how can we help you?

CREATE LONG-TERM

SUSTAINABLE VALUE

Improving **quality, reliability** and **efficiency** for you.




First National Bank of Botswana Limited

Annual Report 2014

FNB

First National Bank

how can we help you?
get through **this report**

The Audited Annual Financial Statements can be found from page 107 – 188 in this report

CASE STUDY

Online Banking is safe, secure and available 24/7 to FNBB customers free of charge 37

CASE STUDY

With the FNB **Smartphone Banking App**, your smartphone fast becomes your mobile banking unit 41

CASE STUDY

ATM Advance – working towards a better banking experience 57

CONTENTS

On our web site more information is available in relation to our Corporate Social Responsibility activities.

Please visit www. fnbbotswana.co.bbw

Please feel free to visit www. fnbbotswana.co.bw to find previous FNBB Annual Reports.

Please save paper and view the soft copy via our downloadable PDF files.

ABOUT THIS REPORT

PAGE REFERENCE

ACCESS DISK PROVIDED

LOG ONTO THE WEBSITE

CASE STUDIES

How can we help you?

This report has been carefully designed with a number of tools to help you find all the data and information you require as efficiently as possible. To start of with there are 6 sections to the report as shown above. As can be seen (above) all the reports are clearly referenced by page number. As a further navigation tool at the start of each section you will find a summary content menu too. For the following pages.

We have taken our desire to help you navigate this report even further with the inclusion of 'bubble' directors that will point the reader to other sources of information around a key topic which maybe be on another page or even on another platform entirely, such on the www.

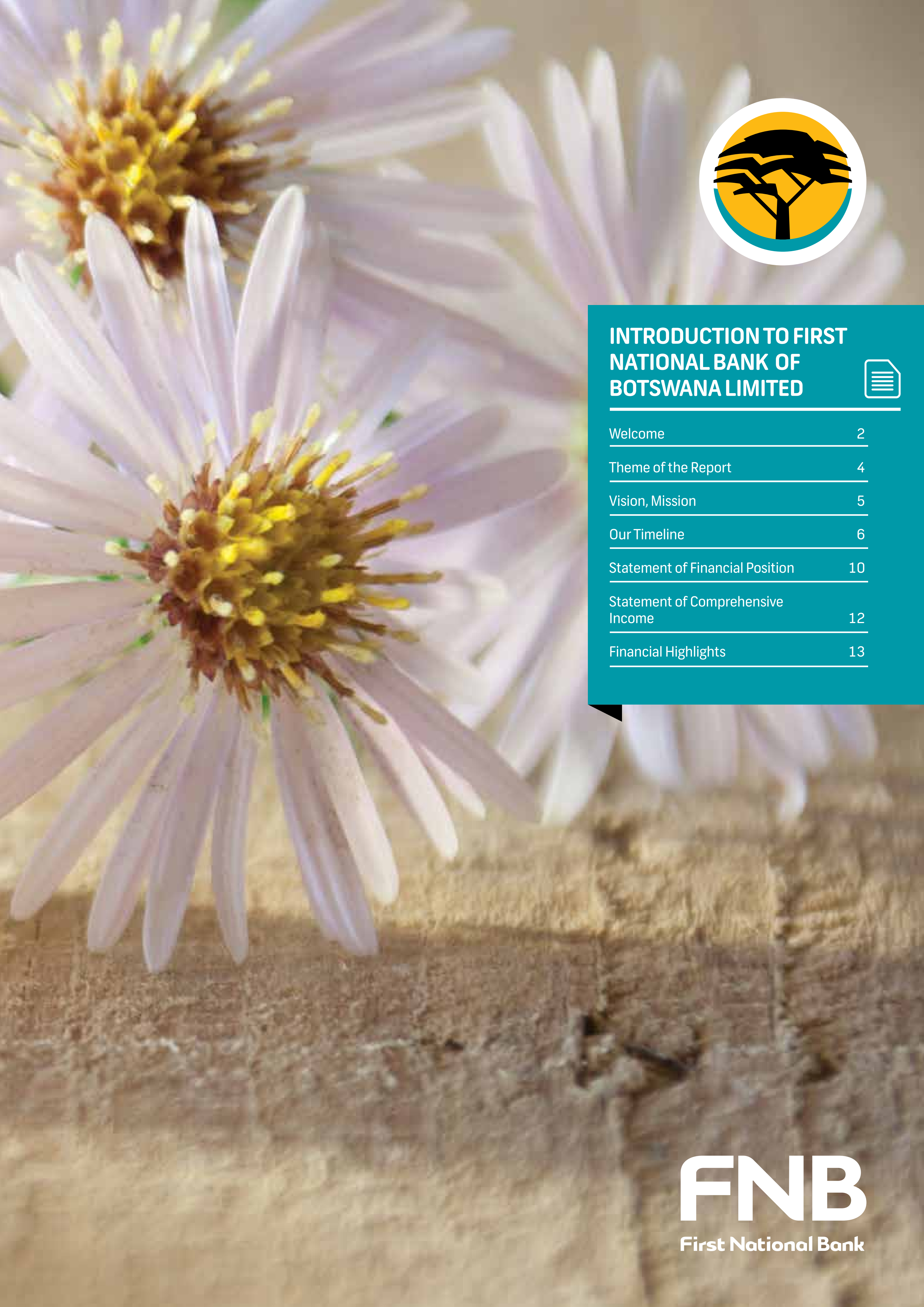
We value your feed back on if these tools are useful to you and if you have any other ideas that would improve this high quality document.

how can we help you?

Introduction to First National Bank of Botswana Limited (FNBB)

Thank you very much for taking the time to read our First National Bank of Botswana Limited 2014 Annual Report. We hope you will agree with us, once you have perused this document, that FNB continues to be a sound and profitable organisation.

This status is the culmination of an enormous amount of energy and effort from the team at FNB. To them we would like to extend our heart-felt gratitude. Without them we would never be able to boldly ask our customers "How can we help you"? and actually be able to provide meaningful solutions to their unique needs. This document is designed to make it as easy as possible to read and analyse. We asked ourselves the question "how can we help make this document approachable and useful?" We invite you to enjoy reading this Annual Report.



INTRODUCTION TO FIRST NATIONAL BANK OF BOTSWANA LIMITED

Theme of this report

DELIVERING LONG-TERM SUSTAINABLE **VALUE FOR YOU**

2014 has been a year in which many of our long-term plans have come to bear fruit. Our five year "Journey of 1500 days" brought us a solid balance sheet. Our advances and income have more than doubled and we moved into our new state of the art headquarters in the heart of the new Gaborone Central Business District. For FNBB the healthy state that we find ourselves in today has been due to the efforts of the many hundreds of employees that make up our clan of FNBers. As we look forward, we seek to ensure that our leadership position remains so in a sustainable fashion.

Through this Annual Report we would like to demonstrate what we mean by "Delivering long-term sustainable value for you".

About Us

FIRST NATIONAL BANK OF BOTSWANA LIMITED (FNBB) IS A LEADER IN INNOVATIVE BANKING PRODUCTS AND HAS EMERGED AS FIRST IN MANY AREAS IN BOTSWANA:

First

- to introduce a Pula based credit card;
- to provide internet banking;
- to bring inContact - real time transaction based SMS/email messaging;
- Bank in Botswana to establish a charitable Foundation;
- to introduce Cellphone Banking;
- to introduce an instant accounting solution for SMMEs;
- to introduce Mobile ATM;
- to introduce eWallet; and
- to introduce ATM advance.

FIRST NATIONAL BANK BOTSWANA (FNBB) WAS REGISTERED IN 1991

23 years

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

As at June 2014, FNBB was the largest company on the Botswana Stock Exchange by market capitalization. The Bank has the largest balance sheet of all the banks in Botswana totalling P17.6 billion and the

LARGEST BALANCE SHEET OF ALL THE BANKS IN BOTSWANA TOTALLING

P17.6 billion

largest advances book of all the banks in Botswana over P12 billion. Despite being the newest entrant of the four largest banks in the country, FNBB has, in its 23 years of operation, become the most profitable bank in Botswana with the most diversified balance sheet structured to achieve sustainable profits in all economic conditions.

Vision

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

Mission

We are a Bank of Excellence with an exceptional team, continually outperforming by offering innovative financial services and solutions. We create sustainable wealth exceeding ALL stakeholders' expectations.

Delivering service excellence

The Bank has evolved its representation of Segments, Product Houses and Channels to the new Brands and Segment Model. This model gives brands and segments more responsibilities and accountabilities in the end to end running of their segments/brands to create more value for the customer.

WesBank

A division of First National Bank of Botswana

LEADER IN VEHICLE AND ASSET FINANCE

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

RMB BOTSWANA

Traditional values. Innovative ideas.

RMB Botswana is a corporate and investment division of First National Bank of Botswana Limited. RMB Botswana offers clients access to a comprehensive suite of investment banking products and services, including: advisory; corporate finance; trading solutions; infrastructure and project finance; structured trade and commodity finance; fixed income; currency and commodity services; and investment opportunities.

(continued)

OUR TIMELINE

1991/

1991/ **THE BIRTH:** FNBB was established in Botswana in September as a registered subsidiary of the FirstRand Group.

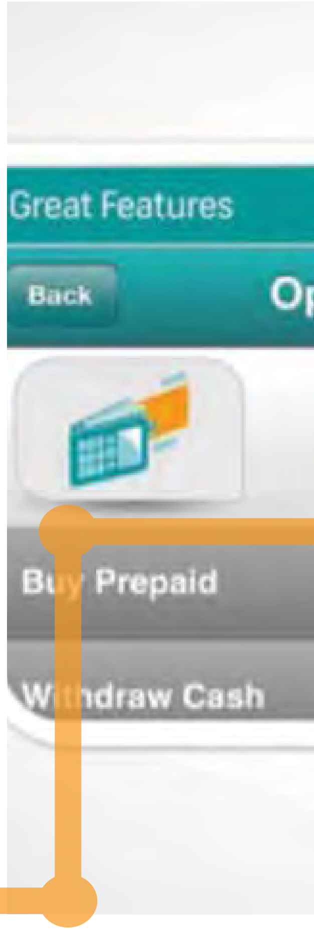
1992/ **START OF BRANCHES:** FNBB took over the operations of BCCB which was under Bank of Botswana administration and operated 5 branches. This was the start of Main, Industrial, Lobatse and 2 Francistown branches.

1993/ FNBB acquired Financial Services Company, a leasing and property finance company from which FNBB Property finance and WesBank were born

1993/ **LISTING ON STOCK EXCHANGE:** FNBB listed on the Botswana Stock Exchange.

1994/ FNB acquired Zimbank Limited.

1998/ FNBB introduced a Pula based Credit card. These VISA cards were accepted in more than 200 countries worldwide.



2000/

2001/ **FNBB FOUNDATION IS BORN:** FNBB established the FNBB Foundation; one of the biggest corporate givers and a leader in CSR in the financial services sector. To date, FNBB has contributed P30 million to the Foundation to be invested in various projects, enriching and uplifting the lives of Batswana.

2003/ FNBB harnessed the power and functionality of the cellphone and email by introducing inContact; a free message service that sends customers a real time SMS or email confirming all transactions taking place on their accounts.

2004/ **INTERNET BANKING:** FNBB pioneered Internet Banking in Botswana. The service offers customers the benefit of direct, secure and real-time access to their accounts 24/7.

2006/ **BANK ANYTIME AND ANYWHERE:** FNBB Cellphone Banking brought new meaning to convenient banking, giving customers the freedom to bank anytime and anywhere. Today, more than 300 000 utilise cellphone banking.

2006/ FNBB became the largest bank by market capitalisation on the Botswana Stock Exchange.

2010/ **FNBB WON THE EUROMONEY BEST BANK AWARD IN BOTSWANA.** The award is attributed to the Bank's demonstration of leadership, innovation and momentum in the market.

2006/
FNBB INTRODUCED CELLPHONE BANKING

2010/
FNBB introduced eWallet

2010/ The FNBB soccer themed 2010 Annual Report won the best published Corporate Report and Accounts in the Financial Services Sector category by the PricewaterhouseCoopers Annual Report Awards.

2010/ **FNBB INTRODUCED EWALLET:** a card-less money transfer service that allows customers to instantly send money to anyone in Botswana with an active cell number. Recipients can use the money in the Wallet to buy airtime or Send Money on to another recipient.

2011/ **MOBILE ATM IN BOTSWANA:** FNBB unveiled the first ever mobile ATM in Botswana. This forms part of the Bank's efforts to bank the unbanked and take banking to the people.

2012/ **FNBB OPENED ITS 21ST BRANCH-AIRPORT JUNCTION BRANCH** in its 21 years of operation in Botswana. The Bank continues to grow its footprint in the interest of serving a wider customer base.

2012/ **FNBB WAS VOTED THE BEST COMMERCIAL BANK** in the World Finance Awards. The award is testament to the hard work and dedication of staff and the Bank's commitment to provide a full range of innovative financial services and products to all customers.

2012/ **FIRSTPAY PORTAL:** FNBB introduced FirstPay Portal; a debit and credit card payment platform that allows FNB and non-FNB customers the ability to pay their utilities and services online.

2012/ FNBB became the largest bank by market capitalisation on the Botswana Stock Exchange

FNB
First National Bank

(continued)

OUR **TIMELINE**

2013/

2013/ **FNBB WAS AWARDED THE BEST LOCAL TRADE FINANCE BANK** in Botswana by the Global Trade Review (GTR). The Best Local Trade Finance award is given to a bank that provides effective trade finance solutions to the demands of the local market. Therefore, the award takes into account the innovation, service, consistency, flexibility and pricing of the solution.

2013/ **FNBB RECEIVED THE LEADER AWARD FOR THE TOP ACQUIRER** in Sub-Saharan Africa at the 2013 Visa Security Summit. The annual LEADER Award recognises the exceptional efforts taken by the risk management functions of selected Visa clients in effectively combating fraud risks.

2013/ **FIRST PLACE:** FNBB unveiled its new Head Office; First Place, a state-of-the art building that boasts the banks' "one-stop-shop" capability by hosting all the Bank's divisions at one location.

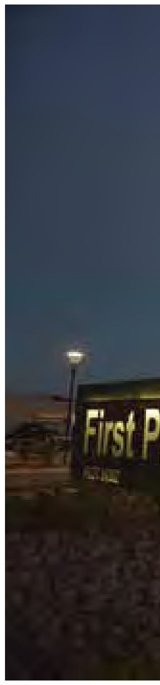
2013/ **FNBB INTRODUCED SLIMLINE ATMS:** to offer customers easy banking access and convenience at locations where the Bank does not have branch representation or a conventional ATM. FNBB replaced its old mini-ATMs with Slimline ATMs across the country.

2013/ **FNBB INTRODUCED VIRTUAL PURCHASES:** FNBB collaborated with Botswana Post who were appointed by Botswana Power Corporation as one of the Super Vendors for purchase of pre-paid electricity. FNBB introduced virtual purchases which are card based to provide pre-paid electricity to all the VISA and Mastercard credit and debit card holders irrespective of issuing bank.

2013/ **FNBB LAUNCHED THE FNB SMARTPHONE BANKING APP:** that works on iOS Apple, BlackBerry10 as well as Android Smartphones. The FNB App is a safe and secure banking application that allows customers to have direct and easy access to accounts held with FNBB.

2010/

FNBB WON THE EUROMONEY BEST BANK AWARD IN BOTSWANA.



2011/

FNBB UNVEILED THE FIRST EVER MOBILE ATM IN BOTSWANA

2013/ **RMB BOTSWANA:** FNBB rebranded its corporate and investment banking activities to RMB Botswana. The addition of a new brand supports FNB Botswana's strategy of growing its business by broadening the range of corporate and investment products and services.

2014/ **FNBB LAUNCHED THE ATM ADVANCE** with real-time cash deposit, a first of its kind in Botswana and also a first in the FirstRand Group subsidiaries. FNB's new ATM Advance with real time cash deposits is available 24/7 affording customers banking convenience.

Two decades of long-term sustainable value for you.

2013/

FIRST PLACE IS INAUGURATED

2013/

FNBB LAUNCHED THE FNB SMARTPHONE BANKING APP THAT WORKS ON IOS APPLE, BLACKBERRY10 AS WELL AS ANDROID SMARTPHONES.

2014/

2014/ **FNBB INTRODUCED SOUTH AFRICAN RAND (ZAR) DISPENSING ATMS.** The foreign currency withdrawal capability is available at select FNB ATMs footprint in Botswana.

2014/ FNBB is the largest Bank by market capitalisation on the Botswana Stock Exchange at P8.8 billion as at June 2014.

2014/ **FNBB WAS VOTED THE MOST INNOVATIVE BANK IN BOTSWANA** by the Global Banking and Finance Review 2014. Global Banking and Finance Review awards were created to honour companies of all sizes that stand out in particular areas of expertise within the banking and finance industry. The awards recognise the innovative banking, investment strategies, achievements, progressive and inspirational changes within the financial sector.

2014/

FNBB INTRODUCED SLIMLINE ATMS

FNB
First National Bank

(continued)

STATEMENT OF FINANCIAL **POSITION**

"Despite the tough trading conditions, it is pleasing to note that the Bank's balance sheet grew by a healthy **12%** to **P17.6 billion** from P15.8 billion."

The Bank has delivered a strong set of results for the year ended June 2014 considering the economic environment prevailing during the period under review. Despite the tough trading conditions, it is pleasing to note that the Bank's balance sheet grew by a healthy 12% to P17.6 billion from P15.8 billion.

Advances to customers registered a strong growth of 17%, thereby reaching a historical high of P12.1 billion buoyed by good growth in deposits from customers of 11% from P12.9 billion to P14.3 billion.

Most of the advances growth was achieved in the secured asset class as the Bank moved to a more conservative credit risk appetite. After the launch of the RMB brand during the financial year, significant growth was registered from the Corporate segment. However the Bank's advances book remains well diversified across all segments with the Commercial segment also showing good growth during the year. This financial year's good growth saw the Bank increasing its lead in the commercial bank's market share. The balance sheet market share increased from 26% in the prior year to 27% in the current year whilst advances market share grew from 28% in prior year to 29% in the current year.

Bank of Botswana certificates reduced by 46% year-on-year as the advances grew at a faster pace than the liabilities. The liabilities growth rate was impacted by the tight liquidity conditions and the focused management of balance sheet cost of funding. The high loan-to-deposit ratio assisted in achieving an average return on assets of 4.3% as the Bank moved into higher yielding interest bearing assets.

During the year under review the Bank disposed of shares in one of its property investments as reflected under the non current assets held for sale in the statement of financial position which were reported at P7.1 million in 2013.

Financial Highlights

PROFIT AFTER TAX

3%

Achieved from solid volume growth and continued diversification.

ADVANCES

17%

Driven by all segments, notably Wesbank and Corporate and Investment Bank (RMB)

NON INTEREST REVENUE

7%

As a result of driving volumes in eSolutions

COST TO INCOME RATIO

40.3%

As a result of the robust cost containment strategies

(continued)

STATEMENT OF COMPREHENSIVE **INCOME**

Despite the strong growth in advances of 17% coupled with a reduction in Bank of Botswana Certificates of 46%, interest earning assets diluted to a growth of 11%, however this growth translated into a growth of interest income of only 3%, reflecting the effects of interest rate cuts which happened during both the year under review and the last few months of the previous financial year.

Margins were also impacted by the tight liquidity conditions as well as the reduced credit risk appetite. However good growth in the endowment portfolio and more focused management of cost of funding reduced the interest expense line by 7% leading to a 6% increase in net interest income.

The strategic focus on growing loans and advances in the secured lending portfolios whilst adopting a conservative credit risk appetite, as well as applying tight collections and ongoing credit risk management produced rewards. Impairments grew by only 2% and impairments to gross advances as well as non-performing loans to gross advances remain at below industry norms.

The Bank prides itself as a leader in innovative banking solutions. During the year the Bank launched a number of solutions aimed at increasing convenience and moving customers away from the more expensive banking channels. Automated Deposit Taking machines (ADTs), Slimline ATMs and Rand disbursing ATMs were successfully launched. The volumes of prepaid electricity via the cellphone banking channel also increased significantly. This expansion in product offering resulted in a 7% increase in non-interest revenue which in turn enabled the Bank to cover its operating costs with non-interest revenue, a measure that the Bank monitors closely. The sale of shares in one of our previously owned property also had a positive impact on this line.

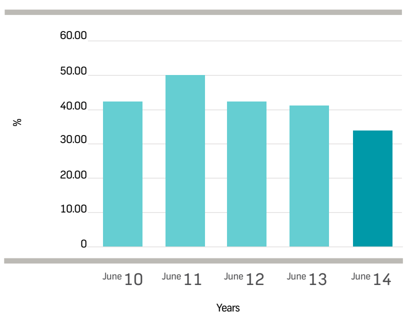
Investment in new product offerings as well as infrastructure spend resulted in a 13% growth in operating costs. Cost containment through strategic procurement practices was successfully implemented.

Income Statements
Refer to page 124

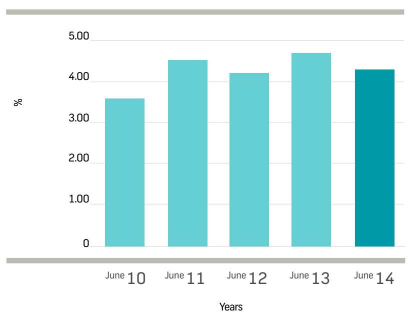
Investment in people is pivotal to the Bank's performance. The increase of 16% in staff costs reflected staff development programs and a policy of maintaining a competitive position in terms of attracting and retaining appropriate talent. This is reflective of the importance of this key stakeholder.

As a result of all the above, profit before tax posted a 2% year on year growth with key metrics remaining strong.

RETURN ON EQUITY (%)

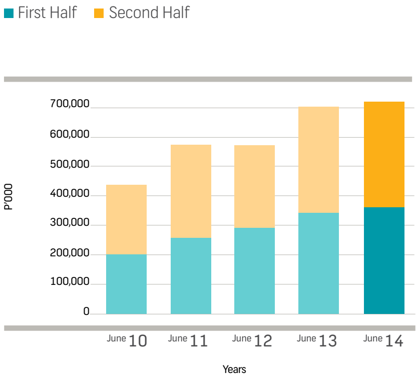


RETURN ON ASSETS (%)

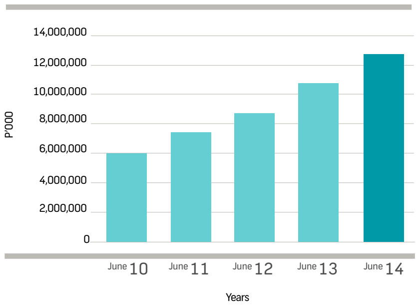


Financial Highlights

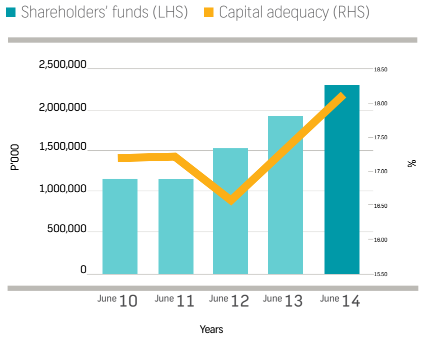
PROFIT AFTER TAX



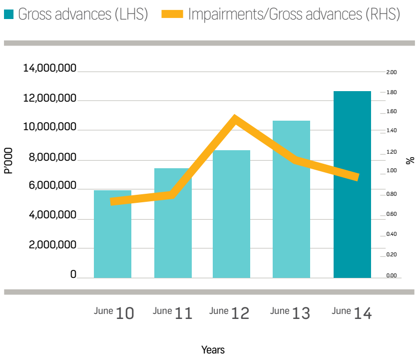
LOANS AND ADVANCES



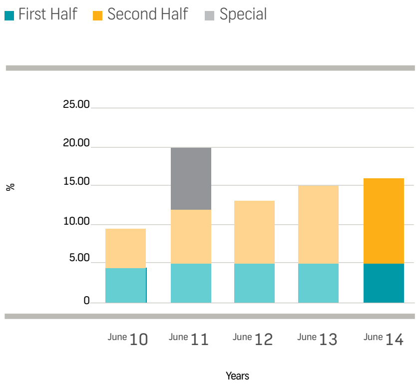
SHAREHOLDERS' FUNDS VS CAPITAL ADEQUACY



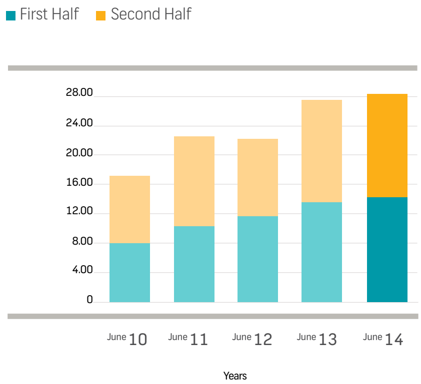
GROSS ADVANCES VS IMPAIRMENTS TO GROSS ADVANCES



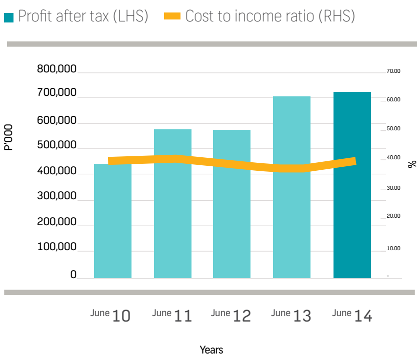
DIVIDEND PER SHARE (THEBE)



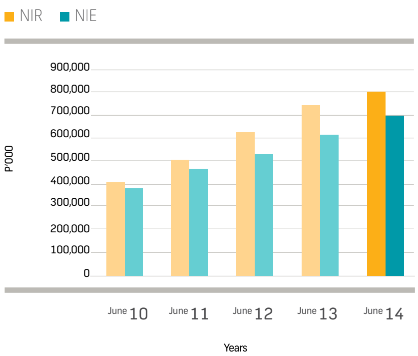
EARNINGS PER SHARE (THEBE)



PROFIT AFTER TAX VS COST TO INCOME RATIO



NON-INTEREST INCOME VS NON-INTEREST EXPENSES



how can we help you?

Strategy and Performance

STRATEGY AND PERFORMANCE

PETER DAVID STEVENSON
FNBB CHAIRMAN OF THE BOARD

> “On behalf of our Board of Directors, it gives me great pleasure to present our Annual Report for the year ended June 2014, and our outlook for the new financial year.”

PETER DAVID STEVENSON, FNBB CHAIRMAN OF THE BOARD

The financial period under review can best be described as eventful and challenging. Locally, Botswana’s economy reported lacklustre GDP growth of 4.9%, driven mainly by the performance of service-oriented industries of which the financial services sector is one. We once again operated in a low interest rate environment.

Further afield, we witnessed the Eurozone crisis and its persistent grip on many economies across the globe. This continued to impact on developing economies whose major export destinations are markets such as the United States, as is the case with Botswana’s diamond industry. It is against this backdrop that FNB Botswana (FNBB) presents its 2013/14 financial year results. The Bank produced a solid performance, once again demonstrating its commitment, as well as its ability to deliver acceptable returns to shareholders despite a difficult environment.

>

essage FROM THE CHAIRMAN

creating a new generation of channels to enable us to improve the service **we offer you.**

Refer to
-Financial Highlights page 11
-CFO's report page 28
-Governance and Sustainability Report page 76

Culmination of a Journey

FNBB's performance during the reporting period is the culmination of its "Journey of 1,500 Days" growth strategy, upon which it embarked in 2009. The results of this ambitious strategy speak for themselves. Over the five years up to 2013/14, FNBB's balance sheet grew significantly while both advances and income doubled.

As at the end of the financial period under review, FNBB remains the largest company on the Botswana Stock Exchange by market capitalisation at P8.8 billion as at June 2014.

Operational Developments

FNBB successfully restructured its businesses this year so as to be more client-driven and client-focused, and to improve efficiencies, governance and controls.

Through our sustained focus on innovation, being one of our fundamental values and a pillar of our success, we continue to lead the market with new services and channels. During the year under review we introduced a number of new products aimed at improving customer convenience and reducing the need for customers to use branches. These include our revolutionary Automated Deposit Teller (ADT) machines, which allow customers to deposit cash at any time with immediate crediting of their account, remote purchasing of prepaid electricity, and an app for smartphone banking. Additionally, we have increased the number of cash withdrawal points through the use of slimline ATMs in partnership with selected retailers, both to further reduce month-end queues and to improve services in areas which have hitherto been without branches or ATMs.

In recognition that our staff represent a vital component in the success of the Bank, we increased our investment in training and development, and augmented certain benefits such as pension contribution. Both attracting and retaining high-quality staff will remain a focus of FNBB.

Community Support and Corporate Social Responsibility

FNBB prides itself on being an enthusiastic and engaged corporate citizen. During the year, the Bank continued to be one of Botswana's biggest corporate givers, through the FNB Foundation. Each year, FNBB donates up to 1% of after tax profits to the Foundation, whose independent board of trustees allocates funds to selected community causes which are deemed to be deserving, and where genuine value will be derived from FNBB's support. Additionally, we support and encourage a staff volunteer scheme by providing funds to help community programmes which are driven by the staff themselves.

To date, FNBB, through the Foundation, has invested P30 million in various projects.

Governance and Risk

A recent global phenomenon has been increased regulation for banks, and Botswana has been no exception in this regard. Not only have additional regulatory requirements been introduced locally, but international protocols have been extended, particularly in the area of anti-money laundering.

We continue to be pro-active in managing this changing environment and the risks relating to non-compliance. The charter of the Board Risk and Compliance Committee is regularly reviewed to keep pace with developments. This committee is supported by a combined assurance forum which is made up of senior management and the external auditors, and whose purpose is to ensure all potential risks are identified, monitored and managed.

Looking Ahead

Mindful as we are of the many challenges which lie ahead, FNBB is well positioned to pursue its next phase of growth, and has developed a clear vision.

While continual technological innovation to improve customer convenience remains a priority, our primary goal is to improve service performance and to make the customer central to all our processes.

We have set in motion analytical processes to better understand our individual customers, and thereby ensure that our products and service solutions are tailored to meet the individual needs our customers. In short, we intend to answer our own tag line of "How can we help you?" by anticipating and facilitating our customers' needs.

A Word of Thanks

In closing, I would like to take this opportunity to extend a special word of thanks to our outgoing CEO, Ms. Lorato Boakgomo-Ntakhwana. Ms. Boakgomo-Ntakhwana leaves us at the end of the 2014 calendar year to take up the position of Deputy CEO of FNB International in South Africa. In her five years as CEO,

Ms. Boakgomo-Ntakhwana has led FNBB through a very successful phase of its development. The legacy of her hard-work, her vision and her determination is self evident from FNBB's current position, but she will also leave behind an energetic and cohesive management team and high-quality staff.

I would also like to thank Mr. Balisi Bonyongo, who retired from the Board at the last Annual General Meeting in 7th November 2013. He has served on the Board of FNBB since May 2009. He was the Chairman of the Board Risk and Compliance Committee and the Board Audit Committee. He was also a member of the Directors Affairs and Governance Committee and made invaluable contribution to the growth of FNBB through his commitment to driving excellence and his leadership.

I am delighted to welcome Mr. John Macaskill, who joined the Board as an independent Non-executive Director on 4 March 2014. Although now retired from the FirstRand Group, John was CEO of FNBB from February 1996 to February 2003 before moving into a regional role with FirstRand. His detailed knowledge of both banking and Botswana represents exceptional value to the Board.

To our employees, customers and our regulators, the success of the Bank would not be possible without your backing. Thank you for your unwavering support. We look forward to a stronger relationship in the new financial year.

Finally, I would like to thank my fellow Board members for the encouragement they continue to accord me. I thank them for their commitment to the success of FNBB displayed through the valuable insight and the guidance they give to the executive team.

PETER DAVID STEVENSON
CHAIRMAN

LORATO E. BOAKGOMO-NTAKHWANA
FNBB CHIEF EXECUTIVE OFFICER

Summary of Key Points

- 2013/14 was a year of consolidation
- Launch of RMB helped strengthen our balance sheet and advances
- Segmentation model helped improve penetration of key market segments
- Increased investment in infrastructure and embedding customer service culture gave FNBB competitive advantage
- Bank poised for stronger growth in 2014/2015

Chief EXECUTIVE OFFICER'S REPORT

CHIEF EXECUTIVE **OFFICER'S REPORT**

LORATO E. BOAKGOMO-NTAKHWANA
FNBB CHIEF EXECUTIVE OFFICER

We have entered a new banking era in Botswana characterised by heightened competition, increased regulation and a low interest rate environment.

