30 YEARS of #POSITIVE CHANGE

# FNB Botswana
Integrated Report
**2021**

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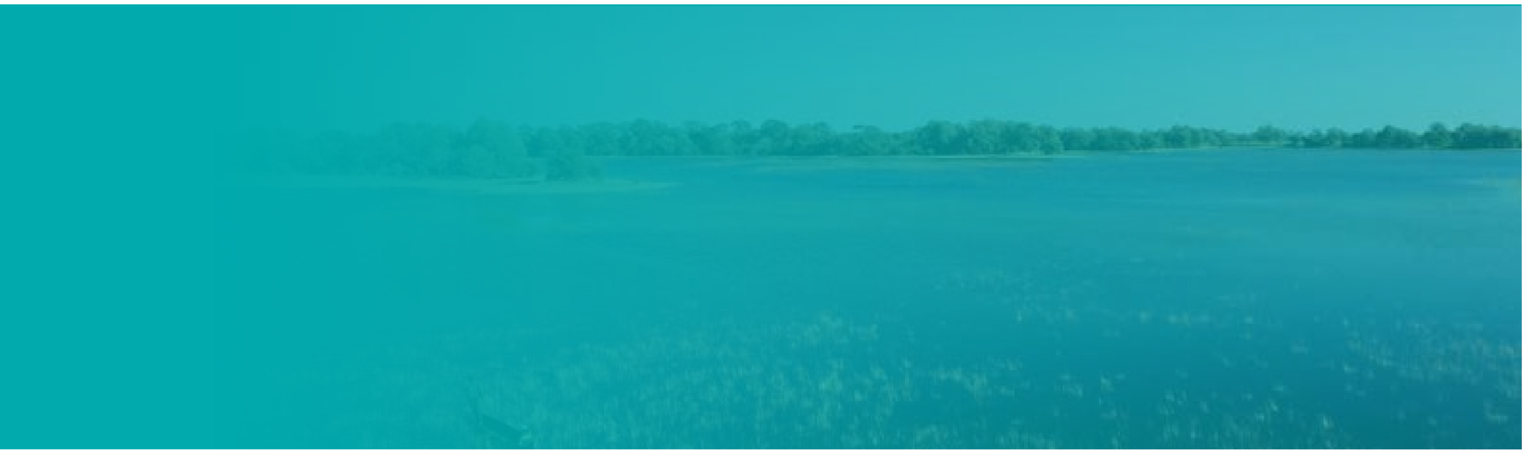
This integrated report was compiled and produced by GreymatterFinch, a leading consultancy that specialises in integrated reporting for public, private and listed companies.



## Key terminology

| | |
|---|---|
| AC | Audit Committee |
| AGM | Annual General Meeting |
| AML/CFT | Anti-Money Laundering/Combating the Financing of Terrorism |
| ATM | Automatic teller machine |
| Banking Act | Banking Act of 1995 (Cap 46:04) |
| BCRC | Board Credit Risk Committee |
| Board | Board of Directors |
| BSE | Botswana Stock Exchange |
| BSE Listings Requirements | Botswana Stock Exchange Equity Listings Requirements, version 3.2, approved with effect from 1 January 2019 |
| BURS | Botswana Unified Revenue Service |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| Companies Act | Botswana Companies Act of 2007, as amended (Cap 42:02) |
| CSI | Corporate social investment |
| DAGC | Directors' Affairs and Governance Committee |
| ECL | Expected credit loss |
| ECSI | External Customer Satisfaction Index |
| ERTP | Economic Recovery and Transformation Plan |
| ESG | Environmental, social and governance |
| FATF | Financial Action Task Force |
| Fintech | Financial technology |
| FNB App | FNB Banking Application |
| FNBB/FNB Botswana/ the bank | First National Bank of Botswana Limited |
| Foundation | FNBB Foundation |
| GDP | Gross Domestic Product |
| Group | FirstRand Limited and its subsidiaries |
| HR | Human resources |
| IFRS | International Financial Reporting Standards |
| IT | Information technology |
| King IV | King Report on Corporate Governance™ for South Africa[1] |
| KYC | Know your customer |
| NIACC | Net income after cost of capital |
| NPLs | Non-performing loans |
| NPS | Net Promoter Score |
| POS | Point of sale |
| RCCC | Risk, Capital Management and Compliance Committee |
| REMCO | Remuneration Committee |
| RMB | Rand Merchant Bank |
| RTO | Recovery time objective |
| SARB | The South African Reserve Bank |
| SMME | Small, medium and micro-enterprise |
| the/this report/ Integrated Report | 2021 Integrated Report |
| the/this year/2021 | 1 July 2020 to 30 June 2021 |

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# Welcome to the **2021 Integrated Report**

## Audience and purpose

First National Bank of Botswana Limited (FNBB, FNB Botswana or the bank) strives to be a commercially successful organisation, a sound investment and an exemplary corporate citizen that continues to grow in stature as the country's leading bank. This report demonstrates how we leverage our dedication to innovation, service excellence and our commitment to the highest standards of corporate governance and capital management to enrich our stakeholders' lives.

The report informs our stakeholders of how the bank's strategy, governance, performance and prospects lead to the creation and preservation of shared value over the short, medium and long term.

## Share your views

Please share your feedback and opinions on our report by emailing fnbbcommunications@fnbbotswana.co.bw.

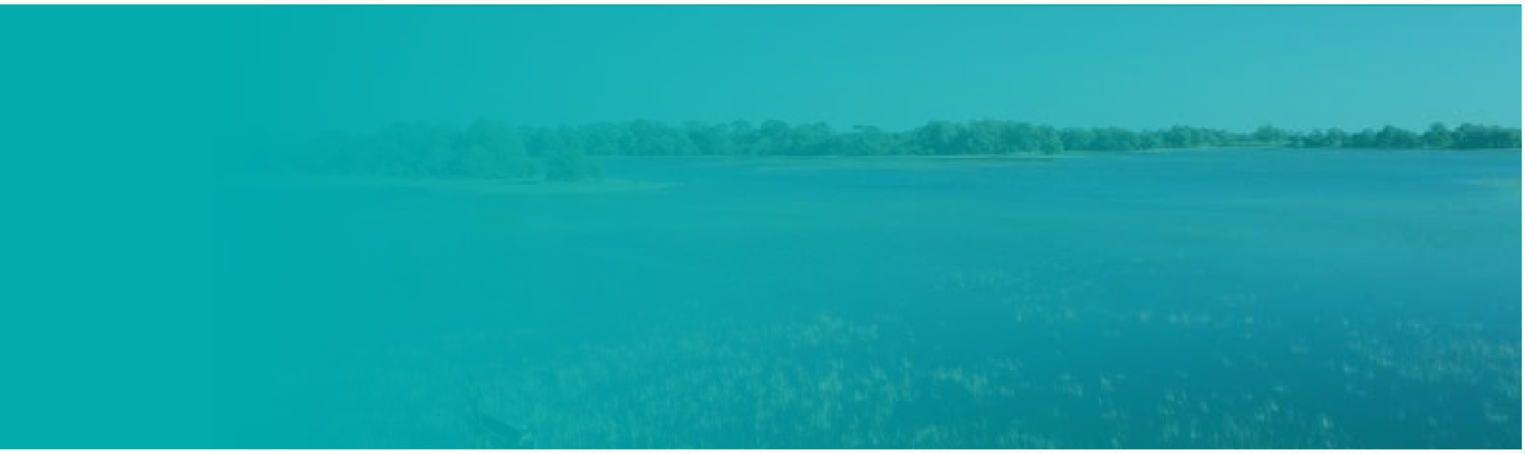
## Scope and boundary

Our 2021 Integrated Report covers the financial year from 1 July 2020 to 30 June 2021 (the financial year or 2021) and all material risks and opportunities identified within our value chain.

## Frameworks, assurance and reporting suite

| **Key frameworks applied** | Integrated Report | Annual Financial Statements |
|---|---|---|
| International Integrated Reporting <IR> Framework | ✓ | |
| King Report on Corporate Governance™ for South Africa, 2016 (King IV) | ✓ | ✓ |
| International Financial Reporting Standards (IFRS) | | ✓ |
| Botswana Companies Act of 2007, as amended (Cap 42:02) (Companies Act) through the Registrar of Companies | ✓ | ✓ |
| Non-Bank Financial Institutions Regulatory Authority Act of 2016 (Cap 46:08) through the Non-Bank Financial Institutions Regulatory Authority | | ✓ |
| Banking Act of 1995 (Cap 46:04) (Banking Act) through the Bank of Botswana | ✓ | ✓ |
| Corporate Governance Principles for Banks through the Basel Committee on Banking Supervision | ✓ | |
| Financial Reporting Act of 2020 through the Botswana Accountancy Oversight Authority | ✓ | ✓ |
| Botswana Stock Exchange Equity Listings Requirements, version 3.2, NBFIRA-approved with effect from 1 January 2019 (Botswana Stock Exchange Listing Requirements) | ✓ | ✓ |
| Board Governance Framework | ✓ | ✓ |

Our Integrated Report, financial results, accounting policies and press releases are available online at www.fnbbotswana.co.bw.



## Environmental, social and governance reporting

In line with BSE guidelines on environmental, social and governance (ESG) reporting, the bank published its first report to society on ESG matters in 2019. Download a copy here: www.fnbbotswana.co.bw/downloads/fnbBotswana/annual/FNBB_Report_to_Society_2019.pdf.

## Materiality

A matter is considered material when it can substantively affect FNBB's ability to create value over the short, medium and long term. The bank's materiality determination process is explained on page 24.

## Forward-looking statements

This report contains certain forward-looking statements about the bank's anticipated performance, results, operations and prospects. Although these statements represent our future expectations and judgements, the opinions are subject to known and unknown risks and uncertainties that could adversely impact our business and financial performance. Undue reliance should not be placed on such opinions, forecasts or data. Forward-looking statements apply to the date on which they are made. The bank does not undertake any obligation to publicly update or revise any of its opinions or forward-looking statements, whether to reflect new data, future events or circumstances. The financial information on which the forward-looking statements are based has not been audited or reported on by FNBB's independent external auditors.

## Approval of the Integrated Report

The Board of Directors (Board) is responsible for ensuring the integrity and completeness of this report. With the support of the Audit Committee, the Board collectively assessed the report's content and believes that it provides a fair and balanced representation of the bank's performance and prospects. The Board acknowledges that the report reflects continued improvement towards full compliance with the <IR> Framework. The Board approved the report on Wednesday, 13 October 2021.

**Balisi Mohumi Bonyongo**
Chairperson

**Steven Lefentse Bogatsu**
Chief Executive Officer (CEO)

**John Kienzley Macaskill**
Independent Non-Executive Director

**Sifelani Thapelo**
Independent Non-Executive Director

**Michael William Ward**
Independent Non-Executive Director

**Doreen Ncube**
Independent Non-Executive Director

**Markos Davios**
Non-Executive Director

**Ephraim Dichopase Letebele**
Independent Non-Executive Director

**Jabulani Richard Khethe**
Independent Non-Executive Director

**Naseem Banu Lahri**
Independent Non-Executive Director

## Navigating our Integrated Report

We use navigation icons throughout our report to show connectivity between sections. The following icons link our capitals and stakeholders to our material matters and strategic focus areas.

### Navigation icons

**Our capitals** – We use our capital inputs to create and preserve value

- Financial
- Manufacturing
- Human
- Intellectual
- Social and relationship
- Natural
- Read more in this report: Business model

**Our stakeholders** – Through constructive engagement, we create lasting value together

- Customers
- Employees
- Shareholders
- Regulators
- Suppliers
- Media
- Communities
- Organised labour
- Government
- Read more in this report: Stakeholders

**Our strategy** – Five key objectives drive our shared value strategy

- Solutionist people
- Operational efficiencies
- Customer experience
- Value protection
- Shared value
- Read more in this report: Strategy

**Other icons**

- Read more in this report
- Read more online

# Introduction to **FNB Botswana**

## About FNB Botswana

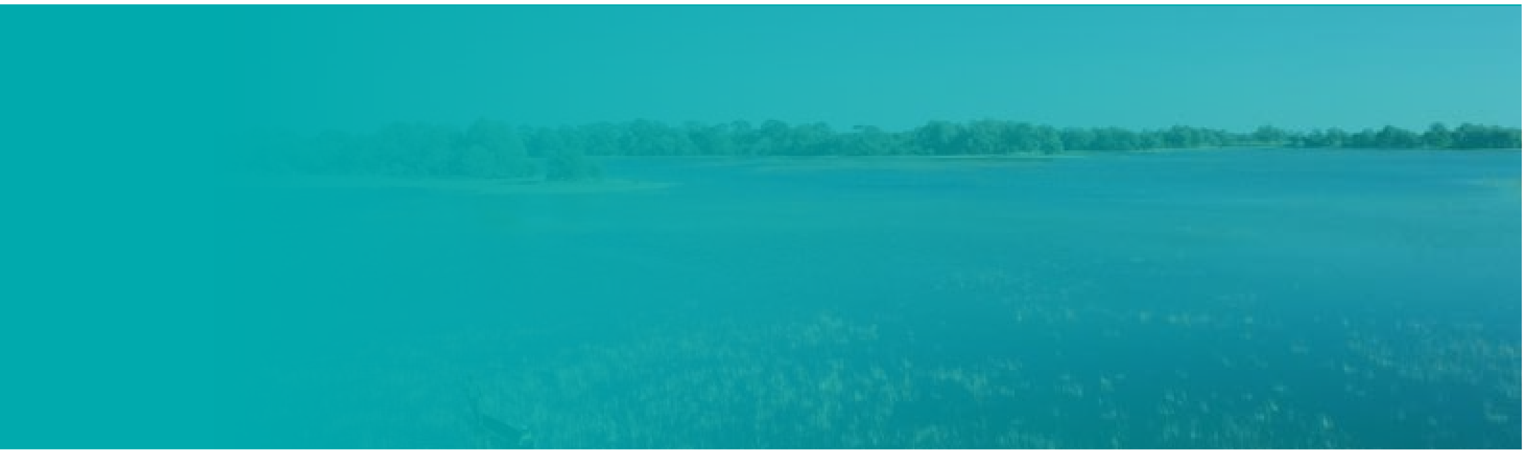
Our purpose is to be a trusted partner committed to building a shared future of prosperity.

### Vision

We strive to be the world-class financial solutionist of choice, consistently delivering unmatched customer experience.

### Mission

Our empowered people provide vibrant spaces and use cutting-edge platforms to create sustainable shared value for all.



## Our promises to stakeholders

The philosophy of our parent company, FirstRand Limited (FirstRand), guides how FirstRand and its subsidiaries' (the Group's) people need to behave to deliver the best results for customers, society, shareholders and each other. This philosophy is captured in a set of promises.

1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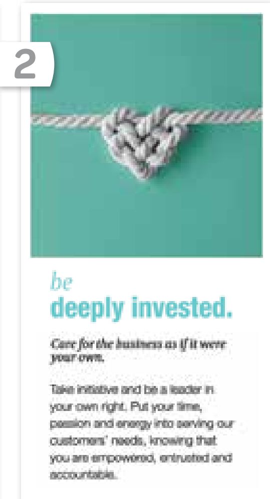


3


FirstRand

# PROMISES

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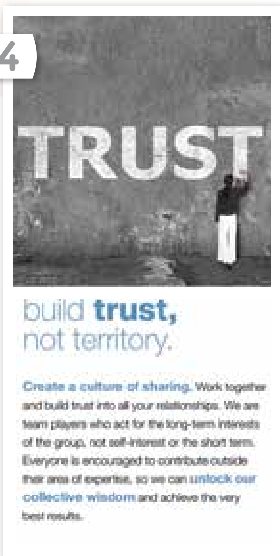


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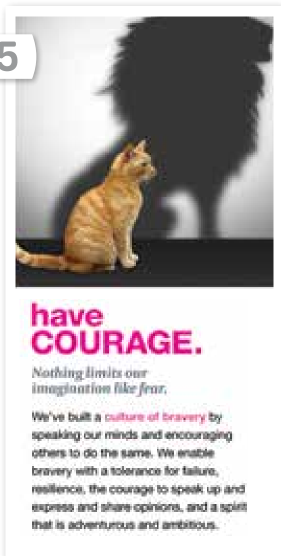


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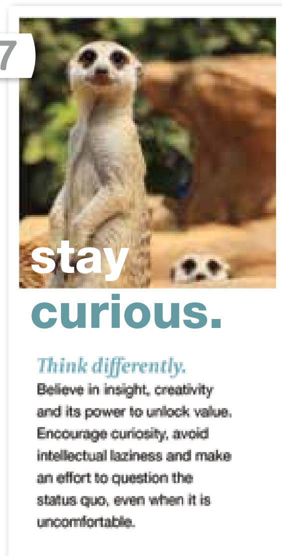
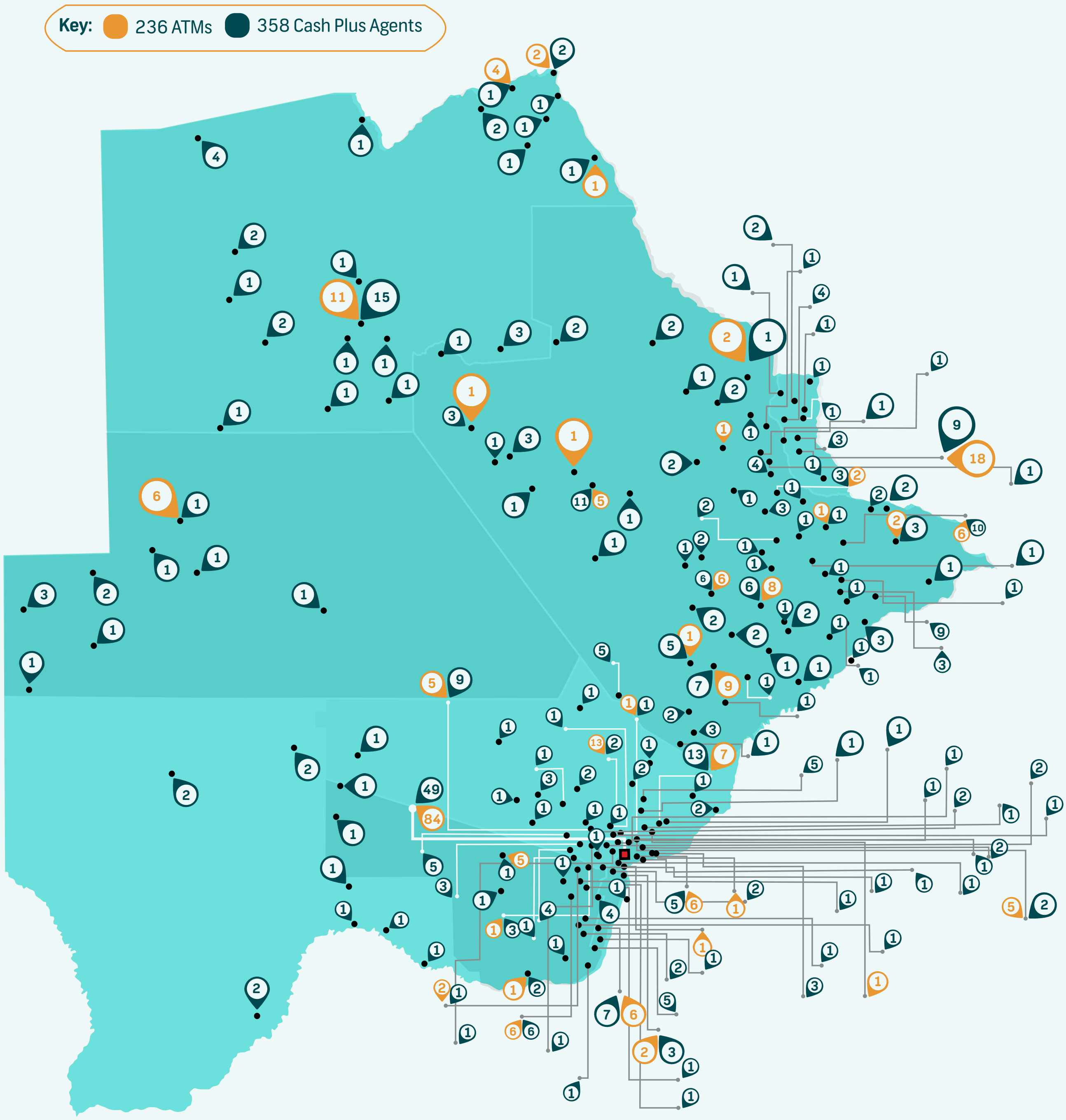


## FNB Botswana at a glance

FNBB's customer-centric strategy is underpinned by our leading position in innovative customer solutions, digital banking, risk management, employee engagement and corporate social investment.




Our **1 470** dedicated employees serve over **610 000** customers across Botswana

**P14.9 billion**
gross loans and advances

**P21.4 billion**
deposits

**P901 million**
profit before tax

**55t**
dividend per share

**18.2%**
return on equity

**52%**
cost-to-income ratio

**24**
branches

**2**
Premium Suites

**165**
automatic teller machines (ATMs)

**71**
ATMs with deposit (ADTs)

**358**
CashPlus Agents

**306**
Cash@Till points

**10 440**
point of sale (POS) devices

**93%**
of customers use at least one of the bank's digital channels

**Our customers are served through an extensive branch and self-service network, digital channels, financial advisors, relationship bankers and merchant partners:**

### Customer engagement

- 24/7 toll-free Contact Centre
- Branches
- Relationship bankers

### Service channels

- ATMs and ATMs with deposit
- FNB Banking App (FNB App), Online, Cellphone Banking
- eCommerce, Integrations, Payment Gateways, POS@Till

### Inclusive banking

- CashPlus
- Bank on Wheels
- Cash@Till
- eWallet@Till

# FNB Botswana at a glance *continued*

**Our approach to shared value extends to our employees and communities:**

**P5.8 million**
invested in communities
(2020: P5.8 million)

**P3.7 million**
invested in employee training
(2020: P6 million)

**Work-life balance**
Employee Wellness Centre with a crèche

**P2.1 billion**
contributed to COVID-19 relief programmes

**Since the inception of the FNBB Foundation in 2001, we have committed more than P64 million to implementing and supporting initiatives that make Botswana a better place for all. Our corporate social investment (CSI) focus in 2021 included investments in:**

**>P1.8 million**
arts and culture

**>P1.4 million**
employee volunteer project

**>P1 million**
social welfare

**>P827 000**
youth empowerment

**>P474 000**
sports and recreation

**>P335 000**
education

# Our business activities

## Largest company by capitalisation
on the Botswana Stock Exchange
(since 1993)

## P28 billion
in total assets
(2020: P30 billion)

## 27%
balance sheet market share
(2020: 29%)

## Retail Banking

**Retail Banking is a segment of FNBB that provides the full range of investment, transactional banking, saving, borrowing, vehicle and asset finance, insurance financial services and solutions to individual customers.**

The Retail Segment serves the following sub segments;

- Consumer (Youth, Smart, Gold)
- Premium (Premier and Private Clients)
- Provides solutions to dynamic customer needs
- Diversifies customers' offshore investment portfolios

## Commercial Banking

**Commercial Banking is a segment of FNBB that provides a full range of financial services, including vehicle and asset finance, trade finance and related foreign exchange, letters of credit, purchase order finance and overdrafts. These services are offered through a customer segmentation strategy that optimises process efficiency.**

- Serves Upper Commercial; Lower Commercial; Small, Medium and Micro-Enterprise (SMME) and Public Sector customer segments
- Provides the Agriculture and Tourism, Commercial Property Finance and Islamic Banking services.

## Corporate (RMB)

RMB

**Rand Merchant Bank (RMB) is FNBB's Corporate and Investment Banking segment. This segment offers customers access to a comprehensive suite of investment banking products and services.**

- Advisory
- Corporate Finance
- Trade solutions
- Infrastructure and Project Finance
- Structured Trade and Commodity Finance
- Fixed Income
- Currency and Commodity services
- Investment opportunities

## A decade of excellence backed by our 30-year legacy

FNBB's banking licence was approved by the Bank of Botswana in 1991 when the bank commenced operations. After acquiring Financial Services Company, a listed company, in 1993, FNBB became a listed company on the BSE. Over the past 30 years, the bank has achieved several milestones and awards in recognition of its excellence.

### 2010

- Introduced eWallet, a cardless money transfer service that allows customers to send money instantly to anyone in Botswana with an active mobile number

- Named 'Best Bank in Botswana' by *Euromoney* Awards for Excellence

### 2013 – 2014

- Launched the FNB App
- Launched *174# Mobile Transact to purchase prepaid electricity and make real-time payments to Multichoice
- Rebranded the Corporate and Investment Banking segment as RMB

- Received Leader Award for the 'Top Acquirer in Sub-Saharan Africa' at the 2013 Visa Security Summit
- Named 'Most Innovative Bank in Botswana' by *Global Banking & Finance Review*

### 2015

- First to launch ATM deposit-taking machines (ATMs with deposit)
- Invested P3 million to refurbish a community park in Tawana

- Received the 'Diamond Arrow Award' in the Business Banking Sector
- RMB rated 'Best Trade Finance Bank in Botswana' by *Global Trade Review*

### 2016

- Launched eWallet Bulk Send for business account holders to pay single or multiple eWallet/s at once through Online Banking Enterprise Platform
- Raised P25 million for 25 charities to celebrate 25 years in banking and 50 years of independence in Botswana

- Awarded 'Best Foreign Exchange provider in Botswana' by *Global Finance*
- Named the 'Best Commercial Bank in Botswana' by *International Finance Magazine*

### 2017

- Introduced Mogwebi Business Insurance, underwritten by Old Mutual

- Named 'Best Bank in Botswana' by *Euromoney* Awards for Excellence
- Awarded 'Best Foreign Exchange provider in Botswana' by *Global Finance*

### 2018

- Introduced Bank on Wheels (mobile branch), giving banking access to remote areas
- Launched Cashback Rewards where customers get cash paid monthly into their digital Savings Pocket account
- Unveiled a P3 million sponsorship with Botswana Tertiary Student Sports Association (BOTESSA) and Botswana Football Association (BFA) respectively to support grassroots sports development for three years
- Launched a Solar Bag drive with Botswana Power Corporation to give primary school children solar-powered electricity in school bags

- Named 'Best Bank in Botswana' by *Euromoney* Awards for Excellence
- Awarded 'Best Foreign Exchange provider in Botswana' by *Global Finance*
- RMB awarded 'Best Trade Finance Bank in Botswana' by Global Trade Review Botswana' by *Global Banking & Finance Review*

Milestone Awards

- Launched CashPlus for customers to make banking transactions at retail stores and supermarkets
- Published the bank's first Report to Society
- Partnered with the Ministry of Youth Empowerment, Sport and Culture Development for disbursement of the Youth Grant and the Youth in Business Value Proposition bundle that includes transactional, investment, insurance and lending products
- Partnered with Water Utilities Corporation to create the *186# portal for bill enquiries, payments and other services
- Introduced free Wi-Fi customers at all branches and Head Office

- Named 'Best Bank in Botswana' by *Euromoney* Awards for Excellence
- RMB awarded 'Best Trade Finance Bank in Botswana' by *Global Trade Review*
- Awarded 'Best Foreign Exchange provider in Botswana' by *Global Finance*
- RMB Custody received the 'Best Custody Award' in the 2019 Alexander Forbes survey
- Received 'Global Service Quality Award' from Visa
- Named 'Most Innovative Commercial Bank in Botswana' by *Global Banking & Finance Review*

## 2019

- Launched customer-initiated eWallet reversal which enables customers to reverse an eWallet sent within 72 hours, provided the recipient has not withdrawn the funds. Payments made from an eWallet cannot be reversed.
- Launched COVID-19 relief programme for customers, the community and artists.

- Named 'Best Foreign Exchange Provider' by *Global Finance*
- Named 'Best Banking Brand in Botswana' by *Global Banking & Finance*
- Voted 'Best Custodian' by customers for the third consecutive year
- Named 'Best Bank in Botswana' by *Euromoney* Awards for Excellence for the fourth consecutive year
- Received Outstanding Crisis Leadership Award from *Global Finance*

## 2020

- Enhanced Bank Your Change™ and promoted saving by adding a nominal interest rate to free Savings Pocket
- Enhanced eWallet with customer-initiated eWallet@Till
- Introduced FX Bulk Uploads
- Introduced Signature Credit Card and Multi Currency Card
- Provided P10 million in COVID-19 relief funding for communities
- P2.1 billion in COVID-19 relief moratoriums
- As at June 2021, we have paid out a total of BWP60 million in Cashback Rewards to customers since introducing the model in 2018

- Named 'Best Treasury and Cash Management Bank in Botswana' by *Global Finance*
- Named 'Best Foreign Exchange Provider' by *Global Finance* for the fifth consecutive year

## 2021

# Business model

FNB Botswana optimises its business model through the effective implementation of its strategy to achieve its business objectives and purpose.

## Our capitals

### Inputs

**Financial**

- Advances **P14.9 billion**
- Deposits **P21.4 billion**
- Shareholders' equity **P3.9 billion**
- Capital adequacy ratio **17.9%**

**Manufactured**

- **24** branches
- **2** Premium Suites
- **165** ATMs and **71** ATMs with deposit
- **10 440** POS devices
- Bespoke IT infrastructure
- **358** CashPlus agents

**Human**

- **1 470** employees
- **P652 million** wage bill
- **P3.7 million** training and development
- **19 years** combined Board and management experience

**Intellectual**

- Strong internal control systems, risk and compliance frameworks
- Investment in digital platforms and innovative product development
- Awards for excellence in specialist services

**Social and relationship**

- **610 000** customers
- Responsible banking practices
- Stakeholder engagement
- Community support
- Employee volunteer programme

**Natural**

- Responsible lending principles aligned to FNBB Environmental and Social Risk Assessment (ESRA)Policy

## enable value-adding financial services that create

### Our business activities and enabling functions

**Trade finance, letters of credit and guarantees**

**Trade, currency and commodity finance and solutions**

**Credit extension, including home loans and vehicle and asset finance**

**Corporate finance**

Our customer segment structure places customers at the centre of all we do.

**Trading**

**Commercial banking**

Our business segments are supported by our banking platforms and channels, including the branch network, alternative and self-service delivery channels (agency banking – CashPlus, ATMs and ATMs with Deposit) and digital banking platforms (FNB App, Online Banking, Cellphone Banking, eWallet).

Our enabling services, including Finance, Risk Management, Internal Audit, Human Resources, Credit and IT, support the efficient functioning of the bank.

**Our outcomes ensure our ability to create**

## shared value for our stakeholders

### Outcomes

**Funding and deposits**

- Maintained profit before tax despite COVID-19 impacts and lower bank rate
- P1.4 billion dividend paid to shareholders
- **2.3%** return on assets
- Retained capital for sustainable long-term value creation

Customers
Shareholders
Government

**Transactional banking**

- Relevant cost-effective banking products and services
- Increased financial inclusion
- Digital transformation

Customers

Our wide range of products and services cut across the Bank and are customised to suit each segment's needs and profile.

- Employment opportunities
- Career progression
- Reward and recognition

Employees
Organised labour
Communities

**Investment and saving**

- Regulatory compliance
- Financial sector stability
- Brand strength

Regulators
Customers

**Insurance**

- Excellent customer service
- **P2.1 billion** in Covid relief moratoriums
- **P232 million** tax payment supports economic development
- **P309 million** paid to suppliers
- **P5.8** million CSI
- 3% of training budget allocated to Botswana Institute of Banking & Finance to support industry training interventions

Customers
Government
Communities
Suppliers

**Our FirstRand Promises and customer-centric strategy underpin the delivery of our purpose.**

- **P0.814 million** contributed to youth environmental awareness programme
- Environmental risk assessment of credit applications aligned with Equator Principles

**sustainable shared value in the future**

# Stakeholders

## FNBB has a range of stakeholders who have an interest in our business and may be impacted by the services we provide and the way we operate. By engaging constructively with our stakeholders we can create lasting value together.

### Customers

**Retail, commercial and corporate and investment banking customers**

**Metrics tracked**

- Brand perception
- Net promoter score (NPS)
- External Customer Satisfaction Index (ECSI)

**Needs and expectations**

Our customers need consistent, convenient and cost-effective banking with quick turnaround times. They expect reliable products or services that offer value for money and they want a bank that understands their needs and responds with specific solutions.

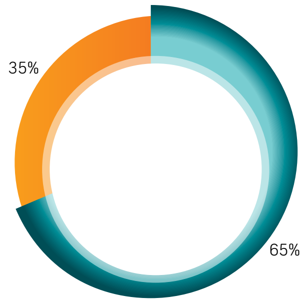
**Engagement and important conversations in 2021**

- FNBB engages with its customers at each service point through a range of platforms, such as a 24/7 Contact Centre, a targeted Customer Value Management Programme, digital and self-service channels, relationship bankers and the branches. The bank uses ECSI and NPS metrics to measure customer satisfaction and responds to customer concerns raised in the surveys and on its website. Brand audits provide valuable industry and competitor insights.
- The bank provided repayment relief to borrowers impacted by COVID-19 restrictions and lent money responsibly in line with its risk limits. Customers were encouraged to shift to digital and self-service banking platforms during COVID-19 lockdowns. Communication and educational campaigns promoted saving and helped customers get the best from the bank's products and services.
- Some of our services did not meet our standards of unmatched customer service and left customers feeling dissatisfied. We listened and responded by improving service efficiency and aligning those services with customer needs. The bank works continuously to make customers' banking experience simpler and more convenient. Read more in this report: Operational performance

**Managing customer concerns**

- A formal Complaints Management Policy governs customer-related disputes and ensures effective, efficient and prompt resolution of issues. The policy is regularly reviewed by the Executive Committee and updated where necessary. It is readily available to all employees, representatives and third parties involved in marketing, providing or administering the bank's products or services or interacting with customers.
- The Bank logs and tracks all customer concerns and enquirers to ensure responses can be fulfilled within set turnaround times. A clear escalation policy is availed to customers at all touch points.

## Employees




### Metrics tracked

- Group Engagement Survey
- Culture Risk Assessment
- Organisational performance

### Needs and expectations

Employees expect a healthy work environment, job security, flexibility, appropriate reward and recognition, and the opportunity to realise their potential. Employees need trust-based engagement and want to be aligned with FNBB's values.

### Engagement and important conversations in 2021

- The bank engages with employees through a range of formal and informal platforms. Employees benefit from a robust talent management programme, an Employee Wellness Programme, and learning and development opportunities such as scholarships and graduate development programmes.
- The primary focus of employee engagement during 2021 was ensuring employees were adequately equipped to work from home. The bank monitored the impact of remote working on cultural alignment, employee engagement and performance management. We responded to the concerns of employees who found it distracting and stressful to work from home.
- The Bank has put in place action plans to ensure cultural transformation to address the gaps that were identified in the Culture Risk Assessment survey. The bank focused on employee wellness and mental health by encouraging engagement with its Employee Wellness Programme provider and opening an Employee Wellness Centre with a crèche and healthcare centre.

Read more in this report: Human resources

## Shareholders

### Non-public shareholder:

- 70% of the bank's issued shares are held by FNB Holdings (Botswana), which is wholly owned by FirstRand EMA Holdings

### Public shareholders:

- The balance of shares (30%), are publicly held on the BSE. No individual holds more than 10% of the issued shares Read more in this report: Shareholder analysis

### Needs and expectations

Shareholders expect consistent financial performance, acceptable returns on investment and ethical conduct. They are interested in FNBB's sustainability and contributing factors such as the bank's strategy and business continuity processes, including succession planning.

### Engagement and important conversations in 2021

- Shareholders are engaged regularly through results announcements, integrated annual reports, Annual General Meetings (AGMs) and bank updates. During 2021, we engaged with our shareholders to address concerns about the impact of COVID-19 on the bank and the measures the bank implemented to manage and mitigate credit risk. Read more in this report: Shareholder analysis

## Regulators

**Bank of Botswana**

**Botswana Stock Exchange**

**South African Reserve Bank**

**Non-Bank Financial Institutions Regulatory Authority**

**Botswana Accountancy Oversight Authority**

**Financial Intelligence Agency**

**Botswana Unified Revenue Service**

### Our regulatory universe

- Companies Act
- BSE Listings Requirements
- Bank of Botswana Act and Regulations
- King IV
- Other Regulations governing conduct, treatment of customers and protection of privacy
- Financial Intelligence Act and Regulations

### Needs and expectations

Regulators require good corporate governance and proactive adherence to regulatory requirements. They expect FNBB to keep abreast of trends and protect the integrity and stability of the financial industry. FNBB considers the regulations of Botswana and regulations applicable to its ultimate holding company in South Africa. Read more in this report: Governance

### Engagement and important conversations in 2021

- FNBB complies with regulations governing financial services in Botswana. The bank maintains cordial relationships with regulators, engaging in consultations when solutions to regulatory issues are sought or new legislation is considered. The bank focused on its compliance with Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT) and KYC regulations during 2021.

## Suppliers

### Needs and expectations

Suppliers want fair payment terms, on-time payments and business opportunities. They also expect transparency and equitable treatment. There is an expectation that there should be special dispensation for youth and citizen-owned suppliers in providing business opportunities and guidance for growing their businesses.

### Engagement and important conversations in 2021

- FNBB applies a transparent tendering process and assesses tenders on multiple aspects. The bank deliberately engages youth and citizen-owned suppliers in line with its shared value approach. The bank conducts procurement training when it onboards new suppliers.

## Media

**Journalists from print and digital media, radio and television**

### Metrics tracked

- Media monitoring
- Advertising value equivalency to measure public relations value

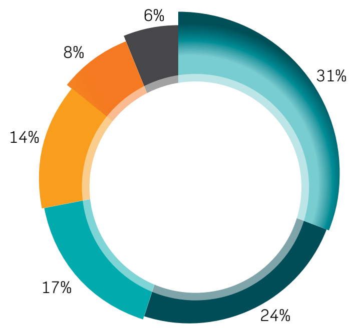
### Needs and expectations

The media's main concerns are sound two-way relationships, transparency and quick turnaround times in response to questions.

### Engagement and important conversations in 2021

- The media is engaged through feedback and networking forums. The bank responds to press enquiry timeously, participates in interviews and invites the media to various corporate events. Our Journalism Academy plays a valuable role in upskilling local media.

## Communities




- Arts and culture
- Employee volunteering
- Social welfare
- Youth empowerment
- Sports and recreation
- Education

### Metrics tracked

- Allocation of up to 1% of net profit after tax

### Needs and expectations

FNBB is expected to extend financial services to communities and support financial literacy. Communities want FNBB to be sustainable in the long term so they can benefit from the employment and economic inclusion the bank provides. Communities also want to share in FNBB's profits through, for example, corporate social investment.

### Engagement and important conversations in 2021

- The bank's community support and empowerment is conducted through the FNBB Foundation, the bank's CSI funding and its Employee Volunteer Programme. The bank facilitates financial inclusion by taking banking to underserved communities through CashPlus and Bank on Wheels services. During 2021, management engaged with various stakeholder groupings, including the creative arts industry, to identify and address areas of need through high-impact social investments.

Read more in this report: Shared Value and Operational performance

## Organised labour

**Botswana Bank Employees Union**

### Metrics tracked

- Collective Bargaining Agreement

### Needs and expectations

Unions require engagement and compliance to labour laws. They want to be consulted on business process development and changes that may impact employees.

### Engagement and important conversations in 2021

- FNBB engages regularly with unions on salary reviews, human resources issues and industry trends. The bank aims to engage in a constructive relationship with unions for the betterment of its employees.
- The bank engaged in protracted wage negotiations during 2021. Following a lengthy deadlock, the negotiations were resolved in January 2021 through an arbitration process.

## Government

### Needs, expectations and engagement

The Government strives for greater financial inclusion for all citizens. As the biggest bank in Botswana, FNBB is required to be a corporate role model in conducting its business ethically and engaging responsibly with communities and the natural environment.

### Engagement and important conversations in 2021

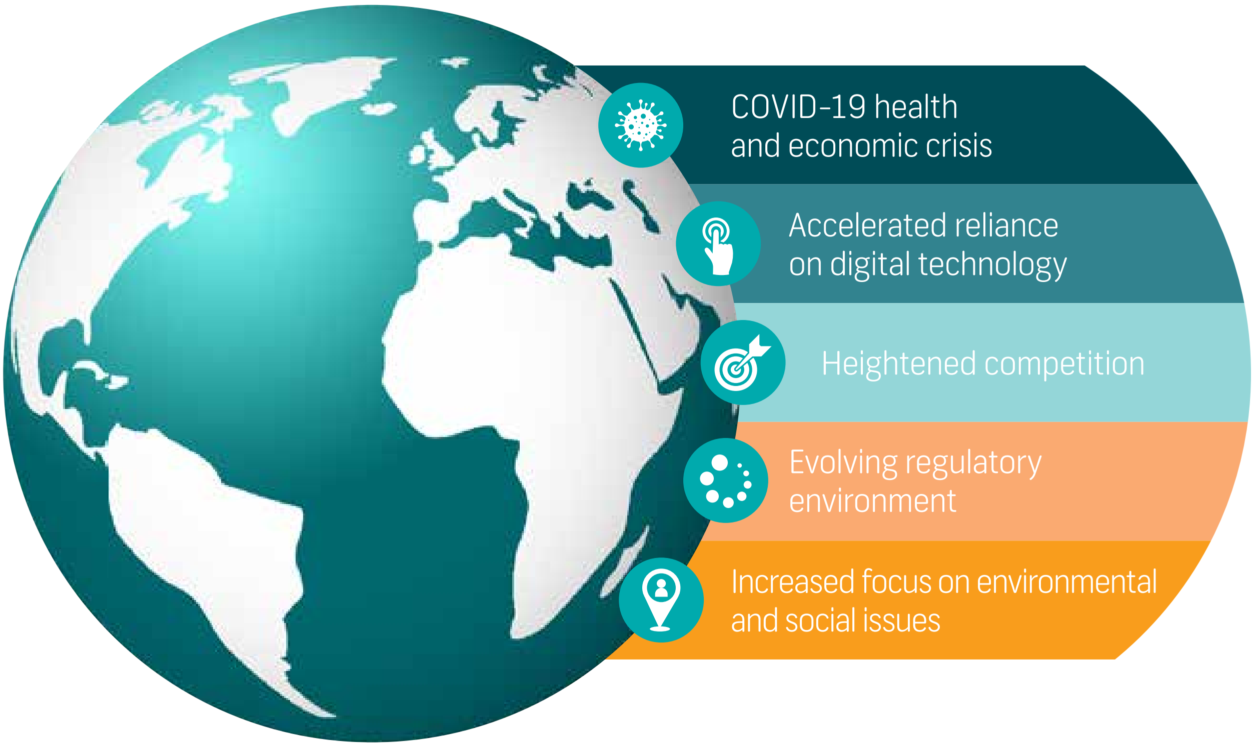
- FNBB engages with Government on policy development and forms public private partnerships with Government. The bank contributes to employment creation, localising outsourced services to create local job opportunities and participates in the community through inclusive banking, the FNBB Foundation and sponsorships.
- During 2021, the bank engaged extensively with the Ministry of Finance in support of the Government's response to the black-listing of Botswana by the Financial Action Task Force (FATF). The FATF monitors the effectiveness of measures to combat money laundering and terrorism.

# What drives **our business**

## Operating context

FNBB's external environment impacts the bank's ability to create and preserve value. By understanding major external trends and their impacts on the bank and our stakeholders, we are able to respond strategically.

**These are the major trends that impacted the bank in 2021:**



**Like other governments globally, Botswana introduced measures to stimulate economic growth. The Economic Recovery and Transformation Plan (ERTP), estimated at P14.5 billion, is providing relief for businesses affected by COVID-19.**

## COVID-19 health and economic crisis

The global economy contracted by an estimated 4.9%[1] in the 2020 calendar year as the COVID-19 pandemic compounded existing challenges to economic growth.

COVID-19 infections and measures to stop the spread of the virus restricted movement, stalled international travel and disrupted the supply of goods and services within and between countries. Some sectors, such as travel, leisure and hospitality, were more heavily impacted than others and continue to operate below their normal capacity. Increased use of digital solutions provided growth opportunities for businesses in sectors such as telecommunications and financial services.

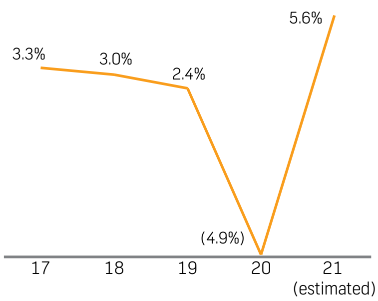
### The impact of COVID-19 on Botswana's economy

Botswana's economy contracted by an estimated 8.5%[2] in the 2020 calendar year due to COVID-19 and the weak global economy. Botswana's prosperity is linked to global growth trends primarily by its diamond exports and tourism, which make up a significant proportion of the income of Government, business and individuals. Sharp declines in these sectors during 2020 were the primary contributors to lower gross domestic product (GDP).

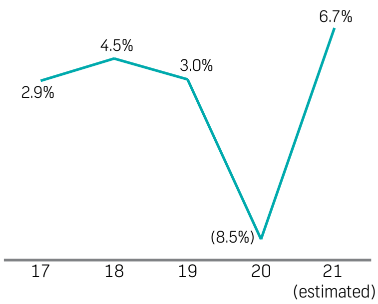
During Botswana's State of Emergency to contain the pandemic, the Government imposed restrictions that closed local businesses, reduced household incomes and pushed the unemployment rate to 25%, with youth unemployment rising above 30%[3]. These trends were evident in an increase in bank deposits as many consumers and businesses preserved their money in uncertain times, while growth in loans and debt reflected funding or cash flow shortages. Interest rates were cut by 50bps to 3.75% as Botswana's Central Bank tried to avert a recession. Lower interest rates reduce the amount borrowers need to repay on their loans but also reduce the profitability of banks and erode retirement savings and investments.

Like other governments globally, Botswana introduced measures to stimulate economic growth. The Economic Recovery and Transformation Plan (ERTP), estimated at P14.5 billion, is providing relief for businesses affected by COVID-19. It will further stimulate growth in sectors such as agriculture and manufacturing to reduce the country's dependence on diamonds and create employment. However, by borrowing more to grow the economy and fund the unexpected costs of COVID-19 relief, the Government is likely to recover revenue by increasing administered prices for VAT, fuel levies and services such as electricity and water.

*Global GDP growth*[2]




*Botswana GDP growth*[2]




1 *International Monetary Fund.*
2 *FirstRand Botswana Houseview, June 2021.*
3 *World Bank, Botswana Overview, updated April 2021.*

**Strategic focus areas**

- Value protection
- Shared value

**Relevant material matters**

- Changes in the economic and political landscape
- Digitisation that drives a secure customer experience and financial inclusion
- Business continuity and efficiency
- Climate change and extreme events

## Accelerated reliance on digital technology

COVID-19 changed many of the ways people work, transact, learn and play. Many people now work from home and commute less. The need for social distancing forced people and businesses to urgently rethink the ways in which they engage with others. This accelerated the existing growth trend of using technology to fulfil many of life's activities remotely and virtually. It also increased the pace at which businesses in the financial services sector equipped their workforces to adapt to the new world of digital banking.

Digitisation of financial services will continue as more customers realise that technology allows banks to be more efficient and to deliver faster and more convenient service. But rapid digitisation of services also highlights the importance of maintaining customer access to our services 24/7 and protecting the privacy and integrity of customer data as the risk of cybercrime escalates.

### Strategic focus areas

- Solutionist people
- Customer experience
- Operational efficiencies
- Shared value

### Relevant material matters

- Ensuring ethical conduct and compliance
- Digitisation that drives a secure customer experience and financial inclusion
- Employee wellbeing and engagement

## Heightened competition

Rapid digitisation is driving competition for customers and market share as banks no longer need a physical presence to do business in a new market. Digital solutions create opportunities for non-banking competitors in other industries such as retail and telecommunications to offer payment solutions and other financial services to their customers. In Botswana, collaboration between competitor banks and mobile network operators is enabling the telecommunications industry to issue debit cards and process payments.

### Strategic focus areas

- Customer experience
- Value protection

### Relevant material matters

- Ensuring ethical conduct and compliance
- Digitisation that drives a secure customer experience and financial inclusion
- Competing for customers

## Evolving regulatory environment

The financial services industry operates in a rapidly evolving regulatory environment. New regulations and regulatory amendments govern matters such as the ethical conduct of banks, the treatment of customers and protection of their personal information and the role of banks in preventing criminals from concealing illegal funds. However this increased regulation provides enhanced credibility and transparency throughout the financial systems and increases collaboration globally.

### Strategic focus areas

- Customer experience
- Value protection

### Relevant material matters

- Ensuring ethical conduct and compliance
- Business continuity and efficiency

## Increased focus on environmental and social issues

The health and economic risks of COVID-19 increased awareness of the most vulnerable in our societies. The lockdowns increased financial pressure on households, exposed the effects of stress and isolation on mental health and exacerbated domestic and gender-based violence.

On the positive side, COVID-19 increased awareness on environmental sustainability. Improvements in air quality and lower levels of water pollution in some parts of the world during the height of COVID-19 restrictions demonstrated the connection between people and their natural environments. This increased awareness of the health, social and economic value that resides in natural resources, the risks associated with regional trends such as water scarcity and deforestation, and the importance of developing green economies that reduce environmental risks and ecological scarcities.

### Strategic focus areas

- Solutionist people
- Shared value
- Value protection

### Relevant material matters

- Ensuring ethical conduct and compliance
- Climate change and extreme events
- Employee wellbeing and engagement

# Material matters

## FNBB's material matters represent the key issues identified by the bank that have the potential to significantly impact its performance or ability to create sustainable value for key stakeholders over the longer term.

### Materiality determination process

Building on the formal process followed in the previous financial cycle, Executive Management reviewed the 2020 material risks and opportunities to assess their relevance and completeness. This was particularly pertinent given significant changes in the operating environment as a result of COVID-19.

**Executive Management used several inputs to determine the material matters:**

- A review of a small sample of international banks' material matters
- The bank's external environment
- Key stakeholders' needs and concerns
- Primary risks identified through the risk management process

**Executive Management then followed a structured materiality process:**

- Reviewed and assessed the existing matters based on their known or potential effect on value creation, preservation or erosion
- Discussed a set of emerging material matters
- Determined the information to disclose about material matters in this report
- Obtained Board approval of the process followed and the final list of material matters

**As an outcome of this process, FNBB's material matters were updated to reflect the significant impact of COVID-19 on economies, businesses and customers as well as evolving stakeholder needs and changes in the social and natural environment:**

- While all the issues identified in 2020 remained relevant, the bank's previous 10 material matters were reduced to 7 by refocusing and combining certain matters to present a more comprehensive picture of how these and other emerging issues could impact FNBB and our stakeholders in the short, medium and long term.
- COVID-19 increased the potential negative impact of each of our material matters but also accelerated opportunities to serve customers better. The impact of the pandemic on FNBB and the bank's response to it are discussed throughout this report.

# 2021 Material matters

## Changes in the economic and political landscape

Botswana's economic environment and politics influence the banking market size and opportunities. GDP growth impacts the financial position of households and businesses. COVID-19 and the global response to the pandemic heightened economic risk in Botswana. Restrictions on movement and supply chain disruption heavily impacted the primary diamond mining and tourism industries, with knock-on effects on the economy and many of the bank's customers. Read more in this report: Operating context and outlook

### Our response to protect value in 2021

- Provided COVID-19 financial relief to customers
- Migrated customers to cost-effective digital channels
- Engaged with Government on policy development and implementation
- Participated in private sector initiatives to form supportive partnerships with Government

### Outlook for this material matter

In April 2021, Moody's downgraded Botswana's sovereign credit rating from A2 to A3 and changed the outlook from negative to stable. The economy is expected to recover in the next year, driven by a rebound in the mining industry and normalisation of domestic economic activity. However, factors such as the spread of COVID-19, a slow vaccine rollout, a deteriorating fiscal position and poor implementation of national projects to stimulate growth could impede the pace of the recovery. The bank will therefore remain cautious and keep tight cost controls in place. Support initiatives will continue, as will engagement with Government to ensure a stable and trustworthy financial sector.

### Stakeholders with an interest in this matter

- Communities
- Government
- Customers
- Shareholders

### Strategic response

- Shared value
- Value protection

## Ensuring ethical conduct and compliance

In a 2021 report, Botswana's civil society African Peer Review Mechanism working group identified 12 governance issues. These included corruption, the lack of independence of oversight bodies, lack of access to information and media, and conflicts of interest. These issues require an ethical response from all sectors, but especially from banks.

The quality of a country's financial system is a cornerstone of economic development. Botswana's banking regulations aim to keep the financial services industry stable and protect customers' assets and information. By complying with regulations and behaving ethically and responsibly, banks can contribute to sustainable economic and social outcomes. Read more in this report: Governance and risk management

### Our response to protect value in 2021

- The bank maintains high corporate governance standards and complies proactively with regulatory requirements.
- An AML/CFT compliance programme is designed to ensure compliance with local and international laws, regulations, codes of conduct, practices and sanction requirements. The programme's risk-based approach classifies customer risk categories and ensures that appropriate procedures are applied. All control measures, including customer due diligence and transaction monitoring, are subjected to an annual effectiveness assessment.
- A product approval committee manages regulatory compliance when the bank introduces, modifies or discontinues products, services and delivery channels.
- Ethics frameworks, policies and standards are in place and whistleblowing cases are monitored.
- Cybersecurity audits are conducted to verify adequacy of controls.
- Employees are trained to counter phishing and other cyber risks.
- Targeted 90% anti-virus protection for work-from-home devices and upgraded security on directors' devices.

### Outlook for this material matter

Following the announcement that Botswana is on the FATF List of Countries with strategic AML/CFT deficiencies, the country has made key reforms to strengthen financial intelligence. The bank will continue to support Bank of Botswana initiatives to embrace innovation and develop secure financial services. KYC compliance and transaction monitoring remains an effective mechanism against financial crime.

### Stakeholders with an interest in this matter

Government    Shareholders

### Strategic response

Value protection

## Digitisation that drives a secure customer experience and financial inclusion

Rapid advances in digital technology and communication create new opportunities for traditional and non-traditional financial services providers. COVID-19 amplified the urgency for digital financial services to help reach underserved and vulnerable populations, reduce the risks of handling cash and enable business continuity at a time of social distancing.

Existing customers also benefit from digital services and experiences that improve turnaround times and deliver relevant solutions more consistently and reliably. This requires investments in technology, platforms and infrastructure that can ensure availability and efficiency. Read more in this report: Operational performance

### Our response to protect value in 2021

- Accelerated migration of customers to digital channels and self-service platforms to maintain service excellence
- Promoted increased use of the FNB App as a valuable broad-based digital banking tool
- Satisfied customers' service requirements by improving convenience and enhancing security of financial transactions
- Offered affordable and accessible banking channels such as CashPlus and Bank on Wheels to support financial inclusion
- Achieved rapid growth in CashPlus outlets
- Promoted savings and asset protection with innovative products and services

### Outlook for this material matter

By making banks more efficient, digitisation will continue to improve the speed and convenience of customer service, and this will drive further growth in the adoption of digital technology. But rapid digitisation of services also highlights the risks of escalating cybercrime. The bank will continue to develop, automate, optimise, and digitise new products, services and solutions so that new to bank and existing customers have access to its services, enhance customer experience and mitigate cyber risks.

### Stakeholders with an interest in this matter

- Communities
- Media
- Customers
- Regulator

### Strategic response

- Customer experience
- Shared value
- Operational efficiencies

## Competing for customers

Customers' disposable incomes were under pressure due to COVID-19-related economic impacts and rising unemployment. However, according to the Bank of Botswana, the ratio of non-performing loans (NPLs) to total bank credit remained modest at 4.4% in March 2021. There is no indication of excessive and rapid credit growth that could threaten the stability of the financial system. Banks used a range of mechanisms during the past year to attract and retain customers, including loan repayment holidays and credit restructuring.

Read more in this report: Operational performance

### Our response to protect value in 2021

- Provided convenient, cost-effective and reliable services, products and solutions that match our customers' evolving needs
- Implemented strategic focus areas to deliver consistent customer service excellence
- Invested in product and service enhancements to retain and grow customer base
- Increasing adoption of data-driven credit scoring to reduce risk and increase turnaround times of loan approvals

### Outlook for this material matter

Competition for banking customers is expected to increase as new competitors enter and gain traction in the Botswana financial services sector. Advances in financial technology (Fintech) are disrupting the traditional delivery of financial services and creating opportunities for non-banking businesses to provide payment and other financial services. The bank will continue protecting its market share by continuously improving the service that we offer our customers.

### Stakeholders with an interest in this matter

Customers

Regulator

### Strategic response

Customer experience

## Employee wellbeing and engagement

Engaged and committed employees are essential to FNBB's customer-centricity. New technology, evolving customer expectations and COVID-19 disruptions demand new skills from employees and managers. The work-from-home model and accelerated digitisation increase the risk of cultural misalignment and disengagement. This, in turn, impacts productivity and employees' ability to be innovative. Read more in this report: Human resources

### Our response to protect value in 2021

- The bank has policies and processes to reward and recognise excellence.
- Training and succession planning develop employees and address risks associated with the scarce and specialist skills required to future-proof the bank.
- The bank engages routinely with employees and creates an environment that supports work-life balance.
- Equipped employees to maintain business continuity from remote working environments.
- Assessed risk triggers and implemented preventative measures to maintain customer service levels.
- Improved Employee Value Proposition by introducing work-from-home, work crèche and online training initiatives.

### Outlook for this material matter

COVID-19 has permanently changed workplace conditions, with minimal chance of things returning to pre-pandemic norms. The bank is considering a hybrid working model to accommodate employees who prefer to work at the office. This is underpinned by our ongoing efforts to measure and improve engagement and cultural alignment, strengthen employee development and career advancement, and create accelerating work environments.

