First National Bank of Botswana Limited

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Registered Bank • Registration Number 1119 • S.W.I.F.T. • Firnbwgx

Share Transfer Secretaries • PriceWaterHouseCoopers • Plot 50371 • Fairgrounds Office Park • Gaborone

ANNUAL REPORT | 2018

FNB

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2018 Theme Rationale

1

The theme of this year's Annual Report is

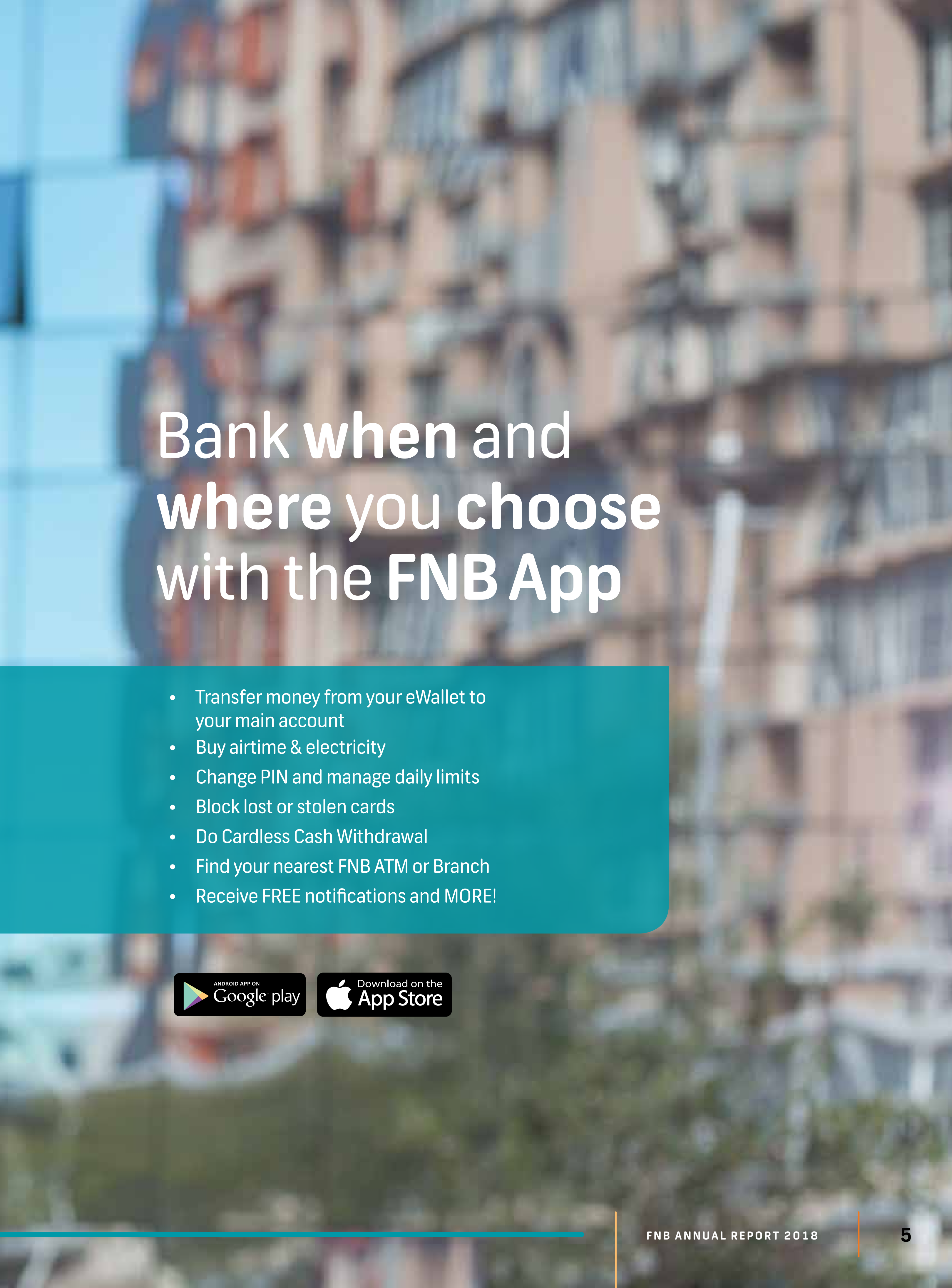
Customer Driven Solutions

We challenge ourselves to keep the customer at the centre of all we do. Considering our operations and ideas from the customer's perspective gives us the opportunity to create and deliver solutions that add meaningful value.

Helping the customer is embedded into the FNB identity, it's who we are, and starts with a desire to know, understand and serve, delivering solutions that support our customers' endeavours to achieve their personal and business ambitions.

We are at the forefront of creating solutions that help our customers to help themselves, from our digital banking platforms – internet, mobile and APP – that have led the market since inception, to ultra-convenient application enhancements designed with our customers' needs in mind.

Harnessing the leaps and bounds in service provision that technology and new thinking have afforded us keeps the relationship with our customers constantly evolving for the better.


Bank **when** and **where** you **choose** with the **FNB App**
• Transfer money from your eWallet to your main account
• Buy airtime & electricity
• Change PIN and manage daily limits
• Block lost or stolen cards
• Do Cardless Cash Withdrawal
• Find your nearest FNB ATM or Branch
• Receive FREE notifications and MORE!
ANDROID APP ON Google play
Download on the App Store

Customer
Driven
Solutions

2

Financial Highlights

+9%
NON-INTEREST INCOME

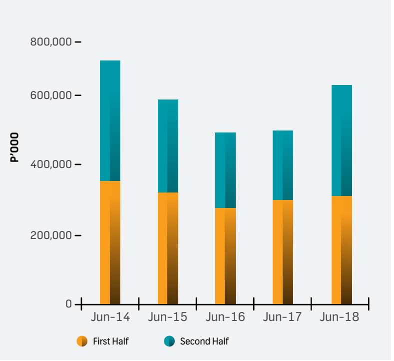
+23%
PROFIT BEFORE TAX

+3%
OPERATING EXPENSES

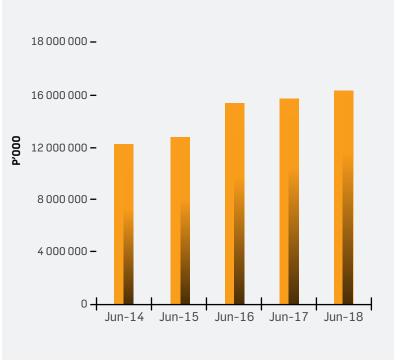
50.4%
COST-TO-INCOME RATIO

14 Thebe
DIVIDEND

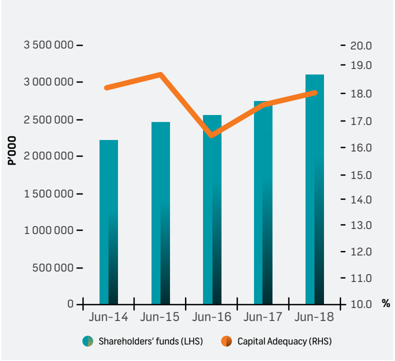
Profit After Tax



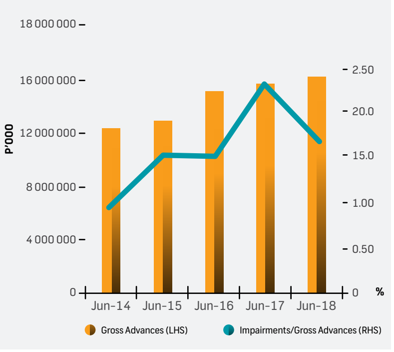
Loans and Advances



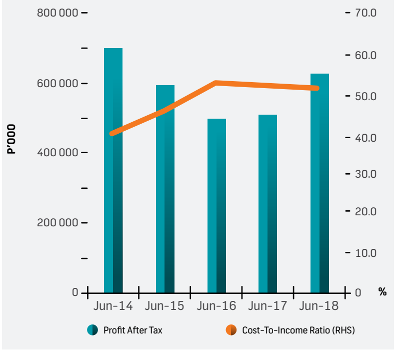
Shareholders' Funds vs Capital Adequacy



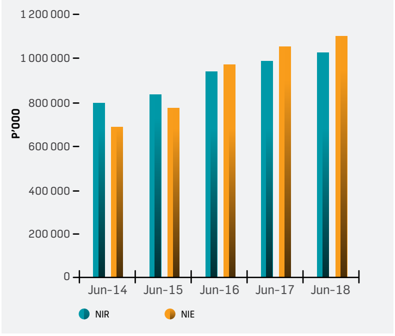
Gross Advances vs Impairments to Gross Advances



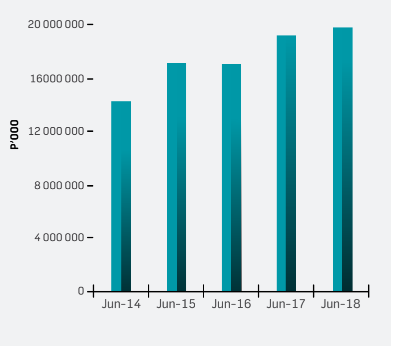
Profit After Tax vs Cost-To-Income Ratio



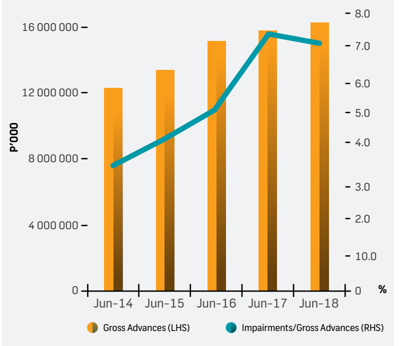
Non-Interest Revenue vs Non-Interest Expenses



Deposits



Gross Advances vs NPLs to Gross Advances



Customer Driven Solutions

2

About FNB Botswana

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 2018, FNBB was the largest company on the Botswana Stock Exchange by capitalisation. Of all the banks in Botswana, FNBB has the largest balance sheet totalling P24.9 billion and the largest advances book, with over P16 billion. In its 27 years of operation, FNBB has become the most profitable bank in Botswana with the most diversified balance sheet structured to achieve sustainable profits in all economic conditions.

P24.9B largest balance sheet of all banks in Botswana	**1 342** employees	**156** ATMs	**58** ATMs with Deposit	**1%** of profits after tax to the Foundation
	+500k customers across Botswana	**28** Slimline ATMs	**24** branches	**P45M** invested in the Foundation

Employing 1342 people, First National Bank of Botswana services more than half-a-million customers across the country through a network of 156 ATMs, 28 Slimline ATMs, 58 ATMs with Deposit and 24 branches.

FNBB is a leader in innovative banking products and has emerged as first in many areas in Botswana, **First** to introduce a Pula based credit card, **First** to provide internet banking, **First** to offer inContact – real time transaction based SMS/email messaging, **First** bank in Botswana to establish a charitable Foundation, **First** to introduce Cellphone Banking, **First** to introduce an instant accounting solution for SMMEs, **First** to introduce Mobile ATM, **First** to introduce a one stop payment solution: FirstPay Portal, **First** to introduce eWallet, **First** to introduce ATM with Deposit, **First** to introduce eWallet Bulk Send, **First** to introduce Smart Device offering, **First** to introduce FNB withdraw with PayPal and **First** to introduce eBucks Rewards Programme.

The Bank executes its corporate social responsibility through the FNBB Foundation, which is one of the biggest corporate donors and a leader in CSR, not only in the financial services sector but also in the country. Established in 2001, the Foundation has to date invested approximately P45 million in various social responsibility projects, enriching and uplifting the lives of many people in need across the country. Annually, the Bank contributes up to 1% of profits after tax to the Foundation. An extension of the Foundation's commitment towards the community is the Staff Volunteer Programme which is an initiative that affords the Bank's employees an opportunity to identify a project of their choice in their respective localities and donate funds and engage to support such projects.

Vision & Purpose

VISION

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

FNB

WesBank

RMB

PURPOSE

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

WesBank

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

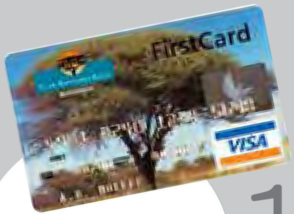
RMB

RMB Botswana is the corporate and investment banking division of First National Bank of Botswana Limited. RMB 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.

Customer Driven Solutions

2

FNBB Firsts



1

First Bank in Botswana to introduce a Pula based Credit card.

2

First Bank in Botswana to provide Internet Banking

3

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

4

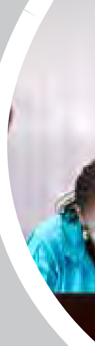
First Bank in Botswana to establish a charitable Foundation

5

First Bank in Botswana to introduce cellphone banking

6

First Bank in Botswana to introduce Mobile ATMs



7

First Bank in Botswana to introduce a one stop payment solution, the FirstPay Portal

8

First Bank in Botswana to introduce eWallet

9

First Bank in Botswana to introduce ATM with Deposit

10

First Bank in Botswana to introduce eWallet Bulk Send

11

First Bank in Botswana to introduce FNB Withdrawal service with PayPal

12

eB eBucks rewards from FNB

First Bank in Botswana to introduce eBucks Rewards Programme

13

First Bank in Botswana to launch a comprehensive insurance cover for SMMEs

Customer Driven Solutions

FNBB Milestones

1991. FNBB was established in Botswana in September as a registered subsidiary of the FirstRand Group.

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

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

1993. FNBB obtained listing on the Botswana Stock Exchange.

1994. FNB acquired Zimbank Limited.

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

2001. FNBB established the FNBB Foundation, one of the biggest corporate givers and a leader in CSR in the financial services sector. To date, FNBB has contributed in excess of P40 million to the Foundation to be invested in various projects, enriching and uplifting the lives of Batswana.

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

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

2006. FNBB Cellphone Banking brought new meaning to convenient banking, giving customers the freedom to bank anytime and anywhere. Today, more than 250 000 customers utilise cellphone banking.

2006. FNBB became the largest bank by market capitalisation on the Botswana Stock Exchange.
2010. FNBB won the Euromoney Best Bank Award in Botswana. The award is attributed to the Bank's demonstration of leadership, innovation and momentum in the market.

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

2010. FNBB introduced eWallet a cardless money transfer service that allows customers to instantly send money to anyone in Botswana with an active cell number. The on-send functionality was stopped last year due to AML regulations, so recipients can use the money in the Wallet to buy airtime or send money to another recipient.

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

2012. FNBB opened its 21st branch - Airport Junction Branch - in its 21st year of operation in Botswana. The Bank continues to grow its footprint in the interest of serving a wider customer base.

2012. FNBB was voted the Best Commercial Bank in the World Finance Awards. The award is testament to the hard work and dedication of staff and the Bank's commitment to providing a full range of innovative financial services and products to all customers.

2012. FNBB introduced FirstPay Portal, a debit and credit card payment platform that allows FNB and non-FNB customers the ability to pay their utilities
and services online.

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

2013. FNBB was awarded the Best Local Trade Finance Bank in Botswana by the Global Trade Review (GTR). The Best Local Trade Finance award is given to a bank that provides effective trade finance solutions for the demands of the local market. Therefore, the award takes into account the innovation, service, consistency, flexibility and pricing of the solution.

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

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

2013. FNBB introduced Slimline ATMs to offer customers easy banking access and convenience at locations where the bank does not have branch representation or a conventional ATM. FNBB replaced its old mini-ATMs with Slimline ATMs across the country.

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

2013. FNBB introduced *174# Mobile Transact; With the *174# Mobile Transact, one can purchase pre-paid electricity, make real-time payments to Multichoice, ANYTIME, ANYWHERE in comfort and convenience even when roaming. The *174# Mobile Transact service is open to MasterCard & VISA cardholders irrespective of the issuing bank. The user must be a beMobile or Mascom subscriber.

2013. FNBB launched the FNB Smartphone Banking App that works on iOS Apple, BlackBerry10 as well as Android Smartphones. The FNB App is a safe and secure banking application that allows customers to have direct and easy access to accounts held with FNB.

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

2014. FNBB launched the ATM Advance (now named ATM with deposits or ADT) with real-time cash deposit, a first of its kind in Botswana and also a first in the FNB Group subsidiaries. FNB's new ATM with Deposit is available 24/7 affording customers banking convenience.

2014. FNBB introduced South African Rand (ZAR) dispensing ATMs. The foreign currency withdrawal capability is available at select FNB ATMs in Botswana.

2014. FNBB became the largest bank by market capitalisation on the Botswana Stock Exchange at P8.8 billion as at July 2014.

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

2014. FNBB partnered with Multichoice Botswana to enable instant reconnection to DStv when one pays through FNBB's various e-channels. This offers customers the benefit and convenience of paying for their DStv subscription anytime, anywhere and receiving instant reconnection.

2014. The FNBB *174# Mobile Transact Innovation won a whopping R1 million at the 2014 Innovations Competition. With *174# Mobile Transact, one can purchase pre-paid electricity, make real-time payments to Multichoice, anytime, anywhere in comfort and convenience even when roaming. The *174# Mobile Transact service is open to Mastercard & VISA cardholders irrespective of the issuing bank. The user must be a beMobile or Mascom subscriber.

2015: FNBB launched the Nthula Lounge at SSKIA: FNB Private Clients can experience a brief rejuvenating pause before they travel or connect to their next flight destination. Nthula Lounge boasts 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, freshly percolated tea and coffee, house wine and beer, assorted soft drinks and juices, coffee table recreational and business books for reading pleasure and private bathrooms.

2015: FNBB was awarded the Diamond Arrow Award in the Business Banking Sector, the Diamond Arrow Award in Credit Card Services in Botswana and the Diamond Arrow Award in Personal Banking Services in Botswana by the PMR Africa awards 2015.

2015: FNBB recorded that P2.7 billion had been sent to recipients via eWallet since its inception in 2010. 40% percent, or P1 billion was sent in the preceding financial year alone (July 2014 to June 2015), proving that mobile money is fast becoming an accepted replacement for person to person cash payments.

2015: FNBB launched a number of new products including a 7-Day Notice Account which offers business clients increased flexibility of accessing funds while also benefiting from high returns. The Smart and Gold accounts were differentiated in an effort to bank customers in alignment with the Bank's segmentation strategy. The Generator Finance loan product that allows FNBB customers access to finance to purchase power generators for individual or businesses use was introduced.

2015: FNBB launched a Premier Service suite as a way to improve our service in the portfolio. As at December 2015, the suite had serviced 4157 customers.

2015: FNBB Foundation invested more than P2 969 000 to refurbish a community recreational facility park in Tawana (Gaborone) and rebranded it to First Park.

2015: FNBB's ATMs with Deposit were doubled from 10 to 20

2016: eWallet Bulk Send is a payment solution that allows business account holders to pay to a single or multiple eWallets at one time through the Online Banking Enterprise Platform. The solution supports business to perform multiple eWallet payments to an unlimited number of recipients.

2016: FNBB launched an attractive innovative Home Loan value add solution, FNB 105% Mortgage Offering; a seamless solution for aspiring first-time home owners. The offer allows FNB Home loans to consider financing of up to 100% of the purchase price plus an additional 5% of the said purchase price towards legal and administration fees.

2016: RMB Botswana was awarded the Best Trade Finance Bank in Botswana title for 2015 by Global Trade Review (GTR). GTR is a leading global news source, publisher and analyst organisation for the global trade, commodity, export and supply chain finance industries. The GTR award considers the performances of financial institutions in areas including turnaround time, reliability, service delivery and in-depth knowledge of their local market.

2016: FNBB launched FNB Withdraw service with PayPal. This service allows residents in Botswana to transfer money directly from their PayPal accounts to their qualifying FNB bank account. This service gives local businesses the flexibility they need to not only accept PayPal payments but also settle locally, opening up the opportunity to do business on a global level and have access to PayPal's 179 million active customer accounts in 203 countries.

2016: FNBB launched eBucks Rewards Programme, a Rewards Programme providing qualifying customers with the opportunity to get rewarded when they purchase prepaid airtime or prepaid electricity through FNBB's electronic channels and Private Clients can earn up to 1.5% back in eBucks on qualifying credit card swipes.

2016: FNBB celebrated 25 years of innovative leadership, as Botswana celebrated 50 years of independence. FNBers celebrated by hosting sponsored walks at all branches countrywide (Gaborone Branches held one joint sponsored walk) with the goal of raising P25 000 for 25 charities.

2016: FNBB awarded Best FX provider in Botswana by Global Finance 2016.

2016: FNBB named the 2016 Best Commercial Bank in Botswana by the International Finance Magazine (IFM) Awards.

2017: FNBB launches Channel Island, the Bank's first offshore branch.

2017: In partnership with Hollard and VIVO (trading as Shell), FNBB launched Fuel Retailers Value Proposition, the first of its kind in Botswana.

2017: FNBB launched the Staff Drug Awareness campaign in order to equip FNBers with the knowledge and life skills required to combat rising drug and substance abuse and dependency in Botswana.

2017: FNBB launched Mogwebi Business Insurance, underwritten by Old Mutual. Mogwebi Business Insurance is suited to all small and medium sized business, with special emphasis placed on those in the professional, manufacturing, retail, food and beverage service industries. It covers the risks of fire, theft, electronic equipment, glass, cash, goods in transit and business interruption, workman's compensation and public liability with the option of product liability.

2017-2018: RMB Botswana was awarded the Global Finance Best Foreign Exchange Provider in Botswana

2018: FNBB named Best Bank in Botswana by the Euromoney Awards.

Get more value with **Gold Bundled Pricing**

The bundled fee option offers you unlimited:

- Free cash withdrawals at FNB ATMs
- Free card swipes on FNB Speed Points
- Free payments and transfers via FNB ATM
- Online Banking
- Free scheduled payments
- Free Pay 2 Cell transfers (P2C) and MORE!

eB eBucks rewards from FNB

Customer
Driven
Solutions

3

Message from the Chairman

"Through superior service and our excellent brands we want to play an ever stronger role in the financial sector.

I WANT TO THANK OUR EMPLOYEES WHO HAVE REMAINED COMMITTED TO OUR VALUES, HELPING TO GROW THE NATION'S ECONOMY AND PROVIDING EXCELLENT SERVICE WHICH IS REFLECTED IN THE VERY POSITIVE RESULTS IN THE PAST YEAR"

Message from the Chairman

Introduction

After the very challenging circumstances of the previous three years and the difficult times experienced by the Bank, I am very pleased to report that the business has turned around very satisfactorily, thanks to the guidance of the CEO and the exceptional efforts of the executive team.

From a board perspective, we appreciate the hard work put in by the management team and staff, as the performance has been driven in no small part by enhanced efficiencies that are the product of their efforts.

Performance

The successful turnaround is evident from our financial results for the year ended 30th June 2018 and represents the culmination of the digital migration, bedding down of KYC, reduction in the impairment charge and improved cost efficiencies that have been the focus of the Bank's endeavours during the year. Prudent management of operational expenditure throughout the year resulted in only a marginal annual growth. The board approved an increase in the annual dividend, from 11 Thebe to 14 Thebe per share.

The Bank's customer base increased by 8%, closing the year with over half-a-million customers. Increases were seen in usage across all digital platforms, including FNB's ATMs With Deposits, cellphone banking, eWallet payments and online banking, while the FNB banking app experienced particularly high growth in the year, with the additional security and convenience features driving this success. This digital uptake by clients resulted in increased transactional volumes, with consequent cost savings being made available to customers.

The customer-centric model we espouse places the client at the centre of all we do and to deliver on this promise, we require world-class systems and processes - two areas of continual focus. Achieving our goals is underpinned by our success in attracting, training and retaining the best employees in the market, which is supported by our highly successful graduate training programme.

Economy and Outlook

We believe in people and partnerships, and we want to participate in creating sustainable growth of the economy, the development of our citizens, protection of our society and care for the environment. There has been an increase in fiscal spending as well as foreign investment in mining, utilities and infrastructure development in Botswana. Additionally, there is a focus on driving investment spending for diversification of the economy and creation of employment. The activity indicators are pointing towards a renewed strengthening for local growth which will lead to improvement in both business confidence and growth and we will play a decisive role in the process. While lower base metal commodity prices and drought continue to pose challenges to the economic growth of the country, we still see many positives and an exciting future.

The challenges that the country underwent on the closure of BCL and other base metal mines has had a multiplier effect on the country's employment exports, as well as other facets of business, including the banking sector. An effective implementation of the developmental agenda will assist in overcoming some of these challenges as well as driving growth towards a sustainable knowledge-based economy in line with Vision 2036. We will leverage off the NDP 11 and other future developments in ensuring active participation in the development of the economy.

Service

Our commitment to service excellence should be more than mere words and we have to continuously prove this in our actions. Despite applying the customer-centric model to our activities, we still have some way to go before we can confidently say that we are providing our clients with the best possible service. Building on the service improvements we have achieved will be the major focus in the coming year and, as a board, we will be monitoring progress and interacting with management to ensure that we attain our service goals. We are committed to creating new value for our customers and the communities we proudly serve through service and innovation and are continuously seeking to better integrate our sustainability efforts into our daily actions.

Through superior service and our excellent brands we want to play an ever stronger role in the financial sector. We are consolidating our brands and driving towards brand recognition uniformity, which is reflected in the new branch at Rail Park and the new Sales and Service Centre and Premium Suite in Orapa, which we opened during the year, as well as in the newly renovated Mahalapye branch. Our brand focus will also characterise branch renovations scheduled for the coming year at Airport Junction, Mall, Main and Palapye, and all planned future branches.

We continue to support infrastructural development through our WesBank offering of vehicle and yellow equipment finance. ATMs With Deposits are proving to be very successful and during the year the Bank added nine new machines in strategic locations countrywide. The eBucks loyalty programme continues to offer clients added value and we hope this will continue to grow from strength to strength. Online banking and mobile banking, along with the mobile app, have made the lives of our customers easier, with handy payment solutions for utilities and DStv, as well as airtime purchases and general transactions. eWallet in particular has taken big strides this year, as it affords customers the convenience of transacting with anyone, even those without bank accounts, and the bulk eWallet service allows multiple payments to be made with ease. Our business insurance offering has provided affordable insurance services to further enhance convenience and ease of banking for our customers.

RMBB seeks to ensure sustainable investment in corporates and parastatals and ultimately to benefit the economy of Botswana, to create jobs, and by strengthening effective partnerships, to play a leading role in capacity building in the country. Our offering is aimed at aligning with Government development plans in support of the National Development Plan (NDP11) and helping to achieve its Vision 2036 of *Prosperity for All*.

Our focus on growing our brands must go hand-in-hand with our Corporate Social Responsibility initiatives through the FNBB Foundation. We continue to commit to our social responsibilities and during the year we conducted a total strategy refresh within the Foundation in order to better advance our priorities of skills development, education and financial literacy in the community.

Acknowledgements

I would like to thank my co-directors for supporting me as chairman of the board and for their continuous guidance and advice. I would also like to thank the Government, Regulators, the shareholders and our clients for backing our efforts towards improving the nation's ability to create a sustainable economy while crafting an excellent service culture. I want to thank our employees who have remained committed to our values, helping to grow the nation's economy and providing excellent service which is reflected in the very positive results in the past year.

John K Macaskill
Chairman


Home Loans
Building Loans

Customer
Driven
Solutions

3

Chief Executive Officer's Report

"Given the current optimistic outlook for the Botswana economy, we expect positive impact across various sectors.

THE PROJECT TO REFURBISH AND MODERNISE THE BRANCH NETWORK WILL CONTINUE, ALLOWING FOR WORLD-CLASS SERVICE SOLUTIONS TO BE EXPERIENCED BOTH ONLINE AND PHYSICALLY AT OUR VARIOUS POINTS OF PRESENCE."

Chief Executive Officer's Report

Introduction

The market continues to experience some pressure on clients' incomes in the retail space, and this has impacted negatively on property and vehicle financing.

Although there are signs of recovery, the environment is not yet supportive of lending growth, and it is for that reason that we focussed our efforts on balance sheet and operational efficiencies. Notwithstanding the challenging market conditions, some growth in lending opportunities are beginning to emerge in the business space, particularly in the tourism, construction and agricultural sectors.

Global Economy

Less synchronised growth

Despite the global economy remaining strong, with robust employment levels and positive corporate results being reported in most developed markets, certain developments pose a threat to future growth.

Tighter global financial conditions, rising oil prices, a flattening yield curve in the US, intensification of international trade wars and market pressures on currencies of emerging markets with weaker fundamentals have the potential to depress medium-term growth prospects. There are early signs of global growth risks becoming less synchronised as the US shows some strengthening in its near-term growth momentum in contrast to the downward revisions on growth projections for the Euro area, Japan and the UK.

Most countries in the Sub-Saharan Africa region have benefitted from cyclically supportive commodity prices which stabilised currency movements, moderated inflation levels, stimulated increased agricultural output and narrowed fiscal deficits. However, industrialisation remains elusive for most African countries as manufacturing continues to struggle, hampered variously by competition from cheaper imports, higher production costs and trade disputes. The recovery in Sub-Saharan Africa is expected to continue at a modest pace, with growth increasing from 2.8% in 2017 to 3.4% and 3.8% in 2018 and 2019 respectively.

The Botswana Economy

Optimism on the Horizon

In 2017, the country's growth took some toll against the backdrop of negative performance in the base metals sector, with growth slowing to 2.4% against 4.3% in 2016.

However, there is optimism on the horizon as the activity indicators are pointing towards a renewed strengthening for local growth which we expect to reach 4.0% and 4.3% in 2018 and 2019 respectively. This trend is demonstrated by first quarter 2018 growth which rose 4.8% quarter-on-quarter compared to 0.9% at the same period last year - growth which was supported by an increase in diamond prices, resilience in the services sector, as well as continued supply-side stability.

The disposable income of households is expected to remain under strain despite the prevailing low inflation. Conversely, the June 2018 Consumer Price Index reading of 3.1% suggests that inflationary pressures will emanate from the supply side of fuel and administered prices. Headline inflation averaged 3.2% in the twelve months to June, compared to 3.1% at the same time last year. Given that 70% of total household spending is on essentials such as housing, utilities, transport and food, increases in prices for essentials goods and services will continue to exert upward pressure on disposable income levels for lower- to middle-income earners who are already under stress.

We believe that CPI growth will remain within the Bank of Botswana's inflation objective of 3% - 6% for 2018/19 and we expect the Bank of Botswana to maintain an accommodative stance for the rest of the year through to 2019.

The Botswana Pula continues to respond to inflation differentials and weakness in commodity price trends. While the balanced nature of the Pula's foreign exchange basket reduces volatility, the currency remains exposed to movements in the Rand.

While we expect business credit growth to exceed growth in lending to households, we caution that total market credit growth is likely to remain muted at below 7.0% through to 2020. With household disposable income under pressure, and only a moderate increase in business production capacity, we expect that the drawdown on working capital facilities is likely to remain constrained.

Chief Executive Officer's Report [continued]

Financial Performance

The performance of the Bank improved significantly over the previous year, with profit before taxation (PBT) increasing by 23 % to P838 million.

The balance sheet improved by 5% year-on-year to P25 billion, reflecting that this had not been a balance sheet growth environment and reflecting our enhanced efficiencies around collections, costs and a focus on non-interest revenue. Non-interest revenue improved by 9% largely on the back of increased transactional volumes and growth in card usage. Cash deposit fees remained flat year-on-year, as clients migrated away from expensive branch transactions and towards ATMs With Deposits and various cashless solutions. Impairment charge was down by 24% reflecting base impact and focus in the area. Operating expenses increased by only 2% and employee benefit costs by 5% reflecting investment in human capital in line with Bank's strategy.

Credit extension

Retail credit extension improved from 5% in the previous year to 8% and business increased from a decline of 1% last year to 7% in 2018.

Due to the Bank having adopted a cautious credit-risk appetite, total gross advances grew by 4% year-on-year, compared to market credit growth of 7.5%, largely driven via the growth in consumer lending group schemes, and with significant corporate lending transactions in RMB. The increase in business credit extension reflects the return of confidence in the economy which in turn indicates improvement in employment opportunities due to business expansion. The WesBank vehicle and asset finance portfolio remained flat, reflecting both reduced sales levels in the market and increased competition. The Business Banking portfolio decreased materially due both to the high percentage of term lending which amortises in value, and to heightened competition on new transactions.

Liquidity

The ongoing tight market liquidity position throughout the year resulted in an increased cost of accessing professional funding. The effect of this, combined with the Bank lengthening the term structure of the funding portfolio resulted in the interest expense line increasing by 27% year-on-year, as well as the cost of funds for the Bank increasing from 1.4% to 1.7% year-on-year.

Risks

We have seen an increase in non-performing loans (NPLs) particularly for property and vehicle asset finance, which has particularly affected the retail and lower end of the business segment. Given the stresses with the macros, impairments are expected to remain high for both property and vehicle finance categories. The NPL to gross advances ratio decreased from 7.3% in June 2017 to 7.0% in June 2018, with the total NPL portfolio of P1.13 billion remaining flat while gross advances increased. The collections function received priority focus which has resulted in improved operational and financial metrics. The 24% improvement in the impairment charge on advances is largely driven through the base effect of June 2017 impairments including the impact of the BCL mine closure. Despite this improvement in the charge, management continued to apply prudent collateral haircuts during the reporting period.

Regulatory Environment

The regulatory environment remains a focal point and the Bank has now bedded down the KYC project which caused our customers a lot of inconvenience, and I take this opportunity to thank them for their patience during this process.

Our Customers

We continue to pursue our strategy which places the customer at the centre of all solutions that we provide and is central to our ongoing commitment to continually improve customer service. During the financial year we availed additional channels for our customers to enable them to do banking at their convenience in order to continuously provide them with solutions that are relevant to their day to day activities.

Our People

We continue to put in place various interventions to ensure that our people receive the best career and personal development opportunities and that these are aligned to fulfilling our customers' expectations. A number of initiatives are in place which include attachments within the FirstRand Group, scholarships for staff members, financial aid for study, skills development programmes, executive management development programmes and an international graduate programme. We believe that this investment in our human capital is key to the realisation of our strategy.

Looking ahead

Given the current optimistic outlook for the Botswana economy, we expect positive impact across various sectors. However, as consumer indebtedness levels remain a concern, the Bank will continue to exercise caution when lending into this market. Despite the positive business sentiments, boosted by the increased business confidence, growth in secured lending facilities will continue to be hampered by the current pressures on the high value retail property sector and commercial office properties. However, we anticipate growth in targeted financing for some sectors of the economy such as agriculture, manufacturing and tourism, which will be supported by credit guarantees from development finance institutions.

The Bank will continue to extract efficiencies in the business while investing in technology in order to avail convenience for our customers, and will continue to invest in enhancing its digital capabilities to ensure that the client experience remains paramount. The project to refurbish and modernise the branch network will continue, allowing for world-class service solutions to be experienced both online and physically at our various points of presence.

Acknowledgements

I extend my gratitude to all staff members and say thank you for a year of continued hard work, dedication and commitment to serving our customers. Our thanks also to our customers - we appreciate your continued loyalty through what has been a challenging year, and particularly for your forbearance through the onerous KYC process.

I would also like to thank the Chairman and the Board of Directors for their strategic leadership and the executive management team for their resolution and support.

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

Steven Lefentse Bogatsu
Chief Executive Officer


& Service

Customer Driven Solutions

3

Chief Financial Officer's Report

"The Bank has delivered a resilient performance within a benign macroeconomic context. THE TOP LINE GROWTH ACHIEVED DEMONSTRATES THE STRENGTH AND QUALITY OF THE BANK'S OPERATING MODEL."

23%
PBT GROWTH

8%
GROWTH in customer base

Chief Financial Officer's Report [continued]

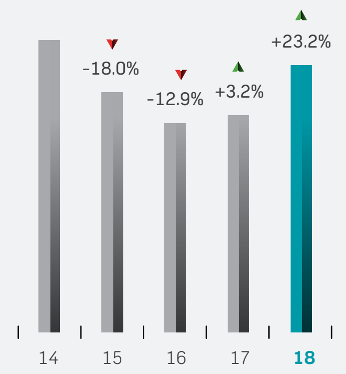
Introduction

The Bank's digitally led, customer centric strategy produced a resilient performance in the context of a benign economic growth environment.

