because I always have access to a computer with internet at home and at work.**

So I use First Pay to settle my bills from Multichoice, Botswana Power Corporation, Water Utilities and G4S security in one secure place. That means I don't have to queue, carry cash or even leave the house to pay my bills, thanks to First Pay.

The service is so easy to use that anyone can enjoy the sheer convenience it offers. To get started, all you need to do is simply log onto www.firstpay.co.bw register with your email and secret password, and you're ready to add the merchants or utilities you want to pay. Thanks FNB."

**Rebecca Kgaodi**
Business Owner

# Financial Highlights

The Bank continues to invest in systems to effectively manage risks and improve management information for decision making and regulatory reporting. During the period, the Bank continued to expand its footprint with increased ATM s and the opening of the Airport Junction and First Place branches. Despite these projects and expansion initiatives, other operating expenses only increased by 17%.

# FINANCIAL HIGHLIGHTS *(continued)*

Profit Before Taxation

+24%

Non-Interest Income

+18%

Advances

+23%

Cost To Income Ratio

-2%

Return on Average Assets

+12%

Dividend per share (thebe)

+15%

## Statement of comprehensive income

On the back of a positive balance sheet trend, the Bank achieved excellent income growth of 24% year on year on profits before tax and 23% growth on profits after tax.

This was mainly driven by good growth in advances which produced a good return on interest income, while good growth in the endowment portfolio for funding the advances, made savings on the interest expense line, thereby achieving acceptable margins. As a result, net interest income registered a healthy 17% year on year growth.

Conservative credit risk appetite and a tight ongoing credit risk management, continued to be the focus of the year. This strategy paid off as the Bank's impairments reduced by 9%.

Efforts to diversify income streams away from interest income continued during the year. The strategy is imperative in the face of the lowest and declining interest rate cycle. A year on year growth of 19% is impressive and was achieved against the Bank's strong drive to move customers from transacting in the more expensive branches to the cheaper electronic channels.

In its diversification drive, the Bank continues to develop and improve its customer offerings and operating platform, which has led to growth in operating costs of 17%. These developments are integral in ensuring the Bank continues to be innovative in its product offerings and services. Despite this growth in operating costs, staff costs remained under control and the Bank's income grew at higher levels than its costs thus resulting in an improved cost to income ratio of 37% down from 38% in the previous year.

FINANCIAL HIGHLIGHTS

# STATEMENT OF FINANCIAL POSITION

The Bank's balance sheet continues to show good increases in advances with the year on year growth registering an impressive 23% to close at a book record of over P10 billion.

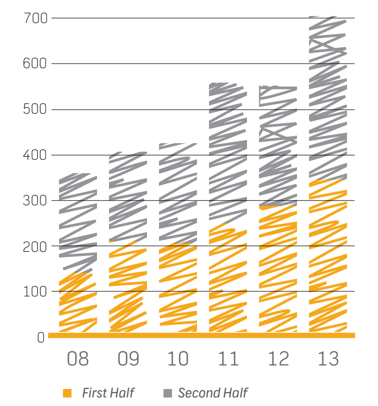
**This growth is predominantly in secured assets, especially in the Property and WesBank books. The Bank managed this result despite the high credit growth in the market being mainly from unsecured lending to the consumer segment.**

The Bank's strategy of growing the secured books as opposed to the unsecured bucked the trend and showed a more conservative credit risk appetite compared to market. Bank of Botswana Certificates reduced by 12% year on year as the Bank focused on higher yielding advances, thereby taking the loan to deposit ratio into the right direction and positively impacting on margins. Return on average assets registered a healthy 4.7%, an impressive increase from 4.2% recorded in the previous year.

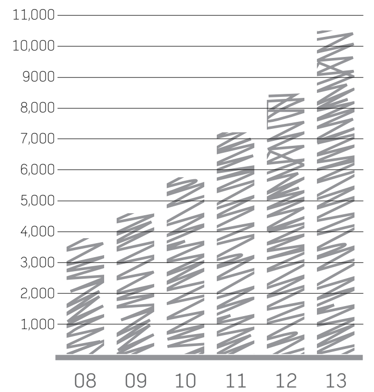
The Bank experienced tighter liquidity conditions when compared to past periods as the banking industry grew their advances and balance sheets by paying up on deposits. Despite this, the Bank successfully realised positive growth in deposits of 13% and an overall balance sheet growth of 11% year on year.

# FINANCIAL HIGHLIGHTS - GRAPHS

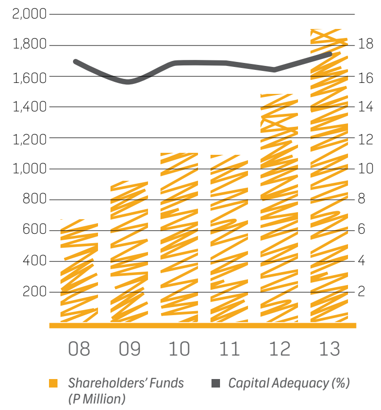
## PROFIT AFTER TAX (P Million)



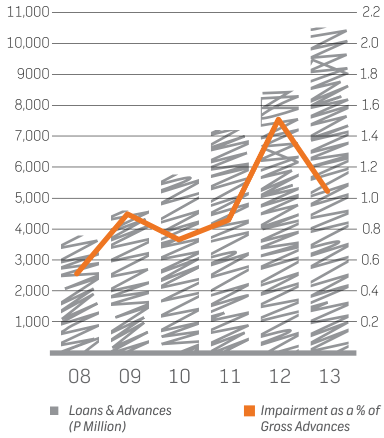

## LOANS & ADVANCES (P Million)



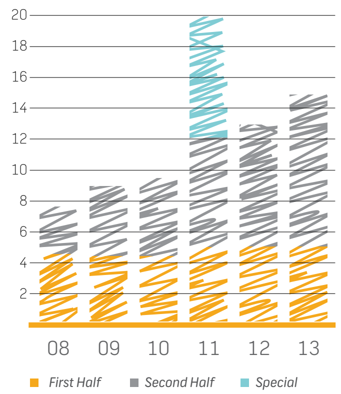

## SHAREHOLDERS' FUNDS vs CAPITAL ADEQUACY




## IMPAIRMENTS AS A % OF ADVANCES

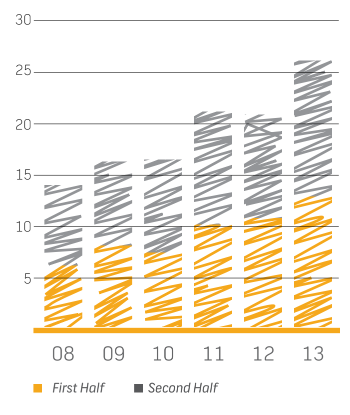



## DIVIDENDS PER SHARE (thebe)

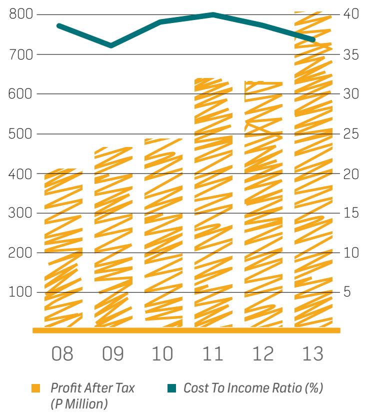


FINANCIAL HIGHLIGHTS

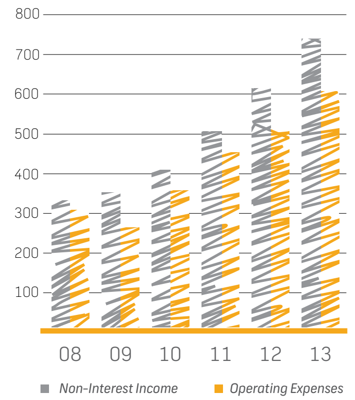
## EARNINGS PER SHARE (thebe)



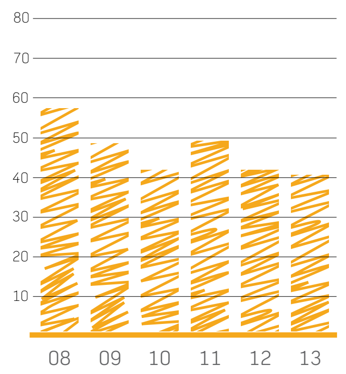

## PROFIT AFTER TAX VS COST TO INCOME RATIO



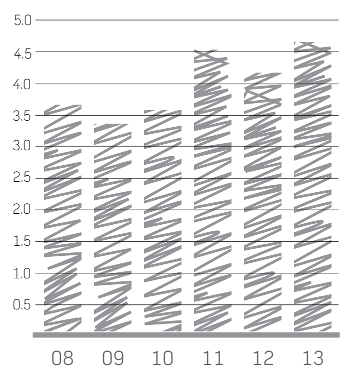

## NON-INTEREST INCOME vs OPERATING EXPENSES (P Million)




## RETURN ON EQUITY (%)




## RETURN ON ASSETS (%)





Inspired to innovate

## Cellphone Banking

**"I am so impressed by how much of my daily chores I can achieve with FNB Cellphone Banking. I live such a hectic lifestyle, travelling a lot between my farm and home as well as attending to other work commitments.**

I also have to find time for my family and can not imagine losing precious moments queueing in the branch for services. That's why I registered for FNB Cellphone Banking.

I am delighted to say that over the years, Cellphone Banking has proved to be a great lifestyle tool for me, supporting my ambitions for business with easy access to banking services any time, and allowing me to transact with my accounts whenever I need to from wherever I am.

I use FNB Cellphone Banking to check my bank balances, get mini statements, pay bills, buy airtime transfer money between my accounts and keep track of any transactions through inContact. Thanks FNB."

**Johannes Marakalala**
Farm owner

# Strategy and Performance

Continued product innovation and service enhancements are pivotal to the Bank's success. This is particularly the case when trading conditions are difficult. It is against this backdrop that First National Bank was voted the most innovative bank in the world at the BAI-Finacle Global Banking Innovation Awards.

*"Through sustained focus on innovation and re-invention, we will continue to push the envelope and deliver beyond the expectations of all our stakeholders."*

**Peter David Stevenson**
*FNB Chairman*

# CHAIRMAN'S REPORT

The financial year 2012/13 experienced a mixed bag of economic performance. Just as was the case in the previous financial year, the economies upon which Botswana depends for diamond sales continue to labour under great uncertainty.

*Profit Before Taxation*

**+24%**

# CHAIRMAN'S REPORT *(continued)*

Although the US economy is on a firmer footing, the global growth performance has become more incongruent, with the Eurozone still in recession and trend growth in China slowing. To make matters worse for commodity-producing countries, the negative impact of declining growth in the Chinese economy on commodity prices, exerted further downward pressure on the currencies and asset markets of these economies. Closer to home, this is especially true of South Africa.

The seemingly improving US economy has led to strong diamond sales in Q1 of the fiscal year, which is an encouraging sign. However, Botswana's growth rate of 3.2% in calendar year Q1 2013 is lower than the 5.8% recorded over the same period in 2012, when a robust non-mining sector was experienced. The worrying trend in the first quarter of 2013 is that unlike in 2012, GDP was affected negatively by both the mining and the non-mining sectors. However, the big concern continues to be a struggling mining sector and the decline in international commodity prices affecting government diamond receipts. On a positive note, inflation has fallen to within the Bank of Botswana target range of 3-6% in the last few months, and there are signs of weak inflationary pressures going forward. Q2 2013 saw Bank of Botswana cutting rates twice by a total 100 basis point, a 50 basis point cut at each seating, giving reprieve to the over-borrowed consumer segment.

The rate cuts were on the back of the central bank's lower projected inflationary pressures and to provide a much needed economic stimulus. With the bank rate at 8.5% and prime at 10%, interest rates are at their lowest in 13 years, and expectations are that the rates will be cut further in the short term.

*Overall Statement of Financial Position increased by*

**11%**

This low interest rate environment is a welcome development for consumers whose credit appetite continues to be strong, registering an increase of 32% between April 2012 and 2013. This compares to business credit extension of only 10% and total credit extension of 22% during the same period. This growth path raises certain risks, notably that consumers and businesses will become overindebted or that rising property prices will turn into a bubble. It is therefore not surprising that the consumer segment is showing some stress in the books of most banks.

*Business confidence unchanged at*

**47%**

Business confidence as measured by the Bank of Botswana Business Expectations Survey is not entirely promising either. A big detractor to economic activity which may have contributed to this, has been the widespread electricity outages or "load shedding". This has been extremely disruptive to the private sector.

The most recent business confidence survey shows an overall unchanged result of 47%, indicating that the majority of businesses do not find the current business environment conducive to investing in expansion.

It is against this backdrop that I am very pleased to report that First National Bank of Botswana has successfully navigated the prevailing challenges and produced impressive results.

This exceptional performance is a reflection not only of the solid leadership of the Bank but also the dedication and committment of the executive, management and staff and for which I extend my sincere gratitude.

The Board continues to comprise individuals with broad diversity of collective experience and competencies, and the board members have discharged their duties with thoroughness and dilgence. My personal gratitude goes to my fellow directors for their contribution to the success of the Bank.

There is no doubt that a well-regulated financial system is paramount in any economy. It is therefore befitting for me to recognise the contribution of the Bank of Botswana and the sound environment it has created for banks to operate successfully, and on a sound and stable basis.

Despite the fact that difficult trading conditions are expected in the upcoming year, I have every confidence that First National Bank of Botswana will find innovative ways of maintaining its status as the biggest Bank in Botswana.

Peter David Stevenson
FNB Chairman

*"As a brand, we actively seek out and nurture visionary leaders, not just to keep our focus on the big picture, but to help maintain the flow of our game-changing ideas."*

*Lorato E. Boakgomo-Ntakhwana*
*FNB Chief Executive Officer*


# CHIEF EXECUTIVE OFFICER'S REPORT

The operating environment was characterised by a low interest rate cycle coupled with high levels of arrears emanating from both household and business sectors.

*Advances grew by*

**23%**

# CHIEF EXECUTIVE OFFICER'S REPORT *(continued)*

The translation of our strategies this year saw us post impressive results with a total balance sheet growth of 11% year on year driven by 13% growth in deposits from customers and corresponding 23% growth in advances.

This has resulted in a profit before tax growth of 24% and profit after tax of 23%; results that continue to be reflective of the Bank's robust strategies, a strong management team and resilience in the face of difficult operating conditions.

This turbulent economic environment called for a shift in gears in order to maintain acceptable performance levels. To this end, we refined our operating model in order to stay ahead of the curve so as to face the difficult trading conditions.

This operating model places the customer at the centre of all the Bank's activities and recognizes that it's through this customer-centric approach that business momentum can be achieved. This model defines the customer touch points, product ownership and distribution of products, services and solutions.

It is as a result of this focused approach that has allowed us to better understand our customer needs and provide innovative solutions. The culture of innovation is inculcated in First National Bank of Botswana and it's through this culture that we are able to continually reinvent ourselves and prove to be agile enough to react appropriately to our customers' needs.

*The Bank achieved a Profit After Tax growth of*

**23%**

## THE OPERATING MODEL

Customer touch points are achieved through our segments, product houses and channels. We have three distinct segments that service the different customer types.

We are cognizant of the evolution currently taking place in the public sector segment and have positioned ourselves to partner with the public sector in providing innovative eSolutions. In some instances we have provided innovative funding solutions through the successful collaboration with Rand Merchant Bank which has allowed us to write big ticket deals.

*The Bank achieved a balance sheet growth of*

**11%**

Through the wholesale segment we provide innovative solutions aimed at providing a more diverse suite of products to meet the complex needs of this segment. Focus on the segments' liability strategy paid off in reduced cost of funds. A better relationship management model resulted in happier clients.

Notwithstanding the low interest rate environment, the consumer segment continues to face challenges due to the economic environment which has seen companies downsizing and cutting their work force. In light of the economic environment the bank scaled back on its risk appetite for unsecured lending and concentrated more on Group Loan Schemes and secured asset classes.

This strategy was successfully implemented which resulted in the book growing at an acceptable rate and the overall quality of the book improving.

Our product houses continued to deliver strong balance sheet growth. We have 7 product houses namely, Property Finance, WesBank, International Trade, Credit Card, Term Loans, and Treasury. We focused this year, on providing a larger platform and more channels for all our products to reach the customer.

Distribution of our products, services and solutions is done through our channels. As a 21st century bank, we recognize that conventional banking methods of entering a branch have been surpassed by "Click" solutions. We therefore focused on increasing our network of Automated Teller Machines (ATMs) which now number 136 and substantially increased our footprint of Point of Sale machines (POS) to 5,168. These numbers bear testimony to our philosophy of bringing innovative banking solutions to the customer. It is through these channels that we saw good transactional volume growth.

Relationship management is another key channel. To this end, we continued to sub-segment our customers in a bid to further understand their needs and tailor solutions to meet their varying needs. Customer service, therefore has continued to be a key strategic focus.

During the year, the Bank moved to First Place, its new building in the CBD, which culminated in all its divisions being placed under one roof thus making it a "One Stop Shop" for the Bank's customers.

## People

Our journey of improving our employee value proposition continues and we are proud of the achievements made to date. Our most notable achievement this year has been the improvement in the working environment of our staff with the move to First Place. First Place is not only a customer innovation but an employee value add as well. We are now operating from a head office with five floors including a staff cafeteria and gymnasium.

This is a milestone in acknowledging that staff welfare and wellness are top priority as we continue to celebrate our number one stakeholder.

We are pleased to have held ground and achieved 81% engagement score on people pillar survey, a measure that the group uses to gauge engagement. This bears testimony that "FNBers" are happy to be associated with the brand.

## Board

Governance structures within the Bank are critical in ensuring that we remain a sound operation. It is to this end that we have continued to roll out credit scoring platforms during the year to allow for prudent credit vetting practices.
We have also continued with refining our enterprise risk management "ERM" structures as a critical success factor, a strategy we embarked on some years back.

# CHIEF EXECUTIVE OFFICER'S REPORT *(continued)*

### Shareholder

The translation of our strategies this year saw us post impressive results with a total balance sheet growth of 11% year on year driven by 13% growth in deposits from customers and corresponding 23% growth in advances. This has resulted in a profit before tax growth of 24% and profit after tax of 23%; results that continue to be reflective of the Bank's robust strategies, a strong management team and resilience in the face of difficult operating conditions.

### Community

The Bank believes in conducting business in a manner which achieves sustainable growth whilst demonstrating a commitment to the community in which it operates. First National Bank of Botswana through the Foundation contributes up to 1% of after tax profits for social responsibility to a Foundation that is an independent Trust administered by trustees and is one of the largest corporate donors in the financial services sector.

The focus areas for the trust varies and includes education, job creation, skills development and arts and culture. With contribution to these varied areas, we are able to touch a wider community base.

Staff are also given an opportunity to identify and donate funds to projects of their choice in their respective localities. Their involvement is not merely financial, but extends to them giving a helping hand. This type of interaction allows us to be close to the communities in which we operate.

To date the Bank has contributed over P30 million to the Foundation which in turn has funded deserving projects since its inception in 2001.

## ACKNOWLEDGEMENT

The FNB Team deserves a very big thank you for a sterling set of results that the Bank has posted. It is through the dedication and commitment of this team that we were able to achieve all that we did throughout this year.

We also extend gratitude to our Board of Directors and thank them for their guidance and leadership. To our customer, we would like to sincerely thank you for being with us throughout the year and look forward to a long and rewarding partnership.

Finally, I would like to acknowledge our shareholders and all our stakeholders.

Thank you for your support.

**Lorato Boakgomo-Ntakhwana**
Chief Executive Officer

# EXECUTIVE COMMITTEE

LEFT TO RIGHT (SEATED):

1. **Boitumelo Mogopa**
   Chief Financial Officer
2. **Lorato Boakgomo-Ntakhwana**
   Chief Executive Officer
3. **Ogone Madisa-Kgwarae**
   Director - Credit
4. **Richard Wright**
   Deputy CEO
5. **Connie Storom**
   Director - eSolutions and Consumer
6. **Yolisa Phillips-Lejowa**
   Director - Public Sector Segment & eSolutions

LEFT TO RIGHT (STANDING):

1. **Bongani Khulu**
   Director - Consumer Banking Segment
2. **Grace Setlhare-Mankanku**
   Director - Wholesale Corporate Segment
3. **Bomolemo Selaledi**
   Director Marketing and Communications
4. **Boiki Tema**
   Director - Property Finance
5. **Denis Ivins**
   Chief Operating Officer
6. **Kgopodiso Justine Basiami**
   Deputy Director - WesBank
7. **Phila Nhlekisana**
   Acting Treasurer
8. **Martin Knollys**
   Director - Distribution Channel & Retail Banking
9. **Lehuka Maseng**
   Chief Information Officer
10. **Gaone Macholo**
    Director - Human Resources

# DIVISIONAL REPORT

## SEGMENTS

### Consumer

The Consumer Segment is one of the primary focus areas of the Bank. The segment focuses on providing banking, insurance and wealth advisory solutions and services to individual customers through Distribution Channels, Product Houses, Group Schemes Centre, Student Banking, Premier Banking and Private Clients - Wealth.

The Consumer Segment's products include mortgage loans, credit and debit cards, personal loans and investment products. Services include transactional and deposit taking, card acquiring, credit facilities and distribution channels (namely, the branch network, ATMs, call centre, cell phone and Internet channels).

The Segment has seen an increase of 8% in its customer base and a 21% increase in advances (mainly from personal and mortgage loans) in the financial year 2012/13.

The areas of focus in the year under review were:

- Sub-segmenting the segment to align offerings according to Income level (i.e. Mass Market; Middle Income Market; Premier Banking and Wealth)
- Cross-selling of products across all product houses which led to an increase of 30% in the number of accounts in the consumer base.
- Moving clients from bricks to clicks
- Growing the Group Loan Scheme business.

The Consumer Segment strives for service excellence and provision of innovative products and solutions to customers.

### Wholesale Banking

The Wholesale Banking Segment encompasses all business generating an annual turnover in excess of P5 million. This client grouping is further segmented and relationship managed under Corporate and Commercial sub-segments.

During this financial year, the segment provided valuable banking solutions and efficient advisory services to large and medium clients. The business aligned its strategies to focus on providing holistic client solutions from transactional through to complex structured funding propositions in support of client growth efforts. Despite the increased competitiveness in the environment, the Segment assets showed exponential growth. On the back of our compelling transactional banking offering we have seen good growth in liabilities and envisage the status quo to continue in the coming year. The ability to continually provide viable investment products further contributed to this strong growth in liabilities. During this past year operational efficiency and excellence was a target and the desired outcomes were realised which has resulted in our processes being more effective.

### Public Sector

The Public Sector business is another one of the primary focus areas of the Bank. The Segment has seen a significant increase in the uptake of its product offerings with a special focus on the provision of innovative eSolutions. Another focus area for the segment is in the provision of innovative funding solutions for the Public Sector. The highlight for the Public Sector during the period under review was the successful collaboration between RMB and FNB to provide a funding solution to Botswana Development Corporation (BDC) to the tune of P400 million.

## PRODUCT HOUSES

### Property Finance

The Property Finance Division posted another set of impressive results. The growth of the asset book was largely attributed to the increased activity in the Commercial sector. Developments in the CBD provided the needed impetus for growth. Although the residential growth was equally impressive, the continued shortage of stock in the lower and middle sectors of residential market has slowed growth. The outlook for residential development however remains favorable with increased commitments from developers to deliver the needed stock. The growth in assets was achieved without compromise to the quality of the book. Our strategic objective of delivering value to our customer remains, through superior service experience and relevant product offerings.

### Credit Card

FNB Credit Card customers who have been loyal since the introduction of the product in 1994 were rewarded this year through a loyalty and recognition project. These customers are being upgraded to premium credit card products such as Gold and Platinum. The business has partnership agreements with various local merchants to enhance the customer value proposition and offer customers more reasons to bank with FNB. Our Credit Card has proved itself to be the most reliable travel partner in the market with the highest market share on total card spend in the last financial year.

## Global Markets

This product house used to be called Treasury and was rebranded to "Global Markets" at the beginning of this financial year to reflect only the trading business. International Trade and Custody divisions, which were previously part of the then Treasury became standalone product houses.

This separation of the business, was aimed at ensuring the requisite focus is given to the distinct product offerings. The ability to take advantage of the volatility in the global currency markets coupled with the focus given to the business allowed us to post strong performance in the current year.

Notwithstanding this, the business did witness some challenges in the year emanating from market liquidity constraints as competition for deposits in the market intensified. Despite this, the Bank's ALM division remained vigilant and priced appropriately for liabilities without compromising balance sheet size and margins. This is impressive and reflects our focus on optimal balance sheet management, an area that will continue to be key in the next financial year.

## Islamic Finance

This product house provides finance for asset purchases in a Sharia'a compliant manner and celebrated its six years since inception this financial year. The product offering has a fixed repayment structure and is available to any client wishing to opt for fixed financing. Performance in the current year was reasonable though affected by sluggish asset growth as potential customers anticipated that the cost of funding would reduce in line with inflation.

## WesBank

During the year under review, WesBank showed impressive resilience against the backdrop of tough market conditions and registered good growth year on year. The main drivers of growth were the Commercial and Corporate segments which took advantage of developments in the mining sector to grow their book. The consumer growth was however marginal in line with the dealers experience of decreasing sales volumes on new vehicles which has been ongoing in the past 4 years. The sluggish growth in this portfolio was sustained by the high end consumer and scheme business.

The newly launched AgriWes and WesCare products performed well. To enable business processes and ensure efficiencies, the dealer front end system was upgraded and the division also introduced email statements to customers.

## Custody

Custody business showed impressive growth this year with assets under management growing in excess of 300% as new customers were onboarded. It is also pleasing to note that the ancillary spin offs of the business has also been positive particularly in respect to deposit contribution.

## Trade Finance

Trade Finance experienced a good year highlighted by a prestigious award by Global Trade Review (GTR) as the "Best Trade Finance Bank in Botswana". Increased interest and non-interest revenue was recorded, in spite of the declining trends in the market for Letters of Credit, and Contract Guarantees. Other trade contracts continued to

# DIVISIONAL REPORT *(continued)*

progress well, notably the contract for issuing letters of credit on behalf of the Government. The division also expanded its range of Purchase Order Finance and recorded good volumes in that area as well.

## CHANNELS

### Distribution Channel

It is critical that the Bank continues to focus on making banking convenient and accessible to all segments of the banks customers. There are various channels that the Bank uses in order to do this, namely the branch network, Automated teller machines (ATMs) and Point of Sale (POS).

This financial year saw our branch network increase from 20 to 22 branches with the addition of First Place and Airport Junction branches. The branch network forms a key part of the Bank's strategy in making banking more accessible and convenient for all our customers, as we believe that each and every market segment requires tailor made solutions for growth and sustainability. Although critical in ensuring customer needs are met and that all products are available to the customer, the Bank has focused on ensuring that the branches are located in strategic locations in order to extract greater value from them.

The ATM business continued to expand its footprint by increasing its number of ATM's from 118 to 136. The expansion included the introduction of two innovative mobile ATM's which enables us to further entrench our strategy of taking banking to the people of Botswana.

This strategy is particularly important as we focus efforts on ensuring that we move our customers from the bricks which represent physical branches to click solutions. This particularly addresses customer convenience and allows our customers to have access to banking at anytime and anywhere.

The Point of Sale business has grown substantially and the Bank now has 5,168 terminals throughout Botswana. As part of the objective to create convenience, 1,526 cordless terminals have been installed so far.

The Bank remains committed to expanding and upgrading its Distribution Channel Network.

### E-Solutions

During the year under review, E-Solutions introduced new products to improve the customer banking experience and convenience. E-Solutions introduced Cell phone Banking customers to a new payment platform feature called "Pay 2 Cell" (P2C payments). The Pay 2 Cell feature will enable registered Cell phone banking customers to pay recipient directly into their FNB bank account by knowing ONLY the recipients cell phone number.

Also introduced was the Pay 2 Wallet which enables Corporates to pay their employees who do not have bank accounts wages directly into their wallets. This year also saw us facilitating additional channels for Botswana Post for the purchase of pre-paid electricity. FNBB is an innovative bank and this business unit is key for the Bank to maintain and keep up with the status.


Inspired to innovate

## Internet Banking

"I can not imagine my life without FNB Online Banking! Balancing my personal life and the demands of my business leaves me with very little time.**

That's why I needed a secure way to keep the bank open for all my needs, at my own time, from wherever, and I registered for FNB Online Banking. I love being able to control my finances from the comfort of home, while helping my little girl with her homework.

It's amazing how easy to use Online Banking is for me, and I feel just as secure as using my own personal FNB ATM in the safety and privacy of my own environment – whether at home or the office.

I use FNB Online Banking to check my bank balances, view or download my bank statements, make online payments, transfer money between my FNB accounts and apply for FNB products and services. I get to track all my transactions through inContact. Thanks FNB."

**Nolwazi Showa**
Business Owner

# Corporate Governance & Sustainability

Our Board of Directors and the Board Committees are the focal point of corporate governance and ensure that there are adequate people, processes and systems in place to facilitate the successful implementation of the strategy of the business whilst ensuring its long term sustainability. The Board is supported by robust and independent risk control functions for which the Board has oversight.

The Board of Directors, through the Directors Affairs and Governance Board Committee ensures that good corporate governance is implemented and monitored within the structures of the Bank and assures all stakeholders that the Bank has maintained the highest standards of corporate governance in line with the principles of King III and good governance practice.

The FNBB Board ensures that the Bank is seen to be a responsible corporate citizen. It considers the financial performance of the business together with the impact of its operations on the society that it operates within. FNBB is committed to a policy of fair, transparent dealing and integrity and expects its employees to share this commitment.

# BOARD OF DIRECTORS

1. **Peter David Stevenson**
   *Chairman (Independent Non-Executive)*

2. **Lorato Edith Boakgomo - Ntakhwana**
   *CEO (Executive Director)*

3. **Sifelani Thapelo**
   *(Independent Non-Executive)*

4. **Michael William Ward**
   *(Independent Non-Executive)*

5. **Danette Higgins Zandamela**
   *(Non-Executive)*

6. **Balisi Mohumi Bonyongo**
   *(Independent Non-Executive)*

7. **Jabulani Richard Khethe**
   *(Non-Executive)*

8. **Dorcas Ana Kgosietsile**
   *(Independent Non-Executive)*

# BOARD OF DIRECTORS *(continued)*

## PROFILES OF BOARD MEMBERS

### 1. Peter David Stevenson

***Chairman** (Independent Non-Executive)*

Peter is a seasoned chairman with extensive leadership, business and financial experience gained in the Barloworld Group in three different countries; Botswana, Namibia, and Zambia. He is a Chartered Accountant and a Fellow member of the Botswana Institute of Chartered Accountants. Peter was formerly the Group Managing Director of Barloworld Botswana and he is currently a management consultant and a Director/Trustee of several private companies and charitable trusts.

Peter has been a member of the Board of Directors since April 2008, and in November 2011 he was appointed Chairman of the Board of Directors, a position he has held with the utmost diligence and competence.

He is also the Chairman of the Board Credit Committee and a member of the Board Audit and Board Risk and Compliance Committees. He attends the Board Remuneration and the Directors Affairs and Governance Committees in his capacity as Board Chairman.

### 2. Lorato Edith Boakgomo-Ntakhwana

***CEO** (Executive Director)*

Lorato holds a Bachelor of Commerce Degree from the University of Botswana. She also holds an MBA which she acquired early in her career whilst she was working for the Central Bank of Botswana. She has held numerous senior positions both in the Central Bank of Botswana and the Central Bank of South Africa.

Lorato joined the group in 2004 where she has held several senior and leadership positions. Her exposure to the African subsidiaries started at Rand Merchant Bank's Treasury Division.

Lorato has been with First National Bank of Botswana as Chief Executive Officer since June 2009, and currently sits on the Board as a member. She also attends the Board Committee meetings with the exception of the Directors Affairs and Governance Committee. She is an invitee of the Board Credit Committee.

She has recently been appointed as the Chairperson of the FNBB Foundation.

### 3. Sifelani Thapelo

*(Independent non-executive)*

Sifelani holds a Master of Law with 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 Board of Directors since November 2002. He presently chairs two committees of the Board; namely, the Directors Affairs and Governance Committee and the Board Remuneration Committee.

Sifelani is a member of the Cambridge Commonwealth Society, Alumni of the International Development Law Organization as well as a member of several other Boards.

### 4. Michael William Ward

*(Independent non-executive)*

Mike, a graduate in hotel management, has over 30 years experience of 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 has been 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 as a Board member in August 2009, and he is a member of the Board Credit, Board Risk and Compliance and Board Audit Committees.

### 5. Danete Higgins Zandamela

*(Non-executive)*

Danny holds a Master of Science in Strategic Management degree from the University of Derby (UK) and is currently studying towards a Doctorate in Business Administration (Banking) with Sheffield-Hallam University (UK) in collaboration with Business School Netherlands. His other qualifications include a diploma in banking with the Institute of Bankers (SA), a mini-MBA from Wits Business School and the Strategic Leadership mini-MBA Programme of Henley Management College/GIMT. He has also attended the Wits Business School Executive Development Programme.

Danny is currently the CEO of FNB Public Sector Banking (SA and Africa), a position he has held since August 2012. He is a retail, corporate and commercial banker with over 30 years' industry experience coupled with extensive leadership experience in the Barclays Bank PLC Group and the FNB Group. He was previously the CEO of FNB Botswana (2006 – 2009), the CEO of FNB Corporate Banking (SA) and the CEO of FNB Africa.

Danny rejoined the FNB Botswana Board of Directors in November 2010, and has been a member of the Board since then. He is currently a member of the Board Audit and Board Risk and Compliance committees. He is also a non-executive director on the Board of Directors of First National Bank of Mozambique Limited.

### 6. Balisi Mohumi Bonyongo

*(Independent non-executive)*

Balisi is a graduate of the University of Leeds' Mineral Engineering programme. He graduated with honors in 1992 and subsequently obtained an MBA from the University of Cape Town in 2002. He also attended a Senior Executive Programme in 2007 with the London Business School. Balisi started his working career with Debswana Group of Mines in 1993, and has held various senior leadership positions in Debswana including General Manager of Jwaneng Mine, a position he has held since 2007 until his recent appointment to Chief Operating Officer in January 2013. He sits in the boards of several local companies.
Balisi was appointed a member of the Board of Directors in May 2009 and is currently the Chairman for the Board Risk and Compliance and Board Audit Committees. He is also a member of the Directors Affairs and Governance Committee.

### 7. Jabulani Richard Khethe

*(Non-Executive)*

Jabu is a graduate of a Bachelor of Commerce Degree in Banking from the University of Pretoria, South Africa. He holds a Masters in Business Administration (MBA) with Bond University and a Marketing Management Diploma. He has also completed an Executive Management Development Programme with GIBS Management College, South Africa and INSEAD.