### Stakeholders with an interest in this matter

Employees

Organised labour

### Strategic response

Solutionist people

## Business continuity and efficiency

Deteriorating economic conditions and disruptions to work environments place pressure on operational performance and efficiency. Banks rely on energy and critical infrastructure to be able to operate and safeguard customers' assets. Extreme events can disrupt operational performance and threaten business continuity. The adoption of digital technology further increases the dependency on adequate Wi-Fi access. This requires partnerships with mobile providers and Government investment in information communication technology infrastructure. Regulations set minimum standards to ensure continuity of the financial services industry.

Read more in this report: Operational performance, Governance and IT governance

### Our response to protect value in 2021

- Ensured a business continuity management policy is in place and officials are trained in emergency management
- Achieved 99.9% average service availability benchmark which translates to tolerance limit of 45 minutes downtime per month
- Concluded disaster recovery tests and addressed gaps to optimise IT
- Optimised network configurations and vendor service level agreements to maintain network stability

### Outlook for this material matter

This is an ongoing matter that requires continuous management, oversight and engagement with relevant stakeholders to ensure we remain responsive to disruptions and quick to capitalise on opportunities. The Bank has robust Business Continuity measures and the role of banks in preventing criminals from hiding illegal funds interventions in place, supported by well-understood internal lines of reporting and oversight. These measures help us withstand the impact of interruptions to operations.

### Stakeholders with an interest in this matter

- Employees
- Regulator
- Suppliers
- Government
- Shareholders

### Strategic response

- Operational efficiencies
- Value protection

## Climate change and extreme events

Climate change, natural disasters (such as severe droughts) and extreme events, (such as COVID-19), impact retail and business customers in the agriculture, diamond mining, tourism and hospitality sectors. These sectors contribute significantly to economic growth in Botswana and have an equally material negative impact if subjected to extreme and unanticipated risk. Read more in this report: Shared value

### Our response to protect value in 2021

- Aligned lending practices to the FNBB Environmental and Social Risk Assessment Policy and Equator Principles
- Assisted customers to manage risks related to natural disasters and climate change with innovative services and products related to green initiatives

### Outlook for this material matter

This is a longer-term matter that requires a deeper understanding of physical and transitional risks for Botswana as a country. We continue to monitor developments and new risks related to climate events.

### Stakeholders with an interest in this matter

- Customers
- Media
- Government
- Shareholders

### Strategic response

- Value protection

# Strategy

## FNB Botswana's primary strategic aim is to create shared value for its stakeholders.

### 2025 strategy

FNBB's 2025 strategy was launched in 2020 to deliver sustainable growth over the next five years.

#### The strategy is guided by core themes

**Digital transformation** is the overarching theme of the strategy. The bank is developing an innovative, integrated financial solutions platform that will enable consistent delivery of unmatched customer experience and create shared value for stakeholders. By harnessing data and advanced technology, the bank is:

- Creating a digital organisation by building digital talent
- Optimising and automating processes and digitising operations
- Digitising customer relationships by assisting customers to transition to the digital space
- Exploring new digital growth opportunities and ecosystems

**Shared value** underpins FNBB's intent to use its position as a successful bank and corporate leader in Botswana to share the value it creates with its stakeholders.

#### Adapting the strategy to COVID-19 considerations

The strategy is implemented through the strategic objectives of solutionist people, operational efficiencies, customer experience, value protection and shared value. A performance scorecard with 2025 performance measures, strategic focus areas and annual targets enables the bank to measure its annual performance against the 2025 objectives.

Following the onset of the COVID-19 pandemic, the bank reviewed and adapted the 2021 strategic focus areas to incorporate COVID-19 health and economic considerations and mitigation plans into the existing strategy. Milestones achieved against the strategic objectives and focus areas are detailed in the table below, with references to more information throughout the Integrated Report.

| 2025 strategic objectives and performance measures | 2021 strategic focus areas (adapted in response to COVID-19) | 2021 target | 2021 actual |
|---|---|---|---|
| **Solutionist people** | | | |
| **Empower people to drive high performance**<br>• **85%** Group Engagement Survey score<br>• **4.2** average organisational performance rating<br>• **85** Index Culture Risk Assessment<br>*CRA is measured by the Culture Risk indexes as follows:*<br>*Severe Risk – 0 – 24 Index*<br>*High Risk – Severe – 25 – 49 Index*<br>*High Risk – Medium – 50 – 54 Index*<br>*High Risk Low – 55 – 59 Index*<br>*Elevated Risk – High – 60 – 64 Index*<br>*Elevated Risk – Medium – 65 – 69 Index*<br>*Elevated Risk – Low – 70 – 74 Index*<br>*Low Risk – 75 – 84 Index*<br>*Very Low Risk – 85 – 100 Index* | Work-from-home enablement:<br>• Work-from-home, flexible working hours and tools of trade<br>• Digitise performance and talent management<br>• Enable remote learning and upskilling<br>• Provide comprehensive Employee Wellness Programme | • 75 Index Culture Risk Assessment<br>• 3.6 average organisational performance rating | • 68.2 Index Culture Risk Assessment<br>• 3.53 average organisational performance rating<br>Read more in this report: CEO review and Human resources |

| 2025 strategic objectives and performance measures | 2021 strategic focus areas (adapted in response to COVID-19) | 2021 target | 2021 actual |
|---|---|---|---|
| **Operational efficiencies** | | | |
| **Connect people to systems and processes that accelerate them**<br>• Maintain operational cost increase at 0% year-on-year<br>• **85%** process optimisation<br>• **100%** process documentation<br>• **50%** process automation | • Process optimisation and automation<br>• Re-utilisation of excess space<br>• Platform journey | • P30 million cost reduction<br>• 100% process documentation<br>• 40% process optimisation<br>• 5% process automation | • P27.5 million cost reduction<br>• 96% process documentation<br>• 35% process optimisation<br>• 1.5% process automation<br>Read more in this report: CEO review, CFO review and Operational performance |
| **Customer experience** | | | |
| **Consistently deliver exceptional customer service**<br>• **90%** Customer Experience Index | Channel optimisation:<br>• Migrate customers from branch to alternative channels and self-service<br>• Optimise Contact Centre to enhance customer service and sales functions<br>• Enhance digital banking functionalities and drive customers to the FNB App<br>• Implement electronic sales platform<br>• Expand CashPlus<br>• Leverage Merchant Services cash functionalities with eWallet and Cash@Till | • 85% External Customer Satisfaction Index (ECSI) | • 82.9% ECSI results<br>Read more in this report: CEO review and Operational performance |
| **Value protection** | | | |
| **SMART responsible allocation of resources to achieve great returns**<br>• Achieve a risk enabled maturity status | • SMART responsible allocation of resources to achieve great returns as defined in the risk return framework | • Risk managed status | • Risk defined with elements of risk managed<br>Read more in this report: CFO report, Operational performance and Governance report |
| **Shared value** | | | |
| **Work together with communities to create social and economic value**<br>• Develop Shared Value Framework to determine measures | • Leverage platform capabilities to support eGovernment strategy to automate and improve the efficiency of public sector services<br>• Elevate creative industry<br>• Support home-grown solutions and innovations | • Develop Shared Value Framework | • Shared Value Framework is being developed<br>• Metrics under development<br>Read more in this report: CEO review and Human resources |

# Interview with **the Chairperson**

> "Instilling and maintaining a culture of ethical conduct remains a key focus area as the bank transitions into a financial services organisation of the future."

**Balisi Mohumi Bonyongo**
Chairperson

### Your tenure as Independent Non-Executive Chairperson has been defined by COVID-19. How has the pandemic impacted Botswana? What has the Board prioritised in its response to COVID-19?

Over the past years, the world faced the worst global health crisis in a century, which also triggered an economic crisis. COVID-19 infections and measures to stop the spread of the virus continue to impact Botswana's economy, businesses and people. The pandemic exposed the inherent vulnerability of the national economy, which remains dependent on diamond exports and tourism. GDP contracted by 8.5% in the 2020 calendar year and the country's fiscal position worsened, eroding previously resilient financial buffers. Botswana remains the highest rated sovereign in Sub-Saharan Africa, with a stable outlook. However, its economic and fiscal deterioration is reflected in downgrades by Moody's and S&P rating agencies over the past 18 months. COVID-19 also worsened the existing social pressures of indebtedness and rising unemployment.

These economic and humanitarian crises heightened the Board's awareness of the interconnectedness of our business with Environmental, Social and Governance (ESG) imperatives. To achieve the bank's strategic and operational objectives during COVID-19, the Board met regularly with management to understand and evaluate plans and actions to ensure that employees were safe, adequately equipped and sufficiently engaged to maintain customer service, while navigating increased risk and complexity. The Board's external focus was on security and the privacy consequences of accelerated digital transformation for our customers, and the plight of vulnerable communities.

The Board reviews the bank's strategy regularly to ensure it remains relevant and responsive to risks and opportunities in our external environment. In the wake of COVID-19, we reviewed the strategy and monitored its implementation to ensure that the bank was responding effectively to trends such as the rapid shift to remote working and the acceleration of digital banking. To maintain the bank's focus on embedding the principle of shared value throughout its operations, the Board monitored the implementation of processes to manage and measure shared value.

Read more in this report: Strategy and Shared value

COVID-19 threats and vulnerabilities focused the Board's attention on financial and operational risk. Together with the Board Committees, we engaged extensively with management to ensure that our risk management culture and process not only provided value protection but also created value by capitalising on COVID-19-related trends such as social distancing which accelerated the pace of digital adoption.

Despite these sudden and unanticipated disruptions, our management and employees continued to implement the bank's strategy, maintaining its resilience as the pandemic evolved and exceeding the Board's performance expectations.

### COVID-19 has increased awareness of the role of banks in society. As a banking and corporate leader in Botswana, what role does FNBB play in the country?

As a bank, we have a major impact on society and we take this role seriously. This is reflected in our purpose to be a trusted partner committed to building a shared future of prosperity for all stakeholders who contribute to the value we create. We deploy shareholder capital to support our customers and grow our economy. We provide safe havens for customers' income and investments. We facilitate customers' life stages and growth ambitions, whether these involve buying a house, educating a child, building a business or investing for retirement. When our society prospers, we prosper. This is why we consider the principle of shared value a business imperative that must be instilled in the bank's culture and embedded throughout its operations.

As a leading business in Botswana, we are a trusted partner to Government. We pay tax, promote progressive change and support national endeavours to grow and broaden access to the economy.

The bank and the FNBB Foundation refocused their social investment programme to support vulnerable communities impacted by COVID-19. Importantly, we made progress in embedding the principle of shared value more broadly throughout the bank.

## What else did the Board focus on during 2021?

In June 2020, we approved the new 2025 strategy to drive sustainable growth through digital transformation, customer-centricity and shared value.

As the custodian of stakeholder value, the Board monitors the bank's application of best practice governance and regulatory compliance. During 2021, we increased the pace of our journey to strengthen governance, ensuring that the Board sets the tone at the top and instils a culture of ethical conduct, stakeholder accountability and strategic responsiveness throughout the bank. This underpins our high-performance aspiration and the bank's long-term sustainability. Looking outward, we continued to promote a progressive regulatory environment in Botswana, aligned to international best practice in areas of global concern, such as anti-money laundering and the financing of terrorism.

## Boards often face difficult choices in monitoring the deployment of shareholder capital, particularly during periods of economic uncertainty. What major trade-offs did you and your Board colleagues debate during the year?

We had some difficult conversations in which we had to balance short-term gains against the potential risk these posed to the bank's longer-term sustainability.

The first of these related to the distribution of capital reserves to shareholders during a period of considerable risk and uncertainty. The Board weighed this against the bank's ability to remain profitable during COVID-19 and the capacity of its capital base to absorb major financial shocks.

Given the Bank's consistent record of paying annual dividends since the late 1990s and our role in the economy, we carefully considered the impact of not paying a dividend on public funds, pension funds and investors. Ultimately, based on the Bank's sound financial position and outlook, combined with the exceptionally strong capital base, the Board made the decision to declare an interim dividend of 6 thebe a share, a final dividend of 9 thebe per share for the year ended June 2021 and a special dividend of 40 thebe per share . This decision to declare the interim, final and special dividend was not taken lightly. In view of the strong financial position of the bank it was felt that the benefits that would accrue to pension funds, investors and to the fiscus would provide a positive signal to the national economy, which was appropriate during the difficult times being experienced by the country .

Another important trade-off involved the Board's approach to risk in the bank's lending practices. Consistent with our prudent approach to credit extension, the Board curtailed the bank's risk appetite during 2021 to guard against concentration and credit risks in a vulnerable credit environment. This resulted in the loss of market share in our retail and commercial lending books to new entrants in an increasingly competitive local banking market. After consideration and consultation with management, the Board agreed to relax certain conditions and introduce additional measures to support customers without exposing the bank or other stakeholders to undue risk.

## Are you satisfied that there is appropriate leadership capacity and capability to guide the bank during this period of significant change in the financial services industry?

The effectiveness of the Board and its Committees is assessed during a formal annual evaluation. The 2021 evaluation was reviewed by the Directors' Affairs and Governance Committee, which identified no material concerns in respect of the areas assessed. Overall, the performance of the Board and its Committees was found to be satisfactory, with improvement specifically noted in succession planning and gender diversity.

Read more in this report: Governance

The Board strives for an appropriate balance of gender, age, tenure and skills diversity in its composition and conducts continuous succession planning to maintain this balance as directors retire. Nelson Mokgethi retired as an Independent Non-Executive Director at the 2020 AGM. Following Mr Mokgethi's retirement and the planned retirement of Sifelani Thapelo at the 2021 AGM, the Board approved the appointment of two new directors.

Asad Petkar and Max Marinelli were appointed Independent Non-Executive Directors in August, to formally commence Board duties in November 2021. Both appointments received regulatory approval and Mr Marinelli, who was a member of the Deloitte audit team that provided services to the bank, underwent the required cooling off period. As past Deloitte Country Partner for 14 years and former Council Member and President of the Botswana Institute of Accountants, Mr Marinelli has made a significant contribution to the auditing profession and is a firm believer in citizen and youth empowerment. Mr Petkar is an experienced business owner and entrepreneur with expertise in business process, information and communication technology, analytical skills and business transformation. He will contribute valuable IT skills and experience to the Board at a critical stage in its digital transformation.

The Board monitors the bank's attraction and retention of culturally aligned, experienced and competent management across the bank. Under the leadership of Steven Bogatsu, the Executive Management steered FNBB with great skill and commitment through the past year. The Board also noted the positive influence of new leadership appointments on the bank's performance.

I am satisfied that the Board represents an appropriate diversity of skills and experience to govern the bank effectively. I am confident that our executive leadership has the relevant experience in our core disciplines to achieve the bank's strategic objectives.

## What are the Board's expectations for the 2022 financial year and what will the Board focus on?

The Board will review and maintain its oversight of the 2025 strategy. This is critical to ensure it remains effective in delivering sustainable growth and shared value in the context of COVID-19, technology-driven change in banking and the Government's plan to rejuvenate the economy.

We seek to continuously rebalance and renew the Board's composition when directors retire.

Instilling and maintaining a culture of ethical conduct remains a key focus area as the bank transitions into a financial services organisation of the future. We will also focus on progressing our risk maturity journey, ensuring that the bank remains alert to risk and opportunity in the rapidly evolving risk universe.

Detailed information on the bank's future prospects is available in the Outlook report on page 67.

## Who would you like to acknowledge?

During a difficult year for our country and our industry, I am encouraged by how our people rose to the challenge. The bank maintained excellence in all functions and remained economically attractive and socially relevant to stakeholders. That is primarily due to our employees, management and the executive team who worked remotely and virtually to implement the strategy and deliver great results in difficult circumstances.

On behalf of the bank, I thank our shareholders, for their support.

On behalf of the Board, I acknowledge Nelson Mokgethi who retired during the period under review, having served on the Board since 2015. Nelson brought his extensive expertise and experience in public sector finance, infrastructure development, state-owned entities and commercial business to the Board. We thank him for his excellent service and wise counsel and wish him well in his new endeavours.

Finally, I am grateful to each of my Board colleagues for their steadfast support and extraordinary commitment to ensuring that the Board and its Committees fulfil the bank's purpose.

**Balisi Mohumi Bonyongo**

Chairperson

# Chief Executive Officer's **review**

"FNB Botswana remained resilient during 2021, despite the major and multi-faceted health and economic risks of COVID-19. The bank retained its leading position, grew its customer base and maintained profitability, while implementing the 2025 strategy to create shared value."

**Steven Lefentse Bogatsu**
Chief Executive Officer

## Executive summary of the year

FNBB's resilience is founded on a strong capital base capable of absorbing financial shocks and a maturing risk management system that navigates risk and capitalises on opportunity. Combined with consistent growth in the customer base and improved cost efficiencies, these strengths positioned the bank to withstand the impact of COVID-19. Importantly, this solid foundation ensured we remained agile and responsive to digital transformation and customer-centricity – the two primary trends driving competitiveness in banking.

FNBB's transition to digital banking was gaining momentum before COVID-19. The pace of customer migration to digital and self-service platforms had increased. The bank's internal digital transformation was also taking shape through the optimisation and automation of processes to improve service efficiency and customer experience.

The pandemic and its associated restrictions accelerated the pace at which customers adopt digital technology and adapt to the advantages it offers. Although this rapid advancement narrowed the gap between early innovators, such as FNBB, and their competitors, the bank's established IT systems affords it a competitive edge when it comes to efficient, convenient service.

This was a key contributor to the growth of FNBB's overall customer base (largely at the expense of its competitors) and the 17% increase in the volume of the bank's digital transactions. 93% of our customers now use at least one of our digital channels and the utilisation rate of the FNB App increased from 65% in 2020 to 92%.

Our management and teams also rose to multiple challenges. They transitioned to work-from-home environments, while standing by our customers and migrating them to the bank's digital and self-service channels.

### Delivering exceptional service, consistently

As the competitive gap closes, it is this commitment to customer experience, enhanced by technology, that differentiates the market leaders in banking.

The rapid and unexpected onset of COVID-19 forced us to think differently about the way we serve our customers. Our priority was to remain in contact with customers during the lockdowns and help them to continue managing their money, making payments and applying for loans on our digital and self-service channels from the comfort of their homes.

We provided repayment relief to many business and retail borrowers impacted by COVID-19 and extended credit responsibly, in line with the bank's risk appetite and limits. While this cautious approach resulted in a reduction in loan impairments relative to the prior year, it exposed to bank to increased competition in our lending business. We continuously review credit risk and align our risk appetite to market dynamics within risk limits. Our business segments and customer relationship managers leverage the full strength of the bank across multiple offerings to align our services with customer needs throughout their life and business cycles.

Read more in this report: Operational performance

### Empowering our people to drive high performance

As the bank's frontline workers and brand ambassadors, our employees are critical to achieving the competitive advantage of customer satisfaction enhanced by digital empathy.

In 2019 the bank initiated a work-from-home programme as a value proposition for employees. Our goal of shifting 50% of our workforce to home offices over three years was accelerated to 62% with immediate effect during the first COVID-19 lockdown in 2020. Employees were adequately equipped to work remotely, but they had to adjust to fundamental changes in the way they work and interact with customers, each other and the bank during periods of social distancing.

To maintain the continuity of the bank's operations, we introduced targeted measures to promote digital migration and conducted customer engagement and product launches virtually. At the same time, we accelerated the digitisation of the bank's internal processes and increased the pace of our employees' own digital adoption. Navigating this journey together had the positive effect of increasing digital empathy between many of our employees and their customers.

Undergoing rapid change of this magnitude during a period of significant upheaval is complex and challenging. Remote working affects cultural alignment and employee engagement. While most employees thrive in flexible working conditions, for some it is disruptive and stressful. As a result, many of our employees were more than willing to return to their offices or branches between the lockdowns.

The bank maintains protocols to restrict the transmission of COVID-19 among employees and customers in work environments. Employees are also offered counselling. Despite these measures, their work exposes them to significant health risk. These challenges, compounded by protracted salary negotiations, were reflected in the results of the bank's Culture Risk Assessment during 2021, which showed a decline in organisational alignment since the last survey in 2018. The bank's leadership and management engaged proactively with employees to understand and respond to their concerns. We will continue to focus on addressing these during the year ahead. Read more in this report: Human resources

## Creating shared value for our stakeholders

### Our approach to shared value requires a broad understanding of ESG challenges in Botswana and a purposeful, innovative response to these challenges.

Shared value is being embedded as a business principle throughout the bank. This calls for a shift in the way we do business and purposeful allocation of capital to create value for our stakeholders, profitably and at scale.

Our shared value report on page 63 demonstrates how the bank creates and shares value by lending responsibly to facilitate our customers' life and business goals; understanding, protecting and supporting customers' assets and financing needs; deepening access to financial services and asset ownership throughout Botswana; and supporting the country's economic and social development by contributing to its tax base.

The bank's strategy prioritises business sectors that have been identified as growth sectors by the Government's ERTP. These include tourism, agriculture and pharmaceutical manufacturing, among others. We are also exploring new products to customise working capital and trade financing solutions for SMME customers and value-added transactional banking opportunities for merchants. Our insurance and investment products encourage a culture of asset protection and saving. Furthermore, we intend to leverage the bank's procurement expenditure to increase business and work opportunities for citizen-owned, women-owned and youth-owned businesses.

A primary intervention by the FNBB Foundation during the COVID-19 lockdowns was to increase financial support for the creative arts industry, which was heavily impacted by the pandemic. We know that the industry is an important source of jobs for young people who are often the financial mainstay of their immediate and extended families. To enable performing artists to continue entertaining audiences and earning income, we arranged online festivals that were broadcast to people in their homes.

The bank's Bodiragatsi Jwame, Lentswe Lame intervention reached the broader creative arts industry by supporting fashion, comedy, music, fine arts, documentary, dance, photography and poetry. Competitions showcased local artists in the media and included prize money.

## Implementing the 2025 strategy

The introduction of FNBB's five-year strategic roadmap, the2025 strategy, coincided with the onset of COVID-19. The bank adapted the strategy in alignment with COVID-19 planning considerations and actions to mitigate the impacts of the pandemic. This ensured the bank achieved significant milestones in its strategic journey towards 2025, while ensuring the effects of COVID-19 were managed through each strategic focus area.

### Solutionist people

#### Our customised focus areas in response to COVID-19

Empower people to drive high performance by:

- Providing an enabling environment and support to maintain operations
- Focusing on employee safety, protection and internal communication

#### Our progress

- Enabled work-from-home with flexible working tools and digital learning
- Applied protocols to restrict the transmission of the COVID-19 among employees and customers and piloted a rapid COVID-19 testing programme
- Scored 68.2 in the 2021 Culture Risk Assessment
- Alleviated barriers to high performance by increasing leadership engagement with employees and creating an 'accelerating' environment that enhances employee experience
- Significantly enhanced our Employee Wellness Programme
- Planned a hybrid working model for employees who prefer to work at the office

Read more in this report: Human resources

#### Our priorities for 2022

Restore our focus on developing a high performance culture through talent management, skills re-alignment, communication and collaboration. Read more in this report: Outlook

## Operational efficiencies

### Our customised focus areas in response to COVID-19

Connect people to systems and processes that accelerate them by:

- Enabling continuity of core banking operations, infrastructure and systems
- Managing third-party suppliers
- Maintaining business continuity

### Our progress

- Identified 1 818 processes as candidates for optimisation and were mapped and risk assessed
- Improved collections efficiencies
- Trained employees in robotic process automation and automated statement generation and distribution for corporate customers

Read more in this report: Operational performance

### Our priorities for 2022

Continue focusing on enhancing operational efficiency and customer experience through organisational redesign and optimisation, accelerated automation and data analysis, data management, network availability and accessibility, and development of in-country capabilities to accelerate the digitilisation journey.

Read more in this report: Outlook

## Value protection

### Our customised focus areas in response to COVID-19

SMART responsible allocation of resources to:

- Enable COVID-19 response
- Ensure sustainability and stewardship through risk management and regulatory compliance

### Our progress

- Maintained financial resilience and profit growth by increasing customer base and containing costs
- Responsible resource allocation and cost efficiencies enabled ongoing investment in digital transformation
- Leveraged digital platform for competitive advantage
- Aligned credit appetite to market dynamics within set risk limits
- Aligned certain social and environmental risks associated with lending and investment practices with Equator Principles Read more in this report: CFO review

### Our priorities for 2022

Maintain financial and risk disciplines by implementing Risk Maturity Framework and the Business Resilience and Continuity Framework, improving collections efficiencies, containing costs and minimising revenue leakage. Read more in this report: Outlook

## Customer experience

### Our customised focus areas in response to COVID-19

Deliver exceptional service consistently by:

- Protecting the health and safety of customers
- Driving digital migration
- Supporting customers through cash flow challenges
- Communicating with customers

### Our progress

- The Bank's ECSI score is 82.9%.
- Business segments engaged in brand audits that identified actionable competitor and industry insights
- Applied safety protocols in branches and conducted virtual relationship banker meetings and product launches
- Accelerated migration to digital and self-service channels with enhanced functionality and cash rewards
- Provided financial relief to qualifying customers impacted by COVID-19
- Communication campaigns promoted saving and helped customers maximise our products and services
- Increased financial inclusion in remote areas with expansion of CashPlus agent network
- Leveraged merchant service cash functionalities with eWallet and Cash@Till
- Increased the Contact Centre mandate to assist with query resolution turn around time
- Optimised Contact Centre for customer service and sales functions, improving the turnaround time of 86% of query resolutions
- Significantly reduced the turnaround times of certain onboarding and loan approval processes with internal process improvements
- Achieved 99.9% average availability

Read more in this report: Operational performance

### Our priorities for 2022

Continue improving customer experience with service culture transformation, omnichannel functionality, expansion of alternative channel services, improved ecosystem and family value propositions and enablement of marketplace on the bank's platform. Read more in this report: Outlook

## Shared value

### Our customised focus areas in response to COVID-19

Work with our communities to create social and economic value by:

- Supporting Government containment initiatives to minimise the impact of COVID-19
- Supporting SMMEs to minimise economic impact, focusing on the creative and pharmaceutical sectors

### Our progress

- Established the Shared Value function and Shared Value Framework to embed the philosophy in each business area
- Invested P6.8 million (1% of the bank's profit after tax) in COVID-19 relief and community support efforts, including employee volunteering and CSI across the focus areas of youth empowerment, sport and recreation, environmental sustainability, arts and culture and social welfare
- Allocated 3% of the bank's training budget to the Botswana Institute of Banking & Finance to support industry training initiatives Read more in this report: Shared value

### Our priorities for 2022

Establish Shared Value Index with key performance indicators to enable performance monitoring and evaluation, leverage platform capabilities to support eGovernment strategy, support Government's ERTP, promote home-grown solutions and innovations and elevate the creative industry.

## Acknowledgements

The bank's resilience in 2021 is a product of hard work, commitment and courage. Firstly, I express my deep appreciation to our employees, who have overcome unprecedented risk and turbulence to maintain customer service excellence and the continuation of our operations. I acknowledge management and the executive team for steadfastly implementing the bank's strategy, while protecting our employees, customers and business from the impacts of COVID-19. I recognise the support of our loyal customers and service providers. Finally, I thank the Chairperson and the Board for their wise counsel and steadying influence during a difficult year.

## Future focus

Information on the bank's future prospects is available in the Outlook report on page 67.

**Steven Lefentse Bogatsu**
Chief Executive Officer

# Chief Financial Officer's **review**

"FNBB demonstrated resilience amid COVID-19 uncertainty by maintaining profit before tax."

**Luke Woodford**
Chief Financial Officer

## FNBB demonstrated resilience amid COVID-19 uncertainty by maintaining profit before tax in spite of the significant reduction in the Bank Rate.

This performance was underpinned by a normalisation of credit losses and a resilient non-interest revenue base. Return on equity of 18.2% (2020: 20.1%) declined due to the conservative level of capital held over the financial year and a 2% reduction in profit after tax. During a year that presented a severe economic test, FNBB's income streams remained steadfast and the bank focused on strengthening its balance sheet.

## FNBB's financial performance reflects the progress the bank has made in implementing the core strategic themes of customer-centricity and digital transformation.

The customer-centric model guides FNBB in the process of product and service development. During the year, the bank broadened its financial services offering with new products and enhanced capabilities on its digital channels. The continued success of this element of the strategy is reflected in transactional non-interest revenue growth.

The digital transformation journey continues to receive a significant allocation of the budgeted investment. This positions the bank to harness the technology available to ensure efficiencies in processes and further enable customer solutions.

## Highlights

Profit before tax
**P901 million**
(2020: P901million)

Profit after tax
**P685 million**
(2020: P696 million)

Cost-to-income
**52%**
(2020: 48%)

Return on assets
**2.3%**
(2020: 2.5%)

Return on equity
**18.2%**
(2020: 20.1%)

Credit loss ratio
**1.6%**
(2020 2.6%)

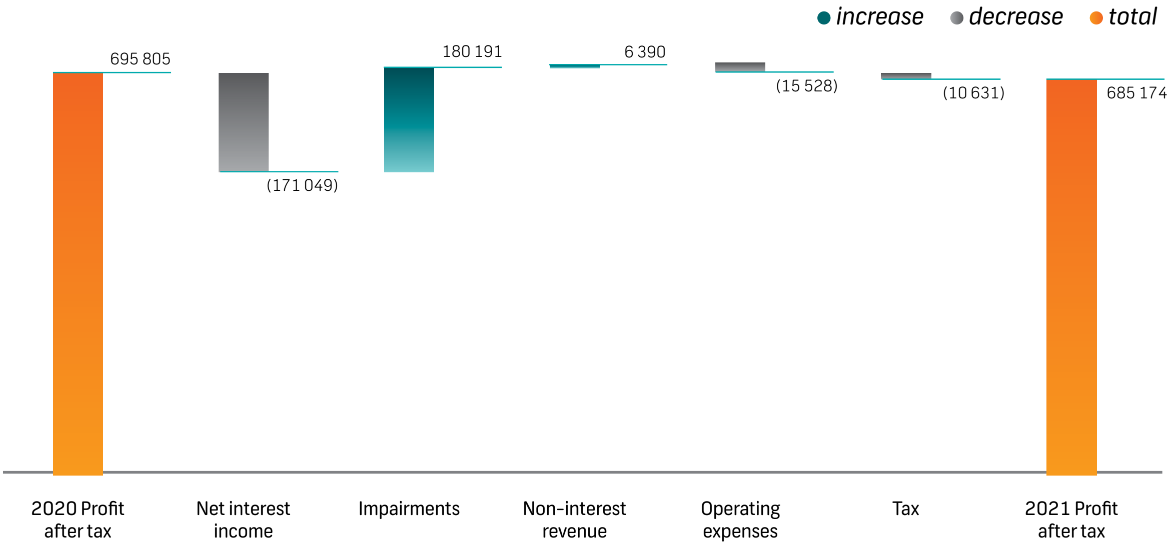
Advances
**P14.9 billion**
(2020 P16.0 billion)

Deposits
**P21.4 billion**
(2020 P23.2 billion)

NPLs/advances
**7.3%**
(2020 7.6%)

## Income statement

The graph below unpacks the major income statement components of the bank's performance. This was underpinned by pressure on top-line revenue due to compression on net interest income from the reduction in the Bank Rate and the decline in the advances book.




The 15% decrease in interest income was driven by the 50 basis points reduction in the Bank Rate during the latter half of the prior financial year and a further 50 basis points reduction during the current year. This was further impacted by the fall in the cash and investment portfolio interest income due to the reduction in risk free rates globally.

The Bank Rate cut caused significant compression in the bank's net interest income, with the reduction in lending rates not fully offset by the lower interest expense, primarily due to the profile of the deposit portfolio. The deposit mix shifted from overnight deposits to term deposits as customers sought higher yields.

Impairments declined by 43% year-on-year, driven by a 49% reduction in stage 1 and 2 impairments and a 40% reduction in stage 3 impairments. The decline in stage 1 and 2 impairments followed a reduction in the gross advances exposure and the normalisation of impairments in June 2021 following the elevated impairments in the prior year related to Covid-19. Stage 3 impairments declined due to a reduction in defaults, as the bank partnered with customers to help their businesses through the pandemic. The P180 million reduction in impairments translated into a lower credit loss ratio of 1.6% (2020: 2.6%).

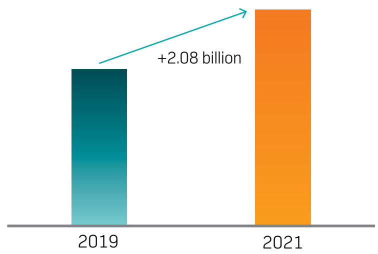
Non-interest revenue remained steadfast with a 1% increase year-on-year. This was driven by service and others fee and card commission income growth of 7% and 19% respectively, driven through a pleasing increase in customer and transactional volumes. This was offset by a 30% reduction in markets revenue including foreign exchange and fair value losses. Improved connectivity on our digital channels generated growth in transactional volumes and values. The bank broadened its financial inclusion by continuing to expand its CashPlus channel, taking services to more remote locations and offering further convenience to our customers.

The cost-to-income ratio of 51.9% (2020: 47.9%) reflects FNBB's success in balancing cost management initiatives with strategic investments and as affirmed by the minimal increase in operating costs. Employee benefits costs increased by 6% year-on-year, with a voluntary separation programme being offered during the year. The non-employee related costs declined by 2% year-on-year, largely driven by the pandemic related change in business operations with muted travel and cost-effective digital engagements.

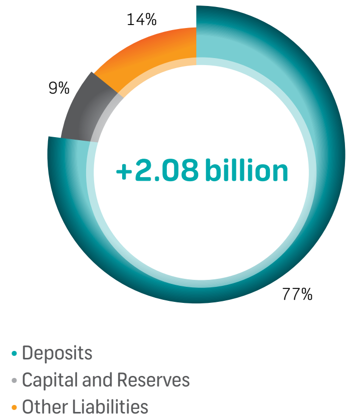
## Statement of financial position

The following charts demonstrate the execution of sustainable statement of financial position strategies over the past three years. The funding of assets has predominantly been via the strong deposit franchise.

*Total assets growth*




*Statement of financial position growth funding*

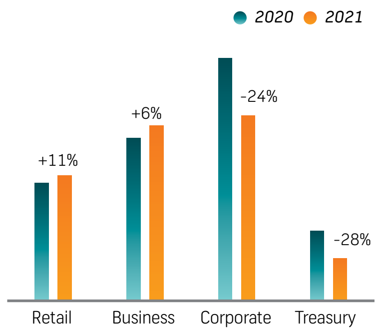



### Funding and liquidity

The bank optimises its funding profile within structural and regulatory constraints to enable its businesses to operate in an efficient and sustainable manner. Liquidity buffers are maintained through the active management of high-quality liquid assets that are available as protection against unexpected events.

The deposit franchise recorded a decline of 8% overall. The decline was largely attributable to a 13% decrease in demand deposits, driven by an increase in activity following the lifting of COVID-19 restrictions and the normalisation of market liquidity. However, the bank remained adequately funded with demand deposits continuing to contribute significantly to the total deposit base and depicting stable behaviour.

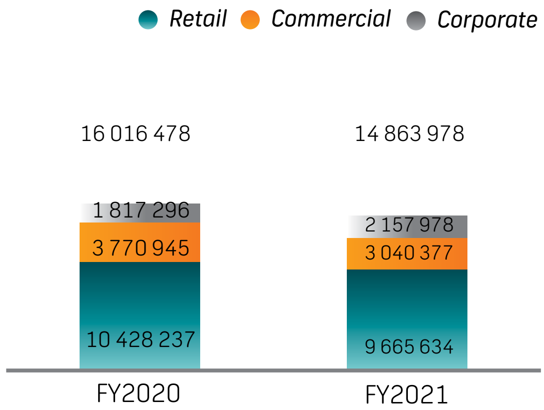
*Deposits*




### Deployment of funding

FNBB continued to exercise caution in its credit origination, which improved its position to face the uncertainties ahead. The bank's prudent approach to lending ensures responsible and manageable consumer exposure, while it actively seeks opportunities arising from the anticipated COVID-19 recovery. This approach resulted in a 7% decline in gross customer advances, while market gross advances increased by 4%. This is explained in detail as follows:

*Gross advances*




### Deposits

| | June 2020 | June 2021 | Variance |
|---|---|---|---|
| | P'000 | **P'000** | % |
| Call and term | 9 432 796 | **9 367 095** | (1%) |
| Current accounts | 12 284 393 | **10 529 915** | (14%) |
| Savings accounts | 1 454 708 | **1 499 047** | 3% |
| **Total deposits from customers** | 23 171 897 | **21 396 057** | (8%) |

## Advances and impairments

| | 2020 | **2021** | Variance |
|---|---|---|---|
| Performing advances – Stage 1 | 13 585 181 | **12 401 432** | (9%) |
| Performing advances – Stage 2 | 1 208 852 | **1 377 901** | 14% |
| Non-performing advances – Stage 3 | 1 222 445 | **1 084 645** | (11%) |
| **Advances** | 16 016 478 | **14 863 978** | (7%) |
| Stage 1 provisions | 201 960 | **172 922** | (14%) |
| Stage 2 provisions | 241 071 | **294 161** | 22% |
| Stage 3 provisions | 886 680 | **754 868** | (15%) |
| **Provisions** | 1 329 711 | **1 221 951** | (8%) |
| Stage 1 coverage | 1% | **1%** | (6%) |
| Stage 2 coverage | 20% | **21%** | 7% |
| Stage 3 coverage | 73% | **70%** | 4% |
| **Coverage ratios** | 8.30% | **8.22%** | (1%) |

Retail advances experienced a sharp decline of 7% while the Botswana retail market increased by 9%. The decline was driven by competitive pressures, with the market extending loan tenures, resulting in increased market debt. The bank maintained its existing affordability criteria and a selective approach to retail exposure. The corporate segment experienced excellent growth of 19% year-on-year, while the commercial advances portfolio reduced 19% because of a cautious lending risk appetite, a reduction in the Non-Performing Loans (NPL) and the overall lack of growth in the market. The combined result of FNBB's commercial and corporate advances was a decline of 7% against the overall comparable decline of 3% in the market. While actively looking for the opportunities arising out of the anticipated recovery pattern, the bank will continue to be cautious in maintaining the quality of its credit book.

The NPLs declined by 11% year-on-year from P1.2 billion to P1.09 billion, resulting in an NPL-gross advances ratio of 7.3% (7.6% as at 30 June 2020). This reduction in NPLs was primarily due to a recoverability assessment of long-outstanding NPLs resulting in the write-off of irrecoverable loans.

This recoverability assessment further resulted in a moderate decline in the stage 3 coverage ratio from 72.5% to 69.5% as these long-outstanding loans carried a high expected credit loss. The total advances impairment coverage ratio declined moderately from 8.3% in the prior year to 8.2%, reflecting a similar customer risk profile and outlook on the realisable values of collateral. The closing provision levels remain appropriate.

## Capital management

The bank's capital management strategy is to ensure an optimal level and composition of capital and an effective allocation of financial resources, including capital and risk capacity, resulting in a sound return on equity and a sustainable dividend distribution to shareholders. The capital planning process for the bank is conducted on a forward-looking basis and considers earnings volatility. Through this approach, compliance with both the internal and regulatory capital adequacy requirements is ensured, shareholders' returns can be safeguarded, and the bank can maintain the ability to continue as a going concern, even under severe stress conditions.

For the financial year under review, FNBB continued to operate above both the internal and regulatory minimum capital adequacy ratios. The holding of surplus resources during periods of economic uncertainty can be prudent. However, all funds held in reserve in excess of the expected requirements, after catering for uncertainty, represent idle capacity that can be redeployed and leveraged. In light of this, the bank declared a special dividend to ensure the appropriate levels of capital are maintained.

| | 2019 | 2020 | **2021** |
|---|---|---|---|
| **Dividends** | | | |
| *Interim dividend per share* | 6 | 7 | **6** |
| *Final dividend per share* | 10 | 8 | **9** |
| *Special dividend per share* | – | – | **40** |
| **Total dividend per share** | 16 | 15 | **55** |
| Dividend cover | 1.8 | 1.8 | **0.5** |
| Capital adequacy ratio regulatory minimum | 15 | 12.5 | **12.5** |
| **Capital adequacy ratio pre-dividend** | 18.69 | 22.48 | **25.14** |
| **Capital adequacy ratio post-dividend** | 17.42 | 21.37 | **17.96** |

## Future focus

Information on the bank's future prospects is available in the Outlook report on page 67.

**Luke Woodford**
Chief Financial Officer

# Performance

## Operational performance

FNBB's business segments overcame complex market conditions to deliver sound financial performances by implementing the bank's 2025 strategy.

### Overview

FNB RMB

**FNBB provides a full range of banking services and products through its Retail, Commercial and Corporate and Investment Banking (RMB) segments in Botswana.**

The **Retail** segment strives to provide outstanding service to its individual customers by building lifetime partnerships that enable the segment to match innovative solutions on products, services and platforms to the needs of customers at all stages of their lives.

The **Commercial** segment strives to offer world-class solutions to support its customers through the lifecycles of their businesses. We are a trusted business partner and our SMME products and customised value propositions for larger companies enhance customer experience.

RMB is the bank's **Corporate and Investment Banking** segment. As part of RMB's international network, the bank has the capacity to be a market leader, supporting its customers' growth ambitions and offering solutions across multiple currencies and jurisdictions, including advisory, custody and trustee services and solutions.

**FNBB established the FNBB Foundation in 2001 to implement the Bank's corporate social responsibility policy and has to date more than P64 million to uplifting the lives of many less privileged members of our society. We published our first comprehensive Report to Society in December 2019, demonstrating how we live our brand promise of supporting the society within which we operate to create a better world.**

## Performance at a glance

| 2021 key focus areas | In 2022 we will focus on |
|---|---|
| • Delivering exceptional customer service consistently<br>• Enabling customers to interact with the bank on their platform of choice<br>• Facilitating digital transformation through process optimisation and automation | • Leveraging technology and data to understand customer needs and deliver relevant solutions<br>• Enhancing customer service with product innovations and automated service efficiencies<br>• Equipping and empowering employees to maintain unmatched service and empathy for customers as the bank's digital transformation gains further momentum |

The segments responded to a range of risks and opportunities, including the rapid transition of employees to a work-from-home model, the acceleration of digital technology, heightened credit risk, lower interest rates, increasing competition and the impact of regulatory compliance on customer service. Read more in this report: Operating context and Material matters

The bank's customer base grew and service was maintained during COVID-19 by increasing the pace of customer migration of customer migration to digital and self-service platforms. In implementing the strategy, the segments also reflected on areas of improvement in customer service.

| Customer base | Deposits | Gross advances | Impairments | Cost-to-income ratio |
|---|---|---|---|---|
| ↑5% | ↓8% | ↓7% | ↓43% | ↑52% |
| 610 000 | P21.4 billion | P14.9 billion | P241 million | (2020: 48%) |
| (2020: 579 000) | (2020: P23.2 billion) | (2020: P16.0 billion) | (2020: P421 million) | |

## Performance at a glance *continued*

### Retail

*Retail banking performance was driven by:*

- Resilient non-interest revenue, lower impairments and cost reductions which increased NIACC by 58%
- More customers using digital banking services such as eWallet, Pay2Cell and electricity and airtime payments
- 11% growth in deposits, reflecting increased digital banking, cautious customer behaviour and cash preservation in uncertain times
- 7% decrease in advances as the bank managed credit risk in an increasingly competitive environment
- 141% growth in CashPlus merchant outlets, broadening access to financial services

### Commercial

*Commercial banking performance was influenced by:*

- >30% growth in customer base driven by resilient SMME segment
- 6% growth in deposits due to an increase in SMME customers and cash preservation in notice and fixed-term accounts
- 19% decrease in advances, reflecting a combination of higher loan settlements due to market uncertainty, increased write-offs of unrecoverable loans, and stricter credit management
- Increased transactional and good recovery on fee income from facilitation of cross border transactions
- Significant growth in competitive card payment and processing (merchant acquiring) services and CashPlus partnerships

### Corporate (RMB)

*RMB's resilience in challenging market dynamics was supported by:*

- 13 new corporate client acquisitions and primary banker status secured with six key clients
- A 19% increase in the bank's corporate assets, driven by customer growth and increased lending activity in various sectors, including financial services and real estate
- Zero NPLs, due to sound credit origination and management, together with a quality client base
- Ongoing improvements in operational efficiencies to enhance customer service and experience
- The segment experienced a 24 % decline in customer deposits due to outflows from funds that were previously accumulated now being deployed for investment purposes, and across various corporates to fund working capital requirements due to reduced trade volumes

### Customer experience

**Our vision is to position the Bank to offer exceptional customer service by 2025**

The bank attracts and retains customers and creates value for them by understanding their behaviour, offering them solutions that match their needs and delivering exceptional service consistently. Through relationship banking and targeted Customer Value Management, the bank's solutionist employees strive to enhance their customers' experiences at each service point, from onboarding to product uptake and ongoing support.

Read more in this report: Our awards

During 2021, the bank focused on maintaining business continuity and consistent service by:

- Equipping employees to maintain high standards of service from their home offices
- Accelerating the migration of customers to digital and self-service channels
- Ensuring availability and uptime of services and platforms

The business segments introduced and enhanced innovative products and solutions to simplify their customers' lives and assist them to achieve their goals. They continued to offer COVID-19 financial relief to qualifying customers, particularly those in impacted sectors such as mining, tourism and hospitality. Cashback Rewards averaging BWP2 million per month to qualifying customers were paid to encourage customers to bank better and stay safe with digital and cashless services.

### Putting our customers first

The **Bank your Change™** feature allows customers to transfer change to a free Savings Pocket each time they swipe their cards. The introduction of a nominal interest rate to the **Savings Pocket** provides extra value and an incentive to save money.

Card collection is one of the top three service requests at branches. With **Instant card issuing and delivery** customers can open an account, receive a debit card and start transacting immediately without having to visit a branch. Customers can also use their cards to deposit cash at ATMs with deposit.

**eWallet@Till** further enhances the popular eWallet product by allowing customers to use their cellphones to pay and withdraw money at merchants.

After enabling foreign exchange payments on the online banking platform, the bank introduced **FX Bulk Uploads**, improving the experience and payment efficiency of business customers who process multiple transactions.

The new **Gold account value proposition**, successfully launched through the 'Start, Grow, Run' campaign, showcases the commercial banking products and services tailored to help SMME businesses throughout the business lifecycle.

The new **Islamic Term Deposit** offers a Shari'ah compliant non-interest-based investment product.

The newly launched **Visa Signature card** enhances travel experience by providing private banking customers and their families access to specialised 24-hour concierge and lifestyle management services, and an insurance package with medical and travel assistance.

The **Multi-currency Cash Card**, a first of its kind in the market, is a superior foreign currency debit card available in ZAR, USD and GBP currencies. The card can be used to pay merchants and withdraw cash from ATMs.

### Listening and responding to customer dissatisfaction

Some services did not meet the bank's standards of unmatched customer service and left customers feeling dissatisfied.

To comply with regulations such as AML/CFT and KYC, banks are required to verify the identity, suitability and risks involved in conducting business with customers. This process can be a source of frustration for customers conducting legitimate account opening and transactional activities. The bank is developing and implementing measures to improve customer experience by:

- Strengthening its capacity to collect and monitor customers' KYC information
- Developing a robotic solution to streamline the process
- Ultimately offering a self-service solution to enable customers to manage their own compliance

FNBB's conservative approach to lending protects the bank and its customers from undue risk. However, the bank's lower appetite for credit during a period of heightened risk, while judicious, frustrated some of its SMME customers who could not access funding when they needed it most. It also exposed the bank to competition in the lending market.

The bank is addressing this customer concern by enhancing customer relationship management and extending data-driven credit scoring, currently deployed in the Retail segment, to SMME and CashPlus customers. This will reduce the turnaround time of loan approvals without increasing the bank's risk exposure.

## Performance at a glance *continued*

### Enable customers to interact with the bank on their platform of choice

Many of the bank's customers shifted from branches to digital platforms before COVID-19. By accelerating the migration to self-service channels that are available 24/7 during COVID-19 lockdowns, the bank maintained service quality and advanced its digital transformation. This is reflected in 17% volume growth in digital transactions.

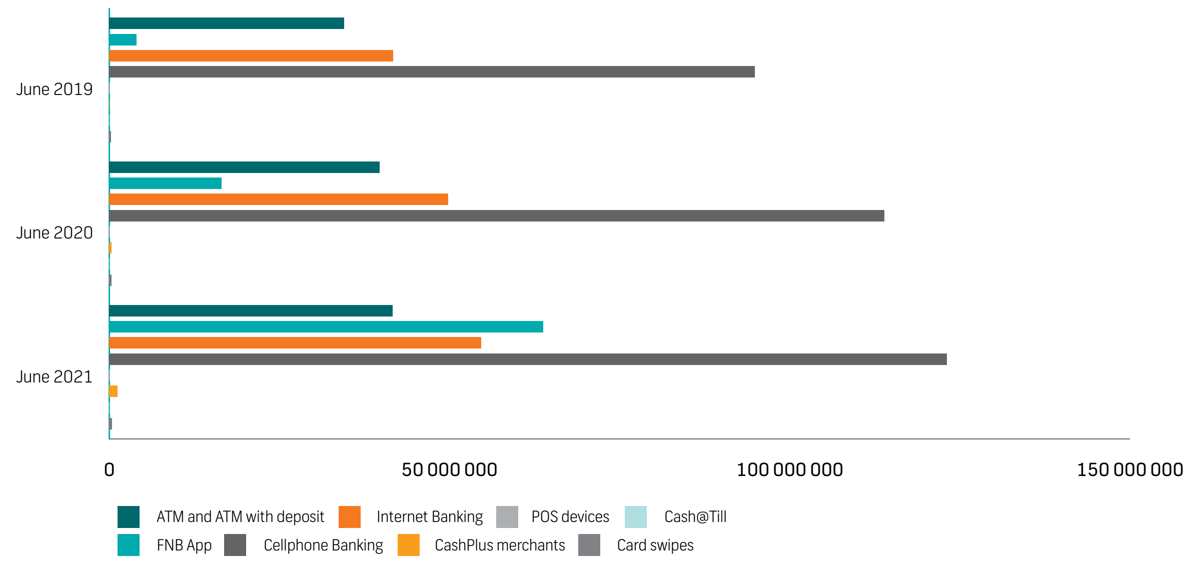
These gains are attributed to a growing customer base and targeted measures to drive customers to digital channels. These include:

- Migrating the bank's Customer Value Management campaigns from SMS to the FNB App
- Launching new products virtually and replacing physical visits by relationship managers with online meetings
- Extensive communication campaigns to educate customers on the benefits of digital banking products, including hosting the FNB Ya Mperekela radio show on Duma FM
- Incentivising the change to digital banking and cashless transactions with campaigns such as Transact and Win promotion, Cashback Rewards zero rating was effected in the previous financial year, was reported in past integrated report
- Motivating sales teams with a FirstRand Group sales campaign to boost cross-selling of the bank's products and services on the self-service channels
- Developing the digital platform to improve self-service banking, including increased functionality for card and investment account management
- Onboarding students at their schools to minimise student movement

### Shifting from 'bricks to clicks' – growth in use of digital channels

The overall volume of customer transactions on the bank's digital and self-service channels increased by 25% in 2021, while those conducted at the branches declined by 13%. The FNB App utilisation volumes increased from 16.4 million in 2020 to 63.7 million in 2021. The following graph demonstrates the surge in usage across our digital channels over the past two years. It also reflects new digitally-driven trends in the way people bank – from the shift to self-service channels to the growth in broad-based access to financial services.

*Transaction volumes (thousands)*




### Keeping our branches open for the human touch

The bank recognises that many of its customers prefer interacting with bank employees at an FNBB branch. This is why we have retained 24 branches throughout Botswana and two Premium suites in Orapa and Phakalane. Where we do not have branches, our Bank on Wheels mobile branches and CashPlus agent partnerships provide hands-on service to customers. The branches are refurbished to enhance their cost-efficiency and functionality and offer free Wi-Fi for customer convenience. 24-hour digital zones allow customers to withdraw and deposit money after banking hours. We continue to prioritise customer safety during COVID-19 by ensuring that our branches adhere to the protocols of sanitising, disinfecting and wearing masks and face shields.

### Helping our customers 24/7

The bank launched a 24-hour Contact Centre to resolve customer queries faster and enable customers to activate their FNB App and Online Banking profiles over the phone rather than at a branch or ATM. Incoming call volumes to the Contact Centre doubled between July 2020 and June 2021. The bank increased the Contact Centre's service capacity and service offerings to meet this growing demand.

**Bridging the financial divide by extending our reach to underserved communities**

The bank's CashPlus and Bank on Wheels channels allow customers to access money for basic needs close to home, without having to travel to ATMs or branches and wait in queues. The continuous growth in these services is extending financial services to an increasing number of people in unbanked or underserved communities, including remote rural locations.

CashPlus partnerships between the bank and retailers CashPlus agents offer customers the convenience of being able to deposit and withdraw cash/eWallet, buy prepaid electricity and airtime, and manage their cash more effectively where they shop. COVID-19 restrictions drove steady growth in the number of CashPlus agents and transaction volumes in 2021. This trend is expected to continue as CashPlus merchants meet a real need for secure financial services in urban and rural communities.

eWallet is a market leader in innovative cellphone banking that drives financial inclusion through 358 CashPlus agents merchants, 10 440 POS devices that accept debit and credit cards and 236 ATMs. eWallet responds with agility to customers' evolving needs and was further enhanced in 2021 by eWallet@Till which allows FNB and non-FNB customers to purchase goods and withdraw cash at participating retailers.

Using eWallet on their cellphones, customers enjoy the convenience of being able to send remittances to their families in remote areas, farmers can pay their employees without leaving their stock or land unattended.

All businesses can make secure bulk payments to their employees, and incorrect payments can be immediately reversed on a cellphone.

## Build lifetime partnerships with tailored integrated financial solutions

### The business segments work together to address customer needs and provide solutions to the bank's entire customer value chain and ecosystem.

Retail banking services are offered to employees of Commercial or corporate clients at their workplaces. The bank participates in several workplace schemes that provide tailored lending and transactional banking services to specific sectors These primarily include public sector essential services, including policing, education and public utilities.

Responding to customer needs in 2021, the bank focused on rebuilding market share in its schemes loan book by relaxing certain conditions such as maximum loan levels and frequency of re-advances.

Additional measures to attract scheme customers included extending transactional business services to scheme members and diversifying into other public sector schemes. Financial literacy presentations were provided online during COVID-19 lockdowns.

The bank extended its reach to the spouses and families of private banking customers and renewed its student banking contract for a further three years. Plans are under way to grow the student customer base by offering an improved youth value proposition to this growing future market.

The bank offers solutions to businesses at every stage of their lifecycle, from start-up to mid-corporate, and enters into partnerships with business sectors to facilitate business expansion and economic growth.

Many of these partnerships enable businesses or state-owned enterprises to optimise their internal processes and improve customer service. An example of this is the bank's partnership with the Botswana Power Corporation to facilitate prepaid electricity sales for all electricity users, whether they bank with FNBB or not. By enabling customers to use their cellphones or computers to purchase electricity from the comfort of their homes, the bank helps the Botswana Power Corporation to reach its widely dispersed customer base and enhance the convenience and security of their experience. In another strategic partnership, the bank joined forces with one of our Retail clients to launch a rewards programme for student discounts.

The growth of new revenue streams, such as electricity vending, merchant support and online foreign exchange transactions, plays a role in protecting value by diversifying revenue and increasing 'capital light' non-interest revenue.

### Creating shared value for small businesses

SMMEs benefited from opportunities to supply the Government with COVID-19-related products such as sanitisers and masks. As a result of the growing need for banking services to support these opportunities, FNBB's SMME customer base grew by 24%.

The bank provides transactional accounts to support the basic financial services needs of SMMEs and funding to support advance payments for large sales orders. Through its comprehensive insurance offering, the bank extends cover to businesses, primarily SMMEs, to protect them from risk.

We supported qualifying SMME customers impacted by COVID-19 and provided online education and training to underpin their financial sustainability and growth ambitions. A webinar on 'Doing business in the pandemic' provided advice on the business risks and opportunities associated with COVID-19.

### Providing an eCommerce marketplace

eCommerce in its simplest of form is the conclusion of business transactions between two parties through an online platform. Digital wallets are catching up fast and are increasingly powered by eCommerce transactions, expanding at twice the pace of cards, due partly because customers believe they offer better protection.

As service digitisation advances, the bank is developing innovative solutions in line with global banking innovations to leverage eCommerce as a channel for businesses to trade with each other and their customers. The bank is also pursuing partnerships with Fintechs to deliver transactional banking eCommerce solutions for customers.

To increase awareness and use of eCommerce by business customers during COVID-19, the bank hosted an eCommerce webinar in partnership with industry Fintechs. The virtual event informed customers about benefits such as 24/7 access to products and services, tracking of customer data to enable customised targeted marketing and sales and growth in the marketplace for products and services.

## Digitisation through process optimisation and automation

The bank continued to enhance operational efficiency and customer experience by optimising, automating and digitising customer service functions.

| | | |
|---|---|---|
| Optimisation of the onboarding process for merchant acquiring services reduced turnaround time by 50% | Streamlining of loan approval processes through Online Banking and credit scoring reduced the turnaround time. | The use of robotics automated and reduced the turnaround time of statement generation |
| The enablement of multiple party payments on our foreign exchange platform on Online Banking increased online foreign exchange activity from 70% in 2020 to 88% | Turnaround times in 86% of customer queries or service requests were improved with daily monitoring and tracking, and proactive and timeous management of service challenges | Disciplined operational cost management and continued investment in digitisation contributed to a reduction in the bank's cost-to-income ratio to 52% (2020: 48%) |

## Future focus

Information on the bank's future prospects is available in the Outlook report on page 67.

# Human resources

## During a period of significant disruption, FNBB's 1 470 employees transitioned to remote work environments and new ways of serving the bank's customer base of over 610 000. Their resilience not only enabled the bank to continue running but also to remain competitive and grow.

