Unaudited condensed consolidated financial results and dividend announcement

For the six months ended
31 December 2020

The Directors take pleasure in announcing the unaudited condensed consolidated financial results (referred to as "the interim financial results" in this announcement) and dividend announcement of First National Bank of Botswana Limited and its subsidiaries (referred to as "FNBB" or "the bank" in this announcement) for the six months ended 31 December 2020.

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The interim financial results have been prepared in accordance with:

- International Accounting Standards, *IAS 34 Interim Financial Reporting (IAS 34);*
- Framework concepts and the recognition and measurement requirements of International Financial Reporting Standards (IFRS);
- Interpretations issued by the IFRS Interpretation Committee (IFRS-IC);
- Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council;
- Requirements of the Companies Act of Botswana (Companies Act, 2007as amended);
- The Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08); and
- The Banking Act (Cap 46:04).

The accounting policies and methods of computation applied in the preparation of the interim financial results are in terms of IFRS and are consistent with those applied for the year ended 30 June 2020. The interim financial results have not been reviewed or audited by the bank's external auditors.

The interim financial results are prepared in accordance with the going concern principle under the historical cost basis as modified by the fair value accounting of certain assets and liabilities where required or permitted by IFRS. The new or amended IFRS that became effective for the six months ended 31 December 2020, had no impact on the bank's reported earnings, financial position, reserves or accounting policies.

In the preparation of the interim financial results, the bank has applied sound business principles with key assumptions concerning any inherent uncertainties in recording various assets and liabilities. These assumptions were applied consistently to the interim financial results for the six months ended 31 December 2020 and have been thoroughly assessed by management, to ensure the appropriateness thereof. The critical accounting estimates and areas of judgement relate to the following elements of the interim financial results:

- Impairment of financial assets;
- Impairment of goodwill;
- Application and interpretation of tax regulations;
- Provisions, contingent liabilities and contingent assets;
- Fair value of financial instruments.

Financial Highlights

	Unaudited Six months ended 31 December 2020	Unaudited Six months ended 31 December 2019	% change
Profit after tax (P'000)	326 862	425 032	(23)
Net Advances to customers (P'000)	14 118 607	15 907 665	(11)
Deposits from customers (P'000)	21 238 765	20 122 675	6
RATIOS			
Cost-to-income ratio (%)	49.2	47.0	5
Return on equity (%)	17.9	25.4	(30)
Return on average assets (%)	2.4	3.3	(27)
NPL's to gross advances (%)	7.7	6.9	12
Dividend per share (thebe)	6.0	7.0	(14)

ECONOMIC UPDATE

Global Economy

A recessionary 2020

The six months under review has been dominated by COVID-19. Global economic activity continues to track our baseline expectation for a slow and staggered recovery from the initial COVID-19 economic shocks. Further waves of infection are being experienced in an increasing number of countries with commensurate social distancing and lockdown regulations constraining local economies. Although global evidence suggests that most countries have improved their ability to manage subsequent rounds of infection, economic growth and inflation are expected to remain weak until the pandemic fades significantly. Estimates suggest that economic recovery should only happen in earnest towards the latter part of 2021.

Governments and central banks remain on track to provide ongoing fiscal and monetary policy support to businesses and households. We anticipate that these stimulus policies will continue to stabilise global financial conditions and support some risk assets, although underlying economic weakness will simultaneously underpin safe-haven assets such as the US Dollar. 2020 saw unprecedented fiscal and monetary stimulus packages around the world to support both health systems and economies, and this will likely contribute to a debt overhang among highly indebted sovereigns. Liquidity support, credit easing and quantitative easing are also expected to continue in 2021. The IMF projects global growth to contract by 4.9% in 2020 with the return to growth in 2021 at 5.4%.

Global inflation is expected to rise slightly but remain below target levels at 2.9% in 2020 and 3.3% in 2021. Inflation in advanced economies is projected at 0.8% in 2020 and 1.5% in 2021.

Regional Economy

Economic fall-out driven by COVID-19 pandemic

The World Bank predicts that the Sub-Saharan Africa (SSA) growth will contract by 3.3% in 2020. The region's first recession in 25 years is expected to result in approximately US$115bn in output reduction for 2020, mostly driven by lower domestic consumption and reduced investment.

The economic impact on the Eastern and Southern African countries is expected to be the most severe, with significant output contractions in South Africa and Angola. Local lockdowns, border controls and subsequent disruptions to tourism have caused substantial slow down across the region. The decline in West and Central Africa will be mainly driven by oil exporters.

The World Bank predicts a return to growth in 2021, with an average of 2.7% in Eastern and Southern Africa and 1.4% in Western and Central Africa. Progressive reforms and investments will be crucial to secure future long-term development. Resource-led economies should benefit from commodity price increases in 2021, fuelled by an increase in global demand.

Botswana Economy

A double-dip recession in 2020 – highlighting contagion from less diverse economic growth

The continued negative effect on the economic activity of the COVID-19 containment measures resulted in a 24% year-on-year contraction in the second quarter of 2020, followed by a 6% year-on-year contraction in the third quarter of 2020. All sectors, apart from agriculture and utilities, posted contractions in the third quarter of 2020, as the local economy grappled with resuming activity post the lockdown. The bank anticipates that Botswana's subdued demand prospects will result in limited growth in the fourth quarter of 2020 across key sectors, including mining, trade, finance and business services.

Household consumption increased by 2.8% year-on-year in the third quarter of 2020 being lower than the historical annual average of approximately 4.0%. This was largely due to the persistent pressure experienced by household disposable income, which is expected to remain subdued in 2021 as reduced economic activity aggravates unemployment levels. Government expenditure increased by 4.1% year-on-year in the third quarter of 2020, as a result of the increased fiscal aid required to combat the negative health and economic effects of the pandemic. The Government is currently in the process of rolling out the economic recovery and transformation plan, at an estimated investment of P14.5bn. The plan aims to safeguard existing businesses, as well as, spur growth in sectors that have traditionally had a low contribution to GDP.

We expect Botswana's economy to have registered a contraction of 8.1% in 2020 before rebounding to 3.9% growth in 2021. This should in part be driven by structural recovery, and most significantly in tourism and mining, which were severely impacted in 2020.

Scope to reduce Monetary Policy Rate further as inflation remains low

Headline inflation averaged 1.9% in 2020 compared to 2.8% in 2019. We expect this to average 2.8% in 2021. Upward pressure is particularly anticipated to come from the forthcoming fuel levy and a possible rebound in global oil prices. We also expect increases in the regulated prices of water and electricity, as well as, in certain tax items.

Our view is that the demand side will remain subdued this year with diminished economic activity causing unemployment challenges and pressures on disposable income. This informs the bank's view that the Monetary Policy Rate will remain accommodative, with a further reduction to 3.5% during 2021 (currently at 3.75%).

Pula outlook

In January 2021, the Ministry of Finance and Economic Development announced that in 2021, the Pula basket weightings will remain unchanged at 45% to the Rand and 55% to the IMF SDR, while maintaining the crawl at -2.87% p.a. (depreciation). The Pula's international value is therefore unlikely to be a primary consideration in any decision on rates. The Rand remains the dominant determinant of the Pula outlook due to the significance of imports from South Africa, and any weakness in the Rand will flow through to an extent.

COVID-19

Throughout the period, the bank continued to follow strict protocols to maximise protection of employees, customers, vendors and other stakeholders from the spread of the virus. These measures commenced with the establishment of the crisis management team in accordance with the bank's established business continuity policy. The crisis management team met frequently to review the bank's organisational preparedness and to implement the various response tactics as appropriate.

Initiatives include communication to the public to create awareness of the pandemic, the encouragement to customers to use digital service channels, the establishment of remote working protocols and the continued assessment of the IT readiness plan. The latter includes remote working enablement and ensuring uninterrupted customer service through digital channels. The bank also partnered with an approved, Gaborone based supplier to provide staff members with free COVID-19 testing. The bank maintained assistance to its customers to get through the pandemic, with debt restructuring alleviating their cash flow and with reduced pricing on certain transactional services. The table that follows provides insight into these relief measures.