OUR ADVANCES TO CUSTOMERS INCREASED BY

17%

TO P12.1 billion

Between 2012 and 2013, the Central Bank of Botswana announced 200 basis point cut in interest rates. Furthermore, the regulator also issued a two-year moratorium at the beginning of 2014 prohibiting any increases in banking charges and fees effective 1 January 2014.

Looking at the economic environment, Botswana's credit active consumer population continues to be over borrowed. While this is a result of a number of factors amongst them insufficient consumer credit management awareness, the status quo had an effect on our credit lending practices.

On a more positive note, it is encouraging to see that Botswana's economy is on a recovery path. During the year under review, the country's GDP grew at 4.9%, a noteworthy improvement from the previous year's performance. However, there are indications that certain quarters of the economy are still suffering from the lag of the impact of the 2011 global financial and Euro crisis, like many economies globally.

As we reflect on what was our "Journey of 1500 Days", which we commenced in 2009 to turn FNB Botswana into a market leader in every respect, I'm pleased to report that we have delivered on our most pressing objectives.

These developments have had far-reaching consequences for the various business segments within FNB Botswana and the banking industry as a whole. It is against this backdrop that I present FNBB's results for the 2013/14 financial year.

Our Performance

We embarked on the financial year under review with specific targets in mind:

- to conclude our segmentation model, which we introduced in 2009 to enable us to design and launch more sector specific solutions;
- to reduce the Bank's exposure to the impact of the macroeconomic factors; and
- to deepen our penetration of key segments in which we do not have a natural market share.

Looking at how we have performed against these targets, I am pleased to report that we have done well. True to our track record of delivery, FNBB achieved solid results in 2013/14. This is mirrored in our satisfactory financial performance, which once again demonstrates the Bank's ability to deliver continuous shareholder returns despite a difficult trading environment.

We managed our balance sheet closely, keeping a keen eye on our liabilities and the quality of our assets. Consequently, our balance sheet grew 12% year-on-year. Our advances increased 17% to P12.1 billion while our interest income increased 3% to P1.24 billion driven by the growth in advances.

A key contributing factor to our performance was the official launch of RMB Botswana during the year. The introduction of this trusted diversified financial brand in Botswana has further broadened our corporate and investment offering and helped us sharpen our competitive edge. Financially, RMB strengthened our balance sheet and advances in 2013/14.

We also focused on safe-guarding our capital position during the year. To this end, we managed to successfully maintain the Bank's capital adequacy ratio at 18.27%. Although this certainly is above the Bank's internal limit, it still complies with the Bank of Botswana's capital requirement of 15%.

I am particularly pleased with the delivery of our diversification strategy aimed at reducing our dependence on interest income. Our non-interest income during the year increased by 7% while net interest income increased by 6% year-on-year.

Ensuring that we are sufficiently resourced to comply with new regulatory requirements was a costly but necessary exercise in 2014. We therefore invested significantly in acquiring and retaining skills that are critical in affirming ability to respond sufficiently to future regulatory changes in our environment, and also increased our investment in infrastructure roll-out introducing new groundbreaking innovations and repairing existing hardware. Accordingly, our operating expenses increased 13% to P343 million.

(continued)

Our brand positioning is a natural extension of our vision and values. Therefore, ensuring that we have **the right people for our business** is critical.

Serving our Customers

As FNB Botswana, we exist solely to serve our customers and earn a profit for our shareholders. Delivering on this dual mandate is a responsibility we take seriously, and one that we intend to continue to carry out with great care, transparency and integrity.

Our longer-term vision is to become a truly customer centric organisation where we place the customer at the core of what we do, focusing on what they want rather than what we want to sell to them.

We have already begun putting in place building blocks to ensure that we attain our overarching objective, which is to become synonymous with quality customer service in Botswana. This ambitious but achievable goal is expressed in our brand promise being "How can we help you?" which articulates our desire to be a caring and helpful Bank to all our customers. Hence our major highlights of the year include the launch of our Slimline ATMs that are improving access to our banking services in remote locations where FNB Botswana does not have branch representation or conventional ATMs. The ATM business is part of our growth strategy to not only improve access to banking services but also to reduce the country's unbanked population. We have remained steadfast in our pursuit of this ambition through other innovative products such as eWallet, Pay2Cell and cellphone banking.

In early 2014 we introduced Batswana to 24/7 banking convenience with the launch of the ATM Advance machines with real-time cash deposit capabilities, making FNB the first and only bank in Botswana to provide this service. The ATMs have changed consumers' banking habits, giving further impetus to our 'Bricks to Clicks' strategy whose aim is to migrate consumers away from traditional banking channels to more cost effective digital platforms.

The launch of the FNB Smartphone Banking App this year supports this plan. Safe and secure, the App has seen phenomenal uptake as it allows customers to have direct and easy access to FNB accounts. We also introduced prepaid electricity allowing customers to purchase electricity online, through their mobile handsets or at any FNB ATM.

These innovations and many more which are in the pipeline are intended to ensure that FNB Botswana continues to use innovation to improve customers' experience of the brand across all touch points. This speaks to the history of our brand appeal and consistency of experience that has long been at the core of our value proposition to existing and prospective customers. Hence we are determined to ensure that this remains so while also seeing to it that we continue to grow our market share in Botswana and defend our leadership position.

Our People

Our brand positioning is a natural extension of our vision and values. Therefore, ensuring that we have the right people for our business is critical. Of equal importance is also making sure that our employees regard us as their preferred employer in the market for the right reasons. It is for this reason that we increased our investment in solidifying our relationship with our employees. True to our brand promise of being a caring and helpful organisation, it is important to us that we help our staff unleash their potential.

Refer to
HR Report on page 60

Our employees have become our biggest ambassadors and champions. This is mirrored by our list of accolades this year, which include being named the second 'Best Company to Work For' in the 2013 Deloitte Best Company to Work For Survey for the second consecutive year. Internally, our employees now trust us more and believe in our abilities to deliver on our strategy. This is reflected in our Annual Employee Engagement Survey score which improved significantly this year from below 55% five years ago when we first conducted the review to a humbling 84%.

Efforts are underway to build on these gains and ensure that we truly become an employer of choice in our environment.

Refer to on page 64

Our Communities

The FNB brand, through our FNB Foundation to which the Bank contributes up to 1% of its after tax profits, occupies a unique place in the hearts of Batswana across the country. This is a relationship we did not take for granted in 2014. Instead, we sought new and better ways to enhance it.

During the year under review, FNB Botswana contributed P3 million to the Foundation, and more than P30 million since its inception in 2001.

Through our involvement in projects of national importance such as the renovation of Tawana Park in Gaborone, which will soon be known as First Park, we want to enhance our communities' affection for our brand as well as demonstrate our commitment to caring for the environment in which we operate. This relates to both our people and their surroundings.

Within this context, our aim henceforth is to support mainly those causes with a broader social impact. These must be projects that are self-sustaining, are in line with our Corporate Social Responsibility focuses on education, job creation, skills development, arts and culture; and the social welfare.

This, we believe, is the best way in which we can ensure our interventions have a broader and much more sustainable impact.

Looking Ahead

The story of the past five years is one of resilience, growth, and consistent delivery of exceptional shareholder returns and contributing to the development of Botswana's financial services skills pool. As we reflect on what was our "Journey of 1500 Days", which we commenced in 2009 to turn FNB Botswana into a market leader in every respect, I'm pleased to report that we have delivered on our most pressing objectives.

Our balance sheet has grown from P12.4 billion to P17.6 billion in 2013/2014. During this same period, our profit after tax grew from P407 million to P720 million.

Highlights

1 **BEST LOCAL TRADE FINANCE BANK IN BOTSWANA BY THE GLOBAL TRADE REVIEW (GTR)**

FNBB was awarded the Best Local Trade Finance Bank in Botswana by the Global Trade Review (GTR).The Best Local Trade Finance award is given to a bank that provides effective trade finance solutions to the demands of the local market. Therefore, the award takes into account the innovation, service, consistency, flexibility and pricing of the solution.

2 **LEADER AWARD FOR THE TOP ACQUIRER IN SUB SAHARAN AFRICA**

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

For FNBB, our excitement is in the potential to create new income streams as we continue on our revenue diversification strategy. We want to reduce our vulnerability to macroeconomic factors and also our dependency on interest-based income.

In 2015 and beyond, our success and growth as a company will continue to be tied directly to our culture of innovation, which will now be complimented by our strict focus on delivering world-class customer service. Worldwide, this is where banking institutions are headed. As FNB Botswana, with our sustainability agenda always in mind, we seek to remain abreast of local and global trends as part of our commitment to our shareholders and our customers.

Word of Thanks

This is my last report to the shareholders. As I get ready to hand over my reins as CEO of FNB Botswana, I want to thank each and every one of our stakeholders for the confidence and support you have given me throughout my tenure with the Bank.

To our exceptional Board of Directors and my Management Team, it has been an absolute pleasure and privilege to serve along with you in making FNB what it is in Botswana today: that is the largest bank by market capitalisation at P8.8 billion as at June 2014 and a serious investor in the economy of Botswana.

To each and every one of our 1,100 employees, I would like to thank you for all your hard work, and for the passion and pride with which you fly the FNB Botswana flag. Without your professionalism, dedication and commitment, FNB Botswana would not be number one in the market today. By committing to serving our customers with dignity, you have enabled FNBB to change the lives of ordinary citizens everywhere. You are the engine of this organisation.

Thank you all, once again for an amazing tenure.

LORATO BOAKGOMO-NTAKHWANA
CHIEF EXECUTIVE OFFICER

BOITUMELO MOGOPA
FNBB CHIEF FINANCIAL OFFICER

Summary of Key Points

- The Bank showed resilience and agility amidst liquidity pressures
- Continued solid growth by driving volume in most of our business segments
- The fundamentals of the business remain strong, with the group well-prepared for future growth
- We are confident of an even better 2014/2015 financial year

Chief FINANCIAL OFFICER'S REPORT

CHIEF FINANCIAL OFFICER'S REPORT

BOITUMELO MOGOPA
FNB CHIEF FINANCIAL OFFICER

During the 2013/2014 financial year, First National Bank of Botswana Limited (FNBB) continued to focus on elevating and solidifying its position as Botswana's number one premier financial services institution, at the back of unprecedented conditions for the financial services sector.

STATEMENT OF FINANCIAL POSITION GROWTH OF

12%

TO P17.6 billion

The Bank showed resilience and agility amidst liquidity and margin pressures as well as the impact of the Bank of Botswana two year moratorium on bank charges.

The overall Statement of Financial Position remained strong and increased by 12% to P17.6 billion with advances increasing by 17% to P12.1 billion. The strengthening in our financial position however did not translate adequately in the income statement as a result of the current interest rate environment, but it still helped us deliver good profitability. The Bank posted profit before taxation of P922million increasing from P905 million in 2013 signifying an increase of 2%. Profit after tax increased by 3% on the other hand. This result has been achieved through continued solid growth by driving volumes in most of our business segments as well as the nature of the Bank's diversified business.

Refer to on page 126

In the year ahead, we will focus on delivering value to our customers. We will improve the quality, reliability and efficiency of our channels, particurlaly Point of Sale machines and through refurbishing our branches

Consolidated Income Statement

Net Interest Income and Impairments

Net interest income grew by 6%, emanating from the 17% growth in advances. This inadequate translation is as a result of the negative effect of the 100 basis points rate cut experienced during the year and the generally low interest rate environment. The Bank's credit risk appetite is also more inclined to secured lending which comes with fine margins.

As a result of the sustained adverse economic conditions, many consumers and small businesses are still under financial strain and the risk of over-indebtedness is high. The Bank recorded a 2% year-on-year increase on impairments during the period. This number was contained through focused good quality lending and robust risk management.

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

Gross Advances vs Impairments to Gross Advances

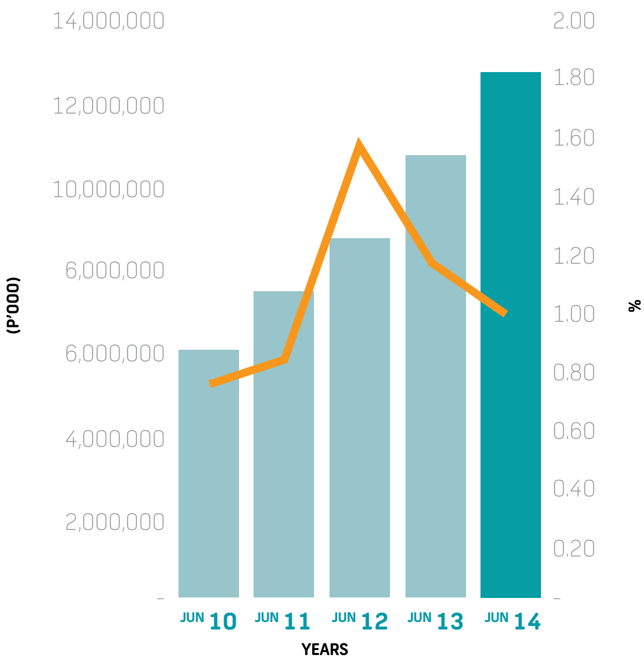


FIGURE 1: GROSS ADVANCES (LHS) IMPAIRMENTS TO GROSS ADVANCES (RHS)

(continued)

Non-interest income will continue to be a key focus area for the Bank as an endeavour to diversify revenue streams.

Non-Interest Revenue

During the period under review, non-interest revenue grew by 7%, as a result of a sustained focus on diversification and volume growth, particularly for e-solutions such as prepaid electricity sales. During the year the Bank increased cellphone banking functionalities and launched slim line ATMs and ATM Advance in line with the "Bricks to Clicks" strategy. We will continue to introduce new products and services in order to grow volumes, particularly as margins will be under pressure for some time.

Non-interest income will continue to be a key focus area for the Bank as an endeavor to diversify revenue streams.

Figure 2 illustrates the continued 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

Operating expenditure increased by 13% as we invested in revamping branches, repairing point-of-sales machines and installed more advanced ATM infrastructure, including Rand-dispensing ATMs and deposit-taking ATMs, bringing banking services to customers in remote areas. We have put cost containment measures in place and are satisfied with our cost-to-income ratio of 40.3%. Our spending this year will help ensure that we remain a market leader in Botswana today while positioning ourselves for future growth.

In recent years, the regulatory environment has become far more complex for financial institutions in particular. During the period under review, we strengthened our structures to ensure that we are enabled to fully comply with the Basel III regulations and the Foreign Account Tax Compliance Act (FATCA), which will require us to report to the Internal Revenue Service in the United States of America regarding our US clients. Accordingly, staff costs grew by 16% year-on-year as we recruited new talent to ensure we keep pace with these changes.

As illustrated by Figure 3, despite this increase in costs, the Bank's cost to income ratio remains at acceptable levels at 40.3%, and a focus on cost efficiencies continues.

Non-Interest Revenue vs Non-Interest Expenses

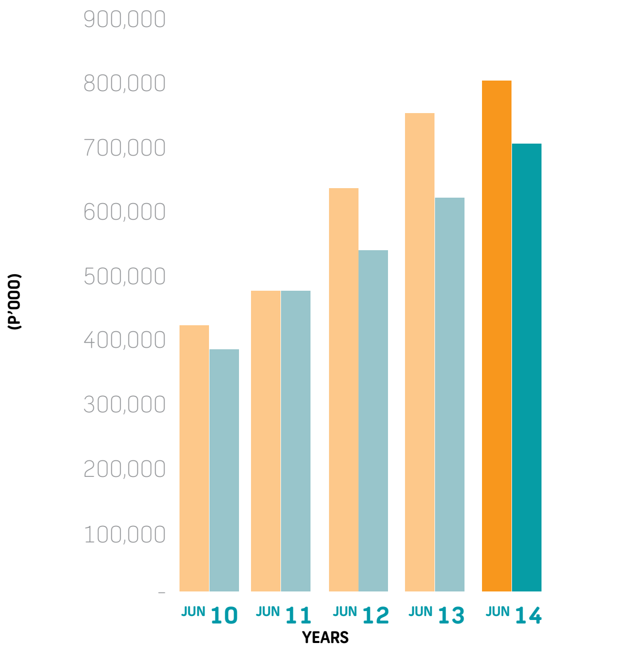


FIGURE 2: NIR NIE

Taxation

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

Cost-to-Income Ratio

Profit after Tax vs Cost-to-Income Ratio

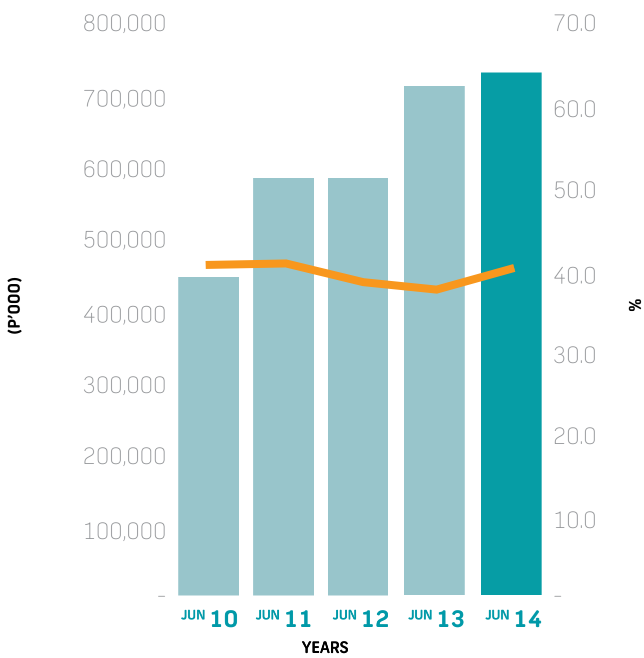


FIGURE 3: PROFIT AFTER TAX (LHS) COST TO INCOME RATIO (RHS)

Statement of Financial Position

We entered the 2014 financial year with the objective of growing our balance sheet from advances in a well-diversified manner. This would include Term loan secured book, Property book and the WesBank. I am pleased to report that we grew our balance sheet by 12% year-on-year, emanating from the 17% surge in advances. We saw good performances from WesBank as well as the Corporate and Investment bank (Rand Merchant Bank), which launched locally in November 2013. Thanks to RMB, we have improved our capacity and capability for structured finance, secured some significant deals, and improved trading income. The fundamentals of the business remain strong, with the group well-prepared for future growth.

The quality of the book remains a priority, with ratio of Non-Performing Loans relative to Gross Advances growing in line with growth in advances at 3.5% and well below market levels.

Growth in deposits from customers was at 11%, this was achieved despite 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.

Total ordinary equityholders' funds increased by 17% year on year, this is important as the Bank gears up for Basel III in line with its capital management framework.

Capital Management

The Group's objectives when managing capital, which is a broader concept than "equity" as shown on the statement of financial position, are to comply with our regulatory requirements, to safeguard shareholders' return, to safeguard the ability to continue as a going concern and to ensure the Bank has a strong capital base in need of business growth and development.

The Group continues to manage its capital in line with the Board's approved capital management framework. The Bank is currently on a parallel run for Basel III, the new Bank of Botswana requirements, and the full implementation will be from January 2015.

The Group's capital adequacy ratio, which excludes the dividend reserve, has been maintained at 18.27% as at 30 June 2014 , 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 III, 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 34%.

As illustrated by Figure 4, the Bank's capital adequacy ratio, which excludes the dividend reserve, at 18.27% as at 30 June 2014, is in line with the Bank's capital management framework and above the required ratio by Bank of Botswana of 15%.

Capital Adequacy Ratio

Shareholders' Funds vs Capital Adequacy

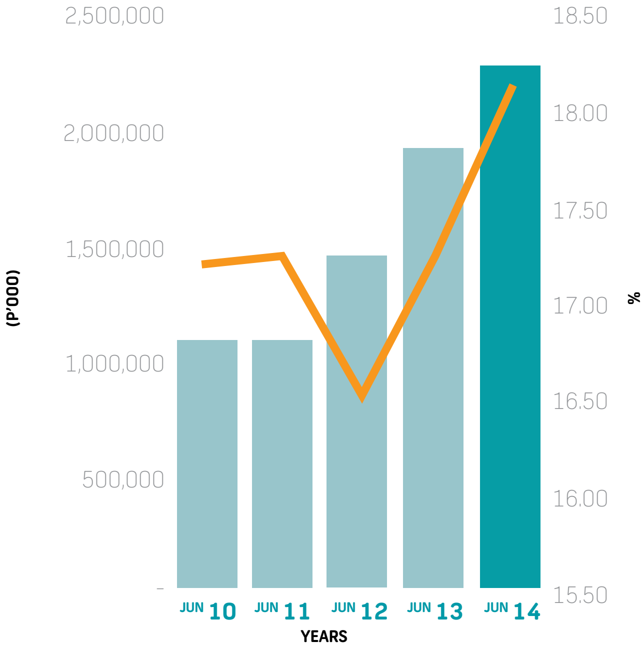


FIGURE 4: SHAREHOLDERS FUNDS (LHS) CAPITAL ADEQUACY (RHS)

Looking Ahead

In the year ahead, we will focus on delivering value to our customers. We will be improving the quality, reliability and efficiency of our channels, particularly Point of Sale machines and through refurbishing our branches.

We believe we have reached the bottom of the current interest rate cycle, and that it is most likely that should interest rates increase, they would do so marginally. As an organisation, we are looking at ways to expand our services to non-FNB customers. This will enable us to embed our customer-centricity strategy. This is how we will attract and retain clients into the future.

We are confident of an even better 2014/2015 financial year. The Bank continues to be well capitalised and the fundamentals of the Bank remain solid.

BOITUMELO MOGOPA
CHIEF FINANCIAL OFFICER

EXECUTIVE COMMITTEE

1

PICTURE 1

FROM LEFT:

GRACE SETLHARE-MANKANKU
DIRECTOR - COMMERCIAL SEGMENT

BOIKI TEMA
DIRECTOR - COVERAGE, RMB BOTSWANA

LORATO EDITH BOAKGOMO-NTAKHWANA
CHIEF EXECUTIVE OFFICER

RICHARD WRIGHT
DEPUTY CHIEF EXECUTIVE OFFICER

BOITUMELO MOGOPA
CHIEF FINANCIAL OFFICER

PICTURE 2

FROM LEFT:

STANDING
NICKY VAN DYK
DIRECTOR - WESBANK

OGONE MADISA-KGWARAE
DIRECTOR - CREDIT

BOMOLEMO SELALEDI
DIRECTOR - MARKETING AND COMMUNICATIONS

SEATED
YOLISA PHILLIPS-LEJOWA
DIRECTOR - eSOLUTIONS

MARTIN KNOLLYS
DIRECTOR - CONSUMER SEGMENT

PICTURE 3

FROM LEFT:

STANDING
GAONE MACHOLO
DIRECTOR - HUMAN RESOURCES

PAULINE MOTSWAGAE
DIRECTOR - RMB BOTSWANA

KGOPODISO JUSTINE BASIAMI
DEPUTY DIRECTOR - WESBANK

SEATED
BONGANI KHULU
DIRECTOR - WEALTH SEGMENT

OLEBILE MAKHUPE
TREASURER

As at 30 June 2014 FNB in Botswana had a total workforce of 1100 across all our divisions and branches. These amazing ladies and gentlemen are aptly led and guided by our Executive Committee based in our Head Office at First Place in the Gaborone Central Business District.

2

3

how can we help you?

FNBB Reports

FNBB REPORTS

FNB
First National Bank

Banking made SIMPLER & convenient

Online Banking is safe, secure and available 24/7 to FNB customers free of charge

For most, there's seldom enough time in the day to even sit down and catch your breath. Be it family, friends, or work, the clichéd "not enough hours in a day" couldn't be more apt. We understand that our customers have ever evolving banking needs, and yet an equally important need for simplicity and convenience. That is why, against a backdrop of 22 years of tireless innovating, we continue to work towards introducing relevant, convenient platforms to make for a more enjoyable banking experience on the go. FNB Online Banking is one such platform, and a testament to our unwavering dedication towards convenience.

As you start your day out, with a mental checklist of all that needs to be done, you can comfortably manage your money without necessarily having to go into a banking branch. Authorise office payments from the comfort of your home before dropping the kids off at school, and check on supplier accounts settled as you get into the office before a busy day full of meetings. Allow inContact SMS alerts to keep you posted on transactions that have gone through in real time.

Online Banking is safe, secure and available 24/7 to FNB customers free of charge. You can even make use of additional banking services at the click of a button, managing your personal or business banking profile as and when needed. You need not worry about deposit slips and banking operating hours and whether you'll be faced with a busy banking hall. Instead, you can focus on perfecting that big pitch, remembering to pick up a bottle of wine for dinner on the way home, and tucking your kids into bed at night.

This isn't simply a banking service; it's a lifestyle tool designed to make your life easier.

CONSUMER SEGMENT REPORT

Summary of Key Points

Consumer banking performance for this financial year was considered good as customer base grew by 8%.

Our assets grew mainly from schemes.

Slimline ATMs have provided remote business operators a less risky form of banking, as customers do not have to travel long distances to reach banking services.

First bank in Botswana to introduce ATM Advance, a 24/7 real time cash depositing device which can accept 200 notes of whichever denomination or combination.

FNB Banking App: allows customers to have safe, secure and direct and easy access to their FNB accounts. As a result electronic transactions, online banking and cellphone banking have grown significantly.

In line with our ambitious goal of reducing in-branch queues, we have successfully identified migration personnel, introducing our customers to digital banking.

We have embarked on a project to strip out all the back-office functions from our branches and centralise them into our operations centre. **This is a priority for us.**

The Year under Review

The Consumer banking performance for this financial year was considered good given the macro-economic and regulatory environment in which we operated. Despite this, we grew our customer base by 8% and our mobile and online transactions by 31% year-on-year, reflecting our keen ability to attract and service new customers.

Our assets grew by 21% year-on-year driven mainly by the schemes we have in place with our larger customers, and a significant improvement in the consumer credit portfolio. This is against a 9% growth in liabilities.

Responsible for our performance this year is our concerted effort to improve our efficiencies and service delivery across all our channels. We also continued with our focus to bank the unbanked section of the population. This is an area we long identified as key to our expansion and sustainable growth. It also speaks to our vision and brand ethos conveyed in our tagline of "How can we help you?", which is to better consumers' lives through providing access to simple, affordable and convenient banking products and services regardless of where they are.

To this end, we successfully launched a number of products and solutions during the year to deliver our brand promise to customers. These attest to our commitment to ensuring that we listen to and engage with our customers with the intention to understand them more and also conceptualise innovative fit-for-purpose products and solutions that address their needs. This is how we intend to realise our ambition to be a fully customer centric organisation in the future.

Improving on What We Do Best

We understand the need of some of our customers to still be able to visit our branches, as well as have access to a broader choice of banking platforms, both traditional and digital. It is for this reason that we are investing in providing our service delivery across all our channels focusing on attaining faster turnaround times and greater efficiencies across our platforms.

In the previous year, the Bank's focus included investing in infrastructure such as First Place, our new head office in Gaborone. This became operational in February 2013. For 2013/2014, we concentrated on rolling out new systems and procedures, as well as digital product solutions in line with our continuing 'Bricks-to-Clicks' strategy.

The strategy focuses on migrating customers from traditional banking channels to the more electronic ones.

From an ATM footprint perspective, we introduced our new Slimline ATMs. This innovative breed of ATMs offer our customers easy banking access and convenience in locations where we do not have branch representation or a traditional ATM.

We are partnering with existing businesses in these locations that, due to the nature of their business, have to hold large cash amounts onsite. The Slimline operates exactly like a traditional ATM except that it does not hold any cash. Customers access their accounts via the Slimline ATM in the normal way, obtain a printout of the amount they wish to withdraw from their account and approach a cashier with one of our business partners to receive their money. The account of the business partner is credited with this amount immediately.

This system revolutionised the way we do banking in the more remote areas; it provides banking-related services to people who cannot always travel great distances to get to a branch, and considerably reduces risk as customers do not have to travel far while carrying large amounts of cash. This is a win-win solution for our customers, FNBB, and our business partners. During this year we installed 30 Slimline machines with an additional 25 in the pipeline. We also unveiled the ATM Advance, a 24/7 real-time cash depositing device, which is a first of its kind in Botswana and also a first within the FirstRand Group subsidiaries. The immense benefit of these terminals to FNBB and our customers lies in addressing one of the current main service pressure points in our branches, that is, the telling areas, which deal with cash deposits and withdrawals.

Irrespective of the amount of cash to be deposited, and in whichever denomination or combination of denominations chosen, the ATM Advance are geared to deal with all deposits with remarkable ease and efficiency. An ATM Advance can accept 200 notes at a time and confirms the credit amount immediately. The ATM Advance also allows non-FNBB customers to make deposits into FNBB customers' accounts.

During the year, we invested in 20 ATM Advance units of which 9 have been installed with the balance ready to be deployed in the new financial year. The rapid expansion of this initiative to all our branches will be a strong driver in 2015.

“Slimline ATMs revolutionised the way we do banking in the more remote areas; it provides banking-related services to people who cannot always travel great distances to get to a branch, and considerably reduces risk as customers do not have to travel far while carrying large amounts of cash.”

With the ATM Advance, we believe we have found an outstanding solution to relieving the pressure normally placed on our in-branch tellers, reducing the queues of customers waiting to be served, and addressing the limited deposit functionality of traditional ATMs.

The launch of our FNB Banking App, which enables customers to have safe, secure, direct and easy access to their FNB accounts, was another major highlight and so was the introduction of our pre-paid electricity offering. Both these channels have seen massive adoption and use by customers.

As a result, FNBB’s electronic transaction volumes increased by 31% during the year, online banking by 17% and cellphone banking by 35% year-on-year.

Reducing In-branch Queues

The Consumer segment has set itself an ambitious goal of reducing in-branch queues over the next two years. Efforts are already underway to this effect.

These include identifying personnel as migrators at all of our branches who will introduce our customers to the bold new world of digital banking convenience. These dedicated personnel will be responsible for customer education and migrating clients to more efficient and more effective channels, thereby reducing customer queues inside branches.

During this year we also recognised that our branch staff must be allowed to focus on delivering distinct customer service without the administrative burden that comes with back office responsibilities. As part of an FNB group-wide focus, we have embarked on a project to strip out all the back-office functions from our branches and centralise them into our operations centre. This is a priority for us.

Looking Ahead

While it is almost certain that 2015 will bring along its own challenges, we are confident that we have put in place solid building blocks that have positioned us for better growth and performance in the new financial year. The overarching plan remains the same – and that is to live up to our brand promise of “How can we help you?” whilst driving our “Bricks to Clicks” strategy – we have set very specific goals with a clear commitment to our customers to achieve these goals during the next financial year.

These include continuing to reduce in-branch queues across our network of branches; improving customers’ experience of all our products, services and interactions; and continuing to make banking simpler and convenient for customers.