### Solutionist people

Empowering the bank's employees to drive high performance is a focus area of the 2025 strategy. Human Resources focused on managing disruption in the work environment and protecting the health and wellbeing of the bank's employees. Simultaneously, we implemented measures to strengthen leadership, enhance performance management and equip employees to provide unmatched customer service in an era of digital transformation.

### Performance at a glance

| 2021 key focus areas | In 2022 we will focus on |
|---|---|
| • Enabling work-from-home to maintain business continuity and customer service during COVID-19 disruptions<br>• Building a high-performance culture<br>• Delivering comprehensive and targeted talent management<br>• Launching a comprehensive Employee Wellness Programme | • Addressing employee alignment to strategy to achieve superior implementation<br>• Alleviating barriers to high performance<br>• Growing and developing employees in an environment of digital transformation<br>• Instilling a culture of servant leadership |

**1 470**
Employees
(2020: 1 524)

**68.2 index**
cultural alignment (Culture Risk Assessment) (2018 Group Engagement Survey: 82%)

**P3.7 million**
invested in training and development
(2020: P5.9 million)

**65%**
women in executive roles
(2020: 67%)

**Work-life balance**
Flexi-time, Employee Wellness Centre with a crèche

**4%**
employee turnover
(2020: 5%)

## We cherish our diversity and harness it to create a cohesive way of working that enables a culture of agility and innovation for the success of our stakeholders.

### Building a high-performance culture

The bank focused on achieving superior performance by aligning the organisation to the 2025 strategy and ensuring that the FirstRand Promises are instilled in the bank's culture and lived by its people.

#### Employee engagement

Engaged, organisationally aligned and agile employees play an important role in implementing FNBB's strategy, protecting its interests and reputation and building a high-performance culture. The bank measures engagement and cultural alignment by participating in two independent, external employee surveys: a Group Engagement Survey and a Culture Risk Assessment. The surveys are completed during alternate years.

The 2020 Culture Risk Assessment found that 68.2 Index of Culture Risk Assessment of employees are culturally aligned. This represents a decline from the 82% organisational alignment and 75% employee engagement measured by the 2018 Group Employment Survey. The Culture Risk Assessment was conducted after Botswana's second COVID-19 lockdown and the heightened levels of uncertainty associated with the pandemic, together with protracted salary negotiations, may have partly contributed to the decline in performance.

The bank uses an internally managed Pulse survey to engage further with employees and gain a deeper understanding of the key areas of common interest that emerge from the survey findings. Our Kgotla and Council of Elders forums provide informal employee engagement platforms within the organisation. They further encourage regular consultation and exchange of views on matters affecting employee welfare and morale.

The main matters raised by employees through these platforms included performance and reward management, trust, employee conduct, middle management and executive leadership conduct, lack of accountability, fraud, theft and corruption, diversity and equitable consequence management.

A plan to engage with employees and communicate the findings was implemented throughout the bank. This included engagement with the branches, other areas where the bank has a presence, and the Head Office in Gaborone.

#### How the bank responded

- The bank shared the findings of the Culture Risk Assessment and leadership engaged personally with employees to understand their concerns through:
  - Two facilitated sessions with Executive Management and Head Office employees
  - The Adopt-A-Branch Programme in which Executive Committee members adopt and support branches outside Gaborone
- A dedicated project team was appointed to assess the outcomes of the Culture Risk Assessment and future surveys and monitor the bank's response
- The bank assured employees that consequence management will be applied where:
  - Managers are punitive towards employees who report unethical or illegal behaviour
  - Bank policies and procedures are disregarded or breached
- Employees were encouraged to use communication platforms, such as Tip-offs Anonymous and Steve's Clicks, to report unethical conduct
- The FirstRand Promises and the values of courage and integrity will be reinforced to guide all employee behaviour
- Leaders will be trained to conduct courageous conversations to engage employees in dialogues about difficult topics or deepen their understanding to improve decision-making
- The bank has several platforms for growth and development, including online learning, Udemy courses, coaching and study scholarships
- The 2022 training and development programme has been extended to equip employees for the bank's digital transformation
- Furthermore, the bank participated in the FirstRand Organisational Assessment during the first quarter of 2022 to assist leadership and management understand and enhance employee experience.

## New ways of working

### Productivity at work

The bank continued to focus on productivity improvement through business process re-engineering.

To improve the experience of employees and enhance customer service, the bank optimised and automated mundane service functions to free employees for more value-adding customer engagement. Advanced technologies were deployed to integrate the bank's customer engagement platform and accommodate increased demand for digital products and services. Certain HR functions, such as interviews, were digitised, with candidate assessments submitted in real time to improve fairness and transparency.

### Remaining relevant in an evolving workspace

Despite the disruptions of COVID-19, the bank invested P3.7 million (2020: P6 million) in 27 095 hours of learning and development, including:

**1 165 employees**
Technical skills development training

**224 employees**
Product knowledge training

**221 employees**
Leadership development training

**66 employees**
Regulatory training

**45 employees**
Training in a range of soft skills

The Udemy for Business online learning platform enabled the bank to circumvent COVID-19 disruptions and continue offering learning opportunities to employees. The platform offers 2 400 courses ranging from IT, Sales, Credit, and Marketing to Strategy Development and Leadership Skills. In 2021, employees utilised 86% of the 548 Udemy licences issued.

The bank allocates 3% of its annual training budget to the Botswana Institute of Banking & Finance in support of the institute's training interventions.

## Performance management

The bank continues to hold its employees accountable for their deliverables based on the following approach:

- Priority areas with clear line of sight
- Measuring the right things at the right time
- Contributing to meaningful work
- Continuous evolvement and skills transfer to drive effective execution and instil a high-performance culture

Employee scorecards were aligned to the 2025 strategy and the key performance indicators will continue to be linked to the desired critical performance success factors.

The new system contributes to more effective strategy execution. In particular, performance contracts and performance reviews clarify employee roles, align roles with strategic objectives and help employees understand how their work contributes to the bank's overall performance. Read more in this report: Remuneration

## Comprehensive and targeted talent management

In a competitive talent market, the bank focused on developing and retaining its talent pool through a targeted talent management programme. Although COVID-19 restrictions disrupted elements of the programme, the bank participated in a skills transfer partnership with the Group and continued to prioritise training and development initiatives.

Selected candidates engaged in team projects to harness their intellectual and value-adding capacity. Five employees are currently being sponsored to complete their post-graduate studies. The strategic priorities are to continuously evolve to inform our skilling, retooling and upskilling priorities, and to develop adequate future leadership capacity through succession planning.

### Graduate development programme

Three graduate trainees with solutions development and computer engineering skills were recruited to strengthen the bank's capacity in digital transformation, including digitisation of processes and development of innovative new solutions for customers. A fourth trainee was enrolled to strengthen credit origination in business and corporate banking.

The first cohort of 10 unemployed graduates to participate in the First Spark Career Accelerator Programme developed practical skills and competencies within the bank's Credit, Corporate Banking, Finance, Risk and Business Intelligence units during 2021. Their programme was extended by three months due to COVID-19, after which the graduates could enter the labour market to forge careers in the banking industry. The second cohort was onboarded and commenced their programme on 1 July 2021.

## Creating an accelerating environment

### Work-from-home

During 2021, 62% of the bank's Head Office employees worked from home, equipped with the necessary technology and infrastructure to continue to work and engage with customers virtually. The balance of our employees who worked in branches and critical services at Head Office were provided with masks and face shields, and work spaces were sanitised. Employees who contracted COVID-19 were offered special leave. The bank employed a safety, health and environment officer and a health management service provider to assist with infection control in its work spaces. A voluntary rapid antigen programme which produces quick COVID-19 test results was successfully implemented at the bank's Head Office and branches.

### Prioritising wellness

COVID-19 exacerbated existing pressures in the work and home environments for many of the bank's employees. ICAS, our Employee Wellness Programme provider, reported a global increase in anxiety, substance abuse and gender-based violence during periods of lockdown. We monitored these and ensured that affected employees consulted with ICAS. The bank's Employee Wellness Programme is accessible to all employees. It provides support in addressing health, psychological and mental health challenges and enabling employees to perform optimally.

A highlight of the year was the opening of the bank's Employee Wellness Centre with a crèche (Kid's Lounge) and a healthcare centre resourced by a doctor and a psychologist at the Head Office. Providing a crèche at work helps to balance the complexities of childcare for the majority of our employees who are aged between 30 and 39 and have young families. The facility is also available to home-based employees. A new management team in the bank's Fitness Centre provided rejuvenating fitness programmes which were temporarily extended during parts of the year to rural branches.

### Work-life balance

#### Creative spaces for employee collaboration and innovation

The bank is embarking on a project at the Head Office to develop creative spaces where employees can engage, share ideas, opinions and innovate.

#### Volunteering

An Employee Volunteer Programme promotes participation in community engagement and support. Employees are entitled to 16 hours of volunteer work annually which count towards their performance deliverables. To ensure that they make a real impact in tackling social challenges and promoting positive engagement, employees are encouraged to work with the communities they support rather than just donating money.

The 2021 volunteer award was won by Tshepiso Matlapeng from the Compliance segment for her work in several community initiatives that support many beneficiaries.

Read more in this report: Shared value

#### Volunteer Champion training

Volunteer Champions are nominated by their colleagues to promote corporate citizenship. They receive training in volunteering and stakeholder management. In 2021, the champions were trained in virtual volunteering to enable them to continue supporting communities during COVID-19 disruptions.

## Future focus

Information on the bank's future prospects is available in the Outlook report on page 67.

# Shared value

## Shared value underpins FNBB's intent to use its position as a successful bank and responsible corporate citizen in Botswana to share the value it creates with its stakeholders, including the broader society in which it operates.

### Shared value

Shared value is a core theme that guides the 2025 strategy. To create shared value for its stakeholders, the bank intentionally uses its core business activities to add value to society profitably, at scale. It does so by allocating capital in a manner that supports economic growth:

- Lending responsibly to facilitate the life and business goals of customers
- Understanding, protecting and supporting our customers' assets and financing needs
- Deepening access to financial services and asset ownership throughout Botswana
- Contributing to the country's tax base, thereby supporting its economic and social development

### Embedding the principle of shared value

Following the launch of the five-year 2025 strategy, FNBB is embedding shared value as a business principle throughout the bank. The FNB Shared Value Principles are guiding the process:

**Fairness and inclusiveness**

Fairness, efficiency, transparency, value for money, customer needs, deepening access to financial services and asset ownership, compliance with Treating Customers Fairly regulations.

**Productive capital formation**

Supporting productive capital formation and balanced economic growth through responsible capital allocation.

**Networks**

Using the Bank's knowledge, network and platforms to enable more for customers and the Botswana economy.

**Financial risk management**

Intentionality, discipline, price externalities

**Shared value**

**Measurement and reporting**

Deliberate and robust measurement of impact

## Shared value *continued*

A Shared Value Steering Committee with broad representation across the bank has been established to embed the principle into the bank's Governance, Financial Risk Management, Risk-Return and Environmental and Social Risk Analysis frameworks and business processes. The steering committee will also oversee the alignment of core business activities with shared value focus areas and the development of a Shared Value Index, with key performance indicators to enable measurement and monitoring of performance.

### The value we shared in 2021

Employees
**P652 million**
in salaries, wages and other benefits

Suppliers
**P309 million**
amount paid to suppliers

Customers
**P2.1 billion***
in COVID-19 relief

Communities
**P5.8 million** in CSI

Shareholders
**P1.4 billion**
in dividends

Total
value added
**P1.6 billion**

Government
**P232 million**
in taxes

**Customers were not required to repay debt on this amount over a 3 month period.*

### Unlocking economic, environmental and social value

#### Economic

**FNBB contributed to economic growth and inclusion by:**

- Deepening access to financial services by offering the bank's CashPlus, Cash@Till and Bank on Wheels channels to unbanked or underserved communities in remote locations in rural Botswana.
- Promoting a savings culture through financial literacy and behaviour change.
- Supporting individual and business customers during COVID-19.
- Funding the growth of SMMEs and corporates in the agriculture, tourism, motor vehicle, financial services, mining and energy sectors.
- Contributing P232 million in tax to Botswana's public finances in 2021.

#### Environmental

**FNBB enhanced its focus on responsible environmental stewardship by:**

- Approving an Environmental Policy aimed at ensuring its activities are environmentally friendly. The following activities are in place: water saving taps in the bathrooms, motion sensitive lights through our infrastructure as well as paper shredding and paperless initiatives.
- Supporting responsible lending practices aligned to the bank's Environmental and Social Risk Assessment Policy and Equator Principles.
- Assisting customers to manage risks related to natural disasters and climate change. For example, the bank financed the construction of a solar-powered mall.
- Investing in a three-year programme to create awareness among school children of sustainable environmental conservation.

#### Social

**The bank responded to social challenges in the broader society in which we operate by:**

- Supporting high-impact community projects through the FNBB Foundation, the bank's CSI programme and employee volunteers.
- Providing emergency relief to vulnerable communities impacted by COVID-19.
- Supported vulnerable children and victims of gender-based violence.

### Mitigating environmental and social risk

Through its lending and investment practices, FNBB is subject to environmental and social risks. These relate to sector specific activities that could potentially result in environmental degradation and social impact. For the bank, environmental risk manifests mainly as a credit risk if, for example, a customer is unable to pay its debts because of environmental liabilities or actions by authorities, a legal liability or criminal sanction as a result of a statutory provision, or reputational risk as a result of negative publicity or public perception.

By assessing these risks, the bank and its customers are able to manage environmental and consequential business risk. The risks are assessed by conducting due diligence processes based on the Environmental and Social Risk Assessment (ESRA) tool, which is aligned to the Equator Principles adopted by the Group in 2009. The Equator Principles is an internationally recognised best practice related to the management of environmental and social risks as credit risks in larger investment banking financing transaction types.

Social risks may reside in labour matters, occupational health and safety, community involvement, human resettlement and indigenous people rights, including human rights. These risks could lead to criminal sanctions, termination of operations, production losses and subsequently a financial or credit risk to the bank.

FNBB Botswana applies the ESRA process when reviewing loan or credit applications to determine the direct environmental and social risks that may be associated with customers or their activities, and how well customers manage these risks.

## Corporate social investment

The bank's CSI programme is coordinated by the FNBB Foundation, which forms part of the shared value strategy. The Foundation helps the bank to empower communities within which it operates to create a better world.

The bank allocates up to 1% of profit after tax to the Foundation annually. The funds are channelled through the Foundation and the Employee Volunteer Programme. Projects are supported in key focus areas, including youth empowerment, environmental sustainability, education, sports and recreation, arts and culture and social welfare. The Foundation continued to focus on these areas during 2021 while it also worked alongside the bank to provide relief to stakeholders impacted by COVID-19.

### Flagship projects

The FNBB Foundation has to date invested more than P64 million in uplifting communities.

#### COVID-19 emergency relief

Disinfection of public spaces

In partnership with KPS Hygiene Services, a youth-owned Motswana company, the Foundation funded the disinfecting of public spaces, such as malls and bus ranks, throughout Botswana to limit the spread of COVID-19.

Bodiragatsi Jwame Lentswe Lame – support for the creative arts

To help the creative industry overcome the impact of COVID-19 on the livelihoods of artists, the Foundation supported fashion, comedy, music, fine arts, documentary, dance, photography and poetry by running competitions with prize money for the top three in each category.

The competitions showcased local artists in the media. They included:

- Design of 1 000 face masks for the Metsimotlhabe Primary and the Neal Primary schools
- Sponsorships for five Batswana designers to participate in the Fashion World Without Borders show in South Africa

### Orphans and vulnerable children

To compensate for a decline in social donations during COVID-19, the Foundation donated one month's supply of groceries to children's' shelters, including SOS (Tlokweng, Francistown and Serowe), Childline Botswana (Gaborone) and Love Botswana (Maun). The shelters house children who have been removed from abusive or violent environments.

### Sir Ketumile Masire Teaching Hospital internal facelift

To support Botswana's main hospital dedicated to the treatment of COVID-19 patients, the Foundation funded an internal facelift of the paediatric ward, including play equipment and furniture for paediatric patients.

### Home-grown innovation

The Foundation partnered with technical vocational and secondary schools around the country to develop innovative solutions to address COVID-19 challenges.

## Youth empowerment

The bank empowers youth to participate in the economy. In addition to its support for youth-owned enterprises, youth education and environmental awareness activities, the Foundation completed the First Youth Project which trained 189 young people in entrepreneurship and work readiness. Some of the candidates secured jobs and others started their own businesses.

## Social welfare

### Gender-based violence

The Foundation launched a four-month campaign in collaboration with the Botswana Police, UNICEF Botswana, Botswana Gender-based Violence Support Network, Mbewe Legal, Men & Boys for Gender Equality, Gender Perspectives and Dikgosi to provide support for victims of gender-based violence. The campaign ran from May to August 2021.

### Substance abuse

To help raise awareness about the risks of substance abuse, the Foundation supported a campaign by Botswana Substance Abuse Network, including educational videos shared on social media.

## Environmental sustainability

### Sustainable environmental conservation

Botswana is blessed with a unique natural environment that offers vast opportunities if carefully managed and conserved. The tourism, mining and agriculture sectors benefit from the country's natural resources and contribute to economic growth and development.

The Foundation funds a three-year environmental education, life skills and leadership development programme offered by Children in the Wilderness, in partnership with the Parakarungu Primary School. The programme creates awareness of sustainable environmental conservation for more than 200 children.

## Employee volunteering

### Autism Botswana

In partnership with the Y-Care charitable organisation, employees raised funds for Autism Botswana by walking 115 kilometres through the Makgadikgadi pans. The funds will be used to train parents and caregivers of children living with autism.

### RMB School of Excellence for Business

This initiative identifies high-performing students from selected schools in the greater Gaborone area and augments their classroom learning in business subjects with a rigorous extra-curricular development programme. Employees mentor, coach and facilitate classes on the practical aspects of classroom lessons.

### FNBB Railpark Branch

In partnership with Norah Cosmetics, Team FNB Railpark sponsored 10 young women with an interest in the beauty industry to complete a series of lessons in make-up, business etiquette and practical life skills. The initiative addresses youth unemployment.

### FNBB Commercial

Employees partnered with Bulb World, a youth-owned company, to alleviate lighting challenges by renovating aged electrical works at the 72-year old Lobatse Secondary School.

## Future focus

Information on the bank's future prospects is available in the Outlook report on page 67.

# Outlook

## FNB Botswana will continue to leverage the strength of its capital base, brand and employees to consistently deliver exceptional customer service and create shared value for all stakeholders. As it accelerates the pace of its transition to a digital bank of the future, FNBB will remain alert to the ongoing impacts of COVID-19 on its operating environment.

| Strategic objectives | Key risks and opportunities | External environment |
|---|---|---|
| **Solutionist people**<br>**Operational efficiencies**<br>**Customer experience**<br>**Value protection**<br>**Shared value** | • Changes in the economic and political environment<br>• Increased scrutiny of ethical conduct and compliance<br>• Digitisation driving customer experience and inclusive banking but also increasing competition for quality customers<br>• COVID-19 impact on employee wellbeing and engagement<br>• Ensuring business continuity and efficiency<br>• Impacts of climate change and extreme events | • Domestic GDP estimated to rebound to 6.0% in 2021 due to the medium-term recovery in global diamond sales<br>• P14.5 billion committed to national ERTP<br>• Ongoing impacts of COVID-19 expected to maintain pressure on customers and further erode the country's fiscal reserves<br>• Accelerated reliance on digital technology and customer experience to retain customers in competitive environment<br>• Evolving regulatory environment<br>• Global focus on social and environmental matters |

The Botswana economy has continued in a pattern of soft economic downturn since the onset of COVID-19. Activity across major sectors is taking up at a slower pace following the lifting of some COVID-19 restrictions, and this is expected to be uneven. In addition, with the pace of vaccine rollouts differing around the world, global economic recovery is likely to be inconsistent over the coming year. This global and regional uncertainty may translate into the continuation of muted credit extension in Botswana.

FNBB continues to invest in a forward-thinking approach to technology and innovation. We see growth in registrations across all digital platforms, with customers appreciating the ease of digital transactability, and the options to serve themselves in the form of convenient, value-added services with minimum added exposure to COVID-19. Investment in infrastructure and especially in the bank's robust cybersecurity measures remain key objectives to facilitate self-service initiatives which are both efficient and secure for customers.

The investment in people and innovation through extensive future skills training has been rolled out through digital learning platforms. The bank has also continued to optimise and standardise its operational processes while embedding technology and automation across the operations. Initiatives such as the implementation of robotic automation and optical character recognition are underway. The improved back-office processes will translate further into an overall improvement in customer experience and the bank's efficiencies.

FNBB has partnered with its customers in providing them much-needed cash flow relief moratoriums through difficult trading conditions. While these moratoriums are now complete, the post-moratorium performance of the portfolio remains excellent, on balance.

After the success of extending banking services to more remote locations and multiple access points, the CashPlus channel continues to grow in line with our financial inclusion strategy.

It is fundamental to our objectives that we build a shared future of prosperity by 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.

## Implementing the 2025 strategy

| 2025 strategic objectives and performance measures | 2022 strategic focus areas | 2022 target |
|---|---|---|
| **Solutionist people** | | |
| **Empower people to drive high performance**<br>• 85% Group Engagement Survey score<br>• 4.2 average organisational performance rating<br>• 85 Index Culture Risk Assessment | • Implement Talent Management Framework<br>• Implement high-performance culture blueprint<br>• Deliver effective tools for remote communication and collaboration | • 85% Group Engagement Survey<br>• 3.8 average organisational performance rating<br>• 75 Index Culture Risk Assessment |

| 2025 strategic objectives and performance measures | 2022 strategic focus areas | 2022 target |
|---|---|---|
| **Operational efficiencies** | | |
| **Connect people to systems and processes that accelerate them**<br>• Maintain operational cost increase at 0% year-on-year<br>• **85%** process optimisation<br>• **100%** process documentation<br>• **50%** process automation | • Organisational redesign enablement through business optimisation<br>• Accelerated automation and robotics process automation<br>• Data quality and integrity review; data strategy development<br>• Network availability and accessibility<br>• Build in-country development capabilities to accelerate platform journey | • P17 million cost reduction<br>• 100% process documentation<br>• 45% process optimisation<br>• 5% process automation |

| 2025 strategic objectives and performance measures | 2022 strategic focus areas | 2022 target |
|---|---|---|
| **Customer experience** | | |
| **Deliver exceptional customer service, consistently**<br>• 90% Customer Experience Index | • Internal service culture transformation<br>• Standardise service standards and processes<br>• Implement omnichannel initiatives to accelerate digital migration<br>• Ecosystem and family banking value propositions<br>• Enable marketplace on platform<br>• Optimise Contact Centre to enhance customer service and sales functions<br>• Expand alternative channel services and functionalities, focusing on merchant services and CashPlus<br>• Implement ecosystem banking model | • 85% External Customer Satisfaction Index (ECSI) |
| **Value protection** | | |
| **SMART responsible allocation of resources to achieve great returns**<br>• Achieve a risk enabled maturity status | • SMART responsible allocation of resources to achieve great returns as defined in the risk return framework | • Risk enabled status |
| **Shared value** | | |
| **Work together with communities to create social and economic value**<br>• Develop Shared Value Framework to determine measures | • Leverage platform capabilities to support eGovernment strategy<br>• Elevate creative industry<br>• Support home-grown solutions and innovations<br>• Support Government's ERTP | • Develop Shared Value Index |

## Supporting Botswana's economic growth and diversification

The bank will support the national ERTP by aligning its strategy and operational activities with the plan.

The business segments will focus on sectors such as tourism, agriculture and pharmaceutical manufacturing which have been identified as growth sectors. The segments will support customers in these sectors and leverage opportunities to grow the bank, while participating in Botswana's economic recovery and diversification.

### Retail

- Money management services will be offered to Retail clients
- Improve minimal wage and review minimum take home upwards to improve the livelihoods of individuals

### Commercial

- Digital migration, focusing on SMME migration
- Account attrition management
- Strong support of tourism sector
- Support of emerging industries such as health and pharmaceutical supplies
- Focus on vehicle and asset finance
- Alignment with ERTP initiatives and national self-sufficiency drive to support agriculture turnaround strategy

### Corporate

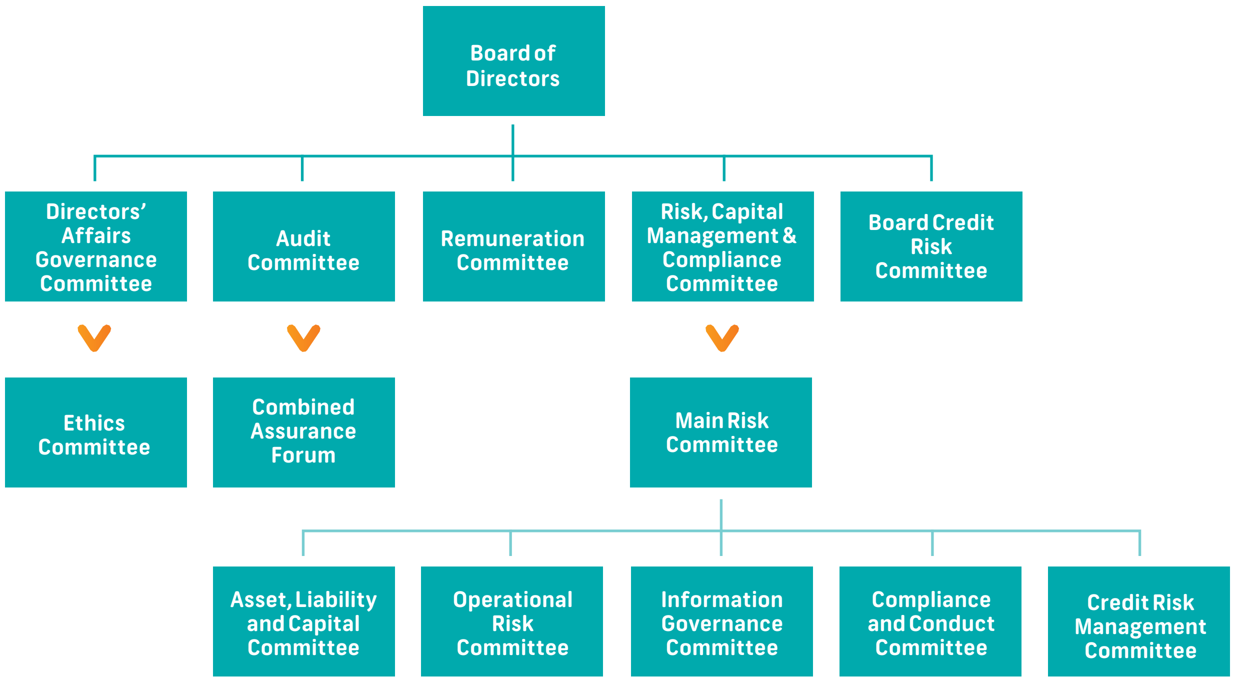
- Balance sheet optimisation to support growth sectors
- Repositioning and growth of advisory services for infrastructure development programmes
- Targeting strategic entities in underweight sectors to increase market share
- Pursuit of partnership opportunities through:
  - Promotion of public private partnerships in collaboration with Government
  - Partnerships with targeted Fintechs to deliver transactional banking eCommerce solutions that add value for customers

# Governance and **remuneration**

## Governance

The Board believes that effective governance enables business success and sustainability by ensuring the bank fosters good relationships with its customers, employees and shareholders, and creates shared value by acting in the best interests of all stakeholders.

### Governance structures



## From left to right:

Back row:
**Steven Lefentse Bogatsu ● Michael William Ward ● Balisi Mohumi Bonyongo**

Front row:
**Jabulani Richard Khethe ● Doreen Ncube**

**From left to right:**

Back row:
**Ephraim Dichopase Letebele ● Sifelani Thapelo ● Naseem Banu Lahri ● Markos Davias**

Front row:
**John Kienzley Macaskill**

### BALISI MOHUMI BONYONGO (53)

Independent Non-Executive Director (Chairperson)

BEng (Hons) Mineral Engineering (University of Leeds), MBA (UCT), SEP (London Business School)

**Appointed to Board:** 2019

RCCC, DAGC

Balisi is the former Managing Director of Debswana Diamond Company, the world's leading diamond producer by value and volume. During his distinguished 26-year career with Debswana, Balisi held various senior management and executive roles, including Corporate Strategy Manager, Jwaneng Mine General Manager and Debswana Chief Operations Officer. Balisi is currently Council Chairperson of the Botswana International University of Science and Technology and a Member of the Botswana Vision 2036 Council.

### JOHN KIENZLEY MACASKILL (71)

Independent Non-Executive Director

BCom (University of Pretoria), AEP (UNISA)

**Appointed to Board:** 2014

AC, DAGC

John started his career with Barclays National Bank. He remained with the bank through its transition to FNB in 1987 and held several senior positions in the FirstRand Group in South Africa, London and Hong Kong until he retired in September 2013. John was the former CEO of FNBB (1996 – 2003) and Board Chairperson (2017 – 2019). His career in financial services spans human resources and international corporate and retail banking. John also serves on the board of FNB Mozambique.

### SIFELANI THAPELO (56)

Independent Non-Executive Director

LLM (University of Cambridge) Corporate Law, Finance and Securities Regulation

**Appointed to Board**: March 2002

DAGC, REMCO

Sifelani has extensive litigation experience and currently holds the position of Senior Partner in his law firm based in Francistown. Sifelani is a member of the Cambridge Commonwealth Society, Alumni of the International Development Law Organisation and a member of several other boards.

### MICHAEL WILLIAM WARD (66)

Independent Non-Executive Director

**Appointed to Board**: 2009

RCCC, BCRC

Mike opted early in life to pursue a career as an entrepreneur and has over 30 years' experience of business in Botswana and sub-Saharan Africa, mainly but not solely in commercial security. He is credited with creating one of Botswana's first home-grown public companies, Inco Holdings, which was listed in 1992. He remained as both CEO and the largest shareholder until a controlling interest was acquired in 2003 by an international group to become G4S, now one of Botswana's largest employers. From 2003, Mike acted as regional director responsible for developing businesses in many countries in Africa, firstly with the G4S group until 2008 and subsequently with ADT South Africa. Mike brings to the FNB Botswana board his entrepreneurial acumen and his knowledge of the business environment in both Botswana and the region.

### DOREEN NCUBE (62)

Independent Non-Executive Director

MSc Management (Arthur D Little Management Education Institute), BA (Admin) (UBLS)

**Appointed to Board:** 2015

BCRC, RCCC

Doreen has worked in the banking sector for 23 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 was a member of the Central Tender Board. After a brief spell with Shell Oil Botswana as an Assistant Marketing Manager, Doreen joined Bank of Botswana in 1991 where she occupied several 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 Limited 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. She was a former board member of the Botswana Medical Aid Society where she chaired the board's Finance Committee.

| | | | | |
|---|---|---|---|---|
| AC Audit Committee | BCRC Board Credit Risk Committee | DAGC Directors' Affairs and Governance Committee | RCCC Risk, Capital Management and Compliance Committee | REMCO Remuneration Committee |

## MARKOS DAVIAS (40)

### Non-Executive Director

CA(SA), BCom (University of Johannesburg)

**Appointed to Board:** 2017

AC, RCCC

Markos began his career 16 years ago as a Trainee Accountant at Deloitte. He joined Rand Merchant Bank as Head of Finance - Global Markets and was later appointed CFO of RMB. Markos is currently the CFO of FNB, South Africa, where he is responsible for the full strategic and operational finance function for FNB in South Africa. He brings to the Board his considerable skill in corporate and investment banking, business strategy, statutory, regulatory and managerial finance, and risk management.

## EPHRAIM DICHOPASE LETEBELE (61)

### Independent Non-Executive Director

MSc Strategic Management (University of Derby), BCom (UB)

**Appointed to Board:** 2017

BCRC, DAGC

Ephraim is a Chartered Secretary, 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 Botswana's public service in 1979 where he served in various capacities for 26 years. His last tour of service as Accountant General in the Ministry of Finance and Development Planning. In 2005 he was appointed the first CEO of the Botswana Public Officers' Pension Fund (BPOPF), where he served for eight years. In 2010, he established Ramokoroga (Proprietary) Limited, a property development and sub-letting business which he serves as a Non-Executive Director. Ephraim previously served on the boards of Mascom Wireless, Botswana Accountancy College, BPOPF, Bank of India (Botswana), Prescient Holdings (Proprietary) Limited, Prescient Fund Services (Botswana) (Proprietary) Limited and Prescient Management Company (Botswana) (Proprietary) Limited. He currently serves on the Ramokoraga (Proprietary) Limited board.

## JABULANI RICHARD KHETHE (58)

### Independent Non-Executive Director

BCom (University of Pretoria), MBA (Bond University), MMDip, Executive Management Development Programme (GIBS and INSEAD)

**Appointed to Board:** 2005

AC, REMCO, DAGC

Jabu retired as CEO of FNB International Africa in April 2017 and has extensive banking, insurance and leadership experience with financial institutions in South Africa. He is a member of the boards of several of the FirstRand Group's African subsidiaries in Namibia and Mozambique.

## NASEEM BANU LAHRI (45)

### Independent Non-Executive Director

MSc Strategic Management (University of Derby), BCom (UB), ACCA (Botswana Accountancy College)

**Appointed to Board:** 2019

AC, REMCO

Naseem is a well-rounded Fellow Chartered Certified Accountant (FCCA) and strategist with 20 years' working experience, including two years in an audit firm, 17 years in the mining industry and one year in insurance. In May 2018, Naseem became the first Motswana woman to lead a diamond mining company, Lucara Diamond Corporation. Prior to that she was CFO of the company and had been in different leadership positions at Debswana Mining Company for 10 years.

## STEVEN LEFENTSE BOGATSU (49)

### FNBB CEO, Executive Director

ACCA, MSc Strategic Management (University of Derby)

**Appointed to Board:** 2015

Standing invitee of all Board Committees

In April 2015, Steven became CEO of FNB Botswana, where he has held several senior leadership roles. This followed two years as CEO of FNB Swaziland and previous positions as CFO and Director of Product Houses at FNB Botswana, responsible for Property Finance, WesBank, Credit Card, International Trade and Custody. Prior to joining FNB, 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 and 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 and Botswana Medical Aid and Med Rescue International.

# Board of directors *continued*

## Corporate governance

As the custodian of corporate governance, the Board continues to comply with the Board Governance Framework. The Board Governance Framework is informed by the Companies Act, as amended, the BSE Listings Requirements, the Banking Act, as amended, and King IV. The Board ensures full compliance with these laws and is proactively implementing the principles of King IV.

In its effort to align with international best corporate governance practice, the Board is committed to the highest standards of effective leadership, ethical conduct and professionalism which underpin the bank's ability to achieve its strategic objectives and create shared value for stakeholders.

In fulfilling its overall responsibility and accountability for current success and long-term sustainability, the Board establishes and oversees the bank's strategic direction, identifies and monitors risk and opportunity management, sets performance measures and routinely reviews the implementation of strategic objectives.

## Board considerations and future focus areas

### Key Board activities 2021

#### Primary responsibilities

- Effective governance
- Effective leadership
- Effective risk management and increasing risk maturity
- Capital adequacy
- Going concern assumptions
- Solvency testing

#### Primary focus areas

**Strengthened Board governance**

- Implemented a succession plan to strengthen Board composition and ensure leadership continuity by appointing new members of the Board
- Reviewed and approved the Board Governance Framework
- Reviewed and approved the Board and Committee Charters
- Conducted the annual Board evaluation
- Re-composition of Board Committees
- Approved training plan for 2021/2022

**Reviewed financial reports**

- Approved the Annual Financial Statements and Integrated Report
- Approved the 2022 budget
- Declared interim and full-year dividends

**Reviewed operational performance reports**

- Approved credit facilities exceeding certain limits that require Board approval
- Set maximum limits for unsecured retail advances
- Approved traded market risk limits
- Approved macroeconomic assumptions to support various financial and operational assessments

**Monitored and approved regulatory reports including:**

- Going concern and solvency test review in line with Section 58(3) of the Companies Act
- South African Reserve Bank (SARB) Regulation 40(5)(a)(iv) compliance related to going concern
- SARB Regulation 39 Governance Assessments

**Oversaw:**

- Implementation of the 2025 strategy
- The bank's response to the ongoing impact of COVID-19 on bank operations
- Strengthening of the bank's resilience with robust risk management frameworks and a maturing risk process and culture
- Delivery of shared value to all the bank's stakeholders

#### The Board's continued focus areas

- Board effectiveness and continuity
- Overseeing the implementation of the 2025 strategy and continuously measuring its performance
- Ensuring an ethical foundation
- Effective risk management especially in light of COVID-19
- Ensuring that the bank remains a going concern

## Board composition and tenure

The bank's Constitution (the Constitution) provides for a maximum of 13 and a minimum of four directors. At 30 June 2021, following the retirement of Nelson Mokgethi at the AGM in November 2020, the Board comprised 10 Board members, the majority of whom are Independent Non-Executive Directors.

### Independence of directors

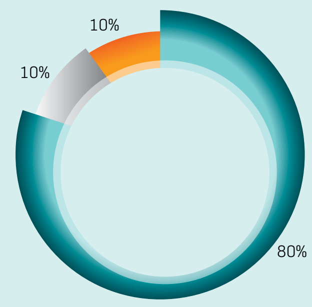
**Assessment outcome**

**The DAGC evaluated the independence of three serving Non-Executive Directors whose tenure exceeded nine years. The Board is satisfied that they are all able to act independently in making decisions in the best interests of the bank.**

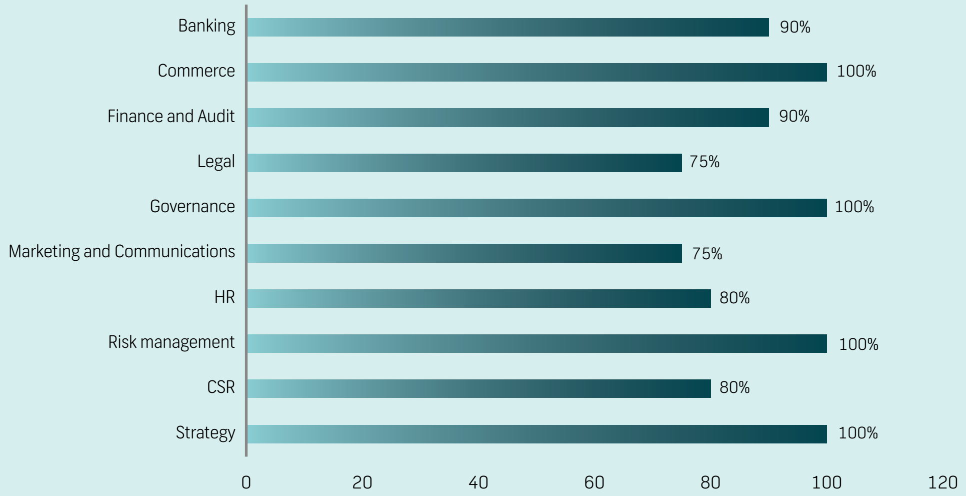
### Board diversity

**The Board ensures that its composition contains an appropriate mix of gender, age, tenure and skills diversity. To ensure that diversity and independence are maintained when new directors are appointed, the Board is guided by its Governance Framework.**

*Independence*




*Skills diversity*




The Board strengthened its IT and technology skills and experience as a result of a new director appointment after 30 June 2021

Batswana **60%** | Female **20%** | Average age **56 years** | Average tenure **7.7 years**

Tenure

**30%** >10 years | **30%** 5 – 7 years | **40%** 1 – 4 years

### Board appointments after the financial year-end

Following the retirement of Nelson Mokgethi at the November 2020 AGM and the planned retirement of Sifelani Thapelo at the AGM in November 2021, the Board reviewed its succession plan and approved the appointment of two new directors. Please refer to page 36 of the Chairman's report for more information.

The Board is satisfied that its composition reflects an appropriate mix of knowledge, skills, experience, diversity and independence. The new appointments will strengthen the Board's IT, technology and finance skills and experience.

### Re-composition of Board Committees

The Board appointed Ephraim Letebele as Nelson Mokgethi's replacement on the DAGC.

## Board of directors *continued*

### Independence

The DAGC oversees the assessment of directors' independence and provides a recommendation to the Board for approval. Independence is determined against the criteria and recommendations set out in King IV as well as in the Companies Act.[1]

The financial services sector is complex and suitably qualified directors with the requisite skills and business experience are rare. As such, the bank retained directors with a tenure longer than nine years following an independence assessment as required by King IV.

### Rotation

Directors are appointed through a formal process. The nomination and shortlisting of candidates for interviews is delegated to the DAGC. In addition to candidates' skills, experience, availability and likely fit, the Committee considers demonstrated integrity, proven leadership, and other directorships and commitments, to ensure that candidates will have sufficient time to discharge their role effectively.

All Non-Executive Directors are subject to retirement by rotation and re-election by shareholders annually. The Constitution provides for a third of the directors to retire and, if eligible, offer themselves for re-election at every AGM. 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 2021 AGM, the following directors will retire by rotation and, being eligible, offer themselves for re-election: Doreen Ncube and John Macaskill. Sifelani Thapelo informed the Board that he intends to retire at the AGM and will not offer himself for re-election.

The retirement age for Non-Executive Directors is 70, in terms of the Board Governance Framework, and may be extended after an annual review if there is unanimous agreement by the Board that the skills and experience of a director are still required. John Macaskill, having attained the age of 70, underwent an annual review to determine his competency..

The Chairperson of the Board is elected annually, in terms of the Constitution. The Board unanimously re-elected Balisi Bonyongo as Chairperson.

### Delegation

The Board Governance Framework sets out matters reserved for the Board's determination and matters delegated to its Committees and management. The functions exercised by the Board and those that are delegated are subject to ongoing review to ensure that the division of functions remains appropriate.

Each Board and Management Committee acts within agreed written terms of reference (Charters) that are reviewed and updated regularly. The Chairperson of each Board Committee reports back to the Board on the deliberations of Committee meetings at every Board meeting. The Chairperson of each Committee is required to attend the AGM to answer shareholders' questions.

The Board is satisfied that the delegation of authorities as set out in the Board Governance Framework contributes to role clarity and the effective exercise of authority.

### Company Secretary

The Company Secretary is responsible to the Board for ***inter alia*** acting as a central source of information and advising the Board on its duties and responsibilities, adherence to good corporate governance principles, and compliance with procedures and applicable statutes and regulations.

Gaone Setlhake is Company Secretary of the bank. All directors have unrestricted access to the advice and services of the Company Secretary in all aspects of the Board's mandate.

An assessment of the performance of the Company Secretary is undertaken annually, as part of the Board evaluation process. The assessment confirmed that the Company Secretary:

- Is competent, suitably qualified and experienced
- Has the requisite skills, knowledge and experience to advise the Board on good governance
- Maintains an arm's-length relationship with the Board and directors
- Has discharged her responsibilities effectively for the year under review

### Independent advice

The Constitution entitles Board members to seek independent advice at the Company's cost, if required during the execution of their fiduciary duties and responsibilities. Members have direct access at all times to the Company's external auditors and all members of Executive Management.

The Company Secretary is 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. The Board is satisfied with the effectiveness of these arrangements.

[1] *Independent Non-Executive Directors are not employed by the bank or any of the companies in the FirstRand Group and have not been employed by them in the previous three years.*

## Meeting attendance

| Directors | Board | AC | BCRC | RCCC | DAGC | REMCO |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| SL Bogatsu[1] | 4/4 | 4/4 | 11/15 | 4/4 | 3/3 | 2/2 |
| **Non-Executive Directors** | | | | | | |
| MG Davias | 4/4 | 4/4 | | 4/4 | | |
| **Independent Non-Executive Directors** | | | | | | |
| BM Bonyongo* | 4/4 | | | 4/4 | 3/3 | |
| S Thapelo | 4/4 | | | | 3/3* | 2/2 |
| MW Ward | 4/4 | | 15/15 | 4/4* | | |
| JK Macaskill | 4/4 | 4/4* | | 4/4[2] | 3/3 | |
| N Mokgethi[3] | 2/4 | | | | 1/3 | |
| D Ncube | 4/4 | | 14/15* | 4/4 | | |
| JR Khethe | 4/4 | 4/4 | | | 3/3 | 2/2* |
| ED Letebele | 4/4 | | 15/15 | | 1/3[4] | |
| NB Lahri | 4/4 | 4/4 | | | | 2/2 |

* *Chairperson.*

[1] *Standing invitee. The Executive Director is a standing invitee at all Board Committee meetings and a member of the Board Credit Risk Committee with the CFO and Director Credit, who represent him in instances where he is not present.*

[2] *Invitee.*

[3] *Retired at November 2020 AGM.*

[4] *Appointed with effect from 4 February 2021.*

## Development and evaluation

### Development

The Board has a comprehensive development programme. The annual plan for ongoing training focuses on the governance of risk and the needs identified during the annual assessment process. The training programme is designed to be facilitated by in-house experts. The 2021 training plan was approved by the Board.

#### 2021 training programme

The Board completed the following modules for the year.

- **Regulatory and conduct risk** – regulatory risk, anti-money laundering, anti-bribery, market and business conduct
- **Financial resource management** – for the prudent management of the bank's financial resources
- **Data privacy** – the implications of the Data Protection Act of 2018 (still on notice)

#### Induction

An induction process for new directors is in place and focuses on the Company's culture and business operations. New directors receive documents and training on:

- Board governance, including the Memorandum and Articles of Association, the CEO's delegation of authority, the Governance Framework and the Board and Board Committee Charters
- Financial information, including the FNBB Integrated Reports
- Ethics, including the Company's Code of Ethics and related policies
- Risk management, including the Risk Management Framework and regulatory risk

### Evaluation

During the year a formal evaluation was conducted to assess the Board's performance and effectiveness, and that of the individual members, including the CEO (Executive Director) and the Company Secretary.
The following were assessed:

- Governance, performance and effectiveness of Board and its Committees
- Performance and effectiveness of the Board Chairperson and the Chairpersons of the Board Committees
- Performance and effectiveness of individual Non-Executive Directors and the Executive Director
- Performance and effectiveness of the Company Secretary
- Judgement, skills, competence contribution and participation in meetings by the Directors
- Independence assessment of Directors who have served on the Board for more than 9 years

The DAGC reviewed the evaluation and identified no material concerns in respect of the areas assessed.

Overall, the performance of the Board and its Committees is satisfactory, with improvement specifically noted in succession planning and gender diversity.

There is a plan through the DAGC to ensure the improvement areas are addressed.

## Executive team

### Luke Woodford

**Chief Financial Officer (CFO)**

CA(SA), FCMA, Accelerated Development Programme (Wharton Business School)

Luke has been the CFO of FNB Botswana since 2018. He has worked for the FirstRand Group for over 13 years in various roles, including CFO of FNB Tanzania and CFO of FirstRand India. Prior to his international roles, Luke completed his SAICA articles through the FirstRand TOPP Programme and worked in the FNB South Africa Home Loans division where he was integrally involved in the credit and collections processes following the 2008 global financial crisis.

### Matshidiso Kereteletswe

**Chief Operating Officer (COO)**

BSc Computer Science (Technical University of Nova Scotia), Certificate in Banking (BIOB), MBA (De Montfort University), Leading with Finance (Harvard University)

Matshidiso has been the COO of FNB Botswana since 2018. Among other responsibilities, her mandate includes overseeing the day-to-day operational activities of the bank, ensuring efficient customer service and playing a lead role in the implementation of the bank's strategy. Before joining FNBB, she held executive positions at the then Barclays Bank and Stanbic Bank. She has more than 15 years' experience in the banking industry. Before joining the industry, Matshidiso worked for the United Nations Children's Fund (UNICEF). She is a member of the Institute of Electrical and Electronics Engineers (IEEE) and Association for Computing Machinery (ACM).

### Lesego Bannalotlhe

**Chief Risk Officer (CRO)**

BA (UB), Senior Management Development Programme (Stellenbosch University), Coaching for Development Certificate (UCT Graduate School of Business)

Lesego has 19 years' experience in the banking industry, including treasury, balance sheet management, risk and compliance. As CRO, she is responsible for legal risk management, fraud risk management, operational risk management and information risk reporting management. She was previously responsible for compliance and Anti-Money Laundering (AML) risk management. Under her leadership, FNB Botswana has remained a market leader in risk management. Lesego led the bank's compliance with BCBS239 (Basel Committee of Banking Supervision Principle 239), she continues to support arts competitions in her home village to address unemployment and substance abuse, as well as donating to causes against gender-based violence, including providing shelter for victims of gender-based violence during the pandemic.

## Lolo Molosi

**Treasurer**

MSc Financial Economics (Exeter University), BSc Economics and Environmental Science (UB)

Lolo is FNB Botswana's Treasurer and provides leadership and strategic balance sheet management direction for the bank. In her 12 years with the bank, Lolo has held several positions, including Deputy Treasurer, Head of Sales – Global Markets, and Client Portfolio Executive for the Corporate segment. Prior to that she worked for Barclays Bank and Bank of Botswana. Lolo is an honouree of the UCT/ FirstRand ADP Personality Award 2017 and the University of Botswana prestigious award for academic performance excellence.

## Sean Pugh

**Director, Credit**

BMgmt (UKZN Business School of Technology), several leadership and management courses

Sean is a seasoned credit professional with a career spanning 33 years in different leadership capacities within the FirstRand Group. He is responsible for monitoring and implementing the FNB Botswana Credit Risk Management Framework by achieving set performance standards and compliance with the credit regulatory requirements. This portfolio spans credit origination, ongoing risk, collections and credit risk portfolio management.

## Olebile Makhupe

**Director, RMB**

BA Social Sciences UB Banking Programme (Columbia Business School), BANKSETA Regional Immersion Programme

Olebile heads RMB Botswana, the Corporate and Investment Banking segment of FNB Botswana, and is in charge of the bank's Merchant Services business. Her extensive banking experience includes roles in several countries across various banking disciplines, such as strategy development and execution, leadership, business management, governance and risk management. She currently leads a team of solutionist thinkers offering corporate transactional services, corporate finance and funding solutions, advisory services and global markets solutions.

## Michael Honeywell

**Director, Commercial**

BCom, CA(SA)

Michael is a qualified Chartered Accountant with more than 10 years' experience in audit, banking and finance. He has worked with award-winning teams in FNB that experienced significant growth, particularly in the agricultural sector in Kwa-Zulu Natal (KZN). Michael led the FNB Business Banking team for KZN Coastal, Durban, and his team banked commercial and agricultural businesses in Durban and Richards Bay and communities along the East Coast of South Africa (with annual turnovers ranging from R10 million to JSE-listed businesses). Michael joined the FNBB Commercial team in October 2020 where his vision is to re-establish the segment's strength and prestige. He and his team are passionate about their customers and seek to contribute to the growth of their customers' businesses.

## Boitumelo Mogopa

**Director, Retail**

BCom (UB), FCCA, Executive Development Programme (Harvard Business School)

Boitumelo's outstanding career in banking and finance spans 23 years, during which she has developed an understanding of business strategy and implementation. Before heading the Retail segment, Boitumelo was CFO for three years. During this period, FNB Botswana claimed its position as Botswana's largest bank by all measures, a position the bank still holds. Having developed deep insight into customer behaviour, Boitumelo pioneered the introduction and launch of the Premium Segment in FNB Botswana. Given the uncertainty and new complexities in banking and business, Boitumelo is deploying the skills she gained from the Harvard Business School Executive Development Programme to build competency in Design Thinking.

## Lerato Chana Sekgororoane

**Director, Channels**

BA Social Sciences (UB), Senior Leadership Programme (Gordon Institute of Business Science, University of Pretoria)

Chana joined FNB Botswana in 2014 as Head of Channels and was promoted to Director of Channels in 2015. Chana has 29 years of experience in the banking industry. She is responsible for managing all 24 branches across the country, the Self-Service Delivery Department encompassing all FNBB ATM/ATM with deposit devices pan-bank, the Digital Banking Department (which focuses on the FNB electronic banking platforms), the Sales and Sales Contact Centre with 24-hour operations and the newly introduced FNB Alternative Channels (CashPlus and Bank on Wheels). Her team of 552 employees is responsible for serving banking services across the country and internationally to all customers.

## Sethunya Molodi

**Director, Compliance**

LLB (UB), Diploma in Trial Advocacy (National Institute for Trial Advocacy, US), ACIS (The Chartered Governance Institute of Southern Africa)

Sethunya has been the Director of Compliance for FNB Botswana since 1 November 2019. In her role, Sethunya provides the bank with effective compliance management strategies and tools and methodologies to drive and embed compliance culture within the bank. She has developed expertise in law and company secretaryship, investor relations management, corporate governance and stakeholder management over her 14 years of work experience. Previously, Sethunya worked at National Development Bank, Botswana Medical Aid Society and Botswana Post as Head of Legal and Company Secretary. Prior to her new role, she worked as the FNBB Company Secretary from 2016. She is a Chartered Company Secretary and an Associate Member of the Chartered Governance Institute of Southern Africa.

## Bonang Kwape

**Director, Human Resources**

MA Industrial Psychology (Roosevelt University), BA Psychology and Mass Communication (University of Missouri)

As FNB Botswana's Director of Human Resources since October 2019, Bonang provides thought leadership and strategic direction in individual and organisational performance, leadership and strategic balance sheet management for the bank. Her experience over more than 20 years spans private and public entities in different countries and cultures. She has worked in Botswana, South Africa and the United States as well as on numerous projects throughout the African continent. Bonang has held different positions in transport, logistics, healthcare and utilities, as well as management consulting roles in various industries.

## Clotilda Mulenga

**Director, Marketing and Communications**

MBA (Bond University, Australia)

Clotilda is responsible for overseeing brand and marketing strategies for FNB Botswana, including RMB and WesBank. Her key mandate is to position the bank's brand to compete effectively in a highly competitive and mature banking industry. Clotilda is a seasoned marketing professional and thought leader with over two decades of marketing and executive-level experience in multiple countries in Southern Africa.

## Executive team *continued*

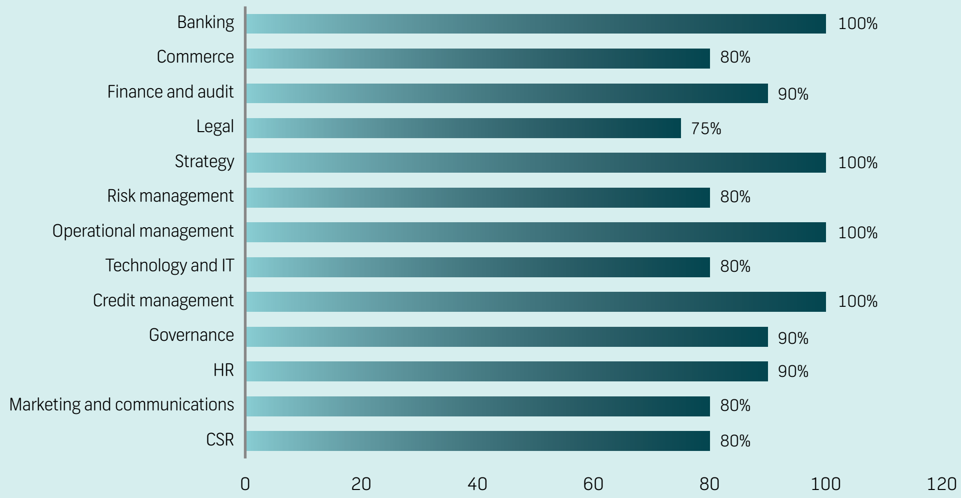
Average tenure
**5 years**

Average age
**45 years**

Batswana
**69%**

Female
**69%**

*Skills diversity*




### CEO succession planning

The CEO is employed on a standard employment contract, similar to the terms of all other employees. The Board approved a succession plan for the CEO role, which identified candidates based on their readiness to take over the role. The principles considered were:

a) Emergency/ready now candidate

b) Medium-term candidate (ready in one to three years)

c) Long-term candidate (ready in three to five years)

A deliberate and comprehensive development plan for the candidate identified to succeed the CEO was developed and implemented.

## Board Committee report-back

The Board is assisted by management and Board Committees in its responsibility to manage the bank and identify, oversee and manage risks and opportunities.

Each Committee acts within agreed Board-approved Charters. The Chairperson of each Committee reports back to the Board on the activities and decisions taken at Committee meetings. All Committee Charters were reviewed and approved by the Board. Each Committee is satisfied that it fulfilled its responsibilities in accordance with its Charter and the corporate governance requirements of SARB regulation 39, for the reporting period.

## Audit Committee (AC)

### Mandate

**The Committee's objectives are to:**

- Assist the Board 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
- Provide a forum for communication between the Board, management and the Internal and External Auditors
- Introduce such measures as, in the opinion of the AC, may serve to enhance the credibility and objectivity of the financial statements and affairs of the bank
- The Committee highlights key matters and findings for the RCCC

The AC has an independent role, with accountability to the Board and shareholders. The Committee does not assume the functions of management, which remain the responsibility of the Executive Directors, officers and other members of senior management.