Jabu is currently CEO of FNB Africa and has extensive banking, insurance and leadership experience with financial institutions in South Africa. He sits on a number of the African subsidiaries boards (Namibia, Mozambique, Nigeria).

Jabu has been a member of the Board of Directors since September 2005. He is also a member of the Directors Affairs and Governance Committee.

### 8. Dorcas Ana Kgosietsile

*(Independent non-executive)*

Dorcas holds a Masters of Science in Management and a Bachelor of Arts Degree in Social Sciences majoring in Accounting, Economics, and Statistics. She started her professional career in the Auditor General's Office. She joined the Botswana Development Corporation (BDC) soon thereafter, where she gained a vast experience at managerial level in business and entrepreneurship spanning over a period of 16 years. Her function covered investment analysis financial modeling and economic reviews working closely with various financial/asset management firms on a wide range of projects.

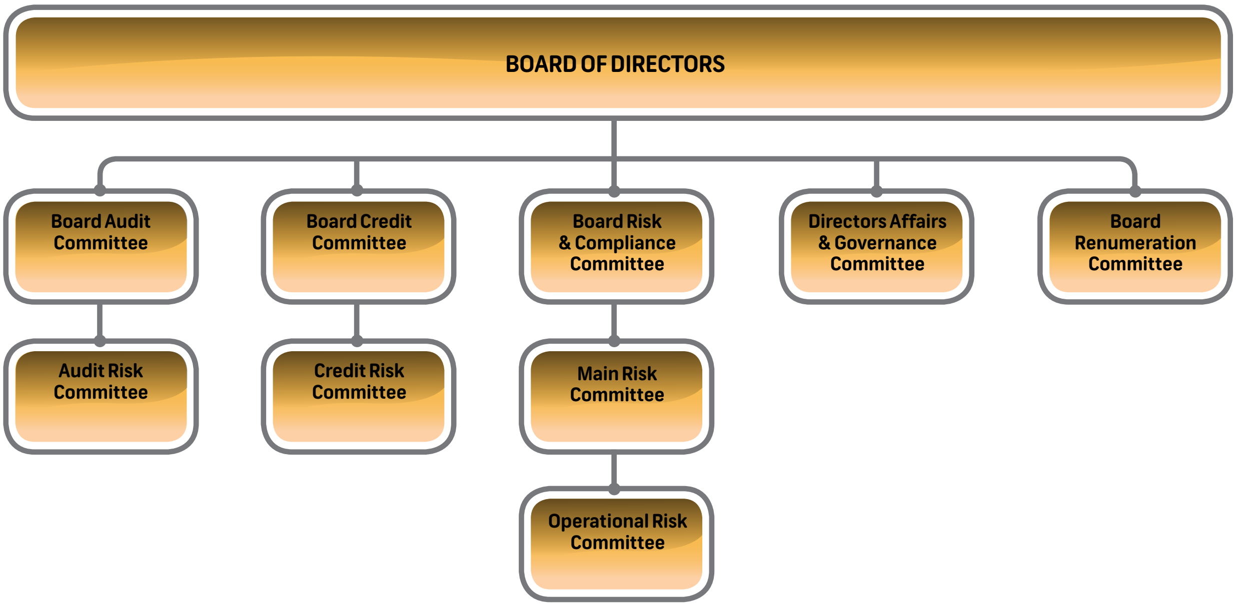
Dorcas has also been a lead consultant and managed a consultancy firm, whilst sitting on the boards and serving in functional committees of various institutions, including First National Bank of Botswana.

In 2005 Dorcas joined the Diplomatic Corp, and was notably the first Botswana envoy to India as High Commissioner. She continues to play a pivotal role in charity and social responsibility initiatives countrywide, which led to her being a recipient of the 2007 Indira Gandhi Priyadarshini Award in recognition of her positive impact as a woman leader.

Dorcas rejoined the FNBB Board in November 2012. She is currently a Trustee of the FNBB Foundation, the bank's primary vehicle for social and community investment activities and she sits on the Boards of a number of local companies.

# CORPORATE GOVERNANCE & SUSTAINABILITY *(continued)*

## GOVERNANCE STRUCTURE




Each Board Committee has clearly defined set of responsibilities and our Board is of the view that these committees have effectively discharged their responsibilities as reflected in the various Board charters during the financial year under review.

### Functions of the Board and its Sub-Committees

Board - The Board's paramount responsibility is the positive performance of the Bank and creating value for its shareholders, whilst taking into consideration the legitimate interests and expectations of other stakeholders. FNBB's stakeholders include the present and potential beneficiaries of its products and services, clients, suppliers, employees, communities and the natural environment.

Board Credit Committee - Approves large exposures and monitors them on an on-going basis. The Committee also assists the Board to ensure that all the credit activities relating to large exposures are conducted within the risk strategy, policies and tolerance levels approved by the Board.

Board Audit Committee - Fulfills the vital role of ensuring the integrity of reporting on the financial position, financial controls (including accounting practices), and the general management of financial risks, and internal controls. It ensures that there is combined assurance for all the significant risks identified.

**Board Risk/Compliance Committee** - The core duties and responsibilities of the Board Risk and Compliance Committee is to assist the Board to discharge its responsibilities in terms of the management of risk within the Bank and to monitor the effectiveness of the risk and compliance management structures and processes of the Bank.

**Board Remuneration Committee** - Advices the Board on various strategic people issues, including the remuneration of directors and employees of the Bank, evaluating the adequacy, effectiveness and appropriateness of the policies and practices pertaining to reward and remuneration.

**Directors Affairs & Governance Committee** - Assists the Board in discharging its responsibilities in respect of the adequacy, effectiveness, and appropriateness of the corporate governance structures and practices of the Bank.

## FNBB Board of Directors

The FNBB Board is composed of both executive and non-executive Directors, with the majority being 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. The Board is therefore duly satisfied that Board composition is not in conflict with the Bank of Botswana Guidelines of appointments of New Directors and Senior Officials of Banks, and that it ensures a balance and precludes any one director from exercising undue pressure on the decision making process.

Whilst the Board of Directors does not consist of a balance of both executive and non-executive directors as recommended by King III, the Chief Executive Officer (CEO) sits in the Board together with other non-executive directors from within the FirstRand Group of Companies.

This composition is a function of the regulatory restrictions on related party representation.

The role of Board Chairman is held by an independent non-executive director and is therefore separate from that of the Chief Executive Officer. The Chairman of the Board however does sit in the Board Audit Committee as a member, due mainly to the board numbers and his skills and experience.

## 2013 Board Attendance

| | August 2012 | November 2012 | January 2013 | April 2013 |
|---|---|---|---|---|
| P D Stevenson** - Chairman | ✓ | ✓ | ✓ | ✓ |
| L E Boakgomo-Ntakhwana * - CEO | ✓ | ✓ | ✓ | ✓ |
| B M Bonyongo** | ✓ | ✓ | ✓ | A |
| D A Kgosietsile** | — | — | ✓ | ✓ |
| J R Khethe*** | ✓ | A | ✓ | ✓ |
| M T Sekgororoane** | ✓ | A | ✓ | A |
| S Thapelo** | ✓ | ✓ | ✓ | ✓ |
| N W Ward** | ✓ | ✓ | ✓ | ✓ |
| D H Zandamela*** | A | ✓ | ✓ | ✓ |
| R C Wright**** | ✓ | ✓ | ✓ | ✓ |
| J K Macaskill**** | ✓ | A | A | A |
| L J Haynes**** | ✓ | ✓ | A | A |

* *Executive Director* ** *Independent Non-Executive Director****Non-Executive Director*

A *Apologies* - *Not a Board member at the time of the meeting* **** *Alternate Director*

Board member attendance was 91% for the year, and in addition where the Board members were absent, they were represented by an alternate director.

# CORPORATE GOVERNANCE & SUSTAINABILITY *(continued)*

## 2013 Board Committee Attendance

| | Board Audit | Board Risk/ Compliance | Board Credit | DAGC | REMCO |
|---|---|---|---|---|---|
| P D Stevenson** - Chairman | 3/3 | 3/3 | 8/8 | 2/2 | 2/2 |
| L E Boakgomo-Ntakhwana * - CEO | 3/3 | 3/3 | 2/8 | | 2/2 |
| B M Bonyongo** | 3/3 | 3/3 | - | 1/2 | - |
| D A Kgosietsile** | - | - | - | - | - |
| J R Khethe*** | - | - | - | 1/2 | - |
| M T Sekgororoane** | - | - | - | - | 1/2 |
| S Thapelo** | - | - | - | 2/2 | 1/2 |
| N W Ward** | 3/3 | 3/3 | - | - | - |
| D H Zandamela*** | 3/3 | 2/3 | - | - | - |
| R C Wright | 3/3 | 3/3 | 8/8 | - | 2/2 |
| J K Macaskill | 1/3 | 1/3 | - | - | - |
| L J Haynes | 2/3 | 2/3 | - | 1/2 | - |

The above Board Committee meetings 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 the charter documents.

During the financial year under review, the Board has been able to maintain appropriate levels of qualifications and competence within its membership. This has been demonstrated by the composition of the Board which is complemented by the availability and involvement of internal and external subject matter experts where necessary, together with the appointment of additional Board members during the year.

On an annual basis, the Board also tests the effectiveness of its members and members of the various sub-committees against the objectives set out in the relevant terms of reference. The outcome of the assessments indicate that the Board Committees' Directors have discharged their functions and responsibilities relating to the business strategy, financial soundness and governance adequately.

### Corporate Governance Objectives

The Bank's overarching corporate governance objective for the financial year ending 30 June 2013 was to ensure that the structures, policies, processes and procedures implemented within the Bank enable the efficient and effective management of risks impacting the sustainability of the Bank.

The above-mentioned objective includes compliance with King III Code of Corporate Governance Principles for South Africa (2009), and ensuring compliance with all relevant legislation and regulations relating to banks.

### Progress on 2013 Governance Objectives

Following a detailed self-assessment process, the Board believes that processes and procedures are in place to ensure adherence to required standards of King III and the expectations of various stakeholders.

| Objective | Progress /Outcome |
|---|---|
| Establish and maintain functioning and effective Board of Directors and sub-committees | The Board has effectively discharged its functions and responsibilities relating to the business, risk strategy, organisation, financial soundness and governance.<br><br>The Board has ensured that the membership of the Board is composed of the appropriate qualifications and competence individually and collectively in order to ensure sound and objective judgement at all times. The Board has also ensured that various governance structures are in place in order to assist the Board to adequately discharge its functions and responsibilities. |
| Ensure comprehensive and adequate risk management processes and practices are in place in order to mitigate various risks | The Board has ensured that appropriate risk management processes, practices, policies and procedures are in place and robust enough to effectively mitigate against exposure to the various risks. The Business Performance and Risk Management, Liquidity Risk Management, and Credit Risk Frameworks have been approved and are in place to ensure appropriate guidance in the management of the risks of the Bank. The relevant risk functions also receive oversight at Group level. |
| Establish a formal service level agreement with Group Internal Audit Function | The Board has ensured that a service level agreement is in place between Internal Audit and Group Internal Audit. Whilst the document had not been duly signed at the time of the financial year-end, it has been presented to the Group Internal Audit for sign-off. A Head of Internal Audit has been appointed during the financial year to assume responsibility of the portfolio. He has a broad experience of auditing in a bank and the Board is satisfied with the appointment. |
| Ensured an independent compliance function that manages its supervisory and regulatory risks | The Board has ensured the existence of a compliance function that continuously reports on the management of its risks. The portfolio is headed by a senior official who has direct access to the Board chairperson, members of the Board, members of the Audit Committee and the External Auditor where appropriate. A compliance manual is also maintained in order to ensure that all material risks to which the bank is exposed are duly addressed and monitored on an ongoing basis. Work is also ongoing on building a compliance culture through on-going awareness campaigns and training initiatives. Risk management plans for high risk legislation have been developed and focus on a monitoring programme is in place. |

# CORPORATE GOVERNANCE & SUSTAINABILITY *(continued)*

| Objective | Progress /Outcome |
|---|---|
| Develop and maintain an appropriate strategy that ensures that the bank maintains adequate capital | The Board has ensured that the Bank has complied with the minimum prescribed capital adequacy requirements during the financial year under review. This has been monitored on an ongoing basis by the Board and Asset and Liability Committee (ALCO). ALCO has the responsibility of ensuring that the Bank maintains sufficient buffers in order to remain solvent particularly during prolonged periods of financial market stress and illiquidity. |
| Appropriate reporting and disclosure in the annual financial statements | We confirm that the Bank has disclosed in its annual report, its financial statements and other reliable and relevant information in compliance with the minimum specified requirements of the Companies Act, Banks Act, and the Botswana Stock Exchange Act.<br><br>The Board ensures that the disclosures to the public are relevant and timely, qualitative and quantitative information. During the half year and year end process, relevant and appropriate disclosures are made to the public. |
| Provide effective leadership based on an ethical foundation | The Board has ensured that the Bank adopts the group wide Code of Ethics. An effective whistle-blowing facility has been provided for employees to report theft, fraud, corruption and other serious offences. Whilst the toll-free line had not been launched at the time of the end of the financial year, it has since been launched and the full details of the line and how to use it have been rolled out to all staff. |

## 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 annually presents the audit plan for approval to the Board. Internal Audit has a robust process in place to follow-up responses that relate to audit findings and the implementation of the recommendations with a view to ensure that the concerns raised have been appropriately and adequately addressed.

## Internal Audit

An independent Internal Audit function is in place within the Bank and assists executive management and the Board Audit Committee to improve the effectiveness of the Bank's risk management, control and governance processes. The internal audit team has sufficient and up-to-date knowledge of auditing techniques and banking activities.

The Head of Internal Audit has direct and unrestricted access to the Board Chairperson, Chairperson of the Board Audit Committee and the CEO. He is a permanent invitee of the Board Audit Committee and the Board Risk and Compliance Committee. Group Internal Audit has oversight of the internal audit function and usually performs the role of quality assurance. Where gaps have been identified in Internal Audit in terms of insufficient resources or skills levels, Group Internal Audit provides the necessary support required. This includes coverage of the audit plan.

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").

## Capital Adequacy and Capital Management

The Board confirms that as part of the governance process the Bank is putting in place an Internal Capital Adequacy Assessment Process (ICAAP) framework and strategy which forms part of the Bank's risk management framework. The strategy will ensure the maintenance of adequate capital based on the risks inherent in the Bank's balance sheet, including activities relating to risk mitigation.

Stress testing is conducted on an ongoing basis to identify possible events that could adversely affect the Bank, and the result of the stress testing is regularly presented to the Board Risk and Compliance Committee when evaluating the adequacy of Bank's capital adequacy buffers.

The ICAAP framework includes approved policies and processes designed to ensure that the Bank identifies, measures, and reports all material risk exposures.

The Board assures its stakeholders that the Bank maintains adequate capital reserves to support the nature and extent of its risk exposure, and further that the Bank has at all times complied with the minimum prescribed capital adequacy requirements during the financial year under review.

## King III 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 Board Committee (DAGC). The Board is expected to complete a directors' pledge on the Code of Ethics on an annual basis, and this is presently being customised for the Board signatures.

## Company Secretary

We confirm that PricewaterhouseCoopers has been appointed as the Company Secretary of the Bank; they are appropriately skilled and empowered to fulfill this role. They provide support and guidance to the Board in matters relating to governance. All our Board of Directors have unrestricted access to the Company Secretaries.

## Dispute Resolution

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

A formal dispute resolution policy and process is also in place for disputes related to our key stakeholder; staff. This process is in place for both internal and external disputes and ensures the effective, efficient and expeditious resolution of issues.

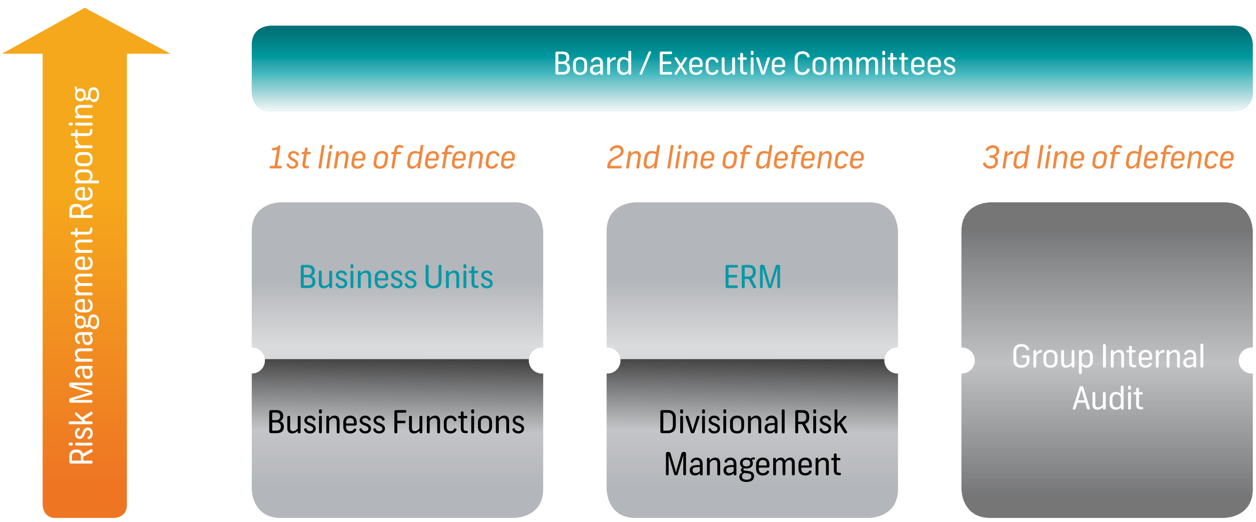
The Board has also approved a panel of entities or people that represent the Bank in the event of alternate dispute resolution for staff related matters.

# CORPORATE GOVERNANCE & SUSTAINABILITY *(continued)*

## ENTERPRISE RISK MANAGEMENT

First National Bank Botswana Board retains ultimate responsibility for ensuring that risks are adequately identified, measured, monitored and managed. The Bank believes that effective risk management is based on a culture focused on risk paired with an effective governance structure.

There are three primary lines of control across the Bank's operations as illustrated below.




**First line – risk ownership**

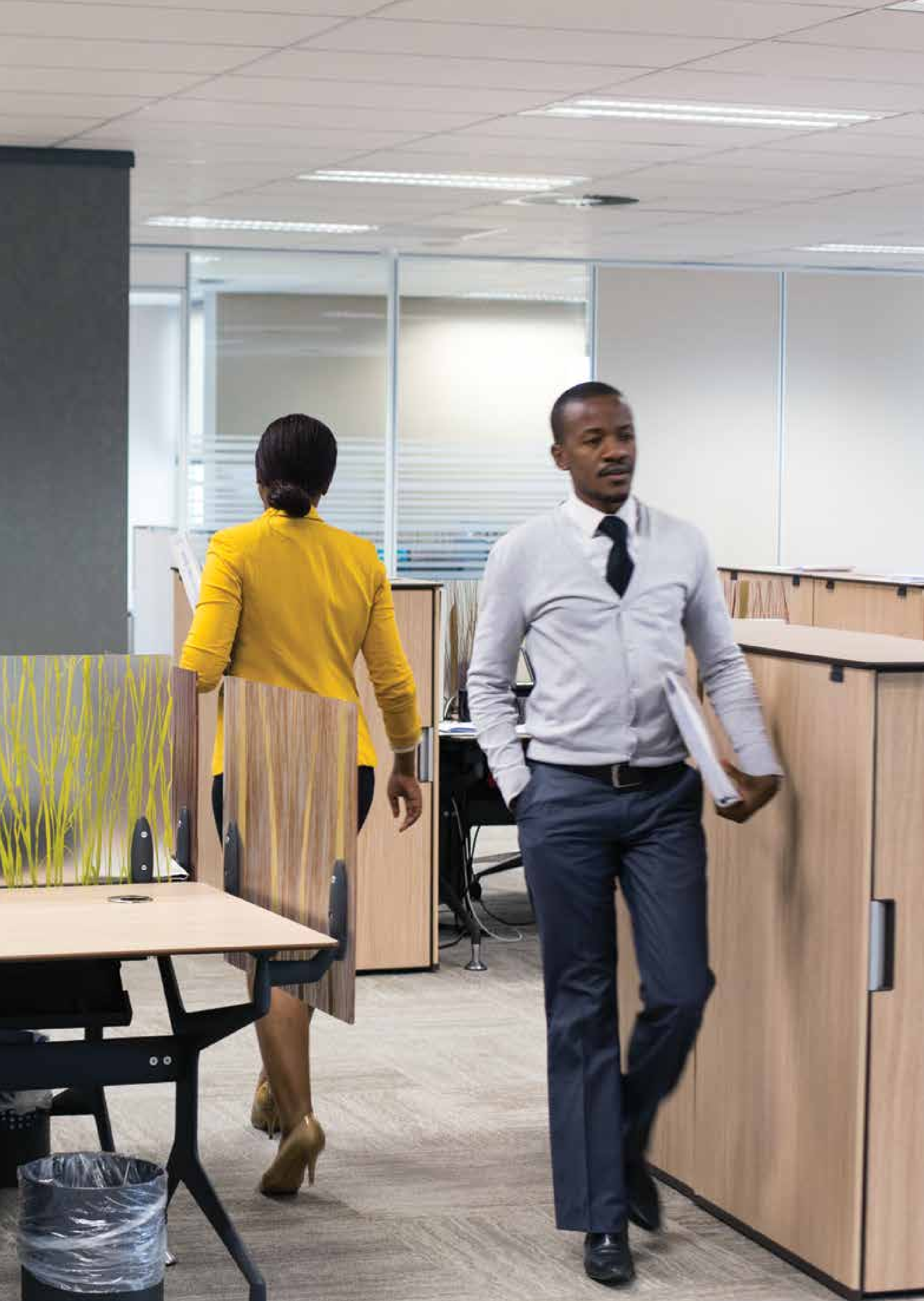
Risk taking is inherent in the individual businesses' activities. Business management carries the responsibility for the risks in its business, in particular with respect to identifying and managing risk appropriately.

**Second line – risk control**

Business units are supported in this by specialist risk ,management functions that are involved in business decisions

**Third line – risk assurance**

Internal audit provides independent assurance of the adequacy and effectiveness of risk management practices.



# CORPORATE GOVERNANCE & SUSTAINABILITY *(continued)*

## Specialist Committees reporting to the Main Risk Committee

### 1) Asset & Liabilities Committee (ALCO):

ALCO is responsible for managing the Liquidity Risk, Market Risk (including interest rate risk), and Capital Risk Management on the Bank's balance sheet for both local and foreign currency.

### 2) Operational Risk Committee (ORC):

ORC is responsible for ensuring the effective risk management of the following risks:

- Process Risk
- Business Continuity Management Risk
- Operational Risk Governance
- Information Security Risk
- Information Technology Risk
- Legal Risk
- Regulatory Risk
- People Risk
- Reputational Risk
- Outsourcing Risks
- Project Management Risk
- Physical Security Risk
- Financial Risks

### 3) Credit Risk Committee (CRC) :

The Credit Risk Committee is responsible for effective risk management of the Bank's credit profile, monitoring credit risk exposure to within acceptable limits including oversight of the Bank's credit risk appetite.

### 4) Audit Risk Committee (ARC):

The Audit Risk Committee is responsible for quality assurance to the Bank, including reviewing the adequacy of controls and ensuring management follow up on audit findings raised.

## RISK REGISTER

| Risk | Description | Impact Rating | Mitigating Action |
|---|---|---|---|
| **Market Risk** | | | |
| Liquidity Risk | • Liquidity risk is the risk of not being able to generate sufficient cash to meet financial commitments to extend credit, meet deposit maturities and fund other transactions in the ordinary course of our business, the aim being to remain prudently and economically liquid. | High | • Liquidity Risk Management Policies and Frameworks<br>• Monitoring of set limits<br>• Monitoring by ALCO & Board Risk & Compliance Committee<br>• Contingency plans |
| Interest Rate Risk | • Interest rate risk is the possibility of incurring losses as a result of changes in interest rates. | High | • Interest Rate Risk Frameworks<br>• Monitoring of set limits<br>• Monitoring by ALCO & Board Risk & Compliance Committee |
| Market Risk | • Market risk arises from the negative impact on the current and future earnings potential of the bank as a result of the movement and volatility of exchange rates or interest rates. | High | • Market Risk Framework<br>• Monitoring of set limits<br>• Monitoring by ALCO |
| **Credit Risk** | | | |
| Credit Risk | • The risk that a debtor will default on servicing and repaying a borrowing and also includes the possible shortfall in recovering a debt after realising security | High | • Review of Credit Risk Policy<br>• Credit Risk Appetite<br>• Ongoing credit risk management<br>• Credit risk assessment and Portfolio Monitoring<br>• Monitoring of delegated authorities<br>• Product lending limits<br>• Senior Credit Risk Committee , Sub Committee of the Board |

# CORPORATE GOVERNANCE & SUSTAINABILITY *(continued)*

| Risk | Description | Impact Rating | Mitigating Action |
|---|---|---|---|
| **Operational Risk** | | | |
| Human Resources Risk | • The risk of loss caused intentionally or unintentionally by failure to recruit, develop or retain employees with appropriate skills and knowledge<br>• The risk of loss due to failure to manage employee relations | Medium | • HR Manual & Procedures<br>• Succession Planning<br>• Regular remuneration review by the Remuneration Committee (REMCO) |
| Information Technology Risk | • The risk of loss by failure, breakdown, or other disruption in technology and/or processing. | High | • IT Policies and Frameworks<br>• Systems Audits<br>• Project Risk Management Review of IT Projects<br>• Regular maintenance and upgrade |
| Information Security Risk | • The risk of loss from piracy, inappropriate use of information or theft of data and information | High | • Information Risk Policies and Frameworks<br>• Systems Audit |
| Legal Risk | • The risk of adverse legal/contractual disputes | High | • Dedicated Legal Function<br>• Legal Policies and Frameworks |
| Regulatory Risk | • The risk of loss due to non-compliance with regulatory requirements | High | • Compliance Function<br>• Compliance Policies & Procedures<br>• Compliance Monitoring |
| Project Management Risk | • The risk of projects not being completed adequately and on time within set budgets | High | • Project Risk Management Framework<br>• Budgeting<br>• Capacity Building |
| Process Risk | • The risk of loss to the company due to failed internal controls , fraudulent activities of employees and non-employees, negligence, human errors or through weaknesses of operating procedures | High | • Operational Risk Management Framework<br>• Risk based review of processes<br>• Physical controls & Security<br>• Fraud Management<br>• Internal Audit<br>• Key Risk Indicators and Risk Control Self Assessments<br>• Staff Training<br>• Business Continuity Management Planning |

| Risk | Description | Impact Rating | Mitigating Action |
|---|---|---|---|
| **Operational Risk** | | | |
| Business Continuity Management Risk | • The risk of loss due to inadequate recovery within the set downtime tolerance | High | • Tested Business Continuity Planning<br>• Documented Back-up and Disaster Recovery Procedures |
| Finance & Taxation Risk | • The risk to profitability of Bank's balance sheet , competitiveness and management of taxation risk | High | • Monthly Compliance submissions to regulator<br>• Reviews by Chief Financial Officer<br>• Reviews by Asset and Liability Committee, Executive Committee and Board<br>• Internal Audit |
| Physical Security Risk | • The risk of loss or damage to the physical property or assets to which the company is responsible for | High | • Routine maintenance & checks<br>• Physical Security Policies<br>• Business Continuity Planning |
| Outsourcing Risk | • The risk of failure of key outsourcing arrangements with external parties | High | • Outsourcing Policies & Procedures<br>• Regular Review of Service Level Agreements<br>• Procurement Committee<br>• Internal Audits<br>• Business Continuity Planning |
| **Insolvency Risk** | | | |
| Insolvency Risk | • Insolvency is the chronic condition of being unable to pay one's debts in full. An insolvent bank cannot discharge its debts and must be either liquidated or rescued, usually with public money. | Medium | • Capital Adequacy Monitoring<br>• Stress testing<br>• Regular Review by Board |

# CORPORATE GOVERNANCE & SUSTAINABILITY *(continued)*

| Risk | Description | Impact Rating | Mitigating Action |
|---|---|---|---|
| **Reputational Risk** | | | |
| Reputational Risk | • The risk of financial loss due to negative public perception | High | • Media Policies & Procedures<br>• Public Relations Management<br>• Staff Training<br>• Customer grievance handling procedures<br>• Business Continuity Management Planning |
| **Strategic Risk** | | | |
| Strategic Risk | • The risk of loss due to failure to manage strategic goals of the business | High | • Strategic Planning<br>• Corporate Governance<br>• Review by Executive Committee and Board<br>• Staff Training |


Inspired to innovate

## eWallet

*"* **For me, eWallet is just an amazing invention! Between the stresses of my social life and the serious business of studying, any student can easily lose focus on finances and get into tricky situations.**

eWallet is the perfect friend in need, allowing me to receive money from parents, siblings friends or other well-wishers on the go, which I can safely withdraw from any FNB ATM at my own time.

I can send money to others, like my grandmother, from my eWallet, even if they don't have a bank card or an FNB account.

Even on a hectic night out on the town with friends, I don't need to worry about forgeting my ATM card at home simply because eWallet withdrawals do not require a bank card.

I can just send money through my cellphone or FNB ATM to my eWallet, and withdraw it. That's a whole new kind of convenience! Thanks FNB. *"*

**Tumelo Melore**
Student

# FNBB FOUNDATION

## In partnership with the community

Established in 2001, the FNB Botswana Foundation is the Corporate Social Responsibility vehicle of First National Bank Botswana. The Foundation was created to empower the communities in which FNB Botswana operates. In a bid to ensure that their Foundation has adequate funding for social investment, the Bank contributes up to 1% (one percent) of its profits after tax to the Foundation.

**The Foundation's mandate is clear in how the Bank is to participate significantly to social development in Botswana. The Foundation's participation in social development is varied and each case is viewed individually to ensure that appropriate and adequate assistance is given.**

# FNBB FOUNDATION *(continued)*

Each and every project that the FNB Foundation undertakes is driven by a need to develop deep and profound relationships with the communities and all stakeholders involved. This enables the Foundation to carry out activities in the realms of education, arts and culture, sports and recreation and social welfare without shifting away from the fundamental principles of its mandate.

## FNBB FOUNDATION SUPPORT AREAS

The FNB Foundation considers funding of a capital nature, such as buildings (dormitories, classrooms, multi-purpose halls etc), vehicles, machinery and operating expenses.

The Fund specifically focuses on the following areas:

- Education
- Job creation
- Skills development / vocational training
- Support for the disadvantaged / handicapped, especially children
- Promotion of Arts and Culture; and
- Provision of sports and recreation facilities for the community

The Foundation does not finance the following:

- Purchase of luxury vehicles;
- Seminars;
- Overseas travel;
- Political parties;
- Individuals as opposed to organisations; and
- Religious interests.

To benefit from the FNB Foundation, the project is required to satisfy some financial prerequisites such as ensuring that there are sound financial systems and controls in place for accurate accountability for the funding provided. In the event that the grant is approved, full reporting is needed from the project upon the completion of the work being supported or during the funding period. If there is a lapse in compliance, future requests for support will be put in jeopardy.

During the year under review (2012 - 2013) the Foundation assisted the following organisations:

*up to*

**1%**

*of FNB profits after tax donated to the Foundation*

| Organisation | Project Description | Value |
|---|---|---|
| • Thapong Visual Arts Centre: Gaborone | Construction of café and an outdoor eating area | P250,000 |
| • Kamogelo Day Care Centre: Mogoditshane | Donation of a combi | P401,145 |
| • Gabane Home Based Care | Donation of a combi | P401,145 |
| • Community Capacity Enhancement and Empowerment Society : Middlepits | Donation of a vehicle | P232,499 |
| • Kagisano Society Womens Shelter: Gaborone | Refurbishment of the Drop-in-Centre | P200,000 |
| • Masiela Trust Fund: Gaborone | Donation of funds for operational expenses | P 40,000 |

*Since inception the Foundation has assisted 83 organisations.*

CORPORATE SOCIAL RESPONSIBILITY

## Staff Volunteer Programme

The FNB Foundation sees the value of staff members giving a helping hand in their communities. This notion inspired the Staff Volunteer Program which is aimed at the mutual benefit of the communities and FNB staff members.

**Through the Staff Volunteer Projects program staff have done the following this financial year:**

| | | |
|---|---|---|
| • Main Branch | Matched funding for donation of clothes, toys and mattresses to Batlang Jehovah Support Day Care | P5,000 |
| • Corporate and WesBank Division | Cancer Awareness campaign in partnership with Journey of Hope | P100,000 |
| • Letlhakane Branch | Construction of an ablution block at Seasole Primary School | P50,000 |
| • Ghanzi Branch | Donation of a Guidance and Counseling classroom at Ghanzi Primary School | P50,000 |
| • Lobatse Branch | Painting of the Athlone Hospital Pediatric Ward | P50,000 |
| • Letlhakane Branch | Matched funding for donation of household items and clothes to flood victims in Letlhakane | P7,000 |
| • FNB Insurance | Refurbishment of Kamogelo Day Care Centre playground | P50,000 |
| • Mall Branch | Refurbishment of Gabane Home Based Care Centre playground | P50,000 |
| • Treasury and Public Sector Segment | Refurbishment of Tawana Park | P257,788 |
| • Credit, Finance, Technological Services Division, Collections and Broadhurst Branch | Construction of a classroom at Bakgatla Bolokang Matshelo | P250,000 |

*Since inception staff have assisted 63 organisations countrywide through the Staff Volunteer Projects program.*

The FNB Foundation has made an impact in many communities in Botswana and to date, it is the one of the biggest corporate donors and a leader in Corporate Social Responsibility in the financial services sector. To date the Bank has contributed P30.9 million to the Foundation and has built relationships with 146 organisations.

| *Total donations for the year under review (2012-2013)* | *Total contribution to date by the Bank* | *Total donations to date by the Foundation* |
|---|---|---|
| P2.9M | P30.9M | P26.6M |

# FNBB FOUNDATION *(continued)*

## KAMOGELO CENTRE APPRECIATES FNBB FOUNDATION

FNB, through the FNBB foundation gave the children of Kamogelo Day Care Centre the gift of independent mobility with the donation of a brand new combi. To add more cheer to their daily routine, the Foundation also installed secured outdoor playing equipment for the children's play grounds.


In a letter of thanks to FNB, Sister Margaret Mosala, the Centre Manager described how the vehicle came at just the right time when the Centre needed safe transport for the children. The old vehicle that had served the Centre for the past ten years was no longer reliable or fit for use by the children and staff of Kamogelo. Breaking down on several occasions, the old vehicle had caused some of the children to frequently miss classes and other services offered at the Centre.