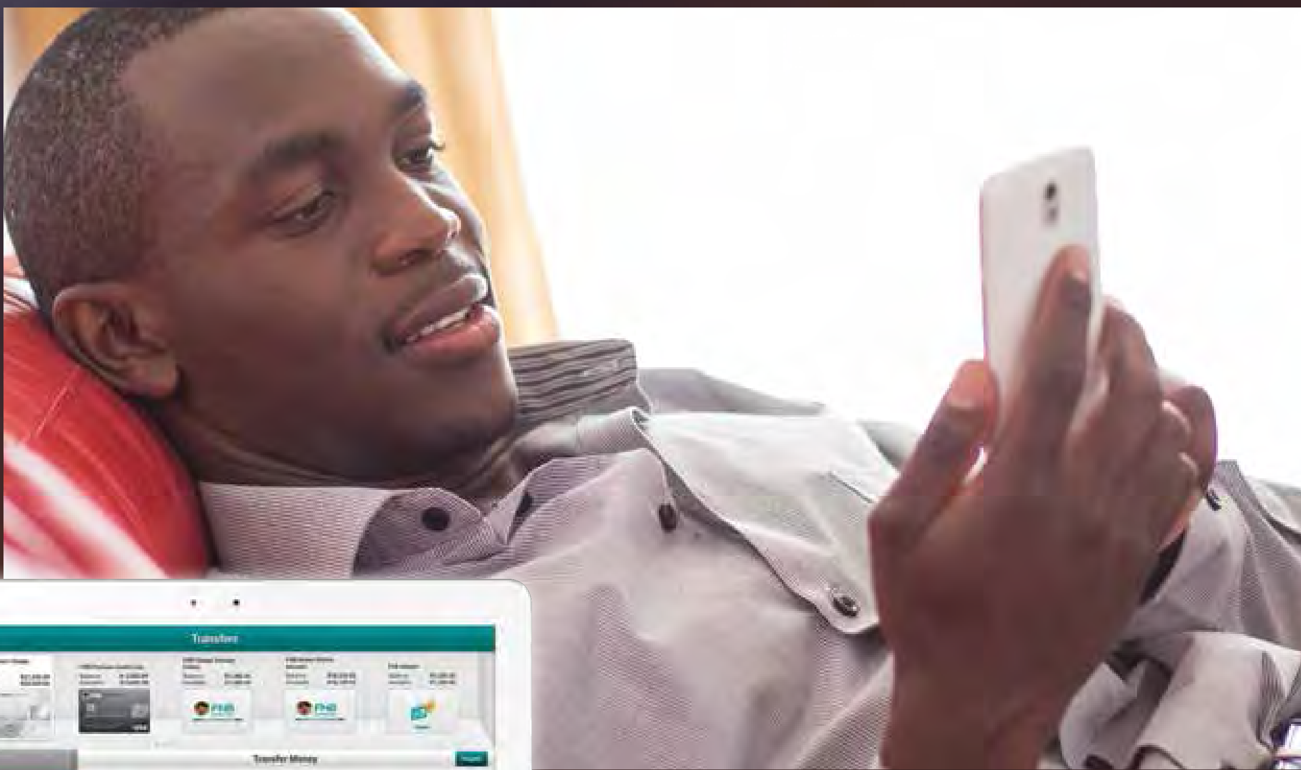
As the role of big data analytics becomes integral in informing the types of products and solutions banks offer, we will be adopting this approach going forward. This will contribute to the design of our product offering and will revolutionise how FNBB services its customers, making us truly customer centric.

We are excited about the year ahead and look forward to adding greater value to our new and existing customers.

Bespoke SOLUTIONS to grow WEALTH

CASE STUDY

With the FNB Smartphone Banking App, your **smartphone fast becomes** your mobile banking unit



There's no denying the advent of the smartphone has contributed to a previously unknown degree of convenience. With smartphone Apps, our lives suddenly became even simpler, from being able to engage brands via Twitter to sharing holiday pictures with friends via Facebook. At FNB, we found ourselves asking why banking on the go couldn't benefit from this degree of digital ingenuity too.

A bank that prides ourselves on leading the charge through innovations and "firsts," we embraced the premise of convenient, easy to use banking through one's smartphone to develop the FNB Smartphone Banking App. Launched in September 2013, FNB banking users now have a platform to conduct day to day banking transactions on the go.

Picture yourself getting ready for a great weekend away, and making sure you've got everything you need ahead of your road trip with friends. You've logged into the App to check your balance and realise you're funds are a bit low, and yet you're the one in charge of picking up the drinks. Have someone eWallet you the cash and use the FNB App to locate your closest FNB ATM to withdraw cash. As you're headed across the border, choose to locate a Rands dispensing ATM and save yourself a trip to the bureau de change.

Once you've got the drinks sorted and you're waiting for your ride to pick you up, use the App to top up on electricity so your housemates aren't left sitting in the dark in your absence. Just to be safe, top up on airtime while you're at it. You can even use the App to get in touch with your relationship manager at the bank to let them know you'll be out of town, so all your bases are covered.

With the FNB Smartphone Banking App, your smartphone fast becomes your mobile banking unit. Best of all, it's simple, efficient, and convenient – everything that banking on the go should be.

CONSUMER SEGMENT REPORT

Bespoke SOLUTIONS to grow WEALTH

Summary of Key Points

Strengthened FNBB's wealth management and wealth advisory capability

Focused on building a truly local wealth management capability with global capabilities

Improving clients' service experience was a key priority

Recorded substantive growth in financials and customer base as turnaround strategy rolled out

FNBB Wealth Segment is an integration of all of FNBB private clients, wealth management, and investment advisory services. This follows the Bank's restructuring of its business segments as part of its segmentation model in 2013/14.

The segment comprises four business quadrants notably transactional, lending, insurance (Wealth Advisory), and investment solutions. Our capabilities, which include execution of trusts, wills, financial planning, estate planning, stock broking, unit trust investments (local and global), and investing in managed funds, have made us a trusted authority on wealth creation and wealth management in Botswana.

Managing our relationships with customers is **a key focus area.**

Our vision is to be leaders in providing wealth management solutions in the market, offering affluent, high net worth and ultra high net worth individuals and families bespoke solutions that will enable them to grow and preserve their wealth.

The Year in Review

Our key performance indicators for this financial year reflect the solid growth we experienced in 2013/14 despite the external environment posed challenges. Through identifying opportunities in the wealth segment, we were able to record a 10% growth in our customer base, targeting individuals who earn a minimum of P750 000 per annum and/or have net investable assets of P3 million. Currently this market segment accounts for less than 4% of the total bankable population in Botswana and presents a viable and sought-after market for us to tap into for future growth.

Our good results came about largely due to our concentrated focus on effective relationship management (treating our clients like royalty); excellent risk management (identifying where problems occurred, or might occur in future, and proactively fixing them before they escalate); and quicker turnaround times, improved efficiencies and innovative solutions.

A major contributor to improved service delivery is FNBB's new organisation structure, ServCo, which is a service executive committee that concentrates on setting and implementing the strategic direction for service delivery, and from which our wealth customers will directly benefit in terms of having their specific needs addressed.

Our brand promise of 'How can we help you?' is also a promise to our customers in the private banking and wealth segment that we have the wealth management capability, with a local and global reach, to support and advise customers who have achieved a substantial level of wealth.

This fits in with FNBB's strong focus this year, and into the future, of moving from operating from a customer-focused environment to creating a customer-centric culture, where the core priority is our customers, and especially to assist our wealth customers to manage their portfolios, and to take the effort out of banking.

Enhancing our Environment to Fully Support Wealth Management

During the 2013/14 financial year, in line with our vision to be the best wealth-management solutions provider in the market, we succeeded admirably in building the Bank's capability and capacity to offer tailor-made services. We have created a truly local platform that also boasts global capability.

During 2013/14 we further enhanced a solution specifically designed to meet the lending needs of our customers. It is a Structured Facility that takes into consideration all of a customer's assets, with some being investable assets, securities-based assets or a share portfolio, and structures the concomitant debt facility in an optimal way so as to unlock value.

The Wealth Segment also sees the launch of the Bank's smartphone banking app as a huge differentiator, particularly because in this market segment a large proportion of our customers have a smartphone and tends to be technologically astute. The uptake on the app from the wealth customers was excellent and has also assisted us in making good progress in migrating this customer group from manual to electronic services. The Banking App also supports our 'one-click' fulfilment model of service provision.

Two new areas of service which were mooted during 2013/14 and are in the process of being finalised, show the high regard, and unwavering duty of care, we have for our customers in the Wealth Segment.

To take the stress out of waiting at airports, we have launched a high-end airport lounge facility at the Sir Seretse Khama International Airport called the Nthula Lounge. At the Nthula Lounge our customers will experience the familiar concept of the FNB SLOW Lounges where they can access our comfortable hospitality area to receive premium treatment while they await to board their flight.

Going the extra mile for our customers also meant conceptualising and commencing with the establishment of our Services Suite. This facility, which is in essence an online operational servicing area, will enable our customers to access our services from anywhere in the world. Our customers will be able to call into a virtual space and issue instructions relating to banking services, such as having a new card issued, have a transaction executed, or order foreign exchange. We also provide a courier service. This service facility means that a customer never has to leave their home or office to access our banking services.

Managing Relationships

Managing our relationships with customers is a key focus area. During 2013/14 the Bank also invested heavily in building the local talent that will take our existing private-wealth management capability and capacity well into the future. Our staff received specialised training to enable them to provide the best possible advice to our wealth customers for all our products and services, and also to educate our customers to increasingly be able to access our business solutions directly, should they so wish. All our wealth managers are based in-country and therefore readily available to provide advice and support.

Our customers trust us; they know we are a highly trusted brand. Our brand speaks to differentiation in the market. It speaks to service, it is reputable. Customers know they can trust our wealth managers and that they are dealing with highly knowledgeable people. They know that FNBB is at the cutting edge of innovative products and business processes. But above all, they know we care about what they have accumulated financially and that we know how to help them better grow, consolidate and protect their wealth portfolios.

Our customers know that when we ask 'How can we help you?' it is not a rhetorical question. We are geared to look at our customers' specific needs and help them to transact more efficiently and more conveniently, to meet their growth and investment needs, to look at wealth consolidation, and to assist this customer group in protecting their legacy by protecting the assets they have worked so hard to accumulate.

Looking Ahead

Our focus for the financial year ensuing is to continue to grow our client relationships and share of wallet, whilst ensuring that we deliver quality world-class customer service to our clients.

We want to attract more qualifying individuals into this market segment and also grow it further through creating opportunities to migrate customers from the Bank's Consumer Segment to the wealth segment, and ensure that this transition is seamless.

We intend to invest more in training, attracting and retaining the highest calibre of staff with outstanding sales and services proficiency. These are individuals who are able to engage meaningfully and be proactive with our clients about their wealth portfolios, and will be able to deepen our relationships through cross-selling of financial solutions, and be adept at recognising further opportunities to attract customers to engage with our full suite of products and services.

A major new key area for us will be to increase our application of big data analytics to identify "white space" for future growth and enhance customer service. For our wealth customers FNBB Wealth will also apply the knowledge gleaned from our client data to have a better understanding of our clients' preferred banking platforms for interactions. We believe this will increase our service efficiency and effectiveness, help bolster sales and improve overall risk management.

"Our vision is to be leaders in providing wealth management solutions in the market, offering affluent, high net worth and ultra high net worth individuals and families bespoke solutions that will enable them to grow and preserve their wealth."

COMMERCIAL SEGMENT REPORT

The Commercial segment has been **rebranded as FNB Business** to align with the FirstRand Group segment branding.

Summary of Key Points

- Responding to clients' needs and wants
- Improved efficiencies for better product and service delivery
- Growing our market share

Year under Review

Our 2013/14 strategy was three pronged: retain existing clients, continue to provide convenience and efficiencies through our channels and grow the business across the segments and products classes. We have made great progress in all three areas despite operating in an increasingly challenging environment.

Looking at the economy, in Botswana we continue to be impacted by the lag effects of the 2009 global and Euro - zone financial crisis. Locally, there are numerous industry factors that we have had to contend with, first the 200 basis point cuts, the two year fee moratorium as well as a general rise in competitiveness within the banking industry. Furthermore we saw a marked need for liquidity.

Exceeding OUR customers *expectations*

During the last quarter of the financial year the Bank realigned its business units and segments and the business segment now comprises of 4 customer segments namely Business Banking, Small Medium Enterprise (SME), Local Corporate and Public Sector. Within the Segment there are 3 specialist product houses being Commercial Property Finance, Agriculture and Islamic Banking. In 2013/14 the FNB Business Segment performed well with an overall advances growth of 11% while total deposits declined by 2%. The latter was mainly due to the high cost of longer term deposits, however, we are pleased that current and call accounts continued to grow as we grew our client numbers during the year.

The solid growth is further reflected in the good revenue growth in our fees and commissions.

The year was, however, not without its challenges. We began the journey to replace all our point-of-sale machines and negotiations of service level agreements with our key service providers. This is a solid platform on which to build on in the new financial year.

A thoughtful and helpful banking partner, that is committed to enabling its **customers achieve their financial goals.**

Generating Greater Customer Satisfaction and Enabling Ownership

Our services and solutions are geared towards making banking simpler, faster and more convenient for customers. In line with our mantra, "How can we help you?", a key focus of FNB Business Segment is to help our customers succeed in their businesses as we aspire to be the Number 1 provider of business solutions to our clients, from accessing funding to collection of payments from their customers.

FNBB has gone to great lengths to understand what customers want and expect from a banking partner, and therefore has ensured availability of innovative products and services that reflect that we listen to customers, and that their needs come first.

In terms of the customer segment, one of FNBB business segments's focus areas was growing its footprint in the small- and medium-sized (SME) business segment, which is growing rapidly, driven by the opportunities in the various sectors of the economy as a result of Botswana's diversification strategy. Our clients have told us that they want banking products and solutions that are simpler, faster and convenient to use, most important, these also need to be cost effective. We have refined our SME Banking offering to ensure that it responds to these needs succinctly. The focus for all our products and solutions is also on making sure that we not only meet but exceed our customers' expectations. Thus far our clients' responses to the solutions that we have brought thus far have been encouraging.

In 2013/14 we also focused on playing a more meaningful role in the agriculture industry, looking at the needs of farmers holistically. Not only is agriculture one of Botswana's economic mainstays but the sector is also important to the economy becoming self-sustaining.

To support Government's efforts in driving the growth and sustainability of this sector, we launched a number of innovative lending solutions that cater for the various needs of emerging and established farmers, both commercial and communal. Noteworthy among these is the FNB Feedlot Scheme, which provides working capital for farmers, particularly emerging ones. By being able to look after and even expand their herds, farmers are able to provide better quality livestock and receive better compensation for their products. This creates a win-win situation for all parties as well as more sustainable farming businesses.

Still on agriculture, Botswana's ongoing drought continues to be a major risk to this sector. Therefore, during the year, we also focused on helping crop farmers sustain their arable land by providing funding for crops and farming implements. Despite the risk associated with providing such funding solutions, we are pleased to report that we have generally backed the right clients and have helped ease cash flow pressures on most of our agriculture customers.

We are putting in the building blocks to also grow our commercial property book, which maintained sustainable growth during the reporting year. We established ourselves as the leader in commercial property finance. During the next financial year, we will invest in growing our presence in this area including training and developing our frontline staff, as well as improving our visibility among the major players in the real estate market through increased interaction. This market segment comprises clients that are mature and well-established, and who have historically been able to weather changes in the financial market better and we want to be their preferred property partner.

Delivering Greater Convenience to our Customers

During the financial period, we continued to pursue our deliberate strategy to convert our customers from using the manual-intensive methods of banking to our online platforms, which provide greater convenience. This is part of our ongoing group-wide "Bricks to Clicks" strategy.

We upgraded our systems, streamlined our back office to ensure better customer service delivery, and also improved our online banking platform. Stronger focus was made on ensuring that our systems and processes are efficient and reliable, and that we have better channels with which to engage with our customers and add value to their businesses.

Looking Ahead

FNB Business is poised for better growth and performance in the new financial year. We expect the investments made in upgrading our infrastructure and improving how we service our clients to start bearing fruit in the near future.

Our prime focus in 2014/15 will continue to be on becoming more customer-centric as we look to be more in tune with the evolving needs of our customers. We are committed to reviewing and improving our customers' lending requirements as well as all our offerings to ensure that FNBB solidifies its reputation as a thoughtful and helpful banking partner, that is committed to enabling its customers achieve their financial goals. We will continue to be nimble and flexible, as well as relentless in asking our customers, "How can we help you?" so that we service them better from their point of view.

"Our services and solutions are geared towards making banking simpler, faster and more convenient for customers. In line with our mantra, "How can we help you?", a key focus of FNB Business Segment is to help our customers succeed in their businesses as we aspire to be the Number 1 provider of Business solutions to our clients, from accessing funding to collection of payments from their customers."

WESBANK REPORT

Driving MORE AFFORDABLE opportunies

WesBank

A division of First National Bank of Botswana

LEADER IN VEHICLE AND ASSET FINANCE

Summary of Key Points

- WesBank recorded good business performance across the portfolio.
- Asset finance performance is based on business environment performance centered on strategic relationships with both clients and suppliers.
- Launch of new value proposition on passenger vehicles.
- Experienced a boost in the business segment due to the mining sector growth.

WesBank

A division of First National Bank of Botswana

LEADER IN VEHICLE AND ASSET FINANCE

Market Overview

Botswana's economy continued to deliver opportunities for growth as well as challenges during the year. This is as a result of the changing economic landscape among them low interest rates, highly geared consumers and modest GPD growth.

For players in the asset financing space, Government's drive to broaden the economy by encouraging the growth of sectors such as mining is presenting a silver lining. New businesses are burgeoning while existing ones are expanding creating an increase in demand for commercial vehicles and earth moving equipment financing.

In the passenger vehicle space, a survey by Business Monitor International (BMI) indicates that passenger vehicle sales will decline in the short term. This is because in March 2013, the Government introduced a ban on the registration of imported vehicles older than five years. Vehicle ownership in Botswana has been largely driven by the import of new vehicles mainly from South Africa and used vehicles from Japan, Singapore and United Kingdom. The used imports cars dominate the passenger vehicle market comprising 80% of the total vehicles registered in the market. The prohibition of registration of imported used vehicles older than five years, will affect vehicle ownership in Botswana, however the outlook is more positive in the long term. Vehicle sales are likely to recover as the country continues to benefit from tariff exemption and improved trade flows. The import ban will also reduce the age of the vehicle fleet and reduce the burden of costly replacement parts which is also currently acting as a deterrent to motor vehicle ownership.

Year under Review

Vehicle and asset finance trends are particularly affected by general economic performance. Botswana has experienced sluggish capital expenditure in both the public and private sectors, and consumers are already highly geared. WesBank's focus was mainly on the commercial and corporate segment and the group schemes. The group schemes currently account for nearly 50% of the division's consumer base. The business segment is 58% of the total portfolio.

WesBank recorded a good business performance across the portfolio, growing its advances by 14%. Business fundamentals remain solid with a 37% market share in franchised dealers.

Vehicle ownership plays a critical role in enabling mobility and independence among working professionals. The period under review saw a revamped value proposition which will make passenger vehicle ownership more affordable. We have relaxed deposit structures on new and used vehicles by offering a zero-deposit facility. We have increased loan tenures to 72 months for new vehicles.

We have also introduced the concept of a residual value on passenger vehicles, which allows customers to settle a portion of the capital balance at the end of the loan repayment period. The residual value can go up to 35% of the purchase price of the vehicle. At the end of the finance period, the customer has the option to trade in their used vehicle, settle the balance and keep the vehicle, or refinance the residual value for another two years. This makes passenger vehicles more affordable for customers. With this new value proposition, we have seen increased business volumes which have made a significant contribution to our market share.

The growth on asset finance performance is based on the business environment performance. The growth of the business segment portfolio is centred on strategic relationships with both clients and suppliers. The strategy for the portfolio continues to be centred on point of sale and through long-standing and mutually beneficial relationships with key industry players.

Asset finance is a sector which benefits from understanding the customer and cultivating relationships. Our objective is to ensure that potential customers are aware of WesBank's offerings and what differentiates us from the competition, while growing overall brand awareness. We will continue to make WesBank a household name while communicating our brand proposition for the entire spectrum of asset finance. These include passenger and commercial vehicles, plant and machinery, agricultural equipment, aircrafts, leisure (boats and motorbikes) and earth moving equipment.

> We have also introduced the concept of a residual value on passenger vehicles, which allows customers to settle a portion of the capital balance at the end of the loan repayment period

Point of sale presence and preferably dominance continue to be the key strategic pillar for the division and it is a factor which differentiates WesBank from competition. Representation is currently in seven major dealerships across the country.

Customer service is at the heart of our brand and it is of paramount importance in our dealings with clients. Service excellence, strategic partnership and efficiency give us competitive advantage. We continue to evaluate and improve these areas so as to entrench WesBank as the leading and most trusted brand in vehicle and asset financing.

As in every industry, technology is changing the ways in which we operate and the value proposition to customers. Our aim is to make the financing experience as easy and efficient as possible through the use of innovative technology.

Looking Ahead

We remain optimistic about the future prospects and opportunities within the different sectors of the economy. Businesses will always have capital expenditure budgets for growth and we are geared to take care of all their funding needs. The flourishing of junior miners and the opportunities in the value chain of mining presents a major opportunity for WesBank. We will continue to assist companies in all their funding needs as they expand their operations. We have also seen the Debswana diamond mines refining their technologies, which have improved the mine's life span to 2050, thereby, presenting funding opportunities.

On the consumer front, WesBank will continue to drive education on financing and offer affordable solutions such as relaxed deposit structures and the residual value offering.

"Vehicle ownership plays a critical role in enabling mobility and independence among working professionals. The period under review saw a revamped value proposition which will make passenger vehicle ownership more affordable."

Committed

TO INVESTING IN understanding the markets

RMB BOTSWANA REPORT

RMB BOTSWANA
A division of FNB Botswana Limited
Traditional values. Innovative ideas.

Summary of Key Points

FNB Botswana's corporate and investment banking activities were rebranded RMB Botswana in November 2013.

This supports RMB's strategy of expanding its corporate and investment activities throughout the sub-Saharan region.

The RMB Botswana division services large corporations and institutional clients in the mining, resources, construction, real estate, manufacturing, services and retail sectors.

FNBB REPORTS

RMB BOTSWANA
A division of FNB Botswana Limited
Traditional values. Innovative ideas.

Highlights

1. RMB BOTSWANA HAS BEEN WELL RECEIVED in the financial services sector, and has attracted interest from both the public and private sectors.
2. THE DIVISION HAS EXPANDED ITS OFFERING to include more complex transactions and solutions, and has grown its client base.
3. THE DIVISION CONTINUES TO EXPLORE OPPORTUNITIES to expand corporate advisory services and other areas in which it is underrepresented.

Overview

In November 2013, FNB Botswana's corporate and investment banking activities were rebranded as RMB Botswana, officially launching the RMB brand in the country. The official launch of RMB in Botswana is part of the First Rand Group's strategy to expand its corporate and investment activities throughout sub-Saharan Africa.

Botswana is an important market in the sub-Saharan Africa region. The country is one of the fastest-growing economies in Africa and also the most politically stable. Opportunities to provide corporate and investment banking services are therefore expanding significantly in the country, driven in part by Botswana's focus on diversifying its economy extensively. RMB Botswana is well positioned to take advantage of these opportunities, enabled by its extensive experience of providing financial products and services, which include:

- Corporate banking services; including working capital finance, custodial services, trade finance, and transactional banking;
- Investment banking services; including long-term financing of corporate and Government enterprises, infrastructure finance, corporate finance advisory services and private equity; and
- Global market services; including currency, commodity and interest rate-related risk management solutions and investment products.

Opportunities and Challenges

Many local companies are expanding into the rest of Southern Africa, thereby presenting significant opportunities for RMB Botswana. Further opportunities are presented by the expansion of South African companies and others from the region, into Botswana. All these companies have one thing in common, they require a range of corporate and investment banking services such as acquisition finance, equity participation, currency hedging and corporate advisory services to further their ambitions. RMB's insights into Botswana market and its position within the greater sub-Saharan market are also highly valued.

The mining sector in particular which, to date, has been the bedrock of Botswana's economy, is offering new opportunities. These include the birth of junior miners and other businesses as part of the outcome of the emphasis on mining beneficiation. Within this context, RMB's formal presence in Botswana has made the Bank's products and services more accessible to a wide range of companies.

Botswana nevertheless has a highly competitive financial services market, in which one of the greater challenges is the fact that margins are under pressure. Despite the country's positive growth rate, rising costs are impacting on disposable income and this, in turn, is impacting on the manufacturing and retail sectors in particular. Within this environment, superior, professional services and relevant solutions that make a difference in the lives of customers are essential differentiators.

What sets RMB Botswana apart is our unique ability to assess clients' needs and develop tailored solutions to meet those needs. This, we believe, will continue to be an important differentiator for us.

RMB has been well received in Botswana. We believe this is due to the strength of the brand, which is trusted by customers across a broad spectrum of industries.

Following the rebranding process, we focused on finalising the three major transactions, which have made a significant contribution to our book. By the end of the financial year under review, we had already started working on a number of large and in some cases more complex transactions in response to market demand particularly in the public sector. These included structured financing for business expansion, as well as for energy and infrastructure projects.

What sets RMB Botswana apart is our unique ability to assess clients' needs and develop tailored solutions to meet those needs.

On a broader basis, the global markets performed fairly well, and this resulted in good results from the provision of global market services. The corporate banking section also performed well as clients converted most of transactional banking activities from manual to automation in order to improve efficiency.

On the international trade front, a major highlight was the two-year Government contract RMB was awarded to issue letters of credit.

Looking Ahead

RMB Botswana's intention is to position the business as the investment bank of choice and to consolidate its position in the financial services market. As a division of FNB Botswana, the largest financial institution by market capitalisation listed on the Botswana Stock Exchange, we believe we are uniquely positioned to do this. We therefore plan to continue engaging with both government and the private sector to explore a number of opportunities that will help propel Botswana forward. We intend to continue to use our pool of in-depth skills and expertise to offer the most comprehensive and innovative range of corporate and investment banking services in the country.

"It is important that our customers, potential and existing, continue to see value in doing business with RMB Botswana."

To improve our value proposition and further differentiate ourselves in this very competitive market, we will also be upskilling our team, strengthening the unique expertise of each individual member, so that we have an RMB that is able to continue to provide clients with superior customer service. This is a key component of our strategy to increase our market share in Botswana, and strengthen relationships with our clients in both the private and public sectors.

It is also important that our customers, potential and existing, continue to see value in doing business with RMB Botswana. Therefore, for the 2015 financial year, we will be expanding our range of solutions, tailor-making them to ensure they best respond to the needs of our customers.

We are committed to investing in understanding the markets in which we operate as well as the segments within. This should stand us in good stead in 2015, which we believe will deliver good growth and better performance. We remain optimistic and look forward to the year ahead.

Our Cult

ATM Advance – working towards a better banking experience

Lerato runs a successful beauty salon in Gaborone. She started the business fresh out of school, putting her love for beauty and glamour to good use as a way to counter the negotiate difficult job market. Lerato's loyal customers are typically busy working mothers who pop in for a quick appointment, almost always paying in cash.

The salon's become so busy Lerato often finds herself closing up for the day well after dark, cashing up when the bank's already closed. The business is a relatively small operation and she's faced with the challenge of not being able to leave the salon to deposit the takings for the day the next morning. At the same time, she needs those funds to be deposited quckly so she can shop online for new products.

Many of her suppliers are source online, shipping the products to Botswana once payment has been made either by bank card or EFT.

It's a challenge many a small business owner faces – deposits that need to be made and no time during usual banking hours in which to make them. It's likely that we are all faced with Lerato's predicament at some point. Fortunately, we can all take a cue from the salon entrepreneur as well.

The FNB ATM Advance with real-time cash deposit was launched in June 2014, and continues to make Lerato's life a whole lot easier. The real-time cash deposits functionality means that Lerato can make deposits at her convenience and the funds will made available immediately. With her FNB account number in hand in which to deposit the cash, it's a quick and simple process at the end of the working day. Lerato can then head home and enjoy a leisurely dinner while browsing new products to order online, enjoying the convenience of having the funds ready to use in her card account.

A first for Botswana, the ATM Advance strives to offer a more convenient and enjoyable banking experience. Lerato is just once example of how the ATM Advance helps make a difference for businesses and individuals alike.

Our Cult

The future of banking excellence, as we see it, lies with customer-centricity. The traditional 'product push' approach to banking, based on the Bank's sole intent to sell products to customers rather than a view of what it is customers want and need, is fast becoming a thing of the past. Our obsession is now "What do customers want?"

As part of our growth strategy, which emphasises the importance of FNBB differentiating itself, FNBB wants to become a pioneer in unparalleled service delivery.

Our vision is simple; ambitious but attainable. We want to become the best at service, not just in banking but in the market as whole. This speaks to our brand proposition of 'How can we help you?' This is based on our focus of cementing our reputation as a helpful and innovative bank.

Driving Service from Top to Bottom

Improving customer service is a strategic intent being driven by FNBB's leadership. We believe this is the only way we can truly realise our service transformation objective.
During the 2013/14 financial year, a service structure governed by ServCo was established to operationalise our vision of becoming the pioneers of service. The results of this focus are beginning to come through.

Since its inception, ServCo has enabled quicker decision making within the organisation. This is particularly at executive level where the resolution of issues that may negatively impact customer service is now fast tracked.

Putting the Building Blocks in Place

We recognise that for FNBB to transform into a fully fledged customer-centric organisation, this change must be underpinned by a genuine shift in culture supported by policies, hiring practices, and incentive structures. Service-related values must be embedded and there must be clear consequences for behaviours which are no longer acceptable while the environment must continue to be conducive for employees to thrive.

From a service innovation perspective, we are accelerating products and e-solutions to ensure we continue to make access to banking simpler and more convenient for our customers.

Our Culture is Our Ticket

FNBB acknowledges the importance of having the right organisational culture and people to enable it to deliver on its brand promise to customers. By asking our stakeholders, including our employees, 'How can we help you?', we seek to affirm our reputation as a helpful bank, internally and externally.

This business slogan speaks not just to our brand essence but also our credo regarding how we choose to develop our talent as well as interact with our customers. By asking ourselves this question every day, we remain focused on our vision to deliver world-class service that meets and exceeds the needs of those whom we serve.

We believe it is only those organisations that are able to adapt their operating models and be customer-centric focused that will be able to continue to grow revenues. The reality is that customers are changing and becoming increasingly sophisticated and demanding.

We are Changing How We Do Things

With innovation as one of our key pillars, FNBB prides itself on its ability to always be on the cutting edge of technology and global trends. One of these is data analysis.

This is set to take centre stage within our service strategy as we continue to invest in understanding our customers better. We want to know their earning and spending habits, and also how they are utilising our channels (branches, ATMs, call-centres and digital platforms). This is so we can identify areas in our service offering that need improving and can engage with our clients using tools and methods they prefer to service them and offer them financial solutions they want and need.

We want to be at the leading edge of leveraging data to improve our service as well as strengthening our relationships with our customers by creating bespoke products and services that are relevant to their segment.

Going forward our Service strategy will focus on four pillars: providing seamless end-to-end service to our customers; focusing on integrating our service partners into our ecosystem; effecting relationship management and the creation of a strong service culture.

OUR People

HUMAN RESOURCES REPORT

Summary of Key Points

Employee benefits and remuneration improved to attract and retain talent

Critical skills deepened to enhance business efficiencies and organisational robustness

New programme introduced to develop the leadership pipeline

Employee well-being continues to be paramount

Overview

It is important to begin this report by acknowledging that the past five years have been a strategic period from a Human Resources (HR) point of view. The 2013/14 financial year brought to an end the 'Journey of 1,500 Days' that began in 2009. This strategy which, among other targets, set out to radically improve FNB Botswana's HR practices was informed by a value proposition that focused on five elements: the organisation, our people, opportunities, work and rewards.

The Organisation – The Best Place to Work

The first of these five key elements, namely the focus on the organisation, and in particular on making it a desirable place to work, has been pivotal to our strategy. In line with this, our emphasis has been on creating and maintaining a respected brand that makes our employees proud to work for FNBB.

When we embarked on this journey our aim was to significantly improve employee engagement and satisfaction. With this in mind, we conducted an employee engagement survey to determine employees' attachment to and relationship with the Bank. In addition, this worked to gain deeper insight into their working culture and relationships with colleagues.

We identified this as an important starting point because engaged employees are happy employees, and happy employees produce good results. Engaged employees, for example, indicate that they have a better understanding of how to meet customer needs; and are eager to recommend the >

We also made bold steps in improving our **employees' remuneration.**

company's products and services. Moreover, they care about the company's future; are willing to invest discretionary effort in their work; and demonstrate a lower level of absenteeism than employees who do not feel engaged with the company.

Highly aligned cultures that demonstrate a superior level of employee engagement are also more innovative. As strong 'people brands', they tend to attract superior candidates, which reduces recruitment costs.

When FNBB conducted an employee engagement survey in 2009, the Bank's engagement scores were below par. This, however, assisted us in identifying areas for improvement, which included remuneration, benefits, opportunities and training. Our performance scores have improved significantly since then. During the period under review, we obtained an employee engagement score of 84% – a 33% improvement from 2009. We intend to continue using the results of the survey to improve our value proposition and HR practices.

We registered significant improvements in areas such as remuneration and strategy execution.