**Members at 30 June 2021**

JK Macaskill – Chairperson

NB Lahri

JR Khethe

M Davias

SL Bogatsu – Standing invitee

### Key activities for 2021

- Monitored the impact of COVID-19 on the bank's financial position
- Reviewed significant internal and External Audit findings and monitored progress reports on corrective actions to rectify internal control lapses
- Considered quarterly financial reports from Executive Management:
  - Reviewed and monitored capital and ascertained that expenditure was adequately budgeted, controlled and monitored
  - Reviewed and approved the Internal Audit and External Audit plans for 2020/2021
  - Reviewed Internal and External Audit findings and assurances for 2020/2021
  - Reviewed a documented assessment, including key assumptions prepared by management of the going concern status of the bank, and confirmed that the bank will be a going concern for the foreseeable future
  - Determined that the bank's financial statements accurately reflect its financial position and that the bank maintained effective accounting practices and policies
  - Scrutinised accounts outside normal clearing periods in accordance with the Account Management Reconciliation Policy
  - Oversaw implementation of financial reporting as required by the Botswana Accountancy Oversight Authority
  - Conducted SARB Regulation 39 Self Governance Assessment
- Submitted to the Board, for approval, in accordance with regulatory and statutory reporting:
  - Interim results and year-end results, together with Annual Financial Statements and Integrated Report
  - Signature of the solvency certificate as required by section 58(3) of the Companies Act
  - Dividend recommendation
  - Signature of SARB Regulation 40(5)(a)(vi) letter confirming going concern and which includes the review and defining of "material malfunction"
  - Audit Committee Charter
- Reviewed Basel Committee on Banking Supervision – Principle 239 compliance and effectiveness of the bank's systems and processes
- Reviewed and approved the Internal Audit and Combined Assurance Forum and considered the effectiveness of the Combined Assurance processes and key performance indicator assessment
- Considered and monitored the effective functioning of internal controls which were deemed effective in all material respects during the year under review, including the skills and resources of the Internal Audit and Finance functions
- Increased management oversight and control of risk data aggregation and risk reporting to strengthen risk management
- Reviewed and assessed the South African Banks Act Regulation 39 corporate governance assessment
- Performed the annual assessment of the Chief Financial Officer, Internal Auditor and the External Auditor and the the committee was satisfied with their expertise and experience

### Ongoing focus areas

- Monitoring going concern and key financial ratios
- Monitoring the adequacy and effectiveness of internal controls
- Monitoring remediation of both Internal and External Audit findings
- All key activities as set out for 2021
- Adopting additional matters as legislation, regulations and accounting policies are introduced

### Internal Audit

The mission of the Internal Audit function is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. The function assists Executive Management and the AC to accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance processes within the bank.

The function provides assurance to the Board on the adequacy and effectiveness of the bank's internal control and risk management practices, and the integrity of financial reporting systems. Internal Audit assists management by making recommendations for improvements to the control and risk management environment.

During the year the AC received quarterly reports from Internal Audit on any weaknesses in controls that were identified, including financial controls, and considered corrective actions to be implemented by management.

### External Audit

The AC has satisfied itself as to the performance and quality of External Audit services. The AC Chairperson held closed sessions with the external auditors to discuss any concerns without management present. The Committee annually reviews and approves the list of non-audit services which the auditors may perform.

The AC satisfied itself as to the performance and quality of External Audit and that the external auditors and lead partner were independent of the bank.

The AC ensured that the appointment of the auditors complied with all legislation on appointment of auditors.

### Combined Assurance Forum

The primary objective of combined assurance is to facilitate the integration, coordination and alignment of risk management and assurance activities within the bank to optimise the risk, governance and control oversight of the bank's financial and risk landscape. The Combined Assurance Forum comprises representatives of management, Internal Audit and External Audit and meets quarterly to review and monitor key risks, controls and progress and implementation of risk and control systems. This forum also facilitates effective communication and coordination of management activities with the two assurance providers, Internal Audit and External Audit, providing support and guidance.

The combined assurance view of key risks and control themes across the bank is reported to the AC quarterly.

There is close cooperation between Internal Audit and the External Auditors to ensure adequate coverage of all material areas of FNBB's business and minimisation of duplicated effort.

## Board Credit Risk Committee (BCRC)

### Mandate

The BCRC has an independent role in making decisions within its delegated mandate. The Committee makes recommendations on credit decisions for applications above 10% of the bank's unimpaired capital for Board consideration and approval.

The BCRC does not assume the functions of management which remain the responsibility of the Executive Directors, officers and other members of senior management.

**Members at 30 June 2021**

D Ncube – Chairperson

ED Letebele

MW Ward

SL Bogatsu – Standing invitee

### Key activities for 2021

- Interrogated processing of credit facilities to customers
- Ensured that all the credit activities relating to large exposures were conducted within Board-approved risk strategy, policies and tolerance levels
- Reviewed and approved credit applications within the BCRC mandate
- Monitored large exposures on an ongoing basis as part of an annual review of facilities
- Ensured that exposures were sufficiently backed by collateral provided by counterparties and covenants adhered to
- Monitored scheme lending parameters and requested an extension of the variation allowing the monitor loan schemes and portfolio performance to lend to non-banked customers
- Maintained oversight of the balance between advanced NPLs and impairment provisioning
- Conducted SARB Regulation 39 Self Governance Assessment
- Submitted to the Board for approval:
  - Related-party placements
  - BCRC Charter

### Ongoing focus areas

- Assessment of COVID-19 impact on credit
- Monitoring the financial position of business customers at risk during Botswana's extended COVID-19 related State of Emergency

## Risk, Capital Management and Compliance Committee (RCCC)

### Mandate

The RCCC's objective is to help the Board discharge its responsibilities for overseeing risk management across the bank. While maintaining its primary responsibility, the Committee delegated the responsibility of managing the different risk types arising from the nature, complexity and risks inherent in its operations to specialist risk management sub-committees. The RCCC submits its reports and findings to the Board and highlights control issues to the AC.

The responsibilities of the RCCC are determined by the following legislations:

- Banking Act, 1995 as amended (Cap 55:01) and regulations relating to banks
- Companies Act
- Global best practice guidelines
- Botswana Stock Exchange Act of [year] (Cap 56:08)
- Other relevant Acts

**Members at 30 June 2021**

MW Ward – Chairperson
D Ncube
M Davias
BM Bonyongo
JK Macaskill – Invitee
SL Bogatsu – Standing Invitee

### Key activities for 2021

- Monitored the development of the Recovery Plan Review
- Considered reports from Executive Management on regulatory risk management and inspections
- Assessed compliance and monitoring of processes to mitigate potential risk related to change in KYC regulation governing BURS, Companies and Intellectual Property Authority and state-owned entities
- Oversaw the implementation of measures to comply with AML/CFT requirements for identifying depositors at ATM with deposit terminals and addressing enhanced due diligence of Politically Exposed Persons
- Considered credit risk report matters, including:
  - Non-performing loans
  - Credit exposures on specific outlier customers
  - Islamic Finance credit exposure
- Interrogated operational risk reports submitted by Executive Management and escalated for Board review:
  - Diversification of the retail portfolio
  - Enhancement of segment value propositions
- Reviewed risk control and identification process and key risk indicators
- Scrutinised the Business Continuity Management and IT risk report
- Assessed business continuity in relation to COVID-19
- Tracked progress of the IT access risk remediation and fraud risk management audit
- Considered asset and liability risk including:
  - Depositor concentration limits
  - Funding term structure
  - Interest rate risk management
- Considered interventions to strengthen asset and liability management and maintain risk metrics within established risk appetite
- Monitored the operational impact of Botswana's FATF listing
- Remained updated on Government spend and economic conditions
- Satisfied itself on the bank's standing in relation to the frameworks and policy universe
- Approved the Integrated Fraud and Physical Crime Management Framework and the Protective Security Framework
- Submitted to the Board for approval:
  - Financial Reporting Control Framework
  - Capital Management Framework
  - Credit Prudential Framework
  - Credit Risk Management Framework
  - Stress Testing Framework
  - Investment Framework
  - Traded Market Risk Framework
  - Funds Transfer Pricing Framework
  - Recovery Plan
  - Regulatory and Conduct Risk Management Framework
  - Financial Crime Risk Management Framework
  - Anti-Bribery and Corruption Policy
  - Risk Data Aggregation and Risk Reporting Framework
  - PV01 Limit Review
  - Top Depositor Limit
  - Internal Capital Adequacy Assessment Process Report
  - Risk, Capital Management and Compliance Charter
- Satisfied itself that all transfer pricing regulatory requirements were embedded in management and tax processes
- Reviewed Credit Risk Appetite Policies for Commercial, Corporate Investment Banking and Retail segments
- Maintained oversight of the progress mandate on the Group's SLA reviews
- Reviewed and submitted to the Board for approval regulation 39 governance assessments of the RCCC and the risk and compliance functions
- Ensured that systems and resources necessary to combat cybercrime and fraud are continually assessed and amended as necessary for this ever-evolving risk
- Monitored the legal process to protect the bank's branding rights associated with the operational or public use of the word First
- Conducted SARB Regulation 39 Self Governance Assessment

### Ongoing focus areas

- Cybersecurity
- Regulatory compliance
- Micro and macro-operating environments and markets
- Continued monitoring of the impact of COVID-19 on the bank's operations
- All key activities as set out for 2021

## Risk management

FNBB's robust and transparent risk reporting process enables key stakeholders, the Board and risk committees to:

- Gain an accurate, complete and reliable view of the bank's risk profile
- Make appropriate strategic and business decisions
- Evaluate and understand the level and trend of material risk exposures and their impact on the bank

This is accomplished by establishing clear risk ownership at business department level, and creating effective combined assurance partnerships between Business, Risk Management, Compliance, Internal Audit and External Audit functions, thereby assuring shareholders' interests. The bank achieves a risk-focused culture through:

- A market and business conduct programme supported by effective governance structures
- A combined assurance process to integrate, coordinate and align risk management across the three lines of defence, including External Audit
- Robust risk management policies, frameworks and processes

## A maturing risk management process

By aligning risk management and business performance with the Business Performance and Risk Management Framework, the bank achieves a single view of risk across its organisation. This ensures a consistent approach to risk management across the bank.

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

| | |
|---|---|
| **First line of defence** | FNB Botswana management is responsible for risk management and implementation of risk strategy. |
| **Second line of defence** | Risk Management functions (including Compliance) sets policies across the bank and monitors these to ensure that 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. |

The three lines of defence were assessed and strengthened during 2021 to:

- Equip first line business managers with the tools to identify, assess and minimise risk
- Ensure that the necessary checks and balances are integrated into all management functions and business areas

During COVID-19, the bank accelerated its digital transformation strategy to maintain and improve the quality of customer service. These processes were risk assessed to protect the bank's stakeholders. They demonstrated maturity in the bank's process agility and risk management.

## Operational risk management

The Operational Risk Management Framework is ancillary to the Business Performance and Risk Management Framework and sets out key risk management principles and practices for the effective management and mitigation of operational and IT risk, such as:

- Risk identification and assessment, including definition of key risk indicators
- Definition of risk measures, operational risk appetite and limits
- Monitoring of risk exposures against defined measures, operational risk appetite and limits
- Management of operational risk data quality for risk data aggregation and risk reporting purposes
- Reporting of risk exposures, process breakdowns, limit breaches and material malfunction to management, risk management and governance structures
- Specification and monitoring of corrective actions
- Acceptance of risk exposures given defined operational risk appetite levels
- Financial accounting and regulatory reporting process

## Identifying risks

The bank uses the following processes to identify and determine those issues that could impact its sustainability over the short, medium and long term. Governing bodies regularly review:

- Changes in the regulatory universe
- Matters that could impact the achievement of the bank's strategic objectives
- Matters discussed by risk management committees, including matters escalated by business segments
- Internal risk assessments of new products and projects
- Priority interests of key stakeholders
- Breaches of key risk indicators

The bank prioritises identified risks with a risk rating methodology that standardises risk assessment. Each risk is rated on a risk rating scale after an assessment of inherent risk (before controls are applied).

Existing controls are reviewed and, where necessary, new controls are designed to reduce or eliminate the likelihood of a risk occurring or its impact should it occur.

## Risk appetite

Risk appetite is set by the Board. The bank's Risk-Return Framework informs organisational decision-making and is integrated with its strategic objectives. Business and strategic decisions are aligned to risk appetite. At a business department level, strategy and execution are influenced by the availability and price of financial resources and required hurdle rates and targets.

Although COVID-19 introduced unexpected and unusual disruptions and risks to the bank, these were managed within our risk tolerance levels. No undue risks outside risk tolerance levels were taken during the year.

## Risk culture

The bank recognises that effective risk management requires the maintenance of an appropriate risk culture underpinned by:

- Setting the tone at the top – leadership that is ethical and 'fit and proper', setting strategy, risk appetite and implementation of appropriate risk practices
- Appropriate risk and compliance governance structures for the implementation of policies and frameworks
- Embedding of Process Risk Control Identification and Assessment tools and risk management monitoring tools
- Embedding of Basel Committee of Banking Supervision Principle 239 to ensure optimal risk reporting
- A culture that supports the bank's journey from being risk managed to risk enabled
- Employee training to ensure alignment

## Risk profile

| | Risk type | Outlook |
|---|---|---|
| 1 | **Strategic risk** | Stable |
| 2 | **Business risk** | Stable |
| 3 | **Credit risk** | Increasing |
| | 3.1 Retail | |
| | 3.2 Commercial | |
| | 3.3 Wholesale | |
| 4 | **ALM risk** | Stable |
| | 4.1 Liquidity Risk | |
| | 4.2 Interest Rate Risk in the Banking Book | |
| | 4.3 Foreign Exchange Risk | |
| 5 | **Market risk in the trading book** | Stable |
| 6 | **Internal financial controls** | Decreasing |
| 7 | **Operational risk (including Fraud Risk)** | Increasing |
| | • IT Risk | |
| | • Legal Risk | |
| 8 | **People risk** | Increasing |
| 9 | **Regulatory and conduct risk** | Increasing |
| 10 | **Reputational risk** | Stable |
| 11 | **Information governance risk** | Decreasing |

## Directors' Affairs and Governance Committee (DAGC)

### Mandate

The DAGC's objective is to ensure the appropriateness of the corporate governance practices of the bank and assist the Board in discharging its responsibilities for governance, Board and Committee structures, Board continuity, executive remuneration, Board effectiveness and executive succession.

The DAGC undertakes the interview and appointment process of directors to ensure that there is balance of diversity and skills required for the Board and Board Committees that are appropriate for the stature and size of the bank.

The DAGC reviews the structure and composition of the boards of its subsidiaries. The Committee ensures that the Board complies with all applicable laws, regulations and codes of conduct and practices.

Additionally, the DAGC monitors ethics and fair treatment of customer relationships, and employees. Matters of conduct and ethical and reputational importance are paramount in all business activities and interactions with all stakeholders of the bank.

**Members at 30 June 2021**

S Thapelo – Chairperson

JR Khethe

JK Macaskill

BM Bonyongo

ED Letebele

SL Bogatsu – Standing invitee

### Key activities for 2021

- Oversaw implementation of the recommendations in the Botswana Accountancy Oversight Authority Assessment Report King IV disclosure improvements, succession planning and Board composition
- Reviewed the succession plan, including new Board appointments and Board Committee re-composition following the retirement of directors
- Considered and recommended for Board approval the appointment of Asad Petkar and Max Marinelli as Independent Non-Executive Directors to increase the number of independent directors and strengthen the Board's IT skills and experience
- Oversaw an annual review of the competency of John Macaskill who reached the age of 70
- Conducted Board evaluations in accordance with King IV to review:
  - Performance and effectiveness of the Board and Board Committees
  - Performance of the Board Chairperson, individual Non-Executive Directors and the Company Secretary
  - Independence of Independent Non-Executive Directors who have served continuously
- Considered the results of the Board self-assessment; no significant findings were noted
- Noted the REMCO review and recommendations on Board fees
- Oversaw the implementation of the approved Board training plan for 2021
- Facilitated the pledging of the bank's Code of Ethics by directors
- Reviewed CEO and Executive Management succession plans
- Conducted SARB Regulation 39 Self Governance Assessment
- Submitted to Board for approval the revised Governance Framework, the Board Charter and DAGC Charter

### Ongoing focus areas

- Induction of new Board members
- Ongoing focus on Board effectiveness and continuity
- Continued focus on Board succession planning
- Continued focus on Board training

## Ethics

Ethics is governed by:

- Ethics frameworks, policies and standards that guide employees and supply chains (suppliers, third-party vendors) on ethically appropriate conduct
- Ethics and Conduct Risk Committee that oversees the bank's ethics performance
- Reporting of ethics performance to the Ethics Committee and escalating it to the Executive Committee

## Ethics frameworks, policies and standards

FNBB's Code of Ethics supports the bank's ethics conduct with principles, values and ethical matters within the bank. By sensitising employees on ethical considerations, the Code minimises the occurrence of unethical behaviour.

Frameworks and policies are in place to guide ethics management in:

| | | | | | | |
|---|---|---|---|---|---|---|
| Whistleblowing | Conflict of interest management | Ethical conduct in financial markets | Anti-bribery and corruption | Personal account trading | Supplier code of conduct | Fair market conduct |

## Ethics and Conduct Risk Committee

This Management Committee monitors ethics audits and fair treatment of customer relationships, coordinates matters of ethical and reputational importance, and escalates matters within its mandate to Executive Management and ultimately to the DAGC.

In 2021 the Committee focused on:

- Embedding an ethics culture in the bank by operationalising the ethics management policies and conducting ethics training across the bank
- Adopting and tracking market conduct metrics and anti-bribery key risk indicators
- Implementing the FX Global Code principles of good practice in the foreign exchange market
- Increased collaboration with the HR department to manage whistleblowing cases
- Enhanced Treating Customers Fairly monitoring and management

## Reporting

Regular independent internal assessments and Group audits are conducted to assess the adequacy and effectiveness of the bank's ethics management processes and structures. This ensures sound management of the bank's ethical culture.

During 2021, the DAGC reviewed ethics reporting and asked management to ensure that all employees complete declaration of interest forms. The completion rate of declarations of interest and conflict management disclosures increased to 94% (2020: 88%).

## Whistleblowing cases – 2021

| Reportable actions | Total cases reported for the Year ended June 2021 | Open at 30 June 2021 |
|---|---|---|
| Illegal or unlawful conduct | – | 2 |
| Improper Conduct and unfair labour practices | 7 | 2 |
| Other forms of unethical conduct, such as victimisation, money laundering, fraud, syndicates and scams and conflict of interest | 3 | 2 |
| Wasteful conduct related to health, safety and environmental matters | – | – |
| **Total** | **10** | **6** |

No material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations, were imposed on the bank or on members of the Board.

## Remuneration Committee (REMCO)

### Mandate

The Committee oversees the bank's remuneration and ensures that practices align the interests of employees and shareholders. The REMCO promotes fairness of remuneration by ensuring that the principle of equal pay for work of equal value is applied, and that remuneration is market related and sustainable.

**Members at 30 June 2021**

JR Khethe – Chairperson

S Thapelo

NB Lahri

SL Bogatsu – Standing invitee

### Key activities for 2021

- Considered macroeconomic factors likely to have an impact on remuneration
- Considered the bank's business and financial performance
- Assessed the proposed salary review for 2021/2022 in the context of preserving employment and protecting the bank during COVID-19
- Monitored union negotiations of non-managers' salaries and the mediation and arbitration processes to resolve a deadlock in the negotiations
- Considered and recommended to the Board a 2.5% increase in Board director fees
- Considered the 2021 annual salary review principles for salary increase, bonus and share allocations
- Performed annual review of pay comparisons and benchmarking in the local market of salaries and variable pay (incentive/flexible options bonus and shares and retention packages for key resources)
- Approved the implementation of the Pay Scale Project and addressed capacity requirements to implement the project
- Reviewed the line-by-line remuneration of Executive Management, relative to the market
- Conducted SARB Regulation 39 Self Governance Assessment
- Submitted the REMCO Charter to the Board for approval

### Ongoing focus areas

- Continued improvements in remuneration disclosures, as per King IV
- Continued research and evaluation of remuneration best practices
- All key activities as set out for 2021

## Information technology governance

The bank has an IT Governance Framework with structures, governing bodies and processes to strengthen IT management and derive improved value from investment in information and technology. The framework enables the bank to manage IT risks effectively and ensure that IT activities are aligned with its strategic objectives.

### Alignment to strategy

Structures and processes are in place to ensure that technology investments, roadmaps and fitness for purpose are aligned with the bank's strategy and business needs. This alignment is primarily customer-centric and ensures that technology solutions are designed and operated to serve customer needs in response to changing market opportunities and risks, and in compliance with appropriate risk controls, technology architecture standards and regulatory requirements.

### Technology risk management

IT risk management is at the core of the bank's IT governance and management. The deployment of IT solutions achieves leverage and improves convenience for the bank and its customers. As such, the bank has a robust IT risk management framework with structures and controls to support business resilience, continuity and IT disaster recovery. The framework ensures that the bank is adequately equipped with appropriate IT employee capacity, skills, processes and tools to achieve high availability and a safe technology environment for employees and customers.

Regular control testing, such as the IT disaster recovery and IT back-office health checks are conducted to provide assurances on the fitness of the bank's technology resources to meet business demand, compliance requirements and customer expectations.

### Responsible and secure use of technology resources

The bank has policies to ensure responsible use of technology resources. The policies require employees to adhere to practices that protect information resources and mitigate exposures to threats such as cybercrime, loss of IT equipment, leakage and inappropriate access to privileged information.

Regular training and awareness initiatives are conducted to update and equip employees to manage IT resources securely and responsibly.

### Technology cost efficiencies

The bank focuses on maintaining a balance between optimal performance and cost management. This is achieved by standardising and streamlining technology infrastructure to leverage economies of scale and shared resources. The management of printing and telecommunications costs is a key focus area.

## Technology regulatory compliance

Technology regulatory compliance is embedded in the IT Governance Framework. By aligning its processes with regulatory requirements, FNBB is able to run its banking operations securely and sustainably.

## IT risk mitigation

The bank has sufficient IT resources for the foreseeable demands of the business and service level agreements are in place to support the IT function.

No cyber fraud was detected during 2021 but phishing attempts remain a constant threat and are monitored daily.

The bank manages and mitigates IT risk by:

| Risk mitigation | 2021 performance |
|---|---|
| Maintaining a disaster recovery process, including routine disaster recovery testing | RTO is 4hrs success rate |
| Tracking the effectiveness of service level agreement<br><br>Performance to ensure we meet/exceed the expectations of the customer | 90% service level agreement compliance |
| Targeting 99.9% average service availability | Achieved |
| Optimising technology availability by developing relationships with mobile network operators and internet service providers as part of the enhancements to our information security controls | Achieved |
| Aligning data privacy with the Protection of Personal Information Act of 2013 (South Africa) and Data Privacy Act (Botswana) | Achieved |
| Provision of secure and encrypted connections to Banking systems coupled with information security training to support work from home environment | Achieved |

# Remuneration

## Background statement

It is the view of the REMCO that the bank achieved the stated objectives of its Remuneration Charter and its Remuneration Policy of fair and responsible remuneration.

FNBB recognises that its employees are its primary sustainable source of competitive advantage in a modern service-based economy. They play a central role in maintaining the bank's successful performance by serving its customers well and forming value-adding partnerships with them.

### FNBB Remuneration Policy

The purpose of FNBB's Remuneration Policy is to:

- Contribute to attracting and retaining talented and high-performing employees
- Reward and recognise innovation and performance
- Inspire and motivate people to outperform the business strategy, targets and objectives

### Our Remuneration Policy is based on four fundamental principles

| | |
|---|---|
| **Total reward** | **Managing and rewarding performance** |
| **Competitive and fair reward** | **Recognition and celebration** |

### Total reward

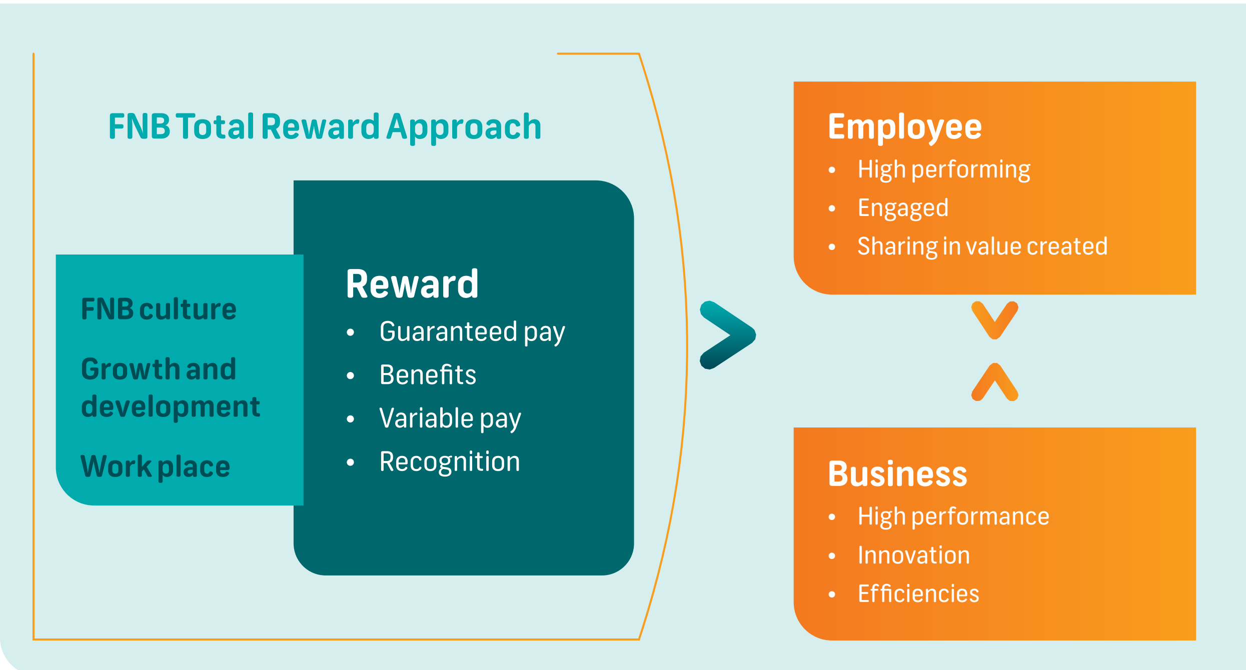
FNBB believes employees work for more than just monetary reward and the bank focuses on total reward, including all elements of remuneration.

The bank acknowledges the principle of total reward, including:

- Guaranteed pay
- Performance bonus
- Incentives, recognition schemes and long-term incentive schemes

The bank also considers intangible rewards such as:

- Culture
- Innovation
- Growth and development
- A positive work environment with supportive colleagues



### Managing and rewarding performance

FNBB is a people-centred organisation that demands high performance. Each employee is held accountable and contracted to deliver work to an expected standard, in line with the bank's performance management approach which seeks to empower performance rather than to discipline and control people.

Key performance areas are contracted at the start of the performance period. They are scored using a five-point rating scale, and each performance area has a relative weighting. There are two formal reviews per annum and the final overall rating is recorded as a one-decimal rating. In addition, employees have a personal development plan.

The bank is committed to the principle of managing and paying for performance and believes that all employees should be able to influence their earning potential through the value they add. Salary increases and bonuses are not awarded for performance that is below expectation.

### Competitive and fair reward

Reward decisions are made fairly through robust and transparent processes. The bank does not wish to have any unjustifiable pay differences in salary due to the race or gender of employees in the same role (assuming the same qualifications, experience and performance rating). Action is taken to correct anomalies where this is found to be the case.

We believe in paying competitive salaries aligned to the external market, provided performance expectations are met. Our positions are benchmarked regularly with similar roles in the marketplace to ensure we are competitive. For senior and executive roles, we rely less on salary ranges and follow a pure market pricing approach.

### Recognition and celebration

While achievement of results is important, heartfelt recognition and the celebration of accomplishments is an integral part of our people practices.

## Most recent results of voting

The BSE does not require the full implementation report to be submitted for shareholder voting but does require approval at the AGM of Non-Executive Directors' fees. At the 2020 AGM, 100% of shareholders voted in favour of the Non-Executive Directors' fees proposed which represented no increase from the previous year.

## Key decisions taken by the REMCO

The following key decisions were taken by the Committee:

- Approved salary budget for 2021/2022.
- Approved a mandate for non-managers' salary negotiations with the Botswana Bank Employees Union for 2021/2022 salaries.
- Approved managerial salary increase for 2021/2022.
- Approved managerial and non-managerial pools for 2020/2021 performance.
- Approved share allocations for 2020/2021 performance.
- Approved the Pay Scale Project. The reward philosophy behind Pay Scale is a total reward comprising a guaranteed package, benefits, short-term and long-term incentives. The target will be set at at least the role minimum and eventually the 50th percentile of the market on aggregate and focus on performance and critical skills. These scales will be reviewed annually.
- Recommended directors fees' to the Board for approval.
- Reviewed the REMCO Charter.
- Recommended the Remuneration Policy to the Board for approval.

## Future areas of focus

- Continued improvements in remuneration disclosures, as per King IV
- Continued research on best remuneration practices

## Internal and external factors that influenced remuneration

Job preservation and the protection of the bank's future sustainability formed the basis of salary discussions during COVID-19. The REMCO also considered inflation and competitor reward structures in its assessment of appropriate packages. Individual performance ratings are considered for managerial and non-managerial employees through a mature performance management process. On the basis of pay for performance, increases are not awarded to any employees rated less than three out of five.

Based on the decision to implement Pay Scale, minimum, medium and maximum remuneration bands were developed for all positions within FNBB:

- **Minimum:** Minimum salary for entry-level employees, provided performance and competency requirements are met and employees can be appointed at higher than the minimum. To ensure fair and just remuneration practices, an employee can only be appointed at less than the minimum in cases where development is required and alongside a suitable timeframe.
- **Mid-point:** Mirrors the market 50th percentile.
- **Maximum:** Primarily used for reward decisions and the bank is now subject to capping.

## Policy *continued*

For executives, the bank aims overall, on an aggregated basis, to align to the market median. This translates in practice to the spreading out of individual salaries on a scale starting with median minus 20%, to the upper end of the scale where the salary of high performers could be median plus 20%. This is merely a guideline and depends on the quality of market data available. This approach contributes to ensuring that high performers are positioned at the upper end of the market.

Benchmarking was conducted by remuneration consultants and the REMCO is satisfied with the results.

### Salary components

| Component | Executive management | | Other employees |
|---|---|---|---|
| **Guaranteed package**<br>The overall cost of increases is set at a level agreed by the REMCO and reviewed annually on 1 August. A top-down process is followed where, once approval for salary increases is obtained and negotiations with the union are completed, the business is allocated a pool for increases. | Year-on-year increases for Executives Directors were set at: | | The overall employee budget for the financial year was set at a 5% year-on-year increase based on categories of employees.<br>Managers can achieve up to 4% increase on base pay and non-managers, 5%.<br>Unionised employees received increases based on wage settlement agreements. |
| | **Performance Rating** | **Salary Increase** | |
| | 5 | 5.5% | |
| | 4.0 – 4.9 | 5% | |
| | 3.5 – 3.9 | 4% | |
| | 3.0 – 3.4 | 3% | |
| **Other benefits** | • Group Life Cover inclusive of income continuation benefit<br>• Pension fund 13.5%<br>• 100% medical aid cover<br>• 4 months maternity leave at full salary<br>• Paid paternity leave of 5 days<br>• Payment for professional fees and subscriptions<br>• Favourable interest rates for home loans, personal loans and WesBank loans<br>• Car allowance for managers and some non-managers as a tool of trade<br>• Banking charge exemptions<br>• Scholarship scheme<br>• Study loan at 0% interest (capped at P50 000)<br>• Subsidised gym fees at Head Office<br>• Access to the Employee Assistance Programme, through the Employee Wellness Programme service offering<br>• Innovation programme that rewards ideas and implementation<br>• Performance awards | | |
| **13th cheque** | Equivalent to one month's basic salary | | |
| **Sign-on bonus** | • Sign-on bonuses are applied in limited circumstances, for example, when the business is heavily reliant on high-demand scarce skillsets, to replace prospective employees' current benefits, and/or to remain attractive and competitive in the market<br>• A lock-in arrangement is in place where the new joiner repays FNBB should he/she leave the Company within a certain period. | | |

| Component | Executive management | Other employees |
| --- | --- | --- |
| **Bonus**<br>Allocation is discretionary based on individual performance, overall profitability and return on equity targets | The overall bonus pool is suggested at FirstRand Group level based on country performance and approved by in country Remuneration Committee (REMCO). | Total managerial pool is suggested by FirstRand Group and approved by FNBB REMCO.<br>The non-managerial pool is suggested by FNBB management based on the bank's financial performance and industry trends. The pool is then approved FNBB REMCO. |
| | • Bonuses in excess of the set threshold are paid in three equal tranches in August, December and June of the following year.<br>• Outstanding bonus amounts are forfeited if an employee resigns or leaves the employ of the bank for any reason.<br>• Should an employee be transferred to another division within the FirstRand Group, they will receive outstanding tranches on the due date. | |
| **FirstRand share allocation** | • Shares are allocated per principles in line with Group to reward long-term performance, high performers and employees with rare or critical skills. Allocation of shares is based on employee contribution to the strategy and living the FNBB values.<br>• Internal fairness in terms of the individual quantum of shares allocated is achieved by means of targeted allocations for people in similar salary categories and by means of an overview and functional calibration process. | |
| **Retention payments**<br>Subject to the approval of an FNBB executive and those in excess of P500 000 are subject to approval by the CEO | • A lock-in or cash retention payment may be negotiated with an existing employee in limited circumstances i.e. when the employee is working on a business-critical project and it is essential to retain the service of such an employee who has competencies that are scarce and specifically related to the project. | |
| **Termination, malus and clawback provisions** | Malus is applicable to awards that have not yet vested and will be cancelled, where necessary. Clawback applies once an award has vested and an event occurs that triggers repayment of the award. A trigger may include:<br>• The discovery of a material misstatement of performance that resulted in a variable award which the Board is satisfied the employee contributed to and is responsible for<br>• The discovery that the assessment of any metrics upon which the award was made were based on erroneous, inaccurate or misleading information<br>• Any action or conduct which, in the reasonable opinion of the Board, amounts to dishonesty, fraud or misconduct<br>• The discovery of a material failure in risk management to which the employee had contributed and is responsible for<br>• The discovery that performance-related to financial and non-financial targets was misrepresented and that such misstatement led to the overpayment of incentives<br>The clawback applies for three years after the discretionary payment is made or, in the case of share schemes, both long-term incentives = and short-term incentives, three years after the awards vested.<br>Should an employee resign or be dismissed, unpaid bonus tranches are forfeited except where the REMCO deems an individual a 'good leaver'. | |

## Independent Non-Executive Directors

**Independent Non-Executive Directors**

Independent Non-Executive Directors receive fees for services as directors and for services provided as members of the Board and its Committees. These fees are paid on a retainer and an attendance basis. The fees vary depending on the role of the Committee, are based on market comparisons, and are reviewed annually by the REMCO in line with the bank's Remuneration Policy that advocates fair and responsible remuneration.

This is FNBB's second Integrated Report and represents incremental improvement in the disclosure of director's remuneration that is required by King IV . The BSE does not require the full Implementation Report to be submitted for shareholder voting but does require approval by the AGM of Non-Executive Directors' fees. At the 2020 AGM, shareholders voted in favour of the Non-Executive Directors' fees for the year 2021, where the Board had recommended a no fee increase.

In 2021 the REMCO recommended to the Board and AGM an increase of 2.5% on the hourly rate equal to the market for the 2022 financial year. This increase will be approved at the 2021 AGM.

The following principles apply to Board fees:

- Executive and Non-Executive Directors employed by the FirstRand Group do not receive fees as Board members.
- Fees are based on an hourly rate (currently P4 132 capped at seven hours for Board meetings).
- Fees are reviewed annually in line with industry benchmarks and are approved at the AGM for the year ahead.
- The Chairpersons of the Board, the AC, and RCCC are paid at a 200% premium of the hourly rate. The Chairpersons of the DAGC, REMCO and BCRC are paid at a premium of 150% of the Board hourly rate.
- The members of the AC and RCCC are paid 80% of the Board hourly rate.
- The members of the DAGC, the REMCO and the BCRC are paid 70% of the Board hourly rate.
- Additional Board or Committee meetings called are paid at the hourly rates agreed for preparation and attendance.
- For work of an ad hoc nature, or attendance on an advisory basis where no fee is specifically approved, members are paid at the hourly rate for Board or Committee preparation and attendance.
- A contingent retainer of 50% of Board and Committee member fees is paid if a director is unable to attend a Board or Committee meeting for a valid reason.

## Executive Directors' fees – target illustrations

Below is an illustration of the potential effect on the total remuneration for Executive Management (based on a single, total figure), of applying the minimum, on-target and maximum Remuneration Policy:

| Element | Total |
|---|---|
| Total number of Executive Management members | **13** |
| Annual total base pay | **16 405 891** |
| Annual total gross package (base, car allowance, medical aid) | **21 048 336** |
| Short-term Incentive Plan | **7 912 103** |
| Long-term Incentive Plan | **7 404 670** |

## Implementation report

There were no deviations from the Remuneration Policy upon implementation.

### Single total figure remuneration received and receivable at fair value – 2021

| Name | Directors' fees | Total emoluments |
|---|---|---|
| **Executive Directors** | | |
| SL Bogatsu | – | **3 954 100** |
| **Non-Executive Directors** | | |
| JR Khethe | **331 000** | **331 000** |
| JK Macaskill | **485 000** | **485 000** |
| S Thapelo | **260 000** | **260 000** |
| MW Ward | **762 000** | **762 000** |
| N Lahri | **282 000** | **282 000** |
| N Mokgethi | **95 000** | **95 000** |
| D Ncube | **752 000** | **752 000** |
| M Davias | – | – |
| ED Letebele | **571 000** | **571 000** |
| BM Bonyongo | **513 000** | **513 000** |
| **Total** | **4 051 000** | **8 005 000** |

### Single total figure remuneration received and receivable at fair value – 2020

| Name | Fees | Total emoluments |
|---|---|---|
| **Executive Directors** | | |
| SL Bogatsu | – | 6 542 157 |
| **Non-Executive Directors** | | |
| JR Khethe | 470 000 | 469 890 |
| JK Macaskill | 574 000 | 574 112 |
| S Thapelo | 417 000 | 417 336 |
| MW Ward | 839 000 | 839 429 |
| DA Kgosietsile | 82 000 | 81 648 |
| N Mokgethi | 232 000 | 232 349 |
| D Ncube | 718 000 | 718 271 |
| M Davias | – | – |
| ED Letebele | 626 000 | 625 687 |
| NB Lahri | 167 000 | 164 748 |
| BM Bonyongo | 423 000 | 423 394 |
| **Total** | 4 548 000 | 11 089 021 |

### Details of implementation

#### Directors' performance

| | Return on equity | Net profit after tax P'000 | NIACC range |
|---|---|---|---|
| Performance targets | of 21% – 24% | 618 656 | of 169 521 |
| FNBB actual performance | 18.20% | 685 175 | 221 765 |

## Implementation report *continued*

### Share option detail

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 conditions. For more details on the share option please refer to page 114 of the Annual Financial Statements

| | **2020** | | 2021 | |
|---|---|---|---|---|
| Name | **Vested/ forfeited number of options** | **Non-vested number of options (not yet exercisable)** | Vested/ forfeited number of options | Non-vested number of rights (not yet exercisable) |
| **Executive Directors** | | | | |
| SL Bogatsu | **33 500** | **30 020** | 30 020 | 36 810 |
| **Total vested and non-vested number of options** | **33 500** | **30 020** | 30 020 | 36 810 |

# Annual **Financial statements**

## Consolidated and Separate Financial Statements
for the year ended 30 June 2021

First National Bank of Botswana Limited
(Registration number BW00000790476)
Consolidated and Separate Financial Statements for the year ended 30 June 2021

## Contents

# Report of the Audit Committee

The Group's Audit Committee comprises mainly of 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 performance, 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 internal 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 (Cap 42:01), the Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08) and the Banking Act (Cap 46:04).

On behalf of the Audit Committee

**John K Macaskill**
*Chairman*

Thursday, 09 September 2021

# Directors' Responsibility Statement

The Directors of First National Bank of Botswana Limited (the Group 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 (IFRS) and in compliance with the Companies Act of Botswana (Cap 42:01), the Banking Act (Cap 46:04) and the Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08).

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.

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 108 to 113.

The Directors have reviewed the Group's budgets and flow of funds forecasts and have considered the Group's ability to continue as a going concern in light of current and anticipated economic conditions and in particular the impact of the Covid-19 pandemic. On the basis of this review, and in light of the current financial position and profitable trading history, the Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. The going concern basis, therefore, continues to apply and has been adopted in the preparation of the annual financial statements.

Against this background, the Directors accept responsibility for the consolidated and separate financial statements and supplementary statements presented on pages 114 to 237, which were approved on 9 September 2021 and were signed on their behalf by:

**Approval of financial statements**

**Balisi Bonyongo**
*Chairman*

**Luke D. Woodford**
*Acting Chief Executive Officer*

# Directors' Report

The Directors have pleasure in submitting their report together with the consolidated and separate financial statements of First National Bank of Botswana Limited (FNBB), (the Group or the Company), and the consolidated financial statements of the Company and its subsidiaries (the Group) for the year ended 30 June 2021.

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 (Cap 42:01), the Banking Act (Cap 46:04), and the Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08).

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

The going concern basis has been adopted in preparing the consolidated and separate financial statements. Given the economic consequences of the on-going COVID-19 pandemic, and in line with the standard annual procedures, the Directors have carefully reviewed the qualitative and quantitative assumptions underpinning the going concern assessment. 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 Group is a licensed financial institution which offers a wide range of banking and related services through its branches, divisions, automated teller machines, point of sale, and electronic banking (including online banking and the FNB App. The Group has four subsidiary companies. The operating subsidiary comprises of a property-owning company. The property owned by the subsidiary is used primarily for branch and office accommodation.

## Trading results

The Group consolidated income after tax attributable to ordinary shareholders of P685 million (2020: P 696 million) decreased by 2.0% compared to the results for the year ended 30 June 2020. The Company income after tax of P875 million (2020: P 653 million) increased by 34%, compared to the results for the year ended 30 June 2020. Interest income was derived mainly from advances and investment securities.

## Stated capital

The Company's stated capital consists of 2 543 700 000 (2020:2 543 700 000) ordinary shares, of which First National Bank Holdings (Botswana) Limited holds 1 780 590 000 (2020:1 780 590 000) ordinary shares 70.00% (2020:70.00%), and the balance is traded on the Botswana Stock Exchange.

## Directors' interests

The aggregate number of First National Bank of Botswana Limited shares held directly or indirectly by Directors of the Company amounts to 23 633 (2020: 23 633), which represents approximately 0.0009% (2020: 0.0009%) of the stated capital of the Company.

## Dividends

The Directors have adopted a balanced approach to ensuring an efficient capital position with the need to retain sufficient capital for unexpected fluctuations in earnings volatility. This has resulted in an increase in the capital adequacy ratio while conserving sufficient capital to manage possible earnings volatility as well as risk-weighted assets growth, considering a medium- to long-term horizon.

The Directors propose a final dividend of 49,00 thebe per share (2020: 8,00 thebe), comprising an ordinary dividend of 9,00 thebe per share and a special dividend of 40,00 thebe per share. An interim dividend of 6,00 thebe per share (2020: 7,00 thebe) for the year ended 30 June 2021 has been paid to holders of ordinary shares.

The post-dividend capital adequacy ratio at the end of June 2021 will be well above the regulatory minimum of 12.5%.

## COVID 19 Pandemic and going concern

FNBB implemented appropriate measures to ensure that employees, customers, vendors and other stakeholders are protected from the spread of the virus. The Group's crisis management team continued to operate in accordance with the Group's established business continuity plan. The Group continued to encourage its customers to use digital service channels and maintained the remote working protocols for employees of the Group. The IT readiness plan was reassessed to ensure the enablement of these protocols.

The Directors have reviewed and approved, 3 year forward looking budgets that incorporate the expected impact of the COVID-19 pandemic. The Directors have further reviewed the Group's funding position and available sources of funding and conclude that these are adequate to support the Group's funding requirements. The Directors are confident that the Banks' operations will continue to remain uninterrupted.

## Events after the reporting period

There were no conditions after the reporting period that require disclosure or adjustment to the financial statements.

## Directorate

**The composition of the Board as at 30 June 2021 was as follows:**

| Directors | Office | Nationality |
|---|---|---|
| B Bonyongo | Chairperson | Motswana |
| S Thapelo | Independent Non-Executive Director | Motswana |
| MW Ward | Independent Non-Executive Director | British |
| JR Khethe | Independent Non-Executive Director | South African |
| JK Macaskill | Independent Non-Executive Director | South African |
| SL Bogatsu | Chief Executive Officer | Motswana |
| D Ncube | Independent Non-Executive Director | Motswana |
| M Davias | Non-Executive Director | South African |
| E Letebele | Independent Non-Executive Director | Motswana |
| NB Lahri | Independent Non-Executive Director | Motswana |

## Transfer Secretaries

Central Securities Depository Company of Botswana

| | |
|---|---|
| Business address | Plot 70667<br>4th Floor, Fairscape Precinct |
| Postal address | Fairgrounds Private Bag 00417<br>Gaborone |

## Auditors

Deloitte & Touche

| | |
|---|---|
| Postal address | P.O Box 778<br>Gaborone |
| Business address | Deloitte & Touche House<br>Plot 64518, Fairgrounds |

Deloitte.

PO Box 778
Gaborone
Botswana

Deloitte & Touche
Assurance & Advisory Services
Chartered Accountants
Deloitte House
Plot 64518
Fairgrounds
Gaborone
Botswana

Tel: +(267) 395 1611
Fax: +(267) 397 3137
www.deloitte.com

# Independent Auditor's Report

## To the shareholders of First National Bank of Botswana Limited

### Opinion

We have audited the Consolidated and Separate Financial Statements ('the financial statements') of First National Bank of Botswana Limited ('the Company') and its subsidiaries ('the Group'), set out on pages 114 to 237, which comprise the consolidated and separate statements of financial position as at 30 June 2021, and the consolidated and separate income statements, consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and the 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 and the Company as at 30 June 2021, and their consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards.

### 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 and Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Botswana, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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.

MAKING AN IMPACT THAT MATTERS since 1845

Partners: CV Ramatlapeng Senior Partner (Botswana) FC Els (South Africa) P Naik (Zimbabwe)
MJ Wotherspoon (South Africa)

Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| **Impairment of Advances (Consolidated and Separate)** | |
| The impairment of advances was considered to be a matter of significant importance to our current year audit due to the following:<br>• Advances are material to the financial statements;<br>• The level of subjective judgement applied in determining the ECL on advances;<br>• The uncertainty related to unprecedented global and local economic stress; and<br>• The effect that ECL has on the impairment of advances and the group's credit risk management.<br><br>Management continues to monitor the impact of the IFRS 9 – Financial Instruments (IFRS 9), Expected Credit Loss (ECL) methodology and to refine inputs and judgements made to ensure that output of the models are aligned to the requirements of the accounting standard, industry and Global and local developments.<br><br>As described in the "Accounting policies, Significant judgements and estimates impacted by COVID-19", section of the financial statements, the impact of the COVID-19 pandemic continues to increase the level of judgement required by management in the measurement of the ECL.<br><br>The Bank's advances broadly fall into three customer segments, being Retail and Commercial as part of the FNB business, and Corporate/Wholesale which forms part of the RMB business. We have set out below the risks and responses based on the ECL approach adopted. | Across all significant portfolios we assessed the ECL policies and judgements applied by management against the requirements of IFRS 9. In addition, we tested the design and implementation of relevant financial reporting controls over the processes used to calculate impairments. The results of our testing were appropriate<br><br>We assessed the Group's probability-weighted macroeconomic scenario estimates and evaluated the outlined methodology, scenario views and associated probabilities in terms of the principles of IFRS 9, including the review of the approval of these macro-economic variables through the appropriate governance structures. We also assessed how management has incorporated the impact of COVID-19 into the macroeconomic scenarios.<br><br>Below is a summary of the substantive procedures performed for each segment: |

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|

Impairment of Advances (Consolidated and Separate) *continued*

### Collectively assessed ECL

Where advances are a large homogenous population of customers the ECL is calculated on a collective or portfolio basis. The Bank uses a number of complex statistical models across all segments incorporating data and assumptions which are not always necessarily observable. Management applies professional judgement in developing the credit impairment models, analysing data and determining the most appropriate assumptions and estimates.

The inputs into the modelling process require significant management judgement, including:

- The input assumptions and methodologies applied to estimate the probability of default (PD), exposure at default (EAD) and loss given default (LGD) within the ECL calculations;
- The assessment of whether there has been a significant increase in credit risk (SICR) event since origination date of the exposure to the reporting date. IFRS 9 requires that accounts reflecting signs of SICR should be reported as Stage 2 and attract a lifetime ECL provision, relative to Stage 1 accounts which attract a 12-month ECL;
- The determination of the lifetime of a financial instrument subject to ECL assessment;
- Assessing the adequacy of ECL provisions for the population of customers provided with temporary relief due to the economic impact of COVID-19, including the appropriateness of the staging of these exposures; and
- The incorporation of unbiased probability weighted forward-looking information. In the current year the on-going COVID-19 pandemic has continued to affect economic activity which has an impact on unemployment levels and the realisation of collateral. There remains significant uncertainty around the recovery path which has a significant impact on ECLs.

### Retail and commercial advances

We performed the following procedures on the ECL for retail and commercial advances with the assistance of our credit and actuarial specialists, taking the impact of the COVID-19 into account:

- Obtained an understanding of the methodologies and assumptions used by management in the various ECL model components (PD, EAD, LGD) and assessed these against the requirements of IFRS 9 and industry best practice;
- Assessed the reasonableness of the SICR criteria adopted by management and tested whether this was correctly and consistently applied in the models;
- Assessed the application of forward-looking information in the ECL calculation. This included selection of relevant macro-economic variables such as gross domestic product (GDP) and the central bank rates, and assessing whether these variables were appropriate indicators of future losses;
- Confirmed that the latest available and relevant probability weighted forward-looking information has been appropriately incorporated within the impairment models by comparing these to widely available market data;
- Assessed the accuracy of the Bank's model output at a parameter level and in total against our independent challenger model output, and investigated any material variances;
- Inspected a sample of legal agreements and supporting documentation to assess the legal right to and existence of collateral;
- We assessed a sample of watch list accounts and accounts that are credit impaired (Stage 3) for reasonableness of collateral valuation considered in assessing ECL;
- We assessed the discount rates and periods used for discounting estimated future cash flows.

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| **Impairment of Advances (Consolidated and Separate)** *continued* | |
| **Individually assessed ECL**<br>The Bank individually assesses ECL for watch list accounts and accounts that are credit impaired (Stage 3). All watchlist accounts are considered to have SICR and attract a lifetime ECL. Given the judgemental nature of assessing watchlist accounts, there is a risk that not all accounts showing signs of SICR are appropriately identified.<br><br>The other key judgements we consider significant are:<br>• estimation of the recoverable amounts and timing of future cash flows, including the use of discounted cash flow models;<br>• and valuation of collateral held. | **Corporate advances**<br>We performed the following procedures on the ECL for corporate advances with the assistance of our credit and actuarial specialists, taking the impact of COVID-19 into account:<br>• Tested controls over the credit risk management and governance processes when advancing new facilities or restructuring existing facilities;<br>• Inputs which are subject to significant judgement, including the timing and quantum of expected future cash flows, were identified and assessed for reasonableness for individually significant advances. Assessed, against actual experience and industry practice, the appropriateness of assumptions made in determining the applicable macroeconomic inputs, credit ratings, EAD, PD and LGD in the current economic climate;<br>• Confirmed that the latest available FLI has been appropriately incorporated within the impairment models by comparing these to our own actuarial statistics and independent market data;<br>• Tested the performance and sensitivity of the forward looking information in order to evaluate whether the chosen macro-economic factors and model fit provide a reasonable representation of the impact of macro-economic changes on the ECL results;<br>• Selected a sample of advances with no indicators of SICR and determined if this was reasonable by forming an independent view on whether there was a significant increase in credit risk. |

# Independent Auditor's Report *continued*

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| Impairment of Advances (Consolidated and Separate) *continued* | |
| **Out of model adjustments and overlays**<br>Across all portfolios, management applies judgement to recognise additional ECL (in the form of overlays and out of model adjustments) where there is uncertainty in respect of the models' ability to accurately predict future losses. This could be due to data limitations, inability to accurately model emerging risks due to inherent limitations of modelling based on past performance, and macro-economic events that are not adequately captured by the models.<br><br>We consider out of model adjustments and overlays as a significant risk across all segments given the high level of judgement and estimation uncertainty inherent in these. In the current year a significant proportion of the overlays relate to the impact that the on- going COVID-19 pandemic is expected to have on default rates and realisation of collateral.<br><br>Related disclosures in the Consolidated and Separate Financial statements:<br>• Note 1.4 – Accounting policy for financial instruments;<br>• Note 1.8 – significant judgements and sources of estimation uncertainty;<br>• Note 13 – Advances to customers;<br>• Note 14 – Impairment of advances; and<br>• Note 39 – Financial risk management. | **Out of model adjustments and overlays**<br>• We challenged the validity and reasonableness of overlays recorded by management by ensuring each overlay was related to a known model weakness or model limitation;<br>• We challenged the key assumptions and judgements related to each overlay to ensure that these were reasonable and supportable using available Bank information or other widely available market data;<br>• Considered the need for any other overlays not considered by management based on our expert judgement and widely available information; and<br>• Performed a top down test of the reasonableness of the overall ECL provisions under stressed conditions to assess whether adequate provisions were recorded given the uncertainty brought about by Covid-19.<br><br>In conclusion, we determined the impairment of allowances and related disclosures to be adequate. |

## Other Information

The Directors are responsible for the other information. The other information comprises the Report of the Audit Committee, Directors' Responsibility Statement and Directors' Report, which we obtained prior to the date of this auditor's report as well as the Annual Report, Value Added Statement and Ten Year Financial Summary, 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 an audit opinion or 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 Consolidated and Separate 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 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 the 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/or the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group's 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.
- 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 directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public 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 public interest benefits of such communication.

Deloitte + Touche

**Deloitte & Touche**

*Certified Auditors*

**Practicing Member:** Pragnaben Naik (CAP 007 2021)

Gaborone

9 September 2021

# Significant Accounting Policies

## 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 (Cap 42:01), the Banking Act (Cap 46:04), and the Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08).

These financial statements comprise the statements of financial position (also referred to as the balance sheets) as at 30 June 2021, the income statements, statements of comprehensive income, 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.

### 1.1 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.

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. To compile the consolidated financial statements the following information is used:

- audited information about the financial position and results of operations at 30 June each year for all significant subsidiaries in the Group.

Accounting policies of subsidiaries, have been changed at acquisition, where necessary, to ensure consistency with the accounting policies adopted by the Group.

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 segment specific items that impact certain key ratios reviewed by the chief operating decision maker when assessing the operating segments' performance.

#### Use of judgements and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are outlined in policy 1.8.

#### Presentation of financial statements, functional and foreign currency

Items included in the financial statements of the Group and Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The functional and presentation currency is the Botswana Pula (P) and 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. Foreign currency transactions of the Group are translated into the functional currency using the exchange rates prevailing at the date of the transactions

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 other comprehensive income.

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.

Balances are 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.

## 1.1 Basis of preparation *continued*

### COVID-19 Impact

The impact of the spread of COVID-19 continues to be felt across the global economy, with many governments reinstituting national lockdowns which has resulted in extensive travel restrictions and quarantine measures being maintained, all of which impact on the current state of the global economy.

Although the successful rollout of vaccines is expected to boost global economic growth, it is still not possible to accurately predict the full extent and duration of COVID-19 and its economic impact.

Included within the specific areas of judgement detailed in section 1.8 of the accounting policies, are additional judgements relating to the impact of COVID-19.

### Application of the going concern principle

The Directors reviewed the Group and Company's budgets and flow of funds forecasts for the next three years and considered the Group and Company's ability to continue as a going concern in light of current and anticipated economic conditions. These budgets and flow of funds forecasts took the impact of the COVID-19 pandemic into consideration, including projections of the impact on the group's capital, funding and liquidity requirements, all of which have remained within internal targets and above regulatory requirements.

As part of this assessment, the Directors considered the sufficiency of the Group's financial resources throughout the pandemic. The management of the Group's financial resources, which it defines as capital, funding and liquidity, and risk capacity, is a critical enabler of the achievement of the group's stated growth and return targets and is driven by the group's overall risk appetite. Forecast growth in earnings and balance sheet risk weighted assets (RWA) is based on the Group's macroeconomic outlook and the Group's strategy and is evaluated against available financial resources, considering the requirements of capital providers and regulators. The expected outcomes and constraints are then stress tested, and the group sets targets through different business cycles and scenarios.

On the basis of this review, and in light of the current financial position and profitable trading history, the Directors are satisfied that the group has adequate resources to continue in business for the foreseeable future. The going concern basis, therefore, continues to apply and has been adopted in the preparation of the annual financial statements.

The Group has adopted all the significant accounting policies in preparing its financial statements and these policies have been consistently applied to all years presented.

### Summary of significant accounting policies

| | | | | |
|---|---|---|---|---|
| 1.2 | Subsidiaries | Consolidation and equity accounting (Section 1.2.1) | Related party transactions (Section 1.2.2) | |
| 1.3 | Income, expenses and taxation | Income and expenses (Section 1.3.1) | Income tax expenses (Section 1.3.2) | |
| 1.4 | Financial instruments | Classification and Measurement (Section 1.4.1) | Impairment of financial assets and off-balance sheet exposure subject to impairment (Section 1.4.2) | Transfers, modifications and derecognition (Section 1.4.3) |
| | | Off-setting of financial instruments and collateral (Section 1.4.4) | | |
| 1.5 | Other assets and liabilities | Intangible assets (Section 1.5.1) | Other assets (section 1.5.2) | Leases (Section 1.5.3) |
| | | Property and equipment (Owned and Right of Use) (Section 1.5.4) | | |
| 1.6 | Stated capital and equity | Share capital and treasury shares (Section 1.6.1) | Dividends and non-cash distributions (Section 1.6.2) | Other reserves (Section 1.6.3) |
| 1.7 | Transactions with employees | Employee Liabilities (Section 1.7.1) | | |

# Significant Accounting Policies *continued*

## 1.2 Subsidiaries

### 1.2.1 Basis of consolidation

The consolidated and separate financial statements incorporate the consolidated and separate financial statements of the company and all subsidiaries. Subsidiaries are entities which are controlled by the Group. Typical shareholding in the assessment of entities is based on a shareholding of 50% and above.