Sister Margaret said that the new combi donated by FNB would relieve the Centre's transport problems and enable all the children to arrive at the Centre on time, safe and sound.

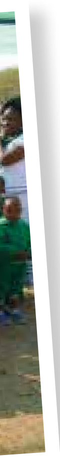
Replacing the playground equipment had also become necessary as the old equipment had deteriorated to the point of posing danger to the children. Thanks to FNB, the children can continue developing physically and mentally as they play with safer new playground equipment. Sister Margaret noted that the children now enjoy playing outside so much that keeping them in classes, has become a labour of love!

Even the smallest ones and those who are physically slow can play on their own without any supervision. The equipment will help them develop not just motor skills, and muscles, but build sharing and social skills as well.

Thank you FNB.

CORPORATE SOCIAL
RESPONSIBILITY

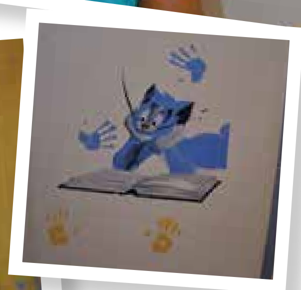
## ATHLONE HOSPITAL APPRECIATES FNBB FOUNDATION



Under the caring banner of the FNBB Foundation, FNB Lobatse Branch staff took time out to revamp Athlone Hospital children's ward playroom. Over the years, the playroom had slowly lost its shine and been turned into a storeroom for hospital equipment and medicines. Through the kindness of FNBers, the room is now fully restored and fit for its original purpose as a cheerful playroom.

Doctor Boipelo Lecoge, the Hospital Superintendent noted how the FNB project had transformed the room from a drab enclosure into an airy and wonderful playroom. She expressed that the FNBers' kind gesture would help in the healing process of children admitted to the ward. Warm, bright and colourful, the renovated room will surely put a smile on their faces and a twinkle in their eyes in a way that no medicine or surgical procedure can.


FNBers also painted cartoon characters on the walls in the wards and put up a shelter for the parents to sit outside when visiting their children.



Doctor Boipelo commended the initiative by FNB Lobatse Branch, challenging other businesses in the communities to play similar roles in community development and upliftment. FNB continues to lead the way by contributing towards making our sick children feel better.

On behalf of the Lobatse District Health Management Team (DHMT), Doctor Boipelo expressed gratitude to FNB Lobatse Branch management and staff for their generosity, with a heartfelt "Re a leboga!"

# FNBB FOUNDATION *(continued)*

## BANA BA METSI APPRECIATES FNBB FOUNDATION

Peter Dow, Director of Bana Ba Metsi was passionate in his appreciation of the financial assistance received from FNB over the years, stating that without such interventions, a project like Bana Ba Metsi would have stopped long ago.

He lamented how hundreds of disadvantaged youth would never have finished their primary schooling at all, which puts into perspective the scale of FNB's commitment to improving lives in our communities, through the FNBB Foundation.

Without the cash injection towards their education, the children of Bana Ba Metsi would almost certainly be condemned to a life of poverty, from which there is no escape. Thanks to FNB their hopes live on, and their options are open.

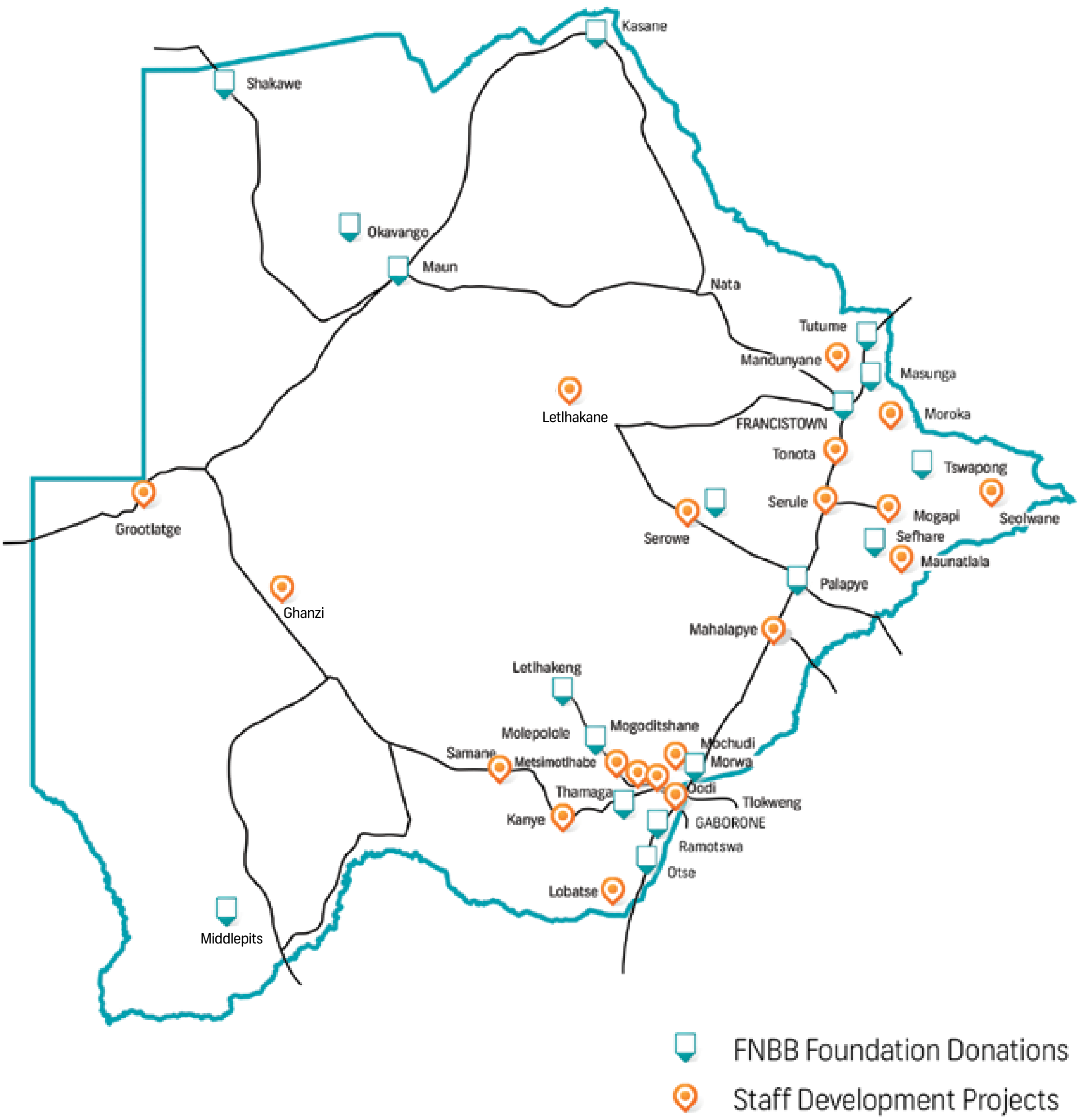
Thank you FNB.




CORPORATE SOCIAL RESPONSIBILITY

## FOOTPRINT OF THE

# FNBB FOUNDATION



Inspired to innovate

## Bank Your Change

**"I could never have believed how much difference Bank Your Change would make to my montlhy budget, until I signed up for it.**

I am a budding entrepreneur dreaming of growing my business, which has increased my appetite for saving, and made me more sensitive about how and why I spend every thebe I make.

Bank Your Change complements my efforts to build up savings by automatically putting away my change into an electronic savings pocket every time I swipe my bank card for things I need to buy.

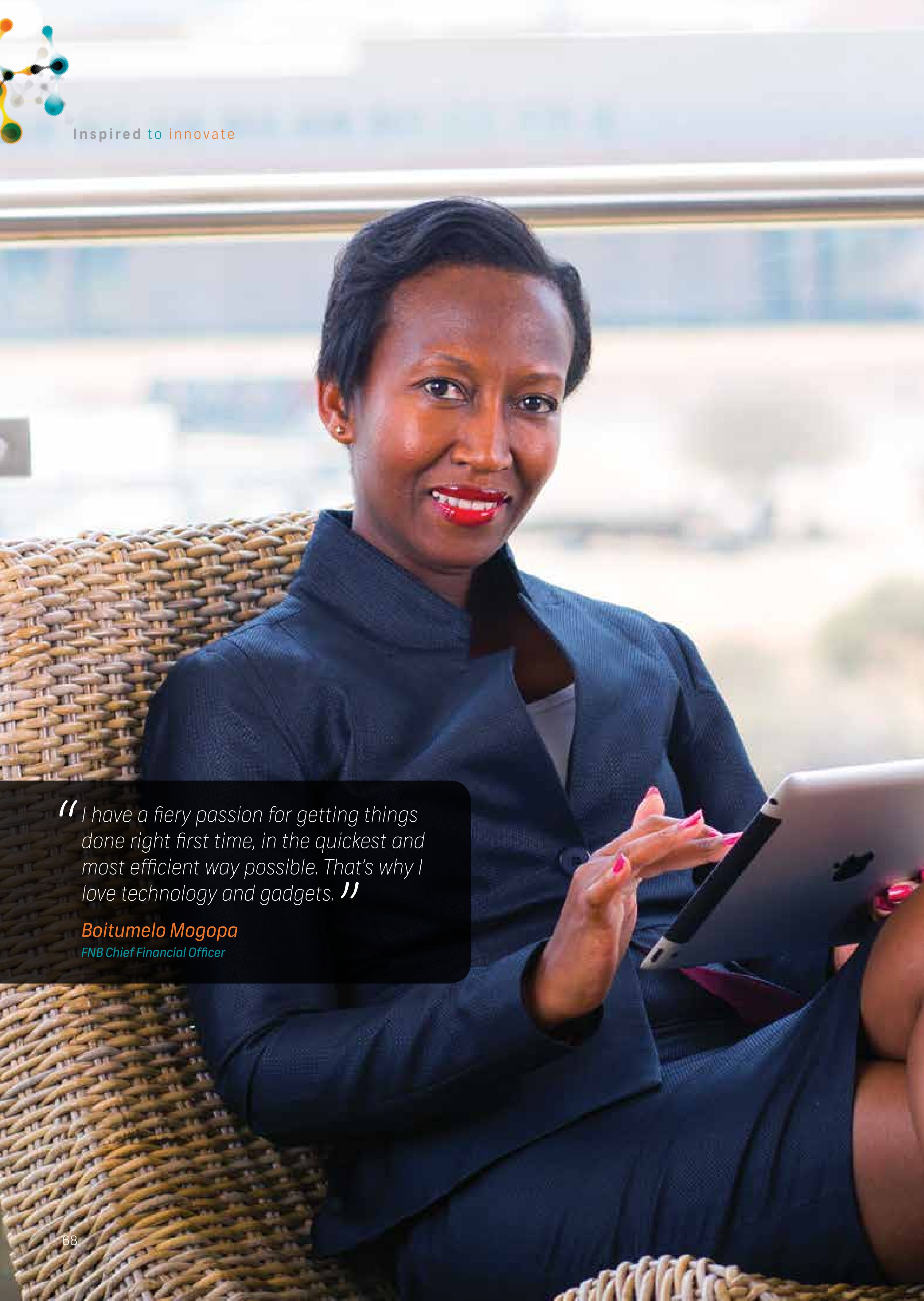
The electronic savings pocket links to my main FNB account, and I can easily access my savings any time I need to use the money.

Another great thing about Bank Your Change is that when I want to, I can increase the amount I put away by topping up. With Bank Your Change, I can see more savings in my account every month! Thanks FNB."

**Tebogo Muchena**
Mother

# Financial Performance

The strengthening in our financial position helped us maintain our strong track record of profitability wherein our profit before taxation increased from P730 million in 2012 to P905 million signifying an increase of 24%. On the other hand, FNBB's profit after tax grew by 23% year-on-year.



"I have a fiery passion for getting things done right first time, in the quickest and most efficient way possible. That's why I love technology and gadgets."

**Boitumelo Mogopa**
*FNB Chief Financial Officer*

# CHIEF FINANCIAL OFFICER'S REPORT

## BANK OVERALL PERFORMANCE

During the 2012/2013 financial year, First National Bank of Botswana (FNBB) focused on solidifying its position as Botswana's number one premier financial services institution, at the back of immense unsettling global and local economic uncertainties. The Bank continued to show resilience amidst liquidity challenges, high unemployment levels and other fiscal consternations as replicated on interest income and impairment of advances.

*Share Price up by*

**26%**

# CHIEF FINANCIAL OFFICER'S REPORT *(continued)*

## BANK OVERALL PERFORMANCE *(continued)*

Our overall Statement of Financial Position remained strong and increased by 11% to P15.8 billion with advances increasing by 23% to P10.4 billion. The strengthening in our financial position helped us maintain our strong track record of profitability which led to profit before taxation increasing from P730 million in 2012 to P905 million signifying an increase of 24%. Profit after tax increased by 23% on the other hand.

This result has been achieved through continued solid growth in most of our business segments as well as the well diversified position the Bank is in. Non-mining sector maintained expansion, despite the reduced public spending in the development budget following the Government continuing to consolidate its fiscal position.

## CONSOLIDATED INCOME STATEMENT

### Net Interest Income and Impairments

Net interest income grew by 17% as a result of the 23% growth in advances as well as a shift in the deposit mix from the more expensive professional to core deposits in line with the Bank's retail strategy. The increase in interest income was achieved despite the negative effect of 100 basis points rate cut experienced during the year and a generally low interest rate environment.

Despite the on-going difficult economic conditions putting strain on consumers, the Bank's impairment charges reduced by 9%. This is a particularly pleasing result for the Bank as it demonstrates that the strategies employed bore fruit. The Bank employed systems and centralized resources to focus on this area to ensure quality credit is granted as point on entry, ongoing risk management of accounts as well as collections.

*profit before taxation increased to*

**P905m**

As illustrated by Fig 1, the impairment to gross advances ratio declined to 1.14%, and remains lower than the market levels.

## IMPAIRMENT CHARGE ANALYSIS

**Fig: 1. Impairments as a % of Gross Advances**

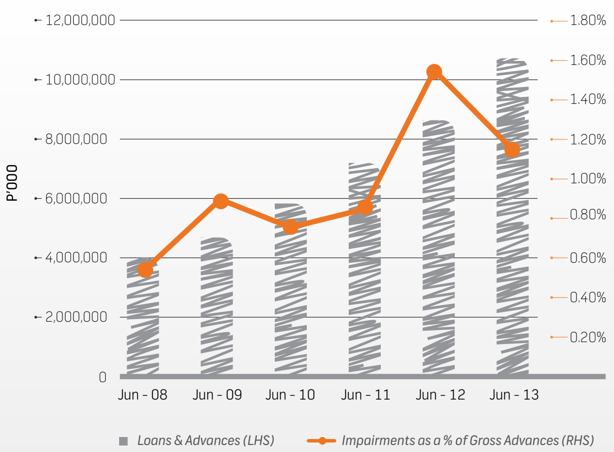



**Fig: 2. Non-Interest Revenue vs Operating Expenses**


### Non-interest revenue

Non-interest income increased by 18% and this was largely due to the Bank's bricks to clicks strategy bearing fruit as follows:

- Increased usage of the Bank's technology offerings such as mobile and internet banking;
- Greater use of the Bank's ATM platform as a result of the expanded ATM network, the reduction in downtime, and general growth in customer numbers;
- Greater use of the Banks Point of sale machines as a result of increased new and improved devises during the year; and
- Increase in trading income primarily due to volatility in the global currency markets.

The Bank will continue to focus on non-interest income in its endeavor to diversify revenue streams.

Fig 2 illustrates the success of the revenue diversification strategy achieved through the introduction of new products, services and technological offerings for both FNBB and non-FNBB customers. The Bank's ability to cover operating expenses with non-interest revenue remains a key focus area in reducing the Bank's reliance on interest income.

### Operating expenses

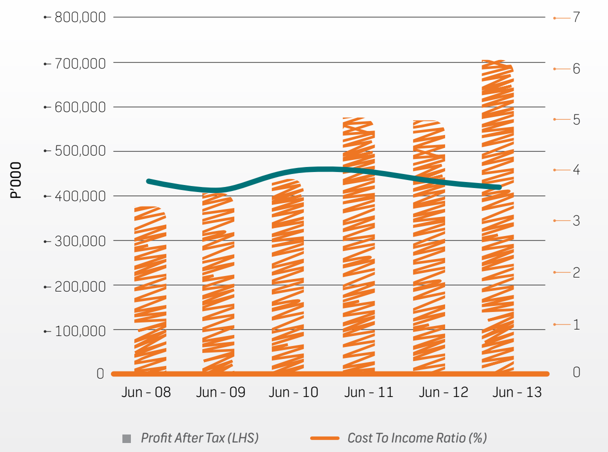
In its continued diversification drive, the Bank has been successful in developing and improving its customer offerings and operating platform, to this end the Bank has invested in branches, ATMs and great technologies since inception.

The Bank acknowledges that its greatest differentiator remains its people. Investment in human capital resulted in 13% growth on staff expenses. This is in line with the growth of the Bank and alignment of resources to cater for emerging risks and regulatory challenges in the financial and banking environment.

# CHIEF FINANCIAL OFFICER'S REPORT *(continued)*

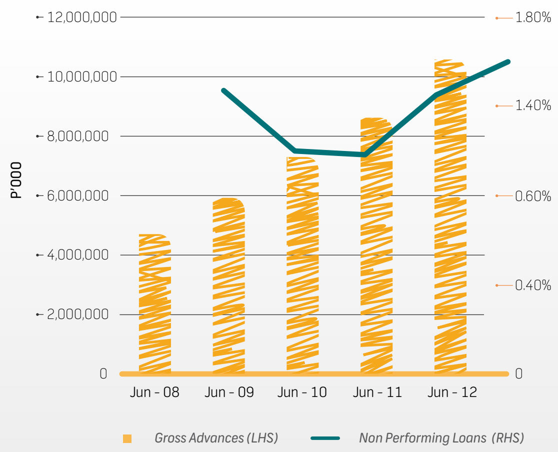
## COST TO INCOME RATIO

**Fig: 3. Profit After Tax vs Cost To Income Ratio**




## GROSS ADVANCES VS NON PERFORMING LOANS

**Fig: 4. Non Performing Loans**




The Bank has invested in systems to effectively manage risks and improve management information for decision making and regulatory reporting. During the period, the Bank expanded its footprint with increased ATMs and the opening of two branches in Gaborone; First Place and Airport Junction. Because of these projects and expansion initiatives, other operating expenses increased by 17%.

As illustrated by Fig 3, despite this increase in costs, the Bank's cost to income ratio remains low at 37%, and a focus on cost efficiencies is achieved through the Cost Containment Committee.

### Taxation

The effective tax rate remained flat at 22% during the period under review.

### Statement of Financial Position

The Bank's Statement of Financial Position increased by 11%. This was mainly as a result of a 23% growth in advances to customers primarily driven by Property Finance, Wesbank, Consumer scheme loans as well as Public Sector term loans. This was in line with the Bank's strategy of growing the secured portfolio as part of risk management. The quality of the book remains a priority, with the ratio of Non-Performing Loans relative to Gross Advances growing in line with growth in advances and remaining below 4% and well below market levels as depicted in Fig 4.

The loan book remains well diversified, with a good mix of products and segments as illustrated in Fig 5.

Growth in deposits from customers was at 13%, reflecting the current strain on the consumer and the liquidity pressures in the market. The Bank will continue with planned initiatives to reduce reliance on professional deposits and to focus on other segments for funding to ensure optimal management of the balance sheet. The Bank remained vigilant in pricing deposits appropriately without compromising balance sheet size and margin.

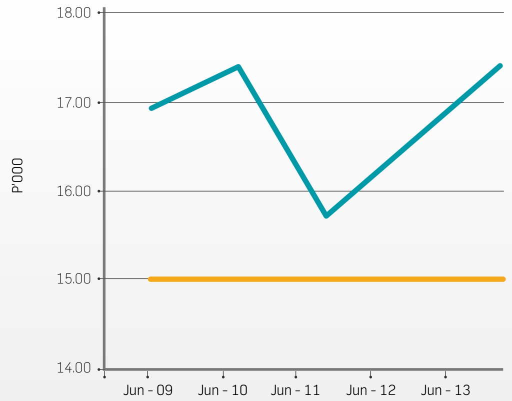
Total ordinary equityholders' funds increased by 26% year on year, this is important as the Bank gears up for Basel 2.5 in line with its capital management framework.

## GROSS ADVANCES

**Fig: 5. Balance Sheet**


## CAPITAL ADEQUACY RATIO

**Fig:6. Capital Adequacy Ratio**




## Capital Management

The Group believes that effective risk management is of primary importance to its success and is a key component of the delivery of sustainable returns to its shareholders. It is therefore part of the Group's tactical and strategic decision making.

The overall objective of capital management is to maintain sound capital ratios, a strong credit rating, ensure confidence in the solvency of the Group, comply with regulatory requirements and instill confidence during periods of uncertainty and turmoil in financial markets.

In order to achieve this objective the Group needs to:

- ensure that at least the minimum amount of regulatory capital is held at all times for Bank of Botswana (BOB) to allow the Group to conduct business;
- hold sufficient capital that will instil confidence for all stakeholders in the Group's ongoing solvency and status as a creditworthy counterparty;
- ensure that the buffer over the minimum regulatory capital requirement is sufficient to cater for income and capital volatility and economic risk which may manifest through business disruption, regulatory intervention or credit downgrades, where applicable;
- consider the returns on a risk-adjusted basis to assess business performance; and
- ensure that the Group's capital adequacy ratios and other sublimits remain above appropriate (and approved) limits during different economic and business cycles.

It is therefore pleasing that the Group's capital adequacy ratio, which excludes the dividend reserve, has been maintained at 17.41% as at 30 June 2013. This is in line with the Bank's capital management framework and is above the Group's internal limit as well as the Bank of Botswana required ratio of 15%.

In line with the substantial growth in assets, the planned impact of the introduction of Basel 2.5, and the effect that these factors will have on the capital adequacy ratio, the Directors believe that it is appropriate to continue with the prudent approach to capital management. However our Shareholders should be pleased to note that our Return on Equity ratio is at an impressive 41%.

# CHIEF FINANCIAL OFFICER'S REPORT *(continued)*

## MARKET PERFORMANCE

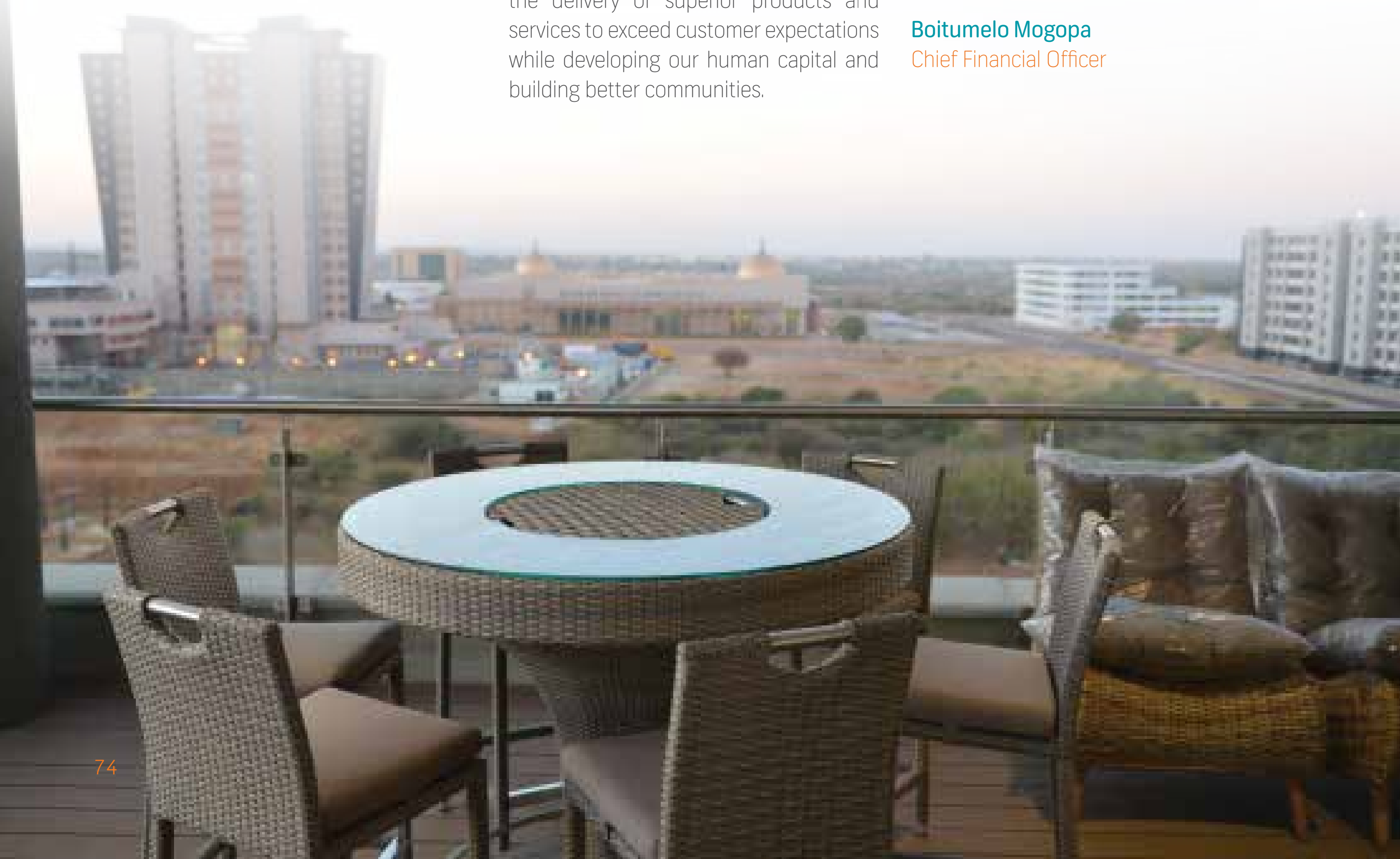
| Fig: 7 | 2013 | 2012 | % Change |
|---|---|---|---|
| Share Price (thebe) | 365 | 290 | 26% |
| Market Capitalisation (Pm) | 9,358 | 7,435 | 26% |
| Dividend per share (thebe)* | 15 | 13 | 15% |
| Dividend Yield-ordinary shares (percent)* | 4.1 | 4.5 | -9% |
| Dividend cover (times)* | 2.1 | 1.7 | 24% |
| Return on Average Assets* | 4.7 | 4.2 | 12% |
| Return on Shareholders' interest (ROE)* | 41 | 42 | -2% |

The Bank remains the market leader in terms of market capitalisation on the Botswana Stock Exchange, and balance sheet size in the industry. The year under review also showed a 26% great growth on the share price. FNB continues to deliver exceptional returns to its shareholders in terms of ROE and dividend ratios as illustrated by Fig 7.

### Conclusion

The Bank ended the year solidly with a well diversified financial position to not only cushion any future adverse economic conditions, but to also embrace opportunities anticipated in its strategy. Looking ahead, we intend to capitalise on our key strengths, innovation, through the delivery of superior products and services to exceed customer expectations while developing our human capital and building better communities.

**Boitumelo Mogopa**
Chief Financial Officer



# Group Annual Financial Statements

**for the year ended 30 June 2013**

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# VALUE ADDED STATEMENTS

*for the year ended 30 June 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **Value added** | | | | |
| Value added is the wealth the Group has been able to create by providing clients with a quality value added service. | | | | |
| Income earned by providing banking services | 1,953,073 | 1,738,547 | 1,939,286 | 1,734,182 |
| Cost of services | (1,131,448) | (1,039,463) | (1,122,518) | (1,035,301) |
| Value added banking services | 821,625 | 699,084 | 816,768 | 698,881 |
| Non-operating and other income and expenditure | 420,535 | 367,114 | 415,494 | 364,595 |
| Value added | 1,242,160 | 1,066,198 | 1,232,262 | 1,063,476 |
| **Value allocated** | | | | |
| **To employees** | | | | |
| Salaries, wages and other benefits | 304,250 | 268,589 | 302,632 | 267,410 |
| **To providers of capital** | | | | |
| Dividends to shareholders | 333,281 | 179,459 | 333,281 | 179,459 |
| **To Government** | | | | |
| Taxation | 213,758 | 171,649 | 211,418 | 170,512 |
| **To expansion and growth** | | | | |
| Retained income | 367,671 | 389,334 | 362,814 | 386,708 |
| Depreciation | 23,200 | 19,462 | 22,117 | 18,291 |
| | 390,871 | 408,796 | 384,931 | 404,999 |
| | 1,242,160 | 1,028,493 | 1,232,262 | 1,022,380 |
| **Summary** | % | % | % | % |
| Employees | 24.5 | 26.2 | 24.6 | 26.2 |
| Providers of capital | 26.8 | 17.4 | 27.0 | 17.6 |
| Government | 17.2 | 16.7 | 17.2 | 16.7 |
| Expansion and growth | 31.5 | 39.7 | 31.2 | 39.6 |
| | 100.0 | 100.0 | 100.0 | 100.0 |

# TEN-YEAR CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| STATEMENT OF FINANCIAL POSITION | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2011 P'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and short term funds | 2,288,285 | 2,557,842 | 1,706,573 |
| Derivative financial instruments | 10,138 | 7,861 | 2,996 |
| Advances to banks | 51,975 | — | 361,178 |
| Advances to customers | 10,369,937 | 8,420,553 | 7,170,842 |
| Investment securities | 2,290,494 | 2,699,551 | 3,496,862 |
| Current taxation | 2,117 | — | 4,622 |
| Due from related companies | 6,138 | 7,839 | 13,133 |
| Accounts receivable | 251,474 | 170,800 | 170,502 |
| Non-current assets held for sale | 7,101 | 5,511 | — |
| Investment in associated company | — | — | 3,058 |
| Property and equipment | 502,086 | 317,559 | 202,200 |
| Goodwill | 26,963 | 26,963 | 26,963 |
| Total assets | 15,806,708 | 14,214,479 | 13,158,929 |
| **LIABILITIES** | | | |
| Deposits from banks | 53,903 | 166,900 | 215,186 |
| Deposits from customers | 12,932,767 | 11,448,851 | 10,597,398 |
| Accrued interest payable | 34,767 | 45,179 | 36,696 |
| Derivative financial instruments | 16,964 | 32,912 | 18,794 |
| Current taxation | — | 461 | — |
| Due to related companies | 19,597 | 57,883 | 140,031 |
| Creditors and accruals | 225,215 | 275,972 | 616,691 |
| Provisions | 62,076 | 52,252 | 42,646 |
| Borrowings | 422,791 | 519,047 | 244,971 |
| Deferred taxation | 110,360 | 82,296 | 98,350 |
| Total liabilities | 13,878,440 | 12,681,753 | 12,010,763 |
| **EQUITY** | | | |
| Stated capital | 51,088 | 51,088 | 51,088 |
| Reserves | 1,620,810 | 1,276,542 | 1,045,804 |
| Dividend reserve | 256,370 | 205,096 | 51,274 |
| Total ordinary equity holder's funds | 1,928,268 | 1,532,726 | 1,148,166 |
| Total equity and liabilities | 15,806,708 | 14,214,479 | 13,158,929 |

ANNUAL FINANCIAL STATEMENTS

| | | | | | | |
|---|---|---|---|---|---|---|
| 30 June 2010 | 30 June 2009 | 30 June 2008 | 30 June 2007 | 30 June 2006 | 30 June 2005 | 30 June 2004 |
| P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| 1,201,491 | 1,185,914 | 1,796,013 | 904,941 | 570,245 | 334,887 | 420,681 |
| 758 | 22,611 | 59,514 | 18,476 | — | — | — |
| — | — | — | — | — | — | — |
| 5,803,009 | 4,643,241 | 3,969,496 | 3,073,209 | 2,716,404 | 2,513,929 | 2,053,400 |
| 4,946,059 | 6,085,772 | 5,363,202 | 4,060,061 | 3,760,394 | 391,845 | 545,168 |
| 1,041 | — | — | — | — | 320 | 6,014 |
| 5,075 | 3,956 | 2,029 | 1,151 | — | — | — |
| 57,719 | 363,392 | 181,911 | 197,447 | 96,171 | 59,353 | 106,215 |
| — | — | — | — | — | — | — |
| 3,151 | 2,037 | 2,297 | 2,421 | 2,499 | 2,302 | 1,694 |
| 187,306 | 115,601 | 80,737 | 63,184 | 39,354 | 37,601 | 38,559 |
| 26,963 | 26,963 | 26,963 | 26,963 | 26,963 | 26,963 | 26,963 |
| 12,232,572 | 12,449,487 | 11,482,162 | 8,353,070 | 7,212,030 | 3,367,200 | 3,198,694 |
| | | | | | | |
| 4,000 | 13,851 | 142,310 | 125,463 | 142,299 | 53,950 | 58,263 |
| 10,304,632 | 10,552,699 | 9,763,624 | 6,744,640 | 5,881,827 | 2,430,240 | 2,261,314 |
| 45,661 | 70,142 | 86,594 | 85,100 | 60,902 | 17,302 | 18,520 |
| 559 | 21,388 | 59,514 | 18,476 | — | — | — |
| — | 7,494 | 5,173 | 308 | 138 | 1,131 | — |
| 50,209 | 175,827 | 97,587 | 213,482 | 48,834 | 102,789 | 146,819 |
| 336,647 | 166,538 | 91,514 | 57,517 | 60,268 | 63,682 | 88,158 |
| 23,830 | 24,741 | 43,267 | 34,776 | 34,532 | — | — |
| 207,827 | 416,612 | 424,694 | 430,907 | 438,851 | 195,137 | 200,933 |
| 100,648 | 79,071 | 43,267 | 34,776 | 33,507 | 42,432 | 45,491 |
| 11,074,013 | 11,528,363 | 10,757,544 | 7,745,445 | 6,701,158 | 2,906,663 | 2,819,498 |
| | | | | | | |
| 51,088 | 51,088 | 51,088 | 51,088 | 51,088 | 51,088 | 51,088 |
| 979,286 | 754,669 | 583,800 | 400,151 | 331,599 | 299,210 | 240,942 |
| 128,185 | 115,367 | 89,730 | 156,386 | 128,185 | 110,239 | 87,166 |
| 1,158,559 | 921,124 | 724,618 | 607,625 | 510,872 | 460,537 | 379,196 |
| | | | | | | |
| 12,232,572 | 12,449,487 | 11,482,162 | 8,353,070 | 7,212,030 | 3,367,200 | 3,198,694 |

# TEN-YEAR CONSOLIDATED INCOME STATEMENTS

*for the year ended 30 June 2013*

| INCOME STATEMENT | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2011 P'000 |
|---|---|---|---|
| Interest and similar income | 1,210,031 | 1,111,862 | 1,094,078 |
| Interest expense and similar charges | (312,629) | (342,799) | (432,327) |
| Net interest income before impairment of advances | 897,402 | 769,063 | 661,751 |
| Impairments losses on loans and advances | (120,673) | (132,714) | (59,211) |
| Net interest income after impairment of advances | 776,729 | 636,349 | 602,540 |
| Non interest income | 743,042 | 629,108 | 505,793 |
| Income from operations | 1,519,771 | 1,265,457 | 1,108,333 |
| Operating expenses | (614,373) | (535,496) | (470,596) |
| Income before taxation | 905,398 | 729,961 | 637,737 |
| Taxation | (204,446) | (161,168) | (63,897) |
| Income after taxation | 700,952 | 568,793 | 573,840 |
| Dividends paid and proposed | (384,555) | (333,281) | (589,651) |
| Retained income for the year | 316,397 | 235,512 | (15,812) |

ANNUAL FINANCIAL STATEMENTS

| 30 June 2010 P'000 | 30 June 2009 P'000 | 30 June 2008 P'000 | 30 June 2007 P'000 | 30 June 2006 P'000 | 30 June 2005 P'000 | 30 June 2004 P'000 |
|---|---|---|---|---|---|---|
| 1,062,618 | 1,296,474 | 1,168,337 | 1,005,074 | 583,923 | 467,009 | 439,510 |
| (518,978) | (773,578) | (768,085) | (657,297) | (295,654) | (223,956) | (212,722) |
| 543,640 | 522,896 | 400,252 | 347,777 | 288,269 | 243,053 | 226,788 |
| (43,420) | (40,752) | (20,804) | (22,012) | (19,393) | (19,483) | (22,962) |
| 500,220 | 482,144 | 379,448 | 325,765 | 268,876 | 223,570 | 203,826 |
| 410,610 | 371,196 | 348,980 | 244,931 | 197,471 | 170,900 | 137,139 |
| 910,830 | 853,340 | 728,428 | 570,696 | 466,347 | 394,470 | 340,965 |
| (378,858) | (324,860) | (279,148) | (205,052) | (167,184) | (160,061) | (150,403) |
| 531,972 | 528,480 | 449,280 | 365,644 | 299,163 | 234,409 | 190,562 |
| (95,922) | (121,760) | (75,253) | (55,797) | (45,920) | (37,715) | (24,986) |
| 436,050 | 406,720 | 374,027 | 309,847 | 253,243 | 196,694 | 165,576 |
| (230,734) | (230,734) | (205,097) | (252,525) | (192,278) | (138,440) | (211,505) |
| 205,316 | 175,986 | 168,930 | 57,322 | 60,965 | 58,254 | (45,929) |

# DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation of these annual financial statements in accordance with International Financial Reporting Standards (IFRS) and in compliance with the Companies Act (Companies Act , 2003) and the Banking Act (Cap 46:04).