This is further proof of our employees' belief in our improved value proposition.

Caring for Our People and their Well-being

Great organisations are staffed by exceptionally talented and driven individuals, as well as teams that thrive in healthy and stimulating working environments.

In recognition of this, the holistic well-being of our employees was once again a major focus this year. Wellness-related activities during the year included a number of fitness competitions to encourage a healthy lifestyle among our employees.

The use of facilities such as the gym at our new headquarters, First Place, is also on the increase as employees heed our call to lead healthy and active lifestyles.

Furthermore, we reviewed the way in which we structure our retirement packages. Five years ago, FNBB was at the bottom end of the scale in the financial services industry, with the Bank contributing 16% of each employee's salary to the pension fund. This year, however, we decided to increase this to 18% and to 19% in the new financial period. These increases are intended to provide a more dependable retirement income for our employees in a very unstable economic environment. As much as FNBB aims to help its customers, which is a business philosophy expressed in our brand promise 'How can we help you?' it is just as important for us to demonstrate that FNBB cares for the well-being of its employees, even beyond their employment years with us.

Similarly, we also reviewed the death benefits we offer. Before the "Journey of 1500 days", we offered death benefits equivalent to three times the employee's annual salary. This has now been increased to five times an employee's annual salary, providing greater security for the families of deceased staff. We have also done our best to improve our disability benefits. We have introduced a temporary disability fund that pays 75% of an employee's salary while they go through the disability insurance claims process.

Attracting and Retaining Talent

Our drive to attract and retain the best talent the financial services industry has to offer remains at the core of our overall HR strategy. We have addressed fundamental issues such as competitive remuneration, pension contributions, death and disability benefits, and other employee benefits, and our focus will continue in these areas.

Our retention strategy is based on identifying critical skills sets and benchmarking them. This, we believe, goes a long way in enabling us to safeguard our position as an industry leader.

Rewarding Excellence

We strongly hold the belief that recognising and rewarding excellence reinforces the behaviours that promote excellence in every aspect of an organisation's operations, and boosts employee engagement. In recognition of this, we are proud of the role our annual FNB Botswana Staff Performance Awards play in distinguishing individual and team achievements as well as hard work and dedication.

This year, one of our employees, Abo Kgwarae's mobile ATM invention, was named one of FNB's Top 50 Best Innovations – an achievement that confirms that our investment in creating an environment that is conducive for innovative thinking is paying off. The award-winning innovation further affirms FNBB's commitment to making banking simpler and more accessible to all our customers, regardless of their location.

We also made bold steps in improving our employees' remuneration. In 2009, FNBB's remuneration packages were among the lowest in the financial services industry. This disincentivised performance, personal growth and service excellence. We have made great progress in this regard. We now offer competitive salaries.

Opportunities

The success of both the rewards programme and the retention strategy depends on creating meaningful opportunities for all FNBB staff.

Over the past year, therefore, we have developed a training and development model made up of four categories: people who manage themselves; people who manage other people; people who manage managers; and people who manage the organisation. We then identified the type of training that employees in each category should undergo, and decided which training courses should be mandatory.

These included, for instance, customer service courses, performance management courses, anti-money laundering courses, and proficiency certificates in insurance practice. Courses such as these enable people not only to manage other people but also to manage themselves, and so deepen their proficiency.

The new model has also enabled us to focus on leadership development, and we have been able to put several committed groups of people through a leadership development course, which we ran in conjunction with the University of Stellenbosch in South Africa.

In addition to this, we formulated and launched the FNBB Future Leadership Programme, a skills-specific programme designed to develop branch managers, credit managers and administration managers. This in-service programme lasts for 18 months and is aimed at enabling and empowering the Bank's next generation of managers.

With the assistance of the people in the Future Leadership Programme, we were also able to plan and implement systems-based improvements, such as for the scores applications for credit.

Highlights

1 'BEST COMPANY TO WORK FOR'
FNB Botswana awarded second position in 'Best Company to Work For' in the 2013 Deloitte Best Company to Work For Survey, for the second consecutive year

2 EMPLOYEES' RETIREMENT PACKAGES
We have increased the Bank's contribution to employees' retirement packages from 16% to 18%

3 TEMPORARY DISABILITY FUND
We have established a temporary disability fund that pays employees 75% of their salary while disability insurance claims are being processed

4 EMPLOYEE ENGAGEMENT
The Annual Employee Engagement Survey shows a significant improvement to 84% in employee engagement

The Year Ahead

The 2015 financial year marks the beginning of an entirely new journey for FNBB.

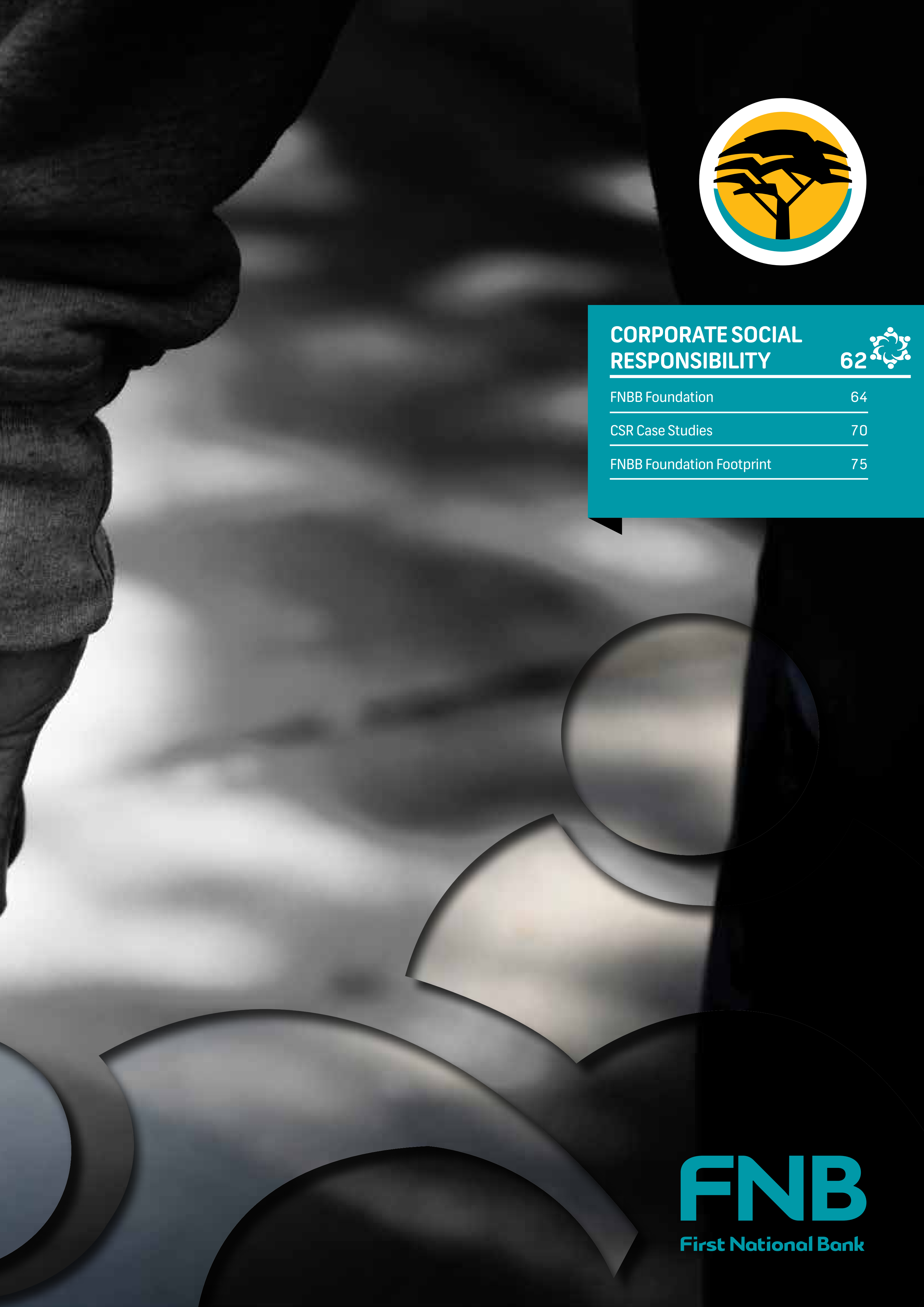
As we endeavour to create an organisation whose name and brand is synonymous with innovative and superior customer service, embedding a strong culture of customer-centricity will continue to be a major focus.

It remains our ambition to make banking simple, accessible and affordable, and one of the ways we intend to accomplish this is by continuously improving our customer experience, regardless of the platform or channel used.

Ensuring that we continue to be an employer of choice, offering our employees the most stimulating and encouraging working environment in the financial services industry, remains our key goal as we continue to ask our staff: 'How can we help you?'

how can we help you?

Corporate Social Responsibility



CORPORATE SOCIAL RESPONSIBILITY 62

FNB
First National Bank

Uplifting COMMUNITIES AND OUR *employees*

Summary of Key Points

Solidifying partnerships to become a more effective corporate citizen

Focus on supporting **self-sustaining** CSI initiatives

Our brand proposition, 'How can we help you?', **informs everything we do**

Education, social welfare, arts and culture, community sports, recreational facilities and children with disabilities remain **our CSI priorities**

A BETTER WORLD FOR **YOU**

This financial year provided a much-needed opportunity to reflect on our effectiveness in improving the quality of life of those in the communities in which we have a presence.

As one of the biggest corporate givers in Botswana and a leader in CSR in the financial services sector, our overarching objective, as conveyed in our brand credo of 'How Can We Help You?' is to be of value and service to our stakeholders. This commitment extends not only to the way in which we do business, but also the manner in which we conduct ourselves as a socially responsible corporation. It is a responsibility we take very seriously.

Within this context, our aim is to continue to support only those CSI projects and programmes that create beneficial cycles of social development and have the capacity to become self-sustaining. This, we believe, is the best way in which we can ensure our interventions have a broader impact.

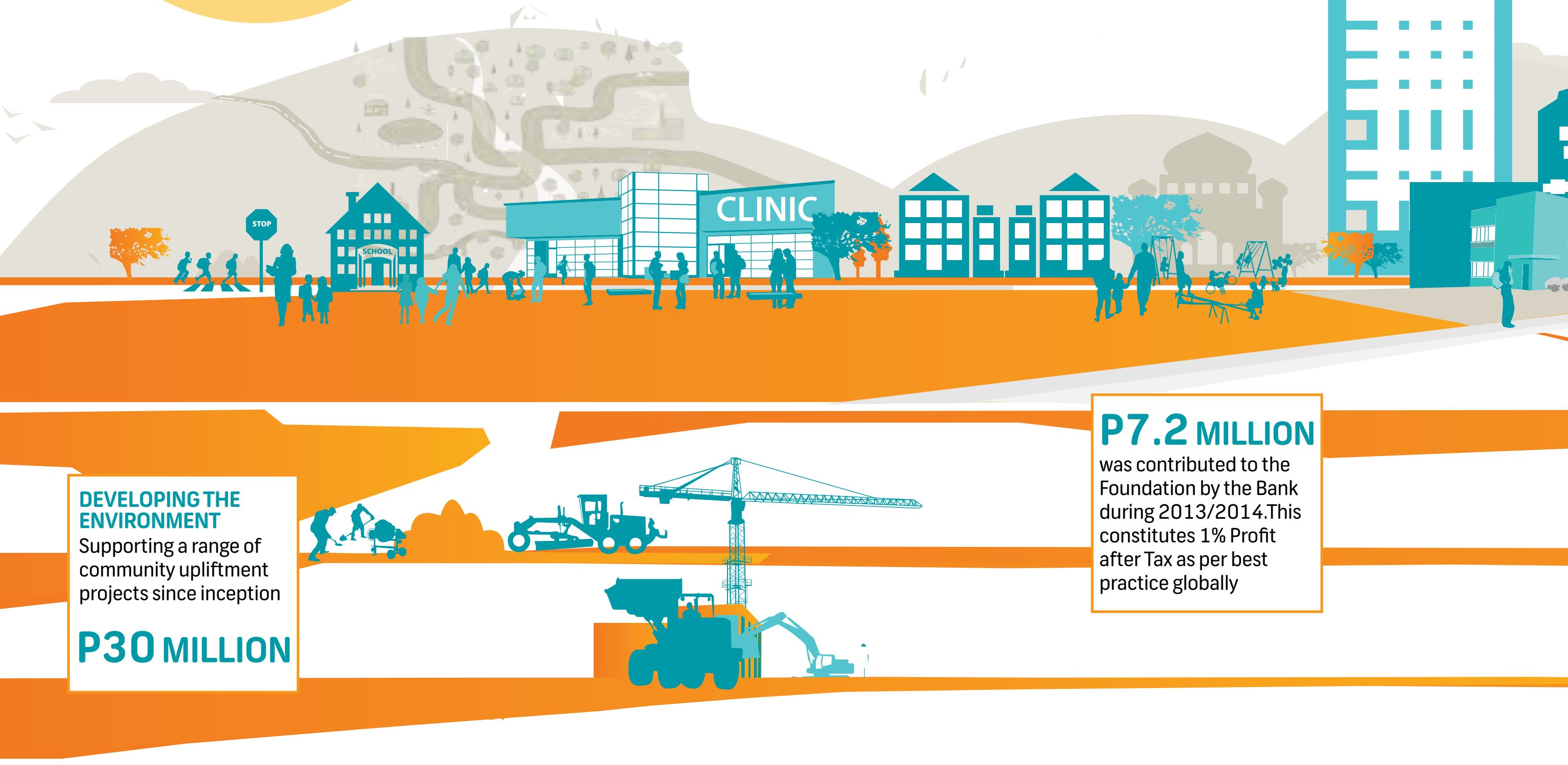
A key challenge in the past has been the tendency displayed by some of our beneficiaries to be dependent on funding rather than aspire to be self-sufficient. Enabling this thinking goes against the vision of our CSI involvement, which is to provide communities with resources and infrastructure that will enable them to be self-reliant, as well as improve the socio-economic conditions of those who live in them. This is important if we are to truly be of service to our communities

Highlights

16 LOCATIONS
ACROSS BOTSWANA WHERE FNBB STAFF VOLUNTEER THEIR SUPPORT

17 LOCATIONS
LOCATIONS ARE COVERED BY THE FNBB FOUNDATION IN THE FORM OF DONATIONS AND SUPPORT

P3 MILLION
TOTAL DONATIONS GIVEN TO THE COMMUNITIES BY THE FOUNDATION IN THE CURRENT YEAR



DEVELOPING THE ENVIRONMENT
Supporting a range of community upliftment projects since inception

P30 MILLION

P7.2 MILLION
was contributed to the Foundation by the Bank during 2013/2014.This constitutes 1% Profit after Tax as per best practice globally

'Since its operational inception in 2001, the FNBB Foundation has ploughed back P30 million through supporting a range of community upliftment projects'

Our Approach to CSI

FNBB engages in Corporate Social Responsibility activities in two ways: through our Staff Volunteer Programme as well as the FNB Foundation. Our approach recognises the importance of involving our employees, who are encouraged to participate on a voluntary basis, as we consider them partners in helping to uplift those in the communities in which we have presence.

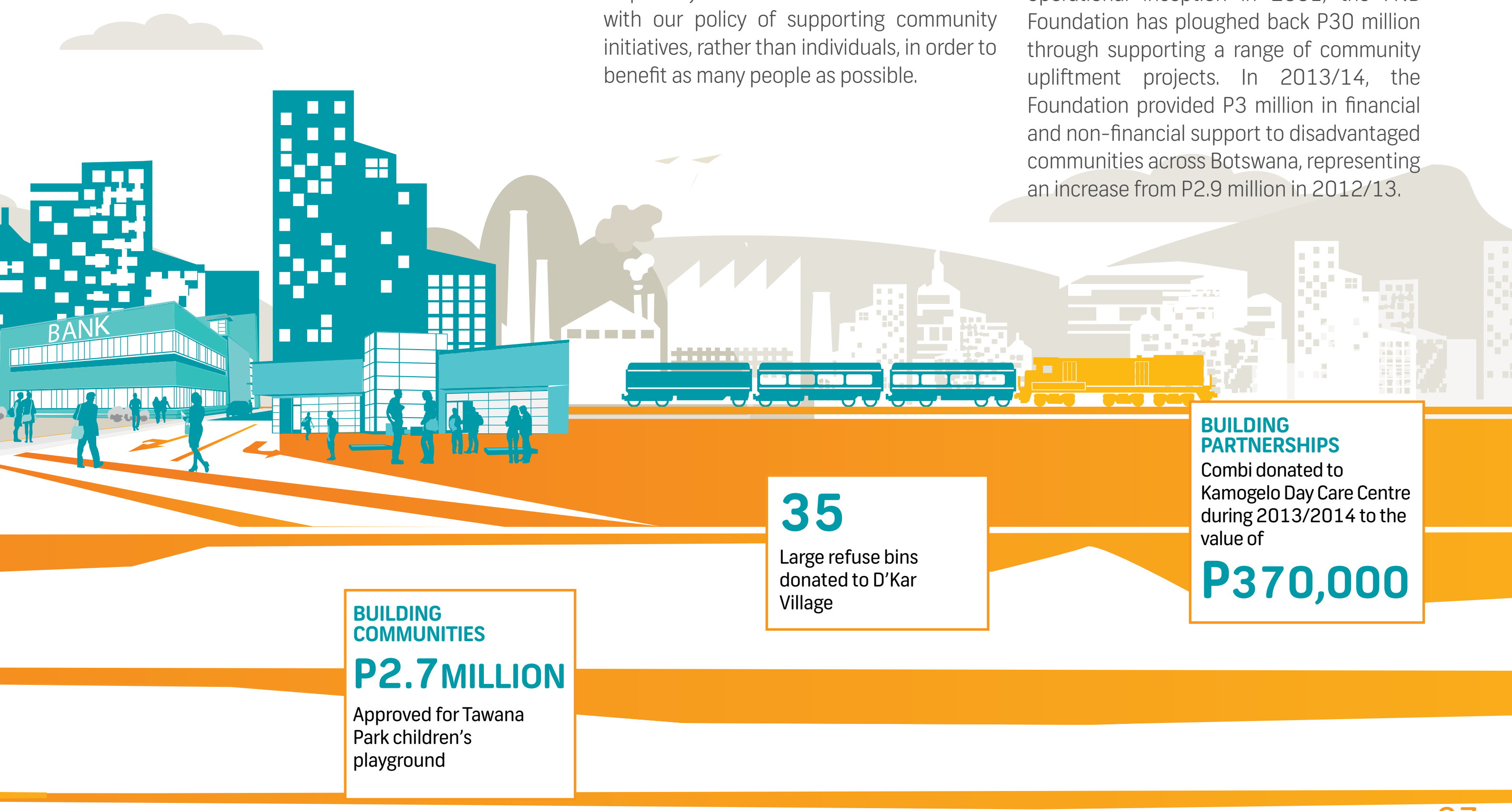
Employees identify worthy community projects to support during the course of each financial year and these are assessed according to our CSR guidelines. These initiatives must relate to our core focus which is education; healthcare; skills development; vocational training; support for disadvantaged and handicapped people; arts and culture development; and sports and recreation. Many of the community projects our staff support involve infrastructure upgrades, such as the renovation of crèches, school classrooms or primary healthcare clinics. This is in line with our policy of supporting community initiatives, rather than individuals, in order to benefit as many people as possible.

Each business segment receives P50 000 a year to fund its work on such projects. Funds are distributed by the FNB Foundation, which administers the CSI funds and is the main vehicle through which the Bank provides financial and non-financial support to destitute communities. This is through supporting legitimate non-government organisations (NGOs) and non-profit organisations (NPOs) operating in those areas.

We insist on being proactive in our pursuit to deliver CSR interventions that benefit communities from their perspective. Thus we reach out on both a corporate and individual level to those communities within which we operate.

Creating Safe and Happy Environments

Successes in both aspects of our CSI programme continue to uplift communities and our employees alike. Since its operational inception in 2001, the FNB Foundation has ploughed back P30 million through supporting a range of community upliftment projects. In 2013/14, the Foundation provided P3 million in financial and non-financial support to disadvantaged communities across Botswana, representing an increase from P2.9 million in 2012/13.



Tawana Park in Gaborone changes name to **First Park.**

A major highlight is the renovation of Tawana Park in Gaborone, which will now be known as First Park. This facility was in a state of disrepair and, in response to Government's call to the private sector to assist with improving recreational facilities, several of the Bank's divisions became involved in an upgrade programme. The staff involved tackled the project with enthusiasm, but it soon became clear that their volunteer programme grants would be insufficient to cover the costs of the improvements required.

The project was then escalated for assessment by the FNB Foundation, which approved a grant of P2.7 million for a children's playground, outdoor recreational areas for families, and a recreational centre with such facilities as internet access. The project, which was started in 2013, is about half completed, and we expect it to be fully completed by the end of the 2015 financial year.

1. **P2.7 MILLION APPROVED**
A grant of P2.7 million approved for a children's playground, outdoor recreational areas for families, and a recreational centre with such facilities as internet access.

2. **SAFE AND VIBRANT HAVEN FOR COMMUNITIES**
The park will provide a healthy and safe recreational space for Batswana of all ages.

3. **FIRST PARK**
We expect it to be fully operational by the end of the 2015 financial year.

Upon completion, the park will provide a healthy and safe recreational space for Batswana of all ages. Efforts are underway to create similar safe and vibrant havens for communities in other parts of the country.

One of the most noteworthy projects of the year was the renovation of the paediatric wards at Maun's Letsholathebe Memorial Hospital. This project was identified by staff members of the Bank and funded by a grant from the FNB Foundation. As we believe children are the future, it was an honour and a privilege to be able to invest in providing on improved healthcare.

We are also proud of our ongoing involvement with Kamogelo Day Care Centre in Mogoditshane, with which we've been involved since 2002. Established by the

Roman Catholic Church in 1998, Kamogelo Day Care Centre provides care for orphans and vulnerable pre-school children, as a result of HIV/Aids, in Mogoditshane and surrounding areas. The centre provides a safe and stigma-free environment for children to develop and flourish. In 2013/14, the FNB Foundation donated a new Nissan Combi to the centre valued at P370 000, thereby providing access to safer and more reliable transport.

Driving our Environmental Agenda

Preserving and improving our natural environment is just as important to us as caring for our social environment. Thus in the fourth quarter of this year, staff at our Ghanzi branch, through our Staff Volunteer Programme, embarked on a campaign to clean-up D'Kar village. The event was officiated by the Minister of Agriculture, the Honourable Christiaan de Graaf, who joined our employees and the community in cleaning up the village.

The FNBB Foundation donated 35 large refuse bins to encourage residents to continue keeping the village clean.

Looking Ahead

As a bank we touch the lives of many different people and, through our CSR programme, we wish to reflect this fundamental reality about our business.

As we embark on a new financial year, we recognise that CSR needs are evolving and, in an effort to support the creation of sustainable and self-reliant communities, we are undertaking a strategic review of our CSI programme. It is our objective to support our customers in every aspect of their lives, whether it is through offering innovative financial products, providing excellent customer service, or supporting social development in the communities in which they live.

Our intention is therefore not just to fund specific projects, but to partner with beneficiaries in order to enhance sustainability. We also intend to partner with other corporates to extend the reach and impact of all our CSI programme.

We are privileged to be able to give back to the community and make a lasting difference in the lives of our beneficiaries. In 2015, we will continue to seek out opportunities in this space where FNB can help beneficiaries throughout our focus areas.

supporting community initiatives, rather than individuals, in order to benefit as **many people as possible.**

STAFF VOLUNTEER PROGRAMME DONATION

Lobatse Branch

The staff at our Lobatse Branch took it upon themselves to make a difference within their community through a staff Volunteer Project at Athlone Hospital. Under the purview of the FNBB Foundation, Lobatse Branch staff members painted the walls of the hospital and refurbished and branded a bus shelter used by patients to reach the hospital. The FNBB spirit of giving continues to be brought to life through our passionate and dedicated staff.

Molepolole Branch FNBB Staff Members Refurbished Molepolole Village Kgotla

Molepolole Branch FNBB staff members took time to roll up their sleeves and make a hands-on difference in the Molepolole community. The team refurbished the Dikgosana house at the Molepolole Kgotla, volunteering their skills to restore and paint the roof, clean and tile the floors, paint the walls and extend the house to increase its capacity.

Through their hard efforts and magic touch, the house now boasts a much-improved appearance in the heart of the Molepolole community. The project was unveiled on 27 August 2014 by FNBB Foundation Trustee, Mrs Dorcas Kgosietsile, to the delight of those in the village. Residents of Molepolole have once again been reminded of FNBB's unwavering dedication to play an active role within the community even outside of the banking halls.

(continued)

Our core focus is education; healthcare; skills development; vocational training; support for disadvantaged and handicapped people; arts and culture development; and sports and recreation

Maun branch FNBers bring joy to children

Maun Branch FNBB staff brought joy to the faces of children at Letsholathebe Hospital in a staff Volunteer Project managed through the FNBB Foundation. On 22 May 2014, the Maun team painted the walls of the hospital and donated toys towards the hospital's paediatric ward. The project aimed to ensure that children who would subsequently come to the hospital would be faced with a warmer, more pleasant reception, bringing a smile to their sweet faces.

FNBB volunteers in partnership with the community

The Finance Team collaborated with Bontleng Village Development Committee to refurbish the White City Day Care Centre and develop a playground for children in the neighborhood. The project served as the perfect opportunity for the team to make a concerted effort to effect real and meaningful change for others.

White City Day Care Centre is an early learning centre belonging to Gaborone City Council. The centre has registered 23 orphans and 28 children from disadvantaged families.

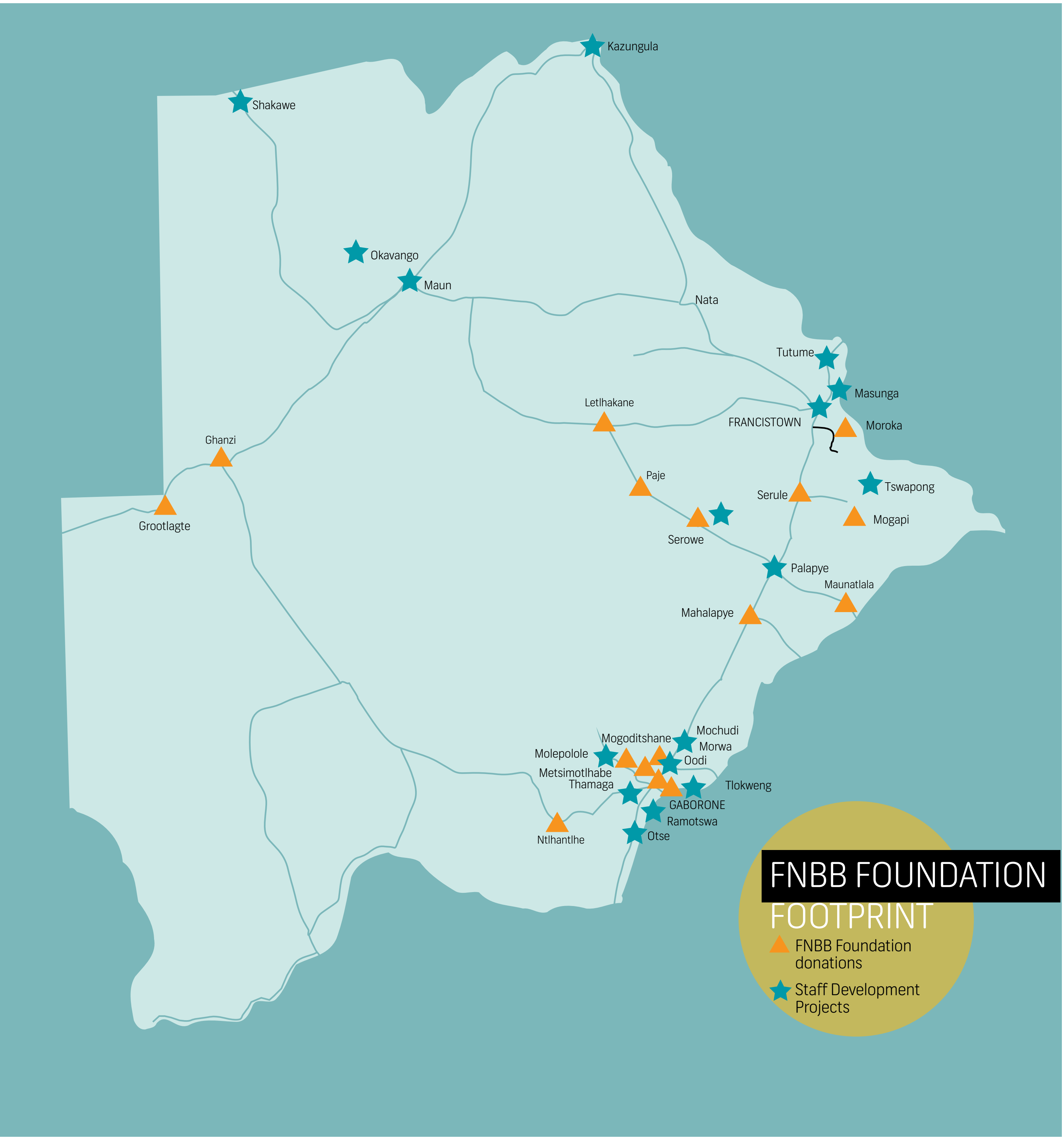
The team came together to ensure that children in the White City community have a wonderful, vibrant place in which to make positive memories and bring the sound of children's laughter to the Bontleng area.


OYOTA

Preserving and improving our natural environment is just as important to us as caring for **our social environment**

FNBB Foundation SUPPORTS Thapong Visual Arts Centre

The FNBB Foundation extended a helping hand to Thapong Visual Arts Centre by building a fully furnished Café. The Café will be used to generate income and contribute to the sustainability of the Centre. The Café was unveiled on 25 July 2014. This marks yet another testament to FNBB's support for the arts, and an increased dedication towards promoting and developing community initiatives that bring local talent to the fore.



Kazungula
Shakawe
Okavango
Maun
Nata
Tutume
Masunga
Letlhakane
FRANCISTOWN
Moroka
Ghanzi
Paje
Tswapong
Serule
Grootlagte
Mogapi
Serowe
Palapye
Maunatlala
Mahalapye
Mochudi
Mogoditshane
Morwa
Molepolole
Oodi
Metsimotlhabe
Thamaga
Tlokweng
GABORONE
Ramotswa
Otse
Ntlhantlhe
FNBB FOUNDATION FOOTPRINT
FNBB Foundation donations
Staff Development Projects

how can we help you?

Corporate Governance Report

GOVERNANCE AND SUSTAINABILITY

FNB
First National Bank

BOARD OF **DIRECTORS**

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.

PICTURE CAPTION:

FROM LEFT: SIFELANI THAPELO, LORATO EDITH BOAKGOMO-NTAKHWANA, MICHAEL WILLIAM WARD, DANETE HIGGINS ZANDAMELA, JOHN KIENZLEY MACASKILL, JABULANI RICHARD KHETHE, PETER DAVID STEVENSON AND DORCAS ANA KGOSIETSILE

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.

PROFILES OF THE BOARD OF DIRECTORS

PETER DAVID STEVENSON
FNBB CHAIRMAN OF THE BOARD

Peter Stevenson is a seasoned Chairman with extensive leadership, business and financial experience gained from working for Barloworld Group in three different countries, namely Botswana, Namibia, and Zambia. A chartered accountant and a fellow of the Botswana Institute of Chartered Accountants, he was appointed Chairman of FNB Botswana's Board of Directors in November 2011 having served as a Non-executive Director since April 2008.

Peter is the former Group Managing Director of Barloworld Botswana. He is currently a management consultant and serves on the boards of a number of private companies and charitable trusts.

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

LORATO EDITH BOAKGOMO-NTAKHWANA
FNBB CEO, EXECUTIVE DIRECTOR

Lorato holds a Bachelor of Commerce degree and an MBA. She possess more than 16 years of corporate banking experience having held a number of senior positions at the Central Bank of Botswana and the Central Bank of South Africa.

Lorato joined the FirstRand 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. Four years later saw her moving to FirstRand and working with developed markets and Africa.

Lorato has been with First National Bank of Botswana Limited 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 also an invitee to the Board Credit Committee. She also serves as the Chairperson of the FNBB Foundation.