Covid-19 Relief Moratoriums as at 30 June 2020*

Segment	Value of exposure '000	Number of clients
Retail	412,990	2,207
Business/Corporate	989,597	1,268
Total	**1,402,587**	**3,475**

**balances as at 30 June 2020*

Covid-19 Relief Moratoriums as at 31 December 2020**

Total Moratoriums Entered Into

Segment	Value of exposure '000	Number of clients
Retail	426,632	2,335
Business/Corporate	1,667,996	1,331
Total	**2,094,628**	**3,666**

Total Moratoriums Entered Into That Have Subsequently Ended

Segment	Value of exposure '000	Number of clients
Retail	405,412	2,091
Business/Corporate	1,655,768	1,142
Total	**2,061,180**	**3,233**

***balances as at 31 December 2020. A sharp decline in the Business segment exposure is noted following high value settlements*

The majority of the Retail and Business moratoriums were instituted prior to 30 June 2020. Clients have in some instances received secondary moratoriums during the past 6 months to allow for the extended, COVID-19 cash flow constraints. Subsequent to the completion of the agreed moratorium periods, the patterns of loan repayments have to date normalised, although the bank continues to work closely with its clients over this difficult period. The situation remains carefully monitored and appropriate provisioning has been applied to the portfolio credit risk.

The Directors have throughout maintained detailed scrutiny of the processes and management of the COVID-19 pandemic and its effect on customers, staff members and the bank's operations. As evidenced by performance in 2020, the Directors are confident that the bank remains in a sound financial position and will continue to operate efficiently and effectively whilst playing a major role in supporting the Botswana economy through both the pandemic and the recovery.

FINANCIAL PERFORMANCE

Statement of Financial Position

The balance sheet grew by 5%, driven by an increase in customer deposits of 6%, being in line with market growth of 6% (BoB statistics October 2020). This was largely attributable to a 11% increase in demand deposits which offset a 4% decline in Fixed and Notice deposits. In an environment of low credit growth in the market as a whole, and in order to ensure prudent liquidity management, excess liquidity was placed in investment securities. This positions the bank well for productive credit growth opportunities in the future.

A prudent approach to lending was maintained, resulting in 8% decline in gross advances against market growth of 5%. Retail advances declined by 13% year-on-year while the Retail market increased by 8%. The Retail group schemes book reduced, with the bank placing considerable focus on ensuring responsible and manageable consumer exposure. This combined with competitive pressures, impacted the Retail book.

Corporate business experienced excellent growth, while the Commercial advances portfolio reduced as a result of both a cautious lending risk appetite and limited opportunities in the market. The combined result of the Commercial and Corporate advances growth of 1% is approximately aligned to the market which remained flat over the period. The bank will continue to be cautious in extending credit and to maintain the quality of overall lending. The bank experienced a reduction in its undrawn commitments in the ordinary course of business.

Income Statement

Profit before tax and profit after tax both declined by 23% due to pressure on top line revenue and increased credit provisioning to adequately provide for the effects of COVID-19. The resultant return on equity was 17.9% (25.4% in 2019). The December 2019 results were within the expected parameters given the prevailing operating environment. The overwhelming impact on the December 2020 results was the difficult trading environment created by COVID-19, which the banking industry as a whole continues to navigate responsibly. The pandemic has presented itself as a real and severe economic test, and FNBB has shown that its income streams are resilient while a key focus has been on strengthening the balance sheet.

Interest income decreased following both an 8% decrease in gross advances, and the cumulative Bank Rate cut of 100 basis points. The deposit mix shifted towards overnight funding, resulting in the interest expense reducing significantly by 12% while customer deposits increased by 6%.

The impairment charge for the year increased by 16% year-on-year with a charge of P199m, due largely to an increase in stage 1 and 2 impairments in the tourism and transport industries. The bank continues to provide prudently for the expected downward pressure on customer risk profiles and realisable collateral values in the overall context of COVID-19.

Non-interest revenue (NIR) decreased 4% year-on-year following a decrease in foreign income revenue, while other core revenue lines remained resilient. Transactional NIR was mainly driven by service-related revenue increasing by 16%. This was in turn supported by both an increase of 9% in the customer base and an annual rise of 2.8% in the tariff. An additional 795 Point-Of-Sale (POS) devices resulted in commission income growth of 5%, notwithstanding card transaction volumes remaining flat. The total number of POS devices in use exceeds 10,000. The overall NIR decline was largely due to a sharp decrease in foreign exchange revenue, following muted activity in cross-border transactions.

Costs decreased by 6%, with reduced variable costs. Employee costs reduced by 3% year-on-year emanating from a reduction in discretionary remuneration, while the other operating expenses fell by 8%. The main contributors towards the reduced other operating expenses were; a net reduction in foreign expenses, the digitisation of training, and reduced entertainment and travel in line with COVID-19 restrictions. The increased cost-to-income ratio of 49.2% (2019: 47.0%) is largely a factor of reduced net interest income. The cost-to-income ratio reflects FNBB's continued steadiness in balancing cost management initiatives with strategic investments.

LOOKING AHEAD

Given the current uncertainty surrounding the rollout and impact of the COVID-19 vaccine and the second wave of infection being seen across the world, we expect that 2021 will continue in a state of overall uncertainty. We anticipate that pressures on discretionary household income will be sustained and that businesses will defer capital expenditure to conserve cash reserves pending stronger signs of imminent recovery. Furthermore, with credit default pressure rates mounting despite low interest rates, the operating environment for financial services is likely to remain challenging.

The bank's forward-thinking approach to technology and innovation will remain a core priority. The majority of the workforce has been successfully working remotely over the past 6 months, and consideration will be made towards maintaining similar flexible working arrangements in the longer term.

The FNB App, online banking and POS infrastructure have remained stable over the period. Growth in registrations and usage continues across all digital platforms, with customers appreciating the ease of transactability on these platforms and being empowered to serve themselves in the form of convenient, value-added services with minimum added exposure to COVID-19. In the context of this expansion in digital banking, the remote working by staff, and the rapid technological developments currently occurring in IT, enhancing and anticipating cyber security remains paramount. To this end, the bank has invested significant resources in cyber protection.

FNBB's investment in customer-centric solutions will carry on improving its operational processes, as will continued investment in developing the use of technology and automation. High priority is given to investing in staff, and digital learning platforms have been rolled out across the bank to allow our people to enhance their skills at home. This acceleration of the digital and remote working strategies has been and will continue to be underpinned by strict governance and risk protocols. Innovative solutioning will remain central to the bank's continued success and particularly so given the acceleration in the current rate of technological change.

The bank remains a strong proponent of good governance and corporate citizenship, and with special relevance to the pandemic. FNBB has partnered with its clients in providing them much-needed cash flow relief moratoriums through difficult trading conditions and has contributed meaningfully to the Government's COVID-19 relief efforts both in the form of funds donated and direct initiatives implemented.

After proving a success in extending banking services to more remote locations and multiple access points, the new Cash Plus channel will be further rolled out in line with our financial inclusion strategy. It is fundamental to our objectives that we build a shared future of prosperity through enriching the lives of our customers, employees and society in general. This is the foundation to a sustainable future and will preserve the bank's enduring commitment to create long term value.

CAPITAL MANAGEMENT

The bank maintains sound capital ratios to ensure confidence in the solvency and the quality of its capital during both calm and turbulent periods in the economy and in financial markets. FNBB aims to maintain capital ratios in line with risk appetite, and thereby appropriately safeguarding its operations and stakeholder interests.

Furthermore, the capital management strategy is to ensure an optimal level and composition of capital. Effective allocation of financial resources, including capital and risk capacity, has resulted in a sound return on equity and a sustainable dividend distribution to shareholders even in the turbulent times of a global pandemic. The capital planning process is conducted on a forward-looking basis, considers the organic growth requirements, and includes a safety margin for unexpected fluctuations in business plans and possible earnings volatility. The requirements of both internal and regulatory capital adequacy requirements have been complied with. This helps safeguard shareholder returns and ensures that the bank maintains its ability to operate as a going concern even under severe stress conditions.

The capital focus has been directed to the composition of the bank's capital structure and efficiency of risk-weighted assets. The Board reviews and approves macroeconomic scenarios on a regular basis for regulatory and business purposes. The same process is a key input into the Internal Capital Adequacy Process (ICAAP) which in turn informs our capital management. For the six-month period ended 31 December 2020, FNBB continued to operate above both the internal and regulatory minimum capital adequacy ratios. As at the end of the six-month period, the total capital adequacy ratio was 22.72%, being comfortably above the regulatory minimum of 12.50%.

In the context of the prevailing economic conditions, the Directors have continued to adopt a prudent approach to balancing an efficient capital position with the need to retain sufficient capital for unexpected fluctuations in earnings volatility. This has resulted in increasing the capital adequacy ratio and conserving capital, and taking into account a medium- to long-term horizon.