The 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 page 83.

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

The Directors are also responsible for the Bank's system of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the 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 Group and Company annual financial statements and supplementary statements presented on pages 87 to 178, which were approved on 8 August 2013 and are signed on their behalf by:

**P.D. STEVENSON**
Chairman

**L.E. BOAKGOMO-NTAKHWANA**
Chief Executive Officer

**B. M. BONYONGO**
Director

# INDEPENDENT AUDITOR'S REPORT

*to the members of First National Bank of Botswana Limited*

We have audited the consolidated and separate annual financial statements of First National Bank of Botswana Limited, which comprise the consolidated and separate statements of financial position as at 30 June 2013, and the consolidated and separate income statements, consolidated and separate statements of other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 87 to 178.

### Directors' Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of First National Bank of Botswana Limited as at 30 June 2013, and its consolidated and separate financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Other Matter – Supplementary Information

Without qualifying our opinion, we draw attention to the fact that the supplementary information as set out on pages 77 to 81 does not form part of the annual financial statements and is presented as additional information. We have not audited this information and accordingly we do not express an opinion on it.

Deloitte & Touche
Certified Auditors
Practicing Member: M Marinelli (19900028)

Gaborone
8 August 2013

Deloitte.

# REPORT OF THE AUDIT COMMITTEE

*to the shareholders and other users of the financial statements*

The Group's Audit Committee comprises mainly 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 responsibility 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 published annual 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:

1. 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;

2. To provide a forum for communication between the Board of Directors, Management and the internal and external auditors; and

3. To introduce such measures as, in the opinion of the committee, may serve to enhance the credibility and objectivity of the annual financial statements and affairs of the Group.

The committee has met its objectives and has found no material weaknesses in controls. The committee is satisfied that the annual financial statements have been prepared in accordance with International Financial Reporting Standards and in compliance with the Companies Act (Companies Act, 2003) and the Banking Act (Cap 46:04).

**B. M. BONYONGO**
Chairman
8 August 2013
Gaborone

# DIRECTOR'S REPORT

*for the year ended 30 June 2013*

The Directors have pleasure in submitting their report together with the financial statements of First National Bank of Botswana Limited (the Bank or the Company) and the consolidated annual financial statements of the Company and its subsidiaries (the Group) for the year ended 30 June 2013.

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act (Companies Act, 2003) 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. 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 annual financial statements. The Directors have no reason to believe that the Bank 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 subsidiaries comprise one property owning company, a group loan scheme company, an insurance agency and an insurance premium finance company. 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 P701 million (2012: P568.8 million) increased by 23% compared to the results for the year ended 30 June 2012. Interest income was derived mainly from advances, instalment credit, and investment securities. Non-interest income was derived from the Branch network, Firstcard, Treasury and International Trade business.

## Stated capital

The Company's stated capital consists of 2,563,700,000 ordinary shares, of which First National Bank Holdings (Botswana) Limited holds 1,780,590,000 shares (69.45%), 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 98,839 (2012: 85,649), which represents approximately 0.0039% (2012: 0.0033%) of the stated capital of the Company.

# DIRECTOR'S REPORT *(continued)*

*for the year ended 30 June 2013*

## Dividends

An interim dividend of 5.00 thebe per share (2012:5.00 thebe) for the year ended 30 June 2013 has been paid to holders of ordinary shares. The Directors propose a final dividend of 10.00 thebe per share (2012:8.00 thebe).

## Directorate

The composition of the Board as at 30 June 2013 was as follows:

| | |
|---|---|
| P.D. Stevenson | Chairman *(Motswana)* |
| B.M. Bonyongo | Independent Non-Executive Director *(Motswana)* |
| L.E. Boakgomo-Ntakhwana | Chief Executive Officer *(Motswana)* |
| R. C. Wright | Deputy CEO *(South African)* (Alternate to L.E. Boakgomo-Ntakhwana) |
| J.R. Khethe | Non-Executive Director *(South African)* |
| J.K. Macaskill | Non-Executive Director *(South African)* (Alternate to J.R. Khethe) |
| M.T. Sekgororoane | Independent Non-Executive Director *(Motswana)* (Resigned on 01 May 2013) |
| S. Thapelo | Independent Non-Executive Director *(Motswana)* |
| M.W. Ward | Independent Non-Executive Director *(British)* |
| D.A. Kgosietsile | Independent Non-Executive Director *(Motswana)* |
| D.H. Zandamela | Non-Executive Director *(South African)* |
| L.J. Haynes | Non-Executive Director *(South African)* (Alternate to D.H. Zandamela) |

## Transfer Secretaries

PriceWaterhouseCoopers

Plot 50371
Fairgrounds Office Park
PO Box 294, Gaborone

## Auditors

Deloitte & Touche

Deloitte & Touche House
Plot 64518
Fairgrounds Office Park
PO Box 778, Gaborone

# SIGNIFICANT ACCOUNTING POLICIES

*for the year ended 30 June 2013*

## 1 INTRODUCTION

Reference to "Company or Bank" relates to First National Bank of Botswana Limited, and reference to "Group" relates to First National Bank of Botswana Limited (the Company) and its subsidiaries.

The Group has adopted the following accounting policies in preparing its consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

## 2 BASIS OF PRESENTATION

### Standards and interpretations affecting amounts reported in the current period

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies are consistent in all material aspects with those adopted in the previous year, except for the adoption of the following standards and interpretations:

- IAS 1 Presentation of Financial Statements was amended in June 2011 to require that items presented in other comprehensive income be classified based on whether the items will subsequently be reclassified to profit or loss or not. The amendment also requires that if an entity presents items of other comprehensive income before the related tax effects with the aggregated tax shown separately, the associated tax should also be presented separately for each type of other comprehensive item. This amendment is effective for annual periods beginning 1 July 2012. The Group has adopted the amendments made. This amendment addresses presentation in the annual financial statements and does not affect recognition and measurement. Therefore this amendment does not have a significant impact on the Group. The statement of other comprehensive income for the current year, including the comparative period, has been presented in accordance with the amended requirements.

- IAS 12 Deferred Tax: Recovery of Underlying Assets. This amendment to IAS 12 requires that deferred tax on investment property measured at fair value and non-depreciable assets measured at revalued amounts be calculated based on the tax consequences that would arise on the sale of the property. As a result of the amendment, SIC 21 Income Taxes - Recovery of Revalued Non-Depreciable Assets has been withdrawn. This amendment has had no impact on the Group nor has it resulted in the restatement of prior year numbers. This amendment is effective for annual periods beginning 1 January 2012.

## 3 CONSOLIDATION

### Subsidiaries

The consolidated financial statements include the assets, liabilities and results of the operations of the parent company and its subsidiaries. Subsidiaries are all companies that the Group has direct or indirect control over for its own benefit. The Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining whether or not control exists. Subsidiaries are consolidated from the date on which the Group acquires effective control. Consolidation is discontinued from the date that control over the subsidiary is lost.

When the Group loses control of a subsidiary, the profit or loss on disposal 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. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

The Group consolidates a special purpose entity ("SPE") when the substance of the relationship between the Group and the SPE indicates that the Group controls the SPE.

# SIGNIFICANT ACCOUNTING POLICIES *(continued)*

*for the year ended 30 June 2013*

## 3 CONSOLIDATION *(continued)*

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### Business combinations

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the acquisition date fair value of any existing equity interest held in the subsidiary. The contingent consideration is initially measured at fair value on the acquisition date. An obligation to pay contingent consideration is classified as either a financial liability or equity based on the respective definitions set out in IAS 32. The Group classifies any rights to the return of consideration previously transferred as a financial asset. Any asset or liability arising from a contingent consideration arrangement is subsequently measured at fair value. Any changes resulting from additional and new information about events and circumstances that existed at the acquisition date and, if known would have affected the measurement of the amounts recognized at that date, are considered to be a measurement period adjustments. The Group retrospectively adjusts the amounts recognised for measurement period adjustments. The measurement period ends when the acquirer receives all the information it was seeking about facts and circumstances that existed at the acquisition date or learns that information is not obtainable. The measurement period shall however not exceed one year from the acquisition date, to the extent that changes in the fair value relate to post acquisition events, these changes are recognized in accordance with the IFRS applicable to the specific asset or liability. Contingent consideration that is classified as equity is not re-measured after the acquisition date. Transaction costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. Any difference between the sum of the consideration transferred the amount of any non-controlling interest in the subsidiary and the acquisition date fair value of any previous equity interest in the subsidiary and the fair value of the Group's share of the identifiable net assets acquired are recorded as goodwill. If this amount is negative as in the case of a bargain purchase, the difference is recognized immediately in profit or loss.

When control is achieved in stages, each transaction is accounted for separately and the identifiable assets, liabilities and contingent liabilities are measured at fair value at acquisition date.

### Associates and joint ventures

Associates are entities in which the Group has significant influence but does not control or jointly control. The Group is presumed to have significant influence where it holds an equity interest of between 20% and 50%. Joint ventures are entities in which the Group has joint control over the economic activity of the joint venture, through a contractual arrangement. Investments in associates and joint ventures acquired and held exclusively with the view to dispose in the near future (12 months) are not accounted for using the equity accounting method, but are measured at fair value less cost to sell in terms of the requirements of IFRS 5.

The Group includes the results of associates and joint ventures in its consolidated financial statements using the equity accounting method, from the date of acquisition. The investment is initially recognized at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition, net of any accumulated impairment loss, and the carrying amount of loans to associates and joint ventures that are substantially part of the investment as settlement is neither planned not likely to occur in the foreseeable future.

Earnings attributable to ordinary shareholders include the Group's share of earnings of associates and joint ventures. Other comprehensive income includes the Group's share of other comprehensive income of associates and joint ventures. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment in the associate or joint venture.

The Group assesses at each reporting period whether there is objective evidence in terms of IAS 39 that an investment in an associate or joint venture is impaired. If such evidence of impairment exists, the entire carrying amount, including the goodwill, is tested for impairment in terms of IAS 36.

Equity accounting is discontinued from the date that the Group ceases to have significant influence over the associate or joint control over the joint venture. The Group measures at fair value any investment it has retained in the entity when significant influence or joint control is lost and recognizes the resulting gain or loss in profit or loss. The gain or loss is measured as the difference between the fair value of this retained investment and the carrying amount of the original investment at the date significant influence or joint control is lost.

After discontinuing equity accounting, the Group accounts for any retained investment in the entity in accordance with the relevant IFRS as appropriate.

If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in associate, the entity continues to apply the equity method and does not re-measure the retained investment.

The Group does not account for any further losses of the associate or joint venture when the carrying amount of the investment in an associate or joint venture reaches zero, unless it has incurred obligations or guaranteed obligations in favor of the entity.

The Group resumes equity accounting only after its share of the profits equals the share of losses not recognized. The Group increases the carrying amount of investments with its share of the associate or joint venture's income when equity accounting is resumed.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

## 4 INTEREST INCOME AND EXPENSE

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

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

From an operational perspective, the Group suspends the accrual of contractual interest on non-recoverable advances, subject to certain curing assumptions. However, in terms of IAS 39, interest income on impaired advances is recognized based on the original effective interest.

Instruments with characteristics of debt, such as redeemable preference shares, are included in advances or long-term liabilities as appropriate. Where these instruments are measured at amortised cost, dividends received or paid on these instruments are included in the cash flows used to determine the effective interest rate of the instrument.

## 5 FAIR VALUE GAINS AND LOSSES

The Group includes gains or losses, fair value adjustments and interest on trading financial instruments (including derivative instruments that do not qualify for hedge accounting in terms of IAS 39), as well as trading related financial instruments designated at fair value through profit or loss as fair value gains or losses in non-interest income.

## 6 NET FEE AND COMMISSION INCOME

### Fee and commission income

The Group generally recognises fee and commission income on an accrual basis when the service is rendered.

Certain fees and transaction costs that form an integral part of the effective interest rate of available-for-sale and amortised cost financial instruments are capitalised and recognised as part of the effective interest rate of the financial instrument over the expected life of the financial instruments and not as non-interest income.

# SIGNIFICANT ACCOUNTING POLICIES *(continued)*

*for the year ended 30 June 2013*

## 6 NET FEE AND COMMISSION INCOME *(continued)*

### Fee and commission income *(continued)*

Fees and transaction costs that do not form an integral part of the effective interest rate are recognised as income when the outcome of the transaction involving the rendering of services can be reliably estimated as follows:

- Fees related to services rendered are recognised as fee and commission income on an accrual basis when the service is rendered, for example banking fees and commission income and asset management and related fees.
- Fees that are earned on the execution of a significant act, for example knowledge-based fee and commission income and non-banking fee and commission income when the significant act has been completed.
- Commission income on acceptances, bills and promissory notes endorsed is credited to profit or loss over the lives of the relevant instruments on a time apportionment basis.

### Fee and commission expense

Fee and commission expenses are expenses that are incremental or directly attributable to the generation of fee and commission income and are recognised in non-interest income. Fee and commission expenses include transaction and service fees, which are expensed as the services are received. Fee and commission expenses that form an integral part of the effective interest rate of a financial instrument are recognised as part of net interest income.

## 7 DIVIDEND INCOME

The Group recognises dividend income when the Group's right to receive payment is established. This is on 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.

## 8 FOREIGN CURRENCY TRANSLATION

### Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Pula ("P"), which is the functional and presentation currency of the Group.

### Transactions and balances

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

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

Translation differences on both monetary and non-monetary items that are recognized at fair value through profit or loss are reported as part of the fair value gain or loss in profit or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale, are reported as part of the fair value adjustment and are included in other comprehensive income. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortised cost and other changes in the fair value of the security. Translation differences relating to changes in the amortised cost are recognized in profit or loss and other changes in the fair value are recognised in other comprehensive income.

Foreign exchange gains or losses on monetary items measured at amortised cost are included in a separate line item, foreign exchange differences, within non-interest income in profit or loss for the year.

## 9 BORROWING COSTS

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset up to the date on which construction or installation of the assets is substantially completed. Other borrowing costs are expensed when incurred.

## 10 TAXATION

### Indirect taxes
Indirect taxes are disclosed separately from direct tax in the income statement. Indirect taxes include various other taxes paid to central and local governments, including value added tax.

### Current income tax
Income tax includes Botswana and foreign jurisdiction corporate tax payable. 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 each particular jurisdiction within which the Group operates.

## 11 RECOGNITION OF ASSETS

### Assets
The Group recognizes assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the Group.

### Contingent assets
The Group discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Group's control.

### Fiduciary activities
The Group excludes assets and the income thereon, together with related undertakings to return such assets to customers, from its consolidated financial statements where it acts in a fiduciary capacity such as nominee, trustee or agent.

## 12 LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

### Liabilities and provisions
The Group recognises liabilities, including provisions, when:

- it has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required upon settlement is determined by considering the class of the obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Present obligations arising under onerous contracts are recognised and measured as provisions.

### Contingent liabilities
The Group discloses a contingent liability when:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or
- it has a present obligation that arises from past events but is not recognized because:
- It is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

## 13 CASH AND CASH EQUIVALENTS

In the statement of cash flows, cash and cash equivalents comprise:
- coins and bank notes;
- money at call and short notice;
- balances with central banks; and
- Bank of Botswana Certificates (BoBC's).

All balances included in cash and cash equivalents have a maturity date of less than three months from the date of acquisition.

# SIGNIFICANT ACCOUNTING POLICIES *(continued)*

*for the year ended 30 June 2013*

## 14 FINANCIAL INSTRUMENTS

Financial instruments carried on the statement of financial position include all assets and liabilities, including derivative instruments, but exclude investments in associates and joint ventures, property and equipment, assets and liabilities of insurance operations, deferred income tax, tax payable, intangible assets, and post-retirement liabilities. The Group recognises a financial asset or a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

### Financial assets

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- available-for-sale financial assets; and
- Held-to-maturity investments.

Management determines the classification of the financial asset at initial recognition.

Financial instruments are initially recognized at fair value plus transaction costs for all financial instruments not carried at fair value through profit or loss.

Available-for-sale financial assets and financial instruments at fair value through profit or loss are subsequently measured at fair value. Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment.

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.

### Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition.

A financial asset is classified as a trading instrument if acquired principally for the purpose of selling in the short-term or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments in an effective hedging relationship.

Financial assets and liabilities are designated on initial recognition as at fair value through profit and loss to the extent that it produces more relevant information because it either:

- results in the reduction of a measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gain and losses on them on a different basis;

- the group of financial assets and/or financial liabilities is managed and is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or

- Is a financial asset containing significant embedded derivatives that clearly require bifurcation.

The main financial assets and liabilities designated at fair value through profit and loss under criteria (i) are certain advances to customers, structured notes and other investments held by the investment banking division. These financial instruments have been designated at fair value to eliminate the accounting mismatch between these assets and the derivatives used to manage the risk arising from these assets and the funding instruments. If the assets were not designated at fair value through profit or loss, a mismatch would arise as a result of the assets being recognised at amortised cost and the related derivatives and funding instruments being recognised at fair value.

Different methods are used to determine the current period and cumulative changes in fair value attributable to credit risk for investment securities and advances. This is due to the differing inherent credit risk of these instruments. The current and cumulative change in the fair value of designated investment securities and designated financial liabilities that is attributable to changes in credit risk is determined as the change in fair value that is not attributable to changes in market conditions that gives rise to market risk, i.e. currency, interest rate and other price risk. The current and cumulative change in the fair value of designated advances that is attributable to changes in credit risk is the difference between the fair value of the advances based on the original credit spreads and the fair value of the advances based on the most recent market observable credit spreads.

Gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in profit or loss in the period in which they arise.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale.

This category also includes purchased loans and receivables, where the Group has not designated such loans and receivables in any of the other financial asset categories.

**Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

**Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The Group recognises gains and losses arising from changes in the fair value of available-for-sale assets, in other comprehensive income. It recognises interest income on these assets as part of interest income, based on the instrument's original effective interest rate using the effective interest method. Dividends on available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established and are included in gains or losses from investing activities When the available-for-sale financial assets are disposed of or impaired, the related accumulated fair value adjustments are reclassified from other comprehensive income and included in profit or loss as gains and losses from investment activities.

Treasury bills, debt securities and equity shares intended to be held on a continuing basis, other than those designated at fair value through profit and loss are classified as available-for-sale.

**Financial liabilities**

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. If a financial instrument includes a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavorable terms, such as redeemable preference shares the financial instrument is classified as a financial liability. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities.

Financial liabilities are measured at amortised cost, except for certain liabilities that are designated as at fair value through profit or loss. Interest expense is recognised in profit or loss over the period of the borrowing using the effective interest method. Discounts or premiums on financial liabilities carried at amortised cost are amortised on a basis that reflects the effective interest rate on the debentures over their life span.

A financial liability is classified as a trading instrument if incurred principally for the purpose of repurchasing in the short term, if it forms part of a portfolio of financial liabilities in which there is evidence of short term profit taking or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as effective hedges.

The Group designates certain liabilities on initial recognition at fair value through profit and loss to the extent that it produces more relevant information because it either:

- results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- is a group of financial assets and/or financial liabilities that is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or
- Is a financial asset or liability containing significant embedded derivatives that clearly require bifurcation.

# SIGNIFICANT ACCOUNTING POLICIES *(continued)*

*for the year ended 30 June 2013*

## 14 FINANCIAL INSTRUMENTS *(continued)*

### Financial liabilities *(continued)*

The Group recognizes fair value adjustments on financial liabilities classified at fair value through profit and loss in fair value gains and losses.

The fair values of financial liabilities quoted in active markets are based on current offer prices. If the market for a financial liability is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

### Compound financial instruments

The Group separately measures and recognises the debt component of a compound financial instrument, such as an issued convertible bond, as a financial liability with the residual value separately allocated to equity. The initial fair value of the debt component is recognised at the fair value of a similar non-convertible instrument. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their carrying values.

### Offsetting of financial instruments

The Group offsets financial assets and liabilities and reports the net balance in the statement of financial position where:

- there is a legally enforceable right to set off, and
- There is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

### Embedded derivatives

The Group treats derivatives embedded in other financial or non-financial instruments, such as the conversion option in a convertible bond, as separate derivatives when:

- their risks and characteristics are not closely related to those of the host contract;
- they meet the definition of a derivative; and
- the host contract is not carried at fair value through profit and loss.

Where embedded derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules.

### De-recognition

The Group de-recognizes a financial asset when:

- the contractual rights to the financial asset expire; or
- where there is a transfer of the contractual rights to receive the cash flows of the financial asset and substantially all of the risks and rewards related to the ownership of the financial asset are transferred; or
- the Group retains the contractual rights of the financial assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and rewards associated with the asset.

Where the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognise the financial asset in its entirety and recognises a financial liability for the consideration received. These financial assets and related financial liabilities may not be offset.

Where the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group determines whether it has retained control of the financial asset. In this case:

- if the Group has not retained control, it derecognizes the financial asset and recognizes separately as assets or liabilities any rights and obligations created or retained in the transfer; or
- if the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

The Group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired. A substantial modification to the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one. 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.

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 income.

### Sale and repurchase agreements and securities lending

The consolidated financial statements reflect securities sold subject to a linked repurchase agreement ("repos") as trading or investment securities. The counterparty liability is included in deposits held under repurchase agreements. These financial liabilities are either measured at fair value or amortised cost in line with the requirements of IAS 39.

Securities purchased under agreements to resell ('reverse repos') are recorded but the related advances relating to the repurchase transactions are recognized as advances under agreements to resell. These financial assets are either measured at fair value or amortised cost in line with the requirements of IAS 39. The difference between purchase and resale price is in substance interest and recognized in accordance with the Group's policy for interest income.

Securities lent to counterparties under securities lending arrangements are retained as trading and investment securities. Any deposits arising from collateral provided by the counterparties are recognised as deposits under securities lending arrangements and are measured at either fair value or amortised cost in accordance with the requirements of IAS 39.

The Group does not recognize securities borrowed in the financial statements, unless sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in fair value gains or losses. The obligation to return these securities is recorded as a liability at fair value.

### Impairment of financial assets

#### General

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

#### Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or portfolio is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or counterparty;
- a breach in contract, such as default or delinquency in payments of principal or interest;
- it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties, or adverse changes in the market, economic or legal environment in which the entity operates; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be allocated to the individual financial assets in the group, including :
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If the 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 recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. 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.

# SIGNIFICANT ACCOUNTING POLICIES *(continued)*

*for the year ended 30 June 2013*

## 14 FINANCIAL INSTRUMENTS *(continued)*

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

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

For the purposes of a collective evaluation 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 in accordance with the contractual terms of the financial assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment 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 reflect and are 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 reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related allowance account. Such loans 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 provision for loan impairment in profit or 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 reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

### Past due advances

Advances are considered past due in the following circumstances:

- loans with a specific expiry date (e.g. term loans etc.) and consumer loans repayable by regular installments (e.g. mortgage loans, personal loans) are treated as overdue where one full installment is in arrears for one day or more and remains unpaid as at the reporting date; or
- 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.

In these instances, the full outstanding amount is considered overdue even if part of it is not yet due.

The past due analysis is performed for disclosure purposes. This analysis is only performed for advances with specific expiry dates or installment repayment dates or demand loans that have been demanded. The analysis is not applicable to overdraft products or products where no specific due date is determined. The risk assessment on these types of products is done with reference to the counterparty ratings of the exposures and reported as such.

### Renegotiated advances

Financial assets that would otherwise be past due that have been renegotiated are separately classified as neither past due nor impaired assets. Renegotiated advances are advances where, due to deterioration in the counterparty's financial condition, the Group granted a concession where original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance. Advances are only classified as renegotiated if the terms of the renegotiated contract have not yet expired, and remain classified as such until the terms of the renegotiated contract expire. Where the advances are reclassified as neither past due nor impaired the adherence to the new terms and conditions are closely monitored.

Re-negotiated advances exclude advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original. Non-performing advances are not reclassified as re-negotiated. These assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

### Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost or net realisable value. The Group recognises repossessed assets as part of accounts receivable in the statement of financial position.

### Available-for-sale financial assets

The Group assesses at each reporting date whether there is objective evidence that an available-for-sale financial asset or a group of available-for-sale financial assets is impaired.

In the case of equity investments classified as available-for-sale, 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. If any such objective evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any previously recognised impairment loss on that financial asset, is reclassified from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not subsequently reversed through profit or loss.

In the case of a debt instrument classified as available-for-sale, the same objective evidence of impairment as for financial assets measured at amortised cost is considered in determining if impairment exists. The difference between the acquisition cost and the current fair value less any previous impairment losses recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

## 15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Group initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, in the statement of financial position at fair value. Derivatives are subsequently measured at fair value with all movements in fair value recognized in profit or loss, unless the derivative is designated as an effective hedging instrument.

The Group does not apply hedge accounting.

## 16 PROPERTY AND EQUIPMENT

The Group carries property and equipment at historical cost less depreciation and accumulated impairment, except for land which is carried at cost less impairment. Historical cost includes expenses that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replacement part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Leasehold improvements are all improvements made to property which the Group leases under an operating lease in order to prepare the property for its intended use and from which the Group is expected to benefit for more than one year. Leasehold improvements are capitalized as property and equipment.

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

# SIGNIFICANT ACCOUNTING POLICIES *(continued)*

*for the year ended 30 June 2013*

## 16 PROPERTY AND EQUIPMENT *(continued)*

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.

A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Property and equipment is depreciated on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

Freehold properties and properties held under finance leases are broken down into significant components and depreciation is calculated on the expected useful lives of these components.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the previous recognised revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

The difference between the depreciation charge based on the revalued amount and the depreciation charge based on historical cost is transferred from the properties revaluation reserve to retained earnings for each reporting period.

The assets' residual values and expected useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

The following useful lives are used in the calculation of depreciation:

| | |
|---|---|
| Leasehold buildings and improvements | Shorter of estimated life or period of lease |
| Freehold buildings: | |
| • Buildings and structures | 50 years |
| • Mechanical and electrical components | 20 years |
| • Sundries | 3 - 5 years |
| Motor vehicles | 5 years |
| Furniture and equipment: | |
| • Computer equipment | 3 – 5 years |
| • Furniture and fittings | 3 – 10 years |
| • Office equipment | 3 – 6 years |

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in profit or loss on disposal.

## 17 LEASES

### A Group company is the lessee

#### Finance leases

The Group classifies leases of property and equipment where it assumes substantially all the benefits and risks of ownership as finance leases.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments.

The Group allocates each lease payment between the liability and finance charges to achieve a constant rate on the balance outstanding. The interest component of the finance charge is recognised in profit or loss over the lease period in interest expense.

The property and equipment acquired is depreciated over the useful life of the assets, unless it is not probable that the Group will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

#### Operating leases

The Group classifies leases as operating leases where the lesser effectively retains the risks and benefits of ownership. It recognises operating lease payments as an operating expense in profit or loss on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments. Contingent rentals are expensed in the period incurred. Minimum rentals due after year end are disclosed as commitments.

The Group recognises as an expense any penalty payment to the lesser for early termination of an operating lease, in the period in which termination takes place.

### A Group company is the lessor

#### Finance leases

The Group recognises as advances, assets sold under a finance lease at the present value of the lease payments. The difference between the gross receivable and the present value of the receivable represents unearned finance income. Unearned finance income is recognised as interest income over the term of the lease using the effective interest rate method, which reflects a constant periodic rate of return.

#### Operating leases

The Group includes in a separate category as "assets held under operating lease" property and equipment assets leased out under operating leases. It depreciates these assets over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised as other non-interest income on a straight-line basis over the lease term.

#### Installment credit agreements

The Group regards installment credit agreements as financing transactions and includes the total rentals and installments 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 income in proportion to capital balances outstanding.

## 18 INTANGIBLE ASSETS

### Goodwill

Goodwill represents the excess of the consideration transferred, the fair value of the previous equity interests held and the non-controlling interest of an acquisition over the attributable fair value of the Group's share of the fair value of the identifiable net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in the carrying amount of the investment.

Goodwill is tested annually for impairment or more frequently if an impairment indicator exists at the reporting Date and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not subsequently reversed.

For impairment purposes goodwill is allocated to the smallest component of the business that is expected to benefit from synergies of the combination and at which management monitors goodwill (cash generating unit). Each cash-generating unit represents a grouping of assets no higher than an operating segment. The recoverable amount of a cash generating unit is the higher of fair value less costs to sell and value in use.

# SIGNIFICANT ACCOUNTING POLICIES *(continued)*

*for the year ended 30 June 2013*

## 19 INCOME TAX

### Deferred income tax

Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not provided on temporary differences that arise on initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affect neither accounting profit or loss nor taxable income. Deferred income tax is determined using 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. In respect of 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.

The Group recognises deferred income tax assets if it is probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward. 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.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures 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 income tax related to fair value re-measurement of available-for-sale financial assets and property revaluations, which are recognized directly to other comprehensive income. Deferred tax recognised directly in other comprehensive income is subsequently reclassified to profit or loss at the same time as the related gain or loss.

Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity. If the balances relate to the same tax authority but different tax entities that Group will offset only if it has a legally enforceable right and the entities intend to settle on a net basis or the tax assets and liabilities will be realised simultaneously.

## 20 EMPLOYEE BENEFITS

### Post-employment benefits

The Group operates a defined contribution scheme, the assets of which are held in separate trustee-administered fund. The defined benefit plans is funded by contributions from employees and the Company, taking into account the recommendations of independent qualified actuaries. The Provident Funds Act (CAP27:03) governs its administration.

The fund is in an actuarially sound position. The liability of the Group is limited to the contributions made during the employment of the employee. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

### Post-retirement medical benefits

The Group does not provide post-retirement healthcare benefits to its employees.

### Termination benefits

The Group recognises termination benefits as a liability in the statement of financial position and as an expense in the income statement when it has a present obligation relating to termination.

The Group has a present obligation when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

### Leave pay provision

The Group recognizes in full employees' rights to annual leave entitlement in respect of past service.

### Bonuses

Management and staff bonuses are recognized as an expense in staff costs as incurred when it is probable that the economic benefits will be paid and the amount can be reliably measured.

## 21 STATED CAPITAL

### Share issue costs

Instruments issued by the Group are classified as equity when there is no obligation to transfer cash or assets. Incremental costs directly related to the issue of new shares or options are shown as a deduction from equity, net of any related tax benefit.

### Dividends paid

Dividends on ordinary shares and non-cumulative non-redeemable preference shares are recognised against equity and a corresponding liability recognised when they have been appropriately approved by the Company's shareholders and are no longer at the discretion of the entity. Dividends declared after the reporting date are not recognized but disclosed as a post reporting date event.

### Distribution of non-cash assets to owners

The Group measures the liability to distribute the non-cash assets as a dividend to owners at the fair value of the asset to be distributed. The carrying amount of the dividend payable is re-measured at the end of each reporting period and the settlement date, with changes recognised in equity as an adjustment to the distribution. The difference between the carrying amount of the assets distributed and the fair value of the assets on the date of settlement is recognised in profit or loss for the period.

Distributions of non-cash assets under common control are specifically excluded from the scope of IFRIC 17 and are measured at the carrying amount of the assets to be distributed.

### Treasury shares

Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity as treasury shares until they are reissued or sold. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental costs, and are included in shareholders' equity.

For purposes of the earnings per share calculation, the weighted average number of shares in issue is reduced by the number of shares held by the share trusts.

## 22 SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which the Group may earn revenues and incur expenses. An operating segment is also a component of the Group whose operating results are regularly reviewed by the chief operating decision maker allocating resources, assessing its performance and for which distinct financial information is available.

The Chief Executive Officer of the Group has been identified as the Group's operating decision maker. The Group's identification and measurement of operating segments is consistent with the internal reporting provided to the Chief Executive Officer.

The operating segments have been identified and classified in a manner that reflects the risks and rewards related to the segments' specific products and services offered in their specific markets.

Assets, liabilities, revenue or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The Group accounts for the inter-segment revenues and transfers as if the transactions were with third parties at current market prices.

Funding is provided to business units and segments based at internally derived transfer pricing rates taking into account the funding structures of the Group.

The Group has disclosed the following business segments which are reportable: Retail Banking, Corporate Banking, Property Division, WesBank and Treasury.