The nature of the relationship between the Group and the investee entities over which the Group has control and consolidated is as defined in IFRS 10: Consolidated Financial Statements. The Group measures investments in these entities in its separate financial statements 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/(shortage) of the sum of the consideration transferred, the value of non-controlling 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.

*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 other non-interest income within non-interest 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.

### 1.2.2 Related party transactions

Related parties of the Group, as defined, include:

- Entities that have significant influence over the Group, and subsidiaries of these entities,
- Key management personnel (KMP) and close family members of key management personnel. Entities controlled, jointly controlled or significantly influenced by KMP or their close family members.

The principal shareholder of the First National Bank of Botswana Limited Group is First National Bank Holdings (Botswana) Limited, incorporated in Botswana. The ultimate parent 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 those of any entities which provide key management personnel services to the Group.

## 1.3 Income, expenses and taxation

### 1.3.1 Income and expenses

***Interest income includes:***

- Interest on financial instruments measured at amortised cost and;
- Interest on debt instruments measured at fair value through profit and loss

Interest income is calculated using the effective interest rate, which includes origination fees. The original effective interest rate is applied to:

- the gross carrying amount of financial assets which are not credit-impaired;
- the amortised cost of financial assets which represents the net carrying amount, from the month after the assets become credit-impaired (refer to policy 1.4 on the impairment of financial assets)
- modified advances (derecognition not achieved) – the unamortised portion of origination fees and capitalised transaction costs on financial assets are included as part of interest income. The interest income on the modified financial asset (refer to policy 1.4) is calculated by applying the original effective interest rate to the asset's modified gross carrying amount;
- modified advances (derecognition is achieved) – the unamortised portion of origination fees and capitalised transaction costs on financial assets are included as part of interest income. New fees or costs charged on the new advance which are integral to the new asset recognised are capitalised to the new loan;
- interest on financial assets, debt instruments measured at fair value through profit or loss that are held by and managed as part of the Group's funding operations.

***Interest expense includes:***

- Interest on debt instruments measured at fair value through profit or loss;
- interest on debt instruments measured at amortised cost;
- the interest portion of the net gains or losses on derivatives that are used to economically hedge interest rate risk; and
- the difference between the purchase and resale price in repurchase and reverse repurchase agreements where the related advances or deposit is measured at amortised cost,

#### Non-interest revenue recognised in profit or loss

*Non-interest revenue from contracts with customers*

The Group assesses contracts and determines whether the fees identified in the contract relate to revenue as defined in IFRS 15. The revenue is recognised only if the Group can identify the contract; the performance obligation (i.e. the different services) and can determine the transaction price which is allocated to the identifiable performance obligations. Unless specifically stated otherwise, the Group is the principal in its revenue arrangements as the Group controls the goods and services before transferring them to the customer."

*Fee and commission income*

Fees and commissions that form an integral part of the effective interest rate is excluded from fees and commissions from customers and are recognised in non-interest revenue.

Fee and commission income is earned by the Group by providing customers with a range of services and products, consists of the following main categories:

- Banking fee and commission income;
- Knowledge-based fee and commission income;
- Management, trust and fiduciary fees;
- Fee and commission income from service providers; and
- Other non-banking fees and commission income.

## 1.3 Income, expenses and taxation *continued*

### 1.3.1 Income and expenses *continued*

*Fee and commission income continued*

The major portion of fee and commission income is earned on the execution of a single performance obligation and as such, significant judgement is not required when allocating the transaction price to the performance obligation. Fee and commission income which typically includes transactional banking fees, such as bank charges, interchange fees, point-of-sale fees, exchange commissions, cash deposit fees and knowledge-based fee and commission income, are recognised at a point in time

Where the distinct performance obligation is satisfied over a period of time, the fees are recognised as follows:

- fees for services rendered are recognised on an accrual basis as the service is rendered and the group's performance obligation is satisfied, e.g. annual card fees and asset management and related fees.
- 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

Commitment fees for unutilised funds made available to customers in the past, are recognised as revenue at the end of the contract period. Commitment fees paid upfront for a future facility, where it is not probable that a specific lending arrangement will be entered into by the Group, are recognised as revenue on a straight-line basis over the period for which the funds are committed.

Other non-banking fee and commission income relates to fees and commissions earned for rendering services to customers other than those related to the banking, insurance and asset management operations from the sale of prepaid airtime and data vouchers paid through the Group's channels. This includes fee and commission income earned from providing services on behalf of third-party service providers, in effect acting as an agent. The revenue is recognised at a point in time and includes commission earned at the point when a sale has been executed.

#### 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 expense. These include transaction and service fees, which are expensed as the services are received.

#### Insurance income – non-risk related

Where the Group is acting as an agent, commissions and brokerage earned on the sale of insurance products to customers of the Group on behalf of an insurer, is recognised from the point that the significant obligation has been fulfilled over the life of the related facility.

#### 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 financial instruments at fair value through profit or loss including derivative instruments that do not qualify for hedge accounting;
- 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.
- 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;
- any difference between the carrying amount of the liability and the consideration paid, when the Group repurchases debt instruments that it has issued.

## 1.3 Income, expenses and taxation *continued*

### 1.3.1 Income and expenses *continued*

#### 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.

### 1.3.2 Income tax expenses

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. When there is uncertainty over income-tax treatments and, 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.

#### Deferred income tax

*Recognition*

Deferred tax is recognised 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 for which deferred tax is provided include:

- Depreciation of property and equipment;
- Provision for loan impairment:
- Installment credit sales
- Share based payment liabilities
- Investments in subsidiaries, 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.

The liability method under IAS 12 is used, which means applying tax rates and laws applicable 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*

Deferred income tax is presented 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;
- revaluation of properties.

*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.

## 1.4 Financial instruments

### 1.4.1 Classification and 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 1.3, depending on the underlying nature of the income.

Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for newly originated financial assets measured at amortised cost, and debt instruments measured at fair value through profit and loss.

#### Classification and subsequent measurement of financial assets

Management determines the classification of its financial assets at initial recognition, based on:

- the Group's business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial asset

*Business model*

The Group distinguishes three main business models for managing financial assets:

- holding financial assets to collect contractual cash flows;
- managing financial assets and liabilities on a fair value basis or selling financial assets; and
- a mixed business model of collecting contractual cash flows and selling financial assets.

The business model assessment is not performed on an instrument by instrument basis, but at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment is done for each legal reporting entity at least at a business level, although businesses could perform the assessment on a portfolio or sub-portfolio level depending on the manner in which groups of financial assets are managed in each business.

The main consideration in determining the different business models is whether the objectives of the business model are met primarily through holding the financial assets to collect contractual cash flows, through the sale of these financial assets, by managing assets and liabilities on a fair value basis, or through a combination of these activities.

In considering whether the business objective of holding a Group of financial assets is achieved primarily through collecting contractual cash flows, amongst other considerations, management monitors the frequency and significance of sales of financial assets out of these portfolios for purposes other than managing credit risk. For the purposes of performing the business model assessment, the Group only considers a transaction a sale if the asset is derecognised for accounting purposes. For example, a repurchase transaction where a financial asset is sold with the commitment to buy back the asset at a fixed price at a future date is not considered a sale transaction as substantially all the risks and rewards relating to the ownership of the asset have not been transferred and the asset is not derecognised from an accounting perspective.

If sales of financial assets are frequent, the significance of these sales is determined by comparing the carrying amounts of assets sold during the period and cumulatively to the total carrying amount of assets held in the business model. If sales are either infrequent or insignificant, these will not impact the conclusion that the business model is to collect contractual cash flows. In addition, where the issuer initiates a repurchase of the financial assets which was not anticipated in the terms of the financial asset, the repurchase is not seen as a sale for the purposes of assessing the business model of that Group of financial assets.

Determining whether sales are not significant or frequent requires management to use their judgement. The significance and frequency of sales is assessed on a case-by-case basis at the business model level. The frequency is assessed on an annual basis and sales of assets that take place once or less per annum is considered to be infrequent. If sales take place more than once per annum it doesn't mean that the business models are not to collect contractual cash flows but rather the reasons for the sales need to be more carefully considered. Management will consider both the volume and amount of sales relative to the total assets in the business model to determine whether it is significant.

### 1.4 Financial instruments *continued*

#### 1.4.1 Classification and measurement *continued*

Initial measurement *continued*

*Business model continued*

A change in one or more business models of the Group only occurs on the rare occasion when the Group genuinely changes the way in which it manages a financial asset. Any changes in business model would result in a reclassification of the relevant financial assets from the beginning of the next reporting period.

*Cashflow characteristics*

In order for a debt instrument to be measured at amortised cost or fair value through other comprehensive income (FVOCI), the cash flows on the asset have to be SPPI (solely payments of principal and interest), consistent with those of a basic lending agreement.

The SPPI test is applied on a portfolio basis for Retail advances, as the cash flow characteristics of these assets are standardised.

For Corporate and Commercial advances, the SPPI test is applied to individual advances at initial recognition, based on the cash flow characteristics of the asset. Corporate and Commercial advances that do not pass the SPPI test and that have to be measured at fair value through profit or loss (FVTPL) include advances with equity participation features, convertible bonds and payments linked to commodity or other prices. If the contract contains prepayment penalties, the amount of the prepayment penalty is compared to the present value of the margin that would be earned if the loan is not prepaid. If the amount of the prepayment penalty is lower than or equal to the margin lost due to prepayment, this is considered reasonable compensation and the loan passes the SPPI test.

*Amortised cost*

Financial assets are measured at amortised cost using the effective interest method, when they are held to collect contractual cash flows which are solely payments of principle and interest, and sales of such assets are not significant or frequent. These include the majority of the Retail, Corporate and Commercial advances of the Group as well as certain investment securities utilised for liquidity risk management of the Group. For purchased or originated credit-impaired financial assets, the Group applies the credit-adjusted effective interest rate. This interest rate is determined based on the amortised cost and not the gross carrying amount of the financial asset, and incorporates the impact of expected credit losses in the estimated future cash flows of the financial asset.

Cash and Cash equivalents – Cash and cash equivalents is comprised of 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 maturing date of less than three months from the date of acquisition. Money at call and short notice constitutes amounts withdrawable in 30 days or less. Cash and cash equivalents are measured at amortised cost.

Retail advances – The FNB Retail business hold retail advances to collect contractual cash flows. The business model focus on growing advances within acceptable credit appetite limits and maintaining robust collection practices. The products included under this business models include:

- residential mortgages;
- vehicle and asset finance; and
- personal loans, credit card and other retail products such as overdrafts.

The cash flows on Retail advances are solely payments of principal and interest. Interest charged to customers compensates the Group for the time value of money, credit risk and administrative costs (including a profit margin). Penalties on the prepayment of advances are limited to reasonable compensation for early termination of the contract.

Corporate and Commercial advances – The business models of FNB Commercial and Corporate Segment are also focused on collecting contractual cash flows on advances and growing these advances within acceptable credit appetite limits. The products included under this business model include:

- trade and working capital finance;
- specialised finance;
- commercial property finance; and
- asset-backed finance.

# Significant Accounting Policies *continued*

## 1.4 Financial instruments *continued*

### 1.4.1 Classification and measurement *continued*

Initial measurement *continued*

*Amortised cost continued*

These advances are held primarily to realise the related contractual cash flows over the life of the instruments and earn a lending margin in return.

The cashflows on these Corporate and Commercial advances are solely payments of principal and interest. Interest charged to customers compensates the Group for the time value of money, credit risk and administrative costs ( including a profit margin). Penalties on the prepayment of advances are limited to reasonable compensation for early termination of the contract.

Investment securities – Treasury holds investment securities with lower credit risk (typically government bonds and treasury bills). These investment securities are held in a business model with the objective of collecting contractual cash flows.

The cash flows on these investment securities are solely payments of principal and interest.

The cash and cash equivalents – Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. These assets are held to collect contractual cash flows.

The cash flows on these assets are solely payments of principal and interest.

Other assets – Other financial assets are short-term financial assets that are held to collect contractual cash flows. The cash flows on these assets are solely payments of principal and interest.

*Mandatory at fair value through profit or loss*

Financial assets of the Group are mandatorily measured at fair value through profit or loss when they are held for trading, managed on a fair value basis, held to sell/distribute, or are held to collect contractual cash flows which are not solely payments of principal and interest.

Any advances which are originated to distribute or managed on a fair value basis; or are held to collect contractual cash flows but include cash flows related to upside features, conversion options, payments linked to equity or commodity prices or prepayment penalties that exceed reasonable compensation for early termination of the contract, will be included in this category.

Investment securities – Treasury Segment holds portfolios of investment securities (including corporate and government bonds) to hedge risks or for short-term profit realisation. These securities are managed on a fair value basis.

Derivative assets – Derivatives are either held for trading or to hedge risk. These instruments are managed at FVTPL.

Classification and subsequent measurement of financial liabilities and compound 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.

Financial liabilities measured at amortised cost

The following liabilities are measured at amortised cost using the effective interest rate method, unless they have been designated as measured at fair value through profit or loss:

- deposits;
- creditors;
- tier 2 liabilities; and
- other funding liabilities.

## 1.4 Financial instruments *continued*

### 1.4.1 Classification and measurement *continued*

Classification and subsequent measurement of financial liabilities and compound instruments *continued*

*Financial liabilities measured mandatory at fair value through profit or loss*

The following held for trading liabilities are measured at fair value through profit or loss:

- derivative liabilities; and
- short trading positions.

These liabilities are measured at fair value at reporting date as determined under IFRS 13: Fair Value Measurement, with fair value gains or losses recognised in profit or loss.

*Financial liabilities designated at fair value through profit or loss*

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

The liabilities that Group is designating at fair value through profit or loss are the following:

- other funding liabilities

These financial liabilities are measured at fair value at reporting date as determined under IFRS 13, with any gains/losses arising on re-measurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in profit or loss.

### 1.4.2 Impairment of financial assets and off-balance sheet exposures subject to impairment

This policy applies to:

- financial assets, measured at amortised cost including other financial assets and cash;
- debt instruments;
- loan commitments;
- financial guarantees; and
- finance lease debtors where the Group is the lessor

IFRS 9 establishes a three-stage approach for the impairment of financial assets:

| Expected credit losses | | | |
|---|---|---|---|
| **Loss Allowance on financial assets** | | | |
| Credit risk has not increased significantly since initial recognition (Stage 1) | Credit risk has increased significantly since initial recognition, but asset is not credit-impaired (Stage 2) | Asset has become credit – impaired since initial recognition (Stage 3) | Purchased or originated credit impaired |
| 12-month expected credit losses | Lifetime expected credit losses (LECL). | Lifetime expected credit losses (LECL) | Movement in LECL since initial recognition. |

## 1.4 Financial instruments *continued*

### 1.4.2 Impairment of financial assets and off-balance sheet exposures subject to impairment *continued*

Advances

*Significant increase in credit risk since initial recognition (SICR)*

In order to determine whether an advance has experienced a significant increase in credit risk (SICR), the probability of default (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 re-prices an advance/facility. A change in terms result in derecognition of the original advance/facility and recognition of a new advance/facility. SICR test thresholds are re-assessed and, if necessary, updated, on at least an annual basis.

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 SICR. One such qualitative consideration is the appearance of Corporate and Commercial SME facilities on a credit watchlist.

Any up-to-date facility that has undergone a distressed restructure (i.e. 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 and will be disclosed within stage 2 at a minimum.

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. No minimum period for transition from stage 2 back to stage 1 is applied, with the exception of distressed restructured exposures that are required to remain in stage 2 for a minimum period of 6 months before re-entering stage 1.

*Low credit risk*

The Group does not use the low credit risk assumption.

*Credit-impaired financial assets*

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 is aligned to the definition applied for regulatory capital calculations across all portfolios, as well as those applied in operational management of credit and for internal risk management purposes.

Exposures are considered to be in default when they are more than 90 days past due or, in the case of amortising products, have three or more unpaid instalments.

In addition, an exposure is considered to have defaulted when there are qualitative indicators that the borrower is unlikely to pay their credit obligations in full without any recourse by the Group to actions such as the realisation of security. Indicators of the unlikeliness to pay include examples such as the application for bankruptcy or obligor insolvency.

Any distressed restructures of accounts that have experienced a SICR since initial recognition are defined as default events.

Retail accounts are considered to no longer be in default if they meet the stringent cure definition which has been determined at a portfolio level based on an analysis of re-defined rates. Curing from default within Corporate and Commercial is determined judgementally through a committee process.

*Purchased or originated credit-impaired*

Financial assets that meet the above mentioned definition of credit-impaired at initial recognition.

## 1.4 Financial instruments *continued*

### 1.4.2 Impairment of financial assets and off-balance sheet exposures subject to impairment *continued*

Advances *continued*

*Write-offs*

Write-off must occur when it is not economical to pursue further recoveries i.e. there is no reasonable expectation of recovering the carrying amount of the asset (gross amount less specific impairments raised):

- By implication, in Retail, Commercial and Corporate for secured as well as unsecured exposures, write-offs cannot occur if there is evidence of recent payment behaviour. Each credit portfolio has articulated a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account.
- Within the Retail portfolios, write-off definitions have been determined with reference to analysis of the materiality of post write-off recoveries. The result of this is that retail secured loans are written off on sale of collateral and retail unsecured loans are written off when observation of post-default payment behaviour indicates that further material recoveries are unlikely. Write-off points within retail unsecured portfolios are defined on a per-portfolio basis with reference to cumulative delinquency and/or payment recency, with write-offs typically occurring when 9 cumulative payments have been missed.
- Within Commercial and Corporate exposures, a judgemental approach to write off is followed based on a case-by-case assessment by a credit committee.

Partial write-offs are not performed within credit portfolios.

*Collection and enforcement activities post write-off*

Post write off collection strategies include outsourcing of the account to external debt collectors and in-house collection agents.

Other financial assets

*Cash and cash equivalents*

All physical cash is classified as stage 1. Other exposures are classified as stage 1 unless specific evidence of impairment exists, in which case due to the nature of these assets are classified immediately as stage 3. ECL for physical cash is zero. ECL for cash equivalents is calculated using the loss rate approach.

*Other assets*

ECL for other assets and where applicable, contract assets, are calculated using the simplified approach. This results in a lifetime ECL being recognised.

*Investment securities*

Impairment parameters for investment securities (PDs, LGDs and EADs) are determined using appropriate models, with the models to be applied determined with reference to the issuer of the security and the nature of the debt instrument.

The tests for a significant increase in credit risk and default definitions are then applied and the ECL calculated in the same method as for advances. The SICR thresholds applied for investment securities are the same as those applied within the Corporate and Commercial credit portfolio to ensure consistency in the way that a SICR is identified for a particular counterparty and for similar exposures.

The Group does not use the low credit risk assumption for investment securities, including government bonds.

*Intercompany balances*

Expected credit losses are calculated using PD, LGD and EAD parameters that are determined through application of expert credit judgement and approved through appropriate governance structures. All intercompany balances are classified as stage 1, unless there is evidence of impairment, in which case exposures are moved directly to stage 3.

## 1.4 Financial instruments *continued*

### 1.4.3 Transfers, modifications and derecognition

Financial instruments are derecognised when:

- the contractual rights and obligations expire or are extinguished, discharged or cancelled, for example an outright sale or settlement;
- they are transferred and the derecognition criteria of IFRS 9 are met; or
- the contractual terms of the instrument are substantially modified and the derecognition criteria of IFRS 9 are met.

Financial assets are derecognised 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. a pass through arrangement under IFRS 9).

If the contractual cash flows of a financial asset measured at amortised cost are modified (changed or restructured, including distressed restructures), the Group determines whether this is a substantial modification, following which, results in the derecognition of the existing asset, and the recognition of a new asset, or whether the change is simply a non-substantial modification of the existing terms which does not result in derecognition.

A modification of a financial asset is substantial, and will thus result in derecognition of the original financial asset, where the modified contractual terms are priced to reflect current conditions on the date of modification, and are not merely an attempt to recover outstanding amounts. Where the modification does not result in an accounting derecognition the original asset continues to be recognised.

Derecognition of financial liabilities 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 (based on management best estimate) 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, or modifies the contractual terms of the asset and either achieves derecognition or continues to recognise the asset:

#### 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 transferred assets continue to be recognised by the group in full. Such advances and investment securities are disclosed separately in the relevant notes.

The Group recognises an associated liability for the obligation for the cash received as a separate category of deposits.

*Securities lending*

Investment securities are lent to external counterparties in exchange for cash collateral as security for the return of the securities.

*Modification without derecognition*

The existing asset is not derecognised – The gross carrying amount of the financial asset is recalculated as the present value of the estimated future cash receipts through the expected life of the renegotiated or modified financial asset, discounted at the financial asset’s original effective interest rate. Distressed modifications are included in ECL.

## 1.4 Financial instruments *continued*

### 1.4.4 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 below:

#### 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 transaction in the form of cash and other investments and 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, through physical inspection. For Corporate and Commercial portfolios, the value of collateral is reviewed as part of the annual facility review. However, in the event of default, more detailed reviews and valuations of collateral are performed, which yields a more accurate financial effect. For vehicle asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed. Where the repossession has not yet occurred, the realisation value of the vehicle is estimated using internal models and is included as part of total recoveries.

## 1.5 Other assets and liabilities

### Classification and measurement

### 1.5.1 Intangible assets

Goodwill arising from business combinations is recognised as an intangible asset. For measurement of goodwill refer to policy 1.2

All other costs related to intangible assets are expensed in the financial period incurred.

#### Provisions

The Group will only recognise a provision measured in terms of IAS 37 when there is uncertainty around the amount or timing of repayment. The most significant provisions related to litigation and claims, as well as provisions for intellectual property fees that arise because of the use of dealer platforms, databases, systems, brands and trademarks when marketing and promoting motor warranty products as part of the motor value added products and services business. The Group recognises a provision when a reliable estimate of the outflow required can be made and the likelihood of outflow is considered probable.

## 1.5 Other assets and liabilities *continued*

### Classification and measurement *continued*

### 1.5.2 Other assets

Other assets that are subject to depreciation, and intangible assets other than goodwill acquired as part of a business combination (refer to accounting policy 1.2) are reviewed for impairment whenever objective evidence of impairment exists. Impairment losses are recognised in profit or loss as part of operating expenses. The assets are impaired if the carrying amount is more than the recoverable amount, which is the higher of the assets' value in use and its fair value less cost to sell. The impairment loss is calculated as the difference between the assets' carrying amount and its recoverable amount.

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.

### 1.5.3 Leases

The Group leases a variety of properties and equipment. Rental agreements typically include fixed periods over which the items are leased, which are individually negotiated and contain a wide range of different terms and conditions. The Group assesses whether a contract contains a lease at inception of the contract.

Qualifying leases are recognised as right of use assets (ROUA) and a corresponding liability is recognised at the date at which the leased asset is made available for use by the Group.

#### Group company is the lessee

At inception the Group recognises an ROUA and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as lease assets with a value of P100 000 or less at the inception of the lease).

The lease liability is initially measured at the present value of the lease payments outstanding at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group's own internal borrowing rate is applied.

The ROUAs are measured at cost comprising of the amount of the initial measurement of the lease liability plus any initial direct costs and restoration costs. Where applicable, any lease payments made at or before the commencement date less any lease incentives received is deducted from the cost. Post initial recognition, ROUAs are treated in line with other property and equipment.

Variable payments that do not depend on an index or rate are not included in the measurement of the lease liability and the ROUA.

The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line operating expenses in the consolidated income statement.

Over the life of the lease, each lease payment is allocated between the lease liability and interest expense. The interest expense is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The ROUA is subsequently measured at cost less accumulated depreciation and impairment losses.

The asset is depreciated over the lease term on a straight-line basis, where ownership is not transferred at the end of the lease term. If ownership is transferred at the end of the lease term, the asset is depreciated over the shorter of the lease term or useful life.

The Group applies IAS 36 to determine whether a ROUA is impaired and accounts for any identified impairment loss.

*Presentation*

The lease liability is presented in creditors and accruals in the consolidated statement of financial position.

The ROUAs are not presented as a separate line in the consolidated statement of financial position, but rather disclosed as ROUA under property and equipment note.

## 1.5 Other assets and liabilities *continued*

### Classification and measurement *continued*

### 1.5.3 Leases *continued*

Group company is the lessor

Where the Group company is the lessor under a finance lease, the Group recognises assets sold under a finance lease as finance lease receivables included in advances and impair the advances, as required, in line with the impairment of financial assets accounting policy 1.4. No practical expedients are applied, and the general model under IFRS 9 is used for impairment calculations on lease receivables. Unearned finance income is recognised as interest income over the term of the lease using the effective interest method.

Finance lease receivables are assessed for impairment in terms of IFRS 9, as set out in the impairment of financial assets policy 1.4

Operating Leases

*Group company is the lessee*

For short-term and low value leases, which the Group has defined as all other leases except for property and vehicles leases, the lease payments are recognised as operating expense spread on a straight line basis over the term of the lease.

*Group company is the lessor*

Assets held under operating leases are included in property and equipment and depreciated. Rental income is recognised as other non-interest revenue on an accrual basis over the lease term.

The Group regards finance leases (including hire purchase agreements) as financial 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.

### 1.5.4 Property and equipment (owned and Right of Use)

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 properties);
- 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.
- Right of use assets.

Property and equipment is measured at 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 per leases accounting policy. The useful lives of the Group and Company's assets are disclosed below.

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.

# Significant Accounting Policies *continued*

## 1.5 Other assets and liabilities *continued*

### Classification and measurement *continued*

### 1.5.4 Property and equipment (owned and Right of Use) *continued*

The useful lives of items of property and equipment have been assessed as follows:

| Item | Depreciation method | Average useful life |
|---|---|---|
| Freehold and leasehold land and buildings | Straight line | 50 years |
| Leasehold improvements | Straight line | Shorter of estimated life or period of lease |
| Furniture and equipment | Straight line | Varies between 3 to 10 years |
| Motor vehicles | Straight line | 5 years |
| Right of use asset | Straight line | Period of the lease |

The Directors have assumed that all assets have nil residual value. It is the Group's policy to fully depreciate assets under P2 000 within the first month of use.

## 1.6 Stated capital and equity

### 1.6.1 Shares issued and issue costs

Ordinary shares 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.

### 1.6.2 Dividends paid/declared

Dividends on ordinary 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 the reporting date for dividends that will be paid out of retained earnings pending approval by the Board of Directors.

### 1.6.3 Other reserves

Other reserves recognised by the Group include reserves arising from revaluation of owned properties.

## 1.7 Transactions with employees

### 1.7.1 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 except for employees on fixed term contracts.

#### Defined contribution plans

Contributions are recognised as an expense to the Group, included in staff costs, as membership to the pension fund is a condition of employment.

*Termination benefits*

The Group recognises termination benefits 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 the 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 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.

## 1.8 Significant judgements and sources of estimation uncertainty

### 1.8.1 Introduction

In preparing the financial statements, the Directors make 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 refer to note 39.

### 1.8.2 Impairment of goodwill

The carrying amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. Goodwill is considered to be impaired when its carrying amount is less than its recoverable amount. Goodwill is allocated to CGUs. For impairment testing purposes, goodwill is allocated to cash generating units (CGUs) at the lowest level of operating activity to which it relates, and is therefore not combined at Group level.

The significant CGUs to which the goodwill balance relates are reflected below

| | **2021** | 2020 |
|---|---|---|
| | **P'000** | P'000 |
| First Funding (Proprietary) Limited | **26 589** | 26 589 |
| Premium Credit (Proprietary) Limited | **374** | 374 |
| | **26 963** | 26 963 |

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

The Group's goodwill impairment test is performed on the balances as at 31st March annually.

#### Fair value less costs to sell

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

The value in use is calculated as the net present value of the discounted cash flows of the CGU. This CGU 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 four year period. Cash flows beyond one year are extrapolated using the estimated growth rate for the CGU.

#### Management's judgement in estimating the cash flows of a CGU

The cash flow projections for each CGU are based on budgets and forecasts approved by the board as part of the annual budget and forecast process. The budgets and forecasts are based on historical data adjusted for management's expectation of future performance. Expected future performance is determined using both internal and external sources of information. The board challenges and endorses planning assumptions in light of internal capital allocation decisions necessary to support the strategy, current market conditions and macroeconomic outlook.

The terminal cash flows is calculated from the final cash flow period which is extrapolated into perpetuity, using the estimated growth rates stated below. These growth rates are consistent with economic reports specific to the country in which each CGU operates.

# Significant Accounting Policies *continued*

## 1.8 Significant judgements and sources of estimation uncertainty *continued*

### 1.8.2 Impairment of goodwill *continued*

Management's judgement in estimating the cash flows of a CGU *continued*

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 CGU.

| | **2021** | 2020* |
|---|---|---|
| Pre-tax discount rates (%) | **15,13** | 15,38 |
| Growth rates (%) | **(2,00)** | (5,00) |

* *2020 discount rate was previously stated at 12%. This rate was restated as it was pre-tax.*

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 period over which management has projected cash flows is 4 years (2020: 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 would not change the final outcome of the test.

### 1.8.3 Taxation

The Group recognises liabilities for uncertain tax positions in accordance with the criteria defined within IAS 12 and IFRIC 23 based on objective estimates of the amount of tax that may be due which is calculated, where relevant, with reference to, expert advice received. 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.

### 1.8.4 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 advances. The objective of the measurement of an impairment loss is to produce an approximate quantitative measure of the Group's credit risk exposure.

Staging of Financial Assets and Significant Increase in Credit Risk (SICR)

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 Group's ongoing risk management process.

## 1.8 Significant judgements and sources of estimation uncertainty *continued*

### 1.8.4 Impairment of financial assets *continued*

#### Staging of Financial Assets and Significant Increase in Credit Risk (SICR) *continued*

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 Group uses a relative movement in probability of default between reporting date and origination date to determine if there was a significant increase in credit risk. Corporate and Commercial 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.

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 without any recourse by the Group. A default event is a separate default event only if an account has met the portfolio-specific cure definition prior to the second or subsequent default. Default events that are not separate are treated as a single default event when developing LGD models and the associated term structures. Distressed restructures of accounts in stage 2 are also considered to be default events.

For a Retail 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 Corporate and Commercial exposures, cures are assessed on a case-by-case basis, subsequent to an analysis by the appropriate governance forums comprised of experts.

### 1.8.5 Computation of Expected Credit Loss (ECL)

#### Computation of the Expected Credit Loss (ECL): the PD, LGD and EAD approach

The Group has adopted the Probability of Default (PD) and Loss Given Default (LGD) approach, applied to the Exposure at Default (EAD), for the calculation of Expected Credit Loss (ECL) for advances. The ECL also takes into account forward looking information (FLI). ECLs are computed at a portfolio level (where accounts with similar characteristics are clustered together) except for high value Corporate exposures that are assessed at a counterparty level.

Retail and retail small, medium enterprises (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.

Commercial SMEs 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 Corporate and Commercial credit experts and motivations for any proposed adjustments to modelled parameters are carefully reviewed by this committee.

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 Group 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.

# Significant Accounting Policies *continued*

## 1.8 Significant judgements and sources of estimation uncertainty *continued*

### 1.8.5 Computation of Expected Credit Loss (ECL) *continued*

#### Computation of the Expected Credit Loss (ECL): the PD, LGD and EAD approach *continued*

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.

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 an instrument. The remaining lifetime is limited to the contractual term of instruments in the portfolio, except for instruments with an undrawn commitment such as 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.

LGDs are present value measurements of the expected loss that the Group will incur if a borrowing client were to default (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 to stage 2. Present value discount rates applied are the 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 draw-down and payment behaviour.

#### Approach to Incorporate Forward-Looking Indicators (FLI)

Forward-looking macro-economic indicators (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 in Botswana and South Africa. 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 creation of macroeconomic scenarios and the determination of associated probabilities are subjective, with final 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 baseline, downside and upside scenarios are used in the ECL calculations.

## 1.8 Significant judgements and sources of estimation uncertainty *continued*

### 1.8.5 Computation of Expected Credit Loss (ECL) *continued*

Approach to Incorporate Forward-Looking Indicators (FLI) *continued*

*Economic Scenarios Applied in June 2021 ECL computation*

The FLI component of ECL is a dual factor including GDP and monetary policy rate. The modelling process in the prior year followed a single factor approach limited to GDP.

The economic scenarios applied are described as follows:

Upside: Botswana successfully executes its Covid-19 vaccination program, leading to an end of the State of Emergency and, allowing the economy to resume most activities sooner. The government successfully rolls out its Economic Recovery & Transformation Plan, leading to increased activity in sectors such as agriculture, manufacturing and construction, which have traditionally had a low contribution to Botswana's economy. Global commodity prices rise significantly which boosts diamond product and exports. Public sector stakeholders successfully implement the NDP11 framework which unlocks private investment in key sectors. Improved power and water supply facilitate greater economic activity. Tax revenues increase while the tax base also expands. Bank lending to households and businesses improves gradually given low interest rates. The USD depreciates as a search for yield in emerging markets returns. Real wage increase as a result of lower inflation and higher productivity. Private and public sector investment increases on the back of greater policy certainty.

Baseline: Growth momentum through to 2023 is expected to average 4.7% led by the non-mining private sector. Due to the pandemic, the trade, transport and communications, finance and business services sectors experienced severe contractions in 2020, crystalising the need for further diversification into other sectors such as agriculture and manufacturing to support growth and provide employment. Downside risks from continued implementation challenges regarding planned efforts to promote local production. Mounting fiscal pressure could also limit Botswana's ability to meet its infrastructure spending needs.

Downside: The vaccine efforts fail to materialise resulting in subsequent waves of Covid-19 infections across 2021 and 2022. Diamond production slumps due to escalating input costs, weak global demand and delays in the implementation of the Cut 3 and Cut 9 projects. Government finances come under pressure as SACU revenues fall. Credit agencies downgrade Botswana and the pension fund's offshore investment limits are increased. The ZAR depreciates sharply against the USD in response to a marked fall in the appetite for emerging market assets.

| | **FLIs: Applied in ECL Models** | | |
|---|---|---|---|
| | **Upside** | **Baseline** | **Downside** |
| **Scenario – 2021** | | | |
| 2022 | **7,95** | **5,10** | **2,25** |
| 2023 | **6,95** | **4,10** | **2,30** |
| 2024 | **6,30** | **3,70** | **2,20** |
| Weighting | **15%** | **68%** | **17%** |
| Scenario – 2020 | | | |
| 2021 | (0,30) | (2,10) | (6,91) |
| 2022 | 4,90 | 3,30 | 0,25 |
| 2023 | 5,60 | 3,50 | 0,85 |
| Weighting | 15% | 66% | 19% |

## 1.8 Significant judgements and sources of estimation uncertainty *continued*

### 1.8.5 Computation of Expected Credit Loss (ECL) *continued*

COVID-19: Considerations for the Computation of ECL

Limitations in the ECL models were addressed via a post-model adjustment (PMA) process. The Group undertook a thorough review of the appropriateness of two key ECL parameters (PD and LGD).

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 does not include, the Group computed an appropriate scalar to apply to the PDs. The application to the portfolio was performed via an industry risk assessment.

In prior year Stage 1 and 2 exposures were grouped, based on client industries into high, medium and low risk categories, based on the expected increase in risk that each category would experience under COVID-19 conditions. High risk categories received a factor of 100%, medium 83% and low 50%.The industry factors were then applied to the PD scalar and the appropriate ECLs were computed on a forward looking indicator basis.

In the current year, the industry risk assessment process involved the classifying of loans into low, medium and high risk categories. Each category weighted average PD was then computed and the PD was stressed using a Vasicek portfolio loss model, where the stress assumption is based on economic downturn frequencies (1-in-x years). The PMA was then computed as the differential between the ECL based on the stressed PD and the ECL based on the through-the-cycle PD.

Management further conducted an assessment on the turnover of the credit related accounts as an indicator of early stage financial stress. All stage 1 commercial accounts with a reduction in turnover of greater than 20% over a 12 month period were allocated an average lifetime PD.

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 does not include, the Group 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: residential properties, commercial properties and vehicles. Each category was thoroughly assessed and appropriate discounts applied to the collateral. These estimated reduced collateral recoveries were applied to stage 1, 2 and 3 accounts.

### 1.8.6 Impairment of Financial Assets Sensitivity Analysis

Due to the uncertainties existing in the economic environment, the extensive post-model adjustment process (described above) and the level of judgement applied; assumptions underpinning key estimates have been tested for sensitivities. As IFRS 9 is embedded in the Group's reporting process, additional disclosure is included.

Sensitivity staging: Application of SICR

When there is a SICR subsequent to the initial recognition of an exposure, the exposure is migrated from stage 1 to stage 2 and the ECL is calculated based on lifetime expected credit losses.

The table below sets out the impact of a 5% increase in the total gross exposure classified as stage 2 due to SICR and the subsequent increase in the ECL based on the difference between the Stage 2 and Stage 1 coverage ratios.

| | **Exposure** | ECL Impact |
|---|---|---|
| | **P'000** | P'000 |
| **30 June 2021** | | |
| Total | **23 191** | 580 |
| 30 June 2020 | | |
| Total | **11 235** | 1 946 |

## 1.8 Significant judgements and sources of estimation uncertainty *continued*

### 1.8.6 Impairment of Financial Assets Sensitivity Analysis *continued*

Sensitivity staging: Application of SICR *continued*

The table below indicates the ECL impact of a reduction in turnover of greater than 10% over a 12 month period:

| | Exposure | ECL Impact |
|---|---|---|
| | P'000 | P'000 |
| **30 June 2021** | | |
| Total | **120 165** | 12 574 |

FLI: Sensitivity Analysis

Forward-looking macro-economic indicators (FLI) has been incorporated into expected loss estimates through the application of quantitative modelling and expert judgement-based adjustments applied to PDs.

The sensitivity shown indicates the ECL impact of a 5% shift towards the downside scenario from the baseline with a 5% shift from the upside scenario to the baseline.

| | FLIs: Applied in ECL Models | | |
|---|---|---|---|
| | Upside | Baseline | Downside |
| **30 June 2021** | | | |
| Scenario | | | |
| 2022 | **7,95** | **5,10** | **2,25** |
| 2023 | **6,95** | **4,10** | **2,30** |
| 2024 | **6,30** | **3,70** | **2,20** |
| Weighting | **15%** | **68%** | **17%** |
| Sensitivity weighting | **10%** | **68%** | **22%** |
| **Total impact on ECL (P'000)** | **2 627** | | |
| 30 June 2020 | | | |
| Scenario | | | |
| 2021 | (0,30) | (2,10) | (6,91) |
| 2022 | 4,00 | 3,30 | 0,25 |
| 2023 | 5,60 | 3,50 | 0,85 |
| Weighting | 15% | 66% | 19% |
| Sensitivity weighting | 10% | 66% | 24% |
| **Total impact on ECL (P'000)** | 68 | | |

## 1.8 Significant judgements and sources of estimation uncertainty *continued*

### 1.8.6 Impairment of Financial Assets Sensitivity Analysis *continued*

PD Industry Scalar Sensitivity Analysis

To incorporate the increase in PDs that the historic default data does not include, the Group computed an appropriate scalar to apply to the PDs.

The sensitivity shown indicates the ECL impact of an upward shift in the 1-in-x year Vasicek PD stress in June 2021:

| | **Industry Overlay Sensitivity Analysis** | | |
|---|---|---|---|
| | **Current severity** | **Scenario severity** | **Impact** |
| | | | **P'000** |
| **Scenarios** | | | |
| Low | **4** | **6** | **20 353** |
| Medium | **8** | **10** | **1 057** |
| High | **12** | **14** | **8 115** |
| **Total** | | | **29 525** |

The sensitivity shown indicates the ECL impact of an upward shift in the industry risks resulting in an increase in the scalars applied in June 2020.

| | Increased Probability of Default | | |
|---|---|---|---|
| | Current factor | Sensitivity facto | ECL impact |
| | | | P'00 |
| Low | 50% | 83% | 1 388 |
| Medium | 83% | 100% | 15 077 |
| High | 100% | 200% | 16 172 |
| **Total** | | | 32 637 |

## 1.8 Significant judgements and sources of estimation uncertainty *continued*

### 1.8.6 Impairment of Financial Assets Sensitivity Analysis *continued*

Collateral Recovery Values: Sensitivity Analysis

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 to the collateral. These estimated reduced collateral recoveries were applied to stage 1, 2 and 3 accounts.

The June 2021 sensitivity shown indicates the ECL impact of a further 5% collateral haircut applied to the original collateral values.

| | Stage 1 & 2 | Stage 3 | Total ECL impact |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| Residential properties | 4 961 | 16 127 | 21 088 |
| Commercial properties | 3 753 | 13 877 | 17 630 |
| Vehicles | 4 254 | 1 320 | 5 574 |
| **Total** | 12 968 | 31 324 | 44 292 |

The June 2020 sensitivity shown indicates the ECL impact of a further 5% collateral haircut applied to the original collateral values.

| | Stage 1 & 2 | Stage 3 | Total ECL Impact |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| Residential properties | 5 670 | 17 974 | 23 644 |
| Commercial properties | 1 493 | 1 924 | 3 417 |
| Vehicles | 4 612 | 5 096 | 9 708 |
| **Total** | 11 775 | 24 994 | 36 769 |

### 1.8.7 Other liabilities

Provision

*Provisions for litigation*

The Group has a policy and process in place to determine when to recognise provisions for potential litigation and claims. The recognition of such provisions is linked to the ranking of legal risk of potential litigation on the Group's litigation database.

The Group utilises the following in order to determine when to recognise provisions for potential litigation and claims:

- expert and in-house advice; and
- consideration of the likelihood and probable outcome of the event so as to arrive at the best possible estimate.

## 1.9 Classification error

During the current financial period, the nature of various expenses incurred by the Group relating to transaction fees were reassessed. This resulted in expenses of P68 million being reclassified from operating expenses to fee and commission expenses, so as to align with the treatment of other direct and incremental banking charges. It is the Group's policy to present expenses that are directly attributable or incremental to the Group earning fee and commission income, as fee and commission expenses and not operating expenses.

This change in presentation had no impact on the profit or loss and only affected the presentation of items within non-interest revenue and operating expenses.

The impact of the reclassification is as follows:

| | As reported 30 June 2020 | Reclassification | Restated 30 June 2020 |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| **Income statement** | | | |
| Non-interest revenue | 1 267 468 | (68 114) | 1 199 354 |
| Operating expenses | (1 257 016) | 68 114 | (1 188 902) |
| **Income before taxation** | – | – | – |
| **Non-interest income and expense (Note 4)** | | | |
| **Fee and commission expense** | | | |
| Card commissions | (23 349) | (68 114) | (91 463) |
| **Operating expenses (Note 5)** | | | |
| Other operating expenses | (644 308) | 68 114 | (576 194) |

# Income Statements

## for the year ended 30 June 2021

| | Note(s) | Group 2021 P'000 | Group 2020 Reclassified P'000 | Company 2021 P'000 | Company 2020 Reclassified P'000 |
|---|---|---|---|---|---|
| Interest income calculated using the effective interest rate | 2 | **1 408 692** | 1 649 128 | **1 408 692** | 1 649 128 |
| Interest expenses and similar charges | 3 | **(241 506)** | (310 893) | **(239 771)** | (307 996) |
| **Net interest income before impairment of advances** | | **1 167 186** | 1 338 235 | **1 168 921** | 1 341 132 |
| Impairment of advances | 14 | **(241 251)** | (421 442) | **(241 251)** | (421 442) |
| **Net interest income after impairment of advances** | | **925 935** | 916 793 | **927 670** | 919 690 |
| **Non-interest revenue** | | | | | |
| Fee and commission income | 4 | **1 151 841** | 1 093 695 | **1 135 338** | 1 039 662 |
| Fee and commission expense* | 4 | **(138 425)** | (169 621) | **(138 425)** | (169 621) |
| Other income | 4 | **192 329** | 275 280 | **396 347** | 272 413 |
| | | **1 205 745** | 1 199 354 | **1 393 260** | 1 142 454 |
| **Income from operations** | | **2 131 680** | 2 116 147 | **2 320 930** | 2 062 144 |
| Operating expenses* | 5 | **(566 095)** | (576 194) | **(568 490)** | (583 213) |
| Employee benefits expenses | 6 | **(647 877)** | (612 708) | **(647 877)** | (609 963) |
| **Income before taxation** | | **917 708** | 927 245 | **1 104 563** | 868 968 |
| Indirect taxation | 7 | **(16 853)** | (26 394) | **(16 762)** | (24 463) |
| **Profit before direct taxation** | | **900 855** | 900 851 | **1 087 801** | 844 505 |
| Direct taxation | 7 | **(215 680)** | (205 045) | **(212 669)** | (191 314) |
| **Profit for the year attributable to owners of the company** | | **685 175** | 695 806 | **875 132** | 653 191 |

* *Refer to section 1.9 for details of reclassification of certain fee and commission expense items from operating expenses.*

| | Note(s) | Group 2021 | Group 2020 |
|---|---|---|---|
| **Earnings per share** | | | |
| **Per share information** | | | |
| Basic earnings per share (thebe) | 9 | **26,94** | 27,35 |
| Diluted earnings per share (thebe) | 9 | **26,94** | 27,35 |

# Statements of Comprehensive Income

for the year ended 30 June 2021

| | Group | | Company | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **Profit for the year** | **685 175** | 695 806 | **875 132** | 653 191 |
| Other comprehensive income | **–** | – | **–** | – |
| **Total comprehensive income for the year attributable to owners of the company** | **685 175** | 695 806 | **875 132** | 653 191 |

# Statements of Financial Position

as at 30 June 2021

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note(s) | 2021 | 2020 | 2021 | 2020 |
| | | P'000 | P'000 | P'000 | P'000 |
| **Assets** | | | | | |
| Cash and short-term funds | 11 | **5 470 758** | 4 697 599 | **5 470 758** | 4 697 599 |
| Derivative financial instruments | 12 | **35 307** | 76 872 | **35 307** | 76 872 |
| Advances to banks | 15 | **217 957** | – | **217 957** | – |
| Advances to customers | 13 | **13 642 027** | 14 686 767 | **13 642 027** | 14 686 767 |
| Investment securities | 15 | **7 889 039** | 9 509 211 | **7 889 039** | 9 509 211 |
| Current taxation | 32 | **85 239** | 86 324 | **69 656** | 80 418 |
| Due from related parties | 16 | **7 552** | 11 684 | **7 552** | 11 684 |
| Other assets | 17 | **406 658** | 479 314 | **398 430** | 369 702 |
| Investments in subsidiaries | 18 | **–** | – | **13 540** | 13 540 |
| Property and equipment | 19 | **570 910** | 601 044 | **524 582** | 552 353 |
| Goodwill | 20 | **26 963** | 26 963 | **26 589** | 26 589 |
| Deferred taxation | 8 | **–** | 3 706 | **–** | – |
| **Total assets** | | **28 352 410** | 30 179 484 | **28 295 437** | 30 024 735 |
| **Equity and liabilities** | | | | | |
| **Liabilities** | | | | | |
| Derivative financial instruments | 12 | **21 507** | 36 708 | **21 507** | 36 708 |
| Accrued interest payable | | **21 360** | 28 079 | **21 360** | 28 079 |
| Due to related parties | 16 | **25 093** | 21 322 | **36 629** | 105 504 |
| Creditors and accruals | 24 | **680 565** | 723 587 | **649 716** | 708 826 |
| Deposit from banks | 22 | **490 153** | 545 002 | **490 153** | 545 002 |
| Deposit from customers | 21 | **21 396 057** | 23 171 897 | **21 396 057** | 23 171 897 |
| Employee benefits liabilities | 25 | **93 887** | 81 504 | **93 887** | 81 429 |
| Borrowings | 23 | **1 527 200** | 1 765 858 | **1 527 200** | 1 765 858 |
| Deferred taxation | 8 | **169 385** | 207 381 | **160 756** | 202 274 |
| **Total liabilities** | | **24 425 207** | 26 581 338 | **24 397 265** | 26 645 577 |
| **Capital and reserves attributable to ordinary equity holders** | | | | | |
| Stated capital | 28 | **51 088** | 51 088 | **51 088** | 51 088 |
| Reserves | 29 | **2 629 702** | 3 343 562 | **2 600 671** | 3 124 574 |
| Dividend reserve | | **1 246 413** | 203 496 | **1 246 413** | 203 496 |
| **Total equity** | | **3 927 203** | 3 598 146 | **3 898 172** | 3 379 158 |
| **Total equity and liabilities** | | **28 352 410** | 30 179 484 | **28 295 437** | 30 024 735 |

# Statements of Changes in Equity

for the year ended 30 June 2021

| | Stated capital | Other non-distributable reserves | Dividend reserve | Retained income | Total equity |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Group** | | | | | |
| **Balance at 01 July 2019** | 51 088 | 61 430 | 254 370 | 2 967 881 | 3 334 769 |
| Profit for the year | – | – | – | 695 806 | 695 806 |
| **Total comprehensive income for the year** | – | – | – | 695 806 | 695 806 |
| Transfer from revaluation reserve – revaluation portion of depreciation | – | (1 564) | – | 1 564 | – |
| 2019 Final Dividends paid | – | – | (254 370) | – | (254 370) |
| 2020 Interim Dividends paid | – | – | – | (178 059) | (178 059) |
| 2020 Final Dividends proposed | – | – | 203 496 | (203 496) | – |
| **Total contributions by and distributions to owners of company recognised directly in equity** | – | (1 564) | (50 874) | (379 991) | (432 429) |
| **Balance at 01 July 2020** | **51 088** | **59 866** | **203 496** | **3 283 696** | **3 598 146** |
| Profit for the year | **–** | **–** | **–** | **685 175** | **685 175** |
| **Total comprehensive income for the year** | **–** | **–** | **–** | **685 175** | **685 175** |
| Transfer from revaluation reserve – revaluation portion of depreciation | **–** | **(1 564)** | **–** | **1 564** | **–** |
| 2020 Final Dividends paid | **–** | **–** | **(203 496)** | **–** | **(203 496)** |
| 2021 Interim Dividends paid | **–** | **–** | **–** | **(152 622)** | **(152 622)** |
| 2021 Final Dividends proposed | **–** | **–** | **228 933** | **(228 933)** | **–** |
| 2021 Special Dividends proposed | **–** | **–** | **1 017 480** | **(1 017 480)** | **–** |
| **Total contributions by and distributions to owners of company recognised directly in equity** | **–** | **(1 564)** | **1 042 917** | **(1 397 471)** | **(356 118)** |
| **Balance at 30 June 2021** | **51 088** | **58 302** | **1 246 413** | **2 571 400** | **3 927 203** |
| Note | | | | 29 | |

| | Stated capital | Other non-distributable reserves | Dividend reserve | Retained income | Total equity |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Company** | | | | | |
| **Balance at 01 July 2019** | 51 088 | 46 766 | 254 370 | 2 806 172 | 3 158 396 |
| Profit for the year | – | – | – | 653 191 | 653 191 |
| **Total comprehensive income for the year** | – | – | – | 653 191 | 653 191 |
| Transfer from revaluation reserve – revaluation portion of depreciation | – | (936) | – | 936 | – |
| 2019 Final Dividends paid | – | – | (254 370) | – | (254 370) |
| 2020 Interim Dividends paid | – | – | – | (178 059) | (178 059) |
| 2020 Final Dividends proposed | – | – | 203 496 | (203 496) | – |
| **Total contributions by and distributions to owners of company recognised directly in equity** | – | (936) | (50 874) | (380 619) | (432 429) |
| **Balance at 01 July 2020** | **51 088** | **45 830** | **203 496** | **3 078 744** | **3 379 158** |
| Profit for the year | **–** | **–** | **–** | **875 132** | **875 132** |
| **Total comprehensive income for the year** | **–** | **–** | **–** | **875 132** | **875 132** |
| Transfer from revaluation reserve – revaluation portion of depreciation | **–** | **(936)** | **–** | **936** | **–** |
| 2020 Final Dividends paid | **–** | **–** | **(203 496)** | **–** | **(203 496)** |
| 2021 Interim Dividends paid | **–** | **–** | **–** | **(152 622)** | **(152 622)** |
| 2021 Final Dividends proposed | **–** | **–** | **228 933** | **(228 933)** | **–** |
| 2021 Special Dividends proposed | **–** | **–** | **1 017 480** | **(1 017 480)** | **–** |
| **Total contributions by and distributions to owners of company recognised directly in equity** | **–** | **(936)** | **1 042 917** | **(1 398 099)** | **(356 118)** |
| **Balance at 30 June 2021** | **51 088** | **44 894** | **1 246 413** | **2 555 777** | **3 898 172** |
| Note | | | | 29 | |

# Statements of Cash Flows

for the year ended 30 June 2021

| | Note(s) | Group 2021 P'000 | Group 2020 P'000 | Company 2021 P'000 | Company 2020 P'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated from operations before taxation and working capital changes | 30 | **288 504** | (89 337) | **471 352** | (150 360) |
| Interest and similar income | | **1 410 837** | 1 649 128 | **1 410 837** | 1 649 128 |
| Interest and similar expense | | **(248 100)** | (310 893) | **(246 365)** | (307 996) |
| Taxation paid | 31 | **(260 765)** | (174 495) | **(255 305)** | (162 104) |
| **Cash from operating activities** | | **1 190 476** | 1 074 403 | **1 380 519** | 1 028 668 |
| Movement in amounts due to other banks | | **(54 849)** | (36 241) | **(54 849)** | (36 241) |
| Movement in deposits and current accounts | 33 | **(1 775 840)** | 3 580 488 | **(1 775 840)** | 3 580 488 |
| Movement in amounts due to related companies | | **3 771** | (11 576) | **(68 875)** | (15 366) |
| Movement in accrued interest payable | | **(125)** | (35 487) | **(125)** | (35 487) |
| Movement in creditors and accruals | | **(16 875)** | (294 345) | **(32 963)** | (254 936) |
| Movement in employee benefits liabilities | | **12 383** | (4 390) | **12 458** | (4 438) |
| Movement in investments – FV through profit or loss | | **67 498** | (28 317) | **67 498** | (28 317) |
| Movement in investments – amortised cost | | **(545 678)** | (846 306) | **(545 678)** | (846 306) |
| Movement in advances to customers | 34 | **801 344** | 830 839 | **801 344** | 830 839 |
| Movement in advances to banks | | **(217 957)** | 789 903 | **(217 957)** | 789 903 |
| Movement in other assets | | **72 656** | (161 687) | **(28 728)** | (160 363) |
| Movement in amounts due from related companies | | **4 132** | (5 296) | **4 132** | (5 296) |
| Movement in accrued interest on borrowings | | **47 123** | 54 310 | **47 123** | 54 310 |
| **Cash flows (used in)/from operating activities** | | **(411 941)** | 4 906 298 | **(411 941)** | 4 897 458 |
| **Cash flows to investing activities** | | | | | |
| Acquisition of property, plant and equipment | 19 | **(40 639)** | (44 457) | **(40 639)** | (35 617) |
| **Cash flows (used in)/from financing activities** | | | | | |
| Borrowings raised | | **–** | 196 802 | **–** | 196 802 |
| Repayment of borrowings | | **(300 129)** | – | **(300 129)** | – |
| Finance lease interest | | **(5 375)** | (5 625) | **(5 375)** | (5 625) |
| Finance lease payments | | **(22 849)** | – | **(22 849)** | – |
| Dividends paid | 35 | **(356 118)** | (432 429) | **(356 118)** | (432 429) |
| **Cash utilised in financing activities** | | **(684 471)** | (241 252) | **(684 471)** | (241 252) |
| **Cash movement for the year** | | **(1 137 051)** | 4 620 589 | **(1 137 051)** | 4 620 589 |
| Cash and cash equivalents at the beginning of the year | | **10 795 275** | 6 010 046 | **10 795 275** | 6 010 046 |
| Effect of exchange rate movement on cash balances | | **(188 144)** | 164 640 | **(188 144)** | 164 640 |
| **Total cash and cash equivalents at end of the year** | 36 | **9 470 080** | 10 795 275 | **9 470 080** | 10 795 275 |

| | Notes | Group 2021 P'000 | Group 2020 P'000 | Company 2021 P'000 | Company 2020 P'000 |
|---|---|---|---|---|---|
| **2. Interest and similar income** | | | | | |
| **Instruments at amortised cost** | | | | | |
| Advances | | **1 202 443** | 1 425 151 | **1 202 443** | 1 425 151 |
| Cash and short-term funds | | **11 443** | 33 642 | **11 443** | 33 642 |
| Related parties | 16 | **13 433** | 37 479 | **13 433** | 37 479 |
| Unwinding of discounted present value of off-market staff loans | | **16 750** | 13 726 | **16 750** | 13 726 |
| Investment securities | | **123 259** | 102 621 | **123 259** | 102 621 |
| **Instruments at fair value through profit or loss** | | | | | |
| Investment securities | | **41 364** | 36 509 | **41 364** | 36 509 |
| | | **1 408 692** | 1 649 128 | **1 408 692** | 1 649 128 |
| **3. Interest expense and similar charges** | | | | | |
| **Financial liabilities at amortised cost** | | | | | |
| Term deposits | | **130 213** | 152 363 | **128 478** | 149 466 |
| Current and call accounts | | **48 880** | 66 574 | **48 880** | 66 574 |
| Savings deposits | | **3 368** | 5 079 | **3 368** | 5 079 |
| Deposits from banks and other financial institutions | | **416** | 7 966 | **416** | 7 966 |
| Related parties | 16 | **15 155** | 17 558 | **15 155** | 17 558 |
| Borrowings | | **38 099** | 55 728 | **38 099** | 55 728 |
| Right-of-use asset interest expense | | **5 375** | 5 625 | **5 375** | 5 625 |
| | | **241 506** | 310 893 | **239 771** | 307 996 |

## 4. Non-interest income and expense (2020 Reclassified)

| | Group 2021 P'000 | Group 2020 P'000 | Company 2021 P'000 | Company 2020 P'000 |
|---|---|---|---|---|
| **Fee and commission income (amortised cost):** | | | | |
| Card commissions | **369 955** | 323 396 | **369 955** | 323 396 |
| Insurance commission | **16 842** | 51 707 | **339** | 71 |
| Facility fees | **41 648** | 41 738 | **41 648** | 41 738 |
| Commissions – guarantees and letters of credit | **4 032** | 4 542 | **4 032** | 4 542 |
| Cash deposit fees | **51 982** | 47 480 | **51 982** | 47 480 |
| Commissions – bills, drafts and cheques | **77 621** | 85 633 | **77 621** | 85 633 |
| Service fees | **436 859** | 388 248 | **436 859** | 385 851 |
| Commissions – customer service | **152 902** | 150 951 | **152 902** | 150 951 |
| **Total fee and commission income** | **1 151 841** | 1 093 695 | **1 135 338** | 1 039 662 |
| **Fee and commission expense:** | | | | |
| Card commissions* | **94 278** | 91 463 | **94 278** | 91 463 |
| Cash deposit fees | **15 094** | 14 004 | **15 094** | 14 004 |
| Service fees | **4 519** | 5 124 | **4 519** | 5 124 |
| Commissions – customer service | **24 534** | 59 030 | **24 534** | 59 030 |
| **Total fee and commission expense** | **138 425** | 169 621 | **138 425** | 169 621 |
| **Fair value gains or losses:** | | | | |
| (Loss)/gain on bond trading | **(28 186)** | 13 317 | **(28 186)** | 13 317 |
| Net (loss)/gain arising on financial liabilities at fair value | **(11 725)** | 1 489 | **(11 725)** | 1 489 |
| Foreign exchange trading income | **217 194** | 247 393 | **217 194** | 247 393 |
| **Fair value gains or losses** | **177 283** | 262 199 | **177 283** | 262 199 |
| **Other non-interest income** | | | | |
| **Non-financial assets and liabilities** | | | | |
| Loss on sale of property and equipment | **(1 038)** | (25) | **(1 038)** | (25) |
| Dividend income – related party | **–** | – | **204 067** | – |
| Other non interest gain | **16 084** | 13 106 | **16 035** | 10 239 |
| **Other non-interest income** | **15 046** | 13 081 | **219 064** | 10 214 |
| **Total other income** | **192 329** | 275 280 | **396 347** | 272 413 |
| **Total non-interest revenue** | **1 205 745** | 1 199 354 | **1 393 260** | 1 142 454 |

* *In the prior year, fee and commission expenses amounting to P68 million relating to Visa and Mastercard charges were classified under operating expenses (note 5). These have been classified correctly in the current year under fee and commission expenses, with prior year comparatives restated, so as to better reflect the nature of the expense. Refer to section 1.9 for more details.*

## 5. Operating expenses
### (2020 Reclassified)

| | Group 2021 P'000 | Group 2020 P'000 | Company 2021 P'000 | Company 2020 P'000 |
|---|---|---|---|---|
| **Audit fees** | | | | |
| Current year | **8 180** | 6 768 | **8 130** | 6 768 |
| Prior years | **1 836** | 1 025 | **1 836** | 1 025 |
| | **10 016** | 7 793 | **9 966** | 7 793 |
| **Depreciation** | | | | |
| Buildings | **11 414** | 20 092 | **9 808** | 18 829 |
| Motor vehicles | **2 747** | 1 432 | **2 747** | 1 432 |
| Furniture and fixtures | **35 329** | 42 580 | **34 572** | 42 065 |
| Right-of-use assets | **23 378** | 20 247 | **23 378** | 20 247 |
| | **72 868** | 84 351 | **70 505** | 82 573 |
| **Directors' remuneration** | | | | |
| For services as non-executive directors | **4 051** | 4 547 | **4 051** | 4 547 |
| For services as executive directors | **4 295** | 6 201 | **4 295** | 6 201 |
| | **8 346** | 10 748 | **8 346** | 10 748 |
| **Operating lease charges** | | | | |
| **Non-capitalised lease charges** | | | | |
| – Short-term lease charge | **8 950** | 19 805 | **11 805** | 22 421 |
| **Service fee paid to related company** | | | | |
| – Systems | **111 848** | 105 096 | **111 848** | 104 726 |
| – Services | **72 910** | 75 055 | **72 910** | 75 055 |
| – Products | **30 782** | 29 289 | **30 732** | 29 289 |
| | **215 540** | 209 440 | **215 490** | 209 070 |
| Professional fees | **14 967** | 18 583 | **14 967** | 18 515 |
| **Other operating expenses** | | | | |
| Advertising and marketing | **23 476** | 30 698 | **23 476** | 30 698 |
| Communication | **30 494** | 33 779 | **30 461** | 33 697 |
| Computer expenditure | **16 612** | 18 211 | **16 612** | 18 211 |
| Property maintenance | **58 404** | 58 447 | **57 733** | 58 364 |
| Stationery, storage and postage | **14 456** | 20 262 | **14 424** | 20 225 |
| Service fees* | **8 553** | 10 595 | **8 553** | 10 595 |
| Other | **83 413** | 53 482 | **86 152** | 60 303 |
| **Other operating costs** | **235 408** | 225 474 | **237 411** | 232 093 |
| **Total operating expenses** | **566 095** | 576 194 | **568 490** | 583 213 |

Other is inclusive of various expenses comprising mainly of travel, staff functions and entertainment, membership fees, motor vehicle cost, insurance, donations and credit investigations.