This performance was characterised by quality growth in top line revenue, with balanced growth in asset classes funded by a lengthened liability portfolio. The bank maintained an appropriate origination strategy and applied conservatism in the provisioning levels, albeit at reduced levels due to the base effect of BCL in the prior year results. The strategy led to increased NIR.

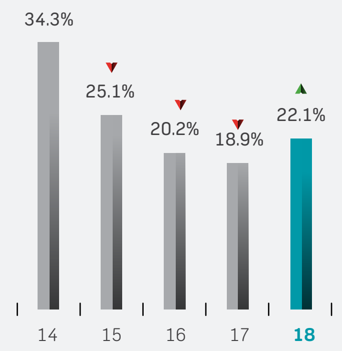
The Bank continued its track record of growth in earnings and superior returns, as reflected below:

Profit before Tax [P'million]



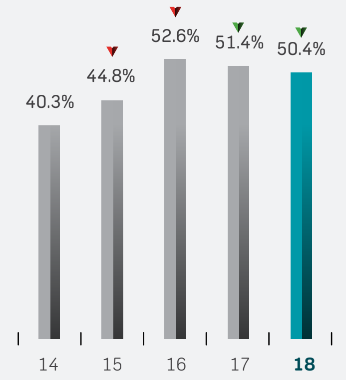
PBT growth is a culmination of a reduction in the impairment charge, strong NIR growth and a minimal increase in the cost base.

Return on Equity



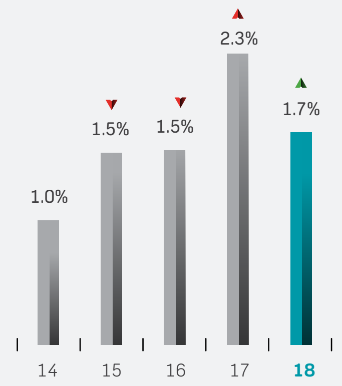
Return on average Equity closed the year above the Bank's internal target range of 18% to 22%.

Cost to Income



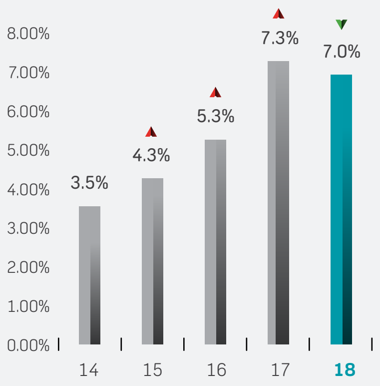
The Bank monitors efficiency through the Cost-to-Income (CTI) measure. Whilst the Bank views the CTI ratio as an outcome rather than a target, it recognises that balancing revenue growth and cost growth is key to value creation. The Bank carefully managed operational expenditure throughout the year, reporting a marginal annual growth of 3.4%.

Credit Loss Ratio



The reduction in Credit Loss Ratio is largely due to the BCL baseline effect. However, in the current year the Bank significantly increased portfolio provisions, resulting in a marginal increase in the normalised 2017 impairment charge (when normalised to remove the BCL impact). The Bank has continued to price appropriately for credit risk to produce sustainable returns.

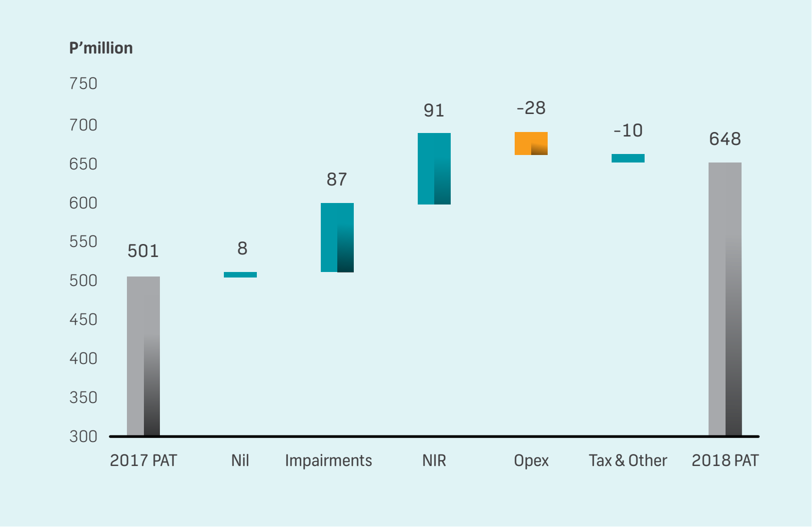
NPL as a % of Gross Advances



The reduction in the Non-Performing Loans (NPL) to Gross Advances ratio is the result of a denominator effect where Gross Advances increased year-on-year whilst the P1.13bn NPL base remained flat year-on-year. The NPL portfolio is largely secured and therefore an extended period is required to collect on these loans.

Income Statement

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



Notwithstanding the 50bps rate cut during the year, interest income increased by 5% largely due to the growth in the asset book and the optimisation of the investment portfolio. The tight market liquidity position throughout the year resulted in an increased cost of accessing professional funding. The effect of this, combined with the Bank lengthening the term structure of the funding portfolio, resulted in the interest expense line increasing by 27% year-on-year.

The reduction in impairments is due to the BCL baseline effect offset by increased conservatism being applied to the portfolio provisioning. The Bank has continued to price appropriately for credit risk to produce sustainable returns. The NIR growth is largely due to increased transactional volumes, an inflationary increase in the service fees and growth in card usage. The Bank's customer base increased by 8%, closing the year with 502,000 customers.

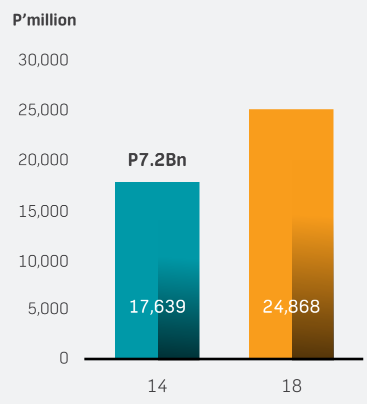
The Bank carefully managed operational expenditure throughout the year, reporting a marginal annual growth of 3.4%. However the favourable baseline effect of the expensive 2017 KYC remediation project must be noted. The Bank invested in a new premier suite in Orapa and relocated the Mahalapye branch during the year, rolled out a further 6 ATMs, 9 ATMs With Deposits and 910 Point-of-Sale devices. The reduction in tax is due to a lower effective tax rate.

Chief Financial Officer's Report [continued]

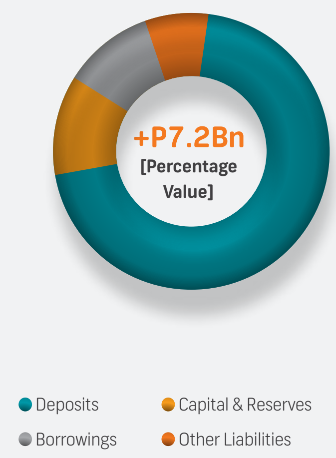
Balance Sheet Growth

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

Total Assets



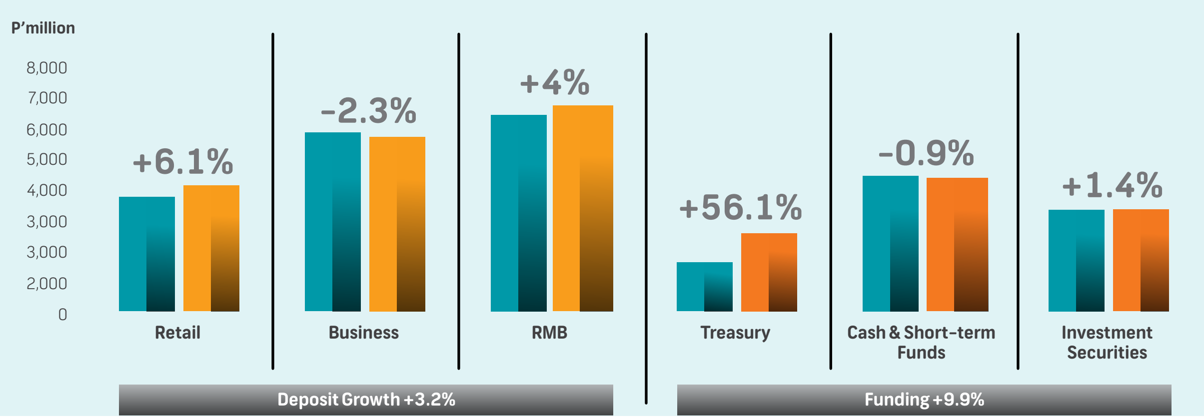
How balance sheet growth was funded



Deposit Segment Growth

The customer deposit franchise recorded growth of 3.2% overall, driven by strong growth in FNB's Retail and RMB deposit franchises. FNB Business deposits reduced due to increased competition experienced in the market, with specific expensive short dated deposits being released. The Treasury business issued debt securities during the financial year.

Liabilities

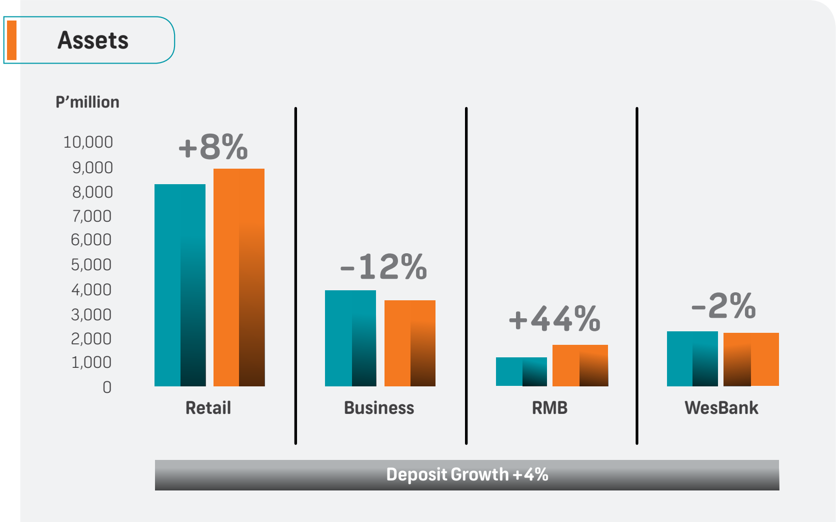


Advances Segment Growth

The Bank maintained an appropriate origination strategy with total advances growing by 4% year-on-year, compared to the estimated market credit growth of 7%.

The advances increase of 4% was largely driven through the growth in consumer lending group schemes and corporate lending transactions in RMB. The WesBank vehicle asset finance portfolio declined marginally, reflecting both reduced sales levels in the market and increased competition. The Business Banking portfolio decreased materially due to both the high percentage of term lending which amortises in value and to heightened competition on new transactions.

> *The cash holdings were more efficiently managed with a decrease of 1% in cash holdings despite the 3.2% deposit growth.*



Liquidity Position

The Bank's objective is to optimise its funding profile within structural and regulatory constraints to enable its businesses to operate in an efficient and sustainable manner. Liquidity buffers are actively managed via high quality liquid assets (HQLA) that are available as protection against unexpected events. Deposit growth of 3.2% occurred in a balanced manner across current account and term deposit funding. The Bank elongated its term structure of the funding portfolio resulting in reduced liquidity gaps and a more robust balance sheet. The cash holdings were more efficiently managed with a decrease of 1% in cash holdings despite the 3.2% deposit growth.

Capital Position

The Bank has maintained its strong capital position. Capital planning is undertaken on a three-year forward-looking basis, and the level and composition of capital is determined considering the segments' growth plans and the bank wide stress-testing scenario outcomes. In addition, the Bank considers external issues that could impact capital levels, such as regulatory and accounting changes and the macroeconomic outlook.

The Bank continues to actively manage its capital composition effectively. This ensures sustainable support for ongoing growth initiatives while protecting customer deposits. The Bank is sufficiently capitalised to cater for the capital impact of IFRS 9.

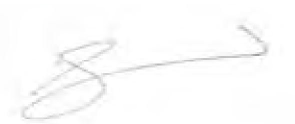
Chief Financial Officer's Report [continued]

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

	CAR 2014	CAR 2015	CAR 2016	CAR 2017	CAR 2018
Regulatory Minimum	15,00	15,00	15.00	15.00	15.00
Internal Target	16,00	17.50	17.50	17.25	17.25
Actual	18.27	18.99	16.38	17.67	17.94

Conclusion

The Bank has delivered a resilient performance within a benign macroeconomic context. The top line growth achieved demonstrates the strength and quality of the Bank's operating model. The Bank expects to continue to grow at nominal GDP, particularly given its current market share, risk appetite and focus on ROE preservation.



Luke Woodford
Chief Financial Officer

Executive Committee

GAONE MACHOLO
Director - Human Resources

MATSHIDISO KERETELETSWE
Chief Operations Officer

CHANA SEKGOROROANE
Director - Channels

KGOPODISO JUSTINE BASIAMI
Director - Wesbank

SEAN PUGH
Director - Credit

NGONI CHIKORE
Chief Information Officer

STEVEN LEFENTSE BOGATSU
Chief Executive Officer

OBONYE MALOPE
Director – Marketing & Communications

OLEBILE MAKHUPE
Director – RMB

GRANT LITSTER
Director – Business Segment

LUKE WOODFORD
Chief Financial Officer

LESEGO THUPAYAGALE
Chief Risk Officer

LOLO MOLOSI
Treasurer

BOITUMELO MOGOPA
Director – Retail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4

Retail Segment Report

Performance against last financial year

7% GROWTH in customer base

11% GROWTH in non-interest income

7% INCREASE in advances

9% GROWTH in profit before tax year on year

Retail Segment Report

Introduction

The Retail Segment is responsible for providing banking services and solutions to individual customers in Botswana. The Segment consists of the Consumer (Youth & Student banking, Smart and Gold clients) and Premium (Premier and Private banking) sub-segments.

Solutions and services are delivered through self-service channels, online banking, the FNB App, cellphone banking and the sales and service contact centre. Conventional structures, the branch and ATM network, are also key components of the delivery structure.

The Retail Segment strategy is enabled through the Bank's support functions – the Risk, Human Resources, Finance, Marketing and Operations divisions – which are anchored on building customer centric efficiencies in the pursuit of service excellence.

Understanding and anticipating change remains a critical part of the Retail Segment's DNA in a market where the ability to adapt to the ever-changing banking environment has proven fundamental to the success of the business. Now more than ever, the Bank needs to optimise big data to better understand customer behaviour and needs, in order to respond with localised solutions that speak to the market.

Customer Driven Solutions

With customer centricity at the heart of FNB's medium-to long-term strategy, there has been a significant shift in the Bank's approach to servicing customers. Predictive analytics are being developed to better anticipate present and future customer needs. In the same vein, the segment continues to build human capital capabilities, competencies and skills to match business needs, meet dynamic customer expectations and maintain competitive advantage. These support the Bank's deliberate move to evolve from product orientation to customer orientation.

Innovation

Recognising customer needs means adding value to all our customers' banking experiences, and because everyone's experience is unique, access to robust technology based self-service platforms is the most efficient way to help customers help themselves. FNB Botswana continues to be the market leader in technology based services, and 2017 - 2018 came with the introduction of more innovations, including:

1. Channel Islands offshore investment options for Premier and Private Clients, affording them the ability to diversify their investment portfolio in British Pounds, United States Dollars or Euros.
2. *186#: Where customers can now pay their water bills, report leakages and pipe bursts, enquire about outstanding bill statements and settle their bills from the comfort of their own homes.
3. eWallet enhancements: Daily limits were increased from P2 000 to P5 000, PIN validity increased from 4 to 16 hours and automatic PIN share to recipient was introduced.
4. Debit Card online purchase enablement.
5. VbyV (Verified by Visa): where our customers online shopping has been made more secure by sending an One Time Pin (OTP) to an authorised number.
6. App verification of online banking transactions for enhanced security.
7. Wi-Fi at branches was introduced to aid in usage of digital solutions for online banking and the FNB App
8. Premium Service Suite: A personal banking service centre for Premier and Private Clients, where service operations are now optimised out of a single service centre.
9. 9 new ATMs and 8 new ATMs with Deposit, further extending FNBB's reach to more Batswana and solidifying our position as Number 1 in the provision of self-service solutions.

Our customer centric focus has been well received by our customers, evident in the 7% year-on-year growth in customer numbers and a 14% increase in core product uptake across our retail base. With better solutions in the pipeline for delivery in the coming financial year, enhanced self-service products and the introduction of new solutions, we look forward to the coming financial year to expand on our much improved performance this year.

Touchpoint Development

Our Youth focused branch in Rail Park opened its doors in October 2017. This was set up to support and accommodate the growth of the segment in the area. There is significant growth in Orapa, and in response, the Orapa Premium Suite and Consumer Service Centre were established, and these were officially opened by the Vice President of the Republic of Botswana, His Honour Slumber Tsogwane in May 2018.

> *"Our Private and Premier Clients now have access to a dedicated suite where they are able to access more sophisticated investment and fiduciary solutions designed to grow and protect clients' wealth."*

People Empowerment

Ensuring that our people are able to deliver and execute the level of service delivery our customers expect. We continue to engage with external service providers to develop our people through various leadership programs such as Investment in Excellence, Leadership Gold, 15 Laws of Invaluable Growth, and Leadership Development Programmes. These engagements, among many others, translate into our biannual GES (Group Engagement Survey) which we continue to use as an active tool for developing and monitoring people engagement. The purpose of these interventions is to build strong leadership competencies and skills to drive the retail strategy in an industry that has proven to be dynamic, and therefore demands a breed of leadership that will enable the segment to remain competitive.

Retail Segment Report [continued]

Market Overview

Household advances are forecast to grow at 6% in the coming financial year with a rate cut of 25 basis points expected in October 2018. Retail credit is generally anticipated to grow, but this growth is expected to be slow and gradual. The property industry has been depressed in the past financial year owing primarily to oversupply and under demand.

Deposits are also forecast to grow in the coming year, but only by a modest 3.2%. Nevertheless, this is a promising development in the light of market performance in the year under review that saw a regression of 11%.

Recent waves of job losses within Government and at Parastatals, which have since also extended to the private sector with the closure of some mines, continues to create an air of uncertainty that is not being countered by sustainable job creation. While Government has made commitments towards ensuring sustainable job creation, in the meantime consumers continue to experience pressure on their disposable income as their salaries fail to be adjusted, at least relative to inflation.

The Bank will continue to execute responsible lending practices that are in line with TCF (Treat the Customer Fairly) principles, ensuring not to over commit a customer's income and ensuring a dignified quality of life for all Batswana.

Future Prospects

The Bank will continue to place focus on better understanding the individual market segments and their requirements in order to continuously refine our product and service offering to meet customers' evolving needs and expectations. Ensuring close engagement with our customer base will allow us to close the feedback loop between service delivery and after service conversations with consequent enhancements to customer satisfaction.

We believe that active management of client experiences throughout the customer journey lifecycle will ensure high customer retention, while our ever-evolving technological offerings and customer centric solutions will continue to drive growth in customer numbers.

The coming year will see continued focus on customer value management that will include promoting our insurance offering and rollout of further enhancements in our existing technological platforms across all channels, online banking, cellphone banking, the FNB App and self-service platforms.


FIRST NATIONAL BANK
ORAPA PREMIUM SUITE
His Honour The Vice President
of the Republic of Botswana
Mr Slumber Tsogwane
FNB

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4

Human Resources Report

The Productivity Project Principles have become Business As Usual (BAU) for FNB. This is part of our strategy to ensure continuous improvement and to stay abreast of the volatile changes in the business environment.

Human Resources Report

Strategic Highlights

The 2017 - 2018 financial year has been eventful as characterised by several achievements anchored on various pillars, including improved operational efficiencies, current value optimisation and improved systems to support the business in the future.

The Bank has also intensified its focus on service culture, and during the year a service culture audit was conducted which defined and evaluated our service culture, identified challenges and remedial actions, and established mechanisms to track improvements going forward.

Insights obtained from stakeholder engagement and research inform how the Bank refines its offering and develops stronger value propositions specifically tailored to dynamic client needs, consolidating the customer centric culture that has been built within FNBB.

Our strategic thrust has been centred on supporting the business to deliver value for our external customers. This means that we needed to fully appreciate the Bank's strategic focus areas and ensure that we create an enabling environment with people whose skills are aligned to the critical business functions and evolving technologies.

We also updated our recruitment and related policies in line with the evolving regulatory environment and governance requirements as well as to upskill our people in line with the technological advancements within the industry.

We continue to leverage off the partnerships we have with the FirstRand Group and harvest from existing resources and systems to further grow our talent both for current and future needs. Where appropriate for exchanging ideas, gaining experience and future development, key employees are seconded to the FirstRand Group.

Under our control and overview we have outsourced the administrative function of our recruitment services to FirstRand to capitalise on the centralised model which offers optimum resourcing efficiencies and a reduction in associated costs. These changes have yielded several benefits which include re-aligning our resources to enable us to focus on screening and appointing the right people with the right skills to support our diverse business operations and segments.

78%
INCREASE IN participation level

The Human Resources Strategy

The HR Strategy is to build skills for the future through optimising current value and improving delivery efficiencies

Improving Operational Efficiencies

As part of our customer centricity drive, a review was conducted to establish the extent of alignment of our HR processes to business needs. Some gaps relating to operating technologies as well as alignment of competencies and skills to the evolved business needs were identified. As a result, we prioritised these two elements and reviewed our processes, competencies and skills in line with the changes introduced. This resulted in redeployment of some staff to areas more suited to their strengths and career interests.

Alignment for Right Resourcing

The skills realignment exercise involved various competency assessments to determine if there were any gaps against role requirements. The recruitment process was put on hold whilst the skills realignment project was rolled out. Some employees opted for separation packages while others were re-deployed to more suitable positions where vacancies existed. There were a few cases where employees did not fit any of the available positions, which resulted in employee separations. A change management programme which included counselling services was put in place and made available to all employees on a needs basis. This afforded employees an opportunity to manage the impact of the change and better prepare for the transition.

People Management Skills for Line Managers

As part of the business enabling process, a programme was developed to equip managers with basic HR management skills. This programme has been used to empower managers with skills to effectively manage employee discipline within the work place, team management and recruitment. There has been a noticeable improvement in the case management processes with a reduction in turnaround times in closing cases.

Employee Engagement

The Bank continues to conduct employee engagement surveys to allow for free and open feedback on various issues pertaining to the business and employee welfare. This year's survey results show an increase in participation levels to 78%, comparable with Fortune 500 companies' results. This is particularly pleasing in view of the unavoidable employee morale challenges resulting from the productivity realignment project.

Human Resources Report [continued]

The Bank supports ongoing initiatives to embed our values and to make them integral to our culture in all our interactions with both our staff and customers. We have improved our recruitment process to include values as part of the screening process. This is meant to enrich our culture with professionals whose values align with those of FNB. Employees who continually live our values are celebrated through spot awards and recognition.

We Develop our Employees

Graduate Trainee Programme

For the last three years, the Bank has been running an International Graduate Programme aimed at providing us with a high level leadership succession pool. The programme is aimed at ensuring that we develop specialised skills for the Bank which will support both our existing and future strategic initiatives. In response to technological advancements within the industry, the skills bar needed to be raised within our Business Information Unit, Technical Services Unit and Project Management Office. This was achieved through the interventions of our graduate trainees who continue to make us shine by developing cutting edge projects.

Graduate trainees are put through a rigorous one-year programme, exposing them to various projects within the FirstRand Group. This hones their specialised technical and leadership skills as demonstrated by the awards received during their placement within the Group.

We also have a local development programme focussing on a wider range of disciplines within employee career confines, which has already yielded positive results, and there has been an improvement in in-house recruitment of our own home grown talent. The first ten programme participants have since been appointed to permanent junior management positions.

Talent Retained within the Business

Leadership

During the year under review we realised a number of benefits from various leadership development projects aimed at improving career opportunities and retaining our much valued talent. Three employees have since secured permanent jobs within the FirstRand Group, which is testament to the effectiveness of our leadership development programme.

Our managers continue to participate in various international fora where they have excelled and received various awards for excellence.

Wellness Programme

In line with national and global trends, lifestyle-related diseases remain the highest cost drivers of our medical aid claims and health care costs. Our wellness office implemented a lifestyle modification programme to help moderate the incidence of these conditions among our employees and to effectively reduce associated health care costs. These interventions have shown fruitful benefits and we have seen a gradual but significant decline in our medical aid claims ratio, notably at Bomaid, from 100% in 2015 to 79% in 2017.

We continue to provide employees with psychosocial support under the Employee Assistance Programme service offering. The objective is to drive high performance by alleviating issues that negatively affect employee attendance, and in turn performance. The programme also provides managerial support on attendance and sick leave management. Furthermore the programme provides support for disability management and trauma, as well as guidance for conducting difficult conversations.


Helping
from the
Heart

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4

Business Segment Report

Key Points

- **16%** GROWTH in customer base
- **18%** INCREASE in non-interest income
- **10%** DECLINE in costs
- **12%** DECLINE in advances
- **2%** DECLINE in deposits

Business Segment Report

Introduction

The Business Segment comprises the Business Banking, Commercial, Local Corporate and the Public Sector sub-segments. The Segment also hosts three product houses, Agriculture & Tourism, Commercial Property Finance and Islamic Banking.

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

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

The Commercial Sub-segment: The Commercial Sub-segment serves companies in their growth phase, offering a range of industry-specific corporate banking solutions such as the Corporate Transact Account and Purchase Order Financing. Today's commercial clients have dedicated Relationship Managers who focus on customers' unique service needs on an individual level and ensure that commercial clients experience seamless, hassle-free, personalised service.

Local Corporates Sub-segment: This segment consists of customers that have complex needs and require specialised banking solutions. In order to service these customers accordingly, they have been categorised into distinct sectors each with a dedicated Relationship Manager and a Service Consultant. The service model assists

the corporate customer to understand banking better, while at the same time allowing the Bank to proactively cater for evolving customer needs.

Public Sector Sub-segment: In 2005 the Bank created a dedicated segment to cater to the needs of public sector customers with a specific focus on public sector banking requirements. The Bank's Public Sector Sub-segment understands the unique challenges of this sector and, by harnessing the power of technology and the Bank's innovative platforms, provides tailor made solutions to facilitate a more efficient model of doing business.

Customer Driven Solutions

In our pursuit of providing customer driven solutions, our processes have been redesigned and refined with the customer in mind. An example of this is our newly revised Business Service Desk which has been restructured to better manage customer queries and requests. In line with FNB's digital migration ethos we have enhanced the resources of our service teams, and Relationship Managers now have tablets in order to be able to assist customers on the go.

The drive to encourage the use of self-service and digital channels continues, and our clients are offered a wide range of solutions on these platforms.

- The **Debit Card** allows the customers to have access to their cash and to make payments at their own convenience.
- **Online Banking Enterprise:** Customers can transact from their account 24/7 from anywhere in the world, as long as they are connected to the internet.
- **Online FX:** Customers can process cross border and global payments using this platform, anywhere, anytime.

We continue to add value to our customers' banking experience by educating them on our various self-service channels that are convenient and provide quick turnaround times. Tswana Gas was added onto the *174# platform to provide customers with the convenience of a digital gas purchasing platform. During the year under review the Bank launched the Mogwebi Insurance offering and re-launched Islamic Banking.

In partnership with the Ministry of Youth, Sports and Culture, we launched the Youth Value Proposition which is targeted at youth entrepreneurs, upcoming sports professionals and youth sponsored by Government who would benefit from capacity building, coaching, mentoring and facilitation of access to markets. The proposition provides the Ministry's funded businesses with tailored solutions that include transactional, investment, insurance and lending products. The Youth Value Proposition comes with the embedded benefits of banking with full access to FNB's innovative financial solutions including online banking, cellphone banking, eWallet and the FNB App.

> *"The Business Segment maintained 98% Online Banking Enterprise penetration during the year."*

People Empowerment

We conduct regular product knowledge training to ensure the team is confident and conversant with the solutions available to clients, and able to communicate these clearly. Credit training is also conducted to ensure that the team has the skills set to assess client credit applications.

The Segment conducts cyclical team building exercises and regular staff engagements to enhance team cohesiveness.

Closing Service Gaps

A number of service challenges still exist, and focus in the coming year will be on minimising and mitigating these. The generic nature of some of our customer solutions requires that we continually seek to adapt and refine these to ensure that our customers receive the individualised service they expect. As a result, we are in the process of developing customer centric value propositions and strengthening the business transactional product offering.

Business Segment Report [continued]

Under this model, the Bank develops unique value propositions tailored to the requirements of specific industries, particularly in those sectors where there is opportunity for growth.

There are also issues around asset quality that require attention, and these have been addressed through the strategic appointment of a resource that will firmly be focused on managing the asset quality of the Business Segment.

Improving the customer experience by reducing turnaround times remains a key focal area. The service model at branches is under review and it is expected that service improvements will result from the implementation of a new service and segmentation model.

Market Overview

Operating Environment

There is growing demand for financial services from sectors such as mining, construction, real estate and tourism - all of which bodes well for these sectors, and the strength of the non-mining segment show signs that the economy is diversifying from overreliance on the mining industry

Botswana has seen an improvement in business confidence, and the 50bp reduction in the base rate supported credit growth. There was continued growth in the SMME sector during the year, and this trend is expected to continue.

Challenges and Remedies

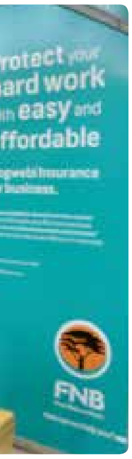
Meeting client credit requirements remained a main challenge in the prevailing market conditions. There was a rise in non-performing loans, and larger corporates continue to taper down their investment and capital expenditure. The Bank has put in place strategies to meet the demands of the growing sectors of the economy, such as tourism, and is focusing on credit growth in specific industries that are not considered high risk.

The property market remained subdued during the year and there has been no significant growth in the asset space.

Future Prospects

New markets continue to evolve, and the Bank sees particular opportunity for growth in the tourism industry, and is ensuring that its value propositions meet the needs of businesses in growth areas of the economy. We believe that our re-launched Islamic Banking offering will increase penetration of this segment.

The Bank continues to roll out innovations in services and processes, such as the new web based tracker to assist with query resolution tracking. Customer retention strategies going forward include the development of both sub-segment specific and sector specific tailored value propositions. We will also redefine our service model, committing to better turn-around times for an enhanced customer experience.


FNB


market...
how can we help you?
Realise your ambitions
with Shari'ah approved
Islamic Banking
FNB


WesBank
WesBank

Customer Driven Solutions

4

WesBank Report

Summary of key points

2%
INCREASE
year-on-year to 32% market share in franchised dealers

6%
INCREASE
year-on-year to 20% market share in industrial equipment suppliers

WesBank Report

Introduction

Segment Background

WesBank – a division of First National Bank Botswana Limited – aspires to be the country's number one solution provider for vehicle and asset finance.

Assets financed include passenger and commercial vehicles, plant and machinery, agricultural equipment, aircraft, generators, materials handling, earthmoving equipment and leisure assets (boats, caravans, bicycles and motorcycles).

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

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

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

Customer Driven Solutions

WesBank's customer centric approach has resulted in a realignment of the business model which has seen the business extend its services to the FNB branches. Our solutions can now be accessed through all FNB branches across the country.

We continue to support self-service migration and the new individual online application platform illustrates our commitment to improving the customer experience, facilitating access to credit, and providing a simple, user-friendly tool as part of the vehicle and asset financing process.

Our physical representation on dealer floors and the expansion of our finance offering to include insurance at the Point of Sale offers additional convenience to customers, as does the individual online application which is targeted at customers who do not always have time to physically visit the Bank at the initial stages of the loan application process.

The business will continue to streamline and automate processes and to partner with all stakeholders to improve the customer experience.

The Segment is encouraged by the notable successes achieved in growth of market share. Our franchised dealer market share increased by 2% to 32%, from 30% in the previous year, and our industrial equipment suppliers' market share grew by 6% to 20% in 2017-2018.

Market overview

Operating environment.

The operating environment in the year under review was difficult for the Segment and was characterised by decreasing new vehicle sales. In the challenging economic conditions and the associated restructuring and downsizing of entities in some sectors of the market, employment continued to be negatively affected and disposable income remained under considerable pressure. The decline in business confidence resulted in a low uptake of facilities, and there was an increase in impairments.

For the year ended June 2018, total units available in the market in the franchised dealer space was 528, a 4% year-on-year increase from 507 in 2017. The new vehicle component was down by 6% to 390 units in 2018 from 415 units in 2017. The market also experienced a shift towards a higher proportion of used cars being sold. Cash, which is our main competitor, declined by 2% year-on-year to 48% of market share.

WesBank Report [continued]

Remedies

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

Future Prospects

New markets

Used vehicle imports remain the dominant source of vehicle stock and used cars continue to dominate the automotive market in Botswana. Opportunity for growth exists in this area and WesBank will align its credit decision making across all channels to support the shift from new to used vehicles.

Innovations in Service and Processes

Customer Retention

The business will continue to minimise angst for customers and introduce efficiencies in the business acquisition space. By entrenching customer centricity across all channels we will ensure effective customer retention.

Adoption of Technological Devices and Applications

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

Looking forward

Botswana remains one of the top three most attractive auto markets for vehicle sales in the region. The country has a developed auto market with a high consumer purchasing power and good quality road infrastructure. The ongoing road and infrastructure improvement projects should continue to support vehicle ownership. The auto market is expected to normalise and increased personal consumption supported by low inflation rates will drive growth in passenger vehicle sales. Growth is also expected in the commercial vehicle segment, mainly supported by the Government's goal to diversify the economy through increased spending on major capital development projects.