The Directors have thoroughly assessed the financial position of the bank and recommend an interim dividend of 6 thebe per share. As per Section 58 (3) of the Companies Act, the Directors confirm that after payment of the dividend, the bank shall satisfy the solvency test. (As defined in Section 4 of the Companies Act).

Since the solvency test was performed, there has been no significant change to the financial position of the bank.

EVENTS AFTER REPORTING DATE

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

CORPORATE GOVERNANCE

The Board of Directors 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.

The Board and management are responsible for ensuring that the bank's operations are conducted in accordance with all applicable laws and regulations, including the responsibility for ensuring the following:

1. Adequate and effective management of corporate governance and risk and in accordance with recommended current best practice;
2. Maintenance of appropriate internal controls including the reporting of material malfunctions; and
3. The bank's continued capability to operate as a going concern in a rapidly changing world, when faced with volatility in global politics, health services and economics, while managing and implementing rapid advances in technological development.
4. The bank consideration of the environmental and social impact of conducting business

The Board comprises a majority of independent, non-executive Directors and meets regularly, overviews executive management performance and retains effective control over the bank. The Board is assisted by sub-committees, which are responsible for different aspects of governance. The subcommittees include Audit, Credit, Directors' Affairs and Governance, Remuneration and Risk Capital Management and Compliance Committees.

SOCIAL RESPONSIBILITY

The bank remains committed to its social responsibility to the community, which function it performs through the FNBB Foundation. The FNBB Foundation has independent Trustees who ensure that a wide spectrum of sustainable social welfare and development activities nationwide are prudently assessed and funded.

The Foundation provides the opportunity for greater involvement and co-operation with the community within which the bank operates, specifically:

- Education
- Youth Empowerment
- Skills development/vocational training
- Support for the disadvantaged/ handicapped, especially children
- Promotion of arts and culture
- Provision of sports and recreation facilities for the community

FNB Botswana has committed to contributing up to 1% of each year's profit after tax to the Foundation. Since its inception in 2001, the bank has made grants of more than P57 million to the Foundation, which has been invested appropriately in qualifying beneficiaries.

DECLARATION OF DIVIDEND

Notice is hereby given that an interim dividend of 6 thebe per share has been declared for the half year ended 31 December 2020. The dividend will be paid on or about 30 March 2021 to shareholders registered at the close of business on 18 March 2021. The ex-dividend date will be on 16 March 2021.

In terms of the Income Tax Act (Cap 52.01) as amended, withholding tax at the rate of 7.5% will be deducted by the Bank from gross dividends. If a change of address or dividend instructions is to apply to this dividend, notification should reach the Transfer Secretaries by 25 March 2021.

For and on behalf of the Board.

B M Bonyongo
Chairman

S L Bogatsu
Chief Executive Officer

Gaborone, 02 March 2021

TRANSFER SECRETARIES
PricewaterhouseCoopers (Proprietary) Limited
Plot 50371, Fairgrounds, PO Box 294, Gaborone

Unaudited Condensed Consolidated Income Statement

	Six months ended 31 December 2020 P'000	Six months ended 31 December 2019 P'000	% Change
Interest income calculated using the effective interest rate	713 413	841 864	(15)
Interest expense and similar charges	(135 973)	(153 715)	(12)
Net interest income before impairment of advances	**577 440**	**688 149**	**(16)**
Impairment of advances	(199 381)	(172 277)	16
Net interest income after impairment of advances	**378 059**	**515 872**	**(27)**
Non-interest income	638 919	666 119	(4)
Income from operations	**1 016 978**	**1 181 991**	**(14)**
Operating expenses	(298 355)	(325 045)	(8)
Employee benefits costs	(292 860)	(302 318)	(3)
Income before indirect taxation	**425 763**	**554 628**	**(23)**
Indirect taxation	(6 710)	(9 715)	(31)
Profit before direct taxation	**419 053**	**544 913**	**(23)**
Direct taxation	(92 192)	(119 881)	(23)
Profit for the period attributable to owners of the parent	**326 862**	**425 032**	**(23)**
Average number of shares in issue during the period (thousands)	2 543 700	2 543 700	(0)
Earnings per share (thebe) (based on weighted average number of shares in issue)	12.85	16.71	(23)

Unaudited Condensed Consolidated Statement of Other Comprehensive Income

	Six months ended 31 December 2020 P'000	Six months ended 31 December 2019 P'000	% Change
Profit for the year	326 862	425 032	(23)
Total other comprehensive income for the period attributable to the equity holders	326 862	425 032	(23)

Unaudited Condensed Consolidated Statement of Financial Position

	Six months ended 31 December 2020 P'000	Six months ended 31 December 2019 P'000	% Change	Audited as at 30 June 2020 P'000
ASSETS				
Cash and short-term funds	4 743 236	4 807 001	(1)	4 697 599
Derivative financial instruments	68 236	74 346	(8)	76 872
Advances to banks	287 953	319 284	(10)	-
Advances to customers	14 118 607	15 907 665	(11)	14 686 767
Investment securities	7 452 918	4 569 886	63	9 509 211
Current taxation	169 434	91 519	85	86 324
Due from related companies	10 562	9 475	(11)	11 684
Other assets*	413 162	188 620	119	479 314
Property and equipment	580 322	621 775	(7)	601 044
Goodwill	26 963	26 963	-	26 963
Deferred taxation	3 706	6 520	(43)	3 706
Total assets	**27 875 099**	**26 623 054**	**5**	**30 179 484**
LIABILITIES AND SHAREHOLDERS' FUNDS				
Liabilities				
Derivative financial instruments	32 488	34 390	(6)	36 708
Accrued interest payable	10 094	40 540	(75)	28 079
Due to related parties	17 394	21 850	(20)	21 322
Creditors and accruals	573 711	552 616	-	723 586
Deposits from banks	511 752	351 907	45	545 002
Deposits from customers	21 238 765	20 122 675	6	23 171 897
Employee benefits liabilities	53 358	55 416	(4)	81 504
Borrowings	1 508 643	1 732 467	(13)	1 765 858
Deferred taxation	207 382	205 763	1	207 382
Total liabilities	**24 153 587**	**23 117 624**	**4**	**26 581 338**
Capital and reserve attributable to ordinary equity holders				
Stated capital	51 088	51 088	-	51 088
Reserves	3 517 802	3 276 283	7	3 343 562
Dividend reserve	152 622	178 059	(14)	203 496
Total equity	**3 721 512**	**3 505 430**	**6**	**3 598 146**
Total equity and liabilities	**27 875 099**	**26 623 054**	**5**	**30 179 484**
Off -Balance Sheet				
Undrawn commitments to customers	2 062 674	2 508 453	(18)	2 233 457
Guarantees and letters of credit	466 209	581 251	(20)	386 300
Total contingencies and commitments	**2 528 883**	**3 089 704**	**(18)**	**2 619 757**

*In the prior year, these amounts were presented as accounts receivable. The description "other assets" is more appropriate based on the nature of the assets included in this line item and is in line with industry practice.

Unaudited Condensed Consolidated Statement of Changes in Equity

	Stated capital P'000	Other non -distributable reserves P'000	Retained earnings P'000	Dividend reserve P'000	Total P'000
Balance at 1 July 2020	**51 088**	**59,866**	**3,283,696**	**203,496**	**3,598,146**
Profit for the period	-	-	326,862	-	326,862
Dividend paid - 2020 final	-	-	-	(203,496)	(203,496)
Dividend proposed - 2021 interim	-	-	(152,622)	152,622	-
Balance at 31 December 2020	**51 088**	**59,866**	**3,457,936**	**152,622**	**3,721,512**
Balance at 1 July 2019	**51 088**	**61 430**	**2 967 881**	**254 370**	**3 334 769**
Profit for the period	-	-	425 032	-	425 032
Dividend paid - 2019 final	-	-	-	(254 370)	(254 370)
Dividend proposed - 2020 interim	-	-	(178 059)	178 059	-
Balance at 31 December 2019	**51 088**	**61 430**	**3 214 854**	**178 059**	**3 505 431**