* *In the prior year, fee and commission expenses amounting to P68 million relating to Visa and Mastercard charges were classified under operating expenses (within the services fees line). These have been classified correctly in the current year under fee and commission expenses (note 4), with prior year comparatives restated, so as to better reflect the nature of the expense. Refer to section 1.9 for more detail.*

# Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2021

| | Group | | Company | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **6. Employee benefit expenses** | | | | |
| **Direct employee costs** | | | | |
| Salaries, wages and allowances | **513 015** | 495 388 | **513 015** | 493 267 |
| Defined pension contributions | **47 488** | 47 182 | **47 488** | 46 950 |
| Share based payments expense – cash settled | **–** | 168 | **–** | 168 |
| Leave pay | **10 955** | 14 940 | **10 955** | 14 851 |
| Other | **76 419** | 55 030 | **76 419** | 54 727 |
| | **647 877** | 612 708 | **647 877** | 609 963 |

Other is inclusive of various staff related costs including training, subsistence and meal allowances, recruitment costs, off- market staff loan subsidy adjustment and amortisation of assumption of liability share scheme.

| | Group 2021 | Group 2020 | Company 2021 | Company 2020 |
|---|---|---|---|---|
| **7. Taxation** | | | | |
| **Indirect taxation** | | | | |
| Value added tax | **16 853** | 26 394 | **16 762** | 24 463 |
| **Direct taxation** | | | | |
| **Current taxation** | | | | |
| Local income tax – current period | **222 040** | 207 004 | **221 727** | 197 975 |
| Local income tax – prior year under/(over) provision/other | **12 625** | (12 065) | **17 155** | (12 065) |
| Withholding tax on dividend income | **15 305** | – | **15 305** | – |
| | **249 970** | 194 939 | **254 187** | 185 910 |
| **Deferred taxation** | | | | |
| Originating and reversing temporary differences | **(16 990)** | 10 106 | **(25 771)** | 5 404 |
| Deferred tax – prior year over-provision | **(17 300)** | – | **(15 747)** | – |
| | **(34 290)** | 10 106 | **(41 518)** | 5 404 |
| **Total direct taxation expense per income statements** | **215 680** | 205 045 | **212 669** | 191 314 |
| **Reconciliation of the taxation charge** | | | | |
| Reconciliation between accounting profit and tax expense. | | | | |
| Profit before direct taxation | **900 855** | 900 851 | **1 087 801** | 844 505 |
| Tax at the applicable tax rate of 22% (2020: 22%) | **198 188** | 198 187 | **239 316** | 185 791 |
| **Tax effect of adjustments on taxable income** | | | | |
| Under/(over)-provision of current tax in prior years/other | **12 625** | (12 065) | **17 155** | (12 065) |
| Over provision of deferred tax in prior years | **(17 300)** | – | **(15 747)** | – |
| Withholding tax on dividend income | **15 305** | – | **15 305** | – |
| Income taxed at different tax rate – dividend income | **–** | – | **(44 894)** | – |
| Section 41 disallowable expenses | **–** | 14 990 | **–** | 14 990 |
| Donations | **1 531** | 1 613 | **1 531** | 1 613 |
| Other | **5 331** | 2 320 | **3** | 985 |
| **Total tax expense per income statements** | **215 680** | 205 045 | **212 669** | 191 314 |
| **Effective tax rate** | **23,94%** | 22,76% | **19,55%** | 22,65% |

| | Group | | Company | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **P'000** | P'000 | **P'000** | P'000 |

## 8. Deferred taxation

| | **2021 P'000** | 2020 P'000 | **2021 P'000** | 2020 P'000 |
|---|---|---|---|---|
| **Deferred tax liability** | | | | |
| Deferred tax liability | **(169 385)** | (207 381) | **(160 756)** | (202 274) |
| **Balance at beginning of year** | **203 675** | 193 569 | **202 274** | 196 870 |
| Temporary differences for the year | **(16 990)** | 10 106 | **(25 771)** | 5 404 |
| Prior year over provision | **(17 300)** | – | **(15 747)** | – |
| **Balance at the end of the year** | **169 384** | 203 675 | **160 756** | 202 274 |
| **Deferred tax asset** | | | | |
| Deferred tax asset | **–** | 3 706 | **–** | – |
| **Balance at beginning of year** | **203 675** | 193 569 | **202 274** | 196 870 |
| Temporary differences for the year | **(16 990)** | 10 106 | **(25 771)** | 5 404 |
| Prior year over provision | **(17 300)** | – | **(15 747)** | – |
| **Balance at the end of the year** | **169 384** | 203 675 | **160 756** | 202 274 |
| Deferred tax liability | **(169 385)** | (207 381) | **(160 756)** | (202 274) |
| Deferred tax asset | **–** | 3 706 | **–** | – |
| **Total net deferred tax liability** | **(169 385)** | (203 675) | **(160 756)** | (202 274) |
| **Deferred taxation** | | | | |
| **Balance at beginning of year** | **203 675** | 193 569 | **202 274** | 196 870 |
| Temporary differences for the year | **(16 990)** | 10 106 | **(25 771)** | 5 404 |
| Prior year over provision | **(17 300)** | – | **(15 747)** | – |
| **Balance at the end of the year** | **169 385** | 203 675 | **160 756** | 202 274 |
| **The balance comprises of the following:** | | | | |
| Accelerated capital allowances | **204 912** | 200 524 | **195 906** | 196 899 |
| Arising from revaluation of property | **10 393** | 10 393 | **6 787** | 6 787 |
| Other temporary differences | **(45 920)** | (7 242) | **(41 937)** | (1 412) |
| | **169 385** | 203 675 | **160 756** | 202 274 |

## 9. 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.

| | Group | |
|---|---|---|
| | **2021** | 2020 |
| | **P'000** | P'000 |
| Earnings attributable to ordinary equity holders | **685 175** | 695 806 |
| Number of ordinary shares in issue at beginning and end of year (thousands) | **2 543 700** | 2 543 700 |
| **Diluted weighted average number of shares in issue (thousands)** | **2 543 700** | 2 543 700 |
| Basic and diluted earnings per share (thebe) | **26,94** | 27,35 |

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** | | |
|---|---|---|
| Earnings attributable to ordinary equity holders | **685 175** | 695 806 |
| Weighted average number of ordinary shares in issue (thousands) | **2 543 700** | 2 543 700 |
| Diluted earnings per share (thebe) | **26,94** | 27,35 |

## 10. 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 140 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:

| | | At fair value through profit or loss | |
|---|---|---|---|
| | Amortised cost | Mandatory | Designated |
| | P'000 | P'000 | P'000 |
| **Group – 2021** | | | |
| **Assets** | | | |
| Cash and short-term funds | 5 470 758 | – | – |
| Advances to banks | 217 957 | – | – |
| Advances to customers | 13 642 027 | – | – |
| Due from related parties | 7 552 | – | – |
| Other assets | 389 807 | – | – |
| Investment securities | 7 793 383 | 95 656 | – |
| Derivative financial instruments | – | 35 307 | – |
| Current tax receivable | – | – | – |
| Property and equipment | – | – | – |
| Goodwill | – | – | – |
| **Total assets** | 27 521 484 | 130 963 | – |
| **Liabilities** | | | |
| Deposits from banks | 490 153 | – | – |
| Deposits from customers | 21 396 057 | – | – |
| Borrowings | 1 361 195 | – | 166 005 |
| Accrued interest payable | 21 360 | – | – |
| Due to related parties | 25 093 | – | – |
| Employee benefits liabilities | – | – | – |
| Creditors and accruals | 512 302 | – | – |
| Derivatives financial instruments | – | 21 507 | – |
| Deferred tax liability | – | – | – |
| **Total liabilities** | 23 806 160 | 21 507 | 166 005 |

| Non-financial instruments | Total carrying value | Current | Non-current |
|---|---|---|---|
| P’000 | P’000 | P’000 | |
| – | 5 470 758 | 5 470 758 | – |
| – | 217 957 | 217 957 | – |
| – | 13 642 027 | 1 598 270 | 12 043 757 |
| – | 7 552 | – | 7 552 |
| 16 851 | 406 658 | 406 658 | – |
| – | 7 889 039 | 7 889 039 | – |
| – | 35 307 | 35 307 | – |
| 85 239 | 85 239 | 85 239 | – |
| 570 910 | 570 910 | – | 570 910 |
| 26 963 | 26 963 | – | 26 963 |
| 699 963 | 28 352 410 | 15 703 228 | 12 649 182 |
| – | 490 153 | 490 153 | – |
| – | 21 396 057 | 19 867 638 | 1 528 419 |
| – | 1 527 200 | 282 903 | 1 244 297 |
| – | 21 360 | 21 360 | – |
| – | 25 093 | 25 093 | – |
| 93 887 | 93 887 | 93 887 | – |
| 168 263 | 680 565 | 394 346 | 286 219 |
| – | 21 507 | 21 507 | – |
| 169 385 | 169 385 | – | 169 385 |
| 431 535 | 24 425 207 | 21 196 887 | 3 228 320 |

# Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2021

## 10. Analysis of assets and liabilities by category *continued*

| | | At fair value through profit or loss | |
|---|---|---|---|
| | Amortised cost | Mandatory | Designated |
| | P'000 | P'000 | P'000 |
| **Group – 2020** | | | |
| **Assets** | | | |
| Cash and short-term funds | 4 697 599 | – | – |
| Advances to customers | 14 686 767 | – | – |
| Due to related parties | 11 684 | – | – |
| Other assets | 377 063 | – | – |
| Investment securities | 9 346 177 | 163 034 | – |
| Derivative financial instruments | – | 76 872 | – |
| Current tax receivable | – | – | – |
| Deferred tax asset | – | – | – |
| Property and equipment | – | – | – |
| Goodwill | – | – | – |
| **Total assets** | 29 119 290 | 239 906 | – |
| **Liabilities** | | | |
| Deposits from banks | 545 002 | – | – |
| Deposits from customers | 23 171 897 | – | – |
| Borrowings | 1 614 201 | – | 151 657 |
| Accrued interest payable | 28 079 | – | – |
| Due to related parties | 21 322 | – | – |
| Employee benefits liabilities | – | – | – |
| Creditors and accruals | 512 303 | – | – |
| Derivatives financial instruments | – | 36 708 | – |
| Deferred tax liability | – | – | – |
| **Total liabilities** | 25 892 804 | 36 708 | 151 657 |

| | Non-financial instruments | Total carrying value | Current | Non-current |
|---|---|---|---|---|
| | P'000 | P'000 | P'000 | |
| | – | 4 697 599 | 4 697 599 | – |
| | – | 14 686 767 | 1 178 030 | 13 508 737 |
| | – | 11 684 | 5 327 | 6 357 |
| | 102 251 | 479 314 | 479 314 | – |
| | – | 9 509 211 | 9 509 211 | – |
| | – | 76 872 | 76 872 | – |
| | 86 324 | 86 324 | 86 324 | – |
| | 3 706 | 3 706 | – | 3 706 |
| | 601 044 | 601 044 | – | 601 044 |
| | 26 963 | 26 963 | – | 26 963 |
| | 820 288 | 30 179 484 | 16 032 677 | 14 146 807 |
| | – | 545 002 | 545 002 | – |
| | – | 23 171 897 | 21 643 478 | 1 528 419 |
| | – | 1 765 858 | – | 1 765 858 |
| | – | 28 079 | 28 079 | – |
| | – | 21 322 | 21 322 | – |
| | 81 504 | 81 504 | 81 504 | – |
| | 211 284 | 723 587 | 573 360 | 150 227 |
| | – | 36 708 | 36 708 | – |
| | 207 381 | 207 381 | – | 207 381 |
| | 500 169 | 26 581 338 | 22 929 453 | 3 651 885 |

## 10. Analysis of assets and liabilities by category *continued*

| | Amortised cost | At fair value through profit or loss | |
|---|---|---|---|
| | | Mandatory | Designated |
| | P'000 | P'000 | P'000 |
| **Company – 2021** | | | |
| **Assets** | | | |
| Cash and short-term funds | 5 470 758 | – | – |
| Advances to banks | 217 957 | – | – |
| Advances to customers | 13 642 027 | – | – |
| Due from related parties | 7 552 | – | – |
| Other assets | 381 579 | – | – |
| Investment securities | 7 793 383 | 95 656 | – |
| Derivative financial instruments | – | 35 307 | – |
| Current tax receivable | – | – | – |
| Investments in subsidiaries | – | – | – |
| Property and equipment | – | – | – |
| Goodwill | – | – | – |
| **Total assets** | 27 513 256 | 130 963 | – |
| **Liabilities** | | | |
| Deposits from banks | 490 153 | – | – |
| Deposits from customers | 21 396 057 | – | – |
| Borrowings | 1 361 195 | – | 166 005 |
| Accrued interest payable | 21 360 | – | – |
| Due to related parties | 36 629 | – | – |
| Employee benefits liabilities | – | – | – |
| Creditors and accruals | 497 541 | – | – |
| Derivatives financial instruments | – | 21 507 | – |
| Deferred tax liability | – | – | – |
| **Total liabilities** | 23 802 935 | 21 507 | 166 005 |

| | Non-financial instruments | Total carrying value | Current | Non-current |
|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 |
| | – | 5 470 758 | 5 470 758 | – |
| | – | 217 957 | 217 957 | – |
| | – | 13 642 027 | 1 598 270 | 12 043 757 |
| | – | 7 552 | – | 7 552 |
| | 16 851 | 398 430 | 398 430 | – |
| | – | 7 889 039 | 7 889 039 | – |
| | – | 35 307 | 35 307 | – |
| | 69 656 | 69 656 | 69 656 | – |
| | 13 540 | 13 540 | 13 540 | – |
| | 524 582 | 524 582 | – | 524 582 |
| | 26 589 | 26 589 | – | 26 589 |
| | 651 218 | 28 295 437 | 15 692 957 | 12 602 480 |
| | | | | |
| | – | 490 153 | 490 153 | – |
| | – | 21 396 057 | 19 867 638 | 1 528 419 |
| | – | 1 527 200 | 282 903 | 1 244 297 |
| | – | 21 360 | 21 360 | – |
| | – | 36 629 | 36 629 | – |
| | 93 887 | 93 887 | 93 887 | – |
| | 152 175 | 649 716 | 363 878 | 285 838 |
| | – | 21 507 | 21 507 | – |
| | 160 756 | 160 756 | – | 160 756 |
| | 406 818 | 24 397 265 | 21 177 955 | 3 219 310 |

## 10. Analysis of assets and liabilities by category *continued*

| | | At fair value through profit or loss | |
|---|---|---|---|
| | Amortised cost | Mandatory | Designated |
| | P'000 | P'000 | P'000 |
| **Company – 2020** | | | |
| **Assets** | | | |
| Cash and short-term funds | 4 697 599 | – | – |
| Advances to customers | 14 686 767 | – | – |
| Due from related parties | 11 684 | – | – |
| Other assets | 267 451 | – | – |
| Investment securities | 9 346 177 | 163 034 | – |
| Derivative financial instruments | – | 76 872 | – |
| Current tax receivable | – | – | – |
| Investments in subsidiaries | – | – | – |
| Property and equipment | – | – | – |
| Goodwill | – | – | – |
| **Total assets** | 29 009 678 | 239 906 | – |
| **Liabilities** | | | |
| Deposits from banks | 545 002 | – | – |
| Deposits from customers | 23 171 897 | – | – |
| Borrowings | 1 614 201 | – | 151 657 |
| Accrued interest payable | 28 079 | – | – |
| Due to related parties | 105 504 | – | – |
| Employee benefits liabilities | – | – | – |
| Creditors and accruals | 497 542 | – | – |
| Derivatives financial instruments | – | 36 708 | – |
| Deferred tax liability | – | – | – |
| **Total liabilities** | 25 962 225 | 36 708 | 151 657 |

| Non-financial instruments | Total carrying value | Current | Non-current |
|---|---|---|---|
| P'000 | P'000 | P'000 | P'000 |
| – | 4 697 599 | 4 697 599 | – |
| – | 14 686 767 | 1 178 030 | 13 508 737 |
| – | 11 684 | 11 684 | – |
| 102 251 | 369 702 | 369 702 | – |
| – | 9 509 211 | 9 509 211 | – |
| – | 76 872 | 76 872 | – |
| 80 418 | 80 418 | 80 418 | – |
| 13 540 | 13 540 | 13 540 | – |
| 552 353 | 552 353 | – | 552 353 |
| 26 589 | 26 589 | – | 26 589 |
| 775 151 | 30 024 735 | 15 937 056 | 14 087 679 |
| – | 545 002 | 545 002 | – |
| – | 23 171 897 | 21 643 478 | 1 528 419 |
| – | 1 765 858 | – | 1 765 858 |
| – | 28 079 | 28 079 | – |
| – | 105 504 | 105 504 | – |
| 81 429 | 81 429 | 81 429 | – |
| 211 284 | 708 826 | 558 599 | 150 227 |
| – | 36 708 | 36 708 | – |
| 202 274 | 202 274 | – | 202 274 |
| 494 987 | 26 645 577 | 22 998 799 | 3 646 778 |

# Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2021

| | Note(s) | Group 2021 P'000 | Group 2020 P'000 | Company 2021 P'000 | Company 2020 P'000 |
|---|---|---|---|---|---|
| **11. Cash and short-term funds** | | | | | |
| Coins and group notes | | **446 051** | 446 720 | **446 051** | 446 720 |
| Money at call and short notice – related parties | 16 | **18 059** | 13 592 | **18 059** | 13 592 |
| Money at call and short notice – other banks | | **1 278 762** | 2 591 360 | **1 278 762** | 2 591 360 |
| Balances with Bank of Botswana – Primary reserve requirement | | **456 873** | 460 081 | **456 873** | 460 081 |
| Balances with Bank of Botswana – Statutory account balance | | **15 255** | 7 915 | **15 255** | 7 915 |
| Balances with other banks – related parties | 16 | **2 827 637** | 839 413 | **2 827 637** | 839 413 |
| Balances with other banks – other banks | | **428 121** | 338 518 | **428 121** | 338 518 |
| | | **5 470 758** | 4 697 599 | **5 470 758** | 4 697 599 |
| The carrying value of cash and short term funds approximates the fair value. | | | | | |
| Amounts denominated in foreign currencies included in above balances | | **3 452 111** | 2 777 809 | **3 452 111** | 2 777 809 |
| Balances with Bank of Botswana – Primary Reserve Requirement | | **456 873** | 460 081 | **456 873** | 460 081 |

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 30 days or less.

## 12. Derivative financial instruments

### Strategy in using derivatives

The Group transacts in derivatives for two purposes: to create risk management solutions for clients and to manage and hedge the Group's own risk. The Group's derivative activities give rise to open positions in portfolios of derivatives. These positions are managed to ensure that they remain within acceptable risk levels, with offsetting deals being utilised to achieve this where necessary.

#### Interest rate swaps

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

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

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

## 12. Derivative financial instruments *continued*

### Strategy in using derivatives *continued*

#### Forward rate agreements

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

#### Currency options

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

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **Notional** | **Fair value** | **Notional** | **Fair value** |
| | **P'000** | **P'000** | **P'000** | **P'000** |
| **Group and Company** | | | | |
| **2021** | | | | |
| **Currency derivatives** | | | | |
| Currency options | 32 160 | 178 | 32 160 | 178 |
| Trading derivatives | 494 958 | 2 487 | 829 355 | 9 968 |
| Currency swaps | 206 094 | 1 544 | 200 000 | 2 255 |
| **Interest rate derivatives** | | | | |
| Interest rate swaps | 359 168 | 31 098 | 251 294 | 9 106 |
| | **1 092 380** | **35 307** | **1 312 809** | **21 507** |
| Related party (FirstRand Bank Limited) derivatives included in above balances | | | | |
| Trading derivatives | 274 816 | 1 284 | 204 281 | 567 |
| Interest rate swaps | 324 748 | 22 355 | 34 420 | 8 743 |
| Currency swaps | 106 094 | 1 417 | – | – |
| | **705 658** | **25 056** | **238 701** | **9 310** |

## 12. Derivative financial instruments Strategy in using derivatives *continued*

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | Notional | Fair value | Notional | Fair value |
| | P'000 | P'000 | P'000 | P'000 |
| **Group and Company** | | | | |
| **2020** | | | | |
| **Currency derivatives** | | | | |
| Currency options | 280 723 | 3 269 | 280 723 | 3 269 |
| Trading derivatives | 210 501 | 2 093 | 317 690 | 3 006 |
| Currency swaps | – | – | 37 500 | 46 |
| **Interest rate derivatives** | | | | |
| Interest rate swaps | 461 383 | 71 510 | 353 509 | 30 387 |
| | 952 607 | 76 872 | 989 422 | 36 708 |
| Related party (FirstRand Bank Limited) derivatives included in above balances | | | | |
| Currency options | 13 372 | 477 | 280 723 | 2 807 |
| Trading derivatives | – | – | 131 377 | 1 343 |
| Interest rate swaps | 461 383 | 71 510 | – | – |
| Currency swaps | – | – | 17 500 | 1 |
| | 474 755 | 71 987 | 429 600 | 4 151 |

| | Notes | Group 2021 P'000 | Group 2020 P'000 | Company 2021 P'000 | Company 2020 P'000 |
|---|---|---|---|---|---|

## 13. Advances to customers

| | Notes | Group 2021 P'000 | Group 2020 P'000 | Company 2021 P'000 | Company 2020 P'000 |
|---|---|---|---|---|---|
| **Sector analysis** | | | | | |
| Agriculture | | **184 042** | 263 155 | **184 042** | 263 155 |
| Building and property development | | **344 010** | 501 182 | **344 010** | 501 182 |
| Business and trade | | **3 996 094** | 4 023 403 | **3 996 094** | 4 023 403 |
| Individuals | | **9 758 935** | 10 607 265 | **9 758 935** | 10 607 265 |
| Manufacturing and commerce | | **361 623** | 349 459 | **361 623** | 349 459 |
| Mining | | **28 420** | 25 723 | **28 420** | 25 723 |
| Transport and communication | | **190 854** | 246 291 | **190 854** | 246 291 |
| **Gross advances** | | **14 863 978** | 16 016 478 | **14 863 978** | 16 016 478 |
| Less: impairment of advances | 14 | **(1 221 951)** | (1 329 711) | **(1 221 951)** | (1 329 711) |
| **Net advances** | | **13 642 027** | 14 686 767 | **13 642 027** | 14 686 767 |
| **Category analysis** | | | | | |
| Term loans | | **6 047 708** | 6 588 473 | **6 047 708** | 6 588 473 |
| Suspensive sale debtors | | **1 407 951** | 1 521 116 | **1 407 951** | 1 521 116 |
| Property loans | | **5 684 944** | 5 959 005 | **5 684 944** | 5 959 005 |
| Overdraft and managed accounts | | **1 014 370** | 1 125 061 | **1 014 370** | 1 125 061 |
| Other | | **220 978** | 206 966 | **220 978** | 206 966 |
| Lease payments receivable | | **488 027** | 615 857 | **488 027** | 615 857 |
| Gross customer advances | | **14 863 978** | 16 016 478 | **14 863 978** | 16 016 478 |
| Less: impairment of advances | 14 | **(1 221 951)** | (1 329 711) | **(1 221 951)** | (1 329 711) |
| **Net advances** | | **13 642 027** | 14 686 767 | **13 642 027** | 14 686 767 |
| **Maturity analysis** | | | | | |
| Maturity within one year | | **1 598 270** | 1 460 243 | **1 598 270** | 1 460 243 |
| Maturity between one and five years | | **6 543 896** | 4 342 453 | **6 543 896** | 4 342 453 |
| Maturity more than five years | | **6 721 812** | 10 213 782 | **6 721 812** | 10 213 782 |
| | | **14 863 978** | 16 016 478 | **14 863 978** | 16 016 478 |

The maturity analysis above is based on present value of future contractual cashflows. Refer to note 39 for undiscounted cashflow.

## 13. Advances to customers *continued*

**Analysis of hire purchase and lease payments receivable**

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Hire purchase and lease payment receivable** | **Less: unearned finance charges** | **Net** | Hire purchase and lease payment receivable | Less: unearned finance charges | Net |
| | **P'000** | **P'000** | **P'000** | P'000 | P'000 | P'000 |
| **Group and Company** | | | | | | |
| – within 1 year | **954 758** | **(269 394)** | **685 364** | 1 073 400 | (290 286) | 783 114 |
| – between 1 and 2 years | **603 643** | **(110 649)** | **492 994** | 648 916 | (116 321) | 532 595 |
| – between 2 and 3 years | **386 754** | **(55 564)** | **331 190** | 407 580 | (54 320) | 353 260 |
| – between 3 and 4 years | **218 013** | **(23 513)** | **194 500** | 244 311 | (24 463) | 219 848 |
| – between 4 and 5 years | **90 766** | **(6 142)** | **84 624** | 117 019 | (8 155) | 108 864 |
| Over five years | **151 856** | **(44 550)** | **107 306** | 182 766 | (43 474) | 139 292 |
| Subtotal | **2 405 790** | **(509 812)** | **1 895 978** | 2 673 992 | (537 019) | 2 136 973 |
| Impairment | **(128 664)** | **–** | **(128 664)** | (117 707) | – | (117 707) |
| **Total net hire purchase and lease payments receivable** | **2 277 126** | **(509 812)** | **1 767 314** | 2 556 285 | (537 019) | 2 019 266 |

Prior year Hire purchase and lease payment receivable was disclosed as P2 500 701 as opposed to P2 673 992, and unearned finance charges were disclosed as P363 728. These amounts have been restated to reflect their correct amounts. The net amount disclosed remains unchanged from prior year.

## 13. Advances to customers *continued*

| | Amortised cost P'000 | Loss allowance P'000 | Total P'000 |
|---|---|---|---|
| **Analysis of advances per class – 2021** | | | |
| Term loans | **6 047 708** | **(486 979)** | **5 560 729** |
| Vehicle and asset financing | **1 895 978** | **(128 664)** | **1 767 314** |
| Property loans | **5 684 944** | **(376 947)** | **5 307 997** |
| Overdraft and managed account | **1 014 370** | **(211 223)** | **803 147** |
| Other | **220 978** | **(18 138)** | **202 840** |
| **Total** | **14 863 978** | **(1 221 951)** | **13 642 027** |
| **Segmental analysis** | | | |
| Retail | **9 665 634** | **(545 741)** | **9 119 893** |
| Commercial | **3 040 377** | **(643 425)** | **2 396 952** |
| Corporate | **2 157 967** | **(32 785)** | **2 125 182** |
| **Total** | **14 863 978** | **(1 221 951)** | **13 642 027** |
| **Analysis of advances per class – 2020*** | | | |
| Term loans | 6 588 473 | (665 126) | 5 923 347 |
| Vehicle and asset financing | 2 136 973 | (117 707) | 2 019 266 |
| Property loans | 5 959 005 | (276 627) | 5 682 378 |
| Overdraft and managed account | 1 125 061 | (255 750) | 869 311 |
| Other | 206 966 | (14 501) | 192 465 |
| **Total** | 16 016 478 | (1 329 711) | 14 686 767 |
| **Segmental analysis**** | | | |
| Retail | 10 428 237 | (572 910) | 9 855 327 |
| Commercial | 3 770 945 | (727 607) | 3 043 338 |
| Corporate | 1 817 296 | (29 194) | 1 788 102 |
| **Total** | 16 016 478 | (1 329 711) | 14 686 767 |

* *In prior year an ECL amount of P45 059 000 was misclassified between property loans and other advances. These prior year amounts were restated to reflect the correct amounts as follows: Property loans: P276 627 000 as opposed to P231 568 000, Term loans: P665 126 000 as opposed to P725 871 000, Overdrafts and managed accounts: P255 750 000 as opposed to P240 064 000.*

** *WesBank is no longer a reportable segment. Refer to note 40 for details of the reallocation from WesBank to the other segments.*

## 14. Impairment of advances

Significant loans and advances are monitored by the Credit Division and impaired according to the Group's impairment policy when an indication of impairment is observed.

### Analysis of the gross advances and loss allowance on total advances as at 30 June 2021

| | Gross advances | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | P'000 | P'000 | P'000 | P'000 |
| **Group and Company** | | | | |
| Amortised cost | 13 585 181 | 1 208 852 | 1 222 445 | 16 016 478 |
| Amount as at 01 July 2020 | 13 585 181 | 1 208 852 | 1 222 445 | 16 016 478 |
| Stage 2 to stage 1 | 242 819 | (242 819) | – | – |
| Stage 3 to stage 1 | 62 115 | – | (62 115) | – |
| Stage 3 to stage 2 | – | 53 369 | (53 369) | – |
| Stage 1 to stage 2 | (729 825) | 729 825 | – | – |
| Stage 1 to stage 3 | (160 154) | – | 160 154 | – |
| Stage 2 to stage 3 | – | (104 600) | 104 600 | – |
| **Opening balance after transfers** | 13 000 136 | 1 644 627 | 1 371 715 | 16 016 478 |
| **Net movement current year** | (598 704) | (266 726) | 168 988 | (696 442) |
| Attributable to change in measurement period | – | (63 582) | – | (63 582) |
| Attributable to change in risk parameters | – | – | – | – |
| Change due to new business net of attrition | (598 704) | (203 144) | 168 988 | (632 860) |
| Bad debts written off | – | – | (456 058) | (456 058) |
| Net interest suspended/released | – | – | – | – |
| **Amount as at 30 June 2021** | 12 401 432 | 1 377 901 | 1 084 645 | 14 863 978 |

| | Loss allowance | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | P'000 | P'000 | P'000 | P'000 |
| | 201 960 | 241 071 | 886 680 | 1 329 711 |
| | 201 960 | 241 071 | 886 680 | 1 329 711 |
| | 30 210 | (30 210) | – | – |
| | 13 370 | – | (13 370) | – |
| | – | 7 131 | (7 131) | – |
| | (9 886) | 9 886 | – | – |
| | (97 266) | – | 97 266 | – |
| | – | (70 927) | 70 927 | – |
| | 138 388 | 156 951 | 1 034 372 | 1 329 711 |
| | 34 533 | 137 211 | 116 556 | 288 300 |
| | – | 22 078 | – | 22 078 |
| | 9 362 | 85 467 | 115 495 | 210 324 |
| | 25 171 | 29 666 | 1 061 | 55 898 |
| | – | – | (456 058) | (456 058) |
| | – | – | 59 998 | 59 998 |
| | 172 921 | 294 162 | 754 868 | 1 221 951 |

## 14. Impairment of advances *continued*

### Analysis of the gross advances and loss allowance on total advances as at 30 June 2020

| | Gross advances | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | P'000 | P'000 | P'000 | P'000 |
| **Group and Company** | | | | |
| Amortised cost | 14 786 534 | 1 052 351 | 1 145 734 | 16 984 619 |
| Amount as at 01 July 2019 | 14 786 534 | 1 052 351 | 1 145 734 | 16 984 619 |
| Stage 2 to stage 1 | 292 915 | (292 915) | – | – |
| Stage 1 to stage 2 | (977 406) | 977 406 | – | – |
| Stage 1 to stage 3 | (55 600) | – | 55 600 | – |
| Stage 2 to stage 3 | – | (38 984) | 38 984 | – |
| **Opening balance after transfers** | 14 046 443 | 1 697 858 | 1 240 318 | 16 984 619 |
| **Net movement current year** | (461 262) | (489 006) | 222 973 | (727 295) |
| Attributable to change in measurement period | – | 12 291 | – | 12 291 |
| Attributable to change in risk parameters | 236 390 | (754 140) | 186 319 | (331 431) |
| Change due to new business net of attrition | (697 652) | 252 843 | 36 654 | (408 155) |
| Bad debts written off | – | – | (240 846) | (240 846) |
| Net interest suspended/released | – | – | – | – |
| **Amount as at 30 June 2020** | 13 585 181 | 1 208 852 | 1 222 445 | 16 016 478 |

- The reconciliation has been prepared using a year-to-date view. This means that the Group reports exposures based on the impairment stage at the end of the reporting period. The Group transfers opening balances (back book), at the value as at 1 July, based on the impairment stage at the end of the reporting period. Any additional ECL raised or released is 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 business (as defined below) is 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.
- For unsecured facilities decrease in the advance as a result of write-off is equal to the decrease ECL as exposures are 100% provided for before being written off. The total contractual amount outstanding on financial assets that were written off during the period and are still subject to enforcement activity is P424 million.
- Changes in exposure reflects the net amount of:
  - Additional amounts advanced on the back book and any settlements. Transfers on the back book is reflected separately.
  - New business originated during the financial year, the transfers between stages of the new origination and any settlements.
- The total gross carrying amount of undiscounted expected credit losses at initial recognition on purchased or originated credit impaired financial assets recognised during the reporting period is Pnil (2020: Pnil)
- At the end of the financial year ended 30 June 2021 loans where collateral held exceeded the carrying amount of the advance (i.e. where no coverage was calculated) amounted to P179million (2020: P238 million).

For more information on the computation of ECL and the impact of COVID 19 thereon, refer to accounting policy 1.8 and note 39.

| | Loss allowance | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | P'000 | P'000 | P'000 | P'000 |
| | 210 310 | 195 438 | 639 824 | 1 045 572 |
| | 210 310 | 195 438 | 639 824 | 1 045 572 |
| | 34 667 | (34 667) | – | – |
| | (27 522) | 27 522 | – | – |
| | (512) | – | 512 | – |
| | – | (6 900) | 6 900 | – |
| | 216 943 | 181 393 | 647 236 | 1 045 572 |
| | (14 983) | 59 678 | 365 913 | 410 608 |
| | – | 4 366 | – | 4 366 |
| | 78 654 | (213 456) | 355 180 | 220 378 |
| | (93 637) | 268 768 | 10 733 | 185 864 |
| | – | – | (155 964) | (155 964) |
| | – | – | 29 495 | 29 495 |
| | 201 960 | 241 071 | 886 680 | 1 329 711 |

## 14. Impairment of advances *continued*

### Analysis of the gross advances and loss allowance on total advances per class as at 30 June 2021

| | Gross advances | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| | **P'000** | **P'000** | **P'000** | **P'000** |
| Residential mortgages | **2 906 256** | **106 184** | **308 187** | **3 320 627** |
| Vehicle asset finance | **1 158 038** | **121 010** | **48 816** | **1 327 864** |
| **Total retail secured** | **4 064 294** | **227 194** | **357 003** | **4 648 491** |
| Overdrafts | **32 108** | **6 406** | **14 050** | **52 564** |
| Term loans | **4 050 239** | **343 861** | **140 738** | **4 534 838** |
| Other | **402 341** | **15 601** | **11 799** | **429 741** |
| **Total retail unsecured** | **4 484 688** | **365 868** | **166 587** | **5 017 143** |
| FNB Commercial | **1 380 057** | **572 669** | **519 537** | **2 472 263** |
| WesBank Commercial | **437 600** | **89 019** | **41 497** | **568 116** |
| Corporate business banking | **320 655** | **58 921** | **21** | **379 597** |
| Investment banking | **1 714 138** | **64 230** | **–** | **1 778 368** |
| **Total corporate and commercial** | **3 852 450** | **784 839** | **561 055** | **5 198 344** |
| **Total advances** | **12 401 432** | **1 377 901** | **1 084 645** | **14 863 978** |

### Analysis of the gross advances and loss allowance on total advances per class as at 30 June 2020

| | Gross advances | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | P'000 | P'000 | P'000 | P'000 |
| Residential mortgages | 2 900 783 | 168 703 | 277 278 | 3 346 764 |
| Vehicle asset finance | 1 268 361 | 78 279 | 53 426 | 1 400 066 |
| **Total retail secured** | 4 169 144 | 246 982 | 330 704 | 4 746 830 |
| Overdrafts | 33 082 | 7 439 | 23 311 | 63 832 |
| Term loans | 4 562 550 | 201 212 | 104 652 | 4 868 414 |
| Other | 676 328 | 52 137 | 20 446 | 748 911 |
| **Total retail unsecured** | 5 271 960 | 260 788 | 148 409 | 5 681 157 |
| FNB Commercial | 1 844 566 | 503 127 | 686 515 | 3 034 208 |
| WesBank Commercial | 559 155 | 120 935 | 56 817 | 736 907 |
| Corporate business banking | 315 439 | 73 072 | – | 388 511 |
| Investment banking | 1 424 917 | 3 948 | – | 1 428 865 |
| **Total corporate and commercial** | 4 144 077 | 701 082 | 743 332 | 5 588 491 |
| **Total advances** | 13 585 181 | 1 208 852 | 1 222 445 | 16 016 478 |

| Loss allowance | | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| | **P'000** | **P'000** | **P'000** | **P'000** |
| | **42 422** | **37 910** | **155 470** | **235 802** |
| | **6 696** | **10 368** | **43 497** | **60 561** |
| | **49 118** | **48 278** | **198 967** | **296 363** |
| | **1 557** | **3 029** | **11 213** | **15 799** |
| | **58 547** | **39 214** | **116 845** | **214 606** |
| | **3 702** | **3 469** | **11 799** | **18 970** |
| | **63 806** | **45 712** | **139 857** | **249 375** |
| | **52 285** | **144 920** | **378 116** | **575 321** |
| | **3 365** | **26 821** | **37 921** | **68 107** |
| | **2 021** | **17 895** | **7** | **19 923** |
| | **2 326** | **10 536** | **–** | **12 862** |
| | **59 997** | **200 172** | **416 044** | **676 213** |
| | **172 921** | **294 162** | **754 868** | **1 221 951** |

| Loss allowance | | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | P'000 | P'000 | P'000 | P'000 |
| | 20 503 | 7 611 | 104 017 | 132 131 |
| | 29 517 | 5 295 | 38 796 | 73 608 |
| | 50 020 | 12 906 | 142 813 | 205 739 |
| | 2 674 | 2 283 | 15 298 | 20 255 |
| | 108 848 | 42 675 | 104 652 | 256 175 |
| | 2 211 | 1 438 | 20 446 | 24 095 |
| | 113 733 | 46 396 | 140 396 | 300 525 |
| | 27 624 | 149 352 | 566 766 | 743 742 |
| | 7 504 | 6 302 | 36 705 | 50 511 |
| | 1 215 | 23 563 | – | 24 778 |
| | 1 864 | 2 552 | – | 4 416 |
| | 38 207 | 181 769 | 603 471 | 823 447 |
| | 201 960 | 241 071 | 886 680 | 1 329 711 |

# Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2021

## 14. Impairment of advances *continued*

For more information on the computation of ECL and the impact of COVID 19 thereon, refer to accounting policy 1.8 and note 39.

| | Loss allowance | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| | **P'000** | **P'000** | **P'000** | **P'000** |
| **Group and Company** | | | | |
| Amount as at 30 June 2021 | **172 921** | **294 162** | **754 868** | **1 221 951** |
| **Significant components of total loss allowance** | | | | |
| – Forward looking information | **(24 934)** | **(52 256)** | **–** | **(77 190)** |
| – Model driven | **197 855** | **346 418** | **–** | **544 273** |
| – Specific provisions | **–** | **–** | **754 868** | **754 868** |
| **Group and Company** | | | | |
| Amount as at 30 June 2020 | 201 960 | 241 071 | 886 680 | 1 329 711 |
| – Forward looking information | 123 879 | – | – | 123 879 |
| – Model driven | 201 960 | 241 071 | – | 443 031 |
| – Specific provisions | – | – | 886 680 | 886 680 |

### Breakdown of impairment charge recognised in the income statement

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Amortised cost** | **Total** | Amortised cost | Total |
| | **P'000** | **P'000** | P'000 | P'000 |
| **Group and Company** | | | | |
| Increase in loss allowance | **288 300** | **288 300** | 466 862 | 466 862 |
| Recoveries of bad debts | **(47 049)** | **(47 049)** | (45 420) | (45 420) |
| **Impairment of advances recognised during the period** | **241 251** | **241 251** | 421 442 | 421 442 |

## 14. Impairment of advances *continued*

**Group and Company**

Non-performing advances – amortised cost:

| | Security held P'000 | Specific impairment P'000 | Total P'000 |
|---|---|---|---|
| **Sector analysis – 2021** | | | |
| Agriculture | **13 005** | **31 753** | **44 758** |
| Building and property development | **72 080** | **123 715** | **195 795** |
| Individuals | **184 875** | **338 941** | **523 816** |
| Manufacturing and commerce | **32 996** | **210 024** | **243 020** |
| Transport and communication | **18 902** | **18 637** | **37 539** |
| Other advances | **7 919** | **31 798** | **39 717** |
| **Total non-performing advances – 30 June 2021** | **329 777** | **754 868** | **1 084 645** |
| **Sector analysis – 2020** | | | |
| Agriculture | 13 926 | 61 391 | 75 317 |
| Building and property development | 97 388 | 193 983 | 291 371 |
| Individuals | 148 447 | 330 384 | 478 831 |
| Manufacturing and commerce | 50 483 | 234 428 | 284 911 |
| Transport and communication | 21 925 | 20 530 | 42 455 |
| Other advances | 3 584 | 45 964 | 49 548 |
| **Total non-performing advances – 30 June 2020** | 335 753 | 886 680 | 1 222 433 |
| **Category analysis – 2021** | | | |
| Overdrafts and managed accounts | **16 663** | **126 554** | **143 217** |
| Term loans | **80 263** | **296 394** | **376 657** |
| Lease payments receivable | **900** | **32 858** | **33 758** |
| Suspensive and instalment sale debtors | **8 084** | **48 558** | **56 642** |
| Property loans | **223 867** | **243 960** | **467 827** |
| Other advances | **–** | **6 544** | **6 544** |
| **Total non-performing advances – 30 June 2021** | **329 777** | **754 868** | **1 084 645** |
| **Category analysis – 2020** | | | |
| Overdrafts and managed accounts | 25 297 | 183 145 | 208 442 |
| Term loans | 100 045 | 342 820 | 442 865 |
| Lease payments receivable | 10 923 | 48 543 | 59 466 |
| Suspensive and instalment sale debtors | 12 982 | 37 796 | 50 778 |
| Property loans | 186 506 | 266 508 | 453 014 |
| Other advances | – | 7 868 | 7 868 |
| **Total non-performing advances – 30 June 2020** | 335 753 | 886 680 | 1 222 433 |

## 15. Investment securities

| | Fair value through profit or loss | Amortised cost | Total |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| **Group and Company – 2021** | | | |
| Bank of Botswana Certificates | **–** | **3 999 322** | **3 999 322** |
| Government Bonds | **–** | **3 123 513** | **3 123 513** |
| Government and Parastatal Bonds | **95 656** | **–** | **95 656** |
| Treasury Bills | **–** | **670 548** | **670 548** |
| | **95 656** | **7 793 383** | **7 889 039** |
| **Group and Company – 2020** | | | |
| Bank of Botswana Certificates | – | 6 097 674 | 6 097 674 |
| Government Bonds | – | 2 849 190 | 2 849 190 |
| Government and Parastatal Bonds | 163 154 | – | 163 154 |
| Corporate Bonds | – | 200 114 | 200 114 |
| Treasury Bills | – | 199 079 | 199 079 |
| | 163 154 | 9 346 057 | 9 509 211 |

P3 999 322 000 (2020: P 6 097 674 000) 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 a seven day maturity period (2020: seven days to three months).

### Repurchase and securities lending transactions

| | Advances to banks | | Associated liabilities recognised in deposits | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **P'000** | P'000 | **P'000** | P'000 |
| Repurchase agreements | **217 957** | – | **–** | – |

Both the transferred investments and related deposits under repurchase agreements were at amortised cost

| | **2021** | 2020 |
|---|---|---|
| | **P'000** | P'000 |
| Loss allowance on investment securities | | |
| **Stage 1** | **430** | 120 |
| **Total Investment securities** | **430** | 120 |
| **Analysis of Investment securities Amortised cost** | **430** | 120 |
| **Total Investment securities** | **430** | 120 |

## 16. Related parties

### Relationships:

| | |
|---|---|
| Ultimate holding company | FirstRand Limited – South Africa |
| Holding company | First National Bank Holdings (Botswana) Limited |
| Common management | FNB Insurance Brokers (Proprietary) Limited |

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 and the Director of Credit.

| | Notes | Group 2021 P'000 | Group 2020 P'000 | Company 2021 P'000 | Company 2020 P'000 |
|---|---|---|---|---|---|
| **Related party balances** | | | | | |
| **Due from related parties** | | | | | |
| FirstRand Limited – South Africa | | **2 846 885** | 853 005 | **2 846 885** | 853 005 |
| First National Bank Holdings (Botswana) Limited | | **6 363** | 11 684 | **6 363** | 11 684 |
| | | **2 853 248** | 864 689 | **2 853 248** | 864 689 |
| Less money at call and short notice | | | | | |
| FirstRand Limited – South Africa – call balances | 11 | **(18 059)** | (13 592) | **(18 059)** | (13 592) |
| FirstRand Limited – South Africa – nostro balances | 11 | **(2 827 637)** | (839 413) | **(2 827 637)** | (839 413) |
| | | **7 552** | 11 684 | **7 552** | 11 684 |
| **Due to related companies – current liabilities** | | | | | |
| Financial Services Company (Proprietary) Limited | | **–** | – | **10 536** | 10 536 |
| Financial Services Properties (Proprietary) Limited | | **–** | – | **–** | (47) |
| First National Insurance Agency (Proprietary) Limited | | **–** | – | **–** | 72 681 |
| First Funding (Proprietary) Limited | | **–** | – | **1 000** | 1 000 |
| Plot Four Nine Seven Two (Proprietary) Limited | | **–** | – | **–** | 12 |
| FirstRand Limited – South Africa | | **25 093** | 21 322 | **25 093** | 21 322 |
| **Due to related companies – creditors and accruals** | | **25 093** | 21 322 | **36 629** | 105 504 |

Refer to Note 21 for amounts included in deposits from customers, Refer to Note 22 for amounts included in deposits from banks and Refer to Note 12 for amounts included in derivatives.

# Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2021

## 16. Related parties *continued*

### Related party transactions

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **Interest income** | | | | |
| FirstRand Limited – South Africa | **13 433** | 37 479 | **13 433** | 37 479 |
| **Non-interest income – dividends** | | | | |
| First National Insurance Agency (Proprietary) Limited | **–** | – | **204 067** | – |
| **Interest expenditure** | | | | |
| FirstRand Limited – South Africa | **15 155** | 17 558 | **15 155** | 17 558 |
| **Operating expenses:** | | | | |
| Service fees – FirstRand Limited (Note 5) | **215 540** | 209 440 | **215 490** | 209 070 |
| **Transactions with key management personnel:** | | | | |
| **Compensation paid to key management personnel** | | | | |
| Share-based payments | **89** | 4 374 | **89** | 4 374 |
| Short term employee benefits | **16 812** | 17 289 | **16 812** | 17 289 |
| **Total short term benefits** | **16 901** | 21 663 | **16 901** | 21 663 |
| **Post employment benefits** | | | | |
| Pension | **810** | 779 | **810** | 779 |
| **Advances** | | | | |
| Personal loans | **544** | 1 054 | **544** | 1 054 |
| Credit card | **259** | 401 | **259** | 401 |
| Instalment finance | **2 412** | 2 193 | **2 412** | 2 193 |
| Property loans | **16 226** | 13 737 | **16 226** | 13 737 |
| **Total advances** | **19 441** | 17 385 | **19 441** | 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 and instalment finance loans are repayable between 5 – 6 years. Property loans are repayable monthly over periods up to 20 years. Property loans are collateralised by properties with a total fair value of P28 360 000 (2020: P 26 520 000).

Personal loans, overdrafts and credit card balances are unsecured.

| | Group | | Company | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **17. Other assets** | | | | |
| Suspense accounts | **37 732** | 7 749 | **34 280** | 7 749 |
| School debentures | **–** | 188 | **–** | 188 |
| Other sundry debtors | **368 926** | 471 377 | **364 150** | 361 765 |
| **Total group carrying amount of other assets** | **406 658** | 479 314 | **398 430** | 369 702 |

The above carrying value of other assets approximates their fair value.

No liability is recognised for the conditional share plan scheme, as the liability is prepaid. Included in the above balances is an amount of P20 759 000 (2020: P17 578 000) relating to the Group's share based payments scheme. The prepayment fund is managed by RMB Morgan Stanley. Share based payments allocated to employees are accumulated in advance through the fund.

## 18. Investments in subsidiary companies

The following table lists the entities which are controlled by the group, either directly or indirectly through subsidiaries.

| | Company | | | | |
|---|---|---|---|---|---|
| **Name of company** | **Nature of business** | **% holding 2021** | % holding 2020 | **Carrying amount 2021** | Carrying amount 2020 |
| | | **%** | % | **P'000** | P'000 |
| Financial Services Company of Botswana Limited | Property owning company | **100,00** | 100,00 | **12 500** | 12 500 |
| First Funding Proprietary Limited | Group loan scheme | **100,00** | 100,00 | **1 000** | 1 000 |
| Premium Credit Botswana Proprietary Limited | Insurance premium finance | **100,00** | 100,00 | **10** | 10 |
| First National Insurance Agency Proprietary Limited | Insurance agency | **100,00** | 100,00 | **30** | 30 |
| | | | | **13 540** | 13 540 |

All the above subsidiaries are domiciled in Botswana.