Bank


Amplifying RMB's intellectual capital
technology

Customer
Driven
Solutions

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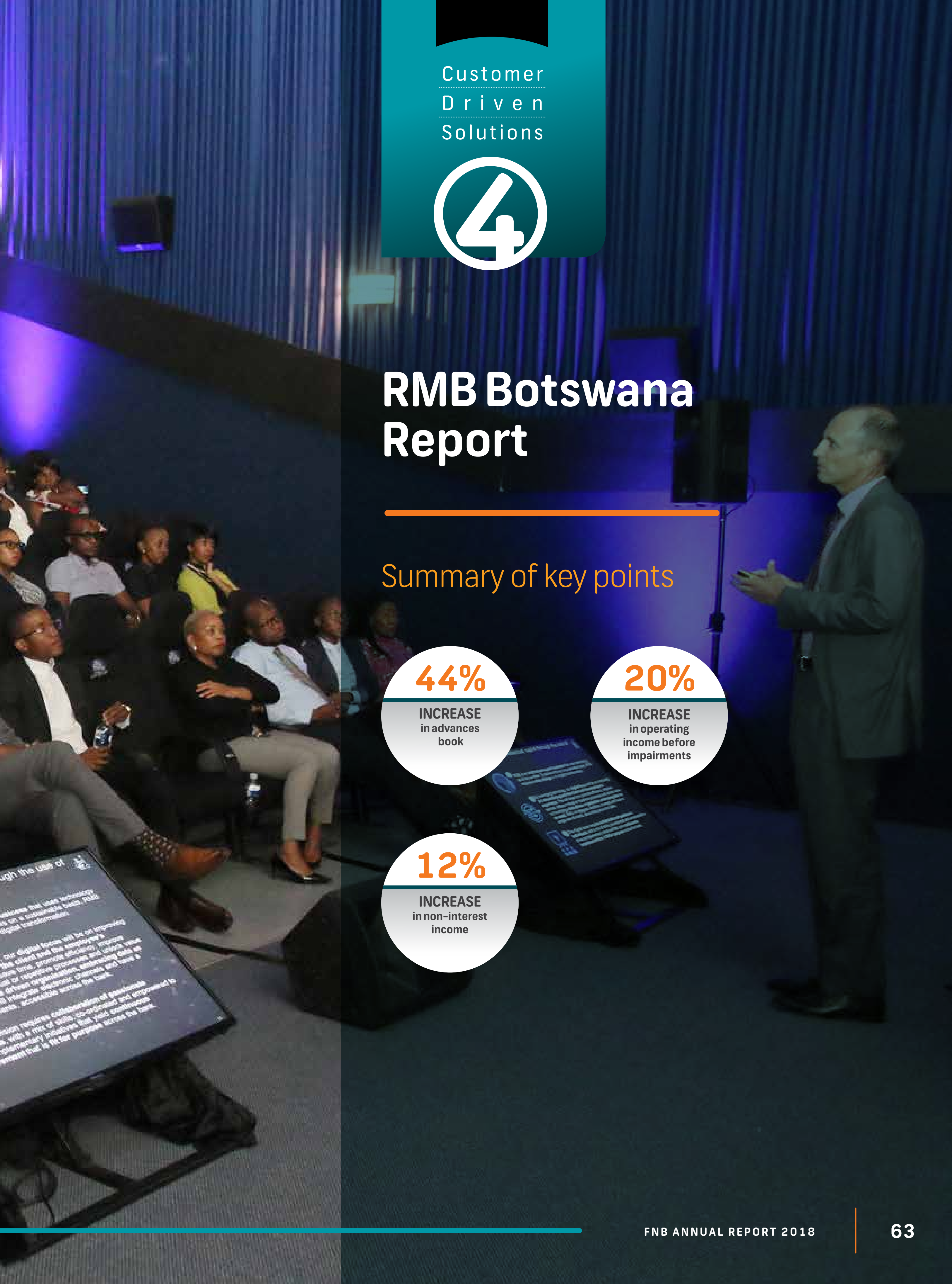


RMB Botswana Report

Summary of key points

44% INCREASE in advances book

20% INCREASE in operating income before impairments

12% INCREASE in non-interest income

RMB Botswana Report

Segment background

As part of RMB's international network, we have the capacity to be market makers, offering innovative advisory, capital markets, financing, principal investing and risk management solutions across multiple currencies and jurisdictions.

We are the investment bank of choice – both for our customers and our people – through our focus on continuous innovation and solutionist thinking.

Our ability to think differently, our collaborative spirit and our unrelenting focus on customers underpin the manner in which we conduct our business. This is testament to the long established traditional values of RMB, and ensures that our customers' banking experience is first-rate and tailor-made to address their specific needs.

We are passionate solutionists who believe in nurturing mutually rewarding relationships with our customers, and we are able to develop innovative and bespoke solutions spanning different aspects of their business lifecycle.

Customer Driven Solutions

Adopting a customer centric approach requires that we continually refine our offering to keep up with their evolving requirements and expectations. We have consequently identified a number of customer needs and crafted products that are appropriate. Our customers increasingly expect a seamless digital banking experience and RMB has continued to leverage on technology to expand convenience banking for them. Partnerships with utilities, notably Water Utilities Corporation, facilitate fault reporting, statement enquiries, uploading of meter readings and the payment of bills, and with Unstructured Supplementary Service Data (USSD) enablement of key services our customers are provided with added convenience where no data network is available.

We continue to refine our e-commerce solutions for customers in support of the Bank's digital migration drive. These include reconciliation solutions that simplify transaction tracking and account reconciliation, adding efficiency. Digital solutions have increasingly made the collection of payments easier, eliminating the collection and depositing of cheques.

In offering innovative digital solutions which are cost effective, we also continuously review our processes to remove any inefficiencies and improve our turnaround times.

Adding Value

Enhanced payment platforms Activation of the full capabilities of our foreign exchange online platform has enabled customers to do foreign exchange transactions and international transfers in a seamless manner. In addition, the platform offers customers the ability to self-manage their accounts and optimise their foreign currency liquidity.

Automated reconciliation solutions that integrate customer and Bank systems facilitate seamless, convenient transaction reconciliation for customers.

SIRESS instant ZAR settlements – Integration and conformity to the SADC payment platform ensures that ZAR settlements are effected quickly, thereby improving turnaround times.
Other enhancements include:

RMB Botswana Report [continued]

- Innovative working capital solutions
- **Structured funding solutions** that take into account customer cashflow needs
- **Advisory services** for strategic decision making.

Performance Highlights

24%
REVENUE GROWTH

44%
BALANCE SHEET GROWTH

In the year under review, RMB Botswana grew its revenue by 24% over the previous financial year on the back of acquisition and retention of strategic customers and key customer acquisitions. Our customers are market leaders in the sphere of operations and are central to our overal business strategy and during the year the business acquired main banker status for a number of key accounts.

For the second consecutive year, Global Finance recognised RMB as the market leader in Forex through the Best Forex Provider award.

Service reviews were conducted during the year to identify and unlock service issues with customers. RMB introduced a tiered customer engagement model that offers customers various touchpoints based on their specific engagement needs. This allows for a targeted and focused approach to customer engagement and allows the business to gain greater customer knowledge, encouraging the collaboration of relevant stakeholders to ensure the fulfilment of their needs. In support of this approach, sector specific service teams were established. Internal processes were enhanced through close monitoring of turnaround times.

Market Overview

The operating environment remained challenging for the year under review, although there was an increase in business confidence in the wake of the contraction of the mining sector and associated support and service industries the previous year. There was a 50 basis points cut in the Bank of Botswana benchmark rate.

A number of opportunities were realised, with an uptake in solutionist partnering as customers' operations expand regionally, requiring seamless integration of their cross-border undertakings. There is an increase in opportunities to participate in PPP's as the framework takes form, and increased corporate lending as business sentiment improves.

Challenges and Remedies

The business has experienced challenges finding the right investment banking skills in the local market. The remedy has been to focus on our internship programme to develop skills in-house from grassroots level.

Underdeveloped capital markets limit the business' ability to execute on some risk management instruments and RMB continues to implement market development initiatives to counter this. Anticipated balance sheet growth realisation was slowed by delays in implementation of projects by customers.

Our People

At RMB, our most valuable resource is our people. We equate exceptional performance with exceptional people who live and breathe the RMB principles, the RMB leadership brand and RMB values. We attract the best talent in the market and provide an enabling environment for them to achieve professional success and fulfilling careers. We believe talent mobility is the key mechanism that allows our talent to be the best in the world, and continuously expose our people to different markets. This past year, a number of our employees were given short–term assignments to other RMB offices for peer learning and benchmarking against best practices, to learn new skills and provide best value to our customers.

Our team is made up of exceptionally talented and experienced people from a variety of backgrounds, who are able to think outside the box and provide customers with specific solutions. During the year we continued the process of entrenching RMB principles, values and leadership brand into the business. A number of our employees were seconded to various positions in more developed markets to gain experience, learn new skills and to gain career development opportunities.

Training programmes were conducted during the year to further develop team skills and competencies. These included Ultimate Service Excellence training and programmes on trade finance and relationship management.

Future Prospects

RMB is embarking on a number of exciting new prospects, such as exploring opportunities of developing corridor flows. Opportunities exist for the business to entrench and increase utilisation of its trade products by exploring the growing trade partnerships between Botswana and companies in other African countries and in Asia, leveraging on the existing relationships that FirstRand has with these companies. The business continues to source additional opportunities in the trustee service space. Other new developments include:

- Robotics – The business is embarking on digitisation of manual processes to improve efficiencies and turnaround times.
- Online Global Account Management The business has introduced multi-currency liquidity management across multiple jurisdictions and enabled systems allowing customers to have single view of their accounts across multiple currencies, geographical locations and banks.

Customer retention strategies

RMB prides itself in its proactive and continuous interaction with the customer at all levels through continuous engagement in order to understand their evolving needs at all times. Our solutionist approach to structuring bespoke services for customers is dependent on a thorough understanding of their requirements and expectations, and this is only achieved through continuous engagement. RMB adopts a primary banker status approach with its customers and where applicable adopts the regional mandate and Africa engagement model that looks at the customer at a regional level in order to provide the most appropriate solutions.

The current market shift to e-commerce and m-commerce provides a unique opportunity for payment gateway offerings. US$ clearing on the SADC Integrated Regional Electronic Settlement System (SIRESS) allows for real-time settlements on cross border US$ transactions, significantly improving turnaround times on regional US$ payments.

The deployment of robotics systems to automate key processes in order to improve turnaround times and enhance efficiencies is being rolled out, and will add to customer convenience.

Customer
Driven
Solutions
4

Service Report

The Client Services Segment

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

Service Report

Customer Experience

During the year considerable attention was placed on improving the Bank's internal service in order to enhance inter-business efficiencies, as research indicates that customer satisfaction is directly related to internal service standards.

The Bank has also intensified its focus on service culture, and during the year a service culture audit was conducted which defined and evaluated our service culture, identified challenges and remedial actions, and established mechanisms to track improvements going forward.

Insights obtained from stakeholder engagement and research inform how the Bank refines its offering and develops stronger value propositions specifically tailored to dynamic client needs.

Service Enhancements

During the year, the Bank conducted a number of targeted service enhancement campaigns and interventions to ensure better alignment of the solutions on offer with actual customer needs. These are briefly summarised here:

- **Values Drive:** In implementing the findings of our internal values assessments and to motivate the embedding of our core values into our service culture, we promoted Service Fridays, EXCO Values Champs and Rewards & Recognition initiatives.
- A **Service Pitso** was conducted with business heads and customers to inform customer driven business strategies.
- **Service structures** were enabled for heightened accountability and to ensure that problem resolution protocols are as responsive as possible.
- A **customer value model** development was conducted within the Retail segment.
- The annual **External Customer Satisfaction survey** was conducted, with focus on all aspects of the customer experience, including channels, touchpoints, facilities, product performance and service quality.

Touchpoint Service Experience

Our service touchpoints continue to be enhanced in response to customer feedback to ensure that our customers have a seamless and fulfilling touchpoint experience. Interventions during the year included the following:

- A **Service Quality Audit** was conducted at all touchpoints to inform on the effectiveness of past interventions, to identify any service chain shortfalls and develop remedial actions for implementation.
- The **Contact Centre** is undergoing a productivity improvement and optimisation project.
- The **customer query process** was reviewed for rationalisation and optimal turnaround time.
- The Bank is piloting a **real-time customer feedback** system and a **queue management** system.

Process Enhancements

We continue to improve our service processes, and during the year we initiated new streamlining of the customer refund process in various parts of the business, including self-service delivery (ATMs and ATMs With Deposits) and Forex refunds. We have also realigned our service model and established a quality assurance function.

We empower our staff members to make service delivery decisions through targeted customer service training so as to be able to provide the ultimate customer experience. Frontline staff are currently undergoing a mandate review and expansion exercise.

Addressing Service Gaps

Our ongoing customer engagement and research have identified key service gaps and these are continually being addressed. Our customers' dissatisfaction with queue lengths and waiting times is being tackled through a queue management system which is currently being piloted, alongside a new automated real time customer feedback system which will assist us to speedily identify service bottlenecks and devise and implement remedial strategies.

The Bank is paying particular attention to reducing the time it takes to resolve customer queries through specific focus on our CARE efficiencies. We ensure that there is comprehensive consequence management in cases of non-adherence to processes or policies, and conduct periodic reviews of all third party SLAs to ensure that these align with our complaints management policy.

Highlights

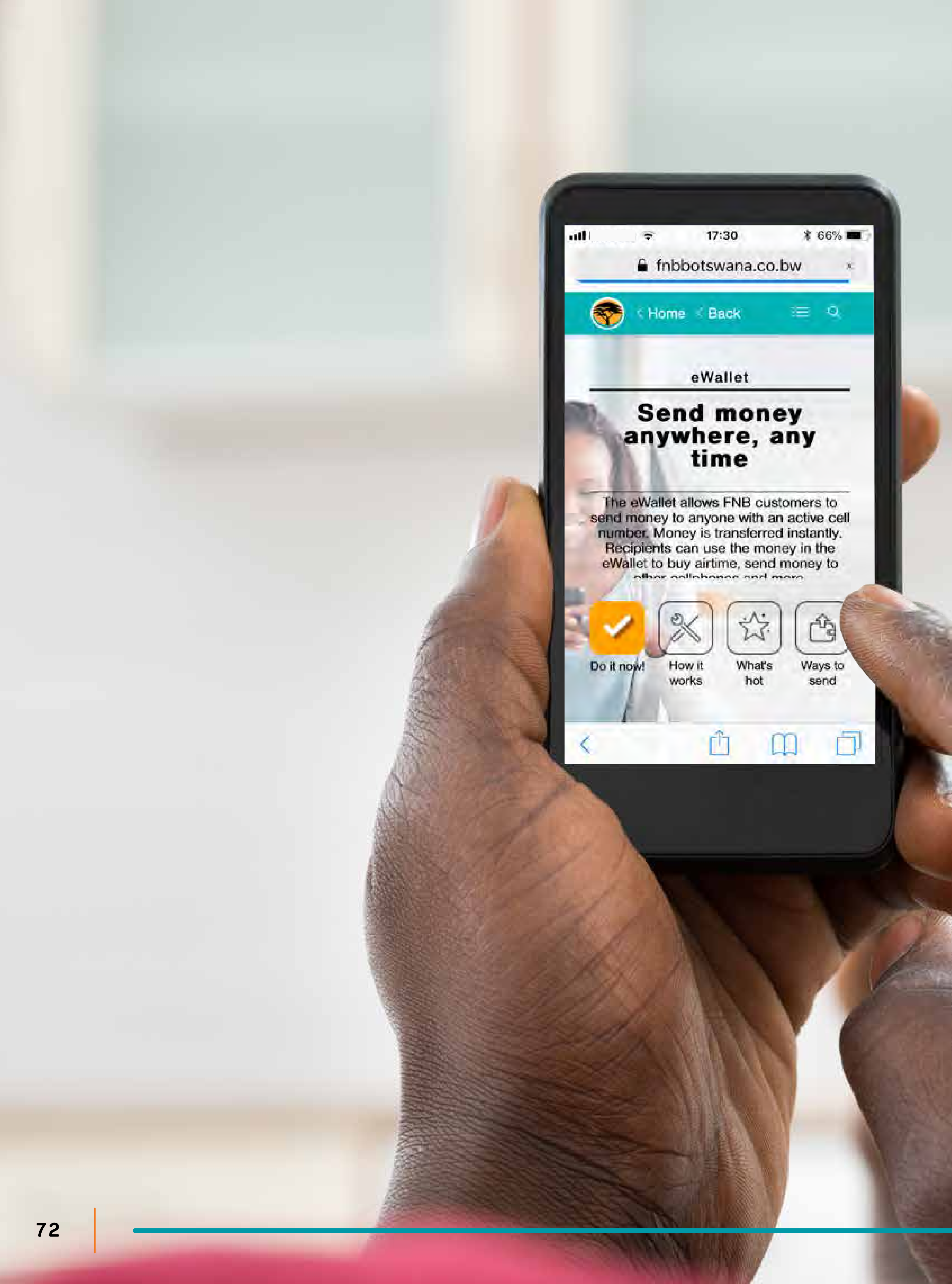
The Bank's External Customer Satisfaction Index (ECSI) score improved from 72% in 2016 to 79% in 2018, indicating that many of our service quality enhancement interventions have been successful. We anticipate that this index will continue to improve as we constantly refine our service model in response to customer feedback acquired during the annual ECSI surveys.

Internal service level agreement (SLA) performance also improved from 72% in 2017 to 85% in 2018, while problem resolution, closure and turnaround time improved by over 50% year-on-year over the period.

The 2017 FNBB winner of the Diamond Service Award, Fiona Kasese, was sent on a learning journey to Japan and embarked on a number of staff projects upon her return. These projects give the Bank value in various ways including exposure to best practice in customer experience internationally, recognition of the influences of culture in driving customer behaviour and perception, as well as enabling delivery of projects to differentiate our service experiences through knowledge sharing.

The Road Ahead

In the year ahead the Client Services Segment will continue to drive the segments' refinement of their customer profiles and identify target and niche markets for expansion. This will be done in conjunction with mapping the desired customer experience for consistency across all touchpoints and consolidating the customer centric culture that has been built within FNB.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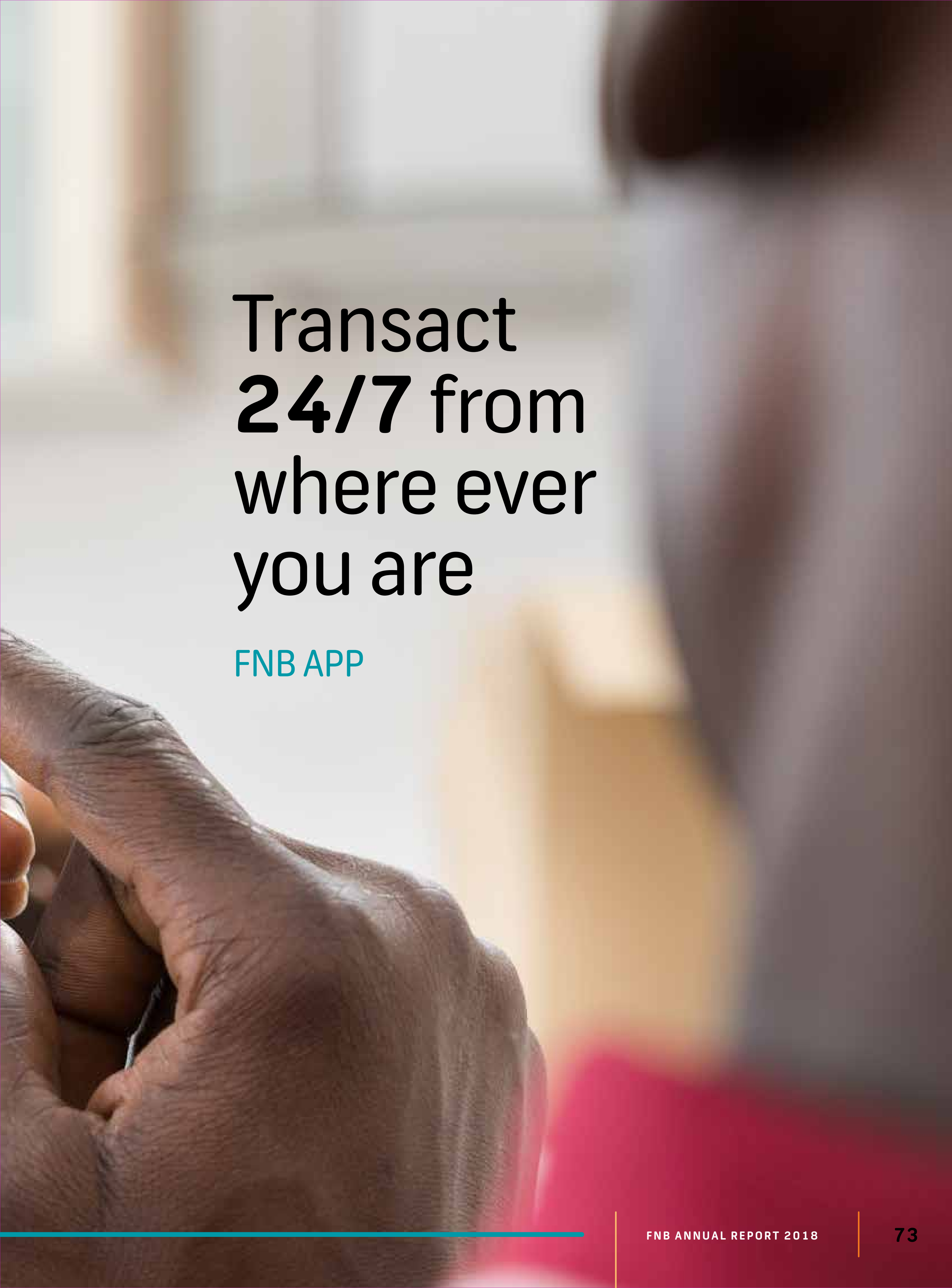
eWallet
Send money anywhere, any time
The eWallet allows FNB customers to send money to anyone with an active cell number. Money is transferred instantly. Recipients can use the money in the eWallet to buy airtime, send money to
Do it now!
How it works
What's hot
Ways to send


Transact
24/7 from
where ever
you are
FNB APP

FNB Foundation Report

Introduction

In 2001, First National Bank Botswana set up the Corporate Social Responsibility arm, which was registered as a Foundation. On an annual basis the FNB Foundation allocates up to 1% of FNB's profits after tax to give back to the community.

FNB Foundation Report

Projects Completed in 2017-2018

Letlhakane Branch:

The month of March 2018 saw the Letlhakane Branch handing over a 'leobo la kgotla" to Buuhe Kgotla. The leobo la kgotla was constructed as a permanent structure which includes an office for the Kgosi. Letlhakane Branch received funds amounting to P54 364 for the project.

Foundation Projects Completed

Camphill Community Trust:

The FNB Foundation funded Camphill for the construction of a student hostel and a dining hall to the value of P2.8 million. The Foundation handed over the completed complex in May 2018, and despite being a few months behind schedule, the project came in on budget.

Milestones achieved in 2017-2018

- **July 2017** – FNB Foundation Strategy review
- **Aug 2017**
- **Sep 2017** – FNB foundation introduces staff awards (best volunteer and best project awards)
- **Oct 2017**
- **Nov 2017** – Commencement of artificial grass installation project at the FNB First Park.
- **Dec 2017**
- **Jan 2018** – Installation of internet at First Park
- **Feb 2018**
- **Mar 2018** – Letlhakane Branch Community project hand over.
- **Apr 2018**
- **May 2018** – FNB Foundation hands over a dining hall and hostel to Camphill Community Trust
- **Jun 2018**

FNB Foundation Report [continued]

Changes over time

In 2017 the Foundation reviewed its strategy to align with current and anticipated future needs and to ensure that it remains relevant. The Foundation engaged with both internal and external stakeholders on the change management of weaning off past projects to start afresh in line with the new strategy. It was vital to devise a sustainability plan customised for each beneficiary so as to ensure business continuity. All unfinished projects were fast-tracked to be completed before engaging in new ones.

Staff Volunteer Strategy 2022

Background

The FNB Foundation gives back to communities in two ways; either directly from Foundation to beneficiaries or through the Staff Volunteer Programme. Corporate Social Responsibility (CSR) is not static but is continuously evolving because community needs keep changing, and to remain relevant and meaningful, CSR should evolve with community needs. In the years to come, community needs and priorities may change. These changes are what necessitate a periodic strategy review, hence the changes to the Staff Volunteer Strategy.

The new strategy embodies the global priorities underpinned in the Sustainable Development Goals Agenda (2036) as well as the national priorities derived from the National Development Plan (NDP 11). Of the several priorities identified, the Foundation has selected youth unemployment as the priority upon which to focus its efforts. Youth Development therefore becomes an additional focal area, over and above the five existing areas:

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

Purpose

FNB Foundation Staff Volunteer Programme is the planned, managed effort that seeks to motivate and enable employees to effectively serve community needs, with the support of FNB, the employer. The Staff Volunteer Programme offers a tangible way for businesses to become more personally invested in tackling social problems, to strengthen employee skills, raise morale and cultivate a more positive and productive environment. The strategy also encourages committed engagement by staff in the projects, rather than once-off donations.

Old Staff Volunteer Activities

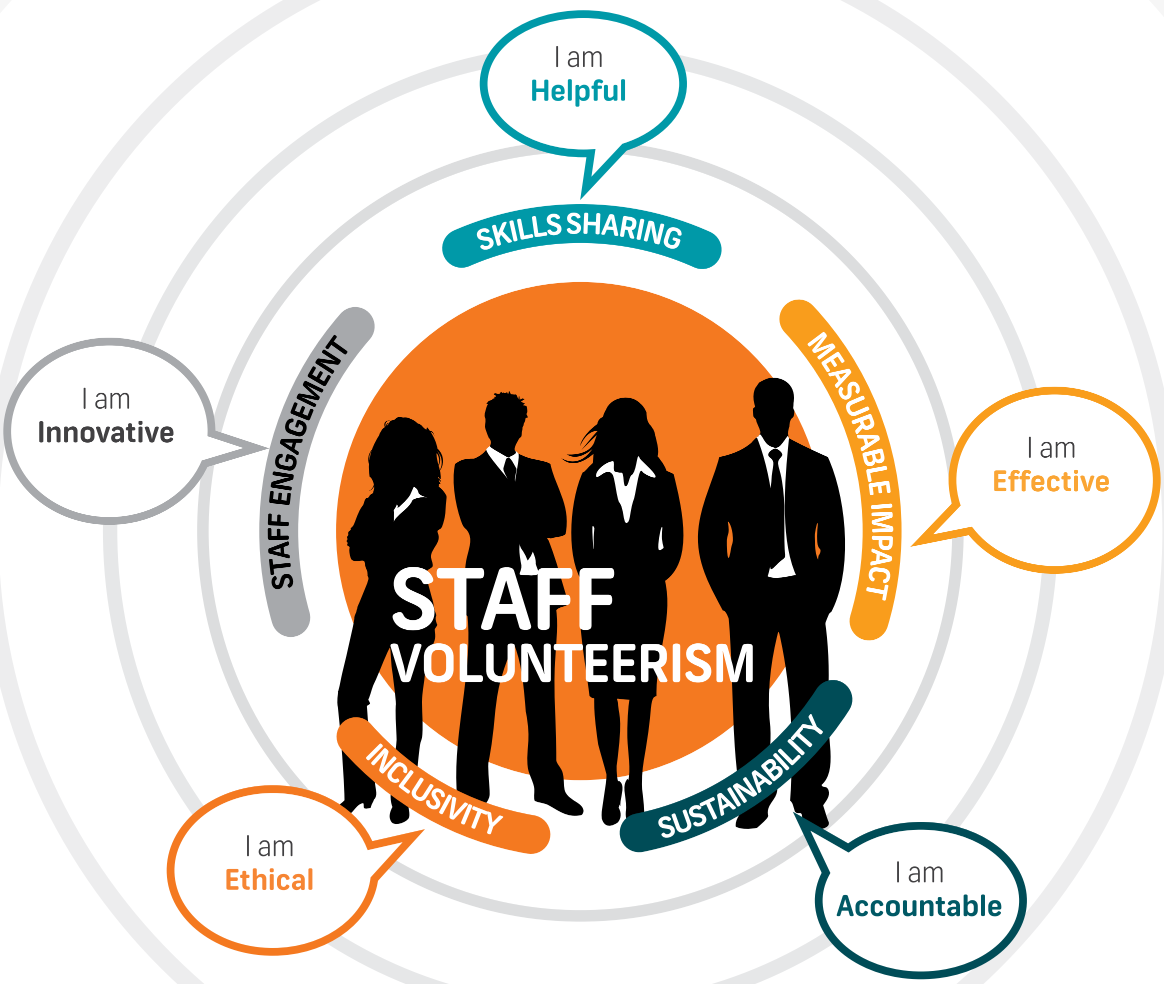
- Branches and divisions have an annual budget of P50 000.
- **Random Acts of Kindness** is an annual event in which FNBers are encouraged to do acts of kindness of their choice.

ACTIVITY	DESCRIPTION	MODE OF DELIVERY	REMARK
Common Interest Groups	FNB runners club, cycling club, aerobics team, Toastmasters etc. are now eligible to do community projects and apply for funding. The groups should have a minimum of 10 members to qualify for funding.	Intra-division/ branch	The groups usually consist of staff members representing different divisions or groups which enhances business partnerships, and consequently improves service delivery.
'We care'	On an annual basis, all FNBers will embark on a national project, on the same day, at the same time, doing the same activity, in every location where FNB is represented. Activities will differ from year to year, and include activities like the FNB tree planting day, litter collection, etc.	Pan Bank	Having all FNBers engaged in the same activity on the same day and at the same time, will be motivation enough for everyone to participate.
'I care'	FNBers will be sponsored to participate in community initiatives to raise funds, such as sponsored walks, shavathons, desert bush walks etc.	Individual/teams	This will encourage volunteerism even at individual level, where staff can volunteer in whatever area they are passionate about.
'Time out'	Every employee will be given approved time to do community service of their choice.	Individual	Individuals get to choose what work they want to do with communities.

These newly introduced staff volunteer activities will be implemented alongside the existing initiatives.

Core Staff Volunteerism Principles

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


I am
Helpful
SKILLS SHARING
I am
Innovative
STAFF ENGAGEMENT
MEASURABLE IMPACT
I am
Effective
STAFF
VOLUNTEERISM
INCLUSIVITY
SUSTAINABILITY
I am
Ethical
I am
Accountable

Volunteer Champions

The new strategy also introduces the concept of 'Volunteer Champions'. These are representatives from all branches and division who will be champions for a period of two financial years on a rotational basis. Their role includes:

- Attending volunteerism training
- Being a liaison person between the Foundation and the branch or division
- Conducting site visits to projects
- Preparing reports

Cascading the Strategy

1. The strategy will kick off with a 1 day workshop for all Volunteer Champions to learn about volunteerism and to familiarise themselves with the new strategy.
2. This will be followed by the Pan Bank launch.
3. The strategy will be included in the FNB Newsletter, First Issues.
4. Thereafter the strategy will be mainstreamed in all relevant different platforms Pan Bank.

Strategy Milestones to date

Sept 2017
Strategy review

March 2018
Strategy approved by Trustees

April 2018
Youth empowerment situation analysis conducted

June 2018
a) Staff Volunteer programme activities approved.
b) Review of Trust Deed and Staff Volunteer Policy

July 2018
Staff Volunteer Champion Workshop

Aug 2018
Launch of the new Staff Volunteer Programme

250 people **paid** on site, **one time**

EWALLET BULK SEND

GOVERNANCE & SUSTAINABILITY

Board of Directors

DOREEN NCUBE
Independent Non-Executive Director

STEVEN LEFENTSE BOGATSU
FNBB CEO, Executive Director

JOHN KIENZLEY MACASKILL
Independent Non-Executive Director (Chairman)

MICHAEL WILLIAM WARD
Independent Non-Executive Director

SIFELANI THAPELO
Independent Non-Executive Director (Deputy Chairman)

MMASEKGOA MASIRE-MWAMBA
Independent Non-Executive Director

EPHRAIM DICHOPASE LETEBELE
Independent Non-Executive Director

MARKOS GEORGE DAVIAS
Non-Executive Director

JABULANI RICHARD KHETHE
Non-Executive Director

DORCAS ANA KGOSIETSILE
Independent Non-Executive Director

NELSON MOKGETHI
Independent Non-Executive Director

Board of Directors Profiles

JOHN KIENZLEY MACASKILL

Independent Non-Executive Director (Chairman)

John has over forty years banking experience. Formerly CEO of FNB Botswana (1996-2003), he held various senior positions within the FirstRand Group including in South Africa, London and Hong Kong. His career in financial services spans human resources, international corporate and retail banking. John also serves on the boards of FNB's operations in Mozambique and Zambia. He is a graduate of the University of Pretoria and UNISA. He joined the FNBB Board on the 4th March 2014 and was re-elected as Chairman in January 2018 and is a member of the Board's Risk Capital Management and Compliance Committee, the Remuneration Committee as well as the Directors Affairs and Governance Committee.

SIFELANI THAPELO

Independent Non-Executive Director (Deputy Chairman)

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

MICHAEL WILLIAM WARD

Independent Non-Executive Director

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

DORCAS ANA KGOSIETSILE

Independent Non-Executive Director

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

JABULANI RICHARD KHETHE

Non-Executive Director

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

STEVEN LEFENTSE BOGATSU

FNBB CEO, Executive Director

Steven became CEO of FNB Botswana, a Bank he has worked for in a number of senior leadership roles, in April 2015. This followed two years as CEO of FNB Swaziland. Previously he had held the position of CFO and Director of Product Houses at FNBB, responsible for Property Finance, WesBank, Credit Card, International Trade and Custody.

Prior to joining the FNB Group, Steven trained at Ernst & Young and worked at Kgalagadi Breweries as Group Internal Auditor, Management Accountant and Project Accountant, at Barclays Africa Finance as a Financial & Business Analyst and at Stanbic Bank Botswana as CFO.

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

MMASEKGOA MASIRE-MWAMBA

Independent Non-Executive Director

Mmasekgoa is the CEO of the Masire-Mwamba Office where she provides coaching, personal development and diplomacy services based on her broad international exposure and access. She recently completed two terms as Deputy Secretary-General for the Commonwealth 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 the Botswana Telecommunications Corporation (BTC) as an Assistant Engineer and 16 years later emerged as one of the most influential female executives in the country. She was the CEO of the Botswana Export Development and Investment Authority (BEDIA) where she initiated and successfully managed the process of Branding Botswana. She continues to apply her skills and experience in a broad range of economic and development fields. Mmasekgoa has served on various boards and community service institutions in the arenas of tourism, business, civil aviation and banking, among others.

She holds a BSc in Electronics and Physics from Chelsea College, University of London, an Bachelor of Law degree (LLB) from UNISA and an MBA from the University of Pittsburgh. She has been recognised in the legal field by the Honourable Society of Middle Temple Inn which awarded 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.

NELSON MOKGETHI

Independent Non-Executive Director

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

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

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

DOREEN NCUBE

Independent Non-Executive Director

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

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

MARKOS GEORGE DAVIAS

Non-Executive Director

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

EPHRAIM DICHOPASE LETEBELE

Independent Non-Executive Director

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

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Corporate Governance Report

Introduction

The Board of Directors of First National Bank Botswana is committed to upholding best practices, business ethics and integrity by ensuring that there are adequate people, processes and systems to facilitate the successful implementation of the Bank's strategy. The Board is supported by robust and independent risk control functions over which it has oversight.

Corporate Governance Report

The Board has invested considerable time and resources through the Directors' Affairs and Governance Committee to bring the structures of the Bank in line with the highest standards of corporate governance, and during the period under review, has assessed and adopted the principles in the King IV Code of Corporate Governance for implementation.

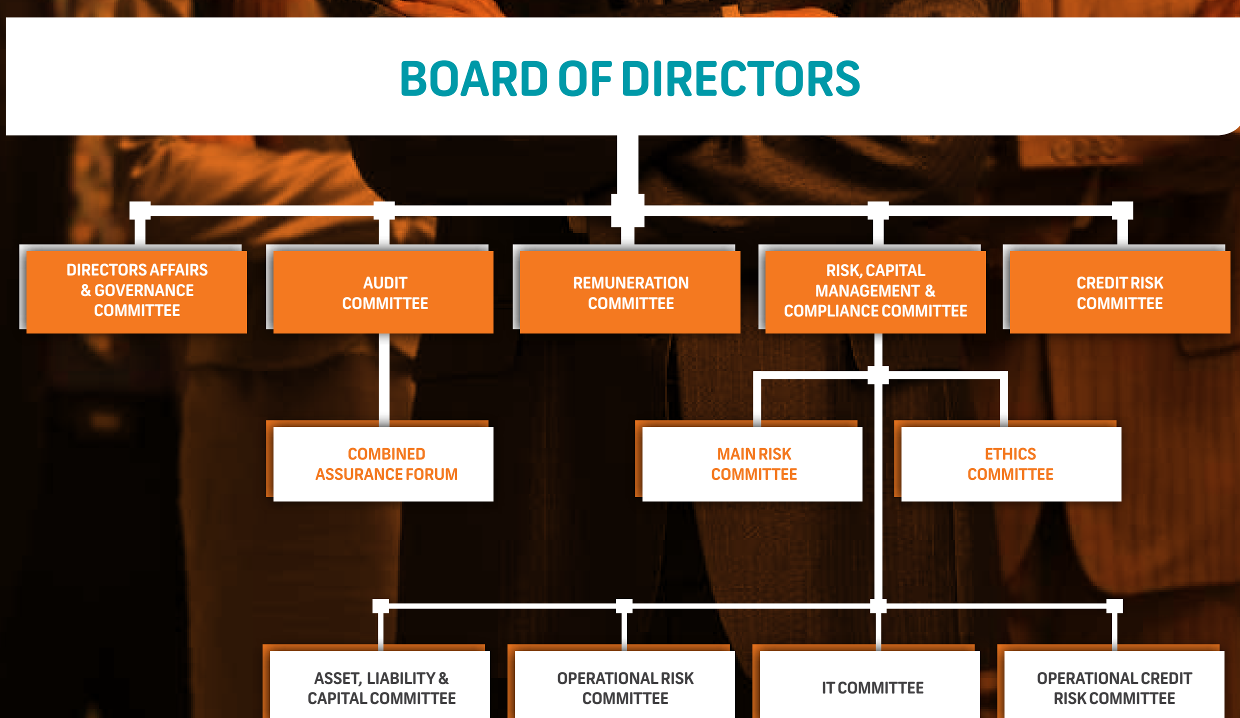
FNB is committed to a policy of fair, transparent dealing, and integrity and expects its employees to share this commitment. The Board ensures that the Bank is seen to be a responsible corporate citizen, and considers the financial performance of the business together with the impact of its operations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

Corporate Governance Objectives

The Bank continues to focus on enhancing and aligning its policies, systems and processes to ensure sound corporate governance principles and ethical standards. The Bank's overarching corporate governance objective for the financial year ending 30 June 2018 was to ensure that the structures, policies, processes and procedures implemented within the Bank enable the efficient and effective management of risks impacting the sustainability of the Bank.

