### how can we help you?



Annual Report | 2015

WE'RE FIRST
WE'RE NATIONAL
WE'RE FOR SOTSWANA



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## REPORT

We take pleasure in presenting the First National Bank of Botswana Limited 2015 Annual Report. We hope that once you have read it you will agree with us that FNBB continues to be a profitable organisation, a sound investment and an exemplary corporate citizen.

The Bank's continued success in challenging economic circumstances comes as a result of an enormous amount of commitment, energy and effort from the FNBB team. It is only through their endeavours that we can confidently ask our customers "How can we help you?" with the certainty that we are indeed able to offer them meaningful solutions to their unique needs.









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# sreport



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PULA CREDIT CARD First from FNB

# First

Bank in Botswana to introduce a Pula based credit card.

Today the FNB credit card is accepted worldwide and it works first time, every time, all the time



### FNBB Timeline

- > FNBB was established in Botswana in September as a registered subsidiary of the FirstRand Group.
- 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.



- were born.
- FNBB obtained listing on the Botswana Stock Exchange.
- FNBB introduced a Pula based credit card. These VISA cards were accepted in more than 200 countries worldwide.
- financial services sector. To date, FNBB has contributed more than P45 million to the Foundation to be invested in various projects, enriching and uplifting the lives of Batswana



## WE'RE 1ST WE'RE

NATIONAL

## WE'RE FOR BOTSWANA.

FNBB continues to be number one, not just as Botswana's biggest bank by market capitalisation, but also Botswana's most innovative Bank.









## We're **1st**

FNBB continues to lead the market in innovation, and has been the first to introduce new technologies, platforms and products. The impressive list of the many firsts FNBB has introduced to the market over the years, as well as awards for innovation it has been accorded, bear witness to FNBB being the top bank in the country.













INTERNET BANKING First from FNB

# First

Bank in Botswana to provide Internet Banking.

Over



70%

of registered users actively use online banking

FNBB Timeline



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.





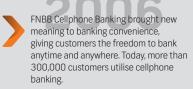


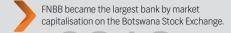






WesBank









## HIGHLIGHTS

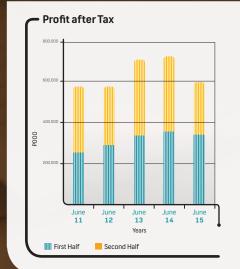
+9% **NON-INTEREST** +6% **ADVANCES** 44.8% COST-TO-INCOME 16t **DIVIDEND** 18% **PROFIT AFTER TAX** 

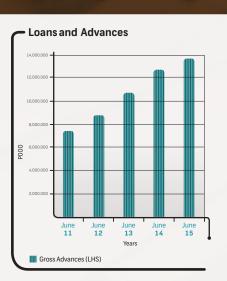


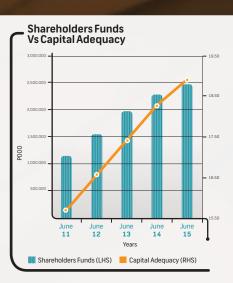


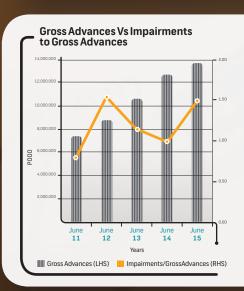


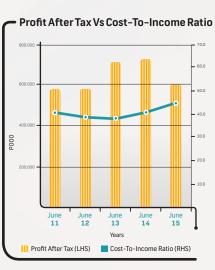


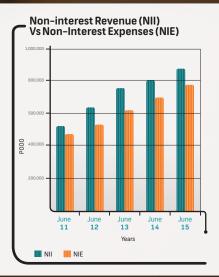


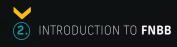












## STATEMENT OF FINANCIAL POSITION

Notwithstanding an economy that has been characterised by tight liquidity challenges and subdued credit growth, the Bank was successful in posting healthy statement of financial position growth of 19% buoyed by 20% growth in deposits and resulting in a sound liquidity position.

At the back of this ability to attract funding, advances posted growth of 6% driven by growth in consumer segment, term loans (group schemes), business segment, commercial property finance and WesBank. This growth aligns with the Bank's credit risk appetite of focusing on the more secure asset classes aimed at preserving the overall quality of the book. The growth of

the statement of financial position has allowed the Bank to consistently maintain its market share.

As a result of its sound liquidity position, and in line with the Bank's prudent stance with regard to credit extension, the Bank was successful in investing its excess liquidity in Bank of Botswana Certificates which posted a growth of 58%.









#### STATEMENT OF

## COMPREHENSIVE **INCOME**

**Despite** having limited lending opportunities in the market, the 6% growth in advances, coupled with growth in investment securities translated to a 4% increase in interest income.

The liquidity challenges experienced in the market called for all banks to increase the rates being paid on deposits in a bid to attract much needed funding. Deposits growth posted a 20% year on year increase leading to an interest expense increase of 43% which is reflective of the prevailing market conditions. Accordingly, the Bank will continue on its drive to provide innovative products to attract less expensive funding sources, and to grow its non-interest income through both transaction volumes and diversification. To this end, the Bank launched products such as Flexi-Fixed which offer consumers attractive rates but are priced below professional funding levels.

Global Growth is expected to remain moderate in 2015 according to the International Monetary Fund (World Economic Outlook, June 2015), marginally lower than the 3.4% recorded in 2014. GDP Growth is expected to remain under 5% over the next few years with 2016 now expected to register growth of 4.8% (from 5.0% forecast previously).

In a market characterised by increasing levels of arrears, the Bank has strengthened its collections strategies and maintained selective lending practices. Despite this, impairments still rose by 64% which is reflective of both consumer strain and the ailing property market. To this end, the Bank has adopted a conservative approach to its provisioning policy to ensure that the requisite levels of provisions have been taken. The Bank is therefore comfortable with this outcome and confident that this strategy will allow the Bank to preserve future sustainability of earnings.

Due to the tightened credit risk appetite, transactional volume drive was very key in the current year to bolster growth. As a result the Bank encouraged use of its innovative platforms such as the Advance Deposit Taking machine (ADT), Point of Sale machines and Online Banking. These platforms have allowed the Bank to drive customer behaviour increasingly away from the branch network which is a more expensive channel. In light of this the Bank grew its non-interest revenue by 9% through growing volumes which is evidence of the success of its revenue diversification drive. This growth was achieved despite the moratorium on fee increases.

In line with its customer centricity strategy, the Bank has also given significant focus to growing its leadership and talent pool through various interventions. To this



The Group's capital adequacy ratio has been maintained at 18.99% as at 30 June 2015, and is above the Group's internal limit as well as the Bank of Botswana required ratio of 15%

end, substantial outflows were invested in marketing activities as well as training and development.

Furthermore, the Bank's improvement of its operating systems and investment in infrastructure has resulted in further increases in other operating costs. These continual system enhancements provide efficiencies that are aimed at creating optimal structures; hence the increase in staff costs by only 6%.

Other enhancements in the year included the improvement in existing infrastructure such as the point of sale machines, refurbishment of three branches during the year as well as the roll out of the Advance Deposit Taking machines, taking the number to 20 as at year end. These were deemed crucial in maintaining the Bank's competitiveness hence the 14% growth in operating expenses.

As a result of the above, profit before tax declined by 18% from the prior year whilst the fundamentals of the Bank remain strong with return on equity at a healthy 25%.



## About Us

#### FIRST NATIONAL BANK BOTSWANA (FNBB) WAS REGISTERED IN 1991, AS A WHOLLY OWNED SUBSIDIARY OF FIRST NATIONAL BANK HOLDINGS (BOTSWANA).

Various acquisitions led to the Bank becoming a listed entity on the Botswana Stock Exchange in 1993. As at June 2015, FNBB is the largest company on the Botswana Stock Exchange by capitalization, at P10 billion. The Bank has the largest balance sheet and the largest advances book of all banks in Botswana at P21 billion and over P14 billion respectively. FNBB has, in its 24 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 Purpose

#### Vision

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

### Purpose

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.



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 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.





# First

Bank in Botswana to provide InContact- real time transaction based SMS/email messaging.

96%
of FNB customer
base has InContact



### FNBB Timeline

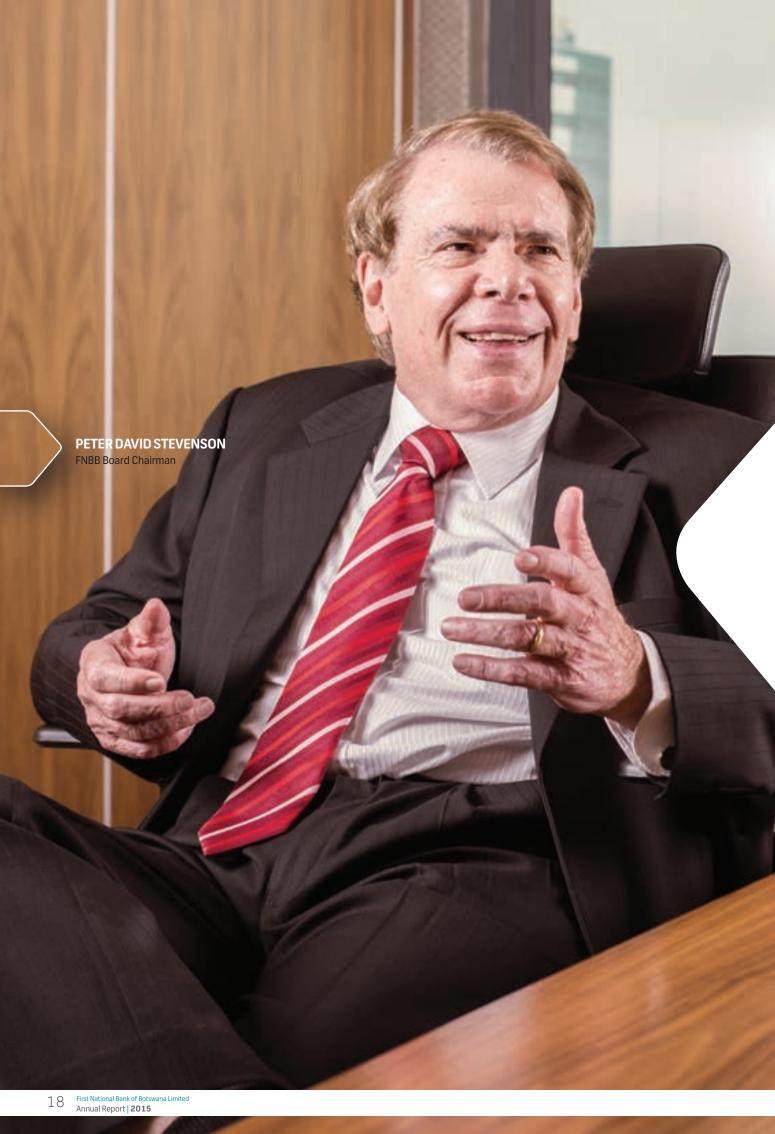
- The FNBB soccer themed 2010 Annual Report won the best published Corporate Report and Accounts in the Financial Service Sector category at the PricewaterhouseCoopers Annual Report Awards.
- > FNBB introduced eWallet, a card-less money transfer service that allows customers to instantly send money to anyone in Botswana with an active cell number. Recipients can use the money in the eWallet to buy airtime or send money on to another recipient.



FNBB unveiled the first ever mobile ATM in Botswana, as part of the Bank's efforts to bank the unbanked and take banking to the people.

FNBB opened the Airport Junction Branch, its 21st 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.

FNBB was voted the Best Commercial Bank at 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.





#### MESSAGE FROM THE CHAIRMAN [CONTINUED]

FNBB continues to make significant progress in its determination to be a Bank of excellence with an outstanding team of top professionals, dedicated to providing excellent service and offering innovative financial solutions. The restructuring of the business, conducted in 2013 / 2014, has consolidated the various business segments as projected in the segmentation model, and the Bank is now seeing the benefits in terms of greater efficiencies, improved governance and risk management, and enhanced customer focus. The restructuring process was aimed at effecting our customercentric strategy, which places the customer at the centre of all our endeavours, and we believe that our success in this strategy will provide us with a significant competitive advantage.

Given the challenging environment, the Bank's financial performance, as detailed in the financial statements and the CFO's report, has been satisfactory in the context of the banking sector in general. Despite the continuation of a regulatory freeze on bank charges, growth of 9% in non-interest income was achieved through increased transactions volumes, which in turn were the result of innovative technological options for our clients. While maintaining a prudent policy in respect of credit, advances to customers grew by 6%. The lack of liquidity in the second half of the year led directly to a significant increase in the cost of funds for the Bank in order to retain its market share, and along with increased provisions for impairments, contributed materially to an 18% decline in profit after tax. However, during the year we continued to make significant investment in infrastructure and staff, recognising that the current market difficulties are manageable and that we are focused on the Bank's long term success. The Directors remain confident that the Bank is well placed for future progress, and the Company recommends an unchanged total dividend of 16 thebe per share.

As at the end of the financial year, FNBB remained the largest company on the Botswana Stock Exchange by market capitalisation at P10 billion, up from P8.8 billion in June 2014, as well as leading the banking sector in both profitability and balance sheet size.

#### **OPERATIONAL DEVELOPMENTS**

In pursuance of enhancing operational efficiency, minimising costs and increasing customer convenience, we continue to actively market our e-solutions to clients, thereby lessening their dependence on expensive physical branches, face-to-face-service and costly manual transaction channels. Our 'bricks to clicks' strategy, through which we seek to migrate existing customers to our electronic platforms and self-service technologies, will lessen the pressure on the more traditional banking interface. Our continual technological innovation has also succeeded in attracting new customers.

#### **GOVERNANCE AND RISK**

The Bank is quick to respond to the pattern of changes in, and additions to, regulatory instruments. Most notably, the implementation of the international charter for banks known as Basel III, is imminent. Basel III regulates on capital adequacy, stress testing and market liquidity risk, and we are actively and continuously adapting and refining our operations towards compliance, so as to be fully prepared at the implementation date. The charter of the Board Risk and Compliance Committee is regularly reviewed to keep pace with developments, and the Committee maintains maximum focus on risk management and the regulatory landscape. Senior management and the external auditors comprise a Combined Assurance Forum that meets four times per year, and assists the Board Risk and Compliance Committee in ensuring that as many potential risks as possible are identified, monitored and effectively managed.



ensure that the excellent work of the Foundation, one of the country's largest CSR entities, makes a worthwhile contribution to enhancing the lives of the neediest members of our society.









#### Changes to the Board of Directors

During the year there were a number of changes to the Board. Danny Zandamela stepped down after a three year term to focus on his role as CEO of FNB Public Sector Banking at FNB South Africa. Mmasekgoa Masire-Mwamba and Nelson Mokgethi were appointed to the Board in March 2015. Doreen Ncube, a specialist in risk management and regulatory compliance was appointed to the Board in July 2015. In March 2015, the incoming CEO, Steven Bogatsu replaced Lorato Boakgomo-Ntakhwana as Executive Director.

#### **CORPORATE SOCIAL RESPONSIBILITY**

Through the FNBB Foundation, the Bank continues to invest generously in our communities. The Bank has a policy of donating 1% of its annual after tax profits for disbursement by the Foundation, and to date these grants amount to more than P45 million. The Foundation's independent Board of Trustees directs the allocation of the funds to selected educational, community development, environmental or cultural community projects, making a meaningful contribution to the welfare and advancement of the less privileged sectors of society. These efforts are supplemented by an active staff volunteer scheme which organises a variety of community programmes, children's events and financial literacy drives.

We are particularly proud of our First Park project. Situated in Tawana, Gaborone, the park provides a safe and relaxing facility for the local community to socialise and play. Through the Foundation, the Bank has invested more than P3 million on the refurbishment and maintenance of the park gardens, playground equipment and sports facilities.

In June 2015, the FNBB Foundation launched an initiative to ease the misery experienced by young children who have to go to school barefoot every day, particularly in winter. The Foundation donated over 3,500 pairs of shoes to 14 primary schools around the country, and the Winter Shoe Drive is set to become an annual event, further aligning the FNB brand to our CSR commitment.

FNBB will continue to ensure that the excellent work of the Foundation, one of the country's largest CSR entities, makes a worthwhile contribution to enhancing the lives of the neediest members of our society.

#### **FUTURE OUTLOOK**

While we predict continuation of the difficult economic conditions in the near term, the Directors are confident that FNBB is on a very sound financial footing and is well placed to meet the challenges which lie ahead. The Bank maintains the highest standards of governance and risk management and is adequately prepared for changes in the regulatory environment.

We believe that RMB, the merchant banking division, will meet the specialised and often complex demands of its market. We are also confident that FNBB's investment in both innovative technological solutions and staff development will ensure continued service delivery improvements and maintain the Bank's leading position. We have accordingly maintained the total dividend despite a drop in profitability.

#### **ACKNOWLEDGEMENTS**

Midway through the financial year, Lorato Boakgomo-Ntakhwana left FNBB for the Group where she was appointed Deputy CEO of FNB International. I wish her the very best for the future and take this opportunity to thank her for her five years' sterling service as CEO, during which she oversaw a period of constant and exceptional growth. I also wish her successor, Steven Bogatsu, every success in the role.

The employees are the custodians of the Bank's customer centric culture and I would like to thank every member of the FNBB family for their invaluable contribution to our accomplishments, both in terms of our financial performance and our continued leadership role in the industry. The executive management team have been central to our success and I thank them for their commitment; and the exemplary judgement and guidance in challenging circumstances exhibited by my fellow Board members who must also be acknowledged.

To our customers, shareholders and other stakeholders, I thank you for your loyalty and support and assure you I have every confidence that FNBB will continue to grow and prosper in the years ahead.



**Peter David Stevenson** Chairman











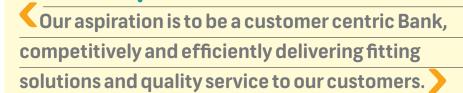
**BALANCE SHEET** 

P20.9 Billion 3.4%

**GLOBAL ECONOMIC GROWTH** 

#### Chief Executive Officer's

## Report



STEVEN LEFENTSE BOGATSU

I must preface this report by mentioning that I have been in the chair for only a few months, having recently taken over from Lorato Boakgomo-Ntakhwana after her years of great service as CEO of FNBB since June 2009. I extend the Bank's gratitude to Lorato for setting the FNBB ship on a steady course in stormy economic waters;

thanks to her exceptional leadership and wealth of banking experience at the Bank of Botswana, the South African Reserve Bank and the FirstRand Group. We wish her every success in her new role at FNB International, a post she assumed in January 2015.



#### **CHIEF EXECUTIVE OFFICER'S REPORT** [CONTINUED]

#### **MARKET OVERVIEW**

#### **Market Overview**

The outlook for economic growth in advanced countries is improving but remains weak in emerging economies. The world economy experienced modest growth of 3.4% in 2014, which is expected to improve, albeit marginally, to 3.5% and 3.8% in 2015 and 2016 respectively, mainly due to recovery in the advanced economies. Compared to 2014, the outlook for developed economies is improving, but is weaker in emerging markets, reflecting slower growth forecast for some large emerging economies, notably China.

A number of key factors are driving uncertainty in the global economy. The sharp drop in commodity prices is having an adverse effect on emerging economies and impacts severely on sub-Saharan Africa. The US economy is growing at a steady but sluggish pace, possibly slower than is needed to sustain satisfactory diamond demand.

#### The Botswana economy

The Botswana economy does not operate in isolation, and is impacted by global declining oil prices, volatile foreign exchange markets, the slowdown in the Chinese economy and the Eurozone crisis. The economy faces pressure from downside risks to the yen and the pula is consequently expected to weaken against the IMF Special Drawing Rights (SDR) basket of key international currencies, while downside risk to the Eurozone area occasioned by the Greek crisis and the threat of contagion and of other EU countries leaving the zone, coupled with Quantitative Easing and asset sell-offs, will continue to adversely affect Botswana. The EU is the country's biggest beef export market and in the prevailing circumstances Botswana is disadvantaged by some of the terms of the Economic Partnership agreement with Europe. China's yuan is poised to enter the SDR, and if accepted, the Pula will be pegged to the yuan and be vulnerable to the effects of Chinese economic restructuring and future stock market corrections. All the major emerging markets, except India, are expected to grow below trend and Botswana is no exception, particularly due to weak mining revenues and the ongoing energy and water crisis. Bond markets in emerging economies are benefiting from low inflation and monetary policy but as Botswana's yields are declining compared to other emerging economies, the country does not benefit adequately from capital flows.

The overall impact on Botswana of a weak demand for diamonds and high rough prices will be seen in declining mineral revenues, and De Beers is expected to continue to respond to market conditions by cutting production. Sightholders continue to experience increasing challenges in accessing finance. Rough diamond exports remain relatively high as cutting and polishing companies favour India due to high productivity and lower labour costs.

Lower copper prices continue to affect local mining operations and Botswana's coal prospects are declining in the face of reducing prices and the high capital cost of coal exploration.

Other key local factors impacting the Botswana economy are salary hikes and droughtrelief measures which have led to increased government expenditure and a looming marginal deficit; as well as friction between the operational and infrastructure budget, resulting in project backlogs and increased maintenance costs. The lack of critical inputs of water and electricity negates prospective growth and is producing a downslide in human development indicators. The need for fiscal consolidation post the global economic crisis has led to reduced government spending and government debt (bond issuances and borrowings) remains low despite the legal capacity to borrow more and the highest credit rating in sub-Saharan Africa.

The Botswana property market is witnessing turbulent times as it normalises, with industrial property undersupplied, commercial property falling marginally and residential property mixed as the top end slows aggressively while the low end remains under huge demand.

The March 2015 Business Expectations Survey conducted by the Bank of Botswana showed a drop in business confidence from 52% to 44%. Insufficient domestic demand was seen as the greatest challenge facing businesses, due to perceived slow growth in government spending and household disposable income. The second most significant factor was the poor availability of skilled labour, and electricity shortages were ranked third, an indication of the recent deterioration in the provision of reliable and adequate power supply.

GDP growth is expected to remain under 5% over the next few years, with growth forecasts for 2016 ranging from 4.8% to 2.6% as indicated by the Ministry of Finance and Development Planning,

#### THE BOTSWANA BANKING INDUSTRY

We have entered a new banking era in Botswana characterised by heightened competition, increased regulation and a low interest rate environment. The moratorium on fee rate increases continues to impact on fees and commissions for banks and to put pressure on our non-interest income.

#### Liquidity

There has been a rapid shift from a market awash with liquidity to one characterised by liquidity constraints, chiefly due to structural reforms and aggressive lending on the one hand, and slowing deposits on the other. Streamlined government disbursements and the direct payment of taxes into government accounts has also negatively affected liquidity. Higher real rates in other emerging markets and capital flights from money markets indicate that more structural reforms may be necessary.

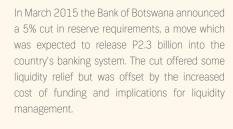








We continue to focus on the potential to create new income streams as we implement our revenue diversification strategy.



#### Other challenges

Falling interest rates in a low inflation environment have had a negative impact on net interest margins, and credit extension is slowing despite the rate cuts. Increased cost to align the Bank's systems and reporting requirements to comply with new regulations such as the National Credit Act will further erode interest margins.

FNBB expects increased competition from new entrants, particularly non-bank financial service providers, whose offering competes directly with some of our e-channel solutions, and this will challenge our ability to maintain our market share. Both businesses and households are under pressure in the prevailing tough economic conditions, increasing impairments and non-performing loans, and banks are enforcing tighter credit requirements.

The stringent requirements around the impending implementation of the Basel III regulations will have a further negative effect on liquidity and intermediation, as well as on capital, and therefore, on dividends. Basel III demands that enhanced standards on minimum capital and liquidity requirements, supervisory review processes, risk management, capital planning, risk disclosure and market discipline be put in place; and this will be achieved at considerable expense.

#### **OUR PERFORMANCE**

Our balance sheet has grown from P17.6 billion in 2014 to P20.9 billion in 2015. During the period, non-interest income increased by 9% and advances grew by 6%. The cost-to-income ratio remained satisfactory at 44.8%, and while profit after tax declined by 18% from P720 million to P591 million, the declared dividend remained unchanged from the previous year at 16 thebe per share.

We continue to focus on the potential to create new income streams as we implement our revenue diversification strategy. Despite the continuing moratorium, non-interest income increased by 8.5% to P862 million, rewarding our endeavours to reduce our dependency on interest-based income and our vulnerability to macroeconomic factors. Net interest income before impairments showed a decline of 8.5% from P955 million to P873 million, while impairments on advances increased substantially from P123 million to P201 million.

#### STRATEGY PILLARS

FNBB's strategy is founded on four pillars: customer centricity, service excellence, sales and solutions, and people. The success of FNBB and its growth as a company will continue to be bound directly to our determination to deliver outstanding, world-class customer service and our culture of innovation, which will continue to grow the Bank's impressive list of market firsts. Making all of this possible are people: our employees who live the service vision, the people we serve and the communities in which we operate.

#### **Customer Centricity**

Our aspiration is to be a customer centric Bank, competitively and efficiently delivering fitting solutions and quality service to our customers. As a result, our operational model is focused on catering to the customer's needs and expectations at all levels, and this permeates all we do.



#### **CHIEF EXECUTIVE OFFICER'S REPORT** [CONTINUED]

#### Our service vision

Our vision to offer world-class service and to be the best service provider in the industry, is central to our ethos, and we strive to have the most innovative, passionate, engaged and energised service team. Our "Pioneers of Service" reaffirm that a promise made is a promise kept and we understand that listening to our customers' needs and wants and tailoring solutions that meet or exceed their expectations is the road to enhanced customer satisfaction and customer retention.

#### Marketing and customer acquisition

The Bank will expand its use of innovative platforms to communicate with the public, provide customer education and advice and offer proactive customer service. Our social media presence, while still in its infancy, is growing exponentially, with a 350% and 570% increase in Facebook and Twitter followers respectively, over the last year. We anticipate that these platforms will provide an ever-increasing communication and service channel for enhancing customer convenience and satisfaction.

The new Nthula Lounge at Sir Seretse Khama International Airport offers FNBB Private Clients a relaxing and luxurious oasis of peace and tranquillity as they wait for their flight. The generously appointed facility provides free Wi-Fi, quality snacks, a full range of refreshments and has averaged over 100 visitors per month since its opening in May 2015. The lounge is expected to grow customer loyalty and value-adds, while prominently enhancing our brand equity.

#### **ALIGNING STRATEGY TO SKILLS**

Central to our human resource development strategy is the alignment of our talent profile to our business strategy. This involves developing commitment to our customer-centric outlook and high engagement levels with our clients in order to be able to provide appropriate, tailormade financial solutions coupled with exemplary service.

#### Leadership growth

Strategies to strengthen our succession pipeline include focusing on top talent retention and the development of globally relevant skills. Succession planning is in place throughout the organisation and appropriate training and career development is given high priority. To date, some 84% of our employees have undergone customer service training.

We dynamically align our human resource development process to the future by operating flexible reward systems and by bringing competency development targets into line with strategic priorities.

#### **Achievements**

FNBB continues to lead the industry in innovation and our new automated real-time ADT cash deposit machines offer unprecedented customer service, providing uninterrupted 24/7 access to banking and cash deposit services. The ADT footprint has shown exceptional growth over the last twelve months, from 10 to 20 machines. These are situated at selected locations throughout the country, and the ADT rollout will continue in the coming years.

The new Mobile Banking \*174# app is a Botswana innovation that allows customers to make utility and similar payments with a few clicks of their phone. The service is extended to cellphone users irrespective of their banking profile.

#### **Financial Inclusion**

Numerous studies such as FinScope Botswana point to the economic advantages of a banked society, and much has been written over the years to promote financial inclusion. The eWallet platform fulfils this function by literally "banking the unbanked". The popularity of eWallet is evidenced by the more than P2.7 billion sent through eWallet since its inception in 2010.

#### **OUR COMMUNITIES**

FNBB contributes up to 1% of its after tax profits to the FNB Foundation, the flagship of Botswana's corporate social responsibility vehicles. Current FNBB Foundation funded projects totalling P4.9 million include the refurbishment and maintenance of Tawana Park which was launched as First Park at an official opening in June 2014, and the Somarela Thothi water conservation project in partnership with Water Utilities Corporation and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). The Foundation also funded rhino tagging and game fencing at Khama Rhino Sanctuary, and the FNB Foundation winter shoe drive which donated over 3,500 pairs of shoes to students in 14 schools around the country.

FNBB staff contribute to our corporate social responsibility through staff volunteer projects. During the year, four projects with a value P153 250 were undertaken. These included waste management and social education activities in D'Kar, a community day for the children at Childline Botswana, a Christmas party for children at Mahalapye hospital and the construction of an ablution block in Letlhakane. A number of financial literacy drives and educational campaigns ware also conducted by staff volunteers at various centres. This 'giving from the heart' epitomises the spirit of botho that pervades FNBB and our dealings with those around us.

These projects speak to our determination to demonstrate our commitment to caring for the communities and environment in which we operate and to enhance the repute of our brand. To this end, the Foundation supports self-sustaining causes which have a broad social impact and that align with the FNBB corporate social responsibility emphasis on social welfare, education, job creation, skills development, arts and culture.









#### THE WAY FORWARD

The economic outlook remains cautiously optimistic, and there are sufficient indicators that Botswana will weather the current crop of challenges. However, as a consequence of the more constrained economic climate, the banking industry in Botswana has changed inexorably. A 'new normal' has set in, but the industry remains solid and we are confident that FNBB will continue as a substantial player and to be a leader in innovation, solution provision and service excellence.

In the year ahead, FNBB will continue to focus on tightly managing liquidity and risk while driving transactional volumes and launching innovative solutions. In order to maintain our momentum in these endeavours we will concentrate on a number of specific strategic focus areas.

#### **STRATEGIC FOCUS AREAS**

#### Investment in the business

As part of our ongoing investment in infrastructure in 2015 – 2016 we will open new branches and refresh existing real estate to standardise the "Look and Feel" of all branches by 2020.

#### Investment in self-service channels

The rollout of ADTs will continue from the current 20 to 50 machines, and Slimline mini ATMs are set to increase from 28 to 70, facilitating greater access and a wider geographical footprint for these channels. All branches are targeted to have a minimum of three self-service devices including ADTs and ATMs and most villages will have at least one Slimline ATM. We have also made provision for non-FNB card holders to use their ATM cards on FNB Slimline ATM's.

#### Investment in people

The continued investment in our people will see us provide training scholarships and technical training opportunities for our employees, supplemented by appropriate attachments to other group companies. Succession planning and top talent retention for future leadership roles, as well as graduate development programmes, will ensure that FNBB continues to attract and retain the best people with the right skills.

#### Optimisation of funding sources

The emphasis for the coming year will be on encouraging a culture of saving by offering convenient savings products with a view to growing the deposit component of our funding structure. To this end, dedicated campaigns to drive the Flexi Fixed deposit account and 7-Day Notice deposit products will be conducted with a focus on long term deposits and balancing the deposit mix.

#### Asset quality

We will optimise our collections processes by continuing to refine our collection structures through upgrading and enhancing our online collection systems and processes. Focus will be maintained on debt rehabilitation and the continued rollout of the Quick Sell programme through which customers are able to appoint the Bank to market their properties on their behalf through approved estate agents. In the prevailing market conditions, ongoing risk management and a refined credit risk appetite will be a priority.

#### Loans and advances

FNBB will continue to launch innovative new products that make life easier and more convenient for Batswana. The Smart Device Loan is designed to facilitate access to smart device functionality and give more customers an opportunity to benefit from all our e-facilities. In response to the energy crisis, WesBank has introduced specific finance for generators so that customers can keep the lights on during load shedding.

Other new products that will receive our particular attention are the FirstFunding Employee Loan Scheme in the consumer segment and short term business finance for specific supply contracts through the Purchase Order Finance product in the business segment. Our recently bolstered agribusiness finance team will exploit agricultural finance opportunities in this growing sector.

#### Service

In pursuance of always raising the bar and setting our sights on ever higher standards of service excellence, the Bank will appoint a new Service Director who will revitalise and invigorate our customer centric focus and drive service quality. The increased use of appropriate customer data analytics will further enhance our service delivery.

#### Other focus areas

The Bank will continue to maximise non-interest revenue streams within the constraints of the moratorium and the regulatory environment in order to continue to grow NIR.

Continuous emphasis will be placed on enhancing the efficiencies of all segments and ensuring that we refine and perfect our systems and processes for maximum benefit and cost-effectiveness.

#### **WORD OF THANKS**

The very encouraging results published in this report speak to the commitment and dedication of FNBB's employees to the success of the Bank and our determination to adapt and flourish in difficult and somewhat unfamiliar circumstances. The challenging times have brought out the very best in our employees and I would like to thank each and every member of the FNBB family for their unswerving dedication to the Bank's continued success, both as a business and as a force for positive change in our society.

I also thank the Chairman, the Board of Directors and the executive management team for their guidance and support as I assume the role of CEO.

In conclusion I would like to thank you, the shareholder for your continued confidence, and assure you that we will constantly strive to protect your best interest. Despite the shifting economic landscape, I believe that FNBB is excellently placed to adapt and grow with the changing times, will continue to nurture your investment and ensure that you receive a satisfactory return.

Steven Lefentse Bogatsu

Steven Lefentse Bogatsu Chief Executive Officer











FINANCIAL POSITION UP 19%TO

**DEPOSITS GREW BY** 

>P21 Billion > 20%



#### Chief Financial Officer's

## Report



#### **OVERALL PERFORMANCE**

In a market that is characterised by slowing credit extension, liquidity challenges and growing levels of market arrears, the Bank embarked on its new customer centricity model. This model puts the customer at the centre of all we do. To this end, focus in the current financial year was on ensuring our customers have a pleasurable banking experience, which is both seamless and convenient.

This is the primary reason for the model rollout and our increased focus on the use of solutions such as the Advance Deposit Taking machine (ADT), Point of Sale machine and Online Banking, as well as refurbishment of the physical branches.

The Bank is therefore pleased with the successful implementation of its strategy which has resulted its ability to maintain market share.



#### **CHIEF FINANCIAL OFFICER'S REPORT** [CONTINUED]

**6% GROWTH IN ADVANCES** TRANSLATES TO A



**PROFIT BEFORE TAX DOWN BY** 



**>** 18%



#### STATEMENT OF FINANCIAL POSITION

The market conditions called for the Bank to be cautious around credit extension in view of the fact that the consumer continued to be under cash flow strain as reflected by the growing levels of market arrears. During this financial year, business failures were also on the increase, exerting further pressure and resulting in extra caution being taken by the Bank around credit extension across both segments. Despite this, the Bank was relentless in driving volumes, both through increased customer numbers and transactional volume, and was successful in growing advances to customers by 6%. Growth was particularly strong in consumer segment term loans and group schemes, property finance and WesBank products. The growth in advances was mainly in the more secure asset classes and this was reflective of the cautious approach adopted by the Bank.

Despite the guarded approach, the Bank has retained its market share on advances over the last five years; noteworthy as this has been in a market that is characterised by tough competition and softening credit growth. From a compounded annual growth rate perspective, the Bank grew faster than the market.

The Bank is comfortable with the level of diversification of its asset portfolio, which is appropriately spread between the consumer, commercial and RMB segments.

Notwithstanding an economy that has been characterised by tight liquidity challenges and subdued credit growth, the Bank was successful in posting a healthy statement of financial position growth of 19%, to P21 billion, buoyed by 20% growth in deposits and resulting in a sound liquidity position.

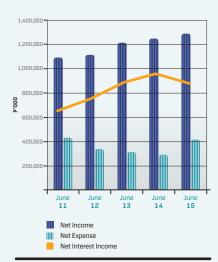
On the back of this sound liquidity position, and in line with the Bank's prudent stance with regard to credit extension, FNBB was successful in investing its excess liquidity in Bank of Botswana Certificates (BOBCs) which posted growth of 58%.