# SIGNIFICANT ACCOUNTING POLICIES *(continued)*

*for the year ended 30 June 2013*

## 23 SHARE-BASED PAYMENT TRANSACTIONS

The Group operates equity and cash settled compensation plans for employees.

**Equity settled share-based compensation plan**

The Group expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, with a corresponding credit to a share-based payment reserve in the statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair value of the options is determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, the Group revises its estimate of the number of options expected to vest. The Group recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to the share based payment reserve.

Amounts recognised for services received if the options granted do not vest because of failure to satisfy a vesting condition, are reversed through profit or loss. If options are forfeited after the vesting date, an amount equal to the value of the options forfeited is debited against the share based payment reserve and credited against retained earnings in the statement of changes in equity. The proceeds received net of any attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

**Cash settled share-based compensation plan**

The Group measures the services received and liability incurred in respect of cash settled share-based payment plans at the current fair value of the liability. The Group remeasured the fair value of the liability at each reporting date until settled. The liability is recognised over the vesting period and any changes in the fair value of the liability are recognised in profit or loss.

## 24 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be principally recovered through a sale transaction rather than continuing use. This classification is only used if the sale is highly probable and the non-current assets or disposal groups are available for immediate sale.

In light of the Group's primary business being the provision of banking, insurance and asset management operations, non-current assets held as investments are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

Immediately before classification as held for sale, the carrying amount of the non-current and assets and liabilities included in the disposal group are measured in accordance with the appropriate IFRS. On initial recognition as held for sale, the non-current assets and liabilities that are in the measurement scope of IFRS 5 are recognised at the lower of carrying amount and fair value less costs to sell.

The following assets are excluded from the measurement scope of IFRS 5:

- Deferred tax assets;
- Assets arising from employee benefits;
- Financial assets;
- Investment properties measured at fair value;
- Biological assets measured at fair value less costs to sell; and
- Contractual rights under insurance contracts.

When these assets are classified as non-current assets held for sale or form part of a disposal group held for sale they continue to be measured in accordance with the appropriate IFRS. The IFRS 5 presentation and disclosure requirements are applied to these assets.

Any impairment losses on initial classification as held for sale are recognised in profit or loss. If a disposal group contains assets that are outside of the measurement scope of IFRS 5 any impairment loss is allocated to those non-current assets within the disposal group that are within the measurement scope of IFRS 5.

After initial recognition as held for sale the non-current assets are measured at fair value less costs to sell. Where the fair value less costs to sell is less than the carrying value, any additional impairment losses are recognized in profit or loss. Any increases in fair value less costs to sell are only recognized when they are realized.

The non-current assets and disposal groups held for sale will be reclassified immediately when there is a change in intention to sell. Subsequent measurement of the asset or disposal groups at that date will be the lower of:

- its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale; and
- its recoverable amount at the date of the subsequent decision not to sell.

## 25 COMPARATIVES

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information in accordance with IAS 1.

## 26 STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

Details of the Standards and Interpretations, which were in issue at the date of the authorisation of these financial statements, but not yet effective, are set out in Note 45 to the annual financial statements.

# INCOME STATEMENTS

*for the year ended 30 June 2013*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| Interest and similar income | 2 | 1,210,031 | 1,111,862 | 1,210,031 | 1,111,862 |
| Interest expense and similar charges | 3 | (312,629) | (342,799) | (311,845) | (342,799) |
| Net interest income before impairment of advances | | 897,402 | 769,063 | 898,186 | 769,063 |
| Impairment of advances | 13 | (120,673) | (132,714) | (120,673) | (132,714) |
| Net interest income after impairment of advances | | 776,729 | 636,349 | 777,513 | 636,349 |
| Non-interest income | 4 | 743,042 | 626,685 | 729,255 | 622,320 |
| Income from operations | | 1,519,771 | 1,263,034 | 1,506,768 | 1,258,669 |
| Operating expenses | 5 | (304,143) | (259,571) | (299,955) | (257,725) |
| Employee benefits | 6 | (300,918) | (265,444) | (299,300) | (264,265) |
| Net income from operations | | 914,710 | 738,019 | 907,513 | 736,679 |
| Share of profit of associate company | 18 | — | 2,423 | — | — |
| Income before taxation | | 914,710 | 740,442 | 907,513 | 736,679 |
| Indirect taxation | 7 | (9,312) | (10,481) | (9,272) | (10,450) |
| Profit before direct taxation | | 905,398 | 729,961 | 898,241 | 726,229 |
| Direct taxation | 7 | (204,446) | (161,168) | (202,146) | (160,062) |
| Profit for the year attributable to owners of the parent | | 700,952 | 568,793 | 696,095 | 566,167 |
| Basic earnings per share (thebe) | 8 | 27.56 | 22.36 | | |
| Diluted earnings per share (thebe) | 8 | 27.54 | 22.35 | | |

# STATEMENTS OF OTHER COMPREHENSIVE INCOME

*for the year ended 30 June 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| Profit for the year | 700,952 | 568,793 | 696,095 | 566,167 |
| Items that may subsequently be reclassified to profit or loss: | | | | |
| Reclassification adjustments relating to available-for-sale financial assets disposed of during the year | — | (15,459) | — | (15,459) |
| Deferred income tax | — | 4,124 | — | 4,124 |
| | — | (11,335) | — | (11,335) |
| Items that may not be reclassified to profit or loss: | | | | |
| Gains on revaluation of property | 33,994 | — | 33,228 | — |
| Deferred income tax relating to items that will not be reclassified | (7,479) | — | (7,311) | — |
| | 26,515 | — | 25,917 | — |
| Total comprehensive income for the year attributable to owners of the parent | 727,467 | 557,458 | 722,012 | 554,832 |

# STATEMENTS OF FINANCIAL POSITION

*as at 30 June 2013*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **ASSETS** | | | | | |
| Cash and short term funds | 10 | 2,288,285 | 2,557,842 | 2,288,285 | 2,557,842 |
| Derivative financial instruments | 11 | 10,138 | 7,861 | 10,138 | 7,861 |
| Advances to banks | | 51,975 | — | 51,975 | — |
| Advances to customers | 12 | 10,369,937 | 8,420,553 | 10,376,937 | 8,427,553 |
| Investment securities | 14 | 2,290,494 | 2,699,551 | 2,290,494 | 2,699,551 |
| Current taxation | 33 | 2,117 | — | 1,525 | — |
| Due from related parties | 15 | 6,138 | 7,839 | 6,138 | 7,839 |
| Accounts receivable | 16 | 251,474 | 170,800 | 257,561 | 168,400 |
| Non-current assets held for sale | 17 | 7,101 | 5,511 | 4,283 | 2,693 |
| Investment in associate company | 18 | — | — | — | — |
| Investment in subsidiary companies | 19 | — | — | 47,244 | 47,244 |
| Property and equipment | 20 | 502,086 | 317,559 | 472,108 | 287,264 |
| Goodwill | 21 | 26,963 | 26,963 | — | — |
| Total assets | | 15,806,708 | 14,214,479 | 15,806,688 | 14,206,247 |
| **EQUITY AND LIABILITIES** | | | | | |
| Liabilities | | | | | |
| Deposits from banks | 23 | 53,903 | 172,510 | 53,903 | 172,510 |
| Deposits from customers | 22 | 12,932,767 | 11,443,241 | 12,932,767 | 11,443,241 |
| Accrued interest payable | | 34,767 | 45,179 | 34,767 | 45,179 |
| Derivative financial instruments | 11 | 16,964 | 32,912 | 16,964 | 32,912 |
| Due to related parties | 15 | 19,597 | 57,883 | 66,091 | 89,549 |
| Creditors and accruals | 25 | 225,215 | 275,972 | 223,135 | 273,326 |
| Provisions | 26 | 62,076 | 52,252 | 62,004 | 52,252 |
| Borrowings | 24 | 422,791 | 519,047 | 422,791 | 519,047 |
| Current taxation | 33 | — | 461 | — | 1,550 |
| Deferred taxation | 7 | 110,360 | 82,296 | 105,556 | 78,058 |
| Total liabilities | | 13,878,440 | 12,681,753 | 13,917,978 | 12,707,624 |
| Capital and reserves attributable to ordinary equity holders | | | | | |
| Stated capital | 29 | 51,088 | 51,088 | 58,088 | 58,088 |
| Reserves | 30 | 1,620,810 | 1,276,542 | 1,574,252 | 1,235,439 |
| Dividend reserve | | 256,370 | 205,096 | 256,370 | 205,096 |
| Total ordinary equity holders funds | | 1,928,268 | 1,532,726 | 1,888,710 | 1,498,623 |
| Total equity and liabilities | | 15,806,708 | 14,214,479 | 15,806,688 | 14,206,247 |

# STATEMENTS OF CHANGES IN EQUITY

*for the year ended 30 June 2013*

| | Stated capital P'000 | Other non-Distributable reserves P'000 | Equity settled employee benefits reserve P'000 | Retained earnings P'000 | Dividend reserve P'000 | Total P'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Balance as at 1 July 2011 | 51,088 | 50,143 | 10,383 | 985,278 | 51,274 | 1,148,166 |
| Total comprehensive income for the year | | (11,335) | | 568,793 | | 557,458 |
| Profit for the year | | | | 568,793 | | 568,793 |
| Other comprehensive loss for the year | | (11,335) | | | | (11,335) |
| 2011 final dividend paid | | | | | (51,274) | (51,274) |
| 2012 interim dividend paid | | | | (128,185) | | (128,185) |
| 2012 final dividend proposed | | | | (205,096) | 205,096 | — |
| Recognition of share based payments | | | 6,561 | | | 6,561 |
| Increase in associate company reserves (note 30) | | 715 | | (715) | | — |
| Transfer from revaluation reserve (note 30) | | (1,796) | | 1,796 | | — |
| Balance as at 30 June 2012 | 51,088 | 37,727 | 16,944 | 1,221,871 | 205,096 | 1,532,726 |
| Total comprehensive income for the year | | 26,515 | | 700,952 | | 727,467 |
| Profit for the year | | | | 700,952 | | 700,952 |
| Other comprehensive income for the year | | 26,515 | | | | 26,515 |
| 2012 final dividend paid | | | | | (205,096) | (205,096) |
| 2013 interim dividend paid | | | | (128,185) | | (128,185) |
| 2013 final dividend proposed | | | | (256,370) | 256,370 | — |
| Recognition of share based payments | | | 1,356 | | | 1,356 |
| Transfer from revaluation reserve (note 30) | | (2,271) | | 2,271 | | — |
| Balance as at 30 June 2013 | 51,088 | 61,971 | 18,300 | 1,540,539 | 256,370 | 1,928,268 |

# STATEMENTS OF CHANGES IN EQUITY *(continued)*

*for the year ended 30 June 2013*

| | Stated capital P'000 | Other non-Distributable reserves P'000 | Equity settled employee benefits reserve P'000 | Retained earnings P'000 | Dividend reserve P'000 | Total P'000 |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| Balance as at 1 July 2011 | 58,088 | 32,272 | 10,383 | 964,672 | 51,274 | 1,116,689 |
| Total comprehensive income for the year | | (11,335) | | 566,167 | | 554,832 |
| Profit for the year | | | | 566,167 | | 566,167 |
| Other comprehensive loss for the year | | (11,335) | | | | (11,335) |
| 2011 final dividend paid | | | | | (51,274) | (51,274) |
| 2012 interim dividend paid | | | | (128,185) | | (128,185) |
| 2012 final dividend proposed | | | | (205,096) | 205,096 | — |
| Transfer from revaluation reserve (note 30) | | (1,057) | | 1,057 | | — |
| Recognition of share based payments | | | 6,561 | | | 6,561 |
| Balance as at 30 June 2012 | 58,088 | 19,880 | 16,944 | 1,198,615 | 205,096 | 1,498,623 |
| | | | | | | |
| Total comprehensive income for the year | | 25,917 | | 696,095 | | 722,012 |
| Profit for the year | | | | 696,095 | | 696,095 |
| Other comprehensive income for the year | | 25,917 | | | | 25,917 |
| 2012 final dividend paid | | | | | (205,096) | (205,096) |
| 2013 interim dividend paid | | | | (128,185) | | (128,185) |
| 2013 final dividend proposed | | | | (256,370) | 256,370 | — |
| Transfer from revaluation reserve (note 30) | | (1,567) | | 1,567 | | — |
| Recognition of share based payments | | | 1,356 | | | 1,356 |
| Balance as at 30 June 2013 | 58,088 | 44,230 | 18,300 | 1,511,722 | 256,370 | 1,888,710 |

# STATEMENTS OF CASH FLOWS

*for the year ended 30 June 2013*

| | Notes | Group 30 June 2013 P'000 | Group 30 June 2012 P'000 | Company 30 June 2013 P'000 | Company 30 June 2012 P'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated by operations before taxation and working capital changes | 31 | 1,038,141 | 883,692 | 1,029,901 | 879,504 |
| Tax paid | 32 | (186,439) | (167,000) | (185,034) | (165,014) |
| | | 851,702 | 716,692 | 844,867 | 714,490 |
| Decrease in amounts due to other banks | | (118,607) | (42,676) | (118,607) | (42,676) |
| Increase in deposit and current accounts | 34 | 1,489,526 | 845,843 | 1,489,526 | 845,843 |
| Decrease in balances due to related companies | | (38,286) | (82,148) | (23,458) | (81,254) |
| (Decrease)/increase in accrued interest payable | | (10,412) | 8,483 | (10,412) | 7,712 |
| Decrease in creditors and accruals | | (55,900) | (340,476) | (55,334) | (333,970) |
| Increase in provisions | | 9,824 | 9,606 | 9,752 | 9,606 |
| Decrease/(increase) in investments - held for trading | | 21,657 | (55,834) | 21,657 | (55,834) |
| Increase in investments - held to maturity | | (122,342) | — | (122,342) | — |
| Increase in advances to customers | 35 | (2,070,102) | (1,371,863) | (2,070,102) | (1,371,863) |
| (Increase)/decrease in advances to banks | | (51,975) | 361,178 | (51,975) | 361,178 |
| Increase in accounts receivable | | (80,674) | (298) | (89,161) | (4,724) |
| Decrease in amounts due from related companies | | 1,701 | 5,294 | 1,701 | 5,294 |
| *Net cash (utilised in)/generated from operating activities* | | (173,888) | 53,801 | (173,888) | 53,802 |

# STATEMENTS OF CASH FLOWS *(continued)*

*for the year ended 30 June 2013*

| | Notes | Group 30 June 2013 P'000 | Group 30 June 2012 P'000 | Company 30 June 2013 P'000 | Company 30 June 2012 P'000 |
|---|---|---|---|---|---|
| **Cash flows from investing activities** | | | | | |
| Acquisition of property and equipment | 20 | (177,280) | (138,811) | (177,280) | (138,811) |
| Proceeds on disposal of available-for-sale investment | | — | 41,239 | — | 41,239 |
| Proceeds on disposal of property and equipment | | 1,493 | 2,790 | 1,493 | 2,789 |
| Dividends from associate company | 18 | — | 1,708 | — | 1,708 |
| *Net cash utilised in investing activities* | | (175,787) | (93,074) | (175,787) | (93,075) |
| **Cash flows from financing activities** | | | | | |
| Dividends paid | 36 | (333,281) | (179,459) | (333,281) | (179,459) |
| Repayments of borrowings | | (204,460) | (131,594) | (204,460) | (131,594) |
| Borrowings raised | | 108,117 | 379,480 | 108,117 | 379,480 |
| *Net cash (utilised in)/generated from financing activities* | | (429,624) | 68,427 | (429,624) | 68,427 |
| Net (decrease)/increase in cash and cash equivalents | | (779,299) | 29,154 | (779,299) | 29,154 |
| Cash and cash equivalents at the beginning of the year | | 5,185,454 | 5,156,300 | 5,185,454 | 5,156,300 |
| Cash and cash equivalents at the end of the year | 37 | 4,406,155 | 5,185,454 | 4,406,155 | 5,185,454 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

*for the year ended 30 June 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **1. ACCOUNTING POLICIES** | | | | |
| The accounting policies of the Group are set out on pages 87 to 103. | | | | |
| **2. INTEREST AND SIMILAR INCOME** | | | | |
| Held for trading | | | | |
| - Investment securities | 3,976 | 2,873 | 3,976 | 2,873 |
| Loan and receivables | | | | |
| - Advances | 1,079,999 | 937,554 | 1,079,999 | 937,554 |
| - Cash and short term funds | 19,552 | 29,506 | 19,552 | 29,506 |
| - Related parties (Note 15) | 9,349 | 8,268 | 9,349 | 8,268 |
| - Unwinding of discounted present value of security on non-performing loans (Note 13) | 2,994 | 2,080 | 2,994 | 2,080 |
| Held to maturity | | | | |
| - Investment securities | 3,155 | — | 3,155 | — |
| Available-for-sale financial assets | | | | |
| - Investment securities | 91,006 | 131,581 | 91,006 | 131,581 |
| | 1,210,031 | 1,111,862 | 1,210,031 | 1,111,862 |
| **3. INTEREST EXPENSE AND SIMILAR CHARGES** | | | | |
| Financial liabilities at amortised cost | | | | |
| - Term deposit accounts | 169,126 | 212,496 | 168,342 | 212,496 |
| - Current and call accounts | 95,958 | 90,744 | 95,958 | 90,744 |
| - Savings deposits | 16,978 | 16,053 | 16,978 | 16,053 |
| - Deposits from banks and other financial institutions | 18,282 | 9,577 | 18,282 | 9,577 |
| - Related parties (Note 15) | 1,255 | 2,979 | 1,255 | 2,979 |
| - Borrowings | 11,030 | 10,950 | 11,030 | 10,950 |
| | 312,629 | 342,799 | 311,845 | 342,799 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **4. NON-INTEREST INCOME** | | | | |
| Fee and commission income | | | | |
| Loans and receivables | | | | |
| - Card commissions | 135,096 | 106,484 | 135,096 | 106,484 |
| - Insurance commissions | 23,705 | 25,364 | 18,462 | 22,851 |
| - Facility fees | 43,549 | 40,465 | 43,549 | 40,465 |
| - Commissions - guarantees and letters of credit | 11,546 | 10,439 | 11,546 | 10,439 |
| Financial liabilities at amortised cost | | | | |
| - Cash deposit fees | 35,997 | 29,883 | 35,997 | 29,883 |
| - Commissions - bills, drafts and cheques | 48,424 | 48,077 | 48,424 | 48,077 |
| - Service fees | 138,394 | 120,484 | 138,394 | 120,484 |
| - Commissions-customer services | 48,310 | 35,731 | 48,308 | 35,731 |
| Net fee and commission income | 485,021 | 416,927 | 479,776 | 414,414 |
| | | | | |
| Fair value gains or losses | | | | |
| - Gain on bond trading | 1,376 | 2,775 | 1,376 | 2,775 |
| - Net gain arising on financial assets at fair value through profit or loss | 45,756 | 30,389 | 45,756 | 30,389 |
| - Net gain/(loss) arising on financial liabilities at fair value through profit or loss | (3,982) | (19,845) | (3,982) | (19,845) |
| - Gain on disposal of available-for-sale financial assets | — | 25,667 | — | 25,667 |
| - Foreign exchange trading income | 187,788 | 152,895 | 187,788 | 152,895 |
| Fair value gains or losses | 230,938 | 191,881 | 230,938 | 191,881 |
| | | | | |
| Other non-interest income | | | | |
| Non-financial assets and liabilities | | | | |
| - (Loss)/Gain on sale of property and equipment | (464) | 538 | (464) | 538 |
| - Dividend received from associate company | — | — | — | 1,708 |
| - Other non-interest income | 27,547 | 17,339 | 19,005 | 13,779 |
| Total non-interest income | 743,042 | 626,685 | 729,255 | 622,320 |

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **5. OPERATING EXPENSES** | | | | |
| Auditor's remuneration | | | | |
| Audit fees | | | | |
| - current year | 3,387 | 3,552 | 3,387 | 3,552 |
| - prior year | (236) | 190 | (236) | 190 |
| | 3,151 | 3,742 | 3,151 | 3,742 |
| Depreciation | | | | |
| Buildings | 7,760 | 6,381 | 6,677 | 5,210 |
| Motor vehicles | 846 | 726 | 846 | 726 |
| Furniture and equipment | 14,594 | 12,355 | 14,594 | 12,355 |
| | 23,200 | 19,462 | 22,117 | 18,291 |
| Directors' remuneration | | | | |
| For services as non-executive director | 1,417 | 1,618 | 1,417 | 1,618 |
| For services as executive directors | 3,332 | 3,145 | 3,332 | 3,145 |
| | 4,749 | 4,763 | 4,749 | 4,763 |
| Exchange losses on revaluation | 2,137 | 629 | 2,137 | 629 |
| Operating lease charges | | | | |
| Premises | 21,181 | 21,573 | 21,878 | 22,240 |
| - Contractual | 21,854 | 21,883 | 22,551 | 22,550 |
| - Straight line lease rental adjustment | (673) | (310) | (673) | (310) |
| Equipment | 2,768 | 3,544 | 2,758 | 3,544 |
| | 23,949 | 25,117 | 24,636 | 25,784 |
| Other operating expenses | | | | |
| Advertising and marketing | 24,993 | 21,241 | 22,955 | 21,008 |
| Communication | 23,513 | 18,346 | 23,466 | 18,343 |
| Computer expenditure | 11,028 | 10,706 | 11,028 | 10,699 |
| Property maintenance | 19,428 | 19,336 | 18,846 | 18,498 |
| Stationery, storage and postage | 21,360 | 21,380 | 21,341 | 21,380 |
| Service fees | 16,060 | 13,548 | 16,060 | 13,548 |
| Other | 26,552 | 17,890 | 25,647 | 17,645 |
| | 142,934 | 122,447 | 139,343 | 121,121 |
| Service fees paid to related company | | | | |
| Systems | 68,988 | 45,652 | 68,988 | 45,652 |
| Services | 14,167 | 16,472 | 13,987 | 16,472 |
| Products | 11,061 | 10,874 | 11,061 | 10,874 |
| | 94,216 | 72,998 | 94,036 | 72,998 |
| Professional fees | 9,807 | 10,413 | 9,786 | 10,397 |
| Total operating expenses | 304,143 | 259,571 | 299,955 | 257,725 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **6. EMPLOYEE BENEFITS** | | | | |
| Salaries, wages and allowances | 243,381 | 206,355 | 242,029 | 205,300 |
| Contributions to pension, medical and other staff funds | 28,631 | 24,365 | 28,446 | 24,242 |
| Share based payments expense - equity settled | 1,356 | 6,561 | 1,356 | 6,561 |
| Share based payments expense - cash settled | 5,816 | 8,512 | 5,816 | 8,512 |
| Leave pay expense | 7,815 | 8,999 | 7,753 | 8,999 |
| Other | 13,919 | 10,652 | 13,900 | 10,651 |
| | 300,918 | 265,444 | 299,300 | 264,265 |
| *Details of the post retirement benefits are provided separately in Note 28.* | | | | |
| **7. TAXATION** | | | | |
| Indirect taxation | | | | |
| Value added tax | 9,312 | 10,481 | 9,272 | 10,450 |
| Direct taxation | | | | |
| Income taxation expense | | | | |
| Current tax at 22% (2012: 22%) | 189,428 | 166,989 | 187,526 | 165,775 |
| Prior year over provision | (5,567) | (471) | (5,567) | (471) |
| Capital gains tax | — | 5,565 | — | 5,565 |
| | 183,861 | 172,083 | 181,959 | 170,869 |
| Deferred taxation | | | | |
| (Credit)/charge to income statement | | | | |
| - current year | 10,345 | (10,915) | 9,947 | (10,807) |
| - prior year under provision | 10,240 | — | 10,240 | — |
| | 20,585 | (10,915) | 20,187 | (10,807) |
| Total taxation expense per income statement | 204,446 | 161,168 | 202,146 | 160,062 |
| Taxation relating to components of other comprehensive income | 7,479 | (4,124) | 7,311 | (4,124) |

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **7. TAXATION** *(continued)* | | | | |
| Reconciliation of taxation charge | | | | |
| Profit before direct taxation | 905,398 | 729,961 | 898,241 | 726,229 |
| Taxation at current rate on profit for the year | 199,187 | 160,591 | 197,613 | 159,771 |
| Over provision of current tax in prior years | (5,567) | (471) | (5,567) | (471) |
| Tax rate differential on capital gains income | — | 82 | — | 82 |
| Prior year under provision | 10,240 | — | 10,240 | — |
| Disallowed expenses and other allowances | 586 | 966 | (140) | 680 |
| Total tax expense per income statement | 204,446 | 161,168 | 202,146 | 160,062 |
| Deferred taxation | | | | |
| Balance at the beginning of the year | 82,296 | 98,350 | 78,058 | 92,989 |
| Temporary differences for the year | 10,345 | (10,915) | 9,947 | (10,807) |
| Arising on revaluation of property | 7,479 | — | 7,311 | — |
| Prior year under/(over) provision | 10,240 | (1,015) | 10,240 | — |
| Deferred tax on valuation of available-for-sale investments | — | (4,124) | — | (4,124) |
| Balance at the end of the year | 110,360 | 82,296 | 105,556 | 78,058 |
| Deferred taxation | | | | |
| The balance comprises: | | | | |
| Accelerated capital allowances | 109,413 | 88,828 | 108,499 | 88,312 |
| Revaluation surplus | 14,360 | 7,025 | 11,478 | 3,967 |
| Other temporary differences | (13,413) | (13,557) | (14,421) | (14,221) |
| | 110,360 | 82,296 | 105,556 | 78,058 |

## 8. 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.

There were no movements during the current year, in the number of shares in issue or the number of ordinary shares held by the Employees Share Participation Scheme, classified as treasury shares.

| | Group 30 June 2013 P'000 | Group 30 June 2012 P'000 |
|---|---|---|
| Earnings attributable to ordinary equity holders | 700,952 | 568,793 |
| Number of ordinary shares in issue at beginning and end of year (thousands) | 2,563,700 | 2,563,700 |
| Less treasury shares (thousands) | (20,000) | (20,000) |
| Weighted average number of ordinary shares in issue (thousands) | 2,543,700 | 2,543,700 |
| Basic earnings per share (thebe) | 27.56 | 22.36 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 8. EARNINGS PER SHARE *(Continued)*

Diluted earnings per share

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.

Shares deemed to be issued for no consideration in respect of employee options amounting to 2,163,000 (2012: 798,000) have been adjusted to the weighted average number of ordinary shares in issue used in the basic earnings per share calculation.

| | 30 June 2013 P'000 | 30 June 2012 P'000 |
|---|---|---|
| Earnings attributable to equity holders | 700,952 | 568,793 |
| Weighted average number of ordinary shares in issue (thousands) | 2,544,904 | 2,544,498 |
| Diluted earnings per share (thebe) | 27.54 | 22.35 |

## 9. 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 page 87 to page 103 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 statement of financial position per category of financial instrument to which they are assigned and therefore by measurement basis:

## 9. ANALYSIS OF ASSETS AND LIABILITIES BY CATEGORY *(Continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **ASSETS** | | | | |
| Loans and receivables | | | | |
| Cash and short-term funds | 2,288,285 | 2,557,842 | 2,288,285 | 2,557,842 |
| Advances to banks | 51,975 | — | 51,975 | — |
| Advances to customers | 10,054,780 | 8,074,674 | 10,061,780 | 8,081,674 |
| Due from related companies | 6,138 | 7,839 | 6,138 | 7,839 |
| Accounts receivable | 251,474 | 170,800 | 257,561 | 168,400 |
| Designated at fair value through profit or loss | | | | |
| Advances to customers | 315,157 | 345,879 | 315,157 | 345,879 |
| Available-for-sale financial assets | | | | |
| Investment securities | 2,117,870 | 2,627,612 | 2,117,870 | 2,627,612 |
| Held to maturity | | | | |
| Investment securities | 122,342 | — | 122,342 | — |
| Held for trading | | | | |
| Investment securities | 50,282 | 71,939 | 50,282 | 71,939 |
| Derivative financial instruments | 10,138 | 7,861 | 10,138 | 7,861 |
| Non-financial assets | | | | |
| Current taxation | 2,117 | — | 1,525 | — |
| Non-current assets held for sale | 7,101 | 5,511 | 4,283 | 2,693 |
| Investment in subsidiary companies | — | — | 47,244 | 47,244 |
| Property and equipment | 502,086 | 317,559 | 472,108 | 287,264 |
| Goodwill | 26,963 | 26,963 | — | — |
| Total assets | 15,806,708 | 14,214,479 | 15,806,688 | 14,206,247 |
| **LIABILITIES** | | | | |
| Financial liabilities at amortised cost | | | | |
| Deposits from banks | 53,903 | 172,510 | 53,903 | 172,510 |
| Deposit from customers | 12,932,767 | 11,443,241 | 12,932,767 | 11,443,241 |
| Long-term liabilities | 350,929 | 452,942 | 350,929 | 452,942 |
| Accrued interest payable | 34,767 | 45,179 | 34,767 | 45,179 |
| Due to related companies | 19,597 | 57,883 | 66,091 | 89,549 |
| Creditors and accruals | 225,215 | 275,972 | 223,135 | 273,326 |
| Provisions | 62,076 | 52,252 | 62,004 | 52,252 |
| Designated at fair value through profit or loss | | | | |
| Deposits from customers | 71,862 | 66,105 | 71,862 | 66,105 |
| Held for trading | | | | |
| Derivative financial instruments | 16,964 | 32,912 | 16,964 | 32,912 |
| Non-financial liabilities | | | | |
| Current taxation | — | 461 | — | 1,550 |
| Deferred taxation | 110,360 | 82,296 | 105,556 | 78,058 |
| Total liabilities | 13,878,440 | 12,681,753 | 13,917,978 | 12,707,624 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **10. CASH AND SHORT TERM FUNDS** | | | | |
| Coins and bank notes | 199,774 | 144,820 | 199,774 | 144,820 |
| Money at call and short notice | | | | |
| - related companies (Note 15) | 756,761 | 1,328,196 | 756,761 | 1,328,196 |
| - other banks | 219,373 | — | 219,373 | — |
| Balances with Bank of Botswana - Mandatory reserve balance | 1,071,836 | 1,016,350 | 1,071,836 | 1,016,350 |
| Balances with Bank of Botswana - Statutory account balance | 9,356 | 7,246 | 9,356 | 7,246 |
| Balances with other banks | | | | |
| - related companies (Note 15) | — | 1,000 | — | 1,000 |
| - other banks | 31,185 | 60,230 | 31,185 | 60,230 |
| | 2,288,285 | 2,557,842 | 2,288,285 | 2,557,842 |
| The carrying value of cash and short term funds approximates the fair value. | | | | |
| Amounts denominated in foreign currencies included in above balances | 952,826 | 1,346,006 | 952,826 | 1,346,006 |
| Mandatory reserve balances | 1,071,836 | 1,016,350 | 1,071,836 | 1,016,350 |

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.