The above-mentioned objective includes compliance with King IV Code of Corporate Governance Principles, and ensuring compliance with all relevant Legislation and Regulations such as the Banking Act and the Botswana Stock Exchange Listing Requirements.

Governance Structure



Each Board Committee has a clearly defined set of responsibilities and the 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. The delegation of authority to Committees does not absolve nor transfer any of the responsibilities of the Board to the respective Committees, and the Board remains ultimately accountable to the shareholders.

Functions of the Board and its Committees

Board - The Board's paramount responsibility is to drive the strategy of the Bank to deliver strong growth, efficiencies and positive performance, thereby creating value for its shareholders, whilst taking into consideration the legitimate interests and expectations of all stakeholders. FNB's stakeholders include the present and potential beneficiaries of its products and services, customers, suppliers, employees, communities and the natural environment.

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

The Committee ensures that:

- It has reviewed a documented assessment, including key assumptions prepared by management of the going concern status of the bank and has accordingly confirmed that the Bank will be a going concern for the foreseeable future;
- The financial statements of the Bank accurately reflect the financial position and records of the Bank's effective accounting practices and policies have been maintained;
- The skills and resources of the Internal Audit and Finance functions are adequate and all requirements have been met;
- Internal controls of the Bank have been effective in all material respects during the year under review;
- The skills, experience and overall performance of the external auditors was acceptable and that they met all their obligations in all material respects. The Committee recommends to stakeholders that Deloitte & Touche be re-appointed as external auditors for the 2018-2019 financial year.

Risk, Capital Management and Compliance Committee (RCCC) - The Committee assists the Board in ensuring effective management of risk within of the Bank by monitoring the effectiveness of the Bank's risk and compliance management structures and processes. A sub-committee of the RCCC was formed to focus specifically on the frameworks and policies and to consider them in a separate meeting from the main RCCC meeting. The committee is composed of the same members as the RCCC.

The RCCC also assists the Board in reviewing the Capital Management process and reviews all Frameworks and Policies falling under the Board's ambit of control. For effective risk monitoring, the Chairman of the RCCC is a member of the Audit Committee.

The Committee ensures that:

- It has received and reviewed the reports of the Chief Risk Officer, which highlight key risks of the Bank, including Legal, Compliance and IT risks;
- The risk assessments, risk monitoring reports and management responses have been reviewed and the effectiveness thereof is challenged;
- Risk appetite and monitoring compliance is appropriate and effective;
- Sufficient resources and systems are in place to identify and monitor risk;

Corporate Governance Report [continued]

- There is effective management of credit and concentration risk;
- The Internal Capital Adequacy Assessment Process (ICAAP) is undertaken and that the assumptions and stress tests are appropriate and the benchmarks are maintained;
- All risk factors in the internal and external environment are properly assessed with appropriate tolerance levels.

Remuneration Committee (REMCO) – The Committee is responsible for evaluation of the adequacy, effectiveness and appropriateness of the Bank's reward and remuneration policies and ensures their alignment to best practice. The Committee advises the Board on various aspect of the Bank's human resource strategy, including remuneration of Executive Directors, and makes recommendations of Non-Executive Directors' fees.

The Bank's reward philosophy is designed to:
- Attract and retain people with the ability, experience and skills required to successfully implement the business strategy;
- Recognise and reward innovation and performance;
- Inspire and motivate people to out-perform against business strategy, targets and objectives;
- Incentivise employees to deliver consistent performance in line with strategic goals and risk tolerances;
- Deliver compensation that is affordable and reasonable in terms of value created for stakeholders;
- Encourage behaviour consistent with the Bank's code of ethics, business philosophy and corporate culture.

Executive Directors are employed on standard employment contracts similar to the terms of all other employees. Remuneration is paid in terms of the Bank's remuneration policy.

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

The Directors Affairs and Governance Committee (DAGC) - Assesses the adequacy, effectiveness and appropriateness of the corporate governance structures of the Bank and assesses their alignment with best practice. The committee ensures that the Board is discharging its responsibilities relative to:

- Determining and evaluating the adequacy, efficiency and appropriateness of the corporate governance structures of the Bank;
- The structure of the Board and its Committees;
- Monitoring the implementation of the Code of Ethics;
- Maintaining Board directorship continuity, including the continuity of Non-Executive Directors, through the regular review of the competence of the Board of Directors, including the skills, experience and other qualities to enhance the effectiveness of the Board; and
- The selection and appointment of new Directors.

Board Committee Composition

Audit Committee

J R Khethe – Chairman
(Non-Executive Director)

D A Kgosietsile – member
(Independent Non-Executive Director)

D N Mokgethi – member
(Independent Non-Executive Director)

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

Credit Risk Committee

M Ward – Chairman
(Independent Non-Executive Director)

D Ncube – member
(Independent Non-Executive director)

S L Bogatsu – member
(Executive Director) Risk, Capital

Risk Capital Management and Compliance Committee

M Ward – Chairman
(Independent Non-Executive Director)

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

D Ncube – member
(Independent Non-Executive Director)

M Masire-Mwamba – member
(Independent Non-Executive Director)

Remunerations Committee

M Masire-Mwamba – Chairperson
(Independent Non-executive Director)
appointed August 2017

S Thapelo – member
(Independent Non-Executive Director)

J R Khethe – member
(Non-Executive Director)

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

Directors' Affairs and Governance Committee

S Thapelo – Chairman
(Independent Non-Executive Director)

J R Khethe – member
(Non-Executive Director)

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

The Board Structure

The FNB Board membership comprises 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 and have not been so employed in the previous three years. 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.

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

Board Composition

The Constitution of the Bank provides for a maximum of 13 Directors and a minimum of 4 Directors. As at 30 June 2018 the Board of Directors consisted of 10 Non-Executive Directors, 1 Executive Director and 1 Alternate Executive Director. This composition comprised a majority of Independent Non-Executive Directors. To this end, the Board is satisfied that the possibility of conflict of interest is significantly low and that there is independence and objectivity in its decision making.

Board Changes during the Financial Period

Two new Board members, Messrs Markos George Davias and Ephraim Dichopase Letebele were appointed in December 2017, strengthening the Board's experience and expertise. For the period under review, the new Directors had not yet been added to Board committees to allow them to first familiarise themselves with the business. The Alternate Director to the Executive Director retired in December 2017, and the Board is in the process of identifying a replacement.

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

The Chairman of the Board

The Chairman of the Board is responsible for setting the ethical tone for the Board and providing overall leadership without limiting the principle of collective responsibility for Board decisions. The role of Board Chairman is held by an Independent Non-Executive Director and is therefore separate from that of the Chief Executive Officer.

Corporate Governance Report [continued]

Board Meetings

The Board meets at least four times per annum to consider business philosophy and strategic issues, set risk parameters, approve financial results and budgets, and monitor the implementation of delegated responsibilities. Where appropriate, decisions are also taken by way of circulated resolutions. Feedback from its Committees is considered, as well as a number of key performance indicators, variance reports and industry trends. A summary of meetings held and attended is presented below:

2017-2018 Board Attendance

	August 2017	November 2017	February 2018	April 2018	June 2018
JK Macaskill ** - Chairman	√	√	√	√	√
SL Bogatsu* - CEO	√	√	√	√	√
DA Kgosietsile**	√	√	√	√	√
JR Khethe***	√	√	A	√	√
S Thapelo**	√	√	√	√	√
MW Ward**	√	√	√	√	√
D Ncube**	√	√	A	√	√
M Masire-Mwamba**	√	√	√	A	√
DN Mokgethi**	√	√	√	√	√
MG Davias***	-	√(i)	√	√	√
ED Letebele**	-	_	√	√	√
RC Wright****	√	√	√	-	

** Executive Director | ** Independent Non-Executive Director | *** Non-Executive Director*
***** Alternate Executive Director | A Apologies | I Invitations*

2017 - 2018 Board Committee Attendance

	Audit Committee	RCCC	Credit Committee	DAGC	REMCO
JK Macaskill - Chairman	4/4 (i)	4/4		3/3	2/2
SL Bogatsu* - CEO	4/4	4/4	6/14	3/3	2/2
DA Kgosietsile**	4/4	-	-	-	-
JR Khethe***	3/4	3/4	-	3/3	2/2
S Thapelo**	-	-	-	3/3	2/2
MW Ward**	4/4	4/4	14/14	-	-
D Ncube**	-	3/4	13/14	-	-
M Masire-Mwamba**	-	3/4		-	1/2
DN Mokgethi**	4/4	-	-	-	-
RC Wright****	3/4	3/4	8/14	-	-
MG Davias***	3/4 (i)	3/4 (i)			
ED Letebele**	-	-	-	-	-

Key: i - Invitations

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

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

Rotation and re-election of Directors in terms of the FNBB Constitution

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

At the November 2018 Annual General Meeting, the following Directors shall retire by rotation and, being eligible, offer themselves for re-election:

S Thapelo
(Independent Non-Executive Director)

M Masire-Mwamba
(Independent Non-Executive Director)

D Ncube *(Independent Non-Executive Director)*

J R Khethe *(Non- Executive Director)*

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

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.

Board Training

During the year under review, Board members received training on the Recovery Plan, the IFRS 9 accounting standard and the latest Anti-Money Laundering (AML) regulations. The Board also received training on the Basel Committee on Banking Supervision (BCBS) principle 239 for effective Risk Data Aggregation and Risk Reporting (RDARR). This set of principles aims to strengthen risk data aggregation capabilities and risk reporting practices by Banks. “Risk data aggregation” means defining, gathering and processing risk data per the bank’s risk reporting requirements to enable the bank to measure its performance against its risk tolerance or appetite. Effective implementation and compliance with the BCBS 239 Principle is expected to enhance FNB’s risk management and decision-making processes, and the Board adopted the principle and set the following strategic objectives:

- To enhance the infrastructure for reporting key information, to support the Board and Senior Management in identification, monitoring and management of risks;
- To improve the speed at which information is available for the decision-making process throughout the banking organisation, during normal and stress scenarios;
- To enhance the management of information across the Bank, with information governance and data quality management structures in place;
- To reduce the probability and severity of losses resulting from risk management weaknesses that are a result of poor data and information governance; and
- To improve the Bank’s quality of strategic planning and the ability to manage the risk of new products and services.

The implementation of the King IV Code of Corporate Governance Principles and the transition from King III is ongoing and Directors received training on these principles in readiness for their full application going forward.

Corporate Governance Report [continued]

Board Nomination and Succession Planning

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

Charters

The Board and its Committees operate in terms of formal Charters which are reviewed and adopted annually. The purpose of these Charters is to regulate the conduct of the Board's business in accordance with sound corporate governance principles. The objectives of each Charter are to ensure that all Directors are aware of their duties and responsibilities and the legislation and regulations affecting their conduct. The Bank, through the Charters, seeks to ensure that sound corporate governance principles are applied in all dealings by Directors in respect of the Bank and on its behalf. The Charters set out the specific responsibilities to be discharged by the Directors collectively and individually.

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

Board Evaluations

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

Internal Controls

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

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

Internal Audit

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

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

Company Secretary and Professional Advice

We confirm that Ms Sethunya Thongbotho Molodi has been appointed as the Company Secretary of the Bank. She is appropriately skilled and empowered to fulfil this role. All Directors have unrestricted access to the advice and services of Ms Molodi who is accountable to the Board for ensuring that sound corporate governance and ethical principles are adhered to as well as compliance with prescribed procedures. The Company Secretary is also responsible for facilitating the sourcing of independent professional advice at the request of any Director who requires advice in the discharge of his or her responsibilities.

External Audit

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

Dispute Resolution

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

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

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

King IV and Companies Act Requirements

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

Risk Management

The future of risk management is evolving at a rapid pace. Risk conduct and culture are the pillars of effective risk management, and with focus on clear risk ownership by business units, risk management functions can provide adequate oversight and challenge the Bank's risk profile. In a rapidly changing world, effective combined assurance partnerships between business, risk management, compliance, internal audit and external audit will bring shareholders comfort.

The past year has seen increased changes in the regulatory landscape which require the Bank to deal with a number of regulatory adjustments and additional requirements. These include comprehensive regulations for anti-money laundering, counter terrorist financing, market and business conduct as well as other requirements.

Approach to Risk Management:

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

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

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

Risk Management Framework

The Bank has aligned its risk management structure to the Bank's business performance and risk management framework with the objective of ensuring an integrated view of risk across the Bank. As a policy directing both the Board and Executive Management, it articulates the roles and responsibilities of key stakeholders in business, support and control functions. The Bank believes that effective risk management is supported by effective governance structures, robust policies and frameworks, and a risk focused culture.

The organisational structure of risk management, including roles and responsibilities, is as follows:

- The Board of Directors provides overall direction and takes responsibility for managing the risks faced by the Bank.
- Board Risk, Capital Management & Compliance Committee (RCCC), a sub-committee of the Board, discharges its duties as assigned by the Board, including recommending policies and strategies for risk management to be executed by Executive Management.
- The Main Risk Committee, which reports to the RCCC, ensures operational efficiencies across all risk types. Sub-committees of the Main Risk Committee include the Asset, Liability & Capital; Operational Risk; Information Technology and Credit Risk Sub-committees.
- The Ethics & Conduct Committee, which reports to the RCCC, focuses on business conduct and market conduct programmes (Treating Customers Fairly) with robust policies and frameworks in place.
- Combined Assurance Forum: The primary objective of the forum is for assurance providers to work together with management to deliver appropriate assurance leading to enhanced oversight and heightened awareness of emerging issues.
- The Chief Risk Office is responsible for the overall risk management leadership and execution. The office oversees the legal, compliance, operational risk, regulatory risk, financial crime, fraud, and liquidity and market risk departments, to ensure a comprehensive enterprise-wide risk view. However, it is important to note that in line with Group practice, the responsibility for risk management resides with management at all levels, from members of the Board to individuals throughout the Bank.

Risk Culture

Culture is the net result of values and behaviours of an organisation. The Bank recognises that effective risk management requires the maintenance of an appropriate risk culture, and believes that risk culture is underpinned by:

- Competent and ethical leadership in setting strategy and risk appetite; and a positive attitude towards applying appropriate risk practices;
- Increasing refinement of robust risk governance structures to ensure risk policies and frameworks are implemented;
- Best practice risk identification, assessment, management and reporting;
- A broader organisational culture which drives appropriate business ethics practices and supports risk goals ;
- Greater alignment of the risk assurance providers; and
- Enhanced risk management tools and capabilities.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FNB ANNUAL REPORT 2018

Consolidated and Separate Financial Statements

for the year ended 30 June 2018

DIRECTORS' RESPONSIBILITY STATEMENT

for the year ended 30 June 2018

The Directors of First National Bank of Botswana Limited (the Bank or the Company) and its subsidiaries (the Group) are responsible for the preparation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards (IFRSs) and in compliance with the Companies Act of Botswana (Companies Act, 2003), the Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08) and the Banking Act (Cap 46:04).

The consolidated and separate financial statements have been audited by the independent auditors, Deloitte & Touche, who were given unrestricted access to all financial records and related data, including minutes of the meetings of the Board of Directors and committees of the Board. The Directors believe that all representations made to the independent auditors during their audit are valid and appropriate. The independent auditor's report is presented on pages 105 to 110.

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

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

Against this background, the Directors accept responsibility for the consolidated and separate financial statements and supplementary statements presented on pages 213 to 217, which were approved on 14 August 2018 and are signed on their behalf by:

John K. Macaskill	**Steven L. Bogatsu**	**Dorcas A. Kgosietsile**
Chairman	Chief Executive	Director

Deloitte.

PO Box 778
Gaborone
Botswana

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INDEPENDENT AUDITOR'S REPORT

to the members of First National Bank of Bostwana Limited

Opinion

We have audited the consolidated and separate financial statements of First National Bank of Botswana Limited and its subsidiaries ("the Group"), set out on pages 114 to 212, which comprise consolidated and separate statements of financial position as at 30 June 2018, and the consolidated and separate statements of profit or loss, 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 notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Group as at 30 June 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated and separate financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Part A and B), together with other ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with these requirements applicable to performing audits in Botswana. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in the audit
Impairment of Advances (Consolidated and Separate)	
Significant judgement is required by the Directors in determining the impairment of advances disclosed in Note 15, which is determined based on the significant judgements and significant assumptions applied in the recognition and measurement of credit risk. Due to the significance of the impairment of advances balance to the consolidated and separate statements as a whole, combined with the significant judgements and significant assumptions associated with recognition and measurement of credit risk, this is considered to be a key audit matter.	We performed the following audit procedures: • Across all significant portfolios we assessed the advances impairment practices applied by the Directors against the requirements of International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement, and for consistency to prior periods; and • Evaluated the design and implementation of relevant controls over the processes used to calculate impairments, including controls relating to data and models and assessed the competence and capabilities of the management involved in the calculation of the impairment.
<u>Individually significant advances</u> The calculation of impairment on individually significant advances (typically corporate advances) is inherently judgemental in nature. The impact of macro-economic events, high level of indebtedness by households and restrained growth in personal incomes in Botswana results in a challenging operating environment with a consequential effect on the credit risk of underlying counterparties. As a result, the Directors apply significant judgement in identifying and assessing indications of impairment and related security values held when calculating impairment.	<u>Individually significant advances</u> • We assessed the reasonableness of significant judgement and significant assumptions in respect of individually significant advances; • We assessed the appropriateness of assumptions made by the Directors in determining the level of impairment, including the probability of default and valuation of collateral against actual experience and industry practice; and • We selected a sample of high-risk counterparties and tested the related advances balances for appropriateness of recognised impairments using best available external evidence.

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Key Audit Matter	How the matter was addressed in the audit

Impairment of Advances [continued]

Key Audit Matter

Low value, high volume advances

The calculation of impairment on the low value, high volume advances portfolios (typically retail advances) requires significant judgement and complex actuarial models to determine:

- Whether impairment events have occurred which result in the need for an impairment;
- Expected recoveries in the event of default, including the valuation of the underlying security and the potential curing of those loans in default; and

Related disclosures in the financial statements:

- Consolidated note 40 – Credit risk management.
- Consolidated and Separate note 14 – Advances to customers.
- Consolidated and Separate note 15 – Impairment of advances.
- Significant accounting policy 8.4 - Impairment of financial assets

How the matter was addressed in the audit

Low value, high volume advances

- Where impairment was specifically calculated, we assessed whether the loss event (that is the point at which impairment is recognised), had been identified in a timely manner by the Directors. Where impairments had been identified, we examined the forecasts of future cash flows and assumptions applied to external evidence by the Directors, where available;
  - Where impairments were calculated on a modelled basis or by use of judgement or a combination of models and judgement (portfolio impairments), we assessed the

This included:

- Comparing those assumptions which could have a material impact with actual experience and industry practice;
- Testing the operation of actuarial models, including, where required, building our own independent assessment with assistance from our internal specialists and comparing our results to those of the Directors;
- We considered the potential for impairment to be affected by events which were not captured by the models (such as changes in economic conditions) and evaluated how the Group had responded to these by making further adjustments where appropriate;
- Performed sensitivity analysis on the assumptions applied by the Directors; and
- Reviewed the financial statements for appropriateness of impairment of advances disclosures in line with the IFRS disclosure requirements.

We consider the credit impairments to be within an acceptable range in the context of an incurred loss model and found that the financial statements incorporated appropriate disclosures relating to the impairment of advances.

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Key Audit Matter	How the matter was addressed in the audit
Suspense and clearing accounts (Consolidated and Separate)	
There are significant considerations required by Directors in the identification, understanding and monitoring of suspense and clearing accounts. In addition, suspense and clearing accounts consist of considerable transaction volumes and manual interventions. The impact on the consolidated and separate financial statements is deemed to be significant due to the combination of material transaction volume and value, the limited relevant preventative controls in certain business units and significant manual intervention relating to certain suspense and clearing accounts. As a result, this is considered to be a key audit matter. The identification, understanding and monitoring of suspense accounts are relevant to the Directors of the associated operational risk. This includes compliance with the Directors' suspense account management framework, the establishment of reasonable clearing periods and understanding the interplay with internal accounts. Suspense and clearing accounts are included as part of accounts receivables and creditors and accruals balances. Related disclosures in the financial statements: • Consolidated and Separate note 18 – Accounts receivable. • Consolidated and Separate note 25 – Creditors and accruals.	We performed the following audit procedures: • Identified suspense and clearing accounts subject to material transactional flows to understand the purpose of the accounts; • Understood the ageing and validity of uncleared items and the process followed to clear items by the Directors; • Evaluated the design and implementation and tested the operating effectiveness of relevant controls relating to the operation of suspense and clearing accounts, including an assessment of compensating controls in place where weaknesses in the relevant controls were noted; • Identified relevant manual interventions which may result in a material impact on the consolidated and separate financial statements and tested the appropriateness of said intervention by the Directors; and • Performed detailed testing on selected high risk account reconciliations which included obtaining an understanding of the purpose of the selected account, understanding acceptable ageing of items included on the reconciliation and testing a sample of reconciling items as at reporting date. After consideration of relevant compensating controls, which may be manual and detective in nature, or the performance of alternative audit procedures, no findings were noted that had a significant impact on the consolidated and separate financial statements.

Other Information

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

In preparing the consolidated and separate financial statements, the Directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and the Company or to cease operations, or have no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them any relationships and other matters that may reasonably be thought to bear on our independence that we are aware of, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements for the year ended 30 June 2018, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the users' interest benefits of such communication.

Deloitte & Touche

Deloitte & Touche
Certified Auditors
C V Ramatlapeng (CAP 008 2018)

Gaborone
14 August 2018

REPORT OF THE AUDIT COMMITTEE

TO THE MEMBERS AND OTHER USERS
OF THE FINANCIAL STATEMENTS

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

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

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

The Committee has met its objectives and has found no material weaknesses in controls. The Committee is satisfied that the consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards and in compliance with the Companies Act of Botswana (Companies Act, 2003), the Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08) and the Banking Act (Cap 46:04).

Jabulani R. Khethe
Chairman

14 August 2018

DIRECTORS' REPORT

for the year ended 30 June 2018

The Directors have pleasure in submitting their report together with the consolidated and separate financial statements of First National Bank of Botswana Limited (the Bank or the Company), and the consolidated financial statements of the Company and its subsidiaries (the Group) for the year ended 30 June 2018.

The consolidated and separate financial statements are prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Botswana (Companies Act 2003), the Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08) and the Banking Act (Cap 46:04).

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

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

Nature of business

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

Trading results

The consolidated income after tax attributable to ordinary shareholders of P648 million (2017: P501 million) increased by 29,0% compared to the results for the year ended 30 June 2017. The company income after tax of P608 million (2017: P476 million) increased by 28%, compared to the results for the year ended 30 June 2017. Interest income was derived mainly from advances and investment securities.

Stated capital

The Company's stated capital consists of 2 543 700 000 (2017: 2 563 700 000) ordinary shares, of which First National Bank Holdings (Botswana) Limited holds 1 780 590 000 (2017: 1 780 590 000) ordinary shares (70,00%) (2017: 69,45%), and the balance is traded on the Botswana Stock Exchange. In the current year 20 million shares relating to the equity-settled staff share scheme were repurchased by the Bank.

Directors' interests

The aggregate number of First National Bank of Botswana Limited shares held directly or indirectly by Directors of the Company amounts to 121 930 (2017: 131 144), which represents approximately 0,0048% (2017: 0,0051%) of the stated capital of the Company.

Dividends

An interim dividend of 5,00 thebe per share (2017: 5,00 thebe) for the year ended 30 June 2018 has been paid to holders of ordinary shares. The Directors propose a final dividend of 9,00 thebe per share (2017: 6,00 thebe).

DIRECTORS' REPORT [CONTINUED]

for the year ended 30 June 2018

Directorate

The composition of the Board as at 30 June 2018 was as follows:

Directors	Office	Nationality	Appointed
John K. Macaskill	Chairperson	South African	
Sifelani Thapelo	Deputy Chairperson	Motswana	
Steven L. Bogatsu	Chief Executive Officer	Motswana	
Markos Davias	Non-Executive Director	South African	15 December 2017
Jabulani R. Khethe	Non-Executive Director	South African	
Dorcas A. Kgosietsile	Independent Non-Executive Director	Motswana	
Mmasekgoa Masire-Mwamba	Independent Non-Executive Director	Motswana	
Nelson D. Mokgethi	Independent Non-Executive Director	Motswana	
Doreen Ncube	Independent Non-Executive Director	Motswana	
Michael W. Ward	Independent Non-Executive Director	British	
Ephraim Letebele	Independent Non-Executive Director	Motswana	15 December 2017

Transfer Secretaries

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

Auditors

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

SIGNIFICANT ACCOUNTING POLICIES

for the year ended 30 June 2018

1. INTRODUCTION AND BASIS OF PREPARATION

1.1 Introduction

The Group's consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including interpretations issued by the IFRS Interpretations Committee, the Companies Act of Botswana (Companies Act, 2003), the Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08) and the Banking Act (Cap 46:04). The accounting policies are consistent with those applied in the prior year except for the effects of the amended IFRS, being IAS 7: Dislcosure Initiative and IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses. Both amendments have not had a material impact on the consolidated and separate financial statements.

These financial statements comprise the statements of financial position (also referred to as the balance sheet) as at 30 June 2018, and the statements of comprehensive income, statement of profit or loss, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory notes.

The Group adopts the following significant accounting policies in preparing its financial statements:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES				
2	**Subsidiaries, associates and joint arrangements**	Consolidation and equity accounting (section 2.1)	Related party transactions (section 2.2)	
3	**Income, expenses and taxation**	Income and expenses (section 3.1)	Income tax expenses (section 3.2)	
4	**Financial instruments**	Classification (section 4.1)	Measurement (section 4.2)	Impairment of financial assets (section 4.3)
		Transfers and derecognition (section 4.4)	Offseting of financial instruments andcollateral (section 4.5)	Derivative financial instruments and hedge accounting (section 4.6)
5	**Other assets and liabilities**	Property and equipment (section 5.1)	Intangible assets (section 5.1)	
		Provisions (section 5.1)	Leases (section 5.2)	
6	**Capital and reserves**	Share capital and treasury shares (section 6)	Dividends and non-cash distributions (section 6)	Other reserves (section 6)
7	**Transactions with employees**	Employee benefits (section 7.1)	Share-based payment transactions (section 7.2)	

These policies have been consistently applied to all years presented.

1.2 Basis of preparation

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

There were no revised or new standards adopted in the current year that have an effect on the Group or Company's reported earnings, financial position or reserves or a material impact on the accounting policies.

The Group prepares consolidated financial statements which include the assets, liabilities and results of the operations of First National Bank of Botswana Limited and its subsidiaries (identified as Group). To compile the consolidated financial statements the audited information about the financial position and results of operations at 30 June each year for the Group is used.

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

Presentation of financial statements, functional and foreign currency

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

Presentation	The Group presents its statement of financial position in order of liquidity. Where permitted or required under IFRS, the Group offsets assets and liabilities or income and expenses and presents the net amount in the statement of financial position or in the statement of comprehensive income.
Materiality	IFRS disclosure is only applicable to material items. Management applies judgement and considers both qualitative and quantitative factors in determining materiality applied in preparing these financial statements.
Functional and presentation currency of the Group	Botswana Pula (P).
Level of rounding	All amounts are presented in thousands of Pula. The Group has a policy of rounding in increments of P500. Amounts less than P500 will therefore round down to P nil and are presented as a dash.

SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

for the year ended 30 June 2018

1. INTRODUCTION AND BASIS OF PREPARATION [CONTINUED]

Translation and treatment of foreign denominated balances	Balances translated at the relevant exchange rates, depending on whether they are monetary items (in which case the closing spot rate is applied) or non-monetary items. For non-monetary items measured at cost the rate applied is the transaction date rate. For non-monetary items measured at fair value the rate at the date the fair value is determined (reporting date) is applied. Foreign exchange gains or losses are recognised in profit or loss in fair value gains or losses. To the extent that foreign exchange gains or losses relate to available-for-sale financial assets the following applies: • equity instruments are recognised in other comprehensive income as part of the fair value movement; and • debt instruments are allocated between profit or loss (those that relate to changes in amortised cost) and other comprehensive income (those that relate to changes in the fair value).

2 SUBSIDIARIES

2.1 Basis of consolidation

	Subsidiaries
Typical shareholding in the assessment of entities that are not structured entities	Greater than 50%
Nature of the relationship between the Group and the investee	Entities over which the Group has control as defined in IFRS 10 are consolidated.
Separate financial statements	
The Group measures investments in these entities at cost less impairment (in terms of IAS 36).	
Consolidated financial statements	
Initial recognition in the consolidated financial statements	Subsidiaries acquired are accounted for by applying the acquisition method of accounting to business combinations. The excess deficit of the sum of the consideration transferred, the value of noncontrolling interest, the fair value of any existing interest, and the fair value of identifiable net assets, is recognised as goodwill or a gain on bargain purchase, as is set out further below. Transaction costs are included in operating expenses within profit or loss when incurred.

Intercompany transactions and balances	Intercompany transactions are all eliminated on consolidation, including unrealised gains. Unrealised losses on transactions between Group entities are also eliminated unless the transaction provides evidence of impairment of the transferred asset, in which case the transferred asset will be tested for impairment in accordance with the Group's impairment policies.
Consolidated financial statements	
	Consolidation
Impairment	In the consolidated financial statements either the cash generating unit (CGU) is tested i.e. a grouping of assets no higher than an operating segment of the Group; or if the entity is not part of a CGU, the individual assets of the subsidiary and goodwill are tested for impairment in terms of IAS 36.
Goodwill	Goodwill on the acquisition of businesses and subsidiaries represents excess consideration transferred, and is recognised as an intangible asset at cost less accumulated impairment losses. If this amount is negative, as in the case of a bargain purchase, the difference is immediately recognised in gains less losses from investing activities within noninterest revenue. Goodwill is tested annually for impairment by the Group in March or earlier if there are objective indicators of impairment. For subsidiaries acquired between March and June a goodwill impairment test is performed in June in the year of acquisition and thereafter annually in March. For testing purposes, goodwill is allocated to a suitable CGU. Impairment losses in respect of goodwill are not subsequently reversed.

Disposals
In a disposal transaction where the Group loses control of the subsidiary and the Group retains an interest in the entity after disposal, for example an investment in associate or investment security, the Group measures any retained investment in the entity at fair value at the time of the disposal. Thereafter the remaining investment is accounted for in accordance with the relevant accounting requirements. Gains or losses on all other disposals are recognised in gains less losses from investing activities in non-interest revenue. The Group may lose control of a subsidiary in a transaction where an interest in the investee is retained through an associate or joint venture. The Group eliminates the Group share of profits on these transactions in accordance with IAS 28.

SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

for the year ended 30 June 2018

2 SUBSIDIARIES [CONTINUED]

Related parties of the Group, as defined, include:

Subsidiaries	Post-employment benefit funds (pension funds)
Entities that have significant influence over the Group, and subsidiaries of these entities	Key management personnel (KMP)

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

Key management personnel of the Group are the First National Bank of Botswana board of directors and prescribed officers, including any entities which provide key management personnel services to the Group.

3 INCOME, EXPENSES AND TAXATION

3.1 Income and expenses

Net interest revenue recognised in profit or loss

Net interest includes:

- interest on financial instruments measured at amortised cost and available-for-sale debt instruments determined using the effective interest method;
- interest on compound instruments. Where instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or long-term liabilities and 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;
- interest on debt instruments designated at fair value through profit or loss that are held by and managed as part of the Group's insurance or funding operations;
- the difference between the purchase and resale price in repurchase and reverse repurchase agreements where the related advance or deposit is measured at amortised cost, because the amount is in substance interest; and
  the interest portion of the net gains or losses on derivatives that are used to economically hedge interest rate risk.

Interest income from a financial asset is recognised when it is probable that economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that assets net carrying amount on initial recognition.

Non-interest revenue recognised in profit or loss	
Net fee and commission income	
Fee and commission 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 for services rendered are recognised on an accrual basis when the service is rendered, e.g. banking fee and commission income, and asset management and related fees; • fees earned on the execution of a significant act, e.g. knowledge-based fee and commission income, and non-banking fee and commission income, when the significant act has been completed; and • commission income on bills and promissory notes endorsed is credited to profit or loss over the life of the relevant instrument on a time apportionment basis. Commissions earned on the sale of insurance products to customers of the Group on behalf of an insurer and the income arising from third-party insurance cell captives and profit share agreements, are recognised as fee and commission income. Other non-banking fee and commission income relates to fees and commissions earned for rendering services to clients other than those related to the banking.
Fee and commission expenses	Fee and commission expenses are expenses that are incremental and directly attributable to the generation of fee and commission income, and are recognised as part of fee and commission income. These include transaction and service fees, which are expensed as the services are received.

Non-interest revenue recognised in profit or loss

Fair value gains or losses

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

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

SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

for the year ended 30 June 2018

3. INCOME, EXPENSES AND TAXATION [CONTINUED]

Gains less losses from investing activities

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

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

Dividend income

The Group recognises dividend income when the Group's right to receive payment is established. This is the last day to trade for listed shares and on the date of declaration for unlisted shares.

Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares, except to the extent that the scrip dividend is viewed as a bonus issue with no cash alternative and the transaction lacks economic significance.

Expenses

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

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

3.2 Income tax expenses

Income tax includes Botswana corporate tax payable and where applicable, includes capital gains tax.

Current income 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 Botswana.

Deferred income tax

Recognition	On temporary differences arising between the tax base of assets and liabilities and their carrying amount in the financial statements.

Typical temporary differences in the Group that deferred tax is provided for	• Depreciation of property and equipment; • Revaluation of certain financial assets and liabilities, including derivative contracts; • Provisions for pensions and other post-retirement benefits; • Tax losses carried forward; and • Investments in subsidiaries, 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.
Measurement	Using the liability method under IAS 12 and applying tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. For temporary differences arising from the fair value adjustments on investment properties, deferred income tax is provided at the rate that would apply on the sale of the property i.e. the capital gains tax rate.
Presentation	In profit or loss unless it relates to items recognised directly in equity or other comprehensive income. Items recognised directly in equity or other comprehensive income relate to: • the issue or buy back of share capital; • fair value re-measurement of available-for-sale investments; • re-measurements of defined benefit post-employment plans; and • derivatives designated as hedging instruments in effective cash flow hedges. Tax in respect of share transactions is recognised directly in equity. Tax in respect of the other items is recognised directly in other comprehensive income and subsequently reclassified to profit or loss (where applicable) at the same time as the related gain or loss.
Deferred tax assets	The Group recognises deferred income tax assets only if it is probable that future taxable income will be available against which the unused tax losses can be utilised, based on management's review of the Group's budget and forecast information. The Group reviews the carrying amount of deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

for the year ended 30 June 2018

4 FINANCIAL INSTRUMENTS

4.1 Classification

Management determines the classification of its financial instruments at initial recognition. The following table sets out the different classes of financial instruments of the Group:

Derivatives

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

Cash and cash equivalents and accounts receivable

Cash and cash equivalents comprise coins and bank notes, money at call and short notice and balances with central banks. All balances included in cash and cash equivalents have a maturity date of less than three months from the date of acquisition. Money at short notice constitutes amounts withdrawable in 32 days or less.