MICHAEL WILLIAM WARD
NON-EXECUTIVE DIRECTOR

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 was employed as regional director responsible for developing businesses in many countries in Africa, firstly with the G4S group until 2008 and then with ADT. He is currently a director and shareholder of a Botswana-based private equity company.

Mike was first appointed as a Board member in August 2009. He is the Chairman of the Board Audit Committee and also a member of the Board Credit Committee.

SIFELANI THAPELO
INDEPENDENT NON-EXECUTIVE DIRECTOR

Sifelani holds a Master of Laws 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.

JOHN KIENZLEY MACASKILL
INDEPENDENT NON-EXECUTIVE DIRECTOR

John has been with FNB since 1972. Formerly CEO of FNB Botswana (1996-2003), he has held various senior positions within the FirstRand Group including in South Africa, London and Hong Kong. His career in financial services spans across human resources, international corporate and retail banking. In 2005, he was appointed Chief Investment Officer for FirstRand Africa until 2013.

John serves on the boards of FNB's operations in Nigeria and Southern Africa. These include Nambia, Mozambique, Lesotho, Swaziland, and Zambia. He is a graduate of the University of Pretoria and UNISA.

He joined the FNBB Board on the 4th March 2014.

DORCAS ANA KGOSIETSILE
INDEPENDENT NON-EXECUTIVE DIRECTOR

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 at 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.

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 lead 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.

JABULANI RICHARD KHETHE
NON-EXECUTIVE DIRECTOR

Jabu holds a Bachelor of Commerce Degree in Banking from the University of Pretoria, South Africa. He also 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 International Africa and has extensive banking, insurance and leadership experience with financial institutions in South Africa. He sits on a number of the FirstRand Group 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.

DANETE HIGGINS ZANDAMELA
INDEPENDENT NON-EXECUTIVE DIRECTOR

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.

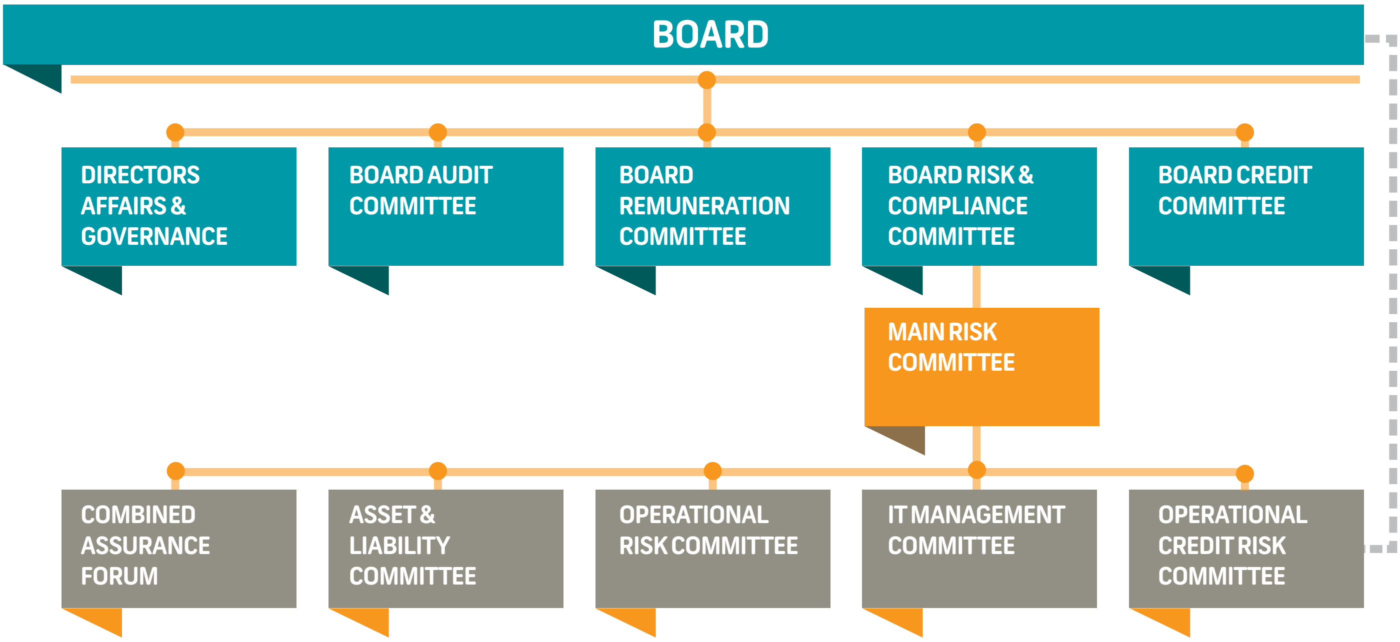
Danny is currently the CEO of FNB Public Sector Banking (SA and Africa), a position he has held since August 2012. He is a retail, corporate and commercial banker with over 30 years' industry experience coupled with extensive leadership experience in the Barclays Bank PLC Group and the FNB Group. He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

He joined the FNBB Board on the 21st October 2011.

(continued)

The FNBB Board is composed of both executive and non-executive Directors, with the majority being non-executive Directors **who are independent**

Governance Structure



Each Board Committee has clearly defined set of responsibilities which are set out on various committee charters approved by the Board. 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

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 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 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 AND 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 – Advises 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 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.

See page 87 for our integrated reporting checklist

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 a non-executive director and is therefore separate from that of the Chief Executive Officer.

2013-2014 Board Attendance

	AUGUST 2013	NOVEMBER 2013	JANUARY 2014	APRIL 2014
P D Stevenson** - Chairman	√	√	√	√
L E Boakgomo-Ntakhwana * - CEO	√	√	√	√
B M Bonyongo**	√	√	-	-
D A Kgosietsile**	√	√	√	√
J R Khethe***	√	√	√	√
S Thapelo**	√	√	√	√
M W Ward**	√	√	√	√
D H Zandamela***	√	√	√	√
J K Macaskill**	-	-	-	√
R C Wright ****	√	√	√	√

* Executive Director ** Independent Non-Executive Director *** Non Executive Director **** Alternate Director - Not a Board member at the time of the meeting

2013-2014 Board Committee Attendance

	BOARD AUDIT	BOARD RISK/ COMPLIANCE	BOARD CREDIT	DAGC	REMCO
P D Stevenson** - Chairman	4/4	4/4	13/13	3/3	2/2
L E Boakgomo-Ntakhwana * - CEO	4/4	4/4	1/13	-	2/2
B M Bonyongo**	2/2	2/2	-	2/2	-
D A Kgosietsile**	-	-	-	-	-
J R Khethe***	-	-	-	3/3	-
S Thapelo**	-	-	-	3/3	2/2
M W Ward**	4/4	4/4	13/13	-	-
D H Zandamela***	4/4	4/4	-	-	-
R C Wright****	4/4	4/4	12/13	-	2/2

* Executive Director ** Independent Non-Executive Director *** Non Executive Director **** Alternate Director - Not a Board member at the time of the meeting

Board member attendance has improved from prior year from 91% to 100% for the year under review.

The Board is comprised of a total of eight (8) Directors who are individuals of a high caliber and credibility with the necessary **skills and experience.**

See page 80-81 for frofiles of our Board Members

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 and the outcome of the assessments indicate that the Board Committees have discharged their functions and responsibilities relating to the business strategy, financial soundness and governance adequately.

Board Skills and Experience

The Board is comprised of a total of eight (8) Directors who are individuals of a high caliber and credibility with the necessary skills and experience.

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

The Board induction has been revamped with a more comprehensive programme.

Corporate Governance

Corporate Governance Objectives

The Bank's overarching corporate governance objective for the financial year ended 30 June 2014 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.

King III Integrated Report

Progress on 2014 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. 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 Framework, Liquidity Risk Management Framework, 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 FNBBInternal Audit and Group Internal Audit. Group Internal Audit has oversight of the internal audit function and performs the role of quality assurance. Where gaps have been identified within Internal Audit in terms of insufficient resources or skills levels, Group Internal Audit provides the necessary support required.

OBJECTIVE	PROGRESS /OUTCOME
Ensure an independent compliance function that manages supervisory and regulatory risks	The Board has ensured the existence of a compliance function that continuously reports on the management of 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. Risk management plans for high risk legislation have been developed and focus on a monitoring programme is in place.
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 the 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, Banking Act, and the Botswana Stock Exchange Act. The Board ensures that the disclosures to the public are relevant, timely, and comprise of 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. A toll-free line managed by an independent firm is in place.

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 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 by 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 has adopted integrated risk based approach to planning incorporating combined assurance, leveraging management's assessment and external auditors' evaluation of the risk environment. This enables a common view of risks that underpins the audit planning process. The audit planning process is flexible and is reviewed on a quarterly basis as the organisation's risks, governance and controls processes evolve.

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. 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 an Internal Capital Adequacy Assessment Process (ICAAP) framework and strategy is in place. This forms part of the Bank's risk management framework. The strategy ensures the

(continued)

The Board confirms that as part of the governance process the Bank has in place an Internal Capital Adequacy Assessment Process (ICAAP) framework and strategy which forms part of the Bank's risk management framework.

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 results are presented to the Board Risk and Compliance Committee as part of the process to evaluate the adequacy of the 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.

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 Secretary.

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 Adjudicator's Office.

A formal dispute resolution policy and process is also in place for disputes related to our 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.

King III and 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 completes a directors' pledge on the Code of Ethics on an annual basis.

Corporate Governance Assessment

The Bank's overall corporate governance objective has to be supported by management's implementation of effective policies, processes and procedures relating to corporate governance, internal controls, risk management, capital management and capital adequacy.

The following criteria, which include an alignment to the King III principles, have been identified to perform the aforementioned assessment.

These areas are:

1. Corporate governance objectives
2. Functioning of the Board of Directors and its sub-committees
3. Risk management
4. Internal controls
5. Internal audit
6. Compliance
7. Capital adequacy and capital management
8. Integrated reporting and disclosure
9. King III and Companies Act requirements
10. Botswana Stock Exchange Code of Corporate Governance

The following ratings should be used in the assessment:

Rating Key

- Yes (compliant)
- No (not compliant)
- Partially (partly compliant – working towards compliance)
- Not applicable

First National Bank of Botswana is known for many class-leading initiatives. Our ambition to be class leading is not just limited to our products and services. We seek to be class leading in all aspects. How we run our business is one such area that we take great pride in knowing that in our sector, our competitors look to us as for a source of best practice in corporate governance. We do this as nothing less would do justice to the many thousands of shareholders that have entrusted us with their valuable investment. We do this too as it is the right thing to do.

CONCLUSIONS REACHED IN TERMS OF THE CORPORATE GOVERNANCE ASSESSMENT	RATING
1. Corporate Governance Objectives	
1.1 Did the Board of Directors and executive officers establish and maintain an adequate and effective process of corporate governance, consistent with the nature, complexity and risks inherent in the activities and the business of the Bank?	
1.2 Was the established process of corporate governance efficient to meet the objective of achieving the Bank's strategic and business objectives efficiently, effectively, ethically and equitably (within acceptable risk parameters)?	
1.3 Did the process of corporate governance ensure:	
1.3.1 Compliance with the strategic framework and guidelines established for the Bank?	
1.3.2 Commitment by the executive officers of the Bank to adhere to corporate behaviour that is universally recognised and accepted as correct and proper?	
1.3.3 A balance of interests of the shareholders and other interested persons who may be affected by the conduct of directors or executive officers of the Bank within a framework of effective accountability?	
1.3.4 That mechanisms and procedures were established and maintained to minimize or avoid potential conflicts of interests between the business interests of the bank and the personal interests of Directors or executive officers of the Bank?	
1.3.5 Responsible conduct by the Directors and executive officers of the Bank?	
1.3.6 The achievement of the maximum level of efficiency and profitability of the Bank within an acceptable risk profile?	
1.3.7 The timely, accurate and meaningful disclosure of matters that are material to the business of the Bank/Banking Group or the interests of the shareholders of or other persons having an interest in the Bank?	
1.3.8 That the Board of Directors retains control over the strategic and business direction of the Bank, whilst enabling its executives to manage the bank operations and the achievement of the agreed strategic and business objectives?	
1.3.9 Compliance with all applicable laws and regulations?	
1.4 Was the process of corporate governance established and maintained in accordance with regulatory requirements?	
2 Functioning of the Board of Directors and it's subcommittees	
2.1 The Board 2.1.1 Has the Board of Directors discharged its functions and responsibilities relating to the business and risk strategy, organisation, financial soundness and governance, adequately and effectively?	
2.1.2 Has the Board exercised sound objective judgment and maintained appropriate qualifications and competence, individually and collectively?	
2.1.3 Has the Board exercised good governance for its own work as a Board?	
2.1.4 Did the Board provide effective oversight of senior management and was it supported by competent, robust and independent risk and control functions, for which the board provided effective oversight?	
2.2 The Audit Committee 2.2.1 Has the Audit Committee assisted the board of directors adequately and effectively by means of discharging its functions and responsibilities?	
2.3 The Risk, Capital Management & Compliance Committee 2.3.1 Has the Risk, Capital Management and Compliance Committee assisted the board of directors adequately and effectively by means of discharging its functions and responsibilities?	

(continued)

A compliance function is in place and operates within a regulatory **risk management framework.**

CONCLUSIONS REACHED IN TERMS OF THE CORPORATE GOVERNANCE ASSESSMENT	RATING
2 Functioning of the Board of Directors and it's subcommittees	
2.4 The Directors' Affairs Committee	
2.4.1 Has the Directors' Affairs and Governance Committee assisted the board of directors adequately and effectively by means of discharging its functions and responsibilities?	Yes (compliant)
2.5 The Remuneration Committee	
2.5.1 Has the Remuneration Committee assisted the board of directors adequately and effectively by means of discharging its functions and responsibilities?	Yes (compliant)
2.6 Board-Appointed Credit/Concentration Risk Committee	
2.6.1 Confirm whether the Bank has in place robust Board-approved policies, processes, procedures and systems to continuously comply with Board-approved capital requirements or limits relating to concentration risk.	Yes (compliant)
2.6.2 Did the Board of Directors appoint a Credit Committee to assist the Board in making decisions on large exposures? (Note: A large exposure is an aggregated exposure consisting of investments with, the granting of loans and advances or other credit to any person to an aggregated amount exceeding 10 per cent of net qualifying capital and reserves).	Yes (compliant)
2.6.3 If yes, confirm whether the appointed Credit Committee consists of:	
2.6.3.1 Three non-executive directors. Comments on Rating Members are Messrs Stevenson and Ward. The Deputy CEO also attends the Credit Committee together with credit specialists. Committee membership to be reviewed once additional Directors have been appointed.	Partially (partly compliant – working towards compliance)
2.6.3.2 Chief Executive Officer of the Bank.	Yes (compliant)
2.6.3.3 Chief Financial Officer.	Yes (compliant)
2.6.3.4 Head of risk or an equivalent function, such as the Head of Enterprise-wide Risk Management.	Yes (compliant)
2.6.3.5 Head of Credit.	Yes (compliant)
2.6.4 Confirm whether decisions on large credit exposures made by the Board-appointed committee were recorded in writing and tabled at the Board meeting immediately following the meeting of the said committee, for the board's review and ratification.	Yes (compliant)

Rating Key
- Yes (compliant)
- No (not compliant)
- Partially (partly compliant – working towards compliance)
- Not applicable

CONCLUSIONS REACHED IN TERMS OF THE CORPORATE GOVERNANCE ASSESSMENT	RATING
3 Risk management	
3.1 Confirm whether the Bank has comprehensive and adequate risk-management processes, practices and procedures and board-approved policies in place in order to identify, measure, monitor, control, appropriately price, appropriately mitigate and appropriately communicate or report on the following risks: (NOTE: Mark as "N/A" should a specific risk area not be applicable to your Bank's specific business activities)	
3.1.1 Capital risk	
3.1.2 Compliance risk	
3.1.3 Concentration risk	
3.1.4 Counterparty risk	
3.1.5 Country risk and transfer risk	
3.1.6 Risk arising for exposure to a related person	
3.1.7 Credit risk	
3.1.8 Currency risk	
3.1.9 Detection and prevention of criminal activities	
3.1.10 Equity risk in the banking book	
3.1.11 Interest-rate risk	
3.1.12 Liquidity risk	
3.1.13 Market risk (position risk) in the trading book	
3.1.14 Operational risk	
3.1.15 Risks arising from the outsourcing of material tasks or functions	
3.1.16 Risks arising from all relevant payment and settlement services, processes or systems	
3.1.17 Risks arising from or related to inappropriate compensation practices	
3.1.18 Risks related to securitisation or re-securitisation schemes	
3.1.19 Risks related to stress testing	
3.1.20 Risks related to the inappropriate valuation of instruments, assets or liabilities	
3.1.21 Strategic risk	
3.1.22 Reputational risk	
3.1.23 Risk relating to procyclicality	
3.1.24 Solvency risk	
3.1.25 Technological risk	
3.1.26 Translation risk	
3.1.27 Any other risk regarded as material, to be specified	
3.2 Confirm whether the above-mentioned risk-management processes, practices, procedures and policies:	
3.2.1 Are adequate for the size and nature of the activities of the Bank, including the activities relating to risk mitigation, trading and exposure to counterparty credit risk.	
3.2.2 Are periodically adjusted in light of the changing risk profile or financial strength of the Bank, financial innovation or external market developments.	
3.2.3 Are duly aligned with, and where appropriate, provide specific guidance for the successful implementation of and the continued adherence to the business strategy, goals and objectives, and the risk appetite or tolerance for risk, of the bank.	
3.2.4 Duly specify relevant limits and allocated capital relating to the Bank's various risk exposures.	
3.3 Confirm whether the above-mentioned risk-management processes, practices, procedures and policies are sufficiently robust to ensure compliance with the minimum requirements applicable to the Bank.	
3.4 Confirm the extent of compliance with minimum requirements relating to the board of directors and senior management applicable to the Bank.	

(continued)

A compliance function is in place and operates within a regulatory **risk management framework.**

CONCLUSIONS REACHED IN TERMS OF THE CORPORATE GOVERNANCE ASSESSMENT		RATING
4.	**Internal Controls**	
4.1	Confirm whether 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.	
4.2	If yes, confirm whether:	
	4.2.1 The Bank's internal controls provide reasonable assurance as to the integrity and reliability of the financial statements.	
	4.2.2 The Bank's internal controls safeguard, verify and maintain accountability of the Bank's assets.	
	4.2.3 The Bank's internal controls are based on established policies and procedures and are implemented by trained, skilled personnel, whose duties are duly segregated.	
	4.2.4 Adherence to the implemented internal controls is continuously monitored.	
	4.2.5 All employees of the Bank are required to maintain high ethical standards, thereby ensuring that the Bank's business practices are conducted in a manner that is above reproach.	
	4.2.6 The Bank implemented and continuously maintained compensation policies, processes and practices that comply, as a minimum, with regulatory requirements.	
	4.2.7 There is appropriate involvement of internal and external audit from an internal control review perspective.	
4.3	Confirm whether anything came to the Board's attention to indicate that any material malfunction, as defined and documented by the Board of Directors, in the functioning of the aforementioned controls, procedures and systems has occurred during the period under review.	
5.	**Internal Audit**	
5.1	Confirm whether the Bank has established a formal service level agreement with the Group internal audit function.	
6.	**Compliance Function**	
6.1	Confirm whether the Bank has established an independent compliance function in compliance with the requirements specified in Annexure G attached.	
6.2	Confirm whether the Bank has Board-approved policies and comprehensive risk management processes and procedures in place in respect of customer identification, verification and acceptance requirements, and the prevention of any money laundering or other unlawful activity.	
6.3	Confirm whether the Bank's Board-approved policies and comprehensive risk management processes and procedures are sufficiently robust to ensure that the Group continuously monitors account activity for potential suspicious transactions.	
6.4	Confirm whether the Bank has implemented policies and related risk management processes and procedures which are sufficiently robust and adequate to ensure that the Bank implemented and applied anti-money laundering and combating terrorist financing (AML/CFT) measures consistent with the relevant Financial Action Task Force (FATF) recommendations issued from time to time and the higher of AML/CFT standards issued in the Republic of South Africa or your host country.	

Rating Key

- Yes (compliant)
- No (not compliant)
- Partially (partly compliant – working towards compliance)
- Not applicable

CONCLUSIONS REACHED IN TERMS OF THE CORPORATE GOVERNANCE ASSESSMENT		RATING
7	**Capital Adequacy and Capital Management**	
7.1	Confirm whether the Bank has, as part of its process of corporate governance, a process that ensures the maintenance of capital management, and whether the said process is sufficiently robust to ensure that the Bank maintains sufficient capital adequacy buffers in order to remain solvent during prolonged periods of financial market stress and illiquidity.	Green
7.2	Confirm whether the Bank has developed and maintained an appropriate strategy:	
	7.2.1 That ensures that it maintains adequate capital based on the nature, complexity and risk inherent in its on-balance sheet and off-balance sheet activities, including the activities relating to risk mitigation.	Green
	7.2.2 That as a minimum, outlines the capital needs, anticipated capital expenditure and desired levels of capital.	Green
7.3	Confirm whether the Bank has complied with the minimum prescribed capital adequacy requirements during the financial year under review.	Green
8.	**Integrated Reporting and Disclosure**	
8.1	Confirm whether the Bank has disclosed in its annual financial statements and other disclosures to the public, reliable, relevant and timely qualitative and quantitative information, in compliance with the minimum specified regulatory requirements	Green
9.	**King III or Companies Act requirements**	
9.1	Ethics	
9.11	Confirm whether the Board provided effective leadership based on an ethical foundation, including	
	9.1.1.1 Adopted the Group-wide Code of Ethics.	Green
	9.1.1.2 Formally assigned a Director of the Board to the Ethics and Corporate Citizenship Portfolio.	Green
	9.1.1.4 Designated an Ethics Officer responsible for ethics management in the business.	Green
	9.1.1.5 Constituted an ethics committee to oversee the ethics programme.	Green
9.1.2	Provide safe and effective whistle-blowing facilities for employees to report theft, fraud, corruption and serious human ~~resource offences.~~	Green
9.1.3	A Code of Ethics and ethics-related policies are implemented via an institutional programme.	Green
9.2	Company Secretary	
9.2.1	Confirm whether the Board of Directors appointed a Company Secretary, which is appropriately skilled, resourced and empowered to fulfill his/her role.	Green
9.3	Dispute Resolution	
9.3.1	Confirm whether a formal dispute resolution policy and process is in place for internal and external disputes to be adopted ensuring that disputes are resolved effectively, efficiently and expeditiously.	Green
9.3.2	Confirm whether the Board has approved a panel of people/entities to represent the company in the event of an alternative dispute resolution	Green
OVERALL RATING: GREEN–Effective Corporate Governance has been maintained during the year under review.		Green

Rating Key
- Yes (compliant)
- No (not compliant)
- Partially (partly compliant – working towards compliance)
- Not applicable

The FNBB Board is composed of both executive and non-executive Directors, with the majority being non- executive Directors **who are independent**

Enterprise Risk Management (ERM)

See page 80-81 for frofiles of our Board members

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.

RISK MANAGEMENT REPORTING

Board/Executive Committees

1ST LINE OF DEFENCE	2ND LINE OF DEFENCE	3RD LINE OF DEFENCE
BUSINESS UNITS BUSINESS FUNCTIONS	ERM DIVISIONAL RISK MANAGEMENT	GROUP INTERNAL AUDIT

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 provide independent assurance of the adequacy and effectiveness of risk management practices.

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), 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
- Information Security Risk
- Information Technology Risk
- Legal Risk
- Regulatory Risk
- People Risk
- Reputational Risk
- Outsourcing Risk
- 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) Combined Assurance Forum (CAF): The Combined Assurance Forum is responsible ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities.

5) IT Management Committee (ITC): The IT Management Committee is responsible for effective information technology risk management and oversight.

how can we help you?

Annual Financial Statements

ANNUAL FINANCIAL STATEMENTS 95

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First National Bank


Self Service
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VALUE ADDED STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
Value added				
Value added is the wealth the Group hasbeen able to create by providing clients with a quality value added service.				
Income earned by providing banking services	2,039,374	1,953,073	2,014,748	1,939,286
Cost of services	(1,197,203)	(1,131,448)	(1,191,15)	(1,122,518)
Value added banking services	842,171	821,625	823,595	816,768
Non-operating and other income and expenditure	477,166	420,535	469,965	415,494
Value added	1,319,337	1,242,160	1,293,560	1,232,262
Value allocated				
To employees				
Salaries, wages and other benefits	354,398	304,250	352,318	302,632
To providers of capital				
Dividends to shareholders	410,192	384,555	410,192	384,555
To Government				
Taxation	213,676	213,758	209,467	211,418
To expansion and growth				
Retained income	309,469	316,397	290,893	311,540
Depreciation	31,602	23,200	30,690	22,117
	341,071	339,597	321,583	333,657
	1,319,337	1,242,160	1,293,560	1,232,262
Summary				
Employees	26.9	24.5	27.2	24.6
Providers of capital	31.1	31.0	31.7	31.2
Government	16.2	17.2	16.2	17.2
Expansion and growth	25.8	27.3	24.9	27.0
	100.0	100.0	100.0	100.0

TEN-YEAR CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 June 2014 P'000	30 June 2013 P'000	30 June 2012 P'000
ASSETS			
Cash and short term funds	2,721,384	2,288,285	2,557,842
Derivative financial instruments	24,922	10,138	7,861
Advances to banks	461,921	51,975	-
Advances to customers	12,131,415	10,369,937	8,420,553
Investment securities	1,536,828	2,290,494	2,699,551
Current taxation	12,895	2,117	-
Due from related companies	6,272	6,138	7,839
Accounts receivable	196,112	251,474	170,800
Non-current assets held for sale	-	7,101	5,511
Investment in associated company	-	-	-
Property and equipment	520,694	502,086	317,559
Goodwill	26,963	26,963	26,963
Total assets	17,639,406	15,806,708	14,214,479
LIABILITIES			
Deposits from banks	12,157	53,903	166,900
Deposits from customers	14,328,142	12,932,767	11,448,851
Accrued interest payable	39,027	34,767	45,179
Derivative financial instruments	18,079	16,964	32,912
Current taxation	3,870	-	461
Due to related companies	30,499	19,597	57,883
Creditors and accruals	274,596	225,215	275,972
Provisions	60,588	62,076	52,252
Borrowings	489,495	422,791	519,047
Deferred taxation	118,973	110,360	82,296
Total liabilities	15,375,426	13,878,440	12,681,753
EQUITY			
Stated capital	51,088	51,088	51,088
Reserves	1,930,885	1,620,810	1,276,542
Dividend reserve	282,007	256,370	205,096
Total ordinary equity holder's funds	2,263,980	1,928,268	1,532,726
Total equity and liabilities	17,639,406	15,806,708	14,214,479

30 June 2011 P'000	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
1,706,573	1,201,491	1,185,914	1,796,013	904,941	570,245	334,887
2,996	758	22,611	59,514	18,476	–	
361,178	–	–	–	–	–	–
7,170,842	5,803,009	4,643,241	3,969,496	3,073,209	2,716,404	2,513,929
3,496,862	4,946,059	6,085,772	5,363,202	4,060,061	3,760,394	391,845
4,622	1,041	–	–	–	–	320
13,133	5,075	3,956	2,029	1,151	–	–
170,502	57,719	363,392	181,911	197,447	96,171	59,353
–	–	–	–	–	–	–
3,058	3,151	2,037	2,297	2,421	2,499	2,302
202,200	187,306	115,601	80,737	63,184	39,354	37,601
26,963	26,963	26,963	26,963	26,963	26,963	26,963
13,158,929	12,232,572	12,449,487	11,482,162	8,353,070	7,212,030	3,367,200
215,186	4,000	13,851	142,310	125,463	142,299	53,950
10,597,398	10,304,632	10,552,699	9,763,624	6,744,640	5,881,827	2,430,240
36,696	45,661	70,142	86,594	85,100	60,902	17,302
18,794	559	21,388	59,514	18,476	–	–
–	–	7,494	5,173	308	138	1,131
140,031	50,209	175,827	97,587	213,482	48,834	102,789
616,691	336,647	166,538	91,514	57,517	60,268	63,682
42,646	23,830	24,741	43,267	34,776	34,532	–
244,971	207,827	416,612	424,694	430,907	438,851	195,137
98,350	100,648	79,071	43,267	34,776	33,507	42,432
12,010,763	11,074,013	11,528,363	10,757,544	7,745,445	6,701,158	2,906,663
51,088	51,088	51,088	51,088	51,088	51,088	51,088
1,045,804	979,286	754,669	583,800	400,151	331,599	299,210
51,274	128,185	115,367	89,730	156,386	128,185	110,239
1,148,166	1,158,559	921,124	724,618	607,625	510,872	460,537
13,158,929	12,232,572	12,449,487	11,482,162	8,353,070	7,212,030	3,367,200

TEN YEAR CONSOLIDATED INCOME STATEMENTS

	30 June 2014 P'000	30 June 2013 P'000	30 June 2012 P'000
INCOME STATEMENTS			
Interest and similar income	1,244,817	1,210,031	1,111,862
Interest expense and similar charges	(290,200)	(312,629)	(342,799)
Net interest income before impairment of advances	954,617	897,402	769,063
Impairments losses on loans and advances	(122,510)	(120,673)	(132,714)
Net interest income after impairment of advances	832,107	776,729	636,349
Non interest income	794,557	743,042	629,108
Income from operations	1,626,664	1,519,771	1,265,457
Operating expenses	(704,425)	(614,373)	(535,496)
Income before taxation	922,239	905,398	729,961
Taxation	(202,578)	(204,446)	(161,168)
Income after taxation	719,661	700,952	568,793
Dividends paid and proposed	(410,192)	(384,555)	(333,281)
Retained income for the year	309,469	316,397	235,512

	30 June 2011 P'000	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
	1,094,078	1,062,618	1,296,474	1,168,337	1,005,074	583,923	467,009
	(432,327)	(518,978)	(773,578)	(768,085)	(657,297)	(295,654)	(223,956)
	661,751	543,640	522,896	400,252	347,777	288,269	243,053
	(59,211)	(43,420)	(40,752)	(20,804)	(22,012)	(19,393)	(19,483)
	602,540	500,220	482,144	379,448	325,765	268,876	223,570
	505,793	410,610	371,196	348,980	244,931	197,471	170,900
	1,108,333	910,830	853,340	728,428	570,696	466,347	394,470
	(470,596)	(378,858)	(324,860)	(279,148)	(205,052)	(167,184)	(160,061)
	637,737	531,972	528,480	449,280	365,644	299,163	234,409
	(63,897)	(95,922)	(121,760)	(75,253)	(55,797)	(45,920)	(37,715)
	573,840	436,050	406,720	374,027	309,847	253,243	196,694
	(589,651)	(230,734)	(230,734)	(205,097)	(252,525)	(192,278)	(138,440)
	(15,811)	205,316	175,986	168,930	57,322	60,965	58,254

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors of First National Bank of Botswana Limited (the Bank or the Company) and its subsidiaries (the Group) are responsible for the preparation of these 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 103.

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 Consolidated and Company annual financial statements and supplementary statements presented on pages 107 to 188, which were approved on 12 August 2014 and are signed on their behalf by:

P.D. STEVENSON
CHAIRMAN

L.E. BOAKGOMO- NTAKHWANA
CHIEF EXECUTIVE OFFICER

M. W. WARD
DIRECTOR

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FIRST NATIONAL BANK OF BOTSWANA LIMITED

We have audited the consolidated and separate financial statements of First National Bank of Botswana Limited, which comprise the consolidated and separate statements of financial position as at 30 June 2014, 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 107 to 188.

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 judgement, 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 2014, 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 97 to 101 does not form part of the 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

DELOITTE & TOUCHE
CERTIFIED AUDITORS
PRACTISING MEMBER: C RAMATLAPENG (20020075)

Gaborone
12 August 2014

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 responsibilities for ensuring that the Group's financial and accounting systems provide accurate and up-to-date information on its current financial position, and that the Group's 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).

M.W. WARD
CHAIRMAN

12 August 2014
Gaborone

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

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 2014.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 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 P720 million (2013: P701 million) increased by 3% compared to the results for the year ended 30 June 2013. Interest income was derived mainly from advances, instalment credit, and investment securities. Non-interest income was derived from the Branch network, Firstcard, Merchant Services, Global Markets, and International Trade business.