Unaudited Condensed Consolidated Statement of Cashflows

	Six months ended 31 December 2020 P'000	Six months ended 31 December 2019 P'000
Cash flows from operating activities		
Cash generated from operations before taxation and working capital changes	465 403	268 701
Interest and similar income	713 413	841 864
Interest and similar expense	(135 793)	(153 715)
Taxation paid	(255 610)	(277 090)
Cash from operating activities	**787 413**	**679 760**
Movement in amounts due to other banks	159 845	(939 843)
Movement in deposits and current accounts	1 116 089	1 857 091
Movement in amounts due to related companies	(4 456)	(16 549)
Movement in accrued interest payable	(30 445)	(19 494)
Movement in creditors and accruals	21 095	203 219
Movement in employee benefits liabilities	(2 058)	(12 391)
Movement in investments - FV through profit or loss	(35 582)	(39 398)
Movement in investments - amortised cost	(744 986)	(359 814)
Movement in advances to customers	1 408 085	(532 397)
Movement in advances to banks	31 330	(319 284)
Movement in other assets	(224 542)	133 241
Movement in amounts due from related companies	(1 087)	(2 372)
Cash generated from operating activities	**2 480 701**	**631 769**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(13 081)	(20 730)
Cash flows from financing activities		
Borrowings (repaid)/raised	(223 824)	277 032
Finance lease payments	(1 678)	(3 395)
Dividends paid	(203 496)	(254 370)
Cash (utilised in)/generated from financing activities	**(428 998)**	**19 267**
Cash movement for the period	**2 038 622**	**630 306**
Cash and cash equivalents at the beginning of the period	6 804 051	6 173 745
Total cash and cash equivalents at end of the period	**8 842 673**	**6 804 051**
Cash and short-term funds	4 743 235	4 807 001
Investment in Bank of Botswana certificates	4 099 438	1 997 050
Total cash and cash equivalents at end of the period	**8 842 673**	**6 804 051**

Ratios and Market Information

	Unaudited Six months ended 31 December 2020	Unaudited Six months ended 31 December 2019	% Change
Dividend per share (thebe)	6	7	(14)
Dividend cover (times)	2.1	2.4	(13)
Cost to income ratio (percent)*	49.2	47.0	5
Return on equity (percent)**	17.9	25.4	(30)
Return on average assets (percent)***	2.4	3.3	(27)
Capital adequacy ratio (percent)	22.72	20.77	10
Closing share price (thebe)	220	285	(23)
Price earnings ratio	11.1	8.5	31

**Cost to income is based on total non-interest expenditure including indirect taxation (Value Added Tax) and income excludes the impairment charge.*

*** Return on Equity is annualised and includes proposed dividend (dividend reserve)*

**** Return on average assets is annualised*

Segmental Reporting

Operating segments are reported in accordance with the internal management reporting procedures to determine the performance of each segment to ensure that resources are suitably allocated. All operating segments used by the bank meet the definition of a reportable segment. The bank has four main business segments:

- FNB Retail segment - comprising advances and deposits and the revenue flowing from individual customers;
- FNB Business segment - comprising advances and deposits and the revenue flowing from business customers;
- RMB Corporate segment- comprising advances and deposits and the revenue flowing from corporate customers;
- Treasury - manages the bank's liquidity and funding.

To determine the performance, profitability and efficiency of the segments, the bank presents interest income after the cost of funding and interest expenditure after the benefit of funding.

Unaudited Condensed Segmental Reporting

Six months ended 31 December 2020

	Retail P'000	Business P'000	Corporate P'000	Treasury P'000	Total P'000
Interest income	285 866	63 849	20 676	343 022	713 413
Non-interest income	324 144	217 143	125 959	(28 327)	638 919
Total segment revenue	**610 010**	**280 992**	**146 635**	**314 695**	**1 352 332**
Interest expenditure	56 814	75 116	61 789	(329 692)	(135 973)
Segment operating income before impairments	**666 824**	**356 108**	**208 424**	**(14 997)**	**1 216 359**
Impairment charge	(64 242)	(133 255)	(1 884)	-	(199 381)
Operating income after impairment of advances	**602 582**	**222 853**	**206 540**	**(14 997)**	**1 016 978**
Total other expenditure	(276 344)	(232 818)	(80 829)	(1 224)	(591 215)
Profit before indirect taxation	**326 238**	**(9 965)**	**125 711**	**(16 221)**	**425 763**
Indirect taxation	(6 610)	738	(713)	(125)	(6 710)
Profit before taxation	**319 628**	**(9 227)**	**124 998**	**(16 346)**	**419 053**
Gross advances to customers	**9 818 476**	**3 467 792**	**2 322 938**	**-**	**15 609 206**
Impairments	(602 128)	(857 394)	(31 078)	-	(1 490 600)
Net Advances	**9 216 348**	**2 610 399**	**2 291 860**	**-**	**14 118 607**
Deposits from banks and customers	**5 380 705**	**7 898 821**	**6 220 819**	**2 250 172**	**21 750 517**

Unaudited Condensed Segmental Reporting

Six months ended 31 December 2019

	*Retail P'000	*Business P'000	Corporate P'000	Treasury P'000	Total P'000
Interest income	312 864	74 837	16 688	437 475	841 864
Non- interest income	310 622	227 156	128 418	(77)	666 119
Total segment revenue	**623 486**	**301 993**	**145 106**	**437 398**	**1 507 983**
Interest expenditure	61 912	98 228	75 458	(389 313)	(153 715)
Segment operating income before impairments	**685 398**	**400 221**	**220 564**	**48 085**	**1 354 268**
Impairment charge	(131 319)	43 085	2 127	-	(172 277)
Operating income after impairment of advances	**554 079**	**357 136**	**222 691**	**48 085**	**1 181 991**
Total other expenditure	(315 752)	(231 936)	(77 231)	(2 444)	(627 363)
Profit before indirect taxation	**238 327**	**125 200**	**145 460**	**45 641**	**554 628**
Indirect taxation	(10 048)	1 168	(696)	(139)	(9 715)
Profit before taxation	**228 279**	**126 369**	**144 764**	**45 502**	**544 913**
Gross advances to customers	**11 245 597**	**4 027 995**	**1 746 614**	**-**	**17 020 206**
Impairments	(524 090)	(559 606)	(28 842)	-	(1 112 538)
Net Advances	**10 721 508**	**3 468 389**	**1 717 772**	**-**	**15 907 669**
Deposits from banks and customers	**4 850 079**	**6 945 599**	**5 878 497**	**2 800 407**	**20 474 582**

*2019 Restatements	Retail P'000	Business P'000	WesBank P'000	Total P'000
Interest income	26 109	20 895	(47 003)	-
Non-Interest Income	5 337	1 685	(7 022)	-
Interest expenditure	901	(91)	(810)	-
Impairment charge	(10 016)	(449)	10 465	-
Total other Expenditure	(16 814)	(16 155)	32 970	-
Indirect Taxation	(629)	(1 168)	1 796	-
Balance Sheet				
Gross advances to customers	1 428 710	915 383	(2 344 093)	-
Impairments	(55 604)	(49 119)	104 723	-
Deposits from customers	-	(1 672)	1 672	-

Audited Condensed Segmental Reporting

At 30 June 2020

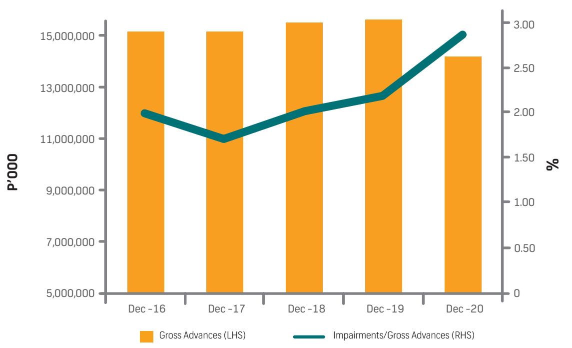
	*Retail P'000	*Business P'000	Corporate P'000	Treasury P'000	Total P'000
Gross advances to customers	**10 428 238**	**3 770 945**	**1 817 296**	**-**	**16 016 478**
Impairments	(592 906)	(707 611)	(29 194)	-	(1 329 711)
Net Advances	**9 835 331**	**3 063 334**	**1 788 102**	**-**	**14 686 767**
Deposits from customers	**3 649 274**	**6 987 896**	**9 709 297**	**3 337 182**	**23 683 649**

*June 2020 Restatements	Retail P'000	Business P'000	WesBank P'000	Total P'000
Gross advances to customers	1 400 067	796 771	(2 196 838)	-
Impairments	(67 769)	(49 938)	117 707	-

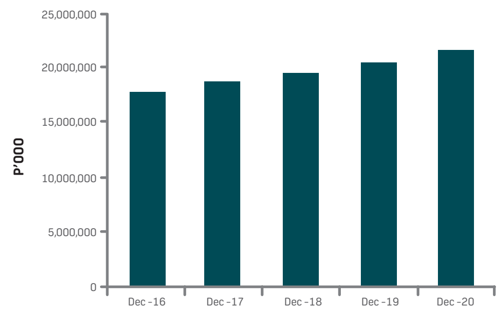
* Effective 1st July 2020 WesBank is no longer a reportable segment and is now reported as a product within Retail and Business.