#### CONSOLIDATED INCOME STATEMENT

#### Net Interest Income and Impairments

Despite having limited lending opportunities in the market, the 6% growth in advances coupled with growth in investment securities translated to a 4% increase in interest income. The liquidity challenges experienced in the market called for all banks to increase the rates being paid on deposits in a bid to attract much needed funding. Growth in deposits posted a 20% year on year increase, leading to an interest expense increase of 43% which is reflective of the prevailing market conditions. Accordingly, the Bank will continue on its drive to provide innovative products, to attract less expensive funding sources and to grow its non-interest income through both transaction volumes and diversification. To this end, the Bank launched products such as Flexi-Fixed which offer consumers attractive rates but are priced below professional funding levels.

#### FIG. 1: NET INTEREST INCOME









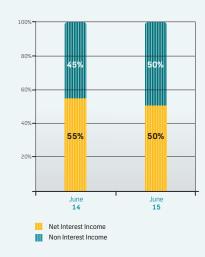


In a market characterised by increasing levels of arrears, the Bank has strengthened its collection strategies and maintained selective lending practices. Despite this, impairments still grew by 64% which is reflective of consumer and business strain as well as the ailing property market. In view of these factors, the Bank has adopted a conservative approach to its provisioning policy to ensure that the requisite provision levels have been adopted. The Bank is comfortable with this outcome and confident that this strategy will allow FNBB to preserve future sustainability of earnings.

Due to the tightened credit risk appetite, a transactional volume drive to bolster growth was crucial in the year under review. As a result, the Bank aggressively drove the use of its innovative platforms such as the Advance Deposit Taking Machine (ADT), Point of Sale machines and Online Banking. These platforms have allowed the Bank to drive customer behaviour increasingly away from the more expensive branch network channel and FNBB consequently grew its non-interest revenue by 9% through growing volumes – clear evidence of the success of its revenue diversification drive.

Fig. 2 below illustrates that the Banks' revenue comprises 50% net interest income and 50% non-interest income. This growth was achieved despite the moratorium on fee increases.

### FIG. 2: NET INTEREST INCOME VS NON INTEREST INCOME



In line with its customer centric strategy, the Bank has also placed significant focus on growing its leadership and talent pool through various interventions. As a result, substantial outflows were invested in training and development.

Improvements to the Bank's operating systems and investment in infrastructure resulted in further increases in other operating costs. These continual system enhancements provide efficiencies that are aimed at creating optimal structures; hence staff costs increased by only 6% over the year.

Other enhancements effected during the year included the improvement in existing infrastructure such as the Point of Sale machines, refurbishment of three branches and the rollout of the Advance Deposit Taking machines, take up of which increased to 20 by year end. The introduction of these innovations was seen as crucial for maintaining the Bank's competitiveness, and there was a consequent 14% growth in operating expenses. Despite this increased cost, the Bank was successful in maintaining a cost to income ratio that is below the industry norm at 44.8%.

#### FIG. 3: COST-TO-INCOME RATIO



As a result of the above, profit before tax declined by 18% from prior year while the fundamentals of the Bank remain strong with return on equity at a healthy 25%.

#### CHIEF FINANCIAL OFFICER'S REPORT [CONTINUED]

#### RETURN ON EQUITY AT A HEALTHY



In line with its customer centric strategy, the Bank has also placed significant focus on growing its leadership and talent pool through various interventions. As a result, substantial outflows were invested in training and development.

#### **CAPITAL MANAGEMENT**

The Group's objectives when managing capital, which is a broader concept than "equity" as illustrated in the statement of financial position, are to comply with the Regulator, to safeguard shareholders' returns, maintain the ability to continue as a going concern and to ensure the Bank has a strong capital base to support the growth and development of the business.

The Group continues to manage its capital in line with the Board's approved capital management framework and Basel 2.5, being the new Bank of Botswana requirements which are due to be adopted in Botswana in 2016, and with parallel runs currently underway during 2015.

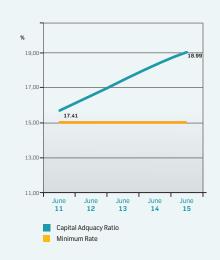
As part of our capital management strategy, we assess on a regular basis whether the Group is appropriately capitalised from an economic risk point of view. Economic capital is defined as the capital which the Group must hold, commensurate with its risk profile, under severe stress conditions. This is necessary to give comfort to stakeholders that the Bank will be able to discharge its obligations to third parties in accordance with an indicated degree of certainty even under severe stress conditions and would continue to operate as a going concern.

The regulatory capital requirements are strictly observed when managing economic capital.

The Group's capital adequacy ratio, which excludes the dividend reserve, has been maintained at 18.99% as at 30 June 2015, and is above the Group's internal limit as well as the Bank of Botswana required ratio of 15%.

In line with the substantial growth in assets, the planned impact of the introduction of Basel 2.5, and the effect that these factors will have on the capital adequacy ratio, the Directors believe that it is appropriate to continue with the prudent approach to capital management.

#### FIG. 4: CAPITAL ADEQUACY RATIO



#### **LOOKING AHEAD**

Having successfully embedded its segmentation model aimed at fully understanding and responding proactively to customer needs, the Bank is well positioned for the future.

Against the backdrop of subdued economic expectations, the Bank remains confident that opportunities exist in selective markets. At the same time, we are internally focused on our people strategy of becoming the employer of choice in the market.

A number of operational initiatives are being driven simultaneously to improve our own internal processes to make banking more effective and efficient. In conjunction with this, the Bank is implementing various new processes to comply with changes in the regulatory environment. FNBB will continue to invest in infrastructure, notably in branches as well as other channels such as Advance Deposit Taking machines and Point of Sale machines.

We are confident of an even better 2015 - 2016 financial year as we continue to solidify our customer value proposition.



**Boitumelo Mogopa**Chief Financial Officer











#### **EXECUTIVE COMMITTEE**

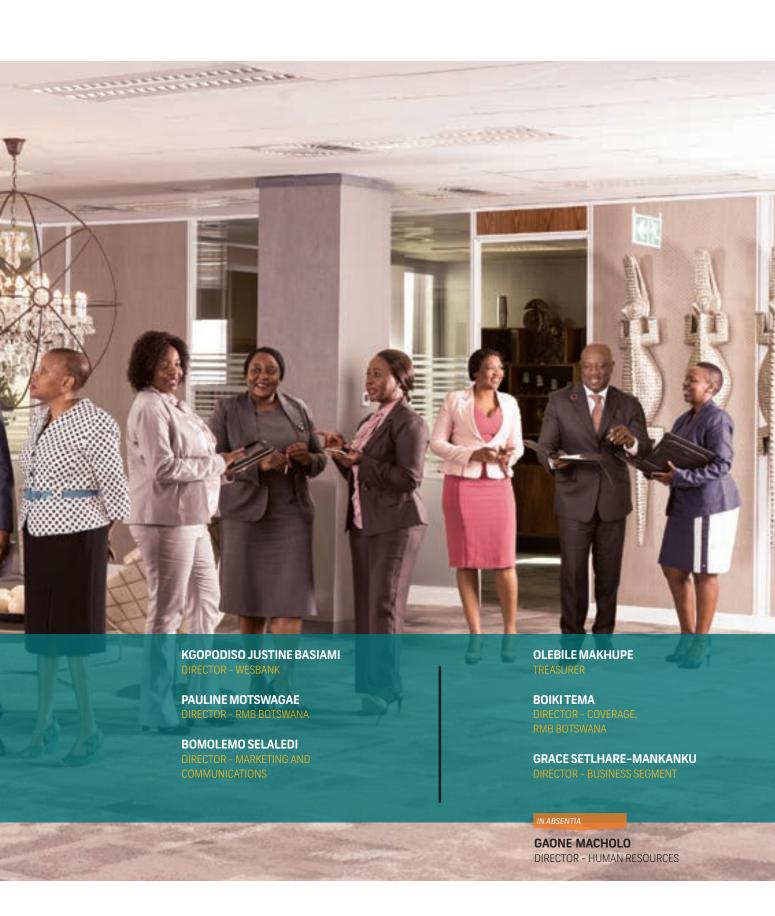












CELLPHONE BANKING First from FNB

# First

Bank in Botswana to introduce Cellphone Banking

>

More than

300000

cellphone banking users for FNB



# FNBB Timeline

- FNBB introduced the FirstPay Portal; a debit and credit card payment platform that allows both FNB and non-FNB customers to pay their utilities and services online.
- > FNBB became the largest bank by market capitalisation in the Botswana Stock Exchange.

# FNBB received the Leader Award for FNBB unveiled its new Head Office; FNBB was awarded the Best Local Trade Finance the Top Acquirer in Sub Saharan Africa First Place, a state-of-the art building Bank in Botswana by the Global Trade Review at the 2013 Visa Security Summit. The that boasts the Bank's "one-stop-(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 offering.
- annual LEADER Award recognises the exceptional efforts taken by the risk management functions of selected Visa clients in effectively combating fraud
- shop" capability by hosting all the Bank's divisions at one location.



# CONSUMER SEGMENT REPORT

- Summary of Key Points
  - Customer base grew by 4%
  - Gross advances up by 11%
  - ADT deposit taking machine footprint doubles from 10 to 20











# THE CONSUMER SEGMENT

The Consumer Segment consists of Smart, Gold and Premier strategic customer portfolios, Product Houses (Credit Card, Home Loans and Insurance) and Support (Finance, Risk and Compliance, Human Resources, etc.) Our strategic intention is to identify and understand our client's unique financial needs and tailor make products and services that meet and exceed their expectation. These solutions are ultimately distributed to our clients through our various Channels such as the Branches, ATMs and online platforms. The Consumer Segment is responsible for all clients who earn less than P750 000 per annum.

We conduct 'meet and greet sessions where we engage with our customers and try to appreciate their anxieties and concerns. The outcome of these sessions is innovative, relevant banking solutions that meet specific customer needs. These attest to our commitment to listen to and engage with our customers with the intention of better understanding their requirements and conceptualising innovative fit-forpurpose 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.

We are in the privileged position of being able to nurture and grow our relationships with our clients as they progress through life, and it is our value proposition and the relationship with our clients that differentiate us from the competition.

# We are First

- To introduce eWallet, cellphone banking and online banking to the market
- To introduce smart devices loan to the market
- To introduce deposit taking ATMs
- To introduce the Slimline ATM Slimline operates exactly like a traditional ATM except that it does not hold any cash
- To introduce the award winning Banking App
- To introduce the FNB Gold and Platinum cards with special benefits
- · To introduce cashless withdrawal
- To introduce the Service Suite which makes banking easy and hassle free in your own comfort zone (car, home, office or cattle post)

# We are National

- We have the biggest Smart base in the country at around 63% of the market which speaks to our financial inclusivity drive
- We are the Bank of choice for youth, especially students and interns, and our innovations resonates with their needs
- We have 185 ATMs spread across the country ensuring the widest reach of financial services for Batswana
- We have 22 Branches spread across the country ensuring access to financial services for Batswana
- We are contributing to the growth of technology in Botswana through the introduction of our new smart device offering
- The eWallet product enhances our financial inclusivity drive which means we are able to reach people in the furthest corners of Botswana who can enjoy our cutting edge services
- We have introduced the Platinum Service Suite as a way to improve our service in the portfolio
- We have increased our representation in the Branch network in line with the segmentation model that encapsulates the Bank's overall strategic intent



# **CONSUMER SEGMENT REPORT** [CONTINUED]

We have refreshed the look and feel of six of our branches. This is in line with our objective of being the customer centric bank that looks to serve its customers in an environment that enhances customer satisfaction.

# We are for Botswana

- The consumer segment invited the children of the Cheshire Foundation to the Air Show in May 2015 to enjoy the day with them
- As a member of the Bankers' Association FNBB subscribes to the FinTrust strategy which seeks financial inclusivity of the lower end of the market in the consumer space.
- FirstFunding is a loan product that services the lower end of the market and is competitively priced to factor in customer needs and circumstances
- We provide National payment solutions for students and youth which helps the distribution of funds across the country
- As a result of our innovation drive, we design products that enhance our service offering and our customers' convenience, such as our prepaid electricity purchasing platform

# **Market Overview**

During the financial year the Consumer Segment operated under very difficult market conditions, driven mainly by expensive deposits and declining affordability. Despite the reduction in the bank rate to a record low of 6%, the cost of raising deposits in the market increased significantly and FNBB felt the impact particularly with regard to the pricing of assets. Consumers continue to be over-indebted, and credit growth was flat. There was amplified regulatory pressure leading to an increased focus on risk and compliance, and our response to the entry of new players into the market. The environment has become more competitive with the awakening of sleeping giants and the entrance of new market players such as new banks and mobile network providers. Nonbanking financial institutions now offer banking services such as mobile money, money transfers and payment facilitation (prepaid electricity and airtime) which compete directly with our traditional products.

# The Year under Review

Despite the difficult market conditions, the Consumer Segment performed equitably. The customer base grew by 4% while gross advances recorded pleasing growth of 11%. FirstFunding, a product that competes in the lower segment of the market, contributed substantially to this growth. Non-interest revenue grew by 19% year on year, mainly on the back of service fees, FirstFunding administration fees and Interchange revenue.

The strategy of placing staff in branches to facilitate the migration of customers 'from bricks to clicks' (from branches to electronic platforms) is bearing fruit. Some of the success indicators include cell phone banking penetration up from 77% in June 2014 to 89% in June 2015, and increased utilisation of the ATM Advance which now accounts for 30% of the in-branch deposits at the branches where these are installed.

We have doubled our ADT deposit taking machine footprint from 10 in June 2014 to 20 in June 2015, extending the technology to areas outside Gaborone. Based on the success of the 'from bricks to clicks' drive, additional migrators have been rolled out to all branches across the country. We launched a successful Flexi-Fixed savings account campaign aimed at both improving the savings culture in Botswana and raising cheaper deposits. The product not only increased the number of savers, but also offered customers attractive interest rates in the prevailing low interest rate market.

We have refreshed the look and feel of six of our branches. This is in line with our objective of being the customer centric bank that looks to serve its customers in an environment that enhances customer satisfaction.

# **Looking Ahead**

The Consumer Segment looks forward to the coming year with a renewed optimism which is founded on our better understanding of the various customer segments. The economic outlook for the country is 'more of the same', and issues and challenges from 2014 - 2015 are expected to carry through to 2015 - 2016. We expect competition from non-bank institutions to strengthen as they find more ways of challenging traditional banking services and anticipate that existing banks will need to become more aggressive from a marketing and pricing point of view.

The coming year will see the segment introduce more segment- and customer-specific solutions and increased focus on engagement or experiential marketing. We believe that in-depth engagement with customers will allow us to address customer service concerns such as long queues, insufficient branch access and lack of affordable pricing options.











Additional emphasis will be placed on the Premier (Platinum card) and Upper Gold (Gold Card) segments and on graduates. The focus will be on banking the customer right and refining our subsegment value propositions.

We will continue to be first with solutions that solve real customer problems such as Smart Device Loans, bundled credit card products, as well as finding value for our customer.

Existing products such as eWallet and Personal Loans will see enhancements that will bring added value to our customers.

As part of our strategy, we will realign our insurance products with our core banking solutions to provide a compelling banc-assurance offering.













# **OVERVIEW**

The Wealth Segment focuses on providing transactional banking, insurance, fiduciary services and wealth advisory services to high net worth individuals. It offers a suite of bespoke solutions that enable them to grow and preserve their wealth through relationship and wealth advisory managers under Private Clients and through the various branch, mobile banking, online banking, ATM and banking app channels. This exclusive service is available to individuals with gross income levels above three-quarters of a million Pula per annum and/or net investible assets of P3 million or more.

In implementing our strategy, we continue to place considerable emphasis on improving not only our service and product offering but also enhancing our journey of excellence by collaborating with other associated stakeholders.

Our brand promise of "How can we help you?" is an assurance to our private banking clients that we have exceptional wealth management capability, with local and global reach, to support and advise clients who have achieved a substantial level of personal wealth and who deserve exceptional, personalised attention.

The market in which we operate in is becoming ever more demanding and competition in the sector continues to intensify. We have witnessed a decline in lending rates which has negatively affected our interest margins and profitability. Despite these negative trends, in the shortand medium-term we anticipate significant growth in advances as favourable lending rates encourage our clients to borrow, and this will stimulate the economy going forward.

# First in Innovation

The banking industry is endlessly evolving and demands new thinking to enable FNBB to compete in these complex and challenging market conditions. It is against this background that we are constantly innovating, not to only remain relevant but also to be able to offer exclusive products and solutions that are tailor-

made for our customers. We pride ourselves in having introduced the exclusive Nthula Lounge, the first of its kind in Botswana, situated at Sir Seretse Khama International Airport and earmarked for our high net worth clients. The lounge is proving increasingly popular and is highly appreciated by our clients.

The new Services Suite, essentially an online operational servicing area, will enable clients to access our services from anywhere in the world. The platform enables clients to call into a secure virtual space and issue instructions relating to banking services, such as the issuing of new cards, executing transactions or foreign exchange purchases. In conjunction with our concierge service, this service facility offers clients convenient access to all their banking and investment requirements without having to leave their home or office.

The launch of the Bank's smartphone banking app is a significant service offering differentiator, particularly in the competitive high net worth market segment. A significant proportion of our customers are tech savvy and use a smartphone, and uptake on the app among wealth customers continues to be good. Through the app, our clients are able to conduct their financial business from anywhere in the world with unparalleled ease and convenience. The banking app supports our 'digital fulfilment' model of service provision and its handiness and user friendliness promote migration by an increasing number of our clients from manual to electronic services.



# WEALTH SEGMENT REPORT [CONTINUED]

## We are National

Situated at FNBB Head Office at First Place, our Private Clients' suite is the hub for a total of seven relationship managers supported by a team of relationship analysts dedicated to improving our service delivery. A second suite, catering for clients in the northern areas of Gaborone and Phakalane is located within our Airport Junction branch. In addition, our specialised personal wealth management service offering is extended to our clients countrywide through our dedicated service channels.

## We are for Botswana

As part of our commitment to enhance the level of investment know-how and financial finesse among Batswana, we extend our services beyond banking products by providing financial literacy and financial planning programmes through our wealth management team. We believe that in the long term, enhanced financial understanding will go a long way in improving our clients' daily lives and laying the foundation of judicious wealth creation for generations to come.

# The Year under Review

Our trading position remains strong and analysis of the segment confirms that there is still credit appetite for term and structured facility loans, while caution is indicated on property loans. We continue to drive sales volumes by acquiring new clients and cross selling to our existing clients.. These good results reflect our continued focus on effective relationship management and treating our clients with the respect they have earned; offering them peace of mind by providing excellent risk management, proactively assessing and efficiently countering risk through innovative solutions.

We experienced a significant growth in total advances driven by growth in term loans, structured finance and overdrafts. Total deposits remained flat against a backdrop of aggressive competition in respect of the depressed investment rates in the banking sector. The segment was negatively impacted as clients shifted funds to higher yielding instruments. Nonetheless, deposit balances remain healthy.

# **Looking Forward**

Our strategic focus areas for the financial year 2015 - 2016 include the following:

- Landing and rebranding the Premium segment (Private and Premier segments)
- Banking and servicing clients right
- · Strengthening Wealth and Advisory
- Resourcing and investing in order to set the business for success
- Transactional pricing
- e-Solutions

While we acknowledge that the environment in which we operate is becoming tougher and even more competitive than previously, we believe that deepening the relationships with our clients will be the cornerstone of our future success; not only to deliver on our mandate but also to entrench our brand in the marketplace.

Another major area of our focus will be on continuously educating and encouraging clients to utilise our cutting-edge products and e-banking solutions. This will be achieved by analysing key variables in our client data to gain a better understanding of preferred service platforms and modes of interaction. We believe that by knowing our clients and better understanding their expectations we will be able to increase 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."





















# **Foreword**

Previously known as the Commercial segment, this business unit was rebranded as FNB Business to align with the FirstRand Group segment branding. The Business segment now comprises four customer-oriented sub-segments: Business Banking, Small Medium Enterprise (SME), Local Corporate and Public Sector and includes three specialist product houses: Commercial Property Finance, Agriculture and Islamic Banking.

## **OVERVIEW**

The 2014 - 2015 financial year began with considerable promise, but by the end of the first quarter a number of factors had begun to impact on the economy negatively. The severe decline in global oil and commodity prices affected trading conditions and government belt-tightening in the interest of operational efficiency downstream slowed business activity. During the year, inflationary pressures eased in tandem with movements in monetary policy and consequent bank rate reductions. Local businesses found trading conditions tight as debtor days grew longer, putting creditor days under pressure. This impacted on clients' ability of to meet their obligations to the Bank.

During the year commercial property valuations continued to come under pressure and rental revenues and general return on property investment declined significantly. Various environmental factors impacted negatively on crop yields and the cattle industry faced challenges as owners chased value.

Despite the challenging market conditions, the business segment continued to focus on retaining existing clients, providing convenience and efficiencies through our various channels and growing the business across the different segments and products classes.

# The impact on our business customer

The tough economic environment provided few opportunities for new business ventures and some established firms were obliged to scale down their operations. Many companies saw their cash flow come under pressure and were unable to meet their creditor obligations on time.

# Putting our customers first

The Bank's response was to put the customers' interests first by introducing innovative new products designed to assist clients to trade more efficiently and minimise their costs. The new business debit card offers a cheaper and

safer means of making payments at a fraction of the cost of traditional manual transactions, offering customers savings and unprecedented convenience. We also introduced Purchase Order Finance, an innovative method of finance designed to assist small, medium and large companies in Botswana. FNBB uses valid and confirmed purchase orders awarded to a company to finance the purchase of merchandise. This is done by issuing a letter of credit that may eventually convert to a short term loan or overdraft, until it is repaid.

ADT cash management machines were introduced through the channels area to assist our business clients to spend more time at their business and less time doing their banking, with the added bonus of being able to bank at their own convenience. Customers' appreciation of these advantages saw cash depositing behaviour begin to migrate to ADTs, and this trend is expected continue into 2015 - 2016.

We set up a business outbound sales team which initiates telesales calls to customers informing them of the advantages of some of the products that they do not yet have and proposing appropriate solutions for their particular business needs. The team also sends messages to holders of dormant accounts, encouraging account reactivation. The outbound sales team's activities are driven and directed by effective data analytics.



# **BUSINESS REPORT** [CONTINUED]

The customers' interest
will permeate the solutions
we offer, our engagement
with, and service to our
customers, so as to
ensure that we continue
to enhance stakeholder
satisfaction

## First in innovation

In pursuance of our determination to be first in innovation, during the year we began to pilot an additional channel through which we will add value and enhance our value proposition to our clients. This new innovation will enhance the customer experience and make access to banking solutions more efficient; particularly for our small business clients.

The successful rollout to these new products has strengthened our business banking offering and in the process will continue to grow shareholder value.

Risk management continued to be a major focus and the segment introduced dedicated risk personnel to monitor and manage identified risk areas on an ongoing basis.

# Broadening our national reach

During the year we continued to make inroads into client segments where historically we have been underweight, broadening our geographic and sectoral reach. We engage directly with new clients to determine the ideal solutions for their particular business needs.

We have fortified our team of agricultural specialists to provide structured solutions to the diverse Agribusiness client portfolio. Penetration into new segments of the market has contributed to transaction growth.

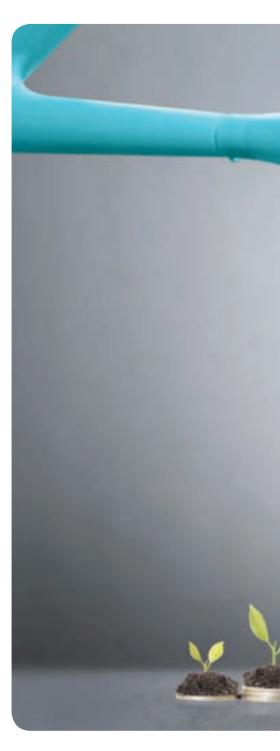
We continue to pursue our "bricks to clicks" strategy to convert our customers from the traditional manual intensive methods of banking to our much more convenient mobile and online banking platforms.

# The road ahead

The near future will see the development of the new contact centre and business outbound channel to enhance efficient customer business banking habits and augment the business solution offering to our client base. While maintaining the provision of tailored solutions for our large corporate and public sector client base, we will also be focussing much of our attention on being the first choice business banking partner to commercial entities of all sizes and sectors, with a product and service offering that meets small, medium and large business customers' expectations.

We will continue to manage risk and be selective in the volatile commercial property market, exercising due caution, particularly in the more stressed sectors.

Our client centric strategies will propel the business in the year ahead. The customers' interest will permeate the solutions we offer, our engagement with, and service to our customers, so as to ensure that we continue to enhance stakeholder satisfaction. In this way FNBB will not only remain Botswana's first choice business banking partner, but also continue to, grow in terms of client base and market share.













# The state of the s

# WESBANK REPORT

- Summary of Key Points
  - We introduced new products to mitigate general slump in demand for both passenger and commercial vehicles
  - WesBank balance sheet grew by 12%
  - The WesBank Botswana International air show was once again the flagship event













**FOREWORD** 

WesBank is a division of First National Bank of Botswana Limited. WesBank's objective is to be the country's primary financier of vehicle and asset finance. Asset lines include passenger and commercial vehicles; plant and machinery; agricultural equipment; aircraft; generators; materials handling and earthmoving equipment; and leisure (boats and motorcycles).

WesBank partners with various motor dealers and suppliers to deliver vehicle and asset finance solutions. This partnership strategy is central to our operations and we work closely with our partners to offer customers tailor-made and affordable solutions for their vehicle and asset finance needs.

# **Our Footprint**

WesBank is represented in Gaborone, Francistown, Maun and Selebi Phikwe and operates nationally to finance a customer's choice of vehicle from our approved car dealerships as well as private to private purchases. The country-wide FNBB footprint assists the brand in delivering its value proposition. We offer a full range of financial solutions and assist in identifying suitable solutions for customers' unique circumstances. In addition, we offer numerous value-added benefits, including comprehensive insurance, shortfall cover, personal debt protection, extended warranties and maintenance plans. Our finance solutions range from an instalment sale to lease and rental solutions to meet special circumstances. Structured deals with no deposit and deals with residual values to accommodate the customer's cashflow circumstances are additional benefits we offer. Finance solutions are available for acquisition of both local and imported assets.

# **MARKET OVERVIEW**

The period under review saw a general slump in demand for both passenger and commercial vehicles. Passenger units sold through dealerships showed a year-on-year decline of 8%. The major impact was on new units which were down 15% compared to the same period in the previous year. Commercial vehicles and yellow equipment sales declined by 31% during the year, and the market in this segment was dominated by used units. The pressure from these segments negatively affected the performance of the business.

# **PERFORMANCE**

Given the existing economic pressures, businesses have generally slowed their appetite for capital expenditure, and increased pressure on cash flow impacted on impairments. Squeezed margins and increased impairments continue to be the major challenges for WesBank.

Despite these negative factors, WesBank's balance sheet grew by 12% year-on-year, with most of the growth coming from advances in the consumer segment which were up by 16% for the period. The growth in the consumer segment was mainly driven by the group scheme portfolio. The business segment experienced relatively slow growth at 6%.







# WESBANK REPORT [CONTINUED]

Our point of sale strategy
and strong relationships
with the various suppliers
and dealers continue to
give us a competitive edge
allowing us to offer onestop finance solutions to
the majority of our clients.

# Innovation trends

WesBank continues to offer the no deposit financing value proposition and the residual value option. Both provide the customer with a wider range of options that can be tailored to suit individual requirements. By engaging with customers we are able to provide finance through instalment sale agreements and lease agreements that factor in customers' unique personal preferences and tax requirements, offering the right solution for their needs. These include a reasonable balloon payment or residual values of the customers' choosing to match their agreement choice.

WesBank acknowledges every customer's unique individuality and rewards them for prudent financial management.

# The WesBank Botswana International Air Show

The WesBank Botswana International Air and Motor Show, which took place in May 2015, has been sponsored by WesBank Botswana for the past four years and is the brand's flagship event. Organised by the Matsieng Trust at Rasesa, north of Gaborone, the air show has earned a reputation as one of the biggest in Africa, attracting participants and spectators from Zimbabwe, South Africa, Namibia and beyond.

The aviation industry is integral to the growth of the tourism sector and plays a significant part in driving the national economy and social development. The event offers WesBank unique opportunities to cross-promote its asset finance solutions and to network with a variety of businesses. The air show also offers the opportunity to raise money for selected charitable organisations.

# LOOKING AHEAD

# Market outlook

Despite the decline in demand experienced over the last twelve months, and the continuing economic challenges, there are still opportunities that exists within the various sectors of the economy and in the medium term the market looks promising.

# Outlook for the WesBank brand

Enhancing efficiency in the business continues to be a major focus and the introduction of automated decision making in the consumer space and consequent improved turnaround times was a notable achievement during the year. WesBank will continue to focus on its partnerships, be these with the customers, the suppliers or the dealerships. Constant innovation, increased automation and greater efficiency will continue to propel the business to drive a profitable market share in the vehicle and asset finance space.

Our point of sale strategy and strong relationships with the various suppliers and dealers continue to give us a competitive edge allowing us to offer one-stop finance solutions to the majority of our clients. Our robust point of sale presence, a first in the market, is a unique offering for the brand and continues to provide us with a competitive edge. Self-help engagement channels across the FNBB electronic footprint give us a unique platform to engage our customers in all areas of the country.

























# **OVERVIEW I**

RMB Botswana is a division of FNB Botswana Limited and FirstRand Bank Limited, making it part of one of the largest financial services groups in Africa. The group has funded various infrastructure, resource finance, merger and acquisition and development projects in over 35 African countries over the past decade, making it one of the leading investment banking partners on the continent.

# First in investment banking

As the Corporate and Investment Banking division of FNB Botswana Limited, RMB Botswana provides a wide range of Government, Parastatal and corporate clients with a comprehensive suite of investment banking products and services through innovative advisory, capital markets, financing and principal investing solutions. We have advised on and financed numerous projects and developments in a variety of sectors, including mining and resources, retail, financial services, agriculture and real estate. As the investment banking arm of the group we are able to leverage on RMB's extensive footprint of representative offices and subsidiaries in Africa, the UK, India, China and the Middle East, including a network of retail banks in 25 African countries. We are able to provide an active risk participation desk which trades in African trade finance risk, and confirm trade finance risk for most jurisdictions.

# We nurture and celebrate inspired thinkers

We work with smart people from varied backgrounds who all make up our fundamental talent pool. We believe that by liberating people, we liberate ideas to the benefit of our business and our clients. RMB Botswana has access to an extensive team of investment banking talent and fixed income, currency and commodities experts who understand the broader African landscape.

Our knowledge of local financing requirements, legal and jurisdictional frameworks, together with the expertise and balance sheets of FirstRand Bank, enable us to service the needs of Botswana's rapidly expanding economy

# Traditional values and Innovative ideas

RMB Botswana is an African corporate and investment bank built on Traditional values and Innovative ideas – a philosophy we are determined to nurture. Our vision and primary business objective is to create sustainable value, unique solutions and superior economic returns for our clients and shareholders in Botswana, Africa and beyond.

# RMB BOTSWANA PRODUCTS AND SERVICES

RMB Botswana is a diversified financial services company which offers Botswana clients access to a comprehensive suite of investment banking products and services, including

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



# RMB BOTSWANA REPORT [CONTINUED]

## MARKET OVERVIEW

# Credit growth drops to record lows

The 2014 – 2015 financial year witnessed a general slowdown in economic growth leading to reduced credit demand across most sectors of the economy. Despite the lower interest rate environment, the prevailing tight liquidity conditions led to increased cost of funds, and credit growth during this period remained at record lows. Credit to businesses outstripped household credit growth for the first time since 2013 despite the low interest environment.

# Business confidence

Business confidence decreased from 52 percent in September 2014 to 44 percent in March 2015, and while confidence among domestic-oriented businesses was almost unchanged from 46 to 45 percent, there was a substantial and noteworthy decline in the current confidence levels of exportoriented businesses over the period from 88 to 43 percent. The low levels of business confidence signal genuine apprehension around short- and medium-term prospects, particularly for local exports, and reflect continued concerns about the strength of the global economy, weak domestic demand, skilled labour shortages and inadequate supply of the key inputs of electricity and water.

# The Year under Review

Despite the challenging market conditions, RMB Botswana recorded a number of important accomplishments during the year. New clients were taken aboard and a wider selection of advisory, capital markets, financing and principal investing solutions was made available to them, allowing a number of large and in some cases complex transactions to be concluded. These included structured financing for both Government and Parastatals in the key economic sectors of water, power and mining, sponsorships and initiatives for resource preservation. Private sector funding was provided to facilitate business

# RMB Botswana seeks to engage with its clients and to this end conducted tailor-made customer workshops and consultations throughout the country.

growth, expansion and diversification, as well as for major energy and infrastructure projects. Despite these successes, the division experienced margin compression as a result of the higher cost of funds arising from liquidity challenges, declining asset yields and reduced lending rates. Tighter provisioning requirements on assets were reflective of the deteriorating market conditions.

# Customer centric products

During the year under review RMB Botswana introduced a number of new products including Hyphen, Deposita, Receipt-It and Purchase Order Finance to meet changing customer needs. This broader offering saw us grow market share across most of our product range, with an increased focus on delivery of risk management solutions to clients throughout Botswana. Our payments and collection solutions as well as schemes and institutional solutions for employees of RMB clients speak to our national reach, RMB Botswana continues to facilitate access to international capital and funding for local companies expanding regionally, thereby supporting the growth of Botswana's economic diversification and increased international involvement.

# Customer engagement

RMB Botswana seeks to engage with its clients and to this end conducted tailor-made customer workshops and consultations throughout the country. Our commitment to our clients is reinforced by continued human capital investment, ensuring that we have the capacity to grow with our clients' needs. A new customer relationship management system to facilitate quicker turnaround times and improved interactions with clients, and an innovative custody system have contributed to our enhanced service capability.

## **RMB BOTSWANA FIRSTS**

First to market

- 1. Receipt It service continues to do well with good uptake and high utilisation. Receipt It is designed to provide real-time electronic notifications of all financial transactions posted to a client's nominated receipting
- 2. Deposita, a cash solutions service, offers a complete end-to-end, online cash management solution that ensures the safeguarding, collection and processing of cash notes within a client's business.
- Hyphen provides cash flow management solutions tailored to a client's business that improves operational efficiencies, eliminates duplicate processes and reduces costs.

RMB and RMB Botswana facilitated the listing of Choppies, Botswana's indigenous retail chain, on the JSE. RMB advised Choppies on the appropriate pre-listing preparation, providing the structure and marketing strategy to achieve an optimal outcome. In its role as JSE sponsor, RMB was responsible for all interactions with the JSE and for ensuring full regulatory compliance at the time of listing; and continues in this capacity on an on-going basis.

# Looking Ahead – Opportunities and Challenges

While the market outlook remains uncertain with water and electricity challenges expected to continue to negatively impact on economic activity and to stifle growth, RMB Botswana expects to take advantage of existing and future funding opportunities, particularly through partnering with Government on infrastructure projects.









The outlook is positive for RMB as we continue to innovate for our clients, focusing our efforts on growing in markets and sectors where we are underweight. We believe there is considerable scope to expand our interaction with clients through enhanced platforms and innovative, solutions - tailor-made to fulfil customer needs. Our expectation for the 2016 financial year is that we will realise opportunities to continue supporting clients' expansion plans as they grow their businesses locally, regionally and across Africa. Botswana is still seen as an attractive investment destination with a growing economy, and RMB Botswana is ideally positioned to be the preferred advisory, capital markets, financing and principal investing solutions provider.

Although liquidity constraints are expected to ease, we believe it prudent to remain cautious. Performance of the mining sector is expected to continue to be subdued, and this will impact on some of our lending and global markets undertakings. However, the current low interest rate environment presents us with an opportunity to increase customer lending activity and provide innovative investment solutions for institutional clients.