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

### Group and company

**Strategy in using hedging instruments**

Interest rate swaps

Interest rate derivatives comprising mainly interest rate swaps, and forward rate agreements are utilised for hedging purposes to eliminate uncertainty 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 variable rates and uses fixed 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 statement 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 40.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | Notional P'000 | Fair Value P'000 | Notional P'000 | Fair Value P'000 |
| **11. DERIVATIVE FINANCIAL INSTRUMENTS** *(Continued)* | | | | |
| **2013** | | | | |
| Currency derivatives: | | | | |
| Currency options | 120,183 | 2,582 | 120,183 | 2,582 |
| Trading derivatives | 203,813 | 1,273 | 191,088 | 1,453 |
| Interest rate derivatives: | | | | |
| Interest rate swaps | 72,338 | 6,283 | 176,085 | 12,929 |
| | 396,334 | 10,138 | 487,356 | 16,964 |
| Related party derivatives included in above balances | | | | |
| Currency options | — | — | 8,145 | 2 140 |
| Trading derivatives | 16 971 | 106 | 49,956 | 684 |
| Interest rate swaps | 72,338 | 6,283 | 176,085 | 12,929 |
| | 89,309 | 6,389 | 234,186 | 15,753 |
| **2012** | | | | |
| Currency derivatives: | | | | |
| Currency options | 50,500 | 906 | 50,500 | 906 |
| Trading derivatives | 481,807 | 6,955 | 335,937 | 8,968 |
| Interest rate derivatives: | | | | |
| Interest rate swaps | — | — | 264,137 | 23,038 |
| | 532,307 | 7,861 | 650,574 | 32,912 |
| Related party derivatives included in above balances | | | | |
| Currency options | 11 427 | 205 | 11 427 | 205 |
| Trading derivatives | 187 385 | 2 991 | 40 728 | 4 517 |
| Interest rate swaps | — | — | 378,193 | 23,038 |
| | 198,812 | 3,196 | 430,348 | 27,760 |

## 12. ADVANCES TO CUSTOMERS

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **Sector analysis** | | | | |
| Agriculture | 507,595 | 96,732 | 507,595 | 96,732 |
| Building and property development | 523,122 | 358,540 | 523,122 | 358,540 |
| Business and trade | 4,695,781 | 2,705,006 | 4,702,781 | 2,712,006 |
| Individuals | 3,556,763 | 4,308,451 | 3,556,763 | 4,308,451 |
| Manufacturing | 328,889 | 261,144 | 328,889 | 261,144 |
| Mining | 666,974 | 728,677 | 666,974 | 728,677 |
| Transport and communications | 332,619 | 179,266 | 332,619 | 179,266 |
| Gross advances | 10,611,743 | 8,637,816 | 10,618,743 | 8,644,816 |
| Contractual interest suspended | (45,991) | (35,095) | (45,991) | (35,095) |
| Gross advances after contractual interest suspended | 10,565,752 | 8,602,721 | 10,572,752 | 8,609,721 |
| Less : impairment of advances (Note 13) | (195,815) | (182,168) | (195,815) | (182,168) |
| Net advances | 10,369,937 | 8,420,553 | 10,376,937 | 8,427,553 |
| **Category analysis** | | | | |
| Overdrafts and managed accounts debtors | 1,146,432 | 966,884 | 1,146,432 | 973,884 |
| Term loans | 3,970,003 | 2,831,695 | 3,977,003 | 2,831,695 |
| Lease payments receivable | 669,923 | 583,388 | 669,923 | 583,388 |
| Suspensive sale debtors | 955,797 | 862,559 | 955,797 | 862,559 |
| Property loans | 3,659,694 | 3,135,381 | 3,659,694 | 3,135,381 |
| Other | 209,894 | 257,909 | 209,894 | 257,909 |
| Gross advances | 10,611,743 | 8,637,816 | 10,618,743 | 8,644,816 |
| Contractual interest suspended | (45,991) | (35,095) | (45,991) | (35,095) |
| Gross advances after contractual interest suspended | 10,565,752 | 8,602,721 | 10,572,752 | 8,609,721 |
| Less : impairment of advances (Note 13) | (195,815) | (182,168) | (195,815) | (182,168) |
| Net advances | 10,369,937 | 8,420,553 | 10,376,937 | 8,427,553 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **12. ADVANCES TO CUSTOMERS** *(Continued)* | | | | |
| Maturity analysis | | | | |
| Maturity within one year | 1,867,593 | 988,148 | 1,874,593 | 995,148 |
| Maturity between one and five years | 3,200,292 | 3,604,214 | 3,200,292 | 3,604,214 |
| Maturity more than five years | 5,543,858 | 4,045,454 | 5,543,858 | 4,045,454 |
| | 10,611,743 | 8,637,816 | 10,618,743 | 8,644,816 |
| Included in the above advances are instalment loans maturing within: | | | | |
| -one year | 100,385 | 72,881 | 100,385 | 72,881 |
| -one to five years | 1,525,335 | 1,373,066 | 1,525,335 | 1,373,066 |
| | 1,625,720 | 1,445,947 | 1,625,720 | 1,445,947 |
| 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 | 3,920 | 4,926 | 3,920 | 4,926 |

## 13. 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 when an indication of impairment is observed.

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

- The estimated amount of collateral held against the loans and advances;
- Breaches of loan covenants and conditions;
- The time period of overdue contractual payments;
- Loss Given Default (LGD), Probability of Default (PD) and Exposure At Default (EAD);
- Actuarial credit models;
- Loss of employment or death of the borrower; and
- The probability of liquidation of the customer.

| | 2013 | | |
|---|---|---|---|
| | Total impairment P'000 | Retail P'000 | Corporate & Commercial P'000 |
| **13. IMPAIRMENT OF ADVANCES** *(Continued)* | | | |
| **Group and Company** | | | |
| Specific impairment | | | |
| At the beginning of the year | 125,636 | 113,184 | 12,452 |
| Amounts written off | (127,402) | (127,402) | — |
| | (1,766) | (14,218) | 12,452 |
| Recoveries of bad debts previously written off | (23,370) | (14,599) | (8,771) |
| Impairment loss recognised in the income statement | 131,660 | 95,363 | 36,297 |
| New and increased provision | 156,486 | 97,757 | 58,729 |
| Release of bad debts provision | (24,826) | (2,394) | (22,432) |
| At the end of the year | 129,894 | 81,145 | 48,749 |
| Present valuation of security adjustment | | | |
| At the beginning of the year | 11,240 | 10,962 | 278 |
| Reclassified from portfolio impairment | 5,157 | 3,519 | 1,638 |
| Unwinding of discounted present value of security on non-performing loans (Note 2) | (2,994) | (2,920) | (74) |
| At the end of the year | 13,403 | 11,561 | 1,842 |
| Portfolio impairment | | | |
| At the beginning of the year | 30,141 | 26,129 | 4,012 |
| Reclassified to present value of security | (5,157) | (3,519) | (1,638) |
| Charge to the income statement | (4,744) | (3,237) | (1,507) |
| At the end of the year | 20,240 | 19,373 | 867 |
| IBNR impairment | | | |
| At the beginning of the year | 15,151 | 13,913 | 1,238 |
| Charge to income statement | 17,127 | 13,601 | 3,526 |
| At the end of the year | 32,278 | 27,514 | 4,764 |
| Total charge to the income statement | 120,673 | 91,128 | 29,545 |
| Total impairment at the end of the year | 195,815 | 139,593 | 56,222 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

| | 2012 | | |
|---|---|---|---|
| | Total impairment P'000 | Retail P'000 | Corporate & Commercial P'000 |
| **13. IMPAIRMENT OF ADVANCES** *(Continued)* | | | |
| Specific impairment | | | |
| At the beginning of the year | 80,403 | 77,413 | 2,990 |
| Amounts written off | (63,892) | (49,974) | (13,918) |
| | 16,511 | 27,439 | (10,928) |
| Impairment loss recognised in the income statement | 109,125 | 85,745 | 23,380 |
| New and increased provision | 164,155 | 135,919 | 28,236 |
| Recoveries of bad debts previously written off | (55,030) | (50,174) | (4,856) |
| At the end of the year | 125,636 | 113,184 | 12,452 |
| Present valuation of security adjustment | | | |
| At the beginning of the year | 13,320 | 12,990 | 330 |
| Unwinding of discounted present value of security on non-performing loans (Note 2) | (2,080) | (2,028) | (52) |
| At the end of the year | 11,240 | 10,962 | 278 |
| Portfolio impairment | | | |
| At the beginning of the year | 16,380 | 14,333 | 2,047 |
| Charge to the income statement | 13,761 | 11,796 | 1,965 |
| At the end of the year | 30,141 | 26,129 | 4,012 |
| IBNR impairment | | | |
| At the beginning of the year | 5,323 | 4,888 | 435 |
| Charge to income statement | 9,828 | 9,025 | 803 |
| At the end of the year | 15,151 | 13,913 | 1,238 |
| Total charge to the income statement | 132,714 | 106,566 | 26,148 |
| Total impairment at the end of the year | 182,168 | 164,188 | 17,980 |

## 13. IMPAIRMENT OF ADVANCES *(Continued)*

Non-performing advances - loans and receivables

### Group and Company

| | Total including interest suspended P'000 | Security held P'000 | Contractual Interest suspended P'000 | Specific Impairment P'000 |
|---|---|---|---|---|
| Sector analysis - 2013 | | | | |
| Agriculture | 6,846 | 3,150 | 336 | 3,360 |
| Building and property development | 21,354 | 15,555 | 1,226 | 4,573 |
| Individuals | 157,769 | 41,630 | 19,421 | 96,718 |
| Manufacturing and commerce | 72,320 | 46,744 | 10,027 | 15,549 |
| Transport and communication | 9,435 | 5,191 | 1,324 | 2,920 |
| Other advances | 105,711 | 71,877 | 13,657 | 20,177 |
| Total non-performing advances - 30 June 2013 | 373,435 | 184,147 | 45,991 | 143,297 |
| Sector analysis - 2012 | | | | |
| Agriculture | 2,144 | 827 | 282 | 1,035 |
| Building and property development | 9,792 | 6,637 | 513 | 2,642 |
| Individuals | 136,701 | 19,185 | 22,471 | 95,045 |
| Manufacturing and commerce | 38,094 | 31,759 | 395 | 5,940 |
| Transport and communication | 6,494 | 3,443 | 1,455 | 1,596 |
| Other advances | 79,750 | 50,402 | 9,980 | 19,368 |
| Total non-performing advances - 30 June 2012 | 272,975 | 112,253 | 35,096 | 125,626 |
| Category analysis - 2013 | | | | |
| Overdrafts and managed accounts | 66,843 | 23,522 | 11,053 | 32,268 |
| Term loans | 146,572 | 41,527 | 19,904 | 85,141 |
| Suspensive and instalment sale debtors | 46,445 | 25,062 | 2,491 | 18,892 |
| Property loans | 108,936 | 94,036 | 12,202 | 2,698 |
| Other advances | 4,639 | — | 341 | 4,298 |
| Total non-performing advances - 30 June 2013 | 373,435 | 184,147 | 45,991 | 143,297 |
| Category analysis - 2012 | | | | |
| Overdrafts and managed accounts | 55,139 | 7,681 | 15,479 | 31,979 |
| Term loans | 94,936 | 21,537 | 10,802 | 62,597 |
| Suspensive and instalment sale debtors | 28,382 | 11,715 | 677 | 15,990 |
| Property loans | 79,674 | 71,320 | 7,797 | 557 |
| Other advances | 14,844 | — | 341 | 14,503 |
| Total non-performing advances - 30 June 2012 | 272,975 | 112,253 | 35,096 | 125,626 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

| | Group and Company | |
|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **13. IMPAIRMENT OF ADVANCES** *(Continued)* | | |
| Contractual interest suspended | | |
| At the beginning of the year | 35,096 | 25,257 |
| Written off during the year | (25,524) | (18,469) |
| Suspended during the year | 36,419 | 28,307 |
| At the end of the year | 45,991 | 35,095 |

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **14. INVESTMENT SECURITIES** | | | | |
| Available-for-sale | | | | |
| Bank of Botswana Certificates | 2,117,870 | 2,627,612 | 2,117,870 | 2,627,612 |
| Held to maturity | | | | |
| Government Bond | 122,342 | — | 122,342 | — |
| Held for trading | | | | |
| Treasury Bills, Government and Parastatal Bonds | 50,282 | 71,939 | 50,282 | 71,939 |
| | 2,290,494 | 2,699,551 | 2,290,494 | 2,699,551 |

P1,065,319,000 (2012: P530,600,615) of the Bank of Botswana Certificates form part of the Group's liquid assets portfolio in terms of the Banking Act 1995.

The fair value of investment securities is based on the ruling market prices as at the reporting date. The Bank of Botswana Certificates have maturities ranging from one to three months.

## 15. RELATED PARTIES

The Group identifies a related party if an entity or individual:

i) directly, or indirectly through one or more intermediaries, controls, is controlled by, or is for common control with, the entity (this includesparent companies, subsidiaries and fellow subsidiaries) (Refer to Note 19 for subsidiaries);

ii) has an interest in the entity that gives it significant influence over the entity;

iii) has control over the entity;

iv) is an associate company, joint venture, or is jointly controlled ; or

v) is a member of key management personnel of the Group. Key management personnel comprise non-executive Directors, the Chief Executive Officer, the Deputy Chief Executive Officer, the Chief Financial Officer, the Director of Human resources, the Treasurer, Director of Credit and Chief Operations Officer. Key management personnel includes family members of key management personnel. Close family members are those family members who may be expected to influence, or be influenced by that individual in dealing with the Group.

The Group's holding company is First National Bank Holdings Limited, a company registered in Botswana. The Group's ultimate holding company is FirstRand EMA Holdings Limited, a company registered in the Republic of South Africa.

Related party balances

Related company balances arise from ordinary banking business under normal commercial terms and conditions. Amounts due to/from related parties as at the year end were:

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| Due from related parties | | | | |
| Rand Merchant Bank Limited (Ireland) | — | 170,912 | — | 170,912 |
| First National Bank Limited - South Africa | 756,761 | 1,160,168 | 756,761 | 1,160,168 |
| First National Bank Holdings (Botswana) Limited | 6,138 | 5,955 | 6,138 | 5,955 |
| | 762,899 | 1,337,035 | 762,899 | 1,337,035 |
| Less money at call and short notice - related companies (Note 10) | (756,761) | (1,328,196) | (756,761) | (1,328,196) |
| Less balances with other banks (Note 10) | — | (1,000) | — | (1,000) |
| | 6,138 | 7,839 | 6,138 | 7,839 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **15. RELATED PARTIES** *(Continued)* | | | | |
| Due to related companies- current liabilities | | | | |
| Rand Merchant Bank Limited (Ireland) | — | 49 | — | 49 |
| (Proprietary) Limited | — | — | 3,671 | 3,114 |
| Financial Services Properties (Proprietary) Limited | — | — | (47) | (47) |
| First National Insurance Agency (Proprietary) Limited | — | — | 41,858 | 27,587 |
| First Funding (Proprietary) Limited | — | — | 1,000 | 1,000 |
| Plot Four Nine Seven Two (Proprietary) Limited | — | — | 12 | 12 |
| First National Bank Limited - South Africa | 19,597 | 57,834 | 19,597 | 57,834 |
| | 19,597 | 57,883 | 66,091 | 89,549 |
| Due to related companies - creditors and accruals | | | | |
| Refer to Note 22 for amounts included in deposits from customers and Note 23 for amounts included in deposits from banks. | | | | |
| Related party transactions | | | | |
| *Interest income:* | | | | |
| Rand Merchant Bank Limited (Ireland) | 278 | 2,552 | 278 | 2,552 |
| First National Bank, a division of FirstRand Bank Limited - South Africa | 9,071 | 5,716 | 9,071 | 5,716 |
| | 9,349 | 8,268 | 9,349 | 8,268 |
| *Interest expenditure* | | | | |
| First National Bank Holdings (Botswana) Limited | 1,255 | 2,650 | 1,255 | 2,650 |
| Rand Merchant Bank Limited (Ireland) | — | 329 | — | 329 |
| | 1,255 | 2,979 | 1,255 | 2,979 |
| Non-interest income: | | | | |
| Dividend income - Finance House (Proprietary) Limited | — | — | — | 1,708 |
| *Operating expenses:* | | | | |
| Rent paid - Subsidiary companies | — | — | 723 | 667 |
| Rent paid - Finance House (Proprietary) Limited | 5,382 | 6,434 | 5,382 | 6,434 |
| Service level agreement costs - FirstRand Bank Limited | 94,216 | 72,998 | 94,036 | 72,998 |
| | 99,598 | 79,432 | 100,141 | 80,099 |

## 15. RELATED PARTIES *(Continued)*

Key Management personnel

| | Group 30 June 2013 P'000 | Group 30 June 2012 P'000 | Company 30 June 2013 P'000 | Company 30 June 2012 P'000 |
|---|---|---|---|---|
| ***Compensation paid to key management personnel*** | | | | |
| Share-based payments | 574 | 197 | 574 | 197 |
| Salaries and allowances | 6,927 | 7,460 | 6,927 | 7,460 |
| Other employee benefits | 501 | 515 | 501 | 515 |
| Total short term benefits | 8,002 | 8,172 | 8,002 | 8,172 |
| Pension contribution | 358 | 261 | 358 | 261 |
| Advances | | | | |
| Personal loans | 158 | 368 | 158 | 368 |
| Overdrafts | 1,000 | 130 | 1,000 | 130 |
| Credit card | 348 | 315 | 348 | 315 |
| Instalment finance | 1,751 | 1,115 | 1,751 | 1,115 |
| Property loans | 7,769 | 7,306 | 7,769 | 7,306 |
| Total advances | 11,026 | 9,234 | 11,026 | 9,234 |

No impairments have been recognised in respect of the above advances (2012: nil). Interest rates are in line with normal rates charged to customers or 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 P12,035,000 (2012: P11,534,000)

Personal loans, overdrafts and credit card balances are unsecured.

## 16. ACCOUNTS RECEIVABLE

| | Group 30 June 2013 P'000 | Group 30 June 2012 P'000 | Company 30 June 2013 P'000 | Company 30 June 2012 P'000 |
|---|---|---|---|---|
| Items in transit | 109,793 | 106,250 | 118,211 | 106,250 |
| Other sundry debtors | 141,395 | 64,264 | 139,064 | 61,864 |
| School debentures | 286 | 286 | 286 | 286 |
| | 251,474 | 170,800 | 257,561 | 168,400 |

The above carrying value of accounts receivable approximates their fair value.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **17. NON-CURRENT ASSETS HELD FOR SALE** | | | | |
| Freehold land and buildings held for sale (i) | 3,328 | 1,738 | 3,328 | 1,738 |
| Investment in associate held for sale (ii) | 3,773 | 3,773 | 955 | 955 |
| | 7,101 | 5,511 | 4,283 | 2,693 |

(i) The Group intends to dispose of freehold land it no longer utilises within the next 12 months. The property previously comprised of residential premises. The sale of the property has been sanctioned by the Board of Directors and a potential buyer has been identified. No impairment loss was recognised on re-classification of the land as held for sale as at 30 June 2013.

(ii) The Group is seeking to dispose of its 48.8% shareholding in its associate company, Finance House (Proprietary) Limited, and anticipates that the disposal will be completed within the next 12 months. No impairment loss was recognised on re-classification of the investment as held for sale as at 30 June 2013.

## 18. INVESTMENT IN ASSOCIATE COMPANY

| | Group 30 June 2013 P'000 | Group 30 June 2012 P'000 | Company 30 June 2013 P'000 | Company 30 June 2012 P'000 |
|---|---|---|---|---|
| Unlisted investments | | | | |
| **Finance House (Proprietary) Limited** | | | | |
| Shares at cost less amounts written off | — | 955 | — | 955 |
| Share of post-acquisition net income | — | 2,818 | — | — |
| Reclassified to non-current assets held for sale (Note 17) | — | (3,773) | — | (955) |
| | — | — | — | — |
| Profit for the year | — | 2,975 | | |
| | — | 2,423 | | |
| Share of profit for the year | — | 1,452 | | |
| Share of prior year profits | — | 971 | | |
| Dividends received for the year | — | (1,708) | | |
| Retained earnings for the year | — | 715 | | |
| Share of retained earnings at the beginning of the year | — | 2,103 | | |
| Total retained earnings | — | 2,818 | | |
| Shares at cost | — | 955 | | |
| Total carrying value | — | 3,773 | | |

## 18. INVESTMENT IN ASSOCIATE COMPANY *(Continued)*

| | Group 30 June 2013 P'000 | Group 30 June 2012 P'000 |
|---|---|---|
| **Group's share of statement of financial position** | | |
| Total assets | — | 10,271 |
| Total liabilities | — | (2,539) |
| Net assets | — | 7,732 |
| | | |
| Investment property at cost less depreciation | — | 3,134 |
| Other assets/(liabilities)-Net assets | — | 639 |
| | — | 3,773 |
| | | |
| Reclassified to non-current assets held for sale | — | (3,773) |
| Total carrying value | — | — |
| | | |
| Fair value of the investment in associate company at directors valuation | — | — |

## 19. INVESTMENT IN SUBSIDIARY COMPANIES

| Company | Nature of business | 30 June 2013 P'000 Carrying amount | 30 June 2012 P'000 Carrying amount |
|---|---|---|---|
| Financial Services Company of Botswana Limited | Property owning company | 12,500 | 12,500 |
| First Funding (Proprietary) Limited | Group loan scheme | 34,704 | 34,704 |
| Premium Credit Botswana (Proprietary) Limited | Insurance premium finance | 10 | 10 |
| First National Insurance Agency (Proprietary) Limited | Insurance agency | 30 | 30 |
| | | 47,244 | 47,244 |

All subsidiary companies are wholly owned, incorporated in Botswana and are not listed on the Botswana Stock Exchange. Premium Credit Botswana (Proprietary) Limited ceased operations in 2002 and is awaiting de-registration. Insurance premium financing is now carried out through a division of the Bank.

With effect from 1 July 2004, First Funding (Proprietary) Limited ceased to operate as a separate company. Micro lending financing is carried out through a division of the Bank.

The directors consider the valuation of these unlisted investments to be fair.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

| | Freehold & leasehold land & buildings P'000 | Leasehold improvements P'000 | Capital work-in-progress P'000 | Motor vehicles P'000 | Furniture & equipment P'000 | Total P'000 |
|---|---|---|---|---|---|---|
| **20. PROPERTY AND EQUIPMENT** | | | | | | |
| **Group** | | | | | | |
| **2013** | | | | | | |
| Cost or valuation | | | | | | |
| Balance at 1 July 2012 | 105,278 | 55,362 | 124,105 | 5,028 | 90,804 | 380,577 |
| Additions | — | 4,449 | 89,508 | 2,094 | 81,229 | 177,280 |
| Revaluation | 28,451 | — | — | — | — | 28,451 |
| Transferred to land and buildings | 213,613 | — | (213,613) | — | — | — |
| Reclassified to non-current assets held for sale | (1,590) | — | — | — | — | (1,590) |
| Disposals | — | — | — | (172) | (3,720) | (3,892) |
| Balance at 30 June 2013 | 345,752 | 59,811 | — | 6,950 | 168,313 | 580,826 |
| Accumulated depreciation | | | | | | |
| Balance at 1 July 2012 | 2,808 | 16,052 | — | 3,975 | 40,183 | 63,018 |
| Charge for the year | 3,517 | 4,243 | — | 846 | 14,594 | 23,200 |
| Reversal on revaluation | (5,543) | — | — | — | — | (5,543) |
| Disposals | — | — | — | (172) | (1,763) | (1,935) |
| Balance at 30 June 2013 | 782 | 20,295 | — | 4,649 | 53,014 | 78,740 |
| Carrying amount as at 30 June 2013 | 344,970 | 39,516 | — | 2,301 | 115,299 | 502,086 |
| **2012** | | | | | | |
| Cost or valuation | | | | | | |
| Balance at 1 July 2011 | 111,938 | 56,325 | — | 4,325 | 92,247 | 264,835 |
| Additions | — | 4,354 | 124,105 | 703 | 9,649 | 138,811 |
| Reclassified to non-current assets held for sale | (2,450) | — | — | — | — | (2,450) |
| Disposals | (4,210) | (5,317) | — | — | (11,092) | (20,619) |
| Balance at 30 June 2012 | 105,278 | 55,362 | 124,105 | 5,028 | 90,804 | 380,577 |
| Accumulated depreciation | | | | | | |
| Balance at 1 July 2011 | 2,982 | 17,484 | — | 3,249 | 38,920 | 62,635 |
| Charge for the year | 2,496 | 3,885 | — | 726 | 12,355 | 19,462 |
| Reclassified to non-current assets held for sale | (712) | — | — | — | — | (712) |
| Disposals | (1,958) | (5,317) | — | — | (11,092) | (18,367) |
| Balance at 30 June 2012 | 2,808 | 16,052 | — | 3,975 | 40,183 | 63,018 |
| Carrying amount as at 30 June 2012 | 102,470 | 39,310 | 124,105 | 1,053 | 50,621 | 317,559 |

## 20. PROPERTY AND EQUIPMENT *(Continued)*

| | | Company | |
|---|---|---|---|
| | | 30 June 2013 P'000 | 30 June 2012 P'000 |
| Cost or valuation consists of: | | | |
| Freehold land and buildings | - cost | 285,617 | 73,594 |
| | - valuation adjustment | 60,135 | 31,684 |
| Leasehold land and buildings | - cost | 1,105 | 1,105 |
| | - valuation adjustment | 2,825 | 2,825 |
| Leasehold land improvements | - cost | 55,881 | 51,432 |
| Capital work-in-progress | - cost | — | 124,105 |
| Motor vehicles | - cost | 6,950 | 5,028 |
| Furniture and equipment | - cost | 168,313 | 90,804 |
| Total cost or valuation | | 580,826 | 380,577 |

Had the Group's land and buildings been measured on a historical cost basis, their carrying amount would have been:

| | | |
|---|---|---|
| Freehold and leasehold land and buildings | 271,388 | 69,663 |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

| | Freehold & leasehold land & buildings P'000 | Leasehold improvements P'000 | Capital work-in-progress P'000 | Motor vehicles P'000 | Furniture & equipment P'000 | Total P'000 |
|---|---|---|---|---|---|---|
| **20. PROPERTY AND EQUIPMENT** | | | | | | |
| **Company** | | | | | | |
| **2013** | | | | | | |
| Cost or valuation | | | | | | |
| Balance at 1 July 2012 | 73,229 | 54,119 | 124,105 | 5,028 | 90,566 | 347,047 |
| Additions | — | 4,449 | 89,508 | 2,094 | 81,229 | 177,280 |
| Revaluation | 30,671 | — | — | — | — | 30,671 |
| Transferred to land and buildings | 213,613 | — | (213,613) | — | — | — |
| Reclassified to non-current assets held for sale | (1,590) | — | — | — | — | (1,590) |
| Disposals | — | — | — | (172) | (3,720) | (3,892) |
| Balance at 30 June 2013 | 315,923 | 58,568 | — | 6,950 | 168,075 | 549,516 |
| Accumulated depreciation | | | | | | |
| Balance at 1 July 2012 | 35 | 15,806 | — | 3,975 | 39,967 | 59,783 |
| Charge for the year | 2,522 | 4,155 | — | 846 | 14,594 | 22,117 |
| Reversal on revaluation | (2,557) | — | — | — | — | (2,557) |
| Disposals | — | — | — | (172) | (1,763) | (1,935) |
| Balance at 30 June 2013 | — | 19,961 | — | 4,649 | 52,798 | 77,408 |
| Carrying amount as at 30 June 2013 | 315,923 | 38,607 | — | 2,301 | 115,277 | 472,108 |
| **Company** | | | | | | |
| **2012** | | | | | | |
| Cost or valuation | | | | | | |
| Balance at 1 July 2011 | 79,889 | 55,082 | — | 4,325 | 92,009 | 231,305 |
| Additions | — | 4,354 | 124,105 | 703 | 9,649 | 138,811 |
| Reclassified to non-current assets held for sale | (2,450) | — | — | — | — | (2,450) |
| Disposals | (4,210) | (5,317) | — | — | (11,092) | (20,619) |
| Balance at 30 June 2012 | 73,229 | 54,119 | 124,105 | 5,028 | 90,566 | 347,047 |
| Accumulated depreciation | | | | | | |
| Balance at 1 July 2011 | 1,381 | 17,238 | — | 3,249 | 38,704 | 60,572 |
| Charge for the year | 1,325 | 3,885 | — | 726 | 12,355 | 18,291 |
| Reclassified to non-current assets held for sale | (712) | — | — | — | — | (712) |
| Disposals | (1,959) | (5,317) | — | — | (11,092) | (18,368) |
| Balance at 30 June 2012 | 35 | 15,806 | — | 3,975 | 39,967 | 59,783 |
| Carrying amount as at 30 June 2012 | 73,194 | 38,313 | 124,105 | 1,053 | 50,599 | 287,264 |

| | | Company 30 June 2013 P'000 | Company 30 June 2012 P'000 |
|---|---|---|---|
| Cost or valuation consists of: | | | |
| Freehold land and buildings | - cost | 267,527 | 55,504 |
| | - valuation adjustment | 48,396 | 17,725 |
| Leasehold improvements | - cost | 58,568 | 54,119 |
| Capital work-in-progress | - cost | — | 124,105 |
| Motor vehicles | - cost | 6,950 | 5,028 |
| Furniture and Equipment | - cost | 168,075 | 90,566 |
| Total cost or valuation | | 549,516 | 347,047 |

Had the Company's land and buildings been measured on a historical cost basis, their carrying amount would have been:

| | | |
|---|---|---|
| Freehold and Leasehold land and buildings | 260,838 | 54,104 |

### Group and company

Freehold land and buildings consist of a commercial property and two residential properties. The properties were valued by CB Richard Ellis, a professional property valuer in June 2013 on the basis of open market value for existing use. Properties are revalued every three years. Leasehold land and buildings consist of four residential properties and include the costs of improvements to bank premises. The unexpired portion of all the leases is in excess of 50 years.

## 21. GOODWILL

### Group

| | | |
|---|---|---|
| Goodwill | | |
| Goodwill at carrying value | 26,963 | 26,963 |
| The above goodwill arose on acquisition of: | | |
| First Funding (Proprietary) Limited | 26,589 | 26,589 |
| Premium Credit (Proprietary) Limited | 374 | 374 |
| | 26,963 | 26,963 |

There were no movements in the carrying value of goodwill during the current year.

During the financial year, the Group assessed the recoverable amount of goodwill, and determined that it was not impaired. The recoverable amount of the cash generating units were determined with reference to the value in use. The assumptions used are that the free cash flows will grow at 3.0% (2012: 4.0%) for the following three years. The discount rate used is 14% (2012: 15%) and the forecast period is 3 years.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

| | 30 June 2013 P'000 | 30 June 2012 P'000 |
|---|---|---|
| **22. DEPOSITS FROM CUSTOMERS** | | |
| **Group and Company** | | |
| Current and managed accounts | | |
| – financial institutions and other customers | 3,812,439 | 3,172,408 |
| Savings accounts | 920,198 | 827,465 |
| Call and term deposits | 8,200,130 | 7,443,368 |
| | 12,932,767 | 11,443,241 |
| Included in the call and term deposits is a balance of P88,646,204 (2012: P87,517,028) relating to First National Bank Holdings (Botswana) Limited. | | |
| Maturity analysis | | |
| Withdrawal on demand | 9,320,412 | 6,930,296 |
| Maturing within one year | 3,611,582 | 4,317,437 |
| Maturing two to five years | 773 | 195,508 |
| | 12,932,767 | 11,443,241 |

The maturity analysis is based on the remaining months to maturity from the reporting date.

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **23. DEPOSITS FROM BANKS** | | | | |
| Unsecured and payable on demand | 53,903 | 172,510 | 53,903 | 172,510 |

Included in this amount is a balance due to FirstRand Bank Limited of P26,905,000 (2012: P51,900,000), First National Bank Zambia P269,000 (2012: P40,000), First National Bank Namibia P296,000 (2012: P24,000), First National Bank Swaziland P2,000 (2012: P3,000), FirstRand India P1,031,000 (2012: NIL).

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **24. BORROWINGS** | | | | |
| Public Debt Service Fund | 38,333 | 48,462 | 38,333 | 48,462 |
| | 38,333 | 48,462 | 38,333 | 48,462 |
| Subordinated Unsecured Registered Bonds | | | | |
| Floating rate | | | | |
| 154 Medium Term Notes of P1,000,000 each (2012: at P1,000,000 each) | 154,480 | 154,480 | 154,480 | 154,480 |
| Fixed rate | | | | |
| 25 Medium Term Notes of P1,000,000 each (2012: 25 at P1,000,000) | 25,000 | 25,000 | 25,000 | 25,000 |
| | 179,480 | 179,480 | 179,480 | 179,480 |
| Botswana Life Insurance Limited (BLIL) (Proprietary) Limited | | | | |
| 15 year zero coupon deposit | 71,861 | 66,105 | 71,861 | 66,105 |
| Negotiable Certificates of Deposit | 133,117 | 225,000 | 133,117 | 225,000 |
| Total borrowings | 422,791 | 519,047 | 422,791 | 519,047 |

Public Debt Service Fund Loans, which are unsecured, have fixed repayment terms and bear interest at fixed rates ranging from 7.5% to 9.5% per annum and are repayable in half yearly instalments of P6,873,098 (2012: P7,089,540), inclusive of interest. The loans have maturities ranging from August 2014 to February 2018.

The Subordinated Unsecured Registered Bonds bear interest at fixed and floating rates of 7.25% and bank rate less 190 basis points per annum respectively and mature in 2021. Interest is paid semi-annually on the fixed rate note and quarterly on the floating rate note.

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 negotiable certificate of deposits bear interest at a fixed rate of 8.90% per annum and mature in March 2015. Interest is paid semi-annually. Also included are two 10 year negotiable certificate of deposits of P52 million and P50 million due to Botswana Insurance Fund Managers (BIFM), at fixed rates of 8.55% and 8.10%, maturing in May 2022 and Sept 2022 respectively.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 25. CREDITORS AND ACCRUALS

| | Group 30 June 2013 P'000 | Group 30 June 2012 P'000 | Company 30 June 2013 P'000 | Company 30 June 2012 P'000 |
|---|---|---|---|---|
| Accounts payable | 8,087 | 14,526 | 7,811 | 14,526 |
| Other creditors and accruals | 57,167 | 128,058 | 56,626 | 125,412 |
| Items in transit | 144,677 | 116,012 | 143,414 | 116,012 |
| Operating lease liability arising from straight lining of lease payments | 1,713 | 2,386 | 1,713 | 2,386 |
| Employee share participation schemes | 11,556 | 11,559 | 11,556 | 11,559 |
| Audit fees | 2,015 | 3,431 | 2,015 | 3,431 |
| | 225,215 | 275,972 | 223,135 | 273,326 |

## 26. PROVISIONS

| | Group 30 June 2013 P'000 | Group 30 June 2012 P'000 | Company 30 June 2013 P'000 | Company 30 June 2012 P'000 |
|---|---|---|---|---|
| Leave pay | | | | |
| At the beginning of the year | 21,241 | 17,763 | 21,241 | 17,763 |
| Additional provisions recognised | 7,851 | 8,999 | 7,851 | 8,999 |
| Utilised | (5,067) | (5,521) | (5,067) | (5,521) |
| At the end of the year | 24,025 | 21,241 | 24,025 | 21,241 |
| Bonus provisions | | | | |
| At the beginning of the year | 31,011 | 24,883 | 31,011 | 24,883 |
| Additional provisions recognised | 45,648 | 35,540 | 45,468 | 35,540 |
| Utilised | (38,608) | (29,412) | (38,500) | (29,412) |
| At the end of the year | 38,051 | 31,011 | 37,979 | 31,011 |
| Total provisions | 62,076 | 52,252 | 62,004 | 52,252 |

The bonus and leave pay provisions are expected
to be settled within the next twelve months.

| | Group 30 June 2013 P'000 | Group 30 June 2012 P'000 |
|---|---|---|
| **27. CAPITAL ADEQUACY** | | |
| Tier 1 - Core capital | | |
| Stated capital | 51,088 | 51,088 |
| Retained earnings - Group and associate company | 1,543,358 | 1,224,690 |
| | 1,594,446 | 1,275,778 |
| Less: Goodwill | (26,963) | (26,963) |
| | 1,567,483 | 1,248,815 |
| Tier 2 - Supplementary capital | | |
| Revaluation reserves subject to 50% risk adjustment | 29,576 | 17,454 |
| Portfolio and IBNR provisions | 52,518 | 45,292 |
| Subordinated Unsecured Registered Bonds (Note 24) | 179,480 | 179,480 |
| | 261,574 | 242,226 |
| Total qualifying capital | 1,829,057 | 1,491,041 |
| Risk adjusted assets | | |
| - balance sheet items | 9,960,401 | 7,981,209 |
| - off-balance sheet items | 548,265 | 1,021,327 |
| | 10,508,666 | 9,002,536 |
| Capital adequacy ratios (%) | 17.41 | 16.56 |
| Core capital (%) (Basel Committee guide: minimum 4%) | 14.92 | 13.87 |
| Supplementary capital (%) | 2.49 | 2.69 |
| Total (%) | 17.41 | 16.56 |
| Bank of Botswana required minimum risk asset ratio (%) | 15.00 | 15.00 |

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 Group must maintain a minimum level of capital based on its risk weighted assets and not reflected on the statement of financial position exposures.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |

## 28. POST-RETIREMENT FUND LIABILITIES

The Group had no post-retirement liability as at the reporting date (2012: nil).

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 Pension Funds Act (CAP 27:03) governs its administration. The fund currently has a total contribution rate of 18% of pensionable salary towards retirement funding. This is made up of an employee contribution rate of 6.5% and an employer contribution rate of 11.5%. 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.

## 29. STATED CAPITAL

| | Group 30 June 2013 P'000 | Group 30 June 2012 P'000 | Company 30 June 2013 P'000 | Company 30 June 2012 P'000 |
|---|---|---|---|---|
| 2,563,700,000 (2012: 2,563,700,000) ordinary shares | 58,088 | 58,088 | 58,088 | 58,088 |
| Less: 20,000,000 (2012: 20,000,000) shares owned by the company`s Employee Share Participation Scheme | (7,000) | (7,000) | — | — |
| | 51,088 | 51,088 | 58,088 | 58,088 |

Employee Share Participation Scheme
Details of the First National Bank of Botswana Limited share option scheme are set out in Note 42.