Financial Graphs

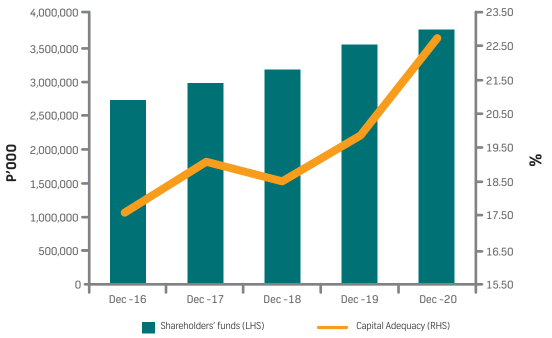
Gross Advances vs Impairments to Gross Advances



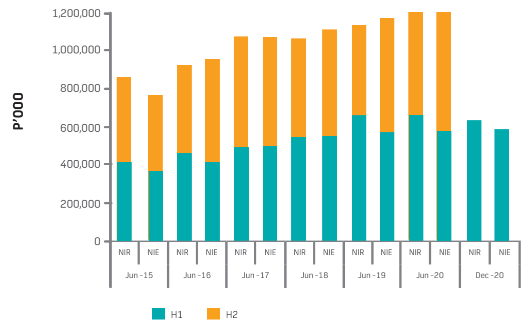
Deposits



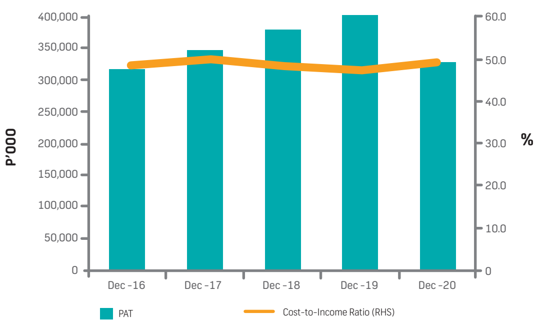
Shareholders' Funds vs Capital Adequacy



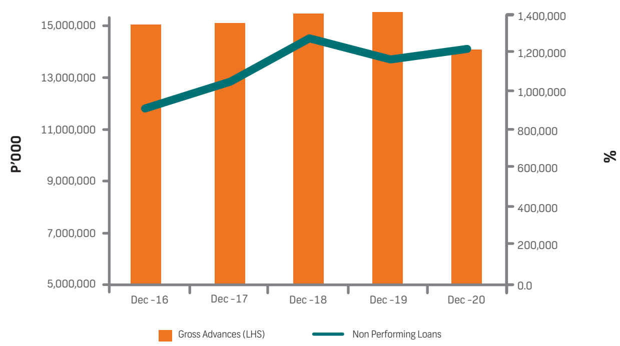
Non-Interest Revenue vs Non-Interest Expenses



Profit After Tax vs Cost-To-Income Ratio



Gross Advances vs NPLs



Advances

Advances classified per loan type 31 December 2020 (P'000)	Amortised Cost	Loss Allowance	Total
Term Loans	5 831 996	(608 565)	5 223 431
Suspensive sale debtors and lease payments	2 064 171	(133 050)	1 931 120
Property Loans	5 936 259	(404 503)	5 531 756
Overdrafts and managed accounts	1 290 099	(338 511)	951 588
Other	486 682	(5 970)	480 712
Total	**15 609 206**	**(1 490 600)**	**14 118 607**
Advances classified per loan type 31 December 2019 (P'000)			
Term Loans	7 374 193	(500 115)	6 874 079
Suspensive sale debtors and lease payments	2 272 946	(104 529)	2 168 417
Property Loans	5 954 203	(279 600)	5 674 604
Overdrafts and managed accounts	1 196 815	(197 369)	999 446
Other	222 048	(30 925)	191 124
Total	**17 020 206**	**(1 112 538)**	**15 907 665**
Advances classified per loan type 30 June 2020 (P'000)			
Term Loans	6 588 473	(725 871)	5 862 602
Suspensive sale debtors and lease payments	2 136 973	(117 707)	2 019 266
Property Loans	5 959 005	(231 568)	5 727 437
Overdrafts and managed accounts	1 125 061	(240 064)	884 997
Other	206 966	(14 501)	192 465
Total	**16 016 478**	**(1 329 711)**	**14 686 767**

	Gross Advances				Loss Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Amortised Cost								
Amount as at 01 July 2020	13,585,181	1,208,852	1,222,445	16,016,478	201,960	241,071	886,680	1,329,711
Transfer from Stage 1 to Stage 2 (Total)	(515,634)	515,634	-	-	(85,118)	85,118	-	-
Transfer from Stage 1 to Stage 3 (Total)	(13,785)	-	13,785	-	(293)	-	293	-
Transfer from Stage 2 to Stage 3 (Total)	-	(24,416)	24,416	-	-	(2,884)	2,884	-
Transfer from Stage 2 to Stage 1 (Total)	255,476	(255,476)	-	-	22,875	(22,875)	-	-
Opening balance after transfers	**13,311,238**	**1,444,595**	**1,260,646**	**16,016,478**	**139,423**	**300,430**	**889,857**	**1,329,711**
Current period provision created/released	(249,099)	(104,989)	37,846	316,242	60,714	77,872	81,836	220,422
Change in exposure of back book in the current year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Atrributable to change measurement period (12 month to lifetime)	-	-	-	-	673	(7,117)	-	(6,444)
Attributable to change in risk parameters	-	-	-	-	44,548	72,537	80,679	197,765
Change in exposure due to new business in the current period net of attrition	(249,099)	(104,989)	37,846	(316,242)	15,493	12,451	1,157	29,101
Bad debts written off	-	-	(91,029)	(91,029)	-	-	(91,029)	(91,029)
Net interest suspended/released	-	-	-	-	-	-	31,496	31,496
Balance 31 December 2020	**13,062,139**	**1,339,606**	**1,207,462**	**15,609,206**	**200,137**	**378,302**	**912,160**	**1,490,600**

	Gross Advances				Loss Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Amortised Cost								
Amount as at 01 July 2019	14,906,465	932,420	1,145,734	16,984,619	210,310	195,438	639,824	1,045,572
Transfer to Stage 1 (Total ECL)	231,875	(182,893)	(48,982)	-	40,557	(22,033)	(18,524)	-
Transfer to Stage 2 (Total ECL)	(659,736)	662,201	(2,465)	-	(34,482)	35,360	(878)	-
Transfer to Stage 3 (Total ECL)	(19,041)	(24,179)	43,220	-	(229)	(4,497)	4,726	-
Opening balance after transfers	**14,459,563**	**1,387,550**	**1,137,507**	**16,984,619**	**216,155**	**204,269**	**625,148**	**1,045,572**
Current period provision created/released	149,818	(145,991)	183,128	186,955	(83,576)	94,659	187,563	198,645
Change in exposure of back book in the current year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Atrributable to change measurement period (12 month to lifetime)	-	-	-	-	-	-	-	-
Attributable to change in risk parameters	-	-	-	-	(76,455)	125,113	12,300	60,958
Change in exposure due to new business in the current period net of attrition	149,818	(145,991)	183,128	186,955	(7,122)	(30,454)	175,264	137,688
Bad debts written off	-	-	(151,368)	(151,368)	-	-	(151,368)	(151,368)
Net interest suspended/released	-	-	-	-	-	-	19,688	19,688
Amount as at 31 December 2019	**14,609,380**	**1,241,559**	**1,169,267**	**17,020,206**	**132,578**	**298,928**	**681,031**	**1,112,538**