Cash and cash equivalents and accounts receivable are measured at amortised cost in accordance with IAS 39.

Advances

Advances that are not designated at fair value through profit or loss are measured at amortised cost in accordance with IAS 39. These include retail and corporate bank advances.

Investment securities

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

There is a portfolio of debt investment securities measured at amortised cost as well as held for trading.
Investment securities that represent an interest in the residual value of the investee are classified as equities within investment securities.

Financial liabilities and compound financial instruments

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

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

Deposits and other funding liabilities

Liabilities are generally measured at amortised cost but may be measured at fair value through profit or loss if they are managed on a fair value basis or the fair value designation reduces or eliminates an accounting mismatch.

Other funding liabilities are presented in separate lines on the statement of financial position of the Group.

4.2 Measurement

Initial measurement	All financial instruments are initially measured at fair value including transaction costs, except for those classified as fair value through profit or loss in which case the transaction costs are expensed upfront in profit or loss, usually as part of operating expenses. Any upfront income earned on financial instruments is recognised as is detailed under policy 3.1, depending on the underlying nature of the income.
Subsequent measurement	Amortised cost items are measured using the effective interest method, less any impairment losses. This includes available-for-sale debt instruments. Fair value items are measured at fair value at reporting date as determined under IFRS 13. The fair value gains or loss are either recognised in profit or loss (held for trading or designated at fair value through profit or loss) or in other comprehensive income (available-for-sale financial assets) until the items are disposed of or impaired.

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

4.3 Impairment of financial assets

General

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

Scope	This policy applies to: • advances measured at amortised cost; • investment securities at amortised cost; • advances and debt instruments classified as available-for-sale; and • accounts receivable.
Objective evidence of impairment	The Group assesses at each reporting date whether there is objective evidence that a financial asset or Group of financial assets is impaired. The following factors are considered when determining whether there is objective evidence that the asset has been impaired: • breaches of loan covenants and conditions; • time period of overdue contractual payments; • actuarial credit models; • loss of employment or death of the borrower; and • probability of liquidation of the customer.

SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

for the year ended 30 June 2018

4 FINANCIAL INSTRUMENTS [CONTINUED]

Objective evidence of impairment [continued]	Where objective evidence of impairment exists, impairment testing is performed based on loss given default (LGD), probability of default (PD) and exposure at default (EAD). For available-for-sale equity instruments objective evidence of impairment includes information about significant changes with an adverse effect on the environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be recovered and a significant or prolonged decline in the fair value of the security below its cost.
Assessment of objective evidence of impairment	An assessment of impairment is first performed individually for financial assets that are individually significant and then individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.
Collective assessment	For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics; i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such financial assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the financial assets being evaluated.
Recognition of impairment loss	If there is objective evidence of impairment, an impairment loss is recognised in a separate line in profit or loss. The amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For available-for-sale financial assets which are impaired the cumulative loss is reclassified from other comprehensive income to profit or loss.

Reversal of impairment loss	If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating): • the previously recognised impairment loss is reversed by adjusting the allowance account (where applicable) and the amount of the reversal is recognised as part of operating expenses in profit or loss; and • impairment losses recognised on available-for-sale equity instruments are not subsequently reversed through profit or loss, but are recognised directly in other comprehensive income.

Impairment of advances

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

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

	Type of advance	**Group policy on past due/impaired**
Past due advances	The past due analysis is only performed for advances with specific expiry or instalment repayment dates or demand loans for which payment has been demanded. The analysis is not applicable to overdraft products or products where no specific due date is determined. The level of risk on these types of products is assessed with reference to the counterparty ratings of the exposures and reported as such.	
	Loans with a specific expiry date (e.g. term loans etc.) and consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans)	Treated as overdue where one full instalment is in arrears for one day or more and remains unpaid as at the reporting date. Advances on which partial payments have been made are included in neither past due nor impaired until such time as the sum of the unpaid amounts equal a full instalment, at which point it is reflected as past due.
	Loans payable on demand (e.g. overdrafts)	Treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.
	The full outstanding amount is reported as past due even if part of the balance is not yet due.	

SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

for the year ended 30 June 2018

4 FINANCIAL INSTRUMENTS [CONTINUED]

<table>
<tr><th></th><th>Type of advance</th><th>Group policy on past due/impaired</th></tr>
<tr><td rowspan="2">Non-performing loans</td><td>Retail loans</td><td>Individually impaired if three or more instalments are due or unpaid or if there is evidence before this that the customer is unlikely to repay the obligations in full.</td></tr>
<tr><td>Commercial and wholesale loans</td><td>Analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.</td></tr>
<tr><td>Renegotiated advances</td><td>Advances that would otherwise be past due that have been renegotiated i.e. advances where, due to deterioration in the counterparty's financial condition, the Group granted a concession where the original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance.

Excludes advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original.</td><td>Separately classified as neither past due nor impaired assets and remain classified as such until the terms of the renegotiated contract expire.

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

Renegotiated advances are considered as part of the collective evaluation of impairment where advances are grouped on the basis of similar credit risk characteristics. The adherence to the new terms and conditions is closely monitored.</td></tr>
<tr><td colspan="3">Impairments</td></tr>
<tr><td>Specific</td><td colspan="2">Created for non-performing loans where there is objective evidence that an incurred loss event will have an adverse impact on the estimated future cash flows from the advance.

Potential recoveries from guarantees and collateral are incorporated into the calculation of impairment figures.</td></tr>
<tr><td>Portfolio</td><td colspan="2">Created with reference to performing advances. The impairment provision on the performing portfolio is split into two parts:
• an incurred but not reported (IBNR) provision i.e. the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified; and

• the portfolio specific impairment (PSI) which reflects the decrease in estimated future cash flows for the sub-segment of the performing portfolio where there is objective evidence of impairment.</td></tr>
</table>

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

4.4 Transfers and de-recognition

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

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

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

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

Transaction type	Description	Accounting treatment
Transfers without derecognition		
Repurchase agreements	Investment securities and advances are sold to an external counterparty in exchange for cash and the Group agrees to repurchase the assets at a specified price at a specified future date. The counterparty's only recourse is to the transferred investment securities and advances that are subject to the repurchase agreement. The Group remains exposed to all the underlying risks on the assets including counterparty, interest rate, currency, prepayment and other price risks.	The underlying securities purchased under agreements to resell are not recognised on the statement of financial position. The Group does not recognise securities borrowed in the financial statements, unless these have been on sold to third parties, in which case the obligation to return these securities is recognised as a financial liability measured at amortised cost or fair value.
Transfers with derecognition		
Where the Group purchases its own debt	The debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in fair value gains or losses within non-interest revenue.	

SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

for the year ended 30 June 2018

4 FINANCIAL INSTRUMENTS [CONTINUED]

4.5 Offsetting of financial instruments and collateral

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

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

Derivative financial instruments	The Group's derivative transactions that are not transacted on an exchange are entered into under International Derivatives Swaps and Dealers Association (ISDA) MNA. Generally, under such agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, e.g. when a credit event such as default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions (close-out netting). Financial collateral (mostly cash) is also obtained, often daily, for the net exposure between counterparties to mitigate credit risk.
Repurchase and reverse repurchase agreements, and securities lending and borrowing transactions	These transactions by the Group are covered by master agreements with netting terms similar to those of the ISDA MNA. Where the Group has entered into a repurchase and reverse repurchase or securities borrowing and lending transaction, with the same counterparty, the advance and liability balances are set-off in the statement of financial position only if they are due on a single day, denominated in the same currency and the Group has the intention to settle these amounts on a net basis The Group receives and accepts collateral for these transactions in the form of cash and other investment securities.
Other advances and deposits	The advances and deposits that are offset relate to transactions where the Group has a legally enforceable right to offset the amounts and the Group has the intention to settle the net amount.

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

4.6 Derivative financial instruments and hedge accounting

Derivative instruments are classified as held either for trading or formally designated as hedging instruments as required by IAS 39, which impacts the method of recognising the resulting fair value gains or losses.

For derivatives used in fair value hedges changes in the fair value of the derivatives are recorded in profit or loss as part of fair value gains or losses within non-interest revenue, together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

For derivatives used in cash flow hedges, the effective portion of changes in the fair value of derivatives is recognised in the cash flow hedge reserve in other comprehensive income and reclassified to profit or loss in the periods in which the hedged item affects profit or loss; the ineffective portion is recognised immediately in profit or loss as part of fair value gains or losses within non-interest revenue.

The Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions at the inception of the transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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 they meet the requirements for bifurcation of IAS 39. Where bifurcated derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules.

SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

for the year ended 30 June 2018

5 OTHER ASSETS AND LIABILITIES

5.1 Classification and measurement

Classification	Measurement
Property and equipment	
Property and equipment of the Group includes: • assets utilised by the Group in the normal course of operations to provide services including freehold property and leasehold premises and leasehold improvements (owner occupied); • assets which are owned by the Group and leased to third parties under operating leases as part of the Group's revenue generating operations; • capitalised leased assets; and • other assets utilised in the normal course of operations including computer and office equipment, motor vehicles and furniture and fittings.	Fair value and/or historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated. Depreciation is on a straight line basis over the useful life of the assets, except for assets capitalised under finance leases where the Group is the lessee, in which case depreciation is over the life of the lease. The useful lives of the Group and Company's assets are disclosed in section 8.5 Land and buildings held for use in the supply of services, or for administrative purposes, are stated in the statements of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated impairment losses. Revaluations are performed every three years such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date. Any revaluation increase arising on the revaluation of such land and buildings is credited in other comprehensive income to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit and loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged.
Intangible assets	
Goodwill arising from business combinations is recognised as an intangible asset.	Refer to policy 2.1.
Provisions	
The Group will only recognise a provision measured in terms of IAS 37 when there is uncertainty around the amount or timing of payment. Where there is no uncertainty the Group will recognise the amount as an accrual.	

Other assets that are subject to depreciation and intangible assets, other than goodwill (refer to policy 2.1), are reviewed for impairment whenever objective evidence of impairment exists. Impairment losses are recognised in profit or loss as part of operating expenses.

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

5.2 Leases

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

	Group company is the lessee	**Group company is the lessor**
Finance leases		
At inception	Capitalised as assets and a corresponding lease liability for future lease payments is recognised.	Recognise assets sold under a finance lease as advances and impair as required, in line with policy 4.3.
Over the life of the lease	The asset is depreciated – refer to policy 5.1.	Unearned finance income is recognised as interest income over the term of the lease using the effective interest method.
Operating leases	Recognised as an operating expense in profit or loss on a straight line basis over the period of the lease. Any difference between the actual lease amount payable and the straight-lined amount calculated is recognised as a liability of the Group in creditors and accruals.	Assets held under operating leases are recognised as a separate category of property and equipment (assets held under leasing arrangements) and depreciated - refer to policy 5.1. Rental income is recognised as other non-interest revenue on a straight line basis over the lease term.
Instalment credit sale agreements where the Group is the lessor	The Group regards instalment credit sale agreements as financing transactions and includes the total rentals and instalments receivable, less unearned finance charges, in advances. The Group calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to interest revenue in proportion to capital balances outstanding.	

SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

for the year ended 30 June 2018

6 CAPITAL AND RESERVES

Transaction	Liability	Equity
Shares issued and issue costs	Preference shares issued by the Group that meet the definition of liabilities are classified as liabilities. Preference shares which qualify as Tier 2 capital have been included in Tier 2 liabilities. Other preference share liabilities have been included in other liabilities as appropriate.	Ordinary shares and any preference shares which meet the definition of equity including non-cumulative nonredeemable (NCNR) preference shares issued by the Group are recognised as equity. Any incremental costs directly related to the issue of new shares or options, net of any related tax benefit, are deducted from the issue price.
Dividends paid/declared	Recognised as interest expense on the underlying liability.	Dividends on ordinary shares and NCNR preference shares are recognised against equity. A corresponding liability is recognised when the dividends have been approved by the company's shareholders and distribution is no longer at the discretion of the entity. A dividend reserve is maintained as at year end for dividends that will be paid out of retained earnings as at the reporting date but pending approval by the Board of Directors.
Distribution of non-cash assets to owners	The liability to distribute non-cash assets is recognised as a dividend to owners at the fair value of the asset to be distributed. The difference between the carrying amount of the assets distributed and the fair value of the assets on the date of distribution is recognised as non-interest revenue in profit or loss for the period.	The carrying amount of the dividend payable is remeasured at the end of each reporting period and on settlement date. The initial carrying amount and any subsequent changes are recognised in equity.

Transaction	Liability	Equity
Treasury shares i.e. where the Group purchases its own equity share capital	If the Group re-acquires its own equity instruments, those instruments are deducted from the Group's equity.	The consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity as treasury shares until they are re-issued or sold. Where the shares are subsequently sold or re-issued, any consideration received net of any directly attributable incremental costs, is included in shareholders' equity.
Other reserves		Other reserves recognised by the Group include reserves arising from revaluation of owned properties.

7 TRANSACTIONS WITH EMPLOYEES

7.1 Employee benefits

The Group operates a defined contribution scheme, the assets of which are held in separate trustee administered funds. These funds are registered in terms of the Retirement Funds Act, and membership of the pension fund is compulsory for all Group employees.

Defined contribution plans	
Contributions are recognised as an expense, included in staff costs, when the employees have rendered the service entitling them to the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.	
Termination benefits	
The Group recognises termination benefits as a liability in the statement of financial position and as an expense, included in staff costs, in profit or loss when it has a present obligation relating to termination. The Group has a present obligation at the earlier of when the Group can no longer withdraw the offer of the termination benefit or when the Group recognises any related restructuring costs.	
Liability for short term employee benefits	
Leave pay	The Group recognises a liability for the employees' rights to annual leave in respect of past service. The amount recognised by the Group is based on current salary of employees and the contractual terms between the employee and the Group. The expense is included in staff costs.
Bonuses	The Group recognises a liability and an expense for management and staff bonuses when it is probable that the economic benefits will be paid and the amount can be reliably measured. The expense is included in staff costs.

SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

for the year ended 30 June 2018

7 TRANSACTIONS WITH EMPLOYEES [CONTINUED]

7.2 Share-based payment transactions

The Group operates cash settled share-based compensation plans for employees.

Options granted under cash settled plans result in a liability being recognised and measured at fair value until settlement. An expense is recognised in profit or loss for employee services received over the vesting period of the plans.

8 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

8.1 Introduction

In preparing the financial statements, the Directors makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior year. Included below are all the critical accounting estimates, assumptions and judgements made by the Group, except those related to fair value measurement which are included in note 40.

8.2 Impairment of goodwill

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

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

Value in use	Fair value less costs to sell
The value in use is calculated as the net present value of the discounted cash flows of the CGU. This is determined by discounting the estimated future pre-tax cash flows to its present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the CGU. The future cash flows are based on financial budgets approved by management covering a one year period. Cash flows beyond one year are extrapolated using the estimated growth rate for the CGU. The key assumptions in determining the value in use of the CGU are therefore the discount rate and the real growth rate. The table below shows the discount rate and the growth rate used in calculating the value in use for the CGUs. Discount rates (%) Growth rates (%) **2018** 2017 **2018** 2017 **12.30** 12.65 **3.00** 3.00 The discount rate used is the weighted average cost of capital for the specific segment or entity, adjusted for specific risks relating to the segment or entity. Some of the other assumptions include investment returns, expense inflation rates, tax rates and new business growth.	The fair value less costs to sell is determined as the current market value of the CGU less any costs related to the realisation of the CGU.

Value in use	Fair value less costs to sell
The period over which management has projected cash flows is 4 years (2017: 4 years). The cash flows from the final cash flow period are extrapolated into perpetuity to reflect the long-term plans of the Group. The growth rate does not exceed the long-term average past growth rate for the business in which the CGU operates. A reasonably possible change in the discount rate or growth rate of the above mentioned CGUs would not result in their recoverable amounts exceeding the carrying values. A change in the discount rates or growth rate applied and other reasonably possible change in the key assumptions would not result in additional impairment losses being recognised for goodwill in any of the CGU's. The recoverable amount is sufficiently in excess of the carrying amount that changes to the assumptions don't change the final outcome of the test.	

8.3 Taxation

The Group recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, the difference will impact the income tax and deferred income tax provisions in the period in which such determination is made. Significant judgement is applied in the application and interpretation of tax regulation and these judgements as well as judgements resulting from the consideration of the impact of tax audits performed by the tax authorities may have significant impact on the consolidated and separate financial statements as disclosed on note 38.

8.4 Impairment of financial assets

Impairment of financial assets	
In determining whether an impairment loss should be recognised, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.	
General	
Collective impairment assessments of Groups of financial assets	Future cash flows in a Group of financial assets are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows for Groups of financial assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are regularly reviewed by the Group to reduce any differences between loss estimates and actual loss experience.
Impairment assessment of collateralised financial assets	The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure.

SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

for the year ended 30 June 2018

8 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS [CONTINUED]

8.4 Impairment of financial assets [continued]

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

The objective of the measurement of an impairment loss is to produce a quantitative measure of the Group's credit risk exposure. In determining the amount of the impairment the Group considers the following:

- the probability of default (PD) which is a measure of the expectation of how likely the customer is to default; and
- the exposure at default (EAD) which is the expected amount outstanding at the point of default; and the loss given default (LGD) which is the expected loss that will be realised at default after taking into account recoveries through collateral and guarantees.

Performing loans

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

Where impairment is required to be determined for the performing book, the following estimates are required:

The incurred but not recognised (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 - 12 months. The portfolio impairment is the decrease in future cash flows primarily estimated based on analysis of historical loss and recovery rates for comparable sub-segments of the portfolio.

8.5 Other assets and liabilities

Property and equipment
The useful life of each asset is assessed individually. The directors have applied their judgements based on prior experience on the life of assets in setting the benchmarks used when assessing the useful life of the individual assets set out below.
Leasehold premises Shorter of estimated life or period of lease **Freehold property and property held under finance lease:** Buildings and structures 50 years Mechanical and electrical 20 years Components 20 years Sundries 3 - 5 years Computer equipment 3 - 5 years Other equipment Various between 3 - 10 years Motor vehicles 5 years The directors have assumed that all assets have nil residual value. It is the Group's policy to fully depreciate assets under P7 000 within the first month of use.
Provisions
The Group utilises the following in order to determine when to recognise provisions for potential litigation and claims: • expert and in-house advise; and • consideration of the likelyhood and probable outcome of the event so as to arrive at the best possible estimate.

8.6 Transactions with employees

Cash settled share-based payment plans	
Determination of fair value	The liability is determined using a Black-Scholes option pricing model with a zero strike price. The following estimates are included in the model to determine the value: • management's estimate of future dividends; • historical volatility is used as a proxy for future volatility; • the risk free interest rate is used; and • staff turnover and historical forfeiture rates are used as indicators of future conditions

STATEMENTS OF PROFIT OR LOSS

for the year ended 30 June 2018

		GROUP		COMPANY	
	Note(s)	2018 P '000	2017 P '000	2018 P '000	2017 P '000
Interest and similar income	3	1 507 520	1 429 248	1 507 520	1 429 248
Interest expenses and similar charges	4	(335 721)	(265 128)	(333 877)	(263 454)
Net interest income before impairment of advances		1 171 799	1 164 120	1 173 643	1 165 794
Impairment of advances	15	(274 168)	(361 219)	(274 168)	(361 219)
Net interest income after impairment of advances		897 631	802 901	899 475	804 575
Non-interest income	5	1 069 648	978 155	1 014 201	928 644
Income from operations		1 967 279	1 781 056	1 913 676	1 733 219
Operating expenses	6	(574 492)	(562 005)	(573 239)	(548 558)
Employee benefits expenses	7	(538 858)	(514 832)	(536 400)	(513 062)
Income before taxation		853 929	704 219	804 037	671 599
Indirect taxation	8	(15 720)	(23 896)	(15 689)	(23 870)
Profit before direct taxation		838 209	680 323	788 348	647 729
Direct taxation	8	(190 154)	(179 804)	(179 995)	(171 971)
Profit for the year attributable to owners of the parent		648 055	500 519	608 353	475 758
Per share information					
Basic earnings per share (thebe)	10	25,48	19,68		
Diluted earnings per share (thebe)	10	25,48	19,68		

STATEMENTS OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2018

		GROUP		COMPANY	
	Note(s)	2018 P '000	2017 P '000	2018 P '000	2017 P '000
Profit for the year		648 055	500 519	608 353	475 758
Other comprehensive income:					
Items that may be reclassified to profit or loss:					
Available-for-sale financial assets					
Net fair value loss for the year		(1 153)	-	(1 153)	-
Other comprehensive loss for the year net of taxation		(1 153)	-	(1 153)	-
Total comprehensive income for the year attributable to owners of the parent		646 902	500 519	607 200	475 758

STATEMENTS OF FINANCIAL POSITION

as at 30 June 2018

		GROUP		COMPANY	
	Note(s)	2018 P '000	2017 P '000	2018 P '000	2017 P '000
ASSETS					
Cash and short term funds	12	4 356 895	4 396 885	4 356 895	4 396 885
Derivative financial instruments	13	55 181	64 028	55 181	64 028
Advances to banks		650 912	-	650 912	-
Advances to customers	14	15 478 937	14 997 373	15 478 937	15 004 363
Investment securities	16	3 360 091	3 313 694	3 360 091	3 313 694
Current taxation	33	65 267	8 641	65 267	8 641
Due from related parties	17	9 465	9 448	9 465	9 448
Accounts receivable	18	357 133	288 831	276 948	270 318
Investments in subsidiaries	19	-	-	13 540	13 540
Property and equipment	20	507 584	505 496	476 698	473 910
Goodwill	21	26 963	26 963	26 589	26 589
Total assets		24 868 428	23 611 359	24 770 523	23 581 416
EQUITY AND LIABILITIES					
Liabilities					
Deposits from banks	23	730 109	1 397 685	730 109	1 397 685
Deposits from customers	22	18 834 336	17 567 471	18 834 336	17 567 471
Accrued interest payable		51 893	46 061	51 893	46 061
Derivative financial instruments	13	20 315	28 065	20 315	28 065
Due to related parties	17	73 861	36 175	174 979	148 410
Creditors and accruals	25	459 949	443 530	450 010	441 845
Employee benefits liabilities	26	82 800	71 606	82 865	71 468
Borrowings	24	1 288 927	1 059 127	1 288 927	1 059 127
Current taxation	33	7 699	1 208	-	-
Deferred taxation	9	200 779	207 566	196 464	202 357
Total liabilities		21 750 668	20 858 494	21 829 898	20 962 489
Capital and reserves attributable to ordinary equity holders					
Share capital	29	51 088	51 088	51 088	58 088
Reserves	30	2 837 739	2 547 955	2 660 604	2 407 017
Dividend reserve		228 933	153 822	228 933	153 822
Total equity		3 117 760	2 752 865	2 940 625	2 618 927
Total Equity and Liabilities		24 868 428	23 611 359	24 770 523	23 581 416

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Stated capital P '000	Available-for sale reserve P '000	Other non-distributable reserves P '000	Dividend reserve P '000	Retained income P '000	Total equity P '000
GROUP						
Balance at 01 July 2016	51 088	-	47 002	153 822	2 282 441	2 534 353
Profit for the year	-	-	-	-	500 519	500 519
Total comprehensive income for the year	-	-	-	-	500 519	500 519
Transfer from revaluation reserve	-	-	(2 680)	-	2 680	-
2016 Final Dividends paid	-	-	-	(153 822)	-	(153 822)
2017 Interim Dividends paid	-	-	-	-	(128 185)	(128 185)
2017 Final Dividends proposed	-	-	-	153 822	(153 822)	-
Total contributions by and distributions to owners of company recognised directly in equity	-	-	(2 680)	-	(279 327)	(282 007)
Balance at 01 July 2017	51 088	-	44 322	153 822	2 503 633	2 752 865
Profit for the year	-	-	-	-	648 055	648 055
Other comprehensive loss	-	(1 153)	-	-	-	(1 153)
Total comprehensive income for the year	-	(1 153)	-	-	648 055	646 902
Transfer from revaluation reserve	-	-	(2 645)	-	2 645	-
2017 Final Dividends paid	-	-	-	(153 822)	-	(153 822)
2018 Interim Dividends paid	-	-	-	-	(128 185)	(128 185)
2018 Final Dividends proposed	-	-	-	228 933	(228 933)	-
Total contributions by and distributions to owners of company recognised directly in equity	-	-	(2 645)	75 111	(354 473)	(282 007)
Balance at 30 June 2018	51 088	(1 153)	41 677	228 933	2 797 215	3 117 760
Note		29		30		

STATEMENTS OF CHANGES IN EQUITY [CONTINUED]

as at 30 June 2018

	Stated capital P '000	Available-for sale reserve P '000	Other non-distributable reserves P '000	Dividend reserve P '000	Retained income P '000	Total equity P '000
COMPANY						
Balance at 01 July 2016	58 088	-	30 768	153 822	2 182 498	2 425 176
Profit for the year	-	-	-	-	475 758	475 758
Total comprehensive income for the year	-	-	-	-	475 758	475 758
Transfer from revaluation reserve	-	-	(2 187)	-	2 187	-
2016 Final Dividends paid	-	-	-	(153 822)	-	(153 822)
2017 Interim Dividends paid	-	-	-	-	(128 185)	(128 185)
2017 Final Dividends proposed	-	-	-	153 822	(153 822)	-
Total contributions by and distributions to owners of company recognised directly in equity	-	-	(2 187)	-	(279 820)	(282 007)
Balance at 01 July 2017	58 088	-	28 581	153 822	2 378 436	2 618 927
Profit for the year	-	-	-	-	608 353	608 353
Other comprehensive loss	-	(1 153)	-	-	-	(1 153)
Total comprehensive income for the year	-	(1 153)	-	-	608 353	607 200
Transfer from revaluation reserve	-	-	(2 169)	-	2 169	-
2018 Repurchase of shares	(7 000)	-	-	-	(39 600)	(46 600)
2018 Wind-up distribution	-	-	-	-	43 105	43 105
2017 Final Dividends paid	-	-	-	(153 822)	-	(153 822)
2018 Interim Dividends paid	-	-	-	-	(128 185)	(128 185)
2018 Final Dividends proposed	-	-	-	228 933	(228 933)	-
Total contributions by and distributions to owners of company recognised directly in equity	(7 000)	-	(2 169)	75 111	(351 444)	(285 502)
Balance at 30 June 2018	51 088	(1 153)	26 412	228 933	2 635 345	2 940 625
Note		29		30		

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2018

		GROUP		COMPANY	
	Note(s)	2018 P '000	2017 P '000	2018 P '000	2017 P '000
Cash flows from operating activities					
Cash generated from operations before taxation and working capital changes	31	1 182 503	1 102 504	1 131 934	1 068 742
Taxation paid	32	(247 076)	(84 112)	(242 514)	(76 484)
Cash from operating activities		935 427	1 018 392	889 420	992 258
(Decrease)/increase in amounts due to other banks		(667 576)	1 097 519	(667 576)	1 097 519
Increase in deposits and current accounts	34	1 266 865	503 715	1 266 865	503 715
Increase/(decrease) in amounts due to related companies		37 686	(88 551)	26 569	(82 995)
Increase in accrued interest payable		5 832	15 508	5 832	15 508
(Decrease)/increase in creditors and accruals		(151)	8 875	(1 407)	22 825
Increase in employee benefits liabilities		11 194	3 479	11 397	3 542
Increase in investments - held for trading		(14 098)	(71 264)	(14 098)	(71 264)
Increase in investments - held to maturity		(604 867)	(710 189)	(604 867)	(710 189)
Increase in advances to customers	35	(748 742)	(971 773)	(748 742)	(971 763)
(Increase)/decrease in advances to banks		(650 912)	324 960	(650 912)	324 960
(Decrease)/increase in accounts receivable		(68 302)	87 414	(6 630)	93 969
Increase in amounts due from related companies		(17)	(3 124)	(17)	(3 124)
Cash (utilised in)/generated from operating activities		(497 661)	1 214 961	(494 166)	1 214 961
Cash flows from investing activities					
Acquisition of property, plant and equipment	20	(57 147)	(67 765)	(57 147)	(67 765)
Proceeds on disposal of property and equipment		182	27	182	27
Cash utilised in investing activities		(56 965)	(67 738)	(56 965)	(67 738)
Cash flows from financing activities					
Borrowings raised		126 350	216 540	126 350	216 540
Repayment of borrowings		97 724	(251 652)	97 724	(251 652)
Dividends paid	36	(282 007)	(282 007)	(285 502)	(282 007)
Cash utilised in financing activities		(57 933)	(317 119)	(61 428)	(317 119)
Cash movement for the year		(612 559)	830 104	(612 559)	830 104
Cash and cash equivalents at the beginning of the year		6 067 942	5 237 839	6 067 942	5 237 839
Total cash and cash equivalents at end of the year	37	5 455 383	6 067 943	5 455 383	6 067 943

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

for the year ended 30 June 2018

	Note	GROUP 2018 P '000	GROUP 2017 P '000	COMPANY 2018 P '000	COMPANY 2017 P '000
2. SIGNIFICANT ACCOUNTING POLICIES					
The significant accounting policies of the Group are set out on pages 114 to 137.					
3. INTEREST AND SIMILAR INCOME	**Note**				
Loans and receivables					
Advances		1 355 750	1 348 113	1 355 750	1 348 113
Cash and short term funds		28 403	24 651	28 403	24 651
Related parties	17	32 504	3 615	32 504	3 615
Unwinding of discounted present value of off-market staff loans		(576)	2 183	(576)	2 183
Held to maturity					
Investment securities		24 277	25 107	24 277	25 107
Available-for-sale financial assets					
Investment securities		67 162	25 579	67 162	25 579
		1 507 520	1 429 248	1 507 520	1 429 248
4. INTEREST EXPENSE AND SIMILAR CHARGES					
Financial liabilities at amortised cost					
Term deposits		191 117	154 197	189 273	152 523
Current and call accounts		42 575	41 436	42 575	41 436
Savings deposits		6 697	12 476	6 697	12 476
Deposits from banks and other financial institutions		20 485	11 069	20 485	11 069
Related parties	17	5 804	356	5 804	356
Borrowings		69 043	45 594	69 043	45 594
		335 721	265 128	333 877	263 454
5. NON-INTEREST INCOME					
Fee and commission income:					
Loans and receivables					
Card commissions		229 545	185 366	229 545	185 366
Insurance commissions		28 276	37 815	7 525	6 801
Facility fees		32 268	38 474	32 268	38 474
Commissions - guarantees and letters of credit		9 351	8 883	9 351	8 883
Amortised cost					
Cash deposit fees		44 743	41 459	44 743	41 459
Commissions - bills, drafts and cheques		94 121	82 657	94 121	82 657
Service fees		282 319	233 064	281 311	232 698
Commissions - customer services		93 194	81 620	93 193	81 619
Net fee and commission income		813 817	709 338	792 057	677 957

	Note(s)	GROUP 2018 P '000	GROUP 2017 P '000	COMPANY 2018 P '000	COMPANY 2017 P '000
5. NON-INTEREST INCOME [CONTINUED]					
Fair value gains or losses:					
Gain on bond trading		5 774	3 395	5 774	3 395
Net loss arising on financial liabilities at fair value		(1 533)	(76)	(1 533)	(76)
Foreign exchange trading income		231 919	238 628	231 919	238 628
Fair value gains or losses		236 160	241 947	236 160	241 947
Other non-interest income					
Non-financial assets and liabilities					
Profit/(loss) on sale of property and equipment		139	(74)	139	(74)
Other non-interest income		19 532	26 944	(14 155)	8 814
Other non-interest income		19 671	26 870	(14 016)	8 740
Total non-interest income		1 069 648	978 155	1 014 201	928 644
6. OPERATING EXPENSES					
Audit fees					
Current year		4 706	4 327	4 706	4 327
Prior year		87	483	87	483
		4 793	4 810	4 793	4 810
Depreciation					
Buildings		20 313	20 318	19 690	19 282
Motor vehicles		494	884	494	884
Furniture and equipment		34 198	36 647	34 131	36 533
		55 005	57 849	54 315	56 699
Director's remuneration					
For services as non-executive directors		3 253	2 510	3 253	2 510
For services as executive directors		4 989	3 582	4 989	3 582
		8 242	6 092	8 242	6 092
Operating lease charges					
Premises					
• Contractual amounts		23 785	21 372	24 404	22 039
• Straight line lease rental adjustments		447	2 046	447	2 046
Equipment					
• Contractual amounts		(2 046)	1 832	(2 046)	1 820
		22 186	25 250	22 805	25 905

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

	GROUP		COMPANY	
	2018 P '000	2017 P '000	2018 P '000	2017 P '000
6. OPERATING EXPENSES [CONTINUED]				
Service fee paid to related company				
- Systems	95 688	86 388	95 688	86 388
- Services	73 343	81 500	73 343	81 500
- Products	26 580	22 924	26 580	22 174
	195 611	190 812	195 611	190 062
Foreign exchange gain on revaluations	(1 144)	(24)	(1 144)	(24)
Professional fees	23 067	28 430	22 970	28 235
Other operating expenses				
Advertising and marketing	45 912	47 663	45 912	46 852
Communication	32 208	27 939	32 093	27 855
Computer expenditure	15 756	12 156	15 702	12 156
Property maintenance	46 078	37 610	45 906	37 458
Stationery, storage and postage	24 790	26 994	24 679	26 877
Service fees	55 619	48 683	55 616	48 683
Other	46 369	47 741	45 739	36 898
Other operating costs	266 732	248 786	265 647	236 779
Total operating expenses	574 492	562 005	573 239	548 558
7. EMPLOYEE BENEFIT EXPENSES				
Direct employee costs				
Salaries, wages and allowances	427 702	400 555	425 728	399 106
Defined contribution schemes: medical and other staff funds	64 871	57 213	64 501	56 911
Share based payments expense - cash settled	16 123	2 929	16 123	2 929
Leave pay	11 471	10 247	11 395	10 254
Other	18 691	43 888	18 653	43 862
	538 858	514 832	536 400	513 062

Details of the post retirement benefits are provided separately in note 28

	GROUP		COMPANY	
	2018 P '000	2017 P '000	2018 P '000	2017 P '000
8. TAXATION				
Indirect taxation				
Value added tax	15 720	23 896	15 689	23 870
Direct taxation				
Current taxation				
Current period	196 941	175 747	185 888	167 809
Deferred taxation				
Current year	(6 787)	4 057	(5 893)	4 162
Total direct taxation expense per statements of profit or loss	190 154	179 804	179 995	171 971
Reconciliation of the taxation charge				
Profit before direct taxation	838 209	680 323	788 348	647 729
Tax at the applicable tax rate of 22% (2017: 22%)	184 406	149 671	173 437	142 500
Tax effect of adjustments on taxable income				
Disallowable expenses:				
Section 41 disallowable expense	6 543	27 987	6 543	27 987
Donations	1 103	1 121	1 103	1 121
Other	(1 898)	1 025	(1 088)	362
Total tax expense per statements of profit or loss	190 154	179 804	179 995	171 970
Effective tax rate	22,69 %	26,43 %	22,83 %	26,55 %
9. DEFERRED TAX				
Deferred taxation				
Balance at beginning of year	207 566	203 509	202 357	198 195
Temporary differences for the year	(6 787)	4 057	(5 893)	4 162
Balance at the end of the year	200 779	207 566	196 464	202 357
The balance comprises				
Accelerated capital allowances	197 270	198 852	195 667	197 249
Revaluation surplus	12 856	12 856	9 250	9 250
Other temporary differences	(9 347)	(4 142)	(8 453)	(4 142)
	200 779	207 566	196 464	202 357

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

10. EARNINGS PER SHARE

Basic earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year, excluding the number of ordinary shares purchased by the Company and held as treasury shares.