Stated capital

The Company's stated capital consists of 2,563,700,000 (2013: 2,563,700,000) ordinary shares, of which First National Bank Holdings (Botswana) Limited holds 1,780,590,000 (2013: 1,780,590,000) shares (69.45%) (2013: 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 119,649 (2013: 98,839), which represents approximately 0.0046% (2013: 0.0039%) of the stated capital of the Company.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014
(Continued)

Dividends

An interim dividend of 5.00 thebe per share (2013: 5.00 thebe) for the year ended 30 June 2014 has been paid to holders of ordinary shares. The Directors propose a final dividend of 11.00 thebe per share (2013: 10.00 thebe).

Directorate

The composition of the Board as at 30 June 2014 was as follows:

P.D. Stevenson	Chairman (Motswana)
B.M. Bonyongo	Independent Non-Executive Director (Motswana) (Retired on 7th November 2013)
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	Independent Non-Executive Director (South African) (Appointed on 4th March 2014)
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
PO Box 294, Gaborone

Auditors

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

SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2014

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.

In the current year the Group has applied a number of new and revised IFRS issued by the International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods beginning on or after 1 July 2013. Except for the changes to accounting policies required by these new and revised IFRS as described below, the policies have been consistently applied to all the years presented.

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 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:

- A package of five standards on consolidation, joint arrangements, associates and disclosures was issued. These comprise IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements (IAS 27R) and IAS 28 Investments in Associates and Joint Ventures (IAS 28R). Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify the transitional provisions for the first-time application of the standards. In the current year, the Group applied the requirements of the new and revised standards, together with the amendments regarding the transitional guidance. Additional details on the ones that affect the Group are set out below:

- IAS 27R replaces IAS 27 Separate and Consolidated Financial Statements. 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 requirements. IAS 27R contains the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates in separate financial statements. These amendments are only applicable to separate financial statements and, therefore, do not have an impact on the Group's consolidated financial statements.

- IFRS 10 establishes one approach for determining consolidation of all entities based on concepts of power, variability of returns and their linkage. The application of control will be applied irrespective of the nature of the investee. The Group has control over an investee when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The consolidation principles have remained unchanged and are now incorporated as part of IFRS 10. IFRS 10 supersedes a portion of IAS 27 and SIC 12 Consolidation – Special Purpose Entities. Refer to accounting policy 3 for the Group's consolidation accounting policy.

- IFRS 12 aims to provide consistent disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, and consolidated or unconsolidated structured entities. 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. This standard addresses disclosure in the annual financial statements and does not affect recognition and measurement.

- IFRS 13 Fair Value Measurement was issued in order to eliminate inconsistencies in the guidance on how to measure fair value and disclosure requirements that exist under the different IFRS that require or permit fair value measurement. The revised measurement requirements did not have a significant impact on the net asset value of the Group for the current financial year. The revised disclosure requirements of IFRS 13 have been incorporated in the notes to the annual financial statements for the year ended 30 June 2014. The requirements of IFRS 13 are applicable on a prospective basis and in terms of the transitional provisions no comparatives are required for the new disclosures. Therefore, no prior year amounts have been restated as a result of the adoption of IFRS 13 and comparative information has not been provided in the disclosures.

- The amendments to IFRS 7 Financial Instruments: Disclosure require entities to provide additional disclosures relating to recognised financial assets and financial liabilities that are set off in accordance with paragraph 42 of IAS 32 Financial

SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

2 BASIS OF PRESENTATION (continued)

Instruments: Presentation. The additional disclosures include information about the gross amounts subject to rights of set off, amounts set off in accordance with the accounting standards and the related net credit exposure as well as information about the rights under enforceable master netting and similar arrangements. This amendment addresses disclosure in the annual financial statements only and does not affect the amount of offsetting applied to financial assets and financial liabilities in the Group's statement of financial position.

3 CONSOLIDATION

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3.2 Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (Including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted 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, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3.3 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see note 3.16.2);and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39,or IAS 37 Provisions, Contingent liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is re-measured to its acquisition-date fair value and the resulting gain or loss. If any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

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.

Interest income or expense on instruments designated at fair value through profit or loss is included in fair value income except to the extent that the interest relates to:

- the Group's insurance operations;
- the Group's funding operations; and
- items to which hedge accounting is applied.

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 recognised 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.

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 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 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 Botswana 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 recognised 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 recognised at fair value through profit or loss are reported as part of the fair value income in non-interest income.

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 analysed 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 recognised 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 and where applicable, this includes capital gains tax.

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.

SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

11. RECOGNITION OF ASSETS

Assets

The Group recognises 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 engages in trust or other fiduciary activities that result in the managing of assets on behalf of clients. The Group excludes these assets and liabilities from the statement of financial position as these are not assets and liabilities of the Group but of the client.

Fee income earned and fee expenses incurred by the Group relating to these activities are, however, recognised in fee and commission income in the period to which the service relates.

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.

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 recognised 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.

14. FINANCIAL INSTRUMENTS

Financial instruments carried on the statement of financial position include all assets and liabilities, including derivative instruments which include insurance contracts where the insured item is a financial instrument measured at fair value through profit and loss. 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 non-current assets, disposal groups held for sale and provisions are excluded from financial instruments. 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 recognised 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 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.

SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

14 FINANCIAL INSTRUMENTS (continued)

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.

If the Group sells more than an insignificant amount of held-to-maturity investments, the entire category is considered to be tainted in terms of IAS 39 and would have to be reclassified as available-for-sale.

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, equity instruments and compound financial instruments

The Group classifies a financial instrument that it issues as a financial liability, or an equity instrument in accordance with the substance of the contractual agreement. 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.

Compound instruments are those financial instruments that have components of both financial liabilities and equity. At initial recognition the compound financial instruments are split into its separate components and accounted for as financial liabilities or equity as appropriate. The Group separately measures and recognises the fair value of the debt component of an issued convertible bond as a financial liability, with the residual value allocated to equity.

The initial fair value of the liability component is recognised at the fair value of a similar non-convertible instrument. The equity component is initially recognised 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.

The Group calculates interest on the liability component of compound financial instruments based on the market rate for a non-convertible instrument at the inception thereof.

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.

The Group recognises 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.

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:

- risks and characteristics are not closely related to those of the host contract;
- if it meets the definition of a derivative; and
- 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-recognises 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.

SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

14. FINANCIAL INSTRUMENTS (continued)

In this case:

- if the Group has not retained control, it derecognises the financial asset and recognises 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 recognise 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 recognised 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 recognised 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 recognise securities borrowed in the consolidated financial statements, unless onsold to third parties, in which case the obligation to return these securities is recognised as a financial liability at fair value with any gains or losses included in fair value income.

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 recognised 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.

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

SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

14. FINANCIAL INSTRUMENTS (continued)

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 recognised 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 recognised 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 capitalised 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.

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 immediately written down 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 if the lessor effectively retains the risks and rewards of ownership of the leased asset. The Group recognises operating lease payments as an operating expense in profit or loss on a straight line basis over the period of the lease. 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.

SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

17. LEASES (continued)

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 receivable. 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. The Group 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.

Instalment credit agreements

The Group regards instalment credit agreements as financing transactions and includes the total rentals and instalments receivable, less unearned finance charges, in advances.

The Group calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to interest income in proportion to capital balances outstanding.

18. INTANGIBLE ASSETS

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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 recognised 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 contribution 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 recognised 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 profit or loss when it has a present obligation relating to termination. The Group has a present obligation at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognises any related restructuring costs.

Leave pay provision

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

Bonuses

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

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 recognised 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.

SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

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.

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 recognised in profit or loss. Any increases in fair value less costs to sell are only recognised when they are realised.

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 44 to the annual financial statements.

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	CONSOLIDATED 30 June 2014 P'000	CONSOLIDATED 30 June 2013 P'000	COMPANY 30 June 2014 P'000	COMPANY 30 June 2013 P'000
Interest and similar income	2	1,244,817	1,210,031	1,244,817	1,210,031
Interest expense and similar charges	3	(290,200)	(312,629)	(289,025)	(311,845)
Net interest income before impairment of advances		954,617	897,402	955,792	898,186
Impairment of advances	13	(122,510)	(120,673)	(122,510)	(120,673)
Net interest income after impairment of advances		832,107	776,729	833,282	777,513
Non-interest income	4	794,557	743,042	769,931	729,255
Income from operations		1,626,664	1,519,771	1,603,213	1,506,768
Operating expenses	5	(342,988)	(304,143)	(344,402)	(299,955)
Employee benefits	6	(350,339)	(300,918)	(348,259)	(299,300)
Income before taxation		933,337	914,710	910,552	907,513
Indirect taxation	7	(11,098)	(9,312)	(11,043)	(9,272)
Profit before direct taxation		922,239	905,398	899,509	898,241
Direct taxation	7	(202,578)	(204,446)	(198,424)	(202,146)
Profit for the year attributable to owners of the parent		719,661	700,952	701,085	696,095
Basic earnings per share (thebe)	8	28.29	27.56		
Diluted earnings per share (thebe)	8	28.28	27.54		

STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
Profit for the year	719,661	700,952	701,085	696,095
Items that may not subsequently be reclassified to profit or loss:				
Gains on revaluation of property	–	33,994	–	33,228
Deferred income tax	–	(7,479)	–	(7,311)
	–	26,515	–	25,917
Total comprehensive income for the year attributable to owners of the parent	719,661	727,467	701,085	722,012

STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2014

	Notes	CONSOLIDATED 30 June 2014 P'000	CONSOLIDATED 30 June 2013 P'000	COMPANY 30 June 2014 P'000	COMPANY 30 June 2013 P'000
ASSETS					
Cash and short term funds	10	2,721,384	2,288,285	2,721,384	2,288,285
Derivative financial instruments	11	24,922	10,138	24,922	10,138
Advances to banks		461,921	51,975	461,921	51,975
Advances to customers	12	12,131,415	10,369,937	12,138,415	10,376,937
Investment securities	14	1,536,828	2,290,494	1,536,828	2,290,494
Current taxation	32	12,895	2,117	12,895	1,525
Due from related parties	15	6,272	6,138	6,272	6,138
Accounts receivable	16	196,112	251,474	191,598	257,561
Non-current assets held for sale	17	-	7,101	-	4,283
Investment in subsidiary companies	18	-	-	13,540	47,244
Property and equipment	19	520,694	502,086	491,628	472,108
Goodwill	20	26,963	26,963	26,589	-
Total assets		17,639,406	15,806,708	17,625,992	15,806,688
EQUITY AND LIABILITIES					
Liabilities					
Deposits from banks	22	12,157	53,903	12,157	53,903
Deposits from customers	21	14,328,142	12,932,767	14,328,142	12,932,767
Accrued interest payable		39,027	34,767	39,027	34,767
Derivative financial instruments	11	18,079	16,964	18,079	16,964
Due to related parties	15	30,499	19,597	92,456	66,091
Creditors and accruals	24	274,596	225,215	266,177	223,135
Provisions	25	60,588	62,076	60,272	62,004
Borrowings	23	489,495	422,791	489,495	422,791
Current taxation	32	3,870	-	-	-
Deferred taxation	7	118,973	110,360	114,341	105,556
Total liabilities		15,375,426	13,878,440	15,420,146	13,917,978
Capital and reserves attributable to ordinary equity holders					
Stated capital	28	51,088	51,088	58,088	58,088
Reserves	29	1,930,885	1,620,810	1,865,751	1,574,252
Dividend reserve		282,007	256,370	282,007	256,370
Total equity		2,263,980	1,928,268	2,205,846	1,888,710
Total equity and liabilities		17,639,406	15,806,708	17,625,992	15,806,688

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

CONSOLIDATED	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
Balance as at 1 July 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 29)		(2,271)		2,271		-
Balance as at 30 June 2013	51,088	61,971	18,300	1,540,539	256,370	1,928,268
Total comprehensive income for the year		-		719,661		719,661
Profit for the year				719,661		719,661
2013 final dividend paid					(256,370)	(256,370)
2014 interim dividend paid				(128,185)		(128,185)
2014 final dividend proposed				(282,007)	282,007	-
Recognition of share based payments			606			606
Transfer of associate company retained earnings		(2,819)		2,819		-
Transfer from revaluation reserve (note 29)		(1,895)		1,895		-
Balance as at 30 June 2014	51,088	57,257	18,906	1,854,722	282,007	2,263,980

ANNUAL FINANCIAL STATEMENTS

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

COMPANY	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
Balance as at 1 July 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 loss 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 29)		(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
Total comprehensive income for the year		-		701,085		701,085
Profit for the year				701,085		701,085
2013 final dividend paid					(256,370)	(256,370)
2014 interim dividend paid				(128,185)		(128,185)
2014 final dividend proposed				(282,007)	282,007	-
Transfer from revaluation reserve (note 29)		(1,597)		1,597		-
Recognition of share based payments			606			606
Balance as at 30 June 2014	58,088	42,633	18,906	1,804,212	282,007	2,205,846

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

		CONSOLIDATED		COMPANY	
	Notes	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
Cash flows from operating activities					
Cash generated by operations before taxation and working capital changes	30	1,053,341	1,038,141	1,033,996	1,029,901
Tax paid	31	(200,873)	(186,439)	(201,009)	(185,034)
		852,468	851,702	832,987	844,867
Decrease in amounts due to other banks		(41,746)	(118,607)	(41,746)	(118,607)
Increase in deposits and current accounts	33	1,395,375	1,489,526	1,395,375	1,489,526
Increase/(decrease) in balances due to related companies		10,902	(38,286)	26,365	(23,458)
Increase/(decrease) in accrued interest payable		4,260	(10,412)	4,260	(10,412)
Increase/(decrease) in creditors and accruals		43,605	(55,900)	37,266	(55,334)
(Decrease)/increase in provisions		(1,488)	9,824	(1,732)	9,752
(Increase)/decrease in investments – held for trading		(217,313)	21,657	(217,313)	21,657
Increase in investments – held to maturity		(627)	(122,342)	(627)	(122,342)
Increase in advances to customers	34	(1,879,549)	(2,070,102)	(1,879,549)	(2,070,102)
Increase in advances to banks		(409,946)	(51,975)	(409,946)	(51,975)
Decrease/(increase) in accounts receivable		55,362	(80,674)	65,963	(89,161)
(Increase)/decrease in amounts due from related companies		(134)	1,701	(134)	1,701
Net cash utilised in operating activities		(188,831)	(173,888)	(188,831)	(173,888)
Cash flows from investing activities					
Acquisition of property and equipment	19	(50,210)	(177,280)	(50,210)	(177,280)
Proceeds on disposal of investment in associate		28,000	–	28,000	–
Proceeds on disposal of assets held for sale		4,091	–	4,091	–
Proceeds on disposal of property and equipment		1,463	1,493	1,463	1,493
Net cash utilised in investing activities		(16,656)	(175,787)	(16,656)	(175,787)
Cash flows from financing activities					
Dividends paid	35	(384,555)	(333,281)	(384,555)	(333,281)
Repayments of borrowings		–	(204,460)	–	(204,460)
Borrowings raised		51,535	108,117	51,535	108,117
Net cash utilised in financing activities		(333,020)	(429,624)	(333,020)	(429,624)
Net decrease in cash and cash equivalents		(538,507)	(779,299)	(538,507)	(779,299)
Cash and cash equivalents at the beginning of the year		4,406,155	5,185,454	4,406,155	5,185,454
Cash and cash equivalents at the end of the year	36	3,867,648	4,406,155	3,867,648	4,406,155

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
1. ACCOUNTING POLICIES				
The accounting policies of the Group are set out on pages 107 to 123.				
2. INTEREST AND SIMILAR INCOME				
Held for trading				
- Investment securities	3,184	3,976	3,184	3,976
Loan and receivables				
- Advances	1,143,900	1,079,999	1,143,900	1,079,999
- Cash and short term funds	24,389	19,552	24,389	19,552
- Related parties (Note 15)	6,163	9,349	6,163	9,349
- Unwinding of discounted present value of security on non-performing loans (Note 13)	1,919	2,994	1,919	2,994
Held to maturity				
- Investment securities	10,000	3,155	10,000	3,155
Available-for-sale financial assets				
- Investment securities	55,262	91,006	55,262	91,006
	1,244,817	1,210,031	1,244,817	1,210,031
3. INTEREST EXPENSE AND SIMILAR CHARGES				
Financial liabilities at amortised cost				
- Term deposit accounts	182,971	169,126	181,796	168,342
- Current and call accounts	67,487	95,958	67,487	95,958
- Savings deposits	13,969	16,978	13,969	16,978
- Deposits from banks and other financial institutions	14,661	18,282	14,661	18,282
- Related parties (Note 15)	523	1,255	523	1,255
- Borrowings	10,589	11,030	10,589	11,030
	290,200	312,629	289,025	311,845

ANNUAL FINANCIAL STATEMENTS

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
4. NON-INTEREST INCOME				
Fee and commission income				
Loans and receivables				
- Card commissions	131,588	135,096	131,233	135,096
- Insurance commissions	27,849	23,705	14,836	18,462
- Facility fees	38,365	43,549	38,365	43,549
- Commissions - guarantees and letters of credit	10,357	11,546	10,357	11,546
Financial liabilities at amortised cost				
- Cash deposit fees	38,963	35,997	38,963	35,997
- Commissions - bills, drafts and cheques	53,080	48,424	53,080	48,424
- Service fees	160,625	138,394	160,625	138,394
- Commissions-customer services	50,199	48,310	50,199	48,308
Net fee and commission income	511,026	485,021	497,658	479,776
Fair value gains or losses				
- (Loss)/gain on bond trading	(3,604)	1,376	(3,604)	1,376
- Net gain arising on financial assets at fair value through profit or loss	49,390	45,756	49,390	45,756
- Net loss arising on financial liabilities at fair value through profit or loss	(24,822)	(3,982)	(24,822)	(3,982)
- Foreign exchange trading income	203,673	187,788	203,673	187,788
Fair value gains or losses	224,637	230,938	224,637	230,938
Other non-interest income				
Non-financial assets and liabilities				
- Gain/(loss) on sale of property and equipment	2,226	(464)	2,226	(464)
- Gain on disposal of investment in associate	24,227	-	27,045	-
- Other non-interest income	32,441	27,547	18,365	19,005
Total non-interest income	794,557	743,042	769,931	729,255

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
5. OPERATING EXPENSES				
Auditor's remuneration				
Audit fees				
- current year	3,590	3,387	3,590	3,387
- prior year	–	(236)	–	(236)
	3,590	3,151	3,590	3,151
Depreciation				
Buildings	11,115	7,760	10,203	6,677
Motor vehicles	975	846	975	846
Furniture and equipment	19,512	14,594	19,512	14,594
	31,602	23,200	30,690	22,117
Directors' remuneration				
For services as non-executive directors	1,795	1,417	1,795	1,417
For services as executive directors	4,059	3,332	4,059	3,332
	5,854	4,749	5,854	4,749
Exchange losses on revaluation	3,553	2,137	3,553	2,137
Operating lease charges				
Premises	17,453	21,181	17,857	21,878
- Contractual	17,329	21,854	17,733	22,551
- Straight line lease rental adjustment	124	(673)	124	(673)
Equipment	7,533	2,768	7,440	2,758
	24,986	23,949	25,297	24,636
Other operating expenses				
Advertising and marketing	27,232	24,993	24,085	22,955
Communication	22,840	23,513	22,748	23,466
Computer expenditure	13,607	11,028	13,588	11,028
Property maintenance	24,200	19,428	23,663	18,846
Stationery, storage and postage	25,743	21,360	25,693	21,341
Service fees	25,380	16,060	25,369	16,060
Impairment loss on investment in subsidiary	–	–	7,115	–
Other	26,354	26,552	25,233	25,647
	165,356	142,934	167,494	139,343
Service fees paid to related company				
Systems	72,317	68,988	72,236	68,988
Services	13,498	14,167	13,485	13,987
Products	10,606	11,061	10,606	11,061
	96,421	94,216	96,327	94,036
Professional fees	11,626	9,807	11,597	9,786
Total operating expenses	342,988	304,143	344,402	299,955

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
6. EMPLOYEE BENEFITS				
Salaries, wages and allowances	286,542	243,381	284,779	242,029
Contributions to pension, medical and other staff funds	34,070	28,631	33,830	28,446
Share based payments expense - equity settled	606	1,356	606	1,356
Share based payments expense - cash settled	13,138	5,816	13,138	5,816
Leave pay	(3,445)	7,815	(3,459)	7,753
Other	19,428	13,919	19,365	13,900
	350,339	300,918	348,259	299,300

Details of the post retirement benefits are provided separately in Note 27.

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
7. TAXATION				
Indirect taxation				
Value added tax	11,098	9,312	11,043	9,272
Direct taxation				
Income taxation expense				
Current tax at 22% (2013: 22%)	190,758	189,428	186,432	187,526
Prior year overprovision	(1,331)	(5,567)	(1,331)	(5,567)
Capital gains tax at 22%	4,538	-	4,538	-
	193,965	183,861	189,639	181,959
Deferred taxation				
Charge to income statement				
- current year	7,437	10,345	7,437	9,947
- prior year underprovision	1,176	10,240	1,348	10,240
	8,613	20,585	8,785	20,187
Total taxation expense per income statement	202,578	204,446	198,424	202,146
Taxation relating to components of other comprehensive income	-	7,479	-	7,311
Reconciliation of taxation charge				
Profit before direct taxation	922,239	905,398	899,509	898,241
Taxation at current rate on profit for the year	202,893	199,187	197,892	197,613
Overprovision of current tax in prior years	(1,331)	(5,567)	(1,331)	(5,567)
Underprovision of deferred tax in prior years	1,176	10,240	1,348	10,240
Disallowed expenses and other allowances	(160)	586	515	(140)
Total tax expense per income statement	202,578	204,446	198,424	202,146
Deferred taxation				
Balance at the beginning of the year	110,360	82,296	105,556	78,058
Temporary differences for the year	7,437	10,345	7,437	9,947
Arising on revaluation of property	-	7,479	-	7,311
Prior year under/(overprovision)	1,176	10,240	1,348	10,240
Balance at the end of the year	118,973	110,360	114,341	105,556

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
7. TAXATION (continued)				
Deferred taxation (continued)				
The balance comprises:				
Accelerated capital allowances	119,592	109,413	117,842	108,499
Revaluation surplus	14,360	14,360	11,478	11,478
Other temporary differences	(14,979)	(13,413)	(14,979)	(14,421)
	118,973	110,360	114,341	105,556

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.

	30 June 2014 P'000	30 June 2013 P'000
Earnings attributable to ordinary equity holders	719,661	700,952
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)	28.29	27.56

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 1,386,000 (2013: 1,204,000) have been adjusted to the weighted average number of ordinary shares in issue used in the basic earnings per share calculation.

	30 June 2014 P'000	30 June 2013 P'000
Earnings attributable to equity holders	719,661	700,952
Weighted average number of ordinary shares in issue (thousands)	2,545,086	2,544,904
Diluted earnings per share (thebe)	28.28	27.54

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000

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 107 to 123 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:

	Consolidated 30 June 2014 P'000	Consolidated 30 June 2013 P'000	Company 30 June 2014 P'000	Company 30 June 2013 P'000
ASSETS				
Loans and receivables				
Cash and short-term funds	2,721,384	2,288,285	2,721,384	2,288,285
Advances to banks	461,921	51,975	461,921	51,975
Advances to customers	11,867,293	10,054,780	11,874,293	10,061,780
Due from related companies	6,272	6,138	6,272	6,138
Accounts receivable	196,112	251,474	191,598	257,561
Designated at fair value through profit or loss				
Advances to customers	264,122	315,157	264,122	315,157
Available-for-sale financial assets				
Investment securities	1,146,264	2,117,870	1,146,264	2,117,870
Held to maturity				
Investment securities	122,969	122,342	122,969	122,342
Held for trading				
Investment securities	267,595	50,282	267,595	50,282
Derivative financial instruments	24,922	10,138	24,922	10,138
Non-financial assets				
Current taxation	12,895	2,117	12,895	1,525
Non-current assets held for sale	-	7,101	-	4,283
Investment in subsidiary companies	-	-	13,540	47,244
Property and equipment	520,694	502,086	491,628	472,108
Goodwill	26,963	26,963	26,589	-
Total assets	17,639,406	15,806,708	17,625,992	15,806,688
LIABILITIES				
Financial liabilities at amortised cost				
Deposits from banks	12,157	53,903	12,157	53,903
Deposit from customers	14,328,142	12,932,767	14,328,142	12,932,767
Long-term liabilities	396,598	350,929	396,598	350,929
Accrued interest payable	39,027	34,767	39,027	34,767
Due to related companies	30,499	19,597	92,456	66,091
Creditors and accruals	274,596	225,215	266,177	223,135
Provisions	60,588	62,076	60,272	62,004
Designated at fair value through profit or loss				
Deposits from customers	92,897	71,862	92,897	71,862
Held for trading				
Derivative financial instruments	18,079	16,964	18,079	16,964
Non-financial liabilities				
Current taxation	3,870	-	-	-
Deferred taxation	118,973	110,360	114,341	105,556
Total liabilities	15,375,426	13,878,440	15,420,146	13,917,978

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

(continued)

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
10. CASH AND SHORT TERM FUNDS				
Coins and bank notes	189,834	199,774	189,834	199,774
Money at call and short notice				
- related companies (Note 15)	176,757	756,761	176,757	756,761
- other banks	732,801	219,373	732,801	219,373
Balances with Bank of Botswana - Mandatory reserve balance	1,227,043	1,071,836	1,227,043	1,071,836
Balances with Bank of Botswana - Statutory account balance	(423)	9,356	(423)	9,356
Balances with other banks				
- related companies (Note 15)	195,372	-	195,372	-
- other banks	200,000	31,185	200,000	31,185
	2,721,384	2,288,285	2,721,384	2,288,285
The carrying value of cash and short term funds approximates the fair value.				
Amounts denominated in foreign currencies included in above balances	1,108,107	952,826	1,108,107	952,826
Mandatory reserve balances	1,227,043	1,071,836	1,227,043	1,071,836

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 fixed rates and uses variable interest rate derivatives as economic hedges of future interest receipts.

The notional amounts of the derivative instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not present the Group's exposure to credit or pricing risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) based on changes in market interest rates. The aggregate notional amount of derivative financial instruments, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair value can fluctuate significantly, over time.

Forward rate agreements
Forward rate agreements are negotiated interest rate contracts that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount.

Currency options
The Group has written foreign currency option contracts that grant the holder the right, but not the obligation, to buy or sell currency at a specified exchange rate during a specified period of time. At the same time, the Group enters into a similar option with a related party in order to manage the risks associated with the options. These options are not designated as hedging instruments; consequently both options are recognised as derivative instruments in assets and liabilities in the 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 39.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

	Assets		Liabilities	
	Notional P'000	Fair value P'000	Notional P'000	Fair value P'000
11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)				
CONSOLIDATED				
2014				
Currency derivatives:				
Currency options	558,189	4,708	558,189	4,708
Trading derivatives	675,769	4,283	896,017	4,474
Interest rate derivatives:				
Interest rate swaps	79,039	15,931	152,884	8,897
	1,312,997	24,922	1,607,090	18,079
Related party derivatives included in above balances				
Currency options	279,095	2,515	279,095	2,515
Trading derivatives	51,648	174	104,625	812
Interest rate swaps	79,039	15,931	152,884	8,897
	409,782	18,620	536,604	12,224
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	8 145	2 140
Trading derivatives	16 971	106	49 956	684
Interest rate swaps	72,338	6,283	176,085	12,929
	97,454	8,529	234,186	15,753

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
12. ADVANCES TO CUSTOMERS				
Sector analysis				
Agriculture	445,442	507,595	445,442	507,595
Building and property development	567,369	523,122	567,369	523,122
Business and trade	4,882,302	4,695,781	4,889,302	4,702,781
Individuals	5,351,862	3,556,763	5,351,862	3,556,763
Manufacturing	444,815	328,889	444,815	328,889
Mining	370,456	666,974	370,456	666,974
Transport and communications	354,851	332,619	354,851	332,619
Gross advances	12,417,097	10,611,743	12,424,097	10,618,743
Contractual interest suspended	(51,794)	(45,991)	(51,794)	(45,991)
Gross advances after contractual interest suspended	12,365,303	10,565,752	12,372,303	10,572,752
Less : impairment of advances (Note 13)	(233,888)	(195,815)	(233,888)	(195,815)
Net advances	12,131,415	10,369,937	12,138,415	10,376,937
Category analysis				
Overdrafts and managed accounts debtors	1,078,607	1,146,432	1,078,607	1,146,432
Term loans	5,089,948	3,970,003	5,096,948	3,977,003
Lease payments receivable	789,467	669,923	789,467	669,923
Suspensive sale debtors	1,054,224	955,797	1,054,224	955,797
Property loans	4,285,539	3,659,694	4,285,539	3,659,694
Other	119,312	209,894	119,312	209,894
Gross advances	12,417,097	10,611,743	12,424,097	10,618,743
Contractual interest suspended	(51,794)	(45,991)	(51,794)	(45,991)
Gross advances after contractual interest suspended	12,365,303	10,565,752	12,372,303	10,572,752
Less : impairment of advances (Note 13)	(233,888)	(195,815)	(233,888)	(195,815)
Net advances	12,131,415	10,369,937	12,138,415	10,376,937
Maturity analysis				
Maturity within one year	1,773,886	1,867,593	1,773,886	1,874,593
Maturity between one and five years	3,233,400	3,200,292	3,233,400	3,200,292
Maturity more than five years	7,409,811	5,543,858	7,416,811	5,543,858
	12,417,097	10,611,743	12,424,097	10,618,743
Included in the above advances are instalment loans maturing within:				
-one year	86,797	100,385	86,797	100,385
-one to five years	1,756,894	1,525,335	1,756,894	1,525,335
	1,843,691	1,625,720	1,843,691	1,625,720

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	2,761	3,920	2,761	3,920

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

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.