	Gross Advances				Loss Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Amortised Cost								
Amount as at 01 July 2019	14,786,534	1,052,351	1,145,734	16,984,619	210,310	195,438	639,824	1,045,572
Transfer from Stage 1 to Stage 2 (Total)	292,915	292,915	-	-	34,667	34,667	-	-
Transfer from Stage 1 to Stage 3 (Total)	(977,406)	977,406	-	-	(27,522)	27,522	-	-
Transfer from Stage 2 to Stage 3 (Total)	(55,600)	-	55,600	-	512	-	512	-
Transfer from Stage 2 to Stage 1 (Total)	-	(38,984)	38,984	-	-	(6,900)	6,900	-
Opening balance after transfers	**14,046,443**	**1,697,858**	**1,240,318**	**16,984,619**	**216,943**	**181,393**	**647,236**	**1,045,572**
Current period provision created/released	(461,262)	(489,006)	222,973	727,295	(14,983)	59,678	365,913	410,608
Change in exposure of back book in the current year				**-**				**-**
Atrributable to change measurement period (12 month to lifetime)		12,291		12,291		(4,366)		(4,366)
Attributable to change in risk parameters	236,390	(754,140)	186,319	(331,431)	78,654	(213,456)	355,180	220,378
Change in exposure due to new business in the current year net of attrition	(697,652)	252,843	36,654	(408,155)	(93,637)	268,768	10,733	185,864
Bad debts written off	-		(240,846)	(240,846)			(155,964)	(155,964)
Net interest suspended/released							29,495	29,495
Balance 30 June 2020	**13,585,181**	**1,208,852**	**1,222,445**	**16,016,478**	**201,960**	**241,071**	**886,680**	**1,329,711**

The bank reports exposures based on the impairment stage at the end of the reporting period. The bank transfers opening balances (back book), at the value as at 1 July of each year, based on the impairment stage at the end of the reporting period. Any movements in provisions are included in the impairment stage as at the end of the reporting period. Exposures in the back book, can move directly from stage 3 to stage 1, if the curing requirements have been met in a reporting period. All new advances are included in the change in exposure due to new business in the current year based on the exposures' impairment stage at the end of the reporting period. Similarly, exposures in the new business lines can be reported in stage 3 at the end of the reporting date. Changes in exposure reflects the net amount of:

- Additional amounts advanced on the back book and any settlements. Transfers on the back book are reflected separately.
- New business originated during the financial year, the transfers between stages of the new origination and any settlements.

IMPAIRMENT OF ADVANCES

Significant estimates, judgements and assumptions related to the impairment of advances

Impairment of financial assets: Staging of Financial Assets

In accordance with IFRS 9, all exposures are assessed to determine whether there has been a significant increase in credit risk (SICR) at each reporting date. The assessment is performed monthly.

SICR assessments are client behavioural based determined by applying client behavioural risk scores as well as judgemental factors. Factors may include behaviour on other products, industry specific stresses and anticipated changes in legislation. Judgemental factors may result in the client being added to the watch list through the bank's ongoing risk management process.

SICR triggers are portfolio specific and are calibrated over time to determine what level of deterioration is reflective of a significant increase in credit risk with reference to historic default rates within that portfolio. The bank uses a relative movement in probability of default (PD) between reporting date and origination date to determine if there was a significant increase in credit risk. Corporate, Commercial and Small to Medium sized Enterprise portfolio (SME) assessments include deal and client specific factors and are calibrated over time to determine what level of deterioration is reflective of a significant increase in credit risk.

Default Events

Exposures are classified as stage 3 if there are quantitative or qualitative indicators that the obligor is unlikely to pay their credit obligations in full – a default event. Distressed restructures of accounts in stage 2 are also considered to be default events.

Cure of Accounts

For a retail and retail SME account to migrate from stage 3 to either stage 2 or stage 1, the account needs to meet a stringent cure definition. Cure definitions are determined on a portfolio level with reference to suitable analysis and are set such that the probability of a previously cured account re-defaulting is equivalent to the probability of default for an account that has not defaulted in the past. For wholesale and commercial SME exposures, cures are assessed on a case-by-case basis, subsequent to an analysis by the appropriate governance forums comprised of experts.

Impairment of financial assets: Computation of Expected Credit Loss

In determining whether an impairment loss should be recognised, the bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of advances. The objective of the measurement of an impairment loss is to produce an approximate quantitative measure of the bank's credit risk exposure.

Methodology to Determine the Parameters Applied in the Measurement of the 12-month and Life-time expected credit loss (LECL)

Retail and Retail SME parameters are determined on a pooled basis, with exposures pooled on a portfolio level at a minimum. Where appropriate, more granular pooling is applied. The inputs used to determine parameter values include historically observed behaviour as well as behavioural and demographic information related to individual exposures currently on book. The statistical models applied implicitly assume that risk drivers that influence default risk, payment behaviour and recovery expectations within the historical data will continue to be relevant in the future.

Corporate, Commercial and SME parameters are determined based on the application of statistical models that produce estimates based on counterparty-specific financial information and transaction characteristics including the nature of available collateral. Due to the specialised nature of these exposures, parameters produced by models are subject to a robust review process before being applied to calculate expected credit losses. This is overseen by a committee of Wholesale credit experts and motivations for any adjustments to modelled parameters are carefully reviewed.

Parameters are calibrated for the calculation of 12-month and life-time expected credit loss (LECL) using term structures that consider account age, historical behaviour, transaction characteristics and correlations between parameters. Term structures have been developed over the entire remaining contractual lifetime of a loan. The remaining lifetime is limited to the contractual term of loans and instruments in the portfolio, except for loans and instruments with an undrawn limit commitment. This also includes credit cards, where there is not a contractual expiry date. In such instances the remaining term is determined with reference to the change in client requirements that would trigger a review of the contractual terms, for example a change in limit.

Expected credit losses on open accounts are discounted from the expected date of default to the reporting date using the asset's original effective interest rate or a reasonable approximation thereof. The statistical models applied implicitly assume that the risk drivers that influence default risk, payment behaviour and recovery expectations is within the historical data will continue to be relevant in the future.

Computation of the Expected Credit Loss: The Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) approach
The bank has adopted the PD and LGD approach, applied to the EAD, for the calculation of ECL for advances. Measures are computed at a portfolio level (where accounts with similar characteristics are clustered together) except for the case of high value Corporate exposures where measures are assessed on a counterparty level.

Regression modelling techniques are used to determine which borrower and transaction characteristics are predictive of certain behaviours, based on relationships observed in historical data related to the bank of accounts to which the model will be applied. This results in the production of models that are used to predict impairment parameters based on the predictive characteristics identified through the regression process.

PDs are measurements of the estimated likelihood that a borrowing client will default within a specified period. In line with IFRS 9, a 12-month PD is applied to the stage 1 advances portfolio and a lifetime PD applied to the stage 2 advances portfolio (resulting in a Lifetime Expected Credit Loss estimate). PDs are calibrated on a periodic basis using regression modelling applying historic default data. Forward-Looking Indicators (FLIs) are applied to the PD computation through a credit index model. An average of three macroeconomic scenarios incorporating a base scenario, upside scenario and downside scenario, weighted by the probability of occurrence.

LGDs are present value measurements of the expected loss that the bank will incur if a borrowing account defaults (i.e. a PD of 100%). LGDs are determined through regression modelling by estimating expected future cash flows, including costs and proceeds from sale of collateral, based on historically observed outcomes. Data points include; the net recovered value of collateral, the period taken to recover that collateral, the amortisation of the outstanding advance balance while in default and an estimation of the likelihood that a stage 3 account will migrate back to stage 2. Present value discount rates applied are asset's original effective interest rate or a reasonable approximation thereof.

EAD is the estimated exposure of a borrowing client at the point of default. EAD parameters are estimated based on product characteristics and historical drawdown and payment behaviour.

Approach to Incorporate Forward-Looking Indicators (FLI)
FLI has been incorporated into expected loss estimates through the application of quantitative modelling and expert judgement-based adjustments applied to PDs. The techniques applied estimate the impact of forecasted FLIs on ECL using regression techniques.

The macroeconomic scenarios are defined by taking global and domestic macroeconomic considerations into account, and forecasts are developed for baseline, downside, upside and stress scenarios. These scenarios are overseen by a governance forum, which is responsible for oversight and is independent from credit and modelling functions.

To arrive at the macroeconomic forecasts, a bottom-up and top-down process is followed. The process is conducted by the team of economists. These economists assess micro and macroeconomic developments to formulate (bottom-up) and adjust (top-down) the macroeconomic forecasts. Several internal and external economists are then requested to assign a probability to each scenario with supporting rationale. The loss estimates are based on the macroeconomic scenarios and the determination of associated probabilities are subjective, with final modelled ECL results dependent on the assumptions applied during the process.