In the currrent year the ordinary shares held by the Employees Share Participation Scheme, classified as treasury shares, were repurchased by the Bank.

Basic earnings per share

	GROUP	
	2018 P '000	2017 P '000
Earnings attributable to ordinary equity holders	648 055	500 519
Number of ordinary shares in issue at beginning and end of year (thousands)	2 543 700	2 563 700
Less treasury shares (thousands)	-	(20 000)
Weighted average number of ordinary shares in issue (thousands)	2 543 700	2 543 700
Basic earnings per share (thebe)	25,48	19,68

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.

Diluted earnings per share

	2018 P '000	2017 P '000
Earnings attributable to ordinary equity holders	648 055	500 519
Weighted average number of ordinary shares in issue (thousands)	2 543 700	2 543 700
Diluted earnings per share (thebe)	25,48	19,68

11. ANALYSIS OF ASSETS AND LIABILITIES BY CATEGORY

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies on pages 114 to 137 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the statements of financial position per category of financial instrument to which they are assigned and therefore by measurement basis:

	GROUP		COMPANY	
	2018 P '000	2017 P '000	2018 P '000	2017 P '000
ASSETS				
Loans and receivables				
Cash and short term funds	4 356 895	4 396 885	4 356 895	4 396 885
Advances to banks	650 912	-	650 912	-
Advances to customers	15 478 937	14 997 373	15 478 937	15 004 363
Due to related companies	9 465	9 448	9 465	9 448
Accounts receivables	357 133	288 831	276 948	270 318
Available-for-sale				
Investment securities	1 098 489	1 671 057	1 098 489	1 671 057
Held to maturity				
Investment securities	2 166 857	1 561 990	2 166 857	1 561 990
Held for trading				
Investment securities	94 745	80 647	94 745	80 647
Derivative financial instruments	55 181	64 028	55 181	64 028
Non-financial assets				
Current tax receivable	65 267	8 641	65 267	8 641
Investments in subsidiaries	-	-	13 540	13 540
Property and equipment	507 584	505 496	476 698	473 910
Goodwill	26 963	26 963	26 589	26 589
Total assets	24 868 428	23 611 359	24 770 523	23 581 416

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

11. ANALYSIS OF ASSETS AND LIABILITIES BY CATEGORY [CONTINUED]

	GROUP		COMPANY	
	2018 P '000	2017 P '000	2018 P '000	2017 P '000
LIABILITIES				
Financial liabilities at amortised cost				
Deposits from banks	730 109	1 397 685	730 109	1 397 685
Deposits from customers	18 834 336	17 567 471	18 834 336	17 567 471
Borrowings	1 160 942	942 041	1 160 942	942 041
Accrued interest payable	51 893	46 061	51 893	46 061
Due to related companies	73 861	36 175	174 979	148 410
Employee liabilities	108 484	86 511	108 549	86 373
Creditors and accruals	426 580	422 230	416 805	421 359
Designated at fair value through profit or loss				
Borrowings	127 985	117 086	127 985	117 086
Held for trading				
Derivatives financial instruments	20 315	28 065	20 315	28 065
Non-financial liabilities				
Value added tax	7 685	6 395	7 519	5 581
Current tax payable	7 699	1 208	-	-
Deferred tax	200 779	207 566	196 464	202 357
Total liabilities	21 750 668	20 858 494	21 829 896	20 962 489

12. CASH AND SHORT TERM FUNDS

	Note	GROUP 2018 P '000	GROUP 2017 P '000	COMPANY 2018 P '000	COMPANY 2017 P '000
Coins and bank notes		309 899	306 327	309 899	306 327
Money at call and short notice - related companies	17	-	41 401	-	41 401
Money at call and short notice - other banks		958 046	1 921 210	958 046	1 921 210
Balances with Bank of Botswana - Statutory reserve requirement		765 427	920 898	765 427	920 898
Balances with Bank of Botswana - Statutory account balance		35 171	-	35 171	-
Balances with other banks - related	17	1 977 724	694 752	1 977 724	694 752
Balances with other banks - other banks		310 628	512 297	310 628	512 297
		4 356 895	4 396 885	4 356 895	4 396 885
The carrying value of cash and short term funds approximates the fair value.					
Amounts denominated in foreign currencies included in above balances		2 858 469	1 912 841	2 858 469	1 912 841
Balances with Bank of Botswana - Statutory reserve requirement		765 427	920 898	765 427	920 898

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.

13. DERIVATIVE FINANCIAL INSTRUMENTS

Group and company

Strategy in using derivatives:

Interest rate swaps

Interest rate derivatives comprising mainly of interest rate swaps and forward rate agreements are utilised for hedging purposes to eliminate uncertainity and reduce the risk that the Group faces due to volatile interest rates.

The Group accepts deposits at variable rates and uses fixed interest rate derivatives as economic hedges of future interest payments, effectively converting borrowings from floating to fixed rates. The Group also has assets at fixed rates and uses variable interest rate derivatives as economic hedges of future interest receipts.

The notional amounts of the derivative instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not present the Group's exposure to credit or pricing risk.

Derivative instruments become favourable (assets) or unfavourable (liabilities) based on changes in market interest rates. The aggregate notional amount of derivative financial instruments, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair value can fluctuate significantly, over time.

Forward rate agreements

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

The Group has written foreign currency option contracts that grant the holder the right, but not the obligation, to buy or sell currency at a specified exchange rate during a specified period of time. At the same time, the Group enters into a similar option with a related party in order to manage the risks associated with the options. These options are not designated as hedging instruments; consequently both options are recognised as derivative instruments in assets and liabilities in the statements of financial position. The fair value adjustments arising from valuation of both options are recognised in the profit or loss as part of fair value gains and losses. The premium on inception of the option is immediately recognised in the profit or loss.

Trading derivatives

The Group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities in derivatives are entered into principally for the purpose of generating profits from short term fluctuations in price or margin. Positions may be traded actively or be held over a period of time to benefit from expected changes in currency rates, interest rates or other market parameters. Trading includes market making and positioning activities. Market making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume; positioning entails managing market risk positions in the expectation of benefiting from favourable movements in prices, rates or indices. The trading derivatives relate to all spot and forward foreign exchange contracts which were unsettled as at year end. Further information pertaining to the risk management strategy of the Group is set out in note 40.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

13. DERIVATIVE FINANCIAL INSTRUMENTS [CONTINUED]

GROUP AND COMPANY	ASSETS		LIABILITIES	
	Notional P '000	Fair value P '000	Notional P '000	Fair value P '000
2018				
Currency derivatives				
Trading derivatives	796 341	5 630	859 832	6 691
Interest rate derivatives				
Interest rate swaps	461 383	49 551	353 509	13 624
	1 257 724	55 181	1 213 341	20 315
Related party derivatives included in above balances				
Trading derivatives	80 968	381	261 195	3 145
Interest rate swaps	327 800	41 116	133 583	8 435
	408 768	41 497	394 778	11 580
2017				
Currency derivatives				
Currency options	566 589	4 972	566 589	4 972
Trading derivatives	280 039	2 035	399 946	2 835
Currency swaps	52 100	11	-	-
Interest rate derivatives				
Interest rate swaps	437 520	57 010	334 345	20 258
	1 336 248	64 028	1 300 880	28 065
Related party derivatives included in above balances				
Currency options	335 395	1 616	335 395	1 616
Trading derivatives	-	-	80 062	655
Interest rate swaps	201 503	40 463	236 017	16 547
Currency swaps	52 100	11	-	-
	588 998	42 090	651 474	18 818

		GROUP		COMPANY	
		2018 P '000	2017 P '000	2018 P '000	2017 P '000
14. ADVANCES TO CUSTOMERS					
Sector analysis					
Agriculture		387 077	359 104	387 077	359 104
Building and property development		540 329	449 747	540 329	449 747
Business and trade		4 449 786	4 342 778	4 449 786	4 349 768
Individuals		9 995 180	9 413 004	9 995 180	9 413 004
Manufacturing		461 598	487 590	461 598	487 590
Mining		78 662	152 396	78 662	152 396
Transport and communications		380 864	444 997	380 864	444 997
Gross advances		16 293 496	15 649 616	16 293 496	15 656 606
Contractual interest suspended		(170 929)	(125 629)	(170 929)	(125 629)
Gross advances after contractual interest suspended		16 122 567	15 523 987	16 122 567	15 530 977
Less : impairment of advances	15	(643 630)	(526 614)	(643 630)	(526 614)
Net advances		15 478 937	14 997 373	15 478 937	15 004 363
Category analysis					
Term loans		7 135 620	7 014 779	7 135 620	7 021 769
Suspensive sale debtors		1 331 280	1 356 681	1 331 280	1 356 681
Property loans		5 427 287	5 155 480	5 427 287	5 155 480
Overdrafts and managed accounts		1 422 393	1 085 756	1 422 393	1 085 756
Other		213 509	248 730	213 509	248 730
Lease payments receivable		763 407	788 190	763 407	788 190
Gross advances		16 293 496	15 649 616	16 293 496	15 656 606
Contractual interest suspended		(170 929)	(125 629)	(170 929)	(125 629)
Gross advances after contractual interest suspended		16 122 567	15 523 987	16 122 567	15 530 977
Less : impairment of advances	15	(643 630)	(526 614)	(643 630)	(526 614)
Net advances		15 478 937	14 997 373	15 478 937	15 004 363

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

14. ADVANCES TO CUSTOMERS [CONTINUED]

	GROUP		COMPANY	
	2018 P '000	2017 P '000	2018 P '000	2017 P '000
Maturity analysis				
Maturity within one year	2 205 982	1 696 456	2 205 982	1 696 456
Maturity between one and five years	5 872 379	5 611 839	5 872 379	5 611 839
Maturity more than five years	8 215 135	8 341 321	8 215 135	8 348 311
	16 293 496	15 649 616	16 293 496	15 656 606
Included in the above advances are instalment loans maturing within:				
- one year	202 495	181 854	202 495	181 854
- two to five years	1 892 192	1 963 017	1 892 192	1 963 017
	2 094 687	2 144 871	2 094 687	2 144 871
These loans have been made under normal commercial terms and conditions. The above advances only expose the Group to credit risk in Botswana.				
Included in the above are advances to:				
– Directors and key management personnel	16 525	15 199	16 525	15 199

15. 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.

2018

	Corporate & commercial P '000	Retail P '000	Total Impairment P '000
Group and Company			
Specific impairment			
At the beginning of the year	158 701	152 982	311 683
Amounts written-off	(57 640)	(110 788)	(168 428)
	101 061	42 194	143 255
Impairment loss recognised in the statements of profit or loss			
New and increased provision	170 590	248 041	418 631
Release of provision	(120 796)	(108 885)	(229 681)
	49 794	139 156	188 950
At the end of the year	150 855	181 350	332 205
Present valuation of security adjustment			
At the beginning of the year	21 764	59 721	81 485
Charge/(release) to the statements of profit or loss	18 349	(32 279)	(13 930)
At the end of the year	40 113	27 442	67 555
Total specific impairment	190 968	208 792	399 760
Recoveries of bad debts previously written off	(4 658)	(6 618)	(11 276)
Portfolio impairment			
At the beginning of the year	16 270	42 436	58 706
Charge to the statements of profit or loss	3 626	38 505	42 131
At the end of the year	19 896	80 941	100 837
Incurred but not recognised (IBNR) impairment			
At the beginning of the year	34 138	40 602	74 740
Charge to the statements of profit or loss	22 701	45 592	68 293
At the end of the year	56 839	86 194	143 033
Total charge to the statements of profit or loss	89 812	184 356	274 168
Total impairment at the end of the year	267 703	375 927	643 630

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

15. IMPAIRMENT OF ADVANCES [CONTINUED]

2017

	Corporate & commercial P '000	Retail P '000	Total Impairment P '000
Group and Company			
Specific impairment			
At the beginning of the year	82 735	106 758	189 493
Amounts written off	(64 876)	(158 289)	(223 165)
	17 859	(51 531)	(33 672)
Impairment loss recognised in the statements of profit or loss			
New and increased provision	168 028	227 511	395 539
Release of provision	(27 186)	(22 998)	(50 184)
	140 842	204 513	345 355
At the end of the year	158 701	152 982	311 683
Present valuation of security adjustment			
At the beginning of the year	14 808	40 634	55 442
Charge to the statements of profit or loss	6 956	19 087	26 043
At the end of the year	21 764	59 721	81 485
Total specific impairment	180 465	212 703	393 168
Recoveries of bad debts previously written off	(8 682)	(14 983)	(23 665)
Portfolio impairment			
At the beginning of the year	19 059	23 784	42 843
Charge/(release) to the statements of profit or loss	(2 789)	18 652	15 863
At the end of the year	16 270	42 436	58 706
Incurred but not recognised (IBNR) impairment			
At the beginning of the year	28 094	49 023	77 117
Charge to the statements of profit or loss	6 044	(8 421)	(2 377)
At the end of the year	34 138	40 602	74 740
Total charge to the statements of profit or loss	142 371	218 848	361 219
Total impairment at the end of the year	230 873	295 741	526 614

		Security held P '000	Contractual interest suspended P '000	Specific impairment P '000	Total including interest suspended P '000
Non-performing advances – loans and receivables:					
Consolidated and Company					
Sector analysis – 2018					
Agriculture		47 476	11 626	25 663	84 765
Building and property development		118 561	37 881	74 011	230 453
Individuals		197 505	49 279	176 740	423 524
Manufacturing and commerce		140 477	53 664	83 952	278 093
Transport and communication		19 844	6 103	13 127	39 074
Other advances		38 738	12 376	26 267	77 381
Total non-performing advances – June 2018	30	562 601	170 929	399 760	1 133 290
Sector analysis – 2017					
Agriculture		46 786	7 285	14 651	68 722
Building and property development		74 297	24 489	86 335	185 121
Individuals		166 587	31 695	179 512	377 794
Manufacturing and commerce		209 978	41 213	67 826	319 017
Transport and communication		42 619	4 526	14 676	61 821
Other advances		79 556	16 421	30 168	126 145
Total non-performing advances – June 2017	30	619 823	125 629	393 168	1 138 620
Category analysis – 2018					
Overdrafts and managed accounts		64 820	30 093	85 689	180 602
Term loans		157 755	80 095	202 902	440 752
Suspensive and instalment sale debtors		37 869	5 619	44 326	87 814
Property loans		302 157	54 819	64 999	421 975
Other advances		-	303	1 844	2 147
Total non-performing advances – June 2018	30	562 601	170 929	399 760	1 133 290

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

15. IMPAIRMENT OF ADVANCES [CONTINUED]

	Security held P '000	Contractual interest suspended P '000	Specific impairment P '000	Total including interest suspended P '000
Non-performing advances - loans and receivables:				
Consolidated and Company				
Category analysis - 2017				
Overdrafts and managed accounts	64 303	17 089	64 340	145 732
Term loans	197 489	60 617	170 807	428 913
Suspensive and instalment sale debtors	41 679	5 722	48 214	95 615
Property loans	316 352	41 396	103 415	461 163
Other advances	-	805	6 392	7 197
Total non-performing advances - 2017	619 823	125 629	393 168	1 138 620

Contractual interest suspended

	GROUP AND COMPANY 2018 P '000	2017 P '000
At the beginning of the year	125 629	80 980
Written-off during the year	(21 987)	(13 621)
Suspended during the year	67 287	58 270
At the end of the year	170 929	125 629

16. INVESTMENT SECURITIES

	Held for trading P '000	Held to maturity P '000	Available-for sale P '000	Total P '000
Group and Company - 2018				
Bank of Botswana Certificates	-	-	1 098 489	1 098 489
Government Bonds	-	2 018 675	-	2 018 675
Government and Parastatal Bonds	94 745	-	-	94 745
Treasury Bills	-	148 182	-	148 182
	94 745	2 166 857	1 098 489	3 360 091
Group and Company - 2017				
Bank of Botswana Certificates	-	-	1 671 057	1 671 057
Government Bonds	-	1 008 365	-	1 008 365
Government and Parastatal Bonds	80 647	-	-	80 647
Treasury Bills	-	553 625	-	553 625
	80 647	1 561 990	1 671 057	3 313 694

P1 098 489 (2017: P 1 671 057) of the Bank of Botswana Certificates form part of the Group's liquid assets portfolio in terms of section 16 (5) of the Banking Act (Cap 46:04).

The Bank of Botswana Certificates have maturities ranging from one to three months.

17. RELATED PARTIES

Relationships:

Ultimate holding company	FirstRand Limited
Holding company	First National Bank Holdings Limited
Subsidiaries	Refer to note 19
Common management	FirstRand Limited - South Africa

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

- directly, or indirectly through one or more intermediaries, controls, is controlled by, or is for common control with, the entity (this includes parent companies, subsidiaries and fellow subsidiaries) (Refer to Note 19 for subsidiaries);
- has an interest in the entity that gives it significant influence over the entity;
- has control over the entity;
- is an associate company, joint venture, or is jointly controlled; or
- is a member of key management personnel of the Group.

Key management personnel comprise Non-executive Directors, the Chief Executive Officer, the Chief Risk Officer, the Chief Operating Officer, the Chief Financial Officer, the Director of Human Resources, the Treasurer, Director of Credit.

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

17. RELATED PARTIES [CONTINUED]

	Note	GROUP 2018 P '000	GROUP 2017 P '000	COMPANY 2018 P '000	COMPANY 2017 P '000
Related party balances					
Due from related parties					
FirstRand Limited - South Africa		1 977 724	736 153	1 977 724	736 153
First National Bank Holdings (Botswana) Limited		9 465	9 448	9 465	9 448
		1 987 189	745 601	1 987 189	745 601
Less money at call and short notice					
FirstRand Limited - South Africa - call balances	12	-	(41 401)	-	(41 401)
FirstRand Limited - South Africa - nostro balances	12	(1 977 724)	(694 752)	(1 977 724)	(694 752)
		9 465	9 448	9 465	9 448
Due to related companies- current liabilities					
Financial Services Company (Proprietary) Limited		-	-	7 228	6 566
Financial Services Propertie (Proprietary) Limited		-	-	(47)	(47)
First National Insurance Agency (Proprietary) Limited		-	-	92 925	104 704
First Funding (Proprietary) Limited		-	-	1 000	1 000
Plot Four Nine Seven Two (Proprietary) Limited		-	-	12	12
FirstRand Limited - South Africa		73 861	36 175	73 861	36 175
Due to related companies - creditors and accruals		73 861	36 175	174 979	148 410

Refer to Note 22 for amounts included in deposits from customers and Note 23 for amounts included in deposits from banks.

Related party transactions

Transactions were carried out in the ordinary course of business, were not secured, and were supported as detailed below:

The service fees paid to related parties relate to systems and products such as inter alia the Core banking, Digital banking, Merchant services platforms as well as Technology Architectural services.

	GROUP 2018 P '000	GROUP 2017 P '000	COMPANY 2018 P '000	COMPANY 2017 P '000
Interest income				
FirstRand Limited - South Africa	32 504	3 615	32 504	3 615
Interest expenditure				
FirstRand Limited - South Africa	5 804	356	5 804	356
Operating expenses:				
Rent paid - Subsidiary companies	-	-	667	667
Service fees - FirstRand Limited (Note 6)	195 611	190 812	195 611	190 062
	195 611	190 812	196 278	190 729

	GROUP		COMPANY	
	2018 P '000	2017 P '000	2018 P '000	2017 P '000
Transactions with key management personnel:				
Compensation paid to key management personnel				
Share-based payments	2 572	2 118	2 572	2 118
Short term employee benefits	17 733	18 876	17 733	18 876
Total short term benefits	20 305	20 994	20 305	20 994
Post employment benefits				
Pension	590	1 871	590	1 871
Advances				
Personal loans	1 152	1 093	1 152	1 093
Overdrafts	99	1 050	99	1 050
Credit card	253	255	253	255
Instalment finance	2 504	1 635	2 504	1 635
Property loans	12 517	11 166	12 517	11 166
Total advances	16 525	15 199	16 525	15 199

No impairments have been recognised in respect of the above advances (2017: 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 P18 565 000 (2017: P 14 549 579).

Personal loans, overdrafts and credit card balances are unsecured.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

18. ACCOUNTS RECEIVABLE

	GROUP		COMPANY	
	2018 P '000	2017 P '000	2018 P '000	2017 P '000
Suspense accounts	203 273	110 065	168 049	116 447
Other sundry debtors	153 451	178 357	108 490	153 462
School debentures	409	409	409	409
	357 133	288 831	276 948	270 318

The above carrying value of accounts receivable approximates their fair value. These are neither past due nor impaired.

19. INVESTMENTS IN SUBSIDIARY COMPANIES

COMPANY

Name of company	Nature of Business	Carrying amount 2018 P '000	Carrying amount 2017 P '000
Financial Services Company of Botswana Limited	Property owning company	12 500	12 500
First Funding (Proprietary) Limited	Group loan scheme	1 000	1 000
Premium Credit Botswana (Proprietary) Limited	Insurance premium finance	10	10
First National Insurance Agency (Proprietary) Limited	Insurance agency	30	30
		13 540	13 540

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.

20. PROPERTY AND EQUIPMENT

GROUP	2018			2017		
	Cost / Valuation P '000	Accumulated depreciation P '000	Carrying value P '000	Cost / Valuation P '000	Accumulated depreciation P '000	Carrying value P '000
Freehold and leasehold land and buildings	380 044	(48 196)	331 848	376 304	(38 756)	337 548
Leasehold improvements	124 996	(65 355)	59 641	118 017	(57 658)	60 359
Motor vehicles	10 496	(7 940)	2 556	10 309	(7 801)	2 508
Furniture and equipment	261 214	(164 037)	97 177	214 292	(130 106)	84 186
Capital work-in-progress	16 362	-	16 362	20 895	-	20 895
Total	793 112	(285 528)	507 584	739 817	(234 321)	505 496
COMPANY						
Freehold and leasehold land and buildings	349 608	(46 368)	303 240	347 026	(38 709)	308 317
Leasehold improvements	122 652	(65 355)	57 297	115 673	(57 658)	58 015
Motor vehicles	10 496	(7 940)	2 556	10 309	(7 801)	2 508
Furniture and equipment	261 100	(163 857)	97 243	214 281	(130 106)	84 175
Capital work-in-progress	16 362	-	16 362	20 895	-	20 895
Total	760 218	(283 520)	476 698	708 184	(234 274)	473 910

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

RECONCILIATION OF PROPERTY AND EQUIPMENT – GROUP – 2018

	Opening balance P '000	Additions P '000	Disposals P '000	Transfers P '000	Depreciation P '000	Closing balance P '000
Freehold and leasehold land and buildings	337 548	5 473	-	1 443	(12 616)	331 848
Leasehold improvements	60 359	6 979	-	-	(7 697)	59 641
Motor vehicles	2 508	549	(7)	-	(494)	2 556
Furniture and equipment	84 186	44 146	(36)	3 090	(34 198)	97 177
Capital work-in-progress	20 895	-	-	(4 533)	-	16 362
	505 496	57 147	(43)	-	(55 005)	507 584

RECONCILIATION OF PROPERTY AND EQUIPMENT – GROUP – 2017

	Opening balance P '000	Additions P '000	Disposals P '000	Transfers P '000	Depreciation P '000	Closing balance P '000
Freehold and leasehold land and buildings	325 308	1 225	-	24 442	(13 427)	337 548
Leasehold improvements	54 672	12 578	-	-	(6 891)	60 359
Motor vehicles	2 115	1 277	-	-	(884)	2 508
Furniture and equipment	110 774	34 612	(101)	(24 442)	(36 647)	84 185
Capital work-in-progress	2 822	18 073	-	-	-	20 895
	495 691	67 765	(101)	-	(57 849)	505 495

Cost or valuation consists of:	30 June 2018 P '000	30 June 2017 P '000
Freehold and leasehold land and buildings - cost	347 344	343 874
Freehold and leasehold land and buildings - valuation adjustment	32 430	32 430
Leasehold land improvements - cost	124 996	118 017
Capital work-in-progress	16 632	20 895
Motor vehicles - cost	10 496	10 309
Furniture and equipment - cost	261 214	214 292
	793 112	739 817

20. PROPERTY AND EQUIPMENT (CONTINUED)

RECONCILIATION OF PROPERTY AND EQUIPMENT – COMPANY – 2018

	Opening balance P '000	Additions P '000	Disposals P '000	Transfers P '000	Depreciation P '000	Closing balance P '000
Freehold and leasehold land and buildings	308 317	5 473	-	1 443	(11 993)	303 240
Leasehold improvements	58 015	6 979	-	-	(7 697)	57 297
Motor vehicles	2 508	549	(7)	-	(494)	2 556
Furniture and equipment	84 174	44 146	(36)	3 090	(34 131)	97 243
Capital work-in-progress	20 895	-	-	(4 533)	-	16 362
	473 909	57 147	(43)	-	(54 315)	476 698

RECONCILIATION OF PROPERTY AND EQUIPMENT – COMPANY – 2017

	Opening balance P '000	Additions P '000	Disposals P '000	Transfers P '000	Depreciation P '000	Closing balance P '000
Freehold and leasehold land and buildings	294 928	1 338	-	24 442	(12 391)	308 317
Leasehold improvements	52 328	12 578	-	-	(6 891)	58 015
Motor vehicles	2 116	1 277	-	-	(884)	2 509
Furniture and equipment	110 752	34 499	(101)	(24 442)	(36 533)	84 174
Capital work-in-progress	2 822	18 073	-	-	-	20 895
	462 946	67 765	(101)	-	(56 699)	473 910

Cost or valuation consists of:	30 June 2018 P '000	30 June 2017 P '000
Freehold and leasehold land and buildings - cost	327 987	325 405
Freehold and leasehold land and buildings - valuation adjustment	21 621	21 621
Leasehold land and buildings - cost	122 652	115 673
Capital work-in-progress	16 362	20 895
Motor vehicles - cost	10 496	10 309
Furniture and equipment - cost	261 100	214 281
	760 218	708 184

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

Revaluation of property

Freehold and leasehold land and buildings consist of commercial and residential properties. The properties were valued by Stocker Fleetwood-Bird, Apex Properties, Riberry, Kwena Property Services and Property Development and Valuation Surveyors, professional, independent property valuers in June 2016, on the basis of open market values for existing use.

Properties are revalued every three years. Leasehold land and buildings consist of five residential and two commercial properties and include the costs of improvements to bank premises.

Details of the Group's freehold and leasehold land and buildings and information about the fair value hierachy as at the end of the reporting period are as follows:

2016 financial year

Valuation technique
- Cost approach

Fair value hierarchy
- Level 3

Description of valuation technique
- The net income based on the rental for comparable properties is divided by the capitalisation rate.

Unobservable inputs
- Rental per square metre: P100 - P120
- Capitalisation rate: 8 - 10%

Description of valuation technique
- The cost approach is a method which surmises that the price a buyer should pay for a property should be the cost of erecting a similar building adjusted for depreciation.

Observable inputs
- Cost per square metre P1250 - P6000

The valuation techniques used were similar to the ones used in 2013 when a revaluation of the assets was last carried out.

21. GOODWILL

GROUP	2018			2017		
	Cost P '000	Accumulated impairment P '000	Carrying value P '000	Cost P '000	Accumulated impairment P '000	Carrying value P '000
Goodwill	26 963	–	26 963	26 963	–	26 963

COMPANY	2018			2017		
	Cost P '000	Accumulated impairment P '000	Carrying value P '000	Cost P '000	Accumulated impairment P '000	Carrying value P '000
Goodwill	26 589	–	26 589	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 3,00% (2017: 3,00%) for the next four years. The discount rate used is 12,30% (2017: 12,65%) and the forecast period is 4 years (2017: 4 years).

22. DEPOSITS FROM CUSTOMERS

GROUP AND COMPANY	2018 P '000	2017 P '000
Current and managed accounts	6 323 196	6 051 622
Savings accounts	1 117 642	1 178 480
Call and term deposits	11 393 498	10 337 369
	18 834 336	17 567 471

Included in the call and term deposits is a balance of P89 942 149 (2017: P 89 874 821) relating to First National Bank Holdings (Botswana) Limited.

Maturity analysis	2018 P '000	2017 P '000
Withdrawal on demand	13 446 241	13 414 694
Maturing within one year	5 041 436	4 104 969
Maturing two to five years	346 659	47 808
	18 834 336	17 567 471

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

23. DEPOSIT FROM BANKS

	GROUP		COMPANY	
	2018 P '000	2017 P '000	2018 P '000	2017 P '000
Unsecured and payable on demand	730 109	1 397 685	730 109	1 397 685

Included in this amount is a balance due to FirstRand Bank Limited of P47 000 (2017: P 47 000), First National Bank Zambia P448 000 (2017: P 39 000), and First National Bank Swaziland P41 000 (2017: P 6 000), First National Bank Tanzania P27 000 (2017: P -) and First National Bank South Africa P397 919 000 (2017: P 276 479 000).

24. BORROWINGS

	GROUP 2018 P '000	GROUP 2017 P '000	COMPANY 2018 P '000	COMPANY 2017 P '000
		Restated		Restated
Public Debt Service Fund	-	2 187	-	2 187
Subordinated Unsecured Bonds (Qualifying as Tier 2 capital)				
Floating rate	161 840	161 840	161 840	161 840
161,84 Medium Term Notes of P1 000 000 each (2017:161,00 at P1 000 000 each)				
Fixed rate	40 000	40 000	40 000	40 000
40,00 Medium Term Notes of P1 000 000 each (2017:40,00 at P1 000 000 each)				
	201 840	201 840	201 840	201 840
Subordinated Unsecured Bonds				
Floating rate	364 060	237 710	364 060	237 710
36 406,00 Medium Term Notes of P10 000 each (2017:23 771,00 at P10 000 each)				
	565 900	439 550	565 900	439 550
Botswana Life Insurance Limited (BLIL) (Proprietary) Limited				
15 year zero coupon deposit	127 985	117 086	127 985	117 086
Zero coupon deposits				
Botswana Insurance Fund Management Limited	511 547	388 452	511 547	388 452
Fleming Asset Management Botswana	17 930	98 894	17 930	98 894
	529 477	487 346	529 477	487 346
Negotiable Certificates of deposit	65 565	12 958	65 565	12 958
Total borrowings	1 288 927	1 059 127	1 288 927	1 059 127

24. BORROWINGS (CONTINUED)

Public Debt Service Fund Loans, which were unsecured, had fixed repayment terms at fixed rates of interest of 9,5% per annum and were repayable in half yearly Instalments.

The Subordinated Unsecured Registered Bonds bear interest at fixed and floating rates of 7,48% and Bank rate plus 180 basis points per annum respectively and mature in 2021. Interest is paid semi-annually on the fixed rate note and quarterly on the floating rate note.

Unsubordinated Unsecured bond notes are subordinated to claims of senior creditors and claims of depositors and mature in December 2021. These bear interest at floating rates of between bank rate plus 75 basis points and bank rate plus 100 basis points.

The 15 year zero coupon deposit from BLIL bears interest at a fixed rate of 8,98% and matures In 2026. Repayments of P50 million will be made in 2023, 2024, 2025, and 2026 respectively. The deposit is carried at fair value.

The zero coupon deposits are at fixed rates of interest ranging between 1.44% and 1.46%, with Fleming Asset Management Botswana maturing in January 2026 and Botswana Insurance Fund Management with maturities ranging from August 2020 to January 2026.

The negotiable certificate of deposits are from Botswana Insurance Fund Management (BIFM) at a rate of 9% maturing in February 2027.

In prior year zero coupon deposits for Botswana Insurance Fund Management which were reported under negotiable certificates of deposit have been reclassified accordingly.

25. CREDITORS AND ACCRUALS

	GROUP		COMPANY	
	2018 P '000	2017 P '000	2018 P '000	2017 P '000
Accounts payable	2 261	19 973	2 540	19 532
Other creditors and accruals	225 210	213 053	214 992	211 828
Suspense accounts	200 656	189 900	200 656	189 881
Operating lease liability arising from straight lining of lease payments	3 325	3 119	3 325	3 119
Employee share participation schemes	25 684	14 905	25 684	14 905
Audit fees	2 813	2 580	2 813	2 580
Creditors and accruals	459 949	443 530	450 010	441 845

The directors believe the fair values of the creditors and accruals approximate their carrying amounts.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

26. EMPLOYEE BENEFITS LIABILITIES

	GROUP		COMPANY	
	2018 P '000	2017 P '000	2018 P '000	2017 P '000
Leave pay				
At the beginning of the year	25 857	24 220	25 857	24 220
Additional accrual recognised	8 707	8 148	8 707	8 148
Utilised	(6 932)	(6 511)	(6 932)	(6 511)
At the end of the year	27 632	25 857	27 632	25 857
Bonus				
At the beginning of the year	45 749	43 907	45 611	43 706
Additional accrual recognised	68 045	56 644	67 609	56 332
Utilised	(58 626)	(54 802)	(57 987)	(54 427)
At the end of the year	55 168	45 749	55 233	45 611
At the end of the year	82 800	71 606	82 865	71 468

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

27. CAPITAL ADEQUACY

		GROUP	
		30 JUNE 2018 P '000	30 JUNE 2017 P '000
Tier 1 - Core capital			
Stated capital		51 088	51 088
Retained income - adjusted to revised operating capital by Bank of Botswana		2 778 785	2 490 528
		2 829 873	2 541 616
Goodwill		(26 963)	(26 963)
		2 802 910	2 514 653
Tier 2 - Supplementary capital			
Portfolio and IBNR provisions		196 325	133 446
Subordinated Unsecured Bonds	24	201 840	201 840
		398 165	335 286
Total qualifying capital		3 201 075	2 849 939
Risk adjusted assets			
- Credit risk weighted assets (Simple Approach)		15 705 988	14 154 095
- Market risk weighted assets		66 572	78 962
- Operational risk weighted assets		2 071 764	1 899 596
		17 844 324	16 132 653
Capital adequacy ratios (%)		17,94	17,67
Core capital (%) (Basel Committee guide: minimum 4.5%)		15,71	15,59
Supplementary capital (%)		2,23	2,08
Total (%)		17,94	17,67
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 statements of financial position.

28. POST-RETIREMENT FUND LIABILITIES

The Group operates a defined contribution scheme, the assets of which are held in a separate trustee-administered fund. The pension plan is funded by payments from employees and the Group, and the Retirement Funds Act governs its administration. The fund currently has a total contribution rate of 20% (2017: 20%) of pensionable salary towards retirement funding). This is made up of an employee contribution rate of 7,0% (2017: 7,0%) and an employer contribution rate of 13,0% (2017: 13,0%). The liability of the Group is limited to the contributions made during the employment of the employee.

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

29. STATED CAPITAL

	GROUP		COMPANY	
	2018 P '000	2017 P '000	2018 P '000	2017 P '000
Ordinary shares 2,543,700,000 (2017: 2,563,700,000)	51 088	58 088	51 088	58 088
Shares owned by the Company's Employee Share Participation Scheme NIL (2017: 20,000,000)	-	(7 000)	-	-
	51 088	51 088	51 088	58 088

The 20 million shares owned by the employee share participation scheme were repuchased by the Company in the current year. They were repurchased for P46 600 000 at a market price of P2.33 per share with the total proceeds of the sale distributed as dividend to the Company by the Share Trust.