	2014		
CONSOLIDATED	Total impairment P'000	Retail P'000	Corporate & commercial P'000
Specific impairment			
At the beginning of the year	129,894	81,145	48,749
Amounts written off	(98,137)	(93,230)	(4,907)
	31,757	(12,085)	43,842
Impairment loss recognised in the income statement	108,680	96,347	12,333
New and increased provision	132,374	114,968	17,406
Release of bad debts provision	(23,694)	(18,621)	(5,073)
At the end of the year	140,437	84,262	56,175
Present valuation of security adjustment			
At the beginning of the year	13,403	11,561	1,842
Charge to the income statement	9,223	5,270	3,953
Unwinding of discounted present value of security on non-performing loans (Note 2)	(1,919)	(1,655)	(264)
At the end of the year	20,707	15,176	5,531
Total specific impairment	**161,144**	**99,438**	**61,706**
Recoveries of bad debts previously written off	(15,619)	(14,670)	(949)
Portfolio impairment			
At the beginning of the year	20,240	19,373	867
Charge/(release) to the income statement	19,977	(93)	20,070
At the end of the year	40,217	19,280	20,937
IBNR impairment			
At the beginning of the year	32,278	27,514	4,764
Charge/(release) to the income statement	249	(8,726)	8,975
At the end of the year	32,527	18,788	13,739
Total charge to the income statement	**122,510**	**78,128**	**44,382**
Total impairment at the end of the year	**233,888**	**137,506**	**96,382**

CONSOLIDATED	2013 Total impairment P'000	Retail P'000	Corporate & commercial P'000
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
Impairment loss recognised in the income statement	131,660	95,363	36,297
New and increased provision	156,486	97,757	58,729
Recoveries of bad debts previously written off	(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
Total specific impairment	143,297	92,706	50,591
Recoveries of bad debts previously written off	(23,370)	(14,599)	(8,771)
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 FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

	2013			
CONSOLIDATED	Total including interest suspended P'000	Security held P'000	Contractual Interest suspended P'000	Specific Impairment P'000
13. IMPAIRMENT OF ADVANCES (continued)				
Non-performing advances – loans and receivables				
Sector analysis – 2014				
Agriculture	22,182	12,776	2,262	7,144
Building and property development	78,174	44,226	9,217	24,731
Individuals	111,025	62,811	13,090	35,124
Manufacturing and commerce	16,048	9,079	1,892	5,077
Transport and communication	13,653	7,724	1,610	4,319
Other advances	198,204	89,732	23,723	84,749
Total non-performing advances – 30 June 2014	439,286	226,348	51,794	161,144
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
Category analysis – 2014				
Overdrafts and managed accounts	68,077	9,796	8,744	49,537
Term loans	151,721	57,264	24,194	70,263
Suspensive and instalment sale debtors	59,419	24,466	3,538	31,415
Property loans	153,445	134,006	14,584	4,855
Other advances	6,624	816	734	5,074
Total non-performing advances – 30 June 2014	439,286	226,348	51,794	161,144
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

	GROUP AND COMPANY	
	30 June 2014 P'000	30 June 2013 P'000
Contractual interest suspended		
At the beginning of the year	45,991	35,096
Written off during the year	(31,625)	(25,524)
Suspended during the year	37,428	36,419
At the end of the year	51,794	45,991

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
14. INVESTMENT SECURITIES				
Sector analysis				
Available-for-sale				
Bank of Botswana Certificates	1,146,264	2,117,870	1,146,264	2,117,870
Held to maturity				
Government Bond	122,969	122,342	122,969	122,342
Held for trading				
Treasury Bills, Government and Parastatal Bonds	267,595	50,282	267,595	50,282
	1,536,828	2,290,494	1,536,828	2,290,494

P1,146,264,000 (2013: P2,117,870,000) 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

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 includes parent companies, subsidiaries and fellow subsidiaries) (Refer to Note 18 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. 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:

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
Due from related parties				
First National Bank Limited - South Africa	372,129	756,761	372,129	756,761
First National Bank Holdings (Botswana) Limited	6,272	6,138	6,272	6,138
	378,401	762,899	378,401	762,899
Less money at call and short notice - related companies (Note 10)	(176,757)	(756,761)	(176,757)	(756,761)
Less balances with other banks (Note 10)	(195,372)	-	(195,372)	-
	6,272	6,138	6,272	6,138
Due to related companies- current liabilities				
Financial Services Company (Proprietary) Limited	-	-	4,032	3,671
Financial Services Properties (Proprietary) Limited	-	-	(47)	(47)
First National Insurance Agency (Proprietary) Limited	-	-	56,960	41,858
First Funding (Proprietary) Limited	-	-	1,000	1,000
Plot Four Nine Seven Two (Proprietary) Limited	-	-	12	12
First National Bank Limited - South Africa	30,499	19,597	30,499	19,597
Due to related companies - creditors and accruals	30,499	19,597	92,456	66,091

Refer to Note 21 for amounts included in deposits from customers and Note 22 for amounts included in deposits from banks.

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
Related party transactions				
Transactions were carried out in the ordinary course of business and were supported as detailed below:				
Interest income:				
Rand Merchant Bank Limited (Ireland)	-	278	-	278
First National Bank Limited - South Africa	6,163	9,071	6,163	9,071
	6,163	9,349	6,163	9,349
Interest expenditure				
First National Bank Holdings (Botswana) Limited	523	1,255	523	1,255
	523	1,255	523	1,255
Operating expenses:				
Rent paid - Subsidiary companies	-	-	454	723
Rent paid - Finance House (Proprietary) Limited	-	5,382	-	5,382
Service level agreement costs - FirstRand Bank Limited	96,421	94,216	96,327	94,036
	96,421	99,598	96,781	100,141
Key Management personnel				
Compensation paid to key management personnel				
Share-based payments	901	574	901	574
Salaries and allowances	7,810	6,927	7,810	6,927
Other employee benefits	825	501	825	501
Total short term benefits	9,536	8,002	9,536	8,002
Pension contribution	306	358	306	358
Advances				
Personal loans	302	158	302	158
Overdrafts	2,370	1,000	2,370	1,000
Credit card	338	348	338	348
Instalment finance	1,468	1,751	1,468	1,751
Property loans	7,602	7,769	7,602	7,769
Total advances	12,080	11,026	12,080	11,026

No impairments have been recognised in respect of the above advances (2013: 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 P9,935,000 (2013: P12,035,000).

Personal loans, overdrafts and credit card balances are unsecured.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
16. ACCOUNTS RECEIVABLE				
Items in transit	8,541	109,793	23,242	118,211
Other sundry debtors	187,285	141,395	168,070	139,064
School debentures	286	286	286	286
	196,112	251,474	191,598	257,561
The above carrying value of accounts receivable approximates their fair value.				
17. NON-CURRENT ASSETS HELD FOR SALE				
Freehold land and buildings held for sale (i)	-	3,328	-	3,328
Investment in associate held for sale (ii)	-	3,773	-	955
	-	7,101	-	4,283

(i) The Group has disposed of the freehold land. The property previously comprised of residential premises. The sale of the property was sanctioned by the Board of Directors.

(ii) The Group has disposed of its 48.8% shareholding in its associate company, Finance House (Proprietary) Limited. The sale of the investment was sanctioned by the Board of Directors.

18. INVESTMENT IN SUBSIDIARY COMPANIES

Company	Nature of business	% Held	30 June 2014 P'000 Carrying amount	30 June 2013 P'000 Carrying amount
Financial Services Company of Botswana Limited	Property owning company	100%	12,500	12,500
First Funding (Proprietary) Limited	Group loan scheme	100%	1,000	34,704
Premium Credit Botswana (Proprietary) Limited	Insurance premium finance	100%	10	10
First National Insurance Agency (Proprietary) Limited	Insurance agency	100%	30	30
			13,540	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. Personal loan schemes financing is carried out through a division of the Bank.

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

CONSOLIDATED	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
19. PROPERTY AND EQUIPMENT						
2014						
Cost or valuation						
Balance at 1 July 2013	345,752	59,811	–	6,950	168,313	580,826
Additions	–	12,418	–	275	37,517	50,210
Disposals	–	–	–	(489)	(46)	(535)
Balance at 30 June 2014	345,752	72,229	–	6,736	205,784	630,501
Accumulated depreciation						
Balance at 1 July 2013	782	20,295	–	4,649	53,014	78,740
Charge for the year	6,561	4,554	–	975	19,512	31,602
Disposals	–	–	–	(489)	(46)	(535)
Balance at 30 June 2014	7,343	24,849	–	5,135	72,480	109,807
Carrying amount as at 30 June 2014	338,409	47,380	–	1,601	133,304	520,694
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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

		30 June 2014 P'000	30 June 2,013 P'000
19. PROPERTY AND EQUIPMENT (continued)			
Cost or valuation consists of:			
Freehold and leasehold land and buildings	- cost	281,687	281,687
	- valuation adjustment	60,135	60,135
Leasehold land and buildings	- cost	1,105	1,105
	- valuation adjustment	2,825	2,825
Leasehold land improvements	- cost	72,229	59,811
Motor vehicles	- cost	6,736	6,950
Furniture and equipment	- cost	205,784	168,313
Total cost or valuation		630,501	580,826
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		265,960	271,388

COMPANY	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
2014						
Cost or valuation						
Balance at 1 July 2013	315,923	58,568	-	6,950	168,075	549,516
Additions	-	12,418	-	275	37,517	50,210
Disposals	-	-	-	(489)	(46)	(535)
Balance at 30 June 2014	315,923	70,986	-	6,736	205,546	599,191
Accumulated depreciation						
Balance at 1 July 2013	-	19,961	-	4,649	52,798	77,408
Charge for the year	5,649	4,554	-	975	19,512	30,690
Disposals	-	-	-	(489)	(46)	(535)
Balance at 30 June 2014	5,649	24,515	-	5,135	72,264	107,563
Carrying amount as at 30 June 2014	310,274	46,471	-	1,601	133,282	491,628

COMPANY	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
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**

		30 June 2014 P'000	30 June 2,013 P'000
Cost or valuation consists of:			
Freehold and leasehold land and buildings	- cost	267,527	267,527
	- valuation adjustment	48,396	48,396
Leasehold improvements	- cost	70,986	58,568
Motor vehicles	- cost	6,736	6,950
Furniture and Equipment	- cost	205,546	168,075
Total cost or valuation		599,191	549,516
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		255,621	260,838

GROUP AND COMPANY

Freehold land and buildings consist of commercial and 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 eight residential properties and include the costs of improvements to bank premises. The unexpired portion of all the leases is in excess of 50 years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
20. GOODWILL				
Goodwill at carrying value	26,963	26,963	26,589	–
The above goodwill arose on acquisition of:				
First Funding (Proprietary) Limited	26,589	26,589	26,589	–
Premium Credit (Proprietary) Limited	374	374	–	–
	26,963	26,963	26,589	–

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% (2013: 3.0%) for the following three years. The discount rate used is 14% (2013: 14%) and the forecast period is 4 years (2013: 3 years).

21. DEPOSITS FROM CUSTOMERS

GROUP AND COMPANY

	30 June 2014 P'000	30 June 2013 P'000
Current and managed accounts		
– financial institutions and other customers	4,296,285	3,812,439
Savings accounts	953,127	920,198
Call and term deposits	9,078,730	8,200,130
	14,328,142	12,932,767

Included in the call and term depositsis a balance of P889,117,307 (2013: P88,646,204) relating to First National Holdings (Botswana) Limited.

	30 June 2014 P'000	30 June 2013 P'000
Maturity analysis		
Withdrawal on demand	10,638,001	9,320,412
Maturing within one year	3,690,141	3,611,582
Maturing two to five years	–	773
	14,328,142	12,932,767

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

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
22. DEPOSITS FROM BANKS				
Unsecured and payable on demand	12,157	53,903	12,157	53,903

Included in this amount is a balance due to FirstRand Bank Limited of P2,332,000 (2013: P26,905,000), First National Bank Zambia P101,000 (2013: P269,000), and First National Bank Swaziland P7,000 (2013: P2,000).

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
23. BORROWINGS				
Public Debt Service Fund	27,665	38,333	27,665	38,333
Subordinated Unsecured Bonds				
Floating rate				
154.48 Medium Term Notes of P1,000,000 each (2013: 154.48 at P1,000,000 each)	154,480	154,480	154,480	154,480
Fixed rate				
25 Medium Term Notes of P1,000,000 each (2013: 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	92,897	71,861	92,897	71,861
Negotiable Certificates of Deposit	189,453	133,117	189,453	133,117
Total borrowings	489,495	422,791	489,495	422,791

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 (2013: P6,873,098), 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 Management (BIFM), at fixed rates of 8.55% and 8.10%, maturing in May 2022 and September 2022 respectively, as well as a deposit for Botswana Colliery Limited (BCL) for P47 million at a fixed rate of 4.7% maturing in March 2019.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
24. CREDITORS AND ACCRUALS				
Accounts payable	9,635	8,087	9,388	7,811
Other creditors and accruals	99,145	57,167	97,112	56,626
Items in transit	145,346	144,677	139,207	143,414
Operating lease liability arising from straight lining of lease payments	1,837	1,713	1,837	1,713
Employee share participation schemes	17,208	11,556	17,208	11,556
Audit fees	1,425	2,015	1,425	2,015
	274,596	225,215	266,177	223,135
25. PROVISIONS				
Leave pay				
At the beginning of the year	24,025	21,241	24,025	21,241
Additional provisions recognised	6,576	7,851	6,576	7,851
Utilised	(10,051)	(5,067)	(10,051)	(5,067)
At the end of the year	20,550	24,025	20,550	24,025
Bonus provisions				
At the beginning of the year	38,051	31,011	37,979	31,011
Additional provisions recognised	40,038	45,648	39,550	45,468
Utilised	(38,051)	(38,608)	(37,807)	(38,500)
At the end of the year	40,038	38,051	39,722	37,979
Total provisions	60,588	62,076	60,272	62,004

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

	CONSOLIDATED	
	30 June 2014 P'000	30 June 2013 P'000
26. CAPITAL ADEQUACY		
Tier 1 - Core capital		
Stated capital	51,088	51,088
Retained earnings	1,854,722	1,543,358
	1,905,810	1,594,446
Less: Goodwill	(26,963)	(26,963)
	1,878,847	1,567,483
Tier 2 - Supplementary capital		
Revaluation reserves subject to 50% risk adjustment	28,629	29,576
Portfolio and IBNR provisions	72,744	52,518
Subordinated Unsecured Bonds (Note 23)	179,480	179,480
	280,853	261,574
Total qualifying capital	2,159,700	1,829,057
Risk adjusted assets		
- balance sheet items	11,362,809	9,960,401
- off-balance sheet items	459,321	548,265
	11,822,130	10,508,666
Capital adequacy ratios (%)	18.27	17.41
Core capital (%) (Basel Committee guide: minimum 4%)	15.59	14.92
Supplementary capital (%)	2.38	2.49
Total (%)	18.27	17.41
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 Bank must maintain a minimum level of capital based on its risk weighted assets and exposures not reflected on the statement of financial position.

27. POST-RETIREMENT FUND LIABILITIES

The Group had no post-retirement liability as at the reporting date (2013: 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
28. STATED CAPITAL				
2,563,700,000 (2013: 2,563,700,000) ordinary shares	58,088	58,088	58,088	58,088
Less: 20,000,000 (2013: 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 41.

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
29. RESERVES				
Non-distributable reserves				
Surplus on revaluation of properties				
Balance at the beginning of the year	59,152	34,908	44,230	19,880
Transfer to retained earnings	(1,895)	(2,271)	(1,597)	(1,567)
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	57,257	59,152	42,633	44,230
Retained earnings in associate company				
Balance at the beginning and end of the year	2,819	2,819	–	–
Transfer to retained earnings	(2,819)	–	–	–
	–	2,819	–	–
Total other non-distributable reserves	57,257	61,971	42,633	44,230
Equity-settled employee benefits reserve				
Balance at the beginning of the year	18,300	16,944	18,300	16,944
Share-based payment expense during the year	606	1,356	606	1,356
Balance at the end of the year	18,906	18,300	18,906	18,300
Retained earnings				
Balance at the beginning of the year	1,540,539	1,221,871	1,511,722	1,198,615
Transfer from revaluation reserve	1,895	2,271	1,597	1,567
Transfer from associate company retained earnings	2,819	–	–	–
Profit for the year	719,661	700,952	701,085	696,095
Interim dividend paid	(128,185)	(128,185)	(128,185)	(128,185)
Transfer to dividend reserve	(282,007)	(256,370)	(282,007)	(256,370)
Balance at the end of the year	1,854,722	1,540,539	1,804,212	1,511,722
Total reserves (excluding the dividend reserve)	1,930,885	1,620,810	1,865,751	1,574,252

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
30. CASH GENERATED BY OPERATIONS BEFORE TAXATION AND WORKING CAPITAL CHANGES				
Profit before direct taxation	922,239	905,398	899,509	898,241
Adjusted for:				–
depreciation of property and equipment	31,602	23,200	30,690	22,117
– straight-line adjustment of lease rentals	124	(673)	124	(673)
– impairment losses on loans and advances	122,510	120,673	122,510	120,673
– (gain)/loss on sale of property and equipment	(1,463)	464	(1,463)	464
– gain on sale of assets held for sale	(763)	–	(763)	–
– unrealised gain on derivative financial instruments	(13,669)	(18,225)	(13,669)	(18,225)
– net loss on financial instruments held at fair value through profit or loss	10,730	132	10,730	132
– impairment of investment in subsidiary	–	–	7,115	–
– gain on disposal of investment in associate	(24,227)	–	(27,045)	–
– share-based payment expense – equity settled	606	1,356	606	1,356
– share-based payment expense – cash settled	5,652	5,816	5,652	5,816
	1,053,341	1,038,141	1,033,996	1,029,901
31. TAXATION PAID				
Amounts (overpaid)/owing at the beginning of the year	(2,117)	461	(1,525)	1,550
Charged to the income statement	193,965	183,861	189,639	181,959
Amounts overpaid at the end of the year	12,895	2,117	12,895	1,525
Amounts owing at the end of the year	(3,870)	–	–	–
Cash amounts paid	200,873	186,439	201,009	185,034
32. CURRENT INCOME TAXATION (ASSET)/LIABILITY				
Opening (asset)/ liability	(2,117)	461	(1,525)	1,550
Charged to the income statement	193,965	183,861	189,639	181,959
Cash amounts paid	(200,873)	(186,439)	(201,009)	(185,034)
Closing asset	(9,025)	(2,117)	(12,895)	(1,525)
Closing asset	(12,895)	(2,117)	(12,895)	(1,525)
Closing liability	3,870	–	–	–
	(9,025)	(2,117)	(12,895)	(1,525)
33. INCREASE IN DEPOSITS AND CURRENT ACCOUNTS				
Increase in current and managed account deposits	483,846	640,031	483,846	640,031
Increase in savings deposits	32,929	92,733	32,929	92,733
Increase in call and term deposits	878,600	756,762	878,600	756,762
	1,395,375	1,489,526	1,395,375	1,489,526

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
34. INCREASE IN ADVANCES TO CUSTOMERS				
Net amount outstanding at the beginning of the year	10,369,937	8,420,553	10,376,937	8,427,553
Impairment of advances	(122,510)	(120,673)	(122,510)	(120,673)
Net amount outstanding at the end of the year	(12,131,415)	(10,369,937)	(12,138,415)	(10,376,937)
Fair value adjustment - Morupule loan	4,439	(45)	4,439	(45)
	(1,879,549)	(2,070,102)	(1,879,549)	(2,070,102)
35. DIVIDENDS PAID				
Previous year's final dividend paid during the year	256,370	205,096	256,370	205,096
Interim dividend paid	128,185	128,185	128,185	128,185
Total dividends paid to shareholders	384,555	333,281	384,555	333,281
36. CASH AND CASH EQUIVALENTS				
Cash and short-term funds (Note 10)	2,721,384	2,288,285	2,721,384	2,288,285
Bank of Botswana Certificates (Note 14)	1,146,264	2,117,870	1,146,264	2,117,870
	3,867,648	4,406,155	3,867,648	4,406,155

	CONSOLIDATED		COMPANY	
	30 June 2014 P'000	30 June 2013 P'000	30 June 2014 P'000	30 June 2013 P'000
37. CONTINGENCIES AND COMMITMENTS				
Contingencies	883,026	1,059,452	883,026	1,059,452
The above contingencies represent guarantees and letters of credit				
Commitments				
Undrawn commitments to customers	1,343,724	1,417,137	1,343,724	1,417,137
Capital commitments				
Capital expenditure approved by the Directors				
- not yet contracted for	286,216	47,730	286,216	47,730
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.				
Operating lease commitments				
Payable within one year	12,013	11,841	12,013	11,841
Payable within two to five years	12,845	13,864	12,845	13,864
	24,858	25,705	24,858	25,705

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 (2013 : nil).

38. TRUST ACTIVITIES

The Group acts as a trustee and in other fiduciary capacities that result in holding or placing of assets on behalf of customers.

At 30 June 2014 the Group acted as a custodian in respect of Botswana Government bonds amounting to P6,580,115,309 (2013:P5,547,622,674), treasury bills amounting to P112,350,928 (2013: P739,354,880) and equities amounting to P7,602,512,039 (2013: P7,337,527,862). 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

39. FINANCIAL RISK MANAGEMENT

The Group's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Group's risk management are to identify all key risks for the Group, measure these risks, manage the risk positions and determine capital allocations. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

Risk control policies and exposure limits for the key risk areas of the Group are approved by the Board, while operational policies and control procedures are approved by the relevant risk committees.

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 2014 are set out below:

39.1 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.

Significant credit exposures at the year end were:

	Assets	
	30 June 2014 P'000	30 June 2013 P'000
Geographical distribution		
Botswana	15,949,003	14, 294, 424
Southern Africa	323,219	756, 761
Rest of the world	806,632	219, 373
	17,078,854	15, 270, 558
Distribution by sector		
Banks including Bank of Botswana	3,106,108	3, 409, 079
Government and parastatal organisations	390 ,564	172,624
Individuals	5,351,862	3, 556,763
Business/trading	4,882,302	4, 695, 781
Others	3,348,018	3, 436, 311
	17,078,854	15, 270, 558

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

Collateral pledged

At the end of the current year the Group had borrowings with Bank of Botswana amounting to P8,950,000 (2013: nil). This is secured by the Group's Bank of Botswana certificates holdings.

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:

- Vehicle finance: Vehicles subject to the finance agreement normally serve as collateral. In general, vehicles which make up the collateral can be sold when the customer has defaulted under the agreement and a notice of default has been issued. Where more than one third of all instalments have been paid, legal judgement has to be passed before vehicles can be repossessed. For some products, title over the vehicles is held by the Group. Title only passes to the customer once instalments are fully paid.

- Property finance: Collateral consists of first and second mortgage bonds over property, 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

Collateral in the form of deposits amounted to P111,077,000 (2013: P102,824,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

(continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Credit risk management (continued)

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.

CONSOLIDATED	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
2014					
Exposures recognised in the statement of financial position exposures					
Cash and short term funds	2,084,655	2,531,550	176,757	-	2,354,793
- Money at call and short notice	198,977	176,757	176,757	-	-
- Balances with other banks	1,885,678	2,354,793	-	-	2,354,793
Advances to banks	-	461,921			461 921
Advances to customers - (after interest in suspense)	11,070,499	12,365,303	7,764,294	4,601,009	-
Investment securities - debt	1,723,714	1,536,828	-	-	1,536,828
Accounts receivable	270,556	196,112	-	-	196,112
Derivatives	22,235	24,922	-	-	24,922
Related parties	-	6,272	-	-	6,272
Exposures not recognised in the statement of financial position					
Financial and other guarantees	994,850	883,026	26,102	856,924	-
Loan commitments not drawn	1,193,749	1,343,724	792,757	550,967	-
Total	17,360,258	19,349,658	8,759,910	6,008,900	4,580,848
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	-	-	51975
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

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:

CONSOLIDATED	Investment grade P'000	Non-investment grade P'000	Total neither past due nor impaired P'000
2014			
Home loans	2,690,132	1,152,914	3,843,046
Credit Cards	64,423	27,610	92,033
Term loans	3,356,023	1,438,296	4,794,319
Overdrafts	649,934	278,543	928,477
Wesbank	1,059,361	454,012	1,513,373
Total	7,819,874	3,351,374	11,171,248
2013			
Home loans	2,316,112	992,619	3,308,731
Credit Cards	120,304	51,559	171,863
Term loans	2,609,058	1,118,168	3,727,226
Overdrafts	749,408	321,175	1,070,583
Wesbank	875,410	375,176	1,250,586
Total	6,670,292	2,858,697	9,528,989

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

Credit quality of financial assets other than advances neither past due nor impaired CONSOLIDATED	Derivatives P'000	Related parties P'000	Other Government & Government guaranteed stock P'000	Cash & short term funds P'000	Accounts receivable P'000
2014					
Investment Grade	24,922	6,272	1,536,828	2,721,384	196,112
2013					
Investment Grade	10,138	6,138	2,168,152	2,288,285	251,474

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. Since most of the Bank's advances are ungraded, a 70/30 split ratio has been applied, based on the overall assessment of the quality of the loan book.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Credit risk management (continued)

Age analysis of arrears of advances CONSOLIDATED	Neither past due nor impaired P'000	Past due but not impaired 1 - 30 days P'000	31 - 60 days P'000	61 - 90 days P'000	Impaired P'000	Total P'000
2014						
Home loans	3,843,046	163,945	60,786	64,317	138,861	4 270 955
Other loans including credit card	92,033	13,444	5,010	2,021	5,890	118 398
Term loans	4,794,319	56,318	65,387	22,203	127,527	5 065 754
Overdraft	928,477	-	-	82,053	59,333	1 069 863
WesBank asset finance	1,513,373	171,027	64,672	35,200	55,881	1 840 153
Total	11,171,248	404,734	195,855	205,794	387,492	12,365,123
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

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

39.2 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.

39.2.1 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 USD35 million (2013: USD31 million) while the overnight limit was USD20 million (2013: USD 7 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.

CONSOLIDATED	Assets 30 June 2014 P'000	30 June 2013 P'000	Equity & Liabilities 30 June 2014 P'000	30 June 2013 P'000
Distribution by currency				
Botswana Pula	16,541,894	14,777,967	16,462,461	14,839,442
South African Rand	225,239	227,221	235,427	231,992
United States Dollar	733,556	687,966	815,020	632,732
British Pound	44,311	36,725	40,038	35,172
Euro	74,413	45,823	71,558	48,943
Others	19,993	31,006	14,902	18,427
	17,639,406	15,806,708	17,639,406	15,806,708

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 2014 P'000	30 June 2013 P'000
Loss arising from a 10% decrease	8,146	(6,148)
Gain arising from a 10% increase	(8,146)	6,148

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 Interest rate risk management

			Term to repricing				
CONSOLIDATED	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
2014							
Total assets	17,639,406	2,980,185	11,770,747	298,708	275,895	81,342	2,232,529
Total liabilities and equity	17,639,406	10,661,797	3,412,085	465,600	300,993	69,036	2,729,895
Net interest sensitivity gap	-	(7,681,612)	8,358,662	(166,892)	(25,098)	12,306	(497,366)
2013							
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)

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:

CONSOLIDATED	30 June 2014 P'000	30 June 2013 P'000
100 basis points parallel increase - gains	42,043	50,000
100 basis points parallel decrease - losses	(42,043)	(50,000)
200 basis points parallel increase - gains	84,086	100,000
200 basis points parallel decrease - losses	(84,086)	(100,000)

39.3 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				
	Carrying amount P'000	Demand P'000	1 - 3 months P'000	3-12 months P'000	1-5 years P'000	Over 5 years P'000	Non-sensitive P'000
2014							
Total assets	17,639,406	4,387,689	2,043,109	1,552,404	5,378,111	3,453,835	824,258
Total liabilities and equity	17,639,406	10,497,052	3,421,496	465,600	456,327	69,036	2,729,895
Net liquidity gap	-	(6,109,363)	(1,378,387)	1,086,804	4,921,784	3,384,799	(1,905,637)
2013							
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)

Although negatively gapped in the short term, the balance sheet comprises of behaviourally core deposits, while assets are primarily liquid assets (Bank of Botswana Certificates) which can be liquidated in times of stress to ensure the Bank is sufficiently able to meet its short term commitments. Further details on the liquidity risk management process are set out in the Risk Report included in the Annual Report.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 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.

	Term to maturity					
CONSOLIDATED	Call P'000	1 - 3 months P'000	4 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Total P'000
2014						
Amounts due to other banks	12,157	-	-	-	-	12,157
Deposit and current accounts	10,549,477	3,396,771	709,763	423,525	252,160	15,331,696
Derivative financial instruments	18,079	-	-	-	-	18,079
Borrowings	-	148	705	149,379	388,037	538,269
Due to related companies	30,499	-	-	-	-	30,499
Creditors and accruals	464	347,778	-	-	-	348,242
Provisions	-	-	60,588	-	-	60,588
	10,610,676	3,744,697	771,056	572,904	640,197	16,339,530
2013						
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

39.4 Fair value of financial instruments

Fair value hierarchy and measurements

The Group classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item. If this information is not available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. The valuation techniques employed by the Group include, inter alia, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option-pricing models, and discounted cash flow techniques. The details per type of asset or liability are set out in the tables below.

Where a valuation model is applied and the Group cannot mark-to-market, it applies a mark-to-model approach, subject to prudent valuation adjustments. Mark-to-model is defined as any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input. When applying mark-to-model, an extra degree of conservatism is applied. The Group will consider the following in assessing whether a mark-to-model valuation is prudent:

- As far as possible, market inputs are sourced in line with market prices;
- Generally accepted valuation methodologies are consistently used for particular products unless deemed inappropriate by the relevant governance forums;
- Where a model has been developed in-house, it is based on appropriate assumptions, which have been assessed and challenged by suitably qualified parties independent of the development process;
- Formal change control procedures are in place;
- Awareness of the weaknesses of the models used and appropriate reflection in the valuation output where relevant;
- The model is subject to periodic review to determine the accuracy of its performance; and
- Valuation adjustments are only made when appropriate, for example, to cover the uncertainty of the model valuation."

Valuations based on observable inputs include:

Level 1

Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities where this is readily available and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. This category includes listed bonds and equity, exchange-traded derivatives, exchange-traded commodities and short trading positions.

Level 2

Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly such as quoted prices for similar items in an active market or for an identical item in an inactive market, or valuation models using observable inputs or inputs derived from observable market data. This category includes loans and advances to customers, equities listed in an inactive market, debt instruments, private equity investments, non-recourse investments and deposits, over the counter derivatives, deposits, other liabilities, long-term borrowings, commodities which are not exchange-traded and investment properties.

Valuations based on unobservable inputs include:

Level 3

Fair value is determined using a valuation technique and significant inputs that are not based on observable market data (i.e. unobservable inputs) such as an entity's own assumptions about what market participants would assume in pricing assets and liabilities. The assumptions applied by the Group are set out in the table below. This category includes certain loans and advances to customers, certain over the counter derivatives such as equity options, investments in debt instruments, private equity investments, and certain deposits such as credit linked notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Fair value of financial instruments (continued)

The table below sets out the valuationtechniques applied by the Group for recurring fair value measurements of assets and liabilities categorised as Level 2 and Level 3 in the fair value hierarchy:

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Derivative financial instruments					
- Option contracts	Level 2	Option pricing model	The Black Scholes model is used.	Strike price of the option; market related discount rate; forward rate and cap and floor volatility.	Not applicable
- Futures contracts	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Market interest rates and curves	Not applicable
- Swaps	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date of each swaplet is determined in terms of legal documents pertaining to the swap.	Market interest rates and curves	Not applicable
- Forward rate agreements	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rates and curves	Not applicable
- Forward contracts	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Market interest rates and curves	Not applicable
- Credit derivatives	Level 2 and 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate. Where prices are obtainable from the market, individual credit spreads are used.	Market interest rates and curves	Credit inputs

The table below sets out the valuationtechniques applied by the Group for recurring fair value measurements of assets and liabilities categorised as Level 2 and Level 3 in the fair value hierarchy:

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Loans and advances to customers					
– RMB investment banking book held at fair value	Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate. To calculate the fair value of loan book the Group uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance.	Market interest rates and curves	Credit inputs
– Other loans and advances	Level 2 and Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period.	Market interest rates and curves	Credit inputs

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Fair value of financial instruments (continued)

The table below sets out the valuationtechniques applied by the Group for recurring fair value measurements of assets and liabilities categorised as Level 2 and Level 3 in the fair value hierarchy:

The table below sets out the valuation techniques applied by the Group for recurring fair value measurements of assets and liabilities categorised as Level 2 and Level 3 in the fair value hierarchy:

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Investment securities and other investments					
- Equities/bonds listed in an inactive market	Level 2	Discounted cash flows	For listed equities and bonds, the listed price is used where the market is active (i.e. Level 1). However if the market is not active and the listed price is not representative of fair value, these are classified as Level 2 and a valuation technique is used, for example the discounted cash flow is used for listed bonds. This will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
- Unlisted bonds	Level 2 and Level 3	Discounted cash flows	Unlisted bonds are valued similarly to advances measured at fair value. The future cash flows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period.	Market interest rates and curves	Credit inputs
- Negotiable certificates of deposit	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate. Inputs to these models include information that is consistent with similar market quoted instruments, where available.	Market interest rates and curves	Not applicable
- Treasury Bills	Level 2	Bank of Botswana quoted prices	Bank of Botswana quoted prices	Market interest rates and curves	Not applicable

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Deposits					
- Call and non-term deposits	Level 2	None - the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand i.e. the undiscounted amount of the deposit.	None - the undiscounted amount approximates fair value and no valuation is performed	Not applicable
- Other deposits	Level 2 and Level 3	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves	Credit inputs
Other liabilities and Tier 2 liabilities	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Level 2 and Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate and curves adjusted for credit inputs.	Market interest rates and curves	Credit inputs

During the current reporting period there were no changes in the valuation techniques used by the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Fair value of financial instruments (continued)

(i) Financial instruments not measured at fair value

The following represents the fair values of financial instruments carried at amortised cost on the statement of financial position.