RMB Botswana will continue to pursue excellence and innovation in the year ahead by partnering with Government on national growth initiatives and by promoting employment through providing funding solutions to companies that create jobs and build capacity through various training initiatives for their employees. Our commitment to national development will be further advanced by our participation in appropriate community projects and we will continue to be first in bringing innovative advisory, financing and investing solutions to the Botswana market.

We at RMB Botswana are committed to promoting wealth creation for Batswana and facilitating access to capital for the nation's businesses. We will continue to excel by anticipating our clients' needs and by putting our clients first in everything we do.















## **PUTTING THE CUSTOMER FIRST**

Our commitment to customer service excellence at FNBB is guided by our strategy to be a customer centric bank. Our focus is firmly on our customers' wants and needs, and we strive to remain relevant to the lives of both our external and internal customers, and by so doing, keep our customers at the centre of all our activities.

A key part of our growth strategy emphasises the importance of FNBB differentiating itself from its competitors. Our tactic to achieve this differentiation involves deploying a linear and attainable approach; and the bank has identified strategic focus areas which encompass all our efforts to achieve unparalleled service delivery. Our brand proposition of 'How can we help you?' is central to our ambition to provide an excellently serviced customer experience in the most effective, innovative and efficient manner possible.

# Our approach

FNBB continually embraces the concepts of innovation and transformation of its products to meet its customer's needs. We are increasingly adopting and embedding customer centric process to gain competitive advantage and to ensure that FNBB continues to be first in service. Improving customer service is a strategic priority that is enshrined in ServCo, a service structure adopted in the 2013 - 2014 financial year to operationalise our vision of first in service provision. This structure is driven from the top and cascades through the organisation to fulfil our service transformation objectives. Since its inception, ServCo has enabled more effective and efficient decision making within the organisation enabling prompt resolution of any perceived service bottlenecks.

A number of practical steps on the journey to service excellence have been taken, and these are embodied in the following guiding principles:

- Define our target customers and their needs
- 2. Take a realistic look at our propositions (solutions, not products) and ask what is required to deliver customers' expectations and at a price they are prepared to pay; while still providing a satisfactory return for shareholders
- 3. *Involve* all stakeholders and build stronger partnership together
- **4. Generate** customer engagement across the customer life-cycle vital to building loyalty
- 5. Start to build a culture that puts the customer at the centre of all our activities and align objectives, targets, rewards and recognition with customer needs and expectations
- 6. Learn to be adaptive by using customer insights to test, learn and act quickly, accelerating the process by introducing and piloting prototype solutions
- 7. Focus on specific key levers and build momentum throughout the organisation

From a service innovation perspective, we continue to fast-track the introduction of state-of-the-art products and e-solutions to ensure that we continue to make access to banking services simpler and more convenient for our customers.



# **SERVICE REPORT** [CONTINUED]

## Our Culture is Our Ticket

We are aware that service-related values must be embedded in the organisation and an enabling environment that is conducive for the delivery of the FNBB brand promise must be nurtured. It is therefore imperative that we ensure that our employees have the necessary resources and working conditions to thrive and to be able to give of their best.

## Service First

We continuously assess our internal service culture as a way of empowering all our staff to be able to serve FNBB customers with the highest level of professionalism and urgency. Customer service is not only owned by front line personnel but also by the backroom staff behind the scenes. Everyone is accountable for service standards and the commitment to service excellence and exceptional customer satisfaction is rooted in the FNBB ethos and involves all employees.

This collective commitment to service excellence is what differentiates FNBB from its competitors. The brand promise is lived by all our employees, without exception. Service committees in all segments and service support groups throughout the organisation provide the channels to enable us to cascade service strategies from executive level to all staff. As a consequence of this inclusive approach, everyone is ultimately accountable for service standards.

# **Our National Service Footprint**

Our strategy of driving service from top to bottom means that the entire national service footprint of FNBB is imbued with the same service culture and commitment to excellence. This ensures that all stakeholders receive the highest level of attention, regardless of location or service channel.

# Uniquely for Botswana

The concept of Botho, of having a deep sense of another person's humanity, is integral to the culture of Botswana, and is the central pillar of our service ethos. Sometimes that all it takes to turn average service into excellent service is to engage with customers with empathy and due respect. By constantly asking all our stakeholders, including our employees, the question 'How can we help you?' and by focussing our response appropriately, we reaffirm our reputation, internally and externally, as the helpful bank that is geared to the needs of Batswana. We continuously monitor our service levels and the pertinence of our service strategy by endeavouring to understand our customers better and to offer them convenient access to the products that meet their needs, through innovative solutions, service channels and digital platforms.

# **Our Service Commitment**

Our service strategy will continue with the seven guiding principles; providing seamless end-to-end service to our customers into the future. We will place particular focus on integrating our service partners into our ecosystem; effecting relationship management and the creation of a dynamic service culture, for the ultimate benefit of our customers.

This seamless integration of the diverse service functions and roles not only assists the bank to realise the effectiveness of its customer centric strategy, but also reinforces the perception of external customers of FNBB as the preferred financial partner

The Bank will continue to strive for effective operationalisation of these functions in line with the strategic pillars, as it monitors and evaluates customer and stakeholder satisfaction levels through a variety of service audits and stakeholder satisfaction surveys.

























# **OVERVIEW**

The Human Resource department is responsible for leveraging business value for FNBB through its people. The division is accountable for 1200 permanent and pensionable employees and 60 government interns and is also mandated to look after employee wellbeing.

The Human Resource strategy for the financial year 2014 – 2015 focused on leadership development, talent management, HR practices and developing the Bank's corporate culture.

# **LEADERSHIP**

The Bank's training and development philosophy is "to improve the skills and abilities of an individual to undertake specified roles and promote learning and development for the greater benefit of self and business." In pursuance of this philosophy, during the month of November 2014, the Bank hosted a leadership conference which was attended by around two hundred managers. The conference examined a number of key issues including the Bank's values, vision and five year strategy.

In partnership with reputable institutions such as Stellenbosch University of South Africa, the Bank rolled out a number of leadership programmes. These programmes include the Senior Management Development Programme (SDP), the Middle Management Development Programme (MDP), and the New Managers' Development Programme (NMDP). In total, 20% of FNBB managers graduated from these leadership programmes during the financial year.

# **TALENT MANAGEMENT STRATEGY**

FNBB continues to recognise that its employees are the "primary sustainable source of competitive advantage in a modern service based economy." In line with this thinking, the Bank has identified 67 citizen employees with exceptional promise who have been recognised as top talent. All these employees, who constitute 8% of the FNBB staff complement, are high performers with the potential to succeed to senior positions in due course.

Many of the identified employees have scarce skills and hold important positions in the Bank, and already contribute significantly to the Bank's strategy implementation and bottom line results. As part of the employee retention strategy, they are included in the Bank's succession plan to ensure they are prepared to ascend to higher level positions when these become vacant. The employees in question are rewarded at a minimum of 75 percentile of the financial sector market rate in line with the Bank's reward policy.

# **CULTURE**

The corporate culture issues that were the focus of our attention during the period under review were performance management, staff engagement, values and ethics.

# Driving the right performance culture

We believe that maximising our human capital potential is an essential contributor to the Bank's improved overall business performance. There is therefore a concerted effort at FNBB to drive the correct performance culture. Strategic objectives are cascaded down to individuals and implementation is measured at Company and individual level. As an integral part of this process, rewards are linked to performance to induce and reinforce the right performance behaviour.



# **HUMAN RESOURCES REPORT** [CONTINUED]

# Re-energising our values

During the financial year the Bank also relaunched and refreshed its values. The re-launch was led by the Group CEO, and the renewed values were first shared with senior management and were subsequently cascaded down through the Bank to the entire staff.

These values shape our culture and align it to the Bank's vision. In order for them to come alive and become embedded in every member of the team, it is important for the leadership to create a common understanding of the values and how they can be lived out. As part of ensuring that these values become a part of FNBB's DNA over time, they are incorporated into all FNB people practices. This means that our values must be considered in all our actions; when recruiting employees, when considering who has 'exceptional talent', and when reviewing employee performance. The extent to which FNBB is living its values will also be reflected in the People Pillar Survey results.

# Measuring staff engagement

The Bank believes that applying these cultural practices together with other appropriate human resource management techniques will result in enhanced staff engagement. To measure the level of staff engagement, the Bank participated in a survey administered by the Group. The baseline engagement index for the year was 82%, a very positive score, and this confirms that the Bank's employee value proposition is aligned with employees' expectations.

The opportunities offered to the interns are invaluable steppingstones to actual career opportunities.

# **HR PRACTICES**

# Internship Programme

FNBB is committed to providing support for the government's strategy to promote national skills development and employment creation. Responding to the government's call for businesses to absorb unemployed university graduates and to help them enhance their future employability by offering them work experience, the Bank enrolled 57 interns from the National Internship Programme during the year.

The opportunities offered to the interns are invaluable stepping-stones to actual career opportunities. This is a win-win arrangement, as the Bank also benefits from having access to a pool of talent from which to continuously extract labour for substantive positions when need arises. Since 2010, the Bank has taken on 73 interns, of whom 33 have subsequently become full-time FNBB employees.



During the year, FNBB implemented a broadbanding exercise. Broadbanding is the practice of reducing the number of grades, or bands, in the salary structure, thereby increasing the differential between one grade and the next. Benefits of this approach include a reduction in internal employee rivalry and an increase in flexibility between the Bank's various segments and departments.

As part of this exercise, a new salary structure has been put in place, new salary ranges have been developed and employees' remuneration has been aligned to the new structure.

A comprehensive change management exercise was rolled out through the Bank as part of implementing the revised structure. This began with interactions with the Union and included detailed briefings of EXCO and management, followed by rollout to the entire staff. The focus of the change management exercise was on educating all relevant stakeholders on what broadbanding is, its objectives, and how it is likely to affect employees.



















# First

Bank in Botswana to establish a charitable Foundation

More than

**P45** m

contributed to the Foundation by the Bank

Up to

1%

of profit after tax contributed to the Foundation annually



# FNBB Timeline

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 ATM's across the country.



- FNBB collaborated with Botswana Post who were appointed by Botswana Power Corporation as one of the Super Vendors of pre-paid electricity. FNBB introduced card based virtual purchases to provide pre-paid electricity to all VISA and MasterCard credit and debit card holders irrespective of issuing bank.
- FNBB introduced \*174# Mobile Transact. With the \*174# Mobile Transact, one can purchase pre-paid electricity or make real-time payments to Multichoice, anytime, anywhere in comfort and convenience even when roaming. The \*174# Mobile Transact service is open to MasterCard and VISA cardholders irrespective of the issuing bank. The user must be a beMobile or Mascom subscriber.
- FNBB launched the FNB Smartphone
  Banking App that works on iOS Apple,
  BlackBerry10 as well as on Android
  Smartphones. The FNB App is a safe and
  secure banking application that allows
  customers to have direct and easy access
  to their FNB accounts.













# **OVERVIEW**

The FNBB Foundation is the body that administers the corporate social investment funds of First National Bank Botswana. The Foundation provides the Bank with the opportunity for greater involvement and cooperation with the community within which it operates.

The purpose of the Foundation is to promote education, arts, culture, sport, recreation and social welfare development in Botswana by identifying beneficiaries who are in need and are deserving of assistance.

In 2001, the FNBB Board established an independent Trust to administer the Bank's social responsibility programme. This resulted in the formation of the FNBB Foundation Trust Fund.

The Fund was established on the understanding that the bank would be committed to an annual contribution of up to one percent of its after tax profit.

The Foundation is administered by a team of three who are full time employees. The Fund Administrators report to a board of Trustees, which comprises directors of the Bank and independent members:

- Steven Bogatsu The Acting Chairperson and FNBB Chief Executive Officer
- Myra Sekgororoane Trustee
- Dorcas Kgosietsile Trustee
- Regina Vaka Trustee
- · Lesedinyana Odiseng Trustee

Trustees' meetings are convened quarterly. Requests for assistance are assessed by the Fund Administrators and recommendations submitted to the Board of Trustees. Projects are encouraged to seek funding from a range of donors and demonstrate that they are, or will be, self-sustaining. The Foundation generally considers funding of capital items such as buildings, vehicles and machinery, although under special circumstances, requests for operating expenses may also be considered.

The mandate of the Foundation is to assist projects that comply with set criteria which are assessed under clear guidelines. Any formally constituted non-government organisation (NGO) and any non-commercial organisation in Botswana which is registered as a non-profit making entity and is involved in improving the general welfare of needy communities in Botswana may apply for funding. The Foundation places particular emphasis on projects that align with the FNBB corporate social responsibility emphasis on social welfare:

- Education
- · Arts and Culture
- Sport and Recreation
- Environmental Sustainability
- Social and Welfare Development

The Foundation does not finance the purchase of luxury vehicles, conferences and seminars, foreign travel, political parties or religious interests. Projects must demonstrate that they have sound financial systems and controls in place to ensure proper accountability for funding provided. Grant approvals are dependent on grantee organisations complying with detailed financial reporting requirements throughout the duration of the project.

The Foundation also assesses proposed projects in terms of the extent to which they are properly researched and motivated. It is important that funded projects include an element of community self-help and are designed to be self-sustaining. Developmental impact should be the primary driver, and projects should demonstrate a measurable and sustainable future. It is also important that funded projects must have a solid alignment to the FNBB brand.

# FNBB FOUNDATION REPORT [CONTINUED]

To date the Foundation has donated funds to a wide variety of projects of different sizes throughout Botswana, with contributions ranging from P10 000 to almost P3 million per project. Total donations between 2001 and 2015 amount to P32 million.

# STAFF VOLUNTEER PROGRAMME

Staff volunteerism is a very effective feature of the Bank's community relations policy and is actively encouraged. The advantages of staff involvement community projects not only helps the community but provides employees with opportunities for personal and professional development. The FNBB Staff Volunteer Programme is an initiative that affords branches and divisions the opportunity to identify and support an initiative of their choice in their respective localities.

Proposed staff volunteer projects are assessed for sponsorship of up to a maximum of P50 000 per project. Ideally, the staff of the branch or division should have some involvement in the project beyond simply giving financial support. Proposals need to be recommended by the branch manager or segment head and are assessed according to the following criteria:

- Projects should involve a long-term commitment from staff.
- Projects should raise public awareness.
- There should be a lasting benefit to the local community.
- Projects should communicate and reinforce FNBB's commitment to the community and promote the FNBB brand values.
- Partner organisation should have a positive public image.

Individual divisions and branches are encouraged to support organisations which project a clean, healthy, dynamic image and which are within the sponsoring branch's geographical area. Initiatives should promote general community welfare with specific emphasis on the interests of children, the handicapped, the aged and the environment.

# 2014 - 2015 PROJECTS

| FNBB Foundation Projects          |   |            |
|-----------------------------------|---|------------|
| Project                           | Description   | Amount     |
| Somarela Thothi                   | Water conservation project in partnership<br>with Water Utilities Corporation and Deutsche<br>Gesellschaft für Internationale<br>Zusammenarbeit (GIZ) | P900 000   |
| Khama Rhino Sanctuary             | Game fencing and notching (tagging) of rhinos   | P593618    |
| FNBB Foundation winter shoe drive | Donation of 3,562 shoes to students in 14 schools around the country  | P460 000   |
| FirstPark                         | Refurbishment and maintenance of the park   | P2 969 000 |

| Staff Volunteer projects |   |         |
|--------------------------|---|---------|
| Branch / Division        | Description   | Amount  |
| Banking Operations       | Porta cabin and physiotherapy<br>equipment for Ntlhantlhe Clinic  | P50 000 |
| Finance                  | Donation of Rugby training equipment<br>to The University of Botswana and Botho<br>University Rugby teams | P50 000 |
| Ghanzi Branch            | Waste drums and community clean up  | P50 000 |
| Credit Department        | Community day with the children at<br>Childline   | P50 000 |
| Esolutions               | Refurbishment of the health post  | P60 000 |
| Merchants                | Ablution block and garden for school in Moshupa   | P50 000 |
| Palapye Branch           | Christmas party for Ratisa Primary<br>School students   | P6 000  |
| Mahalapye Branch         | Christmas party and toys for children in the Mahalapye Hospital   | P5 000  |
| Card division            | Sports equipment for Dikwididi<br>Primary School  | P50 000 |
| Consumer Segment         | WesBank Airshow outing for children<br>from Childline, SOS & Cheshire<br>Foundation                       | P33 982 |









# FNBB FOUNDATION WINTER SHOE DRIVE





The initiative was launched in June 2015 with Trustees of the FNBB Foundation, some FNBB EXCO members, a number of FNBers and the Assistant Minister of Local Government and Rural Development, Hon. Botlogile Tshireletso, walking barefoot from the Three Chiefs Monument to First Place Head Office. This was in support of our children who suffer the hardship of having to go to school barefoot



every day, particularly in winter. The launch was attended by head teachers from some of the schools as well as students from Camp Primary School. Following the launch, the Maun, Mahalapaye, Kanye, Ghanzi and Lobatse Branch Managers handed over the shoes to the students in the selected schools outside Gaborone.

# FNBB FOUNDATION REPORT [CONTINUED]

# SOMARELA THOTHI (FNBB FOUNDATION, **WUC AND GIZ WATER PROJECT)**

**FNBB Foundation partnered with Botswana Water Utilities Corporation** (WUC) and the Gesellschaft für Internationale Zusammenarbeit (GIZ) to deliver the Somarela Thothi Project. Somarela Thothi in Setswana means 'save a drop' and speaks to the pressing need for Botswana to conserve its water resources. Somarela Thothi is an innovative water loss reduction project aimed at increasing efficiency in water supply and water use as well as enhancing water security for Botswana.

A feasibility study conducted by GIZ indicated that there is a 33% water loss in the Greater Gaborone area and the Somarela Thothi Project aims to reduce water loss to a target of 22%. The project was launched in June 2015 at the Gaborone Yacht Club.

The main objective of the Somarela Thothi project is to implement technical and social water loss reduction interventions for the Greater Gaborone area, to be done through:

1. A community awareness campaign on water educational brochures.

practices and water conservation. This will be done through consumer monitoring, door to door consumer engagement and other information dissemination tools such as talks at schools and distribution of

2. Technical interventions such as bulk metering, sectorisation and pressure management. The project aims to achieve a targeted 3.1 mcm conservation during the first year.

The project will run for one year as a pilot and on the successful completion it will be rolled out across the country.











# FENCING OF KHAMA RHINO SANCTUARY AND NOTCHING (TAGGING) OF RHINOS



The FNBB Foundation donated P593 618 for the installation of an electric fence to enhance the security and protection of the animals, as well as for tagging (ear notching) the rhinos.

The Khama Rhino Sanctuary Trust is a community based wildlife project, established in 1992 to assist in saving the vanishing rhinoceros, restoring an area formerly teeming with wildlife to its previous natural state and providing economic benefits to the local Botswana community through tourism and the sustainable use of natural resources.

The sanctuary is on a picturesque 4,300 hectare piece of land near Serowe and provides prime habitat for white and black rhino as well as over 30 other animal species and more than 230 species of birds.

The Sanctuary offers the following:

- · accommodation (chalets and camping)
- game viewing
- environmental education
- restaurant & bar
- picnic site



# FNBB FOUNDATION REPORT [CONTINUED]

# STAFF VOLUNTEER PROJECTS

# GHANZI BRANCH: D'KAR CLEAN UP (D'KAR)

The FNBB Team in Ghanzi donated 36 branded waste collection drums to the community of Ghanzi town and D'Kar settlement. All the drums were erected on pole stands at selected points throughout the two localities. The FNB team further facilitated the mobilization of community members to pick up waste in Ghanzi and D'Kar settlement. Two wheelbarrows and cleaning equipment were donated to D'Kar Kgotla by FNB Ghanzi branch. The Ghanzi Council assisted the FNB team with selecting the best points to erect the refuse bins.

During the unveiling ceremony in D'Kar, the Hon. Minister of Agriculture, Christian de Graaff applauded FNBB for ensuring environmental sustainability in Ghanzi and D'Kar. The Minister joined the community members picking up waste in the area.



# **CREDIT DIVISION:**

### REFURBISHMENT OF CHILDINE PLAYGROUND

The FNB Credit team topped up the P50 000 allocation from the FNBB Foundation and installed artificial grass at the playground, provided a switchboard and two laptops for the call centre, and spent a day at the home. The team bathed the children, helped wash their clothes and had a fun-filled day with a jumping castle, a clown, face painting, games and food.

# **LETLHAKANE BRANCH:**CONSTRUCTION OF ABLUTION BLOCK AT SEASOLE PRIMARY SCHOOL







Letlhakane branch staff constructed a new ablution block at Seasole Primary School to replace the derelict block which had fallen into disuse.









# LIVING AND BUILDING AN ENDEARING LEGACY

### SOS CHILDRENS VILLAGE

The relationship between the FNBB Foundation and SOS Children's Villages International (SOS) began in 2004 with the donation of a vehicle, and this was followed in 2008 with new computers to equip the computer room at the Tlokweng centre and the construction of a family home in Serowe.

SOS is a non-profit making organisation which cares for orphaned and abandoned children between the ages of 1 and 22 years. SOS was registered in Botswana in 1984 and has Villages in Tlokweng, Francistown and Serowe. Currently SOS has 495 children staying in the three villages and 1,496 children who are part of the outreach family strengthening program. SOS has three Youth Houses accommodating 131 teenagers, including some who have graduated and are being tracked through an aftercare and research programme. Total donations through the Foundation to date amount to P1 040 000.

Mr Motshwari Kitso of SOS Children's Village recently spoke about the invaluable help that has been provided by the Foundation:

"Over the years the FNBB Foundation has assisted us with a variety of projects including funding a number of vehicles and the equipment to set up our computer centre at Tlokweng. At the Serowe SOS Village their donations provided a family home and a minibus.

In October 2014 we held our Annual Gala Dinner at the Gaborone International Convention Centre and the Foundation generously provided sponsorship and helped ensure that the event was a great success. The World Health Organisation's Assistant Director General for Family and Community Health, and former Botswana Cabinet Minister, Ms Joy Phumaphi, was the guest of honour at the Gala Dinner.

Our relationship with FNB is ongoing, not only through the consistent support we receive from the Foundation, but also the invaluable involvement of FNB employees through the Staff Volunteer Programme. This is particularly true in Serowe where the branch employees regularly give up their personal time to have contact with the children, organise community days and create opportunities for quality family time.

SOS Children's Villages are very grateful for the assistance we have received from FNB over the years."

# TSWAPONG NORTH SHOW HALL

In 2010, Business Banking, Selebi-Phikwe branch, Palapye branch, Public Sector, Private Banking and Islamic Finance pooled their staff volunteer project funds and partnered with Debswana to build a multi-purpose hall for the Tswapong North district. The Foundation took over the part-completed project as more funds were needed to complete it. The hall is for the use of the residents of Maunatlala, Seolwane, Lerala, Majwaneng, Ratholo, Lecheng, Moremi, Lesenepole, Kgagodi, Tamasane, Mogapinyana and Diloro. Total contributions towards the project amounted to P470 450.







# FNBB FOUNDATION REPORT [CONTINUED]

# LIVING AND BUILDING AN ENDEARING LEGACY [CONTINUED]

### CHILDLINE BOTSWANA

In 2008 the Foundation handed over a home to Childline Botswana worth P645 000 to be used as a place of safety for vulnerable children. Childline Botswana is a non-profit making non-governmental organisation that was established as a Trust in Botswana in 1990.

The organisation's primary objective is to alleviate the plight of children who have been abused, abandoned or neglected, by providing an emergency care and protection programme. The centre provides a safe home for children under the age of 5 who are in danger, telephone counselling through a toll free number 24 hours a day, face to face counselling for abused children and their families; and associated services.

According to Olebile Machete of Childline Botswana, the construction of a place of safety in 2008 was a major turning point for the organisation:

"The facility has enabled us to touch the lives of literally hundreds of children across the country, offering them protection and support at their time of greatest need. While some children may only need the shelter and protection provided by the place of safety for a few days, perhaps to escape domestic violence or other problems occurring in their own homes, others have remained here for up to two years until they are adopted. For these children the place of safety has been crucial, as the only alternative would have been hospitalisation.

The place of safety has been a refuge to children from all sectors of the community and different backgrounds, not only Batswana but also children from many countries in Africa and around the world.

The support from FNB continued through 2014 – 2015 with the refurbishment of the children's playground and a donation of much-needed laptops. The FNB staff volunteers had a community service day at the home, where they did manual work, entertained the children and prepared lunch. Thank you FNB!"



# BOTSWANA SOCIETY FOR THE DEAF

In 2007 the Foundation donated three classrooms and an ablution block worth P881 250 to the Botswana Society for the Deaf school in Ramotswa. The Botswana Society for the Deaf is a non-profit, non-governmental organisation whose efforts are aimed towards fulfilling the needs of people with a hearing impairment. The Society was established in 1979 and runs Botswana's two schools for the deaf in Ramotswa and Francistown. The school in Ramotswa is home to 120 students who are mostly boarders.











### CAMPHILL COMMUNITY TRUST

In 2002 FNBB Foundation donated a vehicle to the Camphill Community Trust and in 2006 built a multipurpose hall for the organisation. Donations to date amount to P1 790 054.

The Camphill Community Trust was established in 1974 to develop the Camphill School for children with disabilities. The Trust has grown

considerably over the years and is now a community of over 100 people working together to enrich the lives of people with disabilities. The community encompasses a residential school for 48 children with diverse disabilities, a youth centre offering a variety of training programmes as well as a life skills training centre which provides a secure working environment for adults with various disabilities.

The multipurpose hall constructed by the FNBB Foundation is used for school assemblies, movement and drama classes, Sunday chapel services, school play performances and the celebration of the various festivals that are held annually in Camphill. The hall enables the wider Otse community, the "Friends of Camphill" and the general public to participate in these various activities.



**eWallet** First from FNB

# First

Bank in Botswana to introduce eWallet

More than

P2.7 Billion

sent value recorded



FNBB Timeline

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.



- FNBB launched the ATM Advance with real-time cash deposit, a first of its kind in Botswana; and also a first among the FNB Group subsidiaries. FNBB's new ATM Advance with real time cash deposits is available 24/7, affording customers banking convenience.
- FNBB introduced South African Rand (ZAR) dispensing ATMs. The foreign currency withdrawal capability is available at selected FNB ATMs in Botswana.
- > FNBB is the largest bank by market capitalisation in the Botswana Stock Exchange at 8.8 billion as at July 2014.
- FNBB is voted the Most Innovative Bank in Botswana by the Global Banking & Finance Review 2014. Global Banking and Finance Review awards were created to honour companies of all sizes that stand out in particular areas of expertise within the banking and finance industry. The awards recognise innovative banking, investment strategies and achievements, as well as progressive and inspirational changes within the financial sector.





# **BOARD OF DIRECTORS**















### PETER DAVID STEVENSON Chairman of the FNBB Board

Peter Stevenson is a seasoned board chairman with extensive leadership, business and financial experience gained through his employment with the Barloworld Group in Botswana, Namibia, and Zambia. A Fellow of the Botswana Institute of Chartered Accountants and a chartered accountant by profession, he was appointed Chairman of the FNB Botswana Board of Directors in November 2011, having served as a Non-Executive Director since April 2008. Currently a management consultant. Peter is the former Group Managing Director of Barloworld Botswana 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 the Directors Affairs and Governance Committee . He also attends the Remuneration Committee in his capacity as Chairman of the **Board** 

### STEVEN LEFENTSE BOGATSU FNBB CEO and Executive Director

Steven is currently Chief Executive Officer of FNBB. He returned to FNB Botswana after two years as CEO of FNB Swaziland. Prior to that appointment he had held a number of senior leadership positions at FNBB, including Chief Financial Officer and Director of Product Houses, where he was responsible for Property Finance, WesBank, Credit Card, International Trade and Custody.

Before joining the FNB Group, Steven trained at Ernst & Young, worked for Kgalagadi Breweries as Group Internal Auditor, Management Accountant and Project Accountant, for Barclays Africa Finance as a Financial & Business Analyst and for Stanbic Bank Botswana as Chief Financial Officer. Alongside his banking career, Steven has held directorships in several boards including the Local Enterprise Authority, the Botswana Medical Aid Society and Med Rescue International.

Steven holds a Masters' of Science in strategic management from the University of Derby and is a Certified Chartered Accountant. He was appointed to the Board as an executive director in January 2015. He also attends Board subcommittee meetings with the exception of the Directors Affairs and Governance Committee. He is also the Chairman of the FNBB Foundation and a member of the Credit Committee.

### **DORCAS ANA KGOSIETSILE** Independent Non - Executive Director

Dorcas holds a Bachelor of Arts degree in Social Sciences with majors in accounting, economics and statistics, and a Master of Science in management. She started her professional career at the Auditor General's Office and joined the Botswana Development Corporation (BDC) soon thereafter. Over a period of 16 years at BDC she gained extensive business and entrepreneurship experience at managerial level. In 2005 Dorcas joined the diplomatic service, notably being appointed Botswana's first High Commissioner to India. She continues to play a pivotal role in charity and social

responsibility initiatives countrywide, which led to her being a recipient of the 2007 Indira Gandhi Priyadarshini Award in recognition of her positive impact as a woman leader. Dorcas rejoined the FNBB Board in November 2012 and is a member of the Board Audit Committee. She is currently a director on a number of boards which includes Choppies Enterprises Limited, Botho University, FSG Limited and is a Trustee of the FNBB Foundation.

## **DOREEN NCUBE**

# Independent Non - Executive Director Doreen has worked in the banking sector for

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

Doreen holds a BA in administration and accountancy from UBLS Botswana and an MSc in management from the Arthur D Little Management Education Institute in the USA. She has attended numerous international financial sector conferences. banking management seminars and courses on a variety of banking disciplines in Botswana, South Africa, Kenya, Zimbabwe, Switzerland, Zambia, Canada and the USA. She was appointed to the FNBB Board in July 2015. She formerly served on the Board of the Botswana Medical Aid Society (BOMaid) where she chaired the Board Finance Committee.

# JOHN KIENZLEY MACASKILL

# 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 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, a position he held until 2013. John serves on the boards of FNB's operations in Mozambique and Zambia. He is a graduate of the University of Pretoria and UNISA. John joined the FNBB Board on the 4th March 2014. He is the Chairman of the Board Audit Committee. He is also a member of the Board Risk and Compliance Committee and Directors Affairs and Governance Committee.











# MMASEKGOA MASIRE-MWAMBA Independent Non - Executive Director

Mmasekgoa was appointed to the Board of FNBB on the 12<sup>th</sup> March 2015. She recently completed her term as the Deputy Secretary General with the Commonwealth Secretariat based in London. She is a renowned international civil servant who has served Botswana in various management capacities in the technical, development and diplomatic fields

Mmasekgoa started her career with Botswana Telecommunications Corporation (BTC) as an Assistant Engineer and rose to Group Manager, positioning the corporation for a successful transition from a state owned monopoly to a privatised operator in a competitive and liberalised market. Almost 16 years after joining BTC, she emerged as one of the most influential female executives and continues to apply her skills and experiences in a range of economic and development fields.

Mmasekgoa previously served as CEO of the Botswana Export Development and Investment Authority (BEDIA), and has served on a number of boards and community service institutions in various fields including tourism, business, civil aviation and banking. She has also worked for the Commonwealth Telecommunications Organisation in London.

She holds a Bachelor of Law degree (LLB) and has been recognised in the legal field by the Honourable society of the Middle Temple which accorded her Honorary Bencher status in 2009. Most recently, she was awarded the

2015 International Distinguished Alumna Award by Pittsburgh University in recognition of her achievements in business leadership. Mmasekgoa also holds a BSc in electronics and physics from the University of London, Chelsea College, and an MBA from the University of Pittsburgh.

Mmasekgoa is currently the Chief Executive Officer of the Masire-Mwamba Office where she provides coaching, personal development and diplomacy services based on her broad international exposure and access.

# 7. MICHAEL WILLIAM WARD Independent Non - Executive Director

Mike is a graduate in hotel management and has over 30 years' experience of business in Botswana, mainly in the field of commercial security. He created one of Botswana's first home-grown public companies, Inco Holdings, which he served as CEO until an international group acquired a controlling interest in 2003 and the company became G4S Botswana, now one of Botswana's largest employers. Mike was appointed regional director responsible for developing businesses in many countries in Africa, initially 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 an FNBB Board member in August 2009. He is the Chairman of the Board Risk & Compliance Committee and a member of the Board Credit Committee

# 8. 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 completed an Executive Management Development Programme with GIBS Management College, South Africa and INSEAD. Jabu is currently CEO of FNB International 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). Jabu has been a member of the FNBB Board of Directors since September 2005.He is the chairman of the Remuneration Committee and a member of the Directors Affairs and Governance Committee.

# D. NELSON MOKGETHI Independent Non - Executive Director

Nelson was appointed to the Board of FNB Botswana on the 12th March 2015. He is currently the Director of Dikarabo Event Ventures where he generates infrastructure data reports for the African Development Bank and trains infrastructure data collectors from African countries' statistics offices under the African Infrastructure Knowledge Programme. After obtaining his first degree in Economics, Nelson worked his way through the Division of Economic Affairs, eventually rising to become its Deputy Secretary, In 1992, he was transferred to head the Division of Budget Administration, assuming the Permanent Secretary level position of Secretary for Budget Administration. Nelson continued as Head of the Division until he retired from the Public Service in 2004.

Nelson has held directorships in a number of organisations including the Botswana Accountancy College, Botswana Railways, Air Botswana, the Botswana Public Officers' Pension Fund, the Public Procurement and Asset Disposal Board, Bank of Baroda, the MVA Fund and CEDA. He is currently Chairman of the board of BPOMAS Property Holdings.

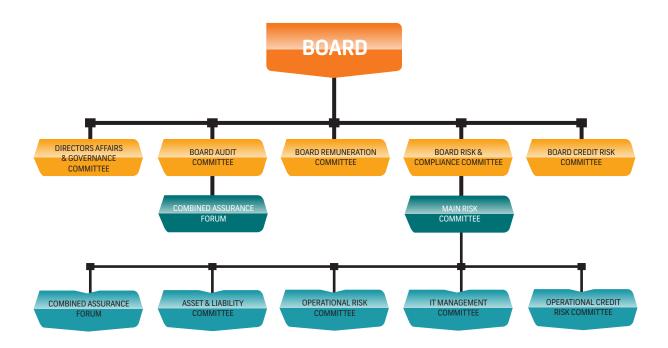
In 1976 Nelson obtained a Bachelor of Arts degree in economics from the University of Botswana and Swaziland and a Masters' Degree in development economics from Williams College in the USA in 1978.He is a member of the Board Audit Committee.

## 10. SIFELANITHAPELO

## Independent Non - Executive Director

Sifelani holds a Master of Laws degree from the University of Cambridge, with majors in corporate law and finance, and securities regulations. He has extensive litigation experience and is currently Senior Partner of his Francistown based law firm. He serves on a number of Boards which include Tati Company, Prime Time and Unchartered Safari Co Limited. Sifelani has been a member of the FNBB Board of Directors since November 2002. He currently chairs the Directors Affairs and Governance Committee and is a member of the Board Remuneration Committee. Sifelani is a member of the Cambridge Commonwealth Society, an alumnus of the International Development Law Organisation as well as a member of several other boards.

# **GOVERNANCE STRUCTURE**



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

# FUNCTIONS OF THE BOARD AND ITS SUB-COMMITTEES

**Board Sub-Committee Composition** 

## Board

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

## **Board Credit Committee**

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

P. D. Stevenson - Chairman (Independent Non - Executive Director)

M. Ward - Member (Independent Non - Executive Director)

S. L. Bogatsu - Member (Executive Director)

## **Board Audit Committee**

Fulfils 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.

J. K. Macaskill - Chairman (Non - Executive Director)

**D. A. Kgosietsile** - Member (Independent Non - Executive Director)

**D. N. Mokgethi** - Member (Independent Non - Executive Director)









### **Board Risk and Compliance Committee**

The core duties and responsibilities of the Board Risk and Compliance Committee are 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.

→ M. Ward - Chairman (Independent Non - Executive Director)

J. K. Macaskill - Member (Non - Executive Director)

P. D. Stevenson - Member (Independent Non - Executive Director)

### **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 practices pertaining to reward and remuneration.

→ J. R. Khethe - Chairman (Non - Executive Director)

S. Thapelo - Member (Independent Non - Executive Director)

P. D. Stevenson- Member (Independent Non - Executive Director)

### Director's Affairs and 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.

S. Thapelo - Chairman
(Independent Non - Executive Director)

J. R. Khethe - Member (Non - Executive Director)

P. D. Stevenson - Member (Independent Non - Executive Director)

J. K. Macaskill - Member (Non - Executive Director)

Independent vs Non Independent Ratio

Independent Non - Executive Directors
 Executive Directors



**Board Diversity** 

Males
 Females



# FNBB BOARD OF DIRECTORS ■

The FNBB Board is composed of both executive and non-executive Directors, with the majority being non executive directors who are independent. Independent non-executive directors are those directors who are not employed by the Bank or any of the companies in the FirstRand Group. The Board is therefore duly satisfied that Board composition is not in conflict with the Bank of Botswana Guidelines of appointments of New Directors and Senior Officials of Banks, and that it

ensures a balance and precludes any one director from exercising undue pressure on the decision making process.

Whilst the Board of Directors does not consist of a balance of both executive and non-executive directors as recommended by King III, the Chief Executive Officer (CEO) sits in the Board together with other non-executive directors from within the FirstRand Group of Companies. This composition is a function of the regulatory restrictions on related party representation.

The role of Board Chairman is held by an independent non-executive director and is therefore separate from that of the Chief Executive Officer.

# 2014-2015 Board Attendance

|  | August 2014  | November 2014 | January 2015 | April 2015 |
|--|--------------|---------------|--------------|------------|
| P. D. Stevenson ** - Chairman              | $\sqrt{}$    | $\sqrt{}$     | $\sqrt{}$    | $\sqrt{}$  |
| L. E. Boakgomo - Ntakhwana* - Outgoing CEO | $\checkmark$ | $\checkmark$  | -            | -          |
| S. L. Bogatsu* - Incoming CEO              | -            | -             | -            | √          |
| D. A. Kgosietsile**                        | $\checkmark$ | $\checkmark$  | $\sqrt{}$    | √          |
| J. R. Khethe***                            | $\sqrt{}$    | $\sqrt{}$     | $\sqrt{}$    | √          |
| S. Thapelo**                               | $\sqrt{}$    | $\checkmark$  | $\sqrt{}$    | √          |
| M. W. Ward**                               | $\sqrt{}$    | $\sqrt{}$     | $\sqrt{}$    | $\sqrt{}$  |
| D. H. Zandamela***                         | $\sqrt{}$    | $\sqrt{}$     | -            | -          |
| J. K. Macaskill**                          | $\sqrt{}$    | $\sqrt{}$     | $\sqrt{}$    | √          |
| M. Masire - Mwamba**                       | -            | -             | -            | √          |
| N. Mokgethi**                              | -            | -             | -            | √          |
| R. C. Wright****                           | $\checkmark$ | $\checkmark$  | $\checkmark$ | √          |

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

# **FNBB BOARD OF DIRECTORS** [CONTINUED]

Board member attendance has maintained positive ratings for the year, with attendance recorded at over 98% and in addition where the Board members were absent, they were represented by an alternate director.

### 2014-2015 Board Committee Attendance

|  | Board Audit | Board Risk &<br>Compliance | Board Credit | DAGC | REMCO |
|--|-------------|----------------------------|--------------|------|-------|
| P. D. Stevenson ** - Chairman            | 4/4         | 4/4                        | 15/15        | 5/5  | 3/3   |
| L. E. Boakgomo-Ntakhwana* - Outgoing CEO | 2/2         | 2/2                        | -            | -    | 1/1   |
| S. L. Bogatsu* - Incoming CEO            | 1/1         | 1/1                        | -            | -    | 1/1   |
| D. A. Kgosietsile**                      | 3/3         | -                          | -            | -    |       |
| J. R. Khethe***                          | =           | -                          | -            | 5/5  |       |
| S. Thapelo**                             | -           | -                          | -            | 5/5  | 3/3   |
| M. W. Ward**                             | 4/4         | 4/4                        | 15/15        | -    |       |
| D. H. Zandamela***                       | 1/1         | 1/1                        | -            | -    |       |
| J. K. Macaskill**                        | 4/4         | 4/4                        | -            | 4/5  | 3/3   |
| M. Masire-Mwamba**                       | -           | -                          | -            | -    |       |
| N. Mokgethi**                            | -           | -                          | -            | -    |       |
|  |             |                            |              |      |       |

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

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 Directors have discharged its functions and responsibilities relating to the business strategy, financial soundness and governance adequately.

The Bank continues to strive to improve the effectiveness and quality of its governance structures by reviewing its board committees composition.

A number of committees were reconstituted during the year. Two new directors Mr D. N Mokgethi and Mrs M. Masire-Mwamba were appointed to the Board during the financial year.

# **Board Skills and Experience**

The Board is comprised of a total of 10 Directors who are individuals of a high calibre 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 process is also being revamped with a more comprehensive programme.

# CORPORATE GOVERNANCE OBJECTIVES

The Bank's overarching corporate governance objective for the financial year ending 30 June 2015 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 Bank continues to focus on enhancing and aligning its policies, systems and processes to ensure sound corporate governance principles and ethical standards.

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 Banks.

# Terms of Reference

In line with King III the Bank reviews the terms of reference for all our committees and these are approved by the board. The terms of reference (charters) of the Board audit committee, the Board risk and compliance, remuneration committee, Directors Affairs and governance committee.









# **Board Evaluations**

The DAGC committee with the assistance of the company secretary is responsible for ensuring that the assessment of the performance and effectiveness of the Board, the committees and individual directors is done on an annual basis. The process is conducted annually. The outcomes

are discussed at a Board meeting and areas for improvement referred to the respective Board sub-committees to address. Overall, the Board and its committees' performance is satisfactory. The areas for improvement included Board succession planning and involvement in strategy.

# KING III INTEGRATED REPORT

# Progress on 2015 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<br>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, practises, 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<br>Audit Function  | The Board has ensured that a service level agreement is in place between Internal 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.   |
| Ensured an independent compliance function that manages its supervisory and regulatory risks                              | The Board has ensured the existence of a compliance function that continuously reports on the management of its risks. The portfolio is led by a head of Compliance 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 risks and policies 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 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.  |

## PROGRESS ON 2015 GOVERNANCE OBJECTIVES (CONTINUED)

| Objective   | Progress/Outcome   |
|---|--|
| 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 and timely, qualitative and quantitative information. During the half year and year end process, relevant and appropriate disclosures are made to the public. |
| Provide effective leadership based on an ethical foundation.            | The Board has ensured that the Bank adopts the group wide Code of Ethics. An effective whistle-blowing facility has been provided for employees to report theft, fraud, corruption and other serious offences. A toll-free line managed by an independent firm is in place and staff training has been conducted.  |

# **INTERNAL CONTROLS**

The Board confirms that the Bank has established and maintained an appropriate and effective internal control structure in order to monitor the Bank's continued compliance with internal policies and procedures.

The Bank's internal controls are based on established policies and procedures and are implemented by skilled individuals. Adherence to implemented controls is continuously monitored and there is appropriate involvement with Internal and external audit from an internal review perspective.

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

# **Internal Audit**

An independent Internal Audit function is in place within the Bank and assists executive management and the Board Audit Committee to improve the effectiveness of the Bank's risk management, control and governance processes. The internal audit function has adopted integrated risk based approach to planning incorporating combined assurance, leveraging management's assessment and external auditors' evaluation of the risk environment. This enabled a common view of risks that underpin the audit planning process. The audit planning process is flexible and will be 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 ("IA").

# Capital Adequacy and Capital Management

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. The strategy ensures the maintenance of adequate capital based on the risks inherent in the bank's balance sheet, including activities relating to risk mitigation.

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

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

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









# **Company Secretary**

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

# **Dispute Resolution**

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

A formal dispute resolution policy and process is also in place for disputes related to our 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 or Companies Act Requirements

We confirm that the Board has provided effective leadership based on an ethical foundation. The group-wide Ethics Code has been adopted and Ethics has been assigned to the Directors Affairs and Governance Board Committee (DAGC). The Board is expected to complete a directors' pledge on the Code of Ethics on an annual basis.

# CORPORATE GOVERNANCE ASSESSMENT - FINANCIAL YEAR ENDED 30 JUNE 2015

# Corporate Governance Objective

The Bank's overarching corporate governance objective is to ensure that an adequate and effective process of corporate governance, which is consistent with the nature, complexity and risk inherent in its on-balance sheet and off-balance sheet activities and that responds to changes in its environment and conditions, is established and maintained.

Having regard to the Bank Board's corporate governance objective, it is important to ensure compliance with all relevant legislation, including but not limited to, the Banking Act (Chapter 46:04), Companies Acts (Chapter 42:01), the regulations, the King III principles, Basel Committee guidelines on corporate governance principles for banks and any other best practice guidelines deemed appropriate for the effective functioning of the Bank.

The Group'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 Boards and 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

The following ratings should be used in the assessment:

# Rating Key

Yes (compliant)

No (not compliant)

 Partially (partly compliant – working towards compliance)

Not applicable N/A

# CORPORATE GOVERNANCE ASSESSMENT - FINANCIAL YEAR ENDED 30 JUNE 2015 [CONTINUED]

# CONCLUSIONS REACHED IN TERMS OF THE CORPORATE GOVERNANCE ASSESSMENT RATING

| 1.  | Corporate Governance Objectives   | Rating |
|-----|---|--------|
| 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 retain 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 and Directors and its subcommittees   | Rating |
|-----|--|--------|
| 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?   |        |
| 2.4 | The Directors' Affairs Committee   |        |
|     | 2.4.1 Has the Directors' Affairs Committee assisted the board of directors adequately and effectively by means of discharging its        |        |
|     | functions and responsibilities?  |        |
| 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?  |        |

 No (not compliant)
 Partially (partly compliant – working towards compliance)
 Not applicable N/A Yes (compliant) Rating Key:









| 2.  | Function | oning of the Board and Directors and its subcommittees [continued]   | Rating |
|-----|----------|--|--------|
| 2.6 |          | 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.  |        |
|     | 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).  |        |
|     | 2.6.3    | If yes, confirm whether the appointed credit committee consist of:   |        |
|     |          | Three non-executive directors. <b>Comment:</b> The Committee membership currently consists of 2 non-executive directors  |        |
|     |          | and 1 executive director. The Committee membership is to be reviewed once the Board increases its complement.  |        |
|     | 2.6.3.2  | Chief Executive Officer of the bank.   |        |
|     | 2,6,3,3  | Head of finance. <b>Comment:</b> Head of Finance not being member of the Committee considered acceptable as members of   |        |
|     |          | the Committee possess the required financial expertise.  |        |
|     | 2.6.3.4  | Head of risk or an equivalent function, such as the head of enterprise-wide-risk-management.   |        |
|     |          | Head of credit.  |        |
|     | 2.6.4    | Confirm whether decisions on large credit exposures made by the board-appointed committee were recorded in writing and   |        |
|     | 2.0.1    | tabled at the board meeting immediately following the meeting of the said committee, for the board's review and ratification.  |        |
|     |          | assist at the board modeling immediately relieffing the modeling of the said committee, for the board of threw and fathleadon.   |        |
| 3.  | Risk Ma  | anagement  | Rating |
| 3.1 |          | whether the bank has comprehensive and adequate risk-management processes, practices and procedures and board-approved   |        |
|     |          | in place in order to identify, measure, monitor, control, appropriately price, appropriately mitigate and appropriately communicate  |        |
|     |          | t on the following risks:  |        |
|     |          | 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 from 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   | ·  |        |
|     |          | Interest-rate risk   |        |
|     |          | Liquidity risk   |        |
|     |          | Market risk (position risk) in the trading book  |        |
|     |          |  |        |
|     | 3.1.14   | Operational risk. <b>Comment:</b> The rating is influenced by the overall risk maturity of the Bank being rated as "risk defined".  Focus in the coming year is to implement further risk management initiatives in the business to improve the risk rating to |        |
|     |          | "risk managed"   |        |
|     | 3.1.15   |  |        |
|     | 3.1.16   |  |        |
|     | 3.1.17   | Risks arising from or related to inappropriate compensation practices  |        |
|     | 3.1.18   |  |        |
|     | 3.1.19   |  |        |
|     | 3.1.20   |  |        |
|     | 3.1.21   |  |        |
|     |          | Strategic risk  Reputational risk  |        |
|     | 3.1.22   | reputational 115r  |        |

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

Rating Key:

# CORPORATE GOVERNANCE ASSESSMENT - FINANCIAL YEAR ENDED 30 JUNE 2015 [CONTINUED]

### CONCLUSIONS REACHED IN TERMS OF THE CORPORATE GOVERNANCE ASSESSMENT RATING

| 3.  | Risk Management Control of the Contr | Rating |
|-----|--|--------|
|     | 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.  |        |
|     |  |        |
| 4.  | Internal Controls  | Rating |
| 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.  |        |
| / 0 | 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   | Rating |
| 5.1 | Confirm whether the bank has established a formal service level agreement with the Group internal audit function.  | 8      |
| 0.1 | Committed and Dank that Cottabilished a formal solving level agreement with the Group internal dadic function.   |        |
| 6.  | Compliance Function Compliance Function  | Rating |
| 6.1 | Confirm whether the bank has established an independent compliance function.   |        |
| 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.   |        |
|     |  |        |

Rating Key: Yes (compliant) No (not compliant) Partially (partly compliant – working towards compliance)









| 6.  | Compli   | ance Function [continued]  | Rating |
|-----|----------|--|--------|
| 6.3 | Confirm  | whether the bank's board-approved policies and comprehensive risk management processes and procedures are sufficiently   |        |
|     | robust t | o 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 a | and adequate to ensure that the bank implemented and applied anti-money laundering and combating terrorist financing   |        |
|     | (AML/C   | T) measures consistent with the relevant Financial Action Task Force (FATF) recommendations issued from time to time and the                                       |        |
|     | higher c | of AML/CFT standards issued in the Republic of Botswana or other applicable durisdiction.  |        |
| 7.  | Capital  | Adequacy and Capital Management  | Rating |
| 7.1 | Confirm  | whether the bank has, as part of its process of corporate governance, a process that ensures the maintenance of capital  |        |
|     | manage   | ment, 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.  |        |
| 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.  |        |
|     | 7.2.2    | That, as a minimum, outlines the capital needs, anticipated capital expenditure and desired levels of capital.   |        |
| 7.3 | Confirm  | whether the bank has complied with the minimum prescribed capital adequacy requirements during the financial year under  |        |
|     | review.  |  |        |
| 8.  | Integra  | ted Reporting and Disclosure   | Rating |
| 8.1 | Confirm  | whether the bank has disclosed in its annual financial statements and other disclosures to the public, reliable, relevant and timely                               |        |
|     | qualitat | ve and quantitative information, in compliance with the minimum specified requirements.  |        |
| 9.  | KingIII  | or Companies Act requirements  | Rating |
| 9.1 | Ethics   |  |        |
|     | 9.1.1    | Confirm whether the Board provided effective leadership based on an ethical foundation, including  |        |
|     |          | 9.1.1.1 Adopted the Group-wide Code of Ethics.   |        |
|     |          | 9.1.1.2 Completed a director's pledge to the Code of Ethics on an annual basis.  |        |
|     | 9.1.1.3  | Formally assigned a director of the board to the Ethics and Corporate Citizenship Portfolio.   |        |
|     | 9.1.1.4  | Designated an Ethics Officer responsible for ethics management in the business.  |        |
|     | 9.1.1.5  | Constituted an ethics committee to oversee the ethics programme.   |        |
|     | 9.1.2    | Provide safe and effective whistle-blowing facilities for employees to report theft, fraud, corruption and serious human resource                                  |        |
|     |          | offences.  |        |
|     | 9.1.3    | A Code of Ethics and ethics-related policies are implemented via an institutional programme.   |        |
| 9.2 | Compa    | ny Secretary   |        |
| 3.2 |          | Confirm whether the board of directors appointed a Company Secretary which is appropriately skilled, resourced and empowered                                       |        |
| 5.2 | 9.2.1    |  |        |
| 3.2 | 9.2.1    | to fulfil his/her role.  |        |
| 9.3 |          |  |        |
|     |          | to fulfil his/her role.  |        |
|     | Disput   | to fulfil his/her role.  |        |
|     | Disput   | to fulfil his/her role.  • Resolution  Confirm whether a formal dispute resolution policy and process is in place for internal and external disputes to be adopted |        |

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

Rating Key:

# **ENTERPRISE RISK MANAGEMENT**

First National Bank of Botswana Limited 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.

# BOARD/EXECUTIVE COMMITTEES

RISK MANAGEMENT





# 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 & External 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 Governance
- Information Security Risk
- Information Technology Risk
- Legal Risk

- Regulatory Risk
- People Risk
- Reputational Risk
- · Outsourcing Risks
- Project Management Risk
- · Physical Security Risk
- Financial Risks

# 3) Credit Risk Committee (CRC):

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

# 4) IT Management Committee (ITC):

The IT Management Committee is responsible for effective information technology risk management and oversight.

# 5) Audit Risk Committee

Responsible for the review and assessment of internal controls and measures of the internal environment and systems of the Bank.



# First

Bank in Botswana to introduce ATM Advance



20

ATM Advance installed at different branches



# FNBB Timeline

- FNBB partnered with Multichoice Botswana to enable instant reconnection to DSty, when one pays through the various FNBB e-channels. This offers customers the benefit and convenience of paying for their DSty subscription anytime, anywhere and receiving instant reconnection.
- The FNBB \*174 Mobile Transact Innovation won a whooping R1 million at the 2014 Innovations Competition.



FNBB launched Nthula Lounge. FNB Private Clients can experience a place where chaos can't enter, where the journey matters as much as the destination and where a deep breath can last hours. Nthula Lounge offers a brief rejuvenating pause before one re-enters the real world. Nthula Lounge boasts the following: Luxurious seating with massage chairs; free access to Wi-Fi, printing and faxing facilities; access to DSTV channels on LED screens; seasonal, freshly prepared food; assorted soft drinks, juices, tea and freshly percolated coffee, house wine and beer; recreational and business books for reading pleasure; and private bathrooms.



# First National Bank of Botswana Limited **Audited Financial Statements** | **2015**

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| *************************************** |     |











# **VALUE ADDED STATEMENTS**

for the year ended 30 June 2015

|  | CONSO       | LIDATED                               | COM         | COMPANY                               |  |
|--|-------------|---------------------------------------|-------------|---------------------------------------|--|
|  | 30 June     | 30 June                               | 30 June     | 30 June                               |  |
|  | 2015        | 2014                                  | 2015        | 2014                                  |  |
|  | P'000       | P'000                                 | P'000       | P'000                                 |  |
| Value added  |             |                                       |             |                                       |  |
| Value added is the wealth the Group has been able to create by providing clients with a quality value added service. |             |                                       |             |                                       |  |
|  | 2,150,820   | 2,039,374                             | 2,119,423   | 2,014,748                             |  |
| Cost of services   | (1,358,269) | (1,197,203)                           | (1,342,307) | (1,191,153)                           |  |
| Value added banking services   | 792,551     | 842,171                               | 777,116     | 823,595                               |  |
|  | ·           | · · · · · · · · · · · · · · · · · · · | ,           | · · · · · · · · · · · · · · · · · · · |  |
| Non-operating and other income and expenditure   | 382,616     | 477,166                               | 375,631     | 469,965                               |  |
| Value added  | 1,175,167   | 1,319,337                             | 1,152,747   | 1,293,560                             |  |
| Value allocated  |             |                                       |             |                                       |  |
| To employees   |             |                                       |             |                                       |  |
| Salaries, wages and other benefits   | 373,012     | 354,398                               | 371,063     | 352,318                               |  |
| To man delays of comited   |             |                                       |             |                                       |  |
| To providers of capital  Dividends to shareholders   | 410,192     | 410,192                               | 410,192     | 410,192                               |  |
| Dividends to stidienoiders   | 410,192     | 410,192                               | 410,192     | 410,192                               |  |
| To Government  |             |                                       |             |                                       |  |
| Taxation   | 177,796     | 213,676                               | 173,092     | 209,467                               |  |
| To expansion and growth  |             |                                       |             |                                       |  |
| Retained income  | 181,291     | 309,469                               | 165,893     | 290,893                               |  |
| Depreciation   | 32,876      | 31,602                                | 32,507      | 30,690                                |  |
|  | 214,167     | 341,071                               | 198,400     | 321,583                               |  |
|  |             |                                       |             |                                       |  |
|  | 1,175,167   | 1,319,337                             | 1,152,747   | 1,293,560                             |  |
|  |             |                                       |             |                                       |  |
| Summary  |             |                                       |             |                                       |  |
| Employees  | 31.7        | 26.9                                  | 32.2        | 27.2                                  |  |
| Providers of capital   | 34.9        | 31.1                                  | 35.6        | 31.7                                  |  |
| Government Street in and street in   | 15.1        | 16.2                                  | 15.0        | 16.2                                  |  |
| Expansion and growth   | 18.2        | 25.8                                  | 17.2        | 24.9                                  |  |
|  | 100.0       | 100.0                                 | 100.0       | 100.0                                 |  |



# TEN-YEAR CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| STATEMENT OF FINANCIAL POSITION      | 30 June<br>2015<br>P'000 | 30 June<br>2014<br><b>P'000</b>         | 30 June<br>2013<br><b>P'000</b> |  |
|--------------------------------------|--------------------------|---|---------------------------------|--|
| ASSETS                               |                          |   |                                 |  |
| Cash and short term funds            | 4,371,324                | 2,721,384                               | 2,288,285                       |  |
| Derivative financial instruments     | 26,716                   | 24,922                                  | 10,138                          |  |
| Advances to banks                    | 640,000                  | 461,921                                 | 51,975                          |  |
| Advances to customers                | 12,846,481               | 12,131,415                              | 10,369,937                      |  |
| Investment securities                | 2,256,337                | 1,536,828                               | 2,290,494                       |  |
| Current taxation                     | 46,832                   | 12,895                                  | 2,117                           |  |
| Due from related companies           | 6,319                    | 6,272                                   | 6,138                           |  |
| Accounts receivable                  | 211,080                  | 196,112                                 | 251,474                         |  |
| Non-current assets held for sale     | _                        | -                                       | 7,101                           |  |
| Investment in associated company     | _                        | -                                       | -                               |  |
| Property and equipment               | 540,393                  | 520,694                                 | 502,086                         |  |
| Goodwill                             | 26,963                   | 26,963                                  | 26,963                          |  |
| Total assets                         | 20,972,445               | 17,639,406                              | 15,806,708                      |  |
| LIABILITIES                          |                          |   |                                 |  |
| Deposits from banks                  | 199,334                  | 12,157                                  | 53,903                          |  |
| Deposits from customers              | 17,233,721               | 14,328,142                              | 12,932,767                      |  |
| Accrued interest payable             | 88,895                   | 39,027                                  | 34,767                          |  |
| Derivative financial instruments     | 13,796                   | 18,079                                  | 16,964                          |  |
| Current taxation                     | 650                      | 3,870                                   | =                               |  |
| Due to related companies             | 11,673                   | 30,499                                  | 19,597                          |  |
| Creditors and accruals               | 360,109                  | 274,596                                 | 225,215                         |  |
| Employee liabilities                 | 61,949                   | 60,588                                  | 62,076                          |  |
| Borrowings                           | 395,376                  | 489,495                                 | 422,791                         |  |
| Deferred taxation                    | 160,956                  | 118,973                                 | 110,360                         |  |
| Total liabilities                    | 18,526,459               | 15,375,426                              | 13,878,440                      |  |
| EQUITY                               |                          |   |                                 |  |
| Stated capital                       | 51,088                   | 51,088                                  | 51,088                          |  |
| Reserves                             | 2,112,891                | 1,930,885                               | 1,620,810                       |  |
| Dividend reserve                     | 282,007                  | 282,007                                 | 256,370                         |  |
| Total ordinary equity holder's funds | 2,445,986                | 2,263,980                               | 1,928,268                       |  |
| North North Control                  |                          | , | ,                               |  |
| Total equity and liabilities         | 20,972,445               | 17,639,406                              | 15,806,708                      |  |









| 30 June<br>2012<br><b>P'000</b> | 30 June<br>2011<br><b>P'000</b> | 30 June<br>2010<br><b>P'000</b> | 30 June<br>2009<br><b>P'000</b> | 30 June<br>2008<br><b>P'000</b> | 30 June<br>2007<br><b>P'000</b> | 30 June<br>2006<br><b>P'000</b> |
|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|                                 |                                 |                                 |                                 |                                 |                                 |                                 |
| 2,557,842                       | 1,706,573                       | 1,201,491                       | 1.185.914                       | 1,796,013                       | 904,941                         | 570,245                         |
| 7,861                           | 2,996                           | 758                             | 22,611                          | 59,514                          | 18,476                          | _                               |
| =                               | 361,178                         | =                               | =                               | =                               | =                               | -                               |
| 8,420,553                       | 7,170,842                       | 5,803,009                       | 4,643,241                       | 3,969,496                       | 3,073,209                       | 2,716,404                       |
| 2,699,551                       | 3,496,862                       | 4,946,059                       | 6,085,772                       | 5,363,202                       | 4,060,061                       | 3,760,394                       |
|                                 | 4,622                           | 1,041                           | -                               | =                               | =                               | -                               |
| 7,839                           | 13,133                          | 5,075                           | 3,956                           | 2,029                           | 1,151                           | -                               |
| 170,800                         | 170,502                         | 57,719                          | 363,392                         | 181,911                         | 197,447                         | 96,171                          |
| 5,511                           | -                               | -                               | _                               | -                               | -                               | -                               |
| -                               | 3,058                           | 3,151                           | 2,037                           | 2,297                           | 2,421                           | 2,499                           |
| 317,559                         | 202,200                         | 187,306                         | 115,601                         | 80,737                          | 63,184                          | 39,354                          |
| 26,963                          | 26,963                          | 26,963                          | 26,963                          | 26,963                          | 26,963                          | 26,963                          |
| 14,214,479                      | 13,158,929                      | 12,232,572                      | 12,449,487                      | 11,482,162                      | 8,353,070                       | 7,212,030                       |
|                                 |                                 |                                 |                                 |                                 |                                 |                                 |
|                                 |                                 |                                 |                                 |                                 |                                 |                                 |
| 172,510                         | 215,186                         | 4,000                           | 13,851                          | 142,310                         | 125,463                         | 142,299                         |
| 11, 443,241                     | 10,597,398                      | 10,304,632                      | 10,552,699                      | 9,763,624                       | 6,744,640                       | 5,881,827                       |
| 45,179                          | 36,696                          | 45,661                          | 70,142                          | 86,594                          | 85,100                          | 60,902                          |
| 32,912                          | 18,794                          | 559                             | 21,388                          | 59,514                          | 18,476                          | -                               |
| 461                             | -                               | -                               | 7,494                           | 5,173                           | 308                             | 138                             |
| 57,883                          | 140,031                         | 50,209                          | 175,827                         | 97,587                          | 213,482                         | 48,834                          |
| 275,972                         | 254,432                         | 336,647                         | 166,538                         | 91,514                          | 57,517                          | 60,268                          |
| 52,252                          | 42,646                          | 23,830                          | 24,741                          | 43,267                          | 34,776                          | 34,532                          |
| 519,047                         | 607,230                         | 207,827                         | 416,612                         | 424,694                         | 430,907                         | 438,851                         |
| 82,296                          | 98,350                          | 100,648                         | 79,071                          | 43,267                          | 34,776                          | 33,507                          |
| 12,681,753                      | 12,010,763                      | 11,074,013                      | 11,528,363                      | 10,757,544                      | 7,745,445                       | 6,701,158                       |
|                                 |                                 |                                 |                                 |                                 |                                 |                                 |
| E1.000                          | F1 000                          | E1 000                          | F1.000                          | E1 000                          | E1 000                          | E1 000                          |
| 51,088                          | 51,088                          | 51,088                          | 51,088                          | 51,088                          | 51,088                          | 51,088                          |
| 1,276,542                       | 1,045,804                       | 979,286                         | 754,669                         | 583,800                         | 400,151                         | 331,599                         |
| 205,096                         | 51,274                          | 128,185                         | 115,367                         | 89,730                          | 156,386                         | 128,185                         |
| 1,532,726                       | 1,148,166                       | 1,158,559                       | 921,124                         | 724,618                         | 607,625                         | 510,872                         |
| 14,214,479                      | 13,158,929                      | 12,232,572                      | 12,449,487                      | 11,482,162                      | 8,353,070                       | 7,212,030                       |
| 17,017,713                      | 10,100,020                      | 12,202,072                      | 12,110,101                      | 11,100,100                      | 0,000,010                       | 7,212,000                       |



# TEN-YEAR CONSOLIDATED INCOME STATEMENTS

| INCOME STATEMENT                                  | 30 June<br>2015<br>P'000 | 30 June<br>2014<br><b>P'000</b> | 30 June<br>2013<br><b>P'000</b> |  |
|---|--------------------------|---------------------------------|---------------------------------|--|
| Interest and similar income                       | 1,288,434                | 1,244,817                       | 1,210,031                       |  |
| Interest expense and similar charges              | (415,32)                 | (290,200)                       | (312,629)                       |  |
| Net interest income before impairment of advances | 873,113                  | 954,617                         | 897,402                         |  |
| Impairments losses on loans and advances          | (201,068)                | (122,510)                       | (120,673)                       |  |
| Net interest income after impairment of advances  | 672,045                  | 832,107                         | 776,729                         |  |
| Non interest income                               | 862,386                  | 794,557                         | 743,042                         |  |
| Income from operations                            | 1,534,431                | 1,626,664                       | 1,519,771                       |  |
| Operating expenses                                | (777,928)                | (704,425)                       | (614,373)                       |  |
| Income before taxation                            | 756,503                  | 922,239                         | 905,398                         |  |
| Taxation  | (165,020)                | (202,578)                       | (204,446)                       |  |
| Income after taxation                             | 591,483                  | 719,661                         | 700,952                         |  |
| Dividends paid and proposed                       | (410,192)                | (384,555)                       | (333,281)                       |  |
| Retained income for the year                      | 181,291                  | 335,106                         | 367,671                         |  |









| 30 June<br>2012<br><b>P'000</b> | 30 June<br>2011<br>P'000 | 30 June<br>2010<br><b>P'000</b> | 30 June<br>2009<br><b>P'000</b> | 30 June<br>2008<br><b>P'000</b> | 30 June<br>2007<br><b>P'000</b> | 30 June<br>2006<br><b>P'000</b> |
|---------------------------------|--------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| 1,111,862                       | 1,094,078                | 1,062,618                       | 1,296,474                       | 1,168,337                       | 1,005,074                       | 583,923                         |
| (342,799)                       | (432,327)                | (518,978)                       | (773,578)                       | (768,085)                       | (657,297)                       | (295,654)                       |
| 769,063                         | 661,751                  | 543,640                         | 522,896                         | 400,252                         | 347,777                         | 288,269                         |
| (132,714)                       | (59,211)                 | (43,420)                        | (40,752)                        | (20,804)                        | (22,012)                        | (19,393)                        |
| 636,349                         | 602,540                  | 500,220                         | 482,144                         | 379,448                         | 325,765                         | 268,876                         |
| 629,108                         | 505,793                  | 410,610                         | 371,196                         | 348,980                         | 244,931                         | 197,471                         |
| 1,265,457                       | 1,108,333                | 910,830                         | 853,340                         | 728,428                         | 570,696                         | 466,347                         |
| (535,496)                       | (470,596)                | (378,858)                       | (324,860)                       | (279,148)                       | (205,052)                       | (167,184)                       |
| 729,961                         | 637,737                  | 531,972                         | 528,480                         | 449,280                         | 365,644                         | 299,163                         |
| (161,168)                       | (63,897)                 | (95,922)                        | (121,760)                       | (75,253)                        | (55,797)                        | (45,920)                        |
| 568,793                         | 573,840                  | 436,050                         | 406,720                         | 374,027                         | 309,847                         | 253,243                         |
| (179,459)                       | (589,651)                | (230,734)                       | (230,734)                       | (205,097)                       | (252,525)                       | (192,278)                       |
| 389,334                         | (15,812)                 | 205,316                         | 175,986                         | 168,930                         | 57,322                          | 60,965                          |



# **DIRECTORS' RESPONSIBILITY STATEMENT**

for the year ended 30 June 2015

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 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 107.

After making enquiries the Directors have no reason to believe that the Group and the Company will not be a going concern in the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the 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 financial statements and supplementary statements presented on pages 111 to 191, which were approved on 12 August 2015 and are signed on their behalf by:

P. D. STEVENSON

Chairman

S. L. BOGATSU

Chief Executive Officer

J. K. MACASKILL

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 2015, 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 111 to 191.

#### 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 2015, 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

Delsite Tonll

Without qualifying our opinion, we draw attention to the fact that the supplementary information as set out on pages 101 to 105 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** 

Certified Auditors

Practicing Member: C Ramatlapeng (20020075)

Gaborone 12 August 2015



# REPORT OF THE AUDIT COMMITTEE

for the year ended 30 June 2015

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 and Company's published financial statements present a fair reflection of this position.

It also ensures that appropriate accounting policies, control and compliance procedures are in place.

The objectives of the committee are:

- 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 financial statements and affairs of the Group and Company.

The committee has met its objectives and has found no material weaknesses in controls. The committee is satisfied that the 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).

J. K. MACASKILL

Chairman

12 August 2015 Gaborone









# **DIRECTORS' REPORT**

for the year ended 30 June 2015

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 financial statements of the Company and its subsidiaries (the Group) for the year ended 30 June 2015.

The 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 and those of its subsidiaries. The Directors are also responsible for the design, implementation, maintenance and monitoring of these systems of internal financial control. Nothing has come to the attention of the Directors to indicate that any significant breakdown in the functioning of these systems has occurred during the year under review.

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

#### Nature of business

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

#### **Trading results**

The consolidated income after tax attributable to ordinary shareholders of P591 million (2014: P720 million) decreased by 18% compared to the results for the year ended 30 June 2014. 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, International Trade, and Rand Merchant Bank.

#### Stated capital

The Company's stated capital consists of 2,563,700,000 (2014: 2,563,700,000) ordinary shares, of which First National Bank Holdings (Botswana) Limited holds 1,780,590,000 (2014: 1,780,590,000) shares (69.45%) (2014: 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 338,270 (2014: 119,649), which represents approximately 0.013% (2014: 0.0046%) of the stated capital of the Company.



# **DIRECTORS' REPORT**

for the year ended 30 June 2015 [continued]

#### **Dividends**

An interim dividend of 5.00 thebe per share (2014: 5.00 thebe) for the year ended 30 June 2015 has been paid to holders of ordinary shares. The Directors propose a final dividend of 11.00 thebe per share (2014: 11.00 thebe).

#### Directorate

The composition of the Board as at 30 June 2015 was as follows:

P. D. Stevenson Chairman (Motswana)

S. L. Bogatsu Chief Executive Officer (Motswana) (Appointed on 1st January 2015)
L. E. Boakgomo-Ntakhwana Chief Executive Officer (Motswana) (Resigned on 1st January 2015)
L. J. Haynes Non-Executive Director (South African) (Alternate to J.R. Khethe)

D. A. Kgosietsile Independent Non-Executive Director (Motswana)

J. R. Khethe Non-Executive Director (South African)

J. K. Macaskill Independent Non-Executive Director (South African)

M. Masire Independent Non-Executive Director (Motswana) (Appointed on 13th March 2015)

N. D. Mokgethi Independent Non-Executive Director (Motswana) (Appointed on 13th March 2015)

S. Thapelo Independent Non-Executive Director (*Motswana*)
M. W. Ward Independent Non-Executive Director (*British*)

Auditors

R. C. Wright Chief Risk Officer (South African) (Alternate to S.L. Bogatsu)

**Deloitte & Touche** 

D. H. Zandamela Non-Executive Director (South African) (Resigned on 5th November 2014)

#### Transfer Secretaries

## PricewaterhouseCoopers

Plot 50371 Deloitte & Touche House

Fairgrounds Plot 64518 PO Box 294, Gaborone Fairgrounds

PO Box 778, Gaborone









for the year ended 30 June 2015

#### 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 and company financial statements.

In the current year the Group has applied a number of new and revised International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods beginning on or after 1 July 2014. 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 and Company's financial statements have been prepared in accordance with IFRS. A number of new or amended IFRS statements have been applied for the first time for the year ended 30 June 2015. The table below sets out the details of the new or amended standards and the impact of the standard on the financial statements. It should be noted that none of the new or amended standards resulted in restatements in the current year.

| Standard/Interpretation   | Description   | Impact on financial statements  |
|---|---|---|
| IFRS 10 Consolidated Financial Statements<br>(IFRS 10), IFRS 12 Disclosure of Interests in<br>other Entities (IFRS 12) and IAS 27 Separate<br>Financial Statements (IAS 27) | These standards have been amended to include an exemption to the consolidation requirement for entities that meet the definition of an investment entity in terms of IFRS 10. | These amendments have no impact on the group since neither the group itself nor any of the entities in the group meets the definition of an investment entity in terms of IFRS 10.  |
| IAS 19 Employee Benefits (IAS 19)   | Clarification of the requirements relating to how contributions from employees or third parties that are linked to service should be attributed to periods of service.        | The amendments did not have an impact on the Group  |
| IAS 32 Financial Instruments: Presentation (IAS 32)   | The amendments clarify the existing requirements relating to the offsetting of financial assets and financial liabilities.  | The Group's interpretation of the offsetting requirements has always been in line with the clarified requirements and the adoption of the amended standard did not have an impact on the amount of offsetting applied in the consolidated financial statements. The accounting policies have however been updated to include the details of the clarified requirements. |
| IAS 36 Impairment of Assets (IAS 36)  | The amendment removes the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36.   | The amendments do not impact the amounts reported in the Group's consolidated financial statements, but additional disclosures will be provided when applicable in terms of the new disclosure requirements.  |
| IAS 39 Financial instruments: Recognition and Measurement (IAS39)   | The standard has been amended to provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.  | These amendments have no impact on the Group as the Group has not novated any derivatives used as hedging instruments during the current or prior periods.  |
| IFRIC 21 Levies (IFRIC 21)  | This is a new interpretation that provides guidance on when to recognise a liability for a levy imposed by a government.  | This interpretation has no impact on the Group's consolidated financial statements as it has applied the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets which are consistent with the requirements of IFRIC 21 in prior years.   |



for the year ended 30 June 2015 [continued]

#### 3 CONSOLIDATION

#### 3.1 Basis of consolidation [continued]

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 income statement

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;and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Noncurrent 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









for the year ended 30 June 2015 [continued]

#### 3 CONSOLIDATION [continued]

#### 3.3 Business combinations [continued]

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-bytransaction 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 recognised 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.

## 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; and
- $\bullet \hspace{0.4cm}$  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.

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.



for the year ended 30 June 2015 [continued]

#### 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 force.
- 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 nonmonetary 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.









for the year ended 30 June 2015 [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 nonoccurrence 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 postretirement 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.



for the year ended 30 June 2015 [continued]

#### 14 FINANCIAL INSTRUMENTS [continued]

### 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 shortterm 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.

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 guoted 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.









for the year ended 30 June 2015 [continued]

#### 14 FINANCIAL INSTRUMENTS [continued]

# 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 In this case:



for the year ended 30 June 2015 [continued]

## 14 FINANCIAL INSTRUMENTS [continued] De-recognition [continued]

- 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

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

- 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;
- 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.









for the year ended 30 June 2015 [continued]

# 14 FINANCIAL INSTRUMENTS [continued] Impairment of financial assets [continued]

#### Assets carried at amortised cost [continued]

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 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. Renegotiated 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.

#### 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.



for the year ended 30 June 2015 [continued]

# 14 FINANCIAL INSTRUMENTS [continued] Available-for-sale financial assets [continued]

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-forsale 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:

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.









for the year ended 30 June 2015 [continued]

#### 16 PROPERTY AND EQUIPMENT [continued]

| Leasehold buildings and improvements Freehold buildings: | Shorter of estimated life or period of lease |
|--|--|
| - 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                                  |

#### 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.

## A Group company is the lesser

#### 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



for the year ended 30 June 2015 [continued]

# **18 INTANGIBLE ASSETS** [continued] **Goodwill** [continued]

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 INCOMETAX

#### 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 remeasurement 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 Retirement Funds Act 2014 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.









for the year ended 30 June 2015 [continued]

#### 21 STATED CAPITAL [continued]

#### 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 remeasured at the end of each reporting period and the settlement date, with changes recognised in equity as an adjustment to the distribution. The difference between the carrying amount of the assets distributed and the fair value of the assets on the date of settlement is recognised in profit or loss for the period.

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

#### Treasury shares

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

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

#### 22 SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which the Group may earn revenues and incur expenses. An operating segment is also a component of the Group whose operating results are regularly reviewed by the chief operating decision maker allocating resources, assessing its performance and for which distinct financial information is available. The Chief Executive Officer of the Group has been identified as the Group's operating decision maker. The Group's identification and measurement of

operating segments is consistent with the internal reporting provided to the Chief Executive Officer.

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

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

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

## 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.



for the year ended 30 June 2015 [continued]

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

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 noncurrent 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 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 43 to the annual financial statements.









# **INCOME STATEMENTS**

for the year ended 30 June 2015

|  |       | CONSOL    | LIDATED   | COMI      | PANY      |
|--|-------|-----------|-----------|-----------|-----------|
|  |       | 30 June   | 30 June   | 30 June   | 30 June   |
|  | Notes | 2015      | 2014      | 2015      | 2014      |
|  |       | P'000     | P'000     | P'000     | P'000     |
|  |       |           |           |           |           |
| Interest and similar income                              | 2     | 1,288,434 | 1,244,817 | 1,288,434 | 1,244,817 |
| Interest expense and similar charges                     | 3     | (415,321) | (290,200) | (413,135) | (289,025) |
| Net interest income before impairment of advances        |       | 873,113   | 954,617   | 875,299   | 955,792   |
| Impairment of advances                                   | 13    | (201,068) | (122,510) | (201,068) | (122,510) |
| Net interest income after impairment of advances         |       | 672,045   | 832,107   | 674,231   | 833,282   |
| Non-interest income                                      | 4     | 862,386   | 794,557   | 830,989   | 769,931   |
| Income from operations                                   |       | 1,534,431 | 1,626,664 | 1,505,220 | 1,603,213 |
| Operating expenses                                       | 5     | (396,965) | (342,988) | (389,805) | (344,402) |
| Employee benefits  | 6     | (368,187) | (350,339) | (366,238) | (348,259) |
| Income before taxation                                   |       | 769,279   | 933,337   | 749,177   | 910,552   |
| Indirect taxation  | 7     | (12,776)  | (11,098)  | (12,739)  | (11,043)  |
| Profit before direct taxation                            |       | 756,503   | 922,239   | 736,438   | 899,509   |
| Direct taxation  | 7     | (165,020) | (202,578) | (160,353) | (198,424) |
| Profit for the year attributable to owners of the parent |       | 591,483   | 719,661   | 576,085   | 701,085   |
|  |       |           |           |           |           |
| Basic earnings per share (thebe)                         | 8     | 23.25     | 28.29     |           |           |
| Diluted earnings per share (thebe)                       | 8     | 23.25     | 28.28     |           |           |



# STATEMENTS OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2015

|  | CONSOL  | IDATED  | COMPANY |         |  |
|--|---------|---------|---------|---------|--|
|  | 30 June | 30 June | 30 June | 30 June |  |
|  | 2015    | 2014    | 2015    | 2014    |  |
|  | P'000   | P'000   | P'000   | P'000   |  |
|  |         |         |         |         |  |
| Profit for the year  | 591,483 | 719,661 | 576,085 | 701,085 |  |
|  |         |         |         |         |  |
| Other comprehensive income   |         |         |         |         |  |
| Items that may not subsequently be reclassified to profit or loss            | -       | -       | -       | -       |  |
| Items that may be subsequently be reclassified to profit or loss             | -       | -       | -       | -       |  |
| Total comprehensive income for the year attributable to owners of the parent | 591,483 | 719,661 | 576,085 | 701,085 |  |









# STATEMENTS OF FINANCIAL POSITION

as at 30 June 2015

|  |       | CONSOL     | IDATED     | COM        | PANY       |
|--|-------|------------|------------|------------|------------|
|  |       | 30 June    | 30 June    | 30 June    | 30 June    |
|  | Notes | 2015       | 2014       | 2015       | 2014       |
|  |       | P'000      | P'000      | P'000      | P'000      |
| ASSETS   |       |            |            |            |            |
| Cash and short term funds                                    | 10    | 4,371,324  | 2,721,384  | 4,371,324  | 2,721,384  |
| Derivative financial instruments                             | 11    | 26,716     | 24,922     | 26,716     | 24,922     |
| Advances to banks  |       | 640,000    | 461,921    | 640,000    | 461,921    |
| Advances to customers  | 12    | 12,846,481 | 12,131,415 | 12,853,481 | 12,138,415 |
| Investment securities  | 14    | 2,256,337  | 1,536,828  | 2,256,337  | 1,536,828  |
| Current taxation   | 31    | 46,832     | 12,895     | 46,832     | 12,895     |
| Due from related parties                                     | 15    | 6,319      | 6,272      | 6,319      | 6,272      |
| Accounts receivable  | 16    | 211,080    | 196,112    | 208,822    | 191,598    |
| Investment in subsidiary companies                           | 17    | -          | -          | 13,540     | 13,540     |
| Property and equipment                                       | 18    | 540,393    | 520,694    | 510,224    | 491,628    |
| Goodwill   | 19    | 26,963     | 26,963     | 26,589     | 26,589     |
| Total assets   |       | 20,972,445 | 17,639,406 | 20,960,184 | 17,625,992 |
| EQUITY AND LIABILITIES Liabilities                           |       |            |            |            |            |
| Deposits from banks  | 21    | 199,334    | 12,157     | 199,334    | 12,157     |
| Deposits from customers                                      | 20    | 17,233,721 | 14,328,142 | 17,233,721 | 14,328,142 |
| Accrued interest payable                                     |       | 88,895     | 39,027     | 88,895     | 39,027     |
| Derivative financial instruments                             | 11    | 13,796     | 18,079     | 13,796     | 18,079     |
| Due to related parties                                       | 15    | 11,673     | 30,499     | 84,006     | 92,456     |
| Creditors and accruals                                       | 23    | 360,109    | 274,596    | 354,609    | 266,177    |
| Employee liabilities   | 24    | 61,949     | 60,588     | 61,627     | 60,272     |
| Borrowings   | 22    | 395,376    | 489,495    | 395,376    | 489,495    |
| Current taxation   | 31    | 650        | 3,870      | -          | -          |
| Deferred taxation  | 7     | 160,956    | 118,973    | 156,366    | 114,341    |
| Total liabilities  |       | 18,526,459 | 15,375,426 | 18,587,730 | 15,420,146 |
| Capital and reserves attributable to ordinary equity holders |       |            |            |            |            |
| Stated capital   | 27    | 51,088     | 51,088     | 58,088     | 58,088     |
| Reserves   | 28    | 2,112,891  | 1,930,885  | 2,032,359  | 1,865,751  |
| Dividend reserve   | -     | 282,007    | 282,007    | 282,007    | 282,007    |
| Total equity   |       | 2,445,986  | 2,263,980  | 2,372,454  | 2,205,846  |
|  |       |            |            |            |            |
| Total equity and liabilities                                 |       | 20,972,445 | 17,639,406 | 20,960,184 | 17,625,992 |



# STATEMENTS OF CHANGES IN EQUITY for the year ended 30 June 2015

|  |         | Other<br>non- | Equity<br>settled<br>employee |           |           |                          |
|--|---------|---------------|-------------------------------|-----------|-----------|--------------------------|
|  | Stated  | distributable | benefits                      | Retained  | Dividend  |                          |
|  | capital | reserves      | reserve                       | earnings  | reserve   | Total                    |
|  | P'000   | P <b>'000</b> | P'000                         | P'000     | P'000     | P'000                    |
| Consolidated   |         |               |                               |           |           |                          |
| Balance as at 1 July 2013                              | 51,088  | 61,971        | 18,300                        | 1,540,539 | 256,370   | 1 020 260                |
| Total comprehensive income for the year                | 31,000  | 61,971        | 10,300                        | 719,661   | 250,370   | <b>1,928,268</b> 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 28)            | =       | (1,895)       | =                             | 1,895     | _         | -                        |
| Balance as at 30 June 2014                             | 51,088  | 57,257        | 18,906                        | 1,854,722 | 282,007   | 2,263,980                |
| Total comprehensive income for the year                | _       | -             | -                             | 591,483   | -         | 591,483                  |
| Profit for the year                                    | -       | -             | -                             | 591,483   | -         | 591,483                  |
|  |         |               |                               |           |           |                          |
| 2014 final dividend paid                               | -       | -             | -                             | _         | (282,007) | (282,007)                |
| 2015 interim dividend paid                             | -       | -             | -                             | (128,185) | -         | (128,185)                |
| 2015 final dividend proposed                           | -       | -             | -                             | (282,007) | 282,007   | -                        |
| Recognition of share based payments                    | -       | -             | 715                           | -         | =         | 715                      |
| Transfer from equity settled employee benefits reserve | -       | -             | (5,051)                       | 5,051     | =         | -                        |
| Transfer from revaluation reserve (note 28)            | _       | (2,068)       | -                             | 2,068     | -         | -                        |
| Balance as at 30 June 2015                             | 51,088  | 55,189        | 14,570                        | 2,043,132 | 282,007   | 2,445,986                |









# STATEMENTS OF CHANGES IN EQUITY for the year ended 30 June 2015

|  | Stated capital P'000 | Other non-distributable reserves | Equity settled employee benefits reserve P'000 | Retained<br>earnings<br>P' <b>000</b> | Dividend<br>reserve<br>P'000 | Total<br><b>P'000</b> |
|--|----------------------|----------------------------------|--|---------------------------------------|------------------------------|-----------------------|
| Company  |                      |                                  |  |                                       |                              |                       |
| Balance as at 1 July 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 28)            | -                    | (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             |
| Total comprehensive income for the year                | -                    | -                                | -  | 576,085                               | -                            | 576,085               |
| Profit for the year                                    | -                    | -                                | -  | 576,085                               | -                            | 576,085               |
| 2014 final dividend paid                               | -                    | -                                | -  | -                                     | (282,007)                    | (282,007)             |
| 2015 interim dividend paid                             | -                    | -                                | -  | (128,185)                             | -                            | (128,185)             |
| 2015 final dividend proposed                           | -                    | -                                | -  | (282,007)                             | 282,007                      | -                     |
| Transfer from revaluation reserve (note 28)            | -                    | (1,752)                          | -  | 1,752                                 | -                            | -                     |
| Recognition of share based payments                    | -                    | -                                | 715  | -                                     | -                            | 715                   |
| Transfer from equity settled employee benefits reserve | -                    | -                                | (5,051)  | 5,051                                 | -                            | -                     |
| Balance as at 30 June 2015                             | 58,088               | 40,881                           | 14,570   | 1,976,908                             | 282,007                      | 2,372,454             |



# STATEMENTS OF CASH FLOWS

for the year ended 30 June 2015

|  |       | CONSOL    | IDATED      | COMP      | ANY         |
|--|-------|-----------|-------------|-----------|-------------|
|  |       | 30 June   | 30 June     | 30 June   | 30 June     |
|  | Notes | 2015      | 2014        | 2015      | 2014        |
|  |       | P'000     | P'000       | P'000     | P'000       |
| Cash flows from operating activities                       |       |           |             |           |             |
| Cash generated by operations before taxation and working   |       |           |             |           |             |
| capital changes  | 29    | 991,144   | 1,053,341   | 970,710   | 1,033,996   |
| Tax paid   | 30    | (160,194) | (200,873)   | (152,265) | (201,009)   |
| '  |       | 830,950   | 852,468     | 818,445   | 832,987     |
| Increase/(decrease) in amounts due to other banks          |       | 187,177   | (41,746)    | 187,177   | (41,746)    |
| Increase in deposits and current accounts                  | 32    | 2,905,579 | 1,395,375   | 2,905,579 | 1,395,375   |
| (Decrease)/increase in amounts due to related companies    |       | (18,826)  | 10,902      | (8,450)   | 26,365      |
| Increase in accrued interest payable                       |       | 49,868    | 4,260       | 49,868    | 4,260       |
| Increase in creditors and accruals                         |       | 66,125    | 43,605      | 69,044    | 37,266      |
| Increase/(decrease) in employee liabilities                |       | 1,361     | (1,488)     | 1,355     | (1,732)     |
| Increase in investments - held for trading                 |       | (11,970)  | (217,313)   | (11,970)  | (217,313)   |
| Increase in investments - held-to-maturity                 |       | (41,593)  | (627)       | (41,593)  | (627)       |
| Increase in advances to customers                          | 33    | (922,697) | (1,879,549) | (922,697) | (1,879,549) |
| Increase in advances to banks                              |       | (178,079) | (409,946)   | (178,079) | (409,946)   |
| (Increase)/decrease in accounts receivable                 |       | (14,968)  | 55,362      | (17,224)  | 65,963      |
| Decrease in amounts due from related companies             |       | (47)      | (134)       | (47)      | (134)       |
| Net cash generated from/(utilised in) operating activities |       | 2,852,880 | (188,831)   | 2,851,408 | (188,831)   |
| Cash flows from investing activities                       |       |           |             |           |             |
| Acquisition of property and equipment                      | 18    | (54,232)  | (50,210)    | (52,760)  | (50,210)    |
| Proceeds on disposal of investment in associate            | 10    | (01,202)  | 28,000      | (02,700)  | 28,000      |
| Proceeds on disposal of assets held for sale               |       | _         | 4,091       | _         | 4,091       |
| Proceeds on disposal of property and equipment             |       | 2,555     | 1,463       | 2,555     | 1,463       |
| Net cash utilised in investing activities                  |       | (51,677)  | (16,656)    | (50,205)  | (16,656)    |
|  |       |           |             |           |             |
| Cash flows from financing activities                       |       |           |             |           |             |
| Dividends paid   | 34    | (410,192) | (384,555)   | (410,192) | (384,555)   |
| Repayments of borrowings                                   |       | (75,125)  | -           | (75,125)  | -           |
| Borrowings raised  |       | -         | 51,535      | -         | 51,535      |
| Net cash utilised in financing activities                  |       | (485,317) | (333,020)   | (485,317) | (333,020)   |
| Net increase/(decrease) in cash and cash equivalents       |       | 2,315,886 | (538,507)   | 2,315,886 | (538,507)   |
| Cash and cash equivalents at the beginning of the year     |       | 3,867,648 | 4,406,155   | 3,867,648 | 4,406,155   |
| Cash and cash equivalents at the end of the year           | 35    | 6,183,534 | 3,867,648   | 6,183,534 | 3,867,648   |









for the year ended 30 June 2015

|    |   | CONSOL    | IDATED    | COM       | PANY      |
|----|---|-----------|-----------|-----------|-----------|
|    |   | 30 June   | 30 June   | 30 June   | 30 June   |
|    |   | 2015      | 2014      | 2015      | 2014      |
|    |   | P'000     | P'000     | P'000     | P'000     |
| 1. | ACCOUNTING POLICIES   |           |           |           |           |
|    | The accounting policies of the Group are set out on pages 111 to 124. |           |           |           |           |
| 2. | INTEREST AND SIMILAR INCOME   |           |           |           |           |
|    | Held for trading  |           |           |           |           |
|    | - Investment securities   | 3,070     | 3,184     | 3,070     | 3,184     |
|    | Loan and receivables  |           |           |           |           |
|    | - Advances  | 1,178,881 | 1,143,900 | 1,178,881 | 1,143,900 |
|    | - Cash and short term funds   | 41,813    | 24,389    | 41,813    | 24,389    |
|    | - Related parties (Note 15)   | 3,246     | 6,163     | 3,246     | 6,163     |
|    | - Unwinding of discounted present value                               |           |           |           |           |
|    | of security on non-performing loans (Note 13)                         | 2,225     | 1,919     | 2,225     | 1,919     |
|    | Held to maturity  |           |           |           |           |
|    | - Investment securities   | 11,886    | 10,000    | 11,886    | 10,000    |
|    | Available-for-sale financial assets                                   |           |           |           |           |
|    | - Investment securities   | 47,313    | 55,262    | 47,313    | 55,262    |
|    |   | 1,288,434 | 1,244,817 | 1,288,434 | 1,244,817 |
| 3. | INTEREST EXPENSE AND SIMILAR CHARGES                                  |           |           |           |           |
|    | Financial liabilities at amortised cost                               |           |           |           |           |
|    | - Term deposit accounts   | 299,999   | 182,971   | 297,813   | 181,796   |
|    | - Current and call accounts   | 74,455    | 67,487    | 74,455    | 67,487    |
|    | - Savings deposits  | 13,042    | 13,969    | 13,042    | 13,969    |
|    | - Deposits from banks and other financial institutions                | 17,301    | 14,661    | 17,301    | 14,661    |
|    | - Related parties (Note 15)   | 462       | 523       | 462       | 523       |
|    | - Borrowings  | 10,062    | 10,589    | 10,062    | 10,589    |
|    |   | 415,321   | 290,200   | 413,135   | 289,025   |



for the year ended 30 June 2015 [continued]

## NON-INTEREST INCOME

|   | CONSOLIDATED |          | COMPANY |          |
|---|--------------|----------|---------|----------|
|   | 30 June      | 30 June  | 30 June | 30 June  |
|   | 2015         | 2014     | 2015    | 2014     |
|   | P'000        | P'000    | P'000   | P'000    |
| Fee and commission income   |              |          |         |          |
| Loans and receivables   |              |          |         |          |
| - Card commissions  | 155,414      | 131,588  | 155,414 | 131,233  |
| - Insurance commissions   | 34,173       | 27,849   | 18,983  | 14,836   |
| - Facility fees   | 35,549       | 38,365   | 35,549  | 38,365   |
| - Commissions - guarantees and letters of credit  | 8,355        | 10,357   | 8,355   | 10,357   |
| Financial liabilities at amortised cost   |              |          |         |          |
| - Cash deposit fees   | 42,136       | 38,963   | 42,136  | 38,963   |
| - Commissions - bills, drafts and cheques   | 57,753       | 53,080   | 57,753  | 53,080   |
| - Service fees  | 180,193      | 160,625  | 180,193 | 160,625  |
| - Commissions - customer services   | 65,665       | 50,199   | 65,665  | 50,199   |
| Net fee and commission income   | 579,238      | 511,026  | 564,048 | 497,658  |
| Fair value gains or losses  |              |          |         |          |
| - Loss on bond trading  | (1,926)      | (3,604)  | (1,926) | (3,604)  |
| Net gain arising on financial assets at fair value through profit or loss               | 8,534        | 49,390   | 8,534   | 49,390   |
| - Net gain/(loss) arising on financial liabilities at fair value through profit or loss | 25,135       | (24,822) | 25,135  | (24,822) |
| - Foreign exchange trading income   | 223,041      | 203,673  | 223,041 | 203,673  |
| Fair value gains  | 254,784      | 224,637  | 254,784 | 224,637  |
| Other non-interest income   |              |          |         |          |
| Non-financial assets and liabilities  |              |          |         |          |
| - Gain on sale of property and equipment  | 898          | 2,226    | 898     | 2,226    |
| - Gain on disposal of investment in associate   | -            | 24,227   | 030     | 27,045   |
| - Other non-interest income   | 27,466       | 32,441   | 11,259  | 18,365   |
|   | ( ( .4 ()()  | 36,441   | 11,209  | 10,303   |









for the year ended 30 June 2015 [continued]

| OPERATING EXPENSES                          | CONSOL  | CONSOLIDATED CON |         | MPANY   |  |
|---|---------|------------------|---------|---------|--|
|   | 30 June | 30 June          | 30 June | 30 June |  |
|   | 2015    | 2014             | 2015    | 2014    |  |
|   | P'000   | P'000            | P'000   | P'000   |  |
| Auditor's remuneration                      |         |                  |         |         |  |
| Audit fees                                  |         |                  |         |         |  |
| - current year                              | 3,810   | 3,590            | 3,810   | 3,590   |  |
| Other services                              | 1,360   | -                | 1,360   |         |  |
|   | 5,170   | 3,590            | 5,170   | 3,590   |  |
| Depreciation                                |         |                  |         |         |  |
| Buildings                                   | 11,106  | 11,115           | 10,737  | 10,203  |  |
| Motor vehicles                              | 219     | 975              | 219     | 975     |  |
| Furniture and equipment                     | 21,551  | 19,512           | 21,551  | 19,512  |  |
|   | 32,876  | 31,602           | 32,507  | 30,690  |  |
| Directors' remuneration                     |         |                  |         |         |  |
| For services as non-executive directors     | 2,920   | 1,795            | 2,920   | 1,79    |  |
| For services as executive directors         | 4,825   | 4,059            | 4,825   | 4,059   |  |
|   | 7,745   | 5,854            | 7,745   | 5,854   |  |
| Exchange losses on revaluation              | 1,439   | 3,553            | 1,439   | 3,55    |  |
| Operating lease charges                     |         |                  |         |         |  |
| Premises                                    | 18,216  | 17,453           | 18,896  | 17,85   |  |
| - Contractual                               | 18,021  | 17,329           | 18,701  | 17,733  |  |
| - Straight line lease rental adjustment     | 195     | 124              | 195     | 12      |  |
| Equipment                                   | 4,310   | 7,533            | 4,290   | 7,440   |  |
|   | 22,526  | 24,986           | 23,186  | 25,297  |  |
| Other operating expenses                    |         |                  |         |         |  |
| Advertising and marketing                   | 38,340  | 27,232           | 33,348  | 24,08   |  |
| Communication                               | 21,001  | 22,840           | 20,878  | 12,748  |  |
| Computer expenditure                        | 13,654  | 13,607           | 13,654  | 13,588  |  |
| Property maintenance                        | 24,329  | 24,200           | 23,785  | 23,663  |  |
| Stationery, storage and postage             | 16,835  | 25,743           | 16,798  | 25,69   |  |
| Service fees                                | 34,827  | 25,380           | 34,827  | 25,369  |  |
| Impairment loss on investment in subsidiary | -       | -                | -       | 7,11    |  |
| Other                                       | 39,688  | 26,354           | 38,237  | 25,233  |  |
|   | 188,674 | 165,356          | 181,527 | 167,49  |  |
| Service fees paid to related company        |         |                  |         |         |  |
| Systems                                     | 95,785  | 72,317           | 95,582  | 72,23   |  |
| Services                                    | 17,878  | 13,498           | 17,843  | 13,48   |  |
| Products                                    | 14,049  | 10,606           | 14,035  | 10,60   |  |
|   | 127,712 | 96,421           | 127,460 | 96,327  |  |
|   | 10,823  | 11,626           | 10,771  | 11,59   |  |
| Professional fees                           | TU.063  | 11.020           | 10.771  | 11,097  |  |



for the year ended 30 June 2015 [continued]

| 6. | EMPLOYEE BENEFITS   | CONSOLIE | DATED   | COMPA   | NY      |
|----|---|----------|---------|---------|---------|
|    |   | 30 June  | 30 June | 30 June | 30 June |
|    |   | 2015     | 2014    | 2015    | 2014    |
|    |   | P'000    | P'000   | P'000   | P'000   |
|    | Salarias wagge and allowances   | 295,181  | 286,542 | 293,524 | 284,779 |
|    | Salaries, wages and allowances  |          |         |         |         |
|    | Contributions to pension, medical and other staff funds                     | 38,495   | 34,070  | 38,267  | 33,830  |
|    | Share based payments expense - equity settled                               | 715      | 606     | 715     | 606     |
|    | Share based payments expense - cash settled                                 | 19,193   | 13,138  | 19,193  | 13,138  |
|    | Leave pay   | 50       | (3,445) | 6       | (3,459) |
|    | Other   | 14,553   | 19,428  | 14,533  | 19,365  |
|    |   | 368,187  | 350,339 | 366,238 | 348,259 |
|    | Details of the post retirement benefits are provided separately in Note 26. |          |         |         |         |
| 7. | TAXATION  |          |         |         |         |
|    | Indirect taxation   |          |         |         |         |
|    | Value added tax   | 12,776   | 11,098  | 12,739  | 11,043  |
|    | Direct taxation   |          |         |         |         |
|    | Income taxation expense   |          |         |         |         |
|    | Current tax at 22% (2014: 22%)  | 123,697  | 190,758 | 119,081 | 186,432 |
|    | Prior year overprovision  | (660)    | (1,331) | (753)   | (1,331) |
|    | Capital gains tax at 22%  | -        | 4,538   | -       | 4,538   |
|    |   | 123,037  | 193,965 | 118,328 | 189,639 |
|    | Deferred taxation   |          |         |         |         |
|    | Charge to income statement  |          |         |         |         |
|    | - current year  | 42,668   | 7,437   | 42,668  | 7,437   |
|    | - prior year (over)/under-provision   | (685)    | 1,176   | (643)   | 1,348   |
|    |   | 41,983   | 8,613   | 42,025  | 8,785   |
|    |   |          |         |         |         |
|    | Total taxation expense per income statement                                 | 165,020  | 202,578 | 160,353 | 198,424 |
|    | Reconciliation of taxation charge   |          |         |         |         |
|    | Profit before direct taxation   | 756,503  | 922,239 | 736,438 | 899,509 |
|    | Taxation at current rate on profit for the year                             | 166,430  | 202,893 | 162,016 | 197,892 |
|    | Over-provision of current tax in prior years                                | (660)    | (1,331) | (753)   | (1,331) |
|    | Over-provision of deferred tax in prior years                               | (685)    | 1,176   | (643)   | 1,348   |
|    | Disallowed expenses and other allowances                                    | (65)     | (160)   | (267)   | 515     |
|    | Total tax expense per income statement                                      | 165,020  | 202,578 | 160,353 | 198,424 |
|    | Deferred taxation   |          |         |         |         |
|    | Balance at the beginning of the year  | 118,973  | 110,360 | 114,341 | 105,556 |
|    | Temporary differences for the year  | 42,668   | 7,437   | 42,668  | 7,437   |
|    | Prior year (over)/under-provision   | (685)    | 1,176   | (643)   | 1,348   |
|    | Balance at the end of the year  | 160,956  | 118,973 | 156,366 | 114,341 |









for the year ended 30 June 2015 [continued]

# 7. TAXATION [CONTINUED]

**Deferred taxation** [continued]

| Deterred taxation [continued]   | CONSO     | CONSOLIDATED |         | COMPANY  |  |  |
|---|-----------|--------------|---------|----------|--|--|
|   | 30 June   | 30 June      | 30 June | 30 June  |  |  |
|   | 2015      | 2014         | 2015    | 2014     |  |  |
|   | P'000     | P'000        | P'000   | P'000    |  |  |
| The balance comprises:  |           |              |         |          |  |  |
| Accelerated capital allowances  | 153,403   | 119,592      | 151,695 | 117,842  |  |  |
| Revaluation surplus   | 14,360    | 14,360       | 11,478  | 11,478   |  |  |
| Other temporary differences   | (6,807)   | (14,979)     | (6,807) | (14,979) |  |  |
|   | 160,956   | 118,973      | 156,366 | 114,341  |  |  |
| EARNINGS PER SHARE  |           |              |         |          |  |  |
| Basic earnings per share  |           |              |         |          |  |  |
| Basic 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.   |           |              |         |          |  |  |
| Earnings attributable to ordinary equity holders  | 591,483   | 719,661      |         |          |  |  |
| 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)  | 23.25     | 28.29        |         |          |  |  |
| 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 658,000 (2014: 1,386,000) have been adjusted to the weighted average number of ordinary shares in issue used in the basic earnings per share calculation.                               |           |              |         |          |  |  |
| Earnings attributable to equity holders   | 591,483   | 719,661      |         |          |  |  |
| Weighted average number of ordinary shares in issue (thousands)   | 2,544,358 | 2,545,086    |         |          |  |  |
|   |           |              |         |          |  |  |
| Diluted earnings per share (thebe)  | 23.25     | 28.28        |         |          |  |  |



for the year ended 30 June 2015 [continued]

#### ANALYSIS OF ASSETS AND LIABILITIES BY CATEGORY

| CONSO   | LIDATED | COM     | PANY    |
|---------|---------|---------|---------|
| 30 June | 30 June | 30 June | 30 June |
| 2015    | 2014    | 2015    | 2014    |
| P'000   | P'000   | P'000   | P'000   |
|         |         |         |         |

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 111 to page 124 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:

| ASSETS  |            |            |            |            |
|---|------------|------------|------------|------------|
| Loans and receivables                           |            |            |            |            |
| Cash and short-term funds                       | 4,371,324  | 2,721,384  | 4,371,324  | 2,721,384  |
| Advances to banks                               | 640,000    | 461,921    | 640,000    | 461,921    |
| Advances to customers                           | 12,636,927 | 11,867,293 | 12,643,927 | 11,874,293 |
| Due from related companies                      | 6,319      | 6,272      | 6,319      | 6,272      |
| Accounts receivable                             | 211,080    | 196,112    | 208,822    | 191,598    |
| Designated at fair value through profit or loss |            |            |            |            |
| Advances to customers                           | 209,554    | 264,122    | 209,554    | 264,122    |
| Available-for-sale financial assets             |            |            |            |            |
| Investment securities                           | 1,812,210  | 1,146,264  | 1,812,210  | 1,146,264  |
| Held to maturity                                |            |            |            |            |
| Investment securities                           | 164,562    | 122,969    | 164,562    | 122,969    |
| Held for trading                                |            |            |            |            |
| Investment securities                           | 279,565    | 267,595    | 279,565    | 267,595    |
| Derivative financial instruments                | 26,716     | 24,922     | 26,716     | 24,922     |
| Non-financial assets                            |            |            |            |            |
| Current taxation                                | 46,832     | 12,895     | 46,832     | 12,895     |
| Investment in subsidiary companies              | -          | -          | 13,540     | 13,540     |
| Property and equipment                          | 540,393    | 520,694    | 510,224    | 491,628    |
| Goodwill  | 26,963     | 26,963     | 26,589     | 26,589     |
| Total assets                                    | 20,972,445 | 17,639,406 | 20,960,184 | 17,625,992 |









for the year ended 30 June 2015 [continued]

## 9. ANALYSIS OF ASSETS AND LIABILITIES BY CATEGORY [CONTINUED]

|     |  | CONSOLIDATED |                    | COMPANY                |                      |
|-----|--|--------------|--------------------|------------------------|----------------------|
|     |  | 30 June      | 30 June            | 30 June                | 30 June              |
|     |  | 2015         | 2014               | 2015                   | 2014                 |
|     |  | P'000        | P'000              | P'000                  | P'000                |
|     | LIABILITIES  |              |                    |                        |                      |
|     | Financial liabilities at amortised cost  |              |                    |                        |                      |
|     | Deposits from banks  | 199,334      | 12,157             | 199,334                | 12,157               |
|     | Deposit from customers   | 17,233,721   | 14,328,142         | 17,233,721             | 14,328,142           |
|     | Borrowings   | 321,473      | 396,598            | 321,473                | 396,598              |
|     | Accrued interest payable   | 88,895       | 39,027             | 88,895                 | 39,027               |
|     | Due to related companies   | 11,673       | 30,499             | 84,006                 | 92,456               |
|     | Creditors and accruals   | 321,004      | 252,210            | 316,763                | 244,037              |
|     | Designated at fair value through profit or loss                                      |              |                    |                        |                      |
|     | Deposits from customers  | 73,903       | 92,897             | 73,903                 | 92,897               |
|     | Held for trading   |              |                    |                        |                      |
|     | Derivative financial instruments   | 13,796       | 18,079             | 13,796                 | 18,079               |
|     | Non-financial liabilities  |              |                    |                        |                      |
|     | Value-added tax  | 7,024        | 5,178              | 5,765                  | 4,932                |
|     | Employee related accruals  | 94,030       | 77,796             | 93,708                 | 77,480               |
|     | Current taxation   | 650          | 3,870              | -                      | -                    |
|     | Deferred taxation  | 160,956      | 118,973            | 156,366                | 114,341              |
|     | Total liabilities  | 18,526,459   | 15,375,426         | 18,587,730             | 15,420,146           |
| 10  | CACHAND CHOPT TEDM FLINDS  |              |                    |                        |                      |
| 10. | CASH AND SHORT TERM FUNDS  Coins and bank notes                                      | 220.720      | 100.007            | 220.720                | 100.027              |
|     |  | 239,720      | 189,834            | 239,720                | 189,834              |
|     | Money at call and short notice   | 77.227       | 170757             | 77.227                 | 170757               |
|     | - related companies (Note 15) - other hanks  | 77,334       | 176,757<br>732,801 | 77,334                 | 176,757              |
|     |  | 1,992,503    | 1,227,043          | 1,992,503<br>1,320,045 | 732,801<br>1,227,043 |
|     | Balances with Bank of Botswana - Mandatory reserve balance                           | 1,320,045    |                    |                        |                      |
|     | Balances with Bank of Botswana - Statutory account balance Balances with other banks | 10,216       | (423)              | 10,216                 | (423)                |
|     |  | /71 500      | 105 272            | /71 500                | 105 272              |
|     | - related companies (Note 15)  | 471,506      | 195,372            | 471,506                | 195,372              |
|     | - other banks  | 260,000      | 200,000            | 260,000                | 200,000              |
|     |  | 4,371,324    | 2,721,384          | 4,371,324              | 2,721,384            |
|     | The carrying value of cash and short term funds approximates the fair value.         |              |                    |                        |                      |
|     | Amounts denominated in foreign currencies included in above balances                 | 2,439,666    | 1,108,107          | 2,439,666              | 1,108,107            |
|     | Mandatory reserve balances   | 1,320,045    | 1,227,043          | 1,320,045              | 1,227,043            |

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.



for the year ended 30 June 2015 [continued]

#### 11. **DERIVATIVE FINANCIAL INSTRUMENTS**

#### Strategy in using derivatives

#### 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 38.









for the year ended 30 June 2015 [continued]

# 11. DERIVATIVE FINANCIAL INSTRUMENTS [CONTINUED]

|  | ASSE      | ASSETS     |           | LIABILITIES |  |
|--|-----------|------------|-----------|-------------|--|
|  | Notional  | Fair Value | Notional  | Fair Value  |  |
|  | P'000     | P'000      | P'000     | P'000       |  |
| Consolidated   |           |            |           |             |  |
| 2015   |           |            |           |             |  |
| Currency derivatives:                                |           |            |           |             |  |
| Currency options                                     | 1,125,973 | 8,597      | 1,125,973 | 8,597       |  |
| Trading derivatives                                  | 301,665   | 1,784      | 478,333   | 1,916       |  |
| Interest rate derivatives:                           |           |            |           |             |  |
| Interest rate swaps                                  | 86,361    | 16,335     | 131,832   | 3,283       |  |
|  | 1,513,999 | 26,716     | 1,736,138 | 13,796      |  |
| Related party derivatives included in above balances |           |            |           |             |  |
| Currency options                                     | 579,919   | 4,903      | 546,054   | 3,694       |  |
| Trading derivatives                                  | 134,009   | 805        | 14,749    | 40          |  |
| Interest rate swaps                                  | 86,361    | 16,335     | 131,832   | 3,283       |  |
|  | 800,289   | 22,043     | 692,635   | 7,017       |  |
| 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      |  |



for the year ended 30 June 2015 [continued]

| ADVANCES TO CUSTOMERS   | CONSOLIDATED |            | COMPANY    |            |
|---|--------------|------------|------------|------------|
|   | 30 June      | 30 June    | 30 June    | 30 June    |
|   | 2015         | 2014       | 2015       | 2014       |
|   | P'000        | P'000      | P'000      | P'000      |
| Sector analysis   |              |            |            |            |
| Agriculture   | 455,851      | 445,442    | 455,851    | 445,442    |
| Building and property development   | 447,776      | 567,369    | 447,776    | 567,369    |
| Business and trade  | 4,989,310    | 4,882,302  | 4,996,310  | 4,889,302  |
| Individuals   | 6,181,636    | 5,351,862  | 6,181,636  | 5,351,862  |
| Manufacturing   | 359,249      | 444,815    | 359,249    | 444,815    |
| Mining  | 378,112      | 370,456    | 378,112    | 370,456    |
| Transport and communications  | 357,575      | 354,851    | 357,575    | 354,851    |
| Gross advances  | 13,169,509   | 12,417,097 | 13,176,509 | 12,424,097 |
| Contractual interest suspended  | (61,243)     | (51,794)   | (61,243)   | (51,794    |
| Gross advances after contractual interest suspended   | 13,108,266   | 12,365,303 | 13,115,266 | 12,372,303 |
| Less: impairment of advances (Note 13)  | (261,785)    | (233,888)  | (261,785)  | (233,888)  |
| Net advances  | 12,846,481   | 12,131,415 | 12,853,481 | 12,138,415 |
| Category analysis   |              |            |            |            |
| Overdrafts and managed accounts debtors   | 1.108.690    | 1,078,607  | 1,108,690  | 1,078,607  |
| Term loans  | 5.088.623    | 5,089,948  | 5,095,623  | 5,096,948  |
| Lease payments receivable   | 835,365      | 789,467    | 835,365    | 789,467    |
| Suspensive sale debtors   | 1,231,945    | 1,054,224  | 1,231,945  | 1,054,224  |
| Property loans  | 4,780,653    | 4,285,539  | 4,780,653  | 4,285,539  |
| Other   | 124,233      | 119,312    | 124,233    | 119,312    |
| Gross advances  | 13,169,509   | 12,417,097 | 13,176,509 | 12,424,097 |
| Contractual interest suspended  | (61,243)     | (51,794)   | (61,243)   | (51,794    |
| Gross advances after contractual interest suspended   | 13,108,266   | 12,365,303 | 13,115,266 | 12,372,303 |
| Less: impairment of advances (Note 13)  | (261,785)    | (233,888)  | (261,785)  | (233,888   |
| Net advances  | 12,846,481   | 12,131,415 | 12,853,481 | 12,138,415 |
| Maturity analysis   |              |            |            |            |
| Maturity within one year  | 2,795,644    | 1,773,886  | 2,795,644  | 1,773,886  |
| Maturity between one and five years   | 4,545,460    | 3,233,400  | 4,545,460  | 3,233,400  |
| Maturity more than five years   | 5,828,405    | 7,409,811  | 5,835,405  | 7,416,811  |
| ,   | 13,169,509   | 12,417,097 | 13,176,509 | 12,424,097 |
| Included in the above advances are instalment loans maturing within:  |              |            |            |            |
| -one year   | 95,035       | 86,797     | 95,035     | 86.797     |
| -two to five years  | 1,972,275    | 1.756.894  | 1,972,275  | 1,756,894  |
| two to live years   | 2,067,310    | 1,843,691  | 2,067,310  | 1,843,691  |
| These loans have been made under normal commercial terms and conditions. The above advances only expose the Group to credit risk in Botswana. | 2,001,010    | 1,010,001  | 2,001,010  | 1,0 10,00  |
| Included in the above are advances to:  |              |            |            |            |
| - Directors   | 6,525        | 2,761      | 6,525      | 2,761      |











for the year ended 30 June 2015 [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), Roll Rates (RR), 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.

|  | Total      |           | Corporate & |
|--|------------|-----------|-------------|
|  | impairment | Retail    | commercial  |
| Consolidated and Company                           | P'000      | P'000     | P'000       |
| Specific impairment                                |            |           |             |
| At the beginning of the year                       | 140,437    | 84,262    | 56,175      |
| Amounts written off                                | (198,416)  | (136,833) | (61,583)    |
|  | (57,979)   | (52,571)  | (5,408)     |
| Impairment loss recognised in the income statement | 188,483    | 124,863   | 63,620      |
| New and increased provision                        | 238,920    | 156,118   | 82,802      |
| Release of provision                               | (50,437)   | (31,255)  | (19,182)    |
| At the end of the year                             | 130,504    | 72,292    | 58,212      |
| Present valuation of security adjustment           |            |           |             |
| At the beginning of the year                       | 20,707     | 15,176    | 5,531       |
| Charge to the income statement                     | 5,525      | 4,049     | 1,476       |
| Unwinding of discounted present value              |            |           |             |
| of security on non-performing loans (Note 2)       | (2,225)    | (1,630)   | (595)       |
| At the end of the year                             | 24,007     | 17,595    | 6,412       |
| Total specific impairment                          | 154,511    | 89,887    | 64,624      |
| Recoveries of bad debts previously written off     | (27,470)   | (22,477)  | (4,993)     |
| Portfolio impairment                               |            |           |             |
| At the beginning of the year                       | 40,217     | 19,280    | 20,937      |
| Charge/(release) to the income statement           | 18,725     | (3,297)   | 22,022      |
| At the end of the year                             | 58,942     | 15,983    | 42,959      |
| IBNR impairment                                    |            |           |             |
| At the beginning of the year                       | 32,527     | 18,788    | 13,739      |
| Charge to the income statement                     | 15,805     | 7,594     | 8,211       |
| At the end of the year                             | 48,332     | 26,382    | 21,950      |
| Total charge to the income statement               | 201,068    | 110,732   | 90,336      |
| Total impairment at the end of the year            | 261,785    | 132,252   | 129,533     |



for the year ended 30 June 2015 [continued]

## 13. IMPAIRMENT OF ADVANCES [CONTINUED]

|  | Total      | Total    |            |
|--|------------|----------|------------|
|  | impairment | Retail   | commercial |
|  | P'000      | P'000    | P'000      |
| Consolidated and Company                           |            |          |            |
| Specific impairment                                |            |          |            |
| At the beginning of the year                       | 129,894    | 81,145   | 48,749     |
| Amounts written off                                | (98,137)   | (93,230) | (4,907)    |
| 7 mounts whiten on                                 | 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     |
| Recoveries of bad debts previously written off     | (23,694)   | (18,621) | (5,073)    |
| Necestales of Bud debts previously written on      | (20,001)   | (10,021) | (0,010)    |
| 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      |
| Reclassified from portfolio impairment             | 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                       |            |          |            |
| Reclassified to present value of security          | 20,240     | 19,373   | 867        |
| Charge 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 to 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     |
|  |            |          |            |









for the year ended 30 June 2015 [continued]

## 13. IMPAIRMENT OF ADVANCES [CONTINUED]

|   | Total<br>including<br>interest<br>suspended | Security<br>held | •      |         |
|---|---|------------------|--------|---------|
|   | P'000                                       | P'000            | P'000  | P'000   |
| Non-performing advances - loans and receivables |   |                  |        |         |
| Consolidated and Company                        |   |                  |        |         |
| Sector analysis - 2015                          |   |                  |        |         |
| Agriculture                                     | 29,117                                      | 17,304           | 3,042  | 8,771   |
| Building and property development               | 142,523                                     | 84,702           | 14,888 | 42,933  |
| Individuals                                     | 131,427                                     | 100,200          | 13,729 | 17,498  |
| Manufacturing and commerce                      | 63,541                                      | 37,762           | 6,638  | 19,141  |
| Transport and communication                     | 37,626                                      | 22,361           | 3,931  | 11,334  |
| Other advances                                  | 159,942                                     | 86,093           | 19,015 | 54,834  |
| Total non-performing advances - 30 June 2015    | 564,176                                     | 348,422          | 61,243 | 154,511 |
|   |   |                  |        |         |
| Sector analysis - 2014                          |   | 40.770           |        |         |
| 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 |
| Category analysis - 2015                        |   |                  |        |         |
| Overdrafts and managed accounts                 | 51,453                                      | 37,347           | 5,921  | 8,185   |
| Term loans                                      | 225,835                                     | 101,063          | 30,973 | 93,799  |
| Suspensive and instalment sale debtors          | 82,459                                      | 49,919           | 3,870  | 28,670  |
| Property loans                                  | 196,298                                     | 160,093          | 16,207 | 19,998  |
| Other advances                                  | 8,131                                       | _                | 4,272  | 3,859   |
| Total non-performing advances - 30 June 2015    | 564,176                                     | 348,422          | 61,243 | 154,511 |
|   |   |                  |        |         |
| 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 |



for the year ended 30 June 2015 [continued]

## 13. IMPAIRMENT OF ADVANCES [CONTINUED]

|                                | GROUP AN | D COMPANY |
|--------------------------------|----------|-----------|
|                                | 30 June  | 30 June   |
|                                | 2015     | 2014      |
|                                | P'000    | P'000     |
|                                |          |           |
| Contractual interest suspended |          |           |
| At the beginning of the year   | 51,794   | 45,991    |
| Written off during the year    | (34,807) | (31,625)  |
| Suspended during the year      | 44,256   | 37,428    |
| At the end of the year         | 61,243   | 51,794    |

#### 14. INVESTMENT SECURITIES

|   | CONSO     | LIDATED   | COMPANY   |           |  |
|---|-----------|-----------|-----------|-----------|--|
|   | 30 June   | 30 June   | 30 June   | 30 June   |  |
|   | 2015      | 2014      | 2015      | 2014      |  |
|   | P'000     | P'000     | P'000     | P'000     |  |
|   |           |           |           |           |  |
| Available-for-sale                              |           |           |           |           |  |
| Bank of Botswana Certificates                   | 1,812,210 | 1,146,264 | 1,812,210 | 1,146,264 |  |
|   |           |           |           |           |  |
| Held to maturity                                |           |           |           |           |  |
| Government Bonds                                | 164,562   | 122,969   | 164,562   | 122,969   |  |
|   |           |           |           |           |  |
| Held for trading                                |           |           |           |           |  |
| Treasury Bills, Government and Parastatal Bonds | 279,565   | 267,595   | 279,565   | 267,595   |  |
|   | 2,256,337 | 1,536,828 | 2,256,337 | 1,536,828 |  |

P1,812,210,000 (2014: P1,146,264,000) of the Bank of Botswana Certificates form part of the Group's liquid assets portfolio in terms of the Banking

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.









for the year ended 30 June 2015 [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 17 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 Chief Risk 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 Emerging Markets Africa (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:

|   | CONS      | OLIDATED  | COM                    | PANY      |
|---|-----------|-----------|------------------------|-----------|
|   | 30 June   | 30 June   | 30 June <b>30 June</b> |           |
|   | 2015      | 2014      | 2015                   | 2014      |
|   | P'000     | P'000     | P'000                  | P'000     |
|   |           |           |                        |           |
| <b>Due from related parties</b>                         |           |           |                        |           |
| First National Bank Limited - South Africa              | 548,840   | 372,129   | 548,840                | 372,129   |
| First National Bank Holdings (Botswana) Limited         | 6,319     | 6,272     | 6,319                  | 6,272     |
|   | 555,159   | 378,401   | 555,159                | 378,401   |
| Less money at call and short notice - related companies |           |           |                        |           |
| First National Bank Limited - South Africa (Note 10)    | (77,334)  | (176,757) | (77,334)               | (176,757) |
| Less balances with other banks (Note 10)                | (471,506) | (195,372) | (471,506)              | (195,372) |
|   | 6,319     | 6,272     | 6,319                  | 6,272     |



for the year ended 30 June 2015 [continued]

#### 15. RELATED PARTIES [CONTINUED]

|  | CONSOLIDATED |         | COMPANY |         |  |
|--|--------------|---------|---------|---------|--|
|  | 30 June      | 30 June | 30 June | 30 June |  |
|  | 2015         | 2014    | 2015    | 2014    |  |
|  | P'000        | P'000   | P'000   | P'000   |  |
| Due to related companies - current liabilities   |              |         |         |         |  |
| Financial Services Company (Proprietary) Limited   | -            | -       | 4,493   | 4,032   |  |
| Financial Services Properties (Proprietary) Limited  | -            | -       | (47)    | (47)    |  |
| First National Insurance Agency (Proprietary) Limited  | -            | -       | 66,875  | 56,960  |  |
| First Funding (Proprietary) Limited  | -            | -       | 1,000   | 1,000   |  |
| Plot Four Nine Seven Two (Proprietary) Limited   | -            | -       | 12      | 12      |  |
| First National Bank Limited - South Africa   | 11,673       | 30,499  | 11,673  | 30,499  |  |
| Due to related companies - creditors and accruals  | 11,673       | 30,499  | 84,006  | 92,456  |  |
| Refer to Note 20 for amounts included in deposits from customers and Note 21 for amounts included in deposits from banks.  Related party transactions  Transactions were carried out in the ordinary course of business and were supported as detailed below |              |         |         |         |  |
| Interest income:   |              |         |         |         |  |
| First National Bank Limited - South Africa   | 3,246        | 6,163   | 3,246   | 6,163   |  |
|  | 3,246        | 9,349   | 3,246   | 9,349   |  |
| Interest expenditure   |              |         |         |         |  |
| First National Bank Holdings (Botswana) Limited  | 462          | 1,255   | 462     | 1,255   |  |
|  | 462          | 1,255   | 462     | 1,255   |  |
| Operating expenses:  |              |         |         |         |  |
| Rent paid - Subsidiary companies   | _            | -       | 667     | 454     |  |
| Service level agreement costs - First National Bank Botswana   | 135          | -       | _       | =       |  |
| Service level agreement costs - FirstRand Bank Limited   | 127,577      | 96,421  | 127,460 | 96,327  |  |
|  | 127,712      | 96,421  | 128,127 | 96,781  |  |









for the year ended 30 June 2015 [continued]

#### 15. RELATED PARTIES [CONTINUED]

|   | CONSO   | CONSOLIDATED |         | COMPANY |  |
|---|---------|--------------|---------|---------|--|
|   | 30 June | 30 June      | 30 June | 30 June |  |
|   | 2015    | 2014         | 2015    | 2014    |  |
|   | P'000   | P'000        | P'000   | P'000   |  |
| Key Management personnel                      |         |              |         |         |  |
| Compensation paid to key management personnel |         |              |         |         |  |
| Share-based payments                          | 2,265   | 901          | 2,265   | 901     |  |
| Salaries and allowances                       | 11,373  | 10,302       | 11,373  | 10,302  |  |
| Other employee benefits                       | 371     | 825          | 371     | 825     |  |
| Total short term benefits                     | 14,009  | 12,028       | 14,009  | 12,028  |  |
| Pension contribution                          | 691     | 306          | 691     | 306     |  |
| Advances                                      |         |              |         |         |  |
| Personal loans                                | 414     | 302          | 414     | 302     |  |
| Overdrafts                                    | 4,787   | 2,370        | 4,787   | 2,370   |  |
| Credit card                                   | 930     | 338          | 930     | 338     |  |
| Instalment finance                            | 916     | 1,468        | 916     | 1,468   |  |
| Property loans                                | 10,841  | 7,602        | 10,841  | 7,602   |  |
| Total advances                                | 17,888  | 12,080       | 17,888  | 12,080  |  |

No impairments have been recognised in respect of the above advances (2014: P 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 P15,300,000 (2014: P9,935,000).

Personal loans, overdrafts and credit card balances are unsecured.

| 16. | ACCOUNTS RECEIVABLE  |         |         |         |         |
|-----|----------------------|---------|---------|---------|---------|
|     | Items in transit     | 70,453  | 8,541   | 84,225  | 23,242  |
|     | Other sundry debtors | 140,218 | 187,285 | 124,188 | 168,070 |
|     | School debentures    | 409     | 286     | 409     | 286     |
|     |                      | 211,080 | 196,112 | 208,822 | 191,598 |

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



for the year ended 30 June 2015 [continued]

#### 17. INVESTMENT IN SUBSIDIARY COMPANIES

|   |   |        | 30 June  | 30 June  |
|---|---|--------|----------|----------|
|   |   |        | 2015     | 2014     |
|   |   |        | P'000    | P'000    |
|   |   |        | Carrying | Carrying |
| Company   | Nature of business                                    | % Held | amount   | amount   |
|   |   |        |          |          |
| Financial Services Company of Botswana Limited        | Financial Services Company of Botswana Limited        | 100%   | 12,500   | 12,500   |
| First Funding (Proprietary) Limited                   | First Funding (Proprietary) Limited                   | 100%   | 1,000    | 1,000    |
| Premium Credit Botswana (Proprietary) Limited         | Premium Credit Botswana (Proprietary) Limited         | 100%   | 10       | 10       |
| First National Insurance Agency (Proprietary) Limited | First National Insurance Agency (Proprietary) Limited | 100%   | 30       | 30       |
|   |   |        | 13,540   | 13,540   |

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 and is now dormant. 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.

|     |                                    | Freehold and<br>leasehold<br>land and<br>buildings<br><b>P'000</b> | Leasehold<br>improvements<br><b>P'000</b> | Capital<br>work-in-<br>progress<br><b>P'000</b> | Motor<br>vehicles<br><b>P'000</b> | Furniture<br>and<br>equipment<br>P'000 | Total<br>P'000 |
|-----|------------------------------------|--|---|---|-----------------------------------|--|----------------|
| 18. | PROPERTY AND EQUIPMENT             |  |   |   |                                   |  |                |
|     | Consolidated                       |  |   |   |                                   |  |                |
|     | 2015                               |  |   |   |                                   |  |                |
|     | Cost or valuation                  |  |   |   |                                   |  |                |
|     | Balance at 1 July 2014             | 345,752  | 72,229                                    | -   | 6,736                             | 205,784                                | 630,501        |
|     | Additions                          | 399  | 24,397                                    | 7,572   | 624                               | 21,240                                 | 54,232         |
|     | Disposals                          | (2,210)  | -   | -   | -                                 | (596)                                  | (2,806)        |
|     | Balance at 30 June 2015            | 343,941  | 96,626                                    | 7,572   | 7,360                             | 226,428                                | 681,927        |
|     | Accumulated depreciation           |  |   |   |                                   |  |                |
|     | Balance at 1 July 2014             | 7,343  | 24,849                                    | -   | 5,135                             | 72,480                                 | 109,807        |
|     | Charge for the year                | 6,089  | 5,017                                     | -   | 219                               | 21,551                                 | 32,876         |
|     | Disposals                          | (553)  | -   | -   | -                                 | (596)                                  | (1,149)        |
|     | Balance at 30 June 2015            | 12,879   | 29,866                                    | -   | 5,354                             | 93,435                                 | 141,534        |
|     | Carrying amount as at 30 June 2015 | 331,062  | 66,760                                    | 7,572   | 2,006                             | 132,993                                | 540,393        |









for the year ended 30 June 2015 [continued]

## 18. PROPERTY AND EQUIPMENT [CONTINUED]

|  | Freehold and   |              |          |          |  |   |
|--|--|--------------|----------|----------|--|---|
|  | leasehold  |              | Capital  |          | Furniture  |   |
|  | land and   | Leasehold    | work-in- | Motor    | and  |   |
|  | buildings  | improvements | progress | vehicles | equipment  | Tota  |
|  | P'000  | P'000        | P'000    | P'000    | P'000  | P'000   |
| Consolidated   |  |              |          |          |  |   |
| 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   |
| Carrying amount as at 30 June 2014   | 338,409  | 47,380       | -        | 1,601    |  |   |
| Carrying amount as at 30 June 2014   | 338,409  | 47,380       | -        | 1,601    | 30 June  | 520,694<br>30 June  |
| Carrying amount as at 30 June 2014   | 338,409  | 47,380       | -        | 1,601    | 30 June<br>2015  | 30 June<br>2014   |
| Carrying amount as at 30 June 2014  Cost or valuation consists of:   | 338,409  | 47,380       | -        | 1,601    | 30 June  | 30 June<br>2014   |
|  | 338,409<br>- cost  | 47,380       | -        | 1,601    | 30 June<br>2015  | 30 June<br>2014<br><b>P'000</b>   |
| Cost or valuation consists of:   |  |              | -        | 1,601    | 30 June<br>2015<br><b>P'000</b>  |   |
| Cost or valuation consists of:   | - cost   |              | -        | 1,601    | 30 June<br>2015<br>P'000<br>283,806  | 30 June<br>2014<br><b>P'000</b><br>281,687                                |
| Cost or valuation consists of:<br>Freehold and leasehold land and buildings  | - cost<br>- valuation adjus  | tment        | -        | 1,601    | 30 June<br>2015<br>P'000<br>283,806<br>60,135                                      | 30 June<br>2014<br>P'000<br>281,687<br>60,135<br>1,105                    |
| Cost or valuation consists of:<br>Freehold and leasehold land and buildings  | - cost<br>- valuation adjus<br>- cost  | tment        | -        | 1,601    | 30 June<br>2015<br>P'000<br>283,806<br>60,135<br>1,105                             | 30 June<br>2014<br>P'000<br>281,687<br>60,138<br>1,108<br>2,828           |
| Cost or valuation consists of:<br>Freehold and leasehold land and buildings<br>Leasehold land and buildings  | - cost<br>- valuation adjus<br>- cost<br>- valuation adjus                                       | tment        | -        | 1,601    | 30 June<br>2015<br>P'000<br>283,806<br>60,135<br>1,105<br>2,825                    | 30 June<br>2014<br>P'000<br>281,687<br>60,138<br>1,108<br>2,828           |
| Cost or valuation consists of:<br>Freehold and leasehold land and buildings<br>Leasehold land and buildings<br>Leasehold land improvements                 | <ul><li>cost</li><li>valuation adjus</li><li>cost</li><li>valuation adjus</li><li>cost</li></ul> | tment        | -        | 1,601    | 30 June<br>2015<br>P'000<br>283,806<br>60,135<br>1,105<br>2,825<br>92,696          | 30 June<br>2014<br>P'000<br>281,687<br>60,135                             |
| Cost or valuation consists of: Freehold and leasehold land and buildings Leasehold land and buildings Leasehold land improvements Capital work-in-progress | - cost - valuation adjus - cost - valuation adjus - cost - cost - cost                           | tment        | -        | 1,601    | 30 June<br>2015<br>P'000<br>283,806<br>60,135<br>1,105<br>2,825<br>92,696<br>7,572 | 30 June<br>2014<br>P'000<br>281,687<br>60,135<br>1,105<br>2,825<br>72,229 |



for the year ended 30 June 2015 [continued]

#### 18. PROPERTY AND EQUIPMENT [CONTINUED]

| THOI ENTI AND EQUITIVE (CONTINUED) | Freehold and |              |          |          |           |         |
|------------------------------------|--------------|--------------|----------|----------|-----------|---------|
|                                    | leasehold    |              | Capital  |          | Furniture |         |
|                                    | land and     | Leasehold    | work-in- | Motor    |           |         |
|                                    |              |              |          |          | and       | Total   |
|                                    | buildings    | improvements | progress | vehicles | equipment | Total   |
|                                    | P'000        | P'000        | P'000    | P'000    | P'000     | P'000   |
| Company                            |              |              |          |          |           |         |
| 2015                               |              |              |          |          |           |         |
| Cost or valuation                  |              |              |          |          |           |         |
| Balance at 1 July 2014             | 315,923      | 70,986       | -        | 6,736    | 205,546   | 599,191 |
| Additions                          | 399          | 22,925       | 7,572    | 624      | 21,240    | 52,760  |
| Disposals                          | (2,210)      | -            | -        | -        | (596)     | (2,806) |
| Balance at 30 June 2015            | 314,112      | 93,911       | 7,572    | 7,360    | 226,190   | 649,145 |
|                                    |              |              |          |          |           |         |
| Accumulated depreciation           |              |              |          |          |           |         |
| Balance at 1 July 2014             | 5,649        | 24,515       | -        | 5,135    | 72,264    | 107,563 |
| Charge for the year                | 5,757        | 4,980        | -        | 219      | 21,551    | 32,507  |
| Disposals                          | (553)        |              | _        | -        | (596)     | (1,149) |
| Balance at 30 June 2015            | 10,853       | 29,495       | -        | 5,354    | 93,219    | 138,921 |
| Carrying amount as at 30 June 2015 | 303,259      | 64,416       | 7,572    | 2,006    | 132,971   | 510,224 |
| 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 |









for the year ended 30 June 2015 [continued]

| 18. | PROPERTY AND EQUIPMENT [CONTINUED]        |                        | 30 June<br>2015 | 30 June<br>2014 |
|-----|---|------------------------|-----------------|-----------------|
|     |   |                        | P'000           | P'000           |
|     |   |                        |                 |                 |
|     | Cost or valuation consists of:            |                        |                 |                 |
|     | Freehold and leasehold land and buildings | cost                   | 265,716         | 267,527         |
|     |   | - valuation adjustment | 48,396          | 48,396          |
|     | Leasehold improvements                    | - cost                 | 93,911          | 70,986          |
|     | Capital work-in-progress                  | - cost                 | 7,572           | -               |
|     | Motor vehicles                            | - cost                 | 7,360           | 6,736           |
|     | Furniture and Equipment                   | - cost                 | 226,190         | 205,546         |
|     | Total cost or valuation                   |                        | 649,145         | 599,191         |

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

Freehold and leasehold land and buildings

249,583 255,621

#### **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

|     |   | CONSOLIDATED |         | COMPANY |         |
|-----|---|--------------|---------|---------|---------|
|     |   | 30 June      | 30 June | 30 June | 30 June |
|     |   | 2015         | 2014    | 2015    | 2014    |
| 19. | GOODWILL                                    | P'000        | P'000   | P'000   | P'000   |
|     |   |              |         |         |         |
|     | Goodwill                                    |              |         |         |         |
|     | Goodwill at carrying value                  | 26,963       | 26,963  | 26,589  | 26,589  |
|     |   |              |         |         |         |
|     | The above goodwill arose on acquisition of: |              |         |         |         |
|     | First Funding (Proprietary) Limited         | 26,589       | 26,589  | 26,589  | 26,589  |
|     | Premium Credit (Proprietary) Limited        | 374          | 374     | -       | -       |
|     |   | 26,963       | 26,963  | 26,589  | 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% (2014: 3.0%) for the next four years. The discount rate used is 12.4% (2014: 14%) and the forecast period is 4 years (2014: 4 years).



for the year ended 30 June 2015 [continued]

#### 20. DEPOSITS FROM CUSTOMERS

|   | COM        | COMPANY    |  |  |
|---|------------|------------|--|--|
|   | 30 June    | 30 June    |  |  |
|   | 2015       | 2014       |  |  |
|   | P'000      | P'000      |  |  |
| Group and Company   |            |            |  |  |
| Current and managed accounts  |            |            |  |  |
| - financial institutions and other customers  | 6,786,494  | 4,296,285  |  |  |
| Savings accounts  | 1,020,271  | 953,127    |  |  |
| Call and term deposits  | 9,426,956  | 9,078,730  |  |  |
|   | 17,233,721 | 14,328,142 |  |  |
| Included in the call and term deposits is a balance of P89,564,393 (2014: P89,117,307) relating to First National Bank Holdings (Botswana) Limited. |            |            |  |  |
| Maturity analysis   |            |            |  |  |
| Withdrawal on demand  | 10,742,173 | 10,638,001 |  |  |
| Maturing within one year  | 6,491,548  | 3,690,141  |  |  |
|   | 17,233,721 | 14,328,142 |  |  |

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

|     |                                 | CONSO   | LIDATED | СОМ     | PANY    |
|-----|---------------------------------|---------|---------|---------|---------|
|     |                                 | 30 June | 30 June | 30 June | 30 June |
|     |                                 | 2015    | 2014    | 2015    | 2014    |
|     |                                 | P'000   | P'000   | P'000   | P'000   |
|     |                                 |         |         |         |         |
|     |                                 |         |         |         |         |
| 21. | DEPOSITS FROM BANKS             |         |         |         |         |
|     |                                 |         |         |         |         |
| _   | Unsecured and payable on demand | 199,334 | 12,157  | 199,334 | 12,157  |

Included in this amount is a balance due to FirstRand Bank Limited of P162,000 (2014: P2,332,000), First National Bank Zambia P245,000 (2014: P101,000), and First National Bank Swaziland P6,000 (2014: P7,000), First National Bank Namibia P1,923,000 (2014: P Nil)









for the year ended 30 June 2015 [continued]

#### 22. BORROWINGS

|  | CONSOLII | DATED   | COMPANY |         |
|--|----------|---------|---------|---------|
|  | 30 June  | 30 June | 30 June | 30 June |
|  | 2015     | 2014    | 2015    | 2014    |
|  | P'000    | P'000   | P'000   | P'000   |
| Public Debt Service Fund                                     | 16,880   | 27,665  | 16,880  | 27,665  |
|  | 16,880   | 27,665  | 16,880  | 27,665  |
| Subordinated Unsecured Bonds                                 |          |         |         |         |
| Floating rate  |          |         |         |         |
| 154.48 Medium Term Notes of P1,000,000 each                  |          |         |         |         |
| (2014: 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                      |          |         |         |         |
| (2014: 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                                  | 73,903   | 92,897  | 73,903  | 92,897  |
| Negotiable Certificates of Deposit                           | 125,113  | 189,453 | 125,113 | 189,453 |
| Total borrowings   | 395,376  | 489,495 | 395,376 | 489,495 |

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 P4,960,352 (2014: P6,873,098), inclusive of interest. The loans have maturities ranging from January 2016 to February 2018.

Unsecured bond notes are subordinated to claims of senior creditors and claims of depositors and mature in December 2021.

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 comprise of two 10 year 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.



for the year ended 30 June 2015 [continued]

#### 23. CREDITORS AND ACCRUALS

|     |  | CONSC    | LIDATED  | COM      | COMPANY  |  |
|-----|--|----------|----------|----------|----------|--|
|     |  | 30 June  | 30 June  | 30 June  | 30 June  |  |
|     |  | 2015     | 2014     | 2015     | 2014     |  |
|     |  | P'000    | P'000    | P'000    | P'000    |  |
|     | Accounts payable   | 24,206   | 9,635    | 23,519   | 9,388    |  |
|     | Other creditors and accruals   | 100,772  | 99,145   | 100,315  | 97,112   |  |
|     | Items in transit   | 199,550  | 145,346  | 195,194  | 139,207  |  |
|     | Operating lease liability arising from straight lining of lease payments | 1,642    | 1,837    | 1,642    | 1,837    |  |
|     | Employee share participation schemes                                     | 32,081   | 17,208   | 32,081   | 17,208   |  |
|     | Audit fees   | 1,858    | 1,425    | 1,858    | 1,425    |  |
|     |  | 360,109  | 274,596  | 354,609  | 266,177  |  |
| 24. | EMPLOYEE LIABILITIES   |          |          |          |          |  |
|     | Leave pay  |          |          |          |          |  |
|     | At the beginning of the year   | 20,550   | 24,025   | 20,550   | 24,025   |  |
|     | Additional accrual recognised  | 49,947   | 6,576    | 6,050    | 6,576    |  |
|     | Utilised   | (49,892) | (10,051) | (5,995)  | (10,051) |  |
|     | At the end of the year   | 20,605   | 20,550   | 20,605   | 20,550   |  |
|     | Bonus  |          |          |          |          |  |
|     | At the beginning of the year   | 40,038   | 38,051   | 39,722   | 37,979   |  |
|     | Additional accrual recognised  | 45,052   | 40,038   | 45,052   | 39,550   |  |
|     | Utilised   | (43,746) | (38,051) | (43,752) | (37,807) |  |
|     | At the end of the year   | 41,344   | 40,038   | 41,022   | 39,722   |  |
|     |  |          |          |          |          |  |
|     |  | 61,949   | 60,588   | 61,627   | 60,272   |  |

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











for the year ended 30 June 2015 [continued]

#### 25. CAPITAL ADEQUACY

|  | CONSO      | LIDATED    |
|--|------------|------------|
|  | 30 June    | 30 June    |
|  | 2015       | 2014       |
|  | P'000      | P'000      |
| Tier 1 – Core capital                                  |            |            |
| Stated capital   | 51,088     | 51,088     |
| Retained earnings                                      | 2,043,132  | 1,854,722  |
|  | 2,094,220  | 1,905,810  |
| Less: Goodwill   | (26,963)   | (26,963)   |
|  | 2,067,257  | 1,878,847  |
| Tier 2 - Supplementary capital                         |            |            |
| Revaluation reserves subject to 50% risk adjustment    | 27,595     | 28,629     |
| Portfolio and IBNR provisions                          | 107,274    | 72,744     |
| Subordinated Unsecured Bonds (Note 22)                 | 179,480    | 179,480    |
|  | 314,349    | 280,853    |
| Total qualifying capital                               | 2,381,606  | 2,159,700  |
| Risk adjusted assets                                   |            |            |
| - balance sheet items                                  | 12,282,438 | 11,362,809 |
| - off-balance sheet items                              | 258,000    | 459,321    |
|  | 12,540,438 | 11,822,130 |
| Capital adequacy ratios (%)                            | 18.99      | 18.27      |
| Core capital (%) (Basel Committee guide: minimum 4%)   | 16.48      | 15.89      |
| Supplementary capital (%)                              | 2.51       | 2.38       |
| Total (%)  | 18.99      | 18.27      |
| 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.

#### 26. POST-RETIREMENT FUND LIABILITIES

The Group had no post-retirement liability as at the reporting date (2014: P 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 Retirement Funds Act governs its administration. The fund currently has a total contribution rate of 18% (2014: 18%)of pensionable salary towards retirement funding. This is made up of an employee contribution rate of 6.5% (2014: 6.5%) and an employer contribution rate of 11.5% (2014: 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.



for the year ended 30 June 2015 [continued]

#### 27. STATED CAPITAL

|   | CONSO   | LIDATED | COM     | PANY    |
|---|---------|---------|---------|---------|
|   | 30 June | 30 June | 30 June | 30 June |
|   | 2015    | 2014    | 2015    | 2014    |
|   | P'000   | P'000   | P'000   | P'000   |
|   |         |         |         |         |
| 2,563,700,000 (2014: 2,563,700,000) ordinary shares | 58,088  | 58,088  | 58,088  | 58,088  |
| Less: 20,000,000 (2014: 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 40.

| RESERVES   |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Non-distributable reserves                             |           |           |           |           |
| Surplus on revaluation of properties                   |           |           |           |           |
| Balance at the beginning of the year                   | 57,257    | 59,152    | 42,633    | 44,230    |
| Transfer to retained earnings                          | (2,068)   | (1,895)   | (1,752)   | (1,597)   |
| Balance at the end of the year                         | 55,189    | 57,257    | 40,881    | 42,633    |
| Retained earnings in associate company                 |           |           |           |           |
| Balance at the beginning and end of the year           | -         | 2,819     | -         | -         |
| Transfer to retained earnings                          | -         | (2,819)   | -         | -         |
|  | -         | -         | -         | -         |
| Total other non-distributable reserves                 | 55,189    | 57,257    | 40,881    | 42,633    |
| Equity-settled employee benefits reserve               |           |           |           |           |
| Balance at the beginning of the year                   | 18,906    | 18,300    | 18,906    | 18,300    |
| Share-based payment expense during the year            | 715       | 606       | 715       | 606       |
| Transfer to retained earnings                          | (5,051)   | -         | (5,051)   | -         |
| Balance at the end of the year                         | 14,570    | 18,906    | 14,570    | 18,906    |
| Retained earnings                                      |           |           |           |           |
| Balance at the beginning of the year                   | 1,854,722 | 1,540,539 | 1,804,212 | 1,511,722 |
| Transfer from revaluation reserve                      | 2,068     | 1,895     | 1,752     | 1,597     |
| Transfer from associate company retained earnings      | -         | 2,819     | -         | -         |
| Transfer from equity settled employee benefits reserve | 5,051     | =         | 5,051     | -         |
| Profit for the year                                    | 591,483   | 719,661   | 576,085   | 701,085   |
| Interim dividend paid                                  | (128,185) | (128,185) | (128,185) | (128,185) |
| Transfer to dividend reserve                           | (282,007) | (282,007) | (282,007) | (282,007) |
| Balance at the end of the year                         | 2,043,132 | 1,854,722 | 1,976,908 | 1,804,212 |
| Total reserves (excluding the dividend reserve)        | 2,112,891 | 1,930,885 | 2,032,359 | 1,865,751 |









for the year ended 30 June 2015 [continued]

# 29. CASH GENERATED BY OPERATIONS BEFORE TAXATION AND WORKING CAPITAL CHANGES

|     |   | CONSOL    | CONSOLIDATED |           | COMPANY              |  |
|-----|---|-----------|--------------|-----------|----------------------|--|
|     |   | 30 June   | 30 June      | 30 June   | 30 June              |  |
|     |   | 2015      | 2014         | 2015      | 2014<br><b>P'000</b> |  |
|     |   | P'000     | P'000        | P'000     |                      |  |
|     | Profit before direct taxation                                 | 756,503   | 922,239      | 736,438   | 899,509              |  |
|     | Adjusted for:   |           |              |           |                      |  |
|     | depreciation of property and equipment                        | 32,876    | 31,602       | 32,507    | 30,690               |  |
|     | - straight-line adjustment of lease rentals                   | 195       | 124          | 195       | 124                  |  |
|     | - impairment losses on loans and advances                     | 201,068   | 122,510      | 201,068   | 122,510              |  |
|     | - gain on sale of property and equipment                      | (898)     | (1,463)      | (898)     | (1,463)              |  |
|     | - gain on sale of assets held for sale                        | -         | (763)        | -         | (763)                |  |
|     | - unrealised gain on derivative financial instruments         | (6,422)   | (13,669)     | (6,422)   | (13,669)             |  |
|     | - net (gain)/loss on financial instruments held at fair value |           |              |           |                      |  |
|     | - through profit or loss                                      | (12,086)  | 10,730       | (12,086)  | 10,730               |  |
|     | - impairment of investment in subsidiary                      | -         | -            | -         | 7,115                |  |
|     | - gain on disposal of investment in associate                 | -         | (24,227)     | -         | (27,045)             |  |
|     | - share-based payment expense - equity settled                | 715       | 606          | 715       | 606                  |  |
|     | - share-based payment expense - cash settled                  | 19,193    | 5,652        | 19,193    | 5,652                |  |
|     |   | 991,144   | 1,053,341    | 970,710   | 1,033,996            |  |
|     |   |           |              |           |                      |  |
| 30. | CURRENT INCOME TAXATION PAID                                  |           |              |           |                      |  |
|     | Amounts overpaid at the beginning of the year                 | (9,025)   | (2,117)      | (12,895)  | (1,525)              |  |
|     | Charged to the income statement                               | 123,037   | 193,965      | 118,328   | 189,639              |  |
|     | Amounts overpaid at the end of the year                       | 46,832    | 12,895       | 46,832    | 12,895               |  |
|     | Amounts owing at the end of the year                          | (650)     | (3,870)      | -         | -                    |  |
|     | Cash amounts paid   | 160,194   | 200,873      | 152,265   | 201,009              |  |
| 31. | CURRENT INCOME TAXATION (ASSET)/LIABILITY                     |           |              |           |                      |  |
| 51. | CORRENT INCOME TAXATION (ASSET)/ EIABIETT                     |           |              |           |                      |  |
|     | Opening asset   | (9,025)   | (2,117)      | (12,895)  | (1,525)              |  |
|     | Charged to the income statement                               | 123,037   | 193,965      | 118,328   | 189,639              |  |
|     | Cash amounts paid   | (160,194) | (200,873)    | (152,265) | (201,009)            |  |
|     | Closing asset   | (46,182)  | (9,025)      | (46,832)  | (12,895)             |  |
|     |   |           | ,,           |           | ,,,,,,,,             |  |
|     | Closing (asset)   | (46,832)  | (12,895)     | (46,832)  | (12,895)             |  |
|     | Closing liability   | 650       | 3,870        | -         |                      |  |
|     |   | (46,182)  | (9,025)      | (46,832)  | (12,895)             |  |



for the year ended 30 June 2015 [continued]

#### 32. INCREASE IN DEPOSITS AND CURRENT ACCOUNTS

|     |   | CONSO        | LIDATED      | COMPANY         |              |  |
|-----|---|--------------|--------------|-----------------|--------------|--|
|     |   | 30 June      | 30 June      | 3 <b>0 June</b> | 30 June      |  |
|     |   | 2015         | 2014         | 2015            | 2014         |  |
|     |   | P'000        | P'000        | P'000           | P'000        |  |
|     |   |              | 400040       | 0.400.000       | 400040       |  |
|     | (Decrease)/increase in current and managed account deposits   | 2,490,209    | 483,846      | 2,490,209       | 483,846      |  |
|     | Increase in savings deposits  | 67,144       | 32,929       | 67,144          | 32,929       |  |
|     | Increase in call and term deposits  | 348,226      | 878,600      | 348,226         | 878,600      |  |
|     |   | 2,905,579    | 1,395,375    | 2,905,579       | 1,395,375    |  |
| 33. | INCREASE IN ADVANCES TO CUSTOMERS   |              |              |                 |              |  |
| 00. | WORLAGE WARD WANGES TO GOSTOWERS  |              |              |                 |              |  |
|     | Net amount outstanding at the beginning of the year   | 12,131,415   | 10,369,937   | 12,138,415      | 10,376,937   |  |
|     | Impairment of advances  | (201,068)    | (122,510)    | (201,068)       | (122,510)    |  |
|     | Net amount outstanding at the end of the year   | (12,846,481) | (12,131,415) | (12,853,481)    | (12,138,415) |  |
|     | Fair value adjustment - Morupule Ioan   | (6,563)      | 4,439        | (6,563)         | 4,439        |  |
|     |   | (922,697)    | (1,879,549)  | (922,697)       | (1,879,549)  |  |
|     |   |              |              |                 |              |  |
| 34. | DIVIDENDS PAID  |              |              |                 |              |  |
|     | Previous year's final dividend paid during the year   | 282,007      | 256,370      | 282,007         | 256,370      |  |
|     | Interim dividend paid   | 128,185      | 128,185      | 128,185         | 128,185      |  |
|     | Total dividends paid to shareholders  | 410,192      | 384,555      | 410,192         | 384,555      |  |
| 35. | CASH AND CASH EQUIVALENTS   |              |              |                 |              |  |
| 50. | S. S. M. I. S. O. O. I. E. G. I. E. G. O. I. E. G. |              |              |                 |              |  |
|     | Cash and short-term funds (Note 10)   | 4,371,324    | 2,721,384    | 4,371,324       | 2,721,384    |  |
|     | Bank of Botswana Certificates (Note 14)   | 1,812,210    | 1,146,264    | 1,812,210       | 1,146,264    |  |
|     |   | 6,183,534    | 3,867,648    | 6,183,534       | 3,867,648    |  |









for the year ended 30 June 2015 [continued]

#### 36. CONTINGENCIES AND COMMITMENTS

|  | CONSO     | CONSOLIDATED COM |           | 1PANY     |  |
|--|-----------|------------------|-----------|-----------|--|
|  |           | Restated         |           | Restated  |  |
|  | 30 June   | 30 June          | 30 June   | 30 June   |  |
|  | 2015      | 2014             | 2015      | 2014      |  |
|  | P'000     | P'000            | P'000     | P'000     |  |
| Contingencies  | 984,333   | 883,026          | 984,333   | 883,026   |  |
| The above contingencies represent guarantees and letters of credit.  |           |                  |           |           |  |
| Commitments  |           |                  |           |           |  |
| Undrawn commitments to customers:  |           |                  |           |           |  |
| - as previously stated   | 1,588,479 | 1,343,724        | 1,588,479 | 1,343,724 |  |
| - restatement  | -         | 346,849          | -         | 346,849   |  |
|  | 1,588,479 | 1,690,573        | 1,588,479 | 1,690,573 |  |
| The prior year comparatives were restated to account for previously omitted commitments.   |           |                  |           |           |  |
| Capital commitments  |           |                  |           |           |  |
| Capital expenditure approved by the Directors  |           |                  |           |           |  |
| - not yet contracted for   | 145,236   | 286,216          | 145,236   | 286,216   |  |
| 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  | 16,221    | 12,013           | 16,221    | 12,013    |  |
| Payable within two to five years   | 20,595    | 12,845           | 20,595    | 12,845    |  |
|  | 36,816    | 24,858           | 36,816    | 24,858    |  |

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 (2014: P nil).

#### 37. 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 2015 the Group acted as a custodian in respect of Botswana Government bonds amounting to P5,215,407,198 (2014:P6,580,115,309), treasury bills amounting to P2,008,771 (2014: P112,350,928) and equities amounting to P8,773,826,598 (2014: P7,602,512,039). 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.



for the year ended 30 June 2015 [continued]

#### 38. 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 during the current year. Management is monitoring this risk closely. There have been no significant changes in exposure to other risks and the Group's objectives, policies and processes for managing risks in the current or prior year.

The Group was also impacted by liquidity pressures in the market during the current year which lead to stiff competition amongst banks for stable customer deposits, leading to higher cost of funding and reduced margins. Management continues to monitor liquidity risk closely and the Group closed the year in a healthy liquidity position.

The Group is principally exposed to credit risk, market risk, and liquidity risk. The exposures to these risks as at 30 June 2015 are set out below:

#### 38.1 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.

| graphical distribution swana thern Africa th America ope t of the world | ASS        | SETS       |
|---|------------|------------|
|   | 30 June    | 30 June    |
|   | 2015       | 2014       |
| CONSOLIDATED  | P'000      | P'000      |
| Geographical distribution   |            |            |
| Botswana  | 18 046 606 | 15 949 003 |
| Southern Africa   | 575 556    | 323 219    |
| North America   | 1 611 159  | 685 424    |
| Europe  | 113 183    | 117 083    |
| Rest of the world   | 11 753     | 4 125      |
|   | 20 358 257 | 17 078 854 |
| Distribution by sector  |            |            |
| Banks including Bank of Botswana  | 5 124 758  | 3 106 108  |
| Government and parastatal organisations                                 | 444 127    | 390 564    |
| Individuals   | 6 181 636  | 5 351 862  |
| Business/trading  | 4 989 310  | 4 882 302  |
| Others  | 3 618 426  | 3 348 018  |
|   | 20 358 257 | 17 078 854 |

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









for the year ended 30 June 2015 [continued]

#### 38. FINANCIAL RISK MANAGEMENT [CONTINUED]

#### 38.1 Credit risk management

#### Collateral pledged

At the end of the current year the Group had borrowings with Bank of Botswana amounting to P nil (2014: P8,950,000). 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 ("preset 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 P89,920,409 (2014: P111,077,000).



for the year ended 30 June 2015 [continued]

#### FINANCIAL RISK MANAGEMENT [CONTINUED] 38.

#### 38.1 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<br>date average<br>exposure<br>(after interest<br>in suspense)<br>P'000 | Total exposure (after interest in suspense) | Retail<br><b>P'000</b> | Corporate<br>& commer-<br>cial<br>P'000 | <b>Other P'000</b> |
|---|---|---|------------------------|---|--------------------|
| 2015  |   |   |                        |   |                    |
| Exposures recognised in the statement of financial position ex  | cposures  |   |                        |   |                    |
| Cash and short term funds                                       | 4,292,667   | 4,131,604                                   | 77,334                 | =                                       | 4,054,270          |
| - Money at call and short notice                                | 221,831   | 77,334                                      | 77,334                 | -                                       | -                  |
| - Balances with other banks                                     | 4,070,836   | 4,054,270                                   | -                      | -                                       | 4,054,270          |
| Advances to banks   | 1,242,384   | 640,000                                     |                        |   | 640 000            |
| Advances to customers - (after interest in suspense)            | 13,146,447  | 13,108,266                                  | 7,878,496              | 5,229,770                               | =                  |
| Investment securities - debt                                    | 2,329,048   | 2,256,337                                   | -                      | =                                       | 2,256,337          |
| Accounts receivable   | 404,441   | 211,080                                     | -                      | -                                       | 211,080            |
| Derivatives   | 30,763  | 26,716                                      | -                      | -                                       | 26,716             |
| Related parties   | 6,303   | 6,319                                       | -                      | -                                       | 6,319              |
| Exposures not recognised in the statement of financial position | n   |   |                        |   |                    |
| Financial and other guarantees                                  | 669,584   | 984,333                                     | 29,097                 | 955,236                                 | -                  |
| Loan commitments not drawn                                      | 1,354,698   | 1,588,479                                   | 1,037,512              | 550,967                                 | -                  |
| Total   | 22,233,951  | 22,953,134                                  | 9,022,439              | 6,735,973                               | 7,194,722          |
| 2014 - Restated   |   |   |                        |   |                    |
| Exposures recognised in the statement of financial position ex  | posures   |   |                        |   |                    |
| 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                                     |                        |   | 461921             |
| 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 | n   |   |                        |   |                    |
| Financial and other guarantees                                  | 994,850   | 883,026                                     | 26,102                 | 856,924                                 | -                  |
| Loan commitments not drawn                                      | 1,193,749   | 1,690,573                                   | 1,139,606              | 550,967                                 | =                  |
| - as previously stated  | 1,193,749   | 1,343,724                                   | 792,757                | 550,967                                 | =                  |
| - restatement (note 36)   | _   | 346,849                                     | 346,849                | -                                       | -                  |
| Total   | 17,360,258  | 19,696,507                                  | 9,106,759              | 6,008,900                               | 4,580,848          |









for the year ended 30 June 2015 [continued]

#### 38. FINANCIAL RISK MANAGEMENT [CONTINUED]

#### 38.1 Credit risk management [continued]

#### Credit quality

The table below presents an analysis of the credit quality of neither past due nor impaired (i.e. performing) advances based on the Group's internal credit ratings

|              | Investment | Non-<br>investment | Total neither past due nor |
|--------------|------------|--------------------|----------------------------|
|              | grade      | grade              | impaired                   |
| CONSOLIDATED | P'000      | P'000              | P'000                      |
| 0045         |            |                    |                            |
| 2015         |            |                    |                            |
| Home loans   | =          | 4,127,343          | 4,127,343                  |
| Credit Cards | -          | 105,519            | 105,519                    |
| Term loans   | 1,439,344  | 3,164,704          | 4,604,048                  |
| Overdrafts   | 106,407    | 672,928            | 779,335                    |
| Wesbank      | -          | 1,696,793          | 1,696,793                  |
| Total        | 1,545,751  | 9,767,287          | 11,313,038                 |
| 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                 |

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

|  |             |         | Other          |            |            |
|--|-------------|---------|----------------|------------|------------|
|  |             |         | Government and |            |            |
|  |             |         | Government     | Cash and   |            |
| Credit quality of financial assets other than advances |             | Related | guaranteed     | short term | Accounts   |
| neither past due nor impaired                          | Derivatives | parties | stock          | funds      | receivable |
| CONSOLIDATED   | P'000       | P'000   | P'000          | P'000      | P'000      |
| 2015   |             |         |                |            |            |
| Investment Grade                                       | 26,716      | 6,319   | 2,256,337      | 4,371,324  | 211,080    |
|  |             |         |                |            |            |
| 2014   |             |         |                |            |            |
| Investment Grade                                       | 24,922      | 6,272   | 1,536,828      | 2,721,384  | 196,112    |

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. International ratings obtained from FirstRand for our loan book have been applied whereas in prior year a 70/30 split ratio has been applied.



for the year ended 30 June 2015 [continued]

#### 38. FINANCIAL RISK MANAGEMENT [CONTINUED]

#### 38.1 Credit risk management [continued]

|                                     | Neither past due | Past due but not impaired |              |              |          |            |
|-------------------------------------|------------------|---------------------------|--------------|--------------|----------|------------|
| Age analysis of arrears of advances | nor impaired     | 1 - 30 days               | 31 - 60 days | 61 - 90 days | Impaired | Total      |
| CONSOLIDATED                        | P'000            | P'000                     | P'000        | P'000        | P'000    | P'000      |
|                                     |                  |                           |              |              |          |            |
| 2015                                |                  |                           |              |              |          |            |
| Home loans                          | 4,127,343        | 298,741                   | 102,542      | 57,377       | 178,443  | 4 764 446  |
| Other loans including credit card   | 105,519          | 6,448                     | 2,339        | 1,782        | 3,693    | 119 781    |
| Term loans                          | 4,604,048        | 67,607                    | 157,860      | 51,788       | 176,527  | 5 057 830  |
| Overdraft                           | 779,335          | -                         | -            | 256,293      | 67,141   | 1 102 769  |
| WesBank asset finance               | 1,696,793        | 184,856                   | 68,407       | 36,255       | 77,129   | 2 063 440  |
| Total                               | 11,313,038       | 557,652                   | 331,148      | 403,495      | 502,933  | 13,108,266 |
|                                     |                  |                           |              |              |          |            |
| 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 |

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.

#### Company financial risk management disclosures

Management has opted to disclose only consolidated figures due to the fact that in their opinion there is no material difference between the consolidated and Company financial risk management disclosures. The related disclosures include:

- credit risk management
- liquidity risk management
- fair value of financial instruments

The consolidated disclosures are reflective of the Company in all material respects.

#### 38.2 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 tests and limits.









for the year ended 30 June 2015 [continued]

#### 38. FINANCIAL RISK MANAGEMENT [CONTINUED]

#### 38.2.1 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 market risk limit was USD35 million (2014: USD35 million) for all asset classes (foreign currency and iinterest rate risk).

The Group takes positions to mitigate the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Consequently the Group strives to match its foreign currency assets and liabilities. The Group manages foreign currency exposures in terms of approved limits. The table below sets out the currency position as at the year-end.

|                          | ASSETS     |            | LIABILITIES |            |
|--------------------------|------------|------------|-------------|------------|
|                          | 30 June    | 30 June    | 30 June     | 30 June    |
|                          | 2015       | 2014       | 2015        | 2014       |
| CONSOLIDATED             | P'000      | P'000      | P'000       | P'000      |
|                          |            |            |             |            |
| Distribution by currency |            |            |             |            |
| Botswana Pula            | 18,413,485 | 16,541,894 | 18,181,725  | 16,462,461 |
| South African Rand       | 397,781    | 225,239    | 451,306     | 235,427    |
| United States Dollar     | 2,024,534  | 733,556    | 2,218,250   | 815,020    |
| British Pound            | 49,213     | 44,311     | 46,907      | 40,038     |
| Euro                     | 66,705     | 74,413     | 58,030      | 71,558     |
| Others                   | 20,727     | 19,993     | 16,227      | 14,902     |
|                          | 20,972,445 | 17,639,406 | 20,972,445  | 17,639,406 |

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  | 30 June |
|----------------------------------|----------|---------|
|                                  | 2015     | 2014    |
|                                  | P'000    | P'000   |
|                                  |          |         |
| Loss arising from a 10% decrease | 19,372   | 8,146   |
| Gain arising from a 10% increase | (19,372) | (8,146) |

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



for the year ended 30 June 2015 [continued]

#### 38. FINANCIAL RISK MANAGEMENT [CONTINUED]

#### 38.2.2 Interest rate risk management

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The table below summarises the Group's exposure to interest rate risk. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of repricing or maturity dates.

|                              |            |             | TER        | M TO REPRICING |           |          |              |
|------------------------------|------------|-------------|------------|----------------|-----------|----------|--------------|
|                              | Carrying   |             | 1-3        | 3-12           |           | Over 5   | Non-interest |
|                              | amount     | Demand      | months     | months         | 1-5 years | years    | bearing      |
| CONSOLIDATED                 | P'000      | P'000       | P'000      | P'000          | P'000     | P'000    | P'000        |
| 2015                         |            |             |            |                |           |          |              |
| Total assets                 | 20,972,445 | 4,382,974   | 13,466,130 | 108,921        | 353,748   | 52,443   | 2,608,229    |
| Total liabilities and equity | 20,972,445 | 12,500,093  | 4,018,148  | 1,156,251      | 277,370   | 65,674   | 2,954,909    |
| Net interest sensitivity gap | -          | (8,117,119) | 9,447,982  | (1,047,330)    | 76,378    | (13,231) | (346,680)    |
| 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)    |

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:

|   | 30 June   | 30 June  |
|---|-----------|----------|
|   | 2015      | 2014     |
|   | P'000     | P'000    |
|   |           |          |
| 100 basis points parallel increase - gains  | 74,210    | 42,043   |
| 100 basis points parallel decrease - losses | (74,210)  | (42,043) |
|   |           |          |
| 200 basis points parallel increase - gains  | 148,420   | 84,086   |
| 200 basis points parallel decrease - losses | (148,420) | (84,086) |









for the year ended 30 June 2015 [continued]

#### 38. FINANCIAL RISK MANAGEMENT [CONTINUED]

#### 38.3 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.

Along with other banks, the Group was exposed to liquidity pressures in the market, mainly during the first half of the 2015 financial year wich resulted in a higher than usual loan-to-deposit ratio in the industry. As a consequence, increased competition for stable customer deposits put upward pressure on interest rates and thus a higher cost of funding. This situation was largely alleviated towards mid-year 2015 as banks sought diversified sources of funding. The reduction in the cash reserve requirement from 10% to 5% also eased liquidity pressures by increasing funds in circulation. The Bank enters the new financial year with very healthy liquidity ratios.

#### 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         |             | 1-3         | 3-12      |           | Over 5    | Non         |
|                              | amount           | Demand      | months      | months    | 1-5 years | years     | sensitive   |
| 2015                         | P'000            | P'000       | P'000       | P'000     | P'000     | P'000     | P'000       |
| Total assets                 | 20,972,445       | 5,971,601   | 3,009,801   | 1,428,510 | 6,242,161 | 3,611,759 | 708,613     |
| Total liabilities and equity | 20,972,445       | 12,337,661  | 4,363,957   | 1,156,251 | 432,583   | 65,674    | 2,616,319   |
| Net liquidity gap            | -                | (6,366,060) | (1,354,156) | 272,259   | 5,809,578 | 3,546,085 | (1,907,706) |
| 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) |

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.



for the year ended 30 June 2015 [continued]

#### 38. FINANCIAL RISK MANAGEMENT [CONTINUED]

## 38.3 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 |           |           |           |         |            |  |
|------------------------------|------------------|-----------|-----------|-----------|---------|------------|--|
|                              | Call             | 1-3       | 4 - 12    | 1 - 5     | Over 5  |            |  |
|                              | Demand           | months    | months    | 1-5 years | years   | Total      |  |
|                              | P'000            | P'000     | P'000     | P'000     | P'000   | P'000      |  |
| 2015                         |                  |           |           |           |         |            |  |
| Amounts due to other banks   | 199,334          | -         | -         | -         | -       | 199,334    |  |
| Deposit and current accounts | 10,749,172       | 4,093,908 | 2,627,184 | 337,911   | 260,520 | 18,068,695 |  |
| Borrowings                   | -                | 6,760     | 22,110    | 127,429   | 182,927 | 339,226    |  |
| Due to related companies     | 11,673           | -         | -         | -         | -       | 11,673     |  |
| Creditors and accruals       | 39,861           | 326,902   | 1,035     | -         | 5,080   | 372,878    |  |
| Provisions                   | -                | -         | 61,949    | -         | -       | 61,949     |  |
|                              | 11,000,040       | 4,427,570 | 2,712,278 | 465,340   | 448,527 | 19,053,755 |  |
| 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 |  |
| 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     |  |
|                              | 10,592,597       | 3,744,697 | 771,056   | 572,904   | 640,197 | 16,321,451 |  |









for the year ended 30 June 2015 [continued]

#### 38. FINANCIAL RISK MANAGEMENT [CONTINUED]

#### 38.4 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  $% \left( 1\right) =\left( 1\right) \left( 1\right) \left($
- 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.



for the year ended 30 June 2015 [continued]

#### 38. FINANCIAL RISK MANAGEMENT [CONTINUED]

#### 38.4 Fair value of financial instruments (continued)

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<br>hierarchy<br>level | Valuation<br>technique | Description of valuation technique and main assumptions   | Observable inputs  | Significant<br>unobservable<br>inputs of Level<br>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<br>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<br>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   |
| Loans and advances to customers  |                                  |                        |   |  |   |









for the year ended 30 June 2015 [continued]

- 38. FINANCIAL RISK MANAGEMENT [CONTINUED]
- 38.4 Fair value of financial instruments [continued

| Instrument   | Fair value<br>hierarchy<br>level | Valuation<br>technique | Description of valuation technique and main assumptions  | Observable inputs                | Significant<br>unobservable<br>inputs of Level<br>3 items |
|--|----------------------------------|------------------------|--|----------------------------------|---|
| - RMB investment<br>banking book held<br>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<br>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   |



for the year ended 30 June 2015 [continued]

#### 38. FINANCIAL RISK MANAGEMENT [CONTINUED]

## 38.4 Fair value of financial instruments [continued]

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<br>hierarchy<br>level | Valuation<br>technique               | Description of valuation technique and main assumptions  | Observable inputs                | Significant<br>unobservable<br>inputs of Level<br>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<br>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<br>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<br>Botswana<br>quoted prices | Bank of Botswana quoted prices   | Market interest rates and curves | Not applicable  |









for the year ended 30 June 2015 [continued]

#### 38. FINANCIAL RISK MANAGEMENT [CONTINUED]

## 38.4 Fair value of financial instruments [continued

| Instrument  | Fair value<br>hierarchy<br>level | Valuation<br>technique                       | Description of valuation technique and main assumptions  | Observable inputs  | Significant<br>unobservable<br>inputs of Level<br>3 items |
|---|----------------------------------|--|--|--|---|
| Deposits  |                                  |  |  |  |   |
| - Call and non-term<br>deposits   | Level 2                          | None - the<br>undiscounted<br>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<br>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<br>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<br>and liabilities not<br>measured at fair value<br>but for which fair value<br>is disclosed | Level 2 and<br>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. No transfers between the levels from prior year took place.



for the year ended 30 June 2015 [continued]

#### 38. FINANCIAL RISK MANAGEMENT [CONTINUED]

#### 38.4 Fair value of financial instruments

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

|   | 2015               |            |         |            |            |  |
|---|--------------------|------------|---------|------------|------------|--|
|   | Carrying<br>amount | Fair value | Level 1 | Level 2    | Level 3    |  |
|   | P'000              | P'000      | P'000   | P'000      | P'000      |  |
| Assets  |                    |            |         |            |            |  |
| Advances  |                    |            |         |            |            |  |
| Home loans  | 4,780,653          | 4,453,976  | _       | 377,690    | 4,076,286  |  |
| Credit card   | 124,233            | 124,233    | _       | 124,233    | -          |  |
| Term loans  | 4,879,069          | 4,865,232  | -       | 647,259    | 4,217,973  |  |
| Overdraft   | 1,108,690          | 1,108,690  | -       | 1,108,690  | -          |  |
| WesBank asset finance   | 2,067,310          | 2,093,128  | -       | 177,494    | 1,915,634  |  |
| Total advances at amortised cost  | 12,959,955         | 12,645,259 | -       | 2,435,366  | 10,209,893 |  |
|   |                    |            |         |            |            |  |
| Other   |                    | 0.1.1.000  |         | 0.1.000    |            |  |
| Accounts receivable   | 211,080            | 211,080    | -       | 211,080    | -          |  |
| Total financial assets at amortised cost                                      | 13,171,035         | 12,856,339 | -       | 2,646,446  | 10,209,893 |  |
| Liabilities   |                    |            |         |            |            |  |
|   |                    |            |         |            |            |  |
| Deposits and current accounts  Balances from banks and financial institutions | 5,651,151          | 5,651,151  |         | 5,651,151  |            |  |
| (current and managed)   | 3,031,131          | 5,051,151  | -       | 5,051,151  | _          |  |
| Balances from customers (term)  | 5,447,585          | 5,467,038  | =       | 5,467,038  | -          |  |
| Other deposits (call and savings)   | 6,134,985          | 6,134,985  | -       | 6,134,985  | -          |  |
| Total deposits and current accounts   | 17,233,721         | 17,253,174 | _       | 17,253,174 | -          |  |
|   |                    |            |         | -          |            |  |
| Long-term borrowings  | 321,473            | 322,652    | -       | 322,652    | -          |  |
| Other   |                    |            |         |            |            |  |
| Creditors and accruals  | 360,109            | 360,109    | -       | 360,109    | -          |  |
| Total financial liabilities at amortised cost                                 | 17,915,303         | 17,935,935 | _       | 17,935,935 | _          |  |









for the year ended 30 June 2015 [continued]

## 38. FINANCIAL RISK MANAGEMENT [CONTINUED]

#### 38.4 Fair value of financial instruments

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

|  | 2014            |            |         |            |           |  |
|--|-----------------|------------|---------|------------|-----------|--|
|  | Carrying amount | Fair value | Level 1 | Level 2    | Level 3   |  |
|  | P'000           | P'000      | P'000   | P'000      | P'000     |  |
| Assets   |                 |            |         |            |           |  |
| Advances   |                 |            |         |            |           |  |
| Home loans   | 4,270,956       | 4,703,091  | -       | 611,402    | 4,091,689 |  |
| Credit card  | 120,148         | 132,305    | -       | 132,305    | -         |  |
| Term loans   | 4,808,293       | 5,294,796  | -       | 1,535,491  | 3,759,305 |  |
| Overdraft  | 1,069,863       | 1,069,863  | -       | 1,069,863  | -         |  |
| WesBank asset finance  | 1,840,152       | 2,026,339  | -       | 263,424    | 1,762,915 |  |
| Total advances at amortised cost                                     | 12,109,412      | 13,226,394 | -       | 3,612,485  | 9,613,909 |  |
| Other  |                 |            |         |            |           |  |
| Accounts receivable  | 196,112         | 196,112    | -       | 196,112    | -         |  |
| Total financial assets at amortised cost                             | 12,305,524      | 13,422,506 |         | 3,808,597  | 9,613,909 |  |
|  |                 |            |         |            |           |  |
| Liabilities  |                 |            |         |            |           |  |
| Deposits and current accounts  |                 |            |         |            |           |  |
| Balances from banks and financial institutions (current and managed) | 4,147,839       | 4,147,839  | -       | 4,147,839  | -         |  |
| Balances from customers (term)                                       | 4,308,365       | 4,327,817  | -       | 4,178,438  | 149,379   |  |
| Other deposits (call and savings)                                    | 5,871,938       | 5,871,938  | -       | 5,871,938  | -         |  |
| Total deposits and current accounts                                  | 14,328,142      | 14,347,594 | -       | 14,198,215 | 149,379   |  |
|  | 000 500         | 007450     |         | 007456     |           |  |
| Long-term borrowings   | 396,598         | 397,153    |         | 397,153    | _         |  |
| Other  |                 |            |         |            |           |  |
| Creditors and accruals   | 274,596         | 274,596    | -       | 274,596    | -         |  |
| Total financial liabilities at amortised cost                        | 14,999,336      | 15,019,343 |         | 14,869,964 | 149,379   |  |



for the year ended 30 June 2015 [continued]

#### 38 FINANCIAL RISK MANAGEMENT [CONTINUED]

#### 38.4 Fair value of financial instruments [continued]

(ii) Fair value hierachy

Assets and liabilities measured at fair value

|   | 2015    |           |         |           |  |
|---|---------|-----------|---------|-----------|--|
|   | Level 1 | Level 2   | Level 3 | Total     |  |
| CONSOLIDATED                                    | P'000   | P'000     | P'000   | P'000     |  |
| Financial assets held for trading               |         |           |         |           |  |
| -Investment securities                          | -       | 279,565   | -       | 279,565   |  |
| -Derivative financial instruments               | -       | 26,716    | -       | 26,716    |  |
| Designated at fair value through profit or loss |         |           |         |           |  |
| -Term loan                                      | -       | -         | 209,554 | 209,554   |  |
| Available for sale financial assets             |         |           |         |           |  |
| -Investment securities                          | -       | 1,812,210 | -       | 1,812,210 |  |
| Non-financial assets                            |         |           |         |           |  |
| -Freehold and leasehold land and buildings      | -       | 331,062   | -       | 331,062   |  |
| Total assets                                    | _       | 2,449,553 | 209,554 | 2,659,107 |  |
| Financial liabilities held for trading          |         |           |         |           |  |
| -Derivative financial instruments               | -       | 13,796    | -       | 13,796    |  |
| Designated at fair value through profit or loss |         |           |         |           |  |
| -Zero coupon deposit                            | -       | -         | 73,903  | 73,903    |  |
| Total liabilities                               | -       | 13,796    | 73,903  | 87,699    |  |









for the year ended 30 June 2015 [continued]

## 38 FINANCIAL RISK MANAGEMENT [CONTINUED]

|   | 2014    |           |         |           |
|---|---------|-----------|---------|-----------|
|   | Level 1 | Level 2   | Level 3 | Total     |
| CONSOLIDATED                                    | P'000   | P'000     | P'000   | P'000     |
| 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   |



for the year ended 30 June 2015 [continued]

#### 38 FINANCIAL RISK MANAGEMENT [CONTINUED]

| Fair value of financial instruments [continued]               |          | COMPANY  |  |  |
|---|----------|----------|--|--|
|   | 30 June  | 30 June  |  |  |
|   | 2015     | 2014     |  |  |
| CONSOLIDATED  | P'000    | P'000    |  |  |
|   |          |          |  |  |
| Reconciliation of level 3 fair value measurements             |          |          |  |  |
| Designated at fair value through profit or loss (assets)      |          |          |  |  |
| Opening balance   | 264,122  | 315,157  |  |  |
| Total gains or losses:  |          |          |  |  |
| - in profit or loss   | (6,563)  | 4,439    |  |  |
| Repayments  | (48,005) | (55,474) |  |  |
| Closing balance   | 209,554  | 264,122  |  |  |
| Designated at fair value through profit or loss (liabilities) |          |          |  |  |
| Designated at rain value through profit of 1000 (habilities)  | 2015     | 2014     |  |  |
| Consolidated  | P'000    |          |  |  |
| Opening balance   | 92,897   | -        |  |  |
| Transfers into level 3 - BIFM 15 year zero coupon deposit     | -        | 71,861   |  |  |
| Total gains or losses:  |          |          |  |  |
| - in profit or loss   | (18,994) | 21,036   |  |  |
| Closing balance   | 73,903   | 92,897   |  |  |









for the year ended 30 June 2015 [continued]

#### 38 FINANCIAL RISK MANAGEMENT [CONTINUED]

#### 38.5 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 Balance Sheet Management (BSM) Department and comprises two tiers:

- i) Tier 1 capital: stated capital (net of any book values of the treasury shares), non-controlling interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 Capital.
- ii) Tier 2 capital: qualifying subordinated loan capital and collective impairment allowances.

# 39. 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; and
- 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.



for the year ended 30 June 2015 [continued]

#### 39. **SEGMENTAL REPORTING** [CONTINUED]

# Primary segments (business)

|  | Consumer  | Commercial | RMB       | WesBank   | Treasury  | Other  | Total      |
|--|-----------|------------|-----------|-----------|-----------|--------|------------|
|  | P'000     | P'000      | P'000     | P'000     | P'000     | P'000  | P'000      |
| 2015   |           |            |           |           |           |        |            |
| Income statement                                 |           |            |           |           |           |        |            |
| Interest income                                  | 246,661   | 119,665    | 37,347    | 179,217   | 705,544   | -      | 1,288,434  |
| Non-interest income                              | 342,158   | 312,813    | 168,809   | 5,324     | 17,175    | 16,107 | 862,386    |
| Total segment revenue                            | 588,819   | 432,478    | 206,156   | 184,541   | 722,719   | 16,107 | 2,150,820  |
| Interest expenditure                             | 48,780    | 113,077    | 71,593    | (91,795)  | (556,976) | -      | (415,321)  |
| Segment operating income before impairments      | 637,599   | 545,555    | 277,749   | 92,746    | 165,743   | 16,107 | 1,735,499  |
| Impairment of advances                           |           |            |           |           |           |        | (201,068)  |
| Net interest income after impairment of advances |           |            |           |           |           |        | 1,534,431  |
| Total expenditure                                |           |            |           |           |           |        | (765,152)  |
| Profit before indirect taxation                  |           |            |           |           |           |        | 769,279    |
| Indirect taxation                                |           |            |           |           |           |        | (12,776)   |
| Profit before direct taxation                    |           |            |           |           |           |        | 756,503    |
|  |           |            |           |           |           |        |            |
| Statement of financial position:                 |           |            |           |           |           |        |            |
| Gross advances                                   | 5,229,688 | 4,478,345  | 1,381,264 | 2,080,212 | _         | -      | 13,169,509 |
| Deposits   | 2,785,599 | 4,633,035  | 5,537,518 | -         | 4,277,569 | =      | 17,233,721 |

# Note

No segmental reporting for the secondary segment (geographical) as no significant income is generated outside Botswana. The geographical distribution of assets and liabilities is provided in Note 38.

# 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











for the year ended 30 June 2015 [continued]

# 39. SEGMENTAL REPORTING [CONTINUED]

# Primary segments (business)

|  | Consumer  | Commercial | RMB       | WesBank   | Treasury  | Other  | Total      |
|--|-----------|------------|-----------|-----------|-----------|--------|------------|
|  | P'000     | P'000      | P'000     | P'000     | P'000     | P'000  | 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 38.

# 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.



for the year ended 30 June 2015 [continued]

# 40. 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:

|  | 30 June<br>2015 | 30 June<br>2014 |
|--|-----------------|-----------------|
| CONSOLIDATED   | P'000           | P'000           |
| Number of options in force at beginning of the year  | 3,173,337       | 11,486,679      |
| Granted at prices ranging between P3.32 to P1.51   |                 |                 |
| Number of options exercised during the year  | (1,129,994)     | (7,006,668)     |
| Market value ranged between P3.49 to P3.85 (2014: P2.69 to P3.68)                                  |                 |                 |
| Number of options cancelled/ lapsed during the year  | (100,001)       | (1,306,674)     |
| Granted at a price of P2.69  |                 |                 |
| Number of options in force at end of the year  | 1,943,342       | 3,173,337       |
| Granted at prices ranging between P3.32 to P1.51 (2014: P3.32 to P1.51)                            |                 |                 |
| Number of options available for future allocation  | 18,056,658      | 16,826,663      |
| Total number of options of the scheme  | 20,000,000      | 20,000,000      |
| Number of participants   | 33              | 35              |
| Options outstanding are exercisable over the following periods:                                    |                 |                 |
| (first date able to release)   |                 |                 |
| Financial year 2014/2015   | -               | 3,173,337       |
| Financial year 2015/2016   | 1,943,342       | -               |
| Total  | 1,943,342       | 3,173,337       |
| Options outstanding  |                 |                 |
| (by expiry date)   |                 |                 |
| Financial year 2015/2016   | 1,943,342       | 3,173,337       |
| Total  | 1,943,342       | 3,173,337       |
|  |                 |                 |
| The significant assumptions used to estimate the fair value of the options granted are as follows: | 200             | 200             |
| Weighted average share price (thebe)   | 280             | 280             |
| Expected volatility (percentage)   | 33.45           | 33.45           |
| Expected option life (years)  Function view from view (necessary)                                  | 5               | 5               |
| Expected risk free rate (percentage)   | 14              | 14              |
| Expected dividend growth (percentage)  | 20              | 20              |











for the year ended 30 June 2015 [continued]

#### EMPLOYEE SHARE PARTICIPATION SCHEMES [CONTINUED] 40.

#### 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.

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 took 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.



for the year ended 30 June 2015 [continued]

# 40. EMPLOYEE SHARE PARTICIPATION SCHEMES [CONTINUED]

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

|  | 2015                           |  |   |
|--|--------------------------------|--|---|
|  | FirstRand<br>Employee<br>Trust | FirstRand<br>Conditional<br>share plan | FNB Botswana<br>Conditional share<br>plar |
|  | P'000                          | P'000                                  | P'000                                     |
| Share option detail                                      |                                |  |   |
| Number of options in force at the beginning of the year  | 1,424,800                      | 368,492                                | 6,655,137                                 |
| Granted at prices ranging between (P)                    | 12.28 - 19.89                  | -                                      | -   |
| Weighted average (thebe)                                 | 12.41                          | -                                      | -   |
| Number of options granted/transferred in during the year | -                              | 161,745                                | 3,002,042                                 |
| Number of options exercised / released during the year   | (1,424,800)                    | (127,788)                              | -   |
| Market value range at date of exercise / release (P)     | 48.92- 48.92                   | 43.98 - 43.98                          | -   |
| Weighted average share price for the year (P)            | 48.92                          | 43.98                                  | -   |
| Number of options cancelled / lapsed during the year     |                                |  | (563,000)                                 |
| Number of options in force at the end of the year        | -                              | 402,449                                | 9,094,179                                 |
| Options are exercisable over the following periods       |                                |  |   |
| (first date able to release):                            |                                |  |   |
| Financial year 2015/2016                                 | -                              | 135,384                                | 3,402,137                                 |
| Financial year 2016/2017                                 | -                              | 152,286                                | 2,690,000                                 |
| Financial year 2017/2018                                 | -                              | 114,779                                | 3,002,042                                 |
| Total  | -                              | 402,449                                | 9,094,179                                 |
| Options outstanding (by expiry date)                     |                                |  |   |
| Financial year 2015/2016                                 | -                              | 135,384                                | 3,402,137                                 |
| Financial year 2016/2017                                 | -                              | 152,286                                | 2,690,000                                 |
| Financial year 2017/2018                                 | -                              | 114,779                                | 3,002,042                                 |
| Total  | -                              | 402,449                                | 9,094,179                                 |
| Total options outstanding - in the money                 | -                              | 402,449                                | 9,094,179                                 |
| Total options outstanding - out of the money             | -                              | _                                      | -   |
| Total  | -                              | 402,449                                | 9,094,179                                 |
| Number of participants                                   |                                | 11                                     | 57  |
|  |                                |  |   |









for the year ended 30 June 2015 [continued]

# EMPLOYEE SHARE PARTICIPATION SCHEMES [CONTINUED]

| The details of the respective share option scheme is as follows:                 |  | 20                             | 15                                     |   |
|--|--|--------------------------------|--|---|
|  | FirstRand<br>Share<br>Appreciation<br>Right Scheme<br>(FSR shares) | FirstRand<br>Employee<br>Trust | FirstRand<br>Conditional<br>share plan | FN<br>Botswar<br>Condition<br>share pla |
| Share option detail  | P'000  | P'000                          | P'000                                  | P'00                                    |
|  |  |                                |  |   |
| Number of options in force at the beginning of the year                          | 144,968  | 1,309,300                      | 353,917                                | 3,915,13                                |
| 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                                | 2,740,00                                |
| 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                                | 6,655,13                                |
| 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 2013/2014   | -  | 1,399,800                      | 127,788                                |   |
| Financial year 2014/2015   | -  | 25,000                         | 109,938                                | 3,915,13                                |
| Financial year 2015/2016   | -  | -                              | 130,766                                | 2,740,00                                |
| Total  | _  | 1,424,800                      | 368,492                                | 6,655,13                                |
| Options outstanding (by expiry date)   |  |                                |  |   |
| Financial year 2013/2014   | -  | 1,399,800                      | 127,788                                |   |
| Financial year 2014/2015   | -  | 25,000                         | 109,938                                | 3,915,13                                |
| Financial year 2015/2016   | -  | -                              | 130,766                                | 2,740,00                                |
| Total  | -  | 1,424,800                      | 368,492                                | 6,655,13                                |
| Total options outstanding - in the money   | -  | 1,424,800                      | 368,492                                | 6,655,13                                |
| Total options outstanding - out of the money                                     |  |                                |  |   |
| Total  | -  | 1,424,800                      | 368,492                                | 6,655,13                                |
|  |  |                                |  |   |
| Number of participants   | -  | 5                              | 10                                     | Ę                                       |
| rambor or participanto   |  | <u> </u>                       | 10                                     |   |



for the year ended 30 June 2015 [continued]

# 40. EMPLOYEE SHARE PARTICIPATION SCHEMES [CONTINUED]

|   | 30 June | 30 June |
|---|---------|---------|
|   | 2015    | 2014    |
| Consolidated  | P'000   | P'000   |
|   |         |         |
| The income statement charge for all share based payments is         |         |         |
| as follows:   |         |         |
| FirstRand Employee Trust  | 491     | 360     |
|   |         |         |
| First National Bank of Botswana share option scheme                 | 224     | 243     |
| Total equity settled share option scheme charge to income statement | 715     | 606     |
| FirstRand Share Appreciation Right Scheme                           | -       |         |
| Conditional share plan  | 6,556   | 7,19    |
| -NB Botswana Conditional Share Plan                                 | 12,637  | 5,93    |
| Total cash settled share option scheme charge to income statement   | 19,193  | 13,13   |
| Charge to income statement  | 19,908  | 13,74   |

At year end, the liability for cash-settled share schemes amounted to P32,081,104 (2014: P17,208,000) and has been included in creditors and accruals.











for the year ended 30 June 2015 [continued]

#### 41. 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 3 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.



for the year ended 30 June 2015 [continued]

#### 41. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING ESTIMATES [CONTINUED]

#### (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 within the Republic of Botswana. 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 31 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 19.

# (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.

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

## (h) Fair valuation of financial instruments

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. Information about valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in note 38.4











for the year ended 30 June 2015 [continued]

## 42. 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.

# 43. 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 1 (amended)                | Amendments to IAS 1 under the Disclosure Initiative  Various narrow-scope amendments were made to IAS 1 relating to the presentation in the annual financial statements. This included clarifications of the application of materiality and aggregation, guidance on the minimum line items to be presented on the statement of financial position, income statement and statement of other comprehensive income and the structure and order of the notes to the financial statements.  These amendments are not expected to have an impact on the Group as they have merely | Annual periods<br>commencing on or after<br>1 January 2016 |
|                                | clarified existing requirements of the standard relating to presentation.  |  |
| 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 is not an appropriate method. 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.   | Annual periods<br>commencing on or after<br>1 January 2016 |
|                                | The amendment is not expected to have an impact on the Group as the Group does not apply a revenue-based depreciation approach.  |  |
| IAS 16 and IAS 41<br>(amended) | Bearer plants – Amendments to Property, Plant and Equipment and Agriculture 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 these operations are similar to that of manufacturing. Consequently, the amendment includes bearer plants 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<br>commencing on or after<br>1 January 2016 |
|                                | The amendment falls outside the scope of the Group's operations and will have no impact on the Group.  |  |
| IAS 27 (amended)               | Equity method in Separate Financial Statements  The amendment permits investments in subsidiaries, associates and joint ventures to be accounted for using the equity method in the separate annual financial statements of the investor.  | Annual periods<br>commencing on or after<br>1 January 2016 |
|                                | This will not have an impact on the Group's consolidated financial statements as the amendment applies to separate financial statements  |  |
| IAS 38 (amended)               | Intangible Assets – Amortisation method  IAS 38 is amended to introduce a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate for the same reasons as in IAS 16. There are limited circumstances when the presumption can be rebutted.  | Annual periods<br>commencing on or after<br>1 January 2016 |
|                                | The amendment is not expected to have an impact on the Group as it does not apply a revenue-based amortisation approach.   |  |



for the year ended 30 June 2015 [continued]

#### 43. 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.

# IFRS 10 and IAS 28

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendment clarifies the treatment of the sale or contribution of assets from an investor
to its associate or joint venture The amendment requires:

Annual periods commencing on or after 1 January 2016

Effective date

Full recognition in the investor's financial statements of the gains or losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations); and

The partial recognition of gains or losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' share in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

The amendments are applicable prospectively and the Group will assess the impact of the amendment on each transaction as and when they occur.

Annual periods beginning on or after 1 January

#### IFRS 9

#### **Financial Instruments**

IFRS 9 was issued in its entirety on 24 July 2014. The final version of the standard on or after 1 January incorporates amendments to the classification and measurement guidance as well as accounting requirements for impairment of financial assets measured at amortised cost. These elements of the final standard are discussed in detail below:

The classification and measurement of financial instruments under IFRS 9 is based on both the business model and the rationale for holding the instruments as well as the contractual characteristics of the instruments.

- Impairments in terms of IFRS 9 will be determined based on an expected loss model
  that considers the significant changes to the asset's credit risk and the expected loss
  that will arise in the event of default.
- IFRS 9 allows financial liabilities not held for trading to be measured at either amortised
  cost or fair value. If fair value is elected then changes in the fair value as a result of
  changes in own credit risk should be recognised in other comprehensive income.
- The hedge accounting requirements under IFRS 9 are closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Hedge effectiveness will now be proved based on management's risk management objectives rather than the 80%-125% band that was previously stipulated. IFRS 9 also allows for rebalancing of the hedge and the deferral of costs of hedging.

The Group have initiated a process to determine the impact of the standard on the group's statement of financial position and performance. Until the process has been completed the Group is unable to quantify the expected impact.







Effective date





# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 [continued]

|                                |   | Lifective date   |
|--------------------------------|---|--|
| IFRS 10, IFRS 12<br>and IAS 28 | Investment Entities: Applying the Consolidation Exception  The amendments introduce clarifications to the requirements when applying the consolidation exemption for entities that meet the definition of an investment entity.  The amendments will not impact the Group as the Group nor its subsidiaries meet the definition of an investment entity.  | Annual periods beginning<br>on or after 1 January<br>2016  |
| IFRS 11 (amended)              | Joint Arrangements The IASB has issued an amendment to IFRS 11 to provide guidance on the accounting for acquisitions of interests in joint operations that constitutes a business.  The amendment indicates that the acquirer of an interest in a joint operation, in which the activity constitutes a business in terms of IFRS 3, is required to apply all the principles on business combinations accounting in IFRS 3.  The amendment is not expected to have an impact on the Group as the Group does not have any interests in joint operations.   | Annual periods<br>commencing on or after<br>1 January 2016 |
| IFRS 14                        | Regulatory Deferral Accounts  IFRS 14 permits an entity which is a first-time adopter of IFRS 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 results.  | Annual periods beginning<br>on or after 1 January<br>2017  |
| IFRS 15                        | Revenue IFRS 15 provides a single, principle based model to be applied to all contracts with customers. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.  The new standard will also provide guidance for transactions that were not previously comprehensively addressed 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<br>commencing on or after<br>1 January 2018 |
| Annual Improvements            |   | Annual periods<br>commencing on or after<br>1 July 2016    |

# SHAREHOLDER INFORMATION











Declaration of dividend and announcement of results

August 2015

Payment of final dividend October 2015

Publication of Annual Financial Statements August 2015

Annual General Meeting 4 November 2015

Publication of half-year interim report and dividend announcement February 2016

Payment of interim dividend March 2016

Next financial year end 30 June 2016



# LIST OF MAJOR SHAREHOLDERS

|  | 2015          | 2014          |
|--|---------------|---------------|
| SCBN (PTY) LTD RE: IAM 030/20                      | 3,272,326     |               |
| SCBN (PTY) LTD RE: IAM 030/23                      | 3,401,416     | 3,628,508     |
| SCBN (PTY) LTD RE: 028914400005                    | 3,574,249     | =             |
| SCBN (PTY) LTD RE: SIMS 207/002                    | 3,607,012     | 3,607,012     |
| FNB NOMINEES BOTS (PTY)LTD RE: IAM DPPF 10001062   | 3,639,312     | -             |
| SCBN (PTY) LTD RE: FAM 3582252                     | 3,726,936     | -             |
| SCBN (PTY) LTD RE: IAM 030/08                      | 3,831,945     | -             |
| SCBN (PTY) LTD RE:JPM BW000001037-2                | 4,331,930     | -             |
| SCBN (PTY) LTD RE: IAM 030/40                      | 5,145,875     | 4,552,625     |
| FNB BOTSWANA NOMINEES (PTY) LTD RE: IAM BBDCSPF    | 5,630,400     | -             |
| SCBN (PTY) LTD RE: SSB 001/114                     | 6,069,100     | 6,069,100     |
| SCBN (PTY) LTD RE: SSB 001/81                      | 7,511,600     | 7,511,600     |
| FNB NOMINEES (PTY)LTD RE:AGRAY BPOPF 10001010      | 10,605,552    | 7,134,096     |
| SCBN (PTY) LTD RE: IAM 030/30                      | 11,053,287    | 10,899,820    |
| INVESTEC BOTSWANA MANAGED FUND                     | 12,352,733    | -             |
| BOTSWANA MEDICAL AID SOCIETY                       | 16,598,000    | 16,598,000    |
| FNB NOMS BW(PTY) LTD RE: FAM BPOPF3-10001030       | 20,932,841    | 23,066,165    |
| FNB NOMS BW(PTY) LTD RE:BIFM BPOPLF WP 10001027    | 22,196,779    | 16,378,701    |
| DEBSWANA PENSION FUND                              | 48,746,016    | -             |
| BOTSWANA PUBLIC OFFICERS PENSION FUND              | 50,064,447    | -             |
| MOTOR VEHICLE ACCIDENT FUND                        | 50,993,910    | 50,993,910    |
| FNB BW NOMS(PTY) LTD RE: IAM BPOPFP 10001031       | 55,230,342    | 108,322,053   |
| FNB BOTSWANA NOMINEES (PTY) LTD RE: BIFM BPOPF-EQU | 56,943,841    | -             |
| FNB NOMS BW(PTY) LTD RE:FAM BPOPF1-10001028        | 58,179,373    | 88,217,819    |
| STANBIC NOMINEES RE: BIFM                          | 66,416,082    | 63,060,418    |
| FNB BOTSWANA NOMINEES (PTY) LTD RE:AA BPOPF EQUITY | 114,894,553   | -             |
| FIRST NATIONAL BANK HOLDINGS (BOTSWANA)            | 1,780,590,000 | 1,780,590,000 |
| FNB NOMINEES (PTY)LTD RE:CFM BPOPF10001011         | _             | 13,498,956    |
| FNB NOMINEES (PTY)LTD RE:SIMS BPOPF 10001009       | _             | 40,310,249    |
| FNB NOMINEES BOTSWANA (PTY) LTD RE: SIMS BBDCSPF   | _             | 6,610,000     |
| FNB NOMS BW(PTY) LTD RE:BIFM BPOPF ACTIVE 10001025 | _             | 59,321,541    |
| SCBN (PTY) LTD RE: AG 211/002                      | _             | 3,217,391     |
| SCBN (PTY) LTD RE: BIFM DPF                        | _             | 18,290,740    |
| SCBN (PTY) LTD RE: FAM BW000001170-2               | _             | 5,726,150     |
| SCBN (PTY) LTD RE: IAM 203/001                     | _             | 23,989,174    |
| SCBN (PTY) LTD RE: IAM 3292505                     | _             | 3,821,377     |
| SCBN (PTY) LTD RE: SSB 001/77                      | _             | 29,310,000    |
| SCBN (PTY) LTD RE:JPM BW000001037-2                | _             | 5,481,930     |
| STANBIC NOMINEES BOTSWANA RE:IBMF                  | _             | 12,588,728    |
|  | 2,429,539,857 | 2,412,796,063 |









# 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 4 November 2015 at Gaborone Sun Hotel (AVANI), 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 2 November 2015. 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 2015)

Forms of proxy to be received by 12h00 Monday 2 November

Annual General Meeting at 12h00 Wednesday 4 November

The above dates and times are subject to change. Any amendment will be published in the press.

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Shareholders of the Company will be held at Gaborone Sun Hotel (AVANI), at 12h00 on Wednesday 4 November 2015, 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**

- $1. \quad \text{To read the notice and ascertain the presence of a quorum required in terms of the Constitution}.$
- 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 2015.

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:

To re-elect M W Ward, who retires by rotation in terms of the Constitution, being eligible, offers himself for re-election.

5. Ordinary Resolution 4:

To re-elect D A Kgosietsile who retires by rotation in terms of the Constitution, being eligible, offers herself for re-election.

Abridged curriculum vitae of these directors are set out on pages 84-85 of this annual report.

6. Ordinary Resolution 5:

To ratify the appointment of the following director of the Company who was appointed during the course of the financial year:

N D Mokgethi



# NOTICE OF THE ANNUAL GENERAL MEETING [continued]

#### 7. Ordinary Resolution 6:

To ratify the appointment of the following director of the Company who was appointed during the course of the financial year:

M Masire-Mwamba

Abridged curriculum vitae of these directors are set out on page 85 of this annual report.

#### 8. Ordinary Resolution 7:

To approve the remuneration of the directors for the ensuing financial year ending 30 June 2016 amounting to P2, 601, 100.00

#### 9. Ordinary Resolution 8:

To approve the auditors' remuneration for the past year's audit as disclosed on page 133 of this annual report under note 5 of the financial statements.

#### 10. Ordinary Resolution 9:

To appoint auditors for the ensuing year.

11. 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, 2 November 2015.

By Order of the Board

**PDSTEVENSON** 

CHAIRMAN OF THE BOARD OF DIRECTORS

SLBOGATSU

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 2015

| For use at the Annual General Meeting of Sharehold  | ers of the Company to be held at  | Gaborone Sun Hotel (AVANI) at 3   | L2h00 on Wednesday 4 Novemb        | er 2015      |
|---|-----------------------------------|-----------------------------------|------------------------------------|--------------|
| I/We  |                                   |                                   |                                    |              |
| (Name/s in block letters)   |                                   |                                   |                                    |              |
| Of:   |                                   |                                   |                                    |              |
| (Address):  |                                   |                                   |                                    |              |
| Appoint (see note 2):   |                                   |                                   |                                    |              |
| 1.  | or fai                            | ling him/her,                     |                                    |              |
| 2   | or fail                           | ing him/her,                      |                                    |              |
| 3. the chairman of the meeting,   |                                   |                                   |                                    |              |
| as my/our proxy to act for me/us at the Annual Gene and if deemed fit, passing with or without modificati and to vote for or against the resolutions and/or absinstructions (see note 2): | on, the resolutions to be propose | d under the special business vot  | e thereat and at each adjournmer   | nt thereof,  |
|   | Number of ordinary shares         |                                   |                                    |              |
|   | For                               | Against                           | Abstain                            |              |
| 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  |                                   |                                   |                                    |              |
|   |                                   |                                   |                                    |              |
|   |                                   |                                   |                                    |              |
| Signed at   |                                   | on                                | 2015                               |              |
|   |                                   |                                   |                                    |              |
|   |                                   |                                   |                                    |              |
| Clematura   |                                   |                                   |                                    |              |
| Signature   |                                   |                                   |                                    |              |
| Assisted by (where applicable)  |                                   |                                   |                                    |              |
| Each shareholder is entitled to appoint one or more   | proxies (who need not be Memb     | er/s of the Company) to attend, s | speak and vote in place of that Sh | areholder at |

Please read the notes on the reverse side thereof.

the General Meeting.



# **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.
- 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.
- 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 2 November 2015).
- 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.
- 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.
- An instrument of proxy shall be valid for the General Meeting as well as for any adjournment thereof, unless the contrary is stated thereon.
- 7. A vote given in accordance with the terms of a proxy shall be valid, notwithstanding the previous death or insanity of the Shareholder, or revocation of the proxy, or of the authority under which the proxy was executed, or the transfer of the Ordinary Shares in respect of which the proxy is given, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company not less than one hour before the commencement of the General Meeting or adjourned General Meeting at which the proxy is to be used.
- 8. The authority of a person signing the form of proxy under a power of attorney or on behalf of a company must be attached to the form of proxy, unless the authority or full power of attorney has already been registered by the Company or the Transfer Secretaries.
- 9. Where Ordinary Shares are held jointly, all joint Shareholders must sign.
- 10. A minor must be assisted by his/her guardian, unless relevant documents establishing his/her legal capacity are produced or have been registered by the Company.









# FIRST NATIONAL BANK OF BOTSWANA DIRECTORY

#### **BRANCHES**

#### AIRPORT JUNCTION

Shop 01A Airport Junction Plot 70665, Block 10 Tel: 3924461 Fax: 3937346

#### **BROADHURST INDUSTRIAL**

Plot 5681, Orchid Centre P/Bag BR 69, Gaborone Tel: 397 5561 Fax: 397 5352

#### SCHEME CENTRE

Plot 4716 Rail Park Mall Tel: 392 5245 Fax: 391 4135

#### FRANCISTOWN

Plot 32753/4 Blue Jacket Street Francistown Tel: 241 3831 Fax: 241 2879

#### GHANZI

Plot 8624 Unit 10, Taung Mall P/Bag 0019, Ghanzi Tel: 659 6670 Fax: 659 6424

# INDUSTRIAL

#### Plot 1278

Luthuli Road P O Box 871, Gaborone Tel: 364 2900 Fax: 397 2949

#### JWANENG

Plot 2334, Diamond Centre Teemane Ave P/Bag 049, Jwaneng Tel: 588 0470 Fax: 588 1029

#### KANYE

Unit 1, 2 & 3 NDB Building Kanye Tel: 544 0452 Fax: 544 0620

# KASANE

Plot 2296 Waterfront Mall Box 740, Kasane Tel: 625 2414 Fax: 625 2416

# KGALE VIEW

Shop No N3

Game City P/Bag 00452, Gaborone Tel: 368 0700 Fax: 391 0867

#### LETLHAKANE

Tawana Road Box 1061, Letlhakane Tel: 297 8930 Fax: 297 8144

#### LOBATSE

Plot 282, 1st Khama Ave Box 381, Lobatse Tel: 533 0827 Fax: 533 2102

#### MAIN BRANCH

Plot 2843, Ground Floor Khama Crescent Gaborone Box 1552 Gaborone Tel: 364 2800 Fax: 397 4369

#### FIRST PLACE

Plot 54362, CBD Gaborone Box 1552 Gaborone Tel: 370 6100 Fax: 390 0322

# MALL

Ground Floor Capitol Building Plot 1108 Main Mall P/Bag B0 52 Gaborone Tel: 395 9422 Fax: 391 2596

## MAHALAPYE

Plot 799, Main Road P/Bag 48 Mahalapye Tel: 471 1300 Fax: 471 1301

#### MAUN

Plot 152 Ngami Centre P/Bag 231 Maun Tel: 686 0919 Fax: 686 0920

#### MOLEPOLOLE

Shop 36, Plot 39 Mafenyatlala Mall P/Bag 27, Molepolole Tel: 590 8800 Fax: 592 1601

## **PALAPYE**

Plot 1077, Main Road P/Bag 110 Palapye Tel: 492 2340 Fax: 492 2341

# RIVERWALK

Plot 25117 Tlokweng Rd P O Box 4878, Gaborone Tel: 368 6600 Fax: 370 0654

#### SELEBI-PHIKWE

Plot 6567 Tshekedi Rd Mall P/Bag 2529 Selebi-Phikwe Tel: 261 1430 Fax: 261 1569

#### SFROW

Plot 2461, Unit 1 Boiteko Junction Shopping Cntr, Newton Ward P 0 Box 1343, Serowe Tel: 463 0765 Fax: 463 0815

## **BUSINESS UNITS**

#### AUDIT

Plot 54362 CBD 4th Floor, First Place, Gaborone P 0 Box 1552, Gaborone Tel: 370 6101

#### **BUSINESS SEGMENT**

Plot 54362 CBD First Place Gaborone Box 1552, Gaborone Tel: 370 6000 Fax: 390 2953

#### **CLIENT SERVICE**

Plot 54362 CBD, 4th Floor, First Place, Gaborone Box 1552, Gaborone Tel: 370 6097 Fax: 390 6679

#### CREDIT & RISK

Plot 54362 CBD First Place Gaborone Box 1552, Gaborone Tel: 370 6160 Fax: 317 0662

#### **CONSUMER SEGMENT**

Plot 54362 CBD First Place, Gaborone Box 1552, Gaborone Tel: 370 6000 Fax: 390 3705

#### **E SOLUTIONS**

Plot 54362 CBD First Place, Gaborone Box 1552, Gaborone Tel: 370 6355 Fax: 390 2953

## EXECUTIVE

Plot 54362 CBD First Place, Gaborone Box 1552, Gaborone Tel: 370 6013

#### FINANCE

Plot 54362 CBD First Place, Gaborone P 0 Box 1552, Gaborone Tel: 370 6033 Fax: 390 6130

#### **FIRSTCARD**

Plot 54362 CBD First Place, Gaborone P/Bag B0113, Gaborone Tel: 370 6000 Fax: 3904250

#### FIRST NATIONAL

INSURANCE AGENCY Plot 54362 CBD First Place, Gaborone Box 1552, Gaborone Tel: 370 6421 Fax: 390 2475

#### **HUMAN RESOURCES**

Plot 54362 CDB First Place, Gaborone Box 1552, Gaborone Tel: 370 6056 Fax: 390 4260

#### INTERNATIONAL TRADE

Plot 54362 CBD First Place, Gaborone Box 1552, Gaborone Tel: 370 6366 Fax: 318 1608

#### ISLAMIC FINANCE

Plot 54362 CBD First Place, Gaborone Box 1552, Gaborone Tel: 370 6520 Fax: 390 0748

# LEGAL AND COMPLIANCE

Plot 54362 CBD First Place, Gaborone P 0 Box 1552, Gaborone Tel: 370 6047 Fax: 390 4260

# MARKETING & COMMUNICATIONS

Plot 54362 CBD First Place, Gaborone Box 1552, Gaborone Tel: 370 6082 Fax: 390 6679

## PRIVATE CLIENTS

Plot 54362 CBD First Place, Gaborone P O Box 1552, Gaborone Tel: 370 6069 Fax: 395 3577

## **HOME LOANS**

Plot 54362 CBD First Place, Gaborone Box 1552, Gaborone Tel: 370 6502 Fax: 390 4761

# RMB-CUSTODY & TRADE FINANCE

Plot no 54362, CBD 2nd Floor, First Place, Gaborone Box 1552, Gaborone Tel: 390 6562 Fax: 391 7462

#### RMB-INVESTMENTS BANKING

Plot 54362, CBD 2nd Floor, First Place, Gaborone Box 1552, Gaborone Tel: 390 6562 Fax: 390 8984

#### RMB-GLOBAL MARKETS

Plot 54362, CBD 2nd Floor, First Place, Gaborone Box 1552, Gaborone Tel: 390 6562 Fax: 390 8984

# TECHNOLOGY SERVICE DIVISION

Plot 54362 CBD First Place, Gaborone P O Box 1552, Gaborone Tel: 370 6000 Fax: 390 2944

#### TREASURY

Plot 54362 CBD First Place, Gaborone Box 1552, Gaborone Tel: 395 6749 Fax: 390 2725

# WESBANK

Plot 54362 CBD First Place, Gaborone Box 1129, Gaborone Tel: 370 6000 Fax: 390 0259

#### WESBANK

Plot 32753/4 Blue Jacket St Box 951, Francistown Tel: 241 2160 Fax: 241 4137

# WESBANK

Plot 152 Shop No 16 Ngami Centre, Maun Tel: 686 2496 Fax: 686 4227

# WESBANK

Plot 3197, Meepo Road Bamangwato Motors P/Bag 109, Selibe Phikwe Tel: 261 4788 Fax: 261 4603



# First National Bank of Botswana Limited

Plot 54362 • First Place • Central Business District • P O Box 1552 • Gaborone • Botswana Telephone: +267 370 6675 • Fascimile: +267 390 6679 • Website: www.fnbbotswana.co.bw

 $\textbf{Registered Bank} \cdot \text{Registration Number 1119} \cdot \text{S.W.I.F.T.} \cdot \text{Firnbwgx}$   $\textbf{Share Transfer Secretaries} \cdot \text{PriceWaterHouseCoopers} \cdot \text{Plot 50371} \cdot \text{Fairgrounds Office Park} \cdot \text{Gaborone}$