30. RESERVES

	GROUP 2018 P '000	GROUP 2017 P '000	COMPANY 2018 P '000	COMPANY 2017 P '000
Other non-distributable reserves				
Balance at the beginning of the year	44 322	47 002	28 581	30 768
Transfer directly to equity	(2 645)	(2 680)	(2 169)	(2 187)
Balance at the end of year	41 677	44 322	26 412	28 581
Available-for-sale reserve				
Balance at the beginning of the year	-	-	-	-
Arising from revaluation	(1 153)	-	(1 153)	-
Balance at the end of year	(1 153)	-	(1 153)	-
Retained earnings				
Balance at the beginning of the year	2 503 633	2 282 441	2 378 436	2 182 498
Transfers from revaluation reserve	2 645	2 680	2 169	2 187
Repurchase of shares	-	-	7 000 -	
Profit for the year	648 055	500 519	608 353	475 758
Interim dividend paid	(128 185)	(128 185)	(128 185)	(128 185)
Special dividend paid	-	-	(46 600)	-
Special dividend received	-	-	43 105	-
Final dividend proposed	(228 933)	(153 822)	(228 933)	(153 822)
Balance at the end of the year	2 797 215	2 503 633	2 635 345	2 378 436
Total reserves (excluding the dividend reserve)	2 837 739	2 547 955	2 660 604	2 407 017

31. CASH GENERATED BY OPERATIONS BEFORE TAXATION AND WORKING CAPITAL CHANGES

	GROUP		COMPANY	
	2018 P '000	2017 P '000	2018 P '000	2017 P '000
Profit before taxation	838 209	680 323	788 348	647 729
Adjustments for:				
Depreciation and amortisation	55 005	57 849	54 315	56 699
(Profit)/loss on sale of property and equipment	(139)	74	(139)	74
Impairment losses on loans and advances	274 168	361 219	274 168	361 219
Unrealised loss/(gain) on derivative financial instruments	1 117	(1 988)	1 117	(1 988)
Straight line lease rental adjustments	447	2 046	447	2 046
Net (gain)/loss on financial instruments held at fair value through profit and loss	(2 427)	52	(2 445)	34
Share-based payment expense - cash settled	16 123	2 929	16 123	2 929
	1 182 503	1 102 504	1 131 934	1 068 742

32. CURRENT INCOME TAXATION PAID

	GROUP 2018 P '000	GROUP 2017 P '000	COMPANY 2018 P '000	COMPANY 2017 P '000
Amounts overpaid at the beginning of the year	(8 641)	(99 966)	(8 641)	(99 966)
Amounts underpaid at the beginning of the year	1 208	898	-	-
Charged to the income statement	196 941	175 747	185 888	167 809
Amounts overpaid at the end of the year	65 267	8 641	65 267	8 641
Amounts owing at the end of the year	(7 699)	(1 208)	-	-
Cash amounts paid	247 076	84 112	242 514	76 484

33. CURRENT INCOME TAXATION (ASSET)/LIABILITY

	GROUP 2018 P '000	GROUP 2017 P '000	COMPANY 2018 P '000	COMPANY 2017 P '000
Opening liability	(1 208)	(898)	-	-
Opening asset	8 641	99 966	8 641	99 966
Charged to the income statement	(196 941	) (175 747)	(185 888)	(167 809)
Cash amounts paid	247 076	84 112	242 514	76 484
Closing asset	57 568	7 433	65 267	8 641
Closing asset	65 267	8 641	65 267	8 641
Closing liability	(7 699)	(1 208)	-	-
	57 568	7 433	65 267	8 641

34. INCREASE/(DECREASE) IN DEPOSITS AND CURRENT ACCOUNTS

	GROUP 2018 P '000	GROUP 2017 P '000	COMPANY 2018 P '000	COMPANY 2017 P '000
Increase in current and managed account deposits	271 574	6 076	271 574	6 076
(Decrease)/increase in savings deposits	(60 838)	92 321	(60 838)	92 321
Increase in call and term deposits	1 056 129	405 318	1 056 129	405 318
	1 266 865	503 715	1 266 865	503 715

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

35. INCREASE IN ADVANCES TO CUSTOMERS

	GROUP		COMPANY	
	2018 P '000	2017 P '000	2018 P '000	2017 P '000
Net amount outstanding at the beginning of the year	14 997 373	14 386 819	15 004 363	14 393 819
Impairment of advances	(274 168)	(361 219)	(274 168)	(361 219)
Net amount outstanding at the end of the year	(15 478 937)	(14 997 373)	(15 478 937)	(15 004 363)
Treasury shares adjustment - equity settled scheme	6 990	-	-	-
	(748 742)	(971 773)	(748 742)	(971 763)

36. DIVIDENDS PAID

	GROUP 2018 P '000	GROUP 2017 P '000	COMPANY 2018 P '000	COMPANY 2017 P '000
Previous year's final dividend paid during the year	153 822	153 822	153 822	153 822
Interim dividend paid	128 185	128 185	128 185	128 185
Special dividend paid	-	-	3 495	-
Total dividends paid to shareholders	282 007	282 007	285 502	282 007

37. CASH AND CASH EQUIVALENTS

	Notes	GROUP 2018 P '000	GROUP 2017 P '000	COMPANY 2018 P '000	COMPANY 2017 P '000
Cash and short term funds	12	4 356 895	4 396 885	4 356 895	4 396 885
Bank of Botswana Certificates	16	1 098 489	1 671 057	1 098 489	1 671 057
		5 455 384	6 067 942	5 455 384	6 067 942

38. CONTINGENCIES AND COMMITMENTS

	GROUP 2018 P '000	GROUP 2017 P '000	COMPANY 2018 P '000	COMPANY 2017 P '000
Letters of credit	107 022	301 862	107 022	301 862
Guarantees - performance	766 314	902 218	766 314	902 218
Guarantees - other	47 740	48 916	47 740	48 916
	921 076	1 252 996	921 076	1 252 996
Commitments				
Undrawn commitments to customers	2 141 858	2 194 381	2 141 858	2 194 381
Capital commitments				
Capital expenditure approved by the Directors				
- not yet contracted for	120 084	116 074	120 084	116 074

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

	GROUP 2018 P '000	GROUP 2017 P '000	COMPANY 2018 P '000	COMPANY 2017 P '000
Operating lease commitments				
Payable within one year	17 778	15 920	17 778	15 920
Payable within two to five years	23 981	27 430	23 981	27 430
	41 759	43 350	41 759	43 350

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.

38. CONTINGENCIES AND COMMITMENTS [CONTINUED]

Other contingent liabilities

The Group will from time to time be involved in legal proceedings, including inquiries from or discussions with governmental authorities that are incidental to its operations. The Group is currently involved in legal proceedings with the tax authorities regarding the interpretation of tax regulations. The disputed tax matters principally relate to the judgement on whether withholding tax is applicable on certain payments to foreign service providers and the deductibility of wear and tear capital allowances in respect of lease liability assets written by the Bank. The opinions of legal counsel and other subject matter experts regarding the tax treatment of these items have been sought. In light of this the directors believe that the ultimate resolution of these matters will not materially impact the results of the Bank's operations, financial position or cash flows.

The directors have assessed the probability of incurring the liability which is ultimately subject to the outcome of the court case, and believe the likelihood of an ultimate loss is remote.

39. TRUST ACTIVITIES

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

At 30 June 2018 the Group acted as a custodian in respect of Botswana Government bonds amounting to P8 748 274 723 (2017: P8 036 357 787), money markets P37 352 608 (2017: P1 8,349,473) and equities amounting to P12 342 132 859 (2017: P1 2 627 486 925). These assets were held In a trust or in a fiduciary capacity and are not treated as assets of the Bank, Accordingly, they have not been included in the statements of financial position.

40. FINANCIAL RISK MANAGEMENT

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

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

The Group has experienced a significant increase in credit risk 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 is principally exposed to credit risk, market risk, and liquidity risk. The exposures to these risks as at 30 June 2018 are set out below:

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

Credit risk is the risk that a counterparty will be unable to repay amounts when they fall due. In general, the Group manages its credit risk exposure by placing limits on the acceptable risk exposure to individual borrowers or groups of borrowers, and within geographic and industry segments. Credit risk is monitored on an ongoing basis.

Significant credit exposures at year end were:

Geographical distribution	ASSETS 2018 P '000	2017 P '000
Botswana	21 291 256	20 370 867
Southern Africa	2 107 072	879 969
North America	687 712	1 638 683
Europe	177 806	178 446
Rest of the world	4 768	2 294
	24 268 614	23 070 259
Distribution by sector		
Banks including Bank of Botswana	2 821 962	4 513 165
Government and parastatal organisations	2 113 420	1 089 012
Individuals	9 995 180	9 413 004
Business/trading	4 449 786	4 342 778
Others	4 888 266	3 712 300
	24 268 614	23 070 259

Economic sector risk concentrations in respect of advances are set out in Note 14.

Collateral pledged

The Group pledges assets under the following terms and conditions:

Mandatory reserve deposits are held with the Bank of Botswana in accordance with statutory requirements. In addition, bonds are also pledged as collateral for any repurchase agreements with Bank of Botswana. These deposits are not available to finance the Group's day-to-day operations. Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options. All other pledges are conducted under terms which are usual and customary to lending arrangements.

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

Collateral held

The Group does not hold any collateral which it has the ability to sell or repledge in the absence of default. Collateral is an important mitigant of credit risk. In accordance with the Group's credit risk management strategy the following principal types of collateral are held as security for funds advanced by the Group:

- Vehicle finance: Vehicles subject to the finance agreement normally serve as collateral. In general, vehicles which make up the collateral can be sold when the customer has defaulted under the agreement and a notice of default has been issued. Where more than one third of all instalments have been paid, legal judgement has to be passed before vehicles can be repossessed. For some products, title over the vehicles is held by the Group. Title only passes to the customer once instalments are fully paid.
- Property finance: Collateral consists of first and second mortgage bonds over property, individuals' pension plans, employer and personal guarantees, loss insurance purchased by the client. The collateral can only be sold or exercised on default by the customer.
- Overdrafts and personal loans: These advances are secured by means of cession of debtors, equity portfolios and deposits, claims against individual's pension plans as well as bonds over fixed property and other moveable assets. Credit insurance is sold as an additional component of the loans.

When the Group takes possession of collateral which is not cash or not readily convertible into cash the Group determines a minimum sale amount ("pre-set sale amount") and auctions the asset for the pre-set sale amount. Where the Group is unable to obtain the pre-set sale amount in an auction, the Group will continue to hold the asset while actively marketing it to ensure an appropriate value is obtained.

The collateral is valued at inception of the credit agreement and subsequently in specific circumstances for example, when the advance becomes a non-performing loan or when the Group is to sell the asset on auction. No valuation is performed between these two dates for Small and Medium Entities (SME) and large corporate counterparties. The valuation at inception is based on physical inspection. Updated valuations are performed by revaluing security during the counterparty review process.

Collateral taken possession of and recognised in the statements of financial position

Collateral in the form of deposits amounted to P491 739 472 (2017: P 117 803 256).

Maximum exposure to credit risk

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

GROUP 2018

	Retail P '000	Corporate & commercial P '000	Other P '000	Total exposure (after interest) interest) P '000	Year to date average exposure (after interest in suspense) P '000
Exposures recognised in the statements of Financial Position					
– Money at call and short notice	–	–	–	–	20 701
– Balances with other banks	–	–	4 046 996	4 046 996	4 048 077
	–	–	4 046 996	4 046 996	4 068 778
Advances to banks	–	–	–	–	187 453
Advances to customers – (after interest in suspense)	9 928 071	6 194 496	–	16 122 567	15 819 002
Investment securities – debt	–	–	3 360 091	3 360 091	3 336 893
Accounts receivable	–	–	357 133	357 133	342 082
Derivatives	–	–	55 181	55 181	59 605
Related parties	–	–	9 465	9 465	9 457
Exposures not recognised in the statements of Financial Position					
Financial and other guarantees	26 868	894 208	–	921 076	1 087 036
Loan commitments not drawn	1 390 049	751 809	–	2 141 858	2 168 120
Total	11 344 988	7 840 513	7 828 866	27 014 367	27 078 426

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

GROUP 2017

	Retail P '000	Corporate & commercial P '000	Other P '000	Total exposure (after interest) interest) P '000	Year to date average exposure (after interest in suspense) P '000
Exposures recognised in the statements of Financial Position					
- Money at call and short notice	41 401	-	-	41 401	60 280
- Balances with other banks	-	-	4 049 157	4 049 157	1 263 979
	41 401	-	4 049 157	4 090 558	1 324 259
Advances to banks	-	-	324 961	324 961	484 031
Advances to customers - (after interest in suspense)	9 161 768	5 589 946	-	14 751 714	13 476 556
Investment securities - debt	-	-	2 447 230	2 447 230	1 839 021
Accounts receivable	-	-	376 245	376 245	1 115 763
Derivatives	-	-	76 646	76 646	7 183
Related parties	-	-	6 324	6 324	5 198
Exposures not recognised in the statements of Financial Position					
Financial and other guarantees	32 450	1 065 306	-	1 097 756	1 058 570
Loan commitments not drawn	974 816	523 301	-	1 498 117	1 543 298
Total	10 210 435	7 178 553	7 280 563	24 669 551	20 853 879

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

40. FINANCIAL 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:

GROUP 2018

	Investment grade P '000	Non investment grade P '000	Total neither past due nor impaired P '000
Home loans	–	4 614 554	4 614 554
Credit cards	–	201 418	201 418
Term loans	–	6 046 939	6 046 939
Overdrafts	1 470	515 078	516 548
WesBank	–	2 108 024	2 108 024
Total	1 470	13 486 013	13 487 483

GROUP 2017

	Investment grade P '000	Non investment grade P '000	Total neither past due nor impaired P '000
Home loans	29 907	4 309 707	4 339 614
Credit Cards	–	236 045	236 045
Term loans	–	6 230 663	6 230 663
Overdrafts	20 366	432 358	452 724
WesBank	–	1 775 850	1 775 850
Total	50 273	12 984 623	13 034 896

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

Credit quality

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

GROUP 2018

	Derivatives P '000	Related parties P '000	Other Government & Government guaranteed stock P '000	Cash and short term funds P '000	Accounts receivable P '000
Investment Grade	-	-	3 360 091	4 356 895	-
Non-Investment Grade	55 181	9 465	-	-	357 133
	55 181	9 465	3 360 091	4 356 895	357 133
Group 2017					
Investment Grade	-	-	3 313 694	4 396 885	-
Non-Investment Grade	64 028	9 448	-	-	288 831
	64 028	9 448	3 313 694	4 396 885	288 831

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 Limited for our loan book have been applied.

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

GROUP AND COMPANY		Past due but not Impaired				
	Neither past due nor impaired P '000	1 - 30 days P '000	31 - 60 days P '000	61 - 90 days P '000	Impaired P '000	Total P '000
2018						
Age analysis of arrears of advances						
Home loans	4 567 688	340 312	69 931	27 381	367 156	5 372 468
Other loans including credit card	197 700	7 929	2 295	3 438	1 844	213 206
Term loans	6 445 238	181 642	43 585	24 403	360 657	7 055 525
Overdraft	531 760	-	-	710 031	150 509	1 392 300
WesBank asset finance	1 745 087	130 354	77 275	54 157	82 195	2 089 068
Total	13 487 473	660 237	193 086	819 410	962 361	16 122 567

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

GROUP AND COMPANY

	Neither past due nor impaired P '000	Past due but not Impaired 1 - 30 days P '000	31 - 60 days P '000	61 - 90 days P '000	Impaired P '000	Total P '000
2017						
Age analysis of arrears of advances						
Home loans	4 339 614	198 559	102 768	53 374	419 769	5 114 084
Other loans including credit card	236 045	3 732	1 437	593	6 118	247 925
Term loans	6 230 663	252 142	62 592	40 196	368 569	6 954 162
Overdraft	452 724	-	-	487 300	128 643	1 068 667
WesBank asset finance	1 775 850	169 578	68 487	35 341	89 893	2 139 149
Total	13 034 896	624 011	235 284	616 804	1 012 992	15 523 987

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; and
- fair value of financial instruments.

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

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.

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

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 (2017: USD35 million) for all asset classes (foreign currency and interest rate risk). The Group takes positions to mitigate the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Consequently the Group strives to match its foreign currency assets and liabilities. The Group manages foreign currency exposures in terms of approved limits. The table below sets out the currency position as at the year-end.

GROUP AND COMPANY

	ASSETS			LIABILITIES		
	30 June 2018 P'000	Restated 30 June 2017 P'000	As previously stated 30 June 2017 P'000	Stated 30 June 2018 P'000	Restated 30 June 2017 P'000	As previously stated 30 June 2017 P'000
Distribution by currency						
Botswana Pula	21 696 681	20 973 120	21 514 220	19 110 202	18 094 695	21 062 729
South African Rand	270 466	149 993	149 993	297 085	203 408	203 408
United States Dollar	2 106 769	1 753 483	1 753 483	1 949 417	2 173 751	2 173 751
British Pound	85 945	85 014	85 014	80 647	80 428	80 428
Euro	91 304	92 862	92 862	86 344	89 058	89 058
Others	17 449	15 787	15 787	10 810	1 985	1 985
	24 268 614	23 070 259	23 611 359	21 534 505	20 643 325	23 611 359

Restated; The prior year amounts have been restated to exclude non-financial assets and liabilities.

The Group is mainly exposed to foreign currency risk on its USD and ZAR denominated assets and liabilities. The following table details the gains or losses in response to a 10% increase and decrease in the Pula (BWP) against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

	30 June 2018 P '000	30 June 2017 P '000
Loss arising from a 10% decrease		
South African Rand	2 662	5 342
United States Dollar	(15 735)	42 027
	(13 073)	47 369
Gain arising from a 10% increase		
South African Rand	(2 662)	(5 342)
United States Dollar	15 735	(42 027)
	13 073	(47 369)

The above gain/(loss) would affect the statements of profit or loss.

Interest rate risk management

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

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

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

The table below summarises the Banking Group's exposure to interest rate risk, categorised by contractual maturity date.

CONSOLIDATED – TERM TO REPRICING

	Carrying amount P '000	Demand P '000	1 - 3 months P '000	3 - 12 months P '000	1 - 5 years P '000	Over 5 years P '000	Equity and non financial assets/ liabilities P '000
2018							
Total assets	24 868 428	3 352 425	17 701 939	718 498	1 623 295	140 780	1 331 491
Total liabilities and equity	(24 868 428)	(14 763 524)	(1 364 370)	(1 185 237)	(2 305 473)	(1 234 768)	(4 015 056)
Net interest sensitivity gap	-	(11 411 099)	16 337 569	(466 739)	(682 178)	(1 093 988)	(2 683 565)
2017							
Total assets	23 611 359	6 273 168	14 633 201	271 026	1 154 082	70 150	1 209 732
Total liabilities and equity	(23 611 359)	(16 664 631)	(853 126)	(1 715 359)	(318 742)	(518 496)	(3 541 005)
Net interest sensitivity gap	-	(10 391 463)	13 780 075	(1 444 333)	835 340	(448 346)	(2 331 273)

Interest rate sensitivity tests are performed on the Group's statements of financial position and reviewed by the Asset, Liability, and Capital Committee (ALCCO). The table below presents the potential gains or losses that could arise if interest rates rise or fall by 100 basis points and 200 basis points:

GROUP AND COMPANY

	30 June 2018 P '000	30 June 2017 P '000
100 basis points parallel increase - gains	43 910	45 110
100 basis points parallel decrease - losses	(87 830)	(78 480)
200 basis points parallel increase - gains	87 830	90 220
200 basis points parallel decrease - losses	(205 060)	(199 800)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

Liquidity risk management

The Group is exposed to daily liquidity requirements from overnight deposits, current accounts, maturing deposits, loan draw-downs and other cash requirements. The Group manages its cash resources based on historical experience to meet all liquidity requirements.

The matching and controlled mismatching of maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched since business transactions are often of uncertain terms and of different types. An unmatched position potentially enhance profitability, but may also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Liquidity risk management process

The Group's liquidity managment process, as carried out within the Group and monitored by a separate Group Treasury, includes:

- Day-to-day funding, mananged by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the consolidated statements of financial position against and internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

The table below sets out the maturity analysis of the Group's statements of financial position based on the remaining period from year-end to contractual maturity. Demand denotes assets or liabilities with a contractual maturity of 32 days or less.

GROUP – TERM TO MATURITY

	Carrying amount P '000	Demand P '000	1 - 3 months P '000	3 - 12 months P '000	1 - 5 years P '000	Over 5 years P '000	Non-sensitive P '000
2018							
Total assets	24 868 428	4 205 401	4 931 863	2 224 528	8 770 211	3 724 297	1 012 128
Total liabilities and equity	(24 868 428)	(13 609 861)	(2 994 825)	(1 185 236)	(1 828 681)	(1 234 768)	(4 015 057)
Net liquidity gap	-	(9 404 460)	1 937 038	1 039 292	6 941 530	2 489 529	(3 002 929)
2017							
Total assets	23 611 359	6 120 034	2 206 905	2 172 346	8 620 755	3 863 139	628 180
Total liabilities and equity	(23 611 359)	(14 772 334)	(3 112 751)	(1 747 146)	(159 345)	(958 045)	(2 861 738)
Net liquidity gap	-	(8 652 300)	(905 846)	425 200	8 461 410	2 905 094	(2 233 558)

Although negatively gapped in the short term, the balance sheet comprises of behaviouraly core deposits, while assets are primarily liquid assets (Bank of Botswana Certificates) which can be liquidated in times of stress to ensure the Bank is sufficiently able to meet its short term commitments.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

Group

The table below has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to settle.

2018

	Call P '000	1 - 3 months P '000	4 - 12 months P '000	1 - 5 years P '000	Over 5 years P '000	Total P '000
Amounts due to other banks	730 109	-	-	-	-	730 109
Deposit and current accounts	13 446 238	2 433 910	2 632 533	981 126	257 127	19 750 934
Borrowings	-	8 096	24 287	461 098	1 076 639	1 570 120
Due to related companies	73 861	-	-	-	-	73 861
Creditors and accruals	88 472	14 965	418 254	-	-	521 691
Employee liabilities	-	-	82 800	-	-	82 800
	14 338 680	2 456 971	3 157 874	1 442 224	1 333 766	22 729 515

2017

	Call P '000	1 - 3 months P '000	4 - 12 months P '000	1 - 5 years P '000	Over 5 years P '000	Total P '000
Amounts due to other banks	1 397 685	-	-	-	-	1 397 685
Deposit and current accounts	13 414 694	2 155 052	1 995 200	915 387	206 204	18 686 537
Borrowings	-	5 133	8 836	509 429	983 323	1 506 721
Due to related companies	36 175	-	-	-	-	36 175
Creditors and accruals	103 274	11 419	410 535	-	-	525 228
Employee liabilities	-	-	71 606	-	-	71 606
	14 951 828	2 171 604	2 486 177	1 424 816	1 189 527	22 223 952

Fair value financial instruments

Fair value hierarchy and measurements

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

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

The details per type of asset or liability are set out in the tables below.

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

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

Valuations based on observable inputs include:

Level 1
Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities where this is readily available and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. This category includes listed bonds and equity, exchange-traded derivatives, exchange-traded commodities and short trading positions.

Level 2
Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly such as quoted prices for similar items in an active market or for an identical item in an inactive market, or valuation models using observable inputs or inputs derived from observable market data. This category includes loans and advances to customers, equities listed in an inactive market, debt instruments, private equity investments, non-recourse investments and deposits, over the counter derivatives, deposits, other liabilities, long- term borrowings, commodities which are not exchange-traded and investment properties.

Level 3
Fair value is determined using a valuation technique and significant inputs that are not based on observable market data (i.e. unobservable inputs) such as an entity's own assumptions about what market participants would assume in pricing assets and liabilities. The assumptions applied by the Group are set out in the table below. This category includes certain loans and advances to customers, certain over-the-counter derivatives such as equity options, investments in debt instruments, private equity investments, and certain deposits such as credit linked notes.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

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

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observ-able inputs	Significant unobserv-able inputs of Level 3 items
Loans and advances to customers					
- RMB investment banking book held at fair value	Level 3	Discounted cash flows	The future cashflows are discounted using a market related interest rate. To calculate the fair value of loan book the Group uses a valuation methodology based on the credit spread matrix, which considers loss given default, ten or and the internal credit com-mittee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance.	Markets interest rates and curves	Credit inputs
- Other loans and advances	Level 2 and 3	Discounted cash flows	The future cashflows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period.	Market interest rates and curves	Credit inputs
Investment securities and other investments					
- Equities/ bonds listed in an inactive market	Level 2	Discounted cash flows	For listed equities and bonds, the listed price is used where the market is active (i.e.Level1). However if the market is not active and the listed price is not representative of fair value these are classified as Level 2 and a valuation technique is used, for example the discounted cashflow is used for listed bonds. This will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. The future cashflows are discounted using a market related interest rate.	Market in-terest artes and curves	Not applicable
- Unlisted bonds	Level 2	Discounted cash flows	Unlisted bonds are valued similarly to advances measured at fair value. The future cashflows are dis-counted using a market related interest rate adjusted for credit in puts, over the contractual period.	Market interest rates and curves	Credit inputs

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobserv-able inputs of Level 3 items
Investment securities and other investments [continued]					
-Negotiable certificates of deposit	Level 2	Discounted cash flows	The future cashflows are discounted using a market related interest rate. Inputs to these models include information that is consistent with similar market quoted instruments, where available.	Market interest rates and curves	Not applicable
- Treasury Bills	Level 2	Bank of Botswana quoted prices	Bank of Botswana quoted prices.	Market interest rates and curves	Not applicable
Deposits					
- Call and non- term deposits	Level 2	None - the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand i.e. the undiscounted amount of the deposit.	None - the undidscounted amounts approximates fair value and no valuation is performed	Not applicable
- Other deposits	Level 2 and 3	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves	Credit Inputs
Other liabilities and Tier 2 liabilities	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Level 2 and 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate and curves adjusted for credit inputs.	Market interest rates and curves	Credit Inputs

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

(i) Financial instruments not measured at fair value.

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

GROUP 2018

	Level 1 P '000	Level 2 P '000	Level 3 P '000	Fair value P '000	Gross less non-performing P '000
ASSETS					
Advances					
Home loans	-	-	5 092 603	5 092 603	5 052 178
Credit card	-	224 942	-	224 942	224 942
Term loans	-	-	6 207 607	6 207 607	6 286 697
Overdraft	-	1 226 579	-	1 226 579	1 226 579
WesBank asset finance	-	-	2 365 480	2 365 480	2 369 810
Total advances at amortised cost	-	1 451 521	13 665 690	15 117 211	15 160 206
Accounts receivable	-	-	357 133	357 133	357 133
Total financial assets at amortised cost	-	1 451 521	14 022 823	15 474 344	15 517 339
LIABILITIES					
Deposits and current accounts					
Current and managed accounts	-	7 391 325	-	7 391 325	6 323 196
Balances from customers (term)	-	5 699 405	-	5 699 405	6 466 061
Other deposits (call and savings)	-	5 926 812	-	5 926 812	6 045 079
Total deposits and current accounts	-	19 017 542	-	19 017 542	18 834 336
Long-term borrowings	-	1 003 621	-	1 003 621	997 542
Creditors and accruals	-	459 949	-	459 949	459 949
Total financial liabilities at amortised cost	-	20 481 112	-	20 481 112	20 291 827

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

GROUP 2017

	Level 1 P '000	Level 2 P '000	Level 3 P '000	Fair value P '000	Gross less non-performing P '000
ASSETS					
Advances					
Home loans	-	-	4 446 687	4 446 687	4 694 317
Credit card	-	241 533	-	241 533	241 533
Term loans	-	-	6 577 973	6 577 973	6 585 866
Overdraft	-	940 024	-	940 024	940 024
WesBank asset finance	-	-	2 056 466	2 056 466	2 049 256
Total advances at amortised cost	-	1 181 557	13 081 126	14 262 683	14 510 996
Accounts receivable	-	-	288 831	288 831	288 831
Total financial assets at amortised cost	-	1 181 557	13 369 957	14 551 514	14 799 827
LIABILITIES					
Deposits and current accounts					
Current and managed accounts	-	6 051 622	-	6 051 622	6 051 622
Balances from customers (term)	-	4 506 363	-	4 506 363	4 422 351
Other deposits (call and savings)	-	7 093 498	-	7 093 498	7 093 498
Total deposits and current accounts	-	17 651 483	-	17 651 483	17 567 471
Long-term borrowings	-	960 882	-	960 882	942 041
Creditors and accruals	-	443 530	-	443 530	443 530
Total financial liabilities at amortised cost	-	19 055 895	-	19 055 895	18 953 042

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

(ii) Fair value heirachy

Assets and liabilities measured at fair value

GROUP 2018

	Level 1 P '000	Level 2 P '000	Level 3 P '000	Total P '000
Financial assets held for trading				
- Investments securities	-	94 745	-	94 745
- Derivative financial instruments	-	55 181	-	55 181
Designated at fair value through profit or loss				
Available for sale financial assets				
- Investments securities	-	1 098 489	-	1 098 489
Non-financial assets				
- Freehold and leasehold land and buildings	-	331 848	-	331 848
Total assets	-	1 580 263	-	1 580 263
Financial liabilities held for trading				
- Derivative financial instruments	-	20 315	-	20 315
Designated at fair value through profit or loss				
- Zero coupon deposit	-	-	127 985	127 985
Total liabilities	-	20 315	127 985	148 300

GROUP - 2017

	Level 1 P '000	Level 2 P '000	Level 3 P '000	Total P '000
Financial assets held for trading				
- Investment securities	-	80 647	-	80 647
- Derivative financial instruments	-	64 028	-	64 028
Designated at fair value through profit or loss				
Available for sale financial assets				
- Investment securities	-	1 671 057	-	1 671 057
Non-financial assets				
- Freehold and leasehold land and buildings	-	337 548	-	337 548
Total assets	-	2 153 280	-	2 153 280
Financial liabilities held for trading				
- Derivative financial instruments	-	28 065	-	28 065
Designated at fair value through profit or loss				
- Zero coupon deposit	-	-	117 086	117 086
Total liabilities	-	28 065	117 086	145 151

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

40. FINANCIAL RISK MANAGEMENT [CONTINUED]

Reconciliation of level 3 fair value measurements

Designated at fair value through profit or loss (assets)

	2018 P '000	2017 P '000
Group - Term loan		
Balance at the beginning of the year	-	145 414
- amounts recognised in profit or loss for the year	-	-
Repayments	-	(145 414)
Balance at the end of the year	-	-
Designated at fair value through profit or loss (liabilities)		
Group - Deposit		
Balance at the beginning of the year	117 086	112 224
- Amounts recognised in profit or loss for the year	10 899	4 862
Balance at the end of the year	127 985	117 086

Capital risk management

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

- To comply with the capital requirements set by the central bank (Bank of Botswana);
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Basel, as implemented by Bank of Botswana for supervisory purposes. The required information is filed with the central bank on a monthly basis.

The Group maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with the central bank which takes into account the risk profile of the Group.

The Group's regulatory capital is managed by the Finance Department and comprises two tiers:

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

41. SEGMENTAL REPORTING

Segmental analysis

Operating segments are reported in accordance with the internal reporting provided to the Chief Executive Officer (the Chief Operating Decision-Maker), who is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment.

The Group has five main business segments:

- Retail segment - comprising advances and deposits and the revenue flowing from individual customers;
- Business segment - comprising advances and deposits and the revenue flowing from business customers;
- Rand Merchant Bank (RMB) - comprising advances and deposits and the revenue flowing from RMB customers;
- WesBank - comprising vehicle and asset financing; and
- Treasury - manages the Group's liquidity and funding.

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

41. SEGMENTAL REPORTING [CONTINUED]

	Retail P '000	Business P '000	RMB P '000	WesBank P '000	Treasury P '000	Total P '000
2018						
Statements of profit or loss						
Interest income	519 172	111 766	23 581	110 745	742 256	1 507 520
Non-interest income	448 924	368 696	226 215	17 623	8 190	1 069 648
Total segment revenue	968 096	480 462	249 796	128 368	750 446	2 577 168
Interest expenditure	67 950	167 540	121 623	(2 160)	(690 674)	(335 721)
Segment operating income before impairments	1 036 046	648 002	371 419	126 208	59 772	2 241 447
Impairment of advances						(274 168)
Net interest income after impairment of advances						1 967 279
Total expenditure						(1 113 350)
Profit before indirect taxation						853 929
Indirect taxation						(15 720)
Profit before direct taxation						838 209
Direct taxation						(190 154)
Profit after direct taxation						648 055
Statement of financial position:						
Gross advances	8 916 912	3 489 517	1 718 125	2 168 942	-	16 293 496
Impairments and contratual interest suspended						(814 559)
Net advances						15 478 937
Deposits	3 906 559	5 694 373	6 679 559	-	2 553 845	18 834 336

Geographical segments

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

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.

41. SEGMENTAL REPORTING [CONTINUED]

	Retail P '000	Business P '000	RMB P '000	WesBank P '000	Treasury P '000	Total P '000
2017						
Statements of profit or loss						
Interest income	530 965	154 035	27 096	135 890	581 262	1 429 248
Non-interest income	436 396	313 231	202 603	18 500	7 425	978 155
Total segment revenue	967 361	467 266	229 699	154 390	588 687	2 407 403
Interest expenditure	80 831	157 388	128 338	(8 548)	(623 137)	(265 128)
Segment operating income before impairments	1 048 192	624 654	358 037	145 842	(34 450)	2 142 275
Impairment of advances						(361 219)
Net interest income after impairment of advances						1 781 056
Total expenditure						(1 076 837)
Profit before indirect taxation						704 219
Indirect taxation						(23 896)
Profit before direct taxation						680 323
Direct taxation						(179 804)
Profit after direct taxation						500 519
Statement of financial position:						
Gross advances	8 291 886	3 944 114	1 192 827	2 220 789	-	15 649 616
Impairments and contratual interest suspended						(652 243)
Net advances						14 997 373
Deposits	3 683 444	5 825 842	6 421 985	-	1 636 200	17 567 471

Secondary segments

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

Major customers

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

42. EMPLOYEE SHARE PARTICIPATION SCHEMES

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

FirstRand conditional share plan (assumption of liability scheme)

First National Bank Botswana (FNBB) has entered into an agreement with Rand Merchant Bank Morgan Stanley (RMBMS) whereby at each award date FNBB will pay RMBMS an amount in cash (South African Rand) equal to the market value of the shares awarded, and in consideration therefor, RMBMS shall assume FNBB's liability in terms of the scheme to the employees. The purpose of this scheme is to lock in the exchange rate at vesting date, thus hedging against future volatility of the Botswana Pula against the South African Rand.

FirstRand conditional share plan

The conditional award comprises a number of full free shares that will vest conditionally over a period of three years. The number of shares that vest is determined by the extent to which the performance conditions are met. Conditional awards will be made annually and vesting will be subject to specified financial and non-financial performance, which will be set annually by the FirstRand Group's Remuneration Committee.

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. This scheme was subsequently wound down as the performance conditions were not met.

42. EMPLOYEE SHARE PARTICIPATION SCHEMES [CONTINUED]

SHARE OPTION DETAIL – 2018

	FirstRand Conditional share plan
Number of options in force at the beginning of the year	902 540
Granted at prices ranging between (P)	–
Weighted average (thebe)	–
Number of options granted/transferred in during the year	299 000
Granted at a price of (P)	
Weighted average (P)	
Number of options transferred within the Group during the year	91 000
Granted at a price of P3.00	
Weighted average (P)	
Number of options exercised / released during the year	(229 000)
Market value range at date of exercise / release (P)	29,68 - 55,00
Weighted average share price for the year (P)	41,87
Number of options cancelled / lapsed during the year	(55 000)
Granted at prices ranging between (P)	
Weighted average (P)	
Number of options in force at the end of the year	1 008 540
Granted at a price of Weighted average (P)	
Options are exercisable over the following periods (first date able to release):	
Financial year 2016/2017	–
Financial year 2017/2018	–
Financial year 2018/2019	343 000
Financial year 2019/2020	366 540
Financial year 2020/2021	299 000
	1 008 540

The FNB Botswana Conditional share plan did not meet the vesting conditions, hence the scheme has now been closed.