The impact of FLI on ECL is ordinarily determined based on historical relationships between macro-economic movements and default rates. Where it is not expected for these relationships hold under current macro-economic conditions, judgemental adjustments have been made through post-model adjustments.

The macroeconomic scenarios are defined by taking global and domestic macroeconomic considerations into account, and forecasts are developed for baseline, downside, upside and stress scenarios. The baseline, downside and upside scenarios are used in the ECL calculations.

Economic Scenarios Applied in December 2020 ECL computation

The macroeconomic scenarios have been reviewed and approved by the Directors in 31 December 2020. An average of three macroeconomic scenarios incorporating a base scenario, upside scenario and downside scenario, weighted by the probability of occurrence, has been calculated. This weighted average has been applied to the PD computation through a credit index model. The scenarios and the relative weighting thereof have been included in the table below.

FLIs: Applied in ECL Models as at 31 December 2020			
GDP Per Annum	**Upside**	**Baseline**	**Downside**
2021	-0.3%	-2.1%	-5.25%
2022	4.9%	3.3%	0.25%
2023	5.6%	3.5%	0.85%
Weighting	13.7%	65%	21.3%

FLIs: Applied in ECL Models as at 31 December 2019			
GDP Per Annum	**Upside**	**Baseline**	**Downside**
2020	6.5%	3.7%	2.4%
2021	7.5%	4.1%	1.5%
2022	9.4%	4.0%	2.0%
Weighting	15%	66%	19%

FLIs: Applied in ECL Models as at 30 June 2020			
GDP Per Annum	**Upside**	**Baseline**	**Downside**
2021	-0.3%	-2.1%	-6.91%
2022	4.9%	3.3%	0.25%
2023	5.6%	3.5%	0.85%
Weighting	15%	66%	19%

The economic scenarios applied as at 31 December 2020 are described as follows:

Upside: Domestic growth lifts to the 40th percentile of the historical distribution. The global economy experiences a short but severe recession before rebounding strongly in 2021 while developed market inflation remains low and global financial conditions ease meaningfully over the forecasted horizon.

Baseline: Given the global tensions around the COVID-19, disruptions appear in the global supply chain due to lockdowns. Amid prevalent factors, growth prospects in Botswana's key sectors may be negatively impacted with local trade operations disrupted, exerting further pressure on tax revenues and mounting fiscal pressure. The informal sector is impacted by extreme social distancing measures that Government has put in place with some factors, such as wage subsidies and social packages, providing some mitigation to the impact.

Downside: Domestic growth falls below the 1st percentile of the historical distribution. The global economy moves into a deep, but temporary, recession before experiencing a muted recovery as permanent damage is inflicted on global supply chains due the COVID-19 shock. Inflation begins to rise, preventing major central banks from providing further stimulus.

COVID-19

The bank has offered financial relief to borrowing clients in response to the COVID-19 pandemic. This has been offered in the form of restructures of existing exposures with no change in the present value of the estimated future cash flows.

Exposures on which relief has been offered have been assessed to determine whether the requirement for relief is expected to be temporary or permanent in nature. Where the requirement for relief is expected to be temporary in nature and as such qualified as a non-distressed restructure, the staging of the exposure prior to the restructure has been maintained, and adjustments have been made to coverage to allow for incremental credit risk and potential masking of normal arrears. Where the requirement for relief is not expected to be temporary in nature, the exposure has been treated as a distressed restructure, and staging and coverage has been adjusted in line with normal practice.

The bank has reviewed all parameters comprising the baseline ECL computation for appropriateness given the severe impact of COVID-19.

Regression modelling techniques have been used to determine which borrower and transaction characteristics are predictive of certain behaviours, based on relationships observed in historical data related to the bank of accounts to which the model will be applied. This resulted in the production of models that are used to predict impairment parameters based on the predictive characteristics identified through the regression process. Given the extended length of historical data applied in these regression models and the relatively recent impact of COVID-19, the historical assumptions were not considered sufficient to predict the ECL impact of the COVID-19 on the existing exposures.

This identified limitation in the ECL models was addressed via a post-model adjustment (PMA) process. The bank undertook a thorough review of the appropriateness of two key ECL parameters (PD and LGD). Where exposures were restructured but staging remained the same, increased ECL were implemented to allow for incremental credit risk and potential masking of normal arrears. This has been implemented via an increase in PDs. Where stage migrations were undertaken, appropriate stage specific ECL parameters were applied to the exposure.

PDs are calibrated on a periodic basis using regression modelling applying historic default data. To incorporate the increase in PDs that the historic default data doesn't include, the bank computed an appropriate scalar to apply to the PDs. This was applied directly to the restructured portfolio on a 1:1 basis. The application to the non-restructured portfolio was performed via an industry risk assessment.

LGDs are determined through regression modelling by estimating expected future cash flows, including costs and proceeds from sale of collateral, based on historically observed outcomes. To incorporate the increase in LGDs that the historic default data doesn't include, the bank reviewed key assumptions underpinning LGDs including the net recoverable value of collateral and the period taken to recover that collateral. The collateral used in assessing the net recoverable value was classified into 3 broad categories including: residential properties, commercial properties and vehicles. Each was category was thoroughly assessed and appropriate discounts applied thereto.

IMPACT OF ADOPTING REVISED ACCOUNTING STANDARDS

Improvements to the Conceptual Framework, which included revised definitions of assets and liabilities and clarified concepts relating to prudence, stewardship, measurement uncertainty and substance over form, became effective in the current year. Other amendments that became effective in the current year include amendments to IFRS 3 to clarify the definition of a business in a business combination and amendments to IAS 1 and IAS 8 to update and clarify the definition of materiality.

In addition, amendments were made to IFRS 9 and IAS 39 as part of phase 1 of the interest rate benchmark reform (IBOR reform) to provide hedge accounting relief for hedging relationships affected by IBOR reform. The amendments allow an entity to apply the existing hedge accounting requirements as if the interest rate benchmarks that affects the hedging relationships are not altered as a result of IBOR reform, which results in hedge accounting not being discontinued solely on the basis of uncertainty arising from IBOR reform.

None of the new or amended IFRS that became effective for the six months ended 31 December 2020 impacted the bank's reported earnings, financial position or reserves, or the accounting policies.

Fair Value Financial Instruments

Fair value hierarchy and measurements

The bank 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 bank include, inter alia, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option-pricing models, and discounted cash flow techniques. The details per type of asset or liability are set out in the tables below.

Where a valuation model is applied and the bank 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 bank 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, nonrecourse investments and deposits, over the counter derivatives, deposits, other liabilities, long term borrowings, commodities which are not exchange-traded.

Level 3

Fair value is determined using a valuation technique and significant inputs that are not based on observable market data (i.e. unobservable inputs) such as an entity's own assumptions about what market participants would assume in pricing assets and liabilities. The below table outlines the valuation techniques for financial instruments measured at fair value which are included in level 2 and 3 of the fair value hierarchy:

Instrument	Fair value hierarchy level	Valuation technique	Descriptipon 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**
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. The set date of each swaplet is determined in terms of legal documents pertaining to the swap.**	**Market interest rates 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 rates and curves**	**Not applicable**
Investments Securities and other investments					
Treasury Bills	**Level 2**	**Bank of Botswana quoted prices**	**Bank of Botswana quoted prices**	**Market interest rates and curves**	**Not applicable**

Instrument	Fair value hierarchy level	Valuation technique	Descriptipon of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Deposits					
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. Where the significant inputs are not market observable, the deposits are classified as level 3.	Market interest rates and curves	Credit inputs
Property and Equipment					
Freehold and leasehold land and building	Level 3	Market value	The valuation is based on the net income approach by applying rental for comparable properties divided by the capitalisation rate.	Market rentals per square metre.	Capitalisation Rates

Unaudited Financial Instruments Disclosure

The following represents the fair values of financial instruments carried at amortised cost on the condensed consolidated statements of financial position (P'000)