## 19. Property and equipment

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Cost or revaluation** | **Accumulated depreciation** | **Carrying value** | Cost or revaluation | Accumulated depreciation | Carrying value |
| | **P'000** | **P'000** | **P'000** | P'000 | P'000 | P'000 |
| **Group** | | | | | | |
| Freehold and leasehold land and buildings | **333 407** | **(18 763)** | **314 644** | 314 866 | (14 604) | 300 262 |
| Leasehold improvements | **145 081** | **(86 352)** | **58 729** | 147 769 | (81 038) | 66 731 |
| Furniture and equipment | **353 448** | **(280 517)** | **72 931** | 322 256 | (248 143) | 74 113 |
| Motor vehicles | **17 356** | **(12 953)** | **4 403** | 15 317 | (10 275) | 5 042 |
| Right of use asset – property | **161 727** | **(42 563)** | **119 164** | 159 656 | (20 247) | 139 409 |
| Capital – Work in progress | **1 039** | **–** | **1 039** | 15 487 | – | 15 487 |
| **Total** | **1 012 058** | **(441 148)** | **570 910** | 975 351 | (374 307) | 601 044 |

## 19. Property and equipment *continued*

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Cost or revaluation** | **Accumulated depreciation** | **Carrying value** | Cost or revaluation | Accumulated depreciation | Carrying value |
| | **P'000** | **P'000** | **P'000** | P'000 | P'000 | P'000 |
| **Company** | | | | | | |
| Freehold and leasehold land and buildings | **287 478** | **(13 440)** | **274 038** | 284 339 | (10 886) | 273 453 |
| Leasehold improvements | **142 445** | **(86 352)** | **56 093** | 145 133 | (81 038) | 64 095 |
| Furniture and equipment | **348 929** | **(279 040)** | **69 889** | 317 747 | (247 423) | 70 324 |
| Motor vehicles | **17 356** | **(12 953)** | **4 403** | 15 317 | (10 275) | 5 042 |
| Right of use asset – property | **161 727** | **(42 563)** | **119 164** | 159 656 | (20 247) | 139 409 |
| Capital – Work in progress | **995** | **–** | **995** | 30 | – | 30 |
| **Total** | **958 930** | **(434 348)** | **524 582** | 922 222 | (369 869) | 552 353 |

# Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2021

## 19. Property and equipment *continued*

### Reconciliation of property and equipment – Group – 2021

| | Opening balance | Additions | Disposals |
|---|---|---|---|
| | **P'000** | **P'000** | **P'000** |
| Freehold and leasehold land and buildings | **300 262** | **3 694** | **–** |
| Leasehold improvements | **66 731** | **84** | **(832)** |
| Furniture and equipment | **74 113** | **33 012** | **(103)** |
| Motor vehicles | **5 042** | **2 210** | **(103)** |
| Right of use asset – property | **139 409** | **2 070** | **–** |
| Capital – Work in progress | **15 487** | **1 639** | **–** |
| | **601 044** | **42 709** | **(1 038)** |

### Reconciliation of property and equipment – Group – 2020

| | Opening balance | Additions | Restatement adjustment for IFRS 16 |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| Freehold and leasehold land and buildings | 309 365 | 2 985 | – |
| Leasehold improvements | 71 746 | 1 321 | – |
| Furniture and equipment | 84 893 | 33 493 | – |
| Motor vehicles | 2 589 | 3 885 | – |
| Right of use asset – property | – | – | 159 656 |
| Capital – Work in progress | 12 714 | 2 773 | – |
| | 481 307 | 44 457 | 159 656 |

| | 30 June 2021 | 30 June 2020 |
|---|---|---|
| | **P'000** | P'000 |
| **Cost or valuation consists of:** | | |
| Freehold and leasehold land and buildings – cost | **369 723** | 351 182 |
| Freehold and leasehold land and buildings – valuation adjustment | **(36 316)** | (36 316) |
| Leasehold land improvements – cost | **145 081** | 147 769 |
| Capital work-in-progress | **1 039** | 15 487 |
| Motor vehicles – cost | **17 356** | 15 317 |
| Furniture and equipment – cost | **353 448** | 322 256 |
| Right of use asset | **161 727** | 159 656 |
| | **1 012 058** | 975 351 |

| Transfers | IFRS 16 lease modifications | Depreciation | Total |
|---|---|---|---|
| **P'000** | **P'000** | **P'000** | **P'000** |
| **14 849** | **–** | **(4 161)** | **314 644** |
| **–** | **–** | **(7 254)** | **58 729** |
| **1 238** | **–** | **(35 329)** | **72 931** |
| **–** | **–** | **(2 746)** | **4 403** |
| **–** | **1 063** | **(23 378)** | **119 164** |
| **(16 087)** | **–** | **–** | **1 039** |
| **–** | **1 063** | **(72 868)** | **570 910** |

| Disposals | Transfers | Depreciation | Total |
|---|---|---|---|
| P'000 | P'000 | P'000 | P'000 |
| – | – | (12 088) | 300 262 |
| – | 1 668 | (8 004) | 66 731 |
| (25) | (1 668) | (42 580) | 74 113 |
| – | – | (1 432) | 5 042 |
| – | – | (20 247) | 139 409 |
| – | – | – | 15 487 |
| (25) | – | (84 351) | 601 044 |

# Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2021

## 19. Property and equipment *continued*

### Reconciliation of property and equipment – Company – 2021

| | Opening balance | Additions | Disposals |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| Freehold and leasehold land and buildings | **273 453** | **3 694** | **–** |
| Leasehold improvements | **64 095** | **84** | **(832)** |
| Furniture and equipment | **70 324** | **33 012** | **(103)** |
| Motor vehicles | **5 042** | **2 210** | **(103)** |
| Right of use asset – property | **139 409** | **2 070** | **–** |
| Capital – Work in progress | **30** | **1 639** | **–** |
| | **552 353** | **42 709** | **(1 038)** |

### Reconciliation of property and equipment – Company – 2020

| | Opening balance | Additions | Restatement adjustment for IFRS 16 |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| Freehold and leasehold land and buildings | 282 660 | 1 618 | – |
| Leasehold improvements | 69 402 | 1 029 | – |
| Furniture and equipment | 84 997 | 29 085 | – |
| Motor vehicles | 2 589 | 3 885 | – |
| Right of use asset – property | – | – | 159 656 |
| Capital – Work in progress | 30 | – | – |
| | 439 678 | 35 617 | 159 656 |

| | 30 June 2021 | 30 June 2020 |
|---|---|---|
| | P '000 | P '000 |
| **Cost or valuation consists of:** | | |
| Freehold and leasehold land and buildings – cost | **333 597** | 330 458 |
| Freehold and leasehold land and buildings – valuation adjustment | **(46 119)** | (46 119) |
| Leasehold land improvements – cost | **142 445** | 145 133 |
| Capital work-in-progress | **995** | 30 |
| Motor vehicles – cost | **17 356** | 15 317 |
| Furniture and equipment – cost | **348 929** | 317 747 |
| Right of use asset | **161 727** | 159 656 |
| | **958 930** | 922 222 |

| Transfers | IFRS 16 lease modifications | Depreciation | Total |
|---|---|---|---|
| **P'000** | **P'000** | **P'000** | **P'000** |
| **(555)** | **–** | **(2 554)** | **274 038** |
| **–** | **–** | **(7 254)** | **56 093** |
| **1 229** | **–** | **(34 573)** | **69 889** |
| **–** | **–** | **(2 746)** | **4 403** |
| **–** | **1 063** | **(23 378)** | **119 164** |
| **(674)** | **–** | **–** | **995** |
| **–** | **1 063** | **(70 505)** | **524 582** |

| Disposals | Transfers | Depreciation | Total |
|---|---|---|---|
| P'000 | P'000 | P'000 | P'000 |
| – | – | (10 825) | 273 453 |
| – | 1 668 | (8 004) | 64 095 |
| (25) | (1 668) | (42 065) | 70 324 |
| – | – | (1 432) | 5 042 |
| – | – | (20 247) | 139 409 |
| – | – | – | 30 |
| (25) | – | (82 573) | 552 353 |

## 19. Property and equipment *continued*

### Revaluations

#### Group and Company

Revaluation of property

Freehold and leasehold land and buildings consist of commercial and residential properties. The properties were valued by independent property valuers in June 2019. Properties are revalued every three years.

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

Valuation techniques

- Cost and net income based approach

Fair value hierarchy and sensitivity analysis

- Level 3.
- The sensitivity analysis applied a 5% increase/decrease to the market value per square metre of each property in the portfolio. The fair value of the property portfolio of P313 247 000 will therefore increase/decrease by P16 662 000 based on the 5% sensitivity.

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: P60 – P119
- 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.

The valuation techniques used were similar to the ones used in 2016 when a revaluation of the assets was previously out.

## 20. Goodwill

| | **2021** | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Cost** | **Accumulated impairment** | **Carrying value** | Cost | Accumulated impairment | Carrying value |
| | **P'000** | **P'000** | **P'000** | P'000 | P'000 | P'000 |
| **Group** | | | | | | |
| Goodwill | **26 963** | **–** | **26 963** | 26 963 | – | 26 963 |
| **Company** | | | | | | |
| Goodwill | **26 589** | **–** | **26 589** | 26 589 | – | 26 589 |

| | 30 June 2021 | 30 June 2020 |
|---|---|---|
| | P'000 | P'000 |

## 21. Deposits from customers

| | 30 June 2021 P'000 | 30 June 2020 P'000 |
|---|---|---|
| **Group and Company** | | |
| Current and managed accounts | **10 529 915** | 12 284 393 |
| Savings accounts | **1 499 047** | 1 454 708 |
| Call and term deposits | **9 367 095** | 9 432 796 |
| | **21 396 057** | 23 171 897 |

Included in the call and term deposits is a balance of P7 119 000 (2020: P 7 116 000) relating to First National Bank Holdings (Botswana) Limited.

| | 30 June 2021 P'000 | 30 June 2020 P'000 |
|---|---|---|
| **Discounted maturity analysis** | | |
| Withdrawal on demand | **18 095 485** | 19 637 535 |
| Maturing within one year | **2 921 168** | 2 563 453 |
| Maturing two to five years | **362 875** | 970 909 |
| Maturing over 5 years | **16 529** | – |
| | **21 396 057** | 23 171 897 |

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

Refer to note 39 for undiscounted cashflow.

## 22. Deposit from banks

| | Group | | Company | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | P'000 | P'000 | P'000 | P'000 |
| Unsecured and payable on demand | **490 153** | 545 002 | **490 153** | 545 002 |

Included in this amount is a balance due to FirstRand Group Limited of P14 686 000 (2020: P 5 813 000), First National Bank Zambia P28 000 (2020: P 264 000), and First National Bank Eswatini P82 000 (2020: P 21 000), First National Bank Tanzania P27 000 (2020: P 32 000), FNB Lesotho P22 000 (2020:P74 000), First National Bank Namibia P494 000 (2020:P nil) and First National Bank South Africa P438 529 000 (2020: P 501 465 000).

## 23. Borrowings

| | Group 2021 P'000 | Group 2020 P'000 | Company 2021 P'000 | Company 2020 P'000 |
|---|---|---|---|---|
| **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 (2020:161,84 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 (2020:40,00 at P1 000 000 each) | | | | |
| Floating rate | **196 802** | 196 802 | **196 802** | 196 802 |
| 196,80 Medium Term Notes of P1 000 000 each (2020:196,80 at P1 000 000 each) | | | | |
| | **398 642** | 398 642 | **398 642** | 398 642 |
| **Unsubordinated Unsecured Bonds** | | | | |
| Floating rate | **238 470** | 364 060 | **238 470** | 364 060 |
| 23 847,00 Medium Term Notes of P10 000 each (2020:36 406,00 at P10 000 each) | | | | |
| | **637 112** | 762 702 | **637 112** | 762 702 |
| **Other borrowings** | | | | |
| Zero coupon deposit | | | | |
| Botswana Life Insurance Limited (BLIL) | **166 005** | 151 657 | **166 005** | 151 657 |
| (Proprietary) Limited – 15 year zero coupon deposit | | | | |
| Other zero coupon deposits | **542 367** | 625 022 | **542 367** | 625 022 |
| | **708 372** | 776 679 | **708 372** | 776 679 |
| Negotiable Certificates of deposit | **181 716** | 226 477 | **181 716** | 226 477 |
| **Total borrowings** | **1 527 200** | 1 765 858 | **1 527 200** | 1 765 858 |

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 November 2021. Interest is paid semi-annually on the fixed rate note and quarterly on the floating rate note.

Unsubordinated Unsecured bond notes are ranked lower to claims of senior creditors and claims of depositors and mature in November 2022 and December 2024. 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 fully by 2026. Repayments of P50 million will be made in 2023, 2024, 2025, and 2026 respectively. The deposit is carried at fair value.

## 23. Borrowings *continued*

The zero coupon deposits are with Botswana Insurance Fund Management Limited at fixed rates of interest ranging between 7.53% and 9.29% per annum, with maturities ranging from May 2022 to June 2026.

| Negotiable certificates | Interest rate | Maturity |
|---|---|---|
| P'000 | % | |
| 114 829 | 5 | September 2023 |
| 65 507 | 9 | February 2027 |
| 882 | 5 | August 2028 |
| 498 | 5 | May 2023 |
| 181 716 | | |

| | Group | | Company | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **Reconciliation of borrowings** | | | | |
| Opening balance | **1 765 858** | 1 502 642 | **1 765 858** | 1 502 642 |
| – Proceeds on the issue of other liabilities | **–** | 196 802 | **–** | 196 802 |
| – Redemption of other liabilities | **(300 129)** | – | **(300 129)** | – |
| – Interest accrued | **47 123** | 54 310 | **47 123** | 54 310 |
| – Fair value movement | **14 348** | 12 104 | **14 348** | 12 104 |
| **Total other liabilities** | **1 527 200** | 1 765 858 | **1 527 200** | 1 765 858 |

### Financial liabilities

Determined with reference to changes in the mark-to-market yields of own issued bonds. The change in fair value of financial liabilities due to changes in credit risk is immaterial.

### Financial liabilities designated as at fair value through profit or loss

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Fair value** | **Contractually payable at maturity** | Fair value | Contractually payable at maturity |
| | **P'000** | **P'000** | P'000 | P'000 |
| Zero coupon deposits | **166 005** | **200 000** | 151 657 | 200 000 |

### Total fair value income included in profit or loss for the year

| | **2021** | 2020 |
|---|---|---|
| | **P'000** | P'000 |
| Total fair value income for the year has been disclosed as: | | |
| Fair value gains and losses included in non-interest revenue | **(14 348)** | (12 104) |

## 24. Creditors and accruals

| | Group | | Company | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **P'000** | P'000 | **P'000** | P'000 |
| Accounts payable | **10 369** | 12 719 | **10 327** | 13 711 |
| Other creditors and accruals | **359 481** | 359 219 | **328 724** | 343 466 |
| Suspense accounts | **172 969** | 195 549 | **172 969** | 195 549 |
| Lease liabilities | **132 212** | 151 839 | **132 212** | 151 839 |
| Audit fees | **5 534** | 4 261 | **5 484** | 4 261 |
| **Creditors and accruals** | **680 565** | 723 587 | **649 716** | 708 826 |

This balance is included in the creditors and accruals balance in the liquidity risk disclosure, note 39.

Other creditors and accruals comprise of various accrued expenses, unclaimed monies, unclaimed dividends, and other uncleared items in transit.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **Reconciliation of lease liabilities (IFRS 16)** | | | | |
| Opening balance | **151 839** | – | **151 839** | – |
| Leases capitalised during the year | **2 070** | 159 656 | **2 070** | 159 656 |
| Capital payments during the year | **(22 849)** | (15 739) | **(22 849)** | (15 739) |
| Early termination/modification of leases | **1 152** | 7 922 | **1 152** | 7 922 |
| **Closing balance** | **132 212** | 151 839 | **132 212** | 151 839 |
| **Maturity analysis of future lease payments outstanding at the reporting date** | | | | |
| 1 – 3 months | **7 428** | 1 374 | **7 428** | 1 374 |
| 4 – 12 months | **22 284** | 386 | **22 284** | 386 |
| 1 – 5 years | **74 470** | 52 231 | **74 470** | 52 231 |
| Over 5 years | **28 030** | 97 848 | **28 030** | 97 848 |
| | **132 212** | 151 839 | **132 212** | 151 839 |

## 25. Employee benefits liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **Leave pay** | | | | |
| At the beginning of the year | **37 807** | 30 923 | **37 807** | 30 923 |
| Additional accrual recognised | **12 404** | 11 913 | **12 404** | 11 913 |
| Utilised | **(11 464)** | (5 029) | **(11 464)** | (5 029) |
| **At the end of the year** | **38 747** | 37 807 | **38 747** | 37 807 |
| **Bonus** | | | | |
| At the beginning of the year | **43 697** | 54 971 | **43 622** | 54 944 |
| Additional accrual recognised | **73 184** | 59 334 | **72 675** | 59 126 |
| Utilised | **(61 741)** | (70 608) | **(61 157)** | (70 448) |
| **At the end of the year** | **55 140** | 43 697 | **55 140** | 43 622 |
| **At the end of the year** | **93 887** | 81 504 | **93 887** | 81 429 |

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

## 26. Capital adequacy

### Tier 1 – Core capital

| | Notes | Group 30 June 2021 P'000 | Group 30 June 2020 P'000 |
|---|---|---|---|
| Stated | | **51 088** | 51 088 |
| Retained income – adjusted to revised operating capital by Bank of Botswana | | **2 539 750** | 3 255 174 |
| | | **2 590 838** | 3 306 262 |
| Goodwill | | **(26 963)** | (26 963) |
| IFRS 9 transition adjustment | | **31 598** | 63 196 |
| | | **2 595 473** | 3 342 495 |
| **Tier 2 – Supplementary capital** | | | |
| Stage 1 and 2 provisioning | | **190 251** | 199 341 |
| Subordinated Unsecured Bonds | 23 | **398 642** | 398 642 |
| | | **588 893** | 597 983 |
| Total qualifying capital | | **3 184 366** | 3 940 478 |
| Risk adjusted assets | | | |
| – Credit risk weighted assets (Simple Approach) | | **15 220 047** | 15 947 267 |
| – Market risk weighted assets | | **68 572** | 100 697 |
| – Operational risk weighted assets | | **2 439 717** | 2 389 860 |
| | | **17 728 336** | 18 437 824 |
| Capital adequacy ratios (%) | | **17,96** | 21,37 |
| Core capital (%) (Basel Committee guide: minimum 4.5%) | | **14,64** | 18,13 |
| Supplementary capital (%) | | **3,32** | 3,24 |
| Total (%) | | **17,96** | 21,37 |
| Bank of Botswana required minimum risk asset ratio (%) | | **12,50** | 12,50 |

The Group largely consists of the Bank, which is a licensed financial institution and is subject to regulatory capital requirements. The capital base of the Group provides the foundation for lending, off-balance sheet transactions and other activities. The capital adequacy of the Group is measured in accordance with the requirements of the Banking Act (Cap 46:04) in terms of which the Group must maintain a minimum level of capital based on its risk weighted assets and exposures.

## 27. 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 20,5% (2020: 20.5%) of pensionable salary towards retirement funding). This is made up of an employee contribution rate of 7.0% (2020: 7.0%) and an employer contribution rate of 13.5% (2020: 13.5%). The liability of the Group is limited to the contributions made during the employment period of the employee.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **28. Stated capital** | | | | |
| Ordinary shares of no par value 2 543 700 000 (2020: 2 543 700 000) | **51 088** | 51 088 | **51 088** | 51 088 |
| **29. Reserves** | | | | |
| **Other non-distributable reserves** | | | | |
| Balance at the beginning of the year | **59 866** | 61 430 | **45 830** | 46 766 |
| Transfer directly to equity – revaluation portion of depreciation | **(1 564)** | (1 564) | **(936)** | (936) |
| **Balance at the end of year** | **58 302** | 59 866 | **44 894** | 45 830 |
| **Retained earnings** | | | | |
| Opening balance | **3 283 696** | 2 967 880 | **3 078 744** | 2 806 172 |
| Transfers directly from revaluation reserve | **1 564** | 1 564 | **936** | 936 |
| Profit for the year | **685 175** | 695 806 | **875 132** | 653 191 |
| Ordinary dividends | **(152 622)** | (178 059) | **(152 622)** | (178 059) |
| Final dividends proposed | **(228 933)** | (203 496) | **(228 933)** | (203 496) |
| Special dividends proposed | **(1 017 480)** | – | **(1 017 480)** | – |
| **Balance at the end of the year** | **2 571 400** | 3 283 696 | **2 555 777** | 3 078 744 |
| **Total reserves (excluding the dividend reserve)** | **2 629 702** | 3 343 562 | **2 600 671** | 3 124 574 |
| **30. Cash generated by operations before taxation and working capital changes** | | | | |
| Profit before taxation | **900 855** | 900 851 | **1 087 801** | 844 505 |
| **Adjustments for:** | | | | |
| Depreciation and amortisation | **72 868** | 84 351 | **70 505** | 82 573 |
| Loss on sale of property and equipment | **1 038** | 25 | **1 038** | 25 |
| Foreign exchange movements on cash balances | **188 144** | (164 640) | **188 144** | (164 640) |
| Impairment losses on loans and advances | **241 251** | 421 442 | **241 251** | 421 442 |
| Unrealised loss on derivative financial instruments | **26 365** | (5 402) | **26 365** | (5 402) |
| Net loss on financial instruments held at fair value through profit and loss | **25 169** | 12 101 | **25 169** | 12 101 |
| Share-based payment expense – cash settled | **–** | 168 | **–** | 168 |
| Interest and similar income | **(1 408 692)** | (1 649 128) | **(1 408 692)** | (1 649 128) |
| Interest expense and similar expenses | **241 506** | 310 893 | **239 771** | 307 996 |
| | **288 504** | (89 337) | **471 352** | (150 360) |

| | Group | | Company | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **31. Current income tax paid** | | | | |
| Amounts overpaid at the beginning of the year | **(86 324)** | (106 768) | **(80 418)** | (104 224) |
| Charged to the income statement | **249 970** | 194 939 | **254 187** | 185 910 |
| Amounts overpaid at the end of the year | **85 239** | 86 324 | **69 656** | 80 418 |
| Other | **11 880** | – | **11 880** | – |
| **Cash amounts paid** | **260 765** | 174 495 | **255 305** | 162 104 |
| **32. Current income taxation asset** | | | | |
| Opening asset | **86 324** | 106 768 | **80 418** | 104 224 |
| Charged to the income statement | **(249 970)** | (194 939) | **(254 187)** | (185 910) |
| Cash amounts paid | **260 765** | 174 495 | **255 305** | 162 104 |
| Other | **(11 880)** | – | **(11 880)** | – |
| **Closing net asset** | **85 239** | 86 324 | **69 656** | 80 418 |
| Closing asset | **85 239** | 86 324 | **69 656** | 80 418 |
| **33. Movement in deposits and current accounts** | | | | |
| Movement in current and managed account deposits | **(1 754 478)** | 5 405 568 | **(1 754 478)** | 5 405 568 |
| Movement in savings deposits | **44 339** | 250 533 | **44 339** | 250 533 |
| Movement in call and term deposits | **(65 701)** | (2 075 613) | **(65 701)** | (2 075 613) |
| | **(1 775 840)** | 3 580 488 | **(1 775 840)** | 3 580 488 |
| **34. Movement in advances to customers** | | | | |
| Net amount outstanding at the beginning of the year | **14 686 767** | 15 939 048 | **14 686 767** | 15 939 048 |
| Impairment of advances | **(241 251)** | (421 442) | **(241 251)** | (421 442) |
| Net amount outstanding at the end of the year | **(13 642 027)** | (14 686 767) | **(13 642 027)** | (14 686 767) |
| Accrued interest | **(2 145)** | – | **(2 145)** | – |
| | **801 344** | 830 839 | **801 344** | 830 839 |
| **35. Dividends paid** | | | | |
| Previous year's final dividends paid during the year | **203 496** | 254 370 | **203 496** | 254 370 |
| Interim dividends | **152 622** | 178 059 | **152 622** | 178 059 |
| **Total dividends paid to shareholders** | **356 118** | 432 429 | **356 118** | 432 429 |

| | Notes | Group 2021 P'000 | Group 2020 P'000 | Company 2021 P'000 | Company 2020 P'000 |
|---|---|---|---|---|---|
| **36. Cash and cash equivalents** | | | | | |
| Cash and short-term funds | 11 | **5 470 758** | 4 697 599 | **5 470 758** | 4 697 599 |
| Bank of Botswana Certificates | 15 | **3 999 322** | 6 097 674 | **3 999 322** | 6 097 674 |
| | | **9 470 080** | 10 795 273 | **9 470 080** | 10 795 273 |
| **37. Contingencies and commitments** | | | | | |
| Letters of credit | | **5 906** | 16 070 | **5 906** | 16 070 |
| Guarantees – performance | | **334 528** | 308 084 | **334 528** | 308 084 |
| Guarantees – other | | **143 582** | 62 146 | **143 582** | 62 146 |
| | | **484 016** | 386 300 | **484 016** | 386 300 |

The above contingencies represent guarantees and letters of credit.

| | Group 2021 P'000 | Group 2020 P'000 | Company 2021 P'000 | Company 2020 P'000 |
|---|---|---|---|---|
| **Commitments** | | | | |
| Revocable | **1 561 873** | 1 782 628 | **1 561 873** | 1 782 628 |
| Irrevocable | **865 997** | 450 829 | **865 997** | 450 829 |
| **Undrawn commitments to customers** | **2 427 870** | 2 233 457 | **2 427 870** | 2 233 457 |
| **Capital commitments** | | | | |
| **Capital expenditure approved by the Directors** | | | | |
| – not yet contracted for | **71 528** | 87 479 | **71 528** | 87 479 |

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.

### Contingent assets

The Group will from time to time be involved in legal proceedings, including inquiries from or discussions with government 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.

In respect of the Botswana Unified Revenue Service assessment of withholding taxes applied to VISA payments, as issued in 2016, additional consideration will be payable to the Group if the ITA process results in a favourable outcome for the Group. No gain has been recognised during the financial year, as the receipt of the additional consideration is not virtually certain as it is dependent on the outcome of the ITA process.

### Contingent liabilities

The Group by its very nature has a large number of stakeholders and frequently engages in both large and numerous transactions with various stakeholders, as such is inherently subject to greater legal exposure. During the course of the year, numerous low value legal proceedings have been undertaken by various clients, seeking damages from the Bank, which approximates P6 500 000, arising in the normal course of business.

## 38. Trust activities

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

At 30 June 2021 the Group acted as a custodian in respect of Botswana Government bonds amounting to P8 261 197 000 (2020: P8 425 822 000), money markets P4 018 720 000 (2020: P1 354 282 000) and equities amounting to P11 202 562 000 (2020: P11 357 083 000). These assets are held in a trust or in a fiduciary capacity and are not treated as assets of the Group, Accordingly, they have not been included in the statements of financial position.

## 39. Financial risk management

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

Risk control 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 management risk committees. Financial risk management disclosures are done at Group level only as subsidiary amounts are considered immaterial.

The Group is principally exposed to credit risk, market risk, and liquidity risk. The exposures to these risks as at 30 June 2021 are set out below:

### Credit risk management

#### Internal credit risk ratings

Credit risk is the risk that a counterparty will be unable to repay amounts when they fall due resulting in a financial loss to the Group. 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 arises primarily from the following instruments:

- Advances; and
- Certain investment securities.

Other sources of credit risk are:

- Cash and cash equivalents;
- Accounts receivable;
- Derivative balances; and
- Off-balance sheet exposures

In order to minimise credit risk, the Group has tasked its credit committees to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying expert credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk increases. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

# 39. Financial risk management *continued*

## Credit risk management *continued*

### Internal credit risk ratings *continued*

The following data are typically used to monitor the Group's exposures:

- Payment record and ageing analysis;
- Extent of utilisation of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies.
- For retail exposures: internally generated data of customer behaviour, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, market data where available, changes in the financial sector the customer operates etc.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed.

## Assessment and management

Credit risk is monitored on an ongoing basis and managed through the implementation of comprehensive policies, processes and controls to ensure a sound credit risk management environment with appropriate credit granting, administration, measurement, monitoring and reporting of credit risk exposure. Credit risk management across the Group is split into three distinct portfolios: Retail, Commercial and Corporate, and are aligned to customer profiles.

The assessment of credit risk across the Group relies on internally-developed quantitative models for addressing regulatory and business needs. The models are used for the internal assessment of the three primary credit risk components:

- probability of default (PD);
- exposure at default (EAD); and
- loss given default (LGD).

Management of the credit portfolio is reliant on these three credit risk measures. PD, EAD and LGD are inputs into the portfolio and Group-level credit risk assessment where the measures are combined with estimates of correlations between individual counterparties, industries and portfolios to reflect diversification benefits across the portfolio.

The Group employs a granular, 100-point master rating scale, which has been mapped to the continuum of default probabilities, as illustrated in the Financial Risk(FR) tables. FR1 is the lowest PD and FR100 the highest. External ratings have also been mapped to the master rating scale for reporting purposes. These mappings are reviewed and updated on a regular basis.

# Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2021

## 39. Financial risk management *continued*

Significant credit exposures at year end were:

### Geographical distribution – Group and Company 2021

| | Botswana | Southern Africa | Europe | North America | Rest of the world | Total |
|---|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **On-balance sheet exposures** | | | | | | |
| Cash and short-term funds | 1 346 302 | 2 076 761 | 1 248 322 | 796 028 | 3 345 | 5 470 758 |
| Derivative financial instruments | 10 251 | 25 056 | – | – | – | 35 307 |
| Advances to banks | 217 957 | – | – | – | – | 217 957 |
| Advances to customers | 13 642 027 | – | – | – | – | 13 642 027 |
| Investment securities | 7 889 039 | – | – | – | – | 7 889 039 |
| Due from related parties | 7 552 | – | – | – | – | 7 552 |
| Other assets | 406 658 | – | – | – | – | 406 658 |
| **Off-balance sheet exposures** | 23 519 786 | 2 101 817 | 1 248 322 | 796 028 | 3 345 | 27 669 298 |
| Guarantees, acceptances and letters of credit | 484 016 | – | – | – | – | 484 016 |
| Commitments | 2 427 870 | – | – | – | – | 2 427 870 |
| | 26 431 672 | 2 101 817 | 1 248 322 | 796 028 | 3 345 | 30 581 184 |

## 39. Financial risk management *continued*

### Geographical distribution – Group and Company 2020

| | Botswana | Southern Africa | Europe | North America | Rest of the world | Total |
|---|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **On-balance sheet exposures** | | | | | | |
| Cash and short-term funds | 1 253 235 | 1 251 763 | 170 168 | 2 019 579 | 2 854 | 4 697 599 |
| Derivative financial instruments | 73 166 | 3 706 | – | – | – | 76 872 |
| Advances to customers | 14 686 767 | – | – | – | – | 14 686 767 |
| Investment securities | 9 309 097 | 200 114 | – | – | – | 9 509 211 |
| Due from related parties | 11 684 | – | – | – | – | 11 684 |
| Other assets | 479 314 | – | – | – | – | 479 314 |
| **Off-balance sheet exposures** | 25 813 263 | 1 455 583 | 170 168 | 2 019 579 | 2 854 | 29 461 447 |
| Guarantees, acceptances and letters of credit | 386 300 | – | – | – | – | 386 300 |
| Commitments* | 2 233 457 | – | – | – | – | 2 233 457 |
| | 28 433 020 | 1 455 583 | 170 168 | 2 019 579 | 2 854 | 32 081 204 |

* *In the prior year, revocable commitments to the amount of P1 752 628 000 were erroneously disclosed as irrevocable commitments.*

### Distribution by sector

| | **2021** | 2020 |
|---|---|---|
| | **P'000** | P'000 |
| Banks including Bank of Botswana | **9 049 085** | 10 420 540 |
| Government and parastatal organisations | **3 889 717** | 3 411 537 |
| Individuals | **9 758 935** | 10 607 265 |
| Business/trading | **3 996 094** | 4 023 403 |
| Others | **975 467** | 998 702 |
| | **27 669 298** | 29 461 447 |

Economic sector risk concentrations in respect of advances are set out in Note 13.

## 39. Financial risk management *continued*

### Collateral pledged

The Group pledges assets under the following terms and conditions:

Bonds are pledged as collateral for any repurchase agreements with Bank of Botswana. In addition, assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local forwards and options. All other pledges are conducted under terms which are usual and customary to lending arrangements.

### Collateral held

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

- Vehicle finance: Vehicles subject to the finance agreement normally serve as collateral. In general, vehicles which make up the collateral can be sold when the customer has defaulted under the agreement and a notice of default has been issued. For some products, title over the vehicles is held by the Group. In those instances, title only passes to the customer once instalments are fully paid.
- Property finance: Collateral consists of first and second mortgage bonds over property, employer and personal guarantees and 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 and deposits as well as bonds over fixed property and other moveable assets. Credit insurance is sold as an additional component of the loans.

The collateral is valued at inception of the credit agreement and periodically over the tenure of the loan. Upon default, collateral is revalued to ensure the most recent valuations are considered. The valuation is based on physical inspection. Updated valuations are also performed by revaluing security during the counterparty review process.

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Fair value** | **Fair value of collateral sold or repledged in the absence of default** | Fair value | Fair value of collateral sold or repledged in the absence of default |
| | **P'000** | **P'000** | P'000 | P'000 |
| **Collateral held in structured transactions** | | | | |
| Advances to customers | **367 251** | **–** | 1 193 148 | – |

# 39. Financial risk management *continued*

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

Collateral in the form of deposits amounted to P194 227 000 (2020: P 558 850 000).

## 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.

| | Retail | Corporate & commercial | Other | Total exposure | Year to date average exposure |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Group – 2021** | | | | | |
| **Exposures recognised in the Statement of Financial Position** | | | | | |
| – Money at call and short notice – related parties | – | – | 18 059 | 18 059 | 15 826 |
| – Other balances | – | – | 5 006 648 | 5 006 648 | 4 481 801 |
| Cash and short-term funds | – | – | 5 024 707 | 5 024 707 | 4 497 627 |
| Advances to customers | 9 665 634 | 5 198 344 | – | 14 863 978 | 14 992 925 |
| Investment securities – debt | – | – | 7 889 039 | 7 889 039 | 8 292 389 |
| Other assets | – | – | 406 658 | 406 658 | 323 669 |
| Derivatives | – | – | 35 307 | 35 307 | 47 382 |
| Related parties | – | – | 7 552 | 7 552 | 9 523 |
| **Exposures not recognised in the Statement of Financial Position** | | | | | |
| Financial and other guarantees | 14 085 | 469 931 | – | 484 016 | 435 158 |
| Loan commitments not drawn | 1 626 159 | 801 711 | – | 2 427 870 | 2 331 075 |
| **Total** | **11 305 878** | **6 469 986** | **13 363 263** | **31 139 127** | **30 929 748** |

## 39. Financial risk management *continued*

| | Retail | Corporate & commercial | Other | Total exposure | Year to date average exposure |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Group – 2020** | | | | | |
| **Exposures recognised in Statement of Financial Position** | | | | | |
| – Money at call and short notice – related parties | – | – | 13 592 | 13 592 | 31 212 |
| – Other balances | – | – | 4 237 287 | 4 237 287 | 4 110 158 |
| Cash and short-term funds | – | – | 4 250 879 | 4 250 879 | 4 141 370 |
| Advances to customers* | 10 428 237 | 5 588 241 | – | 16 016 478 | 16 500 549 |
| Investment securities – debt | – | – | 9 509 211 | 9 509 211 | 6 822 216 |
| Other assets | – | – | 479 314 | 479 314 | 365 494 |
| Derivatives | – | – | 76 872 | 76 872 | 63 239 |
| Related parties | – | – | 11 684 | 11 684 | 9 036 |
| **Exposures not recognised in the Statement of Financial Position** | | | | | |
| Financial and other guarantees | 11 269 | 375 031 | – | 386 300 | 523 759 |
| Loan commitments not drawn | 1 496 989 | 736 468 | – | 2 233 457 | 2 240 652 |
| **Total** | 11 936 495 | 6 699 740 | 14 327 960 | 32 964 195 | 30 666 315 |

* *In the prior year Retail advances were disclosed as P10 437 022 000 as opposed to P10 428 237 000, and Commercial and Corporate advances were disclosed as P5 579 457 000 as opposed to R5 588 241 000. These amounts were restated to reflect the correct amounts. The total amount for advances remained unchanged.*

### Credit quality

Investment grade are those financial assets rated in the highest rating categories in line with international rating agencies( – AAA to BBB). Non-investment grade assets are those rated in the rest of the rating categories in line with international rating agencies (BBB- to CCC).

| Mapping of FR grades to rating agency scales | Midpoint PD | FNBB rating (based on S & P) |
|---|---|---|
| FR 1 – 14 | 0,06% | AAA, AA+, AA, AA-, A+, A, A- |
| FR 15 – 25 | 0,29% | BBB+, BBB(upper), BBB, BBB-(upper), BBB-, BB+(upper) |
| FR 26 – 32 | 0,77% | BB+, BB(upper), BB, BB-(upper) |
| FR 33 – 39 | 1,44% | BB-, B+(upper) |
| FR 40 – 53 | 2,52% | B+ |
| FR 54 – 83 | 6,18% | B(upper), B, B-(upper) |
| FR 84 – 90 | 13,68% | B- |
| FR 91 – 99 | 59,11% | CCC |
| FR 100 | 100% | D(Defaulted) |

## 39. Financial risk management *continued*

### Credit quality *continued*

The following tables show the gross carrying amount of advances carried at amortised cost and the fair value of advances measured at fair value through profit or loss, as well as the exposure to credit risk of loan commitments and financial guarantees per class of advance and per internal credit rating.

The amounts in stage 3 have rating of FR 91-100. In addition, where the Group holds a guarantee against a stage 3 advance, the FR rating would reflect same Financial risk (FR)

### Financial risk (FR) – Group

| | Financial risk (FR) 1 – 25 | | Financial risk (FR) 26 – 90 | | Financial risk (FR) 91 – 100 | |
|---|---|---|---|---|---|---|
| | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Term loans** | | | | | | |
| **2021** | | | | | | |
| Stage 1 | **225 412** | **401 777** | **4 818 095** | **2 691** | **–** | **–** |
| Stage 2 | **305** | **–** | **524 604** | **535** | **105 100** | **4** |
| Stage 3 | **–** | **–** | **–** | **–** | **374 192** | **–** |
| | **225 717** | **401 777** | **5 342 699** | **3 226** | **479 292** | **4** |
| 2020 | | | | | | |
| Stage 1 | 1 052 072 | 2 046 | 4 773 461 | 13 943 | 6 656 | 296 |
| Stage 2 | 209 508 | – | 132 244 | – | 17 098 | 21 |
| Stage 3 | 620 | – | 6 380 | – | 390 434 | – |
| | 1 262 200 | 2 046 | 4 912 085 | 13 943 | 414 188 | 317 |

| | Financial risk (FR) 1 – 25 | | Financial risk (FR) 26 – 90 | | Financial risk (FR) 91 – 100 | |
|---|---|---|---|---|---|---|
| | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Suspensive sale debtors/ lease payments receivable** | | | | | | |
| **2021** | | | | | | |
| Stage 1 | **1 593 304** | **–** | **2 334** | **–** | **–** | **–** |
| Stage 2 | **207 862** | **–** | **2 166** | **–** | **–** | **–** |
| Stage 3 | **–** | **–** | **–** | **–** | **90 312** | **–** |
| | **1 801 166** | **–** | **4 500** | **–** | **90 312** | **–** |
| **2020** | | | | | | |
| Stage 1 | 56 574 | – | 1 718 948 | – | 50 346 | – |
| Stage 2 | – | – | 177 839 | – | 81 240 | – |
| Stage 3 | – | – | – | – | 110 243 | – |
| | 56 574 | – | 1 896 787 | – | 241 829 | – |

# Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2021

## 39. Financial risk management *continued*

### Financial risk (FR) – Group *continued*

| | Financial risk (FR) 1 – 25 | | Financial risk (FR) 26 – 90 | | Financial risk (FR) 91 – 100 | |
|---|---|---|---|---|---|---|
| | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Property loans** | | | | | | |
| **2021** | | | | | | |
| Stage 1 | **737 004** | **68 807** | **4 097 074** | **289 035** | **9 144** | **–** |
| Stage 2 | **6 242** | **–** | **280 160** | **12 596** | **86 742** | **1 624** |
| Stage 3 | **–** | **–** | **–** | **–** | **468 579** | **–** |
| | **743 246** | **68 807** | **4 377 234** | **301 631** | **564 465** | **1 624** |
| **2020** | | | | | | |
| Stage 1 | 349 332 | 170 738 | 4 676 153 | 188 318 | 33 114 | 1 103 |
| Stage 2 | 133 | 1 110 | 230 433 | 15 828 | 183 678 | 13 |
| Stage 3 | – | – | 2 373 | – | 483 788 | – |
| | 349 465 | 171 848 | 4 908 959 | 204 146 | 700 580 | 1 116 |

| | Financial risk (FR) 1 – 25 | | Financial risk (FR) 26 – 90 | | Financial risk (FR) 91 – 100 | |
|---|---|---|---|---|---|---|
| | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Overdrafts and managed accounts** | | | | | | |
| **2021** | | | | | | |
| Stage 1 | **355 668** | **925 507** | **365 771** | **385 510** | **3** | **45** |
| Stage 2 | **83 657** | **9 454** | **60 878** | **18 998** | **5 433** | **46** |
| Stage 3 | **–** | **–** | **–** | **–** | **142 959** | **8 093** |
| | **439 325** | **934 961** | **426 649** | **404 508** | **148 395** | **8 184** |
| **2020** | | | | | | |
| Stage 1 | 126 207 | 797 987 | 367 292 | 655 907 | 2 514 | – |
| Stage 2 | 30 561 | 9 057 | 310 303 | 64 138 | 67 343 | 21 349 |
| Stage 3 | 3 127 | – | 3 297 | 26 | 214 418 | 8 035 |
| | 159 895 | 807 044 | 680 892 | 720 071 | 284 275 | 29 384 |

## 39. Financial risk management *continued*

### Financial risk (FR) – Group *continued*

| | Financial risk (FR) 1 – 25 | | Financial risk (FR) 26 – 90 | | Financial risk (FR) 91 – 100 | |
|---|---|---|---|---|---|---|
| | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Other** | | | | | | |
| **2021** | | | | | | |
| Stage 1 | **297** | **8 802** | **197 327** | **283 702** | **–** | **27** |
| Stage 2 | **–** | **3 493** | **14 750** | **5 547** | **–** | **665** |
| Stage 3 | **–** | **–** | **–** | **–** | **8 603** | **912** |
| | **297** | **12 295** | **212 077** | **289 249** | **8 603** | **1 604** |
| **2020** | | | | | | |
| Other | | | | | | |
| Stage 1 | 67 519 | 172 280 | 68 605 | 99 194 | – | – |
| Stage 2 | 1 119 | 163 | 3 754 | 8 618 | – | 1 049 |
| Stage 3 | – | – | – | 41 | 7 753 | 2 197 |
| | 68 638 | 172 443 | 72 359 | 107 853 | 7 753 | 3 246 |

| | Financial risk (FR) 1 – 25 | | Financial risk (FR) 26 – 90 | | Financial risk (FR) 91 – 100 | |
|---|---|---|---|---|---|---|
| | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Financial guarantees** | | | | | | |
| **2021** | | | | | | |
| Stage 1 | **–** | **76 657** | **–** | **357 666** | **–** | **–** |
| Stage 2 | **–** | **3 324** | **–** | **13 936** | **–** | **24 062** |
| Stage 3 | **–** | **–** | **–** | **–** | **–** | **8 372** |
| | **–** | **79 981** | **–** | **371 602** | **–** | **32 434** |
| **2020** | | | | | | |
| Stage 1 | – | 114 466 | – | 198 941 | – | 8 865 |
| Stage 2 | – | 21 608 | – | 36 000 | – | 4 247 |
| Stage 3 | – | – | – | – | – | 2 173 |
| | – | 136 074 | – | 234 941 | – | 15 285 |

In prior year, financial risk (FR) ratings and the respective staging for off-balance sheet amounts were not disclosed. These have been disclosed for both current and prior year.

## 39. Financial risk management *continued*

### Financial risk (FR) – Group *continued*

| | Analysis of impaired advances (stage 3/NPLs) | | |
|---|---|---|---|
| | Security held and expected recoveries | Stage 3 impairment | Total |
| | P'000 | P'000 | P'000 |
| **Stage 3/NPLs by category** | | | |
| **2021** | | | |
| Term loans | **80 263** | **296 394** | **376 657** |
| Suspensive sale debtors/lease payments receivable | **8 984** | **81 416** | **90 400** |
| Property loans | **223 867** | **243 960** | **467 827** |
| Overdrafts and managed accounts | **16 663** | **126 554** | **143 217** |
| Other | **–** | **6 544** | **6 544** |
| | **329 777** | **754 868** | **1 084 645** |
| **2020** | | | |
| Term loans | 100 045 | 342 820 | 442 865 |
| Suspensive sale debtors/lease payments receivable | 23 905 | 86 339 | 110 244 |
| Property loans | 186 506 | 266 508 | 453 014 |
| Overdrafts and managed accounts | 25 297 | 183 145 | 208 442 |
| Other | – | 7 868 | 7 868 |
| | 335 753 | 886 680 | 1 222 433 |

## 39. Financial risk management *continued*

### Financial risk (FR) – Group *continued*

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

| | Investment grade | Non-investment grade | Total neither past due nor impaired |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| **Group and Company 2021** | | | |
| Home loans | **–** | **4 843 222** | **4 843 222** |
| Other advances | **–** | **197 624** | **197 624** |
| Term loans | **100 084** | **4 943 423** | **5 043 507** |
| Overdrafts | **59** | **721 383** | **721 442** |
| Motor vehicles and asset financing | **–** | **1 595 638** | **1 595 638** |
| **Total** | **100 143** | **12 301 290** | **12 401 433** |
| **Group and Company 2020** | | | |
| Home loans | – | 5 058 599 | 5 058 599 |
| Other advances | 15 | 372 498 | 372 513 |
| Term loans | – | 5 832 189 | 5 832 189 |
| Overdrafts | 87 804 | 408 209 | 496 013 |
| Motor vehicles and asset financing | – | 1 825 868 | 1 825 868 |
| **Total** | 87 819 | 13 497 363 | 13 585 182 |

In the current year, an assessment was made relating to exposures that meet the criteria of investment grade. This has resulted in a restatement of prior year disclosure by P87 403 000, relating to overdrafts: P87 388 000, and credit cards: P15 000.

| | Quality of credit assets – non-advances | | |
|---|---|---|---|
| | AAA to BB+ | BB to B– | CCC |
| | P'000 | P'000 | P'000 |
| **2021** | | | |
| **Investment securities at amortised cost** | | | |
| Stage 1 | **7 793 383** | **–** | **–** |
| **Investment securities at fair value through profit or loss** | | | |
| Stage 1 | **95 656** | **–** | **–** |
| **Total investment securities** | **7 889 039** | **–** | **–** |
| 2020 | | | |
| **Investment securities at amortised cost** | | | |
| Stage 1 | 9 346 057 | – | – |
| **Investment securities at fair value through profit or loss** | | | |
| Stage 1 | 163 154 | – | – |
| **Total investment securities** | 9 509 211 | – | – |

## 39. Financial risk management *continued*

### Financial risk (FR) – Group *continued*

| | Quality of credit assets – non-advances | | |
|---|---|---|---|
| | AAA to BB+ | BB to B– | CCC |
| | P'000 | P'000 | P'000 |
| **2021** | | | |
| **Other assets** | | | |
| Stage 1 | **–** | **406 658** | **–** |
| **2020** | | | |
| **Other assets** | | | |
| Stage 1 | – | 479 314 | – |

| | Quality of credit assets – non-advances | | |
|---|---|---|---|
| | AAA to BB+ | BB to B– | CCC |
| | P'000 | P'000 | P'000 |
| **2021** | | | |
| **Cash and cash equivalents** | | | |
| Stage 1 | **5 014 707** | **10 000** | **–** |
| **2020** | | | |
| **Cash and cash equivalents** | | | |
| Stage 1 | 3 397 764 | 853 005 | – |

### Offsetting of financial assets and financial liabilities

Where appropriate, various instruments are used to mitigate the potential exposure to certain counterparties. These include financial or other collateral in line with common credit risk practices, as well as netting agreements, guarantees and credit derivatives. In addition, the Group has set up a function to clear over the counter (OTC) derivatives centrally as part of risk mitigation.

The Group uses the International Swaps and Derivatives Association (ISA) and International Securities Market Association agreements for the purpose of netting derivative transactions and repurchase transactions respectively. These master agreements as well as associated credit support annexes (CSA) set out internationally accepted valuation and default covenants, which are evaluated and applied daily, including daily margin calls based on the approved CSA thresholds.

The tables below include information about financial assets and financial liabilities that are:

- offset and the net amount presented in the group's statement of financial position in accordance with the requirements of IAS 32; and
- subject to enforceable MNA or similar agreements where the amounts have not been offset because one or both of the requirements of IAS 32 are not met, or the amounts relate to financial collateral (cash or non-cash) that mitigates credit risk.

Structured transactions refer to reverse repurchase, securities borrowing and similar arrangements, with reverse repurchases in the asset section of the table, securities lending and similar arrangements on the liability section of the table.

The net amount reported on the statement of financial position represents the net amount of financial assets and financial liabilities where offsetting has been applied in terms of IAS 32 and financial instruments that are subject to MNA and similar agreements, but no offsetting has been applied.

## 39. Financial risk management *continued*

### Offsetting of financial assets and financial liabilities *continued*

The financial collateral included in the table below is limited to the net statement of financial position exposure in line with the requirements of IFRS 7 and excludes the effect of any over-collateralisation. The amount of collateral included in the table for IFRS 7 disclosure purposes has been determined at a business unit level. If these limits were determined on a group-wide level, the amount of collateral included in this table could increase. The total amount reported on the statement of financial position is the sum of the net amount reported in the statement of financial position and the amount of financial instruments not subject to set-off or MNA.

| | Derivatives | | Other advances/deposits | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **Group** | | | | |
| **Assets** | | | | |
| **Offsetting not applied** | | | | |
| Financial instruments subject to MNA and similar agreements | **25 056** | 71 987 | **–** | – |
| Financial instruments not subject to set-off or MNA | **10 251** | 4 885 | **14 863 978** | 16 016 478 |
| **Total statement of financial position** | **35 307** | 76 872 | **14 863 978** | 16 016 478 |
| **Liabilities** | | | | |
| **Offsetting not applied** | | | | |
| Financial instruments subject to MNA and similar agreements | **9 310** | 4 151 | **–** | – |
| Financial instruments not subject to set-off or MNA | **12 197** | 32 557 | **21 886 210** | 23 716 899 |
| | **21 507** | 36 708 | **21 886 210** | 23 716 899 |

| | Derivatives | Related parties | Investment securities | Cash and short term funds | Other assets |
|---|---|---|---|---|---|
| | **P'000** | **P'000** | **P'000** | **P'000** | **P'000** |
| **Group 2021 – Credit quality of financial assets** | | | | | |
| Investment Grade – Amortised cost | **–** | **–** | **7 793 383** | **5 470 758** | **–** |
| Investment Grade – Fair value | **–** | **–** | **95 656** | **–** | **–** |
| Non-Investment Grade | **35 307** | **7 552** | **–** | **–** | **406 658** |
| | **35 307** | **7 552** | **7 889 039** | **5 470 758** | **406 658** |
| **Group 2020 – Credit quality of financial assets** | | | | | |
| Investment Grade – Amortised cost | – | – | 9 346 057 | 4 697 599 | – |
| Investment Grade – Fair value | – | – | 163 154 | – | – |
| Non-Investment Grade | 76 872 | 11 684 | – | – | 479 314 |
| | 76 872 | 11 684 | 9 509 211 | 4 697 599 | 479 314 |

## 39. Financial risk management *continued*

### Company financial risk management disclosures

Management has opted to disclose only consolidated figures as in their opinion there is no material difference between the consolidated and separate 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 Group in all material respects.

The table below sets out the maximum exposure to credit risk for financial assets at amortised cost and fair value through profit or loss.

| | Carrying amount | Off balance sheet exposure | Maximum exposure to credit risk | Netting and financial collateral | Net exposure to credit risk |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Group – 2021** | | | | | |
| Term loans | **6 047 708** | **405 007** | **6 452 715** | **(80 263)** | **6 372 452** |
| Suspensive sale debtors/lease payments receivable | **1 895 978** | **88 928** | **1 984 906** | **(8 984)** | **1 975 922** |
| Property loans | **5 684 944** | **372 063** | **6 057 007** | **(223 867)** | **5 833 140** |
| Overdraft and managed accounts | **1 014 370** | **1 347 653** | **2 362 023** | **(16 663)** | **2 345 360** |
| Other | **220 978** | **214 219** | **435 197** | **–** | **435 197** |
| Total advances | **14 863 978** | **2 427 870** | **17 291 848** | **(329 777)** | **16 962 071** |
| Investment securities | **7 889 039** | **–** | **7 889 039** | **–** | **7 889 039** |
| Cash and cash equivalents | **5 470 758** | **–** | **5 470 758** | **–** | **5 470 758** |
| Other assets | **406 658** | **–** | **406 658** | **–** | **406 658** |
| Derivatives | **35 307** | **–** | **35 307** | **–** | **35 307** |
| **Group – 2020** | | | | | |
| Term loans | 6 588 473 | 116 307 | 6 704 780 | (100 045) | 6 604 735 |
| Suspensive sale debtors/lease receivable | 2 136 973 | 57 413 | 2 194 386 | (23 905) | 2 170 481 |
| Property loans | 5 959 005 | 377 109 | 6 336 114 | (186 506) | 6 149 608 |
| Overdraft and managed accounts | 1 125 061 | 1 556 494 | 2 681 555 | (25 297) | 2 656 258 |
| Other | 206 966 | 226 134 | 433 100 | – | 433 100 |
| Total advances | 16 016 478 | 2 333 457 | 18 349 935 | (335 753) | 18 014 182 |
| Investment securities | 9 509 211 | – | 9 509 211 | – | 9 509 211 |
| Cash and cash equivalents | 4 697 599 | – | 4 697 599 | – | 4 697 599 |
| Other assets | 479 314 | – | 479 314 | – | 479 314 |
| Derivatives | 76 872 | – | 76 872 | – | 76 872 |

## 39. Financial risk management *continued*

### Company financial risk management disclosures *continued*

The table below sets out an analysis of credit-impaired advances at amortised cost.

| | Gross carrying amount P'000 | Expected recoveries from collateral P'000 | Loss allowance P'000 |
|---|---|---|---|
| **Group – 2021** | | | |
| Term loans | **376 657** | **(80 263)** | **296 394** |
| Suspensive sale debtors/lease payments receivable | **90 400** | **(8 984)** | **81 416** |
| Property loans | **467 827** | **(223 867)** | **243 960** |
| Overdraft and managed accounts | **143 217** | **(16 663)** | **126 554** |
| Other | **6 544** | **–** | **6 544** |
| **Credit-impaired advances** | **1 084 645** | **(329 777)** | **754 868** |
| Retail | **539 752** | **(200 927)** | **338 825** |
| Commercial | **544 893** | **(128 850)** | **416 043** |
| **Credit-impaired advances** | **1 084 645** | **(329 777)** | **754 868** |
| **Group – 2020** | | | |
| Term loans | 442 865 | (23 570) | 419 295 |
| Suspensive sale debtors/lease payments receivable | 110 244 | (26 624) | 83 620 |
| Property loans | 453 014 | (254 612) | 198 402 |
| Overdraft and managed accounts | 208 442 | (30 946) | 177 496 |
| Other | 7 868 | – | 7 868 |
| **Credit-impaired advances** | 1 222 433 | (335 752) | 886 681 |
| Retail | 479 021 | (151 754) | 327 267 |
| Commercial | 743 412 | (183 998) | 559 414 |
| **Credit-impaired advances** | 1 222 433 | (335 752) | 886 681 |

## 39. Financial risk management *continued*

### Company financial risk management disclosures *continued*

| | Retail | Commercial | Wesbank | Total |
|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 |
| **Restatements – 2020** | | | | |
| **Balance sheet** | | | | |
| Gross carrying amount | 53 333 | 56 817 | (110 150) | – |
| Expected recoveries | (7 468) | (20 111) | 27 579 | – |
| Loss allowance | (45 865) | (36 706) | 82 571 | – |

WesBank is no longer a reportable segment, but now a product within Retail and Commercial.

### Market risk

The Group's activities expose it to market risk. Market risks arise from open positions in interest rate and currency 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.

### Foreign exchange risk management

The Group, through Treasury, manages foreign currency risk in accordance with broad market risk guidelines set by the Board. 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 BWP. During the financial year under review, the Group's authorised market risk limit was USD35 million (2020: 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.

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **30 June 2021** | 30 June 2020 | **30 June 2021** | 30 June 2020 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **Group and Company** | | | | |
| **Distribution by currency** | | | | |
| Botswana Pula | **24 196 968** | 26 658 224 | **21 564 480** | 23 550 603 |
| South African Rand | **318 928** | 545 339 | **413 826** | 635 548 |
| United States Dollar | **2 927 130** | 2 068 761 | **2 231 040** | 2 002 368 |
| British Pound | **76 271** | 77 335 | **78 523** | 72 314 |
| Euro | **130 428** | 92 096 | **113 881** | 97 350 |
| Others | **19 573** | 19 692 | **23 457** | 11 794 |
| | **27 669 298** | 29 461 447 | **24 425 207** | 26 369 977 |

## 39. Financial risk management *continued*

### Company financial risk management disclosures *continued*

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.

| | **30 June 2021** | 30 June 2020 |
|---|---|---|
| | **P'000** | P'000 |
| Loss arising from a 10% decrease | | |
| South African Rand | **9 490** | 9 021 |
| United States Dollar | **(69 609)** | (6 639) |
| | **(60 119)** | 2 382 |
| Gain arising from a 10% increase | | |
| South African Rand | **(9 490)** | (9 021) |
| United States Dollar | **69 609** | 6 639 |
| | **60 119** | (2 382) |

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

## 39. Financial risk management *continued*

### 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 prevailing levels of market interest rates on both its fair value and cash flow risks.

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

| | Group – Term to repricing | | |
|---|---|---|---|
| | **Carrying amount** | **Demand up to 1 month** | **1 – 3 months** |
| | **P'000** | **P'000** | **P'000** |
| **2021** | | **P'000** | **P'000** |
| Total assets | **28 352 410** | **21 074 742** | **587 308** |
| Total liabilities and equity | **(28 352 410)** | **(19 115 271)** | **(1 181 879)** |
| **Net interest sensitivity gap** | **–** | **1 959 471** | **(594 571)** |
| 2020 | | | |
| Total assets | 30 179 484 | 24 441 791 | 1 203 574 |
| Total liabilities and equity | (30 179 484) | (20 412 574) | (1 509 695) |
| **Net interest sensitivity gap** | – | 4 029 217 | (306 121) |

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:

| | **30 June 2021** | 30 June 2020 |
|---|---|---|
| | **P'000** | P'000 |
| **Group and Company** | | |
| 100 basis points parallel increase – gains | **12 900** | 40 000 |
| 100 basis points parallel decrease – losses | **(12 900)** | (40 000) |
| 200 basis points parallel increase – gains | **25 800** | 80 000 |
| 200 basis points parallel decrease – losses | **(25 800)** | (80 000) |

### 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 enhances 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.

| | Group – Term to repricing | | | |
|---|---|---|---|---|
| | 3 – 12 months | 1 – 5 years | Over 5 years | Equity and non- financial assets/liabilities |
| | P'000 | P'000 | P'000 | P'000 |
| | **P'000** | **P'000** | **P'000** | **P'000** |
| | **1 532 773** | **2 114 471** | **1 286 451** | **1 756 665** |
| | **(1 298 614)** | **(1 316 799)** | **(481 560)** | **(4 958 287)** |
| | **234 159** | **797 672** | **804 891** | **(3 201 622)** |
| | 220 147 | 1 779 284 | 802 061 | 1 732 627 |
| | (945 534) | (1 040 715) | (1 574 239) | (4 696 727) |
| | (725 387) | 738 569 | (772 178) | (2 964 100) |

## 39. Financial risk management *continued*

### Liquidity risk management process

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

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in the markets to enable this;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flows;
- 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.