	2014					2013				
CONSOLIDATED	P'000	Fair value P'000	Level 1 P'000	Level 2 P'000	Level 3 P'000	P'000	Fair value P'000	Level 1 P'000	Level 2 P'000	Level 3 P'000
Assets										
Advances										
Home loans	4,270,956	4,703,091	-	611,402	4,091,689	3,734,754	3,648,108	-	437,773	3,210,335
Credit card	120,148	132,305	-	132,305	-	118,112	118,112	-	118,112	-
Term loans	4,808,293	5,294,796	-	1,535,491	3,759,305	3,489,016	3,176,400	-	381,168	2,795,232
Overdraft	1,069,863	1,069,863	-	1,069,863	-	1,103,111	1,103,111	-	1,103,111	-
WesBank asset finance	1,840,152	2,026,339	-	263,424	1,762,915	1,609,787	1,417,634	-	170,116	1,247,518
Total advances at amortised cost	12,109,412	13,226,394	-	3,612,485	9,613,909	10,054,780	9,463,365	-	2,210,280	7,253,085
Other										
Accounts receivable	196,112	196,112	-	196,112	-	251,474	251,474	-	251,474	-
Total financial assets at amortised cost	12,305,524	13,422,506	-	3,808,597	9,613,909	10,306,254	9,714,839	-	2,461,754	7,253,085
Liabilities										
Deposits and current accounts										
Balances from banks and financial institutions (current and managed)	4,147,839	4,147,839	-	4,147,839	-	3,720,301	3,720,301	-	3,720,301	-
Balances from customers (term)	4,308,365	4,327,817	-	4,178,438	149,379	3,923,006	3,944,482	-	3,842,327	102,155
Other deposits (call and savings)	5,871,938	5,871,938	-	5,871,938	-	5,289,460	5,289,460	-	5,289,460	-
Total deposits and current accounts	14,328,142	14,347,594	-	14,198,215	149,379	12,932,767	12,954,243	-	12,852,088	102,155
Long-term borrowings	396,598	397,153	-	397,153	92,897	350,930	354,800	-	354,800	-
Other										
Creditors and accruals	274,596	274,596	-	274,596	-	225,215	225,215	-	225,215	-
Total financial liabilities at amortised cost	14,999,336	15,019,343	-	14,869,964	242,276	13,508,912	13,534,258	-	13,432,103	102,155

(ii) Fair value hierachy

Assets and liabilities measured at fair value

CONSOLIDATED	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
2014				
Financial assets held for trading				
-Investment securities	-	267,595	-	267,595
-Derivative financial instruments	-	24,922	-	24,922
Designated at fair value through profit or loss				
-Term loan	-	-	264,122	264,122
Available for sale financial assets				
-Investment securities	-	1,146,264	-	1,146,264
Non-financial assets				
-Freehold and leasehold land and buildings	-	338,409	-	338,409
Total assets	-	1,777,190	264,122	2,041,312
Financial liabilities held for trading				
-Derivative financial instruments	-	18,079	-	18,079
Designated at fair value through profit or loss				
-Zero coupon deposit	-	-	92,897	92,897
Total liabilities	-	18,079	92,897	110,976

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Fair value of financial instruments (continued)

CONSOLIDATED	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
2013				
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
Non-financial assets				
-Freehold and leasehold land and buildings	-	344,970	-	344,970
Total assets	-	2,523,260	315,157	2,838,417
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

Reconciliation of level 3 fair value measurements
Designated at fair value through profit or loss (assets)

CONSOLIDATED	2014 P'000	2013 P'000
Opening balance	315,157	-
Total gains or losses:		
- in profit or loss	4,439	-
Repayments	(55,474)	-
Transfers into level 3 - Morupule Colliery Limited term loan	-	315,157
Closing balance	264,122	315,157
Designated at fair value through profit or loss (liabilities)		
Opening balance	-	-
Transfers into level 3 - BIFM 15 year zero coupon deposit	71,861	-
Total gains or losses:		
- in profit or loss	21,036	-
- in other comprehensive income	-	-
Closing balance	92,897	-

39.5 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.

40. 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) Consumer segment - comprising advances and deposits and the revenue flowing from individual customers.
ii) Commercial segment - comprising advances and deposits and the revenue flowing from business customers;
iii) Rand Merchant Bank (RMB) - comprising advances and deposits and the revenue flowing from RMB customers;
iv) WesBank - comprising vehicle and asset financing;
v) Treasury - manages the Group's liquidity and funding;

The revenue from external parties reported to the Chief Executive Officer is measured in a manner consistent with that in the income statement.

The Group presents interest income after the cost of funding and interest expenditure after the benefit of funding for each reportable segment. These are the amounts that are presented to the Chief Executive Officer for management reporting purposes when assessing performance and allocating resources. This presentation is in line with the management approach of presenting segment information.

The information provided about each segment is based on the internal reports about segment performance, assets and liabilities, which are regularly reviewed by the Chief Executive Officer.

In the current year, the Group adopted a new segmentation model to align with internal reporting that is provided to the Chief Executive Officer, which has also resulted in the restatement of prior year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

40. SEGMENTAL REPORTING (continued)

Primary segments (business)

	Consumer P'000	Commercial P'000	RMB P'000	WesBank P'000	Treasury P'000	Other P'000	Total P'000
2014							
Income statement							
Interest income	337,803	308,017	44,042	172,571	382,384	-	1,244,817
Non-interest income	220,515	301,518	256,655	5,130	(6,648)	17,387	794,557
Total segment revenue	558,318	609,535	300,697	177,701	375,736	17,387	2,039,374
Interest expenditure	51,861	(92,906)	51,311	(69,798)	(230,668)	-	(290,200)
Segment operating income before impairments	610,179	516,629	352,008	107,903	145,068	17,387	1,749,174
Impairment of advances							(122,510)
Net interest income after impairment of advances							1,626,664
Total expenditure							(693,327)
Profit before indirect taxation							933,337
Indirect taxation							(11,098)
Profit before direct taxation							922,239
Statement of financial position:							
Gross advances	4,427,278	4,781,513	1,306,739	1,901,567	-	-	12,417,097
Deposits	2,490,425	4,221,510	3,342,733	-	4,273,474	-	14,328,142

Note

Secondary segment

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 39.

Major customers

In terms of IFRS 8, a customer is regarded as a major customer if the revenue from transactions with this customer exceeds 10% or more of the entity`s revenue. The Group has no major customers as defined and is, therefore, not reliant on the revenue from one or more major customers.

	Consumer P'000	Commercial P'000	RMB P'000	WesBank P'000	Treasury P'000	Other P'000	Total P'000
2013							
Income statement							
Interest income	267,963	208,585	68,138	181,413	483,932	-	1,210,031
Non-interest income	206,218	281,969	240,015	4,797	(6,217)	16,260	743,042
Total segment revenue	474,181	490,554	308,153	186,210	477,715	16,260	1,953,075
Interest expenditure	33,350	49,537	49,255	(84,371)	(360,400)	-	(312,639)
Segment operating income before impairments	507,531	540,091	357,408	101,839	117,315	16,260	1,640,444
Impairment of advances							(120,673)
Net interest income after impairment of advances							1,519,771
Total expenditure							(605,061)
Profit before indirect taxation							914,710
Indirect taxation							(9,312)
Profit before direct taxation							905,398
Statement of financial position:							
Gross advances	3,462,920	4,295,577	1,181,636	1,671,610	-	-	10,611,743
Deposits	2,503,041	4,308,819	2,006,424	-	4,114,483	-	12,932,767

Note

Secondary segment

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 39.

Major customers

In terms of IFRS 8, a customer is regarded as a major customer if the revenue from transactions with this customer exceeds 10% or more of the entity`s revenue. The Group has no major customers as defined and is, therefore, not reliant on the revenue from one or more major customers.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

41. EMPLOYEE SHARE PARTICIPATION SCHEMES

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 year. The details of the scheme are as follows:

CONSOLIDATED	30 June 2014 P'000	30 June 2013 P'000
Number of options in force at beginning of the year	11,486,679	14,496,671
Granted at prices ranging between P3.32 to P1.51		
Number of options exercised during the year	(7,006,668)	(2,529,992)
Market value ranged between P2.69 to P3.32 (2013: P2.69 to P3.68)		
Number of options cancelled/ lapsed during the year	(1,306,674)	(480,000)
Granted at a price ranged between P2.69 and P3.32		
Number of options in force at end of the year	3,173,337	11,486,679
Granted at prices ranging between P3.32 to P1.51 (2013:P3.32 to P1.51)		
Number of options available for future allocation	16,826,663	8,513,321
Total number of options of the scheme	20,000,000	20,000,000
Number of participants	35	49
Options outstanding are exercisable over the following periods:		
(first date able to release)		
Financial year 2013/2014	-	9,949,991
Financial year 2014/2015	3,173,337	1,536,688
Total	3,173,337	11,486,679
Options outstanding		
(by expiry date)		
Financial year 2013/2014	-	6,876,679
Financial year 2014/2015	3,173,337	4,610,000
Total	3,173,337	11,486,679
The significant assumptions used to estimate the fair value of the options granted are as follows:		
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

In addition to its own share option schemes, the Group has employees who participate in the share options of FirstRand Limited (The Group's ultimate holding company, a company registered in the Republic of South Africa). The schemes are described below:

FirstRand 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 will take 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 FirstRand Group's 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 FirstRand Group's Remuneration Committee.

The FirstRand share option schemes are equity-settled schemes in First National Bank Botswana'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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

41. EMPLOYEE SHARE PARTICIPATION SCHEMES (continued)

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

2014	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	144,968	1,309,300	353,917	3,915,137
Granted at prices ranging between (P)	10.48 - 10.48	12.28 - 12.28	-	-
Weighted average (thebe)	10.48	12.28	-	-
Number of options granted/transferred in during the year	-	-	137,240	6,161,592
Granted at a price of	-	-	-	-
Weighted average (P)	-	-	-	-
Number of options transferred within the Group during the year	(49,964)	-	-	-
Granted at a price of P3.00	10.48 - 10.48	-	-	-
Weighted average (P)	10.48	-	-	-
Number of options exercised / released during the year	(95,004)	-	(122,665)	-
Market value range at date of exercise / release (P)	35.43 - 35.43	-	33.40 - 33.56	-
Weighted average share price for the year (P)	35.43	-	33.40	-
Number of options cancelled / lapsed during the year	-	115,500	-	-
Granted at prices ranging between (P)	-	12.28 - 19.89	-	-
Weighted average (P)	-	13.93	-	-
Number of options in force at the end of the year	-	1,424,800	368,492	10,076,729
Granted at a price of	-	12.28 - 19.89	-	-
Weighted average (P)	-	12.41	-	-
Options are exercisable over the following periods (first date able to release):				
Financial year 2014/2015	-	1,399,800	127,788	-
Financial year 2015/2016	-	25,000	109,938	7,352,779
Financial year 2016/2017	-	-	130,766	2,723,950
Total	**-**	**1,424,800**	**368,492**	**10,076,729**
Options outstanding (by expiry date)				
Financial year 2014/2015	-	1,399,800	127,788	-
Financial year 2015/2016	-	25,000	109,938	7,352,779
Financial year 2016/2017	-	-	130,766	2,723,950
Total	**-**	**1,424,800**	**368,492**	**10,076,729**
Total options outstanding - in the money	-	1,424,800	368,492	10,076,729
Total options outstanding - out of the money	-	-	-	-
Total	**-**	**1,424,800**	**368,492**	**10,076,729**
Number of participants	-	5	10	57

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	-	3.65
Weighted average (P)	10.48	12.28	-	3.65
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	-	1,309,000	150,900	-
Financial year 2015/2016	-	-	-	3,915,137
Total	**144,968**	**1,309,000**	**353,917**	**3,915,137**
Total options outstanding - in the money	144,968	1,309,000	353,917	3,915,137
Total options outstanding - out of the money	-	-	-	-
Total	**144,968**	**1,309,000**	**353,917**	**3,915,137**
Number of participants	6	4	10	44

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

41. EMPLOYEE SHARE PARTICIPATION SCHEMES (continued)

CONSOLIDATED	30 June 2014 P'000	30 June 2013 P'000
The income statement charge for all share based payments is as follows:		
FirstRand Employee Trust	363	(150)
First National Bank of Botswana share option scheme	243	1,506
Total equity settled share option scheme charge to income statement	606	1,356
FirstRand Share Appreciation Right Scheme	-	1,493
Conditional share plan	7,199	186
FNB Botswana Conditional Share Plan	5,939	4,137
Total cash settled share option scheme charge to income statement	13,138	5,816
Charge to income statement	13,744	7,172

At year end, the liability for cash-settled share schemes amounted to P17,208,000 (2013: P11,556,000) and has been included in creditors and accruals.

42. 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) Performing loans

The first part consists of the portion of the performing portfolio where an incurred impairment is inherent in the 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 non-performing 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 to 12 months.

The second part consists of the portfolio specific impairment (PSI) to reflect the decrease in estimated future cash flows for the sub-segment of the performing portfolio where there is objective evidence of impairment. 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.

The assessment of whether objective evidence of impairment exists requires judgement and depends on the class of the financial asset. In the FNB 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 FNB 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 (includes RMB Investment Banking and RMB Corporate Banking) portfolio assessment includes a judgemental review of individual industries for objective signs of distress.

(ii) Non-performing loans

Retail loans are individually impaired if three or more instalments are due and unpaid, or if there is evidence before this that the customer is unlikely to repay its obligations in full. 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) Impairment of available-for-sale equity instruments

The Group determines that available-for-sale equity instruments are impaired and the impairment recognised as such in profit or loss when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates factors such as, inter alia, the normal volatility in share prices, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(d) Income taxes

The Bank Group is subject to direct tax in a number of jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Group recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, the difference will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Refer to note 7 and note 32 for more information regarding the direct and deferred income tax charges, assets and liabilities.

(e) Impairment of goodwill

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash generating units (CGU) has been determined based on value-in-use calculations or fair value less cost to sell. The value in use is calculated as the net present value of the discounted cash flows of the CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in note 20.

(f) 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.

(g) Revenue recognition

Management needs to apply judgement to determine whether the Group acts as a principal or agent in certain revenue-generating transactions. If the Group acts as an agent, the gross economic benefits include amounts collected on behalf of the principal and do not result in increases in the equity of the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

42. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING ESTIMATES (continued)

(g) Revenue recognition (continued)

The amount collected on behalf of the principal is not recognised as revenue of the Group, instead the Group recognises the fee or commission that it earns while acting as an agent as non-interest income.

An entity is acting as a principal when it has exposure to significant risks and rewards associated with selling the goods or providing the services. The Bank Group considers the following as indicators when assessing whether the Group is acting as a principal in a transaction:
- the Group has the primary responsibility of providing the goods or services;
- the Group carries the inventory risk;
- the Group has the ability to establish the price, either directly or indirectly; and
- the Group bears the customer's credit risk

43. 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.

44. 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**	
	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). 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 32	**Financial Instruments: Presentation** 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. 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

The Group will comply with the following new standards and interpretations from the stated effective date.

		Effective date
IFRS 10	**Consolidated Financial Statements** 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. 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 14	**Regulatory Deferral Accounts** IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for regulatory deferral account balances in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. The standard falls outside the scope of the Group's operations and will have no impact on the Group.	Applicable to an entity's first annual IFRS statements for periods commencing on or after 1 January 2016
IFRIC 21	**Levies** This interpretation 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. 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 2014

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

44. 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** IFRS 9 introduces new requirements for classifying and measuring financial assets and financial liabilities. 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. In November 2013 a revised version of IFRS 9 was issued which introduces a new chapter on hedge accounting putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. The mandatory effective date has also been removed leaving the effective date open pending the finalisation of the impairment and classification and measurement requirements. 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 commencing on or after 1 January 2018
IAS 36 (amended)	IAS 36 Impairment of Assets was amended 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 impairment reversals where recoverable amount that is calculated based on fair value less costs of disposal, is determined using a present value technique. The amendment addresses disclosure in the annual financial statements and not recognition and measurement. The amendment will therefore have no impact on the Group's results but may result in additional disclosure.	Annual periods beginning on or after 1 January 2014

		Effective date
IFRS 12 (amended)	**Disclosure of Interests in Other Entities** 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. 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 and disclosures in the financial statements.	Annual periods commencing on or after 1 January 2014
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. 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. The Group does not use hedge accounting and the amendment will therefore have no impact on the Group's results.	Annual periods beginning on or after 1 January 2014
Annual Improvements	**Improvements to IFRS** 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. The amendments have been assessed and are not expected to have a significant impact on the Group.	Annual periods commencing on or after 1 July 2014

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014
(continued)

44. 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
IAS 16 (amended)	**Property, Plant and Equipment – Depreciation Method** IAS 16 was amended to clarify that a depreciation method that is based on revenue generated by an activity that is not appropriate. This is because such a method reflects the pattern of the generation of economic benefits that arise from the operation of the business of which an asset is part, rather than the pattern of consumption of an asset's expected future economic benefits. The amendment is not expected to have an impact on the Group as the Group does not apply a revenue-based depreciation approach.	Annual periods beginning on or after 1 January 2016.
IAS 16 (amended)	**Property, Plant and Equipment – Bearer Plants** The amendment changes the financial reporting for bearer plants and indicates that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendment includes them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.	Annual periods beginning on or after 1 January 2016.
IFRS 15	The amendment falls outside the scope of the Group's operations and will have no impact on the Group. **Revenue** IFRS 15 provides a single, principle-based model to be applied to all contracts with customers. The new standard requires companies to recognise revenue to depict the transfer of goods or services to customers that reflects the consideration to which the company expects to be entitled to in exchange for those goods or services. The new standard will also provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The standard also introduces enhanced disclosures about revenue. The Group is in the process of assessing the impact that IFRS 15 will have on the financial statements. Until the process has been completed, the Group is unable to determine the significance of the impact.	Annual periods beginning on or after 1 January 2017.

SHAREHOLDER INFORMATION

SHAREHOLDER'S DIARY

Declaration of dividend and announcement of results	August 2014
Payment of final dividend	October 2014
Publication of Annual Financial Statements	August 2014
Annual General Meeting	5 November 2014
Publication of half-year interim report and dividend announcement	February 2015
Payment of interim dividend	March 2015
Next financial year end	30 June 2015

SHAREHOLDER INFORMATION

(continued)

LIST OF MAJOR SHAREHOLDERS

	2014	2013
SCBN (PTY) LTD RE: AG 211/002	3,217,391	9,045,835
SCBN (PTY) LTD RE: SIMS 207/002	3,607,012	-
SCBN (PTY) LTD RE: IAM 030/23	3,628,508	-
SCBN (PTY) LTD RE: IAM 3292505	3,821,377	-
SCBN (PTY) LTD RE: IAM 030/40	4,552,625	-
SCBN (PTY) LTD RE:JPM BW000001037-2	5,481,930	-
SCBN (PTY) LTD RE: FAM BW000001170-2	5,726,150	-
SCBN (PTY) LTD RE: SSB 001/114	6,069,100	-
FNB NOMINEES BOTSWANA (PTY) LTD RE: SIMS BBDCSPF	6,610,000	-
FNB NOMINEES (PTY)LTD RE:AGRAY BPOPF 10001010	7,134,096	11,041,705
SCBN (PTY) LTD RE: SSB 001/81	7,511,600	7,511,600
SCBN (PTY) LTD RE: IAM 030/30	10,899,820	9,956,778
STANBIC NOMINEES BOTSWANA RE:IBMF	12,588,728	11,595,846
FNB NOMINEES (PTY)LTD RE:CFM BPOPF10001011	13,498,956	13,498,956
FNB NOMS BW(PTY) LTD RE:BIFM BPOPLF WP 10001027	16,378,701	16,025,800
BOTSWANA MEDICAL AID SOCIETY	16,598,000	16,598,000
SCBN (PTY) LTD RE: BIFM DPF	18,290,740	16,964,262
FNB NOMS BW(PTY) LTD RE: FAM BPOPF3-10001030	23,066,165	18,963,748
SCBN (PTY) LTD RE: IAM 203/001	23,989,174	23,668,678
SCBN (PTY) LTD RE: SSB 001/77	29,310,000	55,310,000
FNB NOMINEES (PTY)LTD RE:SIMS BPOPF 10001009	40,310,249	40,310,249
MOTOR VEHICLE ACCIDENT FUND	50,993,910	50,993,910
FNB NOMS BW(PTY) LTD RE:BIFM BPOPF ACTIVE 10001025	59,321,541	70,219,401
STANBIC NOMINEES RE: BIFM	63,060,418	65,074,257
FNB NOMS BW(PTY) LTD RE:FAM BPOPF1-10001028	88,217,819	-
FNB BW NOMS(PTY) LTD RE: IAM BPOPFP 10001031	108,322,053	-
FIRST NATIONAL BANK HOLDINGS (BOTSWANA) LIMITED	1,780,590,000	1,780,590,000
SCBN(PTY)LTD RE:BIFM BPOPF BW 000000896-3	-	17,133,008
FNB BW NOMS(PTY) LTD RE: FAM BPOPFP 10001031	-	70,921,927
FNB BW NOMS(PTY) LTD RE: FAM BPOPF1 10001029	-	100,242,817
	2,412,796,063	2,405,666,777
	94.11%	93.84%

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 ("AGM") of Shareholders of First National Bank of Botswana Limited ("the Company"), to be held at 12h00 on Wednesday 5 November 2014 at Gaborone International Convention Centre, 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 3 November 2014. 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 2014)

Forms of proxy to be received by 12h00	Monday 3 November
Annual General Meeting at 12h00	Wednesday 5 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 International Convention Centre, at 12h00 on Wednesday 5 November 2014, 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 2014.

3. Ordinary Resolution 2:
   To approve the distribution of a dividend of 11 thebe per share, as recommended by the Directors.

4. Ordinary Resolutions 3, 4, and 5

To re-elect the following directors of the Company:
P D Stevenson
J R Khethe
S Thapelo

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 vitae of these directors are set out on pages 80-81 of this annual report.

NOTICE OF THE ANNUAL GENERAL MEETING

(continued)

5. Ordinary Resolution 6:
   To ratify the appointment of the following director of the Company who was appointed during the course of the financial year:

   J K Macaskill
   Abridged curriculum vitae of this director is set out on page 81 of this annual report.

6. Ordinary Resolution 7:
   To approve the remuneration of the directors for the year ended 30 June 2014 as set out on page 132 of this annual report under note 5 of the annual financial statements.

7. Ordinary Resolution 8:
   To approve the remuneration of the directors for the ensuing financial year ending 30 June 2015 amounting to P2, 501, 076.

8. Ordinary Resolution 9:
   To approve the auditors' remuneration for the past year's audit as disclosed on page 132 of this annual report under note 5 of the annual financial statements.

9. Ordinary Resolution 10:
   To approve the appointment of auditors for the ensuing year.

10. 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) Limited, Plot 50371, Fairgrounds Office Park, and P O Box 294, Gaborone by not later than 12h00 on Monday, 3 November 2014.

By Order of the Board

P D STEVENSON
CHAIRMAN OF THE BOARD OF DIRECTORS

L E BOAKGOMO-NTAKHWANA
CHIEF EXECUTIVE OFFICER

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 15 OCTOBER 2014

For use at the Annual General Meeting of Shareholders of the Company to be held at Gaborone International Convention Centre at 12h00 on Wednesday 5 November 2014

I/We____
(Name/s in block letters)__________________________________
Of :____
(Address):______________________________________
Appoint (see note 2):__________________________________
1. ________________________ or failing him/her,______________________
2. ________________________ or failing him/her,______________________

3. ☐ the chairman of the meeting,

as my/our proxy to act for me/us at the Annual 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			
9. Ordinary Resolution 9			
10. Ordinary Resolution 10			

Signed at ________________________ on ______________ 2014

Signature ______________
Assisted by (where applicable)

Each shareholder is entitled to appoint one or more proxies (who need not be Member/s of the Company) to attend, speak and vote in place of that Shareholder at the General Meeting.

Please read the notes on the reverse side thereof.

NOTES

1. A Shareholder must insert the names of two alternative proxies of the Shareholder's choice in the space provided, with or without deleting "Chairman of the Annual General Meeting". The person whose name appears first on the form of proxy, and whose name has not been deleted will be entitled to act as proxy to the exclusion of those whose names follow.

2. A Shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by the Shareholder in the appropriate space provided. Failure to comply herewith will be deemed to 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) Limited, Plot 50371, Fairgrounds Office Park, P O Box 294, Gaborone to be received not later than 24 hours before the Annual General Meeting (before 12h00 on 3 November 2014).

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 DIARY

BRANCHES

Broadhurst
Plot 5681, Orchid Centre
Kubu Road, Industrial
Private Bag BR 69
Gaborone
Tel: 3975561
Fax: 3975352

Francistown
Plot 32753/4 Blue Jacket Street
Private Bag F35
Francistown
Tel: 2413831
Fax: 2412879

First Place
Plot 54362 CBD
P O Box 1552
Gaborone
Tel: 3706100
Fax: 3900322

Industrial
Plot 1278, Luthuli Road
P O Box 871
Gaborone
Tel: 3642900
Fax: 3972949

Airport Junction
Plot 70665
Airport Junction Shopping Centre
Block 10
P O Box 1552
Gaborone
Tel: 3924461
Fax:3937346

Jwaneng
Plot 3774, Diamond Centre
Teemane Avenue
Private Bag 049
Jwaneng
Tel: 5880470
Fax: 5881029

Kanye
Unit 1, 2 and 3
NDB Building
Cr. Main & Montshiwa Road
P O Box 388
Kanye
Tel: 5440452
Fax: 5440620

Kasane
Plot 2296, Waterfront Mall
P O Box 740
Kasane
Tel: 6252414
Fax: 6252416

Kgale View
Shop No N3, Game City
Kgale View
Private Bag 00452
Gaborone
Tel: 3680700
Fax: 3910867

Lobatse
Plot 282, Khama 1st Avenue
P O Box 381
Lobatse
Tel: 5330827
Fax: 5332102

Letlhakane
Plot 4639
Tawana Road
Box 1061
Letlhakane
Tel: 297 8930
Fax: 297 8144

Mahalapye
Plot 799, Main Road
Private Bag 48
Mahalapye
Tel: 4711300
Fax: 4711301

Main
Plot 8844
Khama Crescent
P O Box 1552
Gaborone
Tel: 3642800
Fax: 3974369

Mall
Ground Floor, Capitol Building
Plot 1108, Main Mall
Private Bag BO 52
Gaborone
Tel: 3959422
Fax: 3912596

Maun
Shop 1 & 2
Plot 152
Ngami Centre
Private Bag 231
Maun
Tel: 6860919
Fax: 6860920

Molepolole
Shop 36
Plot 39
Mafenyatlala Mall
Private Bag 27
Molepolole
Tel: 5908800
Fax: 5921601

Palapye
Shop No. 5
Solly Essack Centre
Plot 1077, Main Road
Private Bag 110
Palapye
Tel: 4922340
Fax: 4922341

Riverwalk
Plot 25117
Tlokweng Road
Riverwalk Plaza
P O Box 4878
Gaborone
Tel: 3686600
Fax: 3700654

Selebi-Phikwe
Plot 6567
Tshekedi Road, Main Mall
Private Bag 2529
Selebi-Phikwe
Tel: 2611430
Fax: 2611569

Serowe
Plot 2461, Unit 1, Boiteko
Junction Shopping Centre,
Newton Ward
P O Box 1343
Serowe
Tel; 4630765
Fax; 4630815

Ghanzi
Plot 38
Henry Jankie Drive
Private Bag 0019
Ghanzi
Tel: 6596670
Fax: 6596424

Schemes Centre
Shop 55
Plot 4716
Rail Park Mall
P O Box 1552
Gaborone
Tel: 3925245
Fax: 3914135

BUSINESS UNITS

First Place/Head office
Plot 54362
CBD Gaborone, Botswana
P O Box 1552
Gaborone ,
Tel: 3706000

Business Segment
1st Floor, First Place
Plot 54362 CBD Gaborone
P.O. Box 1552
Gaborone
Tel: 3706000
Fax: 3902953

Consumer Segment
3rd Floor, First Place
Plot 54362 CBD Gaborone
P.O. Box 1552
Gaborone
Tel: 3706000
Fax: 3903705

Credit & Risk
3rd Floor, First Place
Plot 54362 CBD Gaborone
P O Box 1552
Gaborone
Tel: 3706160
Fax: 3170662

Finance
4th Floor, First Place
Plot 54362 CBD Gaborone
P O Box 1552
Gaborone
Tel: 3706033
Fax: 3906130

eSolutions
2nd Floor, First Place
Plot 54362 CBD Gaborone
P O Box 1552
Gaborone
Tel: 3706355
Fax: 3902953

FirstCard
2nd Floor, First Place
Plot 54362 CBD Gaborone
Private Bag BO113
Gaborone
Tel: 3706331
Fax: 3904250

Human Resources
4th Floor, First Place
Plot 54362 CDB Gaborone
P O Box 1552
Gaborone
Tel: 3706056
Fax: 3904260

International Trade
2nd Floor, First Place
Plot 54362 CBD Gaborone
P O Box 1552
Gaborone
Tel: 3706366
Fax: 3181608

First National Insurance Agency
2nd Floor, First Place
Plot 54362 CBD Gaborone
P O Box 1552
Gaborone
Tel: 3706421

Islamic Finance
1st Floor, First Place
Plot 54362 CBD Gaborone
P O Box 1552
Gaborone
Tel: 3706520
Fax: 3900748

Technology Service Division
3rd Floor, First Place
Plot 54362 CBD Gaborone
P O Box 1552
Gaborone
Tel: 3706000
Fax: 3902944

Private Clients
4th Floor, First Place
Plot 54362 CBD Gaborone
P O Box 1552
Gaborone
Tel: 3706069
Fax: 3953577

Home Loans
1st Floor, First Place
Plot 54362 CBD Gaborone
Private Bag BO 209
Bontleng
Gaborone
Tel: 3706502
Fax: 3904761

Marketing & Communications
4th Floor, First Place
Plot 54362 CBD Gaborone
P O Box 1552
Gaborone
Tel: 3706082
Fax: 3906679

Treasury
2nd Floor, First Place
Plot 54362 CBD Gaborone
P O Box 1552
Gaborone
Tel: 3956749
Fax: 3902725

WesBank – Gaborone
1st Floor, First Place
Plot 54362 CBD Gaborone
P O Box 1129
Gaborone
Tel: 3706000
Fax: 3900259

WesBank – Francistown
Plot 32753/4 Blue Jacket Street
P O Box 951
Francistown
Tel: 2412160
Fax: 2414137

WesBank – Maun
Shop No 16, Ngami Centre
Plot 152
Private Bag 231
Maun
Tel: 6862496
Fax: 6864227

WesBank – Selibe-Phikwe
Bamangwato Motors
Plot 3197, Meepo Road
Private Bag 109
Selibe Phikwe
Tel: 2614788
Fax: 2614603

Student Service Center-University of Botswana
Plot no 4775, Block 210,
Notwane Road, Village
Private Bag BO 52
Gaborone
Tel: 3972179
Fax: 3972173

Student Service Center – Broadhurst
Plot no 20594, Ext 34
(WesBank Warehouse)
Private Bag BO 52
Gaborone
Tel: 3971650
Fax: 3908128

Audit
4th Floor, First Floor
Plot 54362 CBD Gaborone
P O Box 1552
Gaborone
Tel: 3706101

Executive
4th Floor, First Place
Plot 54362 CBD Gaborone
P O Box 1552
Gaborone
Tel: 3706013

Client Service
4th Floor, First Place
Plot 54362 CBD, Gaborone
P O Box 1552
Gaborone
Tel: 3706097
Fax: 3906679

Legal and Compliance
4th Floor, First Place
Plot 54362 CBD, Gaborone
P O Box 1552
Gaborone
Tel: 3706047
Fax: 3904260

RMB – Global Markets
2nd Floor, First Place
Plot 54362 CBD Gaborone
P O Box 1552
Gaborone
Tel: 3906562
Fax: 3908984

RMB – Custody & Trade Finance
2nd Floor, First Place
Plot 54362 CBD Gaborone
P O Box 1552
Gaborone
Tel: 3906562
Fax: 3917462

RMB – Investment Banking
2nd Floor, First Place
Plot 54362 CBD Gaborone
P O Box 1552
Gaborone
Tel: 3906562
Fax: 3908984

FIRST NATIONAL BANK OF BOTSWANA LIMITED
Plot 54362 First Place Central Business District, P O Box 1552 Gaborone, Botswana
Telephone: + 267 3706675 Facsimile: +267 390 6679 Website: www.fnbbotswana.co.bw
Registered Bank Registration Number: 1119 SWIFT Firnbwgx
Share Transfer Secretaries: PriceWaterhouseCoopers, Plot 50371 Fairgrounds Office Park, Gaborone