## 30. RESERVES

| | Group 30 June 2013 P'000 | Group 30 June 2012 P'000 | Company 30 June 2013 P'000 | Company 30 June 2012 P'000 |
|---|---|---|---|---|
| **Non-distributable reserves** | | | | |
| **Surplus on revaluation of properties** | | | | |
| Balance at the beginning of the year | 34,908 | 36,704 | 19,880 | 20,937 |
| Transfer to retained earnings | (2,271) | (1,796) | (1,567) | (1,057) |
| Arising on revaluation of properties | 33,994 | — | 33,228 | — |
| Deferred tax arising on revaluation | (7,479) | — | (7,311) | — |
| Balance at the end of the year | 59,152 | 34,908 | 44,230 | 19,880 |
| **Retained earnings in associate company** | | | | |
| Balance at the beginning and end of the year | 2,819 | 2,104 | — | — |
| Transfer to/(from) retained earnings | — | 715 | — | — |
| | 2,819 | 2,819 | — | — |
| **Available-for-sale reserve** | | | | |
| Balance at the beginning of the year | — | 11,335 | — | 11,335 |
| Reclassification adjustments on disposal of available-for-sale financial assets | — | (11,335) | — | (11,335) |
| Balance at the end of the year | — | — | — | — |
| **Total other non-distributable reserves** | 61,971 | 37,727 | 44,230 | 19,880 |
| **Equity-settled employee benefits reserve** | | | | |
| Balance at the beginning of the year | 16,944 | 10,383 | 16,944 | 10,383 |
| Share-based payment expense during the year | 1,356 | 6,561 | 1,356 | 6,561 |
| Balance at the end of the year | 18,300 | 16,944 | 18,300 | 16,944 |
| **Retained earnings** | | | | |
| Balance at the beginning of the year | 1,221,871 | 985,278 | 1,198,615 | 964,672 |
| Transfer (to)/from associate company`s reserves | — | (715) | — | — |
| Transfer from revaluation reserve | 2,271 | 1,796 | 1,567 | 1,057 |
| Profit for the year | 700,952 | 568,793 | 696,095 | 566,167 |
| Interim dividend paid | (128,185) | (128,185) | (128,185) | (128,185) |
| Transfer to dividend reserve | (256,370) | (205,096) | (256,370) | (205,096) |
| Balance at the end of the year | 1,540,539 | 1,221,871 | 1,511,722 | 1,198,615 |
| **Total reserves (excluding the dividend reserve)** | 1,620,810 | 1,276,542 | 1,574,252 | 1,235,439 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **31. CASH GENERATED BY OPERATIONS BEFORE TAXATION AND WORKING CAPITAL CHANGES** | | | | |
| Profit before direct taxation | 905,398 | 729,961 | 898,241 | 726,229 |
| Adjusted for: | | | | |
| - depreciation of property and equipment | 23,200 | 19,462 | 22,117 | 18,291 |
| - share of profit of associate company | — | (2,423) | — | — |
| - dividends from associate company | — | — | — | (1,708) |
| - straight-line adjustment of lease rentals | (673) | (310) | (673) | (310) |
| - impairment losses on loans and advances | 120,673 | 132,714 | 120,673 | 132,714 |
| - Loss/(gain) on sale of property and equipment | 464 | (538) | 464 | (538) |
| - gain on disposal of available-for-sale financial assets | — | (25,667) | — | (25,667) |
| - unrealised (gain)/loss on derivative financial instruments | (18,225) | 9,253 | (18,225) | 9,253 |
| - net loss on financial instruments held at fair value through | 132 | 6,167 | 132 | 6,167 |
| - share-based payment expense - equity settled | 1,356 | 6,561 | 1,356 | 6,561 |
| - share-based payment expense - cash settled | 5,816 | 8,512 | 5,816 | 8,512 |
| | 1,038,141 | 883,692 | 1,029,901 | 879,504 |
| **32. TAXATION PAID** | | | | |
| Amounts owing/(overpaid) at the beginning of the year | 461 | (4,622) | 1,550 | (4,305) |
| Charged to the income statement | 183,861 | 172,083 | 181,959 | 170,869 |
| Amounts overpaid/(owing) at the end of the year | 2,117 | (461) | 1,525 | (1,550) |
| Cash amounts paid | 186,439 | 167,000 | 185,034 | 165,014 |
| **33. CURRENT INCOME TAXATION (ASSET)/LIABILITY** | | | | |
| Opening liability/(asset) | 461 | (4,622) | 1,550 | (4,305) |
| Charged to the income statement | 183,861 | 172,083 | 181,959 | 170,869 |
| Cash amounts paid | (186,439) | (167,000) | (185,034) | (165,014) |
| Closing (asset)/liability | (2,117) | 461 | (1,525) | 1,550 |
| **34. INCREASE IN DEPOSITS AND CURRENT ACCOUNTS** | | | | |
| Increase in current and managed account deposits | 640,031 | 997,025 | 640,031 | 997,025 |
| Increase in savings deposits | 92,733 | 56,277 | 92,733 | 56,277 |
| Increase/(decrease) in call and term deposits | 756,762 | (207,459) | 756,762 | (207,459) |
| | 1,489,526 | 845,843 | 1,489,526 | 845,843 |

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |

## 35. INCREASE IN ADVANCES TO CUSTOMERS

| | | | | |
|---|---|---|---|---|
| Net amount outstanding at the beginning of the year | 8,420,553 | 7,170,842 | 8,427,553 | 7,177,842 |
| Impairment of advances | (120,673) | (132,714) | (120,673) | (132,714) |
| Net amount outstanding at the end of the year | (10,369,937) | (8,420,553) | (10,376,937) | (8,427,553) |
| Fair value adjustment - Morupule loan | (45) | 10,562 | (45) | 10,562 |
| | (2,070,102) | (1,371,863) | (2,070,102) | (1,371,863) |

## 36. DIVIDENDS PAID

| | | | | |
|---|---|---|---|---|
| Previous year's final dividend paid during the year | 205,096 | 51,274 | 205,096 | 51,274 |
| Interim dividend paid | 128,185 | 128,185 | 128,185 | 128,185 |
| Total dividends paid to shareholders | 333,281 | 179,459 | 333,281 | 179,459 |

## 37. CASH AND CASH EQUIVALENTS

| | | | | |
|---|---|---|---|---|
| Cash and short-term funds (Note 10) | 2,288,285 | 2,557,842 | 2,288,285 | 2,557,842 |
| Bank of Botswana Certificates (Note 14) | 2,117,870 | 2,627,612 | 2,117,870 | 2,627,612 |
| | 4,406,155 | 5,185,454 | 4,406,155 | 5,185,454 |

## 38. CONTINGENCIES AND COMMITMENTS

| | | | | |
|---|---|---|---|---|
| Contingencies | 1,059,452 | 1,641,606 | 1,059,452 | 1,641,606 |

The above contingencies represent guarantees and letters of credit.

| | | | | |
|---|---|---|---|---|
| **Commitments** | | | | |
| Undrawn commitments to customers | 1,417,137 | 1,373,784 | 1,417,137 | 1,373,784 |
| **Capital commitments** | | | | |
| Capital expenditure approved by the Directors | | | | |
| - not yet contracted for | 47,730 | 52,036 | 47,730 | 52,036 |
| - contracted for | — | 101,000 | — | 101,000 |
| | 47,730 | 153,036 | 47,730 | 153,036 |

The above commitments are wholly in respect of property and equipment, and funds to meet these commitments will be provided from the Group's internal resources.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **38. CONTINGENCIES AND COMMITMENTS** *(Continued)* | | | | |
| Operating lease commitments | | | | |
| Payable within one year | 11,841 | 12,985 | 11,841 | 12,985 |
| Payable within two to five years | 13,864 | 34,910 | 13,864 | 34,910 |
| | 25,705 | 47,895 | 25,705 | 47,895 |

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.

Legal proceedings and claims

The Group is involved in legal proceedings and claims (for and against) in the normal course of business, the outcome of which cannot be ascertained as at the reporting date.

There were no significant contingent liabilities in respect of the above as at the reporting date (2012 : nil).

## 39. 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 2013 the Group acted as a trustee in respect of Botswana Government bonds amounting to P5,547,622,674 (2012:P619,790,290), treasury bills amounting to P739,354,880 (2012: P133,190,000) and equities amounting to P7,337,527,862 (2012: P1,584,839,260). 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 statement of financial position.

## 40. 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.

The Group has experienced a significant increase in credit risk. Management is monitoring this risk closely. There have been no significant changes in exposures to risks and the Group's objectives, policies and processes for managing risks in the current or prior year.

The Group is principally exposed to credit risk, market risk, and liquidity risk. The exposures to these risks as at 30 June 2013 are set out below:

## 40.1 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. Credit risk is monitored on an ongoing basis. Further information on credit risk management is detailed in the Risk Report.

Significant credit exposures at the year end were:

| | Assets | |
|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **Geographical distribution** | | |
| Botswana | 14 294 424 | 12 501 885 |
| Southern Africa | 756 761 | 1 164 026 |
| Rest of the world | 219 373 | 198 535 |
| | 15 270 558 | 13 864 446 |
| **Distribution by sector** | | |
| Banks including Bank of Botswana | 3 409 079 | 3 643 962 |
| Government and parastatal organisations | 172 624 | 71 939 |
| Individuals | 3 556 763 | 4 308 451 |
| Business/trading | 4 695 781 | 2 705 006 |
| Others | 3 436 311 | 3 135 088 |
| | 15 270 558 | 13 864 446 |

Economic sector risk concentrations in respect of advances are set out in Note 12.

## 40.1 Credit risk management

### Collateral pledged

At the end of the current year the Group had no borrowings with Bank of Botswana (2012: nil). As a result no collateral had been 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. 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:

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 40.1 Credit risk management *(Continued)*

- 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 are 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, individual's 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.

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 statement of financial position

There was no collateral taken possession of and recognised in the statement of financial position

### Maximum exposure to credit risk

The table below presents the maximum exposure to credit risk of financial instruments recognised on the statement of financial position and exposures not recognised In the statement of financial position, before taking account of any collateral held.

| | Year to date average exposure (after interest in suspense) P'000 | Total exposure (after interest in suspense) P'000 | Retail P'000 | Corporate & commercial P'000 | Other P'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2013** | | | | | |
| Exposures recognised in the statement of financial position exposures | | | | | |
| Cash and short term funds | 1,770,132 | 2,088,511 | 756,761 | — | 1,331,750 |
| - Money at call and short notice | 591,995 | 756,761 | 756,761 | — | — |
| - Balances with other banks | 1,178,137 | 1,331,750 | — | — | 1,331,750 |
| Advances to banks | — | 51,975 | — | — | 51 975 |
| Advances to customers - (after interest in suspense) | 10,202,468 | 10,369,937 | 5,785,715 | 4,584,222 | — |
| Investment securities - debt | 2,125,413 | 2,290,494 | — | — | 2,290,494 |
| Accounts receivable | 227,625 | 251,474 | — | — | 251,474 |
| Derivatives | 3,237 | 10,138 | — | — | 10,138 |
| Related parties | 281,134 | 6,138 | — | — | 6,138 |
| Exposures not recognised in the statement of financial position | — | — | — | — | — |
| Financial and other guarantees | 1,097,901 | 1,059,452 | 89,700 | 969,752 | — |
| Loan commitments not drawn | 1,395,461 | 1,417,137 | 832,942 | 584,195 | — |
| Total | 17,103,369 | 17,545,256 | 7,465,118 | 6,138,169 | 3,941,969 |
| **Group** | | | | | |
| **2012** | | | | | |
| Exposures recognised in the statement of financial position exposures | | | | | |
| Cash and short term funds | 2,247,665 | 2,413,022 | 1,328,196 | — | 1,084,826 |
| - Money at call and short notice | 1,060,669 | 1,328,196 | 1,328,196 | — | — |
| - Balances with other banks | 1,186,996 | 1,084,826 | — | — | 1,084,826 |
| Advances to customers - (after interest in suspense) | 8,588,708 | 8,420,553 | 5,457,895 | 2,962,658 | — |
| Investment securities - debt | 2,616,968 | 2,699,551 | — | — | 2,699,551 |
| Accounts receivable | 106,252 | 170,800 | — | — | 170,800 |
| Derivatives | 1,327 | 7,861 | — | — | 7,861 |
| Related parties | 35,093 | 7,839 | — | — | 7,839 |
| Exposures not recognised in the statement of financial position | — | — | — | | |
| Financial and other guarantees | 1,510,424 | 1,641,606 | 1,592,662 | 48,944 | |
| Loan commitments not drawn | 807,541 | 1,373,784 | 807,564 | 566,220 | — |
| Total | 15,913,978 | 16,735,016 | 9,186,317 | 3,577,822 | 3,970,877 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 40.1 Credit risk management *(Continued)*

Credit quality

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:

| | Investment grade P'000 | Non-investment grade P'000 | Total neither past due nor neither past impaired P'000 |
|---|---|---|---|
| **Group** | | | |
| **2013** | | | |
| Home loans | 2,215,665 | 949,571 | 3,165,236 |
| Credit Cards | 119,998 | 51,428 | 171,426 |
| Term loans | 1,968,688 | 843,724 | 2,812,412 |
| Overdrafts | 288,481 | 123,635 | 412,116 |
| Wesbank | 875,410 | 375,176 | 1,250,586 |
| Total | 5,468,242 | 2,343,534 | 7,811,776 |
| | | | |
| **2012** | | | |
| Home loans | 1,927,649 | 826,135 | 2,753,784 |
| Credit Cards | 163,785 | 70,194 | 233,979 |
| Term loans | 1,852,071 | 793,745 | 2,645,815 |
| Overdrafts | 638,222 | 273,524 | 911,745 |
| Wesbank | 674,620 | 289,123 | 963,743 |
| Total | 5 256 346 | 2 252 720 | 7 509 066 |

The table below presents an analysis of the credit quality of financial assets other than advances that are neither past due nor impaired:

## 40.1 Credit risk management *(Continued)*

| Credit quality of financial assets other than advances neither past due nor impaired | Derivative | Related parties P'000 | Other Government and Government guaranteed stock P'000 | Cash and short term funds P'000 | Accounts receivable P'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2013** | | | | | |
| Investment Grade | 10,138 | 6,138 | 2,168,152 | 2,288,285 | 251,474 |
| **2012** | | | | | |
| Investment Grade | 7,861 | 7,839 | 2,699,551 | 2,557,842 | 170,800 |

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.

The tables below present an age analysis of arrears of advances per class.

| Age analysis of arrears of advances | Neither past due nor Impaired P'000 | Past due but not impaired | | | Impaired P'000 | Total P'000 |
|---|---|---|---|---|---|---|
| | | 1 - 30 days P'000 | 31 - 60 days P'000 | 61 - 90 days P'000 | | |
| **Group** | | | | | | |
| **2013** | | | | | | |
| Home loans | 3,308,731 | 145,307 | 62,892 | 33,828 | 96,734 | 3 647 492 |
| Other loans including credit card | 171,863 | 23,359 | 6,171 | 3,862 | 4,298 | 209 553 |
| Term loans | 3,727,226 | 35,194 | 35,478 | 25,533 | 126,668 | 3 950 099 |
| Overdraft | 1,070,583 | — | — | 9,006 | 55,790 | 1 135 379 |
| WesBank asset finance | 1,250,586 | 137,759 | 145,738 | 45,192 | 43,954 | 1 623 229 |
| Total | 9,528,989 | 341,619 | 250,279 | 117,421 | 327,444 | 10,565,752 |
| **Group** | | | | | | |
| **2012** | | | | | | |
| Home loans | 2,753,784 | 191,630 | 73,873 | 36,420 | 71,877 | 3,127,584 |
| Other loans including credit card | 233,979 | 2,153 | 1,256 | 5,677 | 14,503 | 257,568 |
| Term loans | 2,645,815 | 32,076 | 42,046 | 16,823 | 84,134 | 2,820,894 |
| Overdraft | 911,745 | — | — | — | 39,660 | 951,405 |
| WesBank asset finance | 963,743 | 254,906 | 177,361 | 21,555 | 27,705 | 1,445,270 |
| Total | 7,509,066 | 480,765 | 294,536 | 80,475 | 237,879 | 8,602,721 |

The above assets are managed with reference to the days in arrears and include assets where monthly payments are due as residential mortgages, instalment sale products, credit card products and personal loans.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 40. FINANCIAL RISK MANAGEMENT *(Continued)*

### 40.2 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 test and limits. Further details on the market risk management are set out in the Risk Report.

#### 40.2.1 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 intra-day limit was set at USD31 million (2012: USD21 million) while the overnight limit was USD7 million. The limits were adhered to during the year and at year-end.

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.

| | Assets | | Equity & Liabilities | |
|---|---|---|---|---|
| | 30 June 2013 P'000 | 30 June 2012 P'000 | 30 June 2013 P'000 | 30 June 2012 P'000 |
| **Group** | | | | |
| Distribution by currency | | | | |
| Botswana Pula | 14,777,967 | 12,784,668 | 14,839,442 | 12,937,707 |
| South African Rand | 227,221 | 125,199 | 231,992 | 204,493 |
| United States Dollar | 687,966 | 1,091,437 | 632,732 | 870,866 |
| British Pound | 36,725 | 37,488 | 35,172 | 35,143 |
| Euro | 45,823 | 128,031 | 48,943 | 120,081 |
| Others | 31,006 | 47,656 | 18,427 | 46,189 |
| | 15,806,708 | 14,214,479 | 15,806,708 | 14,214,479 |

The Group is mainly exposed to foreign currency risk on its USD 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.

| | 30 June 2013 P'000 | 30 June 2012 P'000 |
|---|---|---|
| Loss arising from a 10% decrease | (6,148) | (15,304) |
| Gain arising from a 10% increase | 6,148 | 15,304 |

The above gain/(loss) would affect the income statement.

### 40.2.2. 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 effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The table below summarises the Group's exposure to interest rate risk. Included in the table are the Group's assets and liabilities at carrying amounts, categorised 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.

Group
Term to repricing

| 2013 | 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-interest bearing P'000 |
|---|---|---|---|---|---|---|---|
| Total assets | 15,806,708 | 2,101,467 | 11,470,094 | — | 18,537 | 13,092 | 2,203,518 |
| Total liabilities and equity | 15,806,708 | 9,373,374 | 2,982,191 | 610,078 | 202,654 | 68,499 | 2,569,912 |
| Net interest sensitivity gap | — | (7,271,907) | 8,487,903 | (610,078) | (184,117) | (55,407) | (366,394) |
| **2012** | | | | | | | |
| Total assets | 14,214,479 | 2,576,650 | 9,851,480 | 39,320 | 129,410 | 86,670 | 1,530,949 |
| Total liabilities and equity | 14,214,479 | 8,445,690 | 2,946,520 | 507,940 | 241,190 | 62,360 | 2,010,779 |
| Net interest sensitivity gap | — | (5,869,040) | 6,904,960 | (468,620) | (111,780) | 24,310 | (479,830) |

Interest rate sensitivity tests are performed on the Group's statement of financial position and reviewed by the Asset Liability Committee (ALCO). 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 30 June 2013 P'000 | Group 30 June 2012 P'000 |
|---|---|---|
| 100 basis points parallel increase - gains | 50,000 | 34,500 |
| 100 basis points parallel decrease - losses | (50,000) | (34,500) |
| 200 basis points parallel increase - gains | 100,000 | 69,000 |
| 200 basis points parallel decrease - losses | (100,000) | (69,000) |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 40. FINANCIAL RISK MANAGEMENT *(continued)*

### 40.3. 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 positions 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 management process, as carried out within the Group and monitored by a separate Group Treasury, includes:

i. Day-to-day funding, managed 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 money markets to enable this to happen;

ii. Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

iii. Monitoring the liquidity ratios of the consolidated statement of financial position against internal and regulatory requirements; and

iv. Managing the concentration and profile of debt maturities.

The table below sets out the maturity analysis of the Group's statement 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.

| | | | Term to maturity | | | | |
|---|---|---|---|---|---|---|---|
| **2013** | 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-interest bearing P'000 |
| Total assets | 15,806,708 | 2,101,467 | 2,709,425 | 1,100,631 | 4,528,402 | 3,163,263 | 2,203,520 |
| Total liabilities and equity | 15,806,708 | 9,103,062 | 3,069,493 | 793,068 | 202,654 | 68,518 | 2,569,913 |
| Net liquidity gap | — | (7,001,595) | (360,068) | 307,563 | 4,325,748 | 3,094,745 | (366,393) |
| **2012** | | | | | | | |
| Total assets | 14,214,479 | 2,576,650 | 3,119,010 | 1,015,890 | 3,446,760 | 1,638,790 | 2,417,379 |
| Total liabilities and equity | 14,214,479 | 8,445,690 | 2,946,520 | 507,940 | 241,190 | 62,360 | 2,010,779 |
| Net liquidity gap | — | (5,869,040) | 172,490 | 507,950 | 3,205,570 | 1,576,430 | 406,600 |

Although negatively gapped in the demand bucket, the assets in the 1-3 months bucket are primarily Bank of Botswana certificates which are highly liquid and can be liquidated in times of stress. Further details on the liquidity risk management process are set out in the Risk Report included in the Annual Report.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 40. FINANCIAL RISK MANAGEMENT *(continued)*

### 40.3. Liquidity risk management *(continued)*

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.

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Term to maturity | | | | | |
| | Call | 1-3 months | 4-12 months | 1-5 years | Over 5 years | Total |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **2013** | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| Amounts due to other banks | 656 | — | — | — | — | 656 |
| Deposit and current accounts | 9,320,412 | 3,451,830 | 772,678 | 158,542 | 373,392 | 14,076,854 |
| Derivative financial instruments | 2,910 | — | — | — | — | 2,910 |
| Borrowings | — | 2,542 | 9,433 | 59,876 | 209,418 | 281,269 |
| Due to related companies | 51,652 | — | 12,929 | — | — | 64,581 |
| Creditors and accruals | 11,593 | 133,690 | — | — | — | 145,283 |
| Provisions | — | — | 62,076 | — | — | 62,076 |
| | 9,387,223 | 3,588,062 | 857,116 | 218,418 | 582,810 | 14,633,629 |

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Term to maturity | | | | | |
| | Call | 1-3 months | 4-12 months | 1-5 years | Over 5 years | Total |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **2012** | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| Amounts due to other banks | 172,510 | — | — | — | — | 172,510 |
| Deposit and current accounts | 7,341,564 | 3,501,877 | 1,218,049 | 155,256 | 161,760 | 12,378,506 |
| Derivative financial instruments | — | 1,530 | 20,799 | 65,350 | 87,240 | 174,919 |
| Borrowings | — | 8,231 | 215,722 | 135,593 | 429,029 | 788,575 |
| Due to related companies | — | 57,883 | — | — | — | 57,883 |
| Creditors and accruals | — | — | 275,972 | — | — | 275,972 |
| Provisions | — | — | 52,252 | — | — | 52,252 |
| | 7,514,074 | 3,569,521 | 1,782,794 | 356,199 | 678,029 | 13,900,617 |

## 40.4 Fair value of financial instruments

(i) Financial instruments not measured at fair value

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position.

| | Group | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Carrying value P'000 | Fair value P'000 | Carrying value P'000 | Fair value P'000 |
| **Assets** | | | | |
| Advances | | | | |
| Home loans | 3,734,754 | 3,648,108 | 3,062,589 | 2,974,385 |
| Credit card | 118,112 | 118,112 | 113,483 | 113,483 |
| Term loans | 3,489,016 | 3,176,400 | 2,293,398 | 2,043,624 |
| Overdraft | 1,103,111 | 1,103,111 | 958,405 | 958,405 |
| WesBank asset finance | 1,609,787 | 1,417,634 | 1,445,270 | 1,354,046 |
| Total advances at amortised cost | 10,054,780 | 9,463,365 | 7,873,145 | 7,443,943 |
| Other | | | | |
| Accounts receivable | 251,474 | 251,474 | 170,800 | 170,800 |
| Total financial assets at amortised cost | 10,306,254 | 9,714,839 | 8,043,945 | 7,614,743 |
| Liabilities | | | | |
| Deposits and current accounts | | | | |
| Balances from banks and financial institutions (current and managed) | 3,720,301 | 3,720,301 | 2,226,428 | 2,226,428 |
| Balances from customers (term) | 3,923,006 | 3,944,482 | 3,697,437 | 3,617,580 |
| Other deposits (call and savings) | 5,289,460 | 5,289,460 | 5,519,376 | 5,519,376 |
| Total deposits and current accounts | 12,932,767 | 12,954,243 | 11,443,241 | 11,363,384 |
| Long-term borrowings | 350,930 | 354,800 | 452,942 | 318,922 |
| Other | | | | |
| Creditors and accruals | 225,215 | 225,215 | 275,972 | 275,972 |
| Total financial liabilities at amortised cost | 13,508,912 | 13,534,258 | 12,172,155 | 11,958,278 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 40. FINANCIAL RISK MANAGEMENT *(continued)*

### 40.4 Fair value of financial instruments *(continued)*

(ii) Fair value hierachy

The table below shows the financial assets and liabilities that are recognised and measured at fair value analysed by valuation technique.

The hierarchy of valuation techniques are based on whether the inputs to those valuation techniques are observable or unobservable.

Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions.

These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on stock exchanges which are active.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the Over The Counter (OTC) derivative contracts, traded loans and issued structured debt.

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy analysis requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

| | Group 2013 Level 1 P'000 | Level 2 P'000 | Level 3 P'000 | Fair P'000 |
|---|---|---|---|---|
| Financial assets held for trading | | | | |
| -Investment securities | — | 50,282 | — | 50,282 |
| -Derivative financial instruments | — | 10,138 | — | 10,138 |
| Designated at fair value through profit or loss | | | | |
| -Term loan | — | — | 315,157 | 315,157 |
| Available for sale financial assets | | | | |
| -Investment securities | — | 2,117,870 | — | 2,117,870 |
| Total assets | — | 2,178,290 | 315,157 | 2,493,447 |
| Financial liabilities held for trading | | | | |
| -Derivative financial instruments | — | 16,964 | — | 16,964 |
| Designated at fair value through profit or loss | | | | |
| -Zero coupon deposit | — | 71,861 | — | 71,861 |
| Total liabilities | — | 88,825 | — | 88,825 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 40. FINANCIAL RISK MANAGEMENT *(continued)*

### 40.4 Fair value of financial instruments *(continued)*

Reconciliation of level 3 fair value measurements

| | Group | |
|---|---|---|
| | 2013 P'000 | 2012 P'000 |
| **Designated at fair value through profit or loss** | | |
| Opening balance | — | — |
| Total gains or losses: | | |
| - in profit or loss | — | — |
| - in other comprehensive income | — | — |
| Purchases | — | — |
| Issues | — | — |
| Disposals/settlements | — | — |
| Transfers out of level 3 | — | — |
| Transfers into level 3 - Morupule Colliery Limited term loan | 315,157 | — |
| Closing balance | 315,157 | — |

| | Group 2012 | | | |
|---|---|---|---|---|
| | Level 1 P'000 | Level 2 P'000 | Level 3 P'000 | Total P'000 |
| **Assets and liabilities measured at fair value** | | | | |
| Financial assets held for trading | | | | |
| -Investment securities | — | 71,939 | — | 71,939 |
| -Derivative financial instruments | — | 7,861 | — | 7,861 |
| Designated at fair value through profit or loss | | | | |
| -Term loan | — | 345,879 | — | 345,879 |
| Available for sale financial assets | | | | |
| -Investment securities | — | 2,627,612 | — | 2,627,612 |
| Total assets | — | 3,053,291 | — | 3,053,291 |
| Financial liabilities held for trading | | | | |
| -Derivative financial instruments | | 32,912 | | 32,912 |
| Designated at fair value through profit or loss | | | | |
| -Zero coupon deposit | — | 66,105 | — | 66,105 |
| Total liabilities | — | 99,017 | — | 99,017 |

## 40.4 Fair value of financial instruments *(continued)*

### Valuation techniques and assumptions applied for the purposes of measuring fair values

Fair value is described as the value for which an asset can be exchanged or a liability settled between knowledgeable, wiling parties in an arm's length transaction. The best evidence of fair value is a price quoted in an active market. It is the Group's policy to make use of such information when it is available for example the valuation of futures, listed bonds and listed equities. Where there is no active market for a particular instrument the Group determines the value based on valuation techniques. Where available these valuation techniques give preference to inputs which are observable in an active market.

The following describes the principle methods and assumptions used to determine the fair value of financial instruments:

### Treasury bills

Treasury bills are valued by means of prices quoted by  Bank of Botswana.

### Government and public stocks

Where market prices are not available the fair value is estimated using quoted market prices of securities with similar credit, maturity and yield characteristics.

### Other dated securities

Fair value of other dated securities is determined by using a discounted cash flow model. The discount curve is derived from similar market quoted instruments.

### Derivatives

Contracts are valued by using the differential between the market price and the traded price multiplied by the notional amount. Market prices are obtained from applicable trading exchanges.

Interest rate swaps are valued by determining the present values of the fixed and floating legs of the swap, by discounting the future cash inflows and outflows respectively.

Option contracts are valued using the Black-Scholes model. Inputs are obtained from market observable data. Where prices are obtainable from trading exchanges the value per the exchange is used.

Forward contracts are valued by discounting the projected cash flows to obtain the present value of the forward contract. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.

Forward rate agreements are valued by means of the discounted cash flow model. The discount rate is determined using a yield curve of similar market traded instruments. The reset rate is determined in terms of the legal agreement.

### Deposits and current accounts

Fair value of deposits and current accounts is determined by discounting future cash flows using a swap curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account as these are considered to have an immaterial impact on the economic value of the instruments. Call deposits are valued at the undiscounted amount of the cash balance, this is considered appropriate because of the short-term nature of these instruments. Fair valuation will only be applied to deposits having a maturity profile of longer than 30 days. For all non-term products it is assumed that fair value will equal the carrying amount which is measured at armotised cost.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 40. FINANCIAL RISK MANAGEMENT *(continued)*

### 40.4 Fair value of financial instruments *(continued)*

#### Loans and advances to customers

The fair value of advances is the present value of the expected future cash flows determined using an appropriate discount rate adjusted for the credit spreads where necessary. Projected cash flows, taking into account behaviour, loss given default and probability of default are grouped according to their maturity dates. The discount rate for fixed interest rate instruments is adjusted by an appropriate risk premium while floating rate cash flows are discounted by means of a yield curve which represents the projected cash flows.

#### Borrowings

Fair value of debentures, unsecured debt securities and finance lease liabilities are determined by discounting the future cash flows at market related interest rates. The fair value of subordinated notes and fixed and floating rate bonds are determined by discounted the future cash flows at market related interest rates. Fair values of financial instruments recognised in the financial statements may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data. In these instances, the net fair value recorded in the financial statements is the sum of three components:

(i) the value given by application of a valuation model, based upon the Group's best estimate of the most appropriate model inputs;
(ii) any fair value adjustments to account for market features not included within valuation model (for example, bid mid spreads, counterparty credit spreads and or market data uncertainty); and
(iii) day one profit or loss, or an unamortised element thereof, not recognised immediately in the income statement in accordance with the Group's accounting policy, and separately detailed within the derivative note above.

### 40.5 Capital risk management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the consolidated statement of financial position, are:

i) To comply with the capital requirements set by the central bank (Bank of Botswana);
ii) 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
iii) 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.

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:

i) Tier 1 capital: stated capital (net of any book values of the treasury shares), general bank reserve, statutory reserve, 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.
ii) Tier 2 capital: qualifying subordinated loan capital and collective impairment allowances.

## 41. SEGMENTAL REPORTING

### Segmental analysis

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. All operating segments used by the Group meet the definition of a reportable segment.

The Group has five main business segments:

i) Retail banking - comprising the branch network which provides commercial banking products incorporating customer deposits (including small and medium enterprises), debit cards, automated teller machine (ATMs), and consumer advances;

ii) Property division - comprising all residential and commercial mortgage financing;

iii) WesBank - comprising vehicle and asset financing;

iv) Corporate - comprising large corporate financing;

v) Treasury - manages the Group's liquidity and funding;

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Chief Executive Officer is measured in a manner consistent with that in the income statement.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in interest expense. Interest charged on these funds is based on the Group's cost of capital.

The Group's management reporting is based on a measure of operating profit comprising interest income, inter-segment interest expense, non-interest income, impairment of advances and operating expenditure.

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.

Segment assets and liabilities comprise mainly deposits from customers and advances to customers.

In the current year, the Group continued to refine its business unit performance measurements. As a result, measurement basis of segment results differs from that of prior year.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 41. SEGMENTAL REPORTING *(continued)*

Primary segments (business)

| 2013 | Retail banking P'000 | Property division P'000 | WesBank P'000 | Corporate P'000 | Treasury P'000 | Total P'000 |
|---|---|---|---|---|---|---|
| Segment revenue | | | | | | |
| Interest income | 408,477 | 335,684 | 181,413 | 235,410 | 49,047 | 1,210,031 |
| Non-interest income | 509,472 | 442 | 5,353 | (1,155) | 228,930 | 743,042 |
| Total segment revenue | 917,949 | 336,126 | 186,766 | 234,255 | 277,977 | 1,953,073 |
| Interest expenditure | (23,393) | (159,495) | (84,371) | (64,101) | 18,731 | (312,629) |
| Net income before impairment of advances | 894,556 | 176,631 | 102,395 | 170,154 | 296,708 | 1,640,444 |
| Impairment of advances | (101,846) | 2,446 | (20,445) | (828) | — | (120,673) |
| Net interest income after impairment of advances | 792,710 | 179,077 | 81,950 | 169,326 | 296,708 | 1,519,771 |
| Segment expenditure | | | | | | |
| -Employee benefits | (202,859) | (24,243) | (19,861) | (16,282) | (37,673) | (300,918) |
| -Communication | (21,763) | (316) | (834) | (161) | (439) | (23,513) |
| -Stationery,storage and postage | (14,513) | (175) | (827) | (346) | (5,499 | (21,360) |
| -Property rentals and maintenance | (39,277) | (147) | (1,406) | (128) | (2,419) | (43,377) |
| -Other operating expenses | (140,361) | (6,493) | (12,474) | (20,298) | (36,267) | (215,893) |
| | (418,773) | (31,374) | (35,402) | (37,215) | (82,297) | (605,061) |
| Segment results before indirect taxation | 373,937 | 147,703 | 46,548 | 132,111 | 214,411 | 914,710 |
| Indirect taxation | (5,445) | (173) | (1,256) | (102) | (2,336) | (9,312) |
| Segment results | 368,492 | 147,530 | 45,292 | 132,009 | 212,075 | 905,398 |
| Direct taxation | | | | | | (204,446) |
| Income after taxation | | | | | | 700,952 |
| Statement of financial position: | | | | | | |
| Total assets | 4,053,637 | 3,703,265 | 1,701,787 | 1,487,896 | 4,860,123 | 15,806,708 |
| Total liabilities | 6,974,928 | 3,689,875 | 1,665,466 | 1,488,698 | 59,473 | 13,878,440 |
| Advances (included in assets above) | 3,466,425 | 3,689,875 | 1,665,466 | 1,488,698 | 59,473 | 10,369,937 |
| Advances to banks | 51,975 | — | — | — | — | 51,975 |
| Non-performing advances | 150,836 | 108,935 | 46,446 | 67,218 | — | 373,435 |
| Deposits (included in liabilities above) | 5,060,374 | — | — | 4,042,348 | 3,830,045 | 12,932,767 |
| Key ratios | | | | | | |
| Cost to income ratio | 47.4 | 17.9 | 35.8 | 21.9 | 28.5 | 37.5 |
| Bad debt charge as a % of advances | 2.9 | (0.1) | 1.2 | 0.1 | 0.0 | 1.2 |
| Non-performing loans as a % of advances | 4.4 | 3.0 | 2.8 | 4.5 | 0.0 | 3.6 |

Note

No segmental reporting for the secondary segment (geographical) as no significant income is generated outside Botswana. The geographical distribution of assets and liabilities is provided in Note 40.