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Fair value P'000	Carrying amount P'000
Unaudited at December 2020					
Advances	-	-	14 257 497	14 257 497	14 310 727
Cash and cash equivalents	-	-	4 743 235	4 743 235	4 743 235
Investment securities	7 318 081	-	-	7 318 081	7 318 081
Other assets	-	-	413 162	413 162	413 162
Total financial assets at amortised cost	**7 318 081**	**-**	**19 413 895**	**26 731 976**	**26 776 969**
Deposits	-	21 260 893	-	21 260 893	21 238 765
Long term borrowings	-	1 215 458	-	1 215 458	1 191 680
Accrued interest payable	-	10 095	-	10 095	10 095
Creditors and accruals	-	573 711	-	573 711	573 711
Total financial liabilities at amortised cost	**-**	**23 060 157**	**-**	**23 060 157**	**23 014 250**
Unaudited at December 2019					
**Advances	-	-	16 017 399	16 017 399	15 907 665
Cash and cash equivalents	-	-	4 807 001	4 807 001	4 807 001
Investment securities	4 453 220	-	-	4 453 220	4 426 813
Other assets	-	-	188 620	188 620	188 620
Total financial assets at amortised cost	**4 453 220**	**-**	**21 013 020**	**25 466 240**	**25 330 099**
Deposits	-	20 144 160	-	20 144 160	20 122 675
Long term borrowings	-	1 604 036	-	1 604 036	1 586 810
Accrued interest payable	-	40 540	-	40 540	40 540
Creditors and accruals	-	552 616	-	552 616	552 616
Total financial liabilities at amortised cost	**-**	**22 341 352**	**-**	**22 341 352**	**22 302 641**

**Restatement of prior year levels of the fair value hierarchy:
Advances were corrected from level 2 and 3 to level 3

**Restatement of prior year figures
In the prior period the fair value of advances was stated at P17 131 362. This has been corrected in the current period.

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Fair value P'000	Carrying amount P'000
Audited at 30 June 2020					
Advances	-	-	14 897 285	14 897 285	14 805 729
Cash and cash equivalents	-	-	4 697 599	4 697 599	4 697 599
Investment securities	9 509 211	-	-	9 509 211	9 509 211
Other assets	-	-	479 314	479 314	479 314
Total financial assets at amortised cost	**9 509 211**	**-**	**20 074 198**	**29 583 409**	**29 491 853**
Deposits	-	23 171 897	21 322	23 193 219	23 199 171
Long term borrowings	-	1 615 983	-	1 615 983	1 614 201
Accrued interest payable	-	28 079	-	28 079	28 079
Creditors and accruals	-	723 586	-	723 586	723 586
Total financial liabilities at amortised cost	**-**	**25 539 545**	**21 322**	**25 560 867**	**25 565 037**

The following represents the fair values of financial items carried at fair value on the condensed consolidated statement of financial position.

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
Unaudited at 31 December 2020				
Financial assets at fair value through profit and loss				
Investments securities	-	178 655	-	178 655
Derivative financial instruments	-	68 236	-	68 236
Non-financial assets	-	-	-	-
Freehold and leasehold land and buildings	-	-	294 187	294 187
Total assets at fair value	**-**	**246 891**	**294 187**	**541 078**
Financial liabilities held for trading	-	-	-	-
Derivative financial instruments	-	32 488	-	32 488
Mandatory at fair value through profit or loss	-	-	-	-
Zero coupon deposit	-	171 306	-	171 306
Total financial liabilities at fair value	**-**	**203 794**	**-**	**203 794**
Unaudited at 31 December 2019				
Financial assets at fair value through profit and loss				
Investments securities	-	143 073	-	143 073
Derivative financial instruments	-	74 347	-	74 347
Non-financial assets	-	349 451	-	349 451
Freehold and leasehold land and buildings	-	-	303 290	303 290
Total assets at fair value	**-**	**566 871**	**303 290**	**870 161**
Financial liabilities held for trading				
Derivative financial instruments	-	34 390	-	34 390
Mandatory at fair value through profit or loss	-	-	-	-
Zero coupon deposit	-	145 657	-	145 657
Total financial liabilities at fair value	**-**	**180 047**	**-**	**180 047**

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
Audited at 30 June 2020				
Financial assets at fair value through profit and loss				
Investments securities	-	163 154	-	163 154
Derivative financial instruments	-	76 872	-	76 872
Non-financial assets	-	-	-	-
Freehold and leasehold land and buildings	-	-	300 262	300 262
Total assets at fair value	**-**	**240 026**	**300 262**	**540 288**
Financial liabilities held for trading				
Derivative financial instruments	-	36 708	-	36 708
Mandatory at fair value through profit or loss	-	-	-	-
Zero coupon deposit	-	151 657	-	151 657
Total financial liabilities at fair value	**-**	**188 365**	**-**	**188 365**

**Restatement of prior year levels of the fair value hierarchy:
- Zero coupon deposits were corrected from level 3 to level 2;
- Investments securities which were in level 2 were corrected to level 1.

Cash and cash equivalents, investments securities and accrued interest have been added to the fair value hierarchy analysis effective 30 June 2020.

Changes in level 3 instruments with recurring fair value measurements

	Six months ended 31 December 2020 P'000	Six months ended 31 December 2019 P'000	% Change
Balance at the beginning of the year	300 262	309 365	(3)
- Amounts recognised in profit or loss for the year	(6 075)	(6 075)	0
Balance at the end of the year	**294 187**	**303 290**	**(3)**

Unaudited related party balances

	Six months ended 31 December 2020 P'000	Six months ended 31 December 2019 P'000	Audited as at 30 June 2020
Due from related parties:	**1 986 394**	**1 632 306**	**864 689**
FirstRand Bank Limited	1 975 832	1 622 831	853 005
First National Bank Holdings (Botswana) Limited	10 562	9 475	11 684
Less money at call and short notice:	**1 982 394**	**1 632 306**	**853 005**
FirstRand Bank Limited – call balances	*(31 313)*	*(1 835)*	*(13 592)*
FirstRand Bank Limited – nostro balances	*(1 975 832)*	*(1 620 996)*	*(839 413)*
Due to related companies -current liabilities:	**17 394**	**21 850**	**21 322**
FirstRand Limited	17 394	21 850	21 322

Included in the call and term deposits is a balance of P 7 118 773 (2019: P8 314 850) relating to First National Bank Holdings (Botswana) Limited.

Related party transactions

	Six months ended 31 December 2020 P'000	Six months ended 31 December 2019 P'000	Audited as at 30 June 2020
Interest Income			
FirstRand Bank Limited – South Africa	5 406	24 680	37 479
Interest expenditure			
FirstRand Bank Limited – South Africa	10 438	13 399	17 558
Operating expenses			
Service Fees - FirstRand Bank Limited	98 858	105 790	209 440
Compensation paid to key management personnel:			
Share-based payments	-	4 500	4 374
Short term employee benefits	8 767	9 468	17 289
Total short-term benefits	**8 767**	**13 968**	**21 289**
Post-employment benefits: Pension	461	466	779
Advances:			
Personal loans	647	1 963	1 054
Overdrafts	29	33	-
Credit card	279	306	401
Instalment finance	2 577	2 492	2 193
Property loans	14 435	12 144	13 737
Total advances	**17 966**	**16 936**	**17 385**

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 between 5 - 6 years. Property loans and instalment finance loans are repayable monthly over 20 years, and 6 years respectively. Property loans are collateralised by properties with a total fair value of P26 520 292. Personal loans, overdrafts and credit card balances are unsecured.

Related parties

Relationships:

Ultimate holding company	FirstRand Limited
Holding company	First National Bank Holdings Limited
Fellow Subsidiary	FirstRand Bank Limited
Subsidiaries	Financial Services Company of Botswana Limited First Funding (Proprietary) Limited Premium Credit Botswana (Proprietary) Limited First National Insurance Agency (Proprietary) Limited
Common management	FirstRand Limited – South Africa First National Bank Insurance Brokers Limited
Key management	Non-executive Directors Chief Executive Officer Chief Risk Officer Chief Operating Officer Chief Financial Officer Director of Human Resources Treasurer Director of Credit

DIRECTORS:
Balisi Bonyongo (Chairman-Independent Non-Executive Director)John K. Macaskill (Independent Non-Executive Director)(SA), Sifelani Thapelo (Independent Non-Executive Director), Steven L Bogatsu (CEO – Executive Director), Jabulani R. Khethe (Independent Non-Executive Director) (SA), Michael W. Ward (Independent Non-Executive Director), Doreen Ncube (Independent Non-Executive Director), Markos G. Davias (Non-Executive Director)(SA), Ephraim D. M. Letebele (Independent Non-Executive Director),Naseem Banu Lahri (Independent Non-Executive Director)

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MARKETING & COMMUNICATIONS

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