The table below sets out the discounted 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 | Demand up to 1 month | 1 – 3 months |
| | P'000 | P'000 | P'000 |
| **2021** | | | |
| Total assets | **28 352 410** | **9 537 199** | **945 299** |
| Total liabilities and equity | **(28 352 410)** | **(19 052 754)** | **(1 189 662)** |
| **Net liquidity gap** | **–** | **(9 515 555)** | **(244 363)** |
| **2020** | | | |
| Total assets | 30 179 484 | 11 503 163 | 2 249 522 |
| Total liabilities and equity | (30 179 484) | (20 980 594) | (1 724 899) |
| **Net liquidity gap** | – | (9 477 431) | 524 623 |

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

### Undiscounted cash flows – Group

The following table presents the group's undiscounted cash flows of financial liabilities and off-balance sheet amounts and includes all cash outflows related to principal amounts, as well as future payments. These balances will not reconcile to the statement of financial position for the following reasons:

- balances are undiscounted amounts whereas the statement of financial position is prepared using discounted amounts;
- the table includes cash flows not recognised on the statement of financial position;
- all instruments held for trading purposes are included in the call to three-month bucket and not by maturity, as trading instruments are typically held for short periods of time; and
- cash flows relating to principal and associated future coupon payments have been included on an undiscounted basis.

| | Group – Term to maturity | | | |
|---|---|---|---|---|
| | 3 – 12 months | 1 – 5 years | Over 5 years | Non-interest bearing |
| | P'000 | P'000 | P'000 | P'000 |
| | **3 202 225** | **9 848 941** | **4 262 705** | **556 041** |
| | **(1 850 482)** | **(1 325 669)** | **(481 560)** | **(4 452 283)** |
| | **1 351 743** | **8 523 272** | **3 781 145** | **(3 896 242)** |
| | 1 980 354 | 9 057 064 | 3 734 051 | 1 655 330 |
| | (1 556 241) | (597 722) | (1 168 470) | (4 151 558) |
| | 424 113 | 8 459 342 | 2 565 581 | (2 496 228) |

## 39. Financial risk management *continued*

### Undiscounted cash flows – Group *continued*

| | Call | 1 – 3 months | 4 – 12 months | 1 – 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **2021** | | | | | | |
| **On-balance sheet exposures** | | | | | | |
| Amounts due to other banks | **490 153** | **–** | **–** | **–** | **–** | **490 153** |
| Deposit and current accounts | **17 009 017** | **2 382 734** | **1 706 836** | **365 861** | **110 484** | **21 574 932** |
| Derivative financial instruments | **–** | **2 875** | **1 877** | **10 922** | **–** | **15 674** |
| Borrowings | **–** | **6 954** | **111 645** | **1 245 760** | **225 975** | **1 590 334** |
| Due to related companies | **25 093** | **–** | **–** | **–** | **–** | **25 093** |
| Creditors and accruals | **–** | **414 291** | **69 071** | **167 535** | **–** | **650 897** |
| Employee liabilities | **–** | **–** | **93 887** | **–** | **–** | **93 887** |
| **Off-balance sheet exposures** | | | | | | |
| Financial and other guarantees | **–** | **37 859** | **249 368** | **77 328** | **113 555** | **478 110** |
| Other contingencies and commitments | **–** | **5 906** | **–** | **–** | **–** | **5 906** |
| Facilities not drawn | **2 427 870** | **–** | **–** | **–** | **–** | **2 427 870** |
| **2020** | | | | | | |
| **On-balance sheet exposures** | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| Amounts due to other banks | 545 002 | – | – | – | – | 545 002 |
| Deposit and current accounts | 17 779 071 | 3 864 407 | 1 706 989 | 1 208 069 | 65 531 | 24 624 067 |
| Derivative financial instruments* | – | 3 573 | – | – | 9 054 | 12 627 |
| Borrowings | – | 94 096 | 258 026 | 930 855 | 65 531 | 1 348 508 |
| Due to related companies | 21 322 | – | – | – | – | 21 322 |
| Creditors and accruals | – | 376 633 | – | 93 603 | – | 470 236 |
| Employee liabilities | – | – | 81 504 | – | – | 81 504 |
| **Off-balance sheet exposures** | | | | | | |
| Financial and other guarantees | – | 62 922 | 58 114 | 128 538 | 120 655 | 370 229 |
| Other contingencies and commitments | – | 16 070 | – | – | – | 16 070 |
| Facilities not drawn | 2 233 457 | – | – | – | – | 2 233 457 |

* *In prior year derivative financial instruments in the 1 – 3 months bucket were disclosed as P3 573 235 as opposed to P3 573, and the over 5 years bucket were disclosed as P9 054 273 as opposed to P9 054. As a result the total was disclosed as P12 627 508 as opposed to P12 627. These amounts were restated to reflect their correct amounts.*

## 39. Financial risk management *continued*

### 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. 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. The Group considers factors such as counterparty and own credit risk when making appropriate valuation adjustments.

#### 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.

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.

## 39. Financial risk management *continued*

### Fair value financial instruments *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 and industry standard | The Black Scholes model is used. The models calculate fair value based on input parameters such as share prices, dividends, volatilities, interest rates, equity repo curves, and for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and by applying extrapolation techniques to match the appropriate risk profile. | Strike price of the option; market related discount rate; spot or forward rate, the volatility of the underlying dividends and share prices. | Discounted cashflow and industry standard models. |
| – Swaps | Level 2 | Discounted cash flows and industry standard models. | 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. The industry standard models calculate fair value based on input parameters such as share price, dividends, volatilities, interest rates, equity repo curves and for multi asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and by applying extrapolation techniques to match the appropriate risk profile. | Market interest rates and curves, volatilities, dividends, and share prices. | Not applicable |
| – Forward contracts | Level 2 | Discounted cash flows | The future cashflows are projected using a related forecasting curve and then discounted using a market related discounting curve over the contractual period. Projected cashflows are obtained by subtracting the strike price of the forward contract from the market projected forward value. | Spot prices of underlying instruments market interest rate curves, and dividend yield. | Not applicable |

## 39. Financial risk management *continued*

### Fair value financial instruments *continued*

| Instrument | Fair value hierarchy level | Valuation technique | Description of valuation technique and main assumptions | Observable inputs | Significant unobservable inputs of Level 3 items |
|---|---|---|---|---|---|
| **Loans and advances to customers** | | | | | |
| – Corporate 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 and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance. | Market interest rates and curves | Credit inputs-market related interest rates. |
| – 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. |

## 39. Financial risk management *continued*

### Fair value financial instruments *continued*

| Instrument | Fair value hierarchy level | Valuation technique | Description of valuation technique and main assumptions | Observable inputs | Significant unobservable inputs of Level 3 items |
|---|---|---|---|---|---|
| **Investment securities and other investments** | | | | | |
| – Equities/ bonds listed in an inactive market | Level 2 | Discounted cash flows | For listed equities and bonds, the listed price is used where the market is active (i.e.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 adjusted for credit inputs over the contractual period. | Market interest rates and credit spreads | Not applicable |
| – Unlisted bonds | Level 2 | Discounted cash flows | Unlisted bonds are valued similarly to advances measured at fair value. The future cashflows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period. | Market interest rates and credit spreads. | Not applicable |
| – Negotiable certificates of deposit (NCD) | 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 market quotes for NCD instruments | Not applicable |
| – Treasury Bills | Level 2 | Bank of Botswana quoted prices | Bank of Botswana quoted prices. | Market interest rates and curves | Not applicable |

## 39. Financial risk management *continued*

### Fair value financial instruments *continued*

| Instrument | Fair value hierarchy level | Valuation technique | Description of valuation technique and main assumptions | Observable inputs | Significant unobservable inputs of Level 3 items |
|---|---|---|---|---|---|
| **Deposits** | | | | | |
| – Other deposits | Level 2 | Discounted cash flows | The related forecasting curve is 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 | 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 | Not applicable |
| Financial assets and liabilities not measured at fair value but for which fair value is disclosed | Level 2 | Discounted cash flows | The future cash flows are discounted using a market related interest rate and curves adjusted for credit inputs. Where the value of the liability is linked to the performance of an underlying and the underlying is observable, these liabilities are classified as level 2. | Market interest rate curves or performance of underlying | Credit Inputs |
| Freehold and leasehold land and building | Level 2 | 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 |

## 39. Financial risk management *continued*

### (ii) 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.

| | Level 1 | Level 2 | Level 3 | Fair value | Amortised cost** |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Group – 2021** | | | | | |
| **Assets** | | | | | |
| **Advances** | | | | | |
| Home loans | – | – | 5 307 997 | 5 307 997 | 5 217 117 |
| Other advances | – | – | 202 840 | 202 840 | 214 434 |
| Term loans | – | – | 5 648 767 | 5 648 767 | 5 671 051 |
| Overdraft | – | – | 803 147 | 803 147 | 871 153 |
| Asset finance | – | – | 1 772 841 | 1 772 841 | 1 805 758 |
| Due from related parties | – | – | 7 552 | 7 552 | 7 552 |
| Total advances at amortised cost | – | – | 13 743 144 | 13 743 144 | 13 787 065 |
| Investment securities | 7 640 487 | – | – | 7 640 487 | 7 793 383 |
| Other assets | – | – | 406 658 | 406 658 | 406 658 |
| **Total financial assets at amortised cost** | **7 640 487** | **–** | **14 149 802** | **21 790 289** | **21 987 106** |
| **Liabilities** | | | | | |
| **Deposits and current accounts** | | | | | |
| Current and managed accounts | – | 10 529 915 | – | 10 529 915 | 10 529 915 |
| Balances from customers (term) | – | 4 420 851 | – | 4 420 851 | 4 400 244 |
| Other deposits (call and savings) | – | 6 465 898 | – | 6 465 898 | 6 465 898 |
| Due to related parties | – | – | 25 093 | 25 093 | 25 093 |
| Total deposits and current accounts | – | 21 416 664 | 25 093 | 21 441 757 | 21 421 150 |
| Long-term borrowings | – | 1 367 570 | – | 1 367 570 | 1 361 195 |
| Accrued interest payable | – | 21 360 | – | 21 360 | 21 360 |
| Creditors and accruals | – | 680 568 | – | 680 568 | 680 568 |
| **Total financial liabilities at amortised cost** | **–** | **23 486 162** | **25 093** | **23 511 255** | **23 484 273** |

## 39. Financial risk management *continued*

### (ii) Financial instruments not measured at fair value *continued*

| | Level 1 | Level 2 | Level 3 | Fair value | Amortised cost** |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Group – 2020** | | | | | |
| **Assets** | | | | | |
| **Advances** | | | | | |
| Home loans | – | – | 5 517 981 | 5 517 981 | 5 505 991 |
| Other advances | – | – | 199 098 | 199 098 | 199 098 |
| Term loans | – | – | 6 227 592 | 6 227 592 | 6 145 608 |
| Overdraft | – | – | 916 618 | 916 618 | 916 618 |
| Asset finance | – | – | 2 024 312 | 2 024 312 | 2 026 730 |
| Due from related parties | – | – | 11 684 | 11 684 | 11 684 |
| Total advances at amortised cost | – | – | 14 897 285 | 14 897 285 | 14 805 729 |
| Investment securities* | 9 119 987 | – | – | 9 119 987 | 9 346 057 |
| Other assets | – | – | 479 314 | 479 314 | 479 314 |
| **Total financial assets at amortised cost** | 9 119 987 | – | 15 376 599 | 24 496 586 | 24 631 100 |
| **Liabilities** | | | | | |
| **Deposits and current accounts** | | | | | |
| Current and managed accounts | – | 12 284 393 | – | 12 284 393 | 12 284 393 |
| Balances from customers (term) | – | 5 392 826 | – | 5 392 826 | 5 398 778 |
| Other deposits (call and savings) | – | 5 494 678 | – | 5 494 678 | 5 494 678 |
| Due to related parties | – | – | 21 322 | 21 322 | 21 322 |
| Total deposits and current accounts | – | 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 prior year carrying amount at amortised cost for investment securities on this disclosure note was erroneously disclosed as P9 509 211 000 as opposed to P9 346 177 000. In addition, the fair value of investment securities was disclosed as an error in prior year as P9 509 211 000 as opposed to P9 119 987 000. These prior year amounts were restated to reflect the correct amounts.*

** *Amortised cost for advances refers to gross carrying less non-performing loans.*

## 39. Financial risk management *continued*

### (ii) Fair value hierarchy

Assets and liabilities measured at fair value

| | Level 1 P'000 | Level 2 P'000 | Level 3 P'000 | Total P'000 |
|---|---|---|---|---|
| **Group – 2021** | | | | |
| **Mandatory fair value through profit and loss** | | | | |
| – Investments securities | **–** | **95 656** | **–** | **95 656** |
| – Derivative financial instruments | **–** | **35 307** | **–** | **35 307** |
| **Non-financial assets** | | | | |
| – Freehold and leasehold land and buildings | **–** | **314 644** | **–** | **314 644** |
| Total assets | **–** | **445 607** | **–** | **445 607** |
| **Financial liabilities held for trading** | | | | |
| – Derivative financial instruments | **–** | **21 507** | **–** | **21 507** |
| **Mandatory at fair value through profit or loss** | | | | |
| – Zero coupon deposit | **–** | **166 005** | **–** | **166 005** |
| Total liabilities | **–** | **187 512** | **–** | **187 512** |
| **Group – 2020** | | | | |
| **Mandatory 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 | – | 540 288 | – | 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 liabilities | – | 36 708 | 151 657 | 188 365 |

In current year, zero coupon deposit transferred from level 3 to level 2. In prior year the fair value was based on internal matrices, whereas in current year the valuation is based on an observable government bond curve.

#### Reconciliation of level 3 fair value measurements

| | 2021 P'000 | 2020 P'000 |
|---|---|---|
| **Group – Deposit** | | |
| Balance at the beginning of the year | **151 637** | 139 533 |
| – Amounts recognised in profit or loss for the year | **14 368** | 12 104 |
| Transfer out of level 3 – Botswana Life 15 year zero coupon deposit | **(166 005)** | – |
| **Balance at the end of the year** | **–** | 151 637 |

## 39. Financial risk management *continued*

### Effect of changes in significant unobservable assumptions of level 3 instruments to reasonably possible alternatives

The table below illustrates the sensitivity of the significant inputs when changed to reasonably possible alternative inputs.

| Asset/Liability | Significant unobservable inputs | Reasonably possible changes to significant unobservable inputs | Fair value measurement sensitivity to unobservable inputs |
|---|---|---|---|
| Advances | Credit | Scenario analysis | Increased and decreased by 10%. |
| Other assets | Performance of underlying contract | Performance of underlying contract | Increased and decreased by 10%. |
| Due to related parties | Performance of underlying contract | Profit on the underlying contract | Increased and decreased by 10%. |

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Reasonably possible alternative fair value | | | Reasonably possible alternative fair value | | |
| | Fair value | Using more positive assumptions | Using more negative assumptions | Fair value | Using more positive assumptions | Using more negative assumptions |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Assets** | | | | | | |
| Other assets | **406 658** | **447 324** | **365 992** | 479 314 | 527 245 | 431 383 |
| Advances | **13 707 258** | **15 077 984** | **12 365 532** | 14 897 285 | 16 387 014 | 13 542 986 |
| **Total financial assets measured at fair value in level 3** | **14 113 916** | **15 525 308** | **12 731 524** | 15 376 599 | 16 914 259 | 13 974 369 |
| **Liabilities** | | | | | | |
| Due to related parties | **25 093** | **22 583** | **27 602** | 21 322 | 19 189 | 23 454 |

# Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2021

## 39. Financial risk management *continued*

### 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 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 robust 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 Committee, as implemented by Bank of Botswana for supervisory purposes. The required information is filed with Bank of Botswana on a monthly basis.

The Group maintains a ratio of total regulatory capital to its risk-weighted assets above the minimum level stipulated by the Bank of Botswana and which takes into account the risk profile of the Group.

The Group's regulatory capital comprises two tiers:

- Tier 1 capital: stated capital and 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

The Group has adopted a balanced approach to ensuring an efficient capital position with the need to retain sufficient capital for unexpected fluctuations in earnings volatility. This has resulted in reduction in the capital adequacy ratio while conserving sufficient capital to manage possible earnings volatility as well as risk weighted assets growth, considering a medium- to long-term horizon. The Group has assessed its financial position thoroughly and will continue to review this on a regular basis.

In line with this approach to ensuring capital efficiency, the Group intends to declare a final ordinary dividend of 49 thebe per share. The capital adequacy ratio at the end of 30 June 2021 is 17,96% (2020:21,37%).

## 40. Segmental reporting

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 four main business segments:

- Retail segment – comprising advances and deposits and the revenue flowing from individual customers;
- Commercial segment – comprising advances and deposits and the revenue flowing from business customers;
- Corporate Segment – comprising advances and deposits and the revenue flowing from Corporate customers;
- 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.

## 40. Segmental reporting *continued*

| | Retail P'000 | Commercial P'000 | Corporate P'000 | Treasury P'000 | Total P'000 |
|---|---|---|---|---|---|
| **Group – 2021** | | | | | |
| **Income statement** | | | | | |
| Interest and similar income | 580 748 | 125 186 | 45 850 | 656 908 | 1 408 692 |
| Non-interest income | 581 782 | 417 301 | 241 466 | (34 804) | 1 205 745 |
| Total segment revenue | 1 162 530 | 542 487 | 287 316 | 622 104 | 2 614 437 |
| Interest and similar expenses | 103 734 | 144 963 | 118 697 | (608 900) | (241 506) |
| Segment operating income before impairments | 1 266 264 | 687 450 | 406 013 | 13 204 | 2 372 931 |
| Impairment of advances | (83 417) | (154 243) | (3 591) | – | (241 251) |
| Net interest income after impairment of advances | 1 182 847 | 533 207 | 402 422 | 13 204 | 2 131 680 |
| Total expenditure | (568 649) | (471 191) | (171 782) | (2 350) | (1 213 972) |
| Profit before indirect taxation | 614 198 | 62 016 | 230 640 | 10 854 | 917 708 |
| Indirect taxation | (16 405) | 1 474 | (1 545) | (377) | (16 853) |
| Profit before direct taxation | 597 793 | 63 490 | 229 095 | 10 477 | 900 855 |
| Direct taxation | | | | | (215 680) |
| **Profit for the year** | | | | | 685 175 |
| **Statement of financial position:** | | | | | |
| **Gross advances to customers** | 9 665 634 | 3 040 377 | 2 157 967 | | 14 863 978 |
| Loss allowance | (545 741) | (643 425) | (32 785) | | (1 221 951) |
| Net advances | 9 119 893 | 2 396 952 | 2 125 182 | – | 13 642 027 |
| Deposits from customers | 5 625 754 | 7 381 530 | 7 379 983 | 1 008 790 | 21 396 057 |

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.

## 40. Segmental reporting *continued*

| | Retail | Commercial | Corporate | Treasury | Total |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Group – 2020** | | | | | |
| **Income statement** | | | | | |
| Interest and similar income | 616 594 | 149 901 | 34 495 | 848 138 | 1 649 128 |
| Non-interest income | 537 746 | 403 865 | 251 494 | 6 249 | 1 199 354 |
| Total segment revenue | 1 154 340 | 553 766 | 285 989 | 854 387 | 2 848 482 |
| Interest and similar expenses | 120 681 | 183 622 | 162 004 | (777 200) | (310 893) |
| Segment operating income before impairments | 1 275 021 | 737 388 | 447 993 | 77 187 | 2 537 589 |
| Impairment of advances | (222 636) | (200 572) | 1 766 | – | (421 442) |
| Net interest income after impairment of advances | 1 052 385 | 536 816 | 449 759 | 77 187 | 2 116 147 |
| Total expenditure | (553 352) | (480 111) | (155 861) | 421 | (1 188 903) |
| Profit before indirect taxation | 499 033 | 56 705 | 293 898 | 77 608 | 927 244 |
| Indirect taxation | (27 431) | 2 874 | (1 423) | (414) | (26 394) |
| Profit before direct taxation | 471 602 | 59 579 | 292 475 | 77 194 | 900 850 |
| Direct taxation | | | | | (205 045) |
| **Profit for the year** | | | | | 695 805 |
| **Statement of financial position:** | | | | | |
| Gross advances to customers | 10 428 237 | 3 770 945 | 1 817 296 | | 16 016 478 |
| Loss allowance | (572 910) | (727 607) | (29 194) | | (1 329 711) |
| Net advances | 9 855 327 | 3 043 338 | 1 788 102 | – | 14 686 767 |
| Deposits from customers* | 5 071 766 | 6 987 896 | 9 709 297 | 1 402 938 | 23 171 897 |

## 40. Segmental reporting *continued*

| | Retail | Commercial | Wesbank | Total |
|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 |
| **Restatements – 2020** | | | | |
| **Income statement** | | | | |
| Interest income | 61 906 | 44 514 | (106 420) | – |
| Non-interest income | 3 804 | 1 268 | (5 072) | – |
| Interest expenditure | (158) | (825) | 983 | – |
| Impairment charge | (20 344) | (6 100) | 26 444 | – |
| Total other expenditure | (32 584) | (31 306) | 63 890 | – |
| Indirect taxation | (958) | (2 874) | 3 832 | – |
| **Balance sheet** | | | | |
| Gross advances to customers | 1 400 067 | 796 771 | (2 196 838) | – |
| Loss allowance | (47 772) | (69 935) | 117 707 | – |

The WesBank segment has been dissolved and is now managed within the Retail and Commercial segments respectively. Therefore WesBank is no longer a reportable segment, but now a product within Retail and Commercial.

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 39.

* *Restatement of prior year Retail and Treasury deposits. In prior year P1 422 492 000 in Retail deposits were erroneously classified under Treasury. Following the restatement, the Retail deposits are now disclosed as P5 071 766 000 as opposed to P3 649 274 000 and Treasury as P1 402 938 000 as opposed to P2 825 430 000.*

# Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2021

## 41. Employee share participation schemes

The Group has employees who participate in the share option scheme of FirstRand Limited (The Group's ultimate holding company, a company registered in the Republic of South Africa). The scheme is 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 P'000 |
|---|---|
| **Share option detail – 2021** | |
| Number of options in force at the beginning of the year | 807 000 |
| Granted at prices ranging between (P) | – |
| Weighted average (thebe) | – |
| Number of options granted/transferred in during the year | 721 000 |
| Granted at a price of (P) | |
| Weighted average (P) | |
| Number of options transferred within the Group during the year | 3 000 |
| Granted at a price of P3.00 | |
| Weighted average (P) | |
| Number of options exercised/released during the year | – |
| Market value range at date of exercise/release (P) | |
| Weighted average share price for the year (P) | |
| Number of options cancelled/lapsed during the year | (543 000) |
| Granted at prices ranging between (P) | |
| Weighted average (P) | |
| Number of options in force at the end of the year | 988 000 |
| Granted at a price of | |
| Weighted average (P) | |
| Weighted average remaining contractual life for the share options outstanding at the end of the period (years) | |
| Financial year 2020/2021 | 0,31 |
| Financial year 2021/2022 | 1,30 |
| Financial year 2022/2023 | 2,31 |
| Number of participants | 68 |

## 41. Employee share participation schemes *continued*

| | 2020 |
|---|---|
| | P'000 |
| **Share option detail – 2020** | |
| Number of options in force at the beginning of the year | 885 540 |
| Granted at prices ranging between (P) | |
| Weighted average (thebe) | |
| Number of options granted/transferred in during the year | 283 000 |
| Granted at a price of (P) | |
| Weighted average (P) | |
| Number of options transferred within the Group during the year | (9 000) |
| Granted at a price of P3.00 | |
| Weighted average (P) | |
| Number of options exercised/released during the year | (338 000) |
| Market value range at date of exercise/release (P) | 56,76 – 65,20 |
| Weighted average share price for the year (P) | 64,80 |
| Number of options cancelled/lapsed during the year | (15 000) |
| Granted at prices ranging between (P) | |
| Weighted average (P) | |
| Number of options in force at the end of the year | 807 000 |
| Granted at a price of | |
| Weighted average (P) | |
| | |
| Weighted average remaining contractual life for the share options outstanding at the end of the period (years) | |
| Financial year 2019/2020 | 0,30 |
| Financial year 2020/2021 | 1,30 |
| Financial year 2021/2022 | 2,29 |
| | |
| Number of participants | 73 |

## 42. New Standards and Interpretations

### 42.1 Standards and interpretations effective and adopted in the current year

In the current year, the group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

#### Conceptual framework

The amendments revise the definitions of an asset and liability, updating the recognition criteria for including assets and liabilities in financial statements. They provide additional clarification of the following principles: prudence, stewardship, measurement uncertainty and substance over form. Minor amendments have also been made to various other standards as a result of the amendments to the conceptual framework.

The amendments did not have a significant impact on the group's accounting policies.

#### COVID-19 – Related Rent Concessions – Amendment to IFRS 16

The COVID-19 pandemic has resulted in an amendment to IFRS 16 Leases. Lessees may elect not to assess whether a rent concession that meets the conditions in paragraph 46B is a lease modification. If this election is applied, then any change in lease payments must be accounted for in the same way as a change would be accounted for it were not a lease modification. This practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payment affects only payments originally due on or before 30 June 2021 and
- there is no substantive change to other terms and conditions of the lease.

The amendment did not have a significant impact on the Group's accounting policies.

#### Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

Phase 1

The International Accounting Standards Board (IASB) issued amendments to the following standards as part of the Interest Rate (IBOR) Benchmark Reform that has a direct impact on the bank's hedging relationships. These impacts are

- The highly probable requirement under IFRS 9 and IAS 39 – when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur. When determining whether a forecast transaction is highly probable, a company shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.
- Prospective assessments – when performing prospective assessments for effectiveness, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument is based is not altered as a result of the interest rate benchmark reform.
- Separately identifiable risk components – IFRS 9 and IAS 39 require a risk component (or a portion) to be separately identifiable to be eligible for hedge accounting. The amendment allows for hedges of a non-contractually specified benchmark component of interest rate risk. A company shall apply the separately identifiable requirement only at the inception of such hedging relationships.

These reliefs are essential to mitigate the hedge accounting issues that could arise during the period of uncertainty before IBOR contracts are amended to new alternative risk-free rates (ARRs).

The reliefs provided by the amendments that apply to the group are:

- The group assumed that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk is based is not altered by the reform.
- The group will not discontinue hedge accounting during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside the required 80% – 125% range.

## 42. New Standards and Interpretations *continued*

### 42.1 Standards and interpretations effective and adopted in the current year *continued*

#### Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 *continued*

Refer to note 8 for disclosures of the uncertainty arising from IBOR reform for hedging relationships for which the group applied reliefs.

The effective date of the amendment is for years beginning on or after 01 January 2020.

The impact of the amendment is not material.

#### Definition of a business – Amendments to IFRS 3

The amendment:

- confirmed that a business must include inputs and a processes, and clarified that the process must be substantive and that the inputs and process must together significantly contribute to creating outputs.
- narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
- added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

This amendment will be applied by the Group for any future business combination transaction.

#### Presentation of Financial Statements: Disclosure initiative

The amendment clarifies and aligns the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. The amendment must be applied prospectively.

The amendment did not have a significant impact on the Group's accounting policies.

### 42.2 Standards and Interpretations early adopted

The group has chosen to early adopt the following standards and interpretations:

#### Interest Rate Benchmark Reform – Phase 2: Amendments to IAS 39

Temporary exemptions from applying specific hedge accounting requirements as well as additional rules for accounting for qualifying hedging relationships and the designation of financial items as hedged items have been added to hedge relationships specifically impacted by interest rate benchmark reform.

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

The group has early adopted the amendment for the first time in the 2021 consolidated and separate financial statements.

The amendment did not have a significant impact on the Group's accounting policies.

#### 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.

## 42. New Standards and Interpretations *continued*

### 42.2 Standards and Interpretations early adopted

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

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.

#### Classification of Liabilities as Current or Non-Current – Amendment to IAS 1

The amendment changes the requirements to classify a liability as current or non-current. If an entity has the right at the end of the reporting period, to defer settlement of a liability for at least twelve months after the reporting period, then the liability is classified as non-current.

If this right is subject to conditions imposed on the entity, then the right only exists, if, at the end of the reporting period, the entity has complied with those conditions.

In addition, the classification is not affected by the likelihood that the entity will exercise its right to defer settlement. Therefore, if the right exists, the liability is classified as non-current even if management intends or expects to settle the liability within twelve months of the reporting period. Additional disclosures would be required in such circumstances.

The effective date of the amendment is for years beginning on or after 01 January 2023.

The group expects to adopt the amendment for the first time in the 2024 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.

#### 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 2023.

The group expects to adopt the standard for the first time in the 2024 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.

#### Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 1

A subsidiary that uses the cumulative translation differences exemption, may elect in its financial statements, to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary.

The effective date of the group is for years beginning on or after 01 January 2022.

The group expects to adopt the amendment for the first time in the 2023 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.

# 42. New Standards and Interpretations *continued*

## 42.2 Standards and Interpretations early adopted

### Reference to the Conceptual Framework: Amendments to IFRS 3

The amendment makes reference to the Conceptual Framework for Financial Reporting issued in 2018 rather than to the IASC's Framework for the Preparation and Presentation of Financial Statements. The amendment specifically points to the treatment of liabilities and contingent liabilities acquired as part of a business combination, and which are in the scope of IAS 37 Provisions, Continent Liabilities and Contingent Assets or IFRIC 21 Levies. It clarifies that the requirements of IAS 37 or IFRIC 21 should be applied to provisions, contingent liabilities or levies to determine if a present obligation exists at the Acquisition date. The amendment further clarifies that contingent assets of acquirees share not be recognised as part of the business combination.

The effective date of the group is for years beginning on or after 01 January 2022.

The group expects to adopt the amendment for the first time in the 2023 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.

### Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 9

The amendment concerns fees in the '10 per cent' test for derecognition of financial liabilities. Accordingly, in determining the relevant fees, only fees paid or received between the borrower and the lender are to be included.

The effective date of the group is for years beginning on or after 01 January 2022.

The group expects to adopt the amendment for the first time in the 2023 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.

### Property, Plant and Equipment: Proceeds before Intended Use: Amendments to IAS 16

The amendment relates to examples of items which are included in the cost of an item of property, plant and equipment. Prior to the amendment, the costs of testing whether the asset is functioning properly were included in the cost of the asset after deducting the net proceeds of selling any items which were produced during the test phase. The amendment now requires that any such proceeds and the cost of those items must be included in profit or loss in accordance with the related standards. Disclosure of such amounts in now specifically required.

The effective date of the group is for years beginning on or after 01 January 2022.

The group expects to adopt the amendment for the first time in the 2023 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.

## 42. New Standards and Interpretations *continued*

### 42.2 Standards and Interpretations early adopted

#### Onerous Contracts – Cost of Fulfilling a Contract: Amendments to IAS 37

The amendment defined the costs that are included in the cost of fulfilling a contract when determining the amount recognised as an onerous contract. It specifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract. These are both the incremental costs of fulfilling the contract as well as an allocation of other costs that relate directly to fulfilling contracts (for example depreciation allocation).

The effective date of the group is for years beginning on or after 01 January 2022.

The group expects to adopt the amendment for the first time in the 2023 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.

#### Annual Improvement to IFRS Standards 2018-2020: Amendments to IAS 41

"Taxation" has been removed from the list of cash flows excluded from the fair value determination of biological assets.

The effective date of the group is for years beginning on or after 01 January 2022.

The group expects to adopt the amendment for the first time in the 2023 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.

#### Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 4

An insurer applying the temporary exemption from IFRS 9 shall apply the new requirements of IFRS 9 concerning situations where a change in the basis for determining the contractual cash flows of a financial asset or financial liability is required by interest rate benchmark reform.

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

The group expects to adopt the amendment for the first time in the 2022 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.

#### Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 7

The amendment sets out additional disclosure requirements related to interest rate benchmark reform.

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

The group expects to adopt the amendment for the first time in the 2022 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.

## 42. New Standards and Interpretations *continued*

### 42.2 Standards and Interpretations early adopted

#### Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9

When there is a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform then the entity is required to apply paragraph B5.4.5 as a practical expedient. This expedient is only available for such changes in basis of determining contractual cash flows.

Additional temporary exemptions from applying specific hedge accounting requirements as well as additional rules for accounting for qualifying hedging relationships and the designation of risk components have been added to hedge relationships specifically impacted by interest rate benchmark reform.

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

The group expects to adopt the amendment for the first time in the 2022 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.

#### Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 16

If there is a lease modification as a result of the interest rate benchmark reform, then as a practical expedient the lessee is required to apply paragraph 42 of IFRS 16 to account for the changes by remeasuring the lease liability to reflect the revised lease payment. The amendment only applies to modifications as a result of the interest rate benchmark reform.

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

The group expects to adopt the amendment for the first time in the 2022 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.

### 42.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the group's accounting periods beginning on or after 01 July 2021 or later periods.

## 43. Events after the reporting period

It is the view of the Directors that events such as an announcement or enactment of new measures to contain the COVID-19 spread are non-adjusting events in nature. In the current dynamic economic context; the Directors have considered various aspects of the business when assessing events after the reporting date as per the requirements of IAS 10 – Events after the reporting date.

They have considered the nature of the entity's operations and the implications of COVID-19 on the domestic market and on the various markets that impact the Group's supply chain. Key estimates and judgements used in the preparation of the financial statements have been assessed and are still considered appropriate.

The Directors are not aware of any matter or circumstances arising since the end of the reporting date that requires disclosure or adjustment to the financial statements.

# Other information

## Contents

# Value Added Statements

| | Group | | Company | |
|---|---|---|---|---|
| | **30 June 2021** | 30 June 2020 | **30 June 2021** | 30 June 2020 |
| | **P'000** | P'000 | **P'000** | P'000 |
| Income earned by providing banking services | **2 614 437** | 2 916 596 | **2 801 952** | 2 859 696 |
| Cost of services | **(1 688 011)** | (1 835 732) | **(1 685 569)** | (1 821 447) |
| Value added banking services | **926 426** | 1 080 864 | **1 116 383** | 1 038 249 |
| Non-operating and other income and expenditure | **692 944** | 529 394 | **687 479** | 509 209 |
| Value added | **1 619 370** | 1 610 258 | **1 803 862** | 1 547 458 |
| **Value allocated** | | | | |
| To employees | | | | |
| Salaries, wages and other benefits | **652 172** | 618 909 | **652 172** | 616 164 |
| **To providers of capital** | | | | |
| Dividends to shareholders | **1 399 035** | 381 555 | **1 399 035** | 381 555 |
| **To Government** | | | | |
| Taxation | **232 533** | 231 439 | **229 431** | 215 777 |
| **To expansion and growth** | | | | |
| Retained earnings | **(713 860)** | 314 251 | **(523 903)** | 271 636 |
| Depreciation- Owned | **49 490** | 64 104 | **47 127** | 62 326 |
| | **1 619 370** | 1 610 258 | **1 803 862** | 1 547 458 |
| Employees | **40%** | 38,4% | **36%** | 39,8% |
| Providers of capital | **86%** | 25,3% | **78%** | 26,3% |
| Government | **14%** | 16,6% | **13%** | 16,3% |
| Expansion growth | **(41%)** | 19,7% | **(26%)** | 17,6% |
| | **100%** | 100% | **100%** | 100% |

# Ten-year Consolidated

## Income statements

| | 30 June 2021 | 30 June 2020 | 30 June 2019 | 30 June 2018 |
|---|---|---|---|---|
| | **P'000** | P'000 | P'000 | P'000 |
| Interest and similar income | **1 408 692** | 1 649 128 | 1 617 445 | 1 507 520 |
| Interest expense and similar charges | **(241 506)** | (310 893) | (359 916) | (335 721) |
| Net interest income before impairment of advances | **1 167 186** | 1 338 235 | 1 257 529 | 1 171 799 |
| Impairments losses on loans and advances | **(241 251)** | (421 442) | (264 912) | (274 168) |
| Net interest income after impairment of advances | **925 935** | 916 793 | 992 617 | 897 631 |
| Non interest income | **1 205 745** | 1 199 354 | 1 142 315 | 1 069 648 |
| ***Income from operations*** | **2 131 680** | 2 116 147 | 2 134 932 | 1 967 279 |
| Operating expenses | **(1 213 972)** | (1 188 902) | (1 172 601) | (1 129 070) |
| Income before taxation | **917 708** | 927 245 | 962 331 | 838 209 |
| Taxation | **(232 533)** | (231 439) | (229 795) | (190 154) |
| *Income after taxation* | **685 175** | 695 806 | 732 536 | 648 055 |
| Dividends paid and proposed | **(1 399 035)** | (381 555) | (406 992) | (357 118) |
| **Retained income for the year** | **713 860** | 314 251 | 325 544 | 290 937 |

| 30 June 2017 | 30 June 2016 | 30 June 2015 | 30 June 2014 | 30 June 2013 | 30 June 2012 |
|---|---|---|---|---|---|
| P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| 1 429 248 | 1 308 394 | 1 288 434 | 1 244 817 | 1 210 031 | 1 111 862 |
| (265 128) | (363 565) | (415 321) | (290 200) | (312 629) | (342 799) |
| 1 164 120 | 944 829 | 873 113 | 954 617 | 897 402 | 769 063 |
| (361 219) | (228 570) | (201 068) | (122 510) | (120 673) | (132 714) |
| 802 901 | 716 259 | 672 045 | 832 107 | 776 729 | 636 349 |
| 978 155 | 926 949 | 862 386 | 794 557 | 743 042 | 629 108 |
| 1 781 056 | 1 643 208 | 1 534 431 | 1 626 664 | 1 519 771 | 1 265 457 |
| (1 100 733) | (984 196) | (777 928) | (704 425) | (614 373) | (535 496) |
| 680 323 | 659 012 | 756 503 | 922 239 | 905 398 | 729 961 |
| (179 804) | (155 121) | (165 020) | (202 578) | (204 446) | (161 168) |
| 500 519 | 503 891 | 591 483 | 719 661 | 700 952 | 568 793 |
| (282 007) | (282 007) | (410 192) | (384 555) | (333 281) | (179 458) |
| 218 512 | 221 884 | 181 291 | 335 106 | 367 671 | 389 335 |

# Ten-year Consolidated *continued*

## Statements of financial position

| | 30 June 2021 | 30 June 2020 | 30 June 2019 | 30 June 2018 |
|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 |
| **Assets** | | | | |
| Cash and short term funds | **5 470 758** | 4 697 599 | 4 411 739 | 4 356 895 |
| Derivative financial instruments | **35 307** | 76 872 | 49 606 | 55 181 |
| Advances to banks | **217 957** | – | 789 903 | 650 912 |
| Advances to customers | **13 642 027** | 14 686 767 | 15 939 047 | 15 478 937 |
| Investment securities | **7 889 039** | 9 509 211 | 4 135 220 | 3 360 091 |
| Current taxation | **85 239** | 86 324 | 106 768 | 65 267 |
| Deferred taxation | **–** | 3 706 | 7 054 | – |
| Due from related companies | **7 552** | 11 684 | 6 388 | 9 465 |
| Other assets* | **406 658** | 479 314 | 317 627 | 357 133 |
| Non-current assets held for sale | **–** | – | – | – |
| Investment in associated company | **–** | – | – | – |
| Property and equipment | **570 910** | 601 044 | 481 307 | 507 584 |
| Goodwill | **26 963** | 26 963 | 26 963 | 26 963 |
| **Total assets** | **28 352 410** | 30 179 484 | 26 271 622 | 24 868 428 |
| **Liabilities** | | | | |
| Deposits from banks | **490 153** | 545 002 | 581 243 | 730 109 |
| Deposits from customers | **21 396 057** | 23 171 897 | 19 591 409 | 18 834 336 |
| Accrued interest payable | **21 360** | 28 079 | 63 566 | 51 893 |
| Derivative financial instruments | **21 507** | 36 708 | 14 844 | 20 315 |
| Current taxation | **–** | – | – | 7 699 |
| Due to related companies | **25 093** | 21 322 | 32 898 | 73 861 |
| Creditors and accruals | **680 565** | 723 586 | 863 734 | 459 949 |
| Employee liabilities | **93 887** | 81 504 | 85 894 | 82 800 |
| Borrowings | **1 527 200** | 1 765 858 | 1 502 642 | 1 288 927 |
| Deferred taxation | **169 385** | 207 382 | 200 623 | 200 779 |
| **Total liabilities** | **24 425 207** | 26 581 338 | 22 936 853 | 21 750 668 |
| **Equity** | | | | |
| Stated capital | **51 088** | 51 088 | 51 088 | 51 088 |
| Reserves | **2 629 702** | 3 343 562 | 3 029 311 | 2 837 739 |
| Dividend reserve | **1 246 413** | 203 496 | 254 370 | 228 933 |
| **Total ordinary equity holder's funds** | **3 927 203** | 3 598 146 | 3 334 769 | 3 117 760 |
| **Total equity and liabilities** | **28 352 410** | 30 179 484 | 26 271 622 | 24 868 428 |

| 30 June 2017 | 30 June 2016 | 30 June 2015 | 30 June 2014 | 30 June 2013 | 30 June 2012 |
|---|---|---|---|---|---|
| P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| 4 396 885 | 3 651 793 | 4 371 324 | 2 721 384 | 2 288 285 | 2 557 842 |
| 64 028 | 76 646 | 26 716 | 24 922 | 10 138 | 7 861 |
| – | 324 960 | 640 000 | 461 921 | 51 975 | – |
| 14 997 373 | 14 386 819 | 12 846 481 | 12 131 415 | 10 369 937 | 8 420 553 |
| 3 313 694 | 2 447 230 | 2 256 337 | 1 536 828 | 2 290 494 | 2 699 551 |
| 8 641 | 99 966 | 46 832 | 12 895 | 2 117 | – |
| – | – | – | – | – | – |
| 9 448 | 6 324 | 6 319 | 6 272 | 6 138 | 7 839 |
| 288 831 | 376 245 | 211 080 | 196 112 | 251 474 | 170 800 |
| – | – | – | – | 7 101 | 5 511 |
| – | – | – | – | – | – |
| 505 496 | 495 692 | 540 393 | 520 694 | 502 086 | 317 559 |
| 26 963 | 26 963 | 26 963 | 26 963 | 26 963 | 26 963 |
| 23 611 359 | 21 892 638 | 20 972 445 | 17 639 406 | 15 806 708 | 14 214 479 |
| | | | | | |
| 1 397 685 | 300 166 | 199 334 | 12 157 | 53 903 | 166 900 |
| 17 567 471 | 17 063 756 | 17 233 721 | 14 328 142 | 12 932 767 | 11 448 851 |
| 46 061 | 30 553 | 88 895 | 39 027 | 34 767 | 45 179 |
| 28 065 | 42 631 | 13 796 | 18 079 | 16 964 | 32 912 |
| 1 208 | 898 | 650 | 3 870 | - | 461 |
| 36 175 | 124 726 | 11 673 | 30 499 | 19 597 | 57 883 |
| 443 530 | 429 680 | 360 109 | 274 596 | 225 215 | 275 972 |
| 71 606 | 68 127 | 61 949 | 60 588 | 62 076 | 52 252 |
| 1 059 127 | 1 094 239 | 395 376 | 489 495 | 422 791 | 519 047 |
| 207 566 | 203 509 | 160 956 | 118 973 | 110 360 | 82 296 |
| 20 858 494 | 19 358 285 | 18 526 459 | 15 375 426 | 13 878 440 | 12 681 753 |
| | | | | | |
| 51 088 | 51 088 | 51 088 | 51 088 | 51 088 | 51 088 |
| 2 547 955 | 2 329 443 | 2 112 891 | 1 930 885 | 1 620 810 | 1 276 542 |
| 153 822 | 153 822 | 282 007 | 282 007 | 256 370 | 205 096 |
| 2 752 865 | 2 534 353 | 2 445 986 | 2 263 980 | 1 928 268 | 1 532 726 |
| 23 611 359 | 21 892 638 | 20 972 445 | 17 639 406 | 15 806 708 | 14 214 479 |

# Shareholder **information**

## Shareholder's diary

| | |
|---|---|
| Dividend and results announcement | 10 September 2021 |
| Publication of abridged Annual Financial Statements | 10 September 2021 |
| Payment of final dividend | 8 October 2021 |
| Annual General Meeting | 3 November 2021 |
| Publication of half-year interim report and dividend announcement | February 2022 |
| Payment of interim dividend | March 2022 |
| Next financial year end | 30 June 2022 |

## Shareholder analysis

FNBB is a public company listed on the Botswana Stock Exchange with a total of 4 946 shareholders and 2 543 700 000 issued ordinary shares. Of the Bank's issued shares, 70% (1 780 590 000) shares are held by First National Bank Holdings (Botswana) (Proprietary) Limited being a non-public shareholder. The balance of 30% (763 110 000) shares is held by public shareholders and currently floats on the Botswana Stock Exchange. Of the public shareholders, there are no individuals holding 10% or more of the stated capital. First National Holdings (Botswana) (Proprietary) Limited is wholly owned by FirstRand EMA Holdings Limited duly incorporated in South Africa.

## Shareholder Spread

| Share range | Number of holders | % of holders | Shares Held | % of issued shares |
|---|---|---|---|---|
| 1 – 5 000 | **3 914** | 79.13% | **3 469 573** | 0.1% |
| 5 001 – 10 000 | **356** | 7.20% | **2 974 751** | 0.1% |
| 10 001 – 50 000 | **415** | 8.39% | **10 032 177** | 0.4% |
| 50 001 – 100 000 | **207** | 4.19% | **42 304 545** | 1.7% |
| 100 001 – 500 000 | **31** | 0.63% | **59 221 406** | 2.3% |
| > 500 000 | **23** | 0.47% | **2 425 697 548** | 95.4% |
| **Total** | **4 946** | 100.00% | **2 543 700 000** | 100.00% |

## Top 10 shareholders

| | | | |
|---|---|---|---|
| Stanbic Nominees Botswana | Investec Botswana | **17 066 360** | 0.67% |
| Stanbic Nominees Botswana | Investec Re Debswana Pension Fund | **24 464 054** | 0.96% |
| Stanbic Nominees Botswana | BIFM | **17 341 826** | 0.68% |
| Motor Vehicle Accident Fund | Motor Vehicle Accident Fund | **40 993 910** | 1.62% |
| FNB Botswana NOMS BW (Pty) Ltd Re: BPOPF Equity **Portfolio C** | FNB Botswana NOMS BW (Pty) Ltd Re: BPOPF Equity Portfolio C – Allan Gray | **44 169 269** | 1.74% |
| FNB Botswana Nominees (Pty) Ltd Re: BIFM BPOPF-EQU | BIFM BPOPF-Equity | **57 789 782** | 2.27% |
| FNB Botswana Bw Noms (Pty) Ltd Re: IAM BPOPFP 10001031 | IAM BPOPF Equity | **64 002 611** | 2.52% |
| Fnb Botswana Nominees (Pty) Ltd Re: AG BPOPF Equity **Port B** | FNB Botswana Nominees (Pty) Ltd Re: Allan Gray Bpopf Equity Portfolio B | **109 620 602** | 4.31% |
| FNB Botswana Nominees (Pty) Ltd Re: AA BPOPF Equity | AA BPOPF Equity | **148 776 183** | 5.84% |
| FNBB Holdings Botswana Limited | FNBB Holdings Botswana Limited | **1 780 590 000** | 70.00% |
| **Total top 10** | | **2 304 814 597** | |
| Others | | **238 885 403** | 9.39% |
| **Total all shares** | | **2 543 700 000** | 100.00% |

## Director interests

The direct and indirect shareholding held by directors is as follows:

| Shareholder | Number of shares |
|---|---|
| S Thapelo | 9 214 |
| D Ncube | 7 930 |
| Bonyongo Family Trust | 6 389 |
| MW Ward | 100 |

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (AGM) of shareholders of the Company will be held virtually (meeting link will be provided in due course), at 13h00 on Wednesday, 3 November 2021, for the purpose of transacting and considering the following business and if deemed fit, passing, with or without modification, the following resolutions:

## Agenda

### Ordinary business

1. To read the notice of AGM (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 2021 together with directors' and auditor's reports thereon be adopted.

3. Ordinary resolution 2:

   RESOLVED THAT dividends of 6 Thebe per ordinary share declared for the interim period, and 9 Thebe per ordinary share and 40 Thebe special dividend for the year ended 30 June 2021 be approved as recommended by the directors and the distribution be ratified thereof.

4. Ordinary resolutions 3 and 4:

   RESOLVED THAT the following directors of the Company retire by rotation in terms of the Company's Constitution and are eligible to offer themselves for re-election:

   - ***Ms Doreen Ncube*** *(Independent Non-Executive Director)*
   - ***Mr John Macaskill*** *(Independent Non-Executive Director)*
   - ***Mr Sifelani Thapelo*** *(Independent Non -Executive Director)*

   It is recorded that Mr S Thapelo retires as an Independent Non -Executive Director of the Company in terms of the Constitution and does not offer himself for re-election and will retire as a director of the Company at the AGM.

   Ms Ncube (resolution 3) and Mr Macaskill (resolution 4) being eligible and available, offer themselves for re-election and be re-elected by way of separate resolutions.

   Biographical information of the directors to be re-elected is set out on page 74 of the Integrated Report. The Board recommends the re-election of these directors.

   It is recorded that Mr Markos Davias will voluntarily retire at the AGM.

5. Ordinary Resolution 5:

   To ratify the appointments of the following directors:

   - ***Mr Max Marinelli*** (resolution 5)
   - ***Mr Asad Petkar*** (resolution 6)

6. Ordinary resolution 7:

| RESOLVED THAT the annual fees of the Non-Executive Directors as reflected below, be approved: | Proposed 2022 fee (BWP) |
|---|---|
| **First National Bank of Botswana Limited Board** | |
| Member | **115 696** |
| Chairperson | **231 392** |
| **Audit Committee** | |
| Member | **79 334** |
| Chairperson | **158 669** |
| **Risk, Capital Management and Compliance Committee** | |
| Member | **66 112** |
| Chairperson | **136 224** |
| **Remuneration Committee** | |
| Member | **18 594** |
| Chairperson | **27 891** |
| **Directors' Affairs and Governance Committee** | |
| Member | **37 118** |
| Chairperson | **55 782** |
| **Board Credit Risk Committee** | |
| Member | **297 504** |
| Chairperson | **371 880** |
| **Policies and Frameworks Committee** | |
| Member | **53 760** |
| Chairperson | **53 760** |
| **Strategy** | **28 924** |
| **Training** | **49 584** |

*Additional information in respect of Ordinary Resolution 7*

i. Executive Directors and Non-Executive Directors employed by the FirstRand Group do not receive fees as members of the Board.

ii. Fees are based on an hourly rate and are reviewed annually in line with industry benchmarks. In terms of the benchmark an hourly rate of P4132 is recommended which constitutes a 2.5% increase from the prior year.

iii. The Chairpersons of the Board, the Audit Committee and Risk, Capital Management and Compliance Committee are paid at a 200% premium of the hourly rate . The Chairpersons of the Directors' Affairs and Governance Committee and the Remuneration Committee are paid at a premium of 150% of the Board hourly rate.

iv. The Chairperson of the Board Credit Risk Committee is paid at a 125% premium.

v. The members of the Audit Committee and Risk, Capital Management and Compliance Committee are paid 80% of the Board hourly rate.

vi. The members of the Directors' Affairs and Governance Committee, the Remuneration Committee and the Board Credit Risk Committee are paid 70% of the Board hourly rate.

vii. Additional Board or Committee meetings called are paid at the hourly rates agreed for the Board or Committee for preparation and attendance.

viii. For work of an ad hoc nature, or attendance on an advisory basis where no fee is specifically approved, members are paid at the hourly rate for the Board or Committee preparation and attendance.

ix. 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.

7. Ordinary resolution 8:

RESOLVED THAT, as recommended by the Audit Committee of the Company, Deloitte & Touche be re-appointed as auditors of the Company and authorise the directors to determine their remuneration thereof.

*Additional information in respect of Ordinary Resolution 7*

The remuneration of the Company's auditors is determined by the Audit Committee as per the Audit Committee Charter.

8. Ordinary Resolution 9:

RESOLVED THAT, the auditor's remuneration of P10 016 000 paid for the prior year's audit be and is hereby ratified.

9. To transact any other business which maybe transacted at an AGM.

## Voting and proxies

All holders of ordinary shares entitled to vote will be entitled to attend and vote at the AGM.

A holder of shares who is present in person, or by authorised 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 AGM 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 Integrated Report and form of proxy which sets out the relevant instructions for its completion can be found on the FNB Botswana website www.fnbbotswana.co.bw.

To be effective, a duly completed form of proxy must be received at the Transfer Secretaries, Central Securities Depository Company of Botswana, Plot 70667, 4th Floor, Fairscape Precinct, Fairgrounds Private Bag 00417, Gaborone by not later than 12h00 on Monday, 1 November 2021.

By order of the Board

**Gaone Setlhake**
*Company Secretary*

# Form of Proxy

## For completion by holders of ordinary shares

(Registration number BW00000790476)
(Incorporated in the Republic of Botswana)
(FNBB or "the Company")

***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 NOTICE TO SHAREHOLDERS OF FNBB ISSUED ON WEDNESDAY, 13 OCTOBER 2021.**

For use at the Annual General Meeting (AGM) of shareholders of the Company to be held virtually at 13h00 on Wednesday, 3 November 2021.

I/We ______________________________

(name/s in block letters)

of ______________________________

(Address)

appoint (see note 2):

1. ______________________________ or failing him/her,

2. ______________________________ or failing him/her,

3. ☐ the Chairperson of the AGM,

as my/our proxy to act for me/us at the AGM 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 | | | |

Signed at ______________________________ on ______________________________ 2021

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 AGM.

**Please read the notes on the reverse side hereof.**

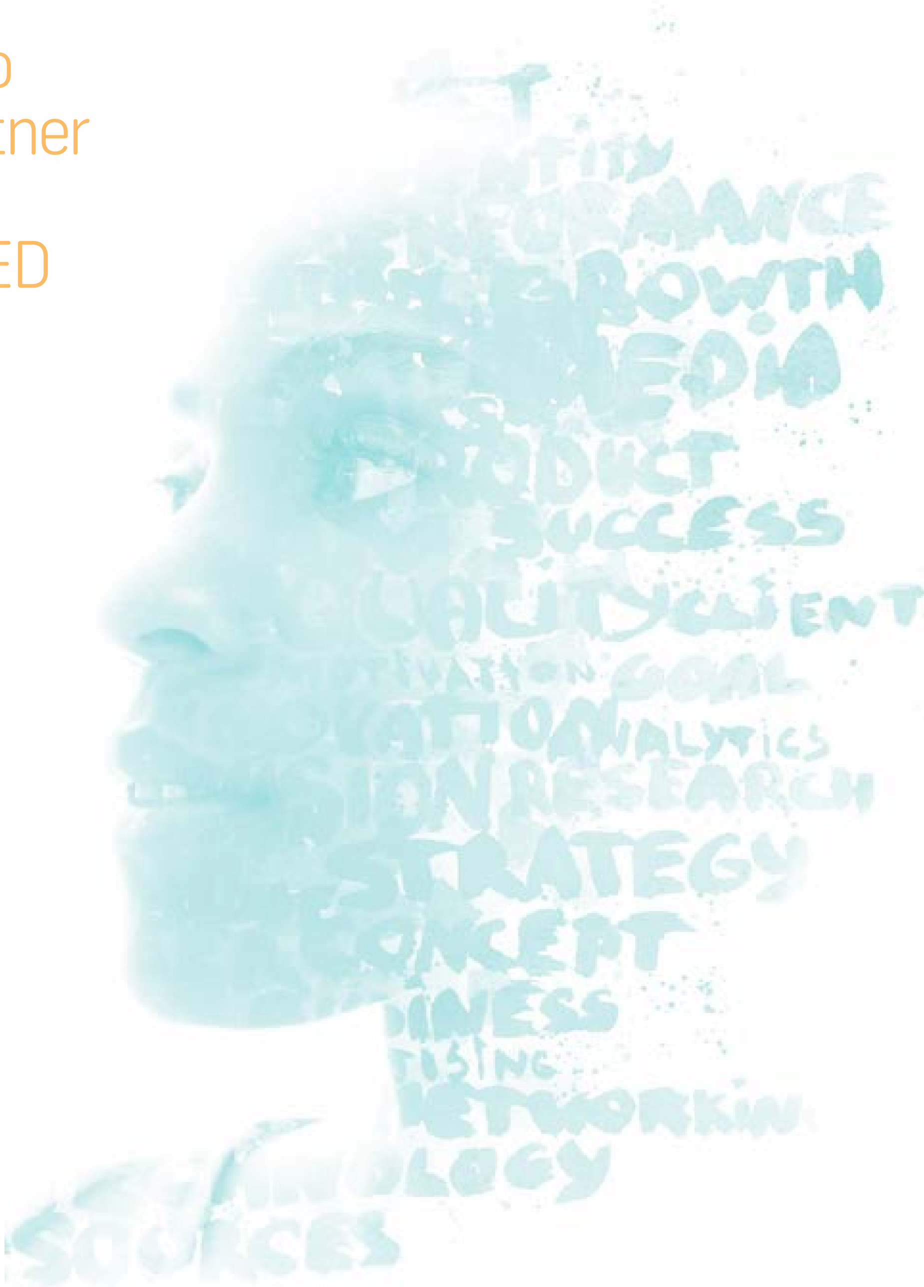
## Notes

1. A shareholder must insert the names of two alternative proxies of the shareholder's choice in the space provided, with or without deleting "Chairperson of the AGM". 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 authorise the proxy to vote at the AGM as he/she deems fit in respect of the shareholder's votes exercisable thereat, but where the proxy is the Chairperson, failure to comply will be deemed to authorise the proxy to vote in favour 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, Central Securities Depository Company of Botswana, Plot 70667, 4th Floor, Fairscape Precinct, Fairgrounds Private Bag 00417 Gaborone to be received before 12h00 on 1 November 2021.
4. The completion and lodging of this form will not preclude the relevant shareholder from attending the AGM 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 Chairperson of the AGM 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 AGM 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 AGM or adjourned AGM 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.

# Notes

# Notes

Our purpose is to be a trusted partner committed to building a SHARED FUTURE of prosperity.




**First National Bank** of Botswana Limited

Plot 54362 • First Place • Central Business District • P O Box 1552 • Gaborone • Botswana

Telephone: +267 370 6000 • Facsimile: +267 390 6679 • Website: www.fnbbotswana.co.bw

Registered Bank • Registration Number BW00000790476 • S.W.I.F.T. • FIRNBWGX

Marketing and Communications

Telephone: +267 370 6000 • Facsimile: +267 390 6679 • Email: FNBBCommunications@fnbbotswana.co.bw

Share Transfer Secretaries • Central Securities Depository Company of Botswana • Plot 70667, 4th Floor, Fairscape Precinct, Fairgrounds Private Bag 00417 • Gaborone, Botswana Telephone: 3674400 • Email: csd@bse.co.bw