## 41. SEGMENTAL REPORTING *(continued)*

Primary segments (business)

| 2012 | Retail banking P'000 | Property division P'000 | WesBank P'000 | Corporate P'000 | Treasury P'000 | Total P'000 |
|---|---|---|---|---|---|---|
| Segment revenue | | | | | | |
| Interest income | 390,057 | 281,889 | 164,735 | 97,177 | 178,004 | 1,111,862 |
| Non-interest income | 457,762 | 4,912 | 5,343 | 2,733 | 155,935 | 626,685 |
| Total segment revenue | 847,819 | 286,801 | 170,078 | 99,910 | 333,939 | 1,738,547 |
| Interest expenditure | (90,936) | (99,609) | (48,306) | (32,881) | (71,067) | (342,799) |
| Net income before impairment of advances | 756,883 | 187,192 | 121,772 | 67,029 | 262,872 | 1,395,748 |
| Impairment of advances | (90,760) | (305) | (38,416) | (3,233) | — | (132,714) |
| Net interest income after impairment of advances | 666,123 | 186,887 | 83,356 | 63,796 | 262,872 | 1,263,034 |
| Segment expenditure | | | | | | |
| -Employee benefits | (188,652) | (12,232) | (29,512) | (12,948) | (22,100) | (265,444) |
| -Communication | (14,543) | (591) | (1,954) | (625) | (633) | (18,346) |
| -Stationery,storage and postage | (13,434) | (162) | (1,011) | (404) | (6,369) | (21,380) |
| -Property rentals and maintenance | (32,202) | (583) | (3,354) | (216) | (4,554) | (40,909) |
| -Other operating expenses | (101,350) | (21,536) | (16,182) | (18,945) | (20,924) | (178,936) |
| | (350,181) | (35,104) | (52,013) | (33,138) | (54,580) | (525,015) |
| Segment results before indirect taxation | 315,943 | 151,784 | 31,343 | 30,658 | 208,292 | 738,019 |
| Indirect taxation | (6,521) | (253) | (1,112) | (191) | (2,404) | (10,481) |
| Segment results | 309,422 | 151,531 | 30,231 | 30,467 | 205,888 | 727,538 |
| Share of associate company income | | | | | | 2,423 |
| Direct taxation | | | | | | (161,168) |
| Income after taxation | | | | | | 568,793 |
| Statement of financial position: | | | | | | |
| Total assets | 2,627,158 | 3,176,077 | 1,518,706 | 1,411,572 | 5,480,966 | 14,214,479 |
| Total liabilities | 5,002,494 | 234,273 | 66,014 | 2,680,256 | 4,698,716 | 12,681,753 |
| Advances (included in assets above) | 2,487,625 | 3,175,262 | 1,467,484 | 1,074,565 | 215,617 | 8,420,553 |
| Non-performing advances | 127,923 | 79,674 | 10,239 | 55,139 | — | 272,975 |
| Deposits (included in liabilities above) | 5,643,556 | 206,377 | 19,383 | 1,813,902 | 3,760,023 | 11,443,241 |
| Key ratios | | | | | | |
| Cost to income ratio | 47.1 | 18.9 | 43.6 | 49.7 | 21.7 | 38.4 |
| Bad debt charge as a % of advances | 3.6 | 0.0 | 2.6 | 0.3 | 0.0 | 1.6 |
| Non-performing loans as a % of advances | 5.1 | 2.5 | 0.7 | 5.1 | 0.0 | 3.2 |

Note

No segmental reporting for the secondary segment (geographical) as no significant income is generated outside Botswana.
The geographical distribution of assets and liabilities is provided in Note 40.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 42. EMPLOYEE SHARE PARTICIPATION SCHEME

First National Bank of Botswana Limited operates an equity based share participation scheme. The scheme started in April 2001 and was amended in November 2003, allowing employees to acquire shares in the Group in order to increase the proprietary interests of the employees in the Group's success and encourage employees to render their best service to the Group. The number of shares granted is calculated in accordance with the performance based formula approved by the Remuneration Committee. The scheme has now been closed to further grants and will be wound down over the next 2 years. The details of the scheme are as follows:

| | 30 June 2013 | 30 June 2012 |
|---|---|---|
| Group and company | | |
| Number of options in force at beginning of the year | 14,496,671 | 17,825,019 |
| Granted at prices ranging between P3.32 to P1.51 | | |
| Number of options exercised during the year | (2,529,992) | (1,666,683) |
| Market value ranged between P2.69 to P3.68 (2012: P2.05 to P2.80) | | |
| Number of options cancelled/ lapsed during the year | (480,000) | (1,661,665) |
| Granted at a price ranged between P2.69 and P3.32 | | |
| Number of options in force at end of the year | 11,486,679 | 14,496,671 |
| Granted at prices ranging between P3.32 to P1.51 (2012:P3.32 to P1.51) | | |
| Number of options available for future allocation | 8,513,321 | 5,503,329 |
| Total number of options of the scheme | 20,000,000 | 20,000,000 |
| Number of participants | 49 | 52 |

| | 30 June 2013 | 30 June 2012 |
|---|---|---|
| Options outstanding are exercisable over the following periods | | |
| (first date able to release) | | |
| Financial year 2012/2013 | — | 8,123,298 |
| Financial year 2013/2014 | 9,949,991 | 4,783,351 |
| Financial year 2014/2015 | 1,536,688 | 1,590,022 |
| Total | 11,486,679 | 14,496,671 |
| | | |
| Options outstanding | | |
| (by expiry date) | | |
| Financial year 2012/2013 | — | 1,376,671 |
| Financial year 2013/2014 | 6,876,679 | 8,350,000 |
| Financial year 2014/2015 | 4,610,000 | 4,770,000 |
| Total | 11,486,679 | 14,496,671 |

The significant assumptions used to estimate the fair value of the options granted are as follows:

| | 30 June 2013 | 30 June 2012 |
|---|---|---|
| Weighted average share price (thebe) | 280 | 280 |
| Expected volatility (percentage) | 33.45 | 33.45 |
| Expected option life (years) | 5 | 5 |
| Expected risk free rate (percentage) | 14 | 14 |
| Expected dividend growth (percentage) | 20 | 20 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 42. EMPLOYEE SHARE PARTICIPATION SCHEME *(continued)*

In addition to its own share option scheme, 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 share incentive scheme

The rules of the FirstRand share scheme ('the Scheme') are constituted in the FirstRand Limited share trust. The purpose of the scheme is to increase the proprietary interests of identified employees in the Bank's success and to encourage them to render and continue to render their best services to the Bank. Options over FirstRand ordinary shares are granted by the trust to these employees. The sale of shares arising from the exercise of options may only be exercised up to one third of the total number of options issued after the third year, two thirds after the fourth year and all of the shares on the fifth anniversary of the date of issue.

FirstRand employee trust

This trust was set up specifically for the benefit of the black employees. The participation in this trust is in addition to participation in any existing FirstRand share incentive scheme. The first issue of participation rights in the trust was made on 20 July 2005, the second issue was done on 1 November 2006, and a further issue of participation rights were granted on 3 December 2007. The remainder will be granted at the discretion of the directors. Distribution to beneficiaries takes place on 31 December 2014.

FirstRand share appreciation rights scheme

The purpose of this scheme is to provide identified Bank employees, including executive directors with the opportunity of receiving incentive remuneration payments based on the increase in the market value of ordinary shares in FirstRand Limited. These payments may, on election by the participant be paid in cash or settled by the delivery of FirstRand ordinary shares. Entitlement to incentive remuneration payments is predicated on the achievement of certain key performance objectives which are set by the remuneration committee prior to each grant of appreciation rights to participating employees. Appreciation rights may only be exercised as to one third of the total number of rights issued after the third, two thirds after the fourth and all of the shares by the fifth anniversary of the date of grant, provided that the performance objectives set for the grant have been achieved.

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 and non-financial performance, which will be set annually by the Group's Remuneration Committee.

Forfeitable share plan

The forfeitable share plan is a remuneration scheme that grants selected employees full free shares which will vest over a period of two years. Selected employees are awarded shares which are forfeited if the employee leaves the employment of the FirstRand Group before the end of the vesting period of two years. During the two year vesting period the shares are held in trust for the employees and all dividends accrue to the employees for the duration of the vesting period.

The FirstRand share option schemes are equity-settled schemes in FirstRand's books, except for the FirstRand Limited share appreciation rights scheme and Conditional share plan which are cash settled.

First National Bank Botswana conditional share plan

The conditional award comprises a number of notional 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 and non-financial performance, which will be set annually by the Group's Remuneration Committee. The scheme is cash settled based on the share market price.

The details of the respective share option scheme is as follows:

| | 2013 FirstRand Share Appreciation Right Scheme (FSR shares) | FirstRand Employee Trust | FirstRand Conditional share plan | FNB Botswana Conditional share plan |
|---|---|---|---|---|
| **Share option detail** | | | | |
| Number of options in force at the beginning of the year | 603,300 | 1,336,000 | 518,800 | — |
| Granted at prices ranging between (P) | 10.48 - 17.00 | 12.28 | — | — |
| Weighted average (thebe) | 13.27 | 12.28 | — | — |
| Number of options granted/transferred in during the year | — | — | 112,461 | 3,915,137 |
| Granted at a price of | — | — | — | 3.00 |
| Weighted average (P) | — | — | — | 3.00 |
| Number of options transferred within the Group during the year | — | — | (16,044) | — |
| Granted at a price of P3.00 | — | — | — | — |
| Weighted average (P) | — | — | — | — |
| Number of options exercised / released during the year | (126,664) | — | (225,788) | — |
| Market value range at date of exercise / release (P) | 29.50 - 30.30 | — | 25.50 - 25.50 | — |
| Weighted average share price for the year (P) | 29.81 | — | 25.50 | — |
| Number of options cancelled / lapsed during the year | (331,668) | (26,700) | (35,512) | — |
| Granted at prices ranging between (P) | 10.48 - 17.00 | 12.28 | — | — |
| Weighted average (P) | 16.38 | 12.28 | — | — |
| Number of options in force at the end of the year | 144,968 | 1,309,300 | 353,917 | 3,915,137 |
| Granted at a price of | 10.48 - 10.48 | 12.28 | — | 3.00 |
| Weighted average (P) | 10.48 | 12.28 | — | 3.00 |
| Options are exercisable over the following periods (first date able to release): | | | | |
| Financial year 2013/2014 | 144,968 | — | 203,017 | — |
| Financial year 2014/2015 | — | 1,309,300 | 150,900 | — |
| Financial year 2015/2016 | — | — | — | 3,915,137 |
| Total | 144,968 | 1,309,300 | 353,917 | 3,915,137 |
| Options outstanding (by expiry date) | | | | |
| Financial year 2013/2014 | 144,968 | — | 203,017 | — |
| Financial year 2014/2015 | — | 1,309,300 | 150,900 | — |
| Financial year 2015/2016 | — | — | — | 3,915,137 |
| Total | 144,968 | 1,309,300 | 353,917 | 3,915,137 |
| Total options outstanding - in the money | 144,968 | 1,309,300 | 353,917 | 3,915,137 |
| Total options outstanding - out of the money | — | — | — | — |
| Total | 144,968 | 1,309,300 | 353,917 | 3,915,137 |
| Number of participants | 6 | 4 | 10 | 44 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 42. EMPLOYEE SHARE PARTICIPATION SCHEME *(continued)*

The details of the respective share option scheme is as follows:

| | **2012** FirstRand Share Appreciation Right Scheme (FSR shares) | FirstRand Employee Trust | Conditional share plan | Forfeitable share plan |
|---|---|---|---|---|
| Share option detail | | | | |
| Number of options in force at the beginning of the year | 1,080,000 | 1,336,000 | 323,469 | 56,962 |
| Granted at prices ranging between (P) | 10.48 - 17.00 | 12.28 | — | — |
| Weighted average (thebe) | 13.27 | 12.28 | — | — |
| Number of options granted/transferred in during the year | — | — | 195,331 | — |
| Granted at prices ranging between (P) | — | — | — | — |
| Weighted average (P) | — | — | — | — |
| Number of options exercised / released during the year | | (140,600) | — | (56,962) |
| Market value range at date of exercise / release (P) | | 10.48 - 13.50 | — | — |
| Weighted average share price for the year (P) | | 10.78 | — | — |
| Number of options cancelled / lapsed during the year | (336,100) | — | — | — |
| Granted at prices ranging between (P) | 14 | — | — | — |
| Weighted average (P) | 13.50 | — | — | — |
| Number of options in force at the end of the year | 603,300 | 1,336,000 | 518,800 | — |
| Granted at prices ranging between (P) | 10.48 - 17.00 | 12.28 | — | — |
| Weighted average (P) | 13.72 | 12.28 | — | — |
| Options are exercisable over the following periods (first date able to release): | | | | |
| Financial year 2012/2013 | 300,000 | — | 218,600 | — |
| Financial year 2013/2014 | 303,300 | — | 149,300 | — |
| Financial year 2014/2015 | — | 1,336,000 | 150,900 | — |
| Total | 603,300 | 1,336,000 | 518,800 | — |
| Options outstanding (by expiry date) | | | | |
| Financial year 2012/2013 | 300,000 | — | 218,600 | — |
| | 303,300 | — | 149,300 | — |
| Financial year 2014/2015 | — | 1,336,000 | 150,900 | — |
| Total | 603,300 | 1,336,000 | 518,800 | — |
| Total options outstanding - in the money | 403,308 | 1,336,000 | 518,800 | — |
| Total options outstanding - out of the money | 199,992 | — | — | — |
| Total | 603,300 | 1,336,000 | 518,800 | — |
| Number of participants | 10 | 4 | 10 | — |

| The income statement charge for all share based payments is as follows: | Group and Company 30 June 2013 P'000 | 30 June 2012 P'000 |
|---|---|---|
| FirstRand Employee Trust | (150) | 3,975 |
| First National Bank of Botswana share option scheme | 1,506 | 2,586 |
| Total equity settled share option scheme charge to income statement | 1,356 | 6,561 |
| | | |
| FirstRand Share Appreciation Right Scheme | 1,493 | 1,913 |
| Forfeitable share plan | — | (613) |
| Conditional share plan | 186 | 7,212 |
| FNB Botswana Conditional Share Plan | 4,137 | — |
| Total cash settled share option scheme charge to income statement | 5,816 | 8,512 |
| | | |
| Charge to income statement | 7,172 | 15,073 |

At year end, the liability for share schemes amounted to P11,556,000 (2012: P11,559,000) and has been included in creditors and accruals.

## 43. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING ESTIMATES

The Group makes estimates and assumptions that will affect the reported amounts of assets and liabilities within the next financial year. Estimates 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.

(a) Credit impairment losses on loans and advances

The Group assesses its credit portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in the income statement, 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.

For purposes of these judgements' the performing portfolio is split into two parts:

(i) The first part consists of the portion of the performing portfolio where there is objective evidence of the occurrence of an impairment event. In the Retail and WesBank 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 judgement, are used, while the Wholesale portfolio assessment includes a judgemental review of individual industries for objective signs of distress.

A portfolio specific impairment (PSI) calculation to reflect the decrease in estimated future cash flows is performed for this sub-segment of the performing portfolio. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable sub -segments of the portfolio.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 43. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING ESTIMATES *(continued)*

(ii) The second part consists of 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. An incurred-but-not-reported (IBNR) provision is calculated on this sub-segment of the portfolio, based on historical analysis of loss ratios, roll-rates from performing status into nonperforming status and similar risk indicators over an estimated loss emergence period.

Estimates of roll-rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 - 12 months.

(b) Non-performing loans

Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay its obligations in full. WesBank`s loans are impaired upon its classification status, i.e. following an event driven approach and specific assessment of the likelihood to repay. 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.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for Commercial and Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to Note 13 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

(c) Share-based payments

Share-based payments expenses arise from the issue of share options to employees. Some share options are cash settled, whereas some share options are classified as equity-settled share-based payments and as such, the fair value cost is determined on date of grant on an actuarial basis using a number of assumptions. The assumptions used in determining the fair value cost include expected volatility, expected dividend yield, the discount rate and the expected forfeit rate. In accordance with the principles of valuing equity-settled share-based payments, only a change in the actual experience of forfeits compared to the estimated forfeit rate assumption, will impact on the charge in the income statement. All other assumptions are determined at grant date and are not amended.

The expected volatility assumption is determined based on a ruling historical volatility over the expected life of the options and comparable financial information. The expected dividend yield is determined based on historical dividend yields and management's estimates. The discount rate is based on government bonds and have terms to maturity consistent with the assumed life of the share option. The expected forfeit rate has been based on historical experience and management estimates.

(d) Impairment of goodwill

As required by IAS 36, the goodwill in respect of First Funding (Proprietary) Limited was evaluated for impairment. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and the suitable discount rate in order to calculate the present value.

(e) Residual values of property and equipment

Residual values are based on expected future circumstances measured at current prices. Land and buildings are shown at fair value based on periodic (at least tri-annual) valuations by external independent valuators, less subsequent depreciation for buildings.

## 44. EVENTS AFTER THE REPORTING PERIOD

There were no material events that occurred after the reporting date that require adjustment to the amounts recognised in the financial statements or that require disclosure in the financial statements.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 45 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

| | The Group will comply with the following new standards and interpretations from the stated effective date. | Effective date |
|---|---|---|
| IAS 27 (amended) | **Separate Financial Statements**<br>The accounting and disclosure requirements for consolidated financial statements have been removed from IAS 27 as a result of the issue of IFRS 10 and IFRS 12, which establish new consolidation and disclosure standards.<br><br>IAS 27 (as amended in 2011) contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.<br><br>These amendments are only applicable to separate financial statements and therefore do not have an impact on the Group's consolidated results. | Annual periods commencing on or after 1 January 2013 |
| Other amendments | Amendments issued in October 2012 provide investment entities an exemption from the consolidation of particular subsidiaries. If this exemption is applied, the amendments require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).<br><br>The Group does not meet the definition of an investment entity and as such the exemption is not available to the Group and will have no impact on the results. | Annual periods commencing on or after 1 January 2014 |
| IAS 28 (amended) | **Investments in Associates and Joint ventures**<br>IAS 28 Investments in Associates and Joint Ventures (amended) supersedes IAS 28 Investments in Associates as a result of the issue of IFRS 11 and IFRS 12. The new IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The disclosure requirements relating to these investments are now contained in IFRS 12.<br><br>The Group has always applied the equity accounting principles in IAS 28 to both investments in associates and joint ventures. The amendments are therefore not expected to impact the Group. | Annual periods commencing on or after 1 January 2013 |

| | The Group will comply with the following new standards and interpretations from the stated effective date. | Effective date |
|---|---|---|
| IAS 32 | **Financial Instruments: Presentation**<br>The amendments issued to IAS 32 clarifies the existing requirements related to offsetting of financial assets and financial liabilities. The application guidance to the standard has been amended to clarify the practical application of the offsetting requirements.<br><br>The amendments relate to presentation and as such will not have an impact on the net asset value or results of the Group. The Group has performed a preliminary assessment of the potential impact of the amendments and the results of this indicate that the effect is unlikely to result in significant changes in presentation for the Group. | Annual periods commencing on or after 1 January 2014 |
| IFRS 1 (amended) | **First-time Adoption of International Financial Reporting Standards**<br>On 13 March 2012 the IASB published an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRS relief from full retrospective application of IFRS when accounting for these loans on transition. It provides the same relief to first-time adopters as is granted to existing preparers of IFRS financial statements when applying IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.<br><br>The Group is not a first-time adopter and this amended standard will therefore have no impact. | Annual periods commencing on or after 1 January 2013 |
| IFRS 7 | **Financial Instruments: Disclosures**<br>The amendment requires information about all recognised financial instruments that are set-off in accordance with paragraph 42 of IAS 32. Information includes the gross amounts subject to rights of set-off, amounts set-off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set-off in its statement of financial position and the effects of set-off on the entity's rights and obligations.<br><br>This amendment addresses disclosure in the annual financial statements not recognition and measurement. The amendment will therefore have no impact on the Group's results but will result in significant additional disclosure for financial instruments where set-off is applied or where there is a master netting arrangement in place with the counterparty. | Annual periods commencing on or after 1 January 2013 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 45 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE *(continued)*

| | The Group will comply with the following new standards and interpretations from the stated effective date. | Effective date |
|---|---|---|
| IFRS 9 | Financial Instruments<br>IFRS 9 is the first phase in the IASB's three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement. This phase deals with the classification and measurement of financial assets and financial liabilities. Financial assets can be classified as financial assets at amortised cost or fair value. The classification is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial liabilities can also be classified as financial liabilities at amortised cost or fair value in line with the existing requirements of IAS 39. If an entity elects to measure its financial liabilities at fair value, it should present the portion of the change in fair value due to changes in its own credit risk in other comprehensive income.<br><br>A decision was reached by the IASB on 7 November 2011, to change the effective date to annual reporting periods beginning on or after 1 January 2015. The requirement to restate comparatives and disclosures required on transition have also been modified.<br><br>Subsequent to issuing IFRS 9 the IASB has issued exposure drafts to amend the classification and measurement guidance, expected credit losses and hedge accounting.<br><br>Given the uncertainty around the final classification and measurement rules that will be applied and the date at which the entire IFRS 9 will be completed it is impracticable for the Group to quantify the expected impact of the standard on the Group. | Annual periods beginning on or after 1 January 2015 |
| IFRS 10 | Consolidated Financial Statements<br>IFRS 10 establishes a new control model for determining which entities should be included in consolidated financial statements. The standard also provides guidance on how to apply the principle of control to specific situations in order to identify whether an investor controls an investee. Consolidation principles have remained unchanged and are now incorporated as part of IFRS10. IFRS 10 supersedes a portion of IAS 27 Separate and Consolidated Financial Statements and SIC 12 Consolidation – Special Purpose Entities.<br><br>Transitional guidance issued in June 2012 amends IFRS 10 to provide additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. | Annual periods commencing on or after 1 January 2013 |

| | The Group will comply with the following new standards and interpretations from the stated effective date. | Effective date |
|---|---|---|
| IFRS 10 | Consolidated Financial Statements<br>The Group is in the process of assessing the impact that IFRS 10 would have on the financial statements. Until the process is completed, the Group is unable to determine the significance of the impact of IFRS 10. | Annual periods commencing on or after 1 January 2013 |
| Amendments | Amendments issued in October 2012 provide investment entities an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement.<br><br>The Group does not meet the definition of an investment entity and as such the exemption is not available to the Group and will have no impact on the results. | Annual periods commencing on or after 1 January 2013 |
| IFRS 11 | Joint Arrangements<br>The standard supersedes IAS 31 Joint Ventures and aims to improve on IAS 31 by establishing accounting principles that are applicable to all joint arrangements. The standard distinguishes between two types of joint arrangements, joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.<br><br>Transitional guidance issued in June 2012 amends IFRS 11 to provide additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Amendments to IFRS 11 also eliminate the requirement to provide comparative information for periods prior to the immediately preceding period.<br><br>The Group has performed a preliminary assessment of the impact of the standard. From a measurement perspective it is the Group's accounting policy to apply equity accounting to investments in joint ventures and therefore the standard is not expected to have a material impact on the net asset value or results of the Group. From a presentation perspective preliminary investigations indicate that there will be changes in the classification of certain investments. | Annual periods commencing on or after 1 January 2013 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 45 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE *(continued)*

| | The Group will comply with the following new standards and interpretations from the stated effective date. | Effective date |
|---|---|---|
| Amendments | Amendments issued in October 2012 provide investment entities an exemption from the consolidation of particular subsidiaries. If this exemption is applied, the amendments require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries.<br><br>The Group does not meet the definition of an investment entity and as such the exemption is not available to the Group and will have no impact on the results. | Annual periods commencing on or after 1 January 2014 |
| IFRS 13 | Fair Value Measurement<br>IFRS 13 was issued in order to eliminate inconsistencies in the guidance on how to measure fair value and disclosure requirements that currently exist under the different IFRSs' that require or permit fair value measurement. It provides a single source of guidance to prescribe how fair value should be measured. It provides a fair value hierarchy, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The standard requires entities to make various disclosures depending on the nature and level of the fair value measurement.<br><br>The measurement requirements are not expected to have a significant impact on the net asset value of the Group. The standard is however likely to have an impact on the disclosures provided by the Group in respect of fair value measurements, particularly for non financial assets and in the interim financial statements. | Annual periods commencing on or after 1 January 2013 |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine<br>This Interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs').<br><br>The Interpretation falls outside the scope of the Group's operations and will have no impact on the Group. | Annual periods commencing on or after 1 January 2013 |
| Annual Improvements | Improvements to IFRS<br>The IASB issued Annual Improvements 2009-2011 Cycle in May 2012, as its latest set of annual improvements to various accounting standards. The annual improvement project's aim is to clarify and improve accounting standards. The improvements include terminology or editorial changes with minimal effect on recognition and measurement.<br><br>The amendments have been assessed and are not expected to have a significant impact on the Group. | Annual periods commencing on or after 1 January 2013 |

| | The Group will comply with the following new standards and interpretations from the stated effective date. | Effective date |
|---|---|---|
| IFRIC 2 | Provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain.<br><br>The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:<br>• The liability is recognised progressively if the obligating event occurs over a period of time<br>• If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached. | Annual periods beginning on or after 1 January 2014 |
| Annual improvements | • IFRS 1 — Permit the repeated application of IFRS 1, borrowing costs on certain qualifying assets<br>• IAS 1 — Clarification of the requirements for comparative information<br>• IAS 16 — Classification of servicing equipment<br>• IAS 32 — Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 Income Taxes<br>• IAS 34 — Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 | Annual periods beginning on or after 1 January 2013 |
| IAS 36 | To reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. | Annual periods beginning on or after 1 January 2014 |
| IFRS 12 | Disclosure of Interests in Other Entities<br>The standard aims to provide consistent disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 requires disclosure of information that will enable users to evaluate the nature of the risks associated with the interest and the effect of the interest on the financial position, performance and cash flows of the reporting entity.<br><br>Transitional guidance issued in June 2012 amends IFRS 12 to provide additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Amendments to IFRS 12 also eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. | Annual periods beginning on or after 1 January 2013 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*

*for the year ended 30 June 2013*

## 45 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE *(continued)*

| | The Group will comply with the following new standards and interpretations from the stated effective date. | Effective date |
|---|---|---|
| IFRS 12 | Disclosure of Interests in Other Entities<br>This standard addresses disclosure in the annual financial statements and will not affect recognition and measurement. There will therefore be no impact on the Group's results. | Annual periods beginning on after 1 January 2013 |
| IAS 39 | Amends IAS 39 Financial Instruments: Recognition and Measurement make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.<br><br>A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.<br><br>Amends IAS 39 Financial Instruments: Recognition and Measurement make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.<br><br>A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations. | Annual periods beginning on after 1 January 2014 |

# Shareholder Information

## SHAREHOLDER'S DIARY

| | |
|---|---|
| Declaration of final dividend and announcement of results | August 2013 |
| Payment of final dividend | October 2013 |
| Publication of Annual Financial Statements | August 2013 |
| Annual General Meeting | 7 November 2013 |
| Publication of half-year interim report and dividend announcement | February 2014 |
| Payment of interim dividend | March 2014 |
| Next financial year end | 30 June 2014 |

# LIST OF MAJOR SHAREHOLDERS

| | 30 June 2013 | 30 June 2012 |
|---|---|---|
| FIRST NATIONAL BANK HOLDINGS (BOTSWANA) LIMITED | 1,780,590,000 | 1,780,590,000 |
| SCBN(PTY)LTD RE:BIFM BPOPF BW000000894-2 | — | 96,588,701 |
| SCBN (PTY) LTD RE: IAM 030/14 | — | 80,710,490 |
| STANBIC NOMINEES RE: BIFM | 65,074,257 | 77,329,329 |
| SCBN (PTY) LTD RE: FAM 3582376 | — | 68,024,819 |
| SCBN (PTY) LTD RE: SSB 001/77 | 55,310,000 | 55,310,000 |
| MOTOR VEHICLE ACCIDENT FUND | 50,993,910 | 50,552,910 |
| FNB NOMINEES (PTY)LTD RE:SIMS BPOPF 10001009 | 40,310,249 | 40,310,249 |
| SCBN (PTY) LTD RE: IAM 203/001 | 23,668,678 | 17,152,374 |
| SCBN(PTY)LTD RE:BIFM BPOPF BW 000000896-3 | 17,133,008 | — |
| SCBN (PTY) LTD RE: BIFM DPF | 16,964,262 | 16,955,833 |
| FNB NOMINEES (PTY)LTD RE:AGRAY BPOPF 10001010 | 11,041,705 | 16,878,318 |
| BOTSWANA MEDICAL AID SOCIETY | 16,598,000 | 16,598,000 |
| SCBN (PTY) LTD RE: FAM 201/010 | — | 15,343,419 |
| FNB NOMINEES (PTY)LTD RE:CFM BPOPF10001011 | 13,498,956 | 13,498,956 |
| SCBN (PTY) LTD RE: AG 211/002 | 9,045,835 | 9,545,835 |
| SCBN (PTY) LTD RE: SSB 001/81 | 7,511,600 | 7,511,600 |
| SCBN (PTY) LTD RE: IAM 030/30 | 9,956,778 | 7,235,453 |
| FNB NOMINEES BOTSWANA (PTY) LTD RE: SIMS BBDCSPF | — | 6,610,000 |
| STANBIC NOMINEES BOTSWANA RE:IBMF | 11,595,846 | 6,042,628 |
| SCBN (PTY) LTD RE: SSB 001/114 | — | 4,730,800 |
| STANBIC NOMINEES BOTSWANA RE: BIFM BR | — | 3,997,140 |
| STANBIC NOMINEES RE: BIFM BLAF | — | 3,574,249 |
| SCBN (PTY) LTD RE: FAM 3582252 | — | 3,293,576 |
| STANBIC NOMINEES RE: BIFM DPPF | — | 3,208,155 |
| SCBN (PTY) LTD RE:JPM BW000001036-5 | — | 3,140,000 |
| SCBN (PTY) LTD RE: SSB 001/155 | — | 2,991,400 |
| STANBIC NOMINEES BOTSWANA RE: BNY10000093 | — | 2,827,716 |
| FNB NOMS BW (PTY) LTD RE: FAM BPOPF3-10001030 | 18,963,748 | — |
| FNB NOMS BW (PTY) LTD RE: BIFM BPOPF ACTIVE 10001025 | 70,219,401 | — |
| FNB NOMS BW (PTY) LTD RE: BIFM BPOPLF WP-10001027 | 16,025,800 | — |
| FNB NOMS BW (PTY) LTD RE: FAM BPOPFP-10001031 | 70,921,927 | — |
| FNB NOMS BW (PTY) LTD RE: FAM BPOPF1-10001029 | 100,242,817 | — |
| | 2,388,533,769 | 2,427,684,958 |
| | 93.17% | 94.51% |

# NOTICE OF THE 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 of 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 of Botswana ("AGM"), to be held at 12h00 on Thursday 7 November 2013 at Gaborone Sun, 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 Registered Office of the Company so as to be received by no later than 12h00 on Monday 4 November 2013. 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 2013)

| | |
|---|---|
| Forms of proxy to be received by 12h00 | Monday 4 November |
| Annual General Meeting at 12h00 | Thursday 7 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 Gaborone Sun, at 12h00 on Thursday 7 November 2013, 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:
   To receive, consider, and adopt the audited financial statements including the report of the auditors for the year ended 30 June 2013.

3. Ordinary Resolution 2:
   To approve the distribution of a dividend of 15.0 thebe per share, as recommended by the Directors.

4. Ordinary Resolutions 3,4, and
   To re-elect the following directors of the Company:
   B M Bonyongo
   M W Ward
   who retire by rotation in terms of the Constitution, being eligible, offer themselves for re-election. Motions for re-election will be moved individually. Abridged curriculum vitea of these directors are set out on pages 40 and 41 of this annual report.

# LIST OF MAJOR SHAREHOLDERS

*30 June 2013*

5. Ordinary Resolutions 5:
   To ratify the appointment of the following director of the Company who was appointed during the course of the financial year:
   D A Kgosietsile
   Abridged curriculum vitea of this director is set out on page 41 of this annual report.

6. Ordinary Resolution 6:
   To approve the remuneration of the directors for the year ended 30 June 2013 as set out on page 113 of this annual report under note 5 of the annual financial statements.

7. Ordinary Resolution 7:
   To approve the Auditors remuneration for the past year's audit as disclosed on page 113 of this annual report under note 5 of the annual financial statements.

8. Ordinary Resolution 8:
   To approve the appointment of Auditors for the ensuing year.

9. To transact any other business which may be 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 authorized 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 form of proxy for the Annual General Meeting, which sets out the relevant instructions for its completion, is annexed hereto.

In order to be effective, a duly completed form of proxy must be received at the Transfer Secretaries, PricewaterhouseCoopers (Proprietary) Ltd, Plot 50371, Fairgrounds Office Park, and P O Box 294, Gaborone by not later than 12h00 on Monday, 4 November 2013.

By Order of the Board

**P D Stevenson**
Chairman of the Board of Directors

**L Boakgomo-Ntakhwana**
Chief Executive Officer

## NOTES

# 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 CIRCULAR TO SHAREHOLDERS OF FNBB ISSUED ON THE 8TH OCTOBER 2013.

For use at the Annual General Meeting of Shareholders of the Company to be held at Gaborone Sun at 12h00 on Thursday 7 November 2013.

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 ________________ 2013

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 hereof.

# 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 authorize 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 authorize the proxy to vote in favor 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 2013.

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**

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**Registered Bank** • Registration Number 1119 • S.W.I.F.T. • Firnbwgx
**Share Transfer Secretaries** • PriceWaterHouseCoopers • Plot 50371 • Fairgrounds Office Park • Gaborone