Options outstanding (by expiry date)	
Financial year 2016/2017	–
Financial year 2017/2018	–
Financial year 2018/2019	343 000
Financial year 2019/2020	366 540
Financial year 2020/2021	299 000
	1 008 540
Total options outstanding - in the money	1 008 540
Total options outstanding - out of the money	–
	1 008 540
Number of participants	69

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

42. EMPLOYEE SHARE PARTICIPATION SCHEMES [CONTINUED]

SHARE OPTION DETAIL – 2017

	FirstRand Conditional share plan	FNB Botswana Conditional share plan
Number of options in force at the beginning of the year	616 959	6 685 806
Granted at prices ranging between (P)		–
Weighted average (thebe)		–
Number of options granted/transferred in during the year	412 882	–
Granted at a price of (P)		–
Weighted average (P)		–
Number of options transferred within the Group during the year	(2 114)	–
Granted at a price of P3.00		–
Weighted average (P)		–
Number of options exercised / released during the year	(104 872)	–
Market value range at date of exercise / release (P)	47,25 - 47,25	–
Weighted average share price for the year (P)	47,25	–
Number of options cancelled / lapsed during the year	(20 315)	(6 685 806)
Granted at prices ranging between (P)		–
Weighted average (P)		–
Number of options in force at the end of the year	902 540	–
Granted at a price of Weighted average (P)		–
Options are exercisable over the following periods (first date able to release):		
Financial year 2017/2018	107 168	–
Financial year 2018/2019	386 718	–
Financial year 2019/2020	408 654	–
	902 540	–
Options outstanding (by expiry date)		
Financial year 2016/2017	–	–
Financial year 2017/2018	107 168	–
Financial year 2018/2019	386 718	–
Financial year 2019/2020	408 654	–
	902 540	–
Total options outstanding - in the money	902 540	–
Total options outstanding - out of the money	–	–
	902 540	–
Number of participants	65	–

42. EMPLOYEE SHARE PARTICIPATION SCHEMES [CONTINUED]

	GROUP AND COMPANY	
	30 JUNE 2018	**30 JUNE 2017**
The income statement charge for all cash settled share based payments is as follows:		
Conditional share plan	16 123	10 495
Conditional share plan (assumption of liability)	3 483	-
FNB Botswana Conditional Share Plan	-	(7 566)
Total cash settled share option scheme charge/(credit) to income statement	19 606	2 929

At year end, the liability for cash-settled share schemes amounted to P25 684 430 (2017: P 14 907 329) and has been included in creditors and accruals.

43. EVENTS AFTER THE REPORTING PERIOD

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

44. NEW STANDARDS AND INTERPRETATIONS

44.1 Standards and interpretations not yet effective

The Group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Group's accounting periods beginning on or after 01 July 2018 or later periods:

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

If a parent loses control of a subsidiary which does not contain a business, as a result of a transaction with an associate or joint venture, then the gain or loss on the loss of control is recognised in the parents' profit or loss only to the extent of the unrelated investors' interest in the associate or joint venture. The remaining gain or loss is eliminated against the carrying amount of the investment in the associate or joint venture. The same treatment is followed for the measurement to fair value of any remaining investment which is itself an associate or joint venture. If the remaining investment is accounted for in terms of IFRS 9, then the measurement to fair value of that interest is recognised in full in the parents' profit or loss.

The effective date of the amendment is to be determined by the IASB.

It is unlikely that the amendment will have a material impact on the Group's consolidated and separate financial statements.

IFRS 17: Insurance Contracts

The IFRS establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued.

The effective date of the standard is for years beginning on or after 01 January 2021.

The Group expects to adopt the standard for the first time in the 2022 consolidated and separate financial statements.

It is unlikely that the standard will have a material impact on the Group's consolidated and separate financial statements.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

44. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

IFRS 23: Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Specifically, if it is probable that the tax authorities will accept the uncertain tax treatment, then all tax related items are measured according to the planned tax treatment. If it is not probable that the tax authorities will accept the uncertain tax treatment, then the tax related items are measured on the basis of probabilities to reflect the uncertainty. Changes in facts and circumstances are required to be treated as changes in estimates and applied prospectively.

The effective date of the interpretation is for years beginning on or after 01 January 2019.

The Group expects to adopt the interpretation for the first time in the 2020 consolidated and separate financial statements.

It is unlikely that the interpretation will have a material impact on the Group's consolidated and separate financial statements.

IFRS 16 Leases

IFRS 16 Leases is a new standard which replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the Group are as follows:

Group as lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short term leases or leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.

44. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee re-measures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

Group as lessor:

- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.
- A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets; and the increase in consideration is commensurate to the stand alone price of the increase in scope.
- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.
- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

Sale and leaseback transactions:

- In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer of the asset is accounted for as the sale of an asset.
- If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-ofuse asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16
- If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

The effective date of the standard is for years beginning on or after 01 January 2019.

The Group expects to adopt the standard for the first time in the 2020 consolidated and separate financial statements.

The impact of this standard is currently being assessed.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

44. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

Amendments to IFRS 1: Annual Improvements to IFRS 2014 – 2016 cycle

The amendment to IFRS 1 First Time Adoption of International Financial Reporting Standards deleted certain short term exemptions concerning disclosures of financial assets, employee benefits and investment entities from IFRS 1.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The Group expects to adopt the amendment for the first time in the 2019 consolidated and separate financial statements.

It is unlikely that the amendment will have a material impact on the Group's consolidated and separate financial statements.

Transfers of Investment Property: Amendments to IAS 40

The amendment deals specifically with circumstances under which property must be transferred to or from investment property. The amendment now requires that a change in use of property only occurs when the property first meets, or ceases to meet, the definition of investment property and that there is evidence of a change in use. The amendment specifies that a change in management's intentions for use of the property, do not, in isolation, provide evidence of a change in use.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The Group expects to adopt the amendment for the first time in the 2019 consolidated and separate financial statements.

It is unlikely that the amendment will have a material impact on the Group's consolidated and separate financial statements.

IFRIC 22: Foreign Currency Transactions and Advance Consideration

The interpretation applies to circumstances when an entity has either paid or received an amount of consideration in advance and in a foreign currency, resulting in a non-monetary asset or liability being recognised. The specific issue addressed by the interpretation is how to determine the date of the transaction for the purposes of determining the exchange rate to use on the initial recognition of the related asset, expense or income when the non-monetary asset or liability is derecognised. The interpretation specifies that the date of the transaction, for purposes of determining the exchange rate to apply, is the date on which the entity initially recognises the non-monetary asset or liability.

The effective date of the interpretation is for years beginning on or after 01 January 2018.

The Group expects to adopt the interpretation for the first time in the 2019 consolidated and separate financial statements.

It is unlikely that the interpretation will have a material impact on the Group's consolidated and separate financial statements.

44. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

Amendments to IFRS 4: Insurance Contracts

The amendment provides a temporary exemption that permits, but does not require, insurers, under specified criteria, to apply IAS 39 Financial Instruments: Recognition and Measurement, rather than IFRS 9 Financial Instruments for annual periods beginning before 1 January 2021. The exemption is only available provided the insurer has not previously applied any version of IFRS 9 (with some exceptions) and that the activities are predominantly connected with insurance.

A further exemption has been provided from IAS 28 Investments in Associates and Joint Ventures. In terms of the exemption, an insurer is exempt from applying uniform accounting policies when applying the equity method, insofar as the IAS 39/IFRS 9 exemption is applied. Thus, the relevant accounting policies of the associate or joint venture are retained if the entity applies the IFRS9/IAS 39 exemption and the associate or joint venture does not apply the exemption, or visa versa.

The amendment further permits, but does not require, insurers to apply the "overlay approach" to designated financial assets when it first applies IFRS 9. The overlay approach requires the entity to reclassify between profit or loss and other comprehensive income, an amount which results in the profit or loss of the designated financial assets at the end of the reporting period being equal to what it would have been had IAS 39 been applied to the designated financial assets.

Additional disclosures are required as a result of the amendment.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The Group expects to adopt the amendment for the first time in the 2019 consolidated and separate financial statements.

It is unlikely that the amendment will have a material impact on the Group's consolidated and separate financial statements.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendment to IFRS 4 provides a temporary exemption, allowing insurers to apply IAS 39 rather than IFRS 9. The exemption only applies in certain circumstances and only for annual periods beginning before 1 January 2021.

The exemption also introduces an "overlay approach" in specific circumstances. This approach requires the insurer to reclassify an amount between other comprehensive income and profit or loss. This results in the profit or loss for designated financial assets being the same as if the insurer had applied IAS 39 rather than IFRS 9.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The Group expects to adopt the amendment for the first time in the 2019 consolidated and separate financial statements.

The impact of this amendment is currently being assessed.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

44. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

The amendment now specifies the treatment of vesting and non-vesting conditions with regards to cash-settled share-based payment transactions. The treatment is essentially similar to the treatment of such conditions for equity-settled share-based payment transactions. That is, non-market vesting conditions are taken into consideration when estimating the number of awards which are expected to vest (and which ultimately vest), while market conditions and other non-vesting conditions are taken into consideration when determining the fair value of the share based payment liability, both initially and subsequently.

The amendment also provides for share-based payment transactions with a net settlement feature for withholding tax obligations. Essentially, where the entity is required to withhold part of the equity instruments equal to the tax obligation, the entity is required to account for the payment to tax authorities as a reduction in equity, except to the extent that the payment exceeds the fair value of the equity instruments withheld at net settlement date. The entity should also disclose the amount that it expects to transfer to tax authorities in terms of such transactions.

The amendment further provides guidance in terms of modifications which convert cash-settled share-based payment transactions to equity -settled share-based payment transactions. For such modifications, the equity-settled share based payment transaction is measured by reference to the fair value of the equity instruments granted at modification date, to the extent to which goods or services have been received. The liability for cash-settled share based payment transactions is derecognised on the modification date. Any difference between the two is recognised immediately in profit or loss.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The Group expects to adopt the amendment for the first time in the 2019 consolidated and separate financial statements.

It is unlikely that the amendment will have a material impact on the Group's consolidated and separate financial statements.

Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers

The amendment provides clarification and further guidance regarding certain issues in IFRS 15. These items include guidance in assessing whether promises to transfer goods or services are separately identifiable; guidance regarding agent versus principal considerations; and guidance regarding licenses and royalties.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The Group expects to adopt the amendment for the first time in the 2019 consolidated and separate financial statements.

It is unlikely that the amendment will have a material impact on the Group's consolidated and separate financial statements.

44. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a)impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after 01 January 2018.

The Group expects to adopt the standard for the first time in the 2019 consolidated and separate financial statements.

The standard has been assessed and is not expected to impact the opening qualifying capital by more than 5%.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

44. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

IFRS 9 credit related process and terminology

Modelling overview

The group adopted the PD/LGD approach for the calculation of expected credit losses (ECL) for material advances and a simplified approach for less material balances, such as non-advances e.g. accounts receivable. The ECL is based on a probability-weighted average of three macroeconomic scenarios weighted by the probability of occurrence. This has resulted in the need for development of the appropriate ECL models, including underlying PD, LGD and EAD models and parameter term structures, to facilitate the calculation of ECL. All required models have been developed within the group and are validated independently both internally by the independent validation unit within ERM and externally by the group's external auditors.

Model development has been guided by appropriate frameworks, which articulate minimum required standards and reference industry guidance and best practice.

Where possible, existing methodology used in the regulatory models has been leveraged for the development of IFRS 9 models, e.g. through-the-cycle PDs have been adjusted to IFRS 9 PDs using PD term structures and forward-looking macroeconomic information.

Significant increase in credit risk

To determine whether an advance has experienced a significant increase in credit risk, the lifetime PD of the asset calculated at the origination date is compared to that calculated at the reporting date. The origination date is defined to be the most recent date at which the group had an opportunity to price or re-price the advance based on the outcome of either the original or an up-to-date risk assessment.

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

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

Any up-to-date facility that has undergone a distressed restructure (i.e. a modification of contractual cash flows to prevent a client from going into arrears) will be considered to have experienced a significant increase in credit risk

The credit risk on an exposure is no longer considered to be significantly higher than at origination if no qualitative indicators of a significant increase in credit risk are triggered, and if comparison of the reporting date PD to the origination date PD no longer indicates that a significant increase in credit risk has occurred.

Definition of default

Advances are considered credit impaired if they meet the definition of default. The group's definition of default applied for calculating provisions under IFRS 9 has been aligned to the definition applied for regulatory capital calculations across all portfolios, and consider delinquency as well is indicators of unlikeliness to pay.

Any distressed restructures of accounts which have experienced a significant increase in credit risk since initial recognition are defined as default events.

Accounts are considered to no longer be in default if they meet the stringent cure definition, which is determined at portfolio level with reference to re-default rates.

44. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

Period of exposure to credit risk

Lifetime expected losses are measured over the period that the entity is exposed to credit risk. This period is determined through analysis of historical behavioural data, incorporating pre-payments and early settlements. For non-revolving products, this period is capped at the remaining contractual term of the financial instrument. For revolving products, such as credit cards and overdrafts, no restrictions are imposed on the length of the period of exposure to credit risk

Incorporation of forward-looking information

Forward-looking macro-economic information will be incorporated into expected loss estimates through the application of quantitative modelling and expert-judgement-based adjustments. ECL will be calculated for the core (best-estimate) scenario, an upside scenario and a downside scenario. The probability-weighted average of the ECL figures calculated under each of these scenarios will be the final ECL figure for the portfolio. Where credit experts have determined that the three macroeconomic scenarios catered for through the quantitative modelling process are not adequately reflective of potential macroeconomic event risk, expert judgement-based adjustments will be made to staging and/or ECL estimates to better reflect potential portfolio-specific impacts. In addition to forward-looking macro-economic information, other types of forward-looking information, such as specific event risk, will be considered in ECL estimates when required through the application of out-ofmodel adjustments.

Governance

Existing governance frameworks will be utilised for the governance of IFRS 9-related processes. Overall, no significant changes are anticipated in the governance processes related to impairments. Where necessary, these have been amended to incorporate elements not presently catered for in existing frameworks. One such amendment is the governance process to ensure the independence of the production of forward-looking macroeconomic information which is incorporated into the ECL models.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after 01 January 2018.

The Group expects to adopt the standard for the first time in the 2019 consolidated and separate financial statements.

The impact of this standard is currently being assessed.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS [CONTINUED]

for the year ended 30 June 2018

44. NEW STANDARDS AND INTERPRETATIONS [CONTINUED]

Amendments to IFRS 12: Annual Improvements to IFRS 2014 - 2016 cycle

The amendment to IFRS 12 Disclosures of Interests in Other Entities now provides that if an investment in a subsidiary, associate or joint venture is part of a disposal group that is held for sale, then the disclosure of summary information as per paragraph B10 - B16 of IFRS 12 is not required. IFRS 12 previously only made the exemption for circumstances where the investment itself was classified as held for sale.

The effective date of the amendment is for years beginning on or after 01 January 2017.

The Group has adopted the amendment for the first time in the 2018 consolidated and separate financial statements.

The impact of the amendment is set out in note Cha nges in Accounting Policy.

Amendments to IAS 7: Disclosure initiative

The amendment requires entities to provide additional disclosures for changes in liabilities arising from financing activities. Specifically, entities are now required to provide disclosure of the following changes in liabilities arising from financing activities:

- changes from financing cash flows;l
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchanges;
- changes in fair values; and
- other changes.

The effective date of the amendment is for years beginning on or after 01 January 2017.

The Group has adopted the amendment for the first time in the 2018 consolidated and separate financial statements.

The impact of the amendment is not material.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

In terms of IAS 12 Income Taxes, deferred tax assets are recognised only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. The following amendments have been made, which may have an impact on the Group:

If tax law restricts the utilisation of losses to deductions against income of a specific type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type.

Additional guidelines were prescribed for evaluating whether the Group will have sufficient taxable profit in future periods. The Group is required to compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. This comparison shows the extent to which the future taxable profit is sufficient for the entity to deduct the amounts resulting from the reversal of those deductible temporary differences.

The amendment also provides that the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

The effective date of the amendment is for years beginning on or after 01 January 2017.

The Group has adopted the amendment for the first time in the 2018 consolidated and separate financial statements.

The impact of the amendment is not material.

VALUE ADDED STATEMENTS

for the year ended 30 June 2018

VALUE ADDED

Value added is the wealth the Group has been able to create by providing clients with a quality value added service.

	CONSOLIDATED		COMPANY	
	30 JUNE 2018 P '000	30 JUNE 2017 P '000	30 JUNE 2018 P '000	30 JUNE 2017 P '000
Income earned by providing banking services	2 577 168	2 407 403	2 521 721	2 357 892
Cost of services	(1 654 945)	(1 704 560)	(1 639 200)	(1 685 244)
Value added banking services	922 223	702 843	882 521	672 648
Non-operating and other income and expenditure	530 558	577 638	517 220	572 294
Value added	1 452 781	1 280 481	1 399 741	1 244 942
Value allocated				
To employees				
Salaries, wages and other benefits	543 847	518 413	541 389	516 644
To providers of capital				
Dividends to shareholders	357 118	282 007	353 613	282 007
To Government				
Taxation	205 874	203 700	195 684	195 841
To expansion and growth				
Retained earnings	290 937	218 512	254 740	193 751
Depreciation - Owned	55 005	57 849	54 315	56 699
	1 452 781	1 280 481	1 399 741	1 244 942
Statistics	%	%	%	%
Employees	37,4	40,5	38,7	31,7
Providers of capital	24,7	22,0	25,4	34,9
Government	14,2	15,9	14,0	15,2
Expansion growth	23,7	21,6	21,9	18,2
	100,0	100,0	100,0	100,0

TEN YEAR CONSOLIDATED INCOME STATEMENTS

for the year ended 30 June 2018

	30 JUNE 2018 P '000	30 JUNE 2017 P '000	30 JUNE 2016 P '000	30 JUNE 2015 P '000
INCOME STATEMENT				
Interest and similar income	1,507,520	1,429,248	1,308,394	1,288,434
Interest expense and similar charges	(335,721)	(265,128)	(363,565)	(415,321)
Net interest income before impairment of advances	1,171,799	1,164,120	944,829	873,113
Impairments losses on loans and advances	(274,168)	(361,219)	(228,570)	(201,068)
Net interest income after impairment of advances	897,631	802,901	716,259	672,045
Non interest income	1,069,648	978,155	926,949	862,386
Income from operations	1,967,279	1,781,056	1,643,208	1,534,431
Operating expenses	(1,129,070)	(1,100,733)	(984,196)	(777,928)
Income before taxation	838,209	680,323	659,012	756,503
Taxation	(190,154)	(179,804)	(155,121)	(165,020)
Income after taxation	648,055	500,519	503,891	591,483
Dividends paid and proposed	(357,118)	(282,007)	(282,007)	(410,192)
Retained income for the year	290,937	218,512	221,884	181,291

	30 JUNE 2014 P '000	30 JUNE 2013 P '000	30 JUNE 2012 P '000	30 JUNE 2011 P '000	30 JUNE 2010 P '000	30 JUNE 2009 P '000
	1,244,817	1,210,031	1,111,862	1,094,078	1,062,618	1,296,474
	(290,200)	(312,629)	(342,799)	(432,327)	(518,978)	(773,578)
	954,617	897,402	769,063	661,751	543,640	522,896
	(122,510)	(120,673)	(132,714)	(59,211)	(43,420)	(40,752)
	832,107	776,729	636,349	602,540	500,220	482,144
	794,557	743,042	629,108	505,793	410,610	371,196
	1,626,664	1,519,771	1,265,457	1,108,333	910,830	853,340
	(704,425)	(614,373)	(535,496)	(470,596)	(378,858)	(324,860)
	922,239	905,398	729,961	637,737	531,972	528,480
	(202,578)	(204,446)	(161,168)	(63,897)	(95,922)	(121,760)
	719,661	700,952	568,793	573,840	436,050	406,720
	(384,555)	(333,281)	(179,458)	(589,651)	(230,734)	(230,734)
	335,106	367,671	389,335	(15,812)	205,316	175,986

TEN YEAR CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

for the year ended 30 June 2018

	30 JUNE 2018 P'000	30 JUNE 2017 P'000	30 JUNE 2016 P'000	30 JUNE 2015 P'000
STATEMENT OF FINANCIAL POSITION				
ASSETS				
Cash and short term funds	4,356,895	4,396,885	3,651,793	4,371,324
Derivative financial instruments	55,181	64,028	76,646	26,716
Advances to banks	650,912	-	324,960	640,000
Advances to customers	15,478,937	14,997,373	14,386,819	12,846,481
Investment securities	3,360,091	3,313,694	2,447,230	2,256,337
Current taxation	65,267	8,641	99,966	46,832
Due from related companies	9,465	9,448	6,324	6,319
Accounts receivable	357,133	288,831	376,245	211,080
Non-current assets held for sale	-	-	-	-
Investment in associated company	-	-	-	-
Property and equipment	507,584	505,496	495,692	540,393
Goodwill	26,963	26,963	26,963	26,963
Total assets	24,868,428	23,611,359	21,892,638	20,972,445
LIABILITIES				
Deposits from banks	730,109	1,397,685	300,166	199,334
Deposits from customers	18,834,336	17,567,471	17,063,756	17,233,721
Accrued interest payable	51,893	46,061	30,553	88,895
Derivative financial instrument	20,315	28,065	42,631	13,796
Current taxation	7,699	1,208	898	650
Due to related companies	73,861	36,175	124,726	11,673
Creditors and accruals	459,949	443,530	429,680	360,109
Employee liabilities	82,800	71,606	68,127	61,949
Borrowings	1,288,927	1,059,127	1,094,239	395,376
Deferred taxation	200,779	207,566	203,509	160,956
Total liabilities	21,750,668	20,858,494	19,358,285	18,526,459
EQUITY				
Stated capital	51,088	51,088	51,088	51,088
Reserves	2,837,739	2,547,955	2,329,443	2,112,891
Dividend reserve	228,933	153,822	153,822	282,007
Total ordinary equity holder's funds	3,117,760	2,752,865	2,534,353	2,445,986
Total equity and liabilities	24,868,428	23,611,359	21,892,638	20,972,445

30 JUNE 2014 P '000	30 JUNE 2013 P '000	30 JUNE 2012 P '000	30 JUNE 2011 P '000	30 JUNE 2010 P '000	30 JUNE 2009 P '000
2,721,384	2,288,285	2,557,842	1,706,573	1,201,491	1,185,914
24,922	10,138	7,861	2,996	758	22,611
461,921	51,975	-	361,178	-	-
12,131,415	10,369,937	8,420,553	7,170,842	5,803,009	4,643,241
1,536,828	2,290,494	2,699,551	3,496,862	4,946,059	6,085,772
12,895	2,117	-	4,622	1,041	-
6,272	6,138	7,839	13,133	5,075	3,956
196,112	251,474	170,800	170,502	57,719	363,392
-	7,101	5,511	-	-	-
-	-	-	3,058	3,151	2,037
520,694	502,086	317,559	202,200	187,306	115,601
26,963	26,963	26,963	26,963	26,963	26,963
17,639,406	15,806,708	14,214,479	13,158,929	12,232,572	12,449,487
12,157	53,903	166,900	215,186	4,000	13,851
14,328,142	12,932,767	11,448,851	10,597,398	10,304,632	10,552,699
39,027	34,767	45,179	36,696	45,661	70,142
18,079	16,964	32,912	18,794	559	21,388
3,870	-	461	-	-	7,494
30,499	19,597	57,883	140,031	50,209	175,827
274,596	225,215	275,972	616,691	336,647	166,538
60,588	62,076	52,252	42,646	23,830	24,741
489,495	422,791	519,047	244,971	207,827	416,612
118,973	110,360	82,296	98,350	100,648	79,071
15,375,426	13,878,440	12,681,753	12,010,763	11,074,013	11,528,363
51,088	51,088	51,088	51,088	51,088	51,088
1,930,885	1,620,810	1,276,542	1,045,804	979,286	754,669
282,007	256,370	205,096	51,274	128,185	115,367
2,263,980	1,928,268	1,532,726	1,148,166	1,158,559	921,124
17,639,406	15,806,708	14,214,479	13,158,929	12,232,572	12,449,487

CUSTOMER
DRIVEN
SOLUTIONS

FNB ANNUAL REPORT 2018

SHAREHOLDER INFORMATION

SHAREHOLDER'S DIARY

Declaration of dividend and announcement of results	August 2018
Publication of Annual Financial Statements	September 2018
Payment of final dividend	October 2018
Annual General Meeting	2 November 2018
Publication of half-year interim report and dividend announcement	February 2019
Payment of interim dividend	March 2019
Next financial year end	30 June 2019

LIST OF MAJOR SHAREHOLDERS

Share Analysis – Ordinary Shareholders

	Shareholders Number of holders	**% of holders**	Shares held	**Shares held** % of Issued shares
1- 5,000	3,957	79.06%	3,518,103	0.1%
5,001-10,000	356	7.11%	2,990,012	0.1%
10,001- 50,000	408	8.15%	10,114,582	0.4%
50,001-100,000	103	2.06%	8,238,386	0.3%
100,001- 500,000	103	2.06%	22,353,607	0.9%
500,001 - 1,000,000	27	0.54%	18,915,423	0.7%
OVER 1,000,000	51	1.02%	2,477,569,887	97.4%
Total	**5,005**	**100.00%**	**2,543,700,000**	**100.00%**

Top ten shareholders

INVESTEC RE DPF	DEBSWANA PENSION FUND	23,163,879	0.91%
DEBSWANA PENSION FUND	ALLAN GRAY RE DEBSWANA PENSION FUND	23,568,507	0.93%
BOTSWANA INSURANCE FUND MANAGEMENT	STANBIC NOMINEES RE: BIFM	35,803,071	1.41%
MOTOR VEHICLE ACCIDENT FUND	MOTOR VEHICLE ACCIDENT FUND	40,993,910	1.61%
FNB NOMS BW (PTY) LTD RE: BPOPF EQUITY PORTFOLIO C	FNB NOMS BW (PTY) LTD RE: BPOPF EQUITY PORTFOLIO C - ALLAN GRAY	48,169,269	1.89%
FNB BOTSWANA NOMINEES (PTY) LTD RE: BIFM BPOPF-EQU	BIFM BPOPF-EQUITY	57,422,338	2.26%
FNB BW NOMS(PTY) LTD RE: IAM BPOPFP 10001031	IAM BPOPF EQUITY	61,741,313	2.43%
FNBB NOMINEES (PTY) LTD RE: AG BPOPF EQUITY PORT B	FNB BOTSWANA NOMINEES (PTY) LTD RE: ALLANGRAY BPOPF EQUITY PORTFOLIO B	115,620,602	4.55%
FNB BOTSWANA NOMINEES (PTY) LTD RE:AA BPOPF EQUITY	AA BPOPF EQUITY	119,544,015	4.70%
FNB HOLDINGS BOTSWANA LIMITED	FNB HOLDINGS BOTSWANA LIMITED	1,780,590,000	70.00%
OTHERS		237,083,096	9.32%
		2,543,700,000	**100.00%**

	Shareholders Number	%	Shares held Number	%
Category				
Corporate bodies	242	4.66%	1,786,236,040	70.22%
Nominees companies	97	1.87%	639,042,366	25.12%
Trust accounts	6	0.12%	1,817,618	0.07%
Private individuals	4,849	93.35%	116,603,976	4.59%
	5,194	100.00%	2,543,700,000	100.00%

	Shareholders Number	%	Shares held Number	%
Geographic Ownership				
Botswana	5,134	98.84%	2,542,247,487	99.94%
Africa	36	0.69%	1,106,227	0.05%
International	24	0.47%	346,286	0.01%
	5,194	100.00%	2,543,700,000	100.00%

NOTICE OF ANNUAL GENERAL MEETING

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in doubt as to the action you should take in relation to this document, please consult your stockbroker, banker, legal advisor or other professional advisor immediately.

Action required:

1. If you have disposed of all of your shares in First National Bank Botswana Limited, this circular should be sent to the agent through whom you have disposed of such shares, for onward delivery to the purchaser of those shares.

2. A notice convening an Annual General Meeting of Shareholders of First National Bank Botswana ("AGM"), to be held at 13h00 on Friday 2 November 2018 at Avani Hotel, Gaborone is attached hereto, which notice forms an integral part of this Circular. The relevant form of proxy is also attached. Shareholders who are unable to attend the AGM should complete the attached form of proxy and return it to the Transfer Secretaries of the Company so as to be received by no later than 12h00 on Wednesday 31 October 2018. 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 2018)		
Forms of proxy to be received by 12h00	Wednesday	31 October
Annual General Meeting at 13h00	Friday	2 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 Avani Hotel, Gaborone, at 13h00 on Friday 2 November 2018, for the purpose of transacting the following business and considering and if deemed fit, passing, with or without modification, the following resolutions:

Agenda

Ordinary Business

1. To read the notice and ascertain the presence of a quorum required in terms of the Constitution.

2. Ordinary Resolution 1:
   RESOLVED THAT, the Audited Annual Financial Statements for the Year Ended 30 June 2018 together with Directors' and Auditor's Reports thereon be adopted.

3. Ordinary Resolution 2:
   RESOLVED THAT dividends of 5 thebe per ordinary share declared on 2 February 2018 and 9 thebe per ordinary share declared on 14 August 2018, for the Financial Year Ended 30 June 2018 be approved as recommended by the Directors and the distribution be ratified thereof.

4. Ordinary Resolutions 3,4,5 and 6
   RESOLVED THAT the following Directors of the Company who retire by rotation in terms of the Company's Constitution and being eligible, offer themselves for re-election be re-elected by way of separate resolutions:

   Mr. S Thapelo (Independent Non-Executive Director)
   Ms. D Ncube (Independent Non-Executive Director)
   Mrs. M Masire-Mwamba (Independent Non-Executive Director)
   Mr. J R Khethe (Non-Executive Director)

Biographical information of the directors to be re-elected is set out on pages 86 and 87 of the Annual Report

5. Ordinary Resolutions 7 and 8:
   To ratify the appointment of the following Directors of the Company who were appointed during the course of the last financial year:

   Mr. E D Letebele
   Mr. M G Davias

   Biographical information of the directors to be re-elected is set out on pages 86 and 87 of the Annual Report

6. Ordinary Resolution 9:

RESOLVED THAT the annual fees of the Non-Executive Directors, as reflected below be approved for 2019:	Proposed 2019 fees (BWP)
First National Bank Botswana Board	
Member	108 864
Chairperson	217 728
Audit committee	
Member	62 200
Chairperson	124 400
Risk Capital Management and Compliance Committee	
Member	62 200
Chairperson	124 400
Remuneration Committee	
Member	17 496
Chairperson	26 244
Directors' Affairs and Governance Committee	
Member	34 992
Chairperson	52 488
Credit Risk Committee	
Member	202 150
Chairperson	262 795
Policies & Frameworks Committee	
Member	49 760
Chairperson	49 760
Strategy	27 216
Training	46 656

1. Executive directors and directors employed by the FirstRand Group do not receive fees as members of the Board.
2. Fees are based on an hourly rate and are reviewed annually in line with market norms and take into account the increased legislation and compliance requirements and increased workload.
3. Additional meetings called are paid at the rates agreed for the Board/Committees.
4. A contingent retainer of 50% of Board and Committee member fees are paid if a director is unable to attend a Board or Committee meeting through valid cause beyond control.

NOTICE OF ANNUAL GENERAL MEETING [CONTINUED]

7. Ordinary Resolution 10:
   RESOLVED THAT Deloitte be re-appointed as auditors of the company and authorise the Directors to determine the remuneration of the auditors.

8. To transact any other business which maybe transacted at an Annual General Meeting.

Voting and proxies

All holders of Ordinary Shares entitled to vote will be entitled to attend and vote at the Annual General Meeting.

A holder of shares who is present in person, or by 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.

To be effective, a duly completed form of proxy must be received at the Transfer Secretaries, PricewaterhouseCoopers (Pty) Ltd, Plot 50371, Fair-grounds Office Park, and P O Box 294, Gaborone by not later than 12h00 on Wednesday 31 October 2018.

By Order of the Board

Sethunya T. Molodi
COMPANY SECRETARY

FORM OF PROXY

For completion by holders of Ordinary Shares

PLEASE READ THE NOTES OVERLEAF BEFORE COMPLETING THIS FORM.

EXPRESSIONS USED IN THIS FORM SHALL, UNLESS THE CONTEXT REQUIRES OTHERWISE, BEAR THE SAME MEANINGS AS IN THE CIRCULAR TO SHAREHOLDERS OF FNBB ISSUED ON 16 OCTOBER 2018.

For use at the Annual General Meeting of Shareholders of the Company to be held at Avani Hotel, Gaborone at 13h00 on Friday 2 November 2018.

I/We ______________________________

(Name/s in block letters)

Of ______________________________

(Address) ______________________________

Appoint (see note 2): ______________________________

1. ______________________________ of failing him/her,

2. ______________________________ of failing him/her,

3. ☐ the Chairman of the Meeting,

as my/our proxy to act for me/us at the General Meeting which will be held, in addition to considering the ordinary business, for the purpose of considering and if deemed fit, passing with or without modification, the resolutions to be proposed under the special business vote thereat and at each adjournment thereof, and to vote for or against the resolutions and/or abstain from voting in respect of the Ordinary Shares registered in my/our name in accordance with the following instructions (see note 2):

	NUMBER OF ORDINARY SHARES		
	For	**Against**	**Abstain**
1. Ordinary Resolution 1			
2. Ordinary Resolution 2			
3. Ordinary Resolution 3			
4. Ordinary Resolution 4			
5. Ordinary Resolution 5			
6. Ordinary Resolution 6			
7. Ordinary Resolution 7			
8. Ordinary Resolution 8			
9. Ordinary Resolution 9			
10. Ordinary Resolution 10			

Signed at:______________________on: ______________2018 Signature:______________________

Assisted by (where applicable)

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

Please read the notes on the reverse side thereof.

FORM OF PROXY [CONTINUED]

Notes

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

2. A Shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by the Shareholder in the appropriate space provided. Failure to comply herewith will be deemed to authorize the proxy to vote at the General Meeting as he/she deems fit in respect of the Shareholder's votes exercisable thereat, but where the proxy is the Chairman, failure to comply will be deemed to authorize the proxy to vote in favor of the resolution. A Shareholder or his/her proxy is obliged to use all the votes exercisable by the Shareholder or by his/her proxy.

3. Forms of proxy must be lodged at or posted to the Transfer Secretaries of the Company, PricewaterhouseCoopers (Pty) Ltd, Plot 50371, Fairgrounds Office Park, P O Box 294, Gaborone to be received not later than 24 hours before the General Meeting before 12h00 on 31 October 2018.

4. The completion and lodging of this form will not preclude the relevant Shareholder from attending the General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such Shareholder wish to do so.

5. The Chairman of the General Meeting may reject or accept any form of proxy not completed and/or received other than in accordance with these notes provided that he is satisfied as to the manner in which the Shareholder concerned wishes to vote.

6. An instrument of proxy shall be valid for the General Meeting as well as for any adjournment thereof, unless the contrary is stated thereon.

7. A vote given in accordance with the terms of a proxy shall be valid, notwithstanding the previous death or insanity of the Shareholder, or revocation of the proxy, or of the authority under which the proxy was executed, or the transfer of the Ordinary Shares in respect of which the proxy is given, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company not less than one hour before the commencement of the General Meeting or adjourned General Meeting at which the proxy is to be used.

8. The authority of a person signing the form of proxy under a power of attorney or on behalf of a company must be attached to the form of proxy, unless the authority or full power of attorney has already been registered by the Company or the Transfer Secretaries.

9. Where Ordinary Shares are held jointly, all joint Shareholders must sign.

10. A minor must be assisted by his/her guardian, unless relevant documents establishing his/her legal capacity are produced or have been registered